

# Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

## July 2006

### Section 1: Fiscal Overview

#### Highlights:

The July 2006 war had a devastating impact on Lebanon's economy, and more specifically, its public finances (please review the "Impact of July War on Public Finances in 2006" in Arabic and English published on [www.finance.gov.lb](http://www.finance.gov.lb)). Although the cumulative deficit for the January-July 2006 period improved by LL 40 billion to reach LL 1,478 billion, this result is mainly due to the improvements achieved during the first six months of the year prior to the start of the war.

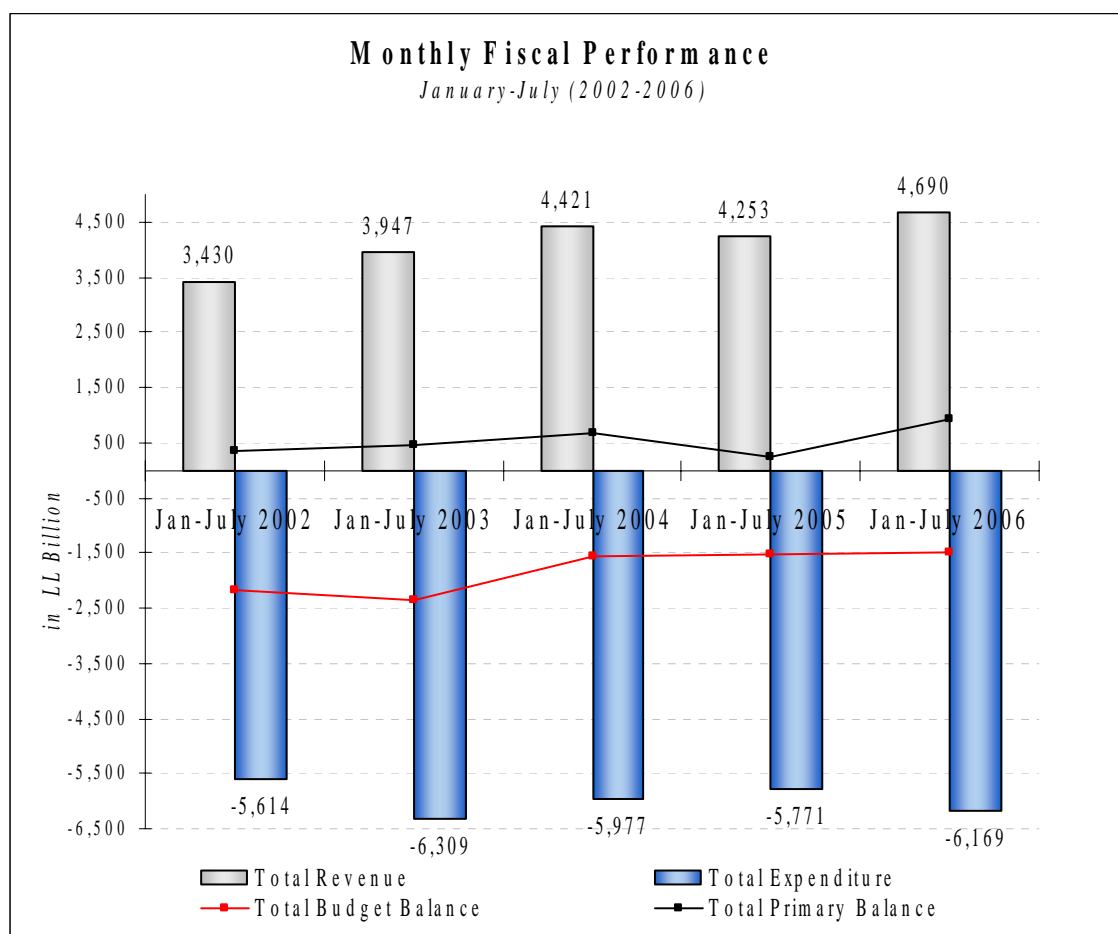
The impact of the war becomes more evident when looking at revenues in July 2006 which decreased by 23 percent (net of the LL 76 billion of grants received) compared to July 2005. As a result, the total deficit for July 2006 reached LL 312 billion, compared to a total deficit of LL 183 billion for the same period of 2005, a deterioration of LL 129 billion. In the same vein, total primary surplus decreased to become a deficit LL 53 billion in July 2006 compared to a surplus of LL 6 billion in July 2005.

