

## General Overview

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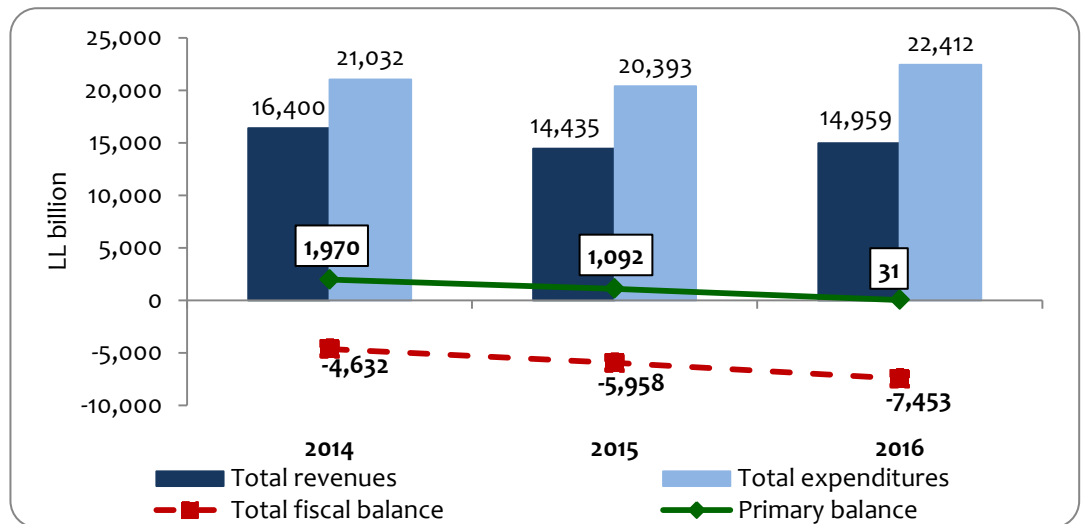
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Public finances worsened in 2016 from the previous year as regional instabilities continued to weigh down on overall economic growth and revenue collections, while expenditures continued to expand with the growing debt overhang and public sector needs. Government spending exceeded the modest growth in revenues, and was boosted by an accounting adjustment represented by a one-off transfer to municipalities<sup>1</sup>, as well as higher interest payments and personnel cost. Tax and non-tax revenues grew at a rate of 2-3 percent in line with the slow growth environment.

The **total fiscal balance** registered a deficit of LL 7,453 billion (9.8 percent of GDP<sup>2</sup>) compared to a smaller deficit of LL 5,958 billion (8.0 percent of GDP) in 2015. Similarly, the **primary surplus** shrank to LL 31 billion (0.04 percent of GDP) from LL 1,092 billion (1.5 percent of GDP).

**Gross public debt** reached 148.0 percent of GDP as of end-December 2016, rising from 142.2 percent as of end-December 2015, or by LL 6,896 billion in nominal terms.

Figure 1: Total Fiscal Balance (Jan-Dec 2014 - Jan-Dec 2016)



Source: Ministry of Finance, Directorate General of Finance

## Revenues

**Total revenues** increased by 4 percent to reach LL 14,959 billion (19.6 percent of GDP) in 2016, compared to LL 14,435 billion (19.4 percent of GDP) during 2015.

**Tax revenues** were up by LL 267 billion (3 percent), reaching LL 10,597 billion by end-December 2016.

**Taxes on income, profits and capital gains** were up by LL 128 billion (4 percent). Most of this increase could be attributed to higher taxes on interest income, profits, and wages & salaries by LL 52 billion, LL 40 billion and LL 34 billion respectively. **Domestic**

<sup>1</sup> In 2014, the Treasury collected an estimated LL 739 billion of telecom revenues on behalf of municipalities (of which LL 636 billion in arrears for the period 2010-2013). Of the total amount, LL 592 billion was transferred to municipalities in Jan-Dec 2016 and accounted as Treasury expenditures.

<sup>2</sup> The 2015 GDP figure is taken from the CAS Lebanese National Accounts 2004-2015 and differs from previously published data. 2016 GDP figure has been computed using the IMF April 2017 World Economic Outlook real growth and deflator estimates and based on the 2015 figure published by CAS.

**taxes on goods and services** increased by LL 56 billion (2 percent) driven by a LL 75 billion rise in VAT collections, which was slightly counterbalanced by lower transfers from Régie by LL 20 billion<sup>3</sup>.

