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General Overview

Lebanon's fiscal position remained generally weak in the first quarter of 2016 as regional tension continued to weigh down on domestic economic activity, and a growing indirect need for public services amid an acute refugee crisis exert further pressure on the government balance. From an accounting perspective, a repayment of funds that were collected on behalf of municipalities¹ in 2014, boosted expenditures by 23 percent from Q1 2015 further aggravating the government's cash balance. This was partially offset by a 17 percent increase in revenues, most notably as the Telecom surplus rose due to a timing mismatch of transfers with the same period of 2015. As a result, the **total fiscal balance** registered a higher deficit of LL 2,172 billion in Q1 2016 compared to a deficit of LL 1,601 in the same period of 2015, while the primary deficit increased by LL 396 billion to LL 604 billion in Q1 2016 (Table 1-a). Adjusting for both the transfers to municipalities and collections from the telecom surplus, the total fiscal deficit increased by only 8.8 percent to LL 1,741 billion while the primary balance registered a deficit of LL 174 billion, a 16.6 percent improvement from the primary balance of Q1 2015 (Table 1-b)².

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015	2016	% Change 2016/2015
	Jan-Mar	Jan-Mar	
Total Budget and Treasury Receipts	3,142	3,666	16.7%
Total Budget and Treasury Payments, of which	4,743	5,839	23.1%
•Interest Payments	1,345	1,524	13.4%
•Concessional loans principal payment ¹	48	44	-9.7%
•Primary Expenditures ²	3,350	4,271	27.5%
Total (Deficit)/Surplus	(1,601)	(2,172)	35.7%
Primary (Deficit)/Surplus	(208)	(604)	190.4%

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-Mar	Jan-Mar	
Total Budget and Treasury Receipts	3,142	3,505	11.6%
Total Budget and Treasury Payments, of which	4,743	5,247	10.6%
•Interest Payments	1,345	1,524	13.4%
•Concessional loans principal payment	48	44	-9.7%
•Primary Expenditures ²	3,350	3,679	9.8%
Total (Deficit)/Surplus	(1,601)	(1,741)	8.8%
Primary (Deficit)/Surplus	(208)	(174)	-16.6%

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

¹ The timing discrepancy in Telecom Revenues is adjusted by setting the value of the transferred surplus at its Jan-Mar 2015 level of LL 363 billion for both years, thus decreasing the 2016 actual revenues by LL 161 billion. The adjustment on the expenditures side entails excluding LL 592 billion in Treasury transfers to Municipalities from Total Budget and Treasury Payments for Jan-Mar 2016.

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).

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 amounted to LL 3,666 billion in Q1 2016, increasing by LL 524 billion from the LL 3,142 billion registered during the same period of 2015, mainly due to the 32 percent jump in non-tax revenues and 9 percent increase in tax revenues.

Tax revenues added LL 210 billion year-on-year to reach LL 2,511 billion with increases recorded in all major sub-categories.

Taxes on property increased by LL 73 billion owing to a LL 38 billion rise in built property tax compared to Q1 2015, partly as e-declarations and collections were postponed in March 2015. Moreover, real estate registration fees rose by LL 27 billion (17 percent), driven by a 16 percent increase in the number of sale transactions and a 9 percent rise in the average price of sold properties.

Domestic taxes on goods and services increased by LL 57 billion, mainly due to LL 52 billion increase in value-added tax collections. In detail, VAT collected internally rose by 8 percent and VAT at customs increased by 6 percent.

Taxes on Income, Profits, and Capital Gains increased by LL 57 billion with income tax on profits rising by LL 20 billion from the same period in 2015 and tax on interest income increasing by LL 18 billion to LL 203 billion reflecting growth in the value of interest paying instruments, namely private sector deposits, and interest gains from fixed income instruments, at a time when interest rates remained relatively stable. Moreover, income tax on wages and salaries increased by LL 17 billion or 10 percent.

Taxes on international trade (customs duties and excises) were up by LL 19 billion with the increase resulting from higher collections of excises by LL 15 billion. Most notably, gasoline excises rose by LL 12 billion mirroring an 8 percent increase in the volume of gasoline imports over the period. Additionally, customs increased by LL 4 billion, to reach LL 169 billion in Q1 2016.

