



Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

May 2006

Section 1: Fiscal Overview

Highlights:

An improvement of LL 241 billion was registered in the total fiscal balance for the January–May 2006 period, recording a deficit of LL 539 billion compared to LL 780 billion for the same period in 2005. The decrease in total deficit was due to 23 percent increase in total receipts which offset the 12 percent increase in total payments. The total primary surplus increased by 148 percent registering LL 1,212 billion compared to LL 488 billion for the same period in 2005.

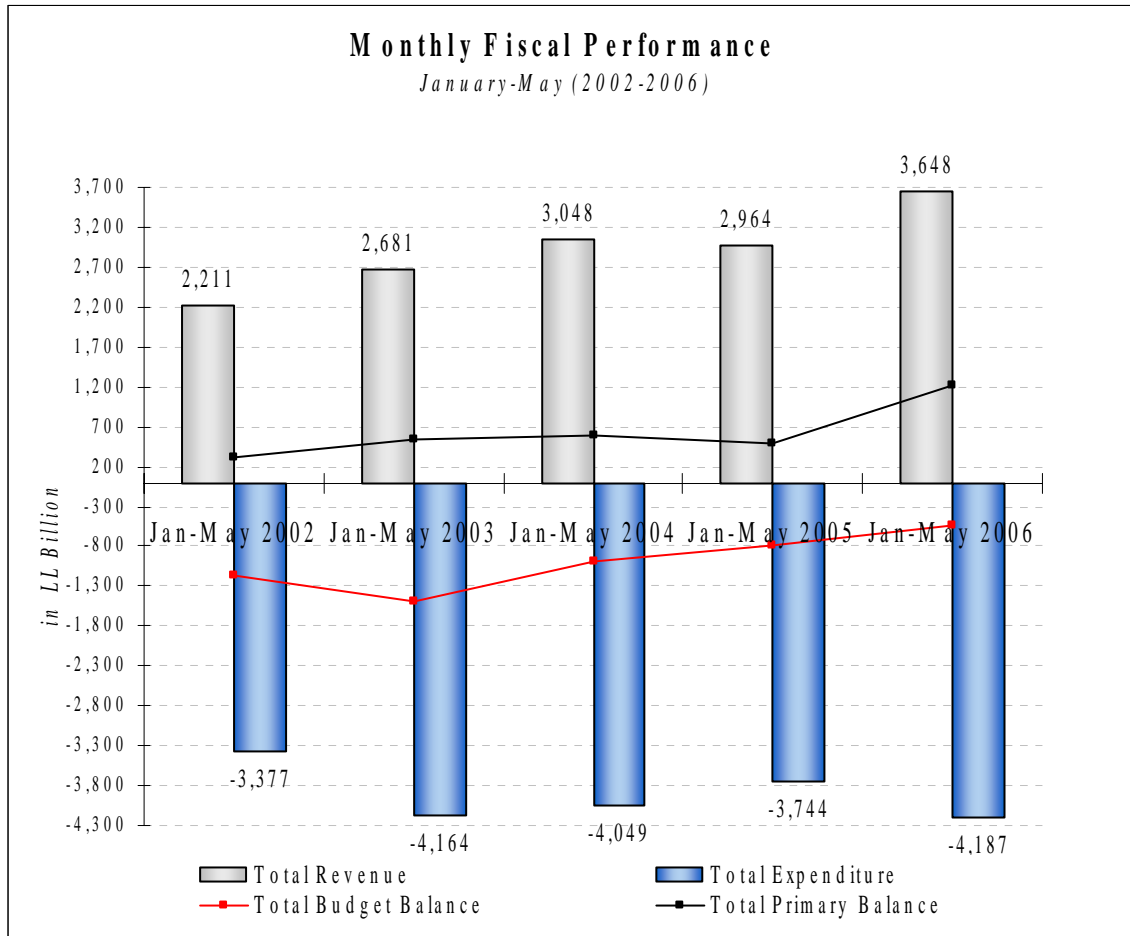
A total surplus of LL 48 billion was recorded in May 2006, compared to a total deficit of LL 189 billion for the same period of 2005, registering an improvement of LL 237 billion. This is due to an increase of total receipts by LL 267 billion for May 2006, compared to May 2005, offsetting the increase of LL 30 billion in total payments. An increase of primary surplus by LL 276 billion was also registered in May 2006 when compared to May 2005.

