

Section 1: Fiscal Overview

Highlights:

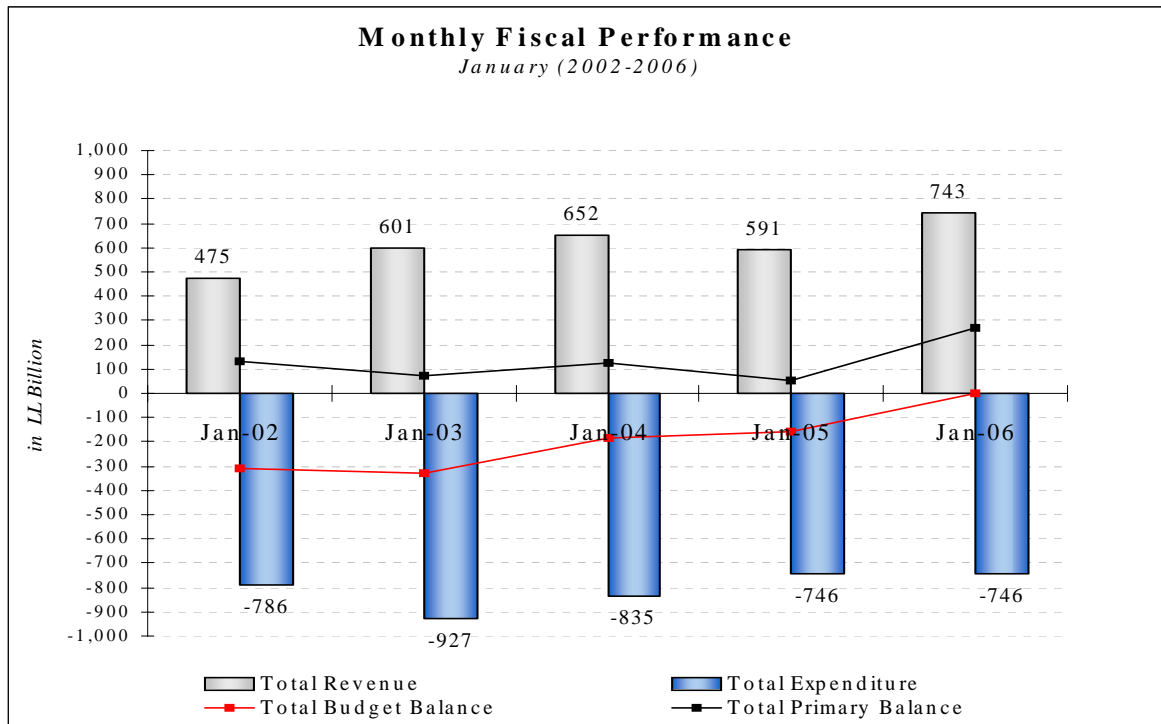
In January 2006, the total fiscal balance registered a total deficit of LL 3 billion, improving by 98 percent over January 2005, compared to a deficit of LL 155 billion for the same period in 2005. The total primary surplus amounted to LL 271 billion, a 398 percent increase compared to LL 54 billion in January 2005. This resulted from a 26 percent increase in total receipts and equality in total payments between January 2006 and January 2005.

Table 1. Summary of Fiscal Performance

(LL billion)	2005	2006	Change	
	January	January	2005-2006	% Change
Budget Revenue	567	690	123	21.7%
Budget Expenditures	399	477	78	19.6%
<i>o/w Debt Service</i>	210	274	64	30.5%
Budget Deficit/Surplus	168	212	45	26.8%
in % of Budget Expenditures	42.0%	44.5%		
Budget Primary Deficit/Surplus	377	486	109	28.9%
in % of Budget Expenditures	94.6%	101.9%		
Treasury Receipts	24	53	29	120.3%
Treasury Payments	347	269	-78	-22.6%
Total Budget and Treasury Receipts	591	743	152	25.8%
Total Budget and Treasury Payments	746	746	0	0.0%
Total Cash Deficit/Surplus	-155	-3	152	-98.1%
in % of Total Expenditures	-20.8%	-0.4%		
Primary Deficit/Surplus	54	271	216	397.8%
in % of Total Expenditures	7.3%	36.3%		

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

Chart 1.



