



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Annual Review

Ministry of Finance

2013

Table of Content

Public Finance Highlights	4
Section I: Fiscal Overview	5
Section II: Revenue Outcome	6
Tax Revenues	6
Non-Tax Revenues	13
Treasury Receipts.....	14
Section III: Expenditure Outcome	15
Current Expenditure.....	17
Current Primary Expenditures	17
Capital Expenditure.....	25
Other Treasury Expenditure	26
Social Expenditure	26
Section IV: Public Debt Developments	29
Public Debt: General Facts	30
Local Currency Debt.....	31
Foreign Currency Debt.....	37

List of Tables

Table 1: Summary of Fiscal Performance	5
Table 2: Total revenues	6
Table 3: Tax Revenues.....	6
Table 4: Total Imports & Effective VAT rate	7
Table 5: Property Registration Statistics from Cadastre.....	9
Table 6: Effective Customs Rate.....	10
Table 7: Gasoline Import Statistics	11
Table 8: Car Import Statistics.....	11
Table 9: Tax on Interest Income	12
Table 10: Non-Tax Revenues.....	14
Table 11: Expenditure summary	15
Table 12: Expenditure by economic classification	16
Table 13: Breakdown of Article 13 – Salaries, wages and related benefits (Jan-Dec).....	17
Table 14: Breakdown of Transfers to Public Institutions (salaries)	18
Table 15: Transfers to EDL.....	19
Table 16: Breakdown of Article 14 by Economic Classification	20
Table 17: Interest Payments.....	24
Table 18: Payments to CDR for Construction in Progress	25
Table 19: Payments to Municipalities	26
Table 20: Main Social Expenditure	27
Table 21: Public Debt Outstanding as of end-2013	30
Table 22: Total Maturities and Subscriptions by Holder in 2013 – Including Non-Regular Issuances.....	34
Table 23: Maturities and Subscriptions by Holder in 2013 - Excluding Non-Regular Issuances	34
Table 24: Domestic Currency Debt by Holder and Instrument as of end- 2013.....	35
Table 25: Evolution of Primary Market Rates	36
Table 26: Foreign Currency Debt by Holder and Instrument as at end-2013.....	37
Table 27: Net issuance of Eurobonds in 2013	38
Table 28: Lebanon Secondary Market Yields.....	41

List of Figures

Figure 1: Fiscal and Primary Balance (2011–2013).....	4
Figure 2: Selected expenditure categories as a percent of GDP during 2009-2013.....	15
Figure 3: Local Currency Holdings by BDL and Commercial Banks.....	31
Figure 4: Subscription Ratios by Holder in Weekly TB Auctions.....	32
Figure 5: Distribution of Outstanding Treasury Bonds and Bills.....	34
Figure 6: TB Yields for Regularly Auctioned Instruments 2011–2013.....	36

List of Boxes

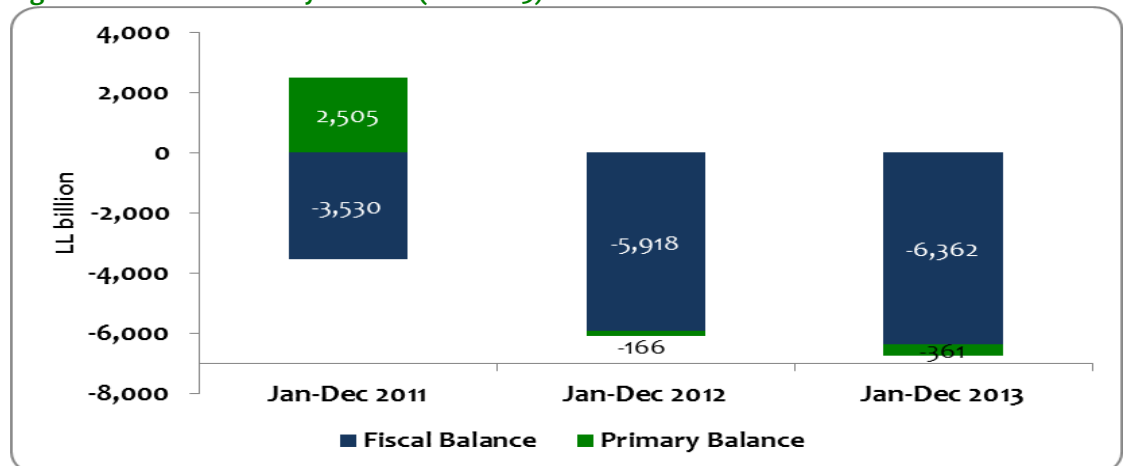
Box 1: Internally Collected VAT.....	8
Box 2: Fiscal Policies and Cigarette Prices.....	10
Box 3: Revenue Collections and Penalties.....	13
Box 4: Syrian Refugees Impact on Social Spending.....	28
Box 5: Terms and Conditions of Eurobonds issued in 2013.....	39

PUBLIC FINANCE HIGHLIGHTS

General Fiscal Developments page 5

The fiscal balance recorded a deficit of LL 6,362 billion in 2013, rising by LL 444 billion from 2012. The percentage of the fiscal deficit in terms of GDP rose to 9.4 percent¹ from 9.1 percent. The primary balance was in deficit of LL 361 billion (0.5 percent of GDP), compared to a deficit of LL 166 billion (0.3 percent of GDP) in 2012.

Figure 1: Fiscal and Primary Balance (2011–2013)



Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

Note: There exist no differences between Cash and Non-Cash basis, since Telecom figures become aligned by the end of the year.

Revenues page 6

Total revenues amounted to LL 14,201 billion (20.9 percent of GDP) in 2013, slightly up from the LL 14,164 billion (21.9 percent of GDP) registered in 2012. Tax revenues decreased by 1 percent as major tax categories retracted from the previous year. Sharp declines were mostly recorded in tobacco excises, taxes on capital gains and dividends, taxes on profits, and real-estate registration fees. Non-tax revenues remained almost constant, as transfers from the Telecom surplus were unchanged.

Expenditure page 20

Total expenditures scaled up by almost 2 percent annually in 2013, amounting to LL 20,563 billion (30.3 percent of GDP). Higher interest payments, and spending on materials and supplies mostly contributed to the 1 percent increase in current expenditures. This was partly counterbalanced by a drop in personnel cost and various transfers. Transfers to CDR and maintenance boosted capital spending by almost 30 percent.

Public Debt Development Page 34

The stock of gross public debt stood at LL 95,696 billion (141.1 percent of GDP) by end-2013, climbing by 10 percent from its end-2012 level, as large increases were recorded in outstanding local currency and foreign currency debt. However, a concurrent 20 percent surge in public sector deposits to LL 15,495 billion, abated expansion in the stock of net public debt to 8 percent, which in turn ended the fiscal year at LL 80,201 billion.

¹ These ratios are based on the latest GDP figures of LL 64,752 billion in 2012 and LL67,866 billion in 2013. The 2012 GDP figure is taken from the CAS Lebanese National Accounts 2004-2011 and CAS preliminary estimates and differs from previously published data. The 2013 GDP figure is an estimate taken from the IMF October 2014 WEO.

SECTION I: FISCAL OVERVIEW

The **total fiscal balance** recorded a deficit of LL 6,362 billion in 2013, compared to a LL 5,918 billion deficit during 2012. This deterioration in public finances was mainly the result of a 2 percent increase in **total payments** to LL 20,563 billion. Correspondingly, the **primary balance** ended at a deficit of LL 361 billion in 2013 and compared to a deficit of LL 166 billion during 2012.

Table 1: Summary of Fiscal Performance

(LL billion)	2011 Jan-Dec	2012 Jan-Dec	2013 Jan-Dec	% Change 2013/2012
Total Budget and Treasury Receipts¹	14,070	14,164	14,201	0.3%
Total Budget and Treasury Payments	17,600	20,081	20,563	2.4%
• Interest Payments	5,655	5,457	5,714	4.7%
• Concessional loans principal payment ²	379	295	287	-2.8%
• Primary Expenditures ³	11,566	14,329	14,562	1.6%
Total Deficit/Surplus	-3,530	-5,918	-6,362	7.5%
Primary Deficit/Surplus	2,505	-166	-361	118.2%

Source: MOF, DGF

¹ Includes the actual transfer from Telecom Surplus

² Includes only Principal repayments of concessional loans earmarked for project financing

³ Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

SECTION II: REVENUE OUTCOME

Total revenues, reached LL 14,201 billion in 2013 or slightly higher than the LL 14,164 billion figure registered in 2012. This LL 37 billion increase resulted from a LL 125 billion rise in **treasury receipts**, which was partially offset by a LL 71 billion decline in **tax revenues** and a LL 17 billion decrease in **non-tax revenues**. It is worth mentioning that revenues improved at a rate below that of nominal GDP, causing a reduction in revenues-to-GDP to 20.9 percent from 21.9 percent in 2012.

Table 2: Total revenues

(LL billion)	2012 Jan-Dec	2013 Jan-Dec	% Change 2013/2012
Budget revenues	13,473	13,385	-0.7%
• Tax revenues	10,187	10,116	-0.7%
• Non-tax revenues	3,286	3,269	-0.5%
Treasury receipts	691	816	18.2%
Total revenues	14,164	14,201	0.3%

Source: MOF, DGF

TAX REVENUES

Tax revenues totalled LL 10,116 billion (14.9 percent of GDP) in 2013, down from LL 10,187 billion (15.7 percent of GDP) during 2012, amounting to 71 percent of total revenues in 2013, compared to 72 percent during 2012. Barring a slight increase in **domestic taxes on goods and services** and **taxes on property**, all major tax components retracted during the period.

Table 3: Tax Revenues

(LL billion)	2012 Jan-Dec	2013 Jan-Dec	%Change 2013/2012
Taxes on Income, Profits, & Capital Gains	2,516	2,502	-0.6%
• Income Tax on Profits	1,006	974	-3.2%
• Income Tax on Wages and Salaries	523	587	12.3%
• Income Tax on Capital Gains & Dividends	296	231	-21.9%
• Tax on Interest Income (5%)	647	660	2.0%
• Penalties on Income Tax	42	49	15.9%
Taxes on Property, of which:	1,193	1,201	0.7%
• Built Property Tax	171	179	4.7%
• Real Estate Registration Fees	870	847	-2.7%
Domestic Taxes on Goods & Services, of which:	3,749	3,782	0.9%
• Value Added Tax	3,276	3,296	0.6%
• Other Taxes on Goods and Services, of which:	364	382	5.0%
Private Car Registration Fees	201	213	6.1%
Passenger Departure Tax	161	167	3.9%
Taxes on International Trade	2,251	2,158	-4.2%
• Customs	796	817	2.5%
• Excises, of which:	1,455	1,341	-7.8%
Petroleum Tax	495	483	-2.5%
Tobacco Tax	516	395	-23.4%
Tax on Cars	435	455	4.6%
Other Tax Revenues (namely fiscal stamp fees)	478	473	-1.0%
Total Tax Revenues	10,187	10,116	-0.7%

Source: MOF, DGF

Domestic taxes on goods and services rose by LL 33 billion over the period, amounting to LL 3,782 in 2013. **Value added tax** collections were LL 3,296 billion, up by LL 20 billion from the previous year, owing to a LL 91 billion surge in internally collected VAT, counteracted by a LL 71 billion decrease in VAT receipts at customs. In terms of GDP, total VAT collections diminished to 4.9 percent from 5.1 percent in 2012.

The VAT effective rate² dropped for the third consecutive year, reaching 6.6 percent in 2013, compared to 6.8 percent in 2012 and 7.5 percent in 2011. This continued retraction was due to the downward push exacted by Law 207³, exempting green and red gasoil from value-added tax.

Table 4: Total Imports & Effective VAT rate

(LL billion)	2012 Jan-Dec	2013 Jan-Dec	%Change 2013/2012
Total Imports	32,080	32,013	-0.2%
• Fuel Imports (fuel derivatives classified under HS 27)	8,881	7,539	-15.1%
• Non-Fuel Imports	23,200	24,473	5.5%
• Share of Fuel Imports	27.7%	23.6%	-14.9%
• Share of Non Fuel Imports	72.3%	76.4%	5.7%
Revenues from VAT at Imports	2,191	2,120	-3.2%
Effective VAT rate	6.8%	6.6%	-3.0%

Source: MOF, DGF

Note: The effective VAT rate represents total VAT collections at imports during 2013, divided by total imports over the same period.

Collections from the **passenger departure tax** slightly rose to LL 167 billion in 2013 as the number of *departing passengers* from the Rafic Hariri International Airport⁴ increased by 6.7 percent annually to reach 3.2 million in 2013. It is worth mentioning that revenue collections rose at a slower pace than the number of departing passengers, most likely reflecting a lower effective nominal fee per passenger.

Private car registration fees reached LL 213 billion in 2013, increasing by 6 percent from 2012, reflecting the 5 percent year-on-year increase in the number of car imports to 79,483.

Transfers from the tobacco surplus amounted to LL 95 billion in 2013, almost unchanged from 2012. It is noteworthy that transfers in both years pertained to profits made by Régie during the fiscal year 2012.

² The effective VAT rate represents total VAT collections at imports during 2013, divided by total imports over the same period.

³ Dated March 5th 2012.

⁴ This figure includes both tourist and non-tourists (Source: Lebanese Civil Aviation Authority).



Box #1: Internally Collected VAT

During 2013, VAT revenues increased by a moderate 3 percent, as the positive impact of a resilient real estate sector and higher internal consumption from displaced Syrians were partially counterbalanced by a drop in most tourist-related revenues. Other reasons include the absence of inflationary pressures¹, along with a deteriorating security across the country.

In detail, the real estate sector was boosted by the stimulus package launched by Banque du Liban, which granted credits to commercial banks for a total amount of LL 2,200 billion. As a result, VAT dues² on *construction* and *manufacture of non-metallic mineral products* rose by almost double-digits during 2013. In parallel, the presence of Syrian displaced in Lebanon had a modest impact on government revenues during 2013 (mostly related to the *manufacture of food products and beverages*, and *Telecommunication*), as these displaced Syrians generally consume low taxed or tax exempted products.