Table 1. Summary of Fiscal Performance

(LL billion)	2005	2006	2005	2006	Change	%
	May	May	Jan-May	Jan-May	2005-2006	Change
Budget Revenue	588	852	2,783	3,487	703	25.3%
Budget Expenditures	626	768	2,720	3,244	524	19.3%
<i>o/w Debt Service</i>	350	389	1,269	1,752	483	38.1%
Budget Deficit/Surplus	-38	84	63	243	180	285.1%
in % of Budget Expenditures	-6.1%	10.9%	2.3%	7.5%		
Budget Primary Deficit/Surplus	312	472	1,332	1,994	663	49.8%
in % of Budget Expenditures	49.8%	61.5%	49.0%	61.5%		
Treasury Receipts	25	28	181	161	-19	-10.7%
Treasury Payments	175	63	1,024	943	-81	-7.9%
Total Budget and Treasury Receipts	613	880	2,964	3,648	684	23.1%
Total Budget and Treasury Payments	801	831	3,744	4,187	443	11.8%
Total Cash Deficit/Surplus	-189	48	-780	-539	241	-30.9%
in % of Total Expenditures	-23.5%	5.8%	-20.8%	-12.9%		
Primary Deficit/Surplus	161	437	488	1,212	724	148.3%
in % of Total Expenditures	20.1%	52.6%	13.0%	29.0%		

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

Chart 1.



Section 2: Revenue Outcome

Highlights:

Total revenues collected over the period of January-May 2006 reached LL 3,648 billion compared to LL 2,964 billion during the same period last year, registering an increase of 23 percent mainly due to:

- a) A 25 percent increase in **budget revenues** due to an increase in tax and non-tax components:
 - 28 percent increase in **tax revenues**, which totaled LL 2,547 billion by the end of May 2006. This is due to higher collection on most tax fronts, namely, taxes on income, profits, and capital gains (by LL 247 billion), taxes on property (by LL 215 billion), domestic taxes on goods and services, particularly VAT (by LL 96 billion) and other tax revenues (stamp fees by LL 36 billion). The largest portion (LL 212 billion) of the increase in taxes on income, profit and capital gains is due to the timing the receiving the taxes on profits. The deadline for receiving taxes on profit was extended in 2005 to end of June and therefore receipts were distributed over May and June 2005. This year, the bulk of taxes were paid by end of May. It is expected that June

will experience significantly lower taxes on profit than 2005. These increases in tax revenues have more than offset the 12 percent decrease in revenues from taxes on international trade, which was mainly caused by the 55 percent loss in fuel excise revenues, resulting from the cap on gasoline prices.

- 19 percent increase in **non-tax revenues**, which totaled LL 939 billion during January-May 2006, mainly owing to LL 91 billion higher transfers from the Telecom Budget Surplus, and LL 17 billion and LL 39 billion increases in the collection of public security fees/passport fees and vehicles control fees (period of settlement and reduction of penalties)¹ respectively.
- b) An 11 percent decrease in **treasury receipts**, mainly due to a LL 42 billion decrease in municipalities' revenues.

