REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

August 2015

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General Overview

Public finances weakened in the first eight months of 2015 as revenues dropped by LL 962 billion after having surged in the same period of 2014 owing to one-off transfers and collections of arrears. This drop in revenues overshadowed a LL 463 billion decrease in expenditures over the same period. As a result, the **total fiscal balance** recorded a deficit of LL 2,998 billion in Jan-Aug 2015 widening by LL 499 billion year-on-year, while the primary surplus declined to LL 1,197 billion, from LL 1,434 billion in 2014.

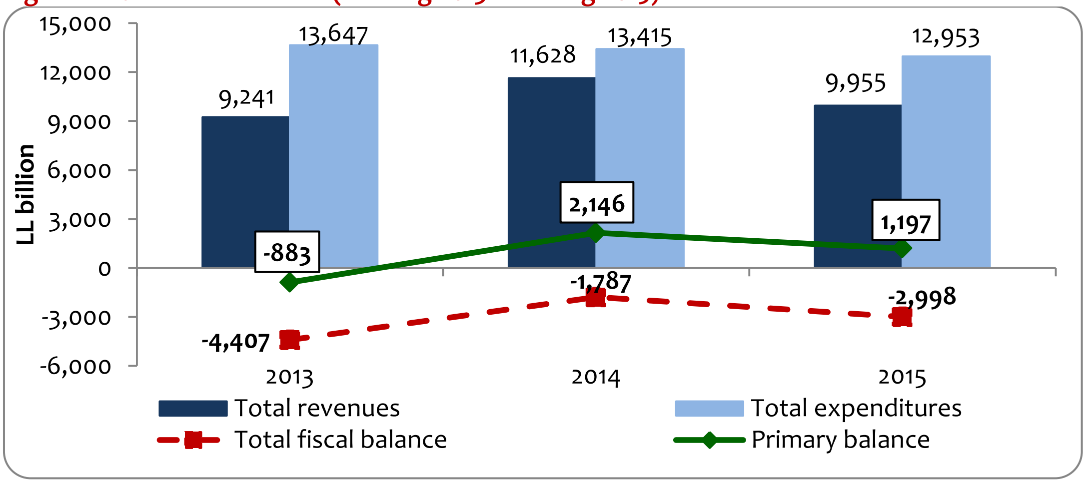
Table 1: Summary of Fiscal Performance

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
Total Budget and Treasury Receipts[1]	**10,917**	**9,955**	**-8.8%**
Total Budget and Treasury Payments, *of which*	**13,415**	**12,953**	**-3.5%**
•*Interest Payments*	*3,750*	*3,987*	*6.3%*
•*Concessional loans principal payment*[2]	*183*	*207*	*13.4%*
•*Primary Expenditures*[3]	*9,483*	*8,758*	*-7.6%*
Total (Deficit)/Surplus	**(2,499)**	**(2,998)**	**20.0%**
Primary (Deficit)/Surplus	**1,434**	**1,197**	**-16.5%**

Source: Ministry of Finance, Directorate General of Finance
[1] *Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.*
[2] *Includes only Principal repayments of concessional loans earmarked for project financing*
[3] *Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)*

On a **cash basis** - i.e. after omitting Telecom transfers that were calculated on an accrual basis (LL 1,268 billion) from the fiscal results of Jan-Aug 2014, and including the period's actual transfers (LL 1,980 billion), the change in the total deficit shows a larger increase of 68 percent year-on-year by end-August 2015. Likewise, primary balance calculations show a smaller surplus of LL 1,197 billion in Jan-Aug 2015, compared to a surplus of LL 2,146 billion in the same period of 2014.

Figure 1: Total Fiscal Balance (Jan-Aug 2013 - Jan-Aug 2015) – Cash basis[1/]



Source: Ministry of Finance, Directorate General of Finance
[1/] On a cash basis, transfers from the Telecom Surplus were LL 754 billion in Jan-Aug 2013, LL 1,980 billion during Jan-Aug 2014 and LL 1,140 billion in Jan-Aug 2015.

Revenues

Total revenues[1] piled up to LL 9,955 billion in the first eight months of 2015, compared to LL 10,917 billion during the same period of 2014, registering a LL 962 billion (9 percent) decrease year-on-year. On a cash basis, total revenues dropped by LL 1,673 billion (14 percent) in Jan-Aug 2015, as transfers from the Telecom Surplus were down by LL 840 billion.