In contrast, the difficult political situation and the chain of security incidents that have taken place, put downward pressure on most tourist related revenues (*including hotels and restaurants, and retail trade*), but in some instances, the fiscal impact could have been mitigated by the presence of displaced Syrians.

VAT Revenues from Internal Operations (10 Largest Contributing Activities)²

(in LL billion)	Economic Activity	2011	2012	2013	% Change 2013/2012
Rank	VAT from Internal Activities, of which	989	1,088	1,122	3.2%
1	Wholesale trade and commission trade, except of motor vehicles and motorcycles	173	175	184	5.1%
2	Other business activities	131	158	156	-1.1%
3	Retail trade, except of motor vehicles and motorcycles	122	135	131	-2.8%
4	Construction	78	88	96	9.5%
5	Hotels and restaurants	90	96	90	-6.0%
6	Real estate activities	56	62	69	10.3%
7	Manufacture of other non-metallic mineral products	38	39	49	27.9%
8	Manufacture of food products and beverages	38	45	49	8.7%
9	Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel	39	41	39	-3.9%
10	Post and telecommunications	29	31	35	13.6%

Source: VAT Directorate, VAT Declaration Forms, MOF

¹ Inflation in 2013 was estimated by CAS at 1.1 percent on an end-period basis. On a period average, inflation was estimated by CAS at 5.5 percent.

² VAT figures represent declared amounts, and not the cash collected amounts. Note that VAT declaration amounts may vary depending on the number of processed declarations at a given date.

Taxes on Property inched up by LL 8 billion to LL 1,201 billion, largely owing to a 16 percent increase in the **inheritance tax**, counterbalanced by slightly lower collections of **real estate registration fees** (3 percent).

Revenues from the **inheritance tax** improved by LL 24 billion to reach LL 175 billion in 2013, owing to the handling of high value files and the fact that the Ministry of Finance is speeding up with the collection of pending payments. Likewise, the **built property tax**, reached LL 179 billion in 2013, LL 8 billion higher than its 2012 level.

In contrast, **Real estate registration fees** amounted to LL 847 billion in 2013, dropping by around LL 23 billion over the period. This deterioration was due to the 7 percent decrease in the number of sold properties, and can mainly be attributed to political uncertainty and the resignation of the government during the first quarter of 2013. In fact, while these collections slumped by 26 percent year-on-year during the first quarter of 2013, they began to slightly improve in the second, third and fourth quarters, rising by 4 percent, 5 percent and 3 percent respectively.

Table 5: Property Registration Statistics from Cadastre

	2012 Jan-Dec	2013 Jan-Dec	%Change 2013/2012
Number of Sold Properties registered in Cadastre	74,569	69,198	-7.2%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	13,471	13,127	-2.6%
Declared Average Value per Property (LL million)	181	190	5.0%
Total Fees collected from Sales Transactions	938	904	-3.7%

Source: MOF-Cadaster

Kindly note that these are declaration statistics (based on sales contracts) that may differ from collection figures as published in the Fiscal Performance and the Tax Revenues table (Table 5).

Taxes collected from international trade (customs and excises) fell by LL 93 billion to reach LL 2,158 billion in 2013, owing to a LL 121 billion decline in the tobacco excises and to a lesser extent a LL 12 billion drop in gasoline excises. These drops were partly compensated by a LL 20 billion rise in both custom duties and car excises.

Tariff revenues amounted to LL 817 billion, up from LL 796 billion, as a result of to a 5 percent increase in non-fuel imports⁵. In fact, imports of “food products⁶”, “pharmaceutical products”, “engines, appliances and other machinery” and “electrical machinery and equipment” increased by 4 percent, 12 percent, 13 percent and 40 percent⁷ respectively during the period under consideration. In contrast, fuel imports slumped by 15 percent in 2013, mostly as a result of inconsistent import registrations by Electricité Du Liban; however as those imports are subject to very low tariffs, the *effective customs rate* inched up from 2.5 percent in 2012 to 2.6 percent in 2013.

⁵ Excluding the two producing electricity barges registered for a total value of LL 329 billion and LL 219 billion respectively during March and August 2013, non-fuel imports rose by a moderate rate of 3.1 percent. It is worth mentioning that the first barge was registered as an import of “Electrical Machinery and Equipment”, while the second one was registered as an import of “Ships, Boats, and Floating Structures”.

⁶ Including live animals, animal products, vegetable products, fats and oils, prepared foodstuffs, beverages and tobacco. Kindly note that some of these categories fall under a protectionist policy, and are subject to higher customs rate.

⁷ Excluding the Turkish producing electricity barge, this category rose by 16 percent during 2013, owing largely to higher imports of cellular phones (For more information, kindly refer to Box #2 of the Q3 Public Finance Quarterly Report).

Table 6: Effective Customs Rate

(LL billion)	2012 Jan-Dec	2013 Jan-Dec	%Change 2013/2012
Total Imports	32,080	32,013	-0.2%
• Fuel Imports (fuel derivatives classified under HS 27)	8,881	7,539	-15.1%
• Non-Fuel Imports	23,200	24,473	5.5%
• Share of Fuel Imports	27.7%	23.6%	-14.9%
• Share of Non Fuel Imports	72.3%	76.4%	5.7%
Revenues from Custom Duties	796	817	2.5%
Effective customs rate	2.5%	2.6%	2.8%

Source: MOF, DGF

Box #2: Fiscal Policies and Cigarette Prices

In an effort to boost government revenues, the Ministry of Finance in coordination with the Régie has, over the past couple of years, consecutively increased the price of cigarettes. The 10 kg box of cigarettes is typically calculated as follows:

$$\text{Final Price} = (1 + A) * \text{Buying Price of Régie from importers} + (1 + B) * \text{Cost of Freight} + C$$

A: Includes the customs rate, excise rate and Régie's profit margin,

B: Covers unexpected expenses related to transportation,

C: Covers administrative expenses of Régie.

- ✘ On October 1st 2011, Régie's profit margin was increased by 5 percentage point to 19 percent, while the indicator C was raised to US\$ 70, up from US\$ 48.
- ✘ On August 3rd 2012, Régie's profit margin was again raised from 19 percent to 29 percent.
- ✘ On October 18th 2013, Régie's profit margin was increased from 29 percent to 44 percent. This time nevertheless, only medium and premium cigarettes categories (with a price at import exceeding US\$ 140 per 10 kg box) were affected by the price hike.

It is worth mentioning that the customs rate (5 percent), excise rate (108 percent) and the indicator B (20 percent), were left unchanged over the period. As a result of these policies, transfers from Régie reached LL 100 billion in 2012 and LL 95 billion in 2013, whereby these were quasi nil in preceding years.

¹ As per Ministry of Finance Decision No 1018/1

² As per Ministry of Finance Decision No 705/1

³ As per Ministry of Finance Decision No 1112/1

Total excises collected at import, registered a LL 114 billion decrease to reach LL 1,341 billion in 2013, mostly attributed to lower **excises on tobacco**. Tobacco excises declined by LL 121 billion to reach LL 395 billion in 2013, following an exceptional LL 111 billion increase year-on-year during 2012 (for more information, kindly refer to Box #1 of the Q3 Public Finance Quarterly Report). This deterioration could be attributed to a lower volume of imports, which dropped by 17 percent in 2013.

Excises on gasoline retreated by LL 12 billion year-on-year to reach LL 483 billion in 2013. Given that this excise is a per-unit tax, the drop was mainly the result of a 3 percent decrease in the volume of imported gasoline. In fact, the average effective excise rate was unchanged, standing at LL 222 per litre of gasoline during 2013. As for the average effective import price of gasoline, it witnessed a 4 percent drop over the period, partly reflecting the decrease in international oil prices from around US\$ 112/barrel to US\$ 109/barrel⁸.

The decrease in gasoline excises seems counter-intuitive, especially as the car fleet is believed to have increased as a result of the imports of 79,483 cars during 2013⁹: it is possible that demand for fuel-efficient cars has increased over the last couple of years, which resulted in lower gasoline consumption. It is worth mentioning that subdued economic activity and insecurity across the country, could have furthermore limited daily transportation.

Table 7: Gasoline Import Statistics

	2012 Jan-Dec	2013 Jan-Dec	%Change 2013/2012
Imports (LL billion)	2,704	2,518	-6.9%
Volume (million litres)	2,234	2,171	-2.8%
Average effective Price at imports (LL/litre)	1,210	1,160	-4.2%
Average effective excise rate (LL/litre)	222	222	0.3%

Source: MOF – General Directorate of Customs declaration forms

Following substantial increases in 2007, 2008 and 2009, collection from **excises on cars** started retreating in 2010, before plunging during 2011. As a result of market consolidation, these revenues inched down by 2 percent in 2012 before rebounding by 5 percent in 2013. In fact, this component increased by LL 20 billion to reach LL 455 billion in 2013, owing mainly to higher volume of imported cars during the last quarter of the year.

Table 8: Car Import Statistics

	2012 Jan-Dec	2013 Jan-Dec	%Change 2013/2012
Imports (LL billion)	1,658	1,759	6.1%
Number of Cars	75,661	79,483	5.1%
Average price per car (LL million)	21.9	22.1	1.0%
Average effective excise rate (%)	26.2%	25.8%	-1.4%

Source: MOF-General Directorate of Customs declaration forms

Taxes on income, profits and capital gains retracted by 0.6 percent year-on-year in 2013 amounting to LL 2,502 billion, reflecting Lebanon's subdued economic activity during the period¹⁰. Similarly, these taxes dropped from 3.9 percent of GDP in 2012, to 3.7 percent of GDP in 2013.

Income tax on capital gains and dividends plunged by LL 65 billion to LL 231 billion over the same period, reflecting the non-recurrent rise of this component in 2012.

Income tax on profits fell by LL 32 billion to reach LL 974 billion during 2013, owing to lower company profits in 2012 as this tax is collected on previous year's earning.

⁸ Source: Energy Information Administration.

⁹ Source: Directorate General of Customs, Ministry of Finance.

¹⁰ Real GDP growth was estimated at 2.5 percent in 2012 by the Central Administration of Statistics (CAS). Real GDP growth estimate for 2013, currently stand at 1.5 percent (International Monetary Fund).

Taxes on wages and salaries, gained 12 percent to reach LL 587 billion, owing mainly to the natural expansion of the economy and the rise in private sector wages and the cost of living adjustment in the public sector. The increase in private sector minimum wage and cost of living adjustment for the public sector were both adopted in February 2012, although the latter only became effective in September 2012, while its respective retroactive payments were made during Q4 2012.

Taxes on interest income¹¹ recorded a LL 13 billion rise, amounting to LL 660 billion in 2013 (for a more detailed breakdown, kindly refer to table 10).

By institution, collections from Commercial Banks rose as a result of steady growth in the deposit base along with a rise in interest rates on foreign currency deposits. This was partially counterbalanced by a decline in interest rates on domestic currency deposits:

- a) Commercial banks' private sector deposits grew by 9.0 percent annually to reach LL 205,329 billion by the end of December 2013, slightly improving from the 8.0 percent year-on-year increase recorded in 2012.
- b) The weighted average interest on dollar denominated deposits climbed from 2.84 percent in 2012 to 2.92 percent in 2013.
- c) The rate on local currency deposits declined from an average of 5.46 percent to reach 5.44 percent.

In contrast, collections from Banque du Liban¹² declined as a result of lower revenues from interest income on Certificate of Deposits, since income from Treasury Bills and Bonds was almost unchanged. The latter was reflected by a slightly higher expenditure item "domestic interest payment" that was up by LL 8 billion during 2013 (for more information, kindly refer to the Interest Payment Section).

By currency, collections in both domestic and foreign currency were on the rise, maintaining a respective share of 65 percent and 35 percent out total collections during the period of January to December 2013.

Table 9: Tax on Interest Income

LL Billion	2012 Jan-Dec	2013 Jan-Dec	% Change 2013/2012
By Institution	647	660	2.0%
Commercial banks	374	401	7.2%
BDL	273	259	-5.1%
By Currency	654	667	2.0%
Lebanese Pounds	427	435	1.9%
Foreign currencies (USD mainly)	226	232	2.7%

Source: MOF - Cash Management Department (by institutions) and Public Debt Department (by currency)

Please note that figures in this table (by currency) are obtained from tax declaration forms, which may differ from cash figures presented in the fiscal performance and the Tax Revenues table (Table 5).

Finally, receipts from **fiscal stamp fees** decreased by LL 5 billion year-on-year to LL 473 billion in 2013. Receipts from this tax are indicative of the general state of economic activity as they reflect the volumes and values of transactions taking place during a given period. Formal sales agreements, contracts, and procedures with municipalities and public administrations are all subject to the stamp fee.

¹¹ Eurobonds are not exempt from Taxes on Interest Income. Holders of Eurobonds receive nonetheless interest payable by the Lebanese Republic without any withholding or deductions, since the Republic covers these withholding or deductions (as per COM decision No 43 dated 08/04/2004).

¹² Banque du Liban transfers to the Ministry of Finance tax on interest income from the outstanding stock of Treasury Bills and Bonds pertaining to all TB holders, and covers tax dues on interest income from its issued Certificate of Deposits.

Box #3: Revenue Collections and Penalties

During 2013¹, the Ministry of Finance substantially reduced penalty dues of unpaid taxes with a declaration period prior to October 2012, in order to enhance collections from Income taxes, built property tax, inheritance tax, value-added tax and other non-tax revenues. In fact, these penalties were reduced by a rate varying between 60 percent and 85 percent, depending on the type of penalty (lump-sum versus variable rate) and the corresponding declaration period.

Despite stagnating VAT revenues over the period 2012-2013, penalties from this tax surged by 26 percent, suggesting a change in taxpayer's behavior owing to the above policy. Similarly, penalties from the income tax rose by 16 percent, while the corresponding tax collections were down by 0.5 percent over the period. Finally, penalties from built property taxes and inheritance taxes were up by 7 percent and 4 percent respectively.

