

### Section 1: Fiscal Overview

#### Highlights:

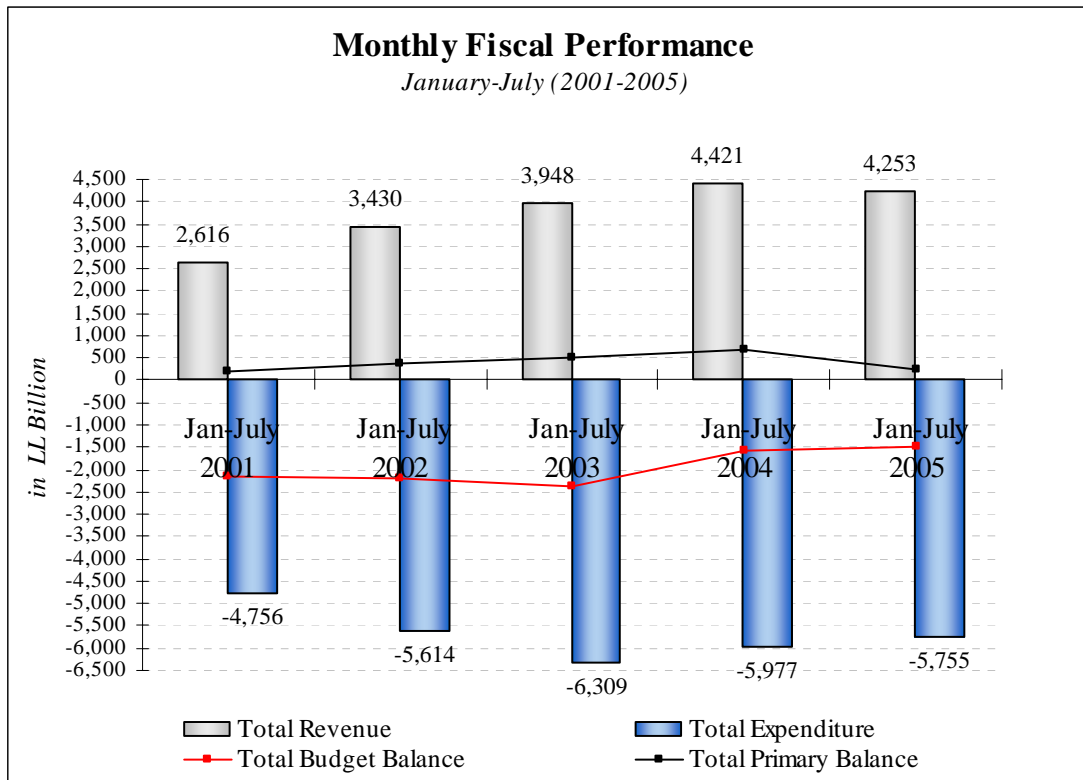
The January-July 2005 period was marked by a deterioration of 3.5 percent in the total balance, which registered a deficit of LL 1,502 billion compared to LL 1,556 billion in the first seven months of 2004. This increase in the total deficit occurred despite the 3.7 percent decrease in total payments, and resulted from the 3.8 percent decrease in total receipts. The primary surplus also deteriorated by 63 percent, from LL 675 billion in Jan-Jul 2004 to LL 251 billion in the same period of 2005 due to the increase in primary spending by LL 256 billion – which mainly took place in June 2005 - and the decrease in revenues by LL 168 billion. Total revenues reached LL 720 billion during the month of July 2005, registering the highest level among all months of 2005. With total expenditures of LL 899 billion, the month of July witnessed a total deficit of LL 179 billion and a primary surplus of LL 19 billion.

