

Fiscal Overview

The fiscal position witnessed a clear improvement in the period January-May 2009: the **primary balance** registered a surplus of LL 344 billion compared to a surplus of LL 249 billion for the same period of 2008, i.e. a 38 percent increase explained by LL 1,103 billion of additional receipts that more than covered the LL 1,008 billion of additional primary expenditures. The LL 95 billion additional surplus on the primary balance covered part of the LL 167 billion increase in total debt service spending, which limited the widening of the deficit in the **overall balance** to 3.5 percent (equivalent to LL 72 billion),- a significant improvement compared to the fiscal performance in the first four months of the year. The **total fiscal balance** registered a deficit of LL 2,122 billion or 29% of expenditures in January-May 2009 compared to a deficit of LL 2,050 billion or 34% of expenditures in January-May 2008.

Until the end of May 2009, **total revenues** increased by LL 1,103 billion and totaled LL 5,161 billion compared to the total of LL 4,058 billion registered in the same period of last year. Both **Tax revenues** and **non-tax revenues** increased by LL 918 billion and LL 338 billion, respectively, and **treasury receipts** decreased by LL 153 billion (explained by lower amount of grants received)¹. Regarding the tax revenues, collection from **taxes on income, profits and capital gains** increased by LL 123 billion, mainly coming from a rise in **income tax on profits, income tax on wages and salaries** and **tax on interest income**² by LL 34 billion, LL 57 billion and LL 32 billion, respectively. **Domestic taxes on goods and services** increased by LL 218 billion, mainly due to the revenue enhancement of **value added tax** and **private car registration fees** by LL 187 billion and LL 23 billion, respectively. The largest improvement in tax revenues came from **taxes on international trade**, which receipts increased by LL 542 billion due to a boost in **customs** receipts, and in **petroleum**³ and **car excise revenues** by LL 44 billion, LL 403 billion and LL 83 billion, respectively.

Non-tax revenues registered an increase of 32 percent compared to the same period of last year. This is due to the LL 307 billion and LL 26 billion increases in **income from public institutions and government properties** and in **administrative fees and charges**, respectively, the two main non tax revenues categories. The breakdown of entrepreneurial income shows a LL 208 billion

¹ In Jan-May 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-May 09, the Treasury received only LL 12.4 billion, of which LL 10.5 billion of project grant from Oman for the reconstruction of Nahr El Bared and LL 1.9 billion of budget support grant from Greece.

² The month of May 09 witnessed an 18 percent year-on-year increase in the interest tax receipts mirroring the 19.6 percent increase in private sector deposits in May 09 compared to the level in May 08.

³ In the context of the domestic price capping regime that prevailed throughout 2008, the escalation 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 consecutive months starting April 08. The substantial drop in international fuel prices by the end of 2008 provided an opportunity to the Government to uncap the retail price of gasoline and to fix the excise rate at an average of LL 470/liter (as per COM decision # 9 dated January 23, 2009), thus restoring a regular stream of revenues to the Treasury.

increase in **transfers from the Telecom budget surplus**, LL 62 billion and LL 40 billion revenues from **Port of Beirut** and **BDL**, respectively; and, LL 12 billion less **revenues from Casino du Liban**, explained by the schedule of installments of the settlement that put an end to the dispute between Casino Management and the Government of Lebanon⁴. As for the **administrative fees and charges**, the increase in receipts came mainly from LL 23 billion rise in revenues from the **vehicle control fees**.

For the period of January-May 2009, **total expenditures** increased by LL 1,175 billion, due to higher **current primary expenditures**, **interest payments**, **capital expenditures** and **treasury expenditures** by 14 percent, 15 percent, 25 percent and 44 percent, respectively.

The **current primary expenditures** registered an increase of LL 299 billion, mostly related to the LL 317 billion increase in **personnel cost**. This augmentation is due to a LL327 billion increase in **salaries, wages and related items**, of which LL85 billion⁵ resulted from the payment in May 2009 of the retroactive amounts due to for the years 1996-1998 following the salary and wage increase granted in 1999 and a LL38 billion **transfers to public institutions** to cover salaries. This increase in personnel cost was partly offset by the LL49 billion decrease in retirement and end-of-service compensations.

Other current primary expenditures, such as **materials and supplies** and **hospitals**, registered increases of LL 9 billion and LL 50 billion, respectively. **Various transfers** registered a decrease of LL 90 billion due to the discontinuation of the wheat subsidy program in the last quarter of 2008 and the smaller transfers to the Special Tribune for Lebanon by LL 6 billion, which offset the increases of LL 8 billion and LL 9 billion in transfers to non-profit organizations and primary public schools' contractual teachers, respectively.

