



Public Finance Monitor

The Monthly Statistical Bulletin of the Ministry of Finance

May 2007

Section 1: Fiscal Overview

The total fiscal balance registered a deterioration of LL 754 billion for the period of January – May 2007, scoring a deficit of LL 1,274 billion when compared to the same period last year, scoring LL 521 billion. The increase in the total deficit occurred from 24 percent increase in total payments offsetting the 7 percent increase in total receipts. At the same time, the total primary surplus for January-May 2007 decreased by 37 percent recording a total surplus of LL 780 billion when compared to LL 1,230 billion for the same period of 2006.

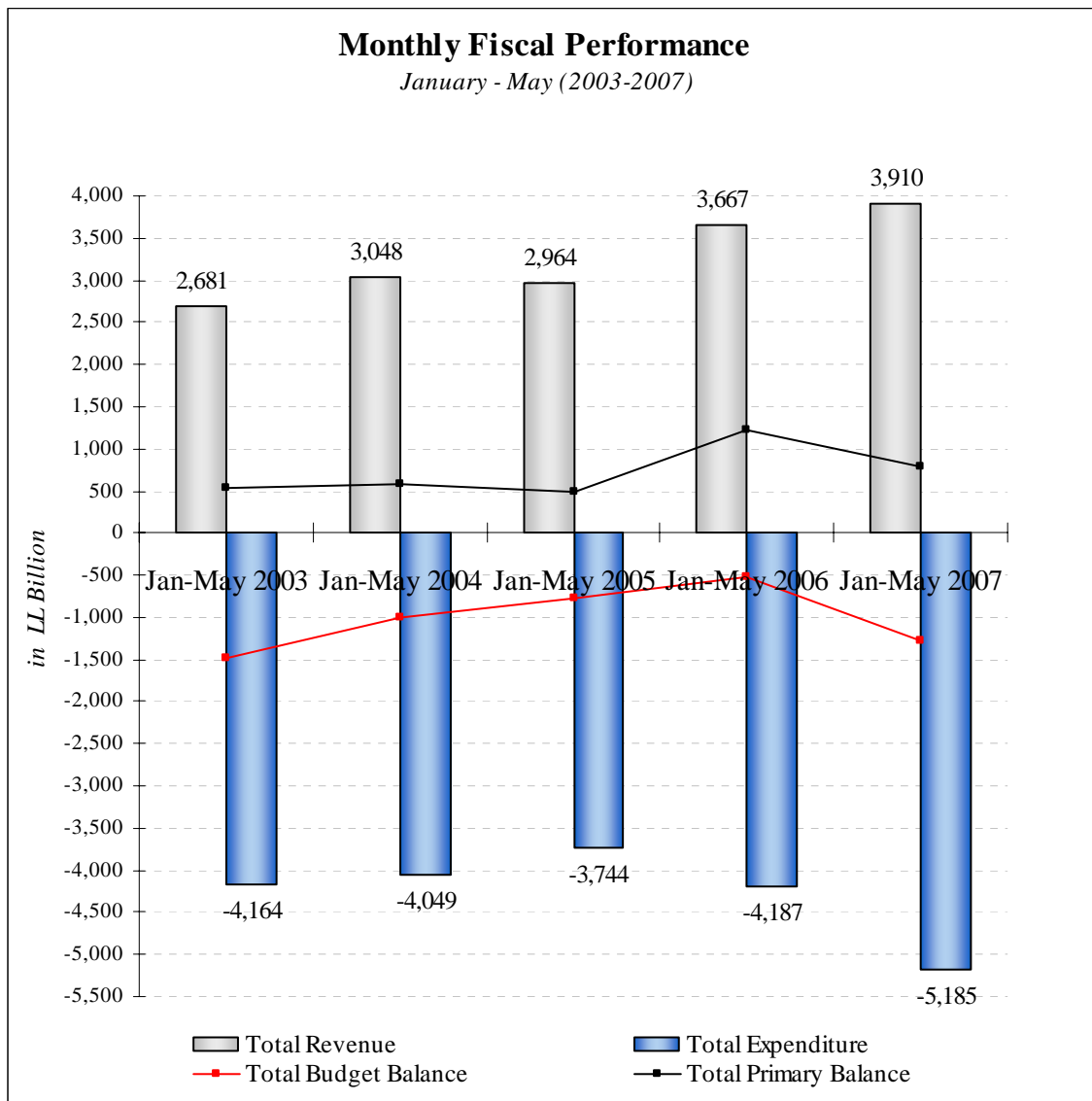
During the month of May 2007, the total fiscal balance registered a deficit of LL 173 billion when compared to a surplus of LL 62 billion registered in May 2006. This resulted from an increase in total payments by LL 233 billion while total receipts registered a decrease of LL 2 billion. As a result, the total primary surplus dropped from LL 450 billion in May 2006 to LL 282 billion in May 2007.