Tax revenues declined by LL 10 billion by end-August 2015, amounting to LL 7,401 billion in the first eight months of 2015. This was mainly the result of decreases in:

(i) value-added tax (VAT) (-LL 110 billion), as VAT at customs decreased by LL 138 billion (10 percent) driven most importantly by a 31 percent decline in the value of gasoline imports over the period;

(ii) real estate registration fees (-LL 66 billion) mainly due to 13 percent drop in the number of sold properties during Jan-Aug 2015 compared to 2014; and

(iii) customs (-LL 33 billion), reflecting the 7 percent drop in the value of *non-fuel* imports by end-August 2015, noting that *fuel* imports are either exempt from customs or subject to low tarrifs.

These decreases were slightly counterbalanced by increases in excises (LL 59 billion) and taxes on income, profits and capital gains (LL 53 billion).

Non-tax revenues[2] declined by LL 97 billion (4 percent) year-on-year to LL 2,072 billion in Jan-Aug 2015, primarily as a result of a LL 129 billion decrease in transfers from the Telecom Surplus. On a cash basis, non-tax revenues fell by LL 809 billion as cash transfers from the Telecom Surplus amounted to LL 1,980 billion in Jan-Aug 2014, compared to only LL 1,140 billion in Jan-Aug 2015.

Of other non-tax revenues, property income and revenues from Port of Beirut dropped by LL 37 billion and LL 22 billion respectively. On the other hand, revenues collected from administrative fees and charges rose by LL 103 billion (25 percent), primarily driven by a LL 66 billion (61 percent) increase in Passport Fees.

Treasury receipts fell by LL 855 billion (64 percent) to reach LL 482 billion by end-August 2015. As mentioned previously, the collection of LL 673 billion Telecom revenues on behalf of municipalities in July 2014 explains this large decrease in the period under study.

Expenditure

Total expenditures regressed by LL 463 billion to reach LL 12,953 billion in the first eight months of 2015, from LL 13,415 billion in the same period of 2014.

Current primary expenditures[3] decreased by LL 603 billion (8 percent), reaching LL 7,064 billion in Jan-Aug 2015. This was mainly the result of a decrease in transfers to EDL, transfers to NSSF, and transfers to Directorate General of Cereals and Beetroot by LL 942 billion, LL 100 billion, and LL 60 billion respectively. These drops were partially offset by (i) a LL 154 billion higher payments to salaries, wages and social benefits mainly driven by LL 43 billion higher basic salaries alongside LL 30 billion higher allowances both pertaining to the army personnel, and (ii) a LL 98 billion rise in retirement and end-of-service compensation.

[1] On an expected basis.
[2] On an expected basis.
[3] Current primary expenditures represent current expenditures excluding interest payment and debt service.

Interest payments rose by LL 237 billion to reach LL 3,987 billion in Jan-Aug 2015, due to higher debt service payments on the domestic currency component (LL 232 billion), alongside a minor increase of LL 5 billion in foreign interest payments. **Foreign debt principal repayments** registered a 13 percent (LL 24 billion) increase reaching LL 207 billion by end-August 2015.

Capital expenditures diminished by LL 84 billion to reach LL 467 billion in the first eight months of 2015, mainly as a result of a LL 104 billion drop in construction in progress. In detail, payments for the Displaced Fund dropped by LL 30 billion and payments for the Council of the South and the Ministry of Public Work and Transport declined by LL 10 billion each.

Treasury expenditures[4] decreased by LL 25 billion to reach LL 1,015 billion in Jan-Aug 2015 compared to LL 1,040 billion in the same period of 2014. This was mainly the result of a LL 60 billion decrease in transfers to municipalities.

Public Debt

Gross public debt stood at LL 103,858 billion at end-August 2015, up by LL 3,502 billion (3.5 percent) from end-2014. Net debt increased by 4.6 percent (LL 3,936 billion) to LL 90,327 billion, as public sector deposits regressed by LL 434 billion to LL 13,531 billion.

Local currency debt reached LL 64,413 billion, up by 4.3 percent from end-2014, accounting for 62 percent of total debt. Local currency debt holdings by the Central Bank increased by LL 3,044 billion, followed by other holders of local currency debt (including public entities, financial institutions, and the general public) with an increase of LL 391 billion, while holdings by Commercial Banks decreased by LL 774 billion to LL 30,694 billion.

