REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

June 2015

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General Overview

The **total fiscal balance** registered a deficit of LL 2,690 billion in the first half of 2015, compared to a deficit of LL 2,377 billion during the same period of 2014. Furthermore, the primary surplus decreased to LL 716 billion in Jan-Jun 2015, compared to a higher surplus of LL 874 billion in Jan-Jun 2014. This fiscal outcome was recorded as revenues dropped by LL 350 billion while expenditures decreased by only LL 37 billion.

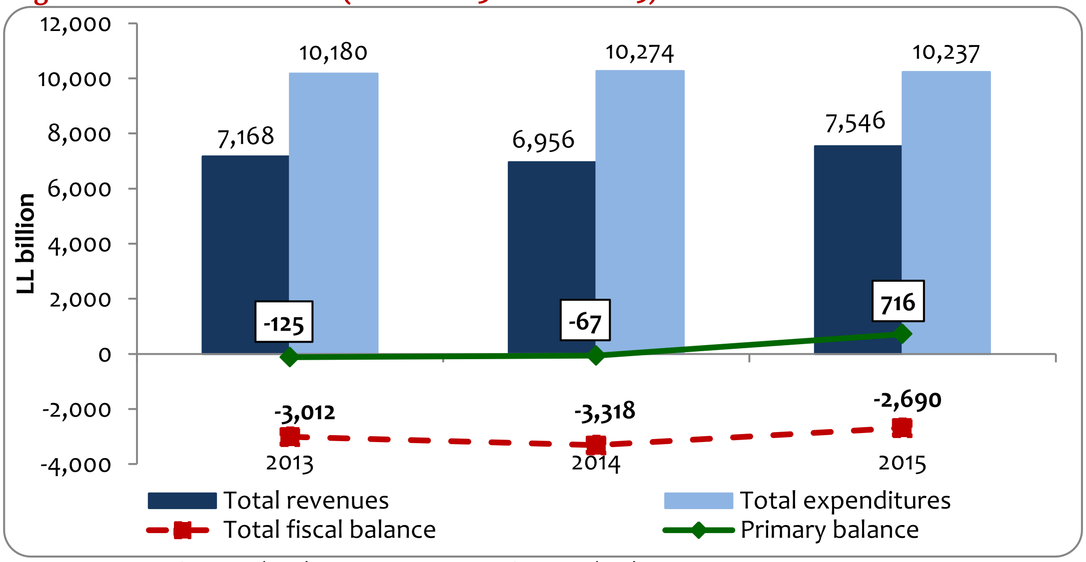
Table 1: Summary of Fiscal Performance

(LL billion)	2014 Jan-Jun	2015 Jan-Jun	% Change 2015/2014
Total Budget and Treasury Receipts[1]	7,897	7,546	-4.4%
Total Budget and Treasury Payments, *of which*	10,274	10,237	-0.4%
•*Interest Payments*	3,129	3,235	3.4%
•*Concessional loans principal payment*[2]	122	171	40.6%
•*Primary Expenditures*[3]	7,023	6,830	-2.7%
Total (Deficit)/Surplus	**(2,377)**	**(2,690)**	**13.2%**
Primary (Deficit)/Surplus	**874**	**716**	**-18.0%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
[1] Starting January 2015, Transfers from the Telecom Surplus figures for 2015 are being recorded on a cash basis in the Fiscal Performance, whereas for previous years, these figures remain the ones estimated 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 the Telecom transfers that were calculated on an accrual basis (LL 941 billion) from the fiscal results of Jan-Jun 2014, and including the period's actual transfers (nil), the change in the total deficit shows a decrease of 19 percent year-on-year in H1 2015. Likewise, primary balance calculations show a surplus of LL 716 billion during Jan-June 2015, compared to a deficit of LL 67 billion in the same period of 2014.

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



Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
[1/] On a cash basis, transfers from the Telecom Surplus were LL 754 billion in Jan-Jun 2013, nil during Jan-Jun 2014 and LL 829 billion in Jan-Jun 2015.

