



September 20, 2019

Contact Information

Research Analyst: Sara Hadchiti

sarah.hadchiti@blominvestbank.com

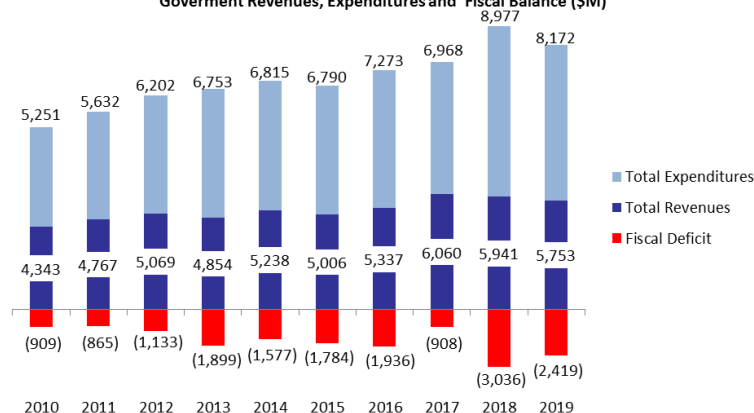
Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

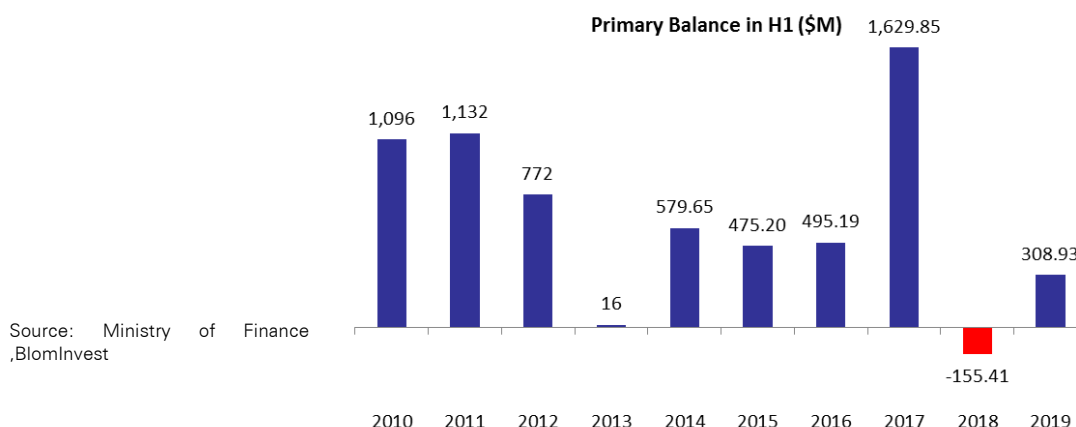
Research Department

Tel: +961 1 991 784

Government Revenues, Expenditures and Fiscal Balance (\$M)



Primary Balance in H1 (\$M)


Source: Ministry of Finance
,BlomInvest

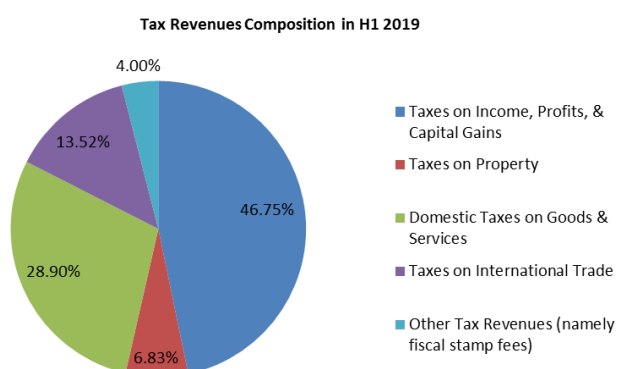
The Lebanese economy has been struggling during H1 2019. The pressure has been rising to handle the large twin deficits and the very high level of public debt. The Lebanese private sector continued to suffer from low local and regional demand. The BLOM Purchasing Managers' Index (PMI), a measure of the activity of private sector, stalled at an average of 46.5 in H1 2019, compared to 46.6 and 47.1 in H1 2018 and 2017, respectively.