Table 2. Total Revenue

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(LL billion)	2005 May	2006 May	2005 Jan-May	2006 Jan-May	% Change
Budget Revenues, of which:	588	852	2,783	3,487	25.3%
<i>Tax Revenues</i>	391	669	1,993	2,547	27.8%
<i>Non-Tax Revenues</i>	197	182	790	939	18.9%
Treasury Receipts	25	28	181	161	-10.7%
Total Revenues	613	880	2,964	3,648	23.1%

Source: MOF, DGF

¹ Budget law 2005, Law number 715 dated February 3, 2006 article 29

Table 3. Tax Revenue

(LL billion)	2005	2006	2005	2006	%
	May	May	Jan-May	Jan-May	Change
Tax Revenues:	391	669	1,993	2,547	27.8%
Taxes on Income, Profits, & Capital Gains, of which:	135	368	473	720	52.4%
Income Tax on Profits	84	297	172	385	123.3%
Income Tax on Wages and Salaries	2	2	99	101	2.4%
Income Tax on Capital Gains & Dividends	20	26	41	59	45.6%
Tax on Interest Income (5%)	28	42	154	166	8.0%
Penalties on Income Tax	1	2	5	7	36.6%
Taxes on Property, of which:	30	39	146	361	148.1%
Built Property Tax	4	7	44	57	28.1%
Real Estate Registration Fees	24	28	88	127	44.4%
Domestic Taxes on Goods & Services, of which:	101	142	744	862	15.8%
Value Added Tax	87	124	677	773	14.2%
Other Taxes on Goods and Services, of which:	14	18	63	81	27.7%
Private Car Registration Fees	9	12	37	52	41.3%
Passenger Departure Tax	5	5	26	28	9.3%
Taxes on International Trade, of which:	110	95	539	476	-11.6%
Customs	39	52	190	206	8.6%
Excises, of which:	70	43	349	270	-22.7%
Petroleum Tax	36	2	197	90	-54.7%
Tobacco Tax	17	19	73	77	5.4%
Tax on Cars	17	21	77	102	32.1%
Other Tax Revenues (namely fiscal stamp fees)	15	25	92	128	38.9%

