

TABLE OF CONTENTS

Revenues

Page 1-2 -3

Expenditures

Page 3

Public Debt Developments

Page 4

General Overview

The challenging economic conditions have weighed heavily on the public finances during the first half of 2020, affecting both revenues and expenditures. These challenges were further intensified by the lockdown imposed by the Government to counteract the Covid-19 pandemic. As a result, government revenues witnessed a remarkable year-on-year drop of LL 1,718 billion (19.8 percent) during the first half of 2020. The decrease in revenues was mainly driven by lower collections from the income tax on profits, the value added tax, 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 2,012 billion (16.3 percent) as interest payments plunged down by LL 2,044 billion (51.5 percent).

The **total fiscal balance** registered a deficit of LL 3,352 billion during H1 2020 compared to a deficit of LL 3,646 billion during the same period of 2019. In contrast, the **primary balance** witnessed a significant deterioration from a surplus of LL 466 billion in Jan-Jun 2019 to LL a deficit of 1,321 billion in Jan-Jun 2020.

Table 1: Summary of Fiscal Performance

(LL billion)	Jan-Jun 2019	Jan-Jun 2020	% Change 2020/2019
Total Budget and Treasury Receipts	8,673	6,955	-19.8%
Total Budget and Treasury Payments, of which	12,319	10,306	-16.3%
Interest Payments	3,966	1,922	-51.5%
Concessional loans principal payments ⁽¹⁾	146	109	-25.5%
Primary Expenditures ⁽²⁾	8,207	8,276	0.8%
Total (Deficit)/Surplus	-3,646	-3,352	-8.1%
Primary (Deficit)/Surplus	466	-1,321	-

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 1,718 billion (19.8 percent) year-on-year to reach LL 6,955 billion during the first half of 2020.

Tax revenues reached a total of LL 5,026 billion in the first half of the year, reflecting a LL 1,949 billion (27.9 percent)¹ decrease from a total of LL 6,975 billion recorded during the same period of last year. This deterioration was driven by a drop in most 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 821 billion (40.7 percent) year-on-year in H1 2020, driven by a LL 844 billion (49.8 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 54.6 percent and 43.0 percent, respectively. Also, **private car registration fees** and **passenger**

¹ Of which a LL 736 billion drop registered only in June 2020 compared to June 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.

departure tax decreased by LL 50 billion (50.5 percent) and LL 43 billion (50.0 percent) respectively during the first half of 2020. These drops were partly counterbalanced by a considerable increase in transfers from **Régie profits** which registered LL 238 billion during Jan-Jun 2020 compared to LL 120 billion during the same period of 2019.

Taxes on income, profits and capital gains significantly dropped by LL 754 billion (23.1 percent) year-on-year in H1 2020, driven by drastic year-on-year drop in **income tax on profits** and **income tax on capital gains & dividends** by LL 1,034 billion (80.4 percent) and LL 228 billion (81.2 percent) respectively. **Income tax on wages and salaries** slightly decreased by LL 81 billion (17.6 percent). In contrast, **taxes on interest income** increased significantly by LL 600 billion (49.4 percent) to reach LL 1,814 billion during the mentioned period.

In addition, **taxes on international trade** dropped by LL 305 billion (32.4 percent) as collection from **customs** and **excises** dropped by LL 182 billion (54.2 percent) and LL 123 billion (20.2 percent) respectively. In fact, **cars excise** were down by LL 107 billion (65.9 percent), owing to a 71.5 percent decrease in the value of imported vehicles. In addition, **tobacco excise** decreased by LL 57 billion (65.2 percent), driven by a 57.4 percent year-on-year decline in the value of tobacco imports. In contrast, **gasoline excise** increased by LL 44 billion (12.4 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 25.8 percent.

Other tax revenues (namely fiscal stamp fees) decreased by LL 79 billion (28.4 percent) to reach LL 200 billion in Jan-Jun 2020.

In contrast, **taxes on property** registered a LL 10 billion (2.2 percent) increase in Jan-Jun 2020, mainly as **real estate registration fees** witnessed a significant year-on-year rise of LL 118 billion (47.6 percent)⁴, of which a LL 92 billion increase registered between Jun 2019 and Jun 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. On the other hand, **built property tax** and **inheritance fees** dropped by LL 79 billion (47.4 percent) and by LL 29 billion (47.8 percent), respectively.

