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General Overview

The challenging economic conditions have weighed heavily on the public finances during the period of Jan-July 2020, affecting both revenues and expenditures. Government revenues witnessed a remarkable year-on-year drop of LL 2,231 billion (21.2 percent) during the first seven months of 2020. The decrease in revenues was mainly driven by lower collections from the value added tax, the income tax on profits, as well as lower transfers from the telecom sector.

On the expenditure front, the Government decision to withhold payments due on Eurobonds starting March 2020 has led to a decrease in total spending by LL 2,699 billion (19.1 percent) as interest payments plunged down by LL 2,355 billion (54.5 percent).

The **total fiscal balance** registered a deficit of LL 3,164 billion during Jan-July 2020 compared to a deficit of LL 3,631 billion during the same period of 2019. In contrast, the **primary balance** witnessed a significant deterioration from a surplus of LL 870 billion in Jan-July 2019 to LL a deficit of 1,066 billion in Jan-July 2020.

Table 1: Summary of Fiscal Performance

(LL billion)	Jan-Jul 2019	Jan-Jul 2020	% Change 2020/2019
Total Budget and Treasury Receipts	10,516	8,285	-21.2%
Total Budget and Treasury Payments, of which	14,147	11,449	-19.1%
Interest Payments	4,321	1,966	-54.5%
Concessional loans principal payments ⁽¹⁾	180	132	-26.6%
Primary Expenditures ⁽²⁾	9,646	9,350	-3.1%
Total (Deficit)/Surplus	-3,631	-3,164	-12.9%
Primary (Deficit)/Surplus	870	-1,066	-

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 decreased by LL 2,231 billion (21.2 percent) year-on-year to reach LL 8,285 billion during Jan-July 2020.

Tax revenues reached a total of LL 6,075 billion in the first seven months of the year, reflecting a LL 2,297 billion (27.4 percent)¹ decrease from a total of LL 8,372 billion recorded during the same period of last year. This deterioration was driven by a drop in all the tax items except for **tax on interest income**, **real estate registration fees** and **gasoline excise**.

The main decrease was witnessed in **domestic taxes on goods and services** which dropped by LL 1,226 billion (46.7 percent) year-on-year in Jan-July 2020, driven by a LL 1,234 billion (55.2 percent) decline in the **value added tax**². In details, both VAT collected internally and VAT collected at customs decreased year-on-year over the covered period by 55.3 percent and 55.1 percent, respectively. Also, **passenger**

¹ This year-on-year decrease is partly driven by the general mobilization and lockdown imposed by the Government to counteract the Covid-19 pandemic and the subsequent extension of all deadlines for tax declarations and payments.

² Mirroring the contraction in private consumption, which is the main driver of the economic growth in Lebanon.

departure tax and **private car registration fees** decreased by LL 56 billion (55.9 percent) and LL 52 billion (42.9 percent) respectively during Jan-July 2020. These drops were partly counterbalanced by a considerable increase in transfers from **Régie profits** which registered LL 268 billion during Jan-July 2020 compared to LL 150 billion during the same period of 2019.

Taxes on income, profits and capital gains significantly dropped by LL 771 billion (20.5 percent) year-on-year in Jan-July 2020, driven by a drastic year-on-year drop in **income tax on profits** and **income tax on capital gains & dividends** by LL 976 billion (75.1 percent) and LL 230 billion (73.8 percent) respectively. **Income tax on wages and salaries** decreased by LL 182 billion (27.9 percent). In contrast, **taxes on interest income** increased significantly by LL 625 billion (42.5 percent) to reach LL 2,098 billion during the mentioned period.

In addition, **taxes on international trade** dropped by LL 373 billion (33.0 percent) as collection from **customs** and **excises** dropped by LL 220 billion (54.9 percent) and LL 153 billion (21.0 percent) respectively. In fact, **cars excise** were down by LL 127 billion (63.4 percent), owing to a 70.6 percent decrease in the value of imported vehicles. In addition, **tobacco excise** decreased by LL 66 billion (65.7 percent), driven by a 55.6 percent year-on-year decline in the value of tobacco imports. In contrast, **gasoline excise** increased by LL 42 billion (9.9 percent) as a result of the floor price for gasoline set by the Council of Ministers on March 12, 2020³ which more than offset the volume effect of gasoline imports with a year-on-year drop of 22.1 percent.

