REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

May 2015

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General Overview

During the first five months of 2015, a LL 332 billion decrease in revenues coupled with a LL 166 billion increase in government expenditures resulted in a wider fiscal deficit, which stood at LL 2,593 billion in Jan-May 2015 compared to LL 2,095 billion in the corresponding period of 2014. Moreover, the primary surplus dropped to LL 280 billion during Jan-May 2015, compared to a higher surplus of LL 672 billion in the first five months of 2014.

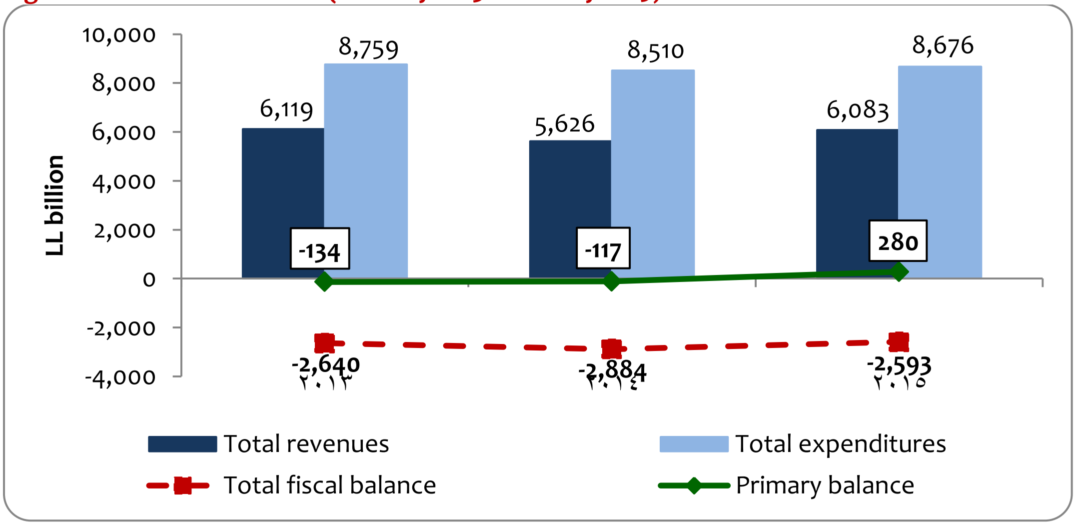
Table 1: Summary of Fiscal Performance

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
Total Budget and Treasury Receipts[1]	**6,415**	**6,083**	**-5.2%**
Total Budget and Treasury Payments, *of which*	**8,510**	**8,676**	**1.9%**
•*Interest Payments*	2,663	2,732	2.6%
•*Concessional loans principal payment*[2]	104	141	35.1%
•*Primary Expenditures*[3]	5,743	5,803	1.0%
Total (Deficit)/Surplus	**(2,095)**	**(2,593)**	**23.8%**
Primary (Deficit)/Surplus	**672**	**280**	**-58.3%**

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 excluding the LL 789 billion expected transfers from the telecom surplus in the first five months of 2014, and adding the actual transferred amount (nil), the total deficit decreased by 10 percent to LL 2,593 billion in Jan-May 2015 compared to LL 2,884 billion in the same period of 2014. Correspondingly, the primary balance recorded a surplus of LL 280 billion in Jan-May 2015, compared to a deficit of LL 117 billion a year earlier.

Figure 1: Total fiscal balance (Jan-May 2013 - Jan-May 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 674 billion in Jan-May 2015, nil during Jan-May 2014, and LL 573 billion in Jan-May 2013.

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-May 2014 and 2015. On a cash basis, Transfers from the Telecom Surplus were nil during Jan-May 2014, compared to LL 674 billion during Jan-May 2015.

Revenues

Total revenues[2] amounted to LL 6,083 billion in Jan-May 2015, compared to LL 6,415 billion in the corresponding period of 2014, registering a 5 percent decrease year-on-year. However, on a cash basis, total revenues climbed by 8 percent on account of higher Transfers from the Telecom Surplus (*for more information, kindly refer to Note #1*).

Tax revenues inched down by LL 26 billion to reach LL 4,508 billion in Jan-May 2015. In detail, domestic taxes on goods and services went down by LL 117 billion, mainly attributed to lower collections of Value-Added Tax by LL 96 billion: VAT collected at customs dropped by LL 117 billion (14 percent), while VAT collected internally rose by LL 21 billion (3 percent).

Taxes on property witnessed a LL 50 billion (9 percent) decline over the period, as real estate registration Fees dwindled by LL 76 billion (21 percent), against the backdrop of a 19 percent decrease in the number of sold properties. In contrast, built property tax registered a LL 22 billion rise over the period. Additionally, revenues collected from fiscal stamp fees inched down by LL 5 billion.

