REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

July 2015

General Overview

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The **total fiscal balance** registered a deficit of LL 2,800 billion in the first seven months of 2015, compared to a deficit of LL 2,018 billion in the same period of 2014. Moreover, the primary surplus retracted to LL 1,016 billion, from LL 1,648 billion. This deterioration mainly resulted from a LL 1,075 billion drop in revenues from Jan-Jul 2014 when exceptional telecom receipts were collected on behalf of municipalities and classified as Treasury Revenues.

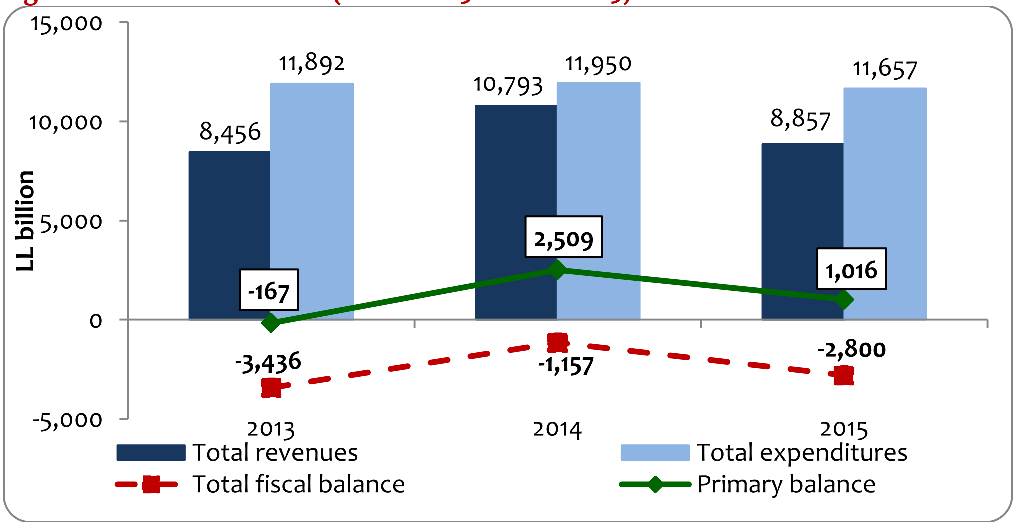
Table 1: Summary of Fiscal Performance

(LL billion)	2014 Jan-Jul	2015 Jan-Jul	% Change 2015/2014
Total Budget and Treasury Receipts[1]	**9,932**	**8,857**	**-10.8%**
Total Budget and Treasury Payments, *of which*	**11,950**	**11,657**	**-2.5%**
•*Interest Payments*	*3,512*	*3,619*	*3.0%*
•*Concessional loans principal payment*[2]	*154*	*198*	*28.6%*
•*Primary Expenditures*[3]	*8,284*	*7,840*	*-5.4%*
Total (Deficit)/Surplus	**(2,018)**	**(2,800)**	**38.7%**
Primary (Deficit)/Surplus	**1,648**	**1,016**	**-38.3%**

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*
[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 from the fiscal results of Jan-Jul 2014, and which were calculated on an accrual basis (LL 1,119 billion), and including the period's actual cash transfers (LL 1,980 billion), the deficit widened by 142 percent year-on-year by end-July 2015. Noting that arrears from the Telecom Surplus collected in July 2014 inflated non-tax revenues for the period[1]. Correspondingly, primary balance calculations show a smaller surplus of LL 1,016 billion in Jan-Jul 2015, compared to a surplus of LL 2,509 billion in Jan-Jul 2014.

Figure 1: Total Fiscal Balance (Jan-Jul 2013 - Jan-Jul 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-Jul 2013, LL 1,980 billion during Jan-Jul 2014 and LL 829 billion in Jan-Jul 2015.

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[1] *For more information, kindly refer to 2014 July Public Finance Monitor.*

Revenues

Total revenues[2] amounted to LL 8,857 billion in Jan-Jul 2015, compared to LL 9,932 billion during the same period of 2014, registering a LL 1,075 billion (11 percent) decrease year-on-year. On a cash basis, total revenues dropped by LL 1,937 billion (18 percent) in Jan-Jul 2015, as transfers from the Telecom Surplus were down by LL 1,151 billion.

Tax revenues were almost unchanged year-on-year amounting to LL 6,756 billion in the first seven months of 2015. Most notably, value-added tax dropped by LL 73 billion and real estate registration fees were down by LL 58 billion over the period. These decreases were almost counterbalanced by increases in excises (LL 67 billion) and fiscal stamps (LL 36 billion).

