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General Overview

The budget deficit has widened significantly in the first five months of 2018 driven by the increase in public spending due to the salary scale adjustment in 2017 and to lower revenue collection as a result of the subdued economic environment. In details, the hike in government expenditures was also the result of increases in capital spending, payments to municipalities, and transfers to EDL. In addition, the worsening of the fiscal situation is not only due to the higher spending but also to the significant drop in revenues, mainly income tax on profits which fell by LL 1,519 billion (77.4 percent) compared to last years huge amount; as financial institutions transferred in May 2017 their one-off profit taxes from the Central Bank's 2016 financial engineering.

The **total fiscal balance** recorded a huge deficit of LL 4,404 billion, compared to a deficit of LL 411 billion in the same period of 2017, while the **primary balance** sharply dropped to a deficit of LL 534 billion from a surplus of LL 2,773 billion. Consequently, **Gross Public Debt** expanded by 3.7 percent in May 2018 from end-2017.

Table 1: Summary of Fiscal Performance

(LL billion)	Jan-May 2017	Jan-May 2018	% Change 2018/2017
Total Budget and Treasury Receipts	8,313	7,229	-13.0%
Total Budget and Treasury Payments, of which	8,724	11,633	33.3%
•Interest Payments	3,063	3,740	22.1%
•Concessional loans principal payment ¹	121	130	6.9%
•Primary Expenditures ²	5,540	7,763	40.1%
Total (Deficit)/Surplus	-411	-4,404	-
Primary (Deficit)/Surplus	2,773	-534	-119.3%

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 dropped by LL 1,084 billion (13.0 percent) compared to the prior year to record LL 7,229 billion in Jan-May 2018. The fall was mainly due to the significant drop in tax revenues along with non-tax revenues.

Tax revenues recorded a level of LL 5,327 billion after a deep fall of LL 1,117 billion (17.3 percent) from LL 6,444 billion in Jan-May 2017, with a sharp decrease in Taxes on income, profits, and capital gains, Taxes on Property, and Taxes on international trade components. Taxes on income, profits, and capital gains tumbled by LL 1,147 billion (39.4 percent) mainly influenced by the large fall in **Income Tax on Profits** by LL 1,519 billion (77.4 percent) to reach LL 442 billion. Despite the rise in Income Tax on Profits rate from 15% to 17%, the drop was due to one-off profit taxes of financial institutions transferred in 2017 resulting from the Central Bank's 2016 financial engineering. In addition, as per the minister's decision #860/1 dated 24/05/2018, the extension in tax declaration deadlines also contributed to the decrease in tax revenues. **Tax on Interest Income** increased by LL 248 billion, as tax rates rose from 5% to 7% and Year-to-date average interest rates increased on both LBP and FX deposits by 105 bps and 45 bps

respectively, and **Income Tax on Wages and Salaries** also increased by LL 67 billion from the previous year after the salary scale adjustment. However, these increases were not significant to offset the huge drop in Income Tax on Profits. Also, it is worth mentioning that the tax rate on the dividends paid by publicly-listed firms on the Beirut Stock Exchange (BSE) rose from 5% to 10%, in line with the historical dividend tax rate paid by firms not listed on the BSE. The latter tax amendment reflected in a higher collection of **Income Tax on Capital Gains & Dividends** that reached LL 223 billion in the first five months of the year. In addition, **real estate registration fees** witnessed a fall in Jan-May 2018 by LL 74 billion (19.5 percent), as average prices of properties increased by 7.0 percent accompanied by a fall in their sales by 21.1 percent and a drop in the number of registered square meters by 18.1 percent¹. **Domestic taxes on goods and services** rose significantly by LL 141 billion (7.9 percent) to reach LL 1,929 billion over the covered period associated with the increase of LL 135 billion (8.8 percent) in **value added tax** as rates increased from 10% to 11%, with a rise in VAT at customs by 13.8 percent. **Taxes on international trade** fell by LL 50 billion (5.7 percent) to reach LL 824 billion in Jan-May 2018, given primarily the decrease of LL 67 billion (11.7 percent) in excise taxes. In detail, tobacco excises declined by LL 47 billion (49.8 percent) along with the fall in the value of tobacco-imported products by LL 54 billion (47.0 percent) from the prior year, as well as car excises which fell by LL 25 billion (12.0 percent) due to a 12.2 percent drop in the amount of imported cars.