Source: MOF, DGF

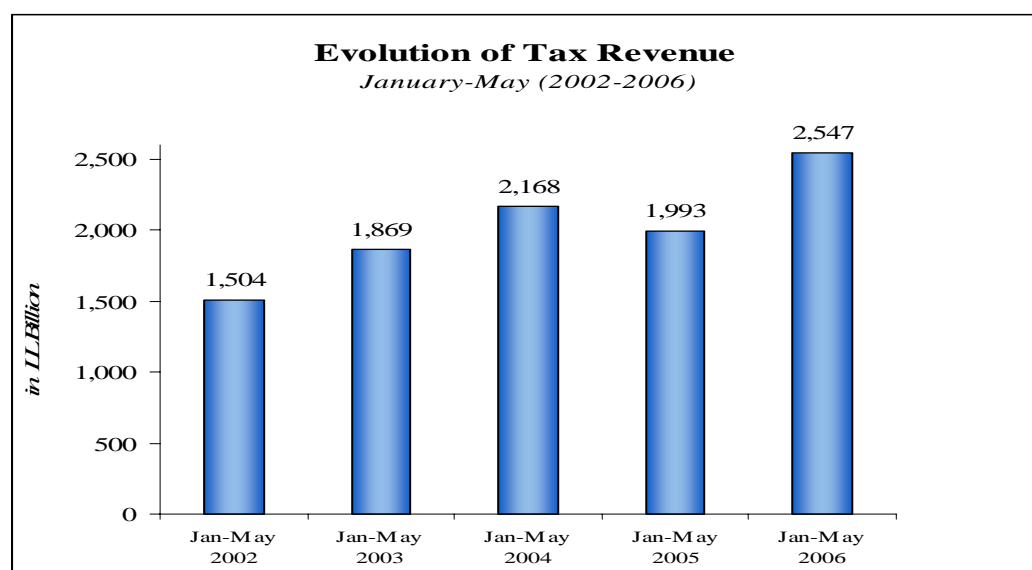
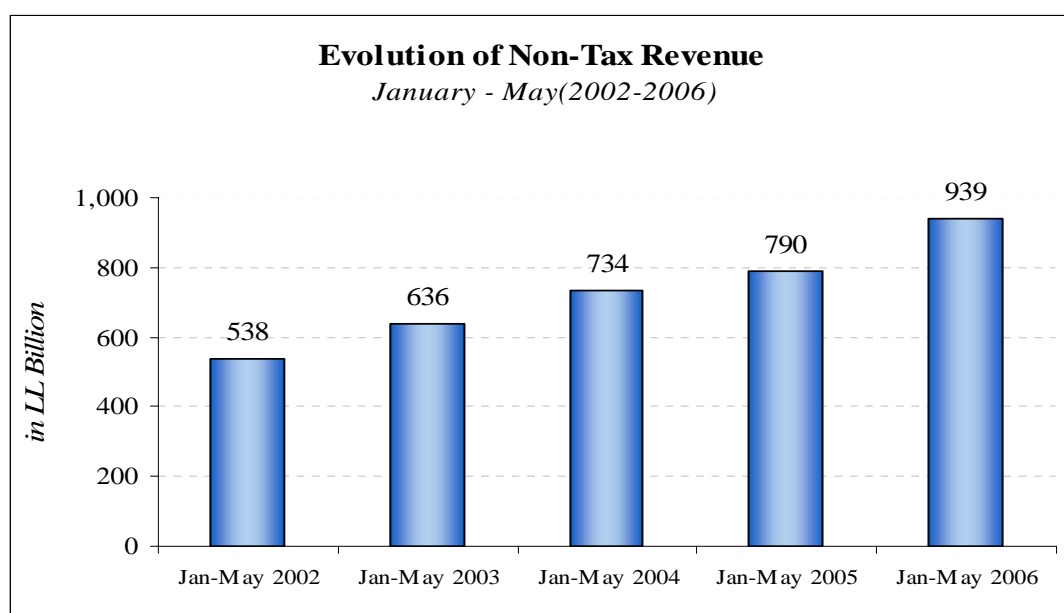
Chart 2.

Table 4. Non-Tax Revenue

(LL billion)	2005 May	2006 May	2005 Jan-May	2006 Jan-May	% Change
Non-Tax Revenues	197	182	790	939	18.9%
Income from Public Institutions and Government Properties, of which:	162	118	622	686	10.3%
Income from Non-Financial Public Enterprises, of which:	160	115	603	669	10.9%
<i>Revenues from Casino Du Liban</i>	3	4	27	17	-39.4%
<i>Revenues from Port of Beirut</i>	0	0	33	0	-100.0%
<i>Budget Surplus of National Lottery</i>	6	14	17	36	111.8%
<i>Transfer from the Telecom Surplus</i>	151	96	525	616	17.2%
Property Income (namely rent of Rafic Hariri International Airport)	2	3	17	15	-14.0%
Other Income from Public Institutions (interests)	0	0	2	2	33.7%
Administrative Fees & Charges, of which:	28	57	131	211	61.8%
Administrative Fees, of which:	23	41	102	167	63.6%
<i>Notary Fees</i>	1	2	7	8	20.2%
<i>Passport Fees/ Public Security</i>	7	10	32	49	49.8%
<i>Vehicle Control Fees</i>	11	22	45	84	86.2%
<i>Judicial Fees</i>	2	2	8	9	15.6%
<i>Driving License Fees</i>	1	3	5	10	87.5%
Administrative Charges	1	1	9	8	-6.3%
Sales (Official Gazette and License Number)	0	0	1	1	21.1%
Permit Fees (mostly work permit fees)	3	8	16	27	69.0%
Other Administrative Fees & Charges	1	7	3	8	175.3%
Penalties & Confiscations	0	0	1	2	68.0%
Other Non-Tax Revenues (mostly retirement deductibles)	7	7	36	40	10.6%

Source: MOF, DGF

Chart 3.

