REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

September 2015

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General Overview

The **total fiscal balance** registered a deficit of LL 3,931 billion in Jan-Sep 2015, widening by LL 582 billion from the same period in 2014. Moreover, the primary surplus contracted to LL 1,013 billion from LL 1,306 billion. This deterioration in public finances resulted from a LL 1,027 billion plunge in revenues[1], which was partially offset by a LL 444 billion drop in expenditures.

Table 1: Summary of Fiscal Performance

(LL billion)	2014 Jan-Sep	2015 Jan-Sep	% Change 2015/2014
Total Budget and Treasury Receipts[1]	**11,924**	**10,897**	**-8.6%**
Total Budget and Treasury Payments, *of which*	**15,273**	**14,829**	**-2.9%**
•*Interest Payments*	4,456	4,725	6.0%
•*Concessional loans principal payment*[2]	200	220	10.2%
•*Primary Expenditures*[3]	10,618	9,884	-6.9%
Total (Deficit)/Surplus	**(3,349)**	**(3,931)**	**17.4%**
Primary (Deficit)/Surplus	**1,306**	**1,013**	**-22.4%**

Source: Ministry of Finance, Directorate General of Finance

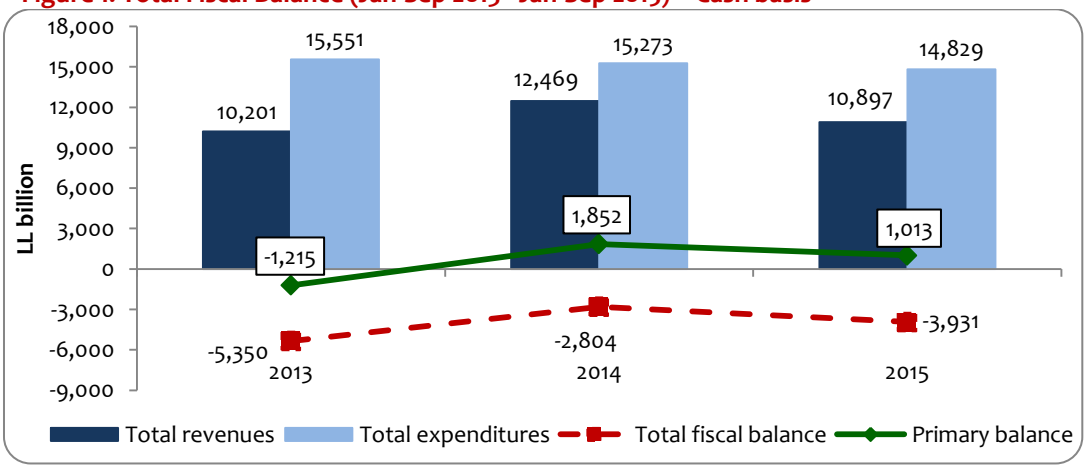
[1] *Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.*

[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 removing the Telecom transfers that were calculated on an accrual basis (LL 1,435 billion) from the fiscal results of Jan-Sep 2014, and including the period's actual transfers (LL 1,980 billion), the change in the total deficit shows an increase of 40 percent year-on-year by end-September 2015. This weaker fiscal performance compared to accrual accounting, highlights the collection of Telecom arrears in 2014 and the resulting inflation in the period's revenues. Likewise, primary balance cash-basis calculations show a surplus of LL 1,013 billion by end-September 2015, compared to a larger surplus of LL 1,852 billion in the same period of 2014.

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



Source: Ministry of Finance, Directorate General of Finance

[1/] On a cash basis, transfers from the Telecom Surplus were LL 972 billion in Jan-Sep 2013, LL 1,980 billion during Jan- Sep 2014 and LL 1,295 billion in Jan- Sep 2015.

[1] The drop in revenues is mainly associated with the exceptional LL 673 billion collection of telecom receipts on behalf of Municipalities during July 2014, and which was classified as Treasury Revenues.