It is worth mentioning that the aforementioned increases in penalty payments come despite a high exoneration of costs, and thus could be indicative of higher participation by taxpayers.

¹ Ministry of Finance Decision 35 dated January 19, 2013 / Decision 443 dated March 27, 2013 / Decision 1090 October 4, 2013.

NON-TAX REVENUES

Non-tax revenues receded by LL 17 billion, reaching LL 3,269 billion (4.8 percent of GDP) during 2013. This deterioration was caused by lower **income from public institutions and government properties** and **retirement deductibles**, partially offset by higher **administrative fees and charges**.

Retirement deductibles were down by LL 22 billion in 2013, and stood at LL 136 billion. These deductibles namely include (i) 50 percent of the first salary awarded during an employee's career, (ii) 6 percent of the monthly wage and (iii) the first monthly payment of every given raise. As such, the decrease in retirement deductibles could partially be explained by the lower expenditure item "basic salaries", which dropped by around LL 84 billion from LL 3,259 billion in 2012, to LL 3,175 billion in 2013.

Income from Public Institutions and Government Properties amounted to LL 2,518 billion during 2013, decreasing by a minor LL 12 billion compared to the previous year, as **transfers from the telecom surplus** were unchanged, standing at LL 2,156 billion in both years. **Telecom revenues** represent the second largest revenue item after the **value-added Tax**, amounting to 15 percent of total revenues in both 2012 and 2013.

Rent proceeds of Rafic Hariri International Airport (RHIA) represented the sharpest contraction over the period, falling by LL 19 billion to LL 87 billion in 2013, owing mainly to a discrepancy in timing of payments. **Revenues from Casino Du Liban** retreated by LL 11 billion

to reach LL 125 billion in 2013. Lower gains from the Casino were in line with the slowing tourism sector, as the number of tourists to Lebanon fell by 7 percent annually from 2012. Other losses in income from public institutions resulted from a decline in the **budget surplus of the National Lottery**, which ended at LL 50 billion in 2013, compared to LL 61 billion in the same period of 2012. **Port of Beirut** transfers reached LL 30 billion (share of revenues for the year of 2011) in 2013, against nil in 2012.

Administrative fees and charges rose by LL 19 billion year-on-year, amounting to LL 606 billion in 2013, mostly owing to a LL 20 billion increase in **passport fees/public security** to LL 140 billion and a LL 6 billion rise in **administrative charges** to LL 32 billion. This was offset as a result of a dip in **vehicle control fees** by LL 10 billion to reach LL 235 billion and in **Judicial fees** by LL 4 billion to reach LL25 billion.

Table 10: Non-Tax Revenues

(LL billion)	2012 Jan-Dec	2013 Jan-Dec	%Change 2013/2012
Income from Public Institutions and Government Properties	2,530	2,518	-0.5%
• Income from Non-Financial Public Enterprises, of which:	2,355	2,362	0.3%
- Revenues from Casino du Liban	136	125	-7.9%
- Revenues from Port of Beirut	0	30	-
- Budget Surplus of National Lottery	61	50	-18.5%
- Transfer from the Telecom Surplus	2,156	2,156	0.0%
• Income from Financial Public Enterprises (BdL)	60	61	1.1%
• Property Income (rent of Rafic Hariri International Airport)	106	87	-18.1%
Administrative Fees & Charges, of which:	587	606	3.2%
• Administrative Fees, of which:	482	492	2.1%
- Notary Fees	30	30	0.8%
- Passport Fees/ Public Security	120	140	16.8%
- Vehicle Control Fees	245	235	-3.9%
- Judicial Fees	30	25	-14.5%
- Driving License Fees	19	19	1.0%
• Administrative Charges	26	32	23.8%
• Permit Fees (mostly work permit fees)	63	65	2.6%
• Other Administrative Fees and Charges	12	14	16.8%
Penalties and Confiscations	10	9	-14.1%
Other Non-Tax Revenues (mostly retirement deductibles)	159	136	-14.0%
Total Non-Tax Revenues	3,286	3,269	-0.5%

Source: MOF, DGF

TREASURY RECEIPTS

Treasury receipts¹³ increased by LL 125 billion (18 percent) annually to reach LL 816 billion in 2013, as a result of annual rises in “Other Accounts” by LL 91 billion.

¹³ For further details on annual changes in treasury receipts, kindly refer to the Treasury receipts section on page 15 in the Q2 2013 Public Finance Quarterly Report.

SECTION III: EXPENDITURE OUTCOME

Total expenditure (budget and treasury) increased by 2 percent in 2013, amounting to LL 20,563 billion (30.3 percent of GDP), compared to LL 20,081 billion (31.0 percent of GDP) in 2012. The LL 481 billion rise was mainly the combined result of higher **total primary expenditures** and **interest payments** by LL 233 billion and LL 257 billion respectively, but was slightly offset by an LL 8 billion decline in concessional loans principle payments, as shown in table 11.

Table 11: Expenditure summary

(LL billion)	2012	2013	% Change 2013/2012
Interest payments	5,457	5,714	4.7%
Concessional loans principal payments ⁽¹⁾	295	287	-2.8%
Primary expenditures ⁽²⁾	14,329	14,562	1.6%
Total budget and treasury payments	20,081	20,563	2.4%

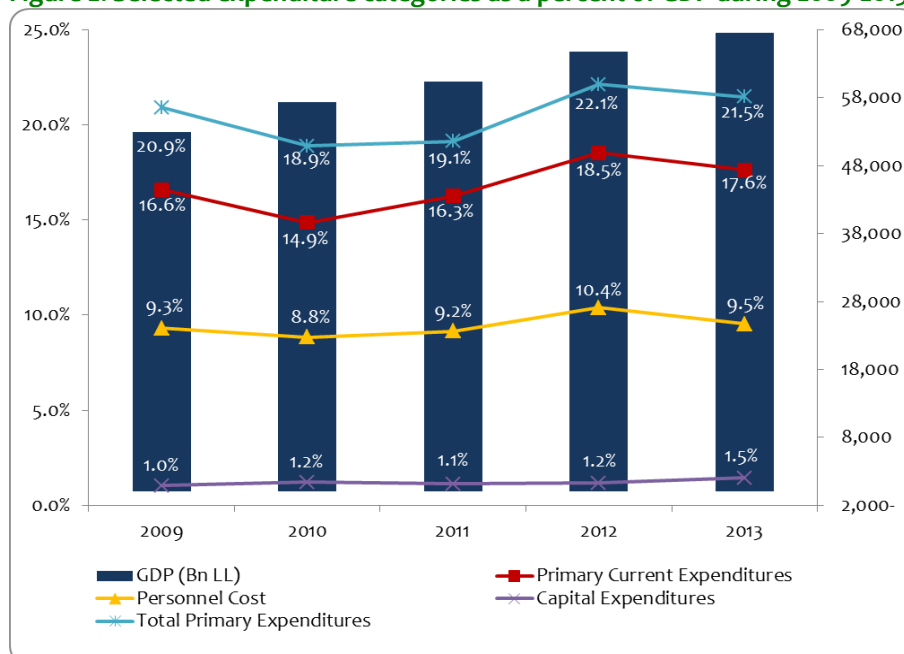
Source: MOF, DGF

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).

As a percentage of GDP, **primary current expenditure** decreased from 18.5 percent in 2012 to 17.6 percent in 2013, following the same trend as **personnel cost** which decreased from 10.4 percent in 2012 to 9.5 percent in 2013. To the contrary, **capital expenditure** jumped from 1.2 percent in 2012 to 1.5 percent in 2013, mainly due to increases in construction in progress and maintenance. The result of total primary expenditure was a decrease from 22.1 percent in 2012 down to 21.5 percent of GDP in 2013.

Figure 2: Selected expenditure categories as a percent of GDP during 2009-2013



Source: MOF, DGF

The evolution of main expenditure items in 2013 according to the economic classification is presented in table 12 below, and reviewed in the sections that follow.

Table 12: Expenditure by economic classification

(LL billion)	2012	2013	% Change
1. Current Expenditures	17,753	17,966	1.2%
1.a Personnel Cost, of which	6,723	6,473	-3.7%
Salaries, Wages and Related Items (Article 13)	4,409	4,276	-3.0%
Retirement and End of Service Compensations, of which:	1,918	1,831	-4.5%
Retirement	1,487	1,583	6.5%
End of Service	431	248	-42.5%
Transfers to Public Institutions to Cover Salaries	396	366	-7.6%
1.b Interest Payments	5,457	5,714	4.7%
1.c Foreign Debt Principal Repayment	295	287	-2.8%
1.d Materials and Supplies, of which:	305	455	49.5%
Nutrition	62	75	21.5%
Fuel Oil	40	13	-67.2%
Medicaments	121	245	102.7%
1.e External Services	122	153	25.2%
1.f Various Transfers, of which:	4,256	4,173	-2.0%
EDL	3,408	3,056	-10.3%
NSSF	100	250	150.0%
Higher Council of Relief	195	108	-44.8%
Contributions to non-public sectors	221	290	31.0%
Transfers to Directorate General of Cereals and Beetroot	65	98	51.4%
Contributions to water authorities	18	12	-33.1%
Special tribunal for Lebanon	0	58	N/A
1.g Other Current, of which:	404	502	24.3%
Hospitals	334	388	16.2%
Others (judgments & reconciliations, mission costs, other)	67	111	66.4%
1.h Reserves (Interest subsidy)	192	209	9.1%
2. Capital Expenditures	760	987	29.9%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	18	14	-22.6%
2.b Equipment	70	75	6.8%
2.c Construction in Progress, of which:	486	571	17.5%
Displaced Fund	48	0	-100.0%
Council of the South	63	37	-40.4%
CDR	199	305	52.8%
Ministry of Public Work and Transport	127	139	10.1%
Other of which:	40	77	92.0%
Higher Council of Relief	4	15	282.9%
2.d Maintenance	180	297	65.6%
2.e Other Expenditures Related to Fixed Capital Assets	3	29	771.6%
3. Budget Advances 1/	216	233	7.8%
4. Customs Administration (exc. Salaries and Wages) 2/	42	40	-4.7%
5. Treasury Expenditures 3/	1,304	1,331	2.0%
Municipalities	669	591	-11.7%
Guarantees	57	93	63.8%
Deposits 4/	107	160	50.0%
Other, of which:	472	487	3.2%
VAT Refund	239	301	26.0%
6. Unclassified Expenditures	5	5	2.1%
7. Total Expenditures (Excluding CDR Foreign Financed)	20,081	20,563	2.4%

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures
(1) 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.

(2) "Customs administration" includes 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.

(3) Figures may differ from previously published data because of constant updates and improvements.

(4) Deposit payments are deposited by the treasury to public administrations, institutions, municipalities, funds (such as pension fund, mutual fund, and employees' cooperative), representing revenues collected by them and withdraw later.

CURRENT EXPENDITURE

Current expenditure expanded by LL 213 billion, explained by rises in (i) **interest payment** by LL 257 billion, (ii) **materials and supplies** by LL 151 billion, and (iii) **other current expenditure** by LL 98 billion. These increases were partly offset by (i) a LL 250 billion decline in **personnel cost**, (ii) an LL 83 billion drop in **various transfers**, and (iii) an LL 8 billion decrease in **concessional loans principal payments**.

CURRENT PRIMARY EXPENDITURES

Current primary expenditures totaled LL 11,965 billion in 2013, down from LL 12,001 billion in 2012, registering a decline of 0.3 percent. The main components and their respective changes are documented below.

Personnel cost dropped by LL 250 billion to LL 6,473 billion in 2013 compared to LL 6,723 billion in 2012. More specifically, **salaries, wages and related items** amounted to LL 4,276 billion, down from LL 4,409 billion, mainly due to the retroactive payments made in 2012. As shown in Table 13, this decrease was mainly the result of a decline in basic salaries (LL 84 billion), allowances (LL 14 billion) and employees' cooperative (LL 46 billion)¹⁴.

Table 13: Breakdown of Article 13 – Salaries, wages and related benefits (Jan-Dec)

(LL billion)	Basic Salaries		Allowances 1/		Indemnities and Other 2/		Total	
	2012	2013	2012	2013	2012	2013	2012	2013
Military Personnel	1,937	1,963	591	576	81	81	2,608	2,620
Army	1,229	1,251	395	364	49	49	1,673	1,663
Internal Security Forces	540	570	156	170	23	24	719	764
General Security Forces	105	108	25	30	5	5	135	143
State Security Forces	63	34	15	12	4	3	81	49
Education Personnel	939	863	0	0	63	77	1,002	939
Civil Personnel	383	349	4	4	357	319	744	673
Employees Cooperative					250	204	250	204
Customs Salaries							53	44
Total	3,259	3,175	594	580	501	476	4,408	4,275

Source: MoF, DGF

1/ Allowance mainly include payments for maternity and sickness, marriage, birth, death, hospital, education, medical and various social allowances

2/ Indemnities mainly include payments for family, transportation. Other includes payments for bonuses, contributions to various public sector mutual funds and contribution of the State as an employer for the National Social Security Fund

Retirement and end-of-service compensations summed up to LL 1,831 billion in 2013 compared to LL 1,918 billion in 2012. Behind the LL 87 billion decline stands a LL 183 billion decrease in end of service indemnities, counterbalanced by a LL 96 billion increase in retirement compensation. **Retirement** registered an increase of 6.5 percent mainly as a result of (i) the disbursement of the one-time payment of LL 14 billion of 1996-1998 retroactive to military retirees - March 2013; and (ii) the additional 3,027 retirees in 2013 compared to 2012 as per the following distribution:

¹⁴ For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin of December 2013 on the Ministry of Finance website: www.finance.gov.lb.

- a) The number of military retirees who received a retirement salary increased from 58,141 in 2012 to 59,996 in 2013, implying a 3 percent rise.
- b) Civil retirees receiving a retirement salary reached 24,276 in 2013, up from 23,104 in 2012, recording a 5 percent increase.

