

General Overview

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The fiscal performance worsened in the first nine months of 2016, as government spending increased owing to a one-off transfer made to municipalities¹ alongside an increase in Lebanon's contribution to the International Monetary Fund (IMF). Moreover, interest payments and capital expenditures increased but were partly offset by lower transfers to EDL. On the other hand, revenues registered a modest improvement but continued to be negatively influenced by the overall low growth environment.

The **total fiscal balance** registered a deficit of LL 4,748 billion, widening by 21 percent from the same period in 2015, while the **primary surplus** declined by 55 percent to reach LL 456 billion (Table 1-a). Adjusting for the one-off transfer to municipalities in Jan-Sep 2016, results show a lower increase of 6 percent in the fiscal deficit to LL 4,156 billion, and a minor improvement in the primary surplus to LL 1,048 billion (Table 1-b)².

Table 1-a: Summary of Fiscal Performance

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
Total Budget and Treasury Receipts	10,897	11,344	4.1%
Total Budget and Treasury Payments, of which	14,829	16,092	8.5%
• Interest Payments	4,725	5,002	5.9%
• Concessional loans principal payment ¹	220	202	-8.4%
• Primary Expenditures ²	9,884	10,888	10.2%
Total (Deficit)/Surplus	(3,931)	(4,748)	20.8%
Primary (Deficit)/Surplus	1,013	456	-55.0%

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)

Table 1-b: Summary of Fiscal Performance - Including Adjustments¹

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
Total Budget and Treasury Receipts	10,897	11,344	4.1%
Total Budget and Treasury Payments, of which	14,829	15,500	4.5%
• Interest Payments	4,725	5,002	5.9%
• Concessional loans principal payment	220	202	-8.4%
• Primary Expenditures	9,884	10,296	4.2%
Total (Deficit)/Surplus	(3,931)	(4,156)	5.7%
Primary (Deficit)/Surplus	1,013	1,048	3.4%

Source: MOF, DGF

¹ Excluding LL 592 billion in Treasury transfers to Municipalities from Total Budget and Treasury Payments for Jan-Sep 2016, and which pertain to Municipalities' share of telecommunication revenues

¹ 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-Sep 2016 and accounted as Treasury expenditures.

² Table 1-b does not represent actual government figures, but makes broad adjustments in extraordinary one-off payments and collections to more accurately reflect structural fiscal dynamics.

Revenues

Total revenues increased by 4 percent to reach LL 11,344 billion in Jan-Sep 2016, compared to LL 10,897 billion in the same period of 2015.

Tax revenues were up by LL 226 billion (3 percent), reaching LL 8,192 billion by end-September 2016.

Taxes on income, profits and capital gains were up by LL 114 billion (5 percent). Most of this increase could be attributed to higher taxes on interest income by LL 49 billion (9 percent), owing in turn to an increase in the value of interest earning instruments and to a lesser extent a modest rise in average interest rates. On the one hand, private sector deposits grew by 6 percent as of end-September 2016 compared to end-September 2015; moreover, the average interest rate on USD deposits³ rose by 14 bps (4 percent) for the first nine months of 2016 compared to the same period of 2015, while that on LL deposits remained almost unchanged over the period. On the other hand, the stock of local currency debt rose by 7 percent year-on-year as of end-September 2016.

Taxes on international trade increased by LL 51 billion driven by higher excises (LL 56 billion), which were slightly counterbalanced by a LL 6 billion drop of customs duties. The gasoline excise rose by LL 40 billion (8 percent) mirroring the increase in the volume of imported gasoline, noting that the excise is a per-liter tax and therefore is not affected by fluctuations in international oil prices. Moreover, car excises increased by LL 23 billion (7 percent) owing to an increase in car imports coupled with a higher effective excise rate. In contrast, tobacco excises dropped by LL 5 billion (3 percent), marking a decline for the fourth consecutive year.

Domestic taxes on goods and services increased by LL 41 billion (1 percent) driven by a LL 49 billion increase in the Value-added Tax. Internal VAT rose by 4.5 percent, while VAT at customs inched up by 0.4 percent despite lower international oil prices that reduced VAT collections on gasoline products. Moreover, Passenger Departure Tax was up by LL 15 billion. These increases were partly counterbalanced by lower transfers from Régie by LL 20 billion⁴.

