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General Overview

The fiscal performance deteriorated in the first nine months of 2018 as public spending surged due to the impact of the salary scale adjustment in the public sector, and to the increase in transfers to Municipalities, EDL, Capital Expenditures, and Interest Payments. However, total revenues recorded a modest increase that was not enough to offset the hike in expenditures.

The **total fiscal balance** registered a significant deficit of LL 6,795 billion, more than doubling the deficit registered during the same period of 2017, while the **primary balance** shifted from a surplus of LL 2,456 billion in Jan-Sep 2017 to a deficit of LL 891 billion during the comparable period in 2018.

Table 1: Summary of Fiscal Performance

(LL billion)	2017 Jan-Sep	2018 Jan-Sep	% Change 2018/2017
Total Budget and Treasury Receipts	12,671	13,072	3.2%
Total Budget and Treasury Payments, of which	15,691	19,867	26.6%
• Interest Payments	5,281	5,708	8.1%
• Concessional loans principal payment ¹	195	197	1.0%
• Primary Expenditures ²	10,215	13,962	36.7%
Total (Deficit)/Surplus	(3,020)	(6,795)	125.0%
Primary (Deficit)/Surplus	2,456	(891)	-

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 401 billion (3.2 percent) to reach LL 13,072 billion in Jan-Sep 2018, compared to LL 12,671 billion during the same period of 2017.

Tax revenues were up by LL 191 billion (2.0 percent), reaching LL 9,868 billion in the first nine months of 2018.

In fact, **Taxes on Income, Profits and Capital gains** were up only by LL 22 billion in Jan-Sep 2018 compared to Jan-Sep 2017, as Tax on Interest Income rose by LL 636 billion to reach LL 1,312 billion. However, the slight increase was not enough to offset the sharp decrease of 756 billion (37.0 percent) in **income tax on profits** that reached LL 1,288 billion in the covered period.

Domestic taxes on goods and services increased by LL 349 billion (11.6 percent) driven by a LL 291 billion increase in the **Value Added Tax** that rose from 10 percent to 11 percent. Internal VAT rose by 6.3 percent while VAT at customs inched up by 14.9 percent. In addition, **private car registration fees** and **passenger departure tax** increased by LL 18 billion and LL 11 billion respectively over the period.

Other tax revenues (namely fiscal stamps fees) grew by LL 86 billion (23.5 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 26/10/2017¹.

¹ Following the abrogation of the law no 45/2017 (published in the official gazette no 37 dated 21/08/2017) by the Constitutional Council.

On the contrary, **taxes on property** shrank by LL 199 billion (19.1 percent) in Jan-Sep 2018, mainly as **real estate registration fees** dropped by LL 156 billion (22.8 percent). It is worth mentioning that the average price of sold properties remained unchanged over the covered period, while the number of sold properties dropped by 16.8 percent.

Taxes on international trade were down by LL 67 billion in the first nine months of 2018, driven by a drop of LL 86 billion in the collection of excise taxes that was partly counterbalanced by the LL 19 billion increase in the collection of customs. In details, the collection of gasoline excise taxes dropped by LL 14 billion (2.7 percent) during the covered period, indicating a slight retraction in gasoline consumption – since gasoline excise is a tax on volume - following the rising trend in international fuel prices². Moreover, tobacco excises declined by LL 46 billion (31.1 percent) owing to a 25.3 percent decrease in the imports of tobacco products, and cars excises fell by LL 34 billion due to the 7.4 percent drop in the value of cars imported in Jan-Sep 2018.

Non-tax revenues witnessed an increase of LL 96 billion (4.5 percent) to reach LL 2,225 billion in Jan-Sep 2018, mainly due to the hike in the **transfers from the Telecom surplus** by LL 181 billion (22.7 percent), that was partly counterbalanced by the drop of LL 100 billion (57.1 percent) in **Revenues from Port of Beirut**. **Administrative fees and charges** increased by LL 66 billion (10.6 percent) as a result of higher **notary fees** and **vehicle control fees** by LL 26 billion and LL 22 billion respectively. On the other hand, **other non-tax revenues (mostly retirement deductibles)** dropped by LL 20 billion³.

