REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

March 2015

General Overview

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The **total fiscal balance** registered a deficit of LL 1,601 billion in the first quarter of 2015, up by LL 335 billion (26 percent) from the same period in 2014 (Table 1). Moreover, the primary balance also deteriorated to a deficit of LL 208 billion during Q1 2015, as compared to a surplus of LL 58 billion in Q1 2014. Notwithstanding a LL 180 billion (4 percent) drop in expenditures, the total fiscal balance worsened as a result of a LL 514 billion (14 percent) fall in revenues, mainly driven by a LL 122 billion drop in Telecom Revenues and a LL 194 billion drop in Tax Revenues.

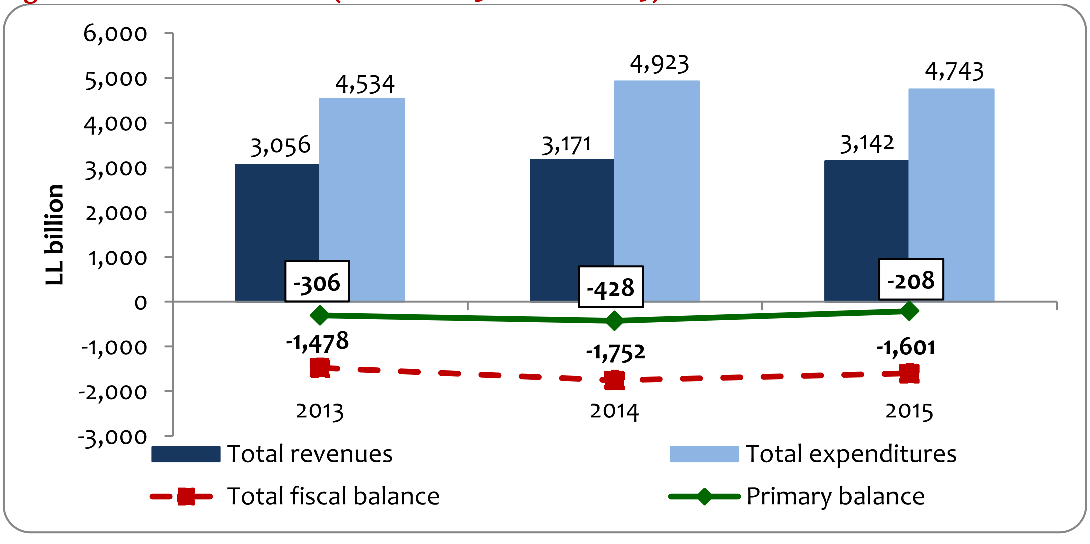
Table 1: Summary of Fiscal Performance

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
Total Budget and Treasury Receipts[1]	**3,657**	**3,142**	**-14.1%**
Total Budget and Treasury Payments, *of which*	**4,923**	**4,743**	**-3.6%**
•Interest Payments	1,272	1,345	5.7%
•Concessional loans principal payment[2]	51	48	-6.0%
•Primary Expenditures[3]	3,599	3,350	-6.9%
Total (Deficit)/Surplus	**(1,266)**	**(1,601)**	**26.4%**
Primary (Deficit)/Surplus	**58**	**(208)**	**N.M.**

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*
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 excluding the LL 485 billion expected transfers from the telecom surplus in Q1 2014, and adding the actual transferred amount (nil) during Q1 2014, the total deficit improved by 9 percent, from LL 1,752 billion in Q1 2014 to LL 1,601 billion in Q1 2015. Correspondingly, the primary balance recorded a smaller deficit of LL 208 billion in Q1 2015, compared to a deficit of LL 428 billion in Q1 2014.

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



Source: Ministry of Finance, Directorate General of Finance
[1/] *On a cash basis, transfers from the Telecom surplus were LL 226 billion during Q1 2013, nil during Q1 2014 and LL 363 billion in Q1 2015*

Revenues

Total revenues[1] amounted to LL 3,142 billion in the first quarter of 2015, decreasing by LL 514 billion (14 percent) from the LL 3,657 billion collected during the same period of 2014. On a cash basis, total revenues recorded a minor decline of 1 percent.

Tax revenues declined by LL 194 billion (8 percent) year-on-year to reach LL 2,302 in Q1 2015, as a result of a deterioration in all major sub-categories barring a slight improvement in taxes on international trade.

Domestic taxes on goods and services recorded the steepest decline in nominal terms, shrinking by LL 99 billion. In line with its weak performance since the beginning of the year, VAT collections decreased by LL 102 billion in the first quarter of 2015. In detail, VAT collected internally inched down by 2 percent (LL 6 billion) and VAT at customs fell by 19 percent (LL 96 billion). Taxes on income, profits and capital gains dropped by LL 54 billion, owing to a deterioration in all sub-categories except for tax on interest income.

