

Fiscal Overview

For the period of January-September 2008, the **total fiscal balance** registered a deficit of LL 3,032 billion compared to a deficit of 2,735 billion for the same period of 2007, resulting from an increase in total payments by LL 1,347 billion, offsetting the increase in total receipts by LL 1,050 billion.

Meanwhile, the **primary balance** of this period registered a surplus of LL 897 billion, scoring an increase of LL 32 billion when compared to the surplus of LL 866 billion realized in the same period of last year, thereby continuing the same trend witnessed during the first eight months of 2008.

Till the end of September 2008, **total revenues** increased by 16 percent due to the increase of **tax revenues** and **treasury receipts** by LL 1,046 billion and LL 53 billion respectively. In fact, most of the **taxes revenues** registered an improvement in collection mainly on account of (i) 32 percent higher **income tax on profits** reflecting an increase in the profits made by the companies that filed their tax returns, as well as (ii) 76 percent increase in **property registration fees**, and (iii) 28 percent rise in **VAT** receipts. On the international trade front, collection of **import duties** increased by 21 percent. At the same time, **excise revenues** were up by only 3 percent mainly due to the near absence of collection of **excise duties on fuel** which offset the 83 percent rise in revenues from **excises on cars**. On the other hand, **non-tax revenues**, witnessed a nearly 3 percent drop in receipts by the end of September 2008, explained by LL 30 billion less transfer of from the **Budget Surplus of the Telecom** till the end of September 2008, the absence of transfer from the **National Lottery** for 8 months in 2008, and zero transfer from the **Port of Beirut**, which more than offset the 171 percent rise in **Casino** receipts¹. By the end of September 2008, **Treasury receipts** were LL 53 billion higher than during the same period of 2007, explained by 28 percent higher revenues from the Independent Municipal Fund, and an amount of LL 53 billion of wheat subsidy refund. Total treasury receipts include LL167.8 billion of grants of which LL165 billion was from the US and LL3 billion from Iraq.

During the period of January-September 2008, **total expenditures** increased by LL 1,347 billion. This rise resulted from increases in current primary expenditures by 7 percent, interest payments by 6 percent, foreign debt principal repayment by 68 percent and treasury expenditures by 46 percent offsetting the decline in capital expenditures by 6 percent. **Current primary expenditures** increased by LL 262 billion mainly due to (a) a LL 67 billion increase in salaries, wages and related items resulting from higher **allowances** by LL 66 billion and transfers to civil servants cooperatives, by LL 14 billion offsetting the LL 21 billion decrease in **basic salaries** that is observed

¹ For further clarification, kindly refer to previously published Public Finance Monitor reports.

due to the bonus salary paid to the armed forces in 2007 which absorbed the impact of the LL 200,000 raise in basic salaries approved by the Council of Ministers and paid as an advance to the civil servants and armed forces until the relative law is issued², (b) a LL 128 billion increase in retirement and end of service compensations mainly due to the resuming of end of service payments to the military after the temporary halt that followed the Nahr el Bared events and to the increase of 100,000LL on the retirement salaries, (c) a LL 129 billion increase in treasury advance to the General Directorate of Cereals and Sugar to subsidize wheat and maintain the price of 1.12 kg of bread capped at LL 1,500, and (d) a LL 88 billion increase in hospitalization bills which offset the LL 180 billion lower transfers to NSSF. **Interest payments** were up by LL 215 billion; both payments on domestic debt and payments on foreign debt registered an increase of LL 158 billion and LL 57 billion respectively. Also, foreign debt principal payment increased by LL 114 billion³. The increase in **treasury expenditures** by LL 781 billion is mostly due to higher payments to/on behalf of EDL by LL 551 billion as well as additional payments to municipalities by LL 93 billion, diesel oil subsidy by LL 19 billion and other treasury expenditures by LL 121 billion. The main increase in this last item comes mainly from the increase in VAT refunds, treasury advances⁴ and budget advances by LL 56 billion, LL 10 billion and LL 26 billion respectively.

By the end of September 2008, gross public debt reached LL 68,811 billion, registering an increase of LL 5,447 billion (8.60 percent) since the end-December 2007 debt level. As in previous months, most of this increase came from commercial banks increasing their LL Treasury Bills portfolio by LL 5,364 billion compared to December 2007, as well as the increase of the public sector deposits of LL 2,684 billion offsetting the decrease of the BDL portfolio and Paris II related debt (Eurobonds and loans) by LL 482 billion and LL 393 billion respectively.

