REPUBLIC OF LEBANON

MINISTRY OF FINANCE

Public Finance Annual Review

2017

REPUBLIC OF LEBANON
MINISTRY OF FINANCE

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REPUBLIC OF LEBANON
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Public Finance Annual Review

2017

PUBLIC FINANCE HIGHLIGHTS

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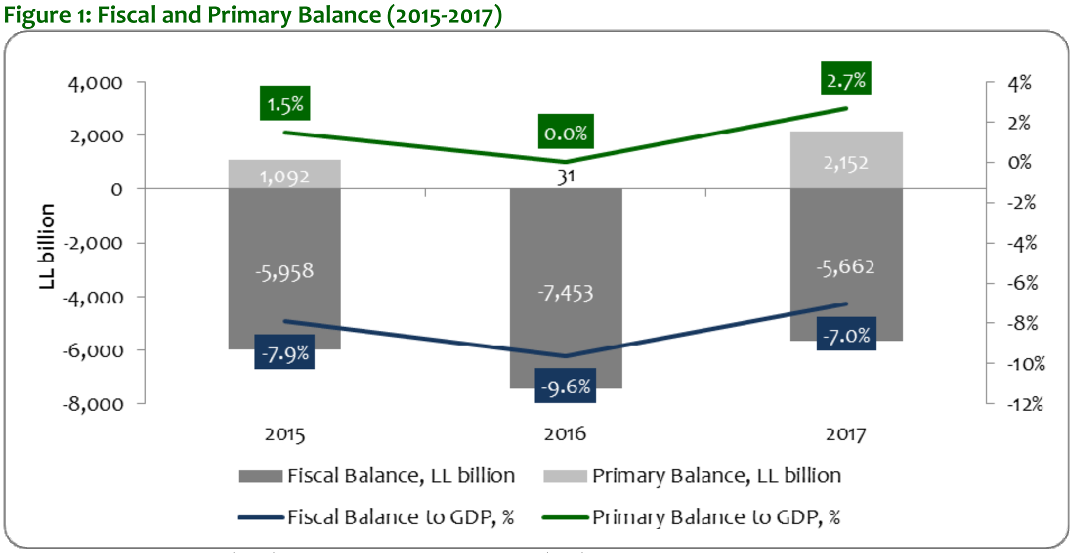
Government finances in Lebanon registered a notable improvement in 2017 despite sustained structural economic and fiscal weaknesses, and the prevalent negative impact of regional political crises. Although a slight pickup in economic growth and inflation levels contributed to improving overall fiscal conditions, alleviation in the government's cash accounts in 2017 was mostly the result of one-off revenue collections and expenditure corrections from the previous year. Namely a one-time tax payment by banks on their profits generated from the financial engineering that BDL conducted in 2016.

The overall fiscal balance registered a deficit of 7.0 percent of the GDP[1], compared to 9.6 percent of GDP in 2016, whereas the primary surplus widened to 2.7 percent of GDP from almost zero percent in 2016 and 1.5 percent of GDP in 2015. In nominal terms, the fiscal deficit narrowed by LL 1,791 billion to LL 5,662 bilion, and the primary surplus increased from LL 31 billion to LL 2,152 billion. Excluding the effect of a $775 million one-off revenue collection in 2017 (See Revenue Outcome Section)[2], the overall deficit to GDP ratio was 8.4 percent whereas the primary surplus was 1.2 percent.

Total revenues reached LL 17.524 billion in 2017, equivalent to 21.8 percent of GDP (20.4 percent excluding the one-time payment) and up from an average of 19.2 percent of GDP during the 2015-16 period. On the expenditures side, a rise in personnel cost, interest payments, transfers to Electricity Du Liban and capital expenditures overshadowed the drop in treasury expenditures, which drove total expenditures to rise by 3.5 percent year-on-year. This compared to an annual increase of 9.9 percent in 2016.

Figure 1: Fiscal and Primary Balance (2015-2017)



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

[1] The 2017 Nominal GDP is estimated at LL 80,500 billion in 2017. This is based on the 2016 Nominal GDP estimate published by the Central Administration of Statistics – *Lebanese 2016 National Accounts* – and the real GDP growth and GDP deflator estimates for 2017, published by the International Monetary Fund – *IMF World Economic Indicators April 2018*.
2 As a result of payments made by domestic banks on revenues accrued from the 2016 financial engineering made by BDL.

Revenues
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Total revenues increased by 17.1 percent in 2017, with tax and non-tax revenues climbing by 16.8 percent and 14.0 percent respectively. In addition, treasury revenues grew by 31.7 percent in 2017 relative to a growth of 21.3 percent a year earlier. Tax revenues amounted to LL 12,381 billion or 15.4 percent of GDP in 2017, with its share slightly decreasing from 70.8 percent of total revenues in 2016 to 70.7 percent in 2017. Also, taxes on Income, Profits, and Capital gains improved the most in 2017 growing at 39.3 percent year-on-year, followed by taxes on Property (15.4 percent), then Consumer Taxes (8.1 percent) and taxes on International Trade (2.2 percent). In parallel, non-tax revenues stood at 4.8 percent of GDP in 2017, below the 6 percent of GDP reached in 2014.

Expenditure
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Total expenditures grew by 3.5 percent to LL 23,186 billion in 2017 or around 29 percent of GDP, mainly due to increases in personnel cost spending, interest payments, transfers to Electricite Du Liban (EDL), and capital expenditures. Moreover, treasury expenditures dropped by 41.5 percent in 2017 due to an accounting adjustment reflected in a one-off transfer to municipalities[3]. Also, interest payments rose by 4.7 percent year-on-year, while capital expenditures grew by 10.6 percent.

Public Debt Developments
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Gross public debt totaled LL 119,889 billion by the end of 2017, growing by 6.2 percent from the preceding year. The debt-to-GDP ratio increased from 145 percent of in 2016 to around 149 percent in 2017, given the subdued economic growth and higher debt stock. Local currency debt accounted for 51 percent of the total increase in public debt, adding LL 3,549 billion in 2017, whereas foreign currency debt grew by an equivalent of LL 3,430 billion in the covered period. In turn, net public debt increased by 6.0 percent in 2017 as public sector deposits climbed by LL 1,108 billion or almost 8 percent year-on-year.

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

SECTION I: FISCAL OVERVIEW

The **total fiscal balance** recorded a deficit of LL 5,662 billion in 2017, equivalent to 7.0 percent of GDP. This compares to a deficit of LL 7,453 billion in 2016, or 9.6 percent of GDP, and to a deficit of LL 5,958 billion or 7.9 percent of GDP in 2015. Total revenues jumped by 17.1 percent, whereas total payments increased by 3.5 percent. The **primary balance** registered a surplus of LL 2,152 billion in 2017, up from a surplus of LL 31 billion in 2016 and from a surplus of LL 1,092 billion in 2015.

