REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Monitor

June 2018

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General Overview

The fiscal deficit expanded in the first half of 2018 owing to the increase in public spending, as a result of the ongoing impact from the salary scale adjustment for public sector employees in 2017. In addition, this was associated with the higher spending in capital payments to municipalities, and a huge Treasury transfer to EDL. It is worth noting that Interest payments, mainly on foreign debt were key catalysts for causing this larger fiscal deficit. The widening of the deficit was also attributed to the continuous reduction in revenues as a result of the decrease in Income Taxes on Profit compared to the same period in 2017, where the amount was inflated due the exceptional transfer of LL 1,130 billion of taxes on financial institutions' profits from the Central Bank's 2016 financial engineering. However, the bulk of Taxes on Income Profit in 2018 was collected this month which amounted to LL 780 billion[1].

The **total fiscal balance** recorded a huge negative amount of LL 4,577 billion, compared to a deficit of LL 1,368 billion in the same period of 2017, while the **primary balance** sharply dropped to a deficit of LL 234 billion from a surplus of LL 2,457 billion. Consequently, **Gross Public Debt** expanded by 4.3 percent in June 2018 from end-2017.

Table 1: Summary of Fiscal Performance

(LL billion)	Jan-June 2017	Jan-June 2018	% Change 2018/2017
Total Budget and Treasury Receipts	**9,136**	**8,956**	**-2.0%**
Total Budget and Treasury Payments, *of which*	**10,504**	**13,533**	**28.8%**
•*Interest Payments*	3,683	4,196	13.9%
•*Concessional loans principal payment*[1]	142	147	3.5%
•*Primary Expenditures*[2]	6,679	9,190	37.6%
Total (Deficit)/Surplus	**-1,368**	**-4,577**	**-**
Primary (Deficit)/Surplus	**2,457**	**-234**	**-109.5%**

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 fell to LL 8,956 billion, lower by LL 180 billion (2.0 percent) compared to Jan-June of last year. The fall resulted from the significant drop in both the tax and non-tax revenues.

Tax revenues recorded an amount of LL 6,888 billion after a drop of LL 231 billion (3.2 percent) from LL 7,119 billion in the previous year, with a decrease in Taxes on income, profits, and capital gains, Taxes on Property, and Taxes on international trade components. Income Tax on Profits fell sharply by LL 767 billion (38.6 percent) to reach LL 1,222 billion. However, the increase in Tax on Interest Income and Income Tax on Wages and Salaries by LL 326 billion and LL 70 billion respectively partially compensated to the large fall in income tax on Profit. The Increases in most tax collections were due to the implementation of higher rates, mainly Tax on Interest

[1] After extending the tax declaration deadline as per the decision #860/1 dated 24/05/2018.

Income rates from 5% to 7%, and Income Tax on Profits from 15% to 17%. It Is also 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. In addition, real estate registration fees significantly dropped by LL 83 billion (18.7 percent), as average prices of sold properties rose by 5.1 percent along with a fall in their sales by 18.2 percent and a drop in the number of registered square meters by 18.9 percent[2]. However, Domestic taxes on goods and services increased by LL 187 billion (9.3 percent) to reach LL 2,196 billion in Jan-June 2018 associated with the increase of LL 166 billion (9.7 percent) in value added tax, mainly affected by the rise in VAT at customs by 14.9 percent. Taxes on international trade recorded LL 1,001 billion, following a drop of LL 41 billion (3.9 percent) from the previous year, given primarily the fall of LL 63 billion (9.2 percent) in excise taxes. In detail, tobacco excise declined by LL 50 billion (46.1 percent) accompanied by a fall in the value of tobacco-imported products by LL 51 billion (40 percent) from the prior year. In addition, cars excise fell by LL 18 billion (7.3 percent) caused by a drop in the amount of imported cars by 6.8 percent.