Treasury receipts rose by LL 114 billion (13.2 percent) to reach LL 979 billion by end-September 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 4,176 billion (26.6 percent) and stood at LL 19,867 billion in Jan-Sep 2018.

Current primary expenditures⁴ increased by LL 2,521 billion (29.8 percent) mainly as a result of a rise in: (i) **personnel cost** by LL 1,466 billion driven by both **salaries, wages and social benefits** and **retirement and end of service compensations** components which rose by LL 715 billion (18.9 percent) and LL 666 billion (38.5 percent) respectively; (ii) **various transfers** by LL 712 billion driven by a LL 511 billion rise in transfers to EDL; (iii) **Other current expenditures (judgments & reconciliations, mission costs, other)** by LL 151 billion and (iv) transfers to **Hospitals** by LL 129 billion.

Interest payments rose by LL 427 billion (8.1 percent) to reach LL 5,708 billion in the first nine months of 2018, mainly due to an increase of LL 379 billion in foreign interest payments. Moreover, **foreign debt principal repayment** witnessed a very modest rise of LL 2 billion to reach LL 197 billion in Jan-Sep 2018.

Capital expenditures grew by LL 363 billion (46.7 percent) in Jan-Sep 2018, mainly due to a LL 269 billion increase in **construction in Progress** and a LL 28 billion increase in **acquisitions of land, buildings, for the construction of roads, ports, airports, and water networks**. In addition, **maintenance costs** increased by LL 75 billion (83.2 percent) year-on-year during the covered period.

² The average Brent price increased by 39.4 percent y-o-y in Jan-Sep 2018.

³ Mainly due to the exceptional amount of retirement deductibles collected in Sep 2017 when the new salary scale took effect.

⁴ Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

Treasury expenditures witnessed an increase of LL 844 billion to reach LL 1,539 billion in the first nine months, mainly due to a hike in payments to Municipalities from LL 215 billion in Jan-Sep 2017 to LL 788 billion in Jan-Sep 2018.

Public Debt Developments

Gross public debt reached LL 126,400 billion as of end-September 2018, increasing by LL 6,502 billion (5.4 percent) from end-2017, while net debt rapidly increased by 6.5 percent as public sector deposits declined by 1.7 percent over the period under review.

Local currency debt decreased by 1.4 percent to reach LL 73,007 billion as of end-September 2018, compared to LL 74,077 billion as of end-2017. In detail, Local Currency Debt held by Commercial Banks dropped by LL 2,134 billion (7.7 percent), whereas the holdings by the Central Bank increased by LL 1,010 billion (2.8 percent)⁵. On the other hand, a slight increase in other local currency debt holdings was recorded (LL 54 billion), with TBs held by Public Entities rising by LL 225 billion (2.5 percent) to reach LL 9,166 billion compared to LL 8,941 billion at the end of 2017.

The stock of **foreign currency debt** grew sharply by LL 7,572 billion to reach LL 53,393 billion at the end of September, mostly owing it to a LL 7,212 billion increase in the value of outstanding Eurobonds. On the other hand, Bilateral, multilateral and foreign private sector loans declined by LL 24 billion, whereas Paris III related bonds and loans decreased by LL 56 billion.

