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General Overview

The public finance performance during Jan-May 2020 was influenced by different factors affecting the revenues and expenditures front. The challenging economic conditions were aggravated by the lockdown imposed by the Government to counteract the Covid-19 pandemic. Such measures have weighted heavily on the government revenues, dropping by LL 1,033 billion (15.4 percent) year-on-year during the first five months 2020. The decrease in revenues was mainly driven by lower collections in the value added tax, 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 1,617 billion (15.7 percent) as interest payments plunged by LL 1,566 billion.

The **total fiscal balance** registered a deficit of LL 3,013 billion in Jan-May 2020 compared to a deficit of LL 3,597 billion during the same period of 2019. In contrast, the **primary deficit** witnessed a significant rise from LL 57 billion in Jan-May 2019 to LL 1,079 billion in Jan-May 2020.

Table 1: Summary of Fiscal Performance

(LL billion)	Jan-May 2019	Jan-May 2020	% Change 2020/2019
Total Budget and Treasury Receipts	6,730	5,697	-15.4%
Total Budget and Treasury Payments, of which	10,327	8,709	-15.7%
Interest Payments	3,421	1,855	-45.8%
Concessional loans principal payments ⁽¹⁾	120	79	-34.0%
Primary Expenditures ⁽²⁾	6,787	6,776	-0.2%
Total (Deficit)/Surplus	-3,597	-3,013	-16.2%
Primary (Deficit)/Surplus	-57	-1,079	-

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 1,033 billion (15.4 percent) year-on-year to reach LL 5,697 billion during Jan-May 2020.

Tax revenues reached a total of LL 4,144 billion in the first five months of the year, reflecting a decrease of LL 1,213 billion (22.6 percent)¹ from a total of LL 5,357 billion recorded during the same period of last year. This deterioration was driven by a drop in all tax items except for **tax on interest income** and **real estate registration fees**.

The main decrease was witnessed in **domestic taxes on goods and services** which dropped by LL 779 billion (43.8 percent) year-on-year in Jan-May 2020, driven by a LL 780 billion (51.1 percent) decline in the **value added tax**². In details, both VAT collected at customs and VAT collected internally decreased year-on-year over the covered period by 56.1 percent and 45.1 percent, respectively. Also, **private car registration fees** and

¹ Of which a LL 388 billion drop registered only in May 2020 compared to May 2019. 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.

passenger departure tax decreased by LL 50 billion (62.8 percent) and LL 33 billion (46.2 percent) respectively in the first five months of 2020. These drops were partly counterbalanced by a considerable increase in transfers from **Régie profits** which registered LL 178 billion during Jan-May 2020 compared to LL 90 billion during the same period of 2019.

Taxes on international trade dropped by LL 300 billion (37.8 percent) as **custom and excises fees** dropped by LL 158 billion (55.5 percent) and LL 142 billion (27.9 percent) respectively. In fact, **cars excise** were down by LL 90 billion (67.8 percent), owing to a 72.7 percent decrease in the value of imported vehicles. In addition, **tobacco excise** decreased by LL 47 billion (63.5 percent), driven by a 59.1 percent year-on-year decline in the value of tobacco imports. **Gasoline excise** declined at a lower pace by LL 4 billion (1.3 percent) that resulted from the combined effect of the 30.8 percent year-on-year drop in the volume of gasoline imports that was mitigated by the floor price set for gasoline by the Council of Ministers on March 12, 2020³.

In addition, **taxes on property** registered a LL 93 billion (21.5 percent) decrease in Jan-May 2020, mainly as **built property tax** and **inheritance fees** dropped by LL 90 billion (57.6 percent) and by LL 29 billion (54.5 percent), respectively. Meanwhile, **real estate registration fees** witnessed a year-on-year rise of LL 26 billion (11.9 percent)⁴, boosted by the LL 35 billion (87.2 percent) increase registered between May 2019 and May 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 with the easing of the imposed lockdown after the adoption of a 5-step opening plan by the Council of Ministers on 24 April 2020.

In contrast, **taxes on income, profits and capital gains** grew by LL 58 billion (2.7 percent) year-on-year in Jan-May 2020, driven by an increase of LL 567 billion (57.8 percent) in **taxes on interest income** to reach LL 1,547 billion. Meanwhile, **income tax on profits, income tax on capital gains & dividends** and **income tax on wages and salaries** dropped year-on-year by LL 234 billion (53.5 percent), LL 168 billion (79.3 percent) and LL 95 billion (21.1 percent), respectively.

