

Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

August 2007

Section 1: Fiscal Overview

For the first 8 months of 2007, the total fiscal deficit increased by LL 41 billion reaching LL 2,327 billion compared to LL 2,285 billion registered during January-August 2006; this increase in deficit represents a LL 969 billion increase in payments which offset the LL 927 billion increase in receipts. In turn, total primary surplus increased by 64% reaching LL 817 billion by end of August 2007 compared to LL 419 billion registered in January-August 2006.

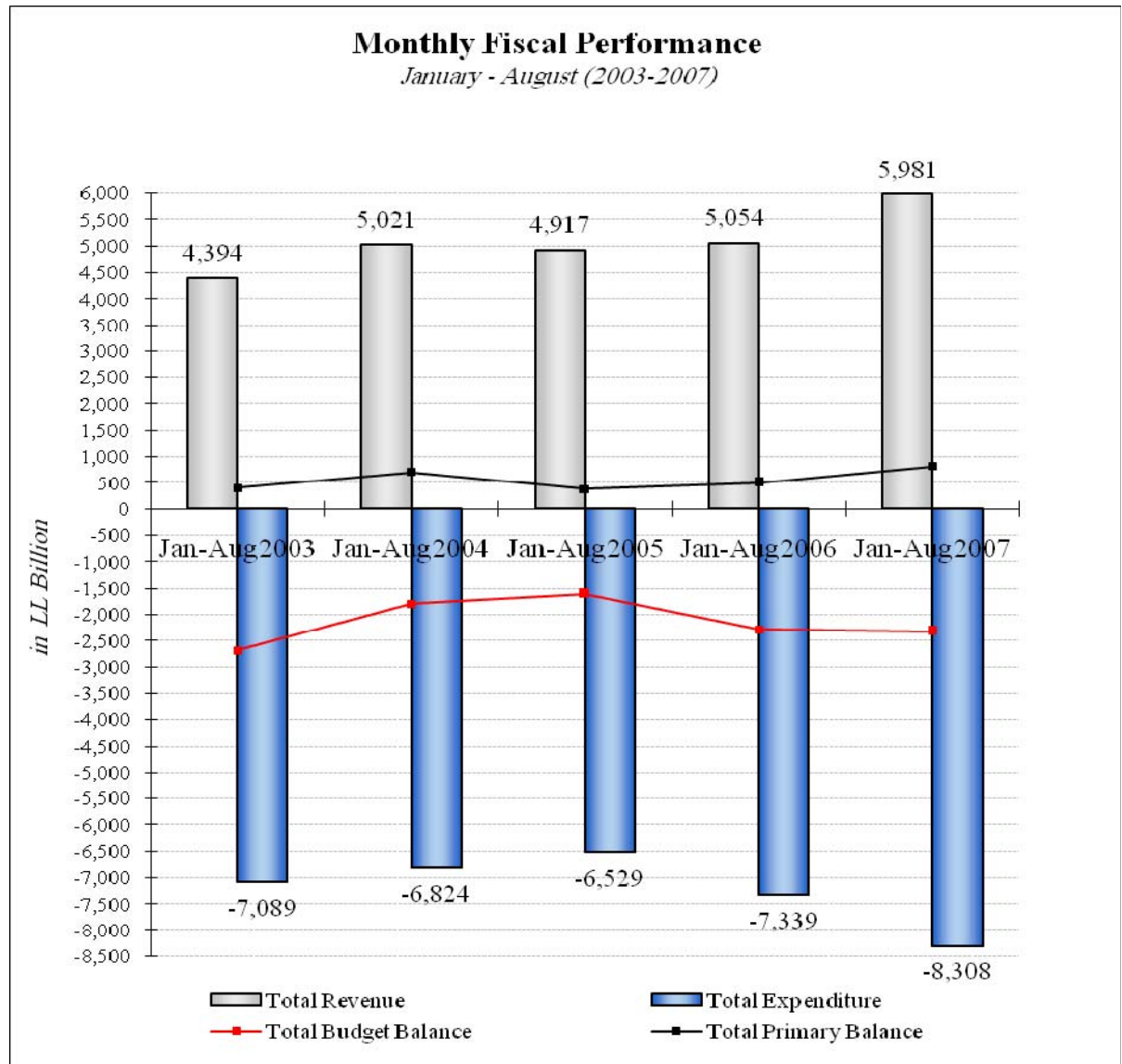
In the month of August 2007, the enhancement detected in both the total deficit, that decreased by 51%, and the primary deficit that decreased by 93% when compared to August 2006 is due to the 84% increase in total receipts and the 11% decrease in total payments. This was due to the effect of July 2006 war which extended till August 2006 and lead to higher war-related payments and lower receipts.