Non-tax revenues also witnessed a sharp decline in the covered period amounting to LL 282 billion (19.3 percent) to hit LL 1,178 billion. This was initiated by the strict drop of LL 332 billion (34.2 percent) in **income from public institutions and government properties**; mainly due to a significant fall in **transfers from the Telecom Surplus** by LL 169 billion compared to the prior year, a decline of LL 143 billion (100 percent) in **revenues from Port of Beirut**, and a drop in **Property Income** by LL 25 billion (39.8 percent). In addition, **vehicle control fees** fell by LL 12 billion (6.9 percent) in Jan-May 2018. However, notary fees increased by LL 15 billion to reach LL 30 billion over the period as rates doubled due to the implementation of new revenue measures² under Law n° 64/2017 published in the official gazette n° 50 dated 26/10/2017³.

Treasury receipts edged up by LL 316 billion (77.2 percent) to reach LL 724 billion from a lower amount of LL 409 billion in the same period of last year.

Expenditures

Total expenditures extended to hit a new milestone of LL 11,633 billion in Jan-May 2018, up from LL 8,724 billion in the same covered period in 2017 due to higher spending within all sub-components, mainly in current and treasury expenditures.

Current primary expenditures⁴ significantly rose by LL 1,242 billion (26.9 percent) to record LL 5,868 billion, driven by a huge rise in **salaries, wages and social benefits** and in **retirement and end of service compensations** by LL 524 billion and LL 254 billion, respectively. In parallel, other increases in Jan-May 2018 included: (i) **Transfers to EDL** by LL 253 billion to reach LL 947 billion, (ii) **transfers to hospitals** that inched up by LL 78 billion to reach LL 238 billion, as well as (iii) **contributions to non-public sectors** that

¹ As per the registered data at the Order of Engineers and Architects in Beirut, excluding registered square meters in the Order of Engineers and Architects in Tripoli.

² Such as bonds, undertakings, guarantees, and other obligations from LL 10,000 to LL 20,000, translated documents that the notary public approves on from LL 2,000 to LL 4,000, formal copy of documents and titles from LL 2,000 to LL 4,000, and notices, warnings, omissions, waivers and disclaimers from LL 10,000 to LL 20,000.

³ Following the abrogation of the law no 45/2017 (published in the official gazette no 37 dated 21/08/2017) by the Constitutional Council.

⁴ Current primary expenditures represent current expenditures excluding interest payment and debt service.

rose by LL 34 billion to reach LL 94 billion. **Medicaments** and **Transfers to Higher Council of relief** witnessed a drop by LL 35 billion (41.8 percent) and LL 21 billion (100 percent) respectively, however tightening of these expenditures was insignificant compared to the huge rise in the above mentioned categories.

Interest payments reached LL 3,740 billion in Jan-May 2018 , higher by LL 678 billion (22.1 percent) from the prior year, mainly as interest payments due on Foreign debt increased significantly by LL 388 billion (33.4 percent). This increase was accompanied by another sharp rise in payments on Domestic debt by LL 290 billion (15.2 percent) to reach LL 2,191 billion.

Capital expenditures also grew by LL 321 billion (73.8 percent) to hit LL 756 billion, as a result of a major rise in **construction in progress** expenses by LL 217 billion (75.1 percent), accompanied by an increase of LL 76 billion (103.3 percent) in **maintenance costs** to hit LL 150 billion. However, expenditures related to **CDR** significantly fell by LL 80 billion (54.8 percent).

Treasury expenditures increased by LL 627 billion to reach LL 966 billion in Jan-May 2018 compared to LL 339 billion in the same period of 2017. This upward trend was mainly a result of an increase in transfers to **municipalities** by the Ministry of Finance by LL 461 billion to reach LL 572 billion in Jan-May 2018.

Public Debt

Gross public debt grew to LL 124,383 billion in May 2018 compared to a value of LL 119,898 billion in December 2017. Accordingly, net debt inflated by LL 4,626 billion (4.4 percent) to hit LL 108,865 billion, accompanied by a drop in public sector deposits by LL 141 billion to reach LL 15,518 billion at end-May. On another hand, the public debt composition was affected by the debt replacement agreement conducted between the Ministry of Finance and Banque du Liban on 17 May 2018, whereby MoF issued to BDL a nominal amount of US\$ 5.5 billion in dollar denominated Eurobonds with a market value of \$5.4 billion while BDL redeemed to MoF the equivalent in Lebanese Lira (LL) Treasury bonds from its existing portfolio.