Table 1. Summary of Fiscal Performance

(LL billion)	2006	2007	2006	2007	Change	%
	May	May	Jan-May	Jan-May	2006-2007	Change
Budget Revenue	865	856	3,505	3,567	62	1.8%
Budget Expenditures	771	898	3,726	4,323	597	16.0%
<i>o/w Previous Years Appropriations</i>	4	4	482	548	66	13.7%
<i>o/w Debt Service</i>	389	455	1,751	2,054	304	17.3%
Budget Deficit/Surplus	93	-42	-221	-756	-535	242.2%
in % of Budget Expenditures	12.1%	-4.7%	-5.9%	-17.5%		
Budget Primary Deficit/Surplus	482	413	1,530	1,298	-232	-15.1%
in % of Budget Expenditures	62.5%	46.0%	41.1%	30.0%		
Treasury Receipts	28	35	162	344	182	112.7%
Treasury Payments	60	166	461	862	400	86.8%
Total Budget and Treasury Receipts	893	891	3,667	3,910	244	6.7%
Total Budget and Treasury Payments	831	1,064	4,187	5,185	998	23.8%
Total Cash Deficit/Surplus	62	-173	-521	-1,274	-754	144.8%
in % of Total Expenditures	7.4%	-16.2%	-12.4%	-24.6%		
Primary Deficit/Surplus	450	282	1,230	780	-450	-36.6%
in % of Total Expenditures	54.2%	26.5%	29.4%	15.0%		

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

Chart 1.



Section 2: Revenue Outcome

During the first five months, an enhancement of 6.7% was registered in total revenues (inclusive of grants), collecting LL 3,910 billion compared to LL 3,667 billion during the same period of 2006.

a) Detailing the **budget revenues** shows that the 2 percent increase is due to the non tax revenues while the tax revenues registered a decline:

❖ **Tax revenues** totaled LL 2,531 billion for January-May 2007 compared to LL 2,566 billion collected during the equivalent period last year. The first five months of the year witnessed an enhancement in the collection of (i) **Taxes on income, profits, and capital gains** by around 1 percent¹ (arising mainly from 7,20 and 13 percent higher revenues from the withheld tax on wages and salaries, tax on capital gains and the 5% tax on interest income respectively); (ii) **Domestic taxes on goods and services** (*excluding excises*) by around 8 percent (namely 9 percent higher VAT) and (iii) **Taxes on international trade** by 13 percent (of which LL 17 billion from customs and LL 46 billion from excise taxes mainly fuel excise). On the **property tax** front, the 18 percent rise in revenues from the recurrent tax was offset by 9 percent decline in property registration fees.² Revenues from **fiscal stamp** fees decreased by 12 percent when compared to last year.

❖ **Non tax revenues** totaled LL 1,036 billion compared to LL 939 billion in 2006 registering an increase of 10 percent owing mainly to 22 percent higher income from **Public Institutions and Government Properties**; attributed largely to the one off transfer of LL 113 billion from Banque Du Liban in March 2007, and to a lesser extent the higher collection from Casino du Liban³ by 38 percent, and the 25 percent higher Property Income (namely rent of Rafic Hariri International Airport).⁴ This came despite an almost stabilization of the transfer from the budget surplus of the telecommunications⁵, and a 20 percent decrease in **Administrative fees and charges** (collection from passport fees were reduced by 14 percent and that from vehicle control or road usage fees by 27 percent⁶).

b) **Treasury Receipts** were up by about 113 percent when compared to last year, due to a LL 151 billion received as grant from Saudi Arabia during April 2007.

¹ Please note that the 8 percent decrease in the line item "Income Tax on Profits" arises from a 12 percent year on year decline in collection during the month of May and could be due to the decision of the Minister that extended the income tax on profit filing and declaration deadline for Corporations till the 15th of June.