Table 1. Summary of Fiscal Performance

(LL billion)	2006	2007	2006	2007	Change	%
	August	August	Jan-Aug	Jan-Aug	2006-2007	Change
Budget Revenue	331	605	4,738	5,512	774	16.3%
Budget Expenditures	691	828	5,928	6,663	735	12.4%
<i>o/w Previous Years Appropriations</i>	2	3	489	566	77	15.7%
<i>o/w Debt Service</i>	364	377	2,783	3,144	361	13.0%
Budget Deficit/Surplus	-360	-223	-1,190	-1,151	38	-3.2%
in % of Budget Expenditures	-52.1%	-27.0%	-20.1%	-17.3%		
Budget Primary Deficit/Surplus	4	154	1,593	1,992	399	25.0%
in % of Budget Expenditures	0.5%	18.5%	26.9%	29.9%		
Treasury Receipts	13	27	316	470	154	48.7%
Treasury Payments	477	211	1,411	1,645	233	16.5%
Total Budget and Treasury Receipts	344	632	5,054	5,981	927	18.3%
Total Budget and Treasury Payments	1,168	1,039	7,339	8,308	969	13.2%
Total Cash Deficit/Surplus	-824	-407	-2,285	-2,327	-41	1.8%
in % of Total Expenditures	-70.6%	-39.2%	-31.1%	-28.0%		
Primary Deficit/Surplus	-461	-30	498	817	319	64.2%
in % of Total Expenditures	-39.4%	-2.9%	6.8%	9.8%		

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

Chart 1.



Section 2: Revenue Outcome

Total revenues collected over the period January-August 2007 reached LL 5,981 billion compared to LL 5,054 billion during the same period last year, registering an 18 percent increase mainly due to:

- a) A 16% higher collection in **budget revenues**, due to amelioration in both tax and non-tax revenues which increased by 13% and 24% respectively in comparison to the same period last year.
 - ❖ **Tax Revenues** totaled LL 3,808 billion for January-August 2007 compared to LL 3,359 billion collected during the same period last year. In fact, the 13 percent increase in the tax revenues was mainly due to improvement in the collection of (i) **Taxes on Income Profits and Capital Gains** by 7 percent (namely 31 percent higher Income Tax on

Capital Gains and Dividends, 5 percent higher Income Tax on Profits and 6 percent higher Income Tax on Wages and Salaries); (ii) **Domestic tax on Goods and Services** increased by 24 percent (arising from 27 percent and 11 percent higher collection of VAT revenues and Private Car Registration Fees respectively), and (iii) **Taxes on International trade** increased by 35 percent (attributed to 27% higher Customs Duties and 43% higher excise taxes namely fuel excise). On the **Property Tax** front, the recurrent tax has witnessed a 16 percent increase in collection throughout the first 8 months of the year, reflecting the revenue enhancement reform effort as described in the PIII economic reform program.

Note that the monthly comparison between August 2006 revenues and August 2007 revenues reflects the consequences of the July 2006 war and the resulting blockade; especially in the collection of **Domestic Taxes on Goods and Services** that witnessed a 138 percent year on year increase and in the collection of **Taxes on International Trade** that increased 16 times.

- ❖ **Non-tax revenues** totaled LL 1,704 billion compared to LL 1,379 billion in 2006 registering an increase of 24 percent owing mainly to 34 percent increase in the **Income from Public Institutions and Government Properties** which have more than offset the 6 percent deterioration in **Administrative Fees and Charges** and the 11 percent decrease in **Other Non Tax Revenues** (mostly retirement deductibles). In details, the improved revenues from Casino Du Liban¹ (by 38 percent), from the Telecom Surplus² (by 21 percent) and from the rent of Rafic Hariri International Airport (by 42 percent), together with the LL 113 billion (representing the 80 percent transfer to the Treasury of the BDL net profit according to the Article 113 of the Code of Money and Credit) have outweighed the drop in revenues from the Vehicle Control Fees³ (by 13 percent), the Driving License Fees (by 29 percent) and the Work Permit Fees (by 12 percent).

Chart 3 shows that non tax revenues have been increasing steadily since 2003, reaching LL 1,704 billion during January-August 2007, a collection level never achieved before.