**Table 1. Summary of Fiscal Performance**

(LL billion)	2005	2006	2005	2006	Change	%
	July	July	Jan-July	Jan-July	2005-2006	Change
Budget Revenue	693	510	4,019	4,387	368	9.2%
Budget Expenditures	668	559	4,321	4,656	335	7.7%
<i>o/w Debt Service</i>	189	259	1,748	2,419	671	38.4%
<b>Budget Deficit/Surplus</b>	<b>25</b>	<b>-48</b>	<b>-302</b>	<b>-268</b>	<b>33</b>	<b>-11.1%</b>
in % of Budget Expenditures	3.7%	-8.7%	-7.0%	-5.8%		
<b>Budget Primary Deficit/Surplus</b>	<b>214</b>	<b>211</b>	<b>1,446</b>	<b>2,151</b>	<b>704</b>	<b>48.7%</b>
in % of Budget Expenditures	32.1%	37.7%	33.5%	46.2%		
Treasury Receipts	28	116	234	303	69	29.5%
Treasury Payments	235	380	1,449	1,512	63	4.3%
Total Budget and Treasury Receipts	720	627	4,253	4,690	437	10.3%
Total Budget and Treasury Payments	903	939	5,771	6,168	397	6.9%
<b>Total Cash Deficit/Surplus</b>	<b>-183</b>	<b>-312</b>	<b>-1,518</b>	<b>-1,478</b>	<b>40</b>	<b>-2.6%</b>
in % of Total Expenditures	-20.3%	-33.2%	-26.3%	-24.0%		
<b>Primary Deficit/Surplus</b>	<b>6</b>	<b>-53</b>	<b>230</b>	<b>941</b>	<b>711</b>	<b>308.3%</b>
in % of Total Expenditures	0.7%	-5.6%	4.0%	15.3%		

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

**Chart 1.**



## Section 2: Revenue Outcome

### Highlights:

The impact of the Israeli offensive on the country's finances is evidenced by the 23 percent drop in **total revenues** (*net* of the LL 76 billion of grants received) in July 2006<sup>1</sup>, even though the war started towards the middle of July (July 12, 2006). In fact, the Israeli war on Lebanon and the sea and air blockade on the country presented a serious blow to the country's ability to collect revenues. The erosion of the revenue base is mostly apparent in the 60 percent fall in the **revenues from international trade** in July 2006 when compared to the collection level during July 2005. Maintaining the cap on the domestic retail price of car gasoline in the face of international fuel price hikes also stands behind this LL 63 billion monthly drop in revenues from trade (note that for the second consecutive month in a row, the treasury collected zero excise revenues from fuel).

The July 2006 war also resulted in a general slowdown of the economic activity; as a result, revenues from **domestic taxes on goods and services** (namely **VAT**), plummeted to LL 106 billion in July 2006, 53 percent below the collection level in July 2005. By the same token, July 2006 revenues from **fiscal stamps** and from **property taxes** also witnessed 16 percent and 22 percent decreases in collection respectively, compared to

<sup>1</sup> Please refer to the paragraph on Treasury receipts for more details on the grant element.

the equivalent month a year earlier. As a result **tax revenues** for the month of July 2006 declined to LL 320 billion, 36 percent lower than the collected amount in July 2005.

On the other hand **non tax revenues** did not depart from their July 2005 collection level remaining at LL 190 billion (LL 160 billion of which are revenues from government properties, and LL 26 billion are administrative fees and charges).

In July 2006, the Treasury received an amount equivalent to LL 76 billion in grants for humanitarian aid and relief purposes, most of which (US \$50 million) were donated by the Kingdom of Saudi Arabia. This explains the 29.5 percent rise in treasury receipts during the month, when compared to treasury receipts in July 2005. As a result **total revenues** (including grants) for July 2006 were only 13 percent lower than total revenues in July 2005.

From a cumulative perspective, due to the improvements witnessed in the first half of the year, prior to the eruption of the war, **total revenues** collected over the period of January-July 2006 reached LL 4,690 billion compared to LL 4,253 billion during the same period last year, registering LL 437 billion of additional revenues. In fact, the 15 percent rise in total revenue collection that was witnessed during the first half of 2006, when compared to the first half of 2005 outweighed the 13 percent deterioration in the month of July 2006, resulting in a 10 percent overall improvement in collection over the first seven months of 2006.