Lebanon's fiscal balance recorded an improvement in H1 2019. According to the Ministry of Finance, Lebanon's fiscal deficit narrowed by a yearly 20.34% to \$2.42B in H1 2019. This was attributed to an 8.97% yearly drop in government expenditures (including treasury transactions) to hit \$8.17B. Meanwhile, fiscal revenues recorded a yearly increase by 1.75% to stand at \$5.52B. Worth mentioning that the primary balance which excludes debt servicing costs posted a surplus of \$308.93M by June 2019, compared to a deficit of \$155.41M during the same period last year.

I. Budget Revenues Up

Both tax and non-tax revenues boosted total budget revenues in H1 2019. Budget (tax & non-tax) revenues stood at \$5.52, recording an uptick of 1.75% y-o-y. In details, Tax revenues constituting 80.42% of total revenues grew by 1.26% to \$4.63B. Non-tax revenues (15.60% of total) rose by a yearly 4.35% to \$897.71M by June 2019. However, Treasury receipts grasping 3.97% of total revenues, slipped from \$511.59M to \$228.51M in H1 2019. The decline in Treasury receipts led to the decrease of Total public revenues by 3.16% to \$5.75B in H1 2019. Worth mentioning that according to the latest "Citizen Budget Lebanon 2019" report, Budget revenues for 2019 are estimated to be \$12.46B in which Tax and Non-tax Revenues represent 78% and 22% from the total, respectively.

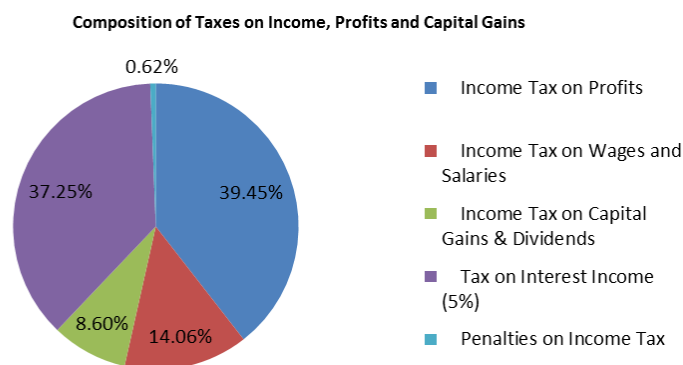
1. Tax Revenues: All Components Down at the Exception of Taxes on Income, Profits, & Capital Gains



Source: Ministry of Finance

The 1.26% growth in tax revenues to \$4.63B in H1 2019 came on the back of upturn in "Taxes on Income, Profits, & Capital Gains" noting that all the other components witnessed a yearly decrease during the first half of the year.

A. Taxes on Income, Profits, and Capital Gains



Source: Ministry of Finance

"Taxes on Income, Profits, & Capital Gains" grew by 17.76% in H1 2019 to \$2.16B, due to the increase in "Tax on Profits" and "Tax on Interest Income" constituting together 76.70% of the total. In details, "Tax on Profits" rose by 5.24% to reach \$853.26M. In fact, the government increased the corporate tax rate from 15% to 17% in Q4 of 2017 during the series of tax reforms. In addition, "Tax on Interest Income" recorded a significant rise from \$509.17M in H1 2018 to \$805.66M in H1 2019 which can also be attributed to the uptick on tax on the interest of bank deposits from 5% to 7%. However, "Tax on Wages and Salaries" and "Tax on Capital Gains & Dividends" retreated by 0.38% and 2.45% to \$ 304.18M and \$186M, respectively. Worth mentioning that the increase in the tax on interest led to a decline in Alpha Banks's net profit which dropped by 5.52% y-o-y to reach \$2.26B in 2018. The decline in Banks profits affected bank's dividends payment's which explain the downtick in the "Tax on Capital Gains & Dividends"

B. Domestic Taxes on Goods & Services (G&S)

"Domestic Taxes on Goods & Services (G&S)" dropped yearly by 8.22% during the first half of the year to stand at \$1.34B. Revenues from VAT" (84.10% of total Domestic taxes on G&S, or 24.31% of total tax receipts) declined by 9.47% y-o-y to \$1.12B in H1 2019. In fact, although the new VAT rate of 11% was applied in beginning of January 2018 increasing from 10%, the decrease in the VAT revenues can be linked to the slowdown in growth and consumption. Moreover, receipts from Private car registrations also dropped by 26.81% to \$65.74M. In fact, according to the Association of Lebanese Car Importers, the number of new registered "commercial" and "passenger" cars lost an annual 24% to stand at 13,889 cars by June 2019. The passenger departure (traveler's) tax receipts grew by 4.96% to \$54.04M in H1 2019.