Section 2: Revenue Outcome

Highlights:

1. Total revenues for the first month of 2006 reached LL 743 billion compared to LL 591 billion in January 2005.
2. This 26 percent increase in overall revenues was mainly due to the 316 percent increase in **non-tax revenues**, which totaled LL 161 billion by the end of January 2006. The main reason behind the increase pertained to the absence of transfer from the Telecom Surplus in January 2005 – this transfer amounted to LL 120 billion during January 2006.
3. **Tax revenues** totaled LL 529 billion in January 2006, nearly equivalent to the overall tax collection level in January 2005. In fact, whereas most tax revenue items performed similarly to the previous year, taxes on income, profits, and capital gains registered 10 percent increase in collection, and property registration fees further witnessed 21 percent higher revenues, both of which offset the 13 percent decrease in revenues from taxes on international trade (customs and excises), which was mainly caused by the 42 percent loss in fuel excise revenues, resulting from the cap on gasoline prices.
4. **Treasury receipts** increased by 120 percent, mainly due to the rise in municipalities revenues, which totaled LL 27 billion in January 2006 compared to LL 7 billion in January 2005.

Table 2. Total Revenue

(LL billion)	2005 January	2006 January	% Change
Budget Revenues, of which:	567	690	21.8%
<i>Tax Revenues</i>	528	529	0.2%
<i>Non-Tax Revenues</i>	39	161	316.2%
Treasury Receipts	24	53	120.3%
Total Revenues	591	743	25.8%

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2005 January	2006 January	% Change
Tax Revenues:	528	529	0.2%
Taxes on Income, Profits, & Capital Gains, of which:	122	134	9.66%
<i>Income Tax on Profits</i>	36	31	-13.5%
<i>Income Tax on Wages and Salaries</i>	44	50	13.8%
<i>Income Tax on Capital Gains & Dividends</i>	13	18	41.8%
<i>Tax on Interest Income (5%)</i>	26	32	21.1%
<i>Penalties on Income Tax</i>	3	2	-15.5%
Taxes on Property, of which:	28	32	15.1%
<i>Built Property Tax</i>	5	5	-0.8%
<i>Real Estate Registration Fees</i>	19	23	21.0%
Domestic Taxes on Goods & Services, of which:	237	236	-0.2%
<i>Value Added Tax</i>	222	221	-0.7%
<i>Other Taxes on Goods and Services, of which:</i>	13	10	-20.3%
<i>Private Car Registration Fees</i>	7	9	14.1%
<i>Passenger Departure Tax</i>	5	2	-69.5%
Taxes on International Trade, of which:	116	100	-13.4%
<i>Customs</i>	36	35	-1.0%
<i>Excises, of which:</i>	80	65	-18.9%
<i>Petroleum Tax</i>	46	27	-41.7%
<i>Tobacco Tax</i>	16	17	5.7%
<i>Tax on Cars</i>	17	20	20.6%
Other Tax Revenues (namely fiscal stamp fees)	26	26	3.5%

Source: MOF, DGF

Chart 2.