Table 1: Summary of Fiscal Performance

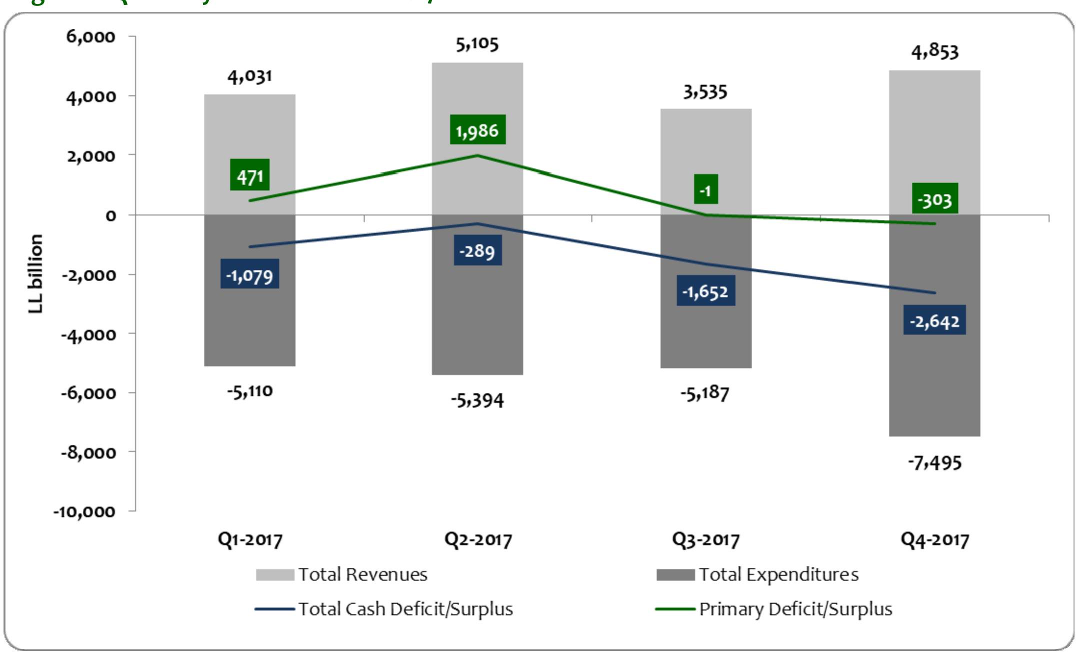
(LL billion)	2015	2016	2017	% Change 2017/2016
Total Budget and Treasury Receipts	**14,435**	**14,959**	**17,524**	**17.1%**
Total Budget and Treasury Payments	**20,393**	**22,412**	**23,186**	**3.5%**
• *Interest Payments*	6,722	7,185	7,521	4.7%
• *Concessional loans principal payment*[1]	328	299	293	-1.9%
• *Primary Expenditures*[2]	13,343	14,928	15,372	3.0%
Total Deficit/Surplus	**(5,958)**	**(7,453)**	**(5,662)**	**-24.0%**
Primary Deficit/Surplus	**1,092**	**31**	**2,152**	**-**

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)*

Figure 2: Quarterly Fiscal Results in 2017



Source: MOF, DGF

SECTION II: REVENUE OUTCOME

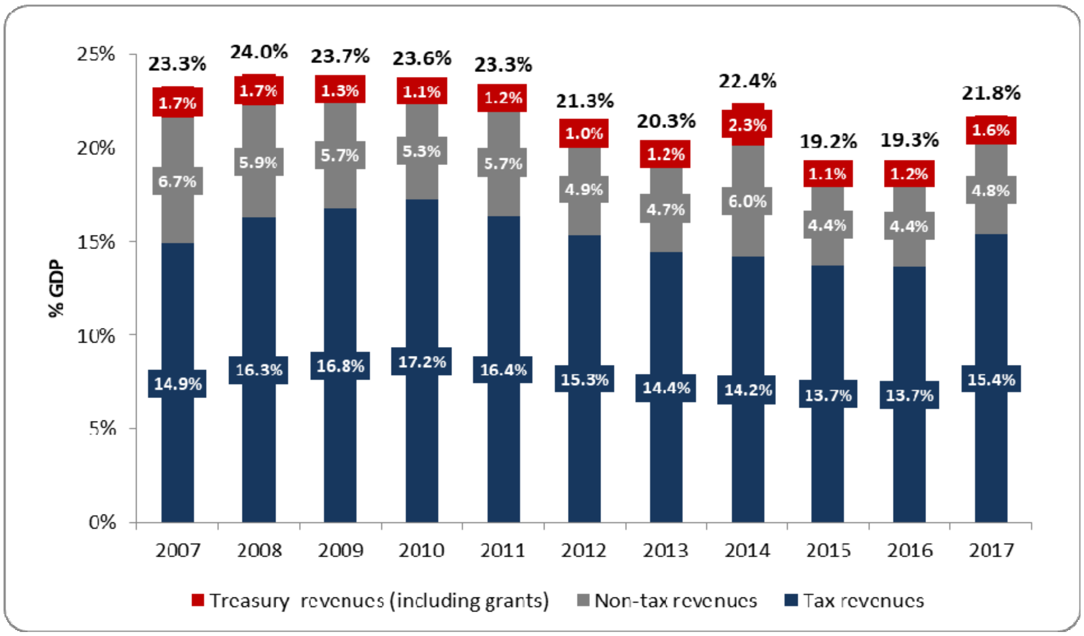
Total revenues increased by 17.1 percent to reach LL 17,524 billion in 2017, rising to 21.8 percent of GDP from an average of 19.2 percent of GDP during the 2015-16 period. This also compares to a 23.59 percent average revenue share of GDP recorded in the period extending from 2007 till 2011 and a 21 percent average in the period extending from 2012 till 2015.

Table 2: Total Revenues

(LL billion)	2015	2016	2017	% Change 2017/2016
Budget Revenues, of which:	**13,635**	**13,989**	**16,247**	**16.1%**
• *Tax Revenues*	*10,330*	*10,597*	*12,381*	*16.8%*
• *Non-Tax Revenues*	*3,305*	*3,392*	*3,866*	*14.0%*
Treasury Receipts	**800**	**970**	**1277**	**31.7%**
Total Revenues	**14,435**	**14,959**	**17,524**	**17.1%**

Source: MOF, DGF

Figure 3: Total Revenues as a Percentage of GDP (2007-2017)



Source: MOF, DGF, Central Administration of Statistics (CAS), IMF
Note: GDP figures prior to 2017 are taken from the CAS *Lebanese National Accounts 2004-2016*. 2017 GDP figure is computed using IMF April 2018 World Economic Outlook real growth and deflator, based on the 2016 CAS GDP figure.

TAX REVENUES

Tax revenues rose by LL 1,783 billion (16.8 percent) to LL 12,381 billion in 2017, reaching a 15.4 percent share of GDP relative to 13.7 percent of GDP in over the 2015-16 period (*For more information, kindly refer to Figure 3*). The increase was mainly attributed to a rise in taxes on income, profits, and capital gains and to higher Value-added Tax. It is also worth mentioning that the average CPI index increased by 4.5 percent in 2017, compared to a 0.8 percent decline in the previous year.

Box #1: New Tax Laws Introduced in 2017

Law # 64 dated October 26, 2017 amended some tax articles and introduced numerous new revenue-enhancing measures to finance the public-sector salary scale

Law # 64 dated October 26, 2017 replaced the previous Law # 45 of August 21, 2017 that was invalidated by the decision of the Constitutional Council on August 30, 2017. The Lebanese Parliament ratified the tax law on October 9, 2017 and was signed by the President of the Republic on October 20, 2017.

