



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Annual Review

2014

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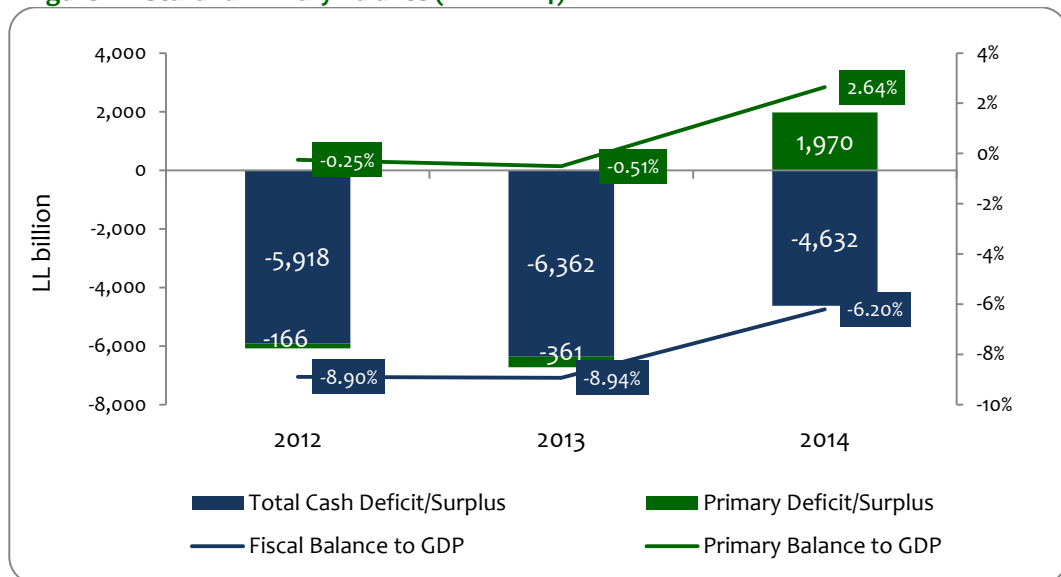
PUBLIC FINANCE HIGHLIGHTS

General Fiscal Developments
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One-off revenue collections and reform initiatives undertaken by the Ministry of Finance helped contain the government deficit at 6.2% of GDP in 2014, and lift the primary balance into a surplus for the first time since 2011. Compared to an 8.9% total deficit to GDP in 2013, this result marked a major improvement in government finances at a time when weak macroeconomic conditions kept domestic growth well below its potential, while stringent political and social conditions, aggravated by the large number of displaced persons from Syria, restricted the potential for major deficit alleviating reforms¹.

Following a relative stagnation over the period 2011-2013, revenues surged in 2014 owing to transfers of arrears from the Ministry of Telecommunication (a portion of which remains due to municipalities' accounts) and to a smaller extent, an increase in income taxes. In contrast, the increase in expenditures was curbed on the back of lower discretionary payments, namely in capital expenditure items, and as direct public spending to services aimed at displaced persons remained highly regulated. In nominal terms, the fiscal deficit contracted by a total of LL 1,729 billion from 2013, or 27 percent, whereas the primary balance recorded a surplus of LL 1,970 billion, compared to a deficit of LL 361 billion in 2013.

Figure 1: Fiscal and Primary Balance (2012–2014)



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

Revenues
Page 7

Total revenues increased by 15.5 percent during 2014, notwithstanding the performance of most consumption taxes that remained generally weak due to unfavourable economic conditions, a low inflation environment, and the suspected smuggling of some consumer products. The rise in revenues rather reflected one-off transfers from the Ministry of Telecommunications, as well as higher income taxes attributable to persistent efforts by the tax administration to boost collections of arrears.

¹ GDP was estimated at LL 71,185 billion during 2013 (Source: Central Administration of Statistics) and LL 74,656 billion during 2014 (Source: Computed using IMF April 2015 WEO real growth and deflator, based on 2013 CAS GDP figure).

Expenditure
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Total expenditures increased by 2 percent by end-2014, amounting to LL 21,032 billion. Higher interest payments (+LL 600 billion) and personnel cost (+LL 254 billion) were the main reason behind the net increase of LL 469 billion. Increases in personnel cost were mainly driven by recruitment of employees especially in the military body for security reasons. This was counterbalanced chiefly by drops in transfers to NSSF (-LL 150 billion), spending on maintenance (-LL 135 billion), and other current expenditure (-LL 107 billion).

**Public Debt
Development**
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The stock of gross public debt stood at LL 100,363 billion by end-2014 increasing by 4.9 percent from the previous year. With nominal gross domestic product (GDP) increasing at a comparable pace, the debt-to-GDP ratio was unchanged from 2013 at 134 percent. Local currency debt accounted for the full nominal increase in public debt, adding LL 5,440 billion year-on-year, while outstanding foreign currency debt diminished by an equivalent of LL 787 billion. Furthermore, net public debt added 7.7 percent as public sector deposits dropped by LL 1,530 billion owing to some drawdowns from public accounts for financing operations.

SECTION I: FISCAL OVERVIEW

The **total fiscal balance** recorded a deficit of LL 4,632 billion, standing at 6.2 percent of Gross Domestic Product (GDP) in 2014. This result compared favourably to 2013 when a deficit of LL 6,362 billion was recorded, reaching up to 8.94 percent of GDP. **Total revenues** increased by around 16 percent, whereas **total payments** recorded a small 2 percent rise. Correspondingly, the **primary balance** was at a surplus of LL 1,970 billion in 2014, compared a deficit of LL 361 billion in 2013.

Table 1: Summary of Fiscal Performance

(LL billion)	2012	2013	2014	% Change 2014/2013
Total Budget and Treasury Receipts¹	14,164	14,201	16,400	15.5%
Total Budget and Treasury Payments	20,081	20,563	21,032	2.3%
• Interest Payments	5,457	5,714	6,314	10.5%
• Concessional loans principal payment ²	295	287	288	0.6%
• Primary Expenditures ³	14,329	14,562	14,430	-0.9%
Total Deficit/Surplus	(5,918)	(6,362)	(4,632)	-27.2%
Primary Deficit/Surplus	(166)	(361)	1,970	N.M.⁴

Source: MOF, DGF

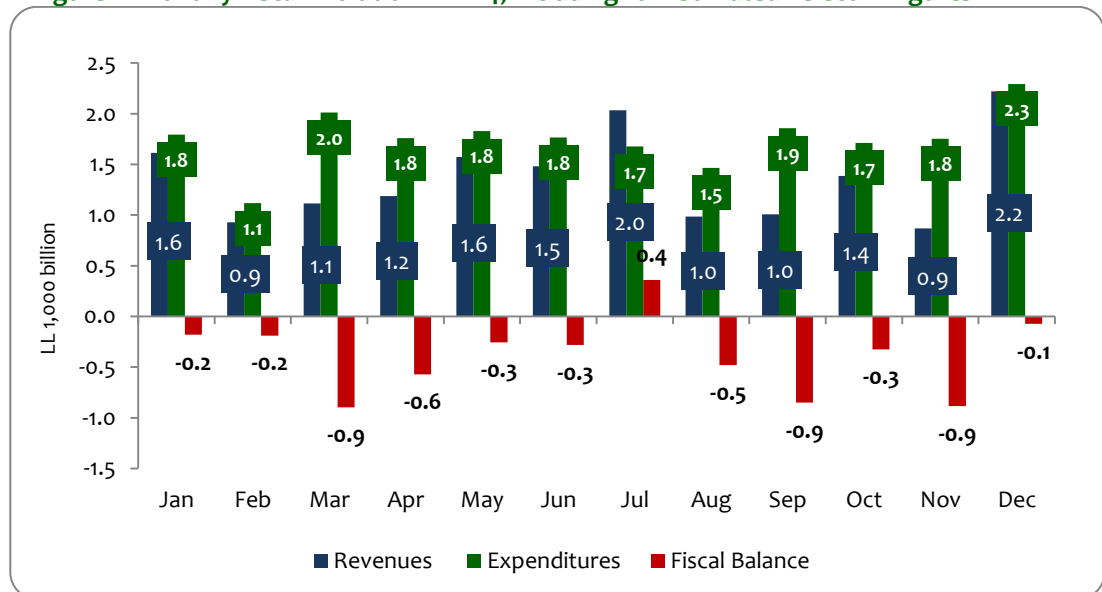
¹ Includes the actual transfer from Telecom Surplus

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)

⁴ Not Meaningful

Figure 2: Monthly Fiscal Evolution in 2014, Including for Estimated Telecom Figures



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

SECTION II: REVENUE OUTCOME

Total revenues amounted to LL 16,400 billion in 2014, increasing by 15.5 percent from the previous year as a result of exceptional collections of tax and non-tax revenues, despite the low economic growth environment sustained since 2011. As a percentage of GDP, total revenues rose to 22.0 percent in 2014 from 19.9 percent in 2013.

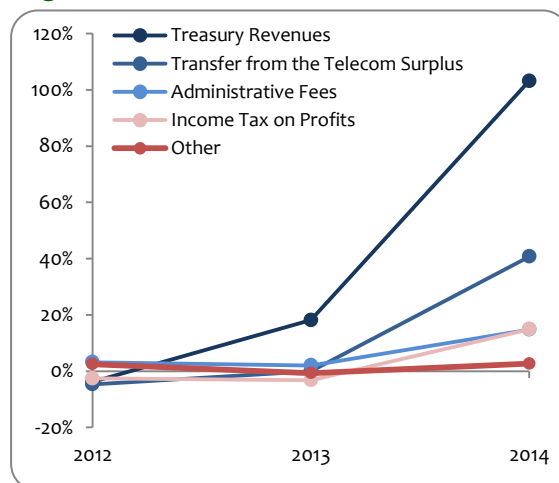
One-off revenue increases in 2014 mainly consisted of **transfers from the Telecom Surplus** due to the distribution of arrears for the years of 2010 to 2013, as well as **treasury receipts** owing to the collection of telecom revenues on behalf of Municipalities². Likewise, **income tax on profits** and **administrative fees** rose by double digit figures, mainly as a result of administrative efforts to boost the collection of arrears (for more information, kindly refer to Figures 3 and 4 below).

Table 2: Total Revenues

(LL billion)	2012	2013	2014	% Change 2014/2013
Budget Revenues, of which:	13,473	13,385	14,742	10.1%
• Tax Revenues	10,187	10,116	10,388	2.7%
• Non-Tax Revenues	3,286	3,269	4,354	33.2%
Treasury Receipts	691	816	1,658	103.2%
Total Revenues	14,164	14,201	16,400	15.5%

Source: MoF, DGF

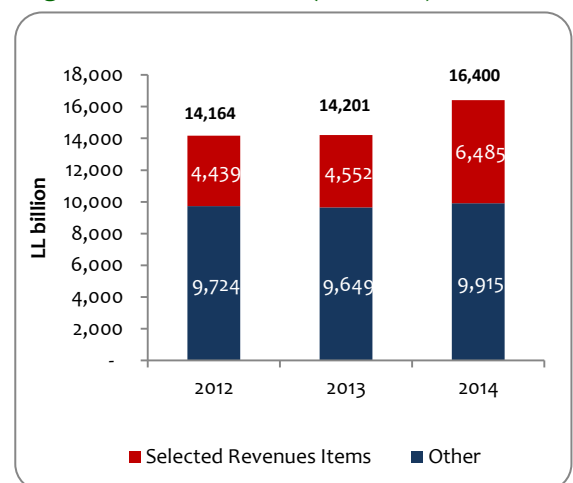
Figure 3: Growth Rates of Selected Revenue Items



Source: MoF, DGF

Note: "Other" category represents Total Revenues excluding Income Tax on Profits, Telecom Transfers, Administrative Fees and Treasury Revenues.

Figure 4: Total Revenues (2012-2014)



Source: MoF, DGF

Note: "Other" category represents Total Revenues excluding "Selected Revenues" (i.e. Income Tax on Profits, Telecom Transfers, Administrative Fees and Treasury).

² On July 8, 2014, Ministry of Telecommunication transferred to the Ministry of Finance (MoF) a total amount of LL 673 billion in telecom revenues to Municipalities, pertaining to the period extending from January 2010 to May 2014. Similarly, an amount of LL 66 billion was further transferred to MoF on December 18, 2014, pertaining to Municipalities' share of telecom revenues for the period Jun-Nov 2014. It is worth mentioning that these amounts (LL 673 billion and LL 66 billion) are, until end-December 2014, still sitting in the accounts of MoF. They will be disbursed to Municipalities, following a Council of Minister's decision.

TAX REVENUES

Tax revenues rose by 2.7 percent to LL 10,388 billion in 2014, as compared to LL 10,116 billion during 2013. However, as a share of GDP, these revenues inched down to 13.9 percent in 2014 from 14.2 percent in 2013, mostly reflecting the 3 percent drop in the value of imports³ and an acceleration of tobacco smuggling from Syria into Lebanon, which negatively impacted most consumption taxes. It is worth mentioning that **income taxes** outperformed all other major sub-categories, rising by 11.7 percent over the period, as a result of administrative efforts to boost collections of arrears.

Table 3: Tax Revenues

(LL billion)	2013	2014	% Change 2014/2013
Taxes on Income, Profits, & Capital Gains	2,502	2,795	11.7%
• Income Tax on Profits	974	1,119	14.9%
• Income Tax on Wages and Salaries	587	643	9.5%
• Income Tax on Capital Gains & Dividends	231	261	13.1%
• Tax on Interest Income (5%)	660	711	7.7%
• Penalties on Income Tax	49	61	24.6%
Taxes on Property	1,201	1,245	3.6%
• Built Property Tax	179	218	21.3%
• Real Estate Registration Fees	847	866	2.3%
• Inheritance Tax	175	161	-8.0%
Domestic Taxes on Goods & Services, of which:	3,782	3,811	0.8%
• Value Added Tax	3,296	3,302	0.2%
• Other Taxes on Goods and Services, of which:	382	385	0.8%
<i>Private Car Registration Fees</i>	213	217	1.7%
<i>Passenger Departure Tax</i>	167	166	-0.6%
• Transfers from Régie	95	115	21.5%
Taxes on International Trade	2,158	2,042	-5.4%
• Customs	817	766	-6.2%
• Excises, of which:	1,341	1,276	-4.8%
<i>Gasoline Tax</i>	483	512	6.1%
<i>Tobacco Tax</i>	395	332	-15.9%
<i>Tax on Cars</i>	455	423	-6.9%
Other Tax Revenues (namely fiscal stamp fees)	473	495	4.5%
Total Tax Revenues	10,116	10,388	2.7%

Source: MOF, DGF

Taxes on income, profits and capital gains spiked by 12 percent in 2014, supported by higher **income tax on profits** which climbed by 15 percent (LL 145 billion), to reach LL 1,119 billion. The unexpected rise in the latter item was mainly due to the fact that the Ministry of Finance improved tax compliance and accelerated the collection of arrears⁴ in line with a policy initiated in previous years⁵, as implied by the following:

- A 25 percent surge in **penalties on income taxes**,

³ In fact, fuel imports registered a 5.0 percent decline during 2014, while non-fuel imports inched down by 0.8 percent (after adjusting for the two electricity barges that were exceptionally imported in 2013, for a total value of LL 547 billion). Notwithstanding, container activity at the Port of Beirut (destined to the Lebanese market, i.e. excluding trans-shipment) inched up by 0.8 percent during 2014 (to 764,451 Twenty Foot equivalent Unit), suggesting a slight increase in the volume of imports.