**Table 2. Total Revenues**

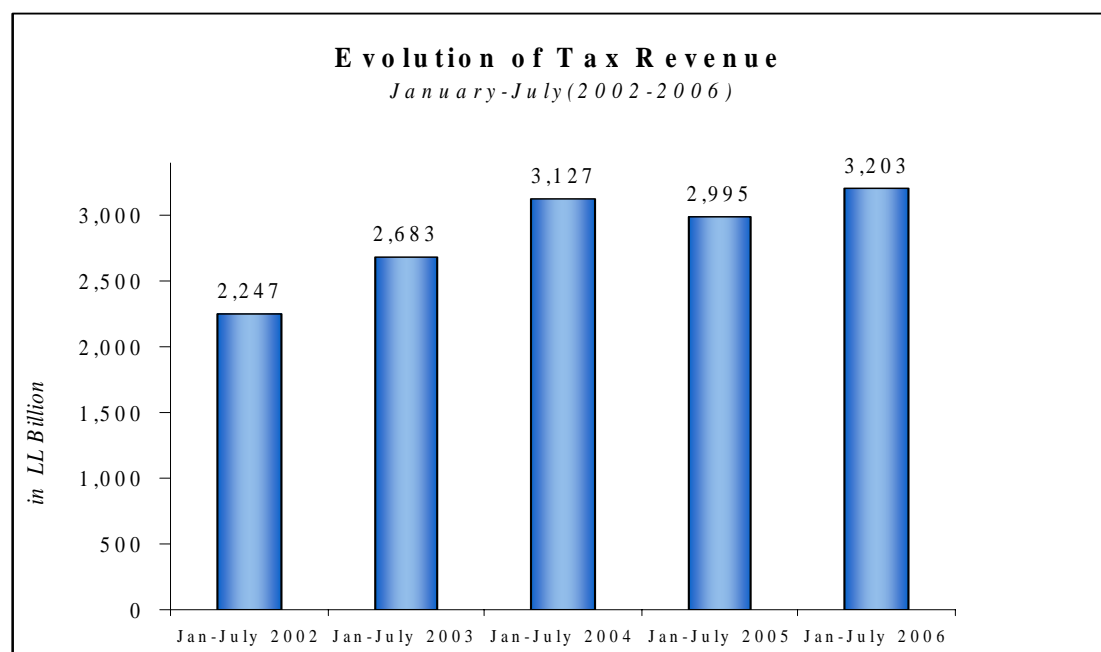
(LL billion)	2005 July	2006 July	2005 Jan-July	2006 Jan-July	% Change
<b>Budget Revenues, of which:</b>	<b>693</b>	<b>510</b>	<b>4,019</b>	<b>4,387</b>	<b>9.2%</b>
<i>Tax Revenues</i>	503	320	2,995	3,203	6.9%
<i>Non-Tax Revenues</i>	190	190	1,024	1,185	15.7%
<b>Treasury Receipts</b>	<b>28</b>	<b>116</b>	<b>234</b>	<b>303</b>	<b>29.5%</b>
<i>of which: Grants</i>	0	76	0	76	
<b>Total Revenues</b>	<b>720</b>	<b>627</b>	<b>4,253</b>	<b>4,690</b>	<b>10.3%</b>