Non-tax revenues amounted to LL 873 billion in Q1 2016, rising by LL 212 billion in Jan-Mar 2016 as cash **transfers from the Telecom Surplus** reached LL 524 billion compared to LL 363 billion in Jan-Mar 2015. **Administrative fees and charges** rose by LL 28 billion and were mainly driven by increases in Passport fees (LL 11 billion) and work permit fees (9 billion). Moreover, retirement deductibles and penalties & confiscations were up by LL 10 billion each.

Treasury receipts recorded a LL 103 billion (57 percent) jump to reach LL 282 billion in Jan-Mar 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 amounted to LL 5,839 billion in Q1 2016, up by LL 1,095 billion (23 percent) from Q1 2015, mainly owing to the transfer of funds collected on behalf of municipalities in 2014.

Current primary expenditures³ hiked by LL 151 billion (6 percent), reaching LL 2,872 billion in Jan-Mar 2016. This was mainly the result of (i) a LL 115 billion rise in personnel cost, in its turn driven by an increase in salaries, wages, and related benefits by LL 44 billion; retirement and end of service indemnities by LL 42 billion; and transfers to public institutions to cover salaries by LL 29 billion, (ii) a LL 55 billion increase in

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

transfers to hospitals, (iii) a LL 44 billion increase in materials and supplies due to increases in payments for medicaments and fuel, and (iii) a LL 42 billion for an accounting adjustment. In return, transfers to Electricite Du Liban dropped by LL 246 billion owing to the decrease in international oil prices, and transfers to Higher Council of Relief and the Directorate General of Cereals and Beetroot by LL 19 billion and LL 10 billion respectively.

Interest payments rose by LL 180 billion to reach LL 1,524 billion in Q1 2016, with higher debt service payments on the local and foreign currency components. **Foreign debt principal repayments** slightly decreased by LL 5 billion from the LL 48 billion registered in Q1 2015.

Capital expenditures reached LL 343 billion, increasing by LL 77 billion in Jan-Mar 2016 from LL 266 billion in Jan-Mar 2015, with (i) a LL 33 billion rise in construction in progress, with transfers to the Ministry of Public Work and Transport increasing by LL 23 billion, and a (ii) LL 33 billion increase in **other expenditures related to fixed capital assets**. In the first quarter of 2016, Capital expenditures accounted for 5.9 percent of total government expenditures.

Treasury expenditures⁴ increased by LL 619 billion in January-March 2016 primarily as a result of a LL 647 billion rise in spending to municipalities, of which LL 592 billion were distributed in telecom revenues to municipalities during Jan-Mar 2016⁵. Counterbalancing items included VAT refunds which declined by LL 24 billion and deposits by LL 19 billion.

Public Debt

Gross public debt amounted to LL 107,104 billion by end-March 2016, up by LL 1,090 billion (1 percent) from end-2015, whereas Net debt increased at a faster pace of 1.7 percent, as public sector deposits dropped by 3.8 percent to LL 12,727 billion.

Local currency debt increased by LL 817 billion (1.3 percent) to LL 66,012 billion by end-March 2016 accounting for almost 62 percent of total debt. Local currency debt holdings by the Central Bank increased by LL 1,907 billion. In contrast, Commercial Banks reduced their LL debt holdings by LL 842 billion, and their overall share of outstanding LL debt to 44 percent from 46 percent. LL debt holdings by Public Entities decreased by LL 241 billion, or almost 3 percent to reach LL 8,220 billion.

The stock of **foreign currency debt** increased by LL 273 billion to LL 41,092 billion in the first quarter of 2016, mainly owing to a LL 285 billion rise in accrued interest on Eurobonds. Other notable changes included an increase in outstanding market Eurobonds by LL 30 billion to LL 35,877 billion. Moreover, “Bilateral, multilateral and foreign private sector loans” rose by LL 39 billion, while Paris II and Paris III related bonds and loans decreased by LL 67 billion and LL 12 billion respectively, mainly due to amortized principal repayments.