⁴ Decision 12/1 (dated 08/01/2014), decision 283/1 (dated 31/03/2014) and decision 999/1 (dated 01/10/2014).

⁵ For more information, kindly refer to Box # 3 of the 2013 Annual Review.

- A shy increase in the turnover of companies during 2013 (2.3 percent), compared to a much higher growth in tax collections of 15 percent⁶, and
- A drop in **income taxes on profits** in 2012 and 2013⁷ - despite small positive real growth over the period – suggesting that some taxpayers, although making profits, showed a lax attitude in the payment of their dues until the year of 2014.

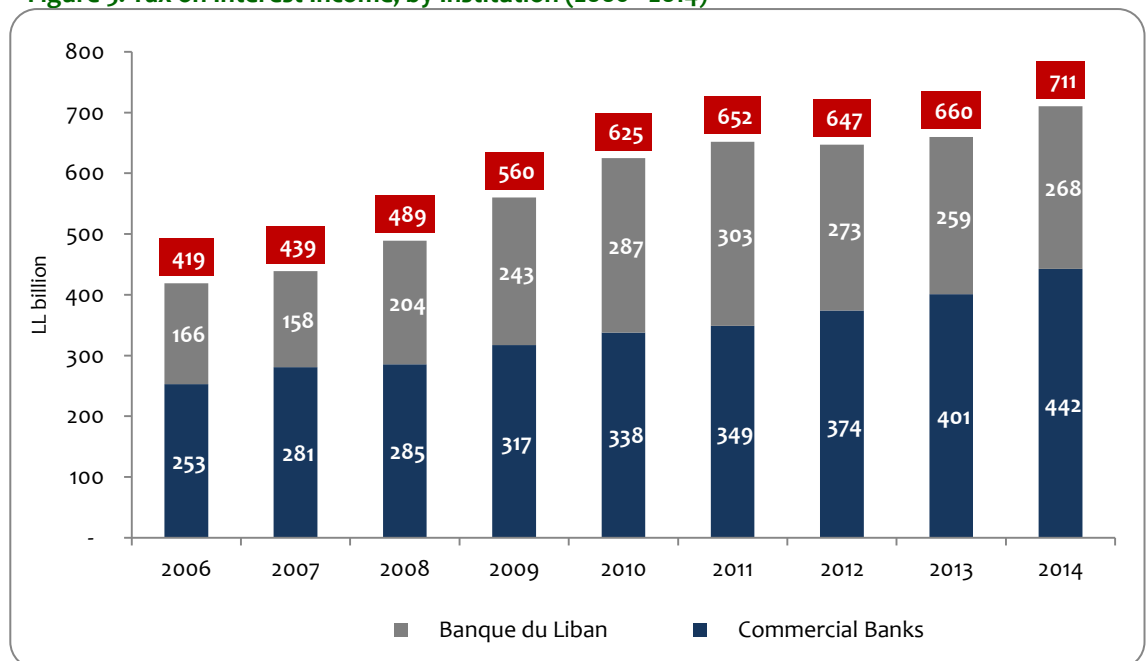
Taxes on wages and salaries rose by 9 percent (LL 56 billion) to reach LL 643 billion in 2014, while **Income tax on capital gains and dividends** grew by 13 percent (LL 30 billion) to LL 261 billion in 2014.

Taxes on interest income recorded a LL 51 billion rise, amounting to LL 711 billion in 2014 (for a more detailed breakdown, kindly refer to Figure 5), mainly the combined result an increase in the deposit base, as well as higher interests on deposits in domestic and foreign currency for the first time since the 2008 financial crisis.

By institution, collections from commercial banks rose as a result of a moderate growth in private sector deposits coupled with a rise in interest rates on both domestic and foreign currency deposits. In detail, commercial banks' private sector deposits grew by 6.0 percent annually to reach LL 217,721 billion by the end of December 2014. The weighted average interest on dollar denominated deposits climbed from 2.92 percent in 2013 to 3.03 percent in the corresponding period of 2014. Moreover, the rate on local currency deposits inched up from an average of 5.44 percent to 5.52 percent.

Collections from Banque du Liban⁸ rose, albeit at a slower rate of 3.5 percent, mainly as a result of higher revenues from *Treasury Bills and Bonds*.

Figure 5: Tax on Interest Income, by Institution (2006 - 2014)



Source: MOF, DGF

Taxes on property improved by LL 44 billion to LL 1,245 billion, largely owing to a 21 percent increase in the **built property tax**, or by LL 38 billion in nominal terms to LL 218 billion,

⁶ Income Tax on Profits for a given year is generally declared and paid during the following year.

⁷ Income Tax on Profits dropped by 2.6 percent in 2012, and furthermore by 3.2 percent in 2013.

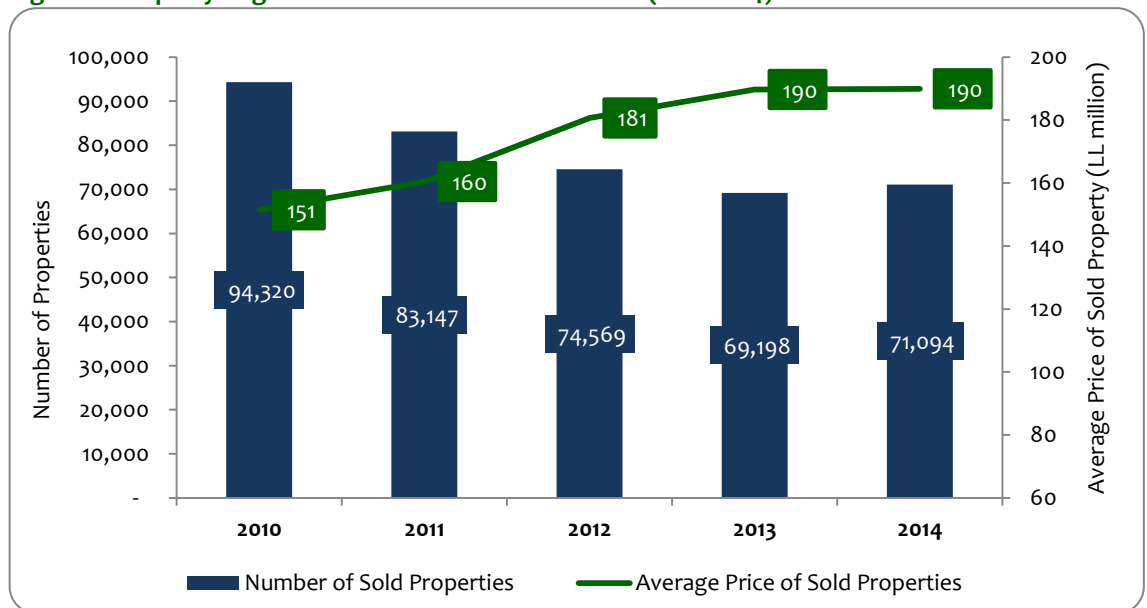
⁸ Banque du Liban transfers to the Ministry of Finance tax on interest income from the outstanding stock of Treasury Bills and Bonds pertaining to all TB holders, and covers tax dues on interest income from its issued Certificate of Deposits.

reflecting a more dynamic housing rental activity due to the increased presence of Syrian tenants.

In contrast, **inheritance tax** dropped by LL 14 billion (8 percent) to LL 161 billion in 2014, most likely as a result of tax administration's efforts to process pending transactions, exceptionally during 2013.

Real estate registration fees increased by LL 19 billion (2.3 percent), outlining a 2.7 percent expansion in the number of sold properties, noting that average prices of sold properties were almost unchanged from the previous year⁹. The activity in the real-estate market remains shy relatively to pre-Syrian war years given the overall weak investment environment.

Figure 6: Property Registration Statistics from Cadaster (2010-2014)



Source: MoF, Cadaster

Note: These are declaration statistics based on sales contracts.

According to declaration statistics, total fees collected from sale transactions¹⁰ increased to LL 723 billion in 2014, from LL 702 billion during the previous year. Most of this increase was the result of higher fee collections from the **Baabda** (+LL 17 billion) and **South** (+LL 10 billion) regions, driven by higher average prices of sold properties by 4.9 percent, and 37.9 percent respectively.

In contrast, **Metn** was the only region where fee collections decreased (-LL 20 billion), reflecting an 8.8 percent drop in average prices of sold properties, as well as a 3.4 percent decrease in the number of sale transactions (for more information, kindly refer to figure 7).

It is noteworthy that the aforementioned property prices are irrespective of the type (built property or land, commercial building or apartment...) or size of property. For example, higher prices of properties in a certain region could possibly reflect one or more of the following:

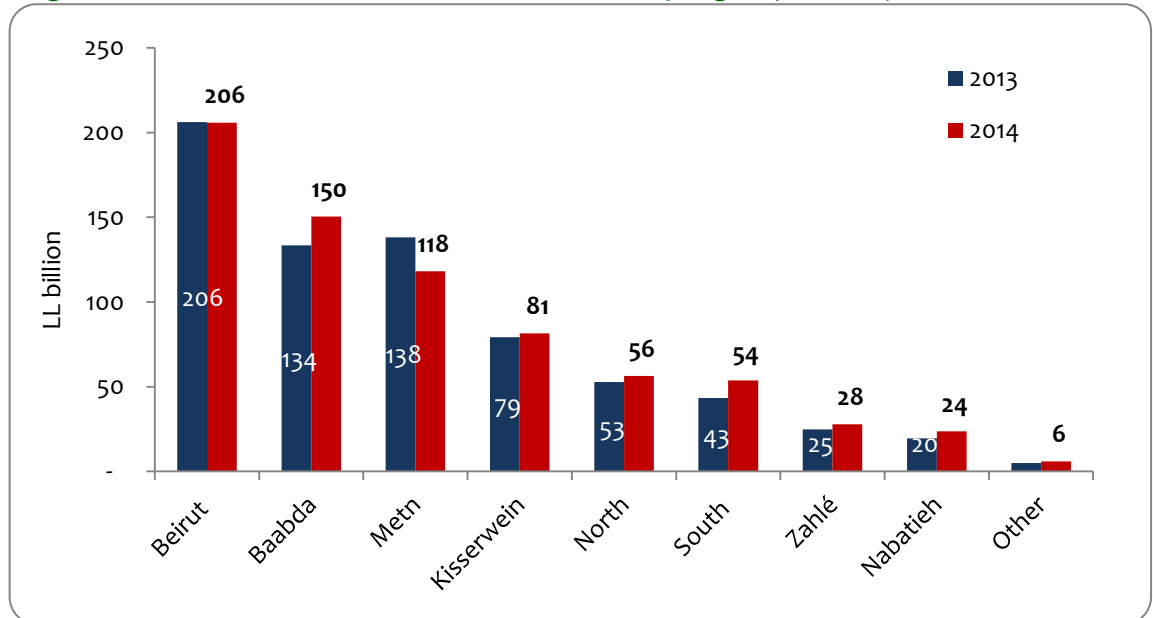
1. A shift towards bigger properties,

⁹ The number of sold properties and average prices of sold properties are based on sale contracts declared over the period (Source: Cadaster, Ministry of Finance).

¹⁰ Total fees collected from sales transactions are taken from declaration statistics, and defer from the Real Estate Registration Fees included PFM Table 3, with the latter recorded whenever these are transferred to the Treasury, while the former, whenever the sale transaction takes place. Additionally, Real Estate Registration Fees include other miscellaneous fees, not related to sales transactions.

2. Higher market prices driven by a high demand or limited supply,
3. A shift towards more expensive areas within the same region, or
4. A shift toward built-properties, which are usually more expensive than land (on a per square meter basis).

Figure 7: Total Fees Collected from Sales Transactions, by Region (2013-2014)



Source: MoF, Cadaster

Note: These are declaration statistics based on sales contracts. Additionally, the total figure for all regions differs from the one mentioned in PFM tables (Table 3). For more information, kindly refer to footnote 10.

Domestic taxes on goods and services rose by LL 29 billion as transfers from Régie increased by LL 20 billion due to a discrepancy in the timing of receipts. In 2014, Régie transferred to the Treasury the entire surplus it made during the previous year, which amounted to LL 115 billion. However, during 2013, Régie transferred only part of the surplus it made a year earlier, or an amount of LL 95 billion, noting that a remaining of LL 40 billion had already been disbursed in September 2012.

Value-added tax collections were almost unchanged over the period, standing at LL 3,302 billion in 2014, as a 5.3 percent (LL 63 billion) rise in internally collected VAT was almost offset by a 2.7 percent (LL 57 billion) drop in VAT receipts at customs.

Table 4: Total Imports & Effective VAT Rate

(LL billion)	2013	2014	% Change 2014/2013
Total Imports	32,013	30,905	-3.5%
• Fuel Imports (fuel derivatives classified under HS 27)	7,539	7,159	-5.0%
• Non-Fuel Imports	24,473	23,746	-3.0%
• Share of Fuel Imports	23.6%	23.2%	-1.6%
• Share of Non Fuel Imports	76.4%	76.8%	0.5%
Revenues from VAT at Imports	2,120	2,064	-2.7%
Effective VAT rate	6.6%	6.7%	0.8%

Source: MOF, DGF

The VAT effective rate¹¹ edged-up to reach 6.7 percent in 2014, compared to 6.6 percent in the corresponding period of 2013. The slight increase in the effective VAT rate was

¹¹ The effective VAT rate represents total VAT collections at imports during a particular period, divided by total imports over the same time period.

counterbalanced by a 3.5 percent drop in total imports, resulting in lower VAT collections at customs (for more information, kindly refer to Box #1).

Box #1: VAT at Customs

In light of weak macroeconomic fundamentals during 2014, VAT collected at customs decreased by 3.3 percent over the period (according to declaration forms), a decline that was exacerbated by higher smuggling of tobacco and telephone products.