Finally, **other tax revenues (namely fiscal stamp fees)** decreased by LL 99 billion (39.3 percent) to reach LL 152 billion in Jan-May 2020.

Non-tax revenues declined by LL 427 billion (39.9 percent) to reach LL 644 billion during Jan-May 2020.

Income from Public Institutions and Government properties witnessed a year-on-year drop of LL 303 billion (48.6 percent) over the covered period, as **transfers from the Telecom Surplus** and **property income (namely rent of Rafic Hariri International Airport)** were down by LL 239 billion (54.5 percent) and LL 38 billion (61.0 percent), respectively.

Moreover, **administrative fees and charges** dropped by LL 145 billion (42.3 percent) reaching LL 197 billion over the period under review, mainly as **passport fees, vehicle control fees** and **administrative charges** fell by LL 49 billion (48.9 percent), LL 30 billion (33.4 percent) and LL 17 billion (62.5 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 decreased by 0.77 percent during Jan-May 2020 while their average price increased significantly by 53.7 percent compared to the same period last year.

On the other hand, **other non-tax revenues (mostly retirement deductibles)** increased by LL 30 billion (33.6 percent), as deductibles related to military salaries and retirement⁵ generated LL 21 billion during Jan-May 2020. In addition, exceptional revenues from the settlement of violations related to maritime properties reached LL 8 billion during the first five months of 2020 compared to nil a year earlier.

Treasury receipts witnessed a significant increase of LL 606 billion to reach LL 909 billion in Jan-May 2020 compared to LL 303 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 2020.

Expenditures

Total expenditures regressed by LL 1,617 billion (15.7 percent) to reach LL 8,709 billion in Jan-May 2020 compared to LL 10,327 billion in Jan-May 2019.

Current primary expenditures⁷ registered a slight increase of LL 158 billion (2.8 percent) reaching a total of LL 5,731 billion during the first five months of 2020. This rise was mainly driven by an increase in health expenditures, namely payments for **hospitals** and **medicaments** by LL 192 billion and LL 59 billion respectively, in addition to a LL 75 billion hike in transfers for the Higher Council of Relief⁸. In contrast, other expenditure items witnessed a year-on-year drop, mainly **end of service compensations** by LL 331 billion (63.6 percent) and **transfers to Electricité du Liban (EDL)** by LL 306 billion (33.5 percent).

Interest payments dropped by LL 1,566 billion (45.8 percent) in Jan-May 2020 as interest payments due on foreign currency debt decreased significantly by LL 1,370 billion (87.5 percent) after the Government opted to default on its maturing Eurobonds in March 2020. Moreover, interest payments on local currency debt also decreased by LL 196 billion (10.6 percent) over the covered period. **Foreign debt principal repayment** also decreased by LL 41 billion (34.0 percent) to register a total of LL 79 billion during the first five months of 2020.

Capital expenditures decreased significantly by LL 189 billion (36.8 percent) to reach LL 324 billion in Jan-May 2020, mainly as transfers to **CDR**, expenses related to **maintenance** and transfers to the **Higher Council of Relief** dropped by LL 90 billion, LL 40 billion and LL 20 billion respectively.

Treasury expenditures witnessed a decrease of LL 8 billion (1.3 percent) to reach LL 624 billion in Jan-May 2020, as payments to **municipalities**, **deposits** and **VAT refund** shrank by LL 118 billion (35.6 percent), LL 71 billion (59.6 percent) and LL 35 billion (32.1 percent) respectively during the period under consideration.

Public Debt

Gross public debt stood at LL 140,412 billion by the end of May 2020, increasing by LL 2,262 billion (1.6 percent) from end-2019. On the other hand, **net debt** rose by 3.4 percent

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

⁸ This consists of a treasury advance granted to the Higher Council of Relief on 2 April 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.

to reach LL 126,585 billion as **public sector deposits** dropped by LL 1,850 billion (11.8 percent) over the period under consideration.

Local currency debt increased by LL 967 billion (1.1 percent) to register LL 88,246 billion as of end-May 2020, compared to LL 87,279 billion as at end-2019. In details, **local currency debt held by the Central Bank** increased by LL 1,395 billion (2.8 percent) to reach LL 52,112 billion by the end of May 2020, followed by a rise in other local currency debt holdings with **TBs held by public entities** increasing by LL 274 billion (2.7 percent) to reach LL 10,242 billion. In contrast, **TBs held by commercial banks** dropped by LL 681 billion (2.7 percent) to reach LL 24,635 billion by the end of May 2020.