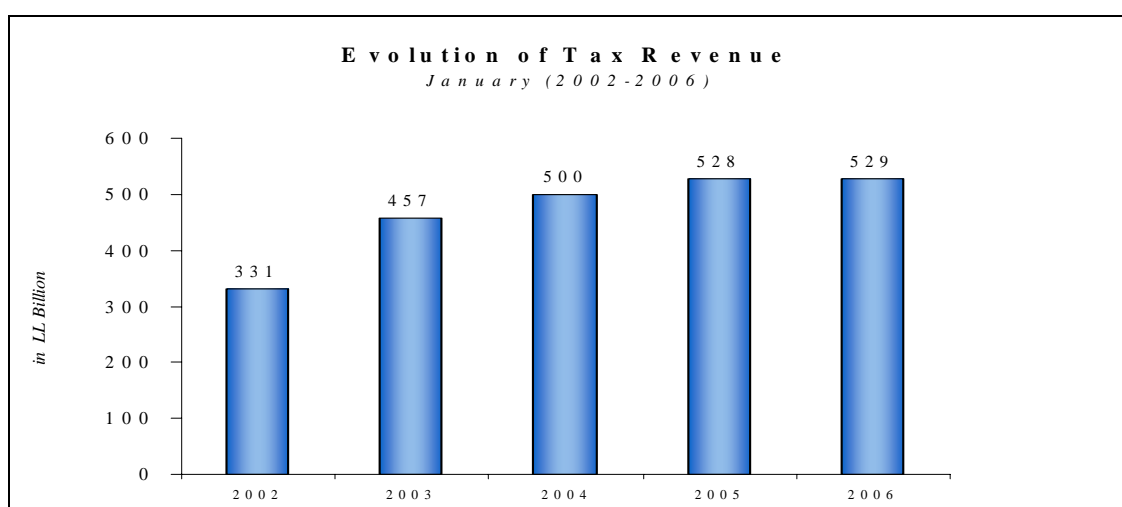
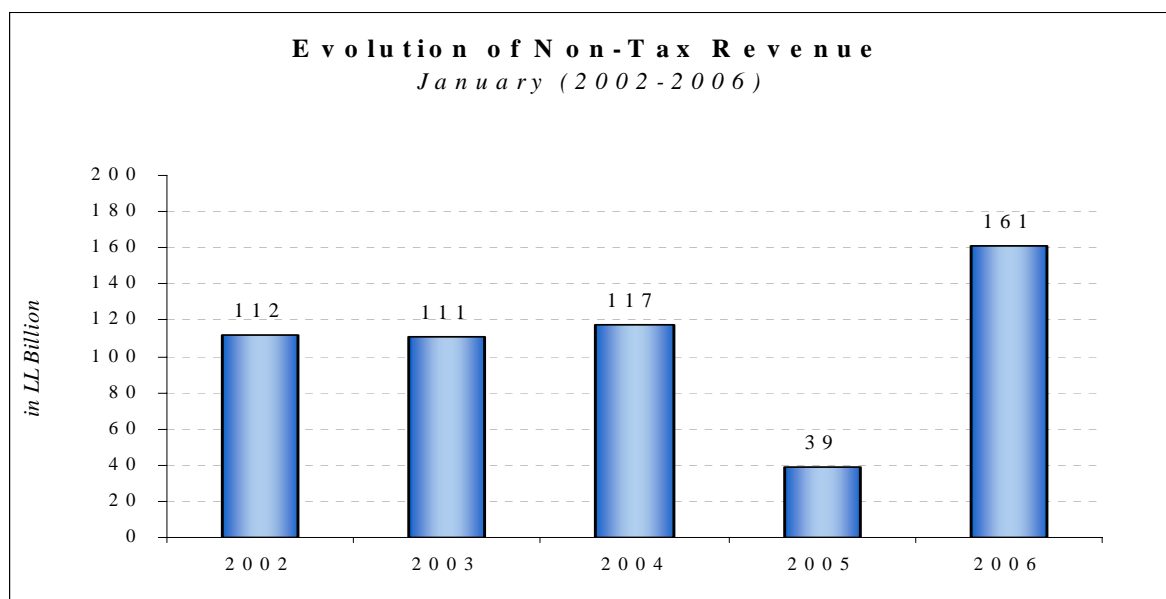


Table 4. Non-Tax Revenue

(LL billion)	2005 January	2006 January	% Change
Non-Tax Revenues	39	161	316.2%
Income from Public Institutions and Government Properties, of which:	11	127	1067.6%
Income from Non-Financial Public Enterprises, of which:	8	123	1394.6%
<i>Revenues from Casino Du Liban</i>	3	0	-100.0%
<i>Revenues from Port of Beirut</i>	0	0	0.0%
<i>Budget Surplus of National Lottery</i>	5	3	-40.0%
<i>Transfer from the Telecom Surplus</i>	0	120	100.0%
Property Income (namely rent of Rafic Hariri International Airport)	2	3	33.6%
Other Income from Public Institutions (interests)	0	1	30.9%
Administrative Fees & Charges, of which:	21	26	22.7%
Administrative Fees, of which:	15	20	34.6%
<i>Notary Fees</i>	1	1	-7.0%
<i>Passport Fees/ Public Security</i>	7	9	29.6%
<i>Vehicle Control Fees</i>	4	6	65.4%
<i>Judicial Fees</i>	1	2	45.0%
<i>Driving License Fees</i>	1	1	-26.7%
Administrative Charges	2	2	-17.0%
Sales (Official Gazette and License Number)	0	0	27.0%
Permit Fees (mostly work permit fees)	3	3	-2.7%
Other Administrative Fees & Charges	0	0	-4.5%
Penalties & Confiscations	0	0	8.0%
Other Non-Tax Revenues (mostly retirement deductibles)	6	8	24.0%

Source: MOF, DGF

Chart 3.