- b) A 49 percent increase in **Treasury Receipts** compared to January- August of last year is due to a LL 151 billion grant received from Saudi Arabia during April 2007. Please note that the January-August 2006 Treasury receipts figure further accounts for LL 78 billion of reconstruction and rehabilitation grants received during the conflict period last summer. Further note that an amount equivalent to LL 38 billion was reported under "other Treasury revenues" which represents

¹ As per the Government economic reform program presented at Paris III, and as per the Government's aim at revenue enhancement, and particularly from public properties, a new phase of the agreement with Casino Management entered into effect, whereby Treasury's share of casino revenues increased from 30% to 40% as of 2007.

² Please note that an amount equivalent to \$ 92.5 million of arbitration settlement was paid to France Telecom in April 2007.

³ Please note that the higher collection of vehicle control or road usage fees in 2006 may be attributed to the amnesty on penalties on unsettled dues, as per Article 29 of Budget Law 2005 (Law 715, February 3rd, 2006).

adjustment entries (in the months of January and June 2007) regularizing a treasury advance payments⁴.

Table 2. Total Revenue

(LL billion)	2006	2007	2006	2007	%
	August	August	Jan-Aug	Jan-Aug	Change
Budget Revenues, of which:	331	605	4,738	5,512	16.3%
<i>Tax Revenues</i>	<i>136</i>	<i>361</i>	<i>3,359</i>	<i>3,808</i>	13.4%
<i>Non-Tax Revenues</i>	<i>195</i>	<i>244</i>	<i>1,379</i>	<i>1,704</i>	23.5%
Treasury Receipts	13	27	316	470	48.7%
Total Revenues	344	632	5,054	5,981	18.3%

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2006	2007	2006	2007	%
	August	August	Jan-Aug	Jan-Aug	Change
Tax Revenues:	136	361	3,359	3,808	13.4%
Taxes on Income, Profits, & Capital Gains, of which:	49	43	942	1,003	6.5%
<i>Income Tax on Profits</i>	4	4	421	440	4.5%
<i>Income Tax on Wages and Salaries</i>	5	2	150	159	5.5%
<i>Income Tax on Capital Gains & Dividends</i>	2	4	87	114	30.9%
<i>Tax on Interest Income (5%)</i>	36	33	272	284	4.4%
<i>Penalties on Income Tax</i>	0	0	10	6	-41.3%
Taxes on Property, of which:	14	40	440	318	-27.6%
<i>Built Property Tax</i>	2	3	68	79	15.5%
<i>Real Estate Registration Fees</i>	9	32	185	205	10.7%
Domestic Taxes on Goods & Services, of which:	60	143	1,180	1,466	24.3%
<i>Value Added Tax</i>	55	123	1,049	1,328	26.6%
<i>Other Taxes on Goods and Services, of which:</i>	4	19	122	133	9.1%
<i>Private Car Registration Fees</i>	3	13	76	84	10.6%
<i>Passenger Departure Tax</i>	1	6	45	49	7.3%
Taxes on International Trade, of which:	7	112	618	837	35.4%
<i>Customs</i>	5	49	286	363	27.2%
<i>Excises, of which:</i>	2	63	332	473	42.5%
<i>Petroleum Tax</i>	0	13	90	157	75.1%
<i>Tobacco Tax</i>	0	23	96	142	48.7%
<i>Tax on Cars</i>	2	27	145	171	18.4%
Other Tax Revenues (namely fiscal stamp fees)	7	22	179	183	2.4%

Source: MOF, DGF

⁴ Note that the amount is further recorded in treasury expenditure reported under the items "Materials and Supplies" and "Various Transfers" (Please refer to section 3: Expenditure Outcome). Therefore, from a fiscal deficit perspective it has no impact.

Chart 2.