Other tax revenues (namely fiscal stamp fees) decreased by LL 79 billion (23.2 percent) to reach LL 261 billion in Jan-Jul 2020.

In contrast, **taxes on property** registered a LL 152 billion (29.2 percent) increase in Jan-Jul 2020, mainly as **real estate registration fees** witnessed a significant year-on-year rise of LL 232 billion (83.5 percent)⁴, of which an increase of LL 114 billion registered between July 2019 and July 2020. This rise came as a result of the increasing appetite for real estate as a safer alternative for bank depositors starting late-2019. This trend regained momentum after the adoption of a 5-step opening plan by the Council of Ministers on 24 April 2020. On the other hand, **built property tax** and **inheritance fees** dropped by LL 59 billion (33.7 percent) and by LL 21 billion (30.8 percent), respectively.

Non-tax revenues declined by LL 582 billion (34.3 percent) to reach LL 1,113 billion during the first seven months of the year.

Income from Public Institutions and Government properties witnessed a year-on-year drop of LL 542 billion (51.2 percent) over the covered period, as **transfers from the Telecom Surplus, property income (namely rent of Rafic Hariri International Airport)** and **revenues from Casino du Liban** declined by LL 390 billion (56.5 percent), LL 45 billion (59.1 percent) and LL 35 billion (50.2 percent), respectively.

Moreover, **administrative fees and charges** dropped by LL 80 billion (16.7 percent) reaching LL 397 billion over the period under review, due to a decrease in all its sub-categories, except an increase in **vehicle control fees** by LL 46 billion (37.4 percent), mainly as **passport fees, administrative charges** and **notary fees** fell by LL 64 billion (42.4 percent), LL 16 billion (54.3 percent) and LL 13 billion (33.2 percent), respectively.

³ COM decision #16 dated 12/03/2020 has set a floor price of LL 24,000 for gasoline-98 octanes and LL 23,500 for gasoline-95 octanes, stipulating also that the surplus generated due to the fall in international fuel prices will be considered as an additional revenue under "gasoline excise".

⁴ As per the data from the General Directorate of Land Registry and Cadastre, the number of sold properties increased by 48.2 percent during Jan-July 2020 while their average price increased significantly by 60.3 percent compared to the same period last year.

On the other hand, **other non-tax revenues (mostly retirement deductibles)** increased by LL 50 billion (35.7 percent), as deductibles related to military salaries and retirement⁵ generated LL 30 billion during Jan-July 2020. In addition, exceptional revenues from the settlement of violations related to maritime properties reached LL 21 billion during Jan-July 2020 compared to nil a year earlier.

Treasury receipts witnessed a significant increase of LL 647 billion to reach LL 1,096 billion in Jan-July 2020 compared to LL 449 billion during the same period of the 2019⁶. The reason behind this substantial rise was a refund transaction of LL 644 billion executed during the month of April as the deal between the Central Bank and the Ministry of Finance to reverse the coupon payments related to Jan-Mar 2020 materialized. This refund was registered under treasury receipts, and will be used gradually to cover other interest payments due during 2020⁷.

Expenditures

Total expenditures regressed by LL 2,699 billion (19.1 percent) to reach LL 11,449 billion in Jan-July 2020 compared to LL 14,147 billion in Jan-July 2019.

Current primary expenditures⁸ registered a drop of LL 179 billion (2.3 percent) reaching a total of LL 7,740 billion during Jan-July 2020. This shrank was mainly driven by a decrease in **Retirement and End of service compensations** by LL 481 billion (22.8 percent) and **transfers to Electricité du Liban (EDL)** by LL 458 billion (36.2 percent). In contrast, expenditure items to cover social needs witnessed a rise mainly transfers to the **Higher Council of Relief**, payments to **Hospitals** and payments to **Medicaments** which rose by LL 225 billion⁹, LL 123 billion and LL 89 billion respectively during the covered period.