VAT from tobacco products saw the sharpest decline (18 percent), mainly as a result of cross-border smuggling from Syria which reduced the market need for formal tobacco imports. VAT from Electrical Machinery also decreased by 18 percent, owing to an increase in phone smuggling following the revocation of a decision previously taken by the Ministry of Telecom¹. The latter decision, which aimed at curbing smuggling, was thought to hinder the use of phones by Lebanese expatriates, tourists and foreign delegations. In return, phone imports dipped by 45 percent (LL 211 billion) during 2014, foregoing around LL 22 billion in VAT revenues.

VAT from Vehicles other than railway decreased by 6 percent during 2014, albeit remaining at level similar to the one registered in 2012. Finally, VAT from fuels & oils inched down by 0.8 percent despite a 6 percent increase in the volume of gasoline imports, which could be attributed to lower international oil prices in 2014². It is worth mentioning that since the exemption of gasoil from the VAT in March 2012, VAT from fuels & oils are mostly from gasoline products.

VAT at Customs (10 Largest Contributing Items)

(LL billion)	2012	2013	2014	% Change 2014/2013
VAT at Customs Collections	2,283	2,109	2,039	-3.3%
<i>Mineral fuels & oils</i>	614	355	352	-0.8%
<i>Vehicles other than railway</i>	271	289	271	-6.4%
<i>Machinery and mechanical appliances</i>	169	181	170	-6.4%
<i>Electrical machinery</i>	137	161	131	-18.3%
<i>Iron and steel</i>	135	130	123	-5.3%
<i>Plastic and articles thereof</i>	92	104	105	1.5%
<i>Tobacco products</i>	105	83	68	-18.4%
<i>Articles of apparel and clothing accessories</i>	46	45	49	8.4%
<i>Wood and articles of wood</i>	37	36	40	13.6%
<i>Furniture and other stuffed furnishing</i>	36	40	40	-0.1%
<i>Other Categories</i>	641	685	689	0.6%

Source: Ministry of Finance, Directorate General of Customs, Import Declarations, by HS chapter.

Note: VAT figures represent declared amounts that may differ from collection figures as published in the Fiscal Performance and the Tax Revenues table (Table 3).

¹ The Ministry of Telecommunication's decision number 250/1 (dated 28/04/2014), revoked decision 224/1 (dated 16/04/2013). For more information, kindly refer to Box #2 of the QIII 2013 Public Finance Report.

² The monthly average Europe Brent Spot Price dropped from USD 109 per barrel in the first half of 2014, to USD 89 per barrel during the second half of the year (Source: Energy Information Administration). It is worth mentioning that the monthly average Europe Brent Spot Price amounted to USD 109 per barrel during 2013.

Collections from the **passenger departure tax** inched down by LL 1 billion (0.6 percent) to LL 166 billion in 2014, contrasting with a 6.3 percent increase in the number of *departing passengers* from the Rafic Hariri International Airport¹² to 3.33 million during 2014, most likely reflecting discrepancy in timing as well as a lower effective nominal fee per passenger. **Private car registration fees** reached LL 217 billion in 2014, increasing by 1.7 percent from the previous year.

Taxes collected from international trade (customs and excises) fell by LL 116 billion to reach LL 2,042 billion in 2014. **Tariff revenues** amounted to LL 766 billion, down from LL 817 billion in 2013, as a result of a drop in the value of imports by 3 percent over the period as well as a decrease in the average customs effective rate, which dropped from 2.55 percent to 2.48 percent. This decline in the average customs effective rate could be partly explained by the implementation of a European trade agreement ratified in 2002, which enforces the gradual removal of customs duties on imports originating from countries that have signed the agreement (for more information, kindly refer to Note #1).

Table 5: Customs Duties (10 Largest Contributing Items)

(LL billion)	2012	2013	2014	% Change 2014/2013
Customs Duties Collections	868	884	828	-6.4%
<i>Vehicles other than railway</i>	86	90	83	-7.3%
<i>Machinery and mechanical appliances</i>	70	74	66	-10.6%
<i>Furniture and other stuffed furnishing</i>	55	56	52	-6.8%
<i>Electrical machinery</i>	46	58	42	-27.3%
<i>Footwear, gaiters and the like</i>	30	40	38	-5.2%
<i>Pharmaceutical Products</i>	42	41	37	-10.7%
<i>Articles of apparel and clothing accessories (not knitted or crocheted)</i>	31	30	34	12.6%
<i>Articles of apparel and clothing accessories (knitted or crocheted)</i>	33	33	32	-4.9%
<i>Dairy produce; birds' eggs; natural honey; edible products of animal origin</i>	24	27	28	4.7%
<i>Ceramic Products</i>	31	35	27	-23.1%
<i>Other Categories</i>	419	400	389	-2.8%

Source: Directorate General of Customs, Import Declarations, by HS chapter.

Note: Customs duties figures represent declared amounts that may differ from collection figures as published in the Fiscal Performance and the Tax Revenues table (Table 3).

Total excises dropped by 5 percent in 2014 to LL 1,276 billion, driven by declines in tobacco and car excises, which in turn were counterbalanced by an improvement in gasoline excises. **Tobacco excises** registered a sharp 16 percent decrease, mainly due to a reversal of sales into the Syrian market, after having spiked in previous years; noting that demand for tobacco from the Syrian market is believed to be currently supplied by other neighbouring countries. It is worth mentioning that imports of tobacco dipped by 17 percent in value and 8 percent in volume over the period under consideration.

Car excises dropped by 7 percent in 2014, driven by a 9 percent decline in the number of imported cars. In detail, the total number of imported cars was 72,170 in 2014, compared to a higher figure of 79,843 during 2013. Moreover, average prices of imported cars slightly inched up to LL 22.7 million in 2014, from LL 22.1 million in 2013.

Excises on gasoline rose by LL 29 billion year-on-year to reach LL 512 billion in 2014. Given that this excise is a per-unit tax, the latter increase was mainly the result of a 6 percent growth in the volume of imported gasoline. In fact, the average effective excise rate was

¹² This figure includes both tourist and non-tourists (Source: Lebanese Civil Aviation Authority).

Note #1: Euro-Mediterranean Trade Agreement

The Euro-Mediterranean Trade Agreement was signed in June 2002, by fifteen members of the European Union and Lebanon. It entered into force in April 2006, nevertheless started being implemented through an Interim Agreement signed on March 1, 2003.

A twelve-year transition period was put in motion thereafter, which in turn would enforce the gradual removal of customs duties on imports of industrial products originating from countries that have ratified the agreement. However, Value-Added Tax and Excise Duties are unrelated to the Agreement, thus still applicable.

For more information on the Agreement, kindly visit the website of the Ministry of Economy and Trade (<http://www.economy.gov.lb/?/subSubcatInfo/2/94>).

almost unchanged from the previous year, at around LL 222 per litre of gasoline. As a result of lowering gasoline excises by LL 5,000 per 20 litres (on both 95 and 98 Octane) during February 2011, the Treasury is estimated to have foregone a cumulative of LL 2,365 billion in revenues, up until December 2014.

Finally, receipts from **fiscal stamp fees** rose by LL 21 billion year-on-year to LL 495 billion in 2014. 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.

NON-TAX REVENUES

Non-tax revenues increased by LL 1,085 billion, to reach LL 4,354 billion in 2014. This improvement resulted from higher **income from public institutions and government properties**. The latter climbed by LL 981 billion to LL 3,498 billion in 2014, owing to LL 878 billion higher **transfers from the Telecom Surplus** as a result of the distribution of arrears pertaining to the years 2010-2013. In addition, **property income** rose by LL 41 billion mainly due to the sale of government properties¹³, while **revenues from Port of Beirut** rose by LL 52 billion to LL 82 billion, as hefty construction works undertaken since 2010 (and covered from the Port's budget), were completed in 2013, allowing for a higher surplus to be transferred to the Ministry of Finance. **Budget surplus of the National Lottery** reached LL 66 billion in 2014, up from LL 50 billion in 2013, while **revenues from Casino Du Liban** inched down by LL 8 billion to LL 117 billion.

Administrative fees and charges rose by LL 68 billion year-on-year, amounting to LL 675 billion, mostly owing to a LL 50 billion increase in **vehicle control fees**, as well as a LL 23 billion rise in **passport fees/public security**. The former increase was supported by a policy program that encouraged citizens to cover their delayed payments¹⁴.

Table 6: Non-Tax Revenues

(LL billion)	2013	2014	%Change 2014/2013
Income from Public Institutions and Government Properties	2,518	3,498	39.0%
• Income from Non-Financial Public Enterprises, of which:	2,362	3,300	39.7%
- Revenues from Casino du Liban	125	117	-6.6%
- Revenues from Port of Beirut	30	82	173.7%
- Budget Surplus of National Lottery	50	66	32.2%
- Transfer from the Telecom Surplus	2,156	3,034	40.7%
• Income from Financial Public Enterprises (BdL)	61	61	0.6%
• Property Income (rent of Rafic Hariri International Airport)	87	127	46.8%
Administrative Fees & Charges, of which:	606	675	11.3%
• Administrative Fees, of which:	492	565	14.8%
- Notary Fees	30	32	4.6%
- Passport Fees/ Public Security	140	163	16.7%
- Vehicle Control Fees	235	285	21.2%
- Judicial Fees	25	28	11.6%
- Driving License Fees	19	20	5.3%
• Administrative Charges	32	24	-23.1%
• Permit Fees (mostly work permit fees)	65	68	4.9%
• Other Administrative Fees and Charges	14	14	-2.1%
Penalties and Confiscations	9	11	26.5%

¹³ For more information, kindly refer to Note #1 of the January 2014 Public Finance Monitor.

¹⁴ More specifically, Law 279 dated April 30, 2014 reduced penalties related to Vehicle Control Fees and other Administrative Fees by 90 percent, given that these fees are paid before September 30, 2014

Other Non-Tax Revenues (mostly retirement deductibles)	136	170	24.4%
Total Non-Tax Revenues	3,269	4,354	33.2%

Source: MOF, DGF

TREASURY RECEIPTS

Treasury receipts increased by LL 842 billion (103.2 percent) to reach LL 1,658 billion in 2014, mainly as a result of a LL 746 billion increase in “Municipalities” due to the collection of Telecom revenues on behalf of Municipalities (worth LL 739 billion) for the period extending from January 2010 until November 2014. It is worth mentioning that, until end-December 2014, the latter amount (LL 739 billion) is still preserved in the accounts of the Ministry of Finance and will be disbursed to Municipalities, following a Council of Minister’s decision.

SECTION III: EXPENDITURE OUTCOME

Total expenditure (budget and treasury) saw a 2.3 percent increase to LL 21,032 billion by end 2014 compared to LL 20,563 billion in 2013. This LL 469 billion increase was mainly due to higher (i) **interest payments** by LL 600 billion, (ii) **personnel cost** by LL 254 billion, (iii) **transfers to municipalities** by LL 118 billion, and (iv) **transfers to EDL** by LL 101 billion.

Excluding interest payments, **total primary expenditure** declined by LL 133 billion mainly owing to a decrease in (i) **transfers to NSSF**, (ii) **payments to hospitals**, and (iii) **capital expenditure** by LL 150 billion, LL 92 billion, and LL 104 billion respectively.

Table 7: Expenditure summary

(LL billion)	2013	2014	% Change 2014/2013
Interest payments	5,714	6,314	10.5%
Concessional loans principal payments ⁽¹⁾	287	288	0.6%
Primary expenditures ⁽²⁾	14,562	14,430	-0.9%
Total budget and treasury payments	20,563	21,032	2.3%

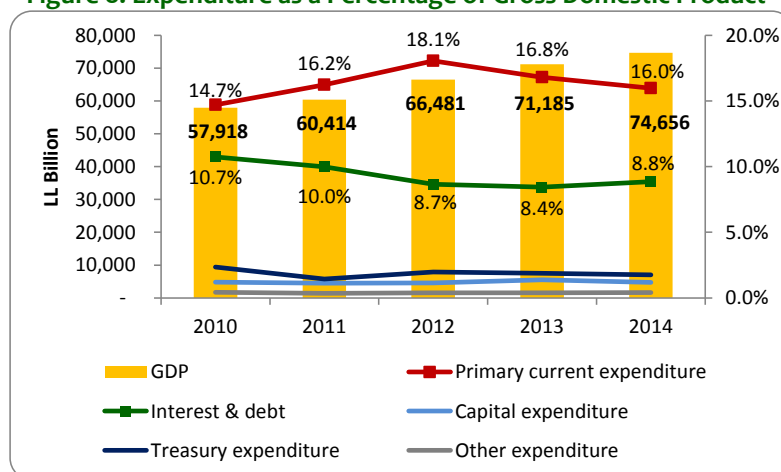
Source: MOF, DGF

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 expenditures** accounted for 16.8 percent in 2013 and 16.0 percent in 2014, after reaching its peak of 18.1 percent in 2012. The high figure observed in 2012 was mainly due to rises in (i) **personnel cost** (from 9.0 percent of GDP in 2011 to 10.1 percent in 2012¹⁵) mainly driven by the cost of living adjustment and (ii) **transfers to EDL** (from 4.3 percent of GDP in 2011 to 5.1 percent in 2012). During 2013 and 2014, **personnel cost** and **EDL transfers** reverted back to the averages of 9.1 percent of GDP and 4.3 percent respectively. Moreover, **interest payments** and **foreign debt principal repayments** registered an increase from 8.4 percent of GDP in 2013 to 8.8 percent in 2014. **Capital expenditure** stood at an average of 1.2 percent during the period 2010-2014, with the highest figure registered in 2013 at 1.4 percent, resulting from significant transfers to the Council of Development and Reconstruction (CDR) and maintenance.

Figure 8: Expenditure as a Percentage of Gross Domestic Product



Source: MOF, DGF, IMF and CAS

The evolution of the main expenditure items in 2014 according to the economic classification is presented in table 8 below, and reviewed in the sections that follow.

¹⁵ Due to the cost of living adjustment effective February 2012 and paid starting September 2012 with a retroactive effect.