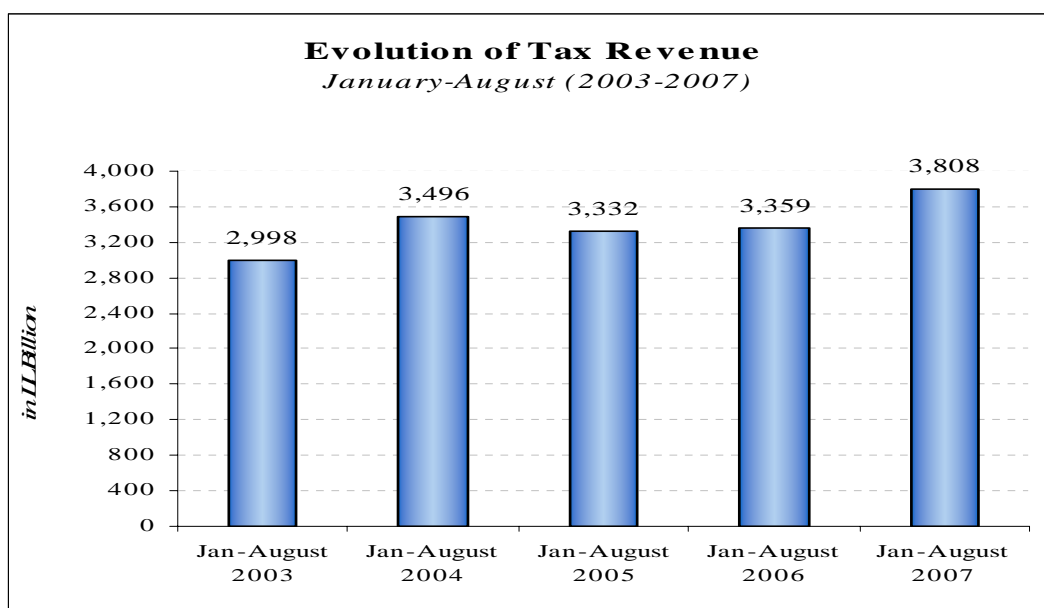
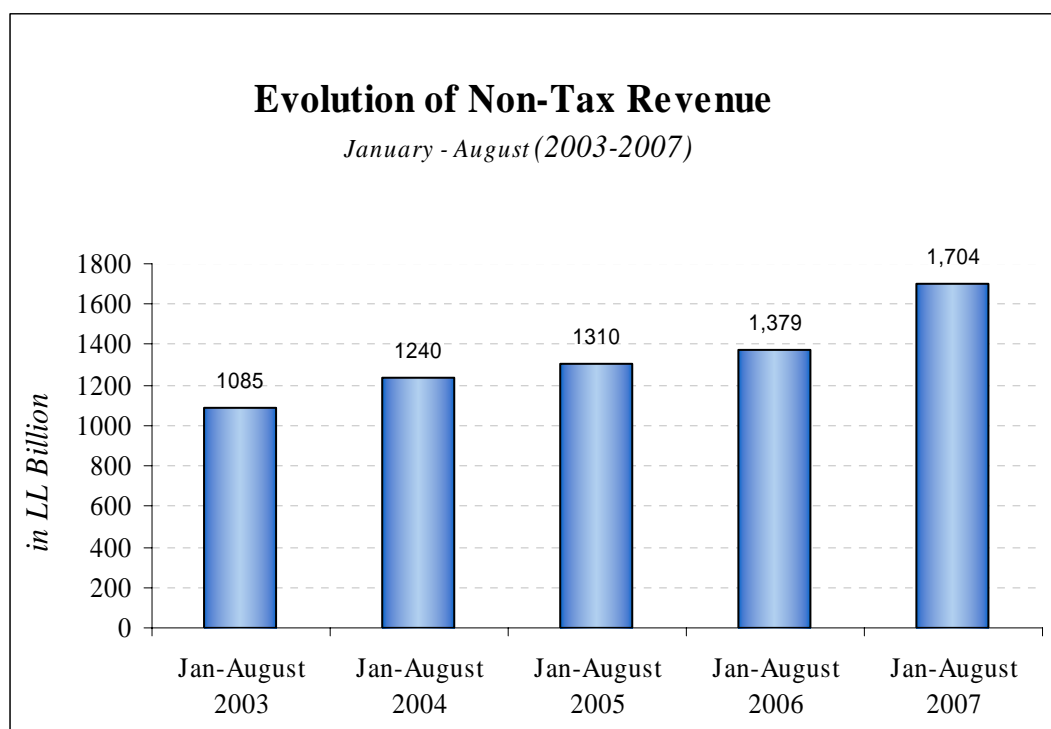


