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General Overview

The challenging economic conditions have weighed heavily on the public finances during the period of Jan-Sep 2020, affecting both revenues and expenditures. Government revenues witnessed a remarkable year-on-year drop of LL 2,240 billion (17.5 percent) during Jan-Sep 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 3,710 billion (20.4 percent) as interest payments plunged down by LL 3,431 billion (62.2 percent).

The **total fiscal balance** registered a deficit of LL 3,944 billion during Jan-Sep 2020 compared to a deficit of LL 5,413 billion during the same period of 2019. In contrast, the **primary balance** witnessed a significant deterioration from a surplus of LL 298 billion in Jan-Sep 2019 to LL a deficit of 1,713 billion in Jan-Sep 2020.

Table 1: Summary of Fiscal Performance

(LL billion)	Jan-Sep 2019	Jan-Sep 2020	% Change 2020/2019
Total Budget and Treasury Receipts	12,804	10,564	-17.5%
Total Budget and Treasury Payments, of which	18,217	14,508	-20.4%
Interest Payments	5,513	2,082	-62.2%
Concessional loans principal payments ⁽¹⁾	198	148	-25.2%
Primary Expenditures ⁽²⁾	12,506	12,277	-1.8%
Total (Deficit)/Surplus	-5,413	-3,944	-27.1%
Primary (Deficit)/Surplus	298	-1,713	-

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 2,240 billion (17.5 percent) year-on-year to reach LL 10,564 billion during Jan-Sep 2020.

Tax revenues reached a total of LL 7,678 billion in the first nine months of the year, reflecting a LL 2,275 billion (22.9 percent)¹ decrease from a total of LL 9,954 billion recorded during the same period of last year. This deterioration was driven by a drop in the majority of tax items with some exceptions witnessed at the level of the **tax on interest income**, the **real estate registration fees** and the **gasoline excise**.

The main decrease was witnessed in **domestic taxes on goods and services** which dropped by LL 1,332 billion (42.8 percent) year-on-year in Jan-Sep 2020, driven by a LL 1,248 billion (48.3 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 54.4 percent and 39.7 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 101 billion (66.9 percent) and LL 56 billion (37.1 percent) respectively during Jan-Sept 2020. These drops were partly counterbalanced by an increase in transfers from the **Régie profits** which registered LL 268 billion during Jan-Sept 2020 compared to LL 200 billion during the same period of 2019.

Taxes on income, profits and capital gains significantly dropped by LL 688 billion (15.9 percent) year-on-year in Jan-Sep 2020, driven by a drastic year-on-year drop in **income tax on profits** and **income tax on capital gains & dividends** by LL 965 billion (72.5 percent) and LL 238 billion (68.4 percent) respectively. **Income tax on wages and salaries** also decreased by LL 116 billion (17.2 percent). In contrast, **taxes on interest income** increased significantly by LL 642 billion (32.9 percent) to reach LL 2,592 billion during the mentioned period.

In addition, **taxes on international trade** dropped by LL 489 billion (34.0 percent) as collections from **customs** and **excises** dropped by LL 276 billion (55.0 percent) and LL 213 billion (22.7 percent) respectively. In fact, **cars excise** were down by LL 150 billion (61.1 percent), owing to a 69.3 percent decrease in the value of imported vehicles. Also, **tobacco excise** decreased by LL 92 billion (69.7 percent), driven by a 57.6 percent year-on-year decline in the value of tobacco imports. In contrast, **gasoline excise** increased by LL 32 billion (5.9 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 witnessing a year-on-year drop of 18.9 percent.

Other tax revenues (namely fiscal stamp fees) decreased by LL 81 billion (19.3 percent) to reach LL 338 billion in Jan-Sep 2020.

In contrast, **taxes on property** registered a LL 315 billion (48.4 percent) increase in Jan-Sep 2020, mainly as **real estate registration fees** witnessed a significant year-on-year rise of LL 365 billion (97.9 percent)⁴, of which an increase of LL 89 billion registered between September 2019 and September 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** dropped by LL 50 billion (25.2 percent).

Non-tax revenues declined by LL 630 billion (27.8 percent) to reach LL 1,638 billion during the first nine months of 2020.

Income from Public Institutions and Government properties witnessed a year-on-year drop of LL 573 billion (39.8 percent) over the covered period, as **transfers from the Telecom Surplus, revenues from Port of Beirut and property income (namely rent of Rafic Hariri International Airport)** declined by LL 321 billion (34.1 percent), LL 150 billion (68.1 percent) and LL 52 billion (57.1 percent), respectively.