Note #1: Transfers from the Telecom Surplus

Starting January 2015, Transfers from the Telecom Surplus figures for 2015 are being recorded on a cash basis in the Fiscal Performance, whereas for previous years, these figures remain the ones estimated by the Ministry of Telecommunication and MoF.

The cash basis approach reconciles revenues figures, by comparing instead cash Telecom Transfers for both periods of Jan-Jun 2014 and 2015. On a cash basis, Transfers from the Telecom Surplus were nil during Jan-Jun 2014, compared to LL 829 billion during Jan-Jun 2015.

Revenues

Total revenues[1] recorded a year-on-year drop of LL 350 billion (4 percent) to reach LL 7,546 billion in the first half of 2015, as compared to LL 7,897 billion in the same period of 2014. However, on a cash basis, total revenues were up by LL 591 billion in the first half of 2015, mainly as a result of higher transfers from the Telecom Surplus by LL 829 billion (*for more information kindly refer to Note #1*).

Tax revenues declined by LL 81 billion (1 percent) year-on-year to reach LL 5,654 billion in Jan-Jun 2015, owing primarily to lower collections from domestic taxes on goods and services by LL 100 billion. In detail, the value-added tax was down by LL 80 billion as a result of a LL 110 billion (11 percent) drop in VAT collected at customs, partly offset by a LL 30 billion (5 percent) rise in VAT collected internally.

Taxes on property went down by LL 36 billion (6 percent) in the first half of 2015 due to lower Real Estate Registration fees by LL 72 billion (17 percent), which resulted primarly from a 16 percent decrease in the number of sale transactions. In contrast, built property tax increased by LL 27 billion (18 percent).

Taxes on international trade registered an increase of LL 41 billion during Jan-Jun 2015 to reach LL 1,003 billion, reflecting a LL 59 billion rise in excises partly counterbalanced by an LL 18 billion decrease in customs. Moreover, revenues from fiscal stamps rose by LL 6 billion over the period under review.

Taxes on income, profits and capital gains witnessed a minor increase of LL 7 billion to reach LL 1,969 billion in the first half of 2015, most likely reflecting the fact that collections of arrears were exceptionnally high during the first half of 2014. Among sub-categories, tax on interest income grew at the fastest rate of 6 percent.

Non-tax revenues[2] inched down by LL 92 billion (6 percent) year-on-year to LL 1,561 billion in Jan-Jun 2015, notably as a result of a LL 112 billion decrease in transfers from the Telecom Surplus. On a cash basis, non-tax revenues more than doubled in comparison with the same period of 2014, as cash transfers from the Telecom Surplus were nil in the first half of 2014, compared to LL 829 billion in Jan-Jun 2015. Of other non-tax revenues, property income and revenues from Port of Beirut dropped by LL 36 billion and LL 22 billion respectively. On the other hand, revenues collected from administrative fees and charges rose by LL 85 billion (27 percent), primarily driven by a LL 46 billion (59 percent) increase in passport fees.

Treasury receipts recorded a LL 177 billion (35 percent) decrease to reach LL 332 billion in Jan-Jun 2015.

Expenditure

Total expenditures registered a decrease of LL 37 billion to reach LL 10,237 billion in the first half of 2015.

Current primary expenditures[3] decreased by LL 234 billion (4 percent), reaching LL 5,335 billion in Jan-Jun 2015. This was mainly the result of (i) a LL 619 billion drop in transfers to EDL due to the decline in international oil prices and (ii) a LL 100 billion decrease in transfers to NSSF. These drops were partially counterbalanced by (i) a LL 176 billion increase in salaries, wages and social benefits mainly driven by LL 93 billion

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

higher allowances to the army, and (ii) a LL 202 billion rise in retirement and end-of-service compensation mainly due to a difference in the timing of payment whereby retirement salaries for the month of June 2014 were made during July 2014.