Section 3: Expenditure Outcome

Total expenditures for January-May 2006 amounted to LL 4,187 billion, as compared to LL 3,744 billion for the same period of 2005, increasing by 12 percent. This increase is mainly due to an increase in interest payments by 38 percent offsetting the decrease of 2 percent in non-interest payments, as explained below:

1. Debt service reported LL 1,752 billion in January-May 2006, increasing by around 38 percent as compared to the period of January-May 2005. This increase resulted from an increase in both local currency debt service and foreign currency debt service which rose by 79 percent and 12 percent respectively.

2. Non-interest expenditures registered LL 2,436 billion in January-May 2006, against LL 2,476 billion for the same period of 2005, scoring a decrease of LL 40 billion. This decrease was attributed to a decline in other treasury expenditures, offsetting the increase in current and capital expenditures.

a. Current primary budget expenditures increased by LL 34 billion. The increase in some items was offset by the decrease in other items as it is explained below:

- ✚ Various transfers (35 percent increase): This increase is mainly due to the transfer of LL 100 billion to the NSSF reported during January-May 2006 period, against a transfer of LL 50 billion reported during the same period of 2005. This increase was partially traded off by a decrease in other items reported as "Various Transfers".
- ✚ Material and supplies (55 percent decrease): This decrease was a result of higher spending that occurred in 2005 due to LL 90 billion payment of accrued electricity bills of public administrations due to EDL
- ✚ Other current (25 percent decrease): This decrease is mainly attributed to the rise in spending on items classified as "others" by 69 percent, which is justified by a higher spending in 2005 resulting from the payment of LL 34 billion to settle the arbitration decisions relating to the Ministries of Public Works and Education. However, spending on hospitals, considered as the major component of "other current", increased by around 3 percent.

b. Capital spending increased by LL 50 billion when compared to the same period of last year, due to three major factors:

- ✚ Increase of LL 9 billion in acquisition of lands, buildings for the construction of roads, ports, airports and water networks
- ✚ Increase of LL 23 billion in Construction under progress, resulting mainly from a high transfer to the displaced fund standing at 45 billion since the beginning of the year, while no transfers occurred during this period of last year. Meanwhile, no transfers were reported to the council of the south during the first five months of 2006, while 15 billion were reported during the same period 2005.

- ✚ Increase of LL 15 billion in other expenditures related to fixed capital assets, mainly due to an LL 18 billion transfer to Export Plus (IDAL).
- c. Other treasury expenditures decreased by LL 120 billion mainly due to the following major factors:
- ✚ Decrease in transfers to municipalities by LL 40 billion
 - ✚ Decrease in direct transfers to EDL by LL 91 billion
 - ✚ Decrease due to some exceptional payments that were reported in 2005, namely the transfer to water authorities of LL 48 billion to pay the accrued electricity bills of water authorities, in addition to the Treasury advance to the Telecom companies of LL 15 billion that was reported in May 2005 in payment of the retained guarantee amount.

On the other hand, an increase of LL 36 billion was reported in treasury advances for diesel oil subsidy, which partially offset the decrease in other treasury expenditures.

Transfers to EDL decreased by LL 140 billion when compared to January-May 2005 (please refer to Table 7). This is explained by the fact that, since September 2005, EDL has been obtaining its fuel oil and gas oil consumption through agreements with Sonatrach (Algeria) and Kuwait Petroleum Corporation (Kuwait). According to the credit facilities stipulated in the above mentioned agreements, the settlement of the fuel oil and gas oil purchases will start in June 2006.