As for the **end of service indemnity**, the reason behind the large decline is mainly due to the combined result of the following:

- a) End-of-service compensation to military personnel amounted to LL 208 billion (84 percent of total compensation payments) in 2013, compared to LL 390 billion (90 percent of total compensation payments) in 2012. This 46 percent decline is mainly related to the additional one-time benefits granted to military personnel for early retirement in 2012.
- b) Similarly, end-of-service compensations to civil personnel fell by LL 2 billion to reach LL 40 billion in 2013. This 5 percent drop from 2012 was mainly caused by a decline in the number of beneficiaries, from 1,930 retirees in 2012 to 1,750 retirees in 2013.

Transfers to public institutions to cover salaries were down by LL 30 billion mainly as a result of the LL 23 billion decrease in transfers to the Lebanese University. The changes in the components of transfers to public institutions are shown in Table 14 below.

Table 14: Breakdown of Transfers to Public Institutions (salaries)

(LL billion)	2012	2013	%Change 2013/2012
Transfer to Council of the South	13	9	-33.6%
Transfer to the Council for Development and Reconstruction	37	30	-21.0%
Transfer to Fund for the Displaced	7	6	-1.8%
Transfer to the Lebanese University	327	304	-7.0%
Transfer to Educational Centre for Research and Development	12	17	40.6%
Total Transfers to Public Institutions	396	366	-7.6%

Source: MoF, DGF

Purchases of **Materials and supplies** jumped by LL 151 billion in 2013, mainly driven by a LL 124 billion increase in spending on **medicaments**, and a LL 13 billion rise on **nutrition**. This increase was partially offset by a LL 27 billion decline in **fuel oil**.

More specifically, medicaments totalled LL 245 billion of which LL 177 billion were transferred to the Ministry of Public Health and the remaining to military personnel. The main reasons behind this rise are (i) a clearing of 2012 backlog, (ii) an overall revision of rates per assisted individual, and (iii) an increase in the cost of new treatments and medicaments.

External Services (rent, postal, insurance, advertisement and public relations) increased by LL 31 billion, mainly due to a rise in **rental payments** by LL 16 billion, **remuneration for consultancy service** by LL 8 billion and **publications** by LL 7 billion.

Various Transfers dropped by LL 83 billion, totalling LL 4,173 billion in 2013 compared to LL 4,256 billion in the same period of 2012. The main reason behind this decline was a LL 353 billion drop in transfers to EDL. Transfers to Electricité Du Liban¹⁵ dropped by almost LL 353 billion in 2013, amounting to LL 3,056 billion, compared to LL 3,408 billion in 2012. This decline was mostly owing to a 4 percent year-on-year retraction in average prices of crude

¹⁵ For further details on EDL transfers in Jan-Sep 2013, kindly refer to the September issue of Transfers to Electricité Du Liban, a monthly snapshot, on the Ministry of Finance website: www.finance.gov.lb.

oil to US\$ 109 per barrel, and as a result of the absence of treasury advances during the year, noting that treasury advances to EDL had amounted to LL 220 billion in 2012¹⁶.

Table 15: Transfers to EDL

(LL billion)	2012	2013	%Change 2013/2012
EDL, of which:	3,408	3,056	-10.3%
Debt Service	112	65	-41.5%
Reimbursement for purchase of Fuel & Gas Oil	3,076	2,990	-2.8%
Treasury Advance*	220	0	-100.0%

Source: MOF, DGF

*Legislated in Laws 9094 and 9095 dated 12/10/2012 for the amounts of LL 40 billion (VAT on Fuel oil) and LL 180 billion (First payment on contract witz`z`h KARPOWERSHIP for leasing electricity production barges).

When EDL transfers are excluded, various transfers amount to LL 848 billion in 2012, compared to LL 1,117 billion in 2013, implying an increase of LL 270 billion mainly attributed to the following combined changes:

- a) **Transfers to NSSF** grew by LL 150 billion, totalling LL 250 billion in 2013 out of a total budget figure of LL 362 billion as per 2013 Budget Proposal, compared to LL 100 billion in 2012 out of a total budget figure of LL 510 billion as per 2012 Budget Proposal.
- b) **Contributions to non-public sectors** climbed to LL 290 billion in 2013 from LL 221 billion in 2012, mainly due to a LL 92 billion increase in transfers to the Ministry of Social Affairs (MOSA), counterbalanced by a LL 9 billion decline in transfers to the Ministry of Higher Education (MOHE) (private subsidized schools). The increase in transfers to MOSA can be attributed to the payment of previous years' allocations, and higher transfers to cover the revised inflation of aid expenses per assisted individual¹⁷. As for MOHE, transfers declined by 10 percent to reach LL 81 billion in 2013, mainly due to a discrepancy in the timing of payment.
- c) Transfers to the **Directorate General of Cereals and Beetroot** rose by LL 33 billion year-on-year to LL 98 billion in 2013. Of the total amount paid in 2013, LL 19 billion represented administrative expenses and the remaining LL 79 billion corresponded to a wheat subsidy provided through two treasury advances. More specifically, LL 61 billion¹⁸ were disbursed to purchase 100,000 tons of imported wheat and to produce bread; and LL 18 billion¹⁹ to pay the difference between the cost of 2013 wheat harvest and the cash available in the Directorate General of Cereals and Beetroot account in BDL. On a related note, it is worth mentioning that LL 41 billion was reimbursed by the Directorate of Cereals and Beetroot to the Treasury as revenues. Average international prices remained almost the same in 2013, declining by only 0.3 percent compared to 2012.
- d) A LL 58 billion transfer relating to the **special tribunal for Lebanon**, as per 2013 Budget Proposal.

The rise in various transfers was slightly offset by a decrease in spending in the following categories:

¹⁶ Treasury transfers to EDL in Jan-Dec 2012 included (i) LL 180 billion representing the first of three payments made on behalf of EDL, for a leasing contract between EDL and Karpowership on two electricity generation barges, and LL 40 billion made to EDL for VAT payments, as per Laws 9094 and 9095, issued in the National Gazette on October 18, 2012.

¹⁷ As per decision 1 dated 16 May 2012.

¹⁸ As per decree 9967 dated 28 February 2013, the total amount of the treasury advance is LL 64 billion (only LL 61 billion were paid) and is provided to purchase 100,000 tons of imported wheat and to produce bread.

¹⁹ As per decree 10696 dated 20 September 2013, a treasury advance of LL 18 billion was provided to cover the difference between the cost of 2013 wheat harvest and the amount available in the Directorate General of Cereals and Beetroot account in BDL.

- e) Transfers to **Higher Relief Council** declined by LL 87 billion amounting to LL 108 billion in 2013. The transfers made in 2013 relate to compensations for victims resulting from a series of tragic events in Lebanon, such as the clashes that took place by the end of 2012 in Tripoli (around LL 45 billion), the two mosques that were exploded in Tripoli (around LL 17 billion), and the car explosion in Rweiss neighbourhood (around LL 9 billion).
- f) Treasury advances for **diesel oil subsidy** decreased from LL 19 billion in 2012 to nil in 2013. The amount transferred in 2012 was used to subsidize diesel oil which was imported at LL 3,000 per tank²⁰.

Table 16: Breakdown of Article 14 by Economic Classification

LL billion	2012	2013	% Change
1. Contributions to the Public Sector 1/	3,891	3,583	-7.9%
1a. Electricité Du Liban (EDL)	3,408	3,056	-10.3%
1b. Other Contributions to the Public Sector, of which:	482	527	9.3%
<i>High Relief Committee (HRC)</i>	195	108	-44.8%
<i>Investment Development Authority of Lebanon (IDAL)</i>	2	23	-1141.3%
<i>Transfers to School Funds</i>	56	33	-41.4%
<i>Public Hospitals</i>	12	25	103.2%
<i>Green Project</i>	11	10	-9.1%
<i>National Social Security Fund (NSSF)</i>	100	250	150.0%
<i>Treasury Advances for Diesel Oil Subsidy</i>	19	0	-100%
<i>Lebanese National Higher Conservatory of Music</i>	17	16	-6.7%
2. Contributions to the Non-Public Sector	221	290	31.1%
2a. Contributions to Non Profit Organizations , of which:	209	281	34.7%
<i>Ministry of Education-Subsidized Schools</i>	91	81	-10.9%
<i>Ministry of Youth and Sports</i>	6	11	84.7%
<i>Ministry of Public Health</i>	12	8	-32.4%
<i>Ministry of Social Affairs</i>	84	175	108.1%
2b. Contributions to Private Parties	12	7	-37.3%
3. Assistance to the Public Sector	108	162	49.5%
3a. Directorate General of Grains & Sugar Beetroot	65	98	51.4%
3b. Public Institutions, of which:	39	60	55.9%
<i>Housing Institution</i>	0	30	-
<i>Railway and Public Transportation Authority</i>	14	12	-16.3%
<i>Water Authorities</i>	18	12	-33.1%
4. Assistance to the Non-Public Sector	0	15	-
5. External Assistance (Ministry of Environment)	0	8	2143.1%
6. Membership Fees (International and Regional Organizations)	16	64	301.8%
<i>Special Tribunal for Lebanon</i>	0	58	-
<i>Ministry of Foreign Affairs and Emigrants</i>	5	6	12.9%
7. Stoppings 2/	20	51	157.5%
Total	4,256	4,172	-2.0%

²⁰ As per decree 7566 dated 22 Feb 2012, the total amount of the treasury advance was LL 22.5 billion and was provided as a temporary measure in anticipation of an exemption of VAT on diesel oil as per Law 207 dated March 5, 2012.

Source: MOF, DGF

1/ Contributions to Public Sector consist mainly of contributions made to Public Institutions. Assistance provided to certain Public Corporations, such as Tele-Liban and all governmental hospitals are also included under this heading.

2/ Stoppings also known in Arabic as “Tawqifat” are usually deductions made by the Ministry of Finance from its payments to collect amount owed by the recipient to the Treasury; such as penalties on income tax, contributions to mutual funds, property tax, fiscal stamps etc. Stoppings also include adjustments to the accounting system that are captured by the fiscal performance system such as regularization in the budget system and process of (i) treasury advances made in previous years and (ii) payments to the Civil Defense from treasury deposit accounts.

Other Current Expenditures increased by LL 98 billion to LL 502 billion. The variation in this economic category was mainly due to a LL 54 billion jump in transfers to **hospitals** reaching LL 388 billion in 2013. Payments in “**other spending**”²¹ increased by LL 44 billion in 2013 as a result of (i) a LL 27 billion increase in the item *judgments* partly due to the reconciliation between the Ministry of Public Works and Transportation and the General Directorate of Civil Aviation in the amount of LL 13 billion; and (ii) a LL 13 billion rise in secret expenditure to military.

²¹ “Other spending” includes mainly compensatory payments to be made following judgement issued by the State Council, reconciliation payments as well as electoral expenses.

INTEREST PAYMENTS

Interest Payments totalled LL 5,714 billion in 2013 equivalent to 8.4% of GDP, in line with interest payments to GDP in 2012. After having reached 10% of GDP in 2010, interest payments slid back in 2011 & 2012, levelling in 2013. However, in nominal terms, interest payments were nearly 5 percent higher in 2013. In fact, 2013 marked the first year since 2010 when no savings on interest cost were realized despite the still operating low international interest rate environment. This rise can be explained by the deterioration in the fiscal balance, increasing financing needs, and accordingly higher indebtedness and higher borrowing costs²² - as evidenced by the 50 bps increase in interest rates in March 2012 - and appetite for longer dated, higher yielding local currency T-bonds.

The LL 257 billion rise in interest resulted from:

- a) LL 249 billion higher **interest on FX debt**, LL 242 billion of which were higher Eurobond coupons.
- b) LL 8 billion higher **interest on LL debt**, stemming from LL 52 billion more coupons paid on long-term T-bonds. In fact, after two years of interest savings on the LL debt front explained by a substantial reduction in the weighted average interest cost of the LL debt portfolio, an upward was registered in the second half of 2013.

Evidently the 12 percent rise in **coupon payments** on foreign currency debt (totaling LL 2,373 billion in 2013), and which stemmed from **Eurobond coupons** (totaling LL 2,246 billion in 2013), drove total interest payments up in 2013. This can be explained by the increase in the stock of outstanding Eurobonds, following the ratification of Law 212 in March 2012 authorizing issuance of new FX debt (on top of existing refinancing allocations) for a total aggregate amount of USD 5 BN²³. This was translated in 20 percent and 8 percent rises in Eurobonds in 2012 and 2013 respectively. In other words, the stock of outstanding Eurobonds expanded by around USD 5.5 billion cumulatively (roughly USD 3.5 billion in 2012 and USD 2 billion in 2013) on a net basis, causing higher FX debt service expenses.

Interest payments on concessional loans totalled around LL 120 billion in 2013, nearly 5 percent higher than the LL 115 billion paid in 2012; LL 74 billion of that amount were interest on c-loans to CDR for investment purposes, and roughly LL 47 billion were C-loans to the Treasury (mostly from AFD and IBRD) for budget support. To note that despite LL 5 billion higher interest amounts on c-loans in 2013, the stock of bilateral and multilateral concessional loans declined from LL 3,608 billion outstanding as of end 2011 to LL 3,567 billion outstanding as of end 2012, to LL 3,413 billion outstanding as of end 2013²⁴.

Interest payments on FX expropriation and contractors bonds totalled LL 7 billion in 2013, compared to LL 5 billion paid in 2012, the 31 percent rise is explained by a higher stock of outstanding special FX T-bonds (LL 136 billion of FX T-bonds were outstanding as of end 2013, compared to LL 112 billion outstanding as of end 2012, and to LL 80 billion outstanding as of end 2011²⁵).

Interest payments on LL debt totalled LL 3,341 billion in 2013 compared to LL 3,333 billion in 2012, explained by an approximate 2% rise in the aggregate coupon amount (interest paid on 2YR, 3YR, 5YR, 7YR, 8YR, 10YR and 12YR Treasury bond). This resulted from the gradual expansion of the outstanding stock of LL T-bonds, which cumulated at LL 54,075 billion by

²² Investors seek higher risk premium, which has led to the increase in the interest rates in the Auction in March 2012, and the annualization of the impact in 2013.