Non-tax revenues decreased by LL 264 billion (16.9 percent) to reach LL 1,297 billion in Jan-June 2018. This was triggered by the significant fall in income from public institutions and government properties by LL 331 billion (33.2 percent), which included (i) a sharp drop in transfers from the Telecom Surplus by LL 169 billion (26.1 percent) compared to the prior year, (ii) a decline of LL 143 billion (100 percent) in revenues from Port of Beirut, and (iii) a fall in Property Income by LL 38 billion (46.6 percent). It is worth mentioning that there was a sharp increase in Notary Fees by LL18 billion (96.3 percent) to reach LL 36 billion in Jan-June 2018 as rates doubled due to the implementation of new revenue measures[3] under Law n° 64/2017 published in the official gazette n° 50 dated 26/10/2017[4].

Treasury receipts rose by LL 316 billion (69.3 percent) to reach LL 771 billion compared to LL 455 billion in the same period of last year.

Expenditures

Total expenditures rose by LL 3,029 billion (28.8 percent) in Jan-June 2018 to record LL 13,533 billion, up from LL 10,504 billion in the same covered period in 2017 due to the higher spending within all sub-components, mainly in current and treasury expenditures.

Current primary expenditures[5] sharply increased by LL 1,614 billion (29.4 percent) to record LL 7,102 billion, driven by a significant rise in salaries, wages and social benefits and in retirement and end of service compensations by LL 646 billion and LL 342 billion, respectively. In addition, spending on other components has increased in Jan-June 2018 including (i) Transfers to EDL by LL 275 billion (32.8 percent) to record LL 1,113 billion, (ii) other current expenditures (judgments & reconciliations, mission costs, other) by LL 97 billion (138.8 percent) to reach LL 167 billion, (iii) transfers to hospitals by LL 78 billion (48.8 percent) to reach LL 238 billion, as well as (iv) contributions to non-public sectors by LL 41 billion (46 percent) to reach LL 129 billion. On the contrary, expenditures on Medicaments and Transfers to the Higher Council of relief fell by the same amount of LL 21 billion each.

2 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.
3 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.
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 payment and debt service.

Interest payments hit LL 4,196 billion, as it increased by LL 513 billion (13.9 percent) from the prior year, mainly as interest payments due on Foreign debt increased significantly by LL 381 billion (29.7 percent) and interest payments due on Domestic debt rose by LL 132 billion (5.5 percent) to reach LL 2,531 billion.

Capital expenditures amounted to LL 766 billion following an increase by LL 183 billion from the same period in the previous year, primarily driven by a rise in maintenance costs by LL 80 billion (104.9 percent) , associated with an increase in construction in progress by LL 76 billion (17.5 percent) to hit LL 509 billion. However, expenditures related to CDR significantly fell by LL 204 billion (75.1 percent) to reach LL 68 billion.

Treasury expenditures increased by LL 665 billion to reach LL 1,113 billion in Jan-June 2018. This expansion was mainly driven by the increase in transfers to municipalities by the Ministry of Finance by LL 514 billion to reach LL 668 billion.

Public Debt

Gross public debt rose to LL 125,054 billion, higher by LL 5,156 billion (4.3 percent) from December 2017. Consequently, net debt grew by LL 4,679 billion (4.5 percent) to record LL 108,918 billion in June 2018, despite the increase in public sector deposits by LL 477 billion to reach LL 16,136 billion at end-June. 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 was cut down by LL 1,955 billion (2.6 percent), mainly due to a drop in both the Central bank and Commercial banks debt by LL 960 billion (2.7 percent) and LL 1,393 billion (5.0 percent), respectively. However, other local currency debt holdings increased by LL 398 billion (3.7 percent), with TBs held by Public Entities expanding by LL 476 billion (5.3 percent) to reach LL 9,417 billion.

However, the stock of **foreign currency debt** rose sharply by LL 7,111 billion (15.5 percent) to hit a high level of LL 52,932 billion, as a result of new market issued Eurobonds that increased by LL 7,214 billion (17.3 percent) to record LL 49,005 billion. Also, accrued interest on Eurobonds in Foreign currency increased by LL 102 billion (21.3 percent). On the contrary, Paris II Related debt and Special T-bills significantly dropped by LL 86 billion (100 percent) and LL 27 billion (81.8 percent), respectively.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2017 Jan-June	2018 Jan-June	% Change 2018/2017
Budget Revenues, of which	8,680	8,185	-5.7%
Tax Revenues	7,119	6,888	-3.2%
Non-Tax Revenues	1,561	1,297	-16.9%
Treasury Receipts	**455**	**771**	**69.3%**
Total Revenues	**9,136**	**8,956**	**-2.0%**

