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General Overview

Lebanon's government deficit widened significantly in the first two months of 2018 from the same period in 2017, boosted by a broad 40 percent annual increase in expenditures on the back of public sector wages, capital spending, and payments to municipalities, and outweighing a smaller increase of almost 6 percent in total revenues. The **total fiscal balance** recorded a deficit of LL 1,304 billion, compared to a deficit of LL 244 billion in the same period of 2017, while the **primary balance** turned to a deficit of LL 497 billion from a surplus of LL 499 billion. As a result, **Gross Public Debt** continued its upward trend, rising by 2.5 percent in the first two months of 2018 from end-2017.

Table 1: Summary of Fiscal Performance

(LL billion)	Jan-Feb 2017	Jan-Feb 2018	% Change 2018/2017
Total Budget and Treasury Receipts	2,782	2,944	5.8%
Total Budget and Treasury Payments, of which	3,025	4,248	40.4%
•Interest Payments	707	771	9.1%
•Concessional loans principal payment ¹	36	36	1.5%
•Primary Expenditures ²	2,283	3,441	50.7%
Total (Deficit)/Surplus	-244	-1,304	-
Primary (Deficit)/Surplus	499	-497	-

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 reached LL 2,944 billion in Jan-Feb 2018, up by LL 162 billion (5.8 percent) from the same period last year. The increase in tax revenues was partially counterbalanced by the fall in non-tax revenues.

Tax revenues rose by LL 212 billion (11.1 percent) to reach LL 2,119 billion, with increases in all sub-components except for a slight decline in taxes on international trade. Taxes on income, profits, and capital gains rose by LL 128 billion (23.4 percent), mainly due to the increase in **Taxes on Interest Income** by LL 96 billion to reach LL 247 billion in the first two months of 2018. In addition, **income tax on wages and salaries** also rose by LL 31 billion to reach LL 228 billion, up from LL 197 billion during Jan-Feb 2017. **Built property tax** also rose by LL 9 billion (22.5 percent) as the number of properties sold increased by 2.2 percent year-on-year. However, **real estate registration fees** declined by LL 5 billion (3.7 percent) in Jan-Feb 2018, with the number of registered square meters dropping by 6.8 percent. **Domestic taxes on goods and services** witnessed an increase of LL 61 billion (8.2 percent) to reach LL 813 billion over the covered period, primarily due to an increase of LL 60 billion (8.9 percent) in **value added tax**. **Taxes on international trade** dropped by LL 4 billion (1.3 percent) to reach LL 315 billion in Jan-Feb 2018, given primarily the decrease of LL 20 billion (9.3 percent) in excise taxes. In detail, tobacco excises regressed by LL 19 billion (49.6 percent) as the value of tobacco-imported products decreased by LL 15 billion (36.5 percent) from the prior year.

Non-tax revenues declined significantly by LL 325 billion year-on-year to reach LL 380 billion in Jan-Feb 2018. This was initiated by the sharp drop of LL 316 billion (67.6 percent) in **income from public institutions and government properties** as a result of a fall in **transfers from the Telecom Surplus** by LL 291 billion compared to Jan-Feb 2017, and a drop of LL 25 billion (58.7 percent) in **property income**. On the other hand, the increase in **other non-tax revenues** by LL 15 billion (49.6 percent) was offset by the drop in **vehicle control fees** by LL 36 billion (31.7 percent) compared to the same period last year.

Treasury receipts grew significantly by LL 275 billion to reach LL 445 billion in Jan-Feb 2018 compared to LL 170 billion during the same period of 2017.

Expenditures

Total expenditures rose by LL 1,223 billion (40.4 percent) to record LL 4,248 billion in Jan-Feb 2018 due to the higher spending within all sub-components, mainly in current and treasury expenditures.