Table 8: Expenditure by economic classification

(LL billion)	2013	2014	% Change 2014/2013
1. Current Expenditures	17,966	18,524	3.1%
1.a Personnel Cost, of which	6,473	6,727	3.9%
Salaries, Wages and Related Items	4,276	4,501	5.2%
Retirement and End of Service Compensations, of which:	1,831	1,893	3.4%
Retirement	1,583	1,652	4.4%
End of Service	248	241	-2.8%
Transfers to Public Institutions to Cover Salaries	366	333	-9.0%
1.b Interest Payments	5,714	6,314	10.5%
1.c Accounting adjustments 1/	0	32	-
1.d Foreign Debt Principal Repayment	287	288	0.6%
1.e Materials and Supplies, of which:	455	390	-14.4%
Nutrition (Food supply)	75	77	2.6%
Fuel Oil	13	13	3.5%
Medicaments	245	195	-20.3%
1.f External Services	153	150	-1.7%
1.g Various Transfers, of which:	4,143	4,002	-3.4%
EDL	3,056	3,157	3.3%
NSSF	250	100	-60.0%
Higher Council of Relief	108	96	-11.2%
Contributions to non-public sectors	290	311	7.9%
Transfers to Directorate General of Cereals and Beetroot	98	70	-29.1%
Contributions to water authorities	12	12	3.2%
1.h Other Current, of which:	532	425	-20.0%
Hospitals	388	297	-23.6%
Others (judgments & reconciliations, mission costs, other)	141	118	-16.3%
1.i Reserves (Interest subsidy)	209	196	-6.4%
2. Capital Expenditures	987	883	-10.5%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	14	0	-98.6%
2.b Equipment	75	66	-11.1%
2.c Construction in Progress, of which:	571	606	6.1%
Displaced Fund	0	30	-
Council of the South	37	78	110.1%
CDR	305	281	-7.7%
Ministry of Public Work and Transport	139	71	-49.2%
Other	77	77	0.7%
2.d Maintenance	297	163	-45.3%
2.e Other Expenditures Related to Fixed Capital Assets	29	48	62.4%
3. Budget Advances 2/	233	263	12.8%
4. Customs Administration (exc. Salaries and Wages) 3/	40	47	15.7%
5. Treasury Expenditures 4/	1,331	1,313	-1.4%
Municipalities	591	709	19.9%
Guarantees	93	121	31.0%
Deposits 5/	160	113	-29.7%
Other, of which:	487	370	-24.0%
VAT Refund	301	275	-8.5%
6. Unclassified Expenditures	5	2	-63.7%
7. Total Expenditures (Excluding CDR Foreign Financed)	20,563	21,032	2.3%

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

(1) The line item presents a difference in interest payments due to the new procedure applied by the accounting department since July 2014

(2) Budget Advances were previously classified under "other". Given their growth, and in line with the Ministry of Finance's efforts to ensure transparency, they are 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.

(3) "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.

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

(5) 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 increased by LL 558 billion (or 3.1 percent) mainly driven by a rise in **interest payments** by LL 600 billion and **personnel cost** by LL 254 billion, which were partly offset by declines in (i) **various transfers** by LL 141 billion, (ii) **other current expenditure** by LL 107 billion, and (iii) **materials and supplies** by LL 66 billion.

CURRENT PRIMARY EXPENDITURE

Current primary expenditure registered a LL 44 billion decline to reach LL 11,922 billion in 2014.

Personnel cost increased by LL 254 billion and amounted to LL 6,727 billion compared to LL 6,473 billion in 2013. **Salaries, wages and related items** totalled LL 4,501 billion, increasing by LL 225 billion from the 2013 figure. As shown in Table 9, this increase was mainly the result of higher (i) payments to government subscription and contributions to the Employees Cooperative (LL 119 billion), (ii) basic salaries payment to military personnel (LL 115 billion), and (iii) other payments to education personnel (LL 23 billion). Moreover, these increases were partly counterbalanced by a decrease in allowances (- LL 19 billion)¹⁶.

Table 9: Breakdown of Salaries, Wages and Related Benefits (Jan-Dec 2013- Jan-Dec 2014)

(LL billion)	Basic Salaries		Allowances 1/		Indemnities and Other 2/		Total	
	2013	2014	2013	2014	2013	2014	2013	2014
Military Personnel	1,963	2,079	576	557	81	85	2,620	2,721
Army	1,251	1,322	364	327	49	51	1,664	1,700
Internal Security Forces	570	583	170	179	24	25	764	787
General Security Forces	108	137	30	38	5	5	143	179
State Security Forces	34	37	12	14	3	4	49	54
Education Personnel	863	874	0	0	77	89	939	962
Civil Personnel	349	339	4	5	115	110	468	454
Employees Cooperative					204	323	204	323
Customs Salaries							44	38
Total 3/	3,175	3,292	580	562	476	607	4,276	4,501

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

3/ This item includes unclassified expenditures, which amounted to LL 1 billion and LL 3 billion during 2013 and 2014, respectively.

Retirement and end-of-service compensations reached LL 1,893 billion in 2014, a slight increase from the LL 1,831 billion figure recorded in 2013. This was mainly due to a LL 69

¹⁶ For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits monthly bulletin of December 2014 on the Ministry of Finance website: www.finance.gov.lb.

billion rise in retirement compensation, which was slightly offset by a LL 7 billion decrease in end-of-service indemnities.

In detail, **retirement** recorded a 4 percent rise, owing to a higher number of beneficiaries, namely a 6 percent increase in the number of civil retirees. As for the **end-of-service indemnity**, the reason behind the LL 7 billion decrease is mainly due to the following:

- a) End-of-service compensation to military personnel declined by LL 9 billion and amounted to LL 198 billion (82 percent of total compensation payments) by end 2014, compared to LL 207 billion (83 percent of total compensation payments) in 2013.
- b) End-of-service compensations to civil personnel increased by merely LL 2 billion to reach LL 43 billion in 2014. This 4 percent increase was the result of retirees having worked for a longer period and/or having received higher salaries.

Transfers to public institutions, to cover salaries, decreased by LL 33 billion (or 9 percent) mainly as a result of drops in transfers to the Lebanese University and CDR by LL 27 billion and LL 4 billion respectively. The changes in the components of transfers to public institutions are shown in Table 10 below.

Table 10: Breakdown of Transfers to Public Institutions (salaries)

(LL billion)	2013	2014	%Change 2014/2013
Transfer to Council of the South	9	12	34.8%
Transfer to the Council for Development and Reconstruction	30	25	-14.4%
Transfer to Fund for the Displaced	6	6	-14.5%
Transfer to the Lebanese University	304	277	-9.0%
Transfer to Educational Centre for Research and Development	17	14	-19.4%
Total Transfers to Public Institutions	366	333	-9.0%

Source: MoF, DGF

Purchases of **materials and supplies** decreased by LL 66 billion in 2014, mainly driven by a LL 50 billion drop in spending on **medicaments**. More specifically, medicaments totalled LL 195 billion of which more than 60 percent were transferred to the Ministry of Public Health and around 37 percent to military personnel. The main reason behind the higher figure observed in 2013 was the settlement of a backlog pertaining to 2012.

External services (rent, postal, insurance, advertisement and public relations) slightly dropped from LL 153 billion in 2013 to LL 150 billion in 2014, primarily due to a decrease in **rental payments** by LL 11 billion, somewhat offset by a LL 5 billion increase in **remuneration for consultancy service, publications, and cleaning services**.

Various transfers dropped by LL 141 billion to reach LL 4,002 billion by end 2014, with Electricité Du Liban (EDL) transfers accounting for 79 percent of the total amount. Transfers to EDL¹⁷ reached LL 3,157 billion in 2014, up from LL 3,056 billion in the previous year, reflecting the 40 percent surge in the volume of heavy fuel oil (HFO) imports pertaining to the year's payments. The increase in HFO imports corresponded to higher capacity operation of the electricity generation barges leased by Turkish firm Karpowership. Given the nature of fuel procurement contracts in 2014, average effective price of petroleum imports remained almost unchanged from the previous year at around US\$ 109 per barrel, with the effect of the decline in international oil prices during the second half of the year to be felt in 2015.

¹⁷ For further details on EDL transfers in Jan-Dec 2014, kindly refer to the December issue of Transfers to Electricité Du Liban, a monthly snapshot, on the Ministry of Finance website: www.finance.gov.lb.

Table 11: Transfers to EDL

(LL billion)	2013	2014	%Change 2014/2013
EDL, of which:	3,056	3,157	3.3%
Debt Service	65	32	-50.9%
Reimbursement for purchase of Fuel & Gas Oil	2,990	3,125	4.5%

Source: MOF, DGF

Excluding EDL transfers, **various transfers** amounted to LL 845 billion in 2014 compared to LL 1,087 billion in 2013, implying a drop of LL 242 billion mainly attributed to the following combined changes:

- a) **Transfers to NSSF** decreased by LL 150 billion, totalling LL 100 billion in 2014, compared to LL 250 billion transferred in 2013. It is noted that these transfers are discretionary and do not follow a specific trend.
- b) **Special tribunal** was nil in 2014, compared to a transfer of LL 58 billion in 2013.
- c) Assistance to the **Directorate General of Grains and Sugar Beetroot** declined by LL 29 billion, to reach LL 70 billion in 2014. The total transferred amount was paid through three treasury advances, of which two were paid to purchase 50 thousand and 60 thousand tons of imported wheat and to cover all related expenses for bread production. The third treasury advance was transferred to cover the difference in the cost of wheat used to produce bread for the period November 2012-March 2013. On a related note, it is worth mentioning that LL 57 billion was reimbursed by the Directorate of Cereals and Beetroot to the Treasury as revenues in 2014, compared to LL 41 billion during the same period of 2013.
- d) Transfers to **Higher Relief Council** declined by LL 12 billion to reach LL 96 billion in 2014. Those were mainly related to compensations made to victims of tragic events in Lebanon, including the conflicts in Tripoli during the month of October 2014 (LL 30 billion)¹⁸, the two blasts in Dahr el Baydar and Chiyah areas, in addition to other reimbursements (LL 34 billion)¹⁹.

The abovementioned decreases in various transfers were slightly offset by the following:

- e) **Contributions to non-public sectors** increased by LL 23 billion to reach LL 311 billion²⁰ in 2014, driven by a rise in transfers to private parties such as the canonical tribunals, and childhood, elderly, and handicapped centres.
- f) Transfers to **public hospitals** increased from LL 25 billion in 2013 to LL 42 billion in 2014. This was due to higher transfers to Rafik Hariri University Hospital, which reached a figure of LL 28 billion in 2014, compared to LL 11 billion in 2013.

Table 12: Breakdown of Article 14 by Economic Classification

(LL billion)	2013	2014	% Change 2014/2013
1. Contributions to the Public Sector 1/	3,583	3,575	-0.2%
1a. Electricité Du Liban (EDL)	3,056	3,157	3.3%
1b. Other Contributions to the Public Sector, of which:	527	418	-20.8%

¹⁸ As per decree 948 dated 6 November 2014, the total treasury advance is LL 30 billion.

¹⁹ As per decree 981 dated 13 November 2014, the total treasury advance is LL 34 billion.

²⁰ The figure of contributions to non-public sectors in the monthly PFM of December 2014 is LL 294 billion, as contributions to the Ministry of Social Affairs were classified under other transfers. However, these contributions to MoFA, amounting to LL 17 billion during Jan-Dec 2014, were adjusted and reclassified under contributions to non-public sector leading to a total figure of LL 311 billion.

High Relief Committee (HRC)	108	96	-11.2%
Investment Development Authority of Lebanon (IDAL)	23	17	-28.1%
Transfers to School Funds	33	42	30.2%
Public Hospitals	25	42	71.8%
Green Project	10	6	-40.0%
National Social Security Fund (NSSF)	250	100	-60.0%
Tele Liban	10	13	37.4%
2. Contributions to the Non-Public Sector	289	311	7.9%
2a. Contributions to Non Profit Organizations , of which:	281	280	-0.4%
Ministry of Education-Subsidized Schools	81	80	-1.0%
Ministry of Youth and Sports	11	5	-58.5%
Ministry of Public Health	8	10	26.8%
Ministry of Social Affairs	175	178	1.6%
2b. Contributions to Private Parties	7	29	283.9%
3. Assistance to the Public Sector	132	84	-36.0%
3a. Directorate General of Grains & Sugar Beetroot	98	70	-29.1%
3b. Public Institutions, of which: 2/	30	12	-60.1%
Railway and Public Transportation Authority	12	-	-100.0%
Water Authorities	12	12	3.2%
4. Assistance to the Non-Public Sector	15	-	-100.0%
5.External Assistance (Ministry of Environment)	8	3	-60.3%
6. Membership Fees (International and Regional Organizations)	64	13	-79.1%
Ministry of Foreign Affairs and Emigrants	6	8	30.8%
Special Tribunal	58	0	-100.0%
7.Stoppings 3/	51	15	-70.5%
Total	4,141	4,002	-3.4%

Source: MOF, DGF

1/ Contributions to Public Sector consist mainly of contributions made to Public Institutions. Assistance provided to certain Public Corporations, such as Lebanese National Higher Conservatory of Music and all governmental hospitals are also included under this heading.

2/ In 2013, transfers to Housing Institution were classified under Article 14, under Assistance to Public Institutions item. However, in 2014, these transfers were removed and reclassified under Article 16.

3/ 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 decreased to LL 425 billion in 2014, from a figure of LL 532 billion in 2013, mainly due to a LL 92 billion decline in **transfers to hospitals** caused by a difference in the timing of payments. "**Other spending**" dropped by LL 23 billion chiefly due to a decrease in payments for judgments and reconciliations. Furthermore, transfers to the Housing Institutions, classified under "**other spending**"²¹, amounted to LL 35 billion in 2014 compared to LL 30 billion in 2013. These transfers represent interest payments of subsidized loans provided by banks, as per the contract between Banque du Liban and the Housing Institution.

²¹ In 2013, transfers to the Housing Institutions were classified under Various Transfers. In 2014, these transfers were reclassified under other current expenditure.

INTEREST PAYMENTS

Debt service payments amounted to LL 6,314 billion in 2014, climbing by LL 600 billion (11 percent) from a year earlier as interest payments on local currency debt soared by 18 percent, in contrast to a marginal 0.3 percent rise in foreign currency interest payments.

Interest payments on local currency debt were up by LL 593 billion year-on-year in 2014, amounting to LL 3,934 billion. Specifically, **coupon payments on long-term Treasury bonds** (2YR, 3YR, 5YR, 7YR, 8YR, 10YR and 12YR) soared by 19 percent, largely owing to a 16 percent rise in the number of bonds, liable to two semi-annual interest payments during the year. Likewise, the stock of long-term domestic debt increased by 16 percent in the first half of 2014, mostly driven by increases in the stocks of 3YR, 10YR, and 12YR instruments, translating into higher interest payments in 2014, noting that interest payments of bonds issued in the second half of 2014 fall due in 2015. In parallel, the average interest rate on long-term tenors rose by 24 basis points (3.6 percent) points to 7.02 percent, partly reflecting the 52 bps interest hike on instruments with a maturity of 5-years or less in March 2012, and the issuance of a larger value of longer-term and higher coupon instruments in 2013 and 2014, compared to previous years – *Kindly refer to local currency debt section, page 29, for details.*

In contrast, **discount interest payments** (interest paid at maturity of 3, 6, & 12 months T-bills) amounted to LL 84 billion in 2014, down from LL 106 billion in 2013. This was mostly due to a change in the accounting method of short-term interest to accrual accounting rather than cash-basis accounting. Starting April 2014, discount interest began to be captured as an expense on issuance of Treasury Bills, rather than maturity.

