

Fiscal Overview

The **total fiscal balance** registered a deficit of LL 2,586 billion at the end of July 2009 compared to a deficit of LL 2,179 billion in the same period last year. This deterioration of 11 percent is explained by the increase in total expenditures by LL 1,946 billion, offsetting the increase in total receipts by LL 1,539 billion. Although the **primary balance** registered a surplus of LL 792 billion, it decreased by 11 percent compared to last year's primary surplus of LL 888 billion because the increase in primary expenditures of LL 1,636 billion surpassed the increase in total receipts of LL 1,539 billion.

In the first seven months of 2009, the improvement in total receipts was due to higher **budget revenues**, which reached LL 7,255 billion compared to LL 5,633 billion in the same period of last year. **Treasury receipts** decreased by LL 84 billion, essentially due to lower grants¹.

Both **tax revenues** and **non-tax revenues** increased, by 32 percent and 18 percent, to reach LL 5,512 billion and LL 1,743 billion, respectively. With the exception of property registration fees, which declined by LL 8 billion, all **tax revenues** components improved during the period January-July 2009 compared to the same period of 2008. This development was mostly due to the performance of **taxes on international trade**, which saw an increase of LL 763 billion in receipts, explained by the collection of the **excise on gasoline** in the amount of LL 581 billion² and the additional collection of LL 112 billion of **car excises**. Likewise, **taxes on income, profits and capital gains** recorded an improvement in collection of LL 254 billion due to the rise in **income tax on profits** by LL 133 and **tax on wages and salaries** by nearly LL 69 billion. **Domestic taxes on goods and services** increased by LL 294 billion, stemming from the LL 253 billion increase in VAT receipts.

The improvement of LL 271 billion in **non-tax revenues** is mainly the result of the LL 243 billion increase in **income from public institutions and government properties**, attributed to LL 186 billion higher transfers from **the budget surplus of the telecom** and LL 62 billion transfer from **the Port of Beirut**³. On the other hand, receipts from **Casino du Liban** decreased by LL 14 billion explained by lower dispute settlement dues in 2009⁴. As for the **administrative fees and charges**, LL 27 billion improvement in collection is due to LL 24 billion increase in revenues from the **vehicle control fees**.

¹ In Jan-July 08, the Treasury received LL 168 billion of grants for budget support, of which LL 165 billion from US and LL 3 billion from Iraq. whereas in Jan-July 09, the Treasury received LL 87.8 billion, of which LL 10.5 billion of project grant from Oman for the reconstruction of Nahr El Bared Camp, LL 1.9 billion of budget support grant from Greece, and LL 75.4 billion of budget support grant from USAID.

² Within the context of the domestic price capping regime that prevailed throughout 2008, the hike in the international fuel prices in the second and third quarters of 2008, reduced significantly the petroleum excise rate, which reached 0 LL/liter of gasoline for six months consecutively starting April 08. The substantial drop in international fuel prices by the end of 2008, following the onset of the international financial crisis, provided an opportunity to the Government to uncap the retail price of gasoline and to set the excise rate at an average of LL 470/liter (as per COM decision # 9 dated January 23, 2009), restoring a regular stream of revenues to the Treasury.

³ The amount of LL 62 billion received from Port of Beirut in January 2009 represented the Port surplus transfer for the year 2008. Note that no transfers were made in the year 2008.

⁴ The agreement signed in February 2008, which settled past years dispute between the Government and Casino du Liban Management over the scope of the Treasury revenue-sharing right, stipulated a settlement amount of LL 83 billion to be installed over three years, as follows: LL 42 billion paid in 2008, LL 14 billion/ year over the three years period 2009-2011.

For the period of January-July 2009, **total expenditures** increased by LL 1,946 billion, due to higher **current primary expenditures, interest payments, capital expenditures and treasury expenditures** by 22 percent, 13 percent, 10 percent and 48 percent, respectively.

Current primary expenditures registered an increase of LL 667 billion related to LL 603 billion, 11 billion and 52 billion increases in **personnel cost, materials and supplies and other current expenditures** respectively.

The augmentation in personnel cost is mainly due to the government's policy of granting a wage increase to the public sector. As a result, all items under the personnel cost component, namely **salaries, wages and related items, retirement and end of service compensations and transfers to public institutions to cover salaries** rose by LL 458 billion, LL 74 billion and LL 71 billion, respectively. Of the LL458 billion increase in salaries, wages and related items, LL 95 billion resulted from the payments in May-June 2009 of the retroactive amounts related to the years 1996-1998 following the salary and wage increase granted in 1999.⁵ Out of the LL74 billion increase in retirement and end of service compensations, LL 4.9 billion were due to the payment of the retroactive amount related to the salary and wage increase granted in 1999.