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, noting that the telecom revenues to municipalities relates to the transfer made in July 2014 of LL 673 billion by the Ministry of telecom. For more information, kindly refer to the July 2014 Public Finance Monitor.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-Mar	2016 Jan-Mar	% Change 2016/2015
Budget Revenues, of which	2,963	3,384	14.2%
Tax Revenues	2,302	2,511	9.1%
Non-Tax Revenues	662	873	32.0%
Treasury Receipts	179	282	57.5%
Total Revenues	3,142	3,666	16.7%

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

Table 3: Tax Revenues

(LL billion)	2015 Jan-Mar	2016 Jan-Mar	% Change 2016/2015
Tax Revenues:	2,302	2,511	9.1%
Taxes on Income, Profits, & Capital Gains, of which	598	655	9.5%
Income Tax on Profits	180	200	11.0%
Income Tax on Wages and Salaries	181	199	9.6%
Income Tax on Capital Gains & Dividends	36	37	2.7%
Tax on Interest Income (5%)	185	203	9.5%
Penalties on Income Tax	16	17	4.9%
Taxes on Property, of which:	298	371	24.6%
Built Property Tax	100	138	38.2%
Real Estate Registration Fees	164	191	16.7%
Domestic Taxes on Goods & Services, of which:	826	883	6.9%
Value Added Tax	745	796	6.9%
Other Taxes on Goods and Services, of which:	77	83	7.1%
Private Car Registration Fees	48	52	7.2%
Passenger Departure Tax	28	30	8.0%
Taxes on International Trade, of which:	466	485	4.2%
Customs	165	169	2.5%
Excises, of which:	301	317	5.0%
Gasoline Excise	150	162	8.1%
Tobacco Excise	58	58	1.6%
Cars Excise	92	95	2.5%
Other Tax Revenues (namely fiscal stamp fees)	113	117	3.1%

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

Table 4: Non-Tax Revenues

(LL billion)	2015 Jan-Mar	2016 Jan-Mar	% Change 2016/2015
Non-Tax Revenues	662	873	32.0%
Income from Public Institutions and Government Properties, of which:	431	594	37.9%
Income from Non-Financial Public Enterprises, of which:	391	551	40.9%
<i>Revenues from Casino Du Liban</i>	28	27	-2.5%
<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>	363	524	44.2%
Property Income (namely rent of Rafic Hariri International Airport)	39	42	8.6%
Other Income from Public Institutions (interests)	1	1	15.3%
Administrative Fees & Charges, of which:	188	216	14.9%
Administrative Fees, of which:	146	163	12.0%
<i>Notary Fees</i>	8	9	2.6%
<i>Passport Fees/ Public Security</i>	53	64	20.1%
<i>Vehicle Control Fees</i>	57	58	1.7%
<i>Judicial Fees</i>	7	8	6.1%
<i>Driving License Fees</i>	6	5	-18.5%
Administrative Charges	18	19	6.8%
Sales (Official Gazette and License Number)	1	1	-1.6%
Permit Fees (mostly work permit fees)	19	28	48.2%
Other Administrative Fees & Charges	5	5	7.8%
Penalties & Confiscations	3	14	N.M.
Other Non-Tax Revenues (mostly retirement deductibles)	39	49	24.6%