**Table 1. Summary of Fiscal Performance**

(LL billion)	2004	2005	2004	2005	Change	%
	July	July	Jan-July	Jan-July	2004-2005	Change
Budget Revenue	637	693	4,170	4,019	-151	-3.6%
Budget Expenditures	630	664	4,628	4,306	-322	-7.0%
<i>o/w Debt Service</i>	224	198	2,231	1,753	-478	-21.4%
<b>Budget Deficit/Surplus</b>	<b>7</b>	<b>29</b>	<b>-458</b>	<b>-287</b>	<b>171</b>	<b>-37.4%</b>
in % of Budget Expenditures	1.0%	4.4%	-9.9%	-6.7%		
<b>Budget Primary Deficit/Surplus</b>	<b>230</b>	<b>227</b>	<b>1,773</b>	<b>1,466</b>	<b>-307</b>	<b>-17.3%</b>
in % of Budget Expenditures	36.5%	34.2%	38.3%	34.1%		
Treasury Receipts	54	28	251	234	-17	-6.8%
Treasury Payments	339	235	1,349	1,449	101	7.5%
Total Budget and Treasury Receipts	690	720	4,421	4,253	-168	-3.8%
Total Budget and Treasury Payments	970	899	5,977	5,755	-221	-3.7%
<b>Total Cash Deficit/Surplus</b>	<b>-279</b>	<b>-179</b>	<b>-1,556</b>	<b>-1,502</b>	<b>54</b>	<b>-3.5%</b>
in % of Total Expenditures	-28.8%	-19.9%	-26.0%	-26.1%		
<b>Primary Deficit/Surplus</b>	<b>-56</b>	<b>19</b>	<b>675</b>	<b>251</b>	<b>-425</b>	<b>-62.9%</b>
in % of Total Expenditures	-5.7%	2.1%	11.3%	4.4%		

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

## Chart 1. Fiscal Performance



## Section 2: Revenue Outcome

### Highlights:

Total revenues collected by the Treasury over the first seven months of 2005 totaled L.L. 4,253 billion, witnessing a 3.8 percent decrease compared to the same period in 2004. This weaker performance is due to:

- ☒ A 4.2 percent decrease in overall tax revenues, which amounted to LL 2,995 billion by July 2005. This drop in tax revenues comes despite a 13 percent stronger income tax revenues, outweighed by a 19 percent decrease in revenues from taxes on international trade (custom duties and excises) largely explained by weaker excise revenues by an approximate 24 percent.
- ☒ A 2 percent drop in non-tax revenue, which totaled LL 1,024 billion by July 2005. The overall decrease in non tax revenues is largely attributed to the 5 percent decrease in transfers from the telecom budget surplus and to the 8 percent drop in the administrative fees and charges collected during the first seven months of the year.
- ☒ Treasury receipts registered a 6.8 percent decrease, from LL 251 billion for the first seven months of 2004 to LL 234 billion for the same period in 2005.



**Table 2. Total Revenue**

(LL billion)	2004 July	2005 July	2004 Jan-July	2005 Jan-July	% Change
<b>Budget Revenues, of which:</b>	<b>637</b>	<b>693</b>	<b>4,170</b>	<b>4,019</b>	<b>-3.61%</b>
<i>Tax Revenues</i>	512	503	3,127	2,995	-4.20%
<i>Non-Tax Revenues</i>	125	190	1,043	1,024	-1.86%
<b>Treasury Receipts</b>	<b>54</b>	<b>28</b>	<b>251</b>	<b>234</b>	<b>-6.76%</b>
<b>Total Revenues</b>	<b>690</b>	<b>720</b>	<b>4,421</b>	<b>4,253</b>	<b>-3.79%</b>