Moreover, taxes on property declined by LL 49 billion, driven by a LL 23 billion decline in Real Estate Registration fees that resulted primarily from a 19 percent decline in the number of sale transactions. Similarly, built property tax decreased by LL 21 billion as the deadline for e-declaration was pushed forward, implying a delay in tax collections[2]. Lastly, revenues collected from fiscal stamp fees decreased by LL 5 billion.

The abovementioned decreases in tax revenues were marginally offset by a LL 12 billion increase in taxes on international trade, driven by LL 30 billion and LL 11 billion increases in gasoline and car excises respectively, which were partly counterbalanced by LL 20 billion and LL 9 billion decreases in revenues from customs and tobacco excise.

Non-tax revenues[3] dropped by LL 192 billion year-on-year to reach LL 662 billion in Q1 2015. On a cash basis, non-tax revenues increased by LL 294 billion as cash transfers from the Telecom Surplus were nil during Jan-Mar 2014, as compared to LL 363 billion during the same period in 2015. The rise in transfers from the Telecom Surplus was slightly offset by lower receipts from Port of Beirut as well as property income by LL 50 billion and LL 40 billion respectively (*for more information, kindly refer to the January and February 2015 Public Finance Monitor*).

Treasury receipts decreased by LL 128 billion (42 percent) to reach LL 179 billion during Q1 2015.

Expenditures

Total expenditures decreased by LL 180 billion, standing at LL 4,743 billion in Q1 2015 compared to LL 4,923 billion in Q1 2014.

Current primary expenditures[4] decreased by LL 225 billion to reach LL 2,720 billion in QI 2015. This was mainly the result of lower transfers to Electricité du Liban and NSSF by LL 316 billion and LL 100 billion respectively. In contrast, salaries, wages and social benefits climbed up by LL 102 billion, hospitals outlays rose by LL 66 billion, and retirement and end-of-service indemnities increased by LL 40 billion.

[1] On an expected basis.
[2] For more information, kindly refer to Ministry of Finance decision 158/1 dated 27 February 2015, and available on the Presidency of the Council of Ministers website www.pcm.gov.lb.
[3] On an expected basis.
[4] Current primary expenditures represent current expenditures excluding interest payment and debt service.

Interest payments rose by LL 72 billion to reach LL 1,345 billion in Q1 2015, due to higher debt service payments on the local currency component. **Foreign debt principal repayments** amounted to LL 48 billion in the first three months of 2015, showing a minor decrease of LL 3 billion compared to the same period of 2014.

Capital expenditures decreased by LL 21 billion to LL 266 billion in QI 2015, chiefly as a result of a LL 56 billion decrease in construction in progress due to an accounting adjustment for treasury advances (*for more information, kindly refer to the January 2014 Public Finance Monitor*). These decreases were partially offset by higher spending on maintenance, which recorded a year-on-year increase of LL 32 billion over the period under review.

Treasury expenditures[5] decreased by LL 32 billion, reaching LL 287 billion in Jan-Mar 2015. This drop was mainly due to the LL 104 billion decrease in transfers to municipalities, resulting mainly from a decline in distribution of revenues accruing to municipalities by LL 113 billion, which was slightly counterbalanced by a LL 6 billion increase in payments for solid waste management. On the other hand, deposits and VAT refund increased by LL 51 billion and LL 30 billion respectively.

Public Debt

Gross public debt grew by LL 4,314 billion to LL 104,677 billion in the first quarter of 2015, although a concurrent LL 2,500 billion rise in public sector deposits curbed the increase in net debt to LL 1,814 billion. As a result, net debt reached LL 88,212 billion by the end of March-2015, or 84 percent of gross public debt, compared to 86 percent at end-2014.

Of the total increase in debt, around 35 percent resulted from an expansion in the stock of **local currency debt**, which by end-March reached LL 63,260 billion, climbing by 2.4 percent from end-2014. Banque Du Liban increased its holdings by LL 1,752 billion to LL 21,607 billion, with a large portion of the increase coming from secondary market operations in Treasury bills and bonds, whereby its primary market subscriptions only exceeded its principal maturities by LL 774 billion in Q1 2015. Commercial banks' local currency holdings decreased by LL 352 billion, while banks' primary market subscriptions in TBs exceeded principal maturities by around LL 567 billion. Local currency debt issued to other holders including public entities, financial institutions, and the general public, increased by LL 108 billion to LL 10,537 billion, or around 17 percent of the outstanding amount.

Outstanding **foreign currency debt** ended the Q1 2015 at LL 41,417 billion, up by 7 percent from end-2014. The stock of market Eurobonds climbed by LL 2,844 billion as the US$ 2.2 billion issuance in February 2015 overshadowed the US$ 250 million principal maturity in the previous month. Conversely, Eurobonds and loans issued in the context of Paris II and Paris III, and "bilateral, multilateral and foreign private sector loans", decreased by LL 84 billion, LL 61 billion, and LL 134 billion respectively, mostly owing to amortized principal repayments.