Table 1. Summary of Fiscal Performance

(LL billion)	2006	2007	2008	2006	2007	2008
	September	September	September	Jan-Sep	Jan-Sep	Jan-Sep
Total Budget and Treasury Receipts	355	582	836	5,408	6,563	7,613
Total Budget and Treasury Payments, of which:	1,040	990	1,318	8,380	9,298	10,645
Interest Payments	340	406	491	3,018	3,432	3,648
Concessional Loans Principal Payments 1/	40	50	40	144	168	282
Primary Expenditures 2/	661	533	787	5,217	5,697	6,715
Total Cash Deficit/Surplus	-686	-408	-482	-2,971	-2,735	-3,032
Primary Deficit/Surplus	-306	48	49	191	866	897

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)

² The increase of LL 40 billion in basic salaries in September 2008 compared to August 2008 is mainly due to the payment of the LL200,000 raise in advance.

³ For more information, please refer to PFM July 2008.

⁴ For a detailed explanation of other treasury expenditures, please refer to the July 2008 PFM.

Section 2: Revenue Outcome

Table 2. Total Revenue

(LL billion)	2006	2007	2008	2006	2007	2008
	September	September	September	Jan-Sep	Jan-Sep	Jan-Sep
Budget Revenues, of which:	334	526	804	5,072	6,037	7,034
<i>Tax Revenues</i>	292	357	483	3,651	4,165	5,211
<i>Non-Tax Revenues</i>	42	168	321	1,421	1,872	1,823
Treasury Receipts	20	56	32	336	526	579
Total Revenues	355	582	836	5,408	6,563	7,613

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

Table 3. Tax Revenue

(LL billion)	2006	2007	2008	2006	2007	2008
	September	September	September	Jan-Sep	Jan-Sep	Jan-Sep
Tax Revenues	292	357	483	3,651	4,165	5,211
Taxes on Income, Profits, & Capital Gains, of which:	41	52	51	983	1,055	1,298
<i>Income Tax on Profits</i>	5	13	7	426	453	599
<i>Income Tax on Wages and Salaries</i>	4	3	4	154	162	201
<i>Income Tax on Capital Gains & Dividends</i>	2	5	5	89	119	133
<i>Tax on Interest Income (5%)</i>	30	29	35	301	313	354
<i>Penalties on Income Tax</i>	0	2	1	10	7	10
Taxes on Property, of which:	25	39	69	465	357	555
<i>Built Property Tax</i>	4	8	7	72	86	89
<i>Real Estate Registration Fees</i>	17	28	59	202	233	410
Domestic Taxes on Goods & Services, of which:	127	147	197	1,307	1,614	2,071
<i>Value Added Tax</i>	115	124	168	1,164	1,453	1,861
<i>Other Taxes on Goods and Services, of which:</i>	10	23	28	132	155	204
<i>Private Car Registration Fees</i>	6	11	18	82	95	140
<i>Passenger Departure Tax</i>	4	11	10	49	60	63
Taxes on International Trade, of which:	81	101	140	700	938	1,038
<i>Customs</i>	34	45	62	320	409	495
<i>Excises, of which:</i>	47	56	77	379	529	543
<i>Petroleum Tax</i>	20	14	0	110	172	5
<i>Tobacco Tax</i>	13	15	19	109	158	175
<i>Tax on Cars</i>	14	26	58	158	197	359
Other Tax Revenues (Namely Fiscal Stamp Fees)	18	18	27	197	201	248