Table 4. Non-Tax Revenue

(LL billion)	2006 August	2007 August	2006 Jan-Aug	2007 Jan-Aug	% Change
Non-Tax Revenues	195	244	1,379	1,704	23.5%
Income from Public Institutions and Government Properties, of which:	167	201	1,025	1,374	34.0%
Income from Non-Financial Public Enterprises, of which:	165	196	1,002	1,230	22.7%
<i>Revenues from Casino Du Liban</i>	2	6	27	38	38.3%
<i>Revenues from Port of Beirut</i>	0	0	0	30	-
<i>Budget Surplus of National Lottery</i>	3	4	47	40	-14.9%
<i>Transfer from the Telecom Surplus</i>	160	186	927	1,121	21.0%
Property Income (namely rent of Rafic Hariri International Airport)	2	4	19	28	42.3%
Other Income from Public Institutions (interests)	0	0	4	3	-3.5%
Administrative Fees & Charges, of which:	21	36	294	275	-6.4%
Administrative Fees, of which:	18	29	237	220	-6.9%
<i>Notary Fees</i>	1	2	11	13	17.0%
<i>Passport Fees/ Public Security</i>	11	13	83	79	-5.1%
<i>Vehicle Control Fees</i>	4	10	103	89	-13.1%
<i>Judicial Fees</i>	1	1	13	13	-0.9%
<i>Driving License Fees</i>	1	1	15	11	-29.0%
Administrative Charges	0	1	9	12	30.5%
Sales (Official Gazette and License Number)	0	0	2	2	-0.7%
Permit Fees (mostly work permit fees)	2	5	36	32	-12.3%
Other Administrative Fees & Charges	0	1	9	8	-10.1%
Penalties & Confiscations	0	0	3	4	19.0%
Other Non-Tax Revenues (mostly retirement deductibles)	6	7	58	52	-10.5%

Source: MOF, DGF

Chart 3.



Section 3: Expenditure Outcome

In January-August 2007, **total expenditures** witnessed an increase of LL 969 billion reaching LL 8,308 billion when compared to LL 7,339 billion in January-August 2006. This increase is mainly due to a rise in both interest payments and non-interest payments by LL 361 billion and LL 607 billion respectively. The different levels of expenditures are detailed as follows:

1. Debt service registered a total of LL 3,144 billion in January-August 2007 increasing by 13 percent compared to LL 2,783 billion for the same period of 2006. This rise was due to higher interest payments in both local and foreign currency debt by around 16 and 9 percent respectively.

2. Non-interest expenditures increased by 13 percent to reach LL 5,164 billion in January-August 2007, compared to LL 4,557 billion for the same period of 2006. This rise is mainly due to an increase both current primary budget expenditures and other treasury expenditures by 14 percent and 13 percent respectively while capital expenditures showed the same level of spending. Details of each level of spending are explained, as follows:
 - a. **Current primary budget expenditures** registered a total of LL 3,240 billion in January-August 2007 when compared to LL 2,813 billion for the same period of 2006, increasing by LL 427 billion, mainly due to an exceptional payments that occurred during the first quarter of 2007 such as the additional salary to the armed forces and also the adjustment of the payments of treasury advances as explained below:

i. An increase in "wages and salaries" by LL 300 billion, mainly due to three major reasons. Firstly, an increase in the salaries and indemnities of the armed forces by LL 148 billion due to the additional salary paid to the armed forces during February 2007 as per the decision taken by the Council of Ministers (Cabinet meeting dated 4/1/2007) and to the new recruitment that took place in the last quarter of 2006. A further increase was generated from the higher payment of health allowances to armed forces (maternity and sickness, and hospitalization) which rose by LL 25 billion during January-August 2007 when compared to the same period last year. Finally, the civil servants cooperatives received additional LL 54.75 billion, compared to the same period last year.

ii. An increase in "materials and supplies" by LL 64 billion. Out of this amount, a total of around LL 21 billion resulted from an accounting entry to adjust the payments of treasury advances. This adjustment was netted out by including a similar amount in the revenues.

iii. An increase in "various transfers" by LL 75 billion mainly due to the higher transfer of LL 70 billion to the NSSF which received a total amount of LL 220 billion during January-August as compared to LL 150 billion for the same period of 2006.

On the other side, "Other current expenditures" registered a decrease of LL 30 billion, mainly due to the decrease of its major component "Hospitals" by LL 35 billion for the period of January-August 2007 when compared to the same period of last year.

b. **Capital expenditures** remained the same during January-August 2007 when compared to the same period of 2006. While "Construction in Progress" and "Other Expenditures Related to Fixed Capital Assets" decreased by LL 13 billion and LL 6 billion respectively, "acquisition of Land" and "Equipment" increased by LL 4 billion and LL 15 billion respectively bringing the spending to almost the same amount as for the period of January-August 2006. As for maintenance no change was noticed during this period.

c. Other **treasury expenditures** increased by LL 173 billion for January-August 2007 when compared to the same period of last year, mainly due to the increase in transfers to EDL by LL 336 billion, offsetting the decrease in transfers to municipalities and in treasury advances for diesel oil subsidy by LL 125 billion and LL 52 billion respectively. In fact, this big decrease in transfers to municipalities is in part related to the war of July 2006 where around LL 40 billion were paid in order to support the relief effort and on the other part the payments of the municipalities dues on the revenues of 2005 is taking place in September 2007.