The bulk of new tax articles and new revenue-enhancing measures are detailed below:

- Value Added Tax (VAT) rate increased from 10% to 11% starting on January 1, 2018.
- The Corporate Income Tax rate rose by two percentage points from 15% to 17% starting from the fiscal year 2017.
- Tax on Interest Income grew from 5% to 7% starting October 26, 2017.
- The Fiscal Stamp Duty rate increased by 1‰ (one per 1000) from 3‰ (3 per 1000) to 4‰ (4 per 1000) starting from the date the Law was published in the Official Gazette.
- A flat nominal tax of LBP6,000 on each ton of cement produced in the country was imposed starting from the date the Law was published in the Official Gazette.
- The capital gains tax rate on the disposal of fixed assets increased by five percentage points from 10% to 15%. Nonetheless, the losses carried forward can be used to reduce the amount of capital gains. The revaluation gain, resulting from the revaluation of assets, is taxable at an income tax rate of 10%.
- Tax on imported alcohol type A (beer) increased from LBP60 per liter to LBP180 per liter.
- Tax on imported alcohol type B (wine and arak) rose from LBP200 per liter to LBP600 per liter.
- Tax on imported alcohol type C (whiskey, vodka, gin, rum) increased from LBP400 per liter to LBP1,200 per liter, which translate into an effective growth of 200%.
- A new tax of LBP250 per pack was imposed on imported cigarettes, a tax of LBP2,500 per kilogram on imported tobacco and tambac products, and a new levy of 10% on each cigar price was enacted.
- A new tax of LBP50,000 per traveler was imposed on outgoing economy class ticket for flights exceeding 1,250 kilometers (km) and a charge of LBP400,000 per private jet passenger for flights exceeding 1,250km. Also, the levy on outgoing business class ticket for flights exceeding 1,250km increased from LBP70,000 to LBP110,000, and the tax on outgoing first class ticket for flights exceeding 1,250km grew from LBP100,000 to LBP150,000 per traveler.
- Tax on lottery prizes that exceed LBP10,000 rose from 10% of the prize value to 20% of the prize value.
- A new fee of LBP5,000 per traveler was imposed on non-Lebanese traveling to Lebanon by land.
- Multiple fees collected by the notary public on behalf of the Treasury increased by an implied average of 100%.

Table 3: Tax Revenues

(LL billion)	2016	2017	% Change 2017/2016
Taxes on Income, Profits, & Capital Gains	**3,015**	**4,201**	**39.3%**
• Income Tax on Profits (Including the one-time tax on commercial banks)	1,143	2,101	83.8%
• Income Tax on Wages and Salaries	702	767	9.3%
• Income Tax on Capital Gains & Dividends	288	356	23.5%
• Tax on Interest Income (5%)	819	904	10.5%
• Penalties on Income Tax	63	73	15.5%
Taxes on Property	**1,224**	**1,413**	**15.4%**
• Built Property Tax	255	283	10.7%
• Real Estate Registration Fees	802	964	20.2%
• Inheritance Tax	167	166	-0.5%
Domestic Taxes on Goods & Services, *of which:*	**3,773**	**4,079**	**8.1%**
• Value Added Tax	3,234	3,476	7.5%
• Other Taxes on Goods and Services, *of which*:	411	461	12.4%
Private Car Registration Fees	236	254	7.6%
Passenger Departure Tax	173	206	19.2%
• Transfers from Régie	121	131	8.3%
Taxes on International Trade	**2,117**	**2,163**	**2.2%**
• Customs	706	742	5.1%
• Excises, *of which*:	1,411	1,421	0.7%
Gasoline Tax	680	691	1.5%
Tobacco Tax	228	197	-13.8%
Tax on Cars	497	526	5.9%
Other Tax Revenues (namely fiscal stamp fees)	**468**	**524**	12.0%
Total Tax Revenues	**10,597**	**12,381**	**16.8%**

Source: MOF, DGF

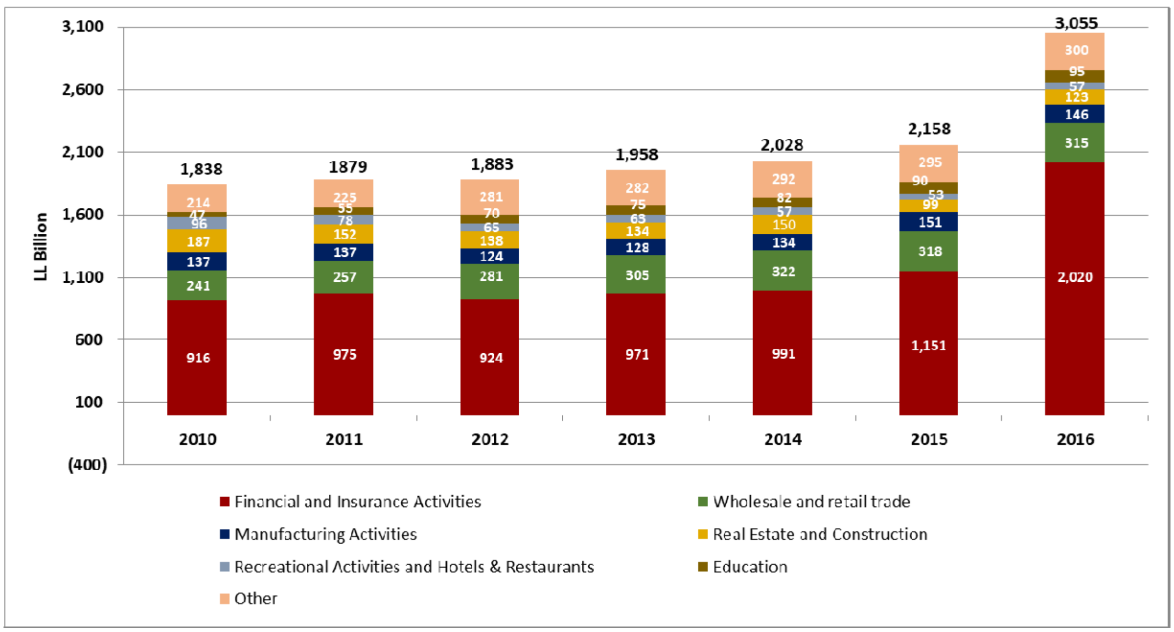
Taxes on income, profits and capital gains grew significantly by LL 1,186 billion (39.3 percent) year-on-year in 2017 relative to a LL 128 billion (4.4 percent) increase in 2016. This constituted a rise from 3.9 percent of GDP in 2016 to a 5.2 percent share of GDP in 2017.

In detail, Income tax on profits increased by LL 958 billion (83.8 percent) to reach LL 2,101 billion in 2017 as financial institutions transferred exceptional revenues generated from the Central Bank's 2016 financial engineering. Moreover, Tax on Interest Income grew by LL 86 billion (10.5 percent) to reach LL 904 billion. In addition, Income tax on capital gains and dividends increased by LL 68 billion (23.5 percent) to LL 356 billion in 2017 and Income Tax on wages and salaries rose by LL 65 billion (9.3 percent) to reach LL 767 billion in 2017.