Property taxes rose by LL 40 billion (5 percent) as of end-September 2016, mainly as real estate registration fees rose by LL 24 billion (4 percent). It is worth mentioning that both the average price of properties and number of sale transactions were up by respectively 3 percent and 1 percent. Moreover, **fiscal stamps** dropped by LL 20 billion over the period.

Non-tax revenues increased by LL 90 billion to reach LL 2,406 billion in Jan-Sep 2016, mainly due to higher transfers from the telecom surplus.

Moreover, **other non-tax revenues** rose by LL 22 billion owing partly to higher grants received from abroad by LL 13 billion, while **administrative fees and charges** dropped by LL 6 billion as a result of lower vehicle control fees (-LL 15 billion) and driving license fees (-LL 10 billion), which were mostly offset by increases in permit fees (+LL 11 billion) and passport fees (+LL 12 billion).

Treasury receipts rose by LL 131 billion to reach LL 745 billion by end-September 2016.

³ As of end-September 2016, 65 percent of private sector deposits were in US dollar.

⁴ Transfers from Régie amounted to LL 141 billion in Jan-Sep 2015, compared to only LL 121 billion in Jan-Sep 2016.

Expenditures

Total expenditures recorded a significant increase of LL 1,263 billion (9 percent), standing at LL 16,092 billion in Jan-Sep 2016.

Current primary expenditures⁵ increased by LL 217 billion mainly as a result of increases in (i) **various transfers – excluding transfers to EDL** - by LL 337 billion mainly due to an increase in Lebanon's contribution to the International Monetary Fund by LL 194 billion, noting that the revision of members' quotas is usually conducted every five years by IMF Board of Governor⁶, and (ii) **personnel cost** by LL 148 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 94 billion and **retirement and end of service compensations** of LL 77 billion. These increases were partly counterbalanced by a LL 387 billion drop in **transfers to EDL**.

Interest payments rose by LL 277 billion to reach LL 5,002 billion, mainly driven by higher domestic interest payments. **Foreign debt principal repayment** dropped by 8 percent to reach LL 202 billion in Jan-Sep 2016.

Capital expenditures increased by LL 194 billion in Jan-Sep 2016, chiefly due to (i) an LL 85 billion increase in transfers to **CDR**, (ii) LL 43 billion rise in transfers to the **Ministry of Public Work and Transport**, and (iii) LL 42 billion higher payments for **maintenance**. A decrease of LL 53 billion in transfers to **HRC** partly offset increases in the above mentioned spending categories.

Treasury expenditures witnessed a significant increase of LL 511 billion to reach LL 1,602 billion in Jan-Sep 2016, mainly due to higher payments to Municipalities – from LL 603 billion in Jan-Sep 2015 to LL 1,046 billion in Jan-Sep 2016.

Public Debt Developments

Gross public debt reached LL 112,663 billion as of end-September 2016, increasing by LL 6,648 billion (6.3 percent) from end-2015, while net debt increased by only 4.4 percent as public sector deposits rose by 19.2 percent over the period.

Local currency debt increased by 5.5 percent to reach LL 68,792 billion as of end-September 2016, compared to LL 65,195 billion as of end-2015. In detail, Local Currency Debt holdings by the Central Bank increased by LL 5,875 billion, whereas Commercial Banks' holdings decreased by LL 2,154 billion. The change in holdings by Commercial Banks and the Central Bank do not reflect TB Auction results over the same period, suggesting large secondary market operations. Local currency debt holdings by Public Entities increased by LL 251 billion to reach LL 8,712 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 3,051 billion to LL 43,871 billion, mostly owing to a LL 3,021 billion increase in the value of outstanding Eurobonds. Moreover, "Bilateral, multilateral and foreign private sector loans" rose by LL 107 billion, whereas Paris II and Paris III related bonds and loans decreased by LL 343 billion and LL 88 billion respectively, mainly due to amortized principal repayments.

