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General Overview

The **total fiscal deficit** nearly doubled in Jan-Oct 2018 to reach LL 7,136 billion as public spending was amplified given the full year impact of the salary scale adjustment in the public sector. In addition to an increase in personnel cost, public spending was aggravated by higher interest payments, transfers to EDL and other treasury expenditures such as payments to municipalities and the repayment of accrued interest on matured Eurobonds. On the other hand, the increase in tax revenues, non-tax revenues and treasury receipts failed to counterbalance the surge in expenditures.

In addition, **primary balance** shifted from a surplus of LL 2,376 billion in Jan-Oct 2017 to a deficit of LL 605 billion during the covered period in 2018.

Table 1: Summary of Fiscal Performance

(LL billion)	2017 Jan-Oct	2018 Jan-Oct	% Change 2018/2017
Total Budget and Treasury Receipts	14,501	14,959	3.2%
Total Budget and Treasury Payments, of which	18,263	22,095	21.0%
• Interest Payments	5,924	6,313	6.6%
• Concessional loans principal payment ¹	215	217	1.3%
• Primary Expenditures ²	12,125	15,565	28.4%
Total (Deficit)/Surplus	(3,762)	(7,136)	89.7%
Primary (Deficit)/Surplus	2,376	(605)	-

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 slightly increased by LL 458 billion (3.2 percent) to reach LL 14,959 billion in Jan-Oct 2018 compared to LL 14,501 billion during the same period of 2017.

Tax revenues were up by LL 343 billion (3.1 percent), reaching LL 11,294 billion in the first ten months of 2018.

In details, **taxes on income, profits and capital gains** were up by LL 157 billion (4.0 percent) in Jan-Oct 2018 compared to Jan-Oct 2017, as **tax on interest income** rose significantly by LL 709 billion (93.9 percent) to reach LL 1,463 billion. **Income tax on wages and salaries** and **income tax on capital gains and dividends** also increased by LL 106 billion (14.1 percent) and by LL 82 billion (26.0 percent) respectively. However, **income tax on profits** sharply dropped by LL 733 billion (35.7 percent)¹ to reach LL 1,323 billion during the covered period.

Domestic taxes on goods and services increased by LL 401 billion (11.1 percent) driven by a LL 347 billion (11.2 percent) increase in the **value added tax** as the tax rate grew from 10 percent to 11 percent. In details, internal VAT rose by 8.2 percent while VAT at customs inched up by 13.6 percent. Also, **private car registration fees** and **passenger departure tax** increased by LL 17 billion and by LL 6 billion, respectively, over the covered period.

¹ This drop can be explained by the exceptional increase in income tax on profits during 2017, as financial institutions transferred income tax on the one-off revenues generated from the Central Bank's 2016 financial engineering.

On the other hand, **taxes on property** shrank by LL 218 billion (18.7 percent) in Jan-Oct 2018, mainly as **real estate registration fees** dropped by LL 182 billion (23.3 percent). It is worth mentioning that the number of sold properties dropped by 17.6 percent, while the average price of properties sold dropped by 1.6 percent over the first ten months of 2018.

Taxes on international trade were down by LL 88 billion (4.9 percent) during Jan-Oct 2018, driven by a drop of LL 103 billion (8.6 percent) in the collection of **excise taxes** that was partly counterbalanced by the LL 15 billion (2.5 percent) increase in customs collections. In details, the collection of **gasoline excises** dropped by LL 12 billion (2.0 percent) during the covered period, reflecting a retraction in imports of gasoline – since gasoline excise is a tax on volume - following the rising trend in international fuel prices². Moreover, **tobacco excises** declined by LL 53 billion (30.4 percent) owing to a 22.5 percent decrease in the value of imported tobacco products as well as to a 17.0 percent drop in volume. In addition, **cars excises** fell by LL 47 billion (10.9 percent) during Jan-Oct 2018 due to a 9.2 percent year-on-year drop in the value of car imports³ and to a 10.4 percent decrease in the number of cars imported.

Other tax revenues (namely fiscal stamps fees) grew by LL 91 billion (21.0 percent) over the covered period, mainly as a result of the implementation of the new revenue measures introduced under Law n° 64/2017 published in the official gazette n° 50 dated 26/10/2017⁴.