⁵ Despite BDL 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-Sep	2018 Jan-Sep	% Change 2018/2017
Budget Revenues, of which:	11,806	12,093	2.4%
Tax Revenues	9,678	9,868	2.0%
Non-Tax Revenues	2,129	2,225	4.5%
Treasury Receipts	865	979	13.2%
Total Revenues	12,671	13,072	3.2%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2017 Jan-Sep	2018 Jan-Sep	% Change 2018/2017
Tax Revenues:	9,678	9,686	2.0%
Taxes on Income, Profits, & Capital Gains, of which:	3,658	3,680	0.6%
Income Tax on Profits	2,044	1,288	-37.0%
Income Tax on Wages and Salaries	584	671	14.8%
Income Tax on Capital Gains & Dividends	304	370	21.7%
Tax on Interest Income (5%)	676	1,312	94.1%
Penalties on Income Tax	49	38	-22.6%
Taxes on Property, of which:	1,040	841	-19.1%
Built Property Tax	238	236	-0.8%
Real Estate Registration Fees	682	526	-22.8%
Domestic Taxes on Goods & Services, of which:	3,017	3,366	11.6%
Value Added Tax	2,562	2,853	11.4%
Other Taxes on Goods and Services, of which:	317	346	9.3%
<i>Private Car Registration Fees</i>	188	206	9.6%
<i>Passenger Departure Tax</i>	128	139	8.8%
Taxes on International Trade, of which:	1,599	1,532	-4.2%
Customs	540	559	3.6%
Excises, of which:	1,058	972	-8.2%
<i>Gasoline Excise</i>	525	511	-2.7%
<i>Tobacco Excise</i>	148	102	-31.1%
<i>Cars Excise</i>	382	348	-8.8%
Other Tax Revenues (namely fiscal stamp fees)	364	450	23.5%

Source: MOF, DGF

Table 4: Non-Tax Revenues

(LL billion)	2017 Jan-Sep	2018 Jan-Sep	% Change 2018/2017
Non-Tax Revenues	2,129	2,225	4.5%
Income from Public Institutions and Government Properties, of which	1,264	1,313	3.9%
Income from Non-Financial Public Enterprises, of which:	1,097	1,180	7.5%
<i>Revenues from Casino Du Liban</i>	89	101	12.9%
<i>Revenues from Port of Beirut</i>	175	75	-57.1%
<i>Budget Surplus of National Lottery</i>	31	21	-33.4%
<i>Transfer from the Telecom Surplus</i>	800	981	22.7%
Transfer from Public Financial Institution (BDL)	61	60	-0.4%
Property Income (namely rent of Rafic Hariri International Airport)	101	66	-34.4%
Other Income from Public Institutions (interests)	5	6	37.5%
Administrative Fees & Charges, of which:	626	692	10.6%
Administrative Fees, of which:	532	580	9.0%
<i>Notary Fees</i>	29	54	89.7%
<i>Passport Fees/ Public Security</i>	212	211	-0.1%
<i>Vehicle Control Fees</i>	228	250	9.6%
<i>Judicial Fees</i>	21	20	-2.6%
<i>Driving License Fees</i>	17	17	-0.6%
Administrative Charges	19	20	3.5%
Sales (Official Gazette and License Number)	2	2	-0.5%
Permit Fees (mostly work permit fees)	61	69	13.4%
Other Administrative Fees & Charges	11	20	88.1%
Penalties & Confiscations	26	26	1.1%
Other Non-Tax Revenues (mostly retirement deductibles)	214	194	-9.3%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2017 Jan-Sep	2018 Jan-Sep	% Change 2018/2017
1. Current Expenditures	13,945	16,895	21.2%
1.a Personnel Cost, of which:	5,787	7,253	25.3%
Salaries, Wages and Related Items	3,778	4,493	18.9%
Retirement and End of Service Compensations, of which:	1,730	2,396	38.5%
Retirement	1,466	1,714	16.9%
End of Service	263	682	159.3%
Transfers to Public Institutions to Cover Salaries	280	364	30.1%
1.b Interest Payments 1/, of which:	5,281	5,708	8.1%
Domestic Interest Payments	3,602	3,650	1.3%
Foreign Interest Payments	1,679	2,058	22.6%
1.c Accounting Adjustments	0	0	-
1.d Foreign Debt Principal Repayment	195	197	1.0%
1.e Materials and Supplies, of which:	339	381	12.6%
Nutrition	61	57	-7.8%
Fuel Oil	26	33	27.7%
Medicaments	192	219	14.3%
1.f External Services	112	161	44.4%
1.g Various Transfers, of which:	1,832	2,544	38.9%
EDL 2/	1,350	1,861	37.9%
NSSF	0	0	-
Higher Council of Relief	21	1	-95.6%
Contributions to non-public sectors	228	249	9.1%
Transfers to Directorate General of Cereals and Beetroot 3/	16	18	11.1%
1.h Other Current, of which:	287	568	97.8%
Hospitals	188	317	68.9%
Others (judgments & reconciliations, mission costs, other)	92	243	164.9%
1.i Interest Subsidy	113	83	-26.2%
2. Capital Expenditures	778	1,141	46.7%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	2	30	-
2.b Equipment	44	47	7.2%
2.c Construction in Progress, of which:	598	867	45.0%
Displaced Fund	10	10	0.0%
Council of the South	40	40	0.1%
CDR	351	364	3.7%
Ministry of Public Work and Transport	79	51	-35.4%
Other of which:	110	148	34.0%
Higher Council of Relief	37	59	58.7%
2.d Maintenance	90	165	83.2%
2.e Other Expenditures Related to Fixed Capital Assets	43	31	-27.4%
3. Budget Advances 4/	209	187	-10.2%
4. Customs Administration (exc. Salaries and Wages) 5/	64	104	61.8%
5. Treasury Expenditures 6/	695	1,539	121.5%
Municipalities	215	788	-
Guarantees	72	64	-10.7%
Deposits 7/	200	208	4.1%
Other, of which:	208	479	130.1%
VAT Refund	165	165	-0.1%
6. Unclassified Expenditures	0	0	-
7. Total Expenditures (Excluding CDR Foreign Financed)	15,691	19,867	26.6%