Interest payments on foreign currency debt amounted to LL 2,380 billion in 2014, recording a 0.3 percent increase from 2013. Coupon dues of Eurobonds (including fees & expenses) increased by LL 40 billion as a US\$ 2.2 billion new-cash issuance in 2013 had full-year impact on interest payments in 2014, compared to only a half-year impact during the year in which the amount was issued. This offset the effect of the LL 299 billion year-on-year decline in the stock of market-issued Eurobonds to LL 35,291 billion by end-June 2014, and a contraction of 12 basis points in their weighted average cost to 6.38 percent.

Table 13: Interest Payments

(LL billion)	2013	2014	%Change 2014/2013
Debt Service Payments	5,714	6,314	10.5%
Local Currency	3,341	3,934	17.8%
Discount interest	106	84	-20.6%
Coupon payments	3,235	3,850	19.0%
Coupon payments	3,193	3,850	20.6%
Premium ¹	42	-	-100.0%
Foreign Currency	2,373	2,380	0.3%
Eurobond Coupon (including fees)	2,246	2,285	1.8%
C-loans interest	120	120	-0.4%
Special Bond (expropriation & contractors)	7	7	-1.2%
Adjustments ²	-	(32)	N/A
Memorandum Items:			
Weighted average cost/Local debt³			
Short-term (3-6-12)	4.92%	4.98%	1.1%

Long term (24-36-60-84)	6.78%	7.02%	3.6%
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Source: MOF, DGF

¹ Premium above par on the early redemption of LL Notes

² Adjustments include the addition of LBP 1,605,190,000 in capitalized interest drawn from the loan and paid directly to the creditor EKF and the deduction of LBP 33,259,493,672 from the actual interest paid on 27/5/2014, due to the new procedure applied by the accounting department since July 2014.

³ Kindly note that the 2013 weighted average cost of local debt has been revised and thus, does not match with the previously published figure.

CAPITAL EXPENDITURE

Capital expenditures amounted to LL 883 billion in 2014, decreasing by LL 104 billion from 2013, mainly as a result of a LL 135 billion decline in **maintenance**. Overall, the government has been under-spending on Capex relatively to the budgeted figures and relatively to the increasing need of improved infrastructure.

Maintenance dropped by 45 percent to reach LL 163 billion. Of the total amount, LL 83 billion were transferred to the **Ministry of Public Works and Transportation**, compared to LL 240 billion paid during 2013. Most of these transfers related to maintenance of roads, with the remaining consisting of maintenance of buildings, Roumieh prison, Palace of Justice, and projects relating to water drainage. In addition, LL 51 billion were paid to **CDR** through four treasury advances²² to cover the cost of operating expenses, maintenance and supervision of the Lebanese University in Hadath.

Equipment decreased from LL 75 billion in 2013 to LL 66 billion in 2014, mainly due to declines in transfers to the Ministry of Agriculture, and the Ministry of Public Works and Transportation, by LL 5 billion and LL 4 billion respectively.

The abovementioned decreases were slightly counterbalanced by a LL 35 billion increase in **construction in progress** to reach LL 606 billion in 2014. This was mainly attributed to a payment of LL 30 billion to the **Displaced Fund**, compared to nil in 2013; while payments to the **Council of the South** amounted to LL 78 billion in 2014, recording a LL 41 billion increase.

The increases in **construction in progress** were partly offset by the following:

- Transfers to the **Ministry of Public Works and Transportation** decreased by LL 69 billion, reaching LL 71 billion in 2014 and mainly relating to the development and construction of roads.
- Payments to **CDR** dropped by LL 24 billion to reach LL 281 billion in 2014, mainly due to lower transfers made for (i) maintenance of Rafic Hariri Airport (- LL 22 billion), (ii) buildings and other related projects (- LL 29 billion), (iii) different road projects (- LL 18 billion), and (iv) water treatment projects (- LL 4 billion). It is worth noting that other projects, amounting to LL 4 billion in 2014, were mainly paid through a treasury advance; as per decree 12068 dated 21 July 2014. The total treasury advance amounted to LL 300 billion and related to different and urgent CDR projects disclosed in decision number 99 dated 22 May 2014, (for further details, kindly refer to table 15).

Table 14: Payments to CDR for Construction in Progress

(LL billion)	2013	2014	%Change 2014/2013
CDR Budget Payments (1)	119	147	24.0%
Counterpart funding for foreign financed projects	88	139	57.7%
Maintenance of Rafic Hariri International Airport	31	8	-72.5%
Projects Executed on behalf of Line Ministries (2)	186	130	-30.1%

²² As per decree 9892 dated 18 February 2013 (the total treasury advance is LL 20.6 billion), decree 10873 dated 21 November 2013 (the total treasury advance is LL 20.6 billion), decree 11663 dated 21 May 2014 (the total treasury advance is LL 32 billion), and decree 11964 dated 24 May 2014 (the total treasury advance is LL 1 billion).

Roads projects	107	89	-17.0%
Buildings and other related projects	34	5	-85.1%
Water treatment projects	45	36	-19.8%
Other projects	0	4	N.M.
Total Payments to CDR for Construction In Progress	305	281	-7.7%

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.

Table 15: CDR Projects Breakdown as per Decision 99 dated 22 May 2014

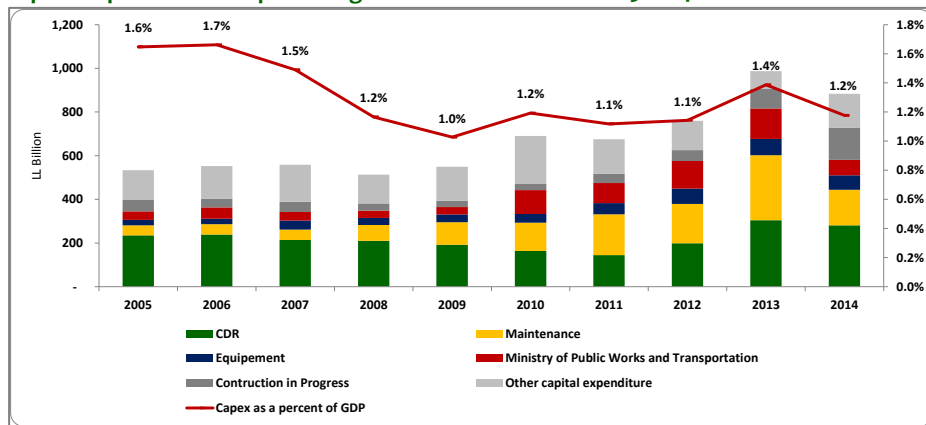
Project	Expected cost (US\$ million)	Comments
Mount Lebanon Governorate		
Jal El Dib Highway	48	Approved by Council of Ministers
Baabdat-Metn road	26	No expropriation
Mayrouba-Nahr El Dahab-Jouret El Termos	27	No study nor expropriation
Mar Chaaya-Ain Alak connecting road	20	Expropriation and study complete
Other projects	47	-
South and Nabatiyeh Governorate		
Implementation of drainage networks	39	Project in implementation phase
Water projects in Mount Amel	22	Project in implementation phase
Other projects	29	-
North and Akkar Governorate		
Spaces replenishment in Tripoli port	24	-
Railway project between Tripoli and Syrian borders	20	-
Tannourine road	18	Expropriation and study available
Other projects	34	-
Beirut Governorate		
Finance part of the project relating to the development	28	Project in implementation phase
Main road projects including infrastructure	27	Projects not financed
Other projects	2	-
Bekaa – Baalbeck Governorate		
Water treatment projects in Hermel District and Labweh	35	Study complete / Iranian loan
Litani water project in South Lebanon	25	Financed by the Kuwaiti Fund
Other project	31	
Total (US\$ million)	502	

Source: MoF, Archive Department, Decision number 99 dated 22 May 2014

Box #2: Capital Expenditure

As a percentage of GDP, capital expenditure in Lebanon remains well below a level sufficient to firmly support economic activity, accounting for only 1.3 percent of GDP on average over the past 10 years. Capital expenditure attained its peak in 2006 at 1.7 percent of GDP following the 2006 July war. In subsequent years, the trend in capital expenditure declined to reach its lowest level of 1.0 percent in 2009. In 2013, capital expenditure picked up again at 1.4 percent of GDP mainly owing to significant transfers to CDR and maintenance; and decreased to 1.2 percent in 2014.

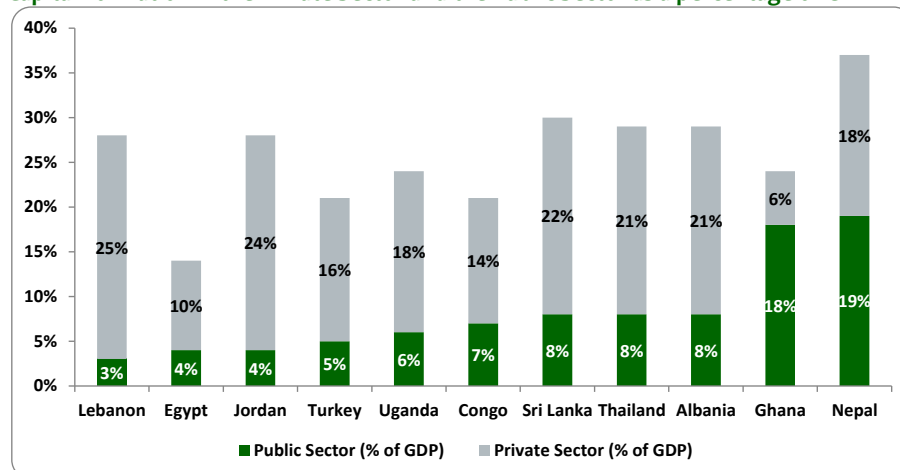
Capital Expenditure as a percentage of GDP in Lebanon – 2005-2014



Source: MoF

In comparison to selected developing countries, Lebanon's Gross Capital Formation¹ in the public sector recorded a relatively low figure as a percent of GDP with an average of 3 percent for the period 2010-2014, behind Jordan and Egypt with 4 percent, Turkey (5 percent) and Uganda (6 percent). Nepal and Ghana were among the top comparative countries recording 19 percent and 18 percent of GDP respectively. Nonetheless, at the level of Gross Capital Formation in the private sector, Lebanon exhibited the highest figure of 25 percent among the comparative countries throughout the period under review.

Gross Capital Formation in the Private Sector and the Public Sector as a percentage of GDP – 2010-2014



Source: World Bank national accounts data

¹ As per the World Bank definition, Gross Capital Formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements; plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. According to the 1993 SNA, net acquisitions of valuables are also considered capital formation.

TREASURY EXPENDITURE

Treasury expenditures decreased by a small 1 percent to reach LL 1,313 billion in 2014. Transfers to **municipalities** comprised 54 percent of treasury expenditures in 2014, up from 44 percent during the previous year. As seen below, this was mainly due to a LL 64 billion and a LL 60 billion increase in distribution of revenues accruing to municipalities²³ and payments for solid waste management respectively (reflecting the higher pressure on infrastructure caused by the Syrian exiles).

Table 16: Payments to Municipalities

(LL billion)	2013	2014	%Change 2014/2013
Distribution of Revenues Accruing to Municipalities	291	355	21.8%
Payments for Solid Waste Management	277	337	21.5%
Payments to the "First Municipality Infrastructure Project"	13	12	-1.2%
Cleaning Expenses	10	5	-48.8%
Other Payments	291	355	21.8%
Total Payments to Municipalities	591	709	19.9%

Source: MoF, DGF

Guarantees increased by LL 28 billion to reach a balance of LL 121 billion in 2014. The increase in transfers to municipalities and guarantees was offset by a LL 47 billion decline in **deposits** and a LL 26 billion decline in **VAT refunds**.

SOCIAL EXPENDITURE

Social expenditures cover 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.

Social expenditure as a percentage of GDP stood at 7 percent for the two years under review, a low figure when compared to the 22 percent average in Organization for Economic Cooperation and Development (OECD) countries²⁴. The ratio of social expenditures to total spending slid from 25 percent in 2013 to 24 percent in 2014.

In nominal terms, social expenditure decreased by LL 111 billion to LL 5,111 billion. The main changes during the year were:

- Social expenditure related to health decreased by LL 179 billion (17 percent), mainly driven by a LL 92 billion decrease in hospitalization expenditure in the private sector, a LL 50 billion decrease in purchases of medication, and a LL 28 billion decrease in hospitalization of public sector employees in the private sector.
- Social expenditure related to education decreased by LL 11 billion to reach LL 1,619 billion in 2014, mainly due to a LL 27 billion decrease in transfers to the Lebanese University, which was slightly offset by a LL 23 billion increase in salaries and wages.
- Transfers to the NSSF decreased by 60 percent to reach LL 100 billion in 2014, compared to LL 250 billion in 2013.

In terms of spending allocation, **end of service indemnities and retirement wages** ranked first with 37 percent of the total in 2014, up from 35 percent in 2013. These were followed by **education spending** accounting for 32 percent in 2014, up from 31 percent in 2013. More specifically, **wages and salaries of the General Directorate of Education** and **transfers to the**

²³ As per decree 1180 dated 11 February 2014, the total amount of the treasury advance is LL 490 billion.

²⁴ OECD iLibrary Database.

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, standing at 19 percent of total social expenditure in 2014. Lastly, while **health expenditure's** share of total social expenditure decreased from 20 percent in 2013, the component still ranked third in 2014 with 17 percent.

Table 17: Main Social Expenditure

(LL billion)	2013	2014	%Change 2014/2013
Health			
Hospitalization in the private sector	388	297	-24%
Purchase of Medication	245	195	-20%
Hospitalization of public sector employees in private sector	273	245	-10%
Maternity and sickness allowance	59	56	-5%
Other	102	96	-6%
Sub-Total	1,067	889	-17%
Education			
Ministry of Education and Higher Learning, of which	1,406	1,403	0%
<i>Salaries and wages</i>	939	962	2%
<i>Transfers to the Lebanese University</i>	304	277	-9%
<i>Contributions to non-profitable organizations</i>	81	80	-1%
Education allowance in private sector	224	216	-4%
Sub-Total	1,630	1,619	-1%
Other Social Spending			
End of Service Indemnities & Retirement Wages	1,831	1,893	3%
Transfers to the National Social Security Fund	250	100	-60.0%
Transfers to Civil Servants' Cooperative	204	323	58%
Ministry of Social Affairs, of which	181	184	1%
<i>Transfers to non-profitable organizations</i>	176	179	2%
Participation in several mutual funds	28	51	81%
Other social spending allowance (1)	30	52	74%
Sub-Total	2,525	2,604	3%
Grand-Total Social Spending	5,222	5,111	-2%

Source: MOF, DGF

Note: Other social spending allowances mainly include marriage, birth, and death allowances and transfers to the Ministry of Displaced.