Section 3: Expenditure Outcome

Total expenditures for January 2006 totaled LL 746 billion, which is the same level reported in January 2005. Despite the fact that the same level of spending was reported, different patterns governed the trends when segregating expenditure data as debt/non-debt spending, and as budget/treasury spending.

1. Debt service reported LL 274 billion in January 2006, increasing by 64 billion, as compared to its level of January 2005, i.e., by around 30 percent
2. Meanwhile non-debt expenditures registered 472 billion in January 2006, decreasing by LL 64 billion as compared to January 2005, compensating thus for the increase in debt service and maintaining the total expenditure in January 2006 at the same level of 2005. Within the non-debt expenditures, different trends were noticed, mainly when segregating expenditure data as treasury/budget.

a. Primary expenditures summed up to LL 472 billion in January 2006, decreasing by LL 64 billion when compared to LL 536 billion for the same period of 2005 due to a contraction in current non-interest and capital spending by LL 79 billion and LL 33 billion respectively. The decrease in current non-interest and capital spending is attributable to the following major factors:

- ✚ Various transfers (65 percent decrease): LL 20 billion were transferred to the NSSF in January 2005 while no payments were made in January 2006,
- ✚ Other current (33 percent decrease): mainly due to a one-time settlement of LL 13 billion conducted in January 2005 of arbitration decisions relating to the Ministries of Public Works and Education

✚ Construction under progress (56 percent decrease): LL 47 billion were transferred to the CDR in January 2005, while LL 9 billion were transferred in January 2006.

b. The decline in primary budget expenditures was counterbalanced by an expansion in other treasury expenditures which increased by LL 47 billion. The increase in these expenditures was due to two major factors:

✚ Increase by LL 51 billion in transfers to municipalities

✚ Increase by LL 9 billion in treasury advances for diesel oil subsidy

c. Direct transfers to EDL increased by LL 25 billion when compared to January 2005. However, this increase is offset by the indirect transfer to EDL that took place during the month of January 2005 in the form of treasury advances to water authorities in settlement of unpaid accrued electricity bills (Refer to Table 7).

Table 5. Expenditures by Transaction Classification

(LL billion)	2005 January	2006 January	% Change
Total Expenditures	746	746	-0.0%
Budget Expenditures	399	477	19.6%
Expenditures Excluding Debt Service	189	204	7.5%
Debt Service, of which:	210	274	30.5%
<i>Domestic Debt</i>	141	180	27.5%
<i>Foreign Debt, of which:</i>	69	94	36.8%
<i>Eurobond Coupon Interest</i>	51	75	46.9%
<i>Concessional Loans Principal Payments</i>	15	15	-3.3%
<i>Concessional Loans Interest Payments</i>	3	4	43.3%
Treasury Expenditures , of which:	347	269	-22.6%
<i>Municipalities</i>	7	58	746.0%
<i>Previous Years' Appropriations</i>	256	127	-50.4%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	536	472	-11.9%

Source: MOF, DGF

Chart 4.