Source: MOF, DGF

**Table 3. Tax Revenues**

(LL billion)	2005 July	2006 July	2005 Jan-July	2006 Jan-July	% Change
<b>Tax Revenues:</b>	<b>503</b>	<b>320</b>	<b>2,995</b>	<b>3,203</b>	<b>6.9%</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>	<b>90</b>	<b>104</b>	<b>781</b>	<b>876</b>	<b>12.2%</b>
<i>Income Tax on Profits</i>	12	8	365	405	11.0%
<i>Income Tax on Wages and Salaries</i>	37	39	139	142	2.2%
<i>Income Tax on Capital Gains &amp; Dividends</i>	11	17	65	83	27.8%
<i>Tax on Interest Income (5%)</i>	26	40	199	234	17.4%
<i>Penalties on Income Tax</i>	3	1	10	9	-2.8%
<b>Taxes on Property, of which:</b>	<b>34</b>	<b>26</b>	<b>212</b>	<b>425</b>	<b>100.4%</b>
<i>Built Property Tax</i>	7	3	57	66	14.5%
<i>Real Estate Registration Fees</i>	24	21	135	176	30.6%
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>246</b>	<b>124</b>	<b>1,112</b>	<b>1,119</b>	<b>0.6%</b>
<i>Value Added Tax</i>	227	106	1,009	992	-1.7%
<i>Other Taxes on Goods and Services, of which:</i>	15	17	94	118	25.9%
<i>Private Car Registration Fees</i>	10	8	57	73	28.3%
<i>Passenger Departure Tax</i>	5	9	36	44	22.8%
<b>Taxes on International Trade, of which:</b>	<b>105</b>	<b>42</b>	<b>753</b>	<b>612</b>	<b>-18.8%</b>
<i>Customs</i>	39	27	268	281	5.1%
<i>Excises, of which:</i>	65	15	485	330	-31.9%
<i>Petroleum Tax</i>	31	0	264	90	-66.1%
<i>Tobacco Tax</i>	14	2	104	96	-8.4%
<i>Tax on Cars</i>	20	12	114	143	24.8%
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>28</b>	<b>24</b>	<b>138</b>	<b>172</b>	<b>24.6%</b>