⁵ Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

⁶ For more information, kindly check the IMF's website (http://www.imf.org/external/np/exr/facts/quotas.htm#_ftnref1)

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
Budget Revenues, of which:	10,283	10,599	3.1%
Tax Revenues	7,966	8,192	2.8%
Non-Tax Revenues	2,317	2,406	3.9%
Treasury Receipts	615	745	21.3%
Total Revenues	10,897	11,344	4.1%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
Tax Revenues:	7,966	8,192	2.8%
Taxes on Income, Profits, & Capital Gains, of which:	2,430	2,544	4.7%
Income Tax on Profits	1,063	1,094	2.9%
Income Tax on Wages and Salaries	518	545	5.2%
Income Tax on Capital Gains & Dividends	232	245	5.3%
Tax on Interest Income (5%)	564	613	8.7%
Penalties on Income Tax	52	46	-11.5%
Taxes on Property, of which:	868	908	4.6%
Built Property Tax	202	212	5.0%
Real Estate Registration Fees	548	572	4.4%
Domestic Taxes on Goods & Services, of which:	2,776	2,818	1.5%
Value Added Tax	2,349	2,398	2.1%
Other Taxes on Goods and Services, of which:	279	292	4.9%
<i>Private Car Registration Fees</i>	178	177	-0.3%
<i>Passenger Departure Tax</i>	99	114	14.9%
Taxes on International Trade, of which:	1,522	1,573	3.3%
Customs	533	527	-1.1%
Excises, of which:	990	1,046	5.7%
<i>Gasoline Excise</i>	472	512	8.4%
<i>Tobacco Excise</i>	173	167	-3.2%
<i>Cars Excise</i>	340	363	6.7%
Other Tax Revenues (namely fiscal stamp fees)	370	349	-5.5%

Source: MOF, DGF

Table 4: Non-Tax Revenues

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
Non-Tax Revenues	2,317	2,406	3.9%
Income from Public Institutions and Government Properties, of which	1,604	1,664	3.8%
Income from Non-Financial Public Enterprises, of which:	1,462	1,512	3.4%
<i>Revenues from Casino Du Liban</i>	75	77	3.3%
<i>Revenues from Port of Beirut</i>	60	65	8.3%
<i>Budget Surplus of National Lottery</i>	31	30	-2.6%
<i>Transfer from the Telecom Surplus</i>	1,295	1,338	3.3%
Transfer from Public Financial Institution (BDL)	61	61	-0.2%
Property Income (namely rent of Rafic Hariri International Airport)	77	85	10.7%
Other Income from Public Institutions (interests)	4	6	55.3%
Administrative Fees & Charges, of which:	573	567	-1.1%
Administrative Fees, of which:	479	462	-3.4%
<i>Notary Fees</i>	28	28	-0.2%
<i>Passport Fees/ Public Security</i>	197	209	6.2%
<i>Vehicle Control Fees</i>	165	151	-9.0%
<i>Judicial Fees</i>	23	21	-6.2%
<i>Driving License Fees</i>	26	16	-37.5%
Administrative Charges	24	25	5.3%
Sales (Official Gazette and License Number)	2	2	-1.2%
Permit Fees (mostly work permit fees)	54	65	20.6%
Other Administrative Fees & Charges	15	12	-15.7%
Penalties & Confiscations	19	33	67.8%
Other Non-Tax Revenues (mostly retirement deductibles)	121	142	18.2%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
1. Current Expenditures	12,944	13,420	3.7%
1.a Personnel Cost, of which:	5,326	5,474	2.8%
Salaries, Wages and Related Items	3,494	3,589	2.7%
Retirement and End of Service Compensations, of which:	1,530	1,607	5.0%
Retirement	1,290	1,348	4.5%
End of Service	240	258	7.6%
Transfers to Public Institutions to Cover Salaries 1/	301	278	-7.7%
1.b Interest Payments 2/, of which:	4,725	5,002	5.9%
Domestic Interest Payments	3,162	3,424	8.3%
Foreign Interest Payments	1,563	1,579	1.0%
1.c Accounting Adjustments 3/	1	43	
1.d Foreign Debt Principal Repayment	220	202	-8.4%
1.e Materials and Supplies, of which:	241	280	16.4%
Nutrition	68	56	-18.1%
Fuel Oil	10	32	233.4%
Medicaments	104	125	19.6%
1.f External Services	103	111	7.0%
1.g Various Transfers, of which:	1,782	1,732	-2.8%
EDL 4/	1,339	952	-28.9%
NSSF	0	20	
Higher Council of Relief	29	1	-95.3%
Contributions to non-public sectors	217	260	19.8%
Transfers to Directorate General of Cereals and Beetroot 5/	10	0	-100.0%
Contributions to water authorities	0	0	
Special Tribunal for Lebanon	0	0	
1.h Other Current, of which:	411	449	9.3%
Hospitals	297	359	20.7%
Others(judgments & reconciliations, mission costs, other)	104	83	-20.6%
1.i Interest Subsidy	136	127	-5.9%
2. Capital Expenditures	568	762	34.1%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-34.6%
2.b Equipment	43	54	26.4%
2.c Construction in Progress, of which:	398	519	30.6%
Displaced Fund	10	0	-100.0%
Council of the South	30	27	-9.7%
CDR	200	285	42.4%
Ministry of Public Work and Transport	34	76	125.4%
Other of which:	119	124	4.3%
Higher Council of Relief	55	2	-96.4%
2.d Maintenance	96	138	44.2%
2.e Other Expenditures Related to Fixed Capital Assets	32	51	58.1%
3. Budget Advances	177	228	28.8%
4. Customs Administration (exc. Salaries and Wages) 6/	46	74	61.7%
5. Treasury Expenditures	1,091	1,602	46.8%
Municipalities	603	1,046	73.6%
Guarantees	39	50	28.9%
Deposits 7/	170	215	26.1%
Other, of which:	280	291	4.1%
VAT Refund	195	201	3.3%
6. Unclassified Expenditures	2	5	
7. Total Expenditures (Excluding CDR Foreign Financed)	14,829	16,092	8.5%