Current primary expenditures¹ increased by LL 386 billion to LL 2,260 billion in the first two months of the year, driven by a relative increase in **salaries, wages and social benefits** and in **retirement and end of service compensations** by LL 208 billion and LL 45 billion, respectively. In parallel, other increases include (i) **transfers to hospitals** that grew by LL 52 billion to reach LL 199 billion, (ii) **contributions to non-public sectors** that rose by LL 22 billion to reach LL 58 billion, (iii) **Fuel oil payments** that increased by LL 24 billion to reach LL 33 billion, as well as (iv) **Transfers to EDL** that accelerated by LL 11 billion to LL 320 billion in Jan-Feb 2018. However, these increases were slightly counterbalanced by a LL 41 billion (66.1 percent) drop in **medicaments** to reach LL 21 billion in the covered period.

Interest payments rose by 9.1 percent to LL 771 billion in Jan-Feb 2018, up from LL 707 billion in the same period last year, mainly as interest payments due on domestic debt increased by LL 67 billion (12.5 percent). Also, **foreign debt principal repayment** increased slightly by LL 1 billion (1.5 percent) to reach LL 36 billion in the first two months of 2018.

Capital expenditures grew by LL 285 billion (120.5 percent) to reach LL 522 billion, due to a significant rise of LL 209 billion in **construction in progress** expenses, associated with a LL 32 billion (75.6 percent) increase in **maintenance costs** to hit LL 74 billion. However, expenditures related to **CDR** and the **Ministry of Public Work and Transport** fell by LL 63 billion (53.9 percent) and by LL 6 billion (21.7 percent), respectively.

Treasury expenditures witnessed a sharp rise of LL 439 billion to reach LL 573 billion in Jan-Feb 2018 compared to LL 134 billion in the same period of 2017. This upward trend reflected a LL 506 billion increase in transfers to **municipalities** by the Ministry of Finance, amounting to LL 515 billion for the Jan-Feb 2018 period.

Public Debt

Gross public debt recorded a LL 3,010 billion (2.5 percent) increase in the first two months of 2018 to reach LL 122,899 billion at end-February. In parallel, net debt rose by LL 1,594 billion (1.5 percent) to LL 105,824 billion, as public sector deposits increased to LL 17,075 billion at end-February from LL 15,659 billion at end-2017.

¹ Current primary expenditures represent current expenditures excluding interest payment and debt service.

Local currency debt reached LL 76,781 billion at the end of February 2018, higher by LL 2,704 billion (3.7 percent) from end-December 2017, which was a major reason behind the greater public debt stock. Local currency debt holdings by the Central Bank grew by LL 3,930 billion (11 percent) to LL 39,510 billion, while holdings by Commercial Banks regressed by LL 1,318 billion (4.7 percent) to reach LL 26,438 billion. Insignificant changes were recorded in other local currency debt holdings, with TBs held by Public Entities increasing by LL 63 billion (0.7 percent) to LL 9,004 billion.

The stock of **foreign currency debt** rose by LL 306 billion (0.7 percent) to reach LL 46,118 billion. Paris II Related debt and Special T-bills in Foreign currency decreased by LL 18 billion (21 percent) and LL 27 billion (81.8 percent) respectively. However, this decrease was largely offset by an increase in accrued interest on Eurobonds by LL 289 billion (60.2 percent).

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2017 Jan-Feb	2018 Jan-Feb	% Change 2018/2017
Budget Revenues, of which	2,612	2,499	-4.3%
Tax Revenues	1,907	2,119	11.1%
Non-Tax Revenues	705	380	-46.1%
Treasury Receipts	170	445	161.8%
Total Revenues	2,782	2,944	5.8%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2017 Jan-Feb	2018 Jan-Feb	% Change 2018/2017
Tax Revenues:	1,907	2,119	11.1%
Taxes on Income, Profits, & Capital Gains, of which	548	677	23.4%
Income Tax on Profits	144	147	2.0%
Income Tax on Wages and Salaries	197	228	15.8%
Income Tax on Capital Gains & Dividends	38	38	0.4%
Tax on Interest Income (7%)	152	247	62.9%
Penalties on Income Tax	17	16	-7.0%
Taxes on Property, of which:	195	199	2.1%
Built Property Tax	41	50	22.5%
Real Estate Registration Fees	130	125	-3.7%
Domestic Taxes on Goods & Services, of which:	751	813	8.2%
Value Added Tax	680	740	8.9%
Other Taxes on Goods and Services, of which:	67	64	-4.8%
Private Car Registration Fees	37	42	12.1%
Passenger Departure Tax	30	22	-26.5%
Taxes on International Trade, of which:	320	315	-1.3%
Customs	108	124	14.3%
Excises, of which:	211	192	-9.3%
Gasoline Excise	103	104	0.6%
Tobacco Excise	39	20	-49.6%
Cars Excise	69	66	-3.4%
Other Tax Revenues (namely fiscal stamp fees)	93	115	24.4%