SECTION IV: PUBLIC DEBT DEVELOPMENTS

FINANCING IN 2014

The Lebanese Treasury financed a total of LL 16,617 billion in domestic currency debt and debt service dues in 2014, of which LL 12,767 billion were principal debt maturities and LL 3,850 billion were interest payments. Financing in local currency was mainly realized through weekly auctions of Treasury bills and bonds, whereby an aggregate amount of LL 17,877 billion was issued, representing a surplus of LL 1,387 billion above the fiscal year's TB principal and coupon maturities.

Compared to a substantially larger auction surplus of LL 4,764 billion in 2013, the results outlined the drop in deficit financing needs, owing to the large primary surplus of LL 1,970 billion recorded in 2014.

In **foreign currency financing**, the Treasury raised US\$ 1.575 billion through two Eurobond transactions - a US\$ 1.4 billion voluntary exchange transaction and new cash issuance, and a US\$ 175 million Eurobond placement with Audi Bank - to finance its principal market Eurobond maturities (*kindly refer to the foreign currency debt section for additional details*). Other foreign currency debt needs, represented by FX interest payments and principal maturities of non-market debt²⁵ were financed from the primary surplus and from public accounts, whereby total principal and interest maturities exceeded gross issuances, leading to a LL 181 billion drawdown from the Treasury account.

Table 18: Net Financing Sources

(LL billion)	2010	2011	2012	2013	2014
Total Net in Financing (1)	4,267	3,367	6,123	6,251	4,341
LL treasury bills (2)	3,515	1,214	943	6,057	5,260
Eurobonds (3)	-340	479	5,328	2,739	-771
Special Tbills in Foreign currencies	-373	6	32	24	-15
Bilateral Loans (3)	-114	-101	29	-107	51
Multilateral Loans (3)	-74	-180	-117	-87	-318
Private sector loans (3)	-2	-6	-4	84	-47
Change in treasury accounts	1,655	1,956	-89	-2,458	181

Source: MoF, BDL

(1) Net financing excludes changes in debt stocks & deposit accounts attributed to exchange rate valuations

(2) The net variation of treasury bills excludes accrued interest

(3) The net variation of foreign currency debt excludes foreign exchange variations as well as accrued interest

Note: Positive numbers indicate a net increase and negative numbers indicates a net decrease except for "change in treasury accounts".

PUBLIC DEBT: GENERAL FACTS

The stock of **gross public debt** reached LL 100,363 billion (US\$ 66.58 billion) by the end of 2014, adding LL 4,653 billion (4.9 percent) from end-2013, and resulted along with a 5 percent growth in nominal output in keeping the debt to GDP ratio at its 2013 level of 134 percent. Local currency debt led the debt stock increase with a LL 5,440 billion expansion, while outstanding foreign currency debt slid by LL 787 billion or around 2 percent.

Net public debt increased at a slightly faster pace of 7.7 percent in 2014, or by a nominal amount of LL 6,183 billion to reach LL 86,398 billion, owing to a LL 1,530 billion drop in public sector deposits to LL 13,965 billion. Net debt to GDP was thus at 116 percent by end-2014, up from 113 percent in 2013, while the ratio of public sector deposits to Gross Public Debt diminished to 14 percent from 16 percent.

²⁵ Including Paris II and Paris III Eurobonds and Loans, Non-Paris Bilateral and Multilateral loans, Private sector loans, expropriation, and contractor bonds.

Table 19: Public Debt Outstanding as of end-June 2014

(LL billion)	Dec-12	Dec-13	Dec-14	Change Dec 14/Dec 13	%Change Dec 14/Dec 13
Gross Public Debt ⁽³⁾	86,959	95,710	100,363	4,635	4.9%
Net Debt ⁽¹⁾	74,043	80,215	86,398	6,183	7.7%
Gross Market Debt ⁽²⁾	58,623	65,386	67,380	1,994	3.1%
Nominal GDP*	66,481	71,185	74,656	3,471	4.9%
Debt to GDP	130.8%	134.5%	134.4%	(0.1%)	N.M.

Source: MoF, BDL

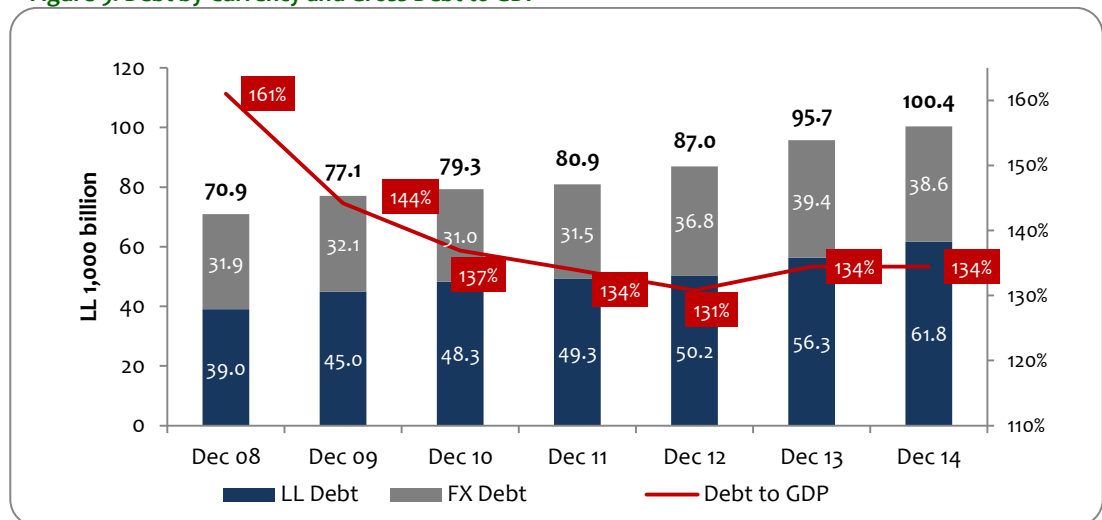
(1) The stock of net public debt equals the stock of gross public debt minus public sector deposits.

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

* GDP 2014: Computed using IMF April 2015 WEO real growth and deflator, based on 2013 CAS GDP figure.

Figure 9: Debt by Currency and Gross Debt to GDP



Source: MoF, BDL

LOCAL CURRENCY DEBT

Outstanding **Local currency debt** grew by LL 5,440 billion (9.7 percent) to LL 61,752 billion by end-December 2014, after having increased by LL 6,114 billion (12.2 percent) in 2013. By the end of the year, LL denominated debt accounted for 61.5 percent of gross outstanding debt, up from 58.8 percent as at end-2013 and 57.7 percent as at end-2012. The shift in the composition of debt towards a larger share of local currency outlined the legislative limitations on new foreign currency debt issuances in 2013 and 2014.

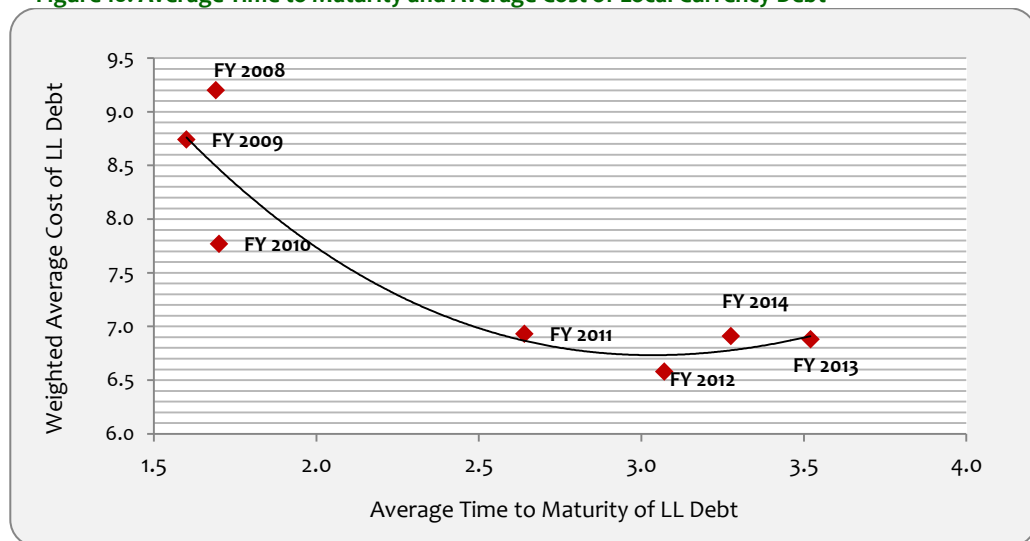
The **average time-to-maturity (ATM) of outstanding domestic currency Treasury Bills and Bonds** decreased to 3.28 years by the end of December 2014, from 3.52 years as of end-December 2013, partly reflecting a decline in the average maturity of issued LL instruments to 42.1 months, from 61.4 months in 2013. In fact, around 32 percent of 2013 issuances were in 7-year tenors or longer, compared to only 11 percent of total issuances in 2014.

The **weighted average cost of outstanding domestic debt** inched up to 6.96 percent as of end-2014, compared to 6.88 percent end-2013. In detail, weighted average cost of short-term instruments was left unchanged at 4.44 percent for 3-months bills, 4.99 percent for 6-months bills and 5.35 percent for 12-months bills.

For long-term instruments, the weighted average cost was 5.84 percent (5.69 percent in 2013) for 2-year bonds, 6.48 percent (6.33 percent in 2013) for 3-year bonds and 6.52 percent (6.86 percent in 2013) for 5-year bonds. With the exception of 5-year bonds, the latter changes reflect the average 52 basis points hike in interest rates during March 2012. In fact, the weighted average cost of 5-year bonds dropped by 18 basis points, since 5-year bonds that were issued in the second half of 2009 at a high coupon rate ranging from 7.74 percent to 9.00 percent, matured before the end of 2014.

Moreover, the weighted average cost was 7.75 percent (7.75 percent in 2013) for 7-year tenors, 7.80 percent (7.80 percent in 2013) for 8-year bonds, 8.13 percent (8.24 percent in 2013) for 10-year bonds and 8.74 percent (8.74 percent in 2013) for 12-year bond. It is worth mentioning that interest rates on both 7-year and 10-year instruments, dropped by 26 basis during 2014.

Figure 10: Average Time to Maturity and Average Cost of Local Currency Debt



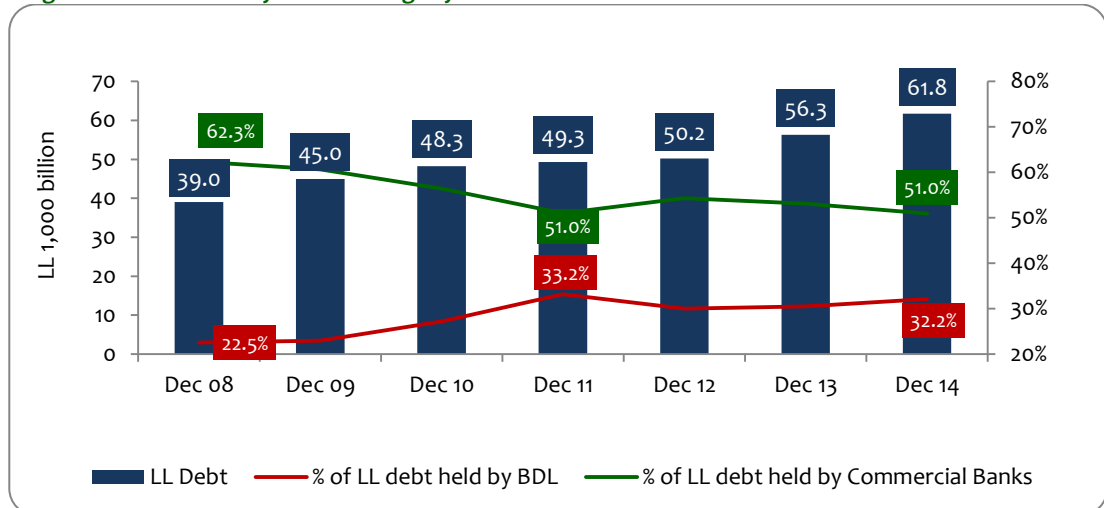
Source: MoF, BDL

Weekly auctions of Treasury bills and bonds remained the main channel through which local currency debt was issued in 2014. Including non-regular issuances of longer term bonds, or those outside the regularly issued 3MN, 6MN, 12MN, 2YR, 3YR and 5YR instruments, TB auctions ended the year with a cumulative surplus of LL 1,387 billion. Of non-regularly issued instruments, the 10-year bond captured a total of around LL 1,946 billion when it was issued as part of the June 26 and November 6 weekly auctions. The 10YR tenor carried coupon rate of 7.98% marking a contraction of 26 basis points from its previous issuance rate in September 2013. This decline paralleled the Central Bank's interest rate reduction on LL denominated Certificates of Deposit (CDs) with a maturity of seven years and longer²⁶. Excluding the 10-year tenor, principal and interest maturities in 2014 exceeded total subscriptions by LL 559 billion.

Outside weekly auctions, outstanding domestic currency denominated contractor bonds increased to LL 180 billion by end-2014 from LL 134 billion a year earlier, following the issuance of LL 33 billion in January at a rate of 5.25 %, due January 2019 and LL 13 billion in November at a rate of 5.25 %, due November 2019.

²⁶ Banque Du Liban reduced the coupon rate on its 7-year, 8-year, 10-year, 12-year and 13-year Certificates of Deposit (CDs) in 2014 by 26 basis points (bps).