Source: MOF, DGF

**Table 3. Tax Revenue**

(LL billion)	2004 July	2005 July	2004 Jan-July	2005 Jan-July	% Change
<b>Tax Revenues:</b>	<b>512</b>	<b>503</b>	<b>3,127</b>	<b>2,995</b>	<b>-4.20%</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>	<b>74</b>	<b>90</b>	<b>690</b>	<b>781</b>	<b>13.21%</b>
<i>Income Tax on Profits</i>	9	12	365	365	-0.01%
<i>Income Tax on Wages and Salaries</i>	34	37	116	139	20.41%
<i>Income Tax on Capital Gains &amp; Dividends</i>	9	11	61	65	5.49%
<i>Tax on Interest Income (5%)</i>	21	26	134	199	49.09%
<i>Penalties on Income Tax</i>	1	3	11	10	-13.57%
<b>Taxes on Property, of which:</b>	<b>37</b>	<b>34</b>	<b>213</b>	<b>212</b>	<b>-0.44%</b>
<i>Built Property Tax</i>	6	7	65	57	-12.18%
<i>Real Estate Registration Fees</i>	27	24	126	135	6.86%
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>233</b>	<b>246</b>	<b>1,138</b>	<b>1,112</b>	<b>-2.29%</b>
<i>Value Added Tax</i>	214	227	1,031	1,009	-2.07%
<i>Other Taxes on Goods and Services, of which:</i>	18	15	100	94	-6.33%
<i>Private Car Registration Fees</i>	12	10	60	57	-5.72%
<i>Passenger Departure Tax</i>	6	5	38	36	-6.96%
<b>Taxes on International Trade, of which:</b>	<b>138</b>	<b>105</b>	<b>930</b>	<b>753</b>	<b>-19.07%</b>
<i>Customs</i>	43	39	292	268	-8.35%
<i>Excises, of which:</i>	95	65	638	485	-23.97%
<i>Petroleum Tax</i>	54	31	403	264	-34.43%
<i>Tobacco Tax</i>	19	14	111	104	-6.24%
<i>Tax on Cars</i>	21	20	122	114	-6.10%
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>31</b>	<b>28</b>	<b>156</b>	<b>138</b>	<b>-11.53%</b>

Source: MOF, DGF



Chart 2.