Moreover, **administrative fees and charges** dropped by LL 109 billion (17.4 percent) reaching LL 515 billion over the period under review, due to a decrease in all its sub-categories, except for the **vehicle control fees** which rose by LL 41 billion (23.9 percent). In details, **passport fees, administrative charges and notary fees** fell by LL 77

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 49.1 percent during Jan-Sep 2020 while their average price increased by 42.6 percent compared to the same period last year.

billion (38.5 percent), LL 17 billion (52.1 percent) and LL 14 billion (27.9 percent), respectively.

On the other hand, **other non-tax revenues (mostly retirement deductibles)** increased by LL 64 billion (35.9 percent), as deductibles related to military salaries and retirement⁵ generated LL 39 billion during Jan-Sep 2020. In addition, exceptional revenues from the settlement of violations related to maritime properties reached LL 28 billion during Jan-Sep 2020.

Treasury receipts witnessed a significant increase of LL 665 billion to reach LL 1,247 billion in Jan-Sep 2020 compared to LL 582 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 3,710 billion (20.4 percent) to reach LL 14,508 billion in Jan-Sep 2020 compared to LL 18,217 billion in Jan-Sep 2019.

Current primary expenditures⁸ showed no change when compared to the same period of last year, registering a total of LL 10,243 billion. In details, some items witnessed a year-on-year increase during the period under consideration, mainly those covering **transfers to the Higher Council of Relief, retirement, medicaments and hospitals** by LL 225 billion⁹, LL 144 billion, LL 86 billion and LL 79 billion, respectively. These increases were offset by a year-on-year drop in other expenditure items, mainly **transfers to Electricité du Liban (EDL)** by LL 691 billion (40.4 percent) and **end of service compensations** by LL 247 billion (40.2 percent).

Interest payments dropped by LL 3,431 billion (62.2 percent) in Jan-Sep 2020 as interest payments due on foreign currency debt decreased significantly by LL 1,820 billion (89.3 percent) after the Government opted to default on its maturing Eurobonds in March 2020. Moreover, interest payments on local currency debt decreased by LL 1,611 billion (46.3 percent) over the covered period. **Foreign debt principal repayment** also dropped by LL 50 billion (25.2 percent) to register a total of LL 148 billion during Jan-Sep 2020.

Capital expenditures decreased significantly by LL 375 billion (49.5 percent) to reach LL 383 billion in Jan-Sep 2020, mainly as expenses related to **maintenance**, transfers to **CDR**, and transfers to the **Higher Council of Relief** dropped by LL 127 billion (52.4 percent), LL 107 billion (57.5 percent) and LL 30 billion (85.7 percent), respectively.

Treasury expenditures witnessed an increase of LL 84 billion (6.5 percent) to reach LL 1,369 billion in Jan-Sep 2020. This came despite the drop in payments to **municipalities, deposits** and **VAT refund** which shrank by LL 359 billion (52.1 percent), LL 128 billion

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.

(52.2 percent) and LL 86 billion (39.0 percent) respectively during the period under consideration.

Public Debt

Gross public debt stood at LL 142,964 billion by the end of September 2020, increasing by LL 4,814 billion (3.5 percent) from end-2019. On the other hand, **net debt** rose more rapidly by 4.7 percent to reach LL 128,283 billion as **public sector deposits** dropped by LL 996 billion (6.4 percent) over the period under consideration.

Local currency debt increased by LL 2,263 billion (2.6 percent) to register LL 89,542 billion as of end-September 2020, compared to LL 87,279 billion as at end-2019. In details, **local currency debt held by the Central Bank** increased by LL 2,809 billion (5.5 percent) to reach LL 53,526 billion by the end of September 2020, followed by a smaller rise in other local currency debt holdings with **TBs held by public entities** increasing by LL 237 billion (2.4 percent) to reach LL 10,205 billion. In contrast, **TBs held by commercial banks** dropped by LL 738 billion (2.9 percent) to reach LL 24,578 billion by the end of September 2020.

The stock of **foreign currency debt** grew by LL 2,551 billion (5.0 percent) to reach LL 53,422 billion at end-Sep 2020. In details, this increase was mainly driven by a LL 1,968 billion of arrears in coupons due to the Government decision to default on Eurobonds, adding to a LL 159 billion of accrued interest in arrears. Also, **bilateral, multilateral and foreign private sector loans** increased by LL 72 billion, whereas **Paris III related debt** decreased by LL 45 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-September 2020.