Non-tax revenues declined by LL 400 billion (29.5 percent) to reach LL 954 billion during H1 2020.

Income from Public Institutions and Government properties witnessed a year-on-year drop of LL 316 billion (38.8 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 239 billion (44.4 percent), LL 40 billion (55.9 percent) and LL 30 billion (52.1 percent), respectively.

Moreover, **administrative fees and charges** dropped by LL 110 billion (27.6 percent) reaching LL 290 billion over the period under review, mainly as **passport fees, administrative charges** and **notary Fees** fell by LL 54 billion (45.0 percent), LL 17 billion (58.6 percent) and LL 12 billion (37.8 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 24.0 percent during Jan-Jun 2020 while their average price increased significantly by 59.7 percent compared to the same period last year.

On the other hand, **other non-tax revenues (mostly retirement deductibles)** increased by LL 35 billion (28.5 percent), as deductibles related to military salaries and retirement⁵ generated LL 26 billion during Jan-Jun 2020. In addition, exceptional revenues from the settlement of violations related to maritime properties reached LL 13 billion during H1 of 2020 compared to nil a year earlier.

Treasury receipts witnessed a significant increase of LL 631 billion to reach LL 975 billion in Jan-Jun 2020 compared to LL 344 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 2,012 billion (16.3 percent) to reach LL 10,306 billion in H1 2020 compared to LL 12,319 billion in H1 2019.

Current primary expenditures⁸ registered a slight increase of LL 122 billion (1.7 percent) reaching a total of LL 7,144 billion during H1 of 2020. This rise was mainly driven by an increase in **salaries, wages and social benefits**, transfers to the **Higher Council of Relief, retirement** and **medicaments** by LL 241 billion, LL 225 billion⁹, LL 116 billion and LL 95 billion, respectively. In contrast, other expenditure items witnessed a year-on-year drop, mainly **transfers to Electricité du Liban (EDL)** by LL 428 billion (39.6 percent) and **end of service compensations** by LL 388 billion (65.6 percent).

Interest payments dropped by LL 2,044 billion (51.5 percent) in Jan-Jun 2020 as interest payments due on foreign currency debt decreased significantly by LL 1,436 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 607 billion (26.1 percent) over the covered period. **Foreign debt principal repayment** also dropped by LL 37 billion (25.5 percent) to register a total of LL 109 billion during H1 2020.

Capital expenditures decreased significantly by LL 172 billion (32.1 percent) to reach LL 363 billion in Jan-Jun 2020, mainly as transfers to **CDR**, expenses related to **maintenance** and transfers to the **Higher Council of Relief** dropped by LL 92 billion (53.9 percent), LL 33 billion (22.7 percent) and LL 20 billion (100.0 percent) respectively.

Treasury expenditures witnessed an increase of LL 41 billion (4.9 percent) to reach LL 869 billion in Jan-Jun 2020. This came despite the drop in payments to **municipalities, deposits** and **VAT refund** which shrank by LL 198 billion (47.7 percent), LL 124 billion (69.7 percent) and LL 56 billion (37.0 percent) respectively during the period under consideration. The hike witnessed in other treasury expenditures is due to the registration of interest payments already covered by the refund transaction from BDL as mentioned above.

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 140,798 billion by the end of June 2020, increasing by LL 2,648 billion (1.9 percent) from end-2019. On the other hand, **net debt** rose more rapidly by 3.8 percent to reach LL 127,079 billion as **public sector deposits** dropped by LL 1,958 billion (12.5 percent) over the period under consideration.

Local currency debt increased by LL 1,060 billion (1.2 percent) to register LL 88,339 billion as of end-June 2020, compared to LL 87,279 billion as at end-2019. In details, **local currency debt held by the Central Bank** increased by LL 1,584 billion (3.1 percent) to reach LL 52,301 billion by the end of H1-2020, followed by a smaller rise in other local currency debt holdings with **TBs held by public entities** increasing by LL 286 billion (2.9 percent) to reach LL 10,254 billion. In contrast, **TBs held by commercial banks** dropped by LL 791 billion (3.1 percent) to reach LL 24,525 billion by the end of June 2020.