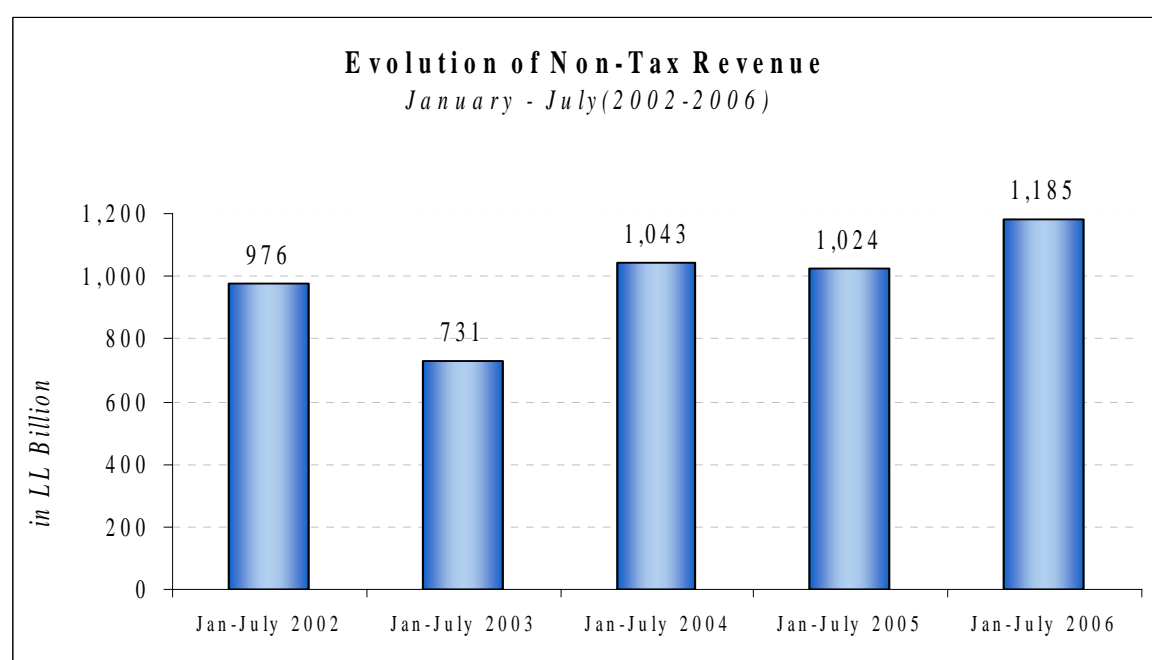
Source: MOF, DGF

**Chart 2.**

**Table 4. Non-Tax Revenues**

(LL billion)	2005 July	2006 July	2005 Jan-July	2006 Jan-July	% Change
<b>Non-Tax Revenues</b>	<b>190</b>	<b>190</b>	<b>1,024</b>	<b>1,185</b>	<b>15.7%</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>155</b>	<b>160</b>	<b>786</b>	<b>858</b>	<b>9.2%</b>
Income from Non-Financial Public Enterprises, of which:	151	160	760	837	10.1%
<i>Revenues from Casino Du Liban</i>	0	5	31	25	-17.7%
<i>Revenues from Port of Beirut</i>	0	0	33	0	-100.0%
<i>Budget Surplus of National Lottery</i>	0	4	20	44	120.0%
<i>Transfer from the Telecom Surplus</i>	150	151	675	766	13.5%
Property Income (namely rent of Rafic Hariri International Airport)	4	0	23	18	-23.0%
Other Income from Public Institutions (interests)	0	0	3	3	17.5%
<b>Administrative Fees &amp; Charges, of which:</b>	<b>28</b>	<b>26</b>	<b>186</b>	<b>273</b>	<b>46.5%</b>
Administrative Fees, of which:	23	22	149	218	46.6%
<i>Notary Fees</i>	1	1	9	11	14.7%
<i>Passport Fees/ Public Security</i>	9	13	49	72	45.8%
<i>Vehicle Control Fees</i>	8	5	63	98	57.4%
<i>Judicial Fees</i>	1	1	11	12	9.7%
<i>Driving License Fees</i>	2	2	8	15	81.6%
Administrative Charges	1	1	10	9	-3.7%
Sales (Official Gazette and License Number)	0	0	1	2	10.5%
Permit Fees (mostly work permit fees)	3	3	22	34	58.1%
Other Administrative Fees & Charges	1	1	4	9	105.4%
<b>Penalties &amp; Confiscations</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>43.7%</b>
<b>Other Non-Tax Revenues (mostly retirement deductibles)</b>	<b>7</b>	<b>4</b>	<b>50</b>	<b>51</b>	<b>2.9%</b>

Source: MOF, DGF

**Chart 3.**

### Section 3: Expenditure Outcome

The month of July witnessed an increase in total expenditures by around LL 34 billion. This increase was mainly driven by a rise in interest expenditure by approximately LL 69 billion; meanwhile non-interest expenditure witnessed a decline of LL 35 billion.

The war of July had a dual effect on the expenditure; regular expenditures outside the transfer to EDL dropped as only the most urgent spending was disbursed; on the other hand, newly created war related expenditure had to be spent. Regular expenditures dropped as a direct consequence of the war such as the personnel cost which declined by LL 69 billion compared to July 2006. In fact, during the war, only basic salaries were paid, while other salary-related allowances were not disbursed, as most government employees were not regularly attending their jobs. Likewise, capital expenditures dropped by approximately LL 45 billion during July 2006 as a result of the security situation which hindered investment spending.

War related expenditures had to be disbursed. In this context, and in order to support the relief effort, payments to municipalities increased by LL 29 billion, compared to July 2005. Also, transfers to private sector hospitals increased by LL 9 billion in July 2006, as compared to July 2005, to compensate for the high number of war casualties received by these hospitals. Additionally, direct transfer to EDL increased by LL 48 billion from their level in July 2005. Indeed, during the month of July 2006, total transfer to EDL reached LL 213 billion, of which LL 197 billion were paid for the settlement of fuel and gaz oil agreement that were due.

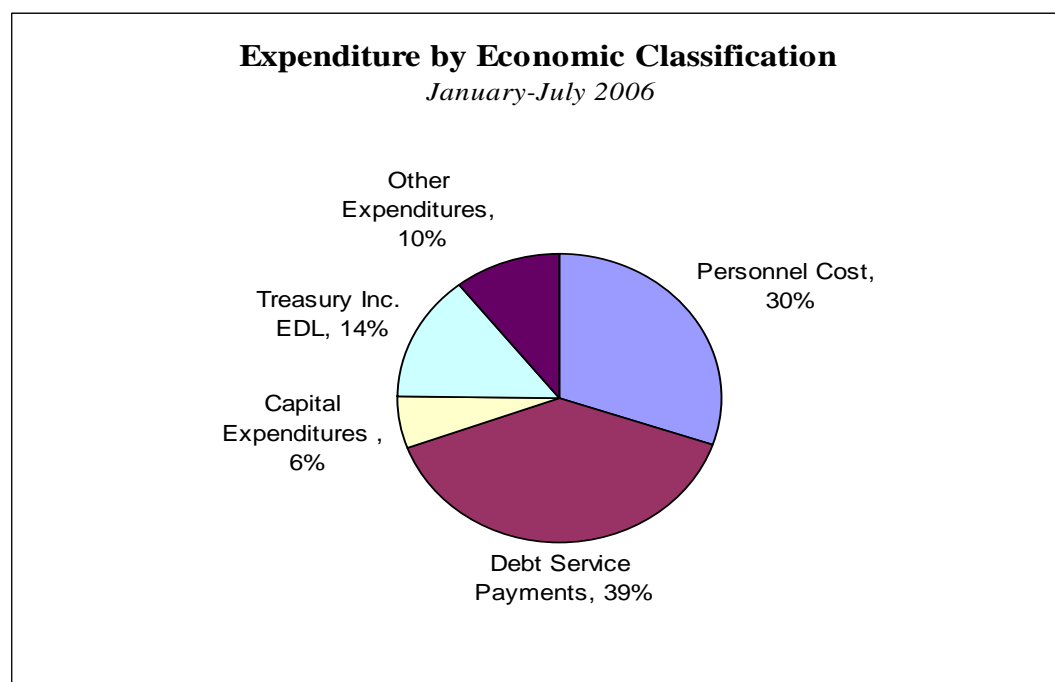
Total expenditures continued the same rising trend reported since the beginning of the year. For January-July 2006, total expenditures amounted to LL 6,168 billion, as compared to LL 5,771 billion for the same period of 2005, increasing by 7 percent. This increase is mainly due to a rise in interest payments by 38 percent offsetting the decrease of 7 percent in non-interest payments.