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

Table 4. Non-Tax Revenue

(LL billion)	2006	2007	2008	2006	2007	2008
	September	September	September	Jan-Sep	Jan-Sep	Jan-Sep
Non-Tax Revenues	42	168	321	1,421	1,872	1,823
Income from Public Institutions and Government Properties, of which:	4	129	277	1,029	1,503	1,415
Income from Non-Financial Public Enterprises, of which:	2	127	275	1,004	1,357	1,336
<i>Revenues from Casino Du Liban</i>	2	7	11	29	45	123
<i>Revenues from Port of Beirut</i>	0	0	0	0	30	0
<i>Budget Surplus of National Lottery</i>	0	4	0	47	44	5
<i>Transfer from the Telecom Surplus</i>	0	115	263	927	1,237	1,207
Property Income (Namely Rent of Rafic Hariri International Airport)	2	2	2	21	29	32
Other Income from Public Institutions (Interests)	0	1	0	4	4	7
Administrative Fees & Charges, of which:	29	30	36	322	305	331
Administrative Fees, of which:	23	25	31	260	245	270
<i>Notary Fees</i>	1	2	2	13	15	17
<i>Passport Fees/ Public Security</i>	8	9	9	92	88	91
<i>Vehicle Control Fees</i>	9	10	13	112	100	113
<i>Judicial Fees</i>	1	1	2	14	14	16
<i>Driving License Fees</i>	2	1	2	17	12	14
Administrative Charges	0	1	0	10	13	13
Sales (Official Gazette and License Number)	0	0	0	2	2	2
Permit Fees (Mostly Work Permit Fees)	5	4	4	41	36	39
Other Administrative Fees & Charges	1	1	1	10	9	6
Penalties & Confiscations	0	0	1	3	4	4
Other Non-Tax Revenues (Mostly Retirement Deductibles)	9	9	7	67	60	73

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

Section 3: Expenditure Outcome

Table 5. Expenditure by Economic Classification

(LL billion)	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep
1. Current Expenditures	6,284	7,182	7,773
1.a Personnel Cost, of which:	2,378	2,678	2,859
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	1,545	1,849	1,916
<i>Retirement and End of Service Compensations, of which:</i>	686	668	796
<i>Retirement</i>	553	582	626
<i>End of Service</i>	133	87	170
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	148	161	147
1.b Interest Payments, of which: 3/	3,018	3,432	3,647
<i>Domestic Interest Payments</i>	1,656	1,965	2,123
<i>Foreign Interest Payments</i>	1,362	1,467	1,524
1.c Foreign Debt Principal Repayment	144	168	282
1.d Materials and Supplies, of which:	87	163	165
<i>Nutrition</i>	12	21	33
<i>Fuel Oil</i>	11	24	31
<i>Medicaments</i>	42	56	48
<i>Accounting Adjustments for Treasury</i>	6	36	31
1.e External Services	64	71	85
1.f Various Transfers, of which:	350	458	433
<i>NSSF</i>	150	220	40
<i>Treasury Advance for Wheat Subsidy</i>	0	13	142
1.g Other Current, of which:	182	152	242
<i>Hospitals</i>	159	122	210
<i>Others</i>	23	27	30
1.h Reserves	59	61	61
<i>Interest subsidy</i>	59	61	61
2. Capital Expenditures	387	401	378
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	11	16	7
2.b Equipment	15	32	26
2.c Construction in Progress, of which:	298	291	258
<i>Displaced Fund</i>	55	41	30
<i>Council of the South</i>	30	30	20
<i>CDR</i>	177	164	159
<i>Ministry of Public Work and Transport</i>	17	30	24
<i>Other</i>	19	26	26
2.d Maintenance	34	38	52
2.e Other Expenditures Related to Fixed Capital Assets	29	23	35
3. Other Treasury Expenditures	1,682	1,681	2,462
Municipalities	337	194	287
Guarantees	81	37	44
Deposits	35	66	57
Other, of which:	283	244	366
<i>VAT Refund</i>	86	132	188
<i>Higher Council of Relief</i>	98	16	9
EDL 4/	895	1,139	1,690
Treasury Advances for Diesel Oil Subsidy	52	0	19
4. Unclassified Expenditures	1	4	2
5. Customs Cashiers	22	30	29
6. Total Expenditures (Excluding CDR Foreign Financed)	8,377	9,298	10,645

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

1/ For a detailed breakdown of salaries and wages, and related items, otherwise referred to as Article 13 in the Lebanese Budgets, kindly refer to table 6.

2/ For a detailed breakdown of those transfers, kindly refer to table 7.

3/ For a detailed breakdown of interest payments, kindly refer to table 8.

4/ For a detailed breakdown of transfers to EDL, kindly refer to table 9.