**Evolution of Tax Revenue**  
January-July (2001-2005)

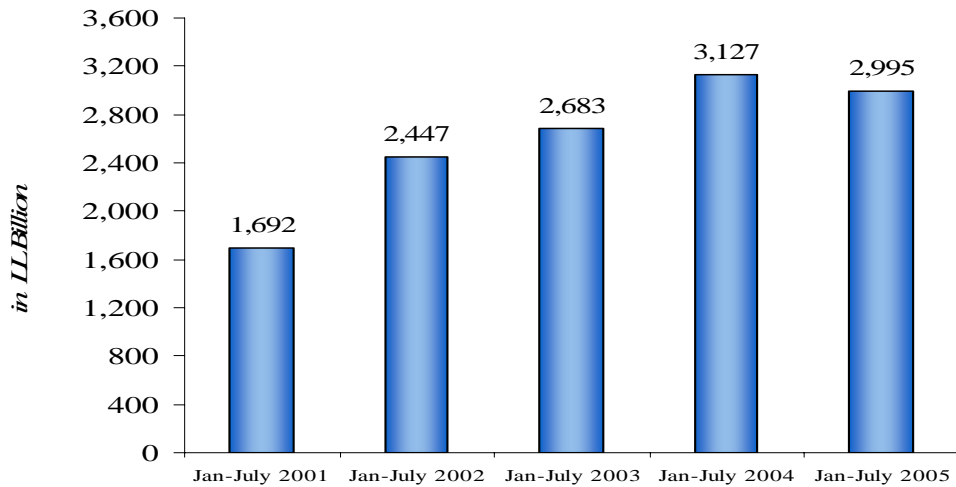


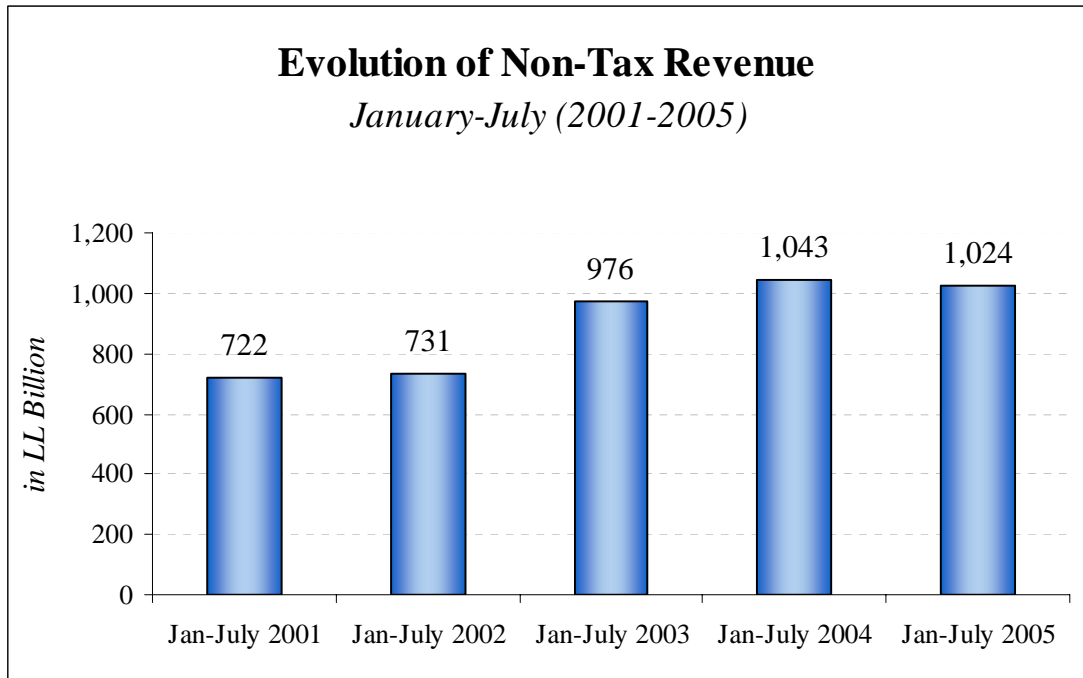
Table 4. Non-Tax Revenue

(LL billion)	2004	2005	2004	2005	%
	July	July	Jan-July	Jan-July	Change
<b>Non-Tax Revenues</b>	<b>125</b>	<b>190</b>	<b>1,043</b>	<b>1,024</b>	<b>-1.86%</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>85</b>	<b>155</b>	<b>793</b>	<b>786</b>	<b>-0.96%</b>
Income from Non-Financial Public Enterprises, of which:	81	151	757	760	0.35%
<i>Revenues from Casino Du Liban</i>	3	0	29	31	5.91%
<i>Revenues from Port of Beirut</i>	0	0	0	33	100.00%
<i>Budget Surplus of National Lottery</i>	3	0	20	20	0.00%
<i>Transfer from the Telecom Surplus</i>	75	150	707	675	-4.50%
Property Income (namely rent of Rafic Hariri International Airport)	3	4	30	23	-7.71%
Other Income from Public Institutions (interests)	1	0	6	3	-30.06%
<b>Administrative Fees &amp; Charges, of which:</b>	<b>32</b>	<b>28</b>	<b>202</b>	<b>186</b>	<b>-7.71%</b>
Administrative Fees, of which:	26	23	159	149	-6.38%
<i>Notary Fees</i>	1	1	10	9	-2.89%
<i>Passport Fees/ Public Security</i>	9	9	51	49	-2.39%
<i>Vehicle Control Fees</i>	11	8	72	63	-12.94%
<i>Judicial Fees</i>	2	1	13	11	-13.08%
<i>Driving License Fees</i>	2	2	8	8	0.48%
Administrative Charges	1	1	13	10	-24.83%
Sales (Official Gazette and License Number)	0	0	2	1	-5.83%
Permit Fees (mostly work permit fees)	4	3	24	22	-7.86%
Other Administrative Fees & Charges	1	1	5	4	-3.58%
<b>Penalties &amp; Confiscations</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>-27.76%</b>
<b>Other Non-Tax Revenues (mostly retirement deductibles)</b>	<b>7</b>	<b>7</b>	<b>45</b>	<b>50</b>	<b>10.16%</b>

Source: MOF, DGF



**Chart 3.**



## Section 3: Expenditure Outcome

### Highlights:

Total expenditures reached LL 5,755 billion by the end of July 2005, representing a decrease of around 4 percent compared to the first seven months of 2004, mainly resulting from a 21.4 percent decrease in debt service payments. Total primary expenditures increased by around 7 percent compared to January-July 2004 despite a 28 percent decrease in capital expenditures.

This increase is attributable to two major factors:

- Higher transfers to the NSSF, reaching LL 290 billion by the end of July 2005, up by LL 231 billion when compared against January-July 2004.
- A 78 percent increase in EDL spending, which amounted to LL 602 billion in January-July 2005 as compared to LL 336 billion for the same period in 2004. The amount is broken down into the following components:
  - Treasury transfers to EDL amounting to LL 460 billion.
  - Treasury advances to water authorities for their accrued electricity bills, amounting to LL 48 billion.
  - Budget transfers amounting to LL 93 billion under the line item "Materials and Supplies" for the settlement of public administrations' accrued electricity bills.