Table 5. Expenditures by Transaction Classification

(LL billion)	2005	2006	2005	2006	% Change
	May	May	Jan-May	Jan-May	
Total Expenditures	801	831	3,744	4,187	11.8%
Budget Expenditures	626	768	2720	3,244	19.3%
Expenditures Excluding Debt Service	276	379	1,452	1,492	2.8%
Debt Service, of which:	350	389	1,269	1,752	38.1%
<i>Local Currency Debt</i>	95	155	495	886	78.9%
<i>Foreign Currency Debt, of which:</i>	254	233	773	865	11.9%
<i>Eurobond Coupon Interest*</i>	227	218	666	768	15.3%
<i>Concessional Loans Principal Payments</i>	19	9	60	55	-8.8%
<i>Concessional Loans Interest Payments</i>	8	6	46	41	-10.5%
Treasury Expenditures , of which:	175	63	1024	943	-7.9%
<i>Municipalities</i>	33	1	143	103	-28.0%
<i>Previous Years' Appropriations</i>	2	4	476	482	1.3%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	451	443	2,476	2,436	-1.6%

Source: MOF, DGF

Chart 4.

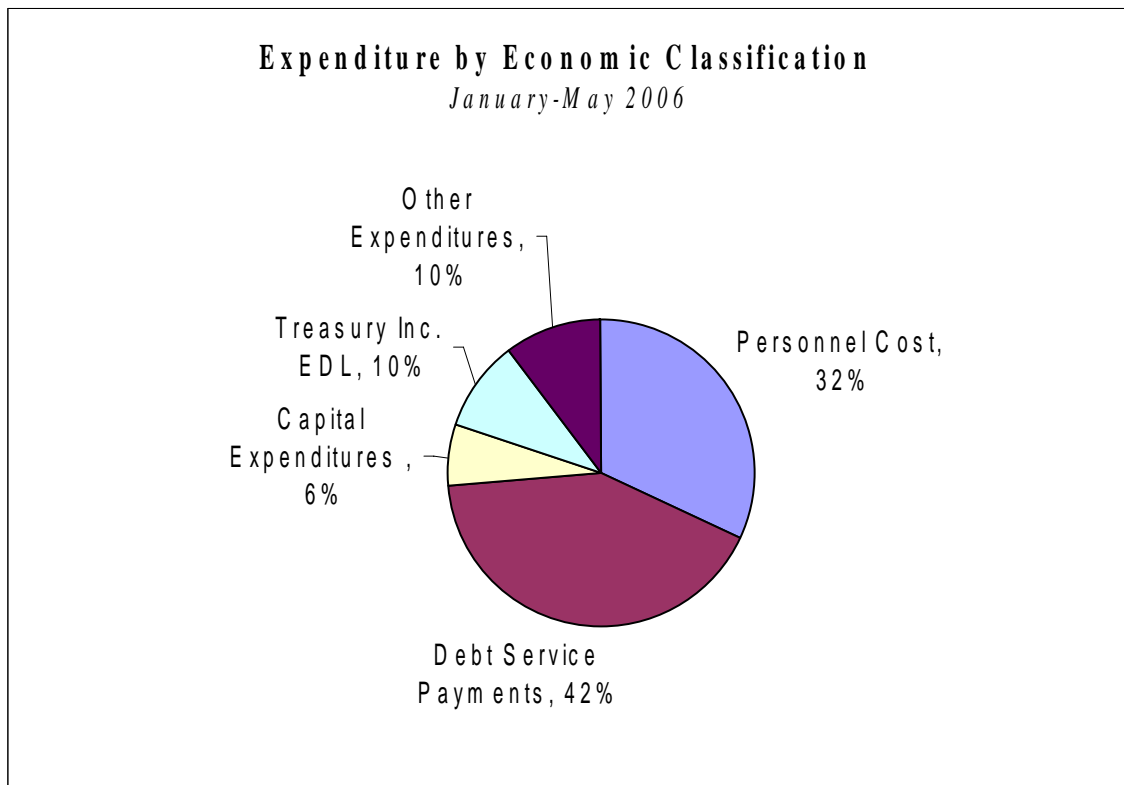


Table 6. Expenditures by Economic Classification

(LL billion)	2005 Jan-May	2006 Jan-May	% Change
1. Current expenditures	2,983	3,500	17.3%
1.a Personnel cost, <i>of which</i>	1,271	1,334	5.0%
<i>Article 13: Salaries and wages</i>	856	893	4.3%
<i>Retirement and end of service compensations</i>	337	361	7.2%
1.b Debt Service payments	1,269	1,752	38.1%
1.c Materials and supplies	113	51	-54.8%
1.d External services	32	40	26.5%
1.e Various transfers	146	197	35.1%
<i>o/w NSSF</i>	50	100	100.0%
1.f Other current	117	88	-24.9%
<i>Hospitals</i>	70	73	3.3%
<i>Others</i>	46	14	-69.2%
1.g Reserves	36	37	2.7%
<i>Interest subsidy</i>	36	37	2.7%
2. Capital expenditures	217	267	22.7%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	2	11	495.5%
2.b Equipment	7	8	9.8%
2.c Construction in Progress	173	196	13.5%
2.d Maintenance	25	26	2.4%
2.e Other Expenditures Related to Fixed Capital Assets	10	25	153.2%
3. Other treasury expenditures, of which	528	408	-22.7%
Municipalities	143	103	-28.0%
EDL	159	68	-57.4%
Treasury advances for water authorities	48	0	-100.0%
Treasury advances for diesel oil subsidy	12	50	327.5%
Treasury advances for Telecom companies	15		
4. Unclassified expenditures	5	1	-86.7%
5. Customs cashiers	10	12	15.0%
6. Total expenditures (excluding CDR foreign financed)	3,744	4,187	11.8%