Source: MOF, DGF

Table 4: Non-Tax Revenue

(LL billion)	2017 Jan-Feb	2018 Jan-Feb	% Change 2018/2017
Non-Tax Revenues	705	380	-46.1%
Income from Public Institutions and Government Properties, of which	468	152	-67.6%
Income from Non-Financial Public Enterprises, of which:	423	133	-68.6%
<i>Revenues from Casino Du Liban</i>	23	24	3.0%
<i>Revenues from Port of Beirut</i>	0	0	-
<i>Budget Surplus of National Lottery</i>	0	0	-
<i>Transfer from the Telecom Surplus</i>	400	108	-72.9%
Transfer from Public Financial Institution (BDL)	0	0	-
Property Income (namely rent of Rafic Hariri International Airport)	43	18	-58.7%
Other Income from Public Institutions (interests)	1	1	-34.5%
Administrative Fees & Charges, of which:	202	177	-12.3%
Administrative Fees, of which:	174	147	-15.7%
Notary Fees	6	12	-
Passport Fees/ Public Security	40	44	9.1%
Vehicle Control Fees	115	78	-31.7%
Judicial Fees	4	4	-8.3%
Driving License Fees	3	4	5.1%
Administrative Charges	10	9	-6.8%
Sales (Official Gazette and License Number)	0	0	-1.7%
Permit Fees (mostly work permit fees)	14	14	5.4%
Other Administrative Fees & Charges	4	6	71.0%
Penalties & Confiscations	6	7	18.9%
Other Non-Tax Revenues (mostly retirement deductibles)	30	44	49.6%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2017 Jan-Feb	2018 Jan-Feb	% Change 2018/2017
1. Current Expenditures	2,617	3,068	17.2%
1.a Personnel Cost, of which	1,155	1,417	22.7%
Salaries, Wages and Related Items	755	962	27.5%
Retirement and End of Service Compensations, of which:	338	382	13.2%
Retirement	309	359	16.4%
End of Service	29	23	-21.2%
Transfers to Public Institutions to Cover Salaries	63	73	15.7%
1.b Interest Payments 1/, of which:	707	771	9.1%
Domestic Interest Payments	533	600	12.5%
Foreign Interest Payments	174	171	-1.4%
1.c Accounting Adjustments	0	0	0.0%
1.d Foreign Debt Principal Repayment	36	36	1.5%
1.e Materials and Supplies, of which:	96	66	-31.5%
Nutrition	13	11	-11.7%
Fuel Oil	10	33	-
Medicaments	62	21	-66.1%
1.f External Services	22	71	-
1.g Various Transfers, of which:	406	434	6.8%
EDL 2/	309	320	3.4%
NSSF	0	0	-
Higher Council of Relief	0	0	-
Contributions to non-public sectors	36	58	60.2%
Transfers to Directorate General of Cereals and Beetroot 3/	0	0	-
1.h Other Current, of which:	171	268	57.0%
Hospitals	147	199	35.5%
Others(judgments & reconciliations, mission costs, other)	21	66	-
1.i Interest Subsidy	24	4	-82.6%
2. Capital Expenditures	237	522	120.5%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	30	-
2.b Equipment	7	21	-
2.c Construction in Progress, of which:	185	394	-
Displaced Fund	0	10	-
Council of the South	0	0	-
CDR	116	54	-53.9%
Ministry of Public Work and Transport	29	23	-21.7%
Other of which:	36	54	51.7%
Higher Council of Relief	0	1	-
2.d Maintenance	42	74	75.6%
2.e Other Expenditures Related to Fixed Capital Assets	2	2	27.4%
3. Budget Advances 4/	24	51	108.8%
4. Customs Administration (exc. Salaries and Wages) 5/	13	34	166.1%
5. Treasury Expenditures 6/	134	573	-
Municipalities	9	515	-
Guarantees	21	13	-36.6%
Deposits 7/	60	10	-83.2%
Other, of which:	45	34	-22.9%
VAT Refund	33	33	0.1%
6. Unclassified Expenditures	0	0	-
7. Total Expenditures (Excluding CDR Foreign Financed)	3,025	4,248	40.4%