SECTION 1: REVENUE OUTCOME

Table 2: Total Revenues

(LL billion)	2019	2020	% Change
	Jan-Sep	Jan-Sep	2020/2019
Budget Revenues, of which:	12,222	9,317	-23.8%
Tax Revenues	9,954	7,678	-22.9%
Non-Tax Revenues	2,268	1,638	-27.78%
Treasury Receipts	582	1,247	114.3%
Total Revenues	12,804	10,564	-17.5%

Source: MOF, DGF

Table 3: Tax Revenues

(LL billion)	2019	2020	% Change
	Jan-Sep	Jan-Sep	2020/2019
Tax Revenues:	9,954	7,678	-22.9%
Taxes on Income, Profits, & Capital Gains, of which:	4,333	3,646	-15.9%
Income Tax on Profits	1,332	367	-72.5%
Income Tax on Wages and Salaries	675	559	-17.2%
Income Tax on Capital Gains & Dividends	349	110	-68.4%
Tax on Interest Income	1,950	2,592	32.9%
Penalties on Income Tax	26	17	-35.4%
Taxes on Property, of which:	650	965	48.4%
Built Property Tax	197	148	-25.2%
Real Estate Registration Fees	372	737	97.9%
Domestic Taxes on Goods & Services, of which:	3,111	1,779	-42.8%
Value Added Tax	2,581	1,333	-48.3%
Other Taxes on Goods and Services, of which:	306	146	-52.2%
Private Car Registration Fees	152	96	-37.1%
Passenger Departure Tax	151	50	-66.9%
Taxes on International Trade, of which:	1,441	952	-34.0%
Customs	503	226	-55.0%
Excises, of which:	938	725	-22.7%
Gasoline Excise	551	583	5.9%
Tobacco Excise	132	40	-69.7%
Cars Excise	245	96	-61.1%
Other Tax Revenues (namely fiscal stamp fees)	418	338	-19.3%

Source: MOF, DGF

Table 4: Non-Tax Revenue

(LL billion)	2019	2020	% Change
	Jan-Sep	Jan-Sep	2020/2019
Non-Tax Revenues	2,268	1,638	-27.8%
Income from Public Institutions and Government Properties, of which:	1,439	866	-39.8%
Income from Non-Financial Public Enterprises, of which:	1,282	763	-40.5%
<i>Revenues from Casino Du Liban</i>	93	56	-40.1%
<i>Revenues from Port of Beirut</i>	220	70	-68.1%
<i>Budget Surplus of National Lottery</i>	26	17	-36.5%
<i>Transfer from the Telecom Surplus</i>	941	620	-34.1%
Transfer from Public Financial Institution (BDL)	60	60	-0.5%
Property Income (namely rent of Rafic Hariri International Airport)	92	39	-57.1%
Other Income from Public Institutions (interests)	5	4	-11.3%
Administrative Fees & Charges, of which:	623	515	-17.4%
Administrative Fees, of which:	494	418	-15.4%
<i>Notary Fees</i>	50	36	-27.9%
<i>Passport Fees/ General Security</i>	199	123	-38.5%
<i>Vehicle Control Fees</i>	172	213	23.9%
<i>Judicial Fees</i>	23	22	-5.1%
<i>Driving License Fees</i>	16	10	-34.9%
Administrative Charges	32	15	-52.1%
Sales (Official Gazette and License Number)	2	1	-41.7%
Permit Fees (mostly work permit fees)	67	56	-17.4%
Other Administrative Fees & Charges	28	24	-11.6%
Penalties & Confiscations	28	15	-46.8%
Other Non-Tax Revenues (mostly retirement deductibles)	179	243	35.9%