Non-tax revenues witnessed an increase of LL 77 billion (3.0 percent) to reach LL 2,622 billion in Jan-Oct 2018, mainly due to the hike in **transfers from the telecom surplus** by LL 131 billion (12.2 percent). This increase was partly counterbalanced by a drop of LL 65 billion (37.1 percent) in revenues from the **Port of Beirut**, a LL 38 billion (35.4 percent) deterioration in **property income (namely rent of Rafic Hariri International Airport)** and a LL 20 billion (49.3 percent) drop in the budget surplus of the **national lottery**. Also, **administrative fees and charges** increased by LL 93 billion (13.3 percent) in the first ten months of 2018 as a result of higher **vehicle control fees** that grew by LL 40 billion and to higher **notary fees** that rose by LL 29 billion. On the other hand, **other non-tax revenues (mostly retirement deductibles)** dropped by LL 35 billion (14.2 percent) compared to the exceptionally high level witnessed during the same period of 2017.

Treasury receipts rose by LL 38 billion (3.8 percent) to reach LL 1,043 billion in Jan-Oct 2018. 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 surge of LL 3,832 billion (21.0 percent) and stood at LL 22,095 billion in the first ten months of 2018.

Current primary expenditures⁵ increased by LL 2,400 billion (24.4 percent) mainly as a result of a rise in: (i) **personnel cost** by LL 1,475 billion (22.3 percent) driven by an increase in both **salaries, wages and social benefits** and **retirement and end-of-service**

² The average Brent price increased by 39.7 percent in Jan-Oct 2018 compared to Jan-Oct 2017.

³ Taking into account imports of “Motor cars and other motor vehicles” (HS 87.03) as per the data published by the customs directorate.

⁴ Following the abrogation of the law no 45/2017 (published in the official gazette no 37 dated 21/08/2017) by the Constitutional Council.

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

compensations that grew by LL 707 billion (16.2 percent) and by LL 689 billion (35.8 percent), respectively; (ii) **various transfers** by LL 609 billion (27.7 percent) driven by a LL 451 billion rise in transfers to EDL⁶; and (iii) **Other current expenditures** by LL 222 billion as a result of a LL 160 billion (159.2 percent) increase in **judgments, reconciliations and mission costs** and as **transfers to Hospitals** rose by LL 62 billion (23.7 percent).

Interest payments rose by LL 389 billion (6.6 percent) to reach LL 6,313 billion in the first ten months of 2018, mainly due to an increase of LL 350 billion in foreign interest payments. Furthermore, domestic interest payments rose by LL 39 billion to reach LL 4,014 billion in Jan-Oct 2018.

Capital expenditures grew by LL 400 billion (44.6 percent) in the first ten months of 2018, mainly due to an increase in sub-components such as **construction in progress** that rose by LL 306 billion to reach LL 1,000 billion, partly driven by higher transfers to CDR and Higher Council of Relief that surged by LL 61 billion and LL 21 billion respectively. Moreover, **maintenance costs** increased by LL 68 billion to reach LL 175 billion, and **acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks** rose by LL 28 billion to reach LL 30 billion in Jan-Oct 2018.

Treasury expenditures witnessed an increase of LL 562 billion to reach LL 1,642 billion in the first ten months of 2018, mainly due to a hike in payments to Municipalities by LL 268 billion from LL 555 billion in Jan-Oct 2017 to LL 823 billion in Jan-Oct 2018. It is worth mentioning that the increase in Treasury Expenditures was also due to the repayment of the accrued interest on matured Eurobonds, which was accounted for in the other Treasury Expenditures sub-component that increased by LL 305 billion to reach LL 527 billion in Jan-Oct 2018.

Public Debt Developments

Gross public debt reached LL 126,693 billion as of end-October 2018, increasing by LL 6,801 billion (5.7 percent) from end-2017, while net debt increased more rapidly by 7.3 percent as public sector deposits declined by 4.9 percent over the period under review.

Local currency debt decreased by 1.0 percent to reach LL 73,316 billion as of end-October 2018, compared to LL 74,077 billion as of end-2017. In detail, Local Currency Debt held by Commercial Banks dropped by LL 2,295 billion (8.3 percent), whereas the holdings by the Central Bank increased by LL 1,058 billion (3.0 percent)⁷. On the other hand, a significant increase of LL 476 billion in other local currency debt holdings was recorded, with TBs held by Public Entities rising by LL 654 billion (7.3 percent) to reach LL 9,595 billion compared to LL 8,941 billion at the end of 2017.

The stock of **foreign currency debt** grew sharply by LL 7,562 billion to reach LL 53,377 billion at the end of October, mostly owing it to a LL 7,194 billion increase in the value of outstanding Eurobonds. On the other hand, Bilateral, multilateral and foreign private sector loans declined by LL 20 billion, whereas Paris III related bonds and loans decreased by LL 90 billion.