Other current primary expenditures payments, such as **hospitals, other current expenditures and interest subsidies** registered increases of LL 20 billion, LL 16 billion and LL 7 billion, respectively.

Interest payments were higher by LL 369 billion, driven by higher interest payments on domestic currency debt due to an increase in the stock of domestic currency TBs. Interest payments on foreign currency debt decreased LL 24 billion compared to January-July 2008.

Principal repayment of foreign project loans decreased by LL 59 billion compared to January-July 2008, reflecting the repayment of World Bank loans amounting to USD 50 million in June 2009 and USD 88 million in January 2008, both with the proceeds of the USAID grant pledged at the Paris III conference.

Other treasury expenditures increased by LL 938 billion, mainly due to higher transfers to EDL (LL 307 billion), High Relief Committee (LL 511 billion), VAT refund (LL 11 billion) and municipalities (LL 50 billion).

At the end of July 2009, **gross public debt** reached LL 72,229 billion, registering an increase of LL 1,341 billion compared to the end-December 2008 debt level. This increase is a result of higher **local and foreign currency debt** of LL 1,121 billion and LL 220 billion, respectively. From end-2008 until end of July 2009, BDL's domestic debt portfolio rose by LL 1,689 billion, largely due to purchases of TBs on the secondary market in the first quarter of 2009 and subscriptions in the primary market in the second quarter of 2009. This increase compensated the reduction in commercial banks' domestic debt portfolio by LL 1,408 billion over the first half of the year. The stock of foreign currency debt increased as a result of the issuance of USD 444.7 million of new cash in conjunction with the Eurobond voluntary exchange transaction carried out in March 2009. In addition, special TBs worth USD 18.5 million were issued on 25 March 2009 for the settlement of expropriations.

⁵ The breakdown shows that LL 68.5 billion were paid to the army, LL 12.3 billion were paid to the Internal Security Forces, LL 3.9 billion were paid to the General Security Forces, LL 1.2 billion were paid to the State Security Forces and LL 8.9 billion were paid to the Civil Servants employees.

Table1. Summary of Fiscal Performance

(LL billion)	2007	2008	2009	2007	2008	2009	%
	July	July	July	Jan-July	Jan-July	Jan-July	Change
Total Budget and Treasury Receipts	851	929	1,251	5,349	6,129	7,668	25.1%
Total Budget and Treasury Payments, of which	923	1,117	1,488	7,269	8,308	10,254	23.4%
<i>Interest Payments</i>	302	411	424	2,660	2,842	3,211	13.0%
<i>Concessional loans principal payments 1/</i>	17	19	19	107	225	166	-26.0%
<i>Primary Expenditures 2/</i>	604	687	1,046	4,502	5,241	6,877	31.2%
Total Cash Deficit/Surplus	-72	-188	-237	-1,920	-2,179	-2,586	18.7%
Primary Deficit/Surplus	247	242	205	847	888	792	-10.9%

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

1/ Includes only Principal repayments of concessional loans earmarked for project financing

2/ Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

Section 2: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2007	2008	2009	2007	2008	2009
	July	July	July	Jan-July	Jan-July	Jan-July
Budget Revenues, of which:	790	869	1,181	4,907	5,633	7,255
<i>Tax Revenues</i>	546	728	926	3,447	4,161	5,512
<i>Non-Tax Revenues</i>	244	141	255	1,460	1,472	1,743
Treasury Receipts	61	61	71	442	497	413
Total Revenues	851	929	1,252	5,349	6,129	7,668

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

Table 3. Tax Revenue

(LL billion)	2007	2008	2009	2007	2008	2009
	July	July	July	Jan-July	Jan-July	Jan-July
Tax Revenues:	546	728	926	3,447	4,161	5,512
Taxes on Income, Profits, & Capital Gains, of which:	112	130	148	960	1,133	1,388
<i>Income Tax on Profits</i>	10	15	13	437	552	685
<i>Income Tax on Wages and Salaries</i>	44	55	69	157	195	264
<i>Income Tax on Capital Gains & Dividends</i>	24	13	15	110	111	118
<i>Tax on Interest Income (5%)</i>	34	46	49	251	267	308
<i>Penalties on Income Tax</i>	1	2	2	5	8	12
Taxes on Property, of which:	38	69	67	278	395	402
<i>Built Property Tax</i>	5	9	6	75	74	76
<i>Real Estate Registration Fees</i>	29	54	51	173	288	280
Domestic Taxes on Goods & Services, of which:	266	359	419	1,323	1,672	1,965
<i>Value Added Tax</i>	250	328	389	1,205	1,513	1,766
<i>Other Taxes on Goods and Services, of which:</i>	15	30	29	114	153	194
<i>Private Car Registration Fees</i>	13	22	25	71	105	137
<i>Passenger Departure Tax</i>	2	8	4	42	47	56
Taxes on International Trade, of which:	100	128	248	725	764	1,527
<i>Customs</i>	49	60	71	314	369	434
<i>Excises, of which:</i>	52	68	177	411	395	1,092
<i>Gasoline Excise</i>	4	0	88	145	5	581
<i>Tobacco Excise</i>	19	26	25	119	138	148
<i>Cars Excise</i>	28	41	63	144	249	361
Other Tax Revenues (namely fiscal stamp fees)	30	43	44	161	196	231