Figure 11: Local Currency Debt Holdings by Commercial Banks and BDL



Source: MoF, BDL

Subscriptions by holder

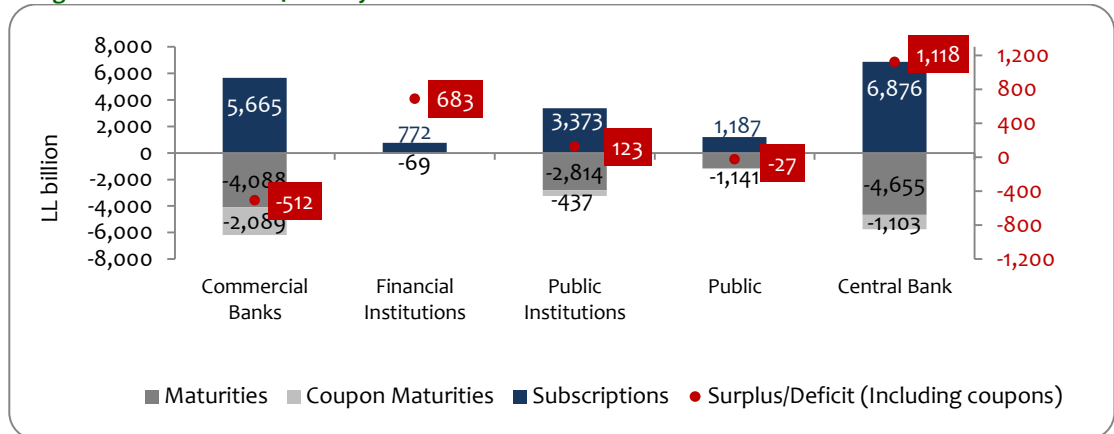
The year 2014 saw strong participation in TB weekly auctions from holders outside commercial banks and the Central Bank, signalling an improved investment appetite for local currency papers from the wider private base represented by **financial institutions** and the **general public**. Together with **public entities**, holdings by smaller investors – financial institutions and the general public - reached LL 12,249 billion, or 10 percent of outstanding LL debt, increasing by almost 13 percent from end-2013. Liquidity flush **commercial banks** however continued to lead among private holders with LL 31,312 billion or around 51 percent of total LL debt. **BDL** followed with a total of LL 19,454 billion or around 32 percent of the stock of LL debt.

In weekly auctions, **commercial banks'** subscriptions amounted to LL 5,665 billion, accounting for 32 percent of total subscriptions in 2014. Banks' cumulative rollover ratio reached around 139 percent, designating that banks subscribed more than the amount of their principal maturities. Subscriptions in 10-year T-bonds represented 33 percent of their accepted offers. Excluding those, banks' principal maturities exceeded subscriptions by around LL 277 billion, and their cumulative rollover ratio was at 93 percent. Three-year bonds accounted for 21 percent of total banks' subscriptions as a second preferred instrument, followed by 5YR bonds with 12 percent, 12MN bills with 11 percent, 6MN and 3MN bills with 10 percent each, and 2YR bonds with 3 percent.

With LL 4,655 billion in principal maturities, representing the largest share of total principal maturities (36 percent), **BDL's** subscriptions amounted to LL 6,876 billion in 2014 weekly auctions. BDL's rollover ratio was thus 148 percent, although including LL 1,103 billion in coupon maturities (24 percent of the total), the ratio was 119 percent. Accepted offers were heavily concentrated in three-year TBs, which accounted for 82 percent of their subscriptions, followed by the 5YR tenor with 17 percent of subscriptions, while the 10YR, 6MN and 3MN bills accounted for less than 1 percent each.

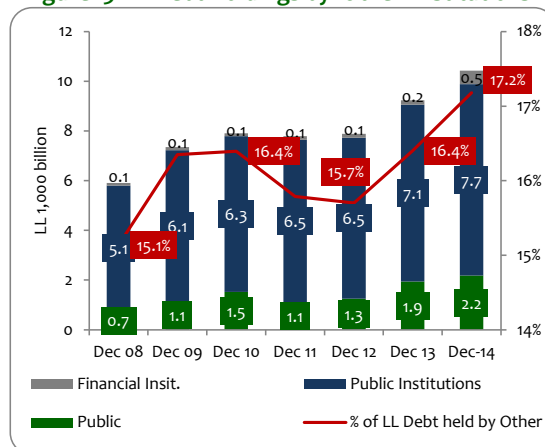
Subscriptions by **Public Institutions** reached LL 3,373 billion in 2014, 120 percent of their principal maturities and 104 percent of their principal and coupon maturities combined. Those were mostly concentrated in 2YR and 3YR bonds with 45 and 40 percent of their total offers. Weekly auctions in 2014 also saw a surge in participation from **Financial institutions** to LL 772 billion, 114 percent above their principal maturities, with subscriptions mostly going to 3YR and 5YR TBs with shares of 48 percent and 45 percent respectively.

Figure 12: Results of 2014 Weekly Auctions



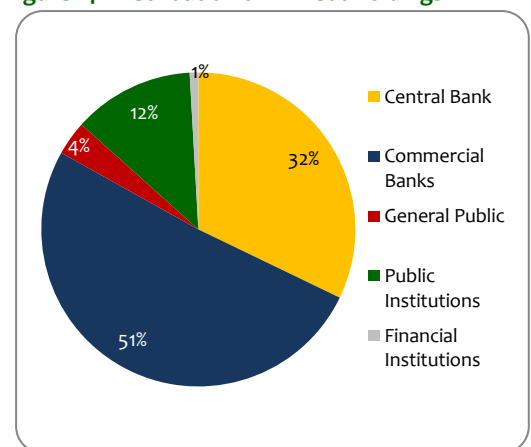
Source: MoF, BDL

Figure 13: LL Debt Holdings by 'Other' Institutions



Source: MoF, BDL

Figure 14: Distribution of LL Debt Holdings²⁷



Source: MoF, BDL

Note: The above figures are calculated as of end-2014

Subscriptions by instrument

Long-term Treasury bonds, represented by TBs issued with a maturity of 2-years or longer, stood at LL 58,755 billion by end-2014²⁸, adding LL 5,517 billion from end-2013. This increase was mainly due to large value subscriptions in the 3YR and 10YR tenors, largely exceeding these instruments' maturities. By end-2014, long term bonds accounted for 95 percent of total outstanding LL instruments.

Three-year bonds represented the largest addition to the TB portfolio, with the outstanding amount of the tenor expanding by 14.6 percent to reach LL 24,005 billion from end-2013, accounting for around 56 percent of the rise in LL denominated currency debt. In weekly auctions, 3YR bonds recorded a LL 3,284 billion surplus, as LL 8,594 billion in new subscriptions compared to LL 5,310 billion in principal maturities.

In second place, the stock of 10YR bonds expanded by LL 1,946 billion to total LL 4,790 billion by end-2014 owing to two issuances of the tenor, conducted as part of the June 26, 2014 and November 6, 2014 weekly auctions, at a rate of 7.98 percent. Commercial banks took up almost 97 percent of aggregate subscriptions, signalling strong appetite for the long-term tenor despite the 26 bps lower coupon. With no 10YR bond maturities in 2014,

²⁷ Excluding Contractor Bonds for the nominal amount of LL 180 billion.

²⁸ This figure excludes accrued interest on long term T-bonds for the amount of LL 981 billion.

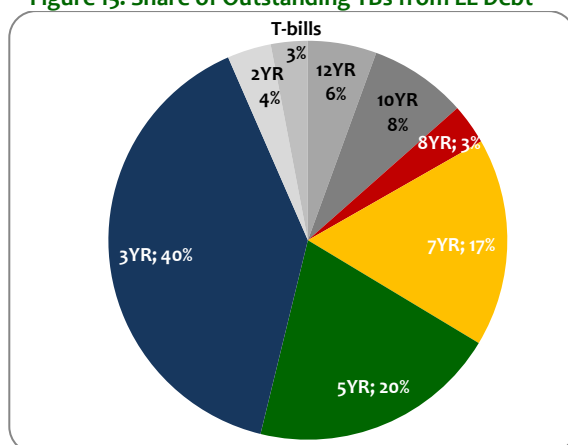
the increase in the outstanding amount of the tenor accounted for almost 35 percent of the expansion in Long term TBs and 36 percent of the rise in local currency debt.

The stock of five-year Treasury bonds increased by LL 486 billion to reach LL 12,233 billion by end-2014. In weekly auctions, 5-year TBs attracted strong demand, mostly from BDL, commercial banks, and financial institutions, totalling LL 2,426 billion or 16.5 percent of total subscriptions. Maturities of 5-year bonds, issued in 2009, were around LL 1,989 billion.

Of other long term tenors, the stock of 2YR bonds slightly increased by LL 22 billion to LL 2,153 billion as at end-2014 from LL 2,131 billion as at end-2013, with subscriptions in weekly auctions amounting to almost LL 1,720 billion.

The stock of short-term Treasury bills contracted by LL 249 billion, owing to declines of LL 371 billion and LL 64 billion in 6MN and 3MN bills respectively, coupled with a LL 186 billion increase in 12MN bills.

Figure 15: Share of Outstanding TBs from LL Debt

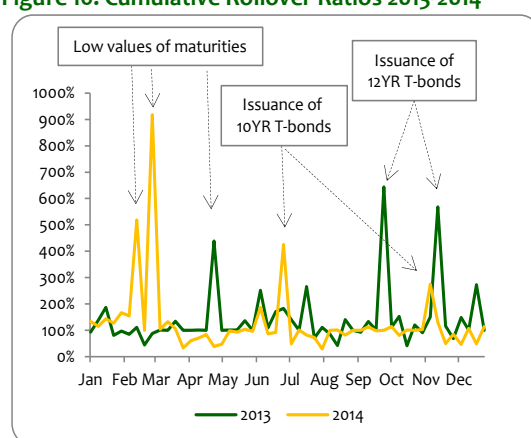


Source: MOF, BDL

*T-bills are comprised of 3MN, 6MN and 12MN notes

Note: The above figures are calculated as of end-2014

Figure 16: Cumulative Rollover Ratios 2013-2014



Source: MOF, BDL

*Ratio of Subscriptions to Maturities including Coupons

Table 20: Domestic Currency Debt by Holder and Instrument as of end-2014

Stocks (end of period)	Dec-12	Dec-13	Dec-14	% Change Dec 2014/ Dec 2013
Local currency debt	50,198	56,312	61,752	9.7%
A. By Holder				
*Accrued interest included in debt	789	877	1,029	17.3%
1. Central Bank (including REPOs)	15,049	17,171	19,855	15.6%
2. Commercial Banks	27,267	29,905	31,468	5.2%
3. Other local debt (T-bills)	7,882	9,236	10,429	12.9%
o/w Public entities	6,479	7,117	7,701	8.2%
o/w Contractors ⁽¹⁾	134	134	180	34.3%
B. By Instrument				
1. Long term bonds	46,707	53,238	58,755	10.4%
*Coupon Interest excluded from 1.	741	837	981	17.2%
12-year bonds	0	3,373	3,373	0.0%
10-year bonds	1151	2,844	4,790	68.4%
8-year bonds	1916	1,982	1,982	0.0%
7-year bonds	8,978	10,219	10,219	0.0%
5-year bonds	12,162	11,747	12,233	4.1%

3-year bonds	18,292	20,942	24,005	14.6%
2-year bonds	4,208	2,131	2,153	1.0%
2. Short term bills	2,591	2,109	1,860	-11.8%
* Accrued interest included	48	40	48	20.0%
12-month bills	965	1009	1,195	18.4%
6-month bills	1,312	935	564	-39.7%
3-month bills	314	165	101	-38.8%
3. Other local debt	159	128	156	21.9%
Central Bank Loans	55	0	0	N.M.
Commercial Banks Loans	104	128	124	-3.1%

Source: MoF, BDL

(1) 'Other local debt' includes 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 on local currency instruments issued regularly by the Ministry of Finance (3MN, 6MN, 12MN, 2YR, 3YR and 5YR) remained stable throughout 2014, while the coupon rates of 7-year and 10-year treasury bonds decreased by 26 basis points each to 7.24% and 7.98% respectively.

Table 21: Evolution of Primary Market Rates

Maturity	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014
3-month	4.43 percent	4.44 percent	4.44 percent
6-month	4.99 percent	4.99 percent	4.99 percent
12-month	5.35 percent	5.35 percent	5.35 percent
2-year	5.84 percent	5.84 percent	5.84 percent
3-year	6.50 percent	6.50 percent	6.50 percent
5-year ⁽¹⁾	6.74 percent	6.74 percent	6.74 percent
7-year ⁽²⁾	7.50 percent	7.50 percent	7.24 percent
8-year ⁽³⁾	7.80 percent	7.80 percent	7.80 percent
10-year ⁽⁴⁾	8.24 percent	8.24 percent	7.98 percent
12-year ⁽⁵⁾	N/A	8.74 percent	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).

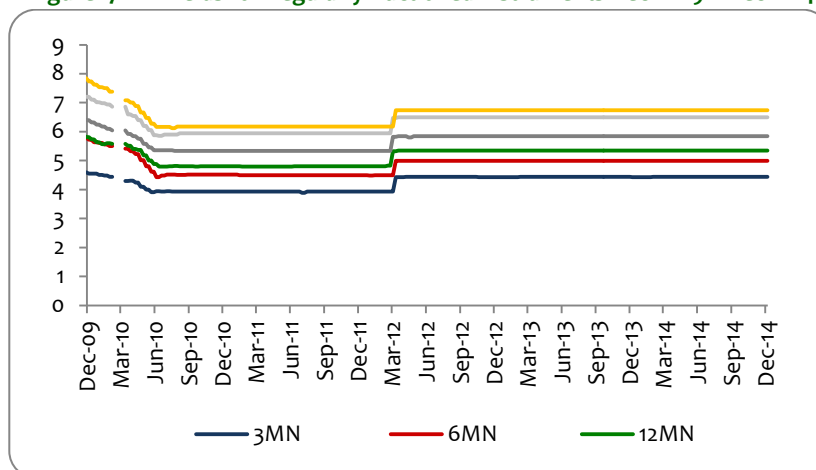
(2) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent, and in September 2011 with a coupon of 7.60 percent. These 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 17: TB Yields for Regularly Auctioned Instruments Dec 2009 – Dec 2014



Source: MoF

(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

Outstanding **Foreign currency debt** reached LL 38,611 billion by end-2014, decreasing by LL 787 billion from 2013, when it had surged by LL 2,637 billion. This decline outlined Lebanon's legislative limitations on issuance of new debt in foreign currency, namely the absence of laws to issue Eurobonds over and above the principal value of those that mature during the period. As a result, the stock of outstanding market Eurobonds was almost unchanged from the previous year, while amortized principal repayments of non-market Paris II and Paris III Eurobonds and loans exceeded the value of newly disbursed concessional loans. Moreover, exchange rate fluctuations accounted for around LL 349 billion of the decrease in outstanding FX debt, of which the effect of a sharp depreciation in the euro vis-à-vis the US dollar from 1.3763 €//\$ to 1.2165 €//\$, cut the values of euro-denominated Eurobonds and the AFD Paris II Loan by around LBP 107 billion and LBP 17 billion respectively.

