

Section 1: Fiscal Overview

Total fiscal balance registered a deficit of LL 116 billion in January 2008 when compared to a deficit of LL 18 billion in 2007. This deterioration in fiscal deficit was due to a rise in total payments by LL 331 billion which offset the LL 232 billion improvement in total receipts. The increase in spending was due to higher primary expenditures by LL 226 billion and debt service expenditures by LL 104 billion.

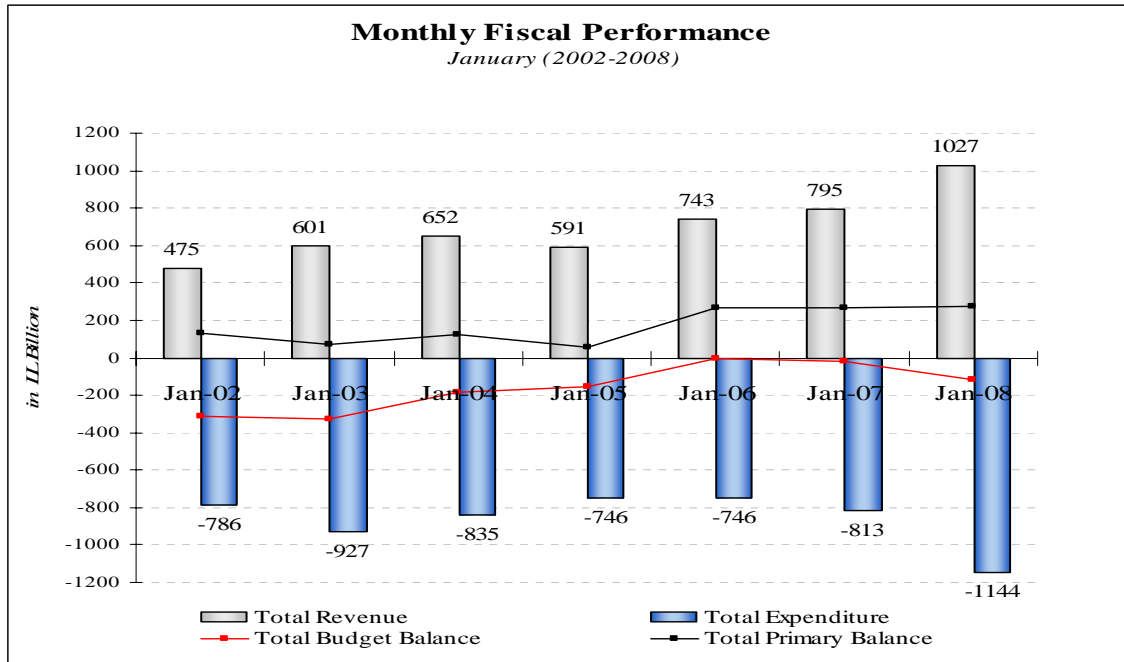
On the other hand, the primary balance registered a surplus of LL 271 billion in January 2008, increasing by LL 6 billion when compared to the surplus of LL 265 billion realized in January 2007.

Table 1. Summary of Fiscal Performance

(LL billion)	2006 January	2007 January	2008 January
Total Budget and Treasury Receipts	743	795	1,027
Total Budget and Treasury Payments, of which	746	813	1,144
<i>Debt Service</i>	274	284	388
<i>Non-Interest Expenditures</i>	472	530	756
Total Cash Deficit/Surplus	-3	-18	-116
Primary Deficit/Surplus	271	265	271

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

Chart 1.



Section 2: Revenue Outcome

In January 2008, total revenues yielded LL 1,027 billion, registering an improvement of 29 percent when compared to LL 795 billion registered in January 2007. This was due to higher collection in both Budget revenues and Treasury receipts by 13 and 184 percent respectively.

1- Budget revenues amounted to LL 811 billion during January 2008 when compared to LL 719 billion registered in January of last year. This was mainly due to an increase in both **Tax revenues** and **Non-tax revenues** of 7 and 43 percent respectively.

a) **Tax revenues** registered an increase of LL 40 billion from LL 598 billion in January 2007 to LL 638 billion in January 2008, keeping in line with the revenue enhancement trend witnessed throughout 2007 specially in income taxes, consumption taxes and real estate fees:

- **Taxes on income, profits and capital gains** totaled LL 160 billion increasing by LL 4 billion when compared to January 2007 mainly due to the increase in income taxes on profits and on wages and salaries by LL 6 billion and LL 11 billion respectively, offsetting the decrease income tax on capital gains & dividends, and tax on interest income (5%) by LL 11 billion and LL 3 billion respectively.