The stock of **foreign currency debt** recorded an expansion of LL 841 billion to reach LL 39,445 billion. Outstanding market Eurobonds increased by LL 1,358 billion to LL 33,942 billion, as new issuances amounted to US$ 2.2 billion[5], while principal maturities reached US$ 1 billion, of which US$ 500 million were due in the month of August. The increase in market Eurobonds was partially offset by declines in Paris II and Paris III Eurobonds and loans by LL 301 billion and LL 120 billion respectively, and a decline in "bilateral, multilateral and foreign private sector loans" by LL 224 billion to LL 2,528 billion, mostly owing to amortized principal repayments.

[4] Starting December 2011, the Treasury expenditures section in the monthly, quarterly and yearly reports and its corresponding figures differ from the same section appearing in the fiscal performance reports published by the Ministry of Finance because of the reclassification affecting certain payments from guarantees and treasury advances accounts, which are manually reclassified in their budgetary economic classification articles.

[5] More information on the February 2015 Eurobond issuance can be found under Debt Transactions in the Public Debt Section on the Ministry of Finance website: "Dual-tranche: US$ 800 million 6.20% notes due Feb 2025 and US$ 1.4 billion 6.65% notes due Feb 2030, issued 26 Feb 2015".

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
Budget Revenues, of which	**9,580**	**9,472**	**-1.1%**
Tax Revenues	*7,411*	*7,401*	*-0.1%*
Non-Tax Revenues	*2,169*	*2,072*	*-4.5%*
Treasury Receipts	**1,337**	**482**	**-63.9%**
Total Revenues	**10,917**	**9,955**	**-8.8%**

Source: Ministry of Finance, Directorate General of Finance

Table 3: Tax Revenues

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
Tax Revenues:	**7,411**	**7,401**	**-0.1%**
Taxes on Income, Profits, & Capital Gains, of which	**2,285**	**2,338**	**2.3%**
Income Tax on Profits	1,043	1,049	0.6%
Income Tax on Wages and Salaries	494	512	3.7%
Income Tax on Capital Gains & Dividends	228	221	-3.1%
Tax on Interest Income (5%)	477	507	6.4%
Penalties on Income Tax	42	48	13.4%
Taxes on Property, of which:	**818**	**783**	**-4.3%**
Built Property Tax	168	190	13.0%
Real Estate Registration Fees	553	488	-11.8%
Domestic Taxes on Goods & Services, of which:	**2,654**	**2,582**	**-2.7%**
Value Added Tax	2,298	2,188	-4.8%
Other Taxes on Goods and Services, of which:	234	246	5.2%
Private Car Registration Fees	143	158	10.8%
Passenger Departure Tax	90	86	-3.6%
Taxes on International Trade, of which:	**1,327**	**1,354**	**2.0%**
Customs	508	475	-6.4%
Excises, of which:	819	879	7.2%
Gasoline Excise	341	414	21.4%
Tobacco Excise	202	155	-23.1%
Cars Excise	271	306	12.6%
Other Tax Revenues (namely fiscal stamp fees)	**327**	**344**	**5.2%**

Source: Ministry of Finance, Directorate General of Finance

Table 4: Non-Tax Revenues

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
Non-Tax Revenues	**2,169**	**2,072**	**-4.5%**
Income from Public Institutions and Government Properties, of which:	**1,632**	**1,431**	**-12.3%**
Income from Non-Financial Public Enterprises, of which:	1,459	1,297	-11.1%
Revenues from Casino Du Liban	*80*	*66*	*-18.0%*
Revenues from Port of Beirut	*82*	*60*	*-26.9%*
Budget Surplus of National Lottery	*28*	*31*	*11.2%*
Transfer from the Telecom Surplus [1/]	*1,268*	*1,140*	*-10.1%*
Transfer from Public Financial Institution (BDL)	61	61	0.2%
Property Income (namely rent of Rafic Hariri International Airport)	106	70	-34.5%
Other Income from Public Institutions (interests)	5	3	-37.0%
Administrative Fees & Charges, of which:	**412**	**515**	**24.9%**
Administrative Fees, of which:	341	429	25.8%
Notary Fees	21	25	17.5%
Passport Fees/ Public Security	108	174	61.2%
Vehicle Control Fees	158	150	-5.2%
Judicial Fees	18	20	12.1%
Driving License Fees	13	23	80.5%
Administrative Charges	19	23	23.5%
Sales (Official Gazette and License Number)	2	2	2.3%
Permit Fees (mostly work permit fees)	42	48	13.1%
Other Administrative Fees & Charges	9	13	56.0%
Penalties & Confiscations	**8**	**17**	**119.8%**
Other Non-Tax Revenues (mostly retirement deductibles)	**117**	**109**	**-7.3%**