**Table 5. Expenditures by Transaction Classification**

(LL billion)	2005	2006	2005	2006	%
	July	July	Jan- July	Jan- July	Change
<b>Total Expenditures</b>	<b>903</b>	<b>939</b>	<b>5,771</b>	<b>6,168</b>	<b>6.9%</b>
<b>Budget Expenditures</b>	<b>668</b>	<b>559</b>	<b>4321</b>	<b>4,656</b>	<b>7.7%</b>
Expenditures Excluding Debt Service	478	300	2,573	2,237	-13.1%
Debt Service, of which:	189	259	1,748	2,419	38.4%
Local Currency Debt	115	194	735	1,301	77.0%
Foreign Currency Debt, of which:	75	65	1,013	1,118	10.3%
Eurobond Coupon Interest*	55	48	869	964	10.9%
Special Expropriation Bond Coupon Interest*				13	
Concessional Loans Principal Payments	14	13	88	92	4.3%
Concessional Loans Interest Payments	5	4	55	50	-9.9%
<b>Treasury Expenditures , of which:</b>	<b>235</b>	<b>380</b>	<b>1449</b>	<b>1512</b>	<b>4.3%</b>
Municipalities	27	55	193	219	13.2%
Previous Years' Appropriations	1	0	469	468	-0.2%
<b>Non-Interest Expenditures (Total Expenditures minus Debt Service)</b>	<b>714</b>	<b>680</b>	<b>4,022</b>	<b>3,749</b>	<b>-6.8%</b>

\* Include general expenses related to the transaction

**Chart 4.**



**Table 6. Expenditures by Economic Classification**

(LL billion)	2005	2006	2005	2006	%
	July	July	Jan-July	Jan-July	Change
<b>1. Current expenditures</b>	<b>607</b>	<b>606</b>	<b>4,468</b>	<b>4,905</b>	<b>9.8%</b>
1.a Personnel cost, <i>of which</i>	321	252	1,861	1,859	-0.1%
<i>Article 13: Salaries and wages</i>	216	158	1,246	1,214	-2.6%
<i>Retirement and end of service</i>					
<i>compensations</i>	75	77	491	523	6.5%
1.b Debt Service payments	189	259	1,748	2,419	38.4%
1.c Materials and supplies	25	10	146	81	-44.6%
1.d External services	9	5	52	58	10.0%
1.e Various transfers	24	39	458	286	-37.5%
<i>o/w NSSF</i>	0	0	290	100	-65.5%
1.f Other current	26	34	153	157	3.2%
<i>Hospitals</i>	23	32	102	137	34.1%
<i>Others</i>	3	3	51	20	-60.7%
1.g Reserves (3)	14	6	51	44	-13.8%
<i>Interest subsidy</i>	14	6	51	44	-13.8%
<b>2. Capital expenditures</b>	<b>67</b>	<b>22</b>	<b>336</b>	<b>358</b>	<b>6.6%</b>
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	7	0	10	11	18.2%
2.b Equipment	5	2	16	14	-14.7%
2.c Construction in Progress	46	18	252	272	7.8%
2.d Maintenance	2	2	30	32	6.0%
2.e Other Expenditures Related to Fixed Capital Assets	6	0	27	29	5.7%
<b>3. Other treasury expenditures, of which</b>	<b>227</b>	<b>309</b>	<b>940</b>	<b>888</b>	<b>-5.5%</b>
Municipalities	27	56	193	219	13.2%
EDL	165	213	460	364	-20.9%
Treasury advances for water authorities	0	0	48	0	-100.0%
Treasury advances for diesel oil subsidy	0	0	12	52	345.4%
Treasury advances for Telecom companies	0	0	15		
<b>4. Unclassified expenditures</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>-72.9%</b>
<b>5. Customs cashiers</b>	<b>2</b>	<b>1</b>	<b>24</b>	<b>17</b>	<b>-29.3%</b>
<b>6. Total expenditures (excluding CDR foreign financed)</b>	<b>903</b>	<b>939</b>	<b>5,771</b>	<b>6,168</b>	<b>6.9%</b>