²³ Numerous Eurobond issuances were conducted throughout the period June2012-Sept2013, some of which were market issuances, private placement with BDL and LL/FX debt exchange transactions with BDL.

²⁴ Reference Table D. Debt Outstanding as of end Period by Type of Debt Holder, December 31st 2013, BDL

²⁵ Reference Table D. Debt Outstanding as of end Period by Type of Debt Holder, December 31st 2013, BDL

end-2013, up by 14 percent from the previous year. More specifically, the issuance of successively longer dated maturities, namely 7YR notes (starting 2010), 8YR and 10YR notes (starting 2012), and 12YR Notes (in 2013)²⁶ has crowded out some of the subscriptions into the shorter-term lower coupons T-bills, resulting in a higher total aggregate coupon amount paid in 2013. This came despite the fact that the weighted average coupon paid in 2013 was 25 bps lower than the weighted average coupon paid in 2012, as T-bonds issued in 2009 and earlier, when interest rates were at a peak are coming to maturity with years, therefore depleting the stock from expensive debt. As such the rise in coupon payments in 2013 is a volume effect.

However, increasing shares of higher yielding longer dated T-bonds will ultimately pull-up the weighted average coupon rate. In fact the share of long-term T-bonds increased from roughly 91% of total LL debt stock in 2009 (prior to the issuances of the 7YR, 8YR, 10YR & 12YR notes) to 96% by end-2013; with the longest dated notes accounting for 34 percent of the overall T-bond stock.

In 2012 and 2013, a number of special debt replacement transactions were conducted with BDL, allowing the Treasury to smooth its amortization profile, extend its maturity, and achieve some savings on interest costs by exchanging high cost debt with cheaper debt. These debt replacement transactions entailed the early redemption of T-bills & bonds, thus incurring a premium cost which represents the difference between the face values of the bonds i.e. the value of the bonds at issuance, and the value at which those bonds are discounted or liquidated.

In 2012, the Treasury issued cumulatively US\$ 3 billion worth of Eurobonds to BDL in exchange of the early redemption of LL notes, incurring a premium cost of LL 86 billion. In 2013 the Treasury issued cumulatively US\$ 1.275 billion worth of Eurobonds to BDL in exchange of the early redemption of LL notes, incurring a premium cost of LL 30 billion, in addition to the LL 12 billion premium cost incurred in the context of the early redemption of maturing LL T-bonds in exchange the issuance of 7YR new notes. All in all, LL 3,131 billion worth of LL bonds were redeemed prior to maturity in 2013, compared to LL 4,446 billion in 2012, incurring 51 percent less premium cost than in 2012. The below list the debt replacement transactions conducted with BDL in 2012 & 2013, which cost the Treasury a premium above par:

- a) June 12th 2012, LL 2,957 billion T-bonds held by BDL were redeemed in exchange of the issuance of USD 2 billion triple tranche Notes to BDL, and LL 58 billion premium was incurred.
- b) Dec 20th 2012, LL 1,489 billion T-bonds held by BDL were redeemed in exchange of the issuance of USD 1 billion Notes to BDL, and LL 27 billion premium was incurred.
- c) April 23rd 2013, LL 1,635 billion T-bonds held by BDL were redeemed in exchange of the issuance of USD 1.1 billion dual tranche Notes to BDL, LL 23 billion premium was incurred.
- d) June 13th 2013, LL 1,240 billion of T-bonds in BDL portfolio maturing in Aug-Dec 2013 were redeemed in exchange of the issuance of the equivalent amount in 7 YRS T-bonds and LL 12 billion premium was incurred.
- e) Sept 4th 2013, LL 262 billion T-bonds held by BDL were redeemed in exchange of the issuance of USD 175 million Notes to BDL and LL 6.5 billion premium was incurred.

Discount interest on short term T-bills (interest paid at maturity of 3, 6, & 12 months T-bills) totalled 106 billion in 2013, nearly 1 percent lower than discount interest paid in 2012, explained by 9 percent lower volume of maturing short term principal coming due in 2013; to note that discount interest is paid at maturity. In fact, the outstanding stock of short-

²⁶ The 7, 8, 10 & 12 YRS Notes were issued at 7.5%, 7.8%, 8.24%, 8.74% respectively.

term notes has dropped significantly since 2010, with their share pulling down from an average of 8% during the 5 years period 2006-2010 to 5% in 2011 and 2012, further down to 3.75% in 2013. In fact the aggregate amount of short-term notes outstanding by end of 2013 is nearly 19 percent lower than the amount outstanding by end of 2012.

It's worth noting that the drop in discount interest payments in 2013 comes despite a 36 bps rise in the weighted average interest paid in 2013²⁷, as such the drop in volume has outweighed the rise in cost.

Table 17: Interest Payments

(LL billions)	2012	2013	%
Debt Service Payments	5,457	5,714	4.7%
Local Currency	3,333	3,341	0.2%
Discount interest	107	106	-0.8%
Coupon payment	3,227	3,235	0.3%
<i>Coupon payments</i>	3,141	3,193	1.7%
<i>Premium*</i>	86	42	-51.2%
Foreign Currency	2,124	2,373	11.7%
Eurobond Coupon (including fees)	2,004	2,246	12.1%
c-loans interest	115	120	4.5%
Special Bond (expropriation & contractual)	5	7	31.2%
Memorandum Items			
Domestic Currency Principal Maturities	20,900	13,612	-34.9%
Short-term (3-6-12)	4,126	3,721	-9.8%
Long term (24-36-60-84) of which	16,774	9,892	-41.0%
<i>Special transactions**</i>	4,446	1,890	-57.5%
Weighted average cost /Local currency %			
Short-term	4.56	4.92	8.0%
Long term	6.97	6.72	-3.5%
Weighted average cost/Foreign currency %			
Eurobonds***	7.02	6.66	-5.1%
Foreign Currency Principal Maturities	2,400	2,288	-4.7%
Eurobonds	1,911	1,823	-4.6%
c-loans	489	465	-4.9%

Source: MOF, DGF

*Premium above par on the early redemption of LL Notes ** Debt replacement transactions with BDL *** Note that the weighted average coupon rate on Eurobonds incurred in 2012 pertains largely to the Eurobond stock outstanding as of end 2011, whereas the weighted average coupon rate incurred in 2013 pertains largely to the Eurobond stock outstanding as of end 2012

²⁷ The rise reflects the full year impact of the 50 bps on average increase in interest rates in the Auction, across all offered instruments.



CAPITAL EXPENDITURE

Capital expenditures amounted to LL 987 billion in 2013, expanding by LL 227 billion from 2012 figure, chiefly attributed to increases in **construction in progress** and **maintenance**.

In details, **construction in progress** grew from LL 486 billion in 2012, up to LL 571 billion in 2013. The LL 85 billion increase was the combined outcome of the following:

- a) Payments to **CDR** jumped by LL 105 billion to reach LL 305 billion in 2013, mainly due to higher transfers made for (i) different road projects (+ LL 55 billion), (ii) water treatment projects (+ LL 36 billion), and (iii) buildings and other projects (+ LL 19 billion).

Table 18: Payments to CDR for Construction in Progress

LL billion	2012	2013	%Change
CDR Budget Payments (1)	121	122	-1.8%
Counterpart funding for foreign financed projects	87	88	1.4%
Maintenance of Rafic Hariri International Airport	34	31	-9.9%
Projects Executed on behalf of Line Ministries (2)	75	182	147.7%
Roads projects, of which:	52	107	105.6%
Different road projects in Beirut and its peripheries	0	40	-
Batroun-Bajderfil connecting road	0	31	-
Sour-Naqoura road	6	16	150.2%
Buildings and other projects, of which:	18	34	89.3%
Supervision and payment fees Olympic Pool in Naccache	0	16	-
Baalbeck field	0	6	-
Science faculty at the Lebanese University in Tripoli	0	6	-
Water treatment projects, of which:	9	45	429.3%
Acquisition of real estate properties relating to water treatment project in Keserwan	0	23	-
Total Payments to CDR for Construction In Progress	199	305	52.7%

Source: MOF, DGF

(1) These payments include payments allocated yearly for CDR in the first part of the capital expenditure budget.

(2) These payments include payments allocated for line ministries on a multi-year basis in the second part of the capital expenditure budget payments or provided to them through treasury advances but are implemented on their behalf by CDR.

- b) A LL 13 billion increase in transfers to the **Ministry of Public Works and Transportation** mainly relating to the development and construction of roads, and LL 37 billion rise in “**other**” construction in progress expenses (of which LL 15 billion relate to HRC).

- c) Payments to **Displaced Fund** remained nil in 2013, compared to LL 48 billion in 2012, while payments to the **Council of the South** amounted to LL 37 billion in 2013, recording a LL 27 billion decline.

Maintenance surged by LL 118 billion to 297 billion in 2013, mainly due to a rise in transfers to (a) the **Ministry of Public Works and Transportation** (+ LL 143 billion), driven by higher payments for maintenance of buildings and roads, and (b) **CDR** (+ LL 9 billion) paid through a treasury advance²⁸ in order to operate and maintain the Lebanese University in Hadath.

Other expenditure items that contributed to the increase in capital expenditure include **other expenditures related to fixed capital Assets**, rising by LL 26 billion and totaling LL 29 billion in 2013 mainly due to a transfer to IDAL. **Equipment** grew by LL 5 billion mainly due to an increase in payments to the Ministry of Finance to purchase office and IT equipment

²⁸ As per decree 9892 dated 18 February 2013, the total treasury advance amounts to LL 20.6 billion.

Note #1:
Acquisitions of land and buildings for the construction of roads, ports, airports, and water networks. For details relating to the transaction between BDL and the Lebanese Government, kindly refer to Box #4 in the Q2 2013 report 2013 on the Ministry of Finance website: www.finance.gov.lb

by LL 12 billion. These were counterbalanced by a LL 5 billion drop in transfers to the Ministry of Education.

OTHER TREASURY EXPENDITURE

Other Treasury expenditures augmented by LL 27 billion to reach LL 1,331 billion in 2013, primarily attributed to an increase in (i) **VAT refund** (LL 62 billion), (ii) **deposits** (+ LL 53 billion), and (iii) **guarantees** (+ LL 36 billion). As for **municipalities**, transfers stood at LL 591 billion, decreasing by LL 78 billion compared to 2012, mainly due to a LL 93 billion decline in distribution of revenues accruing to municipalities, slightly counterbalanced by a LL 15 billion increase in payments for solid waste management.

Table 19: Payments to Municipalities

(LL billion)	2012	2013	%Change 2013/2012
Distribution of Revenues Accruing to Municipalities	384	291	-24.1%
Payments for Solid Waste Management	270	285	5.6%
Payments to the "First Municipality Infrastructure Project"	13	13	-3.1%
Other Payments	2	2	-10.7%
Total Payments to Municipalities	669	591	-11.7%

Source: MoF, DGF

SOCIAL EXPENDITURE

Social expenditures cover the basic social services of health, education, transfers to the National Social Security Fund (NSSF), retirement and end-of-service indemnities, and other areas of intervention where the Government provides social allowances. As a percentage of total spending, social expenditure accounted for almost the same level in both 2012 and 2013, standing at 25 percent.

The social expenditure bill increased by LL 183 billion year-on-year, amounting to LL 5,222 billion in 2013 compared to LL 5,039 billion in 2012. The main changes to be noted during the period are the following:

- Transfers to NSSF increased by LL 150 billion year-on-year to reach LL 250 billion in 2013.
- Purchases of medicaments climbed by LL 124 billion, amounting to LL 245 billion in 2013 compared to LL 121 billion in 2012 (for details kindly refer to the "Current primary expenditures" section).
- Transfers to non-profitable organizations made by the Ministry of Social Affairs grew by LL 90 billion to reach LL 176 billion.
- Transfers to education dropped by LL 157 billion and reached LL 1,630 billion in 2013, mainly due to a difference in timing of payment.
- End of service indemnities and retirement wages totaled LL 1,831 billion in 2013, declining by LL 87 billion (for details kindly refer to the "Current primary expenditures" section).

In terms of spending allocation, **end of service indemnities and retirement wages** ranked first with 35 percent of the total, compared to 37 percent in 2012. These were followed by **education spending**, accounting for 34 percent in 2012, down to 31 percent in 2013. More specifically, **wages and salaries of the General Directorate of Education** and **transfers to the**

Note #2: Transfers to Municipalities

The central government and public entities collect numerous fees on behalf of municipalities. These fees are divided into two main categories:

- Fees collected and directly redistributed to each municipality.
- Fees collected and deposited into the Independent Municipal Fund.

As for payments for solid waste management, the Independent Municipal Fund bears the cost of their respective services in the perimeter of some municipalities.

Lebanese University constituted the bulk of the education spending category. Lastly, **health expenditure** ranked third with 20 percent in 2013 and 16 percent in 2012; whereby **purchase of medication** was the main component of this category.

Table 20: Main Social Expenditure

(LL billion)	2012	2013	%Change 2013/2012
Health			
Hospitalization in the private sector	334	388	16.2%
Purchase of Medication	121	245	102.7%
Hospitalization of public sector employees in private sector	245	273	11.4%
Maternity and sickness allowance	53	59	12.2%
Other	74	102	37.1%
Sub-Total	827	1,067	29.1%
Education			
Ministry of Education and Higher Learning, of which	1,517	1,406	-7.3%
Wages and Salaries of the General Directorate of Education	881	812	-7.8%
Transfers to the Lebanese University	327	304	-7.0%
Wages and Salaries of the General Directorate of Technical Education	120	126	4.5%
Contributions to non-profitable organizations	91	81	-10.8%
Education allowance in private sector	270	224	-17.0%
Sub-Total	1,787	1,630	-8.8%
Other Social Spending			
End of Service Indemnities & Retirement Wages	1,918	1,831	-4.5%
Transfers to the National Social Security Fund	100	250	150.0%
Transfers to Civil Servants' Cooperative	250	204	-18.3%
Ministry of Social Affairs, of which	90	181	101.8%
Transfers to non-profitable organizations	86	176	104.2%
Participation in several mutual funds	32	28	-11.3%
Other social spending allowance 1/	35	30	-14.5%
Sub-Total	2,425	2,525	4.1%
Grand-Total Social Spending	5,039	5,222	3.6%

Source: MOF, DGF

1/ Other social spending allowance mainly include marriage, birth, and death allowances and transfers to the Ministry of Displaced.