- **Taxes on Property** totaled LL 44 billion increasing by LL 7 billion in January 2008 when compared to January 2007 mainly due to the increase of LL 12 billion in real estate registration fees which offset the LL 4 billion decrease in built property taxes.

- **Domestic taxes on goods and services** amounted to LL 304 billion, increasing by LL 43 billion or 16 percent. This is mainly due to

(i) the LL 39 billion increase in VAT (which collected a total of LL 285 billion in January 2008 of which LL 160 billion pertained to the fourth quarter of internal VAT declarations in 2007, and LL 125 billion from imports) and (ii) the LL 6 billion increase in private car registration fees (which collected a total of LL14 billion in January 2008).

- **Taxes on international trade** totaled LL 100 billion in January 2008 decreasing by LL 17 billion mainly due the absence of collection of gasoline excises¹ which offset the increase in revenues from customs duties, tobacco excise and excise on cars by LL 9 billion, LL 7 billion and LL 11 billion respectively.

b) Non-tax revenues increased notably by LL 52 billion from LL 121 billion in January 2007 to LL 173 billion in January 2008 mainly attributed to the following:

- With LL 131 billion collected in January 2008, **Income from Public Institutions and Government Properties** increased by LL 44 billion mainly due to LL 75 billion higher transfers from the Telecom budget surplus in January 2008 and LL 4 billion higher transfers from Casino du Liban. No transfers were recorded from the budget surplus of National lottery².

- With LL 35 billion collected in January 2008, **Administrative fees and charges** increased by LL 8 billion resulting from an increase in passport fees and vehicle control fees by LL 2 billion and LL 5 billion respectively.

2- Treasury Receipts totaled LL 216 billion in January 2008, increasing by LL 141 billion when compared to LL 76 billion registered in January 2007, due to the LL 148 billion grants received from USAID pertaining to the Paris III pledge.

Table 2. Total Revenue

(LL billion)	2006 January	2007 January	2008 January
Budget Revenues, of			
<i>which:</i>	690	719	811
<i>Tax Revenues</i>	529	598	638
<i>Non-Tax Revenues</i>	161	121	173
Treasury Receipts	53	76	216
Total Revenues	743	795	1,027

Source: MOF, DGF

¹ The international fuel prices rose above the ceiling at which the excise turns 0, under the current capping regime and for the second month in a row, the Treasury collected no excise revenues from gasoline.

² Please note that the LL 30 billion Port transfer recorded in January 2007 pertains to its profit transfer in 2006.

Table 3. Tax Revenue

(LL billion)	2006 January	2007 January	2008 January
Tax Revenues:	529	598	638
Taxes on Income, Profits, & Capital Gains, of which:	134	156	160
Income Tax on Profits	31	38	44
Income Tax on Wages and Salaries	50	56	67
Income Tax on Capital Gains & Dividends	18	22	11
Tax on Interest Income (5%)	32	39	36
Penalties on Income Tax	2	1	2
Taxes on Property, of which:	32	37	44
Built Property Tax	5	10	6
Real Estate Registration Fees	23	23	34
Domestic Taxes on Goods & Services, of which:	236	261	304
Value Added Tax	221	246	285
Other Taxes on Goods and Services, of which:	10	14	17
Private Car Registration Fees	9	8	14
Passenger Departure Tax	2	6	4
Taxes on International Trade, of which:	100	116	100
Customs	36	41	50
Excises, of which:	64	75	50
Petroleum Tax	27	43	0
Tobacco Tax	17	14	20
Tax on Cars	20	19	29
Other Tax Revenues (namely fiscal stamp fees)	26	28	30