Revenues

Total revenues[2] diminished by LL 1,027 billion (9 percent) to LL 10,897 billion in Jan-Sep 2015, compared to LL 11,924 billion during the same period of 2014. On a cash basis, total revenues regressed by LL 1,572 billion (13 percent) in the first nine months of 2015.

Tax revenues declined by LL 116 billion (1 percent) by end-September 2015, amounting to LL 7,966 billion compared to the same period of 2014. This was mainly the result of a decrease in value-added tax (VAT) by LL 154 billion (6 percent), reflecting lower VAT at customs (LL 176 billion) partly counterbalanced by an increase in VAT collected internally (LL 22 billion). Moreover, real estate registration fees declined by LL 80 billion (13 percent), mirroring the 13 percent drop in the number of sold properties, and customs decreased by LL 46 billion (8 percent) over the period under consideration.

These decreases were slightly counterbalanced by increases in excises (LL 58 billion) and taxes on income, profits and capital gains (LL 54 billion).

Non-tax revenues[3] contracted by LL 122 billion (5 percent) year-on-year to LL 2,317 billion in Jan-Sep 2015, primarily as a result of a LL 140 billion decrease in transfers from the Telecom Surplus. On a cash basis, non-tax revenues dropped by LL 667 billion as cash transfers from the Telecom Surplus amounted to LL 1,980 billion in Jan-Sep 2014, compared to only LL 1,295 billion in Jan-Sep 2015.

Of other non-tax revenues property income dropped by LL 37 billion, Vehicle Control Fees by LL 25 billion and revenues from Port of Beirut by LL 22 billion. On the other hand, revenues collected from Passport Fees rose by LL 73 billion (59 percent).

Treasury receipts fell by LL 789 billion (56 percent) to reach LL 615 billion by end-September 2015 (*for more information, kindly refer to August 2015 Public Finance Monitor*).

Expenditure

Total expenditures declined by LL 444 billion to reach LL 14,829 billion in the first nine months of 2015, from LL 15,273 billion in the same period of 2014.

Current primary expenditures[4] stood at LL 7,999 billion by end-September 2015, diminishing by LL 674 billion (8 percent) from 2014. This was mainly the result of a decrease in (i) transfers to EDL by LL 909 billion as international oil prices recorded a sharp drop from the previous year reducing the cost of petroleum imports, (ii) transfers to NSSF by LL 100 billion, and (iii) transfers to Directorate General of Cereals and Beetroot by LL 60 billion. Also, medicaments and contributions to water authorities decreased by LL 22 billion and LL 12 billion in Jan-Sep 2015, respectively. These drops were partially offset by (i) a LL 117 billion increase in payments to salaries, wages and social benefits mainly driven by LL 52 billion higher allowances to the army personnel, LL 50 bn increase in basic salaries of the army, alongside a LL 44 billion rise in government subscription and contributions to the government employees' cooperative, and (ii) a LL 108 billion increase in retirement and end-of-service compensation.

Interest payments hiked by LL 269 billion to reach LL 4,725 billion in Jan-Sep 2015, mirroring higher debt service payments on the domestic currency component (LL 269 billion. **Foreign debt principal repayments** registered a 10 percent (LL 20 billion) increase, reaching LL 220 billion by end-September 2015.

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

Capital expenditures contracted by LL 54 billion to reach LL 568 billion in Jan-Sep 2015, mainly as a result of a LL 45 billion drop 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 20 billion, LL 10 billion, and LL 9 billion respectively. Moreover, maintenance decreased by LL 18 billion reaching LL 96 billion in Jan-Sep 2015. These decreases were partly counterbalanced by a LL 53 billion increase in spending on Higher Council of Relief.