**Property taxes** rose by LL 45 billion (4 percent) during 2016, mainly as real estate registration fees and built-property taxes rose by LL 28 billion and LL 16 billion respectively. **Taxes on international trade** increased by LL 53 billion (3 percent) driven by higher excises (LL 60 billion), which were slightly counterbalanced by a LL 7 billion drop in custom duties. Moreover, **fiscal stamps** dropped by LL 15 billion (3 percent) over the period.

**Non-tax revenues** increased by LL 87 billion to reach LL 3,392 billion in 2016, owing mainly to a LL 47 billion increase in transfers from the telecom surplus and a LL 19 billion increase in revenues from Port of Beirut.

**Treasury receipts** rose by LL 170 billion to reach LL 970 billion by end-December 2016.

### Expenditures

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**Total expenditures** recorded a significant increase of LL 2,019 billion (10 percent), standing at LL 22,412 billion (29.4 percent of GDP) in 2016 compared to LL 20,393 billion (27.4 percent of GDP) in 2015.

**Current primary expenditures**<sup>4</sup> increased by LL 601 billion mainly as a result of increases in (i) **various transfers – excluding transfers to EDL** - by LL 349 billion mainly due to an increase in Lebanon's contribution to the International Monetary Fund (LL 194 billion), (ii) **personnel cost** by LL 255 billion, mainly driven by an increase in **salaries, wages and social benefits** of LL 90 billion and **retirement and end of service compensations** of LL 107 billion, (iii) **hospitals** by LL 126 billion and (iv) **medicaments** by LL 92 billion. These increases were partly counterbalanced by a LL 314 billion drop in **transfers to EDL**.

**Interest payments** rose by LL 464 billion (7 percent) to reach LL 7,185 billion. **Foreign debt principal repayment** dropped by 9 percent to reach LL 299 billion in 2016.

**Capital expenditures** increased by LL 192 billion in Jan-Dec 2016, chiefly due to (i) a LL 107 billion increase in transfers to **CDR**, (ii) LL 49 billion higher payments for **maintenance**, and (iii) LL 46 billion rise in transfers to the **Ministry of Public Work and Transport**. A decrease of LL 51 billion in transfers to **HRC** partly offset the increases in the above mentioned spending categories.

**Treasury expenditures** witnessed a significant increase of LL 653 billion to reach LL 2,269 billion in 2016, mainly due to higher payments to Municipalities – from LL 935 billion in 2015 to LL 1,554 billion during 2016.

### Public Debt Developments

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**Gross public debt** reached LL 112,911 billion as of end-December 2016 (148.0 percent of the GDP), increasing by LL 6,896 billion (6.5 percent) from end-2015. Net debt increased at a slightly slower pace of 6.3 percent, as public sector deposits rose by 7.9 percent.

<sup>3</sup> Transfers from Régie amounted to LL 141 billion in 2015, compared to only LL 121 billion in 2016.

<sup>4</sup> Current primary expenditures represent current expenditures excluding interest payments and foreign debt principal repayment.

**Local currency debt** amounted to LL 70,528 billion as of end-December 2016, adding LL 5,333 billion from end-2015, and accounting for 62 percent of gross debt. New local currency debt issued above principal maturities amounted to LL 8,102 billion during the 2016 weekly auctions. This was offset by the early redemption of an equivalent of US\$ 2 billion in Treasury bills and bonds as part of an LL/FX debt replacement agreement between the Ministry of Finance and the Central Bank in May 2016<sup>5</sup>.

In detail, Local Currency Debt holdings by the Central Bank increased by LL 5,842 billion, whereas Commercial Banks' holdings decreased by LL 297 billion. Moreover, local currency debt holdings by Public Entities increased by LL 257 billion to reach LL 8,718 billion.

The stock of **foreign currency debt** grew by the equivalent of LL 1,563 billion to LL 42,383 billion, mostly owing to a LL 2,217 billion increase in the value of outstanding Eurobonds. Moreover, Paris II and Paris III related bonds and loans decreased by LL 551 billion and LL 149 billion respectively, mainly due to amortized principal repayments. The Lebanese Republic conducted a total of three Eurobond transactions during 2016 for an amount of US\$ 3.4 billion, whereas total market Eurobond principal maturities in 2016 were US\$ 1.9 billion.

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<sup>5</sup> For more information on the Debt Replacement Agreement, please refer to the note titled "Triple-Tranche: 6.25% USD note due May 2022, 6.40% USD note due May 2023, and 6.85% USD note due 2029, in LL/FX Debt Replacement Agreement with BDL, Issued 27 May 2016" on MoF website: <http://www.finance.gov.lb/EN-US/FINANCE/PUBLICDEBT/Pages/DebtTransactions.aspx>.