Taxes on income, profits and capital gains rose by LL 129 billion, mainly due to a LL 124 billion increase in income tax on profits owing in turn to a discrepency in the timing of collections.

Moreover, taxes on international trade registered a minor increase of LL 17 billion to reach LL 818 billion. Gasoline excises jumped by LL 43 billion (21 percent) as the volume of gasoline imports rose by 9 percent over the period, and the excise rate on gasoline was raised on 13 January 2015 (*for more information, kindly refer to the February 2015 Public Finance Monitor*). Similarly, car excises grew by LL 12 billion (8 percent), primarily as a result of a 6 percent increase in the number of imported cars. The aforementioned rises were counterbalanced by lower revenues from customs and tobacco excises by LL 20 billion and LL 17 billion respectively.

Non-tax revenues[3] diminished by LL 127 billion year-on-year, amounting to LL 1,294 billion in Jan-May 2015. 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 Jan-May 2014, compared to LL 674 billion in Jan-May 2015. Of other non-tax revenues, property income and revenues from the Port of Beirut dropped by LL 36 billion and LL 22 billion respectively. Moreover, revenues collected from administrative fees and charges rose by LL 67 billion (26 percent), driven primarily by a LL 32 billion increase in passport fees.

Treasury receipts dropped by LL 180 billion year-on-year, to reach LL 281 billion in Jan-May 2015.

Expenditures

Total expenditures recorded an increase of LL 166 billion, standing at LL 8,676 billion in Jan-May 2015 compared to LL 8,510 billion in the same period of 2014.

Current primary expenditures[4] decreased by LL 212 billion to reach LL 4,432 billion in Jan-May 2015. This was mainly the result of lower transfers to Electricité du Liban and

[2] On an expected basis.
[3] On an expected basis.
[4] Current primary expenditures represent current expenditures excluding Interest Payments and Foreign Debt Principal Repayment.

NSSF by LL 355 billion and LL 100 billion respectively. In contrast, salaries, wages and social benefits climbed up by LL 135 billion, and expenditures on hospitals hiked up by LL 75 billion.

Interest payments rose by LL 70 billion to reach LL 2,732 billion in Jan-May 2015, due to higher interest payments on the local currency component (LL 143 billion), partly offset by lower foreign interest payments (LL 73 billion). **Foreign debt principal repayments** amounted to LL 141 billion in Jan-May 2015, registering a substantial increase of 35 percent (LL 37 billion) compared to the same period of 2014.

While the aggregate **capital expenditures** remained almost unchanged – standing at LL 368 billion in Jan-May 2015 – the sub-categories were not exactly static. In fact, lower transfers to the Council of the South (LL 19 billion) and the Ministry of Public Work and Transport (LL 7 billion) were offset by a significant increase in transfers to the CDR by LL 61 billion, as well as a LL 22 billion increase in expenses related to maintenance.

Treasury expenditures[5] hiked by an annual 40 percent to reach LL 868 billion in Jan-May 2015. In detail, transfers to municipalities grew by LL 137 billion owing to a LL 187 billion increase in revenues distributed to municipalities, which was slightly counterbalanced by a LL 51 billion decrease in payments for solid waste management. Furthermore, deposits and VAT refund recorded increases of LL 71 billion and LL 49 billion, respectively.

Public Debt

Gross public debt stood at LL 104,589 billion as at end-May 2015, adding LL 4,226 billion from end-2014. Net debt increased by only LL 2,973 billion to reach LL 89,371 billion, as a result of the expansion in public sector deposits by LL 1,253 billion to LL 15,218 billion.

Local currency debt climbed by LL 1,771 billion to reach LL 63,253 billion, accounting for almost 60.7 percent of total debt by end-May 2015, compared to 61.5 percent as at year-end 2014. Weekly auctions of treasury bills and bonds continued to see solid demand with the cumulative rollover rate since the beginning of the year reaching 132 percent, as of end-May 2015. Commercial banks remained the largest holders of local currency debt with around 49 percent of the total outstanding amount, despite a LL 527 billion decrease in their TB portfolio by end-May 2015. TBs held by the Central Bank constituted around 34 percent of Lebanon's local currency debt, amounting to LL 21,896 billion, and were up by 10.3 percent year-to-date. Of other local currency debt, TBs held by public entities increased by LL 433 billion, or around 5.6 percent, while outstanding contractor bonds were unchanged at LL 180 billion.