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

**Table 7. Transfers to EDL**

(LBP billion)	2005 Jan-July	2006 Jan-July	% Change
<b>EDL of which:</b>	<b>601</b>	<b>364</b>	<b>-39.4%</b>
<b>Debt Service of which:</b>	<b>135</b>	<b>364</b>	<b>169.7%</b>
C-Loans and Eurobonds, of which:	<b>135</b>	<b>112</b>	-16.9%
Principal Repayment	94	78	-18.0%
Interest Payment	41	34	-14.4%
Loans for Fuel Oil Payment	0	17	100.0%
BDL Guaranteed Loan Payment	0	0	0.0%
<b>Treasury Advance for Fuel Purchase *</b>	<b>127</b>	<b>0</b>	<b>0.0%</b>
<b>Treasury Advance for Fuel Purchase **</b>	<b>110</b>	<b>0</b>	
<b>Treasury Advance for EDL' s Losses ***</b>	<b>88</b>		<b>0.0%</b>
<b>Material and Supplies (Electricity bills)</b>	<b>93</b>		<b>0.0%</b>
<b>Treasury advance to Water Authorities</b>	<b>48</b>	<b>0</b>	<b>-100.0%</b>
<b>Payment of Sonatrach and Kuwait oil agreement</b>	<b>0</b>	<b>235</b>	<b>0.0%</b>
<b>Expropriations</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>

Source: MOF, DGF

\* Paid for Fuel /From Decree Nbr. 14310 date 2/4/2005

\*\*Paid from decree Nbr.14561 (220 billion LL)

\*\*\*Paid from decree Nbr.14917 (155 billion LL)

## Section 4: Public Debt

### Highlights:

1. By the end of July 2006, gross public debt reached LL 58,435 billion, an increase of LL 417 billion (or 0.72 percent) over the end-December 2005 debt level.
2. Local currency debt amounted to LL 28,358 billion, decreasing by LL 783 billion or 2.69 percent over the end-December 2005 level. This decrease is due to the large amount of LL T-bills that matured during March and April 2006 and were financed by the surplus which existed in the Treasury accounts at the Central Bank.
3. By end-July 2006 foreign currency debt amounted to LL 30,077 billion, increasing by LL 1,200 billion (or 4.16 percent) over the end-December 2005 level. This increase is explained by the issuance, during the month of April 2006, of two simultaneous Eurobond transactions amounting to €175 million and US\$ 750 million.
4. As compared to June 2006, BDL portfolio of Treasury bills as of end-July 2006 increased by 17 percent, as market appetite for Lebanese Pound denominated T-bills was weak during the war period. In fact, commercial banks' treasury bills portfolio decreased by 9 percent. However, if compared to end-December 2005, local currency debt held by BDL was still LL 2,476 billion lower in July 2006. As compared to end-December 2006, local currency debt held by commercial banks was LL 1,248 billion higher as of end July 2006. This is due to the very strong market appetite that existed throughout the months preceding the war.
5. Public sector deposits amounted to LL 4,402 billion as of end July 2006, decreasing by approximately LL 1,188 billion from their December 2005 level. The main reason

behind the decrease is the repayment from the treasury account surplus of local currency debt that matured during this period.