Treasury expenditures[5] increased by LL 12 billion to reach LL 1,091 billion in the first nine months of 2015 compared to LL 1,079 billion in the same period of 2014. This was mainly the result of a LL 75 billion rise in deposits, and a LL 25 billion increase in other treasury expenditures, mainly VAT refund by LL 7 billion. These increases were partly counterbalanced by a LL 56 billion decline in payments to Municipalities.

Public Debt

Gross public debt stood at LL 103,608 billion at end-September 2015, up by LL 3,252 billion (3.2 percent) from end-2014. Net debt increased by 5.4 percent (LL 4,679 billion) to LL 91,070 billion, as public sector deposits dropped by LL 1,427 billion (10.2 percent) to LL 12,538 billion. In the months of August and September of 2015, some public sector deposits were drawn down for repayments of foreign currency and local currency debt maturities, remaining at 12 percent of gross debt.

Local currency debt reached LL 64,138 billion, up by 3.9 percent from end-2014, accounting for 62 percent of total debt. Local currency debt holdings by the Central Bank increased by LL 3,041 billion, followed by other holders of local currency debt (including public entities, financial institutions, and the general public) with an increase of LL 354 billion, while holdings by Commercial Banks contracted by LL 1,009 billion to LL 30,459 billion, remaining the largest among holdings with 47 percent of the total outstanding stock. With Commercial banks' TB auction subscriptions exceeding their principal maturities in the first three quarters of 2015, the decrease in banks' local currency debt holdings can be attributed to secondary market operations.

The stock of **foreign currency debt** recorded an expansion of LL 866 billion by end-September 2015 to reach LL 39,470 billion. A rise of LL 1,359 billion in outstanding market Eurobonds to LL 33,943 billion 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 355 billion and LL 120 billion respectively, mainly as a result of amortized principal repayments[6]. Moreover, "bilateral, multilateral and foreign private sector loans" dropped by LL 235 billion to LL 2,517 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] In the month of September 2015 a US$ 35 million principal payment was made on the Paris II loan originally for US$ 700 million due March 2018.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2014 Jan-Sep	2015 Jan-Sep	% Change 2015/2014
Budget Revenues, of which	**10,520**	**10,283**	**-2.3%**
Tax Revenues	*8,082*	*7,966*	*-1.4%*
Non-Tax Revenues	*2,439*	*2,317*	*-5.0%*
Treasury Receipts	**1,404**	**615**	**-56.2%**
Total Revenues	**11,924**	**10,897**	**-8.6%**

Source: Ministry of Finance, Directorate General of Finance

Table 3: Tax Revenues

(LL billion)	2014 Jan-Sep	2015 Jan-Sep	% Change 2015/2014
Tax Revenues:	**8,082**	**7,966**	**-1.4%**
Taxes on Income, Profits, & Capital Gains, of which	**2,376**	**2,430**	**2.3%**
Income Tax on Profits	1,067	1,063	-0.4%
Income Tax on Wages and Salaries	501	518	3.4%
Income Tax on Capital Gains & Dividends	234	232	-0.9%
Tax on Interest Income (5%)	526	564	7.2%
Penalties on Income Tax	47	52	11.0%
Taxes on Property, of which:	**933**	**868**	**-7.0%**
Built Property Tax	186	202	8.7%
Real Estate Registration Fees	628	548	-12.8%
Domestic Taxes on Goods & Services, of which:	**2,895**	**2,776**	**-4.1%**
Value Added Tax	2,503	2,349	-6.1%
Other Taxes on Goods and Services, of which:	269	279	3.6%
Private Car Registration Fees	163	178	9.0%
Passenger Departure Tax	104	99	-4.7%
Taxes on International Trade, of which:	**1,511**	**1,522**	**0.7%**
Customs	579	533	-8.0%
Excises, of which:	932	990	6.2%
Gasoline Excise	386	472	22.4%
Tobacco Excise	236	173	-26.7%
Cars Excise	304	340	11.8%
Other Tax Revenues (namely fiscal stamp fees)	**367**	**370**	**0.7%**