Outstanding **foreign currency debt** ended the first five months of 2015 at LL 41,066 billion, increasing by 6.4 percent from end-2014. In general, an increase of LL 2,859 billion in outstanding market Eurobonds to LL 35,444 billion following a US$ 2.2 billion issuance[6] in February 2015 was partially offset by declines in outstanding non-market debt instruments. Of the latter category, "bilateral, multilateral and foreign private sector loans" dropped by LL 205 billion, while Eurobonds and Loans related to Paris II

[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 1.4 billion 6.65% notes due Feb 2030, issued 26 Feb 2015".

and Paris III declined by LL 97 billion and LL 104 billion respectively, mostly as a result of amortized principal repayments.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
Budget Revenues, of which	**5,954**	**5,801**	**-2.6%**
Tax Revenues	4,534	4,508	-0.6%
Non-Tax Revenues	1,420	1,294	-8.9%
Treasury Receipts	**461**	**281**	**-39.0%**
Total Revenues	**6,415**	**6,083**	**-5.2%**

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

Table 3: Tax Revenues

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
Tax Revenues:	**4,534**	**4,508**	**-0.6%**
Taxes on Income, Profits, & Capital Gains, of which	**1,267**	**1,395**	**10.2%**
Income Tax on Profits	452	576	27.5%
Income Tax on Wages and Salaries	348	352	1.2%
Income Tax on Capital Gains & Dividends	134	120	-11.1%
Tax on Interest Income (5%)	297	319	7.5%
Penalties on Income Tax	35	29	-19.1%
Taxes on Property, of which:	**562**	**512**	**-8.9%**
Built Property Tax	138	161	16.2%
Real Estate Registration Fees	362	286	-21.1%
Domestic Taxes on Goods & Services, of which:	**1,697**	**1,581**	**-6.9%**
Value Added Tax	1,461	1,365	-6.6%
Other Taxes on Goods and Services, of which:	131	140	6.5%
Private Car Registration Fees	82	89	7.9%
Passenger Departure Tax	48	50	4.0%
Taxes on International Trade, of which:	**801**	**818**	**2.1%**
Customs	314	293	-6.4%
Excises, of which:	487	525	7.6%
Gasoline Excise	206	249	20.6%
Tobacco Excise	116	99	-14.8%
Cars Excise	162	174	7.7%
Other Tax Revenues (namely fiscal stamp fees)	**207**	**202**	**-2.5%**

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

Table 4: Non-Tax Revenue

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
Non-Tax Revenues	**1,420**	**1,294**	**-8.9%**
Income from Public Institutions and Government Properties, of which	**1,086**	**891**	**-17.9%**
Income from Non-Financial Public Enterprises, of which:	939	781	-16.9%
Revenues from Casino Du Liban	*50*	*47*	*-6.1%*
Revenues from Port of Beirut	*82*	*60*	*-26.9%*
Budget Surplus of National Lottery	*18*	*0*	*-100.0%*
Transfer from the Telecom Surplus 1/	*789*	*674*	*-14.6%*
Transfer from Public Financial Institution (BDL)	61	61	0.2%
Property Income (namely rent of Rafic Hariri International Airport)	83	47	-43.4%
Other Income from Public Institutions (interests)	2	2	-17.9%
Administrative Fees & Charges, of which:	**257**	**325**	**26.1%**
Administrative Fees, of which:	209	265	26.7%
Notary Fees	13	15	15.4%
Passport Fees/ Public Security	66	99	48.6%
Vehicle Control Fees	93	101	8.4%
Judicial Fees	11	13	16.9%
Driving License Fees	7	13	71.6%
Administrative Charges	16	20	29.1%
Sales (Official Gazette and License Number)	1	1	1.5%
Permit Fees (mostly work permit fees)	26	30	15.1%
Other Administrative Fees & Charges	5	8	55.3%
Penalties & Confiscations	**5**	**8**	67.6%
Other Non-Tax Revenues (mostly retirement deductibles)	**73**	**71**	**-2.9%**

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. Out of the expected LL 789 billion in Jan-May 2014, nil was effectively transferred from the Telecom Surplus.