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⁾ 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.
- ⁽³⁾ Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.
- ⁽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 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.
- ⁽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 payments are payments made by the treasury to public administrations, institutions, municipalities, and funds, from revenues it has collected on their behalf.

Table 6: Details of Debt Service Transactions¹

(LL billion)	2017 Jan-Feb	2018 Jan-Feb	% Change 2018/2017
Interest Payments	707	771	9.1%
Local Currency Debt	533	600	12.5%
Foreign Currency Debt, of which:	174	171	-1.4%
Eurobond Coupon Interest*	160	157	-1.6%
Special bond Coupon Interest*	1	1	-48.2%
Concessional Loans Interest Payments	13	13	4.8%

Source: MOF, 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

(LL billion)	2017 Jan-Feb	2018 Jan-Feb	% Change 2018/2017
EDL of which:	309	320	3.4%
Debt Service	7	6	-17.9%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	302	314	3.9%

Source: MOF, 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 costs 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 have been reclassified under "budget expenditures".

SECTION 3: PUBLIC DEBT

Table 8: Public Debt Outstanding by Holder as of End-February 2018

(LL billion)	Dec-16	Dec-17	Feb-18	% Change Feb 18 - Dec 17
Gross Public Debt	112,910	119,889	122,899	2.5%
Local Currency Debt	70,528	74,077	76,781	3.7%
* <i>Accrued Interest Included in Debt</i>	1,098	1,159	1,185	2.2%
a. Central Bank	30,150	35,580	39,510	11.0%
b. Commercial Banks (Including REPOs) 1/	29,581	27,756	26,438	-4.7%
c. Other Local Currency Debt (T-bills), of which:	10,797	10,741	10,833	0.9%
<i>Public Entities</i>	8,718	8,941	9,004	0.7%
<i>Contractor bonds 2/</i>	139	166	166	0.0%
Foreign Currency Debt 3/	42,382	45,812	46,118	0.7%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,506	2,970	3,012	1.4%
b. Paris II Related Debt (Eurobonds and Loans) 4/	631	86	68	-21.0%
c. Paris III Related Debt (Eurobonds and Loans) 5/	660	452	456	0.9%
d. Market-Issued Eurobonds	38,063	41,791	41,807	0.0%
e. Accrued Interest on Eurobonds	458	480	769	60.2%
f. Special T-bills in Foreign Currency 6/	63	33	6	-81.8%
Public Sector Deposits	14,586	15,659	17,075	9.0%
Net Debt 7/	98,324	104,230	105,824	1.5%
Gross Market Debt 8/	70,303	71,944	70,946	-1.4%
% of Total Debt	62%	60%	58%	-3.8%

Source: MOF, DGF

⁽¹⁾ Since August 2017 REPOs are removed from central bank and added to commercial banks.

⁽²⁾ Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency".

⁽³⁾ Figures for Dec 16- Dec 17 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

⁽⁴⁾ 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.

⁽⁵⁾ 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.

⁽⁶⁾ Special Tbs in foreign currency (expropriation and contractor bonds).

⁽⁷⁾ Net Debt is obtained by subtracting Public Sector Deposits from Gross Public Debt.

⁽⁸⁾ 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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