Interest payments rose by LL 106 billion to reach LL 3,235 billion in Jan-Jun 2015, due to higher debt service payments on the domestic currency component (LL 190 billion), partially offset by an LL 84 billion decrease in foreign interest payments. **Foreign debt principal repayments** registered a 41 percent (LL 49 billion) increase reaching LL 171 billion in the first half of 2015.

Capital expenditures diminished by LL 112 billion to reach LL 405 billion in Jan-Jun 2015, chiefly as a result of a LL 124 billion decrease in construction in progress. In detail, payments for the Displaced Fund, Council of the South, and Ministry of Public Work and Transport dropped by LL 30 billion, LL 19 billion, and LL 14 billion respectively.

Treasury expenditures[4] increased by LL 127 billion to reach LL 927 billion in the first half of 2015 compared to LL 800 billion in the same period of 2014. This was mainly the result of a LL 75 billion increase in deposits, and a LL 46 billion increase in VAT refund. Transfers to municipalities witnessed a minor increase of LL 11 billion.

Public Debt

Gross public debt stood at LL 104,063 billion at end-June 2015, up by LL 3,700 billion (3.7 percent) from end-2014. Net debt increased by 3.8 percent (LL 3,249 billion) to LL 89,647 billion, as public sector deposits grew by LL 451 billion (3.2 percent) to LL 14,416 billion.

Local currency debt reached LL 63,895 billion, up by 3.5 percent from end-2014, accounting for 61 percent of total debt. Local currency debt holdings by the Central Bank increased by LL 2,439 billion, followed by other holders of local currency debt (including public entities, financial institutions, and the general public) with an increase of LL 378 billion while holdings by Commercial Banks decreased by LL 674 billion to LL 30,794 billion, remaining the largest among holdings with 48 percent of the total outstanding stock.

The stock of **foreign currency debt** recorded an expansion of LL 1,557 billion in the first half of 2015 to reach LL 40,168 billion. A rise of LL 2,110 billion in outstanding market Eurobonds to LL 34,695 billion following a US$ 2.2 billion Eurobond issuance[5] in February 2015 was partially offset by declines in outstanding non-market debt instruments. Eurobonds and Loans related to Paris II and Paris III went down by LL 285 billion and LL 98 billion respectively, mainly as a result of amortized principal repayments, while "bilateral, multilateral and foreign private sector loans" dropped by LL 203 billion to LL 2,549 billion.

[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-Jun	2015 Jan-Jun	% Change 2015/2014
Budget Revenues, of which	**7,388**	**7,215**	**-2.3%**
Tax Revenues	5,736	5,654	-1.4%
Non-Tax Revenues	1,652	1,561	-5.6%
Treasury Receipts	**509**	**332**	**-34.8%**
Total Revenues	**7,897**	**7,546**	**-4.4%**

Source: Ministry of Finance, Directorate General of Finance

Table 3: Tax Revenues

(LL billion)	2014 Jan-Jun	2015 Jan-Jun	% Change 2015/2014
Tax Revenues:	**5,736**	**5,654**	**-1.4%**
Taxes on Income, Profits, & Capital Gains, of which	**1,962**	**1,969**	**0.4%**
Income Tax on Profits	1024	1024	0.0%
Income Tax on Wages and Salaries	352	357	1.5%
Income Tax on Capital Gains & Dividends	197	181	-8.1%
Tax on Interest Income (5%)	351	374	6.3%
Penalties on Income Tax	38	33	-11.7%
Taxes on Property, of which:	**649**	**613**	**-5.5%**
Built Property Tax	148	175	18.1%
Real Estate Registration Fees	427	355	-16.9%
Domestic Taxes on Goods & Services, of which:	**1,924**	**1,824**	**-5.2%**
Value Added Tax	1,639	1,559	-4.9%
Other Taxes on Goods and Services, of which:	165	174	6.0%
Private Car Registration Fees	104	115	11.1%
Passenger Departure Tax	60	58	-3.0%
Taxes on International Trade, of which:	**962**	**1,003**	**4.3%**
Customs	378	360	-4.8%
Excises, of which:	584	643	10.1%
Gasoline Excise	249	302	21.2%
Tobacco Excise	134	115	-13.9%
Cars Excise	197	223	13.0%
Other Tax Revenues (namely fiscal stamp fees)	**239**	**245**	**2.5%**