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

Table 4. Non-Tax Revenue

(LL billion)	2007 July	2008 July	2009 July	2007 Jan-July	2008 Jan-July	2009 Jan-July
Non-Tax Revenues	244	141	255	1,460	1,472	1,743
Income from Public Institutions and Government Properties, of which:	201	94	205	1,173	1,149	1,392
Income from Non-Financial Public Enterprises, of which:	198	90	199	1,034	1,077	1,308
<i>Revenues from Casino Du Liban</i>	4	9	11	32	101	88
<i>Revenues from Port of Beirut</i>	0	0	7	30	0	62
<i>Budget Surplus of National Lottery</i>	8	6	0	36	32	28
<i>Transfer from the Telecom Surplus</i>	186	75	188	935	943	1,129
<i>Transfer from Public Financial Institution (BDL)</i>			0		41	40
Property Income (namely rent of Rafic Hariri International Airport)	2	3	5	23	27	37
Other Income from Public Institutions (interests)	0	1	1	3	4	7
Administrative Fees & Charges, of which:	36	40	39	239	259	286
Administrative Fees, of which:	29	33	33	191	210	234
<i>Notary Fees</i>	2	2	3	12	13	15
<i>Passport Fees/ Public Security</i>	13	13	13	66	70	68
<i>Vehicle Control Fees</i>	10	12	11	80	89	113
<i>Judicial Fees</i>	2	2	2	11	13	11
<i>Driving License Fees</i>	1	2	2	10	10	13
Administrative Charges	1	1	1	12	12	13
Sales (Official Gazette and License Number)	0	0	0	2	2	2
Permit Fees (mostly work permit fees)	4	5	5	27	30	27
Other Administrative Fees & Charges	1	1	1	8	5	9
Penalties & Confiscations	0	1	1	3	3	4
Other Non-Tax Revenues (mostly retirement deductibles)	7	7	9	45	60	61

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007	2008	2009	%
	Jan-July	Jan-July	Jan-July	Change
1. Current Expenditures	5,605	6,041	7,018	16.2%
1.a Personnel Cost, of which	2,092	2,207	2,810	27.3%
<i>Salaries, Wages and Related Items (Article 13)</i>	1,444	1,477	1,935	31.0%
<i>Retirement and End of Service Compensations, of which:</i>	522	614	688	12.0%
<i>Retirement</i>	451	477	610	27.8%
<i>End of Service</i>	71	137	78	-43.2%
<i>Transfers to Public Institutions to Cover Salaries 1/</i>	126	116	187	61.6%
1.b Interest Payments, of which: 2/	2,660	2,842	3,211	13.0%
<i>Domestic Interest Payments</i>	1,512	1,613	2,006	24.4%
<i>Foreign Interest Payments</i>	1,148	1,229	1,205	-2.0%
1.c Foreign Debt Principal Repayment	107	225	166	-26.0%
1.d Materials and Supplies, of which:	117	129	140	8.8%
<i>Nutrition</i>	16	27	35	31.6%
<i>Fuel Oil</i>	20	25	11	-54.8%
<i>Medicaments</i>	31	37	59	60.1%
<i>Accounting Adjustments for Treasury</i>	30	25	20	-18.8%
1.e External Services	56	64	71	10.7%
1.f Various Transfers, of which:	401	331	333	0.4%
<i>NSSF</i>	220	0	50	NA
<i>Wheat Subsidy</i>	0	129	10	-92.2%
<i>Special Tribunal for Lebanon</i>	0	18	12	-32.7%
1.g Other Current, of which:	121	194	231	18.8%
<i>Hospitals</i>	96	172	192	11.8%
<i>Others</i>	23	21	37	74.9%
1.h Reserves	51	48	55	15.5%
<i>Interest subsidy</i>	51	48	55	15.5%
2. Capital Expenditures	297	280	309	10.4%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	15	2	4	79.5%
2.b Equipment	27	21	21	-0.5%
2.c Construction in Progress, of which:	201	194	207	7.1%
<i>Displaced Fund</i>	31	20	55	182.1%
<i>Council of the South</i>	20	10	10	0.0%
<i>CDR</i>	113	121	114	-5.8%
<i>Ministry of Public Work and Transport</i>	19	20	16	-21.4%
<i>Other</i>	19	24	13	-44.8%
2.d Maintenance	31	39	42	9.0%
2.e Other Expenditures Related to Fixed Capital Assets	22	24	34	43.0%
3. Other Treasury Expenditures	1,340	1,962	2,900	47.8%
Municipalities	129	218	269	23.1%
Guarantees	25	29	72	146.2%
Deposits :	50	30	47	52.9%
Other, of which:	193	314	850	170.8%
<i>VAT Refund</i>	116	182	194	6.3%
<i>High Relief Committee</i>	6	9	520	5559.4%
EDL 3/	943	1,352	1,658	22.6%
Treasury Advances for Water Authorities	0	0	4	0
Treasury Advances for Diesel Oil Subsidy	0	19	0	-100.0%
4. Unclassified Expenditures	4	2	2	-10.1%