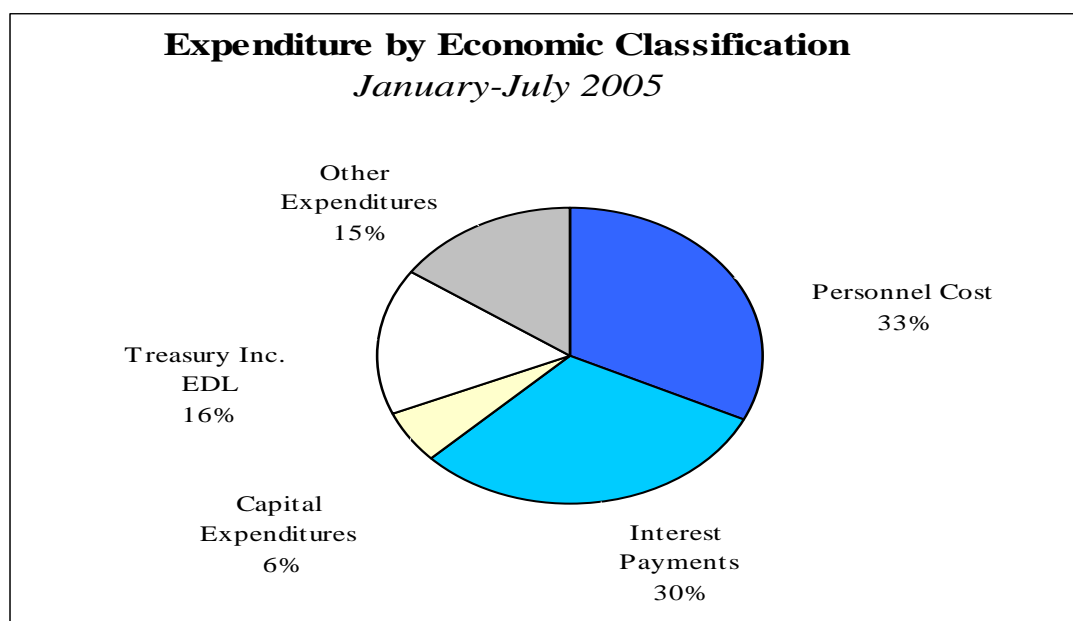
**Table 5. Expenditures by Transaction Classification**

(LL billion)	2004	2005	2004	2005	%
	July	July	Jan-July	Jan-July	Change
<b>Total Expenditures</b>	<b>970</b>	<b>899</b>	<b>5,977</b>	<b>5,755</b>	<b>-3.71%</b>
<b>Budget Expenditures</b>	<b>630</b>	<b>664</b>	<b>4,628</b>	<b>4,306</b>	<b>-6.96%</b>
Expenditures Excluding Debt Service	407	466	2,397	2,553	6.52%
Debt Service, of which:	224	198	2,231	1,753	-21.43%
<i>Domestic Debt</i>	205	115	1,383	735	-46.89%
<i>Foreign Debt, of which:</i>	18	83	848	1,018	20.09%
<i>Eurobond Coupon Interest*</i>	0	55	718	869	20.94%
<i>Concessional Loans Principal Payments</i>	14	22	75	93	23.30%
<i>Concessional Loans Interest Payments</i>	4	6	54	56	3.60%
<b>Treasury Expenditures , of which:</b>	<b>339</b>	<b>235</b>	<b>1,349</b>	<b>1,449</b>	<b>7.45%</b>
<i>Municipalities</i>	69	27	277	193	-30.43%
<i>Previous Years' Appropriations</i>	4	5	434	486	11.93%
<b>Non-Interest Expenditures (Total Expenditures minus Debt Service)</b>	<b>746</b>	<b>701</b>	<b>3,746</b>	<b>4,002</b>	<b>6.86%</b>

