REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

July 2017

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General Overview

Government finances registered an improvement in the first seven months of 2017 compared to the same period in 2016 as revenues rose by 14 percent, mostly supported by one-off tax collections[1] whereas expenditures decreased by 3 percent owing to a drop in Treasury spending[2], despite increases in interest payments and transfers to EDL. **The total fiscal balance** recorded a deficit of LL 1,302 billion down by 57 percent from the same period in 2016 and the **primary balance** registered a surplus of LL 2,928 billion compared to a surplus of LL 1,006 billion in Jan-Jul 2016 (Table 1).

Table 1: Summary of Fiscal Performance

(LL billion)	2016 Jan-Jul	2017 Jan-Jul	% Change 2017/2016
Total Budget and Treasury Receipts	**9,480**	**10,772**	**13.6%**
Total Budget and Treasury Payments, *of which*	**12,474**	**12,074**	**-3.2%**
•Interest Payments	3,822	4,055	6.1%
•Concessional loans principal payment[1]	178	175	-1.9%
•Primary Expenditures[2]	8,474	7,844	-7.4%
Total (Deficit)/Surplus	**(2,994)**	**(1,302)**	**-56.5%**
Primary (Deficit)/Surplus	**1,006**	**2,928**	**191.0%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
[1] Includes only Principal repayments of concessional loans earmarked for project financing
[2] Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

Revenues

Total revenues increased by around 14 percent in Jan-Jul 2017 to reach LL 10,772 billion, compared to LL 9,480 billion in the same period of 2016.

Tax revenues witnessed a boost of LL 1,457 billion (21 percent) in the first seven months of 2017.

This improvement was mainly due to a growth in taxes on income, profits and capital gains by LL 1,060 billion (45 percent), amounting to LL 3,398 billion in Jan-Jul 2017. Most notably, income tax on profits increased by 88 percent or LL 937 billion, as financial institutions transferred taxes on exceptional profits from the Central Bank's 2016 financial engineering. Moreover, tax on interest income, income tax on wages and salaries, and income tax on capital gains and dividends increased by LL 39 billion, LL 38 billion, and LL 35 billion respectively.

Domestic taxes on goods and services increased by LL 200 billion driven by a LL 157 billion (7.7 percent) increase in the value-added tax. In detail, internal VAT rose by 5 percent, while VAT at customs grew by 10 percent partly due to an increase in the value and volume of gasoline imports.

[1] Taxes on profits related to the Central Bank's 2016 quantitative easing policy, or financial engineering. Information of the Central Bank's 2016 Financial Engineering, please refer to the Banque Du Liban (BDL) website under: http://www.bdl.gov.lb/downloads/index/9/149/Guides-and-Booklets.html

[2] In 2014, the Treasury collected an estimated LL 739 billion of telecom revenues on behalf of municipalities (of which LL 636 billion in arrears for the period 2010-2013). Of the total amount, LL 592 billion was transferred to municipalities in Jan-Jul 2016.

Property taxes rose by LL 124 billion (17 percent) as of end-July 2017 as real estate registration fees and built property taxes rose by LL 87 billion and LL 37 billion respectively.

Taxes on international trade increased by LL 54 billion driven by higher excises (LL 39 billion) and better collection from customs (LL 16 billion). Moreover, fiscal stamps rose by LL 19 billion over the period.

Non-tax revenues decreased by LL 92 billion to reach LL 1,836 billion in Jan-Jul 2017, mainly due to lower Transfers from the Telecom Surplus. On the other hand, revenues from Port of Beirut and Casino Du Liban increased by LL 78 billion and LL 9 billion respectively.

Moreover, administrative fees and charges increased by LL 69 billion as a result of higher vehicle control fees (LL 82 billion) and passport fees (LL 7 billion), which were partially offset by decreases in administrative charges (LL 5 billion) and permit fees (LL 4 billion). It is worth mentioning that the growth in vehicle control fees is a result of a reduction in penalties on late payments of vehicle control[3].