Source: MOF, DGF

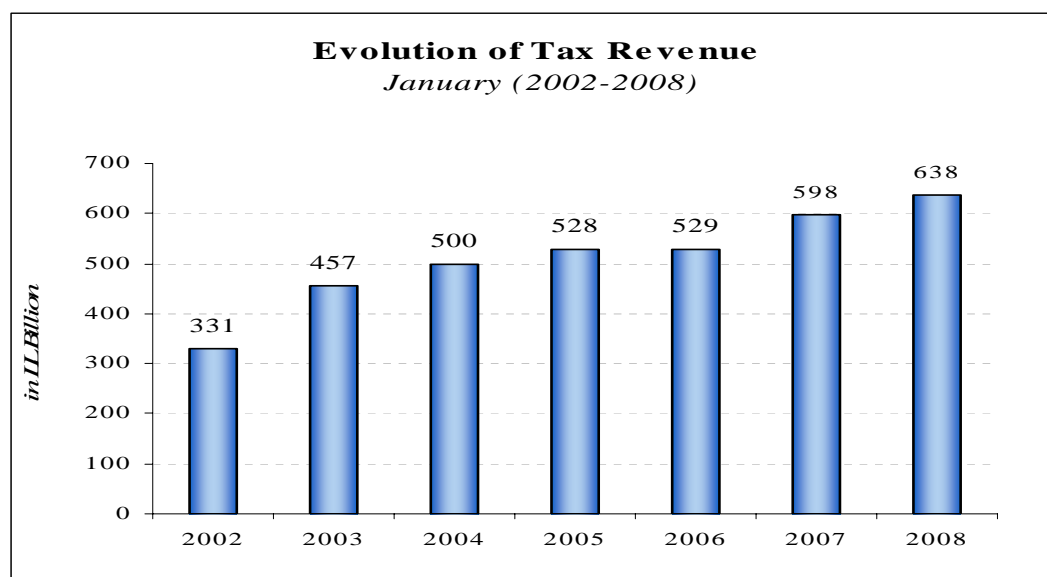
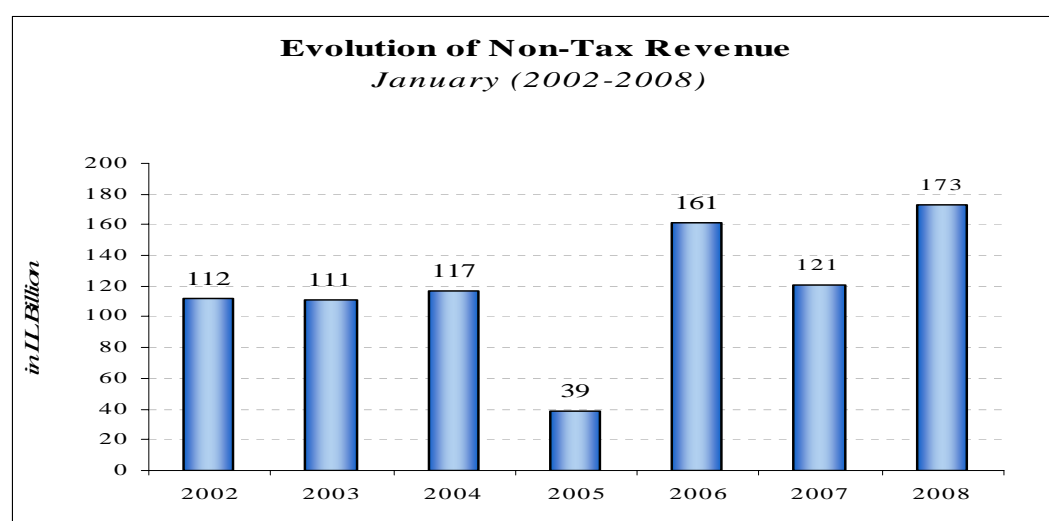
Chart 2.

Table 4. Non-Tax Revenue

(LL billion)	2006 January	2007 January	2008 January
Non-Tax Revenues	161	121	173
Income from Public Institutions and Government Properties, of which:	127	87	131
Income from Non-Financial Public Enterprises, of which:	123	83	127
<i>Revenues from Casino Du Liban</i>	0	3	6
<i>Revenues from Port of Beirut</i>	0	30	0
<i>Budget Surplus of National Lottery</i>	3	5	0
<i>Transfer from the Telecom Surplus</i>	120	45	120
Property Income (namely rent of Rafic Hariri International Airport)	3	4	3
Other Income from Public Institutions (interests)	1	1	1
Administrative Fees & Charges, of which:	26	26	35
Administrative Fees, of which:	20	20	27
<i>Notary Fees</i>	1	1	2
<i>Passport Fees/ Public Security</i>	9	6	8
<i>Vehicle Control Fees</i>	6	8	13
<i>Judicial Fees</i>	2	1	1
<i>Driving License Fees</i>	1	2	1
Administrative Charges	2	3	3
Sales (Official Gazette and License Number)	0	0	0
Permit Fees (mostly work permit fees)	3	3	3
Other Administrative Fees & Charges	0	1	1
Penalties & Confiscations	0	1	1
Other Non-Tax Revenues (mostly retirement deductibles)	8	6	6

Source: MOF, DGF

Chart 3.