⁶ Driven by the increase in international fuel prices from an average of US\$ 52.34 per barrel during Jan-Oct 2017 to an average of US\$ 73.12 per barrel in Jan-Oct 2018.

⁷ Despite BDL's large monthly subscriptions in TBs, the Central Bank's portfolio was significantly brought downward by the debt replacement agreement that took place with MoF on May 17, 2018 (for more details, kindly refer to the PFM report, May 2018 issue).

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2017 Jan-Oct	2018 Jan-Oct	% Change 2018/2017
Budget Revenues, of which:	13,496	13,916	3.1%
Tax Revenues	10,951	11,294	3.1%
Non-Tax Revenues	2,545	2,622	3.0%
Treasury Receipts	1,005	1,043	3.8%
Total Revenues	14,501	14,959	3.2%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2017 Jan-Oct	2018 Jan-Oct	% Change 2018/2017
Tax Revenues:	10,951	11,294	3.1%
Taxes on Income, Profits, & Capital Gains, of which:	3,928	4,085	4.0%
Income Tax on Profits	2,056	1,323	-35.7%
Income Tax on Wages and Salaries	747	853	14.1%
Income Tax on Capital Gains & Dividends	316	398	26.0%
Tax on Interest Income (5%)	755	1,463	93.9%
Penalties on Income Tax	54	47	-12.0%
Taxes on Property, of which:	1,165	946	-18.7%
Built Property Tax	249	252	1.3%
Real Estate Registration Fees	781	599	-23.3%
Domestic Taxes on Goods & Services, of which:	3,624	4,025	11.1%
Value Added Tax	3,105	3,452	11.2%
Other Taxes on Goods and Services, of which:	380	404	6.2%
<i>Private Car Registration Fees</i>	213	230	8.1%
<i>Passenger Departure Tax</i>	166	172	3.5%
Taxes on International Trade, of which:	1,801	1,714	-4.9%
Customs	611	626	2.5%
Excises, of which:	1,191	1,088	-8.6%
<i>Gasoline Excise</i>	581	569	-2.0%
<i>Tobacco Excise</i>	173	121	-30.4%
<i>Cars Excise</i>	432	385	-10.9%
Other Tax Revenues (namely fiscal stamp fees)	433	524	21.0%