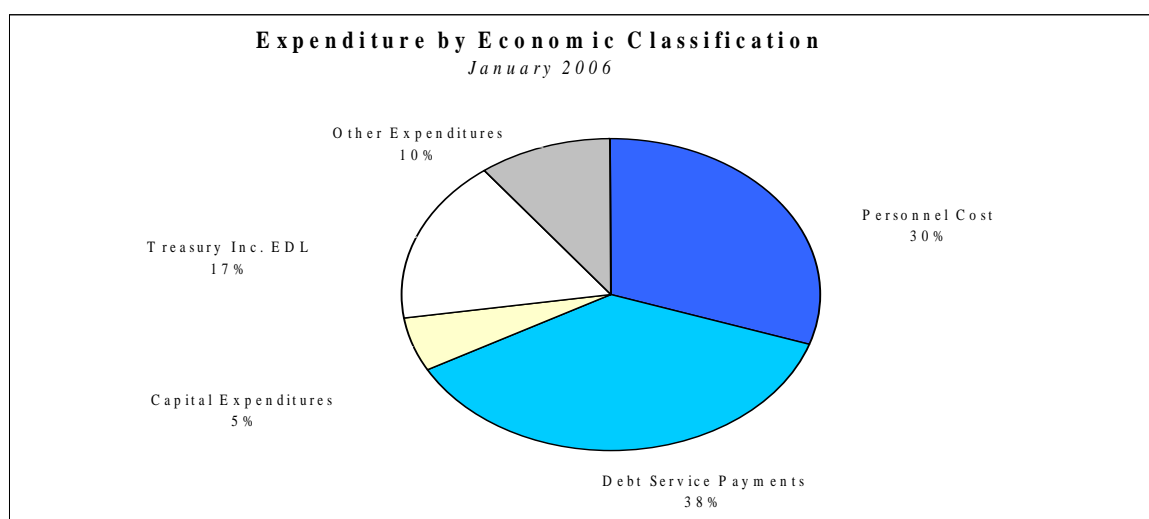


Table 6. Expenditures by Economic Classification

(LL billion)	2005	2006	% Change
	January	January	
1. Current expenditures	589	574	-2.7%
1.a Personnel cost, of which	274	226	-17.7%
<i>Article 13: Salaries and wages</i>	189	155	-18.0%
<i>Retirement and end of service compensations</i>	62	66	6.7%
1.b Debt service payments	210	274	30.5%
1.c Materials and supplies	6	9	55.4%
1.d External services	3	7	115.1%
1.e Various transfers	37	13	-64.9%
<i>o/w NSSF</i>	20	0	-100.0%
1.f Other current	46	31	-32.6%
<i>Hospitals</i>	30	29	-6.2%
<i>Others</i>	15	2	-85.4%
1.g Reserves	13	14	6.3%
<i>Interest subsidy</i>	13	14	6.3%
2. Capital expenditures	73	40	-44.7%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	0	4	8840.0%
2.b Equipment	3	2	-30.8%
2.c Construction in Progress	61	27	-55.9%
2.d Maintenance	8	4	-53.1%
2.e Other Expenditures Related to Fixed Capital Assets	2	4	166.7%
3. Other treasury expenditures, of which	81	128	58.0%
Municipalities	7	58	745.9%
EDL	1	26	2361.4%
Treasury advances for water authorities	48	0	-100.0%
Treasury advances for diesel oil subsidy	8	17	123.1%
4. Unclassified expenditures	0	0	-64.2%
5. Customs cashiers	3	3	24.5%
6. Total expenditures (excluding CDR foreign financed)	746	746	-0.1%

Source : statement of account 36, cashier spending, Public Debt Department figures , Fiscal performance gross adjustment figures

Table 7. Transfers to EDL

(LL billion)	2005	2006	% Change
	January	January	
EDL of which:	49	26	-47.6%
Debt Service of which:	1	26	2467.1%
C-Loans and Eurobonds, of which:	1	9	797.1%
Principal Payment	1	6	825.3%
Interest Payment	0	2	731.3%
Loans for Fuel Oil Payment	0	17	100.0%
BDL Guaranteed Loan Payment	0	0	0.0%
Treasury Advance for Fuel Purchase	0	0	0.0%
Treasury Advance for EDL' s Losses	-	0	0.0%
Material and supplies (electricity bills)			0.0%
Treasury advance to water authorities	48	0	-100.0%
Expropriations	0	0	0.0%

Source: MOF, DGF

Section 4: Public Debt

Highlights:

1. By the end of January 2006, gross public debt reached LL 58,139 billion (equivalent to US\$ 39 billion), rising by LL 89 billion (or 0.2 percent) over the end-December 2005 debt level.
2. Local currency debt amounted to LL 29,086 billion (equivalent to US\$ 19 billion), registering a drop-off of LL 55 billion or 0.2 percent over the end-December 2005 level.
3. By end-January 2006, foreign currency debt amounted to LL 29,053 billion (equivalent to US\$ 19 billion), increasing by LL 144 billion (or 0.5 percent) over the end-December 2005 level.
4. BDL portfolio of treasury bills continued to decline as appetite for Lebanese Pound denominated treasury bills during January continued to be strong, especially by commercial banks. Accordingly, domestic debt held by BDL decreased by LL 299 billion in January 2006 compared to end December 2005. Meanwhile, domestic debt held by commercial banks increased by LL 268 billion during the month of January 2006.
5. Public sector deposits amounted to LL 5,559 billion, decreasing by around LL 30 billion from their December 2005 level.