Treasury receipts dropped by LL 73 billion to reach LL 570 billion by end-July 2017. It is worth mentioning that treasury receipts are transitory in nature and as such, variations in these collections are usually not reflective of economic activity.

Expenditures

Total expenditures recorded a major decrease of LL 400 billion, standing at LL 12,074 billion in Jan-Jul 2017.

Current primary expenditures[4] increased by LL 142 billion mainly as a result of increases in (i) transfers to EDL by LL 289 billion, (ii) personnel cost by LL 242 billion, mainly driven by an increase in salaries, wages and social benefits of LL 183 billion and retirement and end of service compensations of LL 62 billion, and (iii) material and supplies by LL 9 billion. These increases were almost counterbalanced by a LL 104 billion drop in payments to hospitals.

Interest payments rose by LL 233 billion to reach LL 4,055 billion. **Foreign debt principal repayment** amounted to LL 175 billion in Jan-Jul 2017, down from LL 178 billion registered in Jan-Jul 2016.

Capital expenditures increased by LL 104 billion in Jan-Jul 2017, primarily due to a LL 139 billion increase in construction in progress mainly driven by (i) a rise in transfers to CDR by LL 169 billion, (ii) a LL 4 billion rise in transfers to the Higher Council of Relief, and (iii) a LL 10 billion increase in transfers to the displaced fund. Increases were counterbalanced by decreases in transfers to the Ministry of Public Works and Transport by LL 11 billion, Maintenance costs by LL 31 billion, and other expenditures related to fixed capital assets by LL 7 billion.

Treasury expenditures witnessed a significant decrease of LL 819 billion to reach LL 547 billion in Jan-Jul 2017, mainly due to lower payments to Municipalities – from LL 995 billion in Jan-Jul 2016 to LL 163 billion in Jan-Jul 2017.

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[3] Law #68 published in the National Gazette and dated November 3, 2016.

[4] Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

Public Debt Developments

Gross public debt reached LL 115,923 billion as of end-July 2017, increasing by LL 3,013 billion (2.7 percent) from end-2016, while net debt increased by 1.8 percent as public sector deposits rose by 8.9 percent over the covered period.

Local currency debt increased by 0.8 percent to reach LL 71,104 billion as of end-July 2017, compared to LL 70,528 billion as of end-2016. In detail, Local Currency Debt holdings by the Central Bank increased by LL 2,432 billion (8.1 percent), whereas Commercial Banks' holdings decreased by LL 2,086 billion (7.1 percent). Local currency debt holdings by Public Entities increased by LL 211 billion to reach LL 8,929 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 2,437 billion to LL 44,819 billion, mostly owing to a LL 2,327 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 385 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 271 billion and LL 162 billion respectively, mainly due to amortized principal repayments.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2016 Jan-Jul	2017 Jan-Jul	% Change 2017/2016
Budget Revenues, of which	**8,838**	**10,202**	**15.4%**
Tax Revenues	6,910	8,367	21.1%
Non-Tax Revenues	1,927	1,836	-4.8%
Treasury Receipts	**643**	**570**	**-11.3%**
Total Revenues	**9,480**	**10,772**	**13.6%**

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

Table 3: Tax Revenues

(LL billion)	2016 Jan-Jul	2017 Jan-Jul	% Change 2017/2016
Tax Revenues:	**6,910**	**8,367**	**21.1%**
Taxes on Income, Profits, & Capital Gains, of which	**2,338**	**3,398**	**45.3%**
Income Tax on Profits	1,065	2,002	87.9%
Income Tax on Wages and Salaries	535	573	7.1%
Income Tax on Capital Gains & Dividends	222	257	15.7%
Tax on Interest Income (5%)	484	523	8.0%
Penalties on Income Tax	32	43	36.5%
Taxes on Property, of which:	**719**	**843**	**17.2%**
Built Property Tax	182	219	20.5%
Real Estate Registration Fees	438	524	19.8%
Domestic Taxes on Goods & Services, of which:	**2,377**	**2,577**	**8.4%**
Value Added Tax	2,044	2,200	7.7%
Other Taxes on Goods and Services, of which:	217	254	16.9%
Private Car Registration Fees	*136*	*149*	*9.3%*
Passenger Departure Tax	*80*	*104*	*29.9%*
Taxes on International Trade, of which:	**1,191**	**1,245**	**4.6%**
Customs	405	420	3.8%
Excises, of which:	786	825	4.9%
Gasoline Excise	*385*	*397*	*3.0%*
Tobacco Excise	*123*	*124*	*0.7%*
Cars Excise	*275*	*301*	*9.3%*
Other Tax Revenues (namely fiscal stamp fees)	**285**	**304**	**6.8%**