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

Assumes full LBP Replacement	Dec-03	Dec-04	Dec-05	Jul-06	Change Dec 05 - July 06	% change Dec 05 - July 06
<b>Gross Public debt</b>	<b>50,285</b>	<b>54,048</b>	<b>58,018</b>	<b>58,435</b>	417	0.72%
<b>Local currency debt</b>	<b>26,843</b>	<b>26,371</b>	<b>29,141</b>	<b>28,358</b>	-783	-2.69%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	9,210	-2,476	-
b. Commercial Banks	12,303	12,220	14,130	15,378	1,248	8.83%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	3,770	445	13.38%
<i>o/w Public entities</i>	2,564	2,187	2,446	2,952	506	20.69%
d. Accrued interest included in domestic debt	566	356	517	682	165	31.91%
<b>Foreign currency debt</b>	<b>23,442</b>	<b>27,677</b>	<b>28,877</b>	<b>30,077</b>	1,200	4.16%
Ratio to total debt	<b>46.6%</b>	<b>51.2%</b>	<b>49.8%</b>	<b>51.5%</b>	0	3.41%
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,822	2,892	70	2.48%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,682	3,745	63	1.71%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	13,631	17,686	18,729	19,682	953	5.09%
e. Accrued Interest on foreign currency debt	327	388	406	520	114	28.11%
f. Special Tbls in Foreign currency**			419	419	0	0.00%
<b>Public sector deposits</b>	<b>3,019</b>	<b>4,360</b>	<b>5,590</b>	<b>4,402</b>	-1,188	-
						21.25%
<b>Net debt</b>	<b>47,266</b>	<b>49,688</b>	<b>52,428</b>	<b>54,033</b>	1,605	3.06%
<b>Gross Market debt***</b>	<b>29,638</b>	<b>31,861</b>	<b>34,759</b>	<b>36,995</b>	2,236	6.43%
<b>% of total debt</b>	<b>59%</b>	<b>59%</b>	<b>60%</b>	<b>63%</b>		

Source: Ministry of Finance, Banque du Liban

Notes:

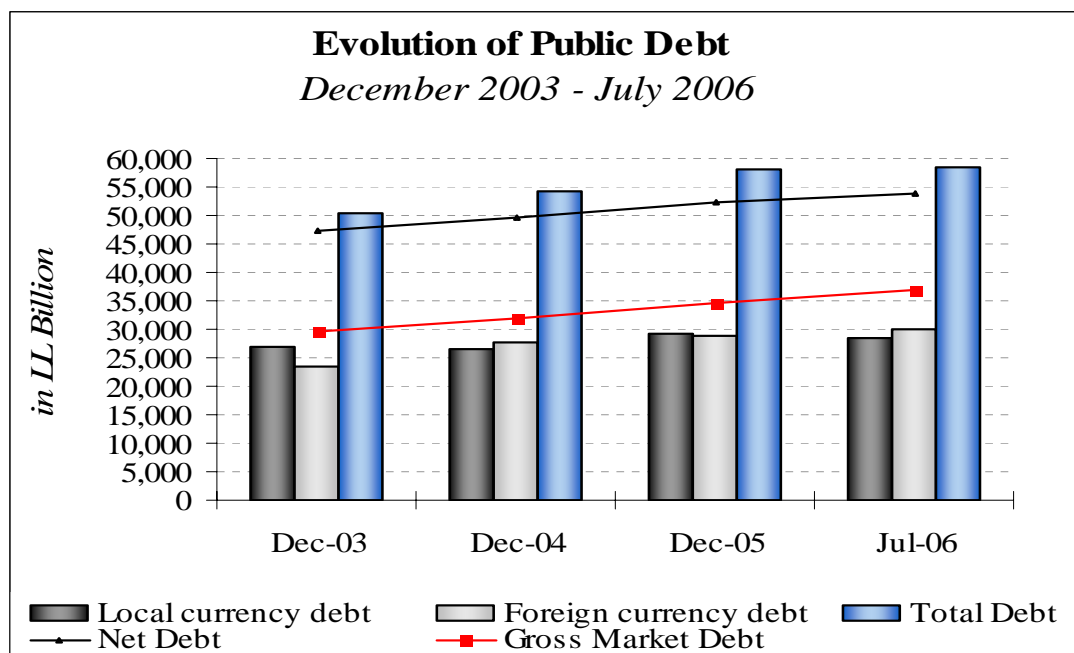
\* The BDL has extended loans to EDL for the equivalent amount of US\$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

\*\* 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.

\*\*\*\* Figures of Dec03- Dec04 -Jan06 change because of exchange rate of Euro

Chart 5.





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