The stock of **foreign currency debt** grew by LL 1,588 billion (3.1 percent) to reach LL 52,459 billion at end-June 2020. In details, this increase was mainly driven by LL 1,471 billion of arrears in coupons due to the Government decision to default on Eurobonds, adding to LL 65 billion of accrued interest in arrears. Also, **bilateral, multilateral and foreign private sector loans** increased by LL 42 billion, whereas **Paris III related debt** decreased by LL 49 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-June 2020.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2019	2020	% Change
	Jan-Jun	Jan-Jun	2020/2019
Budget Revenues, of which:	8,328	5,979	-28.2%
Tax Revenues	6,975	5,026	-27.9%
Non-Tax Revenues	1,353	954	-29.5%
Treasury Receipts	344	975	183.1%
Total Revenues	8,673	6,955	-19.8%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2019	2020	% Change
	Jan-Jun	Jan-Jun	2020/2019
Tax Revenues:	6,975	5,026	-27.9%
Taxes on Income, Profits, & Capital Gains, of which:	3,261	2,507	-23.1%
Income Tax on Profits	1,286	252	-80.4%
Income Tax on Wages and Salaries	459	378	-17.6%
Income Tax on Capital Gains & Dividends	280	53	-81.2%
Tax on Interest Income	1,215	1,814	49.4%
Penalties on Income Tax	20	10	-52.1%
Taxes on Property, of which:	476	487	2.2%
Built Property Tax	168	88	-47.4%
Real Estate Registration Fees	249	367	47.6%
Domestic Taxes on Goods & Services, of which:	2,016	1,194	-40.7%
Value Added Tax	1,695	851	-49.8%
Other Taxes on Goods and Services, of which:	186	92	-50.3%
Private Car Registration Fees	99	49	-50.5%
Passenger Departure Tax	86	43	-50.0%
Taxes on International Trade, of which:	943	638	-32.4%
Customs	336	154	-54.2%
Excises, of which:	607	484	-20.2%
Gasoline Excise	351	395	12.4%
Tobacco Excise	87	30	-65.2%
Cars Excise	163	56	-65.9%
Other Tax Revenues (namely fiscal stamp fees)	279	200	-28.4%