Box #4: Syrian Refugees Impact on Social Spending

Despite the increasing trend of social expenditure in 2013, direct spending on Syrian refugees by social ministries was mainly limited to the Ministry of Education during 2012-103.

As a direct cost, MOE pays LL 150,000 per student as registration and LL 37,500 per student on average to cover cost of books. In addition, the ministry pays the “Parents’ Fund” fee (LL 90,000 per student); however the latter is usually reimbursed by NGOs.

During the academic year 2011-2012, 18,935 were registered in Lebanese public schools with a direct cost of LL 2.8 billion (the cost of books was not covered by the Lebanese state during that year). Registered Syrian students rose to 51,367 during the academic year 2012-2013 and incurred a direct cost of LL 7.7 billion, in addition to LL 1.5 billion to cover the cost of books. This number is expected to reach 70,000 Syrian students during the academic year 2013-2014. Expenditures spent by the Ministry of Education on Syrian students are classified under “Contributions to non-public sector” in the Budget nomenclature.

The Ministry of Social Affairs did not have any spending dedicated from their own budget to assist the Syrian refugees in Lebanon. However, MOSA has a project in relation to Syrian refugees whereby it only plays a coordination and assistance role through its Social Development Centers. More specifically, the role of SDCs consists of assisting the refugees to register with UNHCR, directing them, ensuring a shelter, or referring them to one of the coordinators. Currently, MoSA has 27 Social Development Centers (SDCs) distributed throughout Lebanon, 55 social workers (2 workers per SDC on average) and 4 coordinators distributed across Lebanon as per the following: (1) in Beirut and South Lebanon, (2) Bekaa, (3) North Lebanon, and (4) Mount Lebanon.

Since the beginning of the crisis, MoSA received donations from three main parties: UNHCR, UNICEF, and the Norwegian Government. Nevertheless, the aid received, which does not exceed LL 2 billion, is solely used to cover salaries and wages of social workers on the Syrian project as well as administrative and office expenses. It occasionally receives food items from UNICEF and distributes them directly to registered refugees only.

As for the Ministry of Public Health, it also did not assist Syrian refugees to the exception of very few cases that account for less than 1 percent of its total spending.

SECTION IV: PUBLIC DEBT DEVELOPMENTS

FINANCING IN 2013

In 2013, the Treasury financed through the weekly auction a total of LL 13,666 billion of debt dues in domestic currency, namely LL 10,600 billion of maturing principal and LL 3,067 billion of maturing coupons. On one hand, total aggregate subscriptions in weekly auctions amounted to LL 18,429 billion, generating a surplus of LL 4,763 billion - over principal and coupon maturities - representing 26 percent of total subscriptions. In comparison, the Treasury raised LL 21,750 billion in 2012 weekly auctions, achieving a surplus of LL 2,170 billion, or 10 percent of total subscriptions. In the context of limited room to finance in FX due to legislative constraints, and given higher financing needs in 2013 - as evidenced by larger fiscal balances - the Treasury had to raise more “new” financing requirements in 2013 auction, over and above maturities.

By instrument, around 28 percent of total subscriptions (LL 5,133 billion) went into the non-regularly issued long-term Treasury bonds, with maturities exceeding 5 years.

- a) A total amount of LL 3,373 billion in 8.74% 12YR T-bonds were issued in 2013, of which LL 1,904 billion were issued as part of the September 26 weekly auction and LL 1,468 billion issued as part of the November 14 weekly auction. The September 26, 2013 auction marked the first time issuance of a 12-year bond by the Lebanese Republic.
- b) LL 1,693 billion in 8.24% 10YR T-bonds, of which LL 1,124 billion were issued as part of the June 6 and June 27 weekly auctions, and LL 569 billion as part of the September 26 auction.
- c) LL 67 billion in 7.8% 8 YR T-bonds issued as part of the June 6 and June 27 weekly auctions.

In addition to auction subscriptions, the Treasury issued LL 1,240 billion in 7YR T-bonds outside the auction in the context of an LL/LL debt replacement agreement with BDL settled on June 13th 2013²⁹.

With regards to **foreign currency financing**, the Treasury raised US\$ 1.7 billion in new cash through two separate Eurobond transactions: a US\$ 1.1 billion market issuance settled on April 17th 2013 and a US\$ 600 million issuance to BDL on June 20th 2013. In addition, the Treasury issued cumulatively US\$1.275 billion of Eurobonds in the context of Debt Replacement Agreements with BDL whereby new FX notes were issued in exchange of the early redemption of LL T-bonds held by BDL, in two separate transactions: a US\$ 1.1 billion transaction settled on April 23rd 2013, and a US\$ 175 million transaction settled on September 4th 2013. (Kindly refer to Box#5)

²⁹ For more details about all the debt transactions, please refer to the related brief notes published on the Ministry of Finance website.

PUBLIC DEBT: GENERAL FACTS

Gross public debt stood at LL 95,696 billion (US\$ 63.48 billion) by end-2013, adding LL 8,737 billion (10.05 percent) from its end-2012 level. This resulted from increases in both, domestic and foreign currency debt, by LL 6,114 billion and LL 2,623 billion respectively. Alongside muted economic growth in 2013, the debt-to-GDP ratio jumped to 141 percent by the end of the year from 134 percent at end-2012.

Net Public debt climbed by a smaller amount of LL 6,158 billion to reach LL 80,201 billion, owing to a 20 percent growth in public sector deposits to LL 15,495 billion. Net debt-to-GDP ended 2013 at 118 percent, compared to 114 percent in 2012.

Table 21: Public Debt Outstanding as of end-2013

(LL billion)	Dec-11	Dec-12	Dec-13	% Change 2013/2012
Gross Public Debt	80,887	86,959	95,696	10.05%
Net Debt ⁽¹⁾	69,903	74,043	80,201	8.32%
Gross Market Debt ⁽²⁾	50,192	58,623	65,386	11.54%

Source: MoF, Banque du Liban (BDL)

(1) The stock of net public debt equals the stock of gross public debt minus public sector deposits.

(2) Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

(3) Figures for Dec 11- Dec 13 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

The **weighted average cost of outstanding foreign debt** retracted by 11 bps to 6.21 percent by the end of 2013 from 6.32 percent at end-2012. The weighted average cost of Eurobonds dropped by 16 bps to 6.50 percent from 6.66 percent, while the weighted average cost of contracted loans inched up by 2 bps to 3.43 percent.

The **weighted average cost of outstanding domestic debt** increased by 30 bps to 6.88 percent as of end-2013 versus 6.58 percent end-2012, thus capturing the fact that overall rates increased by an average of 52 bps in March 2012. In details, regarding short-term instruments, the weighted average cost was 4.44 percent (4.43 percent in 2012) for 3-month bills, 4.99 percent (4.99 percent in 2012) for 6-month bills and 5.35 percent (5.26 percent in 2012) for 12-month Treasury Bills. For long-term instruments, the weighted average cost was 5.69 percent (5.46 percent in 2012) for 2-year bonds, 6.33 percent (6.19 percent in 2012) for 3-year bonds, 6.70 percent (6.70 percent in 2012) for 5-year bonds and 7.75 percent (7.79 percent in 2011) for 7-year bonds, 7.80 percent (7.80 percent in 2012) for 8-year bonds and 8.24 percent (8.24 percent in 2012) for 10-year bonds. It is worth mentioning that for the first time, 12YR instruments were issued as part of the weekly auctions during the second half of 2013, at an interest rate of 8.74 percent.

The **average time-to-maturity of Eurobonds** was 5.60 years as at December 31st 2013, down from 6.05 years in 2012 and 5.69 years in 2011.

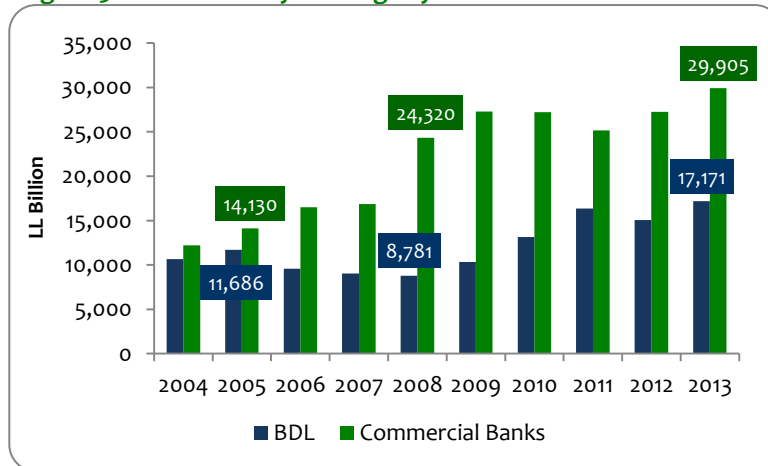
The **average time-to-maturity (ATM) of domestic currency Treasury Bills and Bonds** rose to 3.52 years by the end of December 2013, compared to 3.07 years as of end-December 2012, reflecting the redemption of some 2, 3 and 5 year Treasury bonds from the portfolio in Debt Replacement Agreement transactions, as well as an increase in the average maturity of issued Lebanese pound denominated instruments to 61.4 months as of end-2013, compared to 46.3 months at end-2012. The latter jump can be mainly explained by the issuance of 12 year treasury bonds for the first time in 2013 which constituted 17 percent of total issuances in 2013.

LOCAL CURRENCY DEBT

Local currency debt amounted to LL 56,312 billion by end-2013, up by LL 6,114 billion from end-2012, while its share to total debt edged up to 59 percent from 58 percent (with accrued interest). This change in debt composition was realised as a result of the larger 12.2 percent annual increase in local currency debt, compared to a 7.1 percent rise in foreign currency debt.

Issuances of LL T-bills and bonds boosted growth of outstanding local currency debt as aside from regular weekly auctions of Treasury bills and bonds consisting of issuances of 3MN, 6MN, 12MN, 2YR, 3YR and 5YR instruments, some of the year's financing requirements and a few pre-financing operations were made through **special scheme and non-regular issuances** of longer term bonds: (i) around LL 1,190 billion in 8-year (LL 67 billion) and 10-year (LL 1,123 billion) Treasury bonds, issued as part of the June 6 and June 27 weekly auctions, at interest rates of 7.8 percent and 8.24 percent respectively, (ii) LL 1,240 billion in 7-year Treasury bonds issued in the context of an LL/LL voluntary debt exchange with Banque Du Liban³⁰ at an interest rate of 7.5 percent, (iii) around LL 2,473 billion in 10-year (LL 569 billion) and 12-year (LL 1,904 billion) Treasury bonds, offered as part of the September 26, 2013 weekly auction³¹, at interest rates of 8.24 percent and 8.74 percent respectively, and (iv) LL 1,469 billion in 12-year Treasury bonds offered as part of the November 14, 2013 weekly auction at an interest rate of 8.74 percent.

Figure 3: Local Currency Holdings by BDL and Commercial Banks



Source: MoF, Banque du Liban (BDL)

Subscriptions by holder

With LL 29,905 billion in holdings, **commercial banks** remained the largest holders of local currency debt accounting for 53.1 percent of the outstanding amount by end-2013. This however represented a decline from their 54.3 percent share as at end-2012, and was the result of other investors, namely **BDL** and **Public entities**, scaling up their TB holdings at a faster pace. Banks' subscriptions including non-regular issuances amounted to LL 9,018 billion in 2013, accounting for 49 percent of total subscriptions and recording a rollover ratio of 177 percent. This favourable result was achieved with the help of Commercial Banks' large value subscriptions in 12YR and 10YR bonds, taking up 37 percent and 17 percent

³⁰ This debt replacement agreement did not contribute to increase in local currency debt as it represented a replacement agreement with shorter term maturing tenors by BDL. For details on the local currency debt exchange with BDL, kindly refer to Box #6 on page 43 in the Q2 2013 Public Finance Quarterly Report.

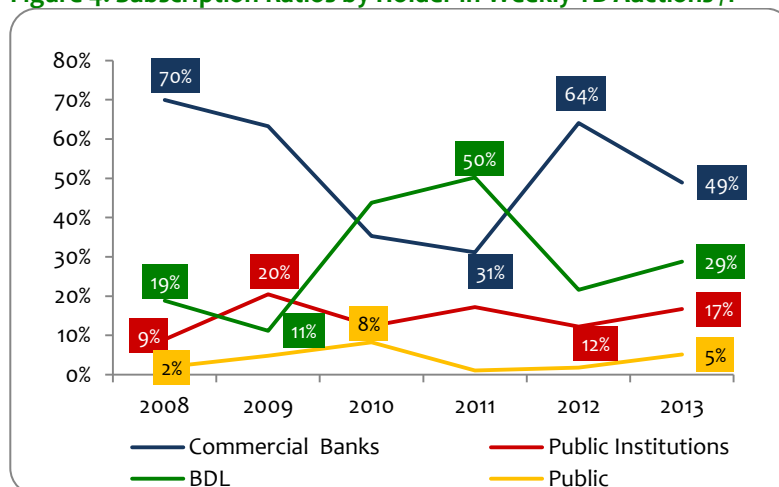
³¹ The September 26, 2013 auction marked the first time issuance of 12-year treasury bonds by the Lebanese Republic.

respectively of their accepted offers. Three-year bonds also accounted for 17 percent of banks' subscriptions and were followed by 6MN bills with 10 percent. Excluding non-regular issuances, Commercial Banks' subscriptions were markedly lower at LL 4,083 billion and their cumulative rollover ratio only 80 percent.