Source: MOF, DGF

Table 4: Non-Tax Revenues

(LL billion)	2017 Jan-Oct	2018 Jan-Oct	% Change 2018/2017
Non-Tax Revenues	2,545	2,622	3.0%
Income from Public Institutions and Government Properties, of which	1,569	1,589	1.3%
Income from Non-Financial Public Enterprises, of which:	1,395	1,452	4.1%
<i>Revenues from Casino Du Liban</i>	101	112	10.9%
<i>Revenues from Port of Beirut</i>	175	110	-37.1%
<i>Budget Surplus of National Lottery</i>	41	21	-49.3%
<i>Transfer from the Telecom Surplus</i>	1,076	1,207	12.2%
Transfer from Public Financial Institution (BDL)	61	60	-0.4%
Property Income (namely rent of Rafic Hariri International Airport)	107	69	-35.4%
Other Income from Public Institutions (interests)	6	7	21.0%
Administrative Fees & Charges, of which:	698	791	13.3%
Administrative Fees, of which:	592	665	12.4%
<i>Notary Fees</i>	33	62	88.0%
<i>Passport Fees/ Public Security</i>	238	236	-1.1%
<i>Vehicle Control Fees</i>	248	288	16.3%
<i>Judicial Fees</i>	24	23	-2.8%
<i>Driving License Fees</i>	20	20	0.0%
Administrative Charges	21	24	12.0%
Sales (Official Gazette and License Number)	3	3	0.6%
Permit Fees (mostly work permit fees)	71	78	10.6%
Other Administrative Fees & Charges	12	22	76.3%
Penalties & Confiscations	31	30	-2.4%
Other Non-Tax Revenues (mostly retirement deductibles)	247	212	-14.2%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2017 Jan-Oct	2018 Jan-Oct	% Change 2018/2017
1. Current Expenditures	15,988	18,780	17.5%
1.a Personnel Cost, of which:	6,624	8,099	22.3%
Salaries, Wages and Related Items	4,357	5,065	16.2%
Retirement and End of Service Compensations, of which:	1,923	2,613	35.8%
Retirement	1,651	1,925	16.6%
End of Service	273	688	152.1%
Transfers to Public Institutions to Cover Salaries	343	422	22.9%
1.b Interest Payments 1/, of which:	5,924	6,313	6.6%
Domestic Interest Payments	3,975	4,014	1.0%
Foreign Interest Payments	1,949	2,299	18.0%
1.c Accounting Adjustments	0	0	-
1.d Foreign Debt Principal Repayment	215	217	1.3%
1.e Materials and Supplies, of which:	415	466	12.2%
Nutrition	65	68	6.1%
Fuel Oil	36	45	24.3%
Medicaments	243	269	10.6%
1.f External Services	126	183	44.9%
1.g Various Transfers, of which:	2,197	2,806	27.7%
EDL 2/	1,627	2,078	27.7%
NSSF	0	0	-
Higher Council of Relief	41	1	-96.4%
Contributions to non-public sectors	275	265	-3.6%
Transfers to Directorate General of Cereals and Beetroot 3/	16	18	11.1%
1.h Other Current, of which:	370	592	60.1%
Hospitals	262	324	23.7%
Others (judgments & reconciliations, mission costs, other)	100	260	159.2%
1.i Interest Subsidy	118	104	-11.6%
2. Capital Expenditures	897	1,298	44.6%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	2	30	-
2.b Equipment	50	61	22.7%
2.c Construction in Progress, of which:	694	1,000	44.1%
Displaced Fund	30	10	-66.7%
Council of the South	40	57	40.4%
CDR	387	448	15.9%
Ministry of Public Work and Transport	83	57	-31.5%
Other of which:	144	173	20.3%
Higher Council of Relief	50	71	42.7%
2.d Maintenance	108	175	63.0%
2.e Other Expenditures Related to Fixed Capital Assets	44	32	-28.1%
3. Budget Advances 4/	226	249	10.4%
4. Customs Administration (exc. Salaries and Wages) 5/	72	126	75.6%
5. Treasury Expenditures 6/	1,080	1,642	52.0%
Municipalities	555	823	48.4%
Guarantees	90	78	-13.0%
Deposits 7/	213	213	0.1%
Other, of which:	222	527	137.6%
VAT Refund	184	174	-5.3%
6. Unclassified Expenditures	0	0	-
7. Total Expenditures (Excluding CDR Foreign Financed)	18,263	22,095	21.0%

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-Oct	2018 Jan-Oct	% Change 2018/2017
Interest Payments	5,924	6,313	6.6%
Local Currency Debt	3,975	4,014	1.0%
Foreign Currency Debt, of which:	1,949	2,299	18.0%
Eurobond Coupon Interest*	1,877	2,221	18.4%
Special bond Coupon Interest*	2	1	-58.9%
Concessional Loans Interest Payments	70	77	9.5%
Foreign Debt Principal Repayment	215	217	1.3%

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 EDL¹

(LL billion)	2017 Jan-Oct	2018 Jan-Oct	% Change 2018/2017
EDL, of which:	1,627	2,078	27.7%
Debt Service	15	9	-38.4%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,569	2,050	30.6%
Transfer Electricity Syria	43	19	-55.9%

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-October 2018

(LL billion)	Dec-16	Dec-17	Oct-18	% Change Oct 18-Dec 17
Gross Public Debt	112,910	119,892	126,693	5.7%
Local Currency Debt	70,528	74,077	73,316	-1.0%
* <i>Accrued Interest Included in Debt</i>	1,098	1,159	1,134	-2.2%
a. Central Bank	30,150	35,580	36,638	3.0%
b. Commercial Banks(Including REPOs) 1/	29,581	27,756	25,461	-8.3%
c. Other Local Currency Debt (T-bills), of which:	10,797	10,741	11,217	4.4%
<i>Public Entities</i>	8,718	8,941	9,595	7.3%
<i>Contractor bonds 2/</i>	139	166	166	-
Foreign Currency Debt 3/	42,382	45,815	53,377	16.5%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,506	2,973	2,953	-0.9%
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	362	-20.0%
d. Market-Issued Eurobonds	38,063	41,791	48,985	17.2%
e. Accrued Interest on Eurobonds	458	480	1,071	123.1%
f. Special T-bills in Foreign Currency 6/	63	33	6	-81.8%
Public Sector Deposits	14,586	15,659	14,894	-4.9%
Net Debt 7/	98,324	104,233	111,799	7.3%
Gross Market Debt 8/	70,303	71,944	77,237	7.4%
% of Total Debt	62%	60%	61%	-

Source: MOF, DGF

⁽¹⁾ 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.