Interest payments dropped by LL 2,355 billion (54.5 percent) in Jan-July 2020 as interest payments due on foreign currency debt decreased significantly by LL 1,493 billion (87.6 percent) after the Government opted to default on its maturing Eurobonds in March 2020. Moreover, interest payments on local currency debt decreased by LL 862 billion (32.9 percent) over the covered period. **Foreign debt principal repayment** also dropped by LL 48 billion (26.6 percent) to register a total of LL 132 billion during Jan-July 2020.

Capital expenditures decreased significantly by LL 306 billion (45.6 percent) to reach LL 365 billion in Jan-July 2020, mainly as expenses related to **maintenance**, transfers to **CDR**, and transfers to the **Higher Council of Relief** dropped by LL 117 billion (50.7 percent), LL 97 billion (55.1 percent) and LL 20 billion (100.0 percent) respectively.

Treasury expenditures witnessed an increase of LL 183 billion (19.8 percent) to reach LL 1,104 billion in Jan-July 2020. This came despite the drop in payments to **municipalities**, **deposits** and **VAT refund** which shrank by LL 151 billion (36.0 percent), LL 145 billion (66.0 percent) and LL 78 billion (43.6 percent) respectively during the period under consideration.

⁵ New deductibles introduced as per 2019 Budget law #144 dated 31 July 2019.

⁶ It is worth mentioning that treasury receipts are transitory in nature and as such, variations in these collections are usually not reflective of the economic activity.

⁷ These payments are classified under other treasury expenditures, resulting in the hike shown in table 5.

⁸ Current primary expenditures represent current expenditures excluding interest payment and debt service.

⁹ This consists of treasury advances granted to the Higher Council of Relief dated 2 April 2020 and 8 June 2020 as part of the social safety net targeting the most vulnerable households. It covers a disbursement of an amount of LL 400,000 per household.

Public Debt

Gross public debt stood at LL 141,313 billion by the end of July 2020, increasing by LL 3,163 billion (2.3 percent) from end-2019. On the other hand, **net debt** rose more rapidly by 3.7 percent to reach LL 126,974 billion as **public sector deposits** dropped by LL 1,338 billion (8.5 percent) over the period under consideration.

Local currency debt increased by LL 1,253 billion (1.4 percent) to register LL 88,532 billion as of end-July 2020, compared to LL 87,279 billion as at end-2019. In details, **local currency debt held by the Central Bank** increased by LL 1,773 billion (3.5 percent) to reach LL 52,490 billion by the end of July 2020, followed by a smaller rise in other local currency debt holdings with **TBs held by public entities** increasing by LL 311 billion (3.1 percent) to reach LL 10,279 billion. In contrast, **TBs held by commercial banks** dropped by LL 779 billion (3.1 percent) to reach LL 24,537 billion by the end of July 2020.

The stock of **foreign currency debt** grew by LL 1,910 billion (3.8 percent) to reach LL 52,781 billion at end-July 2020. In details, this increase was mainly driven by a LL 1,702 billion of arrears in coupons due to the Government decision to default on Eurobonds, adding to a LL 96 billion of accrued interest in arrears. Also, **bilateral, multilateral and foreign private sector loans** increased by LL 56 billion, whereas **Paris III related debt** decreased by LL 44 billion compared to the end of 2019. As for the stock of **market-issued Eurobonds**, it remained unchanged at a level of LL 47,206 billion, including an amount of LL 3,769 billion as arrears in principal as of end-July 2020.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2019	2020	% Change
	Jan-Jul	Jan-Jul	2020/2019
Budget Revenues, of which:	10,067	7,189	-28.6%
Tax Revenues	8,372	6,075	-27.4%
Non-Tax Revenues	1,695	1,113	-34.3%
Treasury Receipts	449	1,096	144.2%
Total Revenues	10,516	8,285	-21.2%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2019	2020	% Change
	Jan-Jul	Jan-Jul	2020/2019
Tax Revenues:	8,372	6,075	-27.4%
Taxes on Income, Profits, & Capital Gains, of which:	3,758	2,987	-20.5%
Income Tax on Profits	1,299	323	-75.1%
Income Tax on Wages and Salaries	653	471	-27.9%
Income Tax on Capital Gains & Dividends	311	82	-73.8%
Tax on Interest Income	1,472	2,098	42.5%
Penalties on Income Tax	21	13	-38.6%
Taxes on Property, of which:	522	674	29.2%
Built Property Tax	177	117	-33.7%
Real Estate Registration Fees	278	511	83.5%
Domestic Taxes on Goods & Services, of which:	2,624	1,398	-46.7%
Value Added Tax	2,235	1,001	-55.2%
Other Taxes on Goods and Services, of which:	221	113	-48.8%
Private Car Registration Fees	121	69	-42.9%
Passenger Departure Tax	99	44	-55.9%
Taxes on International Trade, of which:	1,129	756	-33.0%
Customs	400	180	-54.9%
Excises, of which:	729	575	-21.0%
Gasoline Excise	421	462	9.9%
Tobacco Excise	101	35	-65.7%
Cars Excise	200	73	-63.4%
Other Tax Revenues (namely fiscal stamp fees)	340	261	-23.2%