Table 22: Foreign Currency Debt by Holder and Instrument as at end-2014

(in LL billion)	Dec-12	Dec-13	Dec-14	% Change Dec 2014/ Dec 2013
B. Foreign currency debt	36,761	39,398	38,611	-2.0%
4. Eurobonds	32,789	35,533	34,850	-1.9%
Of which, Paris II at preferential rates ⁽¹⁾	2,646	2,130	1,615	-24.2%
Of which, Paris III at preferential rates ⁽²⁾	317	271	226	-16.7%
Of which, market-issued Eurobonds	29,427	32,688	32,584	-0.3%
* Accrued Interest on Eurobonds	400	444	425	-4.3%
5. Loans	3,860	3,729	3,640	-2.4%
5.1 Paris II loans	279	208	128	-38.5%
5.2 Paris III loans ⁽³⁾	997	915	760	-17.0%
5.3 Bilateral loans (non-Paris II and III)	835	821	1,192	45.3%
5.4 Multilateral loans (non-Paris II and III)	1,735	1,691	1,506	-10.9%
5.5 Foreign Private Sector Loans	14	94	54	-42.6%
6. Other debt	112	136	121	-11.0%
6.1 Special Tbs in Foreign currency ⁽⁴⁾	112	136	121	-11.0%

Source: MoF, BDL

(1) Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at US\$ 1,870 million 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) Including IBRD loan, UAE loan, first tranche of the AFD loan received in Feb. 2008 and part of second tranche received Oct. 2012.

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

The **average time-to-maturity of Eurobonds** was 5.42 years as at December 31st 2014, down from 5.60 years in 2013.

The **weighted average cost of outstanding foreign debt** fell by 13 bps to 6.08 percent by the end of 2014 from 6.21 percent at end-2013, as issuances of foreign currency instruments continued to benefit from the low international interest rate environment, having also decreased in 2013 from 2012. The weighted average cost of Eurobonds decreased by 10 bps to 6.40 percent from 6.50 percent, while the weighted average cost of contracted loans plunged to 3.06 percent from 3.43 percent.

Outstanding **Eurobonds** amounted to LL 34,850 billion by the end-2014, declining by 1.9 percent from end-2013, mainly owing to amortized principal repayments on Eurobonds issued in the context of Paris II and Paris III, as well as the depreciation of the euro, which accounted for LL 107 billion of the decline. **Outstanding market issued Eurobonds** decreased by LL 103 billion to reach LL 32,584 billion, solely on account of the depreciation of the euro, knowing that the stock of market Eurobonds issued in 2014 slightly exceeded the value of redeemed Eurobonds (*Kindly refer to table 23 for details*).

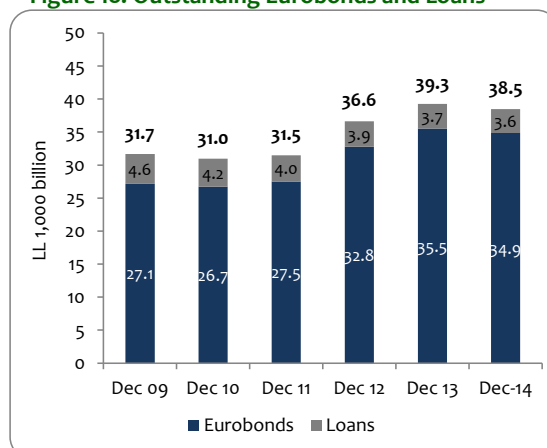
Two **market Eurobond** transactions were conducted in April and May 2014²⁹. The first, a US\$ 1.4 billion voluntary exchange transaction and new cash issuance, consisted of a new US\$ 600 million 5.800% coupon Eurobond due April 2020, and an US\$ 800 million re-opening of the 6.600% coupon Eurobond due November 2026. Cash proceeds from the transaction, were used to refinance the 7.375% coupon April 2014 due Eurobond, while the remaining amount was issued in the context of the voluntary exchange of the 9.000% coupon May 2014 due Eurobond. The second transaction in 2014 was a private placement with Audi Bank for the amount of US\$ 175 Million and was conducted in May 2014. Proceeds from the placement were used to refinance the remainder of the May 2014 due Eurobond that was un-exchanged in the April transaction.

The stock of **Eurobonds issued in the context of Paris II** dropped by LL 516 billion (24.2 percent) to LL 1,615 billion owing to amortized principal repayments: (i) two US\$ 35 million payments in March and September 2014 on the Paris II 5.00 percent March 2018 Eurobond originally issued at US\$ 700 million; (ii) two US\$ 10 million payments in May and November 2014 on the 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 2014 on the 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 2014 on the Paris II 5.00 percent Eurobond due December 2017 originally issued at US\$ 950 million.

Eurobonds issued in the context of Paris III decreased by LL 45 billion to LL 226 billion by end-2014 following two amortized principal repayment amounting to US\$ 15 million in January and July 2014 on the July 2017 due Eurobond originally issued at US\$ 300 million.

²⁹ For more information on the April 14, 2014 and May 2, 2014 Eurobond transactions, kindly refer to Box #2 on page 35 in the Public Finance Semi-Annual Report, First Half of 2014. Additional details can also be found in the online note "Voluntary Debt Exchange & New Cash Issuance April 2014; Private Placement with Audi Bank May 2014; New USD 5.80% notes due 2020, Re-opening of 6.60% percent USD notes due 2026" on MoF's website.

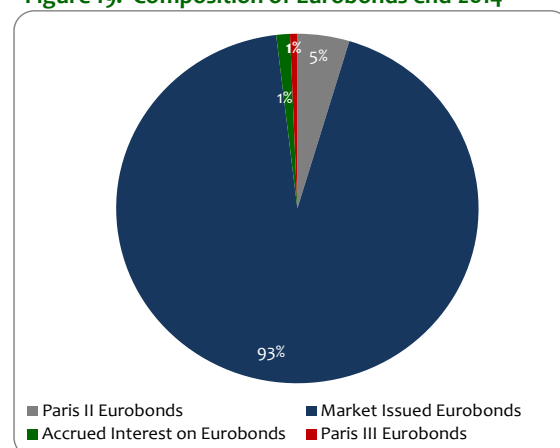
Figure 18: Outstanding Eurobonds and Loans



Source: MoF, BDL

Note: Including Accrued Interest on Eurobonds

Figure 19: Composition of Eurobonds end-2014



Source: MoF, BDL

Table 23: Net issuance of Eurobonds in 2014

(in US\$)	
Total Market Eurobond issuances	1,575,000,000
Market Eurobond redemptions	1,558,514,000
Total Eurobond redemptions*	1,944,265,100
Net Eurobond issuances	-369,265,100
Net Market Eurobond issuances	16,468,000

Source: MoF

*Including Paris II and Paris III related Eurobonds and excluding FX expropriation bonds for the amount of US\$13,645,396

Outstanding **foreign currency loans** amounted to LL 3,640 billion by end-2014, down by LL 89 billion from end-2013, as with amortized repayments on Paris II and Paris III loans as well as foreign private sector loans and Multilateral loans, exceeding disbursements of non-Paris II and non-Paris III bilateral loans.

- The stock of **Paris II loans** fell by LL 80 billion (39 percent) to reach LL 128 billion following the redemption of € 30 million of the *Agence Française de Développement (AFD)* Paris II loan, represented by two amortized repayments made in February and August.
- The stock of **Paris III loans** decreased by LL 156 billion, equivalent to 17 percent, to reach LL 760 billion by end-2014. The decline in the outstanding value of PIII loans was mainly due to (i) two US\$ 15 million semi-annual principal repayments made in April and October 2014 on the UAE Paris III loan; (ii) two US\$ 5 million semi-annual principal repayment in April and October 2014 on the World Bank IBRD loan, and (iii) one bullet repayment made in June 2014 on the 25 million euro EU loan, redeeming the entire loan.
- The stock of **foreign private sector loans** slid by LL 40 billion to reach LL 54 billion, mostly due to repayments on the 40.4 million euro loan disbursed by HSBC Bank, as part of a commercial facility agreement with the Lebanese Republic³⁰.
- The stock of **non-Paris II and non-Paris III bilateral loans** surged by LL 372 billion, equivalent to 45 percent to reach LL 1,192 billion, as loan disbursements were larger than repayments made in 2014. Major principal repayments included : (i) LL 19 billion to the Saudi Fund for Development, (ii) LL 21 billion to the Kuwait Fund for Arab Economic Development, (iii) LL 14 billion to *Agence Française de Développement*, (iv) LL 10 billion to Japan's Overseas Economic Cooperation Fund, and (v) LL 4 billion to Abu Dhabi Fund for Development

³⁰ This lending agreement was signed between the Lebanese Republic and HSBC in November 2013 for a total amount of 40.4 million euros, representing a down-payment on the installation of electricity generation units at Zouk and Jieh power plants.

In return bilateral loans disbursed were:

- i. LL 476 billion from one loan granted by ELO, Financing arm of Danish EKF, export credit facility³¹.
- ii. LL 35 billion from seven loans granted by the Kuwait Fund for Arab Economic Development
- iii. LL 11 billion from six loans granted by the Saudi Fund for Development
- iv. LL 7 billion from one loan granted by *Agence Française de Développement*
- v. LL 5 billion from two loans established by German government-owned development bank, KFW
- vi. LL 4 billion from one loan granted by the Abu Dhabi Fund

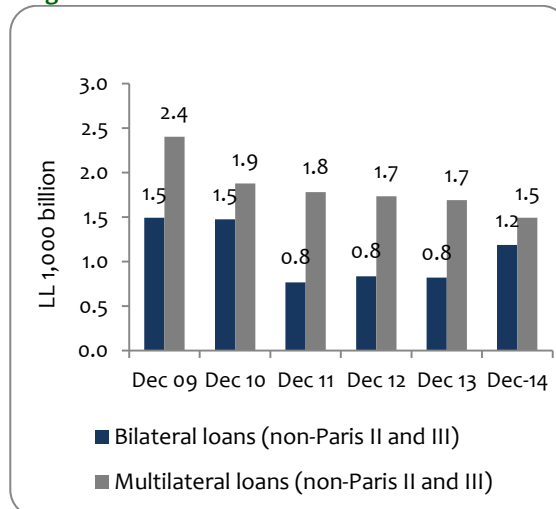
e) Non-Paris II and Paris III multilateral loans dropped by LL 185 billion, amounting to LL 1,506 billion by end-2014. Principal repayments included: (i) LL 49 billion to the International Bank for Reconstruction and Development (IBRD), (ii) LL 39 billion to the Arab Fund for Economic and Social Development (AFESD), (iii) LL 65 billion to the Islamic Development Bank (iv) around LL 23 billion to the European Investment Bank, and (v) LL 4 billion to the Organization of Petroleum Exporting Countries (OPEC).

On the other hand, major primary disbursements included:

- i. LL 59 billion from nine AFESD loans
- ii. LL 27 billion from five IBRD loans
- iii. LL 23 billion from eight loans granted by the Islamic Development Bank
- iv. LL 9 billion from one loan granted by European Investment Bank
- v. LL 3 billion from two OPEC loans

f) The stock of special T-bills in foreign currency declined by LL 15 billion to LL 121 billion, following repayments to expropriation bond holders in March 2014.

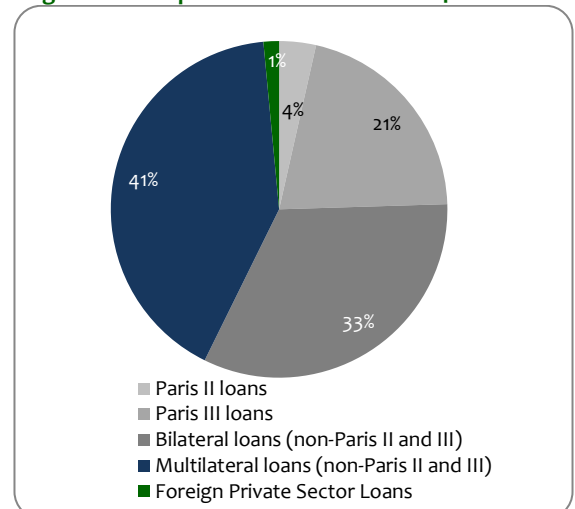
Figure 20: Bilateral & Multilateral Loans



Source: MoF, BDL

Note: Including Accrued Interest On Eurobonds

Figure 21: Composition of Loans end-2014



Source: MoF, BDL

³¹ This loan was signed between the Lebanese republic and Danish export credit agency to cover 85 percent of the cost of installing new electricity generation units at Zouk and Jieh power plants by Danish-German Consortium, Burmeister and Wain A.S and MAN Diesel and Turbo SE.

Table 24: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)				
	30-Jun-14	18-Jul-14	19-Sep-14	27-Oct-14	31-Dec-14
<u>EURO</u>					
LEB 5.350 18	4.36	4.35	4.19	4.07	3.94
<u>US Dollars</u>					
LIEB 10.000 15	3.98	3.56	3.61	3.53	3.60
LEB 8.500 15	3.89	3.66	3.55	3.58	3.60
LEB 8.500 16	3.79	3.63	3.95	3.71	3.61
LEB 11.625 16	4	3.79	3.79	4.4	4.01
LEB 4.750 16	4.18	4.17	4	4.23	3.82
LEB 5.000 17	4.71	4.58	4.3	4.64	4.61
LEB 9.000 17	4.45	2.9	4.06	4.16	4.23
LEB 5.150 18	5.15	5.08	4.91	4.85	4.91
LEB 6.000 19	5.24	5.17	5.12	5.23	5.16
LEB 5.450 19	5.37	5.29	5.26	5.36	5.22
LEB 6.375 20	5.39	5.46	5.38	5.43	5.23
LEB 8.250 21	5.62	5.54	5.45	5.57	5.44
LEB 6.100 22	5.85	5.87	5.75	5.84	5.82
LEB 6.000 23	5.91	5.9	5.88	5.94	5.88
LEB 7.000 24	6.27	6.25	6.17	6.13	6.08
LEB 6.600 26	6.41	6.36	6.33	6.43	6.24
LEB 6.750 27	6.47	6.44	6.38	6.45	6.32

Source: Credit Suisse

After having dropped by 54 basis points in the first half of 2014, average **secondary market yields**³² retracted by 17 basis points to 4.93 percent in H2 2014, bringing the annual drop in average yields to 71 bps. Sustained demand for Eurobonds was mainly boosted by steady FX inflows into Lebanon and was an indication of firm confidence in government instruments.

³² Calculated on US\$ Eurobonds, between June 1st and December 31th 2014, and which were outstanding at both dates.



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