Source: MOF, DGF

\* Includes general expenses related to the transaction

**Chart 4.**



**Table 6. Expenditures by Economic Classification**

(LL Billion)	2004	2005	
	Jan-July	Jan-July	% Change
<b>1. Current Expenditures</b>	<b>4,558</b>	<b>4,473</b>	<b>-2%</b>
1.a Personnel Cost, <i>of which:</i>	1,820	1,861	2%
<i>Article 13: Salaries and Wages 1/</i>	1196	1,246	4%
<i>Retirement and End of Service</i>			
<i>Compensations</i>	500	491	-2%
1.b Debt service payments	2,231	1,753	-21%
1.c Materials and Supplies	78	146	87%
1.d External Services	60	52	-13%
1.e Various Transfers, <i>of which:</i>	197	458	132%
<i>NSSF</i>	59	290	392%
1.f Other Current, <i>of which:</i>	122	153	25%
<i>Hospitals</i>	101	102	1%
<i>Others</i>	21	51	144%
1.g Reserves, <i>of which:</i>	49	51	4%
<i>Interest Subsidy</i>	49	51	4%
<b>2. Capital Expenditures</b>	<b>464</b>	<b>336</b>	<b>-28%</b>
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	1	10	923%
2.b Equipment	23	16	-28%
2.c Construction in Progress	365	252	-31%
2.d Maintenance	35	30	-14%
2.e Other Expenditures Related to Fixed Capital Assets	40	27	-32%
<b>3. Other Treasury Expenditures</b>	<b>861</b>	<b>919</b>	<b>7%</b>
Municipalities	277	193	-30%
EDL	336	460	37%
Treasury Advances for Water Authorities		48	100%
Treasury Advances for Fuel Subsidy		12	100%
<b>4. Unclassified Expenditures</b>	<b>30</b>	<b>3</b>	<b>-90%</b>
<b>5. Customs Cashiers</b>	<b>63</b>	<b>24</b>	<b>-62%</b>
<b>6. Total Expenditures 2/</b>	<b>5,977</b>	<b>5,755</b>	<b>-4%</b>

Sources: MOF, DGF

1/ Includes the wages and salaries for the Council of the South, the Lebanese University, the Displaced Council, the Council for Reconstruction and Development, and the Educational Center for Research and Development.

2/ Excludes foreign financed capital spending.



**Table 7. Transfers to EDL**

(LL billion)	2004	2005	% Change
	Jan-July	Jan-July	
<b>EDL of which:</b>	<b>336</b>	<b>602</b>	<b>78.2%</b>
<b>Debt Service of which:</b>	<b>257</b>	<b>136</b>	<b>-47.2%</b>
C-Loans and Eurobonds, of which:	121	136	11.9%
Principal Payment	79	94	19.4%
Interest Payment	43	42	-2.1%
Loans for Fuel Oil Payment	33	0	-100.0%
BDL Guaranteed Loan Payment	103	0	0.0%
<b>Treasury Advance for Fuel Purchase</b>	79	<b>127</b>	<b>100.0%</b>
<b>Treasury Advance for EDL' s Losses</b>		<b>198</b>	<b>100.0%</b>
<b>Material and supplies (electricity bills)</b>		<b>93</b>	<b>100.0%</b>
<b>Treasury advance to water authorities</b>		<b>48</b>	<b>100.0%</b>
<b>Expropriations</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>

Source: MOF, DGF

## Section 4: Public Debt

### **Highlights:**

Gross public debt as of end-July 2005 amounted to LL 54,668 billion (US\$ 36.3 billion) registering a LL 608 billion or 1.1 percent increase over the end December 2004 debt level, compared to 3.8 percent growth rate during Jan-July 2004. Domestic debt amounted to LL 26,970 billion, increasing by LL 599 billion or 2.3 percent. Foreign currency debt amount to LL 27,698 billion (US\$ 18.4 billion) and increased slightly by LL 9 billion since the beginning of the year. Appetite for Lebanese Pound denominated Treasury bills during July continued to be strong, especially by commercial banks and public institutions, whose Treasury bill portfolios increased by LL 1,152 billion and LL 235 billion respectively during the month of July. On the foreign currency front, the Ministry of Finance raised US\$ 1.75 billion in Eurobond financing during the first 7 months of the year and made foreign currency debt payments equivalent to US\$ 2.2 billion during the same period. The latest Eurobond transaction was the issuance of the US\$ 500 million dual tranche Eurobond in June 2005.