Transfers to EDL reached 1,071 billion LL during January-August 2007, compared to 735 billion LL for the same period in 2007. This increase can mainly be explained by the following two reasons:

- i. An increase of payments to Kuwait Petroleum Corporation and Algeria's Sonatrach for fuel and gas oil purchases by LL 342 billion, because the payments against the contracts that came into effect by beginning 2006 only started to accrue in June 2006.

ii. The payment by the Ministry of Finance of a LL 67 billion loan that was borrowed by EDL from ULOC to finance oil purchases.

iii. An increase in debt service by 129 billion LL, which was mainly due to the repayment in June 2007 of the USD 100 million Eurobond to finance power sector restructuring. The Eurobond was issued in July 1997, and was guaranteed by the World Bank.

Table 5. Expenditures by Transaction Classification

(LL billion)	2006	2007	2006	2007	%
	August	August	Jan-Aug	Jan-Aug	Change
Total Expenditures	1,168	1,039	7,339	8,308	13.2%
Budget Expenditures	691	828	5,928	6,663	12.4%
Expenditures Excluding Debt Service, of which:	327	451	3,145	3,519	11.9%
<i>Previous Years' Appropriations</i>	2	3	489	566	15.7%
Debt Service, of which:	364	377	2,783	3,144	13.0%
<i>Domestic Debt</i>	185	218	1,486	1,730	16.4%
<i>Foreign Debt, of which:</i>	179	159	1,297	1,414	9.1%
<i>Eurobond Coupon Interest*</i>	137	123	1,100	1,209	9.9%
<i>Specialbond Coupon Interest*</i>			13		
<i>Concessional Loans Principal Payments</i>	13	11	105	118	12.5%
<i>Concessional Loans Interest Payments</i>	29	26	79	87	9.9%
Treasury Expenditures , of which:	477	211	1,411	1,645	16.5%
<i>Municipalities</i>	57	21	275	150	-45.5%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	804	662	4,557	5,164	13.3%

Source: MOF, DGF

* Includes general expenses related to the transaction

Chart 4.