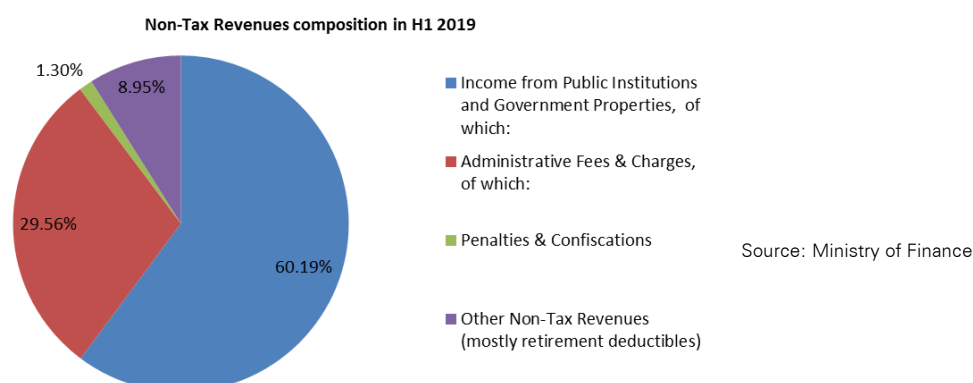
C. Taxes on International Trade

"Taxes on international trade", which include customs, excise on gasoline, tobacco and cars recorded mixed performance in H1 2019. Excises on fuel grasping 37.22% of total taxes on international trade grew by 7.52% to \$232.83M in H1 2019. However, cars excise (17.26% of total trade taxes) registered a 29.09% annual slump to \$108.12M.

D. Taxes on Property

Revenues from all property taxes contracted by 22.89% in the first half of the year largely due to BDL halted housing loans and recession in the real estate sector. In details, Real estate registration fees (52.23% of total property tax receipts) lost yearly 31.47% to \$165.17M by June 2019 while Built property tax receipts also slumped by 15.29% y-o-y to \$111.44M. The government collects revenues from property via the Built property tax & Real estate registration fees. The central bank withdrew the loans subsidy scheme when Lebanon faced a challenging period of persistent economic slowdown and negative BOP. According to the data from the General Directorate of Land Registry and Cadastre (LRC), the number of real estate (R.E) transactions which may include one or more realties, dropped by a yearly 20.08% to stand at 21,957 transactions by June 2019.

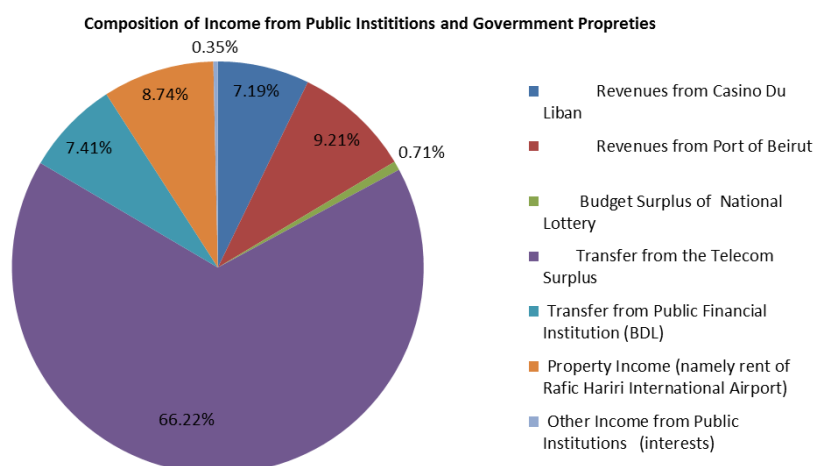
2. Non-Tax Revenues Up despite the decline in Administrative Fees & Charges:



Non-tax revenues increased from \$860.26M in H1 2018 to \$897.71M in H1 2019. This improvement was mainly due to upturns in the following revenues:

- Property Income (namely rent of Rafic Hariri International Airport)
- Transfers from the Telecom Surplus
- Revenues from the Port of Beirut

A. Income from Public Institutions and Government Properties

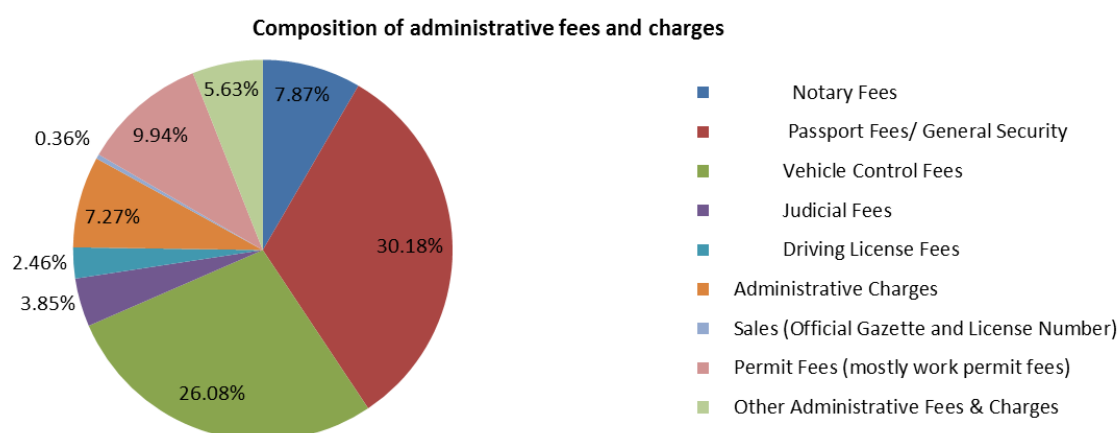


“Income from Public Institutions and Government Properties” (representing 60.19% of non-tax revenues) rose by 22.16% to reach \$540.31M. The Telecom revenues are by far the largest government non-tax revenues (39.86%). Telecom revenues amounted to \$357.54M in the first half of the year, up yearly by 12.41% from the same period last year.

“Revenues from the Port of Beirut (PoB)” rose in the first half of the year to reach \$49.75M noting that in the same

period last year, there wasn't any payment registered. Moreover, “Property Income (namely rent of Rafic Hariri International Airport)” recorded a significant growth from \$28.69M to \$47.23M, in H1 2019. However, “Revenues from Casino Du Liban” decreased by 12.90% to \$39.14M by June 2019.

B. Administrative Fees & Charges

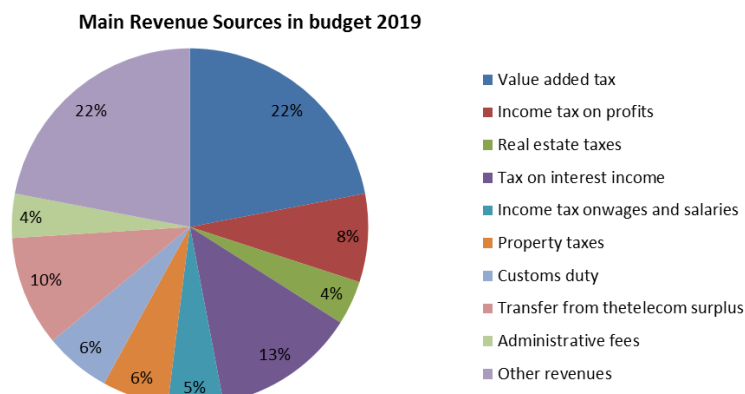


Source: Ministry of Finance

“Administrative Fees & Charges” (representing 29.56% of non-tax revenues) declined by 16.31% to reach \$265.32M in H1 2019. In details, Revenues from “Passport fees and general security” and “vehicle control fees (mecanique)” fell by 11.07% and 43.04% to reach \$80.26M and \$68.99M, respectively.