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
1. Current Expenditures	**7,411**	**7,305**	**-1.4%**
1.a Personnel Cost, *of which*	2,707	2,907	7.4%
Salaries, Wages and social benefits	1,795	1,930	7.5%
Retirement and End of Service Compensations, of which:	787	817	3.9%
Retirement	678	709	4.6%
End of Service	109	109	-0.4%
Transfers to Public Institutions to Cover Salaries 1/	125	160	27.8%
1.b Interest Payments, *of which: 2/*	2,663	2,732	2.6%
Domestic Interest Payments	1,608	1,751	8.9%
Foreign Interest Payments	1,055	982	-6.9%
1.c Accounting adjustments*	0	1	N/A
1.d Foreign Debt Principal Repayment	104	141	35.1%
1.e Materials and Supplies, *of which:*	130	109	-16.3%
Nutrition (Food supplies)	22	33	50.9%
Fuel Oil	3	3	0.2%
Medicaments	54	49	-10.1%
1.f External Services	72	66	-7.8%
1.g Various Transfers, *of which:*	1,486	992	-33.3%
EDL 3/	1,067	712	-33.3%
NSSF	100	0	-100.0%
Higher Council of Relief	5	28	472.0%
Contributions to non-public sectors	144	123	-14.8%
Transfers to Directorate General of Cereals and Beetroot 4/	52	10	-81.8%
Contributions to water authorities	12	0	-100.0%
1.h Other Current, *of which:*	167	280	67.4%
Hospitals	126	201	59.7%
Others(judgments & reconciliations, mission costs, other)	40	73	83.4%
1.i Interest subsidy	82	77	-5.7%
2. Capital Expenditures	**369**	**368**	**-0.1%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-96.1%
2.b Equipment	21	23	8.6%
2.c Construction in Progress, *of which:*	281	259	-7.8%
Council of the South	39	20	-49.0%
CDR	104	165	58.3%
Ministry of Public Work and Transport	29	22	-24.2%
Other of which:	43	50	14.3%
Higher Council of Relief	0	4	N/A
2.d Maintenance	52	74	42.3%
2.e Other Expenditures Related to Fixed Capital Assets	14	12	-16.2%
3. Budget Advances 5/	**91**	**98**	**8.6%**
4. Customs Administration (exc. Salaries and Wages) 6/	**20**	**36**	**82.7%**
5. Treasury Expenditures 7/	**620**	**868**	**40.0%**
Municipalities	412	549	33.2%
Guarantees	33	28	-15.3%
Deposits 8/	48	119	148.8%
Other, *of which:*	127	173	35.6%
VAT Refund	93	142	52.0%
6. Total Expenditures (Excluding CDR Foreign Financed)	**8,510**	**8,676**	**1.9%**

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.

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

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
Transfer to Council of the South	7	2	-71.5%
Transfer to CDR	8	6	-31.9%
Transfer to the Displaced Fund	2	2	-9.1%
Transfer to the Lebanese University	105	150	42.8%
Transfer to the Educational Center for Research and Development	2	0	-100.0%

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

Table 7: Details of Debt Service Transactions

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
Interest Payments	**2,663**	**2,732**	**2.6%**
Local Currency Debt	1,608	1,751	8.9%
Foreign Currency Debt, of which:	1,055	982	-6.9%
*Eurobond Coupon Interest**	1,000	934	-6.6%
*Special bond Coupon Interest**	3	2	-30.0%
Concessional Loans Interest Payments	52	45	-11.8%
Concessional Loans Principal Repayments	**104**	**141**	**35.1%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
** Includes general expenses related to the transaction*

Table 8: Transfers to EDL[1]

(LL billion)	2014 Jan-May	2015 Jan-May	% Change 2015/2014
EDL *of which:*	**1,067**	**712**	**-33.3%**
Debt Service	14	13	-8.4%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,053	699	-33.6%

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
(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-May 2015

(LL billion)	Dec-13	Dec-14	May-15	% Change Dec 14 - May 15
Gross Public Debt	**95,710**	**100,363**	**104,589**	**4.21%**
Local Currency Debt	**56,312**	**61,752**	**63,523**	**2.87%**
** Accrued Interest Included in Debt*	877	1,029	1,028	**-0.10%**
a. Central Bank (Including REPOs)	17,171	19,855	21,896	**10.28%**
b. Commercial Banks	29,905	31,468	30,941	**-1.67%**
c. Other Local Currency Debt (T-bills), *of which:*	9,236	10,429	10,686	**2.46%**
Public Entities	7,117	7,701	8,134	**5.62%**
Contractor bonds 1/	134	180	180	**0.00%**
Foreign Currency Debt 2/	**39,398**	**38,611**	**41,066**	**6.36%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,606	2,752	2,548	**-7.43%**
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,338	1,743	1,646	**-5.56%**
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,187	986	882	**-10.55%**
d. Market-Issued Eurobonds	32,688	32,584	35,444	**8.78%**
e. Accrued Interest on Eurobonds	444	425	457	**7.53%**
f. Special T-bills in Foreign Currency 5/	136	121	90	**-25.62%**
Public Sector Deposits	**15,495**	**13,965**	**15,218**	**8.97%**
Net Debt 6/	**80,215**	**86,398**	**89,371**	**3.44%**
Gross Market Debt 7/	**65,386**	**67,380**	**69,532**	**3.19%**
% of Total Debt	**68%**	**67%**	**66%**	**-0.98%**

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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