Box #2: Corporate Income Tax

- Corporate Income Tax (CIT) is a 17 percent flat tax on profits of corporations. Moreover, it represents the major sub-component of Income Tax on Profits, along with income taxes on partnerships, individual enterprises and liberal professions.
- During 2016, Financial and Insurance Activities accounted for the bulk of total Corporate Income Tax declarations or 66 percent of the total, followed by Wholesale and Retail Trade, and Repair of Vehicles (10 percent) and Manufacturing (5 percent).
- Corporate Income Tax declarations grew by a compound annual growth rate (CAGR) of 10 percent between 2011 and 2016. Financial services, tourism, and real estate activities, typically the main drivers of growth in Lebanon, were the most affected by the subdued economic activity over the covered period.
- The total declared amount of CIT among all economic sectors in Lebanon grew by 6.4% year-on-year in 2015 and increased by another 42 percent in 2016 to reach LL 3,055 billion. This jump in declarations was attributed to higher profits declared from the financial sector, especially given the windfall tax declared as a result of the financial engineering operation between Banque du Liban and commercial banks in May 2016.

Corporate Income Tax, by Economic Activity (2010-2016)



Source: General Directorate of Finance, Ministry of Finance
Note: Corporate Income Tax figures represent the declared amounts and differ from the actual collection figures published in the Fiscal and the Tax Revenues table (Table 2).

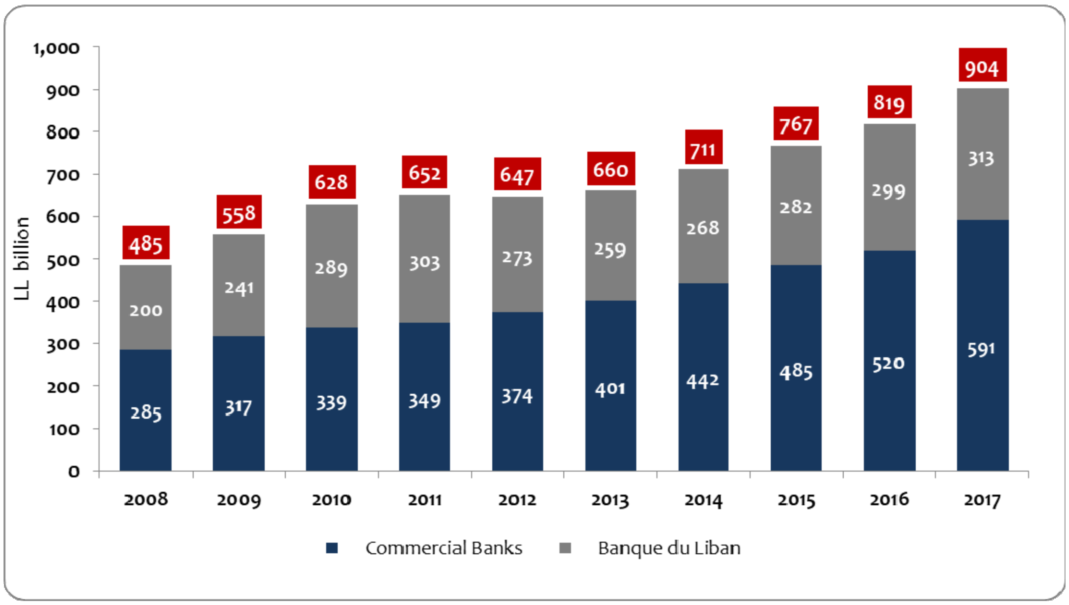
Taxes on interest income rose by LL 86 billion (10.5 percent) reaching LL 904 billion in 2017.

By institution, collections from commercial banks rose by 14 percent as a result of a growth in *private sector deposits* coupled with a rise in *interest rates on foreign and local currency deposits.*

In detail, commercial banks' private sector deposits grew by 3.8 percent annually to reach LL 254,261 billion by end-December 2017 relative to a growth rate of 7.2 percent a year earlier, while the weighted average interest on dollar denominated deposits climbed from 3.34 percent during 2016 to 3.65 percent in 2017. In addition, the rate on local currency deposits inched up from an average of 5.56 percent during 2016 to 5.65 percent in 2017.

Collections from Banque du Liban[4] rose 4.8 percent, presumably as a result of higher revenues from *Treasury Bills and Bonds* (*for more information, kindly refer to the interest payment section of the report*).

Figure 4: Tax on Interest Income, by Institution (2007 - 2017)



Source: MOF, DGF

Domestic taxes on goods and services increased by LL 306 billion to LL 4,079 billion in 2017 driven mostly by a LL 242 billion increase in value-added tax.

Value-added tax collections increased by 7.5 percent to LL 3,476 billion in 2017, equivalent to 85 percent of total domestic taxes on goods and services. Internal VAT rose by 5 percent year-on-year, while VAT at *customs* grew by 9 percent to reach LL 2,048 billion.

Total imports increased by 2.4 percent in 2017 to reach LL 29,530 billion led by a LL 530 billion (2.3 percent) increase in non-fuel imports and a LL 169 billion (2.7 percent) in fuel imports to reach LL 23,190 billion and LL 6,340 billion respectively.

[4] 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.

Table 4: Total Imports & Effective VAT Rate

(LL billion)	2016	2017	% Change 2017/2016
Total Imports	**28,831**	**29,530**	**2.4%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	6,171	6,340	2.7%
• *Non-Fuel Imports*	22,660	23,190	2.3%
• *Share of Fuel Imports*	*21.4%*	*21.5%*	*0.1%*
• *Share of Non Fuel Imports*	*78.6%*	*78.5%*	*-0.1%*
Revenues from VAT at Imports	**1,873**	**2,048**	**9.3%**
Effective VAT rate	**6.5%**	**6.9%**	**0.4%**

Source: MOF, DGF

Table 5: Tax Revenues from Internal Operations (10 Largest Contributors by Economic Activity)

(LL billion)	Economic Activity	2012	2013	2014	2015	2016	2017	% Change 2017/2016
Rank	**VAT from Internal Activities,** of which:	**1,124**	**1,201**	**1,246**	**1,325**	**1,397**	**1,424**	**1.91%**
1	Wholesale trade, except of motor vehicles and motorcycles	174	188	188	208	223	231	3.85%
2	Other business activities	165	166	176	174	182	184	0.89%
3	Retail trade, except of motor vehicles and motorcycles	141	145	159	170	170	182	7.18%
4	Hotels & restaurants	100	98	101	108	106	115	9.12%
5	Construction	91	105	94	95	98	93	-4.58%
6	Real estate activities	62	70	79	80	82	93	12.72%
7	Manufacture of food products and beverages	51	56	58	60	62	66	4.94%
8	Manufacture of other non-metallic mineral products	39	50	45	46	56	47	-15.17%
9	Sale, maintenance and repair of motor vehicles; retail sale of automotive fuel	42	40	44	49	51	51	-0.64%
10	Post and telecommunications	31	37	44	37	42	41	-3.36%

Source: VAT Directorate, VAT Declaration Forms, MOF
Note: Figures of VAT Revenues from Internal Operations represent the declared amounts rather than realized

Referring to Table 5, it is worth mentioning that four out of 10 activities witnessed a major increase in the VAT tax declared in 2017. VAT reached LL 1,424 billion in 2017, up by 2 percent from LL 1,397 billion in 2016.