² A year on year comparison of inheritance tax revenues is misleading because of the one-off exceptional inheritance tax receipt of LL 153 billion in April 2006.

³ As per the Government economic reform program presented at Paris III, and as per the government's aim at revenue enhancement, and particularly from public properties, a new phase of the agreement with Casino Management entered into effect, whereby Treasury's share of casino revenues increased from 30% to 40% as of 2007.

⁴ The 22% increase in income government properties is also due to the Treasury receiving LL 30 billion in January 2007 pertaining to 2006 Port surpluses.

⁵ Please note that an amount equivalent to \$ 92.5 million of arbitration settlement was paid to France Telecom in April 2007.

⁶ Please note that the higher collection of vehicle control or road usage fees in 2006 may be attributed to the amnesty on penalties on unsettled dues, as per Article 29 of Budget Law 2005 (Law 715, February 3rd, 2006).

Further note that an amount equivalent to LL 30 billion was reported under "other Treasury revenues" which represents an adjustment entry regularizing a treasury advance payment.⁷

Table 2. Total Revenue

(LL billion)	2006	2007	2006	2007	%
	May	May	Jan-May	Jan-May	Change
Budget Revenues, of which:	865	856	3,505	3,567	1.8%
<i>Tax Revenues</i>	683	653	2,566	2,531	-1.4%
<i>Non-Tax Revenues</i>	182	203	939	1,036	10.3%
Treasury Receipts	28	35	162	344	112.7%
Total Revenues	893	891	3,667	3,910	6.7%

Source: MOF, DGF

Table 3. Tax Revenue

(LL billion)	2006	2007	2006	2007	%
	May	May	Jan-May	Jan-May	Change
Tax Revenues:	683	653	2,566	2,531	-1.4%
Taxes on Income, Profits, & Capital Gains, of which:	381	362	737	743	0.8%
<i>Income Tax on Profits</i>	308	274	397	365	-7.9%
<i>Income Tax on Wages and Salaries</i>	2	2	103	111	7.3%
<i>Income Tax on Capital Gains & Dividends</i>	28	40	61	74	20.1%
<i>Tax on Interest Income (5%)</i>	42	45	167	189	13.2%
<i>Penalties on Income Tax</i>	1	1	7	4	-40.9%
Taxes on Property, of which:	39	42	361	207	-42.7%
<i>Built Property Tax</i>	7	8	57	67	18.3%
<i>Real Estate Registration Fees</i>	28	29	128	116	-8.9%
Domestic Taxes on Goods & Services, of which:	142	140	863	929	7.6%
<i>Value Added Tax</i>	124	121	774	846	9.2%
<i>Other Taxes on Goods and Services, of which:</i>	18	19	81	80	-1.6%
<i>Private Car Registration Fees</i>	12	13	52	49	-4.6%
<i>Passenger Departure Tax</i>	5	6	28	30	5.1%
Taxes on International Trade, of which:	95	88	476	539	13.2%
<i>Customs</i>	52	47	206	223	8.2%
<i>Excises, of which:</i>	43	42	270	316	17.1%
<i>Petroleum Tax</i>	2	5	90	138	54.6%
<i>Tobacco Tax</i>	19	13	77	80	4.2%
<i>Tax on Cars</i>	21	23	102	96	-6.0%
Other Tax Revenues (namely fiscal stamp fees)	25	21	128	112	-12.3%

Source: MOF, DGF

⁷ Note that the amount is further recorded in treasury expenditure reported under the items "Materials and Supplies" and "Various Transfers" (Please refer to section 3: Expenditure Outcome). Therefore, from a fiscal deficit perspective it has no impact.

Chart 2.