BDL, the second largest investor in local currency debt increased their holdings of domestic currency debt to LL 17,171 billion, or 30.5 percent of the outstanding amount, by end-2013 compared LL 15,049 billion or 30.0 percent as at end-2012. This resulted from strong participation in weekly auctions, with total subscriptions reaching around 2.1 times the level of principal maturities. Excluding special issuances, BDL's subscriptions were the highest among holders capturing 39 percent of the total. The rise in BDL holdings was achieved despite two separate FX/LL debt replacement agreements in April and September 2013, valued at US\$ 1,100 million and US\$ 175 million respectively, and which had reduced BDL's TB holdings by an equivalent of US\$ 1,275 million, whereby BDL redeemed to MoF 3 and 5 year Treasury bonds from its existing portfolio for an equivalent LL amount of US\$ 1,275 million in Eurobonds.

Local currency debt subscribed by "other" entities increased by 17 percent to LL 9,236 billion, accounting for 16.4 percent of local currency debt by end- 2013. Public institutions' TB holdings increased by LL 638 billion to LL 7,117 billion, whereas TBs held by "Public" ended 2013 at LL 1,938 billion jumping by 55 percent from end-2012. The "Public" had upped their TB subscriptions in weekly auctions by more than three fold in 2013 to LL 941 billion, accounting for 5.10 percent of total subscriptions, compared to LL 394 billion, or 1.8 percent of subscriptions in 2012. The stock of domestic-currency denominated contractor bonds was unchanged from the previous year at LL 134 billion.

Figure 4: Subscription Ratios by Holder in Weekly TB Auctions /1



Source: MoF, Banque du Liban (BDL)

(1) Total Subscriptions including non-regular issuances of 8YR 10YR and 12YR TBs

Subscriptions by instrument

The stock of long-term bonds stood at LL 53,238 billion by end-2013³², adding LL 6,531 billion from 2012, while the stock of short-term treasury bills decreased by LL 482 billion to reach LL 2,109 billion.

Long-term Treasury bonds mainly grew as surges in 3YR, 7YR, 10YR and 12YR bonds outweighed declines in outstanding 2YR and 5YR bonds.

³² This figure excludes accrued interest on long term T-bonds for the amount of LL 837 billion.

The largest annual increase in LL Treasury bonds was registered in the 12YR tenor that was issued for the first time by the Lebanese Republic in 2013. The 12 YR bond was first issued as part of the September 26, 2013 weekly auction, attracting around LL 1,904 billion in subscriptions at a rate of 8.74 percent. The tenor's second issuance took place as part of the November 14, 2013 weekly auction, when almost LL 1,469 billion was subscribed at the same rate. In both auctions, commercial banks captured the bulk of issuances, taking 97 percent and over 99 percent respectively of the offered 12 YR notes. Having accounted for 55 percent of the annual increase in local currency debt, 12YR bonds made up around 6.0 percent of local currency debt by end-2013.

In second position, 3YR bonds climbed by almost 15 percent to reach LL 20,942 billion, accounting for around 43 percent of the rise in local currency debt. Outstanding 3YR TBs stood at or 37 percent of the stock of local currency debt by the end of the year. Three-year bonds mainly recorded a LL 4,012 billion surplus in weekly auctions overshadowing early redemptions in debt replacement transactions outside weekly auctions³³.

The stock of 10YR bonds reached LL 2,844 billion up from LL 1,151 billion in the previous year following three separate issuances, part of weekly auctions dated June 6, June 27, and September 26, 2013. Commercial Banks accounted for 92 percent of aggregate subscriptions of 10YR TBs, and were followed by BDL and Public, which captured around 7 percent and 1 percent respectively of the offered amount.

The stock of 7YR bonds increased by LL 1,241 billion (13.8 percent), following the LL/LL exchange between the Ministry of Finance and Banque du Liban in the month of June, in which BDL redeemed LL 1,240 billion worth of 2 and 3-year Treasury Bonds maturing up to end-June 2013, for their counterpart e in 7YR LL Treasury bonds.

Of other long term tenors, the stock of 2YR and 5YR bonds ended 2013 on a decline. The stock of 2YR TBs retracted by LL 2,077 billion as a result of weekly auction deficits amounting to LL 1,926 billion and the early redemption of LL 150 billion in 2YR bonds as part of the LL/LL exchange between MoF and BDL. The stock of 5YR bonds declined by LL 415 billion, as the LL 1,192 billion surplus recorded in weekly auctions was not sufficient to counterbalance the redeemed amounts of LL 1,351 billion and the LL 255 billion in 5YR bonds from the April and September Debt Replacement Agreements conducted with BDL.

The stock of short-term bills contracted by LL 482 billion, owing to a decrease in the stock of 3MN and 6MN bills by LL 149 billion and LL 377 billion respectively. This decline was marginally mitigated by a LL 44 billion increase in the stock of 12MN bills.

³³ For more information on the Debt Replacement Agreements with BLD in April and June 2013, kindly refer to Box#5 (page 41) and Box#6 (page 43) in the QII 2013, Public Finance Quarterly Report.

Table 22: Total Maturities and Subscriptions by Holder in 2013 – Including Non-Regular Issuances

(LL billion)	Commercial Banks	Financial Institutions	Public Institutions	Public	BDL	Total
Maturities	5,100	63	2,478	408	3,791	11,840
Coupon Maturities	1,676	7	390	52	942	3,067
Subscriptions	9,018	83	3,080	939	6,549	19,670
Surplus/Deficit*	2,242	13	212	480	1,816	4,763
Rollover Ratios	177%	132%	124%	230%	173%	166%

Source: MOF, BDL

*Including Coupons

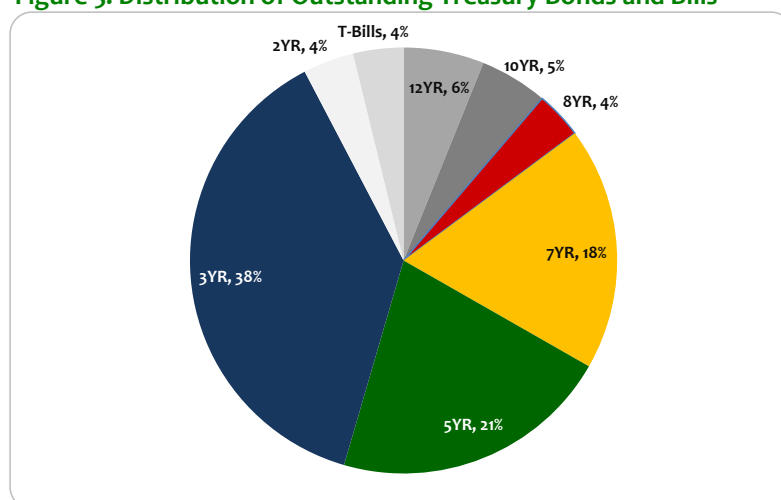
Table 23: Maturities and Subscriptions by Holder in 2013 - Excluding Non-Regular Issuances

(LL billion)	Commercial Banks	Financial Institutions	Public Institutions	Public	BDL	Total
Maturities	5,100	63	2,478	408	2,551	10,600
Coupon Maturities	1,676	7	390	52	942	3,067
Subscriptions	4,083	78	3,080	876	5,180	13,297
Surplus/Deficit	-2,693	8	212	417	1,687	-370
Rollover Ratios	80%	125%	124%	215%	203%	125%

Source: MOF, BDL

*Including Coupons

Figure 5: Distribution of Outstanding Treasury Bonds and Bills



Source: MOF, BDL

*Tbills are comprised of 3MN, 6MN and 12MN notes

Table 24: Domestic Currency Debt by Holder and Instrument as of end- 2013

Stocks (end of period)	Dec-11	Dec-12	Dec-13	% Change 2013/2012
Local currency debt	49,340	50,198	56,312	12.2%
A. By Holder				
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	16,374	15,049	17,171	14.1%
2. Commercial Banks	25,177	27,267	29,905	9.7%
3. Other local debt (T-bills)	7,789	7,882	9,236	17.2%
o/w Public entities	6,538	6,479	7,117	9.8%
o/w Contractors ⁽²⁾	41	134	134	-
*Accrued interest included in debt	788	789	877	11.2%
B. By Instrument				
1. Long term bonds	46,512	47,448	54,075	14.0%
1.1 12-year bonds	0	0	3,373	-
1.2 10-year bonds	0	1,151	2,844	147.1%
1.3 8-year bonds	0	1,916	1,982	3.4%
1.4 7-year bonds	7,885	8,978	10,219	13.8%
1.5 5-year bonds	11,779	12,162	11,747	-3.4%
1.6 3-year bonds	22,129	18,292	20,942	14.5%
1.7 2-year bonds	3,972	4,208	2,131	-49.4%
1.8 Coupon interest	747	741	837	13.0%
2. Short term bills	2,583	2,591	2,109	-18.6%
2.1 12-month bills	887	965	1,009	4.6%
2.2 6-month bills	1,569	1,312	935	-28.7%
2.3 3-month bills	127	314	165	-47.5%
* Accrued interest included	41	48	40	-16.7%
3. Other local debt	245	159	128	-19.5%
3.1 Central Bank Loans	139	55	0	-100.0%
3.2 Commercial Banks Loans	106	104	128	23.1%

Source: MoF, BDL⁽¹⁾ In November 2003 and July 2004, BDL extended two loans to EDL, of amount LL 300 billion and LL 150 billion respectively, to finance the payment of electricity bought from Syria. The amortization schedule ends in 2013. These loans were listed as public debt as they were government guaranteed, and were fully redeemed in April and July 2013 respectively.

(2) Contractor bonds issued in LBP. Contractor bonds issued in US\$ are listed under "Special T-bills in foreign currency" in the foreign currency debt table

Primary market interest rates

Interest rates remained stable throughout 2013 after having increased by an average 53 bps in 2012. Aside from regularized market issuances made in 2013, special scheme issuances of 7-year, and non-regular issuances of 8-year, 10-year, and 12-year Treasury bonds also retained their interest rates at 7.5 percent, 7.8 percent, 8.24 percent, and 8.74 percent respectively.

Table 25: Evolution of Primary Market Rates

Maturity	Dec. 31st, 2011	Dec. 31, 2012	Dec. 31, 2013
3-month	3.93 percent	4.43 percent	4.44 percent
6-month	4.50 percent	4.99 percent	4.99 percent
12-month	4.81 percent	5.35 percent	5.35 percent
2-year	5.34 percent	5.84 percent	5.84 percent
3-year	5.94 percent	6.50 percent	6.50 percent
5-year ⁽¹⁾	6.18 percent	6.74 percent	6.74 percent
7-year ⁽²⁾	7.60 percent	7.50 percent	7.50 percent
8-year ⁽³⁾	N/A	7.80 percent	7.80 percent
10-year ⁽⁴⁾	N/A	8.24 percent	8.24 percent
12-year ⁽⁵⁾	N/A	N/A	8.74 percent

Source: MoF

(1) 5-year Treasury bonds started being issued as part of the Treasury Bill Auction Process as of the week of July 20 2009 (value date 23 July 2009).

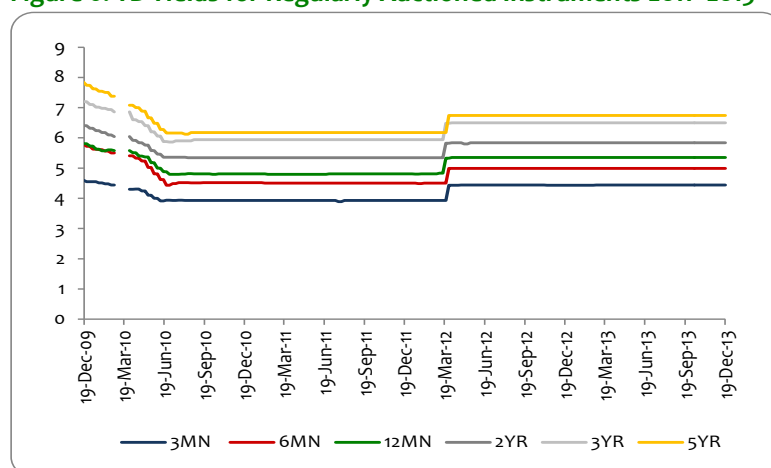
(2) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent, and in September 2011 with a coupon of 7.60 percent. These bonds are not issued in the regular auction process.

(3) 8-year Treasury Bonds were issued on a one time basis, during the weekly auction of October 18, 2012. 8-year bonds were also issued during the June 6, 2013 and June 27, 2013 Auctions.

(4) 10-year Treasury bonds were issued on a one time basis, during the weekly auction of September 20, 2012. 10-year bonds were also issued during the June 6, 2013 and June 27, 2013 Auctions

(5) 12-year Treasury bonds were issued during the weekly auctions of September 26, 2013 and November 14, 2013.

Figure 6: TB Yields for Regularly Auctioned Instruments 2011–2013



Source: MoF

Notes:

(1) LL auctions were halted for the month of March 2010.

(2) 7-year, 8-year, 10-year and 12-Year Treasury bonds were issued at auctions but do not appear in the above graph since they are not part of the regular auction calendar.

FOREIGN CURRENCY DEBT

Foreign currency debt ended the fiscal year 2013 at LL 39,384 billion, up by LL 2,623 billion from end-2012. This increase was mainly owing to a surge in outstanding Eurobonds following four transactions that were conducted in April, June, and September 2013. Moreover, exchange rate fluctuations accounted for around LL 70 billion of the increase in outstanding FX debt of which the effect of the appreciated Euro vis-à-vis the US dollar from a rate of 1.3186 €//\$ to 1.3763 €//\$ augmented the values of Euro-denominated Eurobonds and the AFD Loan by around LBP 39 billion and LBP 9 billion respectively.