- VAT on Retail Trade recorded the biggest rise in nominal terms in 2017, reaching LL 182 billion up from LL 170 billion in 2016. In particular, these collections remained almost unchanged during 2015 and 2016.
- Tax on Real Estate activities grew by 12.7 percent (LL 10 billion) in 2017 compared to a rise of 3.6 percent (LL 3 billion) in 2016. Tax in the real estate sector is mainly driven by higher real estate registration fees and built property tax that grew in tandem with the average price of properties and the number of sales transactions.
- Tax on Hotels and Restaurants recorded the third largest increase in nominal terms in 2017, standing at LL 115 billion relative to LL 105 billion in the same period last year. In detail, the number of tourists arriving at the Beirut-Rafic Hariri International Airport in 2017, reached LL 1.9 million in 2017, increasing by 10% year-on-year. In addition, this increase could be partly attributed to a slight improvement in economic activity in Lebanon.

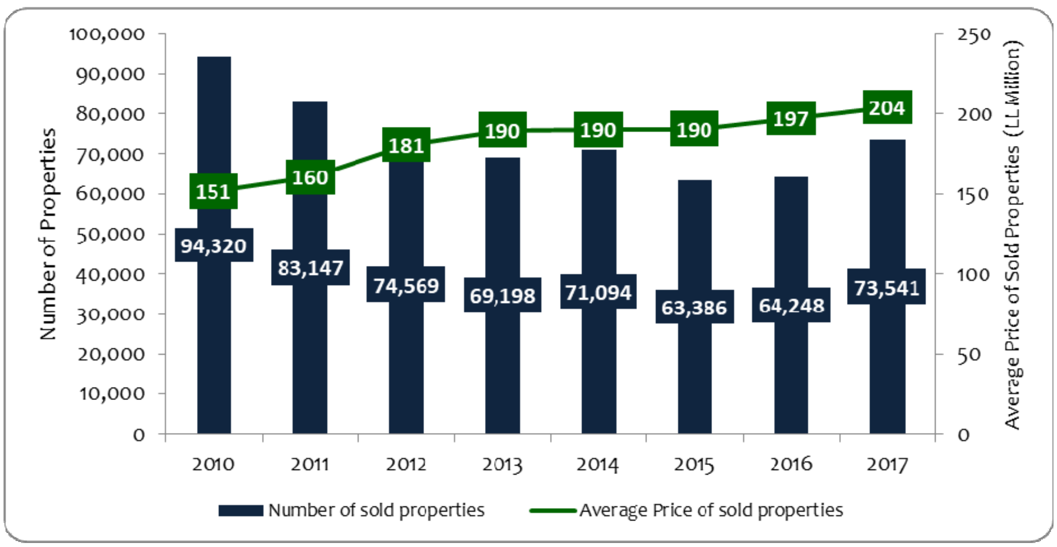
- Tax on Wholesale trade and commission trade increased by LL 9 billion (3.8 percent) to reach LL 231 billion in 2017, accounting for the bulk of the total tax revenues declared over the period at around 16 percent of total declarations.

It is also worth mentioning that the amount of tax revenues collected in 2017 reached 94 percent of the total VAT from internal operations declared, showing positive signs of a a sizeable improvement in tax collections.

Collections from the **passenger departure tax** rose by LL 33 billion (19.2 percent) to LL 206 billion in 2017, while **private car registration fees** increased by LL 18 billion (7.6 percent) to LL 254 billion in 2017.

Taxes on property rose by LL 189 billion (15.4 percent) to LL 1,413 billion, owing to a LL 162 billion increase in real estate registration fees and a LL 27 billion rise in built property tax, given a 3.5 percent rise in the average price of properties and and a 14.5 percent increase in the number of sale transactions.

Figure 5: Property Registration Statistics from Cadastre (2010-2017)



Source: MoF, Cadaster
Note: These are declaration statistics based on sales contracts.

Taxes collected from international trade (customs and excise taxes) increased by LL 46 billion (2.2 percent) to reach LL 2,163 billion in 2017. Tariff revenues amounted to LL 742 billion last year, up from LL 706 billion in 2016.

Total excise taxes rose by 1 percent in 2017 to LL 1,421 billion, driven by increases in gasoline and car excises that were counterbalanced by a decline in tobacco excises.

Excise taxes on gasoline rose by LL 11 billion year-on-year to reach LL 691 billion in 2017, owing mainly to a slight increase in the volume of imported gasoline. Car excises increased by LL 29 billion (6 percent) in 2017, driven by a 7 percent rise in the number of cars imported. It is worth mentioning that the average effective tax rate remained almost unchanged year-on-year. Finally, excise taxes on tobacco products registered a 14 percent decrease mainly as a result of continued cross-border smuggling from Syria which reduced the market need for formal tobacco imports.

Finally, receipts from **fiscal stamp fees** increased by LL 56 billion (12 percent) year-on-year to LL 524 billion in 2017. Receipts from this tax category 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 475 billion (14 percent) in 2017, mainly as a result of higher **income from public institutions and government properties.** Non-tax revenues stood at 4.8 percent of GDP in 2017 up from an average of 4.4 percent of GDP over the 2015-16 period but down from 6 percent of GDP in 2014.

Income from public institutions and government properties rose by LL 272 billion (11.4 percent) to LL 2,649 billion in 2017, owing to a LL 39 billion increase in Revenues from Port of Beirut coupled with a LL 29 billion increase in transfers from the Telecom Surplus.

Administrative fees and charges rose by LL 104 billion (13.4 percent) to reach LL 883 billion in 2017, mostly owing to higher Vehicle Control Fees (LL 103 billion). In addition, Other Non-tax revenues (mostly retirement deductibles) also increased by LL 102 billion (52.5 percent) to reach LL 296 billion in 2017.

Table 6: Non-Tax Revenues

(LL billion)	2016	2017	%Change 2017/2016
Income from Public Institutions and Government Properties	**2,377**	**2,649**	**11.4%**
• Income from Non-Financial Public Enterprises, *of which*:	2,204	2,315	**5.1%**
- *Revenues from Casino du Liban*	*101*	*122*	**20.7%**
- *Revenues from Port of Beirut*	*136*	*175*	**29.1%**
- *Budget Surplus of National Lottery*	*58*	*81*	**38.0%**
- *Transfer from the Telecom Surplus*	*1,907*	*1,936*	**1.5%**
• Income from Financial Public Enterprises (BdL)	61	61	**-0.6%**
• Property Income (rent of Rafic Hariri International Airport)	104	266	**155.8%**
Administrative Fees & Charges, *of which:*	**778**	**883**	**13.4%**
• Administrative Fees, *of which*:	637	746	**17.1%**
- *Notary Fees*	*37*	*45*	**20.5%**
- *Passport Fees/ Public Security*	*277*	*282*	**2.0%**
- *Vehicle Control Fees*	*227*	*330*	**45.1%**
- *Judicial Fees*	*28*	*31*	**9.8%**
- *Driving License Fees*	*23*	*24*	**4.4%**
• Administrative Charges	35	33	**-4.7%**
• Permit Fees (mostly work permit fees)	86	85	**-1.3%**
• Other Administrative Fees and Charges	17	15	**-10.7%**
Penalties and Confiscations	**42**	**39**	**-8.1%**
Other Non-Tax Revenues (mostly retirement deductibles)	**194**	**296**	**52.5%**
Total Non-Tax Revenues	**3,392**	**3,866**	**14.0%**

Source: MOF, DGF

TREASURY RECEIPTS

Treasury receipts recorded a LL 307 billion (31.7 percent) increase in 2017 from LL 970 billion in 2016, mainly due to an increase in other accounts (LL 350 billion), Deposits (LL 16 billion), and Transfers to Municipalities (LL 2 billion) along with a drop in Guarantees (-LL 19 billion).