[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.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
Budget Revenues, of which	**3,349**	**2,963**	**-11.5%**
Tax Revenues	2,496	2,302	-7. 8%
Non-Tax Revenues	853	662	-22.5%
Treasury Receipts	**308**	**179**	**-41.8%**
Total Revenues	**3,657**	**3,142**	**-14.1%**

Source: Ministry of Finance, Directorate General of Finance

Table 3: Tax Revenues

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
Tax Revenues:	**2,496**	**2,302**	**-7.8%**
Taxes on Income, Profits, & Capital Gains, of which	**652**	**598**	**-8.3%**
Income Tax on Profits	213	180	-15.3%
Income Tax on Wages and Salaries	199	181	-9.1%
Income Tax on Capital Gains & Dividends	43	36	-17.3%
Tax on Interest Income (5%)	171	185	8.5%
Penalties on Income Tax	26	16	-38.7%
Taxes on Property, of which:	**347**	**298**	**-14.1%**
Built Property Tax	120	100	-17.2%
Real Estate Registration Fees	187	164	-12.3%
Domestic Taxes on Goods & Services, of which:	**925**	**826**	**-10.7%**
Value Added Tax	847	745	-12.1%
Other Taxes on Goods and Services, of which:	74	77	4.5%
Private Car Registration Fees	47	48	2.8%
Passenger Departure Tax	26	28	7.5%
Taxes on International Trade, of which:	**454**	**466**	**2.7%**
Customs	185	165	-11.0%
Excises, of which:	269	301	12.1%
Gasoline Excise	120	150	25.4%
Tobacco Excise	66	58	-13.4%
Cars Excise	81	92	13.6%
Other Tax Revenues (namely fiscal stamp fees)	**118**	**113**	**-4.0%**

Source: Ministry of Finance, Directorate General of Finance

Table 4: Non-Tax Revenues

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
Non-Tax Revenues	**853**	**662**	**-22.5%**
Income from Public Institutions and Government Properties, of which	**653**	**431**	**-34.1%**
Income from Non-Financial Public Enterprises, of which:	575	391	-32.0%
Revenues from Casino Du Liban	*32*	*28*	*-12.8%*
Revenues from Port of Beirut	*50*	*0*	*-100.0%*
Budget Surplus of National Lottery	*8*	*0*	*-100.0%*
Transfer from the Telecom Surplus	*485*	*363*	*-25.1%*
Property Income (namely rent of Rafic Hariri International Airport)	76	39	-49.4%
Other Income from Public Institutions (interests)	1	1	-35.0%
Administrative Fees & Charges, of which:	**162**	**188**	**16.0%**
Administrative Fees, of which:	129	146	13.0%
Notary Fees	*8*	*8*	*11.2%*
Passport Fees/ Public Security	*39*	*53*	*36.7%*
Vehicle Control Fees	*59*	*57*	*-2.5%*
Judicial Fees	*6*	*7*	*19.9%*
Driving License Fees	*4*	*6*	*48.5%*
Administrative Charges	13	18	32.2%
Sales (Official Gazette and License Number)	1	1	5.8%
Permit Fees (mostly work permit fees)	16	19	17.3%
Other Administrative Fees & Charges	3	5	67.4%
Penalties & Confiscations	**3**	**3**	**30.0%**
Other Non-Tax Revenues (mostly retirement deductibles)	**35**	**39**	**11.5%**