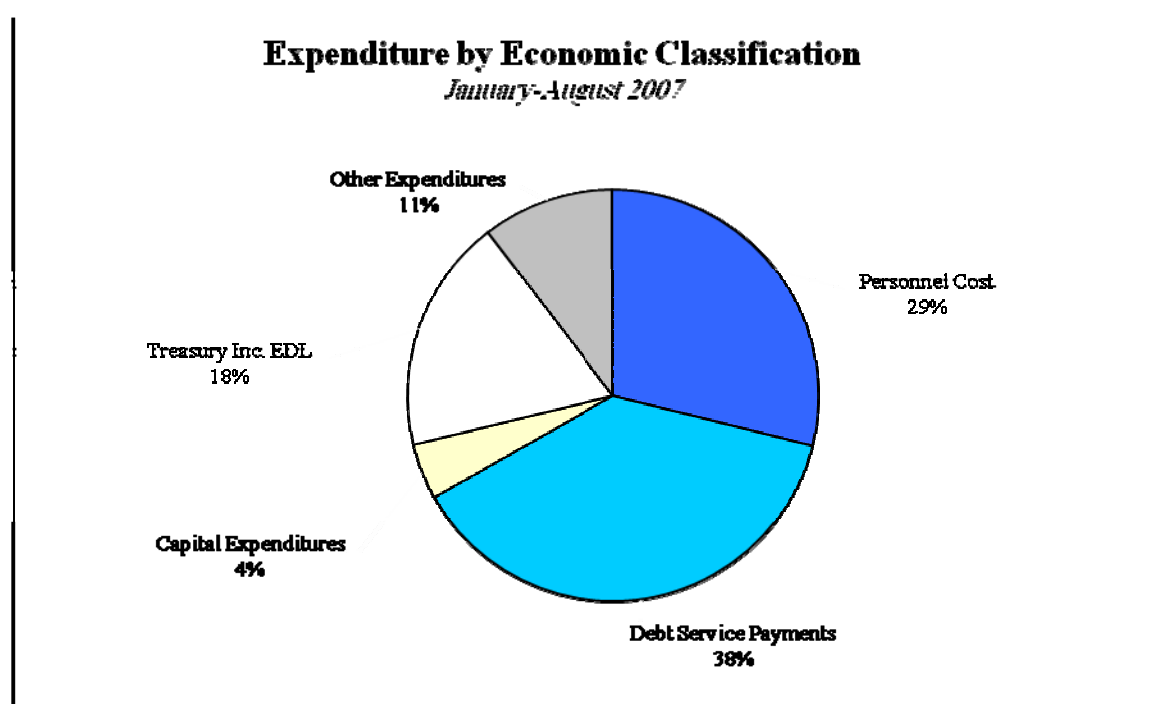


Table 6. Expenditures by Economic Classification

(LL billion)	2006	2007	% Change
	Jan-Aug	Jan-Aug	
1. Current expenditures	5,596	6,384	14.08%
1.a Personnel cost, <i>of which</i>	2,098	2,404	14.56%
<i>Article 13: Salaries and wages</i>	1,368	1,668	21.90%
<i>Retirement and end of service compensations</i>	595	594	-0.11%
1.b Debt Service payments	2,783	3,144	12.96%
1.c Materials and supplies	84	148	76.90%
1.d External services	60	67	11.43%
1.e Various transfers	344	419	21.66%
<i>o/w NSSF</i>	150	220	46.67%
1.f Other current	171	141	-17.40%
<i>Hospitals</i>	149	114	-23.59%
<i>Others</i>	21	25	17.65%
1.g Reserves	56	61	9.65%
<i>Interest subsidy</i>	56	61	9.65%
2. Capital expenditures	364	365	0.11%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	11	15	36.06%
2.b Equipment	15	30	100.31%
2.c Construction in Progress	276	263	-4.61%
2.d Maintenance	33	34	1.17%
2.e Other Expenditures Related to Fixed Capital Assets	29	22	-22.19%
3. Other treasury expenditures, of which	1,357	1,530	12.76%
Municipalities	275	150	-45.48%
EDL	735	1,071	45.72%
Transfers to Higher Council of Relief		6	100.00%
Treasury advances for diesel oil subsidy	52	0	-100.00%
4. Unclassified expenditures	1	4	332.59%
5. Customs cashiers	21	25	23.18%
6. Total expenditures (excluding CDR foreign financed)	7,339	8,308	13.21%

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

Table 7. Transfers to EDL

(LBP billion)	2006	2007	Change
	Jan-August	Jan-August	
EDL of which:	735	1,071	336
Debt Service of which:	134	263	129
C-Loans and Eurobonds, <i>of which:</i>	134	253	119
Principal repayments	96	221	125
Interest payments	38	32	-6
BDL guaranteed loan payments		10	10
Repayment of loans for fuel oil and gas oil purchase (principal and interest)	17	67	50
Reimbursement of KPC and Sonatrach agreements	399	742	343
Repayment of oil supplier arrears	185		-185

Source: MOF, DGF

Section 4: Public Debt

Highlights:

1. By the end of August 2007, gross public debt reached LL 60.971 billion (equivalent to US\$ 40.44 billion), registering an increase of LL 133 billion (or 0.22 percent) over the end-December 2006 debt level.
2. Local currency debt amounted to LL 30,158 billion (equivalent to US\$ 20 billion), decreasing by LL 46 billion or 0.15 percent over the end-December 2006 level.
3. As of end- August 2007, local currency debt held by BDL decreased by LL 480 billion as compared to end of December 2006. The decrease was primarily due to the early redemption of LL 2,380 billion in T-bills (LL 2,343 billion in principal and LL 38 billion in accrued interest) using proceeds resulting from the re-evaluation of the BDL's gold reserves. The early redemption transaction took place on June 18, 2007.⁵ Nevertheless, due to the prevailing political environment, BDL's portfolio of local currency debt increased by LL 916 billion in the first quarter of 2007. In the 2nd quarter of 2007, there was an improvement of market subscriptions and hence a reduced pace of increase in BDL's T-bills holding. In July and August, BDL's stock of T-bills increased by LL 517 billion and LL 348 billion, respectively.
4. Meanwhile, local currency debt held by commercial banks decreased by LL 822 billion as compared to end-December 2006 due to the political environment which has led to a lower level of commercial banks' subscriptions in the T-bills auctions during the first quarter of 2007. The downward trend saw the commercial banks' portfolio of local currency fall in the first quarter by LL 650 billion. It fell a further LL 19 billion in the 2nd quarter. In July, their holdings fell by a further LL 280 billion. However, this trend reversed as their holdings increased in August by LL 129 billion from the previous month.
5. By end- August 2007 foreign currency debt amounted to LL 30,813 billion (equivalent to US\$ 20.43 billion), increasing by LL 179 billion (or 0.58 percent) over the end-December 2006 level.
6. Public sector deposits amounted to LL 3,511 billion, decreasing by approximately LL 933 billion from their December 2006 level.