Source: MOF, DGF

SECTION 2: EXPENDITURE OUTCOME

Table 5: Expenditure by Economic Classification

(LL billion)	2019 Jan-Sep	2020 Jan-Sep	% Change 2020/2019
1. Current Expenditures	15,953	12,473	-21.8%
1.a Personnel Cost, of which	7,395	7,461	0.9%
<i>Salaries, Wages and social benefits</i>	4,473	4,615	3.2%
<i>Retirement and End of Service Compensations, of which:</i>	2,603	2,500	-4.0%
<i>Retirement</i>	1,989	2,133	7.2%
<i>End of Service</i>	614	367	-40.2%
<i>Transfers to Public Institutions to Cover Salaries</i>	319	346	8.6%
1.b Interest Payments, of which: ⁽¹⁾	5,513	2,082	-62.2%
<i>Domestic Interest Payments</i>	3,475	1,865	-46.3%
<i>Foreign Interest Payments</i>	2,038	217	-89.3%
1.d Foreign Debt Principal Repayment	198	148	-25.2%
1.e Materials and Supplies, of which:	259	279	8.0%
<i>Nutrition</i>	68	37	-46.1%
<i>Fuel Oil</i>	28	4	-84.0%
<i>Medicaments</i>	97	184	88.5%
1.f External Services	105	115	9.0%
1.g Various Transfers, of which:	1,995	1,824	-8.5%
EDL ⁽²⁾	1,709	1,018	-40.4%
NSSF	0	0	-
Higher Council of Relief	0	225	-
Contributions to non-public sectors	169	163	-3.6%
Transfers to Directorate General of Cereals and Beetroot ⁽³⁾	12	0	-100.0%
1.h Other Current, of which:	413	492	19.1%
Hospitals	330	410	24.0%
Others (judgments & reconciliations, mission costs, other)	79	77	-2.4%
1.i Other Financial expenses	1	0	-100.0%
1.j Interest subsidy	75	71	-4.8%
2. Capital Expenditures	758	383	-49.5%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-99.1%
2.b Equipment	55	52	-6.6%
2.c Construction in Progress, of which:	428	203	-52.6%
Displaced Fund	0	0	-
Council of the South	49	30	-38.2%
CDR	186	79	-57.5%
Ministry of Public Work and Transport	55	33	-39.7%
Other of which:	137	58	-57.8%
Higher Council of Relief	35	5	-85.7%
2.d Maintenance	242	115	-52.4%
2.e Other Expenditures Related to Fixed Capital Assets	33	14	-58.0%
3. Budget Advances ⁽⁴⁾	133	205	54.5%
4. Customs Administration (exc. Salaries and Wages) ⁽⁵⁾	88	77	-11.9%
5. Treasury Expenditures ⁽⁶⁾	1,285	1,369	6.5%
Municipalities	689	330	-52.1%
Guarantees	70	64	-8.2%
Deposits ⁽⁷⁾	245	117	-52.2%
Other, of which:	281	858	204.7%
VAT Refund	219	134	-39.0%
6. Total Expenditures (Excluding CDR Foreign Financed)	18,217	14,508	-20.4%

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-Sep	2020 Jan-Sep	% Change 2020/2019
Interest Payments	5,513	2,082	-62.2%
Local Currency Debt	3,475	1,865	-46.3%
Foreign Currency Debt, of which:	2,038	217	-89.3%
Eurobond Coupon Interest*	1,962	157	-92.0%
Special bond Coupon Interest*	0.1	0.1	-56.5%
Concessional Loans Interest Payments	76	60	-21.0%
Foreign Debt Principal Repayment	198	148	-25.2%

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-Sep	2020 Jan-Sep	% Change 2020/2019
EDL of which:	1,709	1,018	-40.4%
Debt Service	4	3	-28.4%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,706	1,016	-40.5%

Source: MOF, DGF

SECTION 3: PUBLIC DEBT

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

(LL billion)	Dec-18	Dec-19	Sep-20	% Change Aug 20 / Dec 19
Gross Public Debt	128,347	138,150	142,964	3.5%
Local Currency Debt	77,852	87,279	89,542	2.6%
* <i>Accrued Interest Included in Debt</i>	1,123	1,294	1,471	13.7%
a. Central Bank	39,006	50,717	53,526	5.5%
b. Commercial Banks (Including REPOs)	27,402	25,316	24,578	-2.9%
c. Other Local Currency Debt (T-bills), of which:	11,444	11,246	11,438	1.7%
<i>Public Entities</i>	9,956	9,968	10,205	2.4%
<i>Contractor bonds⁽¹⁾</i>	166	120	120	0.0%
Foreign Currency Debt⁽²⁾	50,495	50,871	53,422	5.0%
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,920	2,850	2,922	2.5%
b. Paris III Related Debt (Eurobonds and Loans) ⁽³⁾	344	242	197	-18.5%
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	949	66.5%
e. Arrears in Coupons	0	0	1,968	-
f. Accrued interest in Arrears	0	0	159	-
g. Special T-bills in Foreign Currency ⁽⁴⁾	6	3	0	-100.0%
Public Sector Deposits	14,186	15,677	14,681	-6.4%
Net Debt	114,161	122,473	128,283	4.7%
Gross Market Debt⁽⁵⁾	76,204	74,441	76,152	2.3%
% 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.