Table 8. Public Debt Outstanding by Holder as of End-January 2006

(LL Billion)	Dec-03	Dec-04	Dec-05	Jan-06	Change Year-to- date	% change Year-to- date
Gross Public debt	50,285	54,062	58,050	58,139	89	0.2%
Local currency debt	26,843	26,371	29,141	29,086	-55	-0.2%
Ratio to total debt	53.4%	48.8%	50.2%	50.0%		
a. Central Bank (including REPOs and Loans to EdL to finance fuel purchases)*	8,938	10,652	11,686	11,387	-299	-2.6%
<i>o/w Zero coupon T-bills</i>	3,508	3,508			0	0.0%
<i>o/w Special T-bills issued at 4%</i>	4,299	4,299			0	0.0%
b. Commercial Banks	12,303	12,220	14,130	14,398	268	1.9%
<i>o/w Zero coupon T-bills</i>	880	880		880	880	100.0%
c. Other Domestic Debt (T-bills)	5,603	3,500	3,325	3,301	-24	-0.7%
<i>o/w Public entities</i>	2,564	2,187	2,446	2,445	-1	0.0%
Foreign currency debt	23,442	27,691	28,909	29,053	144	0.5%
Ratio to total debt	46.6%	51.2%	49.8%	50.0%		
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,983	2,855	2,855	0	0.0%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,681	3,701	20	0.5%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.0%
d. Market Eurobonds	13,631	17,687	18,729	18,748	19	0.1%
<i>o/w Zero interest Eurobonds issued to Comm. Bnks</i>	1,083	1,122	0	0	0	0.0%
e. Accrued Interest on foreign currency debt	327	388	406	511	105	25.9%
f. Special Tbls in Foreign currency**			419	419		
Public sector deposits	3,019	4,360	5,590	5,559	-31	-0.6%
Net debt	47,266	49,703	52,460	52,580	120	0.2%
Gross market debt***	29,638	31,862	34,760	35,129	369	1.1%
% of total debt	59%	59%	60%	60%		

Source: Ministry of Finance, Banque du Liban

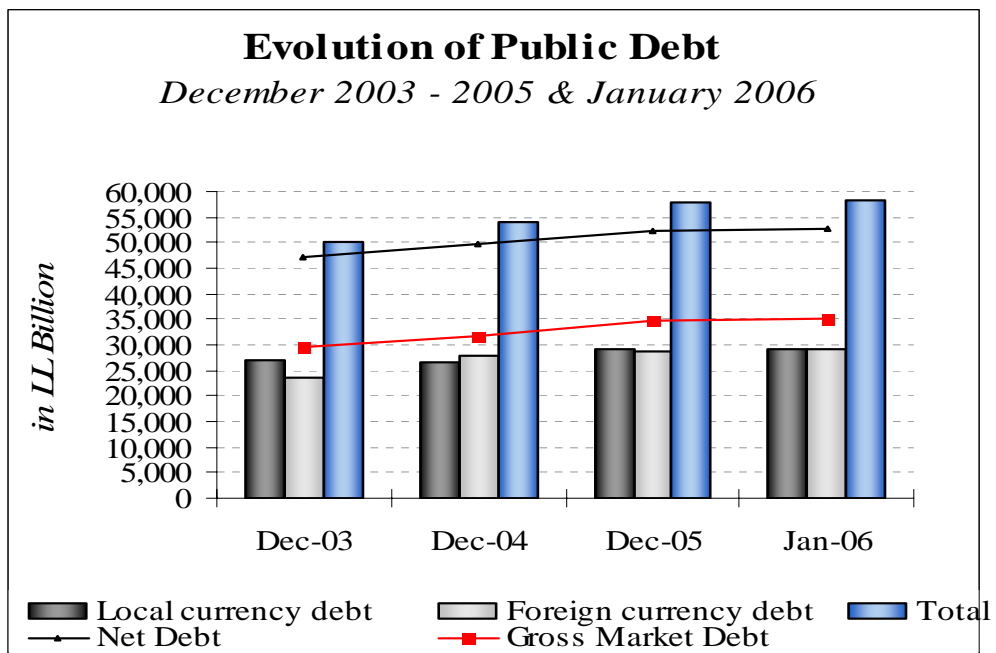
Notes:

* The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as public debt as they are government guaranteed.

** Special Tbs in Foreign currency (expropriation bonds)

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

Chart 5.





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