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2017 Jan-June	2018 Jan-June	% Change 2018/2017
Tax Revenues:	**7,119**	**6,888**	**-3.2%**
Taxes on Income, Profits, & Capital Gains, of which	**3,081**	**2,769**	**-10.1%**
Income Tax on Profits	1990	1222	-38.6%
Income Tax on Wages and Salaries	390	460	17.9%
Income Tax on Capital Gains & Dividends	218	288	31.8%
Tax on Interest Income (7%)	442	768	73.8%
Penalties on Income Tax	40	31	-23.6%
Taxes on Property, of which:	**743**	**618**	**-16.9%**
Built Property Tax	210	198	-5.5%
Real Estate Registration Fees	446	363	-18.7%
Domestic Taxes on Goods & Services, of which:	**2,009**	**2,196**	**9.3%**
Value Added Tax	1,707	1,873	9.7%
Other Taxes on Goods and Services, of which:	211	218	3.1%
Private Car Registration Fees	124	135	8.8%
Passenger Departure Tax	86	82	-5.2%
Taxes on International Trade, of which:	**1,041**	**1,001**	**-3.9%**
Customs	357	379	6.1%
Excises, of which:	684	621	-9.2%
Gasoline Excise	326	326	0.1%
Tobacco Excise	108	58	-46.1%
Cars Excise	248	230	-7.3%
Other Tax Revenues (namely fiscal stamp fees)	**245**	**304**	**24.4%**

Source: MOF, DGF

Table 4: Non-Tax Revenue

(LL billion)	2017 Jan-June	2018 Jan-June	% Change 2018/2017
Non-Tax Revenues	**1,561**	**1,297**	**-16.9%**
Income from Public Institutions and Government Properties, of which	**998**	**667**	**-33.2%**
Income from Non-Financial Public Enterprises, of which:	853	559	-34.4%
Revenues from Casino Du Liban	59	67	14.4%
Revenues from Port of Beirut	143	0	-100.0%
Budget Surplus of National Lottery	1	11	-
Transfer from the Telecom Surplus	649	480	-26.1%
Transfer from Public Financial Institution (BDL)	61	60	-0.4%
Property Income (namely rent of Rafic Hariri International Airport)	81	43	-46.6%
Other Income from Public Institutions (interests)	3	4	23.0%
Administrative Fees & Charges, of which:	**454**	**478**	**5.3%**
Administrative Fees, of which:	387	396	2.3%
Notary Fees	18	36	96.3%
Passport Fees/ Public Security	136	136	0.1%
Vehicle Control Fees	188	183	-2.7%
Judicial Fees	15	14	-10.4%
Driving License Fees	12	11	-4.6%
Administrative Charges	17	17	-0.4%
Sales (Official Gazette and License Number)	2	2	-3.0%
Permit Fees (mostly work permit fees)	41	47	15.6%
Other Administrative Fees & Charges	8	17	112.0%
Penalties & Confiscations	**18**	**17**	**-3.2%**
Other Non-Tax Revenues (mostly retirement deductibles)	**92**	**135**	**46.9%**