Source: Ministry of Finance, Directorate General of Finance

Table 4: Non-Tax Revenues

(LL billion)	2014 Jan-Jun	2015 Jan-Jun	% Change 2015/2014
Non-Tax Revenues	**1,652**	**1,561**	**-5.6%**
Income from Public Institutions and Government Properties, of which:	**1,252**	**1,071**	**-14.5%**
Income from Non-Financial Public Enterprises, of which:	1,101	956	-13.2%
Revenues from Casino Du Liban	60	56	-6.6%
Revenues from Port of Beirut	82	60	-26.9%
Budget Surplus of National Lottery	18	11	-40.9%
Transfer from the Telecom Surplus 1/	941	829	-11.9%
Transfer from Public Financial Institution (BDL)	61	61	0.2%
Property Income (namely rent of Rafic Hariri International Airport)	87	52	-40.8%
Other Income from Public Institutions (interests)	3	2	-17.5%
Administrative Fees & Charges, of which:	**311**	**396**	**27.3%**
Administrative Fees, of which:	256	328	28.1%
Notary Fees	16	18	16.4%
Passport Fees/ Public Security	78	124	58.9%
Vehicle Control Fees	118	122	3.4%
Judicial Fees	14	16	13.7%
Driving License Fees	9	16	77.9%
Administrative Charges	17	21	26.6%
Sales (Official Gazette and License Number)	1	1	-0.2%
Permit Fees (mostly work permit fees)	31	36	16.0%
Other Administrative Fees & Charges	6	10	57.4%
Penalties & Confiscations	**6**	**12**	**107.1%**
Other Non-Tax Revenues (mostly retirement deductibles)	**84**	**82**	**-1.9%**

Source: Ministry of Finance, Directorate General of Finance

1/ Starting January 2015, Transfers from the Telecom Surplus figures for 2015 are being recorded on a cash basis in the Fiscal Performance, whereas for previous years, these figures remain the ones estimated by the Ministry of Telecommunication and MOF. Out of the expected LL 941 billion in Jan-Jun 2014, none was effectively transferred from the Telecom Surplus.

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2014 Jan-Jun	2015 Jan-Jun	% Change 2015/2014
1. Current Expenditures	**8,819**	**8,741**	**-0.9%**
1.a Personnel Cost, *of which*	3,027	3,472	14.7%
Salaries, Wages and Related Benefits	*2,103*	*2,279*	8.4%
Retirement and End of Service Compensations, of which:	*800*	*1,001*	25.2%
Retirement	*679*	*855*	25.8%
End of Service	*120*	*147*	21.9%
Transfers to Public Institutions to Cover Salaries 1/	*125*	*192*	53.5%
1.b Interest Payments, *2/*	3,129	3,235	3.4%
Domestic Interest Payments	*1,910*	*2,100*	9.9%
Foreign Interest Payments	*1,219*	*1,136*	-6.9%
1.c Accounting adjustments*	0	1	N.M.
1.d Foreign Debt Principal Repayment	122	171	40.6%
1.e Materials and Supplies, *of which:*	143	133	-6.4%
Nutrition	*24*	*36*	50.1%
Fuel Oil	*3*	*7*	160.9%
Medicaments	*64*	*61*	-4.9%
1.f External Services	79	73	-6.8%
1.g Various Transfers, *of which:*	2,050	1,261	-38.5%
EDL 3/	*1,565*	*946*	-39.6%
NSSF	*100*	*0*	-100.0%
Higher Council of Relief	*5*	*28*	474.7%
Contributions to non-public sectors	*147*	*149*	1.1%
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:*	173	301	73.7%
Hospitals	*126*	*212*	68.0%
Others(judgments & reconciliations, mission costs, other)	*46*	*83*	80.4%
1.i Interest subsidy	97	93	-4.2%
2. Capital Expenditures	**516**	**405**	**-21.7%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-95.4%
2.b Equipment	23	29	24.4%
2.c Construction in Progress, *of which:*	406	282	-30.6%
Displaced Fund	*30*	*0*	N.M.
Council of the South	*39*	*20*	-49.0%
CDR	*186*	*183*	-2.0%
Ministry of Public Work and Transport	*37*	*23*	-37.3%
Other of which	*48*	*53*	10.8%
Higher Council of Relief	*0*	*4*	N.M.
2.d Maintenance	63	82	29.7%
2.e Other Expenditures Related to Fixed Capital Assets	24	12	-49.2%
3. Budget Advances 5/	**117**	**125**	**6.9%**
4. Customs Administration (exc. Salaries and Wages) 6/	**22**	**39**	**80.6%**
5. Treasury Expenditures 7/	**800**	**927**	**15.9%**
Municipalities	562	573	1.9%
Guarantees	35	31	-10.4%
Deposits **8/**	51	126	146.6%
Other, *of which:*	152	197	29.6%
VAT Refund	*113*	*159*	40.4%
6. Unclassified Expenditures	**0**	**1**	**102.6%**
7. Total Expenditures (Excluding CDR Foreign Financed)	***10,274***	***10,237***	***-0.4%***