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 Figure for 2015 includes capitalized interest of LL1.1 billion that was drawn from the loan and paid directly to the creditor for EKF Loan. Figure for 2016 includes LL4.4 billion in coupons and LL1.9 billion in discounted interest payments due on 31/12/2015 but recorded in the accounting system on 2/1/2016.

⁴ For a detailed breakdown of transfers to EDL, kindly refer to table 8.

⁵ Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.

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 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)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
Transfer to Council of the South	6	10	52.8%
Transfer to CDR	9	28	222.2%
Transfer to the Displaced Fund	4	3	-19.8%
Transfer to the Lebanese University	275	224	-18.3%
Transfer to the Educational Center for Research and Development	8	13	73.3%

Source: MOF, DGF

Table 7: Details of Debt Service Transactions¹

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
Interest Payments	4,725	5,002	5.9%
Local Currency Debt	3,162	3,424	8.3%
Foreign Currency Debt, of which:	1,563	1,579	1.0%
Eurobond Coupon Interest*	1,489	1,514	1.6%
Special bond Coupon Interest*	5	3	-35.8%
Concessional Loans Interest Payments	69	62	-10.9%
Foreign Debt Principal Repayment	220	202	-8.4%

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 8: Transfers to EDL

(LL billion)	2015 Jan-Sep	2016 Jan-Sep	% Change 2016/2015
EDL, of which:	1,339	952	-28.9%
Debt Service	26	20	-23.7%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,313	932	-29.0%

Source: MOF, DGF

SECTION 3: PUBLIC DEBT

Table 9: Public Debt Outstanding by Holder as of End-September 2016

(LL billion)	Dec-14	Dec-15	Sep-16	% Change Sep 16-Dec 15
Gross Public Debt	100,356	106,015	112,663	6.27%
Local Currency Debt	61,752	65,195	68,792	5.52%
* <i>Accrued Interest Included in Debt</i>	1,029	997	1,101	10.43%
a. Central Bank (Including REPOs)	19,855	24,308	30,183	24.17%
b. Commercial Banks	31,468	29,878	27,724	-7.21%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	10,885	-1.13%
<i>Public Entities</i>	7,701	8,461	8,712	2.97%
<i>Contractor bonds 1/</i>	180	180	180	0.00%
Foreign Currency Debt 2/	38,604	40,820	43,871	7.47%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,479	2,586	4.31%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,743	1,182	839	-28.98%
c. Paris III Related Debt (Eurobonds and Loans) 4/	986	810	721	-10.89%
d. Market-Issued Eurobonds	32,584	35,846	38,867	8.43%
e. Accrued Interest on Eurobonds	425	435	795	82.76%
f. Special T-bills in Foreign Currency 5/	114	68	62	-8.82%
Public Sector Deposits	13,965	13,227	15,761	19.16%
Net Debt 6/	86,391	92,788	96,902	4.43%
Gross Market Debt 7/	67,373	68,799	69,678	1.28%
% of Total Debt	67%	65%	62%	-4.70%

Source: MOF, 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 14-Dec 15 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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