5. Customs Cashiers	23	24	26	10.0%
6. Total Expenditures (Excluding CDR Foreign Financed)	7,269	8,308	10,254	23.4%

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures

1/ For a detailed breakdown of those transfers, kindly refer to table 6.

2/ For a detailed breakdown of interest payments, kindly refer to table 7.

3/ For a detailed breakdown of transfers to EDL, kindly refer to table 8.

Table 6. Breakdown of Transfers to Public Institutions for the Coverage of Salaries

(LL billion)	2007	2008	2009
	Jan-July	Jan-July	Jan-July
Transfer to Council of the South	3	5	3
Transfer to Council for Development and Reconstruction (CDR)	21	15	27
Transfer to the Displaced Fund	3	4	4
Transfer to the Lebanese University	93	87	146
Transfer to the Educational Center for Research and Development	6	6	7

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007	2008	2009	2007	2008	2009
	July	July	July	Jan-July	Jan-July	Jan-July
Interest Payments 1/	302	411	424	2,672	2,842	3,211
Local Currency Debt	213	279	309	1,512	1,613	2,006
Foreign Currency Debt, of which:	89	132	115	1,160	1,229	1,205
Eurobond Coupon Interest*	83	125	110	1,087	1,146	1,129
Special bond Coupon Interest*		0	0	13	7	9
Concessional Loans Interest Payments	7	7	5	61	76	66
Concessional Loans Principal Payments**	17	19	19	107	225	166

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

1/ Please note that the classification of debt service expenditures is now broken into two separate categories as follows: Interest Payments (as per GFS classification) and repayment of principal on concessional loans earmarked for project financing.

* Includes general expenses related to the transaction

** Includes LL 133 billion paid in 2008 of IBRD loans from US Aid Grant

Table 8. Transfers to EDL

(LL billion)	2007	2008	2009	Value
	Jan-July	Jan -July	Jan -July	Change
EDL, of which:	943	1,352	1,658	306
• Debt Service, of which:	315	95	86	-10
– C-Loans and Eurobonds, of which:	238	70	60	-11
Principal repayments	208	56	51	-6
Interest Payments	30	14	10	-5
– BDL Guaranteed Loan payments	77	25	26	1
• Reimbursement of KPC and Sonatrach Agreements	629	1,256	1,572	316

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

Section 4: Public Debt

Table 9. Public Debt Outstanding by Holder as of End-July 09 (LL billion)

	Dec-05	Dec-06	Dec-07	Dec-08	Jul-09	Change Dec 08 - July 09	% Change Dec 08 - July 09
Gross Public Debt	57,985	60,851	63,350	70,888	72,229	1,341	1.89%
Local Currency Debt	29,141	30,204	31,373	39,007	40,128	1,121	2.87%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,470	1,689	19.23%
b. Commercial Banks	14,130	16,487	16,847	24,320	22,912	-1,408	-5.79%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	6,746	840	14.22%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,668	606	11.97%
<i>* Accrued Interest Included in Debt</i>	517	685	754	1,001	1,006	5	0.50%
Foreign Currency Debt (2)	28,844	30,647	31,977	31,881	32,101	220	0.69%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,669	-132	-4.72%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,456	5,130	-326	-5.97%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾			1,357	1,849	1,954	105	5.69%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,416	491	2.35%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	484	54	12.56%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	419	447	28	6.68%
Public Sector Deposits	5,590	4,444	4,527	8,326	7,335	-991	-11.90%
Net Debt	52,395	56,407	58,823	62,562	64,894	2,332	3.73%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,216	46,992	46,375	-617	-1.31%
% of Total Debt	60%	64%	62%	66%	64%	0	-3.15%

Source: Ministry of Finance, 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⁾ Figures for Dec 05 – June 09 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

⁽³⁾ Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at USD 1,870 billion to BDL in the context of the Paris II conference.

⁽⁴⁾ Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, first tranche of the French loan received in February 2008, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

⁽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.

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