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-Jun	2015 Jan-Jun	% Change 2015/2014
Transfer to Council of the South	7	4	-52.5%
Transfer to CDR	8	6	-31.9%
Transfer to the Displaced Fund	2	3	25.7%
Transfer to the Lebanese University	105	180	71.4%
Transfer to the Educational Center for Research and Development	2	0	-100.0%

Source: Ministry of Finance, Directorate General of Finance

Table 7: Details of Debt Service Transactions[1]

(LL billion)	2014 Jan-Jun	2015 Jan-Jun	% Change 2015/2014
Interest Payments	**3,129**	**3,235**	**3.4%**
Local Currency Debt	1,910	2,100	9.9%
Foreign Currency Debt, of which:	1,219	1,136	-6.9%
*Eurobond Coupon Interest**	1,155	1,081	-6.5%
*Special bond Coupon Interest**	4	3	-18.9%
Concessional Loans Interest Payments	60	52	-13.7%
Concessional Loans Principal Repayments	**122**	**171**	**40.6%**

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-Jun	2015 Jan-Jun	% Change 2015/2014
EDL *of which:*	**1,565**	**946**	**-39.6%**
Debt Service	15	13	-8.9%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,550	933	-39.8%

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-June 2015

(LL billion)	Dec-13	Dec-14	Jun-15	% Change Dec 14 - Jun 15
Gross Public Debt	**95,710**	**100,363**	**104,063**	**3.7%**
Local Currency Debt	**56,312**	**61,752**	**63,895**	**3.5%**
** Accrued Interest Included in Debt*	*877*	*1,029*	*1,025*	*-0.4%*
a. Central Bank (Including REPOs)	17,171	19,855	22,294	12.3%
b. Commercial Banks	29,905	31,468	30,794	-2.1%
c. Other Local Currency Debt (T-bills), *of which:*	9,236	10,429	10,807	3.6%
Public Entities	7,117	7,701	8,271	7.4%
Contractor bonds 1/	134	180	180	0.0%
Foreign Currency Debt 2/	**39,398**	**38,611**	**40,168**	**4.0%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,606	2,752	2,549	-7.4%
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,338	1,743	1,458	-16.3%
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,187	986	888	-10.0%
d. Market-Issued Eurobonds	32,688	32,584	34,695	6.5%
e. Accrued Interest on Eurobonds	444	425	489	15.1%
f. Special T-bills in Foreign Currency 5/	136	121	90	-25.6%
Public Sector Deposits	**15,495**	**13,965**	14,416	3.2%
Net Debt 6/	**80,215**	**86,398**	**89,647**	**3.8%**
Gross Market Debt 7/	**65,386**	**67,380**	**68,640**	**1.9%**
% of Total Debt	**68%**	**67%**	**66%**	**-1.8%**

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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