Table 6. Breakdown of Article 13: Salaries, Wages and Related Items

(LL billion)	Basic Salaries		Allowances		Other		Total	
	2007	2008	2007	2008	2007	2008	2007	2008
	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep
Military Personnel	805	783	206	285	50	50	1,061	1,117
Army	531	509	119	148	32	32	682	689
Internal Security Forces	219	221	72	117	13	13	305	351
General Security Forces	41	40	11	14	3	3	55	57
State Security Forces	14	13	5	5	2	2	20	20
Education Personnel	378	376	0	0	37	33	416	409
Civil Personnel, of which:	166	169	2	2	192	202	360	373
<i>Employees Cooperative</i>					130	144		
Customs Salaries							12	15
Total	1,349	1,328	208	287	279	285	1,849	1,916

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

Table 7. Breakdown of Transfers to Public Institutions for the Coverage of Salaries

(LL billion)	2006	2007	2008
	Jan-Sep	Jan-Sep	Jan-Sep
Transfer to Council of the South	4	4	5
Transfer to Council for Development and Reconstruction (CDR)	18	27	17
Transfer to the Displaced Fund	4	5	4
Transfer to the Lebanese University	113	119	115
Transfer to the Educational Center for Research and Development	10	7	7

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

Table 8. Details of Debt Service Transactions

(LL billion)	2006	2007	2008	2006	2007	2008
	September	September	September	Jan-Sep	Jan-Sep	Jan-Sep
Interest Payments 1/	340	406	491	3018	3432	3647
<i>Local Currency Debt</i>	170	235	257	1,656	1,965	2,123
<i>Foreign Currency Debt, of which:</i>	170	171	234	1,362	1,467	1,524
<i>Eurobond Coupon Interest*</i>	163	160	228	1,263	1,357	1,410
<i>Special bond Coupon Interest*</i>	0	0	0	13	13	8
<i>Concessional Loans Interest</i>	7	11	6	86	98	107
<i>Payments</i>						
Concessional Loans Principal	40	50	40	144	168	282
Payments						

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

Table 9. Transfers to EDL

(LL billion)	2006	2007	2008	Change
	Jan-Sep	Jan-Sep	Jan-Sep	
EDL of which:	895	1,139	1,690	551
Debt Service of which:	219	275	128	-148
<i>C-Loans and Eurobonds, of which:</i>	219	266	103	-163
<i>Principal Repayments</i>	175	230	83	-147
<i>Interest Payments</i>	44	36	20	-16
<i>BDL Guaranteed Loan Payments</i>	0	10	25	15
Repayment of Loans for Fuel Oil and Gas Oil Purchase (Principal and Interest)	17	67	0	-67
Reimbursement of KPC and Sonatrach Agreements	474	797	1,562	766
Repayment of Oil Supplier Arrears	185	0	0	0

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

Section 4: Public Debt

Table 10. Public Debt Outstanding by Holder as of End-Sept 08

(LL billion)	Dec-06	Dec-07	Sep-08	Change Dec 07 - Sep 08	% Change Dec 07- Sept 08
Gross Public Debt	60,851	63,364	68,811	5,447	8.60%
Local Currency Debt	30,204	31,373	36,555	5,182	16.52%
a. Central Bank (Including REPOs and Loans to EDL to Finance Fuel Purchases) ⁽¹⁾	9,588	9,052	8,570	-482	-5.32%
b. Commercial Banks	16,487	16,847	22,211	5,364	31.84%
c. Other Local Currency Debt (T-bills), of which:	4,129	5,474	5,774	300	5.48%
<i>Public Entities</i>	3,313	4,796	4,913	117	2.44%
* <i>Accrued Interest Included in Debt</i>	685	754	850	96	12.73%
Foreign Currency Debt ⁽²⁾	30,647	31,991	32,256	265	0.83%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,855	2,963	2,864	-99	-3.33%
b. Paris II Related Debt (Eurobonds and Loans) ⁽³⁾	6,540	6,063	5,670	-393	-6.48%
c. Paris III Related Debt (Eurobonds and Loans) ⁽⁴⁾		1,357	1,797	441	32.47%
d. Market-Issued Eurobonds	20,399	20,780	20,950	171	0.82%
e. <i>Accrued Interest on Eurobonds</i>	434	410	555	145	35.37%
f. Special T-bills in Foreign Currency ⁽⁵⁾	419	419	419	0	0.00%
Public Sector Deposits	4,444	4,527	7,211	2,684	59.29%
Net Debt	56,407	58,837	61,600	2,763	4.70%
Gross Market Debt ⁽⁶⁾	38,670	39,221	45,052	5,832	14.87%
% of Total Debt	64%	62%	65%		

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 07 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 of USD 1,870 billion originally issued to BDL in the context of the Paris II conference.

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

⁽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.