Interest payments were up by LL 312 billion mainly due to the increase in interest payments on domestic currency debt by LL 293 billion and interest payments on foreign currency debt by LL 19 billion. The **concessional loans principal payments** decreased by LL 145 billion due to the early retirement of three World Bank loans against USAID grant disbursement in January 2008.

The increase in **capital expenditures** by LL46 billion is explained by higher transfers for **construction in progress** by LL 28 billion and **other expenditures related to fixed capital assets** by LL 20 billion, respectively. The main reason behind the increase in construction in progress is higher transfers to the Fund for the Displaced and Council of the South by LL 31 billion and LL 10 billion, respectively. The LL 20 billion higher payment to the Export Plus program led to the increase in other expenditures related to fixed capital assets. **Treasury expenditures** increased by LL 658 billion, mainly due to higher transfers to EDL, High Relief committee and VAT refund by LL 353 billion, LL 308 billion and LL 34 billion, respectively. Transfers to municipalities decreased by LL 60 billion.

⁴ The agreement signed in February 2008, which settled the 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-year period 2009-2011.

⁵ Of the LL85 billion, LL68 billion were paid to the army, LL12.3 billion were paid to the Internal Security Forces, LL3.877 billion were paid to the General Security Forces, and LL1.16 billion were paid to the State Security Forces.

At the end of May 2009, **gross public debt** reached LL 71,957 billion, registering an increase of LL 1,069 billion, compared to the end-December 2008 debt level. This increase is a result of higher **local currency debt and foreign currency debt** of LL 655 billion and LL 414 billion, respectively. From end-2008 until end of May 2009, BDL's domestic debt portfolio rose by LL 1,686 billion, largely due to purchases of Treasury Bills on the secondary market in the first quarter of 2009. This increase compensated the reduction in commercial banks' domestic debt portfolio by LL 1,405 billion over the same period. 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 treasury bills worth USD 18.5 million were issued on 25 March 2009 for the settlement of expropriations.

Section 1: Fiscal Outcome

Table 1. Summary of Fiscal Performance

(LL billion)	2007	2008	2009	2007	2008	2009
	May	May	May	Jan-May	Jan-May	Jan-May
Total Budget and Treasury Receipts	891	792	984	3,910	4,058	5,161
Total Budget and Treasury Payments, <i>of which:</i>	1,064	1,349	1,282	5,185	6,108	7,283
<i>Interest Payments</i>	443	427	384	1,989	2,101	2,413
<i>Concessional loans principal payments 1/</i>	11	13	10	66	198	53
<i>Primary Expenditures 2/</i>	609	910	887	3,130	3,809	4,817
Total Cash Deficit/Surplus	-173	-557	-298	-1,274	-2,050	-2,122
Primary Deficit/Surplus	-173	-118	96	-1,274	249	344

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

1/ Includes only Principal repayments of concessional loan's 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
	May	May	May	Jan-May	Jan-May	Jan-May
Budget Revenues, of which:	856	752	946	3,567	3,680	4,936
<i>Tax Revenues</i>	653	526	697	2,531	2,604	3,522
<i>Non-Tax Revenues</i>	203	226	248	1,036	1,076	1,414
Treasury Receipts	35	40	38	344	378	225
Total Revenues	891	792	984	3,910	4,058	5,161

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

Table 3. Tax Revenue

(LL billion)	2007	2008	2009	2007	2008	2009
	May	May	May	Jan-May	Jan-May	Jan-May
Tax Revenues	653	526	697	2,531	2,604	3,522
Taxes on Income, Profits, & Capital Gains, of which:	362	170	177	743	587	710
<i>Income Tax on Profits</i>	274	71	78	365	185	219
<i>Income Tax on Wages and Salaries</i>	2	3	5	111	133	190
<i>Income Tax on Capital Gains & Dividends</i>	40	49	40	74	73	71
<i>Tax on Interest Income (5%)</i>	45	45	54	189	191	223
<i>Penalties on Income Tax</i>	1	1	1	4	5	7
Taxes on Property, of which:	42	53	50	207	259	266
<i>Built Property Tax</i>	8	5	3	67	54	62
<i>Real Estate Registration Fees</i>	29	43	43	116	183	179
Domestic Taxes on Goods & Services, of which:	140	161	219	929	1,116	1,334
<i>Value Added Tax</i>	121	141	189	846	1,016	1,203
<i>Other Taxes on Goods and Services, of which:</i>	18.786	20	30	80	97	127
<i>Private Car Registration Fees</i>	13	13	19	49	65	88
<i>Passenger Departure Tax</i>	6	7	11	30	32	39
Taxes on International Trade, of which:	88	112	219	539	513	1,055
<i>Customs</i>	47	55	62	223	254	299
<i>Excises, of which:</i>	42	57	156	316	259	756
<i>Petroleum Tax</i>	5	0	89	138	5	408
<i>Tobacco Tax</i>	13	20	19	80	91	103
<i>Tax on Cars</i>	23	37	49	96	161	244
Other Tax Revenues (namely fiscal stamp fees)	21	30	32	112	128	157