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

Table 4: Non-Tax Revenues

(LL billion)	2016 Jan-Jul	2017 Jan-Jul	% Change 2017/2016
Non-Tax Revenues	**1,927**	**1,836**	**-4.8%**
Income from Public Institutions and Government Properties, of which	**1,343**	**1,185**	**-11.7%**
Income from Non-Financial Public Enterprises, of which:	1,203	1,034	-14.0%
Revenues from Casino Du Liban	60	69	15.1%
Revenues from Port of Beirut	65	143	119.6%
Budget Surplus of National Lottery	10	21	106.6%
Transfer from the Telecom Surplus	1,067	800	-25.0%
Transfer from Public Financial Institution (BDL)	61	61	-0.6%
Property Income (namely rent of Rafic Hariri International Airport)	75	87	15.8%
Other Income from Public Institutions (interests)	4	4	-11.8%
Administrative Fees & Charges, of which:	**445**	**514**	**15.6%**
Administrative Fees, of which:	358	438	22.4%
Notary Fees	21	22	2.4%
Passport Fees/ Public Security	157	164	4.2%
Vehicle Control Fees	118	200	69.6%
Judicial Fees	18	17	-2.4%
Driving License Fees	12	14	12.9%
Administrative Charges	23	18	-23.6%
Sales (Official Gazette and License Number)	1.5	1.8	19.5%
Permit Fees (mostly work permit fees)	52	48	-8.1%
Other Administrative Fees & Charges	10	9	-13.5%
Penalties & Confiscations	**25**	**21**	**-17.7%**
Other Non-Tax Revenues (mostly retirement deductibles)	**114**	**115**	**0.8%**

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

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2016 Jan-Jul	2017 Jan-Jul	% Change 2017/2016
1. Current Expenditures	**10,289**	**10,662**	**3.6%**
1.a Personnel Cost, *of which*	4,190	4,432	5.8%
Salaries, Wages and Related Items	2,736	2,919	6.7%
Retirement and End of Service Compensations, of which:	1,239	1,301	5.0%
Retirement	1,043	1,094	4.8%
End of Service	195	207	5.9%
Transfers to Public Institutions to Cover Salaries	216	212	-1.6%
1.b Interest Payments 1/, *of which:*	3,822	4,055	6.1%
Domestic Interest Payments	2,523	2,709	7.4%
Foreign Interest Payments	1,298	1,346	3.7%
1.c Accounting Adjustments 2/	43	0	-
1.d Foreign Debt Principal Repayment	178	175	-1.9%
1.e Materials and Supplies, *of which:*	223	232	4.1%
Nutrition	49	50	2.9%
Fuel Oil	23	21	-8.0%
Medicaments	102	120	17.0%
1.f External Services	89	85	-5.3%
1.g Various Transfers, *of which:*	1,312	1,346	2.6%
EDL 3/	662	950	43.7%
NSSF	20	0	-
Higher Council of Relief	1	21	-
Contributions to non-public sectors	172	174	1.6%
Transfers to Directorate General of Cereals and Beetroot 4/	0	15	-
1.h Other Current, *of which:*	348	260	-25.2%
Hospitals	278	174	-37.3%
Others(judgments & reconciliations, mission costs, other)	67	79	18.4%
1.i Interest Subsidy	85	77	-9.1%
2. Capital Expenditures	**562**	**666**	**18.5%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	2	-
2.b Equipment	37	36	-1.1%
2.c Construction in Progress, *of which:*	366	506	38.1%
Displaced Fund	0	10	-
Council of the South	27	27	0.0%
CDR	172	341	97.9%
Ministry of Public Work and Transport	65	54	-16.5%
Other of which:	97	69	-29.0%
Higher Council of Relief	2	6	175.0%
2.d Maintenance	110	79	-28.0%
2.e Other Expenditures Related to Fixed Capital Assets	49	42	-13.3%
3. Budget Advances 5/	**187**	**152**	**-19.0%**
4. Customs Administration (exc. Salaries and Wages) 6/	**67**	**48**	**-28.6%**
5. Treasury Expenditures 7/	**1,366**	**547**	**-59.9%**
Municipalities	995	163	-83.6%
Guarantees	42	60	42.6%
Deposits 8/	127	164	29.7%
Other, *of which:*	202	160	-20.8%
VAT Refund	138	109	-21.1%
6. Unclassified Expenditures	**3**	**0**	**-**
7. Total Expenditures (Excluding CDR Foreign Financed)	**12,474**	**12,074**	**-3.2%**