## SECTION 1: REVENUE OUTCOME

**Table 1: Total Revenues**

(LL billion)	2015 Jan-Dec	2016 Jan-Dec	% Change 2016/2015
<b>Budget Revenues, of which:</b>	<b>13,635</b>	<b>13,989</b>	<b>2.6%</b>
Tax Revenues	10,330	10,597	2.6%
Non-Tax Revenues	3,305	3,392	2.6%
<b>Treasury Receipts</b>	<b>800</b>	<b>970</b>	<b>21.3%</b>
<b>Total Revenues</b>	<b>14,435</b>	<b>14,959</b>	<b>3.6%</b>

Source: MOF, DGF

**Table 2: Tax Revenues**

(LL billion)	2015 Jan-Dec	2016 Jan-Dec	% Change 2016/2015
<b>Tax Revenues</b>	<b>10,330</b>	<b>10,597</b>	<b>2.6%</b>
<b>Taxes on Income, Profits, &amp; Capital Gains, of which:</b>	<b>2,887</b>	<b>3,015</b>	<b>4.4%</b>
Income Tax on Profits	1,103	1,143	3.7%
Income Tax on Wages and Salaries	667	702	5.1%
Income Tax on Capital Gains & Dividends	283	288	1.8%
Tax on Interest Income (5%)	767	819	6.8%
Penalties on Income Tax	67	63	-6.5%
<b>Taxes on Property, of which:</b>	<b>1,179</b>	<b>1,224</b>	<b>3.8%</b>
Built Property Tax	239	255	6.9%
Real Estate Registration Fees	773	802	3.7%
<b>Domestic Taxes on Goods &amp; Services, of which:</b>	<b>3,717</b>	<b>3,773</b>	<b>1.5%</b>
Value Added Tax	3,159	3,234	2.4%
Other Taxes on Goods and Services, of which:	408	411	0.7%
Private Car Registration Fees	238	236	-1.0%
Passenger Departure Tax	167	173	3.4%
<b>Taxes on International Trade, of which:</b>	<b>2,064</b>	<b>2,117</b>	<b>2.6%</b>
Customs	713	706	-1.0%
Excises, of which:	1,350	1,411	4.5%
Gasoline Excise	629	680	8.2%
Tobacco Excise	239	228	-4.3%
Cars Excise	477	497	4.2%
<b>Other Tax Revenues (namely fiscal stamp fees)</b>	<b>483</b>	<b>468</b>	<b>-3.1%</b>

Source: MOF, DGF

**Table 3: Non-Tax Revenues**

(LL billion)	2015 Jan-Dec	2016 Jan-Dec	% Change 2016/2015
<b>Non-Tax Revenues</b>	<b>3,305</b>	<b>3,392</b>	<b>2.6%</b>
<b>Income from Public Institutions and Government Properties, of which:</b>	<b>2,313</b>	<b>2,377</b>	<b>2.8%</b>
Income from Non-Financial Public Enterprises, of which:	2,148	2,204	2.6%
<i>Revenues from Casino Du Liban</i>	110	101	-8.4%
<i>Revenues from Port of Beirut</i>	117	136	16.1%
<i>Budget Surplus of National Lottery</i>	59	58	-1.9%
<i>Transfer from the Telecom Surplus</i>	1,860	1,907	2.5%
Transfer from Public Financial Institution (BDL)	61	61	-0.2%
Property Income (namely rent of Rafic Hariri International Airport)	98	104	6.2%
Other Income from Public Institutions (interests)	6	8	43.9%
<b>Administrative Fees &amp; Charges, of which:</b>	<b>793</b>	<b>778</b>	<b>-1.8%</b>
Administrative Fees, of which:	667	637	-4.5%
<i>Notary Fees</i>	37	37	0.2%
<i>Passport Fees/ Public Security</i>	258	277	7.2%
<i>Vehicle Control Fees</i>	258	227	-12.0%
<i>Judicial Fees</i>	29	28	-3.3%
<i>Driving License Fees</i>	33	23	-31.4%
Administrative Charges	29	35	19.2%
Sales (Official Gazette and License Number)	3	3	0.0%
Permit Fees (mostly work permit fees)	73	86	17.8%
Other Administrative Fees & Charges	20	17	-14.8%
<b>Penalties &amp; Confiscations</b>	<b>28</b>	<b>42</b>	<b>51.4%</b>
<b>Other Non-Tax Revenues (mostly retirement deductibles)</b>	<b>171</b>	<b>194</b>	<b>13.3%</b>