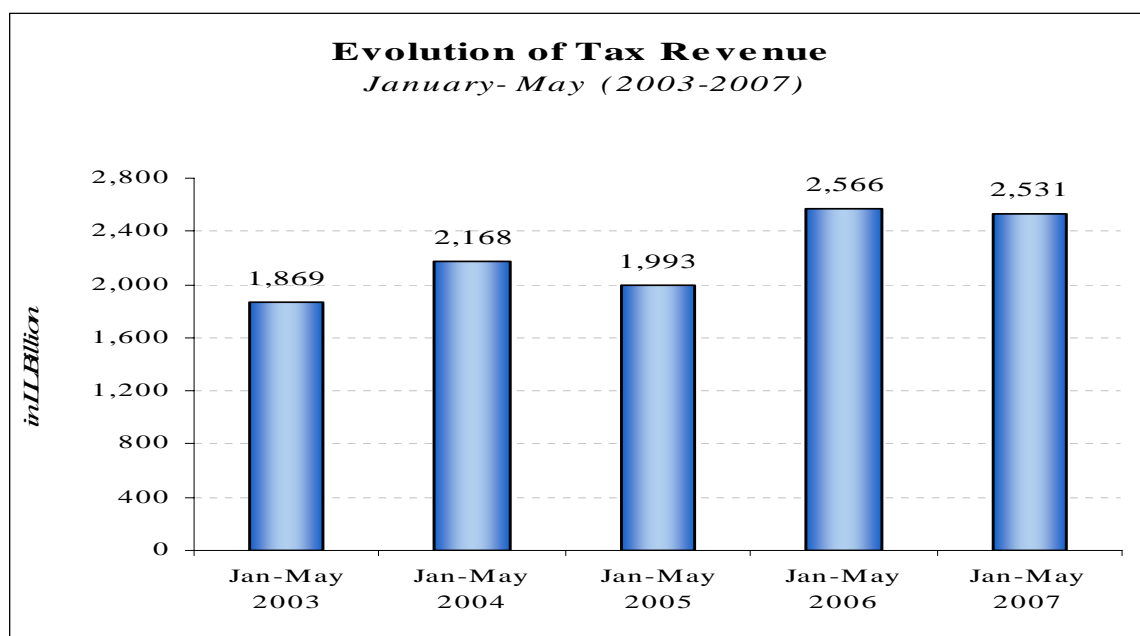
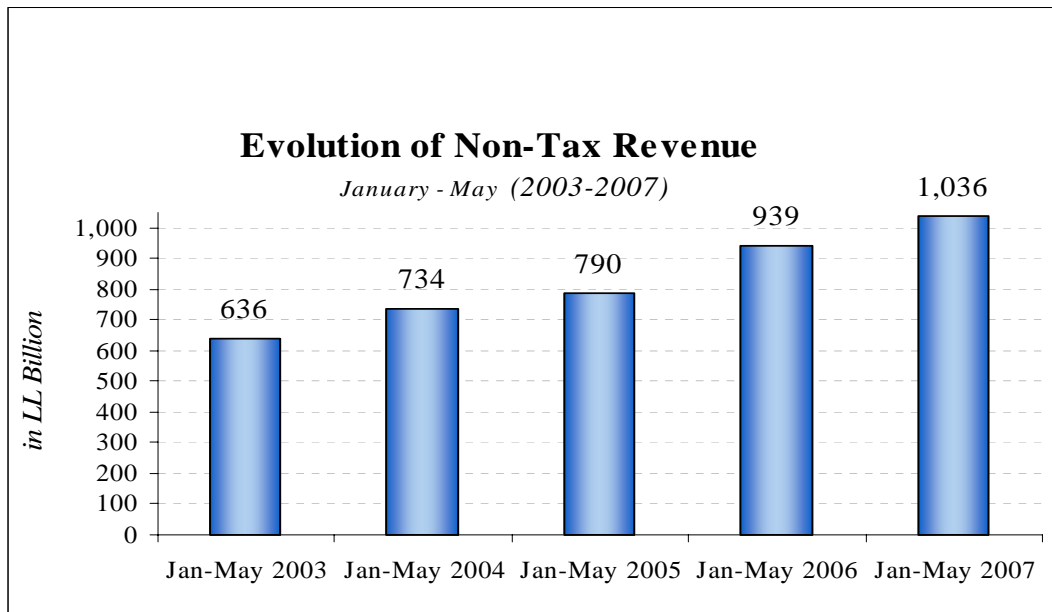