Source: Ministry of Finance, Directorate General of Finance

[1] Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
1. Current Expenditures	**11,600**	**11,259**	**-2.9%**
1.a Personnel Cost, *of which*	4,308	4,648	7.9%
Salaries, Wages and Related Benefits	2,869	3,023	5.4%
Retirement and End of Service Compensations, of which:	1,263	1,361	7.8%
Retirement	1,093	1,146	4.8%
End of Service	170	215	26.7%
Transfers to Public Institutions to Cover Salaries 1/	176	264	50.1%
1.b Interest Payments, 2/	3,750	3,987	6.3%
Domestic Interest Payments	2,363	2,595	9.8%
Foreign Interest Payments	1,387	1,393	0.4%
1.c Accounting adjustments*	0	1	-
1.d Foreign Debt Principal Repayment	183	207	13.4%
1.e Materials and Supplies, *of which:*	188	217	15.3%
Nutrition	43	60	40.1%
Fuel Oil	4	8	117.5%
Medicaments	78	98	26.2%
1.f External Services	102	91	-10.4%
1.g Various Transfers, *of which:*	2,706	1,601	-40.8%
EDL 3/	2,129	1,187	-44.2%
NSSF	100	0	-100.0%
Higher Council of Relief	18	28	57.0%
Contributions to non-public sectors	191	204	7.0%
Transfers to Directorate General of Cereals and Beetroot 4/	70	10	-86.4%
Contributions to water authorities	12	0	-100.0%
1.h Other Current, *of which:*	249	386	54.9%
Hospitals	184	281	53.1%
Others(judgments & reconciliations, mission costs, other)	64	97	51.6%
1.i Interest subsidy	115	121	4.7%
2. Capital Expenditures	**552**	**467**	**-15.3%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-75.4%
2.b Equipment	36	31	-14.5%
2.c Construction in Progress, *of which:*	418	314	-25.0%
Displaced Fund	30	0	-
Council of the South	39	30	-24.2%
CDR	190	187	-1.4%
Ministry of Public Work and Transport	39	29	-25.9%
Other of which	53	64	19.8%
Higher Council of Relief	2	4	100.0%
2.d Maintenance	71	91	27.3%
2.e Other Expenditures Related to Fixed Capital Assets	26	31	22.7%
3. Budget Advances 5/	**192**	**167**	**-13.0%**
4. Customs Administration (exc. Salaries and Wages) 6/	**31**	**44**	**43.6%**
5. Treasury Expenditures 7/	**1,040**	**1,015**	**-2.4%**
Municipalities	635	575	-9.4%
Guarantees	56	37	-33.9%
Deposits **8**/	88	165	87.1%
Other, *of which:*	260	237	-8.9%
VAT Refund	142	182	28.1%
6. Unclassified Expenditures	**1**	**1**	**-17.0%**
7. Total Expenditures (Excluding CDR Foreign Financed)	**13,415**	**12,953**	**-3.5%**

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. EDL has been reclassified to various transfers from "other treasury expenditures", following the reclassification of the 2009 Budget Proposal and in line with the Fiscal Performance.
4/ Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.
5/ Budget Advances were previously classified under "other". Given their growth, and in line with the Ministry of Finance's efforts to ensure transparency, they will be published in a separate line. They will be regularized at a later stage, and it is only after their regularization that they can be classified according to their economic nature in the budget system.
6/ Customs administrations include payments - excluding salaries and wages - made to customs and paid from customs cashiers. They can only be classified after Customs submit the supporting documents to the Directorate General of Finance.
7/Starting December 2011, the Treasury expenditures section in the monthly, quarterly and yearly reports and its corresponding figures differ from the eponym section appearing in the Fiscal performance reports published by the Ministry of Finance because of the reclassification affecting certain payments from guarantees and treasury advances accounts which are manually reclassified in their budgetary economic classification articles.
8/ Deposit payments are payments made by the treasury to public administrations, institutions, municipalities, funds, from revenues it has collected on their behalf.
** Including capitalized interest of 1,059,632,935 LBP that was drawn from the loan and paid directly to the creditor for EKF Loan*

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

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
Transfer to Council of the South	7	4	-43.0%
Transfer to CDR	8	6	-31.9%
Transfer to the Displaced Fund	2	3	40.9%
Transfer to the Lebanese University	150	245	63.3%
Transfer to the Educational Center for Research and Development	8	6	-23.6%