The stock of **foreign currency debt** grew by LL 1,295 billion (2.5 percent) to reach LL 52,166 billion at end-May 2020. In fact, **Paris III related debt** decreased by LL 48 billion compared to the end of 2019, whereas **bilateral, multilateral and foreign private sector loans** dropped by LL 28 billion. On the other hand, the stock of **market-issued Eurobonds** remained unchanged at LL 47,206 billion, of which the accumulation of arrears in principal reached LL 2,864 billion, by the end of May 2020.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2019	2020	% Change
	Jan-May	Jan-May	2020/2019
Budget Revenues, of which:	6,427	4,788	-25.5%
Tax Revenues	5,357	4,144	-22.6%
Non-Tax Revenues	1,070	644	-39.9%
Treasury Receipts	303	909	-
Total Revenues	6,730	5,697	-15.4%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2019	2020	% Change
	Jan-May	Jan-May	2020/2019
Tax Revenues:	5,357	4,144	-22.6%
Taxes on Income, Profits, & Capital Gains, of which:	2,100	2,158	2.7%
Income Tax on Profits	438	204	-53.5%
Income Tax on Wages and Salaries	451	356	-21.1%
Income Tax on Capital Gains & Dividends	212	44	-79.3%
Tax on Interest Income	980	1,547	57.8%
Penalties on Income Tax	19	7	-60.5%
Taxes on Property, of which:	431	338	-21.5%
Built Property Tax	156	66	-57.6%
Real Estate Registration Fees	221	248	11.9%
Domestic Taxes on Goods & Services, of which:	1,780	1,001	-43.8%
Value Added Tax	1,525	746	-51.1%
Other Taxes on Goods and Services, of which:	152	68	-55.0%
Private Car Registration Fees	80	30	-62.8%
Passenger Departure Tax	71	38	-46.2%
Taxes on International Trade, of which:	795	495	-37.8%
Customs	284	126	-55.5%
Excises, of which:	511	368	-27.9%
Gasoline Excise	300	296	-1.3%
Tobacco Excise	73	27	-63.5%
Cars Excise	132	43	-67.8%
Other Tax Revenues (namely fiscal stamp fees)	251	152	-39.3%