Section 3: Expenditure Outcome

In January 2008, **total expenditures** registered LL 1,144 billion increasing by 331 billion or 41 percent when compared to LL 813 billion registered in 2007. This increase is mainly due to the following:

1. Increase in **debt service** by LL 104 billion. This rise was due to higher interest payments in both local and foreign currency debt by around 28 and 58 percent respectively. *(Please refer to table 6 for more details)*

2. **Increase in non-interest expenditures** by LL 226 billion from LL 529 billion to LL 756 billion. The rise is due to an increase in the three major categories that fall under this item: current primary expenditures, capital expenditures and treasury expenditures. The details of each level of spending are explained, as follows:

a) **Current primary expenditures** increased by LL 84 billion from LL 316 billion to LL 401 billion, mainly due to:

- Increase in **personnel cost** by LL 81 billion of which LL 54 billion were caused by an increase in wages and salaries (article 13) explained by: a) increased hospitalization of the armed forces by LL 8 billion; b) increased expenditures for salaries of the Ministry of Education, as their January 2007 salaries of LL 36 billion were recorded in February 2007. Hence, it is expected that the situation will be reversed in February 2008. Further, retirement salaries and end of service indemnities increased by LL 19 billion.

- Increase in various **transfers** by LL 32 billion due to: a) an increase in transfers to non governmental organizations by LL 13 billion , b) additional payment of LL 18 billion to the international court for the assassination of Prime Minister Rafic Hariri³ and c) LL 5 billion to the wheat subsidy.

- Decrease in **other current expenditures** by LL 19 billion due to lower payments to hospitals of an equivalent amount.

b) **Capital expenditures** increased by LL 5 billion, due to the increase of LL 13 billion in **construction in progress** which offset the decrease recorded in the remaining capital items namely: acquisitions of land, equipment and maintenance by LL 2 billion, LL 4 billion and LL 3 billion respectively.

c) **Other treasury expenditures** increased by a net amount of LL 137 billion due to various trends that affected the different items under this classification, detailed as follows:

- **EDL payments** increased by LL 85 billion or 53 percent from January 2007 to January 2008, reaching LL 244 billion in January 2008. Out of the LL 85 billion increase, the increase in payments to KPC and Sonatrach for oil purchases registered LL 81 billion. *(Please refer to table 7 for more details)*

³ Note that transfers to the international court for the assassination of Prime Minister Rafic Hariri are budgeted under capital expenditures, as a programme law for three years.

- Transfers to **municipalities** increased by LL 26 billion as no transfer was recorded during January 2007.
- **Higher Relief Council** received a transfer of LL 3 billion in January 2008 while no transfer took place in January 2007.
- Treasury advances for **diesel oil subsidy** increased by LL 19 billion.

Table 5. Expenditures by Economic Classification

(LL billion)	Jan-06	Jan-07	Jan-08
1. Current expenditures	574	600	789
1.a Personnel cost, of which	226	216	297
<i>Article 13: Salaries and wages</i>	155	145	200
<i>Retirement and end of service compensations</i>	66	66	85
1.b Debt Service payments	274	284	388
1.c Materials and supplies	9	27	21
1.d External services	7	9	6
1.e Various transfers	13	25	57
<i>o/w NSSF</i>	0	0	0
1.f Other current	31	30	11
<i>Hospitals</i>	29	27	7
<i>Others</i>	2	3	3
1.g Reserves	14	10	9
<i>Interest subsidy</i>	14	10	9
2. Capital expenditures	40	32	38
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	4	2	0
2.b Equipment	2	6	2
2.c Construction in Progress	27	16	29
2.d Maintenance	4	8	5
2.e Other Expenditures Related to Fixed Capital Assets	4	0	1
3. Other treasury expenditures, of which	128	177	314
Municipalities	58	0	26
EDL	26	159	244
Transfers to Higher Council of Relief	0	0	3
Treasury advances for diesel oil subsidy	17	0	19
4. Unclassified expenditures	0	0	0
5. Customs cashiers	3	3	3
6. Total expenditures (excluding CDR foreign financed)	746	813	1,144