Source: MOF, DGF

Table 4: Non-Tax Revenue

(LL billion)	2019 Jan-Jul	2020 Jan-Jul	% Change 2020/2019
Non-Tax Revenues	1,695	1,113	-34.3%
Income from Public Institutions and Government Properties, of which:	1,058	516	-51.2%
Income from Non-Financial Public Enterprises, of which:	917	421	-54.1%
Revenues from Casino Du Liban	69	34	-50.2%
Revenues from Port of Beirut	150	70	-53.3%
Budget Surplus of National Lottery	6	17	170.6%
Transfer from the Telecom Surplus	690	300	-56.5%
Transfer from Public Financial Institution (BDL)	60	60	-0.5%
Property Income (namely rent of Rafic Hariri International Airport)	77	31	-59.1%
Other Income from Public Institutions (interests)	3	3	-10.1%
Administrative Fees & Charges, of which:	477	397	-16.7%
Administrative Fees, of which:	372	317	-14.8%
Notary Fees	38	26	-33.2%
Passport Fees/ General Security	150	87	-42.4%
Vehicle Control Fees	123	169	37.4%
Judicial Fees	19	16	-13.2%
Driving License Fees	12	6	-47.8%
Administrative Charges	30	14	-54.3%
Sales (Official Gazette and License Number)	2	1	-40.3%
Permit Fees (mostly work permit fees)	49	43	-13.1%
Other Administrative Fees & Charges	25	23	-5.0%
Penalties & Confiscations	21	11	-47.1%
Other Non-Tax Revenues (mostly retirement deductibles)	139	189	35.7%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2019 Jan-Jul	2020 Jan-Jul	% Change 2020/2019
1. Current Expenditures	12,421	9,839	-20.8%
1.a Personnel Cost, of which	5,797	5,427	-6.4%
Salaries, Wages and social benefits	3,453	3,530	2.2%
Retirement and End of Service Compensations, of which:	2,114	1,633	-22.8%
Retirement	1,522	1,423	-6.5%
End of Service	592	210	-64.6%
Transfers to Public Institutions to Cover Salaries	230	264	14.7%
1.b Interest Payments, of which: ⁽¹⁾	4,321	1,966	-54.5%
Domestic Interest Payments	2,618	1,756	-32.9%
Foreign Interest Payments	1,703	211	-87.6%
1.d Foreign Debt Principal Repayment	180	132	-26.6%
1.e Materials and Supplies, of which:	155	211	35.7%
Nutrition	35	34	-2.1%
Fuel Oil	21	4	-80.6%
Medicaments	43	132	206.0%
1.f External Services	90	102	12.9%
1.g Various Transfers, of which:	1,513	1,530	1.1%
EDL ⁽²⁾	1,264	807	-36.2%
NSSF	0	0	-
Higher Council of Relief	0	225	-
Contributions to non-public sectors	146	105	-27.8%
Transfers to Directorate General of Cereals and Beetroot ⁽³⁾	12	0	-100.0%
1.h Other Current, of which:	292	419	43.5%
Hospitals	233	356	52.8%
Others(judgments & reconciliations, mission costs, other)	57	58	2.9%
1.i Other Financial expenses	1	0	-100.0%
1.j Interest subsidy	72	52	-27.8%
2. Capital Expenditures	671	365	-45.6%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-98.7%
2.b Equipment	48	51	7.1%
2.c Construction in Progress, of which:	360	190	-47.2%
Displaced Fund	0	0	#DIV/o!
Council of the South	19	23	21.7%
CDR	176	79	-55.1%
Ministry of Public Work and Transport	50	33	-33.3%
Other of which:	115	53	-54.0%
Higher Council of Relief	20	0	-100.0%
2.d Maintenance	230	113	-50.7%
2.e Other Expenditures Related to Fixed Capital Assets	32	10	-69.8%
3. Budget Advances ⁽⁴⁾	52	68	29.7%
4. Customs Administration (exc. Salaries and Wages) ⁽⁵⁾	82	73	-11.1%
5. Treasury Expenditures ⁽⁶⁾	922	1,104	19.8%
Municipalities	419	268	-36.0%
Guarantees	55	54	-1.3%
Deposits ⁽⁷⁾	219	75	-66.0%
Other, of which:	229	708	209.5%
VAT Refund	178	100	-43.6%
6. Total Expenditures (Excluding CDR Foreign Financed)	14,147	11,449	-19.1%