Table 4. Non-Tax Revenue

(LL billion)	2006 May	2007 May	2006 Jan-May	2007 Jan-May	% Change
Non-Tax Revenues	182	203	939	1,036	10.3%
Income from Public Institutions and Government Properties, of which:	118	159	686	834	21.6%
Income from Non-Financial Public Enterprises, of which:	115	156	669	700	4.7%
<i>Revenues from Casino Du Liban</i>	4	5	17	23	38.4%
<i>Revenues from Port of Beirut</i>	0	0	0	30	-
<i>Budget Surplus of National Lottery</i>	14	8	36	28	-22.2%
<i>Transfer from the Telecom Surplus</i>	96	143	616	619	0.6%
Property Income (namely rent of Rafic Hariri International Airport)	3	3	15	19	24.5%
Other Income from Public Institutions (interests)	0	0	2	2	-7.0%
Administrative Fees & Charges, of which:	56	37	211	168	-20.2%
Administrative Fees, of which:	41	31	167	135	-19.0%
<i>Notary Fees</i>	2	2	8	8	3.8%
<i>Passport Fees/ Public Security</i>	10	11	49	42	-14.3%
<i>Vehicle Control Fees</i>	22	13	84	62	-26.9%
<i>Judicial Fees</i>	2	2	9	8	-10.1%
<i>Driving License Fees</i>	3	1	10	7	-29.0%
Administrative Charges	1	1	8	10	24.5%
Sales (Official Gazette and License Number)	0	0	1	1	-10.2%
Permit Fees (mostly work permit fees)	8	4	27	18	-32.3%
Other Administrative Fees & Charges	6	1	8	4	-50.8%
Penalties & Confiscations	0	0	2	2	11.6%
Other Non-Tax Revenues (mostly retirement deductibles)	7	6	40	32	-20.8%

Source: MOF, DGF

Chart 3.



Section 3: Expenditure Outcome

Total expenditures registered an amount of LL 5,185 billion in January-May 2007, increasing by 24 percent compared to LL 4,187 billion for the same period of 2006. Both interest and non-interest expenditures rose by LL 304 billion and LL 694 billion respectively as explained below:

1. Debt service registered a total of LL 2,054 billion in January-May 2007 increasing by 17 percent compared to LL 1,751 billion for the same period of 2006. This rise was due to higher interest payments in both local and foreign currency debt by around 24 and 11 percent respectively. The main reason behind the increase in interest payment on local currency debt is attributed to higher coupon payments resulting from an increase in the stock of long term T-bills. The increase in interest payment on foreign currency debt was due to an increase in stock of Eurobonds during the period August - December 2006 and hence higher Eurobonds coupon payments.

2. Non-interest expenditures increased by 29 percent to reach LL 3,130 billion in January-May 2007, compared to LL 2,437 billion for the same period of 2006. This rise is due to an increase in two out of the three components of this item: current primary budget expenditures, and other treasury expenditures, as follows:

a. **Current primary budget expenditures** increased by LL 352 billion, scoring a total of LL 2,100 billion in January-May 2007 when compared to LL 1,748 billion for the same period of 2006, mainly due to the following:

i. A LL 151 billion increase in "wages and salaries", mainly to the armed forces. In fact, salaries and wages of the armed forces rose by LL 46 billion, mainly due to the new recruitment that took place in the last quarter of 2006. Also, an additional salary (bonus) of LL 47 billion was paid to the armed forces as per the decision taken by the Council of Ministers (Cabinet meeting of 04/01/2007). A further increase was generated from the relatively higher payment of health allowances to the armed forces (maternity and sickness, and hospitalization), which rose by LL 22 billion during the period January-May 2007 when compared to the same period of last year. Finally, during January-May 2007, the civil servant cooperatives received a transfer of LL 30 billion, while only LL 10 billion were transferred during the corresponding period of 2006.

ii. An increase in "materials and supplies" by LL 26 billion. It should be noted that of this increase, LL 18 billion resulted from an accounting entry to adjust for payment of treasury advances, and hence it is not considered as an additional spending. This adjustment was netted out by including a similar amount in the revenues.

iii. An increase in "various transfers" of LL 138 billion is mainly due to the increase in transfers to the National Social Security Fund and the Non-profitable organizations by LL 120 billion and LL 8 billion respectively. It should be noted that of this increase, LL 12 billion resulted from an accounting entry to adjust for payment of treasury advances. This adjustment was netted out by including a similar amount in the revenues.

b. **Capital expenditures** decreased by LL 56 billion in January-May 2007 when compared to the same period of 2006. The major driver of this decrease was the lower level of spending reported in "Construction in Progress", mainly for the following reasons:

i. Lower transfer to the Displaced Fund that received only LL 6 billion during the first 5 months of 2007, against LL 45 billion during the same period of 2006.

ii. Lower transfer to the CDR by around LL 26 billion.