Source: Ministry of Finance, Directorate General of Finance

Table 7: Details of Debt Service Transactions[1]

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
Interest Payments	**3,750**	**3,987**	**6.3%**
Local Currency Debt	2,363	2,595	9.8%
Foreign Currency Debt, of which:	1,387	1,393	0.4%
*Eurobond Coupon Interest**	*1,301*	*1,322*	*1.6%*
*Special bond Coupon Interest**	*5*	*4*	*-13.3%*
Concessional Loans Interest Payments	*81*	*66*	*-18.4%*
Concessional Loans Principal Repayments	**183**	**207**	**13.4%**

Source: Ministry of Finance, Directorate General of Finance
(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 8: Transfers to EDL[1,2]

(LL billion)	2014 Jan-Aug	2015 Jan-Aug	% Change 2015/2014
EDL *of which:*	**2,129**	**1,187**	**-44.2%**
Debt Service	29	26	-10.3%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	2,100	1,161	-44.7%

Source: Ministry of Finance, Directorate General of Finance
(1) Prior to 2005, transfers to EDL were recorded under the line item "treasury expenditures", because they were paid through treasury advances based on decrees issued by the Council of Ministers. Starting 2005, transfers to EDL were included in the yearly budget as an allocation classified as a loan. In 2009, the said budget item was reclassified to become a subsidy to the electricity company rather than a treasury. In the fiscal performance, transfers to cover EDL's gas and fuel oil remained classified under "treasury expenditures" until August 2010 when it was reclassified under "budget expenditures". This reclassification, however, was not reflected in the 2010 PFM issues to avoid a disruption in the series and in order to keep the figures published in the PFM throughout 2010 consistent and comparable. Since January 2011, EDL transfers are reclassified under "budget expenditures".

[2] In 2015, new contracts were signed between the Lebanese Republic and petroleum suppliers, Sonatrach and KPC, specifying new payment mechanisms for fuel oil and gasoil imports. Under the new contracts, reimbursements for imports were set to be made 30 to 45 days from the opening date of letters of credit, compared to previous periods of 180 to 270 days for Sonatrach and KPC respectively. This new structure reduces interest payments due to suppliers and results on the fiscal front in a direct pass-through from the change in international oil prices to Treasury transfers to EDL. Correspondingly, payments made in 2015 compare to a different structure of payments in previous years, when actual payments pertained to imports 180 to 270 days earlier.

SECTION 3: PUBLIC DEBT

Table 9: Public Debt Outstanding by Holder as of End-August 2015

(LL billion)	Dec-13	Dec-14	Aug-15	% Change Dec 14 – Aug 15
Gross Public Debt	**95,710**	**100,356**	**103,858**	**3.5%**
Local Currency Debt	**56,312**	**61,752**	**64,413**	**4.3%**
** Accrued Interest Included in Debt*	*877*	*1,029*	*1,211*	*17.7%*
a. Central Bank (Including REPOs)	17,171	19,855	22,899	15.3%
b. Commercial Banks	29,905	31,468	30,694	-2.5%
c. Other Local Currency Debt (T-bills), *of which:*	9,236	10,429	10,820	3.7%
Public Entities	7,117	7,701	8,314	8.0%
Contractor bonds 1/	134	180	180	0.0%
Foreign Currency Debt 2/	**39,398**	**38,604**	**39,445**	**2.2%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,606	2,752	2,528	-8.1%
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,338	1,743	1,442	-17.3%
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,187	986	866	-12.2%
d. Market-Issued Eurobonds	32,688	32,584	33,942	4.2%
e. Accrued Interest on Eurobonds	444	425	587	38.1%
f. Special T-bills in Foreign Currency 5/	136	114	80	-29.8%
Public Sector Deposits	**15,495**	**13,965**	**13,531**	**-3.1%**
Net Debt 6/	**80,215**	**86,391**	**90,327**	**4.6%**
Gross Market Debt 7/	**65,386**	**67,373**	**67,845**	**0.7%**
% of Total Debt	**68%**	**67%**	**65%**	**-2.7%**

Source: Ministry of Finance, Banque du Liban

(1) Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency".
(2) Figures for Dec 13- Dec 14 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) Eurobonds Issued to Malaysia as part of its Paris III contribution, IBRD loan, UAE loan, first and second tranches of the French loan received in February 2008.
(5) Special Tbs in foreign currency (expropriation and contractor bonds).
(6) Net Debt is obtained by subtracting Public Sector Deposits from Gross Public Debt.
(7) 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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