Source: Ministry of Finance, Directorate General of Finance

Table 4: Non-Tax Revenues

(LL billion)	2014 Jan-Sep	2015 Jan-Sep	% Change 2015/2014
Non-Tax Revenues	**2,439**	**2,317**	**-5.0%**
Income from Public Institutions and Government Properties, of which:	**1,818**	**1,604**	**-11.8%**
Income from Non-Financial Public Enterprises, of which:	1,636	1,462	-10.7%
Revenues from Casino Du Liban	90	75	-17.4%
Revenues from Port of Beirut	82	60	-26.9%
Budget Surplus of National Lottery	28	31	11.2%
Transfer from the Telecom Surplus [1/]	1,435	1,295	-9.8%
Transfer from Public Financial Institution (BDL)	61	61	0.2%
Property Income (namely rent of Rafic Hariri International Airport)	114	77	-32.4%
Other Income from Public Institutions (interests)	7	4	-41.7%
Administrative Fees & Charges, of which:	**480**	**573**	**19.3%**
Administrative Fees, of which:	400	479	19.8%
Notary Fees	24	28	16.6%
Passport Fees/ Public Security	124	197	59.0%
Vehicle Control Fees	191	165	-13.3%
Judicial Fees	20	23	12.3%
Driving License Fees	15	26	68.8%
Administrative Charges	20	24	21.0%
Sales (Official Gazette and License Number)	2	2	-0.8%
Permit Fees (mostly work permit fees)	48	54	12.4%
Other Administrative Fees & Charges	11	15	33.1%
Penalties & Confiscations	**9**	**19**	**128.1%**
Other Non-Tax Revenues (mostly retirement deductibles)	**132**	**121**	**-8.5%**

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.*

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2014 Jan-Sep	2015 Jan-Sep	% Change 2015/2014
1. Current Expenditures	**13,329**	**12,944**	**-2.9%**
1.a Personnel Cost, *of which*	5,001	5,326	6.5%
Salaries, Wages and Related Benefits	*3,378*	*3,494*	*3.5%*
Retirement and End of Service Compensations, of which:	*1,422*	*1,530*	*7.6%*
Retirement	*1,232*	*1,290*	*4.6%*
End of Service	*190*	*240*	*26.5%*
Transfers to Public Institutions to Cover Salaries 1/	*201*	*301*	*49.9%*
1.b Interest Payments, 2/	4,456	4,725	6.0%
Domestic Interest Payments	2,893	3,162	9.3%
Foreign Interest Payments	1,563	1,563	0.0%
1.c Accounting adjustments*	0	1	-
1.d Foreign Debt Principal Repayment	200	220	10.2%
1.e Materials and Supplies, *of which:*	262	241	-7.9%
Nutrition	*58*	*68*	*17.1%*
Fuel Oil	*6*	*10*	*75.4%*
Medicaments	*127*	*104*	*-17.7%*
1.f External Services	111	103	-6.9%
1.g Various Transfers, *of which:*	2,856	1,782	-37.6%
EDL 3/	*2,248*	*1,339*	*-40.4%*
NSSF	*100*	*0*	*-100.0%*
Higher Council of Relief	*19*	*29*	*51.4%*
Contributions to non-public sectors	*206*	*217*	*5.4%*
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:*	313	411	31.2%
Hospitals	*209*	*297*	*42.3%*
Others(judgments & reconciliations, mission costs, other)	*100*	*104*	*4.8%*
1.i Interest subsidy	130	136	4.3%
2. Capital Expenditures	**623**	**568**	**-8.7%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-73.2%
2.b Equipment	40	43	5.9%
2.c Construction in Progress, *of which:*	443	398	-10.2%
Displaced Fund	*30*	*10*	-
Council of the South	*39*	*30*	*-24.2%*
CDR	*205*	*200*	*-2.4%*
Ministry of Public Work and Transport	*43*	*34*	*-21.0%*
Other of which	*59*	*119*	*102.8%*
Higher Council of Relief	*2*	*55*	-
2.d Maintenance	114	96	-15.5%
2.e Other Expenditures Related to Fixed Capital Assets	26	32	23.4%
3. Budget Advances 5/	**208**	**177**	**-14.8%**
4. Customs Administration (exc. Salaries and Wages) 6/	**33**	**46**	**37.7%**
5. Treasury Expenditures 7/	**1,079**	**1,091**	**1.2%**
Municipalities	658	603	-8.5%
Guarantees	70	39	-44.5%
Deposits **8/**	95	170	79.1%
Other, *of which:*	255	280	9.6%
VAT Refund	*188*	*195*	*3.5%*
6. Unclassified Expenditures	**2**	**2**	**15.4%**
7. Total Expenditures (Excluding CDR Foreign Financed)	**15,273**	**14,829**	**-2.9%**