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2017 Jan-June	2018 Jan-June	% Change 2018/2017
1. Current Expenditures	**9,314**	**11,445**	**22.9%**
1.a Personnel Cost, *of which*	3,803	4,802	26.3%
Salaries, Wages and Related Items	2,468	3,113	26.2%
Retirement and End of Service Compensations, of which:	1,127	1,469	30.3%
Retirement	935	1,095	17.0%
End of Service	192	374	94.9%
Transfers to Public Institutions to Cover Salaries	208	220	5.9%
1.b *Interest Payments 1/, of which:*	3,683	4,196	13.9%
Domestic Interest Payments	2,399	2,531	5.5%
Foreign Interest Payments	1,283	1,665	29.7%
1.c Accounting Adjustments	0	0	-
1.d Foreign Debt Principal Repayment	142	147	3.5%
1.e Materials and Supplies, *of which:*	169	168	-0.5%
Nutrition	35	38	9.7%
Fuel Oil	17	13	-22.6%
Medicaments	84	64	-24.5%
1.f External Services	73	130	77.9%
1.g Various Transfers, *of which:*	1,134	1,549	36.6%
EDL 2/	839	1,113	32.8%
NSSF	0	0	-
Higher Council of Relief	21	0	-100.0%
Contributions to non-public sectors	88	129	46.0%
Transfers to Directorate General of Cereals and Beetroot 3/	15	17	12.2%
1.h Other Current, *of which:*	235	410	74.5%
Hospitals	160	238	48.8%
Others(judgments & reconciliations, mission costs, other)	70	167	138.8%
1.i Interest Subsidy	75	43	-42.5%
2. Capital Expenditures	**582**	**766**	**31.5%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	2	30	-
2.b Equipment	29	43	46.2%
2.c Construction in Progress, *of which:*	433	509	17.5%
Displaced Fund	10	10	0.0%
Council of the South	27	40	50.1%
CDR	272	68	-75.1%
Ministry of Public Work and Transport	52	47	-9.2%
Other of which:	67	90	33.0%
Higher Council of Relief	6	11	92.7%
2.d Maintenance	76	155	104.9%
2.e Other Expenditures Related to Fixed Capital Assets	42	28	-31.8%
3. Budget Advances 4/	**117**	**134**	**14.4%**
4. Customs Administration (exc. Salaries and Wages) 5/	**43**	**75**	**75.2%**
5. Treasury Expenditures 6/	**448**	**1,113**	**148.6%**
Municipalities	154	668	-
Guarantees	55	45	-17.7%
Deposits 7/	107	111	3.3%
Other, *of which:*	132	289	119.2%
VAT Refund	98	116	18.7%
6. Unclassified Expenditures	**0**	**0**	**-**
7. Total Expenditures (Excluding CDR Foreign Financed)	**10,504**	**13,533**	**28.8%**

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)	2017 Jan-June	2018 Jan-June	% Change 2018/2017
Interest Payments	**3,683**	**4,196**	**13.9%**
Local Currency Debt	2,399	2,531	5.5%
Foreign Currency Debt, of which:	1,283	1,665	29.7%
*Eurobond Coupon Interest**	1,237	1,616	30.6%
*Special bond Coupon Interest**	1	1	-50.8%
Concessional Loans Interest Payments	45	48	7.4%

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 7: Transfers to EDL

(LL billion)	2017 Jan-June	2018 Jan-June	% Change 2018/2017
EDL *of which:*	**839**	**1,113**	**32.8%**
Debt Service	8	6	-15.7%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	831	1,107	33.2%
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-June 2018

(LL billion)	Dec-16	Dec-17	June-18	% Change June 18 – Dec 17
Gross Public Debt	**112,910**	**119,898**	**125,054**	**4.3%**
Local Currency Debt	**70,528**	**74,077**	**72,122**	**-2.6%**
** Accrued Interest Included in Debt*	1,098	1,159	1,125	-2.9%
a. Central Bank	30,150	35,580	34,620	-2.7%
b. Commercial Banks (Including REPOs) 1/	29,581	27,756	26,363	-5.0%
c. Other Local Currency Debt (T-bills), *of which:*	10,797	10,741	11,139	3.7%
Public Entities	8,718	8,941	9,417	5.3%
Contractor bonds 2/	139	166	166	0.0%
Foreign Currency Debt 3/	**42,382**	**45,821**	**52,932**	**15.5%**
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,506	2,979	2,943	-1.2%
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	396	-12.3%
d. Market-Issued Eurobonds	38,063	41,791	49,005	17.3%
e. Accrued Interest on Eurobonds	458	480	582	21.3%
f. Special T-bills in Foreign Currency 6/	63	33	6	-81.8%
Public Sector Deposits	**14,586**	**15,659**	**16,136**	**3.0%**
Net Debt 7/	**98,324**	**104,239**	**108,918**	**4.5%**
Gross Market Debt 8/	**70,303**	**71,944**	**77,772**	**8.1%**
% of Total Debt	**62%**	**60%**	**62%**	**3.6%**

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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