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-Sep	2018 Jan-Sep	% Change 2018/2017
Interest Payments	5,281	5708	8.1%
Local Currency Debt	3,602	3650	1.3%
Foreign Currency Debt, of which:	1,679	2058	22.6%
Eurobond Coupon Interest*	1,615	1989	23.1%
Special bond Coupon Interest*	2	1	-60.5%
Concessional Loans Interest Payments	62	68	10.6%
Foreign Debt Principal Repayment	195	197	1.0%

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 EDL¹

(LL billion)	2017 Jan-Sep	2018 Jan-Sep	% Change 2018/2017
EDL, of which:	1,350	1,861	37.9%
Debt Service	14	9	-37.2%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,308	1,833	40.1%
Transfer Electricity Syria	27	19	-29.2%

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-September 2018

(LL billion)	Dec-16	Dec-17	Sep-18	% Change Sep 18-Dec 17
Gross Public Debt	112,910	119,898	126,400	5.4%
Local Currency Debt	70,528	74,077	73,007	-1.4%
* <i>Accrued Interest Included in Debt</i>	1,098	1,159	1,108	-4.4%
a. Central Bank	30,150	35,580	36,590	2.8%
b. Commercial Banks(Including REPOs) 1/	29,581	27,756	25,622	-7.7%
c. Other Local Currency Debt (T-bills), of which:	10,797	10,741	10,795	0.5%
<i>Public Entities</i>	8,718	8,941	9,166	2.5%
<i>Contractor bonds 2/</i>	139	166	166	0.0%
Foreign Currency Debt 3/	42,382	45,821	53,393	16.5%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,506	2,979	2,955	-0.8%
b. Paris II Related Debt (Eurobonds and Loans) 4/	631	86	0	-100%
c. Paris III Related Debt (Eurobonds and Loans) 5/	660	452	396	-12.4%
d. Market-Issued Eurobonds	38,063	41,791	49,003	17.3%
e. Accrued Interest on Eurobonds	458	480	1033	115.2%
f. Special T-bills in Foreign Currency 6/	63	33	6	-81.8%
Public Sector Deposits	14,586	15,659	15,397	-1.7%
Net Debt 7/	98,324	104,239	111,003	6.5%
Gross Market Debt 8/	70,303	71,944	77,387	7.6%
% of Total Debt	62%	60%	61%	2.0%

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, first and second tranches of the French loan received in February 2008.

⁽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.