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.
** 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-Sep	2015 Jan-Sep	% Change 2015/2014
Transfer to Council of the South	9	6	-28.1%
Transfer to CDR	11	9	-23.5%
Transfer to the Displaced Fund	3	4	30.3%
Transfer to the Lebanese University	170	275	61.7%
Transfer to the Educational Center for Research and Development	8	8	-4.5%

Source: Ministry of Finance, Directorate General of Finance

Table 7: Details of Debt Service Transactions[1]

(LL billion)	2014 Jan-Sep	2015 Jan-Sep	% Change 2015/2014
Interest Payments	**4,456**	**4,725**	**6.0%**
Local Currency Debt	2,893	3,162	9.3%
Foreign Currency Debt, of which:	1,563	1,563	0.0%
*Eurobond Coupon Interest**	*1,471*	*1,489*	*1.3%*
*Special bond Coupon Interest**	*5*	*5*	*-12.8%*
Concessional Loans Interest Payments	*87*	*69*	*-20.6%*
Concessional Loans Principal Repayments	**200**	**220**	**10.2%**

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-Sep	2015 Jan-Sep	% Change 2015/2014
EDL *of which:*	**2,248**	**1,339**	**-40.4%**
Debt Service	29	26	-10.3%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	2,219	1,313	-40.8%

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-September 2015

(LL billion)	Dec-13	Dec-14	Sep-15	% Change Dec 14 – Sep 15
Gross Public Debt	**95,710**	**100,356**	**103,608**	**3.2%**
Local Currency Debt	**56,312**	**61,752**	**64,138**	**3.9%**
** Accrued Interest Included in Debt*	*877*	*1,029*	*1,030*	*0.1%*
a. Central Bank (Including REPOs)	17,171	19,855	22,896	15.3%
b. Commercial Banks	29,905	31,468	30,459	-3.2%
c. Other Local Currency Debt (T-bills), *of which:*	9,236	10,429	10,783	3.4%
Public Entities	7,117	7,701	8,245	7.1%
Contractor bonds 1/	134	180	180	0.0%
Foreign Currency Debt 2/	**39,398**	**38,604**	**39,470**	**2.2%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,606	2,752	2,517	-8.5%
b. Paris II Related Debt (Eurobonds and Loans) 3/	2,338	1,743	1,388	-20.3%
c. Paris III Related Debt (Eurobonds and Loans) 4/	1,187	986	866	-12.2%
d. Market-Issued Eurobonds	32,688	32,584	33,943	4.2%
e. Accrued Interest on Eurobonds	444	425	676	59.1%
f. Special T-bills in Foreign Currency 5/	136	114	80	-29.8%
Public Sector Deposits	**15,495**	**13,965**	**12,538**	**-10.2%**
Net Debt 6/	**80,215**	**86,391**	**91,070**	**5.4%**
Gross Market Debt 7/	**65,386**	**67,373**	**67,732**	**0.5%**
% of Total Debt	**68%**	**67%**	**65%**	**-2.6%**

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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