Non-tax revenues[3] declined by LL 258 billion (13 percent) year-on-year to LL 1,666 billion in Jan-Jul 2015, primarily as a result of a LL 289 billion decline in transfers from the Telecom Surplus. On a cash basis, non-tax revenues fell by LL 1,119 billion as cash transfers from the Telecom Surplus amounted to LL 1,980 billion in Jan-Jul 2014, compared to only LL 829 billion in Jan-Jul 2015.

Of other non-tax revenues, property income and revenues from Port of Beirut dropped by LL 25 billion and LL 22 billion respectively. On the other hand, revenues collected from administrative fees and charges rose by LL 100 billion (28 percent), primarily driven by a LL 58 billion (64 percent) increase in Passport Fees.

Treasury receipts fell by LL 846 billion (66 percent) to reach LL 434 billion in Jan-Jul 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 registered a decrease of LL 293 billion to reach LL 11,657 billion in Jan-Jul 2015, from LL 11,950 billion in the same period of 2014.

Current primary expenditures[4] decreased by LL 435 billion (6 percent), reaching LL 6,267 billion in Jan-Jul 2015. This was mainly the result of a decrease in (i) transfers to EDL by LL 666 billion due to the decline in international oil prices, (ii) transfers to NSSF by LL 100 billion, and (iii) transfers to Directorate General of Cereals and Beetroot by LL 57 billion. These drops were partially offset by (i) a LL 124 billion increase in salaries, wages and social benefits mainly driven by LL 53 billion higher allowances alongside LL 42 billion higher basic salaries both pertaining to the army personnel, and (ii) a LL 102 billion rise in retirement and end-of-service compensation.

Interest payments rose by LL 106 billion to reach LL 3,619 billion in Jan-Jul 2015, due to higher debt service payments on the domestic currency component (LL 200 billion), partially offset by a LL 94 billion decrease in foreign interest payments. **Foreign debt principal repayments** registered a 29 percent (LL 44 billion) increase reaching LL 198 billion by end-July 2015.

Capital expenditures diminished by LL 99 billion to reach LL 426 billion in Jan-Jul 2015, mainly as a result of a LL 110 billion decrease in construction in progress. In detail, payments for the Displaced Fund, Council of the South, and the Ministry of Public Work and Transport dropped by LL 30 billion, LL 19 billion, and LL 9 billion respectively.

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

Treasury expenditures[5] increased by LL 107 billion to reach LL 967 billion in Jan-Jul 2015 compared to LL 860 billion in the same period of 2014. This was mainly the result of a LL 78 billion increase in deposits, and a LL 50 billion increase in VAT refund. Transfers to municipalities witnessed a minor increase of LL 7 billion.

Public Debt

Gross public debt stood at LL 104,316 billion at end-July 2015, up by LL 3,960 billion (3.9 percent) from end-2014. Net debt increased by 4.0 percent (LL 3,416 billion) to LL 89,807 billion, as public sector deposits grew by LL 544 billion (3.9 percent) to LL 14,509 billion.

Local currency debt reached LL 64,160 billion, up by 3.9 percent from end-2014, accounting for 62 percent of total debt. Local currency debt held by the Central Bank increased by LL 2,769 billion, followed by local currency debt held by public entities with an increase of LL 543 billion. Holdings by Commercial Banks decreased by LL 675 billion to LL 30,793 billion, but remained the largest, accounting for 48 percent of the local currency debt stock.

The stock of **foreign currency debt** recorded an expansion of LL 1,552 billion to reach LL 40,156 billion by end-July 2015. This increase was led by a of LL 2,094 billion growth in outstanding market Eurobonds to LL 34,678 billion, following a US$ 2.2 billion Eurobond issuance[6] in February 2015. Conversely, Outstanding Eurobonds and loans issued in the context of Paris II and Paris III dropped by LL 287 billion and LL 127 billion to LL 1,456 billion and LL 859 billion respectively, mainly as a result of amortized principal repayments[7]. Moreover, the value of outstanding "bilateral, multilateral and foreign private sector loans" decreased by LL 244 billion to LL 2,508 billion.

[5] 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.

[6] 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".