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 Transactions⁽¹⁾

(LL billion)	2019 Jan-Jul	2020 Jan-Jul	% Change 2020/2019
Interest Payments	4,321	1,966	-54.5%
Local Currency Debt	2,618	1,756	-32.9%
Foreign Currency Debt, of which:	1,703	211	-87.6%
Eurobond Coupon Interest*	1,638	157	-90.4%
Special bond Coupon Interest*	0	0	-56.5%
Concessional Loans Interest Payments	65	53	-18.1%
Foreign Debt Principal Repayment	180	132	-26.6%

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)	2019 Jan-Jul	2020 Jan-Jul	% Change 2020/2019
EDL of which:	1,264	807	-36.2%
Debt Service	4	2	-31.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,261	804	-36.2%

Source: MOF, DGF

SECTION 3: PUBLIC DEBT

Table 8: Public Debt Outstanding by Holder as of End-Jul 2020

(LL billion)	Dec-18	Dec-19	Jul-20	% Change Jul 20 / Dec 19
Gross Public Debt	128,347	138,150	141,313	2.3%
Local Currency Debt	77,852	87,279	88,532	1.4%
* <i>Accrued Interest Included in Debt</i>	1,123	1,294	1,295	0.1%
a. Central Bank	39,006	50,717	52,490	3.5%
b. Commercial Banks (Including REPOs)	27,402	25,316	24,537	-3.1%
c. Other Local Currency Debt (T-bills), of which:	11,444	11,246	11,505	2.3%
<i>Public Entities</i>	9,956	9,968	10,279	3.1%
<i>Contractor bonds⁽¹⁾</i>	166	120	120	0.0%
Foreign Currency Debt⁽²⁾	50,495	50,871	52,781	3.8%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,920	2,850	2,906	2.0%
b. Paris III Related Debt (Eurobonds and Loans) ⁽³⁾	344	242	198	-18.3%
c. Market-Issued Eurobonds, of which:	46,678	47,206	47,206	0.0%
<i>Arrears in Principal</i>	0	0	3,769	-
d. Accrued Interest on Eurobonds	547	570	673	18.1%
e. Arrears in Coupons	0	0	1,702	-
f. Accrued interest in Arrears	0	0	96	-
g. Special T-bills in Foreign Currency ⁽⁴⁾	6	3	0	-100.0%
Public Sector Deposits	14,186	15,677	14,339	-8.5%
Net Debt	114,161	122,473	126,974	3.7%
Gross Market Debt⁽⁵⁾	76,204	74,441	75,499	1.4%
% of Total Debt	59%	54%	53%	-

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 18- Dec 19 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

⁽³⁾ 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.

⁽⁴⁾ Special Tbs in foreign currency (expropriation and contractor bonds).

⁽⁵⁾ Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans and Paris III related debt.