SECTION III: EXPENDITURE OUTCOME

Total expenditures (Budget and Treasury) increased by LL 774 billion (3.5 percent) to LL 23,186 billion in 2017 from LL 22,412 billion in 2016. Similarly, **total primary expenditures** rose by LL 444 billion (3 percent) in 2017, mainly driven by increases of: (i) LL 883 billion in **personnel cost**, (ii) a rise of LL 482 billion in **various transfers**, and (iii) an increase of LL 143 billion in **construction in Progress**.

Moreover, **treasury expenditures** dropped by LL 941 billion (41.5 percent) in 2017, due to an accounting adjustment reflected in a one-off transfer to municipalities[5]. Also, **interest payments** rose by LL 336 billion (4.7 percent) in 2017 to reach LL 7,521 billion.

Table 7: Expenditure summary

(LL billion)	2016	2017	% Change 2017/2016
Interest payments	7,185	7,521	4.7%
Concessional loans principal payments (1)	299	293	-1.9%
Primary expenditures (2)	14,928	15,372	3.0%
Total budget and treasury payments	**22,412**	**23,186**	**3.5%**

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).

In parallel, **primary current expenditures** grew by one percentage point to 15.4 percent of GDP in 2017 from 14.4 percent of GDP in 2016, but was lower than the 17.2 percent of GDP average over the 2012-14 period. The increase in 2017 was mainly the result of an increase in personnel cost from 9.5 percent of GDP in 2016 to 10.2 percent of GDP in 2017 due to the implementation of the new salary scale Law #46 for public sector employees (*kindly refer to Box #3 New Salary Scale, law #46 dated 21 August 2017*). Furthermore, EDL transfers increased from 1.8 percent of GDP in 2016 to 2.5 percent of GDP in 2017, mainly due to the increase in the global average price of crude oil from $43.5/barrel in 2016 to an average of $54.2/barrel in 2017. Moreover, interest payments and foreign debt principal repayments grew from 9.0 percent of GDP in 2014 to 9.7 percent of GDP in 2017.

In turn, **capital expenditures** averaged 1.3 percent of GDP during the 2012-17 period, with the highest figure registered in 2017 at 1.5 percent of GDP. The increase in 2017 was attributed to significant transfers to the Council of Development and Reconstruction (CDR).

It is worth noting that transfers to municipalities dropped to 0.8 percent of GDP in 2017 compared to 2.0 percent of GDP in 2016.

Box #3: New Salary Scale, law #46 dated 21 August 2017

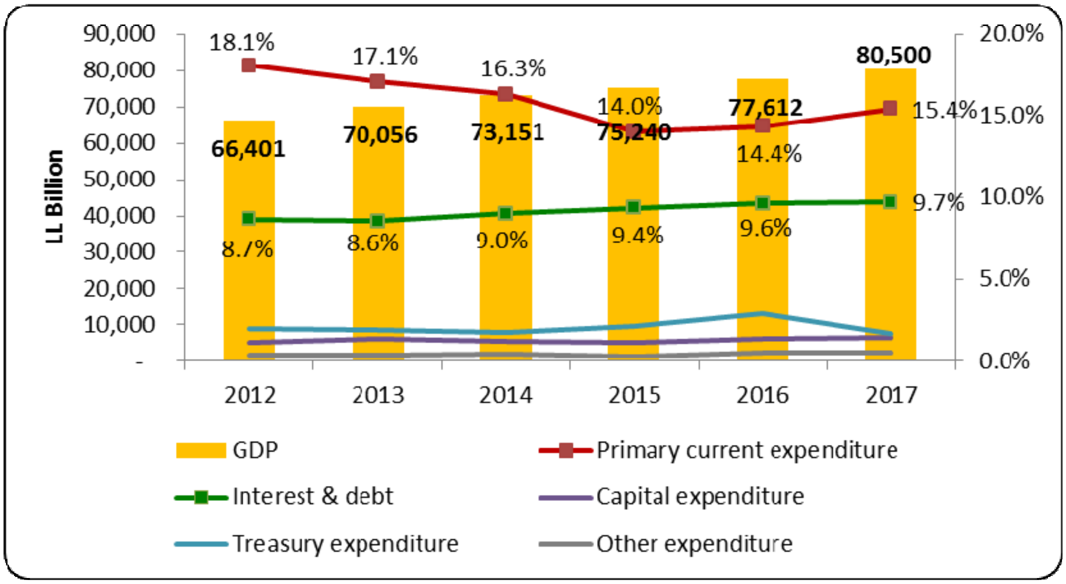
• Law #46 mandated the increase in the salaries & wages and the cost of living attributions of employees, retirees and contractual earners in public sector administrations, the Lebanese University, municipalities, the union of municipalities and in state-owned enterprises that are not subject to the Labor Law. Also, the new law stipulated the transfer of the increase in salaries to the general administrative staff and members of the educational body in the Ministry of Education & Higher Education, as well as to military personnel.

• The Lebanese Parliament ratified Law # 46 on July 18, 2017 and was signed by the President of the Republic on August 21, 2017.

• Personnel cost totaled LL 3,149 billion in Sep-Dec 2017, reflecting an increase of LL 723 billion or 30 percent from the same period of 2016.

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

Figure 6: Expenditure as a Percentage of Gross Domestic Product



Source: MOF, DGF, IMF and CAS

The evolution of the main expenditure items by economic classification in 2017 is presented in table 8 below, and reviewed in the sections that follow.

Table 8: Expenditure by economic classification

(LL billion)	2016	2017	% Change 2017/2016
1. Current Expenditures	**18,638**	**20,219**	**8.5%**
1.a Personnel Cost, *of which*	7,335	8,218	12.0%
Salaries, Wages and Related Items	*4,758*	*5,427*	*14.0%*
Retirement and End of Service Compensations, of which:	*2,132*	*2,347*	*10.0%*
Retirement	*1,808*	*2,007*	*11.0%*
End of Service	*325*	*340*	*4.6%*
Transfers to Public Institutions to Cover Salaries	*444*	*445*	*0.1%*
1.b Interest Payments	7,185	7,521	4.7%
1.c Accounting adjustments 1/	43	0	N.M.
1.d Foreign Debt Principal Repayment	299	293	-1.9%
1.e Materials and Supplies, *of which:*	465	537	15.4%
Nutrition (Food supply)	*81*	*85*	*4.8%*
Fuel Oil	*42*	*48*	*12.1%*
Medicaments	*243*	*317*	*30.3%*
1.f External Services	143	165	15.5%
1.g Various Transfers, of which:	2,379	2,860	20.2%
EDL	*1,397*	*2,002*	*43.3%*
NSSF	*70*	*0*	*N.M.*
Higher Council of Relief	*2*	*52*	*N.M.*
Contributions to non-public sectors	*330*	*332*	*0.5%*
Transfers to Directorate General of Cereals and Beetroot	*0*	*50*	*N.M.*
1.h Other Current, *of which:*	611	476	-22.1%
Hospitals	*473*	*336*	*-28.8%*
Others(judgments & reconciliations, mission costs, other)	*130*	*129*	*-0.9%*