Source: Ministry of Finance, Directorate General of Finance

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
1. Current Expenditures	**4,269**	**4,113**	**-3.6%**
1.a Personnel Cost, *of which*	1,537	1,698	10.5%
Salaries, Wages and social benefits	*1,033*	*1,135*	*9.9%*
Retirement and End of Service Compensations, of which:	428	468	9.4%
Retirement	404	423	4.7%
End of Service	24	45	90.4%
Transfers to Public Institutions to Cover Salaries 1/	76	94	23.9%
1.b Interest Payments, *of which: 2/*	1,272	1,345	5.7%
Domestic Interest Payments	*930*	*1,006*	*8.3%*
Foreign Interest Payments	*343*	*338*	*-1.4%*
1.c Foreign Debt Principal Repayment	51	48	-6.0%
1.d Materials and Supplies, *of which:*	109	90	-17.9%
Nutrition (Food supplies)	*22*	*23*	*8.6%*
Fuel Oil	*2*	*2*	*-6.5%*
Medicaments	*48*	*47*	*-3.4%*
1.e External Services	53	37	-30.1%
1.f Various Transfers, *of which:*	1,069	653	-38.9%
EDL 3/	*791*	*476*	*-39.9%*
NSSF	*100*	*0*	*-100.0%*
Higher Council of Relief	*5*	*20*	*303.5%*
Contributions to non-public sectors	*67*	*57*	*-14.3%*
Transfers to Directorate General of Cereals and Beetroot	*12*	*10*	*-22.5%*
Contributions to water authorities	*12*	*0*	*-100.0%*
1.g Other Current, *of which:*	132	196	49.0%
Hospitals	*106*	*172*	*62.6%*
Others(judgments & reconciliations, mission costs, other)	*25*	*20*	*-18.6%*
1.h Interest subsidy	46	46	0.9%
2. Capital Expenditures	**286**	**266**	**-7.2%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	NA
2.b Equipment	16	19	23.5%
2.c Construction in Progress, *of which:*	221	166	-25.2%
Council of the South	*30*	*20*	*-32.2%*
CDR	*72*	*81*	*13.6%*
Ministry of Public Work and Transport	*28*	*18*	*-33.9%*
Other of which:	*29*	*44*	*49.3%*
Higher Council of Relief	*0*	*4*	
2.d Maintenance	37	69	87.9%
2.e Other Expenditures Related to Fixed Capital Assets	13	12	-5.0%
3. Budget Advances 4/	**33**	**48**	**47.5%**
4. Customs Administration (exc. Salaries and Wages) 5/	**15**	**29**	**88.1%**
5. Treasury Expenditures 6/	**320**	**287**	**-10.1%**
Municipalities	214	110	-48.5%
Guarantees	7	9	44.4%
Deposits 7/	16	68	312.4%
Other, *of which:*	83	100	20.4%
VAT Refund	*55*	*85*	*55.4%*
6. Total Expenditures (Excluding CDR Foreign Financed)	**4,923**	**4,743**	**-3.6%**

Source: Ministry of Finance, Directorate General of Finance

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/ 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.

5/ Customs administration 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
6/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.
7/ Deposit are payments made by the treasury to public administrations, institutions, municipalities, and funds; from revenues it has collected on their behalf.

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

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
Transfer to Council of the South	5	2	-60.1%
Transfer to CDR	3	0	-100.0%
Transfer to the Displaced Fund	1	2	81.7%
Transfer to the Lebanese University	65	90	38.7%
Transfer to the Educational Center for Research and Development	2	0	-100.0%
Total Transfers to Public Institutions to Cover Salaries	**76**	**94**	**23.9%**

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

Table 7: Details of Debt Service Transactions[1]

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
Interest Payments	**1,272**	**1,345**	**5.7%**
Local Currency Debt	**930**	**1006**	**8.3%**
Foreign Currency Debt, of which:	**343**	**338**	**-1.4%**
*Eurobond Coupon Interest**	317	315	-0.6%
*Special bond Coupon Interest**	2	2	-28.4%
Concessional Loans Interest Payments	23	21	-8.5%
Concessional Loans Principal Repayments	**51**	**48**	**-6.0%**

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]

(LL billion)	2014 Jan-Mar	2015 Jan-Mar	% Change 2015/2014
EDL of which:	**791**	**476**	**-39.9%**
Debt Service	12	11	-8.7%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	780	465	-40.4%

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".

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-13	Dec-14	Mar-15	% Change Dec 14-Mar 15
Gross Public Debt	**95,710**	**100,363**	**104,677**	**4.3%**
Local Currency Debt	**56,312**	**61,752**	**63,260**	**2.4%**
** Accrued Interest Included in Debt*	*877*	*1,029*	*977*	*-5.1%*
a. Central Bank (Including REPOs)	17,171	19,855	21,607	8.8%
b. Commercial Banks	29,905	31,468	31,116	-1.1%
c. Other Local Currency Debt (T-bills), of which:	9,236	10,429	10,537	1.0%
Public Entities	7,117	7,701	7,856	2.0%
Contractor bonds 1/	134	180	180	0.0%
Foreign Currency Debt 2/	**39,398**	**38,611**	**41,417**	**7.3%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,606	2,752	2,618	-4.9%
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,338	1,743	1,659	-4.8%
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,187	986	925	-6.2%
d. Market-Issued Eurobonds	32,688	32,584	35,429	8.7%
e. Accrued Interest on Eurobonds	444	425	674	58.6%
f. Special T-bills in Foreign Currency 5/	136	121	113	-6.6%
Public Sector Deposits	**15,495**	13,965	16,465	17.9%
Net Debt 6/	**80,215**	**86,398**	**88,212**	**2.1%**
Gross Market Debt 7/	**65,386**	**67,380**	**70,060**	**4.0%**
% of Total Debt	**68%**	**67%**	**67%**	**-0.3%**

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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