[7] In the month of July 2015, a US$ 15 million principal payment was made on the Paris III Malaysia Eurobond.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2014 Jan-Jul	2015 Jan-Jul	% Change 2015/2014
Budget Revenues, of which	**8,651**	**8,422**	**-2.6%**
Tax Revenues	6,728	6,756	0.4%
Non-Tax Revenues	1,923	1,666	-13.4%
Treasury Receipts	**1,281**	**434**	**-66.1%**
Total Revenues	**9,932**	**8,857**	**-10.8%**

Source: Ministry of Finance, Directorate General of Finance

Table 3: Tax Revenues

(LL billion)	2014 Jan-Jul	2015 Jan-Jul	% Change 2015/2014
Tax Revenues:	**6,728**	**6,756**	**0.4%**
Taxes on Income, Profits, & Capital Gains, of which	**2,199**	**2,228**	**1.3%**
Income Tax on Profits	1,033	1,032	-0.1%
Income Tax on Wages and Salaries	490	507	3.4%
Income Tax on Capital Gains & Dividends	220	210	-4.5%
Tax on Interest Income (5%)	415	443	6.7%
Penalties on Income Tax	40	35	-11.1%
Taxes on Property, of which:	**722**	**698**	**-3.3%**
Built Property Tax	157	181	15.7%
Real Estate Registration Fees	482	425	-12.0%
Domestic Taxes on Goods & Services, of which:	**2,405**	**2,345**	**-2.5%**
Value Added Tax	2,088	2,015	-3.5%
Other Taxes on Goods and Services, of which:	195	209	7.5%
Private Car Registration Fees	121	138	13.5%
Passenger Departure Tax	72	70	-2.8%
Taxes on International Trade, of which:	**1,131**	**1,178**	**4.1%**
Customs	438	417	-4.7%
Excises, of which:	693	760	9.7%
Gasoline Excise	293	356	21.5%
Tobacco Excise	166	134	-19.4%
Cars Excise	230	268	16.2%
Other Tax Revenues (namely fiscal stamp fees)	**272**	**308**	**13.4%**

Source: Ministry of Finance, Directorate General of Finance

Table 4: Non-Tax Revenues

(LL billion)	2014 Jan-Jul	2015 Jan-Jul	% Change 2015/2014
Non-Tax Revenues	**1,923**	**1,666**	**-13.4%**
Income from Public Institutions and Government Properties, of which:	**1,455**	**1,098**	**-24.5%**
Income from Non-Financial Public Enterprises, of which:	1,299	966	-25.6%
Revenues from Casino Du Liban	*69*	*56*	*-19.6%*
Revenues from Port of Beirut	*82*	*60*	*-26.9%*
Budget Surplus of National Lottery	*28*	*21*	*-25.2%*
Transfer from the Telecom Surplus [1/]	*1,119*	*829*	*-25.9%*
Transfer from Public Financial Institution (BDL)	61	61	0.2%
Property Income (namely rent of Rafic Hariri International Airport)	92	67	-26.8%
Other Income from Public Institutions (interests)	3	3	-9.8%
Administrative Fees & Charges, of which:	**356**	**456**	**28.1%**
Administrative Fees, of which:	293	378	29.2%
Notary Fees	*18*	*21*	*17.7%*
Passport Fees/ Public Security	*90*	*149*	*64.4%*
Vehicle Control Fees	*135*	*136*	*0.5%*
Judicial Fees	*17*	*18*	*10.4%*
Driving License Fees	*11*	*20*	*85.2%*
Administrative Charges	18	22	24.4%
Sales (Official Gazette and License Number)	2	2	2.8%
Permit Fees (mostly work permit fees)	36	42	16.1%
Other Administrative Fees & Charges	7	12	59.3%
Penalties & Confiscations	**6**	**14**	**124.6%**
Other Non-Tax Revenues (mostly retirement deductibles)	**106**	**98**	**-8.1%**