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

Table 7. Transfers to EDL

(LBP billion)	2005	2006	% Change
	Jan-May	Jan-May	
EDL of which:	207	68	-48.7%
Debt Service of which:	51	68	31.9%
C-Loans and Eurobonds, of which:	51	51	-0.7%
Principal Repayment	38	37	-1.3%
Interest Payment	14	14	0.7%
Loans for Fuel Oil Payment	0	17	100.0%
BDL Guaranteed Loan Payment	0	0	0.0%
Treasury Advance for Fuel Purchase	108	0	0.0%
Treasury Advance for EDL' s Losses	0	0	0.0%
Material and Supplies (Electricity bills)			0.0%
Treasury advance to Water Authorities	48	0	-100.0%
Expropriations	0	0	0.0%

Source: MOF, DGF

Section 4: Public Debt

Highlights:

1. By the end of May 2006, gross public debt reached LL 58,436 billion (equivalent to US\$ 39 billion), registering an increase of LL 405 billion (or 0.7 percent) over the end-December 2005 debt level.
2. Local currency debt amounted to LL 28,452 billion (equivalent to US\$ 19 billion), decreasing by LL 689 billion or 2.36 percent over the end-December 2005 level. This decrease is due to the large amounts 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-May 2006 foreign currency debt amounted to LL 29,984 billion (equivalent to US\$ 20 billion), increasing by LL 1,094 billion (or 3.79 percent) over the end-December 2005 level. This increase is due to the new issuance, during April 2006, of 2 simultaneous Eurobond transactions amounting to €175 million and US\$ 750 million.
4. As of end May 2006, BDL portfolio of Treasury bills continued to decline as appetite for Lebanese Pound denominated T-bills continued to be strong, especially by commercial banks. Accordingly, local currency debt held by BDL decreased by LL 3,383 billion up till May 2006 compared to end of December 2005. Meanwhile, local currency debt held by commercial banks increased by LL 2,382 billion up till the month of May 2006. This led to the 9.72 percent increase in gross market debt.
5. Public sector deposits amounted to LL 5,365 billion, decreasing by around LL 225 billion from their December 2005 level. The main reason behind the decrease is the repayment of the local currency debt that matured in March and April 2006.