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

Table 6. Details of Debt Service Transactions

(LL billion)	2006 January	2007 January	2008 January
Total Debt Service	274	284	388
Local Currency Debt	180	198	253
Foreign Currency Debt, of which:	94	85	135
Eurobond Coupon Interest*	75	73	124
Special bond Coupon Interest*			
Concessional Loans Principal Payments	15	9	2
Concessional Loans Interest Payments	4	2	8

Source: MOF, DGF

Table 7. Transfers to EDL

(LL billion)	2006 January	2007 January	2008 January	2008- 2007 Change
EDL of which:	26	159	244	85
Debt Service of which:	9	8	12	4
C-Loans and Eurobonds, of which:	9	6	12	6
Principal repayments	6	5	9	4
Interest Payments	3	1	3	2
BDL Guaranteed Loan payments	0	2	0	-2
Repayment of loans for fuel oil and gas oil purchase (principal and interest)	17	0	0	0
Reimbursement of KPC and Sonatrach agreements	0	151	232	81
Repayment of oil suppliers arrears	0	0	0	0

Source: MOF, DGF

Section 3: Public Debt Outcome

1. By the end of January 2008, gross public debt reached LL 63,790 billion (equivalent to US\$ 42.32 billion), registering an increase of LL 435 billion (or 0.71 percent) over the end-December 2007 debt level.
2. Local currency debt amounted to LL 31,709 billion (equivalent to US\$ 21.03 billion), increasing by LL 336 billion or 1.1 percent over the end-December 2007 level.
3. As of end- January 2008, local currency debt held by BDL decreased by LL 18 billion as compared to end of December 2007.
4. Meanwhile, local currency debt held by commercial banks increased by LL 315 billion as compared to end-December 2007. The increase was a result of greater market appetite for Treasury bills by commercial banks.
5. By end- January 2008, foreign currency debt amounted to LL 32,081 billion (equivalent to US\$ 21.28 billion), increasing by LL 99 billion (or 0.32 percent) over the end-December 2007 level.

6. Public sector deposits amounted to LL 4,610 billion, increasing by approximately LL 83 billion from their December 2007 level.

Table 8. Public Debt Outstanding by Holder as of End-January 2008

(LL billion)	Dec-04	Dec-05	Dec-06	Dec-07	Jan-08	Change Dec 07 -Jan 08	% change Dec 07-Jan 08
Gross Public debt	54,082	57,985	60,851	63,355	63,790	435	0.71%
Local currency debt	26,371	29,141	30,204	31,373	31,709	336	1.11%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	10,652	11,686	9,588	9,052	9,034	-18	-0.19%
b. Commercial Banks	12,220	14,130	16,487	16,847	17,162	315	1.91%
c. Other Local Currency Debt (T-bills)	3,500	3,325	4,129	5,474	5,513	39	0.94%
<i>o/w Public entities</i>	2,187	2,446	3,313	4,796	4,824	28	0.85%
Foreign currency debt⁽²⁾	27,711	28,844	30,647	31,982	32,081	99	0.32%
a. Bilateral, Multilateral and Foreign Private sector loans	3,003	2,789	2,855	3,557	3,557	0	0.00%
b. Paris II related debt (Eurobonds and Loans)	6,634	6,501	6,540	6,063	6,075	12	0.18%
c. Paris III related debt (Eurobonds and Loans) ⁽³⁾				1,357	1,357	0	
d. Market-issued Eurobonds	17,686	18,729	20,399	20,177	20,194	17	0.08%
e. Accrued Interest on foreign currency debt	388	406	434	410	480	70	16.13%
f. Special Tbls in Foreign currency ⁽⁴⁾		419	419	419	419	0	0.00%
Public sector deposits	4,359	5,590	4,444	4,527	4,610	83	1.87%
Net debt	49,723	52,395	56,407	58,828	59,180	352	0.62%
Gross Market debt⁽⁵⁾	31,861	34,721	38,670	38,618	39,031	413	1.07%
% of total debt	59%	60%	64%	61%	61%	0	0.36%

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 -Dec 07 change because of exchange rate of Euro and updates to the Debt Management System.

⁽³⁾ Issued to Malaysia as part of its Paris III contribution, IBRD Loans, UAE Loans.

⁽⁴⁾ Special Tbls in Foreign currency (expropriation bonds)

⁽⁵⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.



For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

E-mail: infocenter@finance.gov.lb

Website: www.finance.gov.lb

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