Source: MOF, DGF

Table 4: Non-Tax Revenue

(LL billion)	2019	2020	% Change
	Jan-May	Jan-May	2020/2019
Non-Tax Revenues	1,070	644	-39.9%
Income from Public Institutions and Government Properties, of which:	624	321	-48.6%
Income from Non-Financial Public Enterprises, of which:	498	235	-52.9%
Revenues from Casino Du Liban	52	28	-45.8%
Revenues from Port of Beirut	0	0	-
Budget Surplus of National Lottery	6	6	9.0%
Transfer from the Telecom Surplus	439	200	-54.5%
Transfer from Public Financial Institution (BDL)	60	60	-0.5%
Property Income (namely rent of Rafic Hariri International Airport)	63	25	-61.0%
Other Income from Public Institutions (interests)	3	1	-46.5%
Administrative Fees & Charges, of which:	342	197	-42.3%
Administrative Fees, of which:	259	144	-44.3%
Notary Fees	26	14	-47.8%
Passport Fees/ General Security	100	51	-48.9%
Vehicle Control Fees	89	59	-33.4%
Judicial Fees	13	8	-40.0%
Driving License Fees	8	3	-63.2%
Administrative Charges	27	10	-62.5%
Sales (Official Gazette and License Number)	1	1	-46.8%
Permit Fees (mostly work permit fees)	34	23	-31.1%
Other Administrative Fees & Charges	21	19	-11.0%
Penalties & Confiscations	15	6	-59.4%
Other Non-Tax Revenues (mostly retirement deductibles)	90	120	33.6%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2019 Jan-May	2020 Jan-May	% Change 2020/2019
1. Current Expenditures	9,114	7,665	-15.9%
1.a Personnel Cost, of which	4,174	4,051	-3.0%
Salaries, Wages and social benefits	2,399	2,484	3.5%
Retirement and End of Service Compensations, of which:	1,604	1,367	-14.8%
Retirement	1,083	1,177	8.7%
End of Service	521	190	-63.6%
Transfers to Public Institutions to Cover Salaries	171	200	16.7%
1.b Interest Payments, of which: ⁽¹⁾	3,421	1,855	-45.8%
Domestic Interest Payments	1,855	1,659	-10.6%
Foreign Interest Payments	1,565	195	-87.5%
1.d Foreign Debt Principal Repayment	120	79	-34.0%
1.e Materials and Supplies, of which:	101	130	29.2%
Nutrition	24	24	1.8%
Fuel Oil	15	2	-87.6%
Medicaments	21	80	-
1.f External Services	62	72	16.9%
1.g Various Transfers, of which:	1,088	1,138	4.6%
EDL ⁽²⁾	913	607	-33.5%
NSSF	0	0	-
Higher Council of Relief	0	75	-
Contributions to non-public sectors	89	83	-7.5%
Transfers to Directorate General of Cereals and Beetroot ⁽³⁾	12	0	-100.0%
1.h Other Current, of which:	106	298	181.2%
Hospitals	64	256	-
Others(judgments & reconciliations, mission costs, other)	40	41	3.4%
1.i Other Financial expenses	0	0	-100.0%
1.j Interest subsidy	43	42	-2.0%
2. Capital Expenditures	513	324	-36.8%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	48.8%
2.b Equipment	39	46	19.0%
2.c Construction in Progress, of which:	304	172	-43.5%
Displaced Fund	0	0	-
Council of the South	19	23	21.7%
CDR	169	79	-53.2%
Ministry of Public Work and Transport	25	30	19.6%
Other of which:	90	37	-58.2%
Higher Council of Relief	20	0	-100.0%
2.d Maintenance	141	100	-28.7%
2.e Other Expenditures Related to Fixed Capital Assets	29	6	-81.1%
3. Budget Advances ⁽⁴⁾	10	40	-
4. Customs Administration (exc. Salaries and Wages) ⁽⁵⁾	58	57	-2.1%
5. Treasury Expenditures ⁽⁶⁾	632	624	-1.3%
Municipalities	333	214	-35.6%
Guarantees	37	46	24.6%
Deposits ⁽⁷⁾	120	48	-59.6%
Other, of which:	143	315	120.6%
VAT Refund	109	74	-32.1%
6. Total Expenditures (Excluding CDR Foreign Financed)	10,327	8,709	-15.7%

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-May	2020 Jan-May	% Change 2020/2019
Interest Payments	3,421	1,855	-45.8%
Local Currency Debt	1,855	1,659	-10.6%
Foreign Currency Debt, of which:	1,565	195	-87.5%
Eurobond Coupon Interest*	1,523	157	-89.7%
Special bond Coupon Interest*	0	0	-
Concessional Loans Interest Payments	42	38	-10.4%
Foreign Debt Principal Repayment	120	79	-34.0%

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-May	2020 Jan-May	% Change 2020/2019
EDL of which:	913	607	-33.5%
Debt Service	2	2	15.2%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	911	605	-33.6%

Source: MOF, DGF

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-18	Dec-19	May-20	% Change May 20 / Dec 19
Gross Public Debt	128,347	138,150	140,412	1.6%
Local Currency Debt	77,852	87,279	88,246	1.1%
* <i>Accrued Interest Included in Debt</i>	1,123	1,294	1,468	13.4%
a. Central Bank	39,006	50,717	52,112	2.8%
b. Commercial Banks (Including REPOs)	27,402	25,316	24,635	-2.7%
c. Other Local Currency Debt (T-bills), of which:	11,444	11,246	11,499	2.2%
<i>Public Entities</i>	9,956	9,968	10,242	2.7%
<i>Contractor bonds⁽¹⁾</i>	166	120	120	0.0%
Foreign Currency Debt ⁽²⁾	50,495	50,871	52,166	2.5%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,920	2,850	2,896	-1.6%
b. Paris III Related Debt (Eurobonds and Loans) ⁽³⁾	344	242	192	-20.6%
c. Market-Issued Eurobonds, of which:	46,678	47,206	47,206	0.0%
<i>Arrears in Principal</i>	0	0	2,864	-
d. Accrued Interest on Eurobonds	547	570	590	3.5%
e. Arrears in Coupons	0	0	1,241	-
f. Accrued interest in Arrears	0	0	41	-
g. Special T-bills in Foreign Currency ⁽⁴⁾	6	3	0	-100.0%
Public Sector Deposits	14,186	15,677	13,827	-11.8%
Net Debt	114,161	122,473	126,585	3.4%
Gross Market Debt⁽⁵⁾	76,204	74,441	75,036	0.8%
% 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.