It should be noted, however, that a decree was issued (decree # 292 dated 27/04/07) which gives the right to the Council of the South and the Displaced Fund to have a treasury advance of LL 100 billion (LL 40 billion for the former and LL 60 billion for the latter). The disbursement of this advance started in May 2007 with a payment of LL 10 billion to the Council of the South.

For other capital-related spending, a decline was reported in "Other Expenditures Related to Fixed Capital Assets" by LL 25 billion, as no payments were realized during January-May 2007 for Export Plus program while LL 19 billion were paid in the same period of 2006. On the other hand, increases were reported in "Equipment" and "Maintenance" by LL 12 billion and LL 4 billion respectively.

c. Other **treasury expenditures** increased by LL 394 billion for January-May 2007 when compared to the same period of last year, mainly due to the increase in transfers of EDL by LL 470 billion, offsetting the decrease in transfers to municipalities and in treasury advances for diesel oil subsidy by LL 26 billion and LL 50 billion respectively.

Transfers to EDL reached 538 billion LL for the first five months of 2007, compared to 68 billion LL for the same period in 2006. This sharp increase was due to the 416 billion LL of direct payments to the Kuwait Petroleum Corporation (KPC) and Algeria's Sonatrach for fuel oil and gas oil purchases in 2006 and 2007. The contracts with KPC and Sonatrach came into effect in September 2005 and January 2006 respectively. Purchases against these contracts have been made as of these dates, but payments for these purchases have only started in June 2006, as the contracts permit delayed payment.

Table 5. Expenditures by Transaction Classification

(LL billion)	2006	2007	2006	2007	%
	May	May	Jan-May	Jan-May	Change
Total Expenditures	831	1,064	4,187	5,185	23.8%
Budget Expenditures	771	898	3,726	4,323	16.0%
Expenditures Excluding Debt Service, of which:	383	443	1,975	2,269	14.9%
<i>Previous Years' Appropriations</i>	4	4	482	548	13.7%
Debt Service, of which:	389	455	1,751	2,054	17.4%
<i>Domestic Debt</i>	155	221	886	1099	24.1%
<i>Foreign Debt, of which:</i>	233	233	865	955	10.5%
<i>Eurobond Coupon Interest*</i>	218	217	768	843	9.8%
<i>Specialbond Coupon Interest*</i>	-	-	-	-	-
<i>Concessional Loans Principal</i>	-	-	-	-	-
Payments	9	11	55	66	19.1%
<i>Concessional Loans Interest</i>	-	-	-	-	-
Payments	6	5	41	47	12.4%
Treasury Expenditures , of which:	60	166	461	862	86.8%
<i>Municipalities</i>	1	24	103	77	-24.9%
Non-Interest Expenditures (Total Expenditures minus Debt Service)	443	609	2,437	3,130	28.5%

Source: MOF, DGF

* Includes general expenses related to the transaction

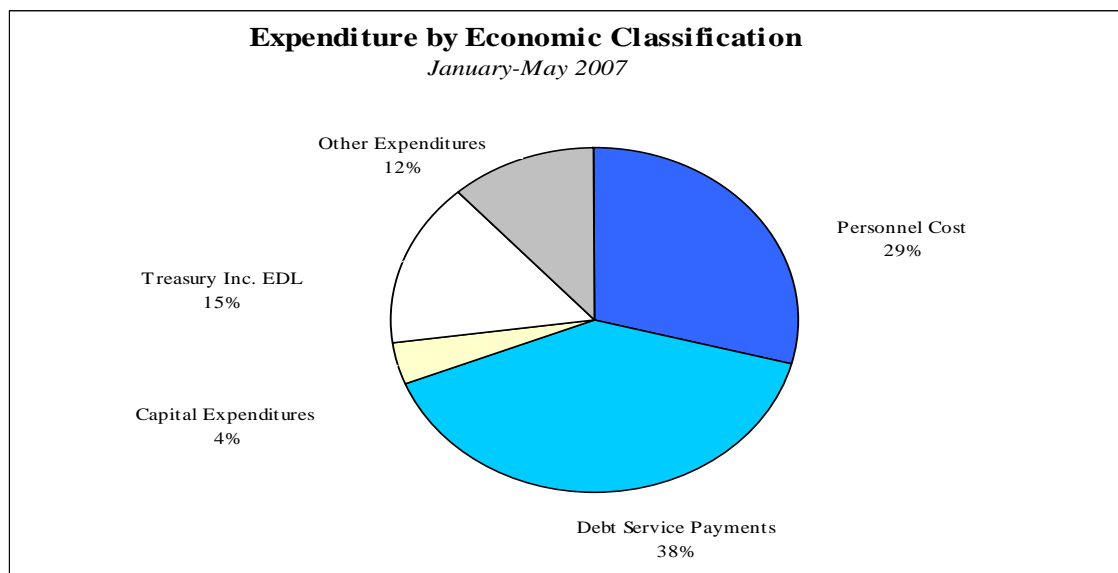
Chart 4.