1.i Reserves (Interest subsidy)	177	148	-16.4%
2. Capital Expenditures	**1,079**	**1,193**	**10.6%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	2	N.M.
2.b Equipment	88	74	-16.2%
2.c Construction in Progress, *of which:*	739	883	19.4%
Displaced Fund	*15*	*30*	*100.0%*
Council of the South	*54*	*54*	*0.0%*
CDR	*363*	*513*	*41.1%*
Ministry of Public Work and Transport	*111*	*95*	*-14.9%*
Other	*187*	*182*	*-2.5%*
2.d Maintenance	190	157	-17.6%
2.e Other Expenditures Related to Fixed Capital Assets	62	78	26.0%
3. Budget Advances 2/	**323**	**350**	**8.5%**
4. Customs Administration (exc. Salaries and Wages) 3/	**98**	**95**	**-2.1%**
5. Treasury Expenditures 4/	**2,269**	**1,328**	**-41.5%**
Municipalities	1,554	622	-60.0%
Guarantees	81	109	34.8%
Deposits 5/	240	293	22.1%
Other, *of which:*	395	304	-22.9%
VAT Refund	*269*	*224*	*-17.0%*
6. Unclassified Expenditures	**6**	**0**	**N.M.**
7. Total Expenditures (Excluding CDR Foreign Financed)	**22,412**	**23,186**	**3.5%**

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 EXPENDITURES

Current expenditures rose by LL 1,581 billion (8.5 percent) in 2017, mainly driven by the rise in (i) personnel cost of LL 883 billion mainly due to an increase in salaries, wages and related benefits by LL 668 billion and retirement and end-of-service compensations by LL 214 billion, (ii) EDL transfers by LL 604 billion, (iii) CDR transfers by LL 149 billion, (iv) compensation for medicaments by LL 74 billion. These increases were partly offset by a LL 136 billion drop in transfers to hospitals.

CURRENT PRIMARY EXPENDITURES

Current primary expenditures registered an increase of LL 1,251 billion to reach LL 12,405 billion in 2017 relative to LL 11,154 billion in 2016.

Personnel cost reached LL 8,218 billion in 2017, increasing by 12 percent compared to an annual rise of 3.6 percent in 2016. Salaries, wages and related items increased by LL 668 billion (14 percent) year-on-year to reach LL 5,427 billion in 2017 mainly as a result of the new salary scale mandated in law #46 dated 21 August 2017. As shown in table 9 and Box#4, this increase was mainly the result of higher payments of (i) basic salaries to the military personnel (LL 353 billion), (ii) basic salaries to the internal security forces (LL 95 billion), (iii) basic salaries to education personnel (LL 76 billion), (iv) basic salaries to civil personnel (LL

70 billion), and (v) allowances to the Army (LL 69 billion). These increases were partly counterbalanced by a decrease of LL 12 billion in other payments to education personnel.

Table 9: Breakdown of Salaries, Wages and Related Benefits (Jan-Dec 2016 - Jan-Dec 2017)

(LL billion)	Basic Salaries		Allowances 1/		Employment Benefits & Other 2/		Total	
	2016	2017	2016	2017	2016	2017	2016	2017
Military Personnel	**2,279**	**2,632**	**574**	**696**	**94**	**95**	**2,947**	**3,423**
Army	1,457	1,675	370	439	58	60	1,885	2,174
Internal Security Forces	628	724	150	199	27	27	805	949
General Security Forces	156	184	39	43	5	5	199	232
State Security Forces	38	50	15	15	5	4	58	69
Education Personnel	**930**	**1,006**	**0**	**0**	**118**	**107**	**1,048**	**1,113**
Civil Personnel	**338**	**409**	**4**	**3**	**114**	**114**	**456**	**526**
Employees Cooperative					**266**	**314**	**266**	**314**
Customs Salaries							**36**	**51**
Total 3/	**3,547**	**4,047**	**578**	**700**	**592**	**630**	**4,758**	**5,427**

Source: MoF, DGF

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

2/ Employement benefits 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 include unclassified expenditures, which amounted to LL 5 billion and nill during 2016 and 2017, respectively.

Retirement and end-of-service compensations increased by 10 percent to reach LL 2,347 billion in 2017 compared to LL 2,132 billion in 2016. This was mainly due to a LL 199 billion rise in retirement compensation along with a LL 15 billion increase in end-of-service indemnities.

In details, retirement expenses recorded an 11.0 percent rise, owing to a 4 percent increase in the number of civil personnel beneficiaries and to a 13 percent growth in the number of military personnel retirees along side a 21 percent higher number of Lebanese University Professors retirees. Moreover, end-of-service indemnity increased by 4.6 percent in 2017 compared to 2016.

Moreover, transfers to public institutions remained nearly unchanged standing at LL 445 billion in 2017 as compared to LL 444 billion in 2016. The components of transfers to public institutions are detailed in Table 8 above.

In addition, purchases of **materials and supplies** increased by LL 72 billion to LL 537 billion in 2017 from LL 465 billion in 2016, principally due to a LL 74 billion in higher spending on medicaments. More specifically, total expenditures on medicaments reached LL 317 billion in 2017, of which around 68 percent were transferred to the Ministry of Public Health and around 31 percent to military personnel[6]. Spending on fuel oil amounted to LL 48 billion, increasing by 12 percent year-on-year in 2017, with the bulk of supplies (LL 44 billion) dedicated to military personnel.

External services increased by 15.5 percent (LL 22 billion), from LL 143 billion in 2016 to LL 165 billion in 2017, mainly due to an increase in publications by LL 8 billion coupled with an increase of LL 7 billion in rental payments. Also, remuneration for consultancy services increased by LL 6 billion to reach LL 37 billion in 2017.

[6] The remaining 1 billion was distributed mainly to the Ministry of Agriculture and LL 0.6 billion to the Ministry of Social Affairs

Box #4: New Salary Scale Average Increases Breakdown

After implementing the new salary scale in September, public sector employees salary increase varied between each grade and level. Public sector employees:

- Level: Gain one level every two years
- Grade: gets promoted to a higher grade by undergoing an exam in the Civil Service Board with the exception of the Second (under certain requirments) and First Grade (appointed by the Council Of Ministers)

Average percentage increase*	
Public Sector First Grade	60%
Public Sector First Grade (Civil Service Board or Central Inspection)	62%
Public Sector Second Grade	105%
Public Sector Head of supervision and studies in the civil Service Board/ inspector / supervisor / or auditor in court of account or civil Service Boardor central inspection - Engineer or Doctor or pharmacist (Manager or Head of Unit)	102%
Public Sector Third Grade	77%
Public Sector Fourth Grade-First Degree	75%
Public Sector Technicians and Special Service in Officers in the Directorate General of Civil Aviation Fourth Grade First Degree	74%
Public Sector Fourth Grade-Second Degree	53%
Public Sector Technician and Special Service Officers in the Directorate General of Civil Aviation- Second Degree	52%
Public Sector Fifth Grade	32%
Pilot in the Directorate General of Civil Aviation	81%
Navigator in the Directorate General of Civil Aviation	89%
Foreign Service Officers First Grade	23%
Foreign Service Officers Outside Lebanon Second Grade	31%
Foreign Service Officers Outside Lebanon Third Grade	39%
Education Committee before University Education	88%

Source: MOF

Various transfers increased by LL 482 billion to LL 2,860 billion (20 percent) in 2017, mainly due to 33.9 percent increase in contributions to the public sector that reached LL 2,265 billion in 2017. The transfers to the Electricité Du Liban[7], which comprised about 70 percent of the total various transfers in 2017, increased by LL 604 billion as a result of the increase in the average price of crude oil to $54.2/barrel in 2017 compared to $43.5/barrel in 2016 as well as to a LL 94 billion payment to Electricity of Syria. Moreover, the assistance to the public sector increased by LL 41 billion in 2017, as the government subsidy to the Directorate General of Grains and Sugar Beetroot stood at LL 50 billion in 2017 compared to nil in 2016.