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

Assumes full LBP Replacement	Dec-03	Dec-04	Dec-05	May-06	Change Dec 05 - May 06	% change Dec 05 - May 06
Gross Public debt	50,285	54,048	58,031	58,436	405	0.70%
Local currency debt	26,843	26,371	29,141	28,452	-689	-2.36%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	8,938	10,652	11,686	8,303	-3,383	-28.95%
b. Commercial Banks	12,303	12,220	14,130	16,512	2,382	16.86%
c. Other Local Currency Debt (T-bills)	5,603	3,500	3,325	3,637	312	9.38%
<i>o/w Public entities</i>	<i>2,564</i>	<i>2,187</i>	<i>2,446</i>	<i>2,777</i>	<i>331</i>	<i>13.53%</i>
Foreign currency debt	23,442	27,677	28,890	29,984	1,094	3.79%
Ratio to total debt	46.6%	51.2%	49.8%	51.3%		
a. Bilateral, Multilateral and Foreign Private sector loans	2,934	2,970	2,835	2,834	-1	-0.04%
b. Paris II related debt (Eurobonds and Loans)	3,731	3,814	3,682	3,760	78	2.12%
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	19,749	1,020	5.45%
e. Accrued Interest on foreign currency debt	327	388	406	403	-3	-0.71%
f. Special Tbls in Foreign currency**			419	419	0	0.00%
Public sector deposits	3,019	4,360	5,590	5,365	-225	-4.03%
Net debt	47,266	49,688	52,441	53,071	630	1.20%
Gross Market debt***	29,638	31,861	34,759	38,139	3,380	9.72%
% of total debt	59%	59%	60%	65%	0	8.96%

Source: Ministry of Finance, Banque du Liban

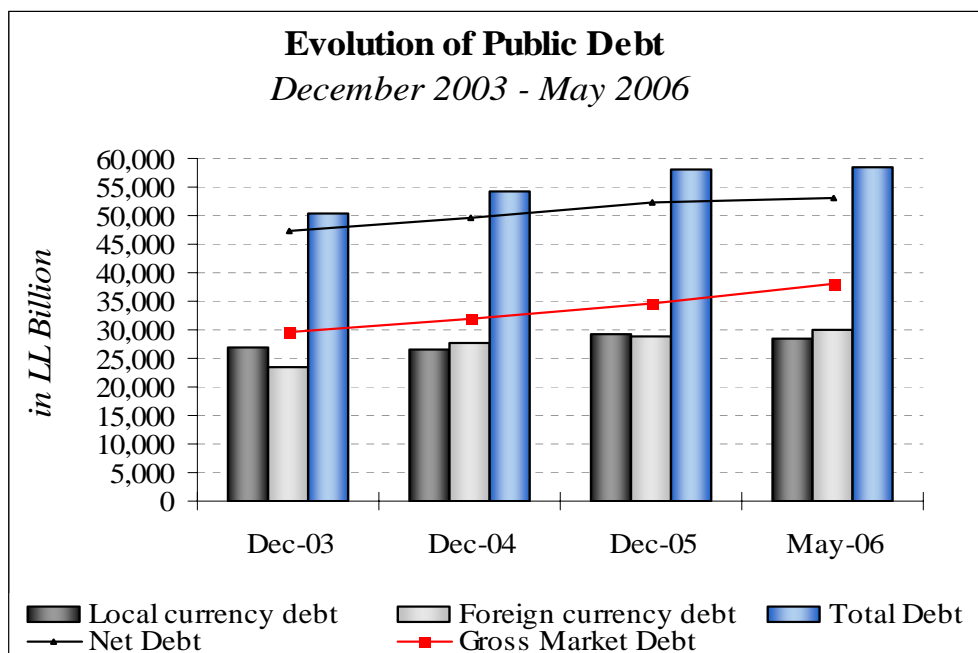
Notes:

* 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 Tbls 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.

Chart 5.





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