Source: MOF, DGF

Table 4: Non-Tax Revenue

(LL billion)	2019	2020	% Change
	Jan-Jun	Jan-Jun	2020/2019
Non-Tax Revenues	1,353	954	-29.5%
Income from Public Institutions and Government Properties, of which:	815	498	-38.8%
Income from Non-Financial Public Enterprises, of which:	680	405	-40.5%
Revenues from Casino Du Liban	59	28	-52.1%
Revenues from Port of Beirut	75	70	-6.7%
Budget Surplus of National Lottery	6	6	9.0%
Transfer from the Telecom Surplus	539	300	-44.4%
Transfer from Public Financial Institution (BDL)	60	60	-0.5%
Property Income (namely rent of Rafic Hariri International Airport)	71	31	-55.9%
Other Income from Public Institutions (interests)	3	2	-20.0%
Administrative Fees & Charges, of which:	400	290	-27.6%
Administrative Fees, of which:	307	222	-27.6%
Notary Fees	31	20	-37.8%
Passport Fees/ General Security	121	66	-45.0%
Vehicle Control Fees	104	111	6.8%
Judicial Fees	15	11	-31.5%
Driving License Fees	10	4	-61.0%
Administrative Charges	29	12	-58.6%
Sales (Official Gazette and License Number)	1	1	-41.9%
Permit Fees (mostly work permit fees)	40	33	-16.4%
Other Administrative Fees & Charges	23	21	-5.6%
Penalties & Confiscations	18	10	-44.0%
Other Non-Tax Revenues (mostly retirement deductibles)	121	156	28.5%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2019 Jan-Jun	2020 Jan-Jun	% Change 2020/2019
1. Current Expenditures	10,842	8,957	-17.4%
1.a Personnel Cost, of which	4,942	4,926	-0.3%
Salaries, Wages and social benefits	2,835	3,076	8.5%
Retirement and End of Service Compensations, of which:	1,892	1,620	-14.4%
Retirement	1,301	1,417	8.9%
End of Service	591	204	-65.6%
Transfers to Public Institutions to Cover Salaries	215	229	6.7%
1.b Interest Payments, of which: ⁽¹⁾	3,966	1,922	-51.5%
Domestic Interest Payments	2,326	1,719	-26.1%
Foreign Interest Payments	1,640	203	-87.6%
1.d Foreign Debt Principal Repayment	146	109	-25.5%
1.e Materials and Supplies, of which:	117	191	62.9%
Nutrition	28	33	19.1%
Fuel Oil	15	4	-75.5%
Medicaments	27	122	358.6%
1.f External Services	69	87	26.2%
1.g Various Transfers, of which:	1,287	1,360	5.7%
EDL ⁽²⁾	1,081	654	-39.6%
NSSF	0	0	-
Higher Council of Relief	0	225	-
Contributions to non-public sectors	105	97	-7.7%
Transfers to Directorate General of Cereals and Beetroot ⁽³⁾	12	0	-100.0%
1.h Other Current, of which:	268	313	16.8%
Hospitals	221	261	17.8%
Others(judgments & reconciliations, mission costs, other)	45	51	13.6%
1.i Other Financial expenses	1	0	-100.0%
1.j Interest subsidy	46	50	7.0%
2. Capital Expenditures	534	363	-32.1%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-98.7%
2.b Equipment	42	51	21.2%
2.c Construction in Progress, of which:	317	190	-39.9%
Displaced Fund	0	0	-
Council of the South	19	23	21.7%
CDR	171	79	-53.9%
Ministry of Public Work and Transport	28	33	18.3%
Other of which:	97	53	-45.7%
Higher Council of Relief	20	0	-100.0%
2.d Maintenance	145	112	-22.7%
2.e Other Expenditures Related to Fixed Capital Assets	30	9	-70.2%
3. Budget Advances ⁽⁴⁾	43	53	22.8%
4. Customs Administration (exc. Salaries and Wages) ⁽⁵⁾	71	65	-9.2%
5. Treasury Expenditures ⁽⁶⁾	829	869	4.9%
Municipalities	415	217	-47.7%
Guarantees	46	49	7.3%
Deposits ⁽⁷⁾	177	54	-69.7%
Other, of which:	190	549	189.0%
VAT Refund	151	95	-37.0%
6. Total Expenditures (Excluding CDR Foreign Financed)	12,319	10,306	-16.3%

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-Jun	2020 Jan-Jun	% Change 2020/2019
Interest Payments	3,966	1,922	-51.5%
Local Currency Debt	2,326	1,719	-26.1%
Foreign Currency Debt, of which:	1,640	203	-87.6%
Eurobond Coupon Interest*	1,588	157	-90.1%
Special bond Coupon Interest*	0	0	-56.5%
Concessional Loans Interest Payments	51	46	-10.2%
Foreign Debt Principal Repayment	146	109	-25.5%

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-Jun	2020 Jan-Jun	% Change 2020/2019
EDL of which:	1,081	654	-39.6%
Debt Service	2	2	10.4%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,079	651	-39.7%

Source: MOF, DGF

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-18	Dec-19	Jun-20	% Change Jun 20 / Dec 19
Gross Public Debt	128,347	138,150	140,798	1.9%
Local Currency Debt	77,852	87,279	88,339	1.2%
* <i>Accrued Interest Included in Debt</i>	1,123	1,294	1,334	3.1%
a. Central Bank	39,006	50,717	52,301	3.1%
b. Commercial Banks (Including REPOs)	27,402	25,316	24,525	-3.1%
c. Other Local Currency Debt (T-bills), of which:	11,444	11,246	11,513	2.4%
<i>Public Entities</i>	9,956	9,968	10,254	2.9%
<i>Contractor bonds⁽¹⁾</i>	166	120	120	0.0%
Foreign Currency Debt ⁽²⁾	50,495	50,871	52,459	3.1%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,920	2,850	2,892	1.5%
b. Paris III Related Debt (Eurobonds and Loans) ⁽³⁾	344	242	193	-20.2%
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	632	10.9%
e. Arrears in Coupons	0	0	1,471	-
f. Accrued interest in Arrears	0	0	65	-
g. Special T-bills in Foreign Currency ⁽⁴⁾	6	3	0	-100.0%
Public Sector Deposits	14,186	15,677	13,719	-12.5%
Net Debt	114,161	122,473	127,079	3.8%
Gross Market Debt⁽⁵⁾	76,204	74,441	75,215	1.0%
% 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.