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-Mar	2016 Jan-Mar	% Change 2016/2015
1. Current Expenditures	4,113	4,439	7.9%
1.a Personnel Cost, of which	1,698	1,812	6.8%
Salaries, Wages and Related Benefits	1,135	1,179	3.9%
Retirement and End of Service Compensations, of which:	468	511	9.0%
Retirement	423	441	4.1%
End of Service	45	70	55.2%
Transfers to Public Institutions to Cover Salaries 1/	94	123	30.5%
1.b Interest Payments, 2/	1,345	1,524	13.4%
Domestic Interest Payments	1,006	1,153	14.6%
Foreign Interest Payments	338	371	9.7%
1.c Accounting adjustments 3/	1	43	N.M.
1.d Foreign Debt Principal Repayment	48	44	-9.7%
1.e Materials and Supplies, of which:	90	134	49.2%
Nutrition	23	22	-4.4%
Fuel Oil	2	14	N.M.
Medicaments	47	71	52.4%
1.f External Services	37	41	11.7%
1.g Various Transfers, of which:	653	529	-19.0%
EDL 4/	476	230	-51.7%
NSSF	0	20	N.M.
Higher Council of Relief	20	1	-96.5%
Contributions to non-public sectors	59	94	59.6%
Transfers to Directorate General of Cereals and Beetroot 5/	10	0	-100.0%
1.h Other Current, of which:	196	273	39.1%
Hospitals	172	227	32.1%
Others (judgments & reconciliations, mission costs, other)	20	45	120.8%
1.i Interest subsidy	46	40	-13.9%
2. Capital Expenditures	266	343	29.0%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	12.5%
2.b Equipment	19	28	47.6%
2.c Construction in Progress, of which:	166	199	20.2%
Displaced Fund	0	0	-
Council of the South	20	0	N.M.
CDR	81	81	-0.5%
Ministry of Public Work and Transport	18	42	125.9%
Other of which	44	73	67.3%
Higher Council of Relief	4	2	-50.0%
2.d Maintenance	69	70	2.3%
2.e Other Expenditures Related to Fixed Capital Assets	12	45	276.9%
3. Budget Advances 6/	48	113	133.3%
4. Customs Administration (exc. Salaries and Wages) 7/	29	36	24.3%
5. Treasury Expenditures 8/	287	906	215.4%
Municipalities	110	757	N.M.
Guarantees	9	20	109.1%
Deposits 9/	68	49	-28.4%
Other, of which:	100	81	-19.1%
VAT Refund	85	61	-28.8%
6. Unclassified Expenditures	0	2	N.M.
7. Total Expenditures (Excluding CDR Foreign Financed)	4,743	5,839	23.1%

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-Mar	2016 Jan-Mar	% Change 2016/2015
Transfer to Council of the South	2	0	-79.3%
Transfer to CDR	0	16	N.M.
Transfer to the Displaced Fund	2	1	-62.7%
Transfer to the Lebanese University	90	98	9.2%
Transfer to the Educational Center for Research and Development	0	7	N.M.

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

Table 7: Details of Debt Service Transactions¹

(LL billion)	2015 Jan-Mar	2016 Jan-Mar	% Change 2016/2015
Interest Payments	1,345	1,524	13.4%
Local Currency Debt	1,006	1,153	14.6%
Foreign Currency Debt, of which:	338	371	9.7%
Eurobond Coupon Interest*	315	354	12.4%
Special bond Coupon Interest*	2	1	-18.3%
Concessional Loans Interest Payments	21	15	-27.5%

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-Mar	2016 Jan-Mar	% Change 2016/2015
EDL of which:	476	230	-51.7%
Debt Service	11	7	-29.7%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	465	222	-52.2%

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 2016

(LL billion)	Dec-14	Dec-15	Mar-16	% Change Mar 16 - Dec 15
Gross Public Debt	100,356	106,014	107,104	1.0%
Local Currency Debt	61,752	65,195	66,012	1.3%
* <i>Accrued Interest Included in Debt</i>	1,029	997	1,013	1.6%
a. Central Bank (Including REPOs)	19,855	24,308	26,215	7.8%
b. Commercial Banks	31,468	29,878	29,036	-2.8%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	10,761	-2.3%
<i>Public Entities</i>	7,701	8,461	8,220	-2.8%
<i>Contractor bonds 1/</i>	180	180	180	0.0%
Foreign Currency Debt 2/	38,604	40,819	41,092	0.7%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,478	2,517	1.5%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,743	1,182	1,115	-5.6%
c. Paris III Related Debt (Eurobonds and Loans) 4/	986	810	798	-1.5%
d. Market-Issued Eurobonds	32,584	35,846	35,877	0.1%
e. Accrued Interest on Eurobonds	425	435	720	65.5%
f. Special T-bills in Foreign Currency 5/	114	68	66	-2.9%
Public Sector Deposits	13,965	13,227	12,727	-3.8%
Net Debt 6/	86,391	92,787	94,377	1.7%
Gross Market Debt 7/	67,373	68,799	68,264	-0.8%
% of Total Debt	67%	65%	64%	-1.8%

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 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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