Table 26: Foreign Currency Debt by Holder and Instrument as at end-2013

(in LL billion)	Dec-11	Dec-12	Dec-13	% Change 2013/2012
B. Foreign currency debt	31,547	36,761	39,384	7.1%
4. Eurobonds	27,490	32,789	35,533	8.4%
Of which, Paris II at preferential rates ⁽¹⁾	3,161	2,646	2,130	-19.5%
Of which, Paris III at preferential rates ⁽²⁾	663	317	271	-14.3%
Of which, market-issued Eurobonds	23,259	29,427	32,688	11.1%
* <i>Accrued Interest on Eurobonds</i>	407	400	444	11.0%
5. Loans	3,977	3,860	3,715	-3.8%
5.1 Paris II loans	351	279	208	-25.4%
5.2 Paris III loans ⁽³⁾	1,060	997	915	-8.2%
5.3 Bilateral loans (non-Paris II and III)	766	832	821	-1.7%
5.4 Multilateral loans (non-Paris II and III)	1,781	1,738	1,677	-3.3%
5.5 Foreign Private Sector Loans	18	14	94	571.4%
6. Other debt	80	112	136	21.4%
6.1 Special Tbs in Foreign currency ⁽⁴⁾	80	112	136	21.4%

Source: MoF, BDL

(1) Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at US\$ 1,870 billion to BDL in the context of the Paris II conference. These bonds have an amortized payment structure.

(2) Issued to Malaysia as part of its Paris III contribution.

(3) IBRD loan, UAE loan, first tranche of the French loan received in February 2008 and part of second tranche received October 2012, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

(4) Special Tbs in Foreign currency (expropriation and contractor bonds)

Outstanding **Eurobonds** amounted to LL 35,533 billion by the end of 2013, climbing by 8.4 percent increase from the previous year, as increases from transactions conducted throughout the year outweighed corresponding declines. Exchange rate fluctuations accounted for a LL 39 billion rise in the value of Eurobonds. The first transaction that was concluded on 17 April 2013 comprised a double-tranche Eurobond issuance amounting to a total US\$ 1.1 billion. The transaction consisted of a US\$ 600 million re-opening of the 6.000 percent coupon Eurobond due January 2023 and a US\$ 500 million re-opening of the 6.750 percent coupon Eurobond due November 2027³⁴. The second transaction, also valued at US\$ 1.1 billion, was settled on 23 April 2013 was conducted in the context of an FX/LL “Debt Replacement Agreement” between the Ministry of Finance and Banque du Liban. This transaction resulted in an increase in the value of outstanding foreign currency debt, and given that it entailed redemption of LBP Treasury bonds, it contributed to the shift in debt currency composition from LBP to FX debt³⁵. The third transaction took place on 20 June 2013, and comprised a US\$ 600 million 6.150 percent Eurobond issuance, due June 2020,

³⁴ For more information on the April 17, 2013 Eurobond transaction, kindly refer to Box #7 on page 49 in the Q2 2013 Public Finance Quarterly Report. Additional details can also be found in the online note “Re-openings of 6.00 percent USD Notes due 2023 and of 6.75 percent USD Notes due 2027, issued 17 April 2013” on the MoF’s website.

³⁵ For more information on the April 23, 2013 Debt Replacement Agreement between MoF and BDL, kindly refer to Box #5 on page 41 in the Q2 2013 Public Finance Quarterly Report. Additional information can also be found in the online note “Dual-tranche: 4.50% USD Notes due 2016, and 5.50% Notes due 2019 in Debt Replacement Agreement with BDL, issued 23 April 2013” on the MoF’s website.

which was subscribed by BDL³⁶. The fourth transaction, valued at US\$ 175 million, was settled on 4 September 2013, and represented the second FX/LL “Debt Replacement Agreement” between the Ministry of Finance and Banque du Liban³⁷.

On the other hand, declines in outstanding Eurobonds resulted from the repayment of US\$ 483.599 million remaining from the March 2013-due US\$ 875 million market-issued Eurobond, the repayment of US\$ 340.009 million remaining from the June 2013-due US\$ 650 million market-issued Eurobond (with the first portion of each of the two Eurobonds redeemed in the November 2012 voluntary exchange transaction)³⁸, as well as amortized repayments made on Paris II and Paris III Eurobonds.

The outstanding value of Paris II related Eurobonds dropped by LL 516 billion (19.5 percent) to reach LL 2,130 billion following amortized principal repayments throughout the year: (i) Two US\$ 35 million payments in March and September 2013 on Paris II March 2018 Eurobond originally issued at US\$ 700 million; (ii) two US\$ 10 million payments in May and November 2013 on Paris II 5.00 percent May 2018 Eurobond originally issued at US\$ 200 million; (iii) two US\$ 93.5 million payments in June and December 2013 on Paris II 4.00 percent December 2017 Eurobond originally issued at US\$ 1,870 million; and (iv) two US\$ 32.5 million payments in June and December 2013 on Paris II 5.00 percent due December 2017 originally issued at US\$ 950 million.

The value of Eurobonds issued in the context of Paris III Eurobonds dropped by LL 45 billion (14.3 percent) to reach LL 271 billion by end- 2013 owing to two principal repayments amounting to US\$ 15 million each, in January and July 2013 on the Eurobond due July 2017 originally issued at US\$ 300 million.³⁹

Table 27: Net issuance of Eurobonds in 2013

(in US\$)	
Eurobonds issued	2,975,000,000
Eurobonds redeemed	1,823,108,843
Net issuance	1,151,891,157

Source: MoF

³⁶ For more information on the June 20, 2013 Eurobond issuance, kindly refer to Box #8 on page 51 in the Q2 2013 Public Finance Quarterly Report.

³⁷ For more information on the September 4, 2013 Debt Replacement Agreement with BDL, kindly refer to Box #4 on page 36 in the Q3 2013 Public Finance Quarterly Report.

³⁸ For more information on the November 2012, Voluntary Exchange Transaction, kindly refer to the note “ Voluntary Debt exchange November 2012: Re-opening of 5.15 percent US\$ notes due 2018, New US\$ 6.00% notes due 2023, and New US\$ 6.75% notes due 2027, issued 29 November 2012” available here: <http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/DebtTransactions/>.

³⁹ For more information as to the structure of this bond, kindly refer to the note “Re-Profiling of Debt Held by Central Bank of Malaysia “accessible here: <http://www.finance.gov.lb/Reports+and+Publications/Reports+Related+to+Paris+III+Conference/Agreements+with+Donors/>. This is also summarized in “Box #2: Debt Re-profiling with Malaysia” in the Public Finance Quarterly Report for Q3 2007.



Box #5: Terms and Conditions of Eurobonds issued in 2013

Series (tranche)	April 17 - Dual Tranche Eurobond Transaction		April 23 - Debt Replacement Agreement with BDL		June 20 - Eurobond Issuance to BDL	September 4, Debt Replacement Agreement with BDL
Series (tranche)	67(3)	68(3)	69	70	71	63(2)
Issue Size (in USD)	600,000,000	500,000,000	600,000,000	500,000,000	600,000,000	175,000,000
Issue date	17-Apr-13	17-Apr-13	23-Apr-13	23-Apr-13	June 20, 2013	04-Sep-13
Maturity	27-Jan-23	29-Nov-27	22-Apr-16	23-Apr-19	June 19, 2020	12-Oct-17
Coupon Rate	6.00% -	6.75%	4.50%	5.50%	6.15%	5.00% - Semi Annual
Re-offer Yield	6.15%	6.70%	4.50%	5.50%	6.15%	5.75%
ISIN Code	XS0859367194	XS0859366899	XS0922623912	XS0922623755	XS0944226637	XS0769530238
Lead Manager	Fransa Invest Bank, Natixis, Standard Chartered Bank	Fransa Invest Bank, Natixis, Standard Chartered Bank	Republic of Lebanon	Republic of Lebanon	Republic of Lebanon	Republic of Lebanon

Foreign currency loans recorded a LL 145 billion decline amounting to LL 3,715 billion by end-2013 compared to LL 3,860 billion at end-2012, due to amortized principal repayments on concessional loans related to Paris II and Paris III, and declines in non-Paris II & III bilateral and multilateral loans. Registered decreases in outstanding bilateral and multilateral loans were offset by around LL 8.1 billion and LL 10.6 billion respectively as a result of exchange rates fluctuations of the multi-currency loan portfolios.

- a) The stock of Paris II loans dropped by LL 71 billion, equivalent to 25.4 percent, amounting to LL 208 billion following the redemption of € 40 million of the *Agence Française de Développement (AFD)* Paris II loan, represented by two amortized repayments made in February and August.
- b) The stock of Paris III loans retracted by LL 81 billion, equivalent to 8.2 percent, to reach LL 915 billion by the end of 2013. This decline was largely due to (i) quarterly principal repayments of the equivalent of SDR 3.2 million each on the IMF EPCA II loan⁴⁰, the final payment of which was made in November 2013 concluding the redemption of the loan; (ii) two US\$ 15 million semi-annual principal payments made in April and October 2013 on

⁴⁰ The IMF EPCA II loan is amortized through eight quarterly payments of SDR 3,171,875 each, starting February 16th, 2012 and ending on November 18th, 2013.

the UAE Paris III loan; (iii) two US\$ 5 million semi-annual principal payments in April and October 2013, on the World Bank IBRD loan (iv) and the fourth and final principal repayment of the Arab Monetary Fund loan of the equivalent of AAD 1.365 million, concluding the redemption of the loan in June 2013.

- c) The stock of foreign private sector loans surged by LL 80 billion to reach LL 94 billion by the end of 2013, more than 5.7 times its value at end-2012. This increase represented a disbursement of EUR 40,383,750 made by HSBC Bank, as part of a commercial facility agreement with the Lebanese Republic to cover a down payment to German-Danish Consortium, Burmeister and Wain Scandinavian Contractor A.S and MAN Diesel and Turbo SE, for the installation of two medium speed reciprocating engines at Zouk and Jieh power plants.
- d) The stock of non-Paris II and non-Paris III bilateral loans diminished by LL 14 billion, equivalent to 1.7 percent to reach LL 821 billion by end-2013, as loan repayments outweighed disbursements and the effect of exchange rate revaluation. Principal repayments most notably included: (i) LL 25 billion to the Kuwait Fund for Arab Economic Development, (ii) LL 19 billion to the Saudi Fund for Development, (iii) LL 14 billion to *Agence Française de Développement*, (iv) LL 11 billion to Japan's Overseas Economic Cooperation Fund, and (vi) LL 4 billion to Abu Dhabi Fund for Development.

In return bilateral loans disbursed were:

- i. LL 25 billion from seven loans granted by the Kuwait Fund for Arab Economic Development
 - ii. LL 24 billion from one loan granted by the *Agence Française de Développement*
 - iii. LL 11 billion from six loans provided by the Saudi Fund for Development
 - iv. LL 5 billion from three loans granted by the Abu Dhabi Fund
 - v. LL 5 billion from two loans established by German government-owned development bank, KFW
- e) Non-Paris II and Paris III multilateral loans fell by LL 58 billion, net of around 11 billion in valuation adjustment, amounting to LL 1,677 billion by end-2013. Principal repayments included: (i) LL 73 billion to the the International Bank for Reconstruction and Development (IBRD), (ii) around LL 72 billion to the European Investment Bank, (iii) LL 62 billion to the Arab Fund for Economic and Social Development (AFESD)⁴¹, (iv) LL 55 billion to the Islamic Development Bank, and (v) LL 4 billion to the Organization of Petroleum Exporting Countries (OPEC).

On the other hand, primary disbursements mainly included:

- i. LL 74 billion from 12 loans granted by the Islamic Development Bank
 - ii. LL 61 billion from nine AFESD loans
 - iii. LL 34 billion from two European Investment Bank loans
 - iv. LL 22 billion from six IBRD loans
 - v. LL 4 billion from two OPEC loans
- f) The stock of special T-bills in foreign currency added LL 24 billion to reach LL 136 billion. following the gross issuance of US\$ 16,878,370.95 worth of contractor bonds on 7 February 2013 at a rate of 4.04 percent, coming due in February 2018 (pursuant to Law #69 dated April 23, 2009 and amended by Law #226 date October 22, 2012).

⁴¹ The LL 62 billion repayments to AFESD exclude loans paid on behalf of Electricite Du Liban.

Table 28: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)				
	30-Sep-13	18-Oct-13	08-Nov-13	13-Dec-13	31-Dec-13
<u>EURO</u>					
LEB 5.350 18	5.69	5.55	5.35	5.11	5.11
<u>US Dollars</u>					
LEB 7.375 14	4.48	4.15	3.70	3.41	2.70
LEB 9.000 14	4.58	4.37	4.07	3.52	2.70
LEB 5.875 15	4.85	4.49	4.87	4.54	4.49
LEB 4.000 17 Av Life	4.82	3.97	4.54	4.55	4.55
LIEB 10.000 15	4.78	4.61	4.58	4.41	4.21
LEB 8.500 15	4.63	4.38	4.61	4.41	4.37
LEB 8.500 16	5.11	5.03	4.71	4.74	4.66
LEB 11.625 16	5.56	5.26	4.94	4.81	4.68
LEB 4.750 16	5.55	5.20	5.02	4.84	4.84
LEB 5.000 17	5.85	5.64	5.43	5.44	5.48
LEB 9.000 17	5.47	5.57	5.25	5.19	5.18
LEB 5.150 18	5.84	5.78	5.38	5.41	5.50
LEB 6.000 19	6.00	6.32	6.00	5.86	6.00
LEB 5.450 19	6.24	6.48	6.05	5.95	5.96
LEB 6.375 20	6.47	6.49	6.13	6.03	6.03
LEB 8.250 21	6.71	6.70	6.36	6.26	6.29
LEB 6.100 22	6.62	6.66	6.55	6.48	6.52
LEB 6.000 23	6.62	6.77	6.58	6.55	6.59
LEB 7.000 24	6.84	6.74	6.64	6.64	6.67
LEB 6.600 26	7.07	6.83	6.77	6.78	6.80
LEB 6.750 27	7.20	6.97	6.92	6.90	6.92

Source: Credit Suisse

During the fourth quarter of 2013, average **secondary market yields**⁴² dropped by 48 basis points to reach 5.29 percent indicating an improvement in market conditions after secondary market rates had jumped in the previous three quarters by 23 bps, 55 bps and 17 bps respectively. Eurobond secondary market rates thus increased an annual average of 47 bps in 2013.

⁴² Calculated on US\$ Eurobonds, between October 1st 2013 and December 31st 2013, and which were outstanding at both dates.



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