Local currency debt decreased by LL 3,502 billion (4.7 percent), mainly due to a drop in both the Central bank and Commercial banks debt by LL 2,879 billion (8.1 percent) and LL 1,218 billion (4.4 percent), respectively in May 2018. On the other hand, an increase in other local currency debt holdings was recorded, with TBs held by Public Entities rising by LL 660 billion (7.4 percent) to reach LL 9,601 billion.

However, the stock of **foreign currency debt** significantly grew by LL 7,987 billion (17.4 percent) to reach LL 53,808 billion, as a result of new market issued Eurobonds that increased by LL8,271 billion (19.8 percent) to record a high level of LL 50,062 billion. On the contrary, Paris II Related debt, Special T-bills, and accrued interest on Eurobonds in Foreign currency significantly fell by LL 86 billion (100 percent), LL 27 billion (81.8 percent) and LL 69 billion (14.4 percent), respectively.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2017 Jan-May	2018 Jan-May	% Change 2018/2017
Budget Revenues, of which	7,905	6,505	-17.7%
Tax Revenues	6,444	5,327	-17.3%
Non-Tax Revenues	1,460	1,178	-19.3%
Treasury Receipts	409	724	77.2%
Total Revenues	8,313	7,229	-13.0%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2017 Jan-May	2018 Jan-May	% Change 2018/2017
Tax Revenues:	6,444	5,327	-17.3%
Taxes on Income, Profits, & Capital Gains, of which	2,914	1,767	-39.4%
Income Tax on Profits	1961	442	-77.4%
Income Tax on Wages and Salaries	384	451	17.4%
Income Tax on Capital Gains & Dividends	159	223	40.5%
Tax on Interest Income (7%)	375	623	66.2%
Penalties on Income Tax	35	27	-22.0%
Taxes on Property, of which:	653	539	-17.3%
Built Property Tax	198	186	-6.0%
Real Estate Registration Fees	381	307	-19.5%
Domestic Taxes on Goods & Services, of which:	1,788	1,929	7.9%
Value Added Tax	1,531	1,666	8.8%
Other Taxes on Goods and Services, of which:	181	180	-0.3%
<i>Private Car Registration Fees</i>	101	110	8.8%
<i>Passenger Departure Tax</i>	79	69	-12.2%
Taxes on International Trade, of which:	874	824	-5.7%
Customs	299	316	5.8%
Excises, of which:	575	508	-11.7%
<i>Gasoline Excise</i>	272	273	0.4%
<i>Tobacco Excise</i>	95	48	-49.8%
<i>Cars Excise</i>	206	181	-12.0%
Other Tax Revenues (namely fiscal stamp fees)	215	267	23.8%