Table 6. Expenditures by Economic Classification

(LL billion)	2006	2007	% Change
	Jan-May	Jan-May	
1. Current expenditures	3,499	4,154	18.73%
1.a Personnel cost, <i>of which</i>	1,334	1,512	13.32%
<i>Article 13: Salaries and wages</i>	893	1,044	16.88%
<i>Retirement and end of service compensations</i>	361	383	6.11%
1.b Debt Service payments	1,751	2,054	17.34%
1.c Materials and supplies	51	77	50.34%
1.d External services	40	44	9.29%
1.e Various transfers	197	335	69.74%
<i>o/w NSSF</i>	100	220	120.00%
1.f Other current	88	92	4.89%
<i>Hospitals</i>	73	72	-0.38%
<i>Others</i>	14	19	32.11%
1.g Reserves (3)	37	40	7.33%
<i>Interest subsidy</i>	37	40	7.33%
2. Capital expenditures	267	211	-21.10%
2.a Acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks	11	4	-66.69%
2.b Equipment	8	20	142.61%
2.c Construction in Progress	196	136	-30.85%
2.d Maintenance	26	29	13.68%
2.e Other Expenditures Related to Fixed Capital Assets	25	22	-13.27%
3. Other treasury expenditures, of which	408	803	96.54%
Municipalities	103	77	-24.95%
EDL	68	537	694.26%
Transfers to Higher Council of Relief		6	100.00%
Treasury advances for diesel oil subsidy	50	0	-100.00%
4. Unclassified expenditures	1	1	40.93%
5. Customs cashiers	12	16	39.08%
6. Total expenditures (excluding CDR foreign financed)	4,187	5,185	23.84%

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

Table 7. Transfers to EDL

(LBP billion)	2006	2007	% Change
	Jan-May	Jan-May	
EDL of which:	68	538	691%
Debt Service of which:	51	54	6%
C-Loans and Eurobonds, <i>of which:</i>	51	44	-14%
Principal repayments	37	34	-8%
Interest payments	14	10	-29%
BDL guaranteed loan repayments	0	10	
Repayment of oil purchase loans (principal & interest)	17	67	294%
Oil purchase payments (to Sonatrach and KPC)	0	416	

Source: MOF, DGF

Section 4: Public Debt

Highlights:

1. By the end of May 2007, gross public debt reached LL 62,418 billion (equivalent to US\$ 41 billion), registering an increase of LL 1,535 billion (or 2.52 percent) over the end-December 2006 debt level.
2. Local currency debt amounted to LL 31,721 billion (equivalent to US\$ 21 billion), increasing by LL 1,523 billion or 5 percent over the end-December 2006 level.
3. As of end- May 2007, local currency debt held by BDL increased by LL 1,090 billion as compared to end of December 2006. Due to the prevailing political environment, the trend over the last five months saw BDL's portfolio of local currency debt increase in January by LL 437 billion, in February by LL 103 billion, in March by LL 376 billion, in April by LL 13 billion and in May by LL 172 billion
4. Meanwhile, local currency debt held by commercial banks decreased by LL 683 billion as compared to end-December 2006 due to the political environment which has led to a lower level of commercial banks' subscriptions in the T-bills auctions during the first quarter of 2007. The downward trend over the last five months saw the commercial banks' portfolio of local currency fall in January by LL 444 billion, in February by LL 99 billion, in March by LL 107 billion, in April by LL 61 billion. However, their holdings increased slightly in May by LL 70.
5. By end- May 2007 foreign currency debt amounted to LL 30,697 billion (equivalent to US\$ 20 billion), increasing by LL 18 billion (or 0.06 percent) over the end-December 2006 level. In May, the Republic issued a USD 400 million Eurobond at 8.750 yield (in a reopening of Series 39, June 2013- 8.625 Eurobond) and used the proceeds to redeem an equivalent amount of Eurobonds held by the BDL.
6. Public sector deposits amounted to LL 3,672billion, decreasing by approximately LL 772 billion from their December 2006 level.