**Table 8. Public Debt Outstanding by Holder as of End-July 2005**

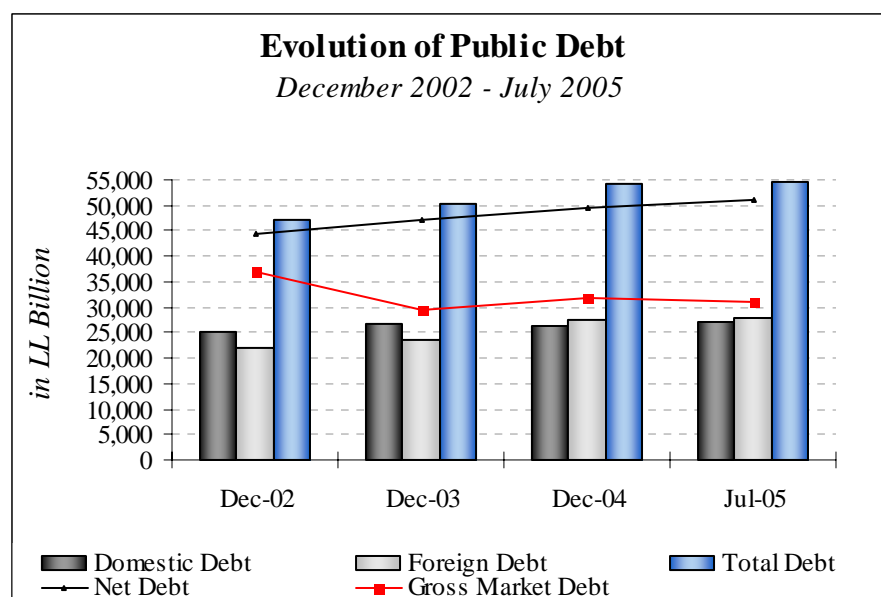
(in LL Billion)	Dec-02	Dec-03	Dec-04	Jul-05	Change Year-to-date	% Change Year-to-date
<b>Total Debt</b>	<b>47,276</b>	<b>50,297</b>	<b>54,060</b>	<b>54,668</b>	<b>608</b>	<b>1.1%</b>
<b>Domestic Debt</b>	<b>25,302</b>	<b>26,843</b>	<b>26,371</b>	<b>26,970</b>	<b>599</b>	<b>2.3%</b>
a. Central Bank 1/	723	8,938	10,652	12,042	<b>1,390</b>	<b>13.0%</b>
b. Commercial Banks	17,211	12,303	12,220	11,673	<b>-547</b>	<b>-4.5%</b>
c. Other Domestic Debt, of which:	7,368	5,603	3,500	3,256	<b>-244</b>	<b>-7.0%</b>
<i>Public Entities</i>	3,221	2,564	2,187	2,417	<b>230</b>	<b>10.5%</b>
<b>Foreign debt</b>	<b>21,974</b>	<b>23,454</b>	<b>27,689</b>	<b>27,698</b>	<b>9</b>	<b>0.0%</b>
a. Bilateral, Multilateral and Foreign Private Sector Loan	2,752	2,945	2,982	2,851	<b>-130</b>	<b>-4.4%</b>
b. Paris II Related FX Debt	1,432	3,731	3,815	3,701	<b>-114</b>	<b>-3.0%</b>
c. BDL Eurobonds	2,819	2,819	2,819	2,819	<b>0</b>	<b>0.0%</b>
d. Market Eurobonds	14,569	13,632	17,686	17,827	<b>141</b>	<b>0.8%</b>
e. Accrued Interest on Foreign Currency Debt	402	327	388	500	<b>112</b>	<b>28.9%</b>
<b>Public Sector Deposits</b>	<b>2,964</b>	<b>3,019</b>	<b>4,360</b>	<b>3,743</b>	<b>-616</b>	<b>-14.1%</b>
<b>Net Debt</b>	<b>44,312</b>	<b>47,277</b>	<b>49,701</b>	<b>50,925</b>	<b>1,224</b>	<b>2.5%</b>
<b>Gross Market Debt 2/</b>	<b>36,765</b>	<b>29,638</b>	<b>31,861</b>	<b>31,072</b>	<b>-789</b>	<b>-2.5%</b>
<b>% of Total Debt</b>	<b>78%</b>	<b>59%</b>	<b>59%</b>	<b>57%</b>		

Source: MOF, Banque du Liban

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/ 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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