Source: MOF, DGF

## SECTION 2: EXPENDITURE OUTCOME

**Table 4: Expenditure by Economic Classification**

(LL billion)	2015 Jan-Dec	2016 Jan-Dec	% Change 2016/2015
<b>1. Current Expenditures</b>	<b>17,603</b>	<b>18,638</b>	<b>5.9%</b>
1.a Personnel Cost, of which	7,080	7,335	3.6%
Salaries, Wages and Related Items	4,669	4,758	1.9%
Retirement and End of Service Compensations, of which:	2,025	2,132	5.3%
Retirement	1,729	1,808	4.6%
End of Service	296	325	9.5%
Transfers to Public Institutions to Cover Salaries 1/	386	444	15.1%
1.b Interest Payments 2/, of which:	6,722	7,185	6.9%
Domestic Interest Payments	4,327	4,609	6.5%
Foreign Interest Payments	2,395	2,576	7.6%
1.c Accounting Adjustments 3/	-42	43	N.M.
1.d Foreign Debt Principal Repayment	328	299	-8.9%
1.e Materials and Supplies, of which:	356	465	30.5%
Nutrition	89	81	-8.7%
Fuel Oil	32	42	34.2%
Medicaments	151	243	60.6%
1.f External Services	141	143	1.6%
1.g Various Transfers, of which:	2,344	2,379	1.5%
EDL 4/	1,711	1,397	-18.3%
NSSF	0	70	N.M.
Higher Council of Relief	29	2	-93.3%
Contributions to non-public sectors	276	330	19.7%
Transfers to Directorate General of Cereals and Beetroot 5/	33	0	-100.0%
Contributions to water authorities	0	0	N.M.
Special Tribunal for Lebanon	0	0	N.M.
1.h Other Current, of which:	494	611	23.9%
Hospitals	347	473	36.2%
Others (judgments & reconciliations, mission costs, other)	133	130	-2.2%
1.i Interest Subsidy	181	177	-2.0%
<b>2. Capital Expenditures</b>	<b>888</b>	<b>1,079</b>	<b>21.6%</b>
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-92.1%
2.b Equipment	60	88	45.8%
2.c Construction in Progress, of which:	631	739	17.2%
Displaced Fund	10	15	50.0%
Council of the South	59	54	-9.0%
CDR	257	363	41.6%
Ministry of Public Work and Transport	66	111	69.3%
Other, of which:	233	187	-19.8%
Higher Council of Relief	61	10	-83.9%
2.d Maintenance	141	190	34.4%
2.e Other Expenditures Related to Fixed Capital Assets	55	62	13.3%
<b>3. Budget Advances</b>	<b>228</b>	<b>323</b>	<b>41.8%</b>
<b>4. Customs Administration (exc. Salaries and Wages) 6/</b>	<b>56</b>	<b>98</b>	<b>75.0%</b>
<b>5. Treasury Expenditures</b>	<b>1,616</b>	<b>2,269</b>	<b>40.4%</b>
Municipalities	935	1,554	66.2%
Guarantees	68	81	19.2%
Deposits 7/	218	240	9.9%
Other, of which:	396	395	-0.2%
VAT Refund	305	269	-11.7%
<b>6. Unclassified Expenditures</b>	<b>3</b>	<b>6</b>	<b>100.1%</b>
<b>7. Total Expenditures (Excluding CDR Foreign Financed)</b>	<b>20,393</b>	<b>22,412</b>	<b>9.9%</b>

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures

<sup>1</sup> For a detailed breakdown of those transfers, kindly refer to table 5.

<sup>2</sup> For a detailed breakdown of interest payments, kindly refer to table 6.

<sup>3</sup> Figure for 2015 includes capitalized interest of LL1.1 billion that was drawn from the loan and paid directly to the creditor for EKF Loan; moreover, an adjustment was made to exclude LL 41.4 billion in coupons and LL 1.9 billion in discounted interest payments due on 31 December 2015, and recorded instead in the accounting system on 2 January 2016.

<sup>4</sup> For a detailed breakdown of transfers to EDL, kindly refer to table 7.

<sup>5</sup> Transfers to Directorate General of Cereals and Beetroot include both administrative expenses and payments for wheat subsidy.

<sup>6</sup> 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.