Table 8. Public Debt Outstanding by Holder as of End-May 2007

Assumes full LBP Replacement	Dec-04	Dec-05	Dec-06	May-07	Change Dec 06 - May 07	% change Dec 06- May 07
Gross Public debt	54,082	57,985	60,883	62,418	1,535	2.52%
Local currency debt	26,371	29,141	30,204	31,721	1,517	5.02%
a. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)*	10,652	11,686	9,588	10,678	1,090	11.37%
b. Commercial Banks	12,220	14,130	16,487	15,804	-683	-4.14%
c. Other Local Currency Debt (T-bills) o/w Public entities	3,500 2,187	3,325 2,446	4,129 3,313	5,239 4,427	1,110 1,114	26.88% 33.63%
Foreign currency debt	27,711	28,844	30,679	30,697	18	0.06%
a. Bilateral, Multilateral and Foreign Private sector loans	3,003	2,789	2,887	2,941	54	1.87%
b. Paris II related debt (Eurobonds and Loans)*****	3,815	3,682	3,721	3,680	-41	-1.10%
c. BDL Eurobond (Paris II)	2,819	2,819	2,819	2,819	0	0.00%
d. Market Eurobonds	17,686	18,729	20,399	20,423	24	0.12%
e. Accrued Interest on foreign currency debt	388	406	434	415	-19	-4.38%
f. Special Tbls in Foreign currency**		419	419	419	0	0.00%
Public sector deposits	4,359	5,590	4,444	3,672	-772	-17.37%
Net debt	49,723	52,395	56,439	58,746	2,307	4.09%
Gross Market debt***	31,861	34,721	38,664	37,980	-684	-1.77%
% of total debt	59%	60%	64%	61%		

Source: Ministry of Finance, Banque du Liban

* 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.

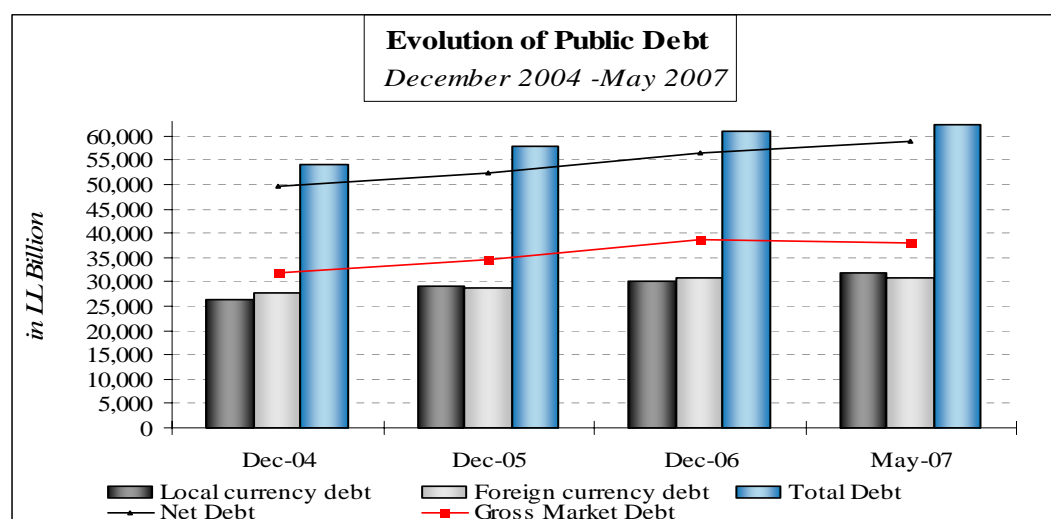
** Special Tbls in Foreign currency (expropriation bonds)

*** Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, and Paris II related debt.

**** Figures of Dec 04 –Jan 06 change because of exchange rate of Euro

***** Paris II related debt (Eurobonds and Loans) declined in February due to payment of principal of 30M EURO

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