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures

(1) For a detailed breakdown of interest payments, kindly refer to table 6.
(2) It is worth noting that amounts of LL41.4 billion in coupons and 1.9 billion in discounted interest payments due on 31/12/2015 were recorded in the accounting system on 2/1/2016.
(3) For a detailed breakdown of transfers to EDL, kindly refer to table 7. 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: Details of Debt Service Transactions[1]

(LL billion)	2016 Jan-Jul	2017 Jan-Jul	% Change 2017/2016
Interest Payments	**3,822**	**4,055**	**6.1%**
Local Currency Debt	2,523	2,709	7.4%
Foreign Currency Debt, of which:	1,298	1,346	3.7%
*Eurobond Coupon Interest**	1,242	1,289	3.8%
*Special bond Coupon Interest**	2	1	-30.7%
Concessional Loans Interest Payments	55	56	1.6%
Foreign Debt Principal Repayment	**178**	**175**	**-1.9%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
(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 7: Transfers to EDL[1]

(LL billion)	2016 Jan-Jul	2017 Jan-Jul	% Change 2017/2016
EDL, *of which:*	**662**	**950**	**43.7%**
Debt Service	14	9	-35.9%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	647	941	45.4%

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 8: Public Debt Outstanding by Holder as of End-July 2017

(LL billion)	Dec-15	Dec-16	Jul-17	% Change Jul 17-Dec 16
Gross Public Debt	**106,031**	**112,910**	**115,923**	**2.7%**
Local Currency Debt	**65,195**	**70,528**	**71,104**	**0.8%**
** Accrued Interest Included in Debt*	*997*	*1,098*	*1,066*	*-2.9%*
a. Central Bank (Including REPOs)	24,308	30,150	32,582	8.1%
b. Commercial Banks	29,878	29,581	27,495	-7.1%
c. Other Local Currency Debt (T-bills), *of which:*	11,009	10,797	11,027	2.1%
Public Entities	*8,461*	*8,718*	*8,929*	*2.4%*
Contractor bonds 1/	*180*	*139*	*80*	*-42.4%*
Foreign Currency Debt 2/	**40,836**	**42,382**	**44,819**	**5.7%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,491	2,506	2,891	15.3%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,182	631	361	-42.9%
c. Paris III Related Debt (Eurobonds and Loans) 4/	810	660	498	-24.6%
d. Market-Issued Eurobonds	35,862	38,063	40,390	6.1%
e. Accrued Interest on Eurobonds	435	458	642	40.2%
f. Special T-bills in Foreign Currency 5/	68	63	37	-41.3%
Public Sector Deposits	**13,227**	**14,268**	**15,541**	**8.9%**
Net Debt 6/	**92,804**	**98,642**	**100,382**	**1.7%**
Gross Market Debt 7/	**69,216**	**70,303**	**70,743**	**0.6%**
% of Total Debt	**65%**	**62%**	**61%**	**-2.0%**

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

(1) Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency".

(2) Figures for Dec 15- Dec 16 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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