<sup>7</sup> Deposit payments are payments made by the treasury to public administrations, institutions, municipalities, funds, from revenues it has collected on their behalf.

**Table 5: Breakdown of Transfers to Public Institutions for the Coverage of Salaries**

(LL billion)	2015 Jan-Dec	2016 Jan-Dec	% Change 2016/2015
Transfer to Council of the South	9	14	67.2%
Transfer to CDR	17	39	129.1%
Transfer to the Displaced Fund	6	6	0.0%
Transfer to the Lebanese University	347	365	5.1%
Transfer to the Educational Center for Research and Development	8	20	171.4%

Source: MOF, DGF

**Table 6: Details of Debt Service Transactions<sup>1</sup>**

(LL billion)	2015 Jan-Dec	2016 Jan-Dec	% Change 2016/2015
<b>Interest Payments</b>	<b>6,722</b>	<b>7,185</b>	<b>6.9%</b>
Local Currency Debt	4,327	4,609	6.5%
Foreign Currency Debt, of which:	2,395	2,576	7.6%
Eurobond Coupon Interest*	2,292	2,485	8.4%
Special bond Coupon Interest*	5	3	-39.2%
Concessional Loans Interest Payments	98	88	-9.7%
<b>Foreign Debt Principal Repayment</b>	<b>328</b>	<b>299</b>	<b>-8.9%</b>

Source: MOF, DGF

<sup>1</sup> 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)	2015 Jan-Dec	2016 Jan-Dec	% Change 2016/2015
<b>EDL, of which:</b>	<b>1,711</b>	<b>1,397</b>	<b>-18.3%</b>
Debt Service	29	21	-29.0%
Reimbursement for purchase of Natural Gas, Fuel & Gas Oil	1,682	1,377	-18.1%

Source: MOF, DGF

## SECTION 3: PUBLIC DEBT

**Table 8: Public Debt Outstanding by Holder as of End-December 2016**

(LL billion)	Dec-14	Dec-15	Dec-16	% Change Dec 16-Dec 15
<b>Gross Public Debt</b>	<b>100,356</b>	<b>106,015</b>	<b>112,911</b>	<b>6.50%</b>
<b>Local Currency Debt</b>	<b>61,752</b>	<b>65,195</b>	<b>70,528</b>	<b>8.18%</b>
* <i>Accrued Interest Included in Debt</i>	1,029	997	1,098	10.13%
a. Central Bank (Including REPOs)	19,855	24,308	30,150	24.03%
b. Commercial Banks	31,468	29,878	29,581	-0.99%
c. Other Local Currency Debt (T-bills), of which:	10,429	11,009	10,797	-1.93%
<i>Public Entities</i>	7,701	8,461	8,718	3.04%
<i>Contractor bonds 1/</i>	180	180	139	-22.78%
<b>Foreign Currency Debt 2/</b>	<b>38,604</b>	<b>40,820</b>	<b>42,383</b>	<b>3.83%</b>
a. Bilateral, Multilateral and Foreign Private Sector Loans	2,752	2,479	2,507	1.14%
b. Paris II Related Debt (Eurobonds and Loans) 3/	1,743	1,182	631	-46.58%
c. Paris III Related Debt (Eurobonds and Loans) 4/	986	810	660	-18.45%
d. Market-Issued Eurobonds	32,584	35,846	38,063	6.18%
e. Accrued Interest on Eurobonds	425	435	458	5.29%
f. Special T-bills in Foreign Currency 5/	114	68	63	-7.35%
<b>Public Sector Deposits</b>	<b>13,965</b>	<b>13,227</b>	<b>14,268</b>	<b>7.87%</b>
<b>Net Debt 6/</b>	<b>86,391</b>	<b>92,788</b>	<b>98,643</b>	<b>6.31%</b>
<b>Gross Market Debt 7/</b>	<b>67,373</b>	<b>68,799</b>	<b>70,303</b>	<b>2.19%</b>
<b>% of Total Debt</b>	<b>67%</b>	<b>65%</b>	<b>62%</b>	<b>-4.06%</b>

Source: MOF, DGF

<sup>1</sup> Contractor bonds issued in LBP; contractor bonds issued in USD are listed under "Special T-bills in foreign currency".

<sup>2</sup> Figures for Dec 14-Dec 15 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> Special Tbs in foreign currency (expropriation and contractor bonds).

<sup>6</sup> Net Debt is obtained by subtracting Public Sector Deposits from Gross Public Debt.

<sup>7</sup> 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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