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-Jul	2015 Jan-Jul	% Change 2015/2014
1. Current Expenditures	**10,368**	**10,083**	**-2.7%**
1.a Personnel Cost, *of which*	3,793	4,085	7.7%
Salaries, Wages and Related Benefits	2,529	2,653	4.9%
Retirement and End of Service Compensations, of which:	1,098	1,200	9.3%
Retirement	954	1,001	4.9%
End of Service	143	199	38.6%
Transfers to Public Institutions to Cover Salaries 1/	167	232	39.3%
1.b Interest Payments, 2/	3,512	3,619	3.0%
Domestic Interest Payments	2,170	2,371	9.2%
Foreign Interest Payments	1,342	1,248	-7.0%
1.c Accounting adjustments*	0	1	-
1.d Foreign Debt Principal Repayment	154	198	28.6%
1.e Materials and Supplies, *of which:*	159	167	4.9%
Nutrition	31	58	88.6%
Fuel Oil	3	8	179.7%
Medicaments	69	65	-6.8%
1.f External Services	90	84	-6.2%
1.g Various Transfers, *of which:*	2,321	1,492	-35.7%
EDL 3/	1,777	1,111	-37.5%
NSSF	100	0	-100.0%
Higher Council of Relief	5	28	459.4%
Contributions to non-public sectors	179	194	8.4%
Transfers to Directorate General of Cereals and Beetroot 4/	67	10	-85.8%
Contributions to water authorities	12	0	-100.0%
1.h Other Current, *of which:*	237	341	44.0%
Hospitals	178	241	35.6%
Others(judgments & reconciliations, mission costs, other)	57	91	59.9%
1.i Interest subsidy	102	97	-4.5%
2. Capital Expenditures	**525**	**426**	**-18.8%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-76.4%
2.b Equipment	28	30	6.6%
2.c Construction in Progress, *of which:*	408	298	-26.9%
Displaced Fund	30	0	-
Council of the South	39	20	-49.0%
CDR	187	187	0.3%
Ministry of Public Work and Transport	37	28	-24.2%
Other of which	49	59	20.7%
Higher Council of Relief	0	4	-
2.d Maintenance	66	86	31.1%
2.e Other Expenditures Related to Fixed Capital Assets	24	12	-48.2%
3. Budget Advances 5/	**169**	**138**	**-18.1%**
4. Customs Administration (exc. Salaries and Wages) 6/	**27**	**41**	**50.8%**
5. Treasury Expenditures 7/	**860**	**967**	**12.4%**
Municipalities	568	575	1.3%
Guarantees	45	34	-24.1%
Deposits **8**/	58	137	133.8%
Other, *of which:*	189	221	17.1%
VAT Refund	122	172	40.8%
6. Unclassified Expenditures	**1**	**1**	**32.2%**
7. Total Expenditures (Excluding CDR Foreign Financed)	**11,950**	**11,657**	**-2.5%**

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-Jul	2015 Jan-Jul	% 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	145	215	48.3%
Transfer to the Educational Center for Research and Development	4	4	12.1%

Source: Ministry of Finance, Directorate General of Finance

Table 7: Details of Debt Service Transactions[1]

(LL billion)	2014 Jan-Jul	2015 Jan-Jul	% Change 2015/2014
Interest Payments	**3,512**	**3,619**	**3.0%**
Local Currency Debt	2,170	2,371	9.2%
Foreign Currency Debt, of which:	1,342	1,248	-7.0%
*Eurobond Coupon Interest**	*1,269*	*1,182*	*-6.8%*
*Special bond Coupon Interest**	*5*	*4*	*-14.8%*
Concessional Loans Interest Payments	*69*	*62*	*-10.1%*
Concessional Loans Principal Repayments	**154**	**198**	**28.6%**

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-Jul	2015 Jan-Jul	% Change 2015/2014
EDL *of which:*	**1,777**	**1,111**	**-37.5%**
Debt Service	*18*	*18*	*-2.5%*
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	*1,759*	*1,093*	*-37.9%*

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-July 2015

(LL billion)	Dec-13	Dec-14	Jul-15	% Change Dec 14 - Jul 15
Gross Public Debt	**95,710**	**100,356**	**104,316**	**3.9%**
Local Currency Debt	**56,312**	**61,752**	**64,160**	**3.9%**
** Accrued Interest Included in Debt*	*877*	*1,029*	*1,113*	*8.2%*
a. Central Bank (Including REPOs)	17,171	19,855	22,624	13.9%
b. Commercial Banks	29,905	31,468	30,793	-2.1%
c. Other Local Currency Debt (T-bills), *of which:*	9,236	10,429	10,743	3.0%
Public Entities	*7,117*	*7,701*	*8,244*	*7.1%*
Contractor bonds 1/	*134*	*180*	*180*	*0.0%*
Foreign Currency Debt 2/	**39,398**	**38,604**	**40,156**	**4.0%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,606	2,752	2,508	-8.9%
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,338	1,743	1,456	-16.5%
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,187	986	859	-12.9%
d. Market-Issued Eurobonds	32,688	32,584	34,678	6.4%
e. Accrued Interest on Eurobonds	444	425	575	35.3%
f. Special T-bills in Foreign Currency 5/	136	114	80	-29.8%
Public Sector Deposits	**15,495**	**13,965**	**14,509**	**3.9%**
Net Debt 6/	**80,215**	**86,391**	**89,807**	**4.0%**
Gross Market Debt 7/	**65,386**	**67,373**	**68,661**	**1.9%**
% of Total Debt	**68%**	**67%**	**66%**	**-2.0%**

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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