⁵This transaction was done pursuant to Articles 115 and 116 of the Code of Money and Credit.

Table 8. Public Debt Outstanding by Holder as of End-August 2007

Assumes full LBP Replacement	Dec-04	Dec-05	Dec-06	Aug-07	Change Dec 06 -Aug 07	% change Dec 06-Aug 07
Gross Public debt	54,082	57,987	60,838	60,971	133	0.22%
Local currency debt	26,371	29,141	30,204	30,158	-46	-0.15%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	10,652	11,686	9,588	9,108	-480	-5.01%
b. Commercial Banks	12,220	14,130	16,487	15,665	-822	-4.99%
c. Other Local Currency Debt (T-bills)	3,500	3,325	4,129	5,385	1,256	30.42%
<i>o/w Public entities</i>	2,187	2,446	3,313	4,619	1,306	39.42%
Foreign currency debt⁽²⁾	27,711	28,846	30,634	30,813	179	0.58%
a. Bilateral, Multilateral and Foreign Private sector loans	3,003	2,791	2,855	2,883	28	0.98%
b. Paris II related debt (Eurobonds and Loans) ⁽³⁾	6,634	6,501	6,540	6,000	-540	-8.26%
c. Paris III related debt (Eurobonds) ⁽⁴⁾				754	754	
d. Market-issued Eurobonds	17,686	18,729	20,386	20,197	-190	-0.93%
e. Accrued Interest on foreign currency debt	388	406	434	561	127	29.26%
f. Special Tbs in Foreign currency ⁽⁵⁾		419	419	419	0	0.00%
Public sector deposits	4,359	5,590	4,444	3,511	-933	-20.99%
Net debt	49,723	52,397	56,394	57,460	1,066	1.89%
Gross Market debt⁽⁶⁾	31,861	34,726	38,649	37,706	-944	-2.44%
% of total debt	59%	60%	64%	62%		

Source: Ministry of Finance, Banque du Liban

Notes:

⁽¹⁾ 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.

⁽²⁾ Figures of Dec04 -Jan06 change because of exchange rate of Euro

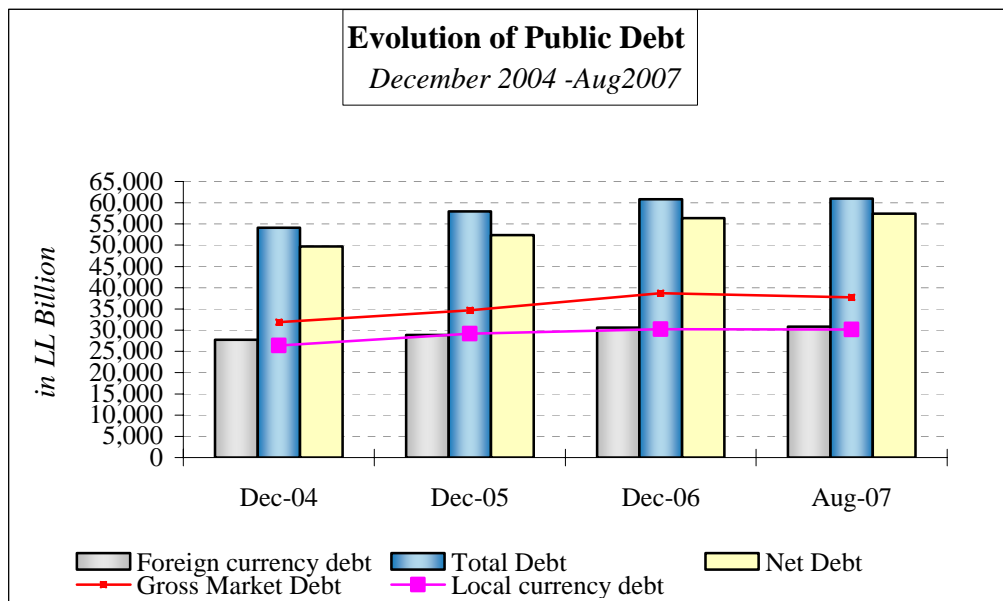
⁽³⁾ Paris II related debt (Eurobonds and Loans) declined due to the re-profiling of debt held by Malaysia as part of that country's Paris III contribution and because of a payment of principal of 30M EURO on AFD debt in August.

⁽⁴⁾ Issued to Malaysia as part of its Paris III contribution

⁽⁵⁾ Special Tbs in Foreign currency (expropriation bonds)

⁽⁶⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

Chart 5.





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