Source: MOF, DGF

Table 4: Non-Tax Revenue

(LL billion)	2017 Jan-May	2018 Jan-May	% Change 2018/2017
Non-Tax Revenues	1,460	1,178	-19.3%
Income from Public Institutions and Government Properties, of which	969	637	-34.2%
Income from Non-Financial Public Enterprises, of which:	843	537	-36.3%
<i>Revenues from Casino Du Liban</i>	50	56	12.3%
<i>Revenues from Port of Beirut</i>	143	0	-100.0%
<i>Budget Surplus of National Lottery</i>	1	1	-38.1%
<i>Transfer from the Telecom Surplus</i>	649	480	-26.1%
Transfer from Public Financial Institution (BDL)	61	60	-0.4%
Property Income (namely rent of Rafic Hariri International Airport)	62	37	-39.8%
Other Income from Public Institutions (interests)	3	2	-21.4%
Administrative Fees & Charges, of which:	400	412	3.1%
Administrative Fees, of which:	342	340	-0.4%
Notary Fees	15	30	95.7%
Passport Fees/ Public Security	112	113	0.5%
Vehicle Control Fees	175	163	-6.9%
Judicial Fees	13	11	-13.9%
Driving License Fees	10	9	-4.1%
Administrative Charges	16	16	-1.9%
Sales (Official Gazette and License Number)	1	1	-2.8%
Permit Fees (mostly work permit fees)	34	39	16.5%
Other Administrative Fees & Charges	7	16	126.4%
Penalties & Confiscations	15	14	-6.6%
Other Non-Tax Revenues (mostly retirement deductibles)	77	115	49.3%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2017 Jan-May	2018 Jan-May	% Change 2018/2017
1. Current Expenditures	7,810	9,738	24.7%
1.a Personnel Cost, of which	3,195	3,979	24.5%
Salaries, Wages and Related Items	2,083	2,607	25.2%
Retirement and End of Service Compensations, of which:	939	1,192	27.0%
Retirement	778	908	16.7%
End of Service	161	284	76.8%
Transfers to Public Institutions to Cover Salaries	174	180	3.2%
1.b Interest Payments 1/, of which:	3,063	3,740	22.1%
Domestic Interest Payments	1,902	2,191	15.2%
Foreign Interest Payments	1,161	1,549	33.4%
1.c Accounting Adjustments	0	0	0.0%
1.d Foreign Debt Principal Repayment	121	130	6.9%
1.e Materials and Supplies, of which:	156	136	-13.3%
Nutrition	28	27	-4.3%
Fuel Oil	14	13	-6.6%
Medicaments	83	48	-41.8%
1.f External Services	63	115	83.4%
1.g Various Transfers, of which:	927	1,270	37.0%
EDL 2/	694	947	36.5%
NSSF	0	0	-
Higher Council of Relief	21	0	-100.0%
Contributions to non-public sectors	59	94	57.9%
Transfers to Directorate General of Cereals and Beetroot 3/	15	17	12.2%
1.h Other Current, of which:	229	332	45.0%
Hospitals	160	238	48.9%
Others(judgments & reconciliations, mission costs, other)	66	90	36.2%
1.i Interest Subsidy	55	37	-33.1%
2. Capital Expenditures	435	756	73.8%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	2	30	-
2.b Equipment	28	42	50.2%
2.c Construction in Progress, of which:	289	507	75.1%
Displaced Fund	10	10	0.0%
Council of the South	13	40	200.2%
CDR	145	66	-54.8%
Ministry of Public Work and Transport	51	47	-6.5%
Other of which:	65	90	37.1%
Higher Council of Relief	6	11	92.7%
2.d Maintenance	74	150	103.3%
2.e Other Expenditures Related to Fixed Capital Assets	42	27	-34.2%
3. Budget Advances 4/	102	108	6.4%
4. Customs Administration (exc. Salaries and Wages) 5/	38	65	70.0%
5. Treasury Expenditures 6/	339	966	184.9%
Municipalities	111	572	-
Guarantees	48	38	-20.8%
Deposits 7/	97	102	5.5%
Other, of which:	84	254	203.4%
VAT Refund	80	90	11.9%
6. Unclassified Expenditures	0	0	-
7. Total Expenditures (Excluding CDR Foreign Financed)	8,724	11,633	33.3%

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-May	2018 Jan-May	% Change 2018/2017
Interest Payments	3,063	3,740	22.1%
Local Currency Debt	1,902	2,191	15.2%
Foreign Currency Debt, of which:	1,161	1,549	33.4%
Eurobond Coupon Interest*	1,123	1,510	34.5%
Special bond Coupon Interest*	1	1	-46.2%
Concessional Loans Interest Payments	37	39	3.9%

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-May	2018 Jan-May	% Change 2018/2017
EDL of which:	694	947	36.5%
Debt Service	7	6	-17.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	686	941	37.1%
Transfer Electricity Syria	-	19	-

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-May 2018

(LL billion)	Dec-16	Dec-17	May-18	% Change May 18 – Dec 17
Gross Public Debt	112,910	119,898	124,383	3.7%
Local Currency Debt	70,528	74,077	70,575	-4.7%
* <i>Accrued Interest Included in Debt</i>	1,098	1,159	1,185	2.2%
a. Central Bank	30,150	35,580	32,701	-8.1%
b. Commercial Banks (Including REPOs) 1/	29,581	27,756	26,538	-4.4%
c. Other Local Currency Debt (T-bills), of which:	10,797	10,741	11,336	5.5%
<i>Public Entities</i>	8,718	8,941	9,601	7.4%
<i>Contractor bonds 2/</i>	139	166	166	0.0%
Foreign Currency Debt 3/	42,382	45,821	53,808	17.4%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,506	2,979	2,932	-1.6%
b. Paris II Related Debt (Eurobonds and Loans) 4/	631	86	0	-100.0%
c. Paris III Related Debt (Eurobonds and Loans) 5/	660	452	397	-12.2%
d. Market-Issued Eurobonds	38,063	41,791	50,062	19.8%
e. Accrued Interest on Eurobonds	458	480	411	-14.4%
f. Special T-bills in Foreign Currency 6/	63	33	6	-81.8%
Public Sector Deposits	14,586	15,659	15,518	-0.9%
Net Debt 7/	98,324	104,239	108,865	4.4%
Gross Market Debt 8/	70,303	71,944	78,846	9.6%
% of Total Debt	62%	60%	63%	5.6%

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, the first tranche of the French loan received in February 2008 and the second tranche received in October 2012.

⁽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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