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

Table 4. Non-Tax Revenue

(LL billion)	2007 May	2008 May	2009 May	2007 Jan-May	2008 Jan-May	2009 Jan-May
Non-Tax Revenues	203	226	248	1,036	1,076	1,414
Income from Public Institutions and Government Properties, of which:	159	183	204	834	853	1,160
Income from Non-Financial Public Enterprises, of which:	156	174	191	700	828	1,088
<i>Revenues from Casino Du Liban</i>	5	0	10	23	78	66
<i>Revenues from Port of Beirut</i>	0	0	0	30	0	62
<i>Budget Surplus of National Lottery</i>	8	8	0	28	17	18
<i>Transfer from the Telecom Surplus</i>	143	166	181	619	732	941
<i>Transfer from Public Financial Institution (BDL)</i>	0	0	0	113	0	40
Property Income (namely rent of Rafic Hariri International Airport)	3	9	12	19	22	27
Other Income from Public Institutions (interests)	0	0	1	2	3	5
Administrative Fees & Charges, of which:	37	36	36	168	183	208
Administrative Fees, of which:	31	28	30	135	148	171
<i>Notary Fees</i>	2	2	2	8	9	10
<i>Passport Fees/ Public Security</i>	11	10	11	42	47	44
<i>Vehicle Control Fees</i>	13	12	12	62	66	89
<i>Judicial Fees</i>	2	2	2	8	9	8
<i>Driving License Fees</i>	1	1	2	7	6	9
Administrative Charges	1	1	1	10	10	11
Sales (Official Gazette and License Number)	0	0	0	1	1	1
Permit Fees (mostly work permit fees)	4	6	4	18	21	18
Other Administrative Fees & Charges	1	0	1	4	3	7
Penalties & Confiscations	0	0	1	2	2	3
Other Non-Tax Revenues (mostly retirement deductibles)	6	6	7	32	38	43

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2007 Jan- May	2008 Jan-May	2009 Jan-May
1. Current Expenditures	4,154	4,421	4,887
1.a Personnel Cost, of which:	1,512	1,588	1,904
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	1,044	1,048	1,375
<i>Retirement and End of Service Compensations, of which:</i>	383	459	410
<i>Retirement</i>	322	340	356
<i>End of Service</i>	61	118	54
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	86	81	119
1.b Interest Payments, of which: 3/	1,989	2,101	2,413
<i>Domestic Interest Payments</i>	1,099	1,170	1,462
<i>Foreign Interest Payments</i>	890	931	950
1.c Foreign Debt Principal Repayment	66	198	53
1.d Materials and Supplies, of which:	77	85	94
<i>Nutrition</i>	6	22	23
<i>Fuel Oil</i>	12	11	10
<i>Medicaments</i>	20	19	43
<i>Accounting Adjustments for Treasury</i>	27	18	13
1.e External Services	44	43	42
1.f Various Transfers, of which:	335	267	177
<i>NSSF</i>	220	0	0
<i>Wheat Subsidy</i>	0	116	0
<i>Special Tribunal for Lebanon</i>	0	18	12
1.g Other Current, of which:	92	96	158
<i>Hospitals</i>	72	82	132
<i>Others</i>	19	14	25
1.h Reserves	40	43	46
<i>Interest subsidy</i>	40	43	46
2. Capital Expenditures	211	185	231
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	4	1	3
2.b Equipment	20	15	13
2.c Construction in Progress, of which:	136	123	151
<i>Displaced Fund</i>	6	15	45
<i>Council of the South</i>	10	0	10
<i>CDR</i>	91	75	75
<i>Ministry of Public Work and Transport</i>	16	15	13
<i>Other</i>	13	18	9
2.d Maintenance	29	33	32
2.e Other Expenditures Related to Fixed Capital Assets	22	13	33
3. Other Treasury Expenditures	803	1,486	2,144
Municipalities	77	195	134
Guarantees	17	22	63
Deposits :	42	21	32
Other, of which:	129	236	567
<i>VAT Refund</i>	80	144	179
<i>High Relief Committee</i>	6	7	315
EDL 4/	537	994	1,347
Treasury Advances for Diesel Oil Subsidy	0	19	0
4. Unclassified Expenditures	1	1	0