According to the “Citizen Budget Lebanon 2019” report Revenues in the budget 2019 are composed as the following:

Source: Budget Citizen 2019



II. Total Expenditures Down Given the austere measures

Public expenditures plunged yearly by 8.97% in H1 2019 to reach \$8.17B. In Details, Current expenses composed 88% of the total while Capital expenditures (Capex) grasped a share of 4.34% of total spending. In fact, Personnel Costs (salaries, wages, retirement and end of service indemnities) represents 40.12% of total expenditures. In turn, Interest payments (on domestic and foreign debt) represent 32.19% of total expenditures while transfers to Electricité du Liban (EDL) constitute 8.78% of total expenditures.

Amongst these components, the largest decline of 5.48% was registered in the value of interest payments which totaled \$2.63B in H1 2019. This decrease was mainly due to the 8.10% and 1.49% downturns in interest payments on domestic and foreign debt to \$1.54B and \$1.08B, respectively. The value of domestic debt increased by an annual 11.74% to \$53.45B in the first half of 2019 while foreign debt declined by an annual 8.08% to \$32.28B.

Personnel expenses increased by 2.91% to \$3.28B in H1 2019. In details, “Salaries, Wages and Related Items” representing 57.36% of personnel cost, dropped by 8.94% to \$1.88B while “Retirement and End of Service Compensations” (38.29% of personnel cost) rose by 28.81% to \$1.25B in H1 2019. It’s important to note that the measures taken in the budget 2019 should lead to a decrease in the Personnel Cost category. The main measures are:

- Recruitment and hiring freeze in the public sector until the Government conducts a comprehensive count of the number of employees and their positions.
- A 3 year suspension of the early retirement option for civil servants and most army personnel.
- Retirees prohibited from receiving multiple pensions from various positions held in the public sector.

As for transfers to EDL, they retreated by June 2019 following the slump in oil prices. In details, transfers to Electricity du Liban (EDL) slid by 2.86% to reach \$717.35M amid the 7% annual decline in average oil prices to \$66.17/barrel over the period. It is worthy to note that improvements are expected to start in H2 2019 and 2020, as the government passed a full-fledged electricity reform plan in April 2019. The rate of success of the plan this time round may be attached to a greater willpower of policy-makers to boost government revenues via raising electricity tariffs from 9.5 cents per kilowatt hour (kwh) to 14.2 cents per kwh, as electricity generation is increased.

Capital expenditures witnessed a significant drop by 30.22% to reach \$354.23M. In fact, the large fiscal deficit and the substantial debt burden are blocking the government from having the necessary resources to boost capital spending. The importance of capital expenditures lies in the fact that they are destined for long-term investments aimed at boosting the country’s infrastructure: Building roads, airports, water networks...etc. and hence increasing the potential gross domestic product of the economy.

Treasury transactions (include spending that are of temporary nature) retreated by 25.52% to \$372.81M by June 2018. In details, treasury expenses of which municipalities dropped from \$443.21M to \$275.43M over the same period noting that the government already approved a disbursement to municipalities few months ago but it hasn’t been executed yet.

The fiscal deficit has narrowed during the first half of the year compared to the same period last year; however the increase in government's revenue is mainly attributed to the rise in tax rate rather than the expansion of the tax base on economic growth. It should be noted that by increasing or decreasing taxes, the government affects households' level of disposable income (after-tax income). A tax increase will decrease disposable income which is the main factor driving consumer demand and affecting the long-term economy especially in a period of recession. On the expenditure side, the Lebanese government has set cost-cutting measures in order to reduce its deficit in its 2019 state budget. Nevertheless, unlocking the CEDRE investments remains a crucial step for the CAPEX development.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department Bab Idriss,
Weygand Str. POBOX 11-1540
Riad El Soloh Beirut 1107 2080
Lebanon

Sara Hadchiti, Research Analyst
sarah.hadchiti@blominvestbank.com

+961 1 991 784

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com

+961 1 991 782

research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.