5. Customs Cashiers	16	14	21
6. Total Expenditures (Excluding CDR Foreign Financed)	5,185	6,108	7,283

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 Jan-May	2008 Jan-May	2009 Jan-May
Transfer to Council of the South	2	3	2
Transfer to Council for Development and Reconstruction (CDR)	15	10	21
Transfer to the Displaced Fund	3	2	2
Transfer to the Lebanese University	63	61	89
Transfer to the Educational Center for Research and Development	4	5	6

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

Table 7. Details of Debt Service Transactions

(LL billion)	2007 May	2008 May	2009 May	2007 Jan-May	2008 Jan-May	2009 Jan-May
Interest Payments 1/	443	427	384	1,989	2,101	2,413
<i>Local Currency Debt</i>	<i>221</i>	<i>197</i>	<i>229</i>	<i>1,099</i>	<i>1,170</i>	<i>1,462</i>
<i>Foreign Currency Debt, of which:</i>	<i>222</i>	<i>230</i>	<i>155</i>	<i>890</i>	<i>931</i>	<i>950</i>
<i>Eurobond Coupon Interest*</i>	<i>217</i>	<i>217</i>	<i>142</i>	<i>843</i>	<i>866</i>	<i>895</i>
<i>Special bond Coupon Interest*</i>			<i>1</i>			<i>2</i>
<i>Concessional Loans Interest Payments</i>	<i>5</i>	<i>13</i>	<i>13</i>	<i>47</i>	<i>65</i>	<i>53</i>
Concessional Loans Principal Payments **	11	13	10	66	198	53

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

** Figure for 2008 includes LL 133 billion paid for the redemption of IBRD loans using US grant

Table 8. Transfers to EDL

(LL billion)	2007 Jan-May	2008 Jan-May	2009 Jan-May	Change
EDL of which:	537	994	1,347	353
• Debt Service of which:	121	57	52	-5
– C-Loans and Eurobonds, of which:	44	42	32	-10
<i>Principal repayments</i>	<i>34</i>	<i>34</i>	<i>27</i>	<i>-7</i>
<i>Interest Payments</i>	<i>10</i>	<i>8</i>	<i>5</i>	<i>-3</i>
– BDL Guaranteed Loan payments	77	15	20	5
• Reimbursement of KPC and Sonatrach Agreements	416	937	1,296	359

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

Section 4: Public Debt

Table 9. Public Debt Outstanding by Holder as of End-May 09

(LL billion)	Dec-05	Dec-06	Dec-07	Dec-08	May-09	Change Dec 08 - May 09	% Change Dec 08 - May 09
Gross Public Debt	57,985	60,851	63,350	70,888	71,957	1,069	1.51%
Local Currency Debt	29,141	30,204	31,373	39,007	39,662	655	1.68%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	11,686	9,588	9,052	8,781	10,467	1,686	19.20%
b. Commercial Banks	14,130	16,487	16,847	24,320	22,915	-1,405	-5.78%
c. Other Local Currency Debt (T-bills), of which:	3,325	4,129	5,474	5,906	6,280	374	6.33%
<i>Public Entities</i>	2,446	3,313	4,796	5,062	5,345	283	5.59%
* <i>Accrued Interest Included in Debt</i>	517	685	754	1,001	1,004	3	0.30%
Foreign Currency Debt (2)	28,844	30,647	31,977	31,881	32,295	414	1.30%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,789	2,855	2,953	2,802	2,725	-77	-2.74%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,501	6,540	6,063	5,456	5,316	-140	-2.56%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾			1,357	1,849	1,850	1	0.04%
d. Market-Issued Eurobonds	18,729	20,399	20,776	20,925	21,553	628	3.00%
e. <i>Accrued Interest on Eurobonds</i>	406	434	410	430	404	-26	-6.05%
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	7,469	-857	-
Net Debt	52,395	56,407	58,823	62,562	64,488	1,926	3.08%
Gross Market Debt⁽⁶⁾	34,721	38,670	39,216	46,992	46,295	-697	-1.48%
% of Total Debt	60%	64%	62%	66%	64%	0	-2.95%

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 - Dec 08 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, and IMF loans.
- (5) Special T-bills 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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