[7] For further details on EDL transfers in Jan-Dec 2017, kindly refer to the December issue of Transfers to Electiricité Du Liban, a monthly snapshot, on the Ministry of Finance website: www.finance.gov.lb.

These increases were slightly counterbalanced by the LL 203 billion drop in Lebanon's Membership Fees to Regional and International Organizations[8].

Table 10: Transfers to EDL

(LL billion)	2016	2017	%Change 2017/2016
EDL, *of which:*	**1,397**	**2,002**	**43.3%**
Debt Service*	21	15	-25.5%
Transfer to Electricity of Syria	0	94	N.M.
Reimbursement for purchase of Fuel & Gas Oil	1,377	1,892	37.4%

Source: MOF, DGF
*Including concessional loan principal and interest repayments on behalf of EDL

In addition to the increase in EDL transfers, several changes contributed to the increase in **various transfers**. As such:

a) Transfers to the Higher Relief Council increased by LL 49 billion in 2017. The transferred amounts in 2017 were mainly attributed to three Treasury advances related to the one-off agricultural subsidy paid to apple and cherry farmers[9].

b) Transfers to the Directorate General of Grains and Sugar Beetroot increased by LL 50 billion, mainly as a result of a LL 48 billion subsidy aimed to cover the price of wheat and barley for the year 2017[10].

c) Stoppings increased by LL 69 billion in 2017 from LL 108 billion in 2016 to LL 177 billion in 2017.

d) Transfers to the Traffic Management Authority increased by LL 39 billion, mainly due to a LL 37 billion contribution made to cover for the expenses related to issuing new driver's licenses[11].

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

e) Transfers to the Ministry of Finance to cover for Membership Fees in Regional and International Organizations dropped by LL 203 billion in 2017, mainly due to its one-time contribution in 2016 to the International Monetary Fund (LL 194 billion).

f) Transfers to NSSF regressed by LL 70 billion to nil in 2017. It is worth noting that these transfers are discretionary and do not follow a specific trend.

g) Transfers to Railway and Public Transportation Authority decreased by LL 18 billion in 2017 coupled with a decline of LL 17 billion in transfers to the Lebanese National Higher Conservatory of Music.

[8] In 2016, Lebanon's contribution to the International Monetary Fund (LL 194 billion) was paid as per Minister's decision # 575 dated 13 June 2016, please note that this increase has been paid: part 1, as per decision 630 dated 5 July 2016 (LL 192 billion) and part 2 as per decision 631 dated 5 July 2016 (LL 1.7 billion)

[9] As per decree 4142 dated 18/10/2016 (Treasury advance of LL 20 billion), decree 4148 dated 18/10/2016 (Treasury advance of LL 20 billion), decree 4285 dated 13/12/2017 (Treasury advance of LL 10 billion)

[10] As per Directorate Letter 9/1991 dated 27/12/2017, treasury advance 1571 dated 10/10/2017

[11] As per Minister's Decision 2694 dated 16/12/2016

Table 11: Breakdown of Article 14 by Economic Classification

(LL billion)	2016	2017	% Change 2017/2016
1. Contributions to the Public Sector 1/	**1,692**	**2,265**	**33.9%**
1a. Electricité Du Liban (EDL)	1,397	2,002	43.3%
1b. Other Contributions to the Public Sector, *of which:*	295	263	-10.6%
Transfers to School Funds	38	39	2.40%
High Relief Council(HRC)	3	52	N.M.
Public Hospitals	21	18	-15.3%
Tele Liban	12	3	-71.5%
National Council for Scientific Research	7	3	-59.1%
National Agriculture Research Institute	12	4	-65.8%
Green Project	5	5	-7.5%
National Social Security Fund (NSSF)	70	0	N.M.
Investment Development Authority of Lebanon (IDAL)	5	2	-51.3%
Traffic Management Authority	3	42	N.M.
2. Contributions to the Non-Public Sector[1]	**330**	**325**	**-1.7%**
Ministry of Education-Subsidized Schools	85	88	3.3%
Ministry of Youth and Sports	5	5	-1.6%
Ministry of Public Health	22	21	-1.9%
Ministry of Social Affairs	191	184	-3.5%
3. Assistance to the Public Sector	**9**	**50**	**N.M.**
3a. Directorate General of Grains & Sugar Beetroot	0	50	N.M.
3b. Public Institutions, *of which: 2/*	8	0	-97.0%
Ministry of energy and water	5	0	N.M.
4. Assistance to the Non-Public Sector	**1**	**7**	**N.M.**
5.External Assistance (Ministry of Health)	**0.11**	**0.05**	**-52.6%**
6. Membership Fees (Regional and International Organizations)	**240**	**37**	**-84.4%**
Ministry of Finance	222	9	-95.7%
Ministry of Foreign Affairs and Emigrants	11	16	51.2%
Ministry of Public Health (mainly for vaccinations and health prevention policies)	4	9	104.6%
7.Stoppings 3/	**108**	**177**	**63.3%**
Total	**2,379**	**2,860**	**20.2%**

Source: MOF, DGF
**figures differ from table 8 due to rounding effect*
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 dropped by LL 135 billion in 2017, from LL 611 billion in 2016 to LL 476 billion. Transfers to hospitals decreased by LL 136 billion mainly caused by a difference in the timing of payments as around 58 percent of the total amounts paid in 2016 were related to the 2015 budget. "Other spending" decreased by LL 1 billion in 2017 mainly as the result of a LL 26 billion drop in miscellaneous expenses to LL 6 billion in 2017, as exceptional compensations to observers (registrar and clerk) in the municipal elections of 2016. This was slightly counterbalanced by a rise of LL 26 billion in payments for judgments and reconciliations and by an increase of LL 8 billion in secret expenditures.

INTEREST PAYMENTS

Debt Service payments rose by LL 336 billion to reach LL 7,521 billion in 2017, mainly owing to an increase in the stock of outstanding debt in both local and foreign currencies.

Interest payments on local currency debt amounted to LL 4,866 billion by the end of 2017 up by 5.6 percent from the previous year. This was mainly due to an increase in the stock of local currency debt and a marginal rise in average interest cost, as well as to an increased concentration of higher interest long-term instruments over the period, namely the 10-year tenor.

It is worth mentioning that the average interest rate on long-term tenors increased during 2017, standing at 6.76 percent, while the average time to maturity increased to reach 3.84 years by end-December 2017, from 3.46 years by end-2016 due to an increase of long maturities.

In addition, **discount interest payments** (interest paid at maturity of 3, 6 and 12 months T-bills) increased by 6.6 percent to LL 158.7 billion in 2017, compared to LL 148.9 billion in 2016.

Interest payments on foreign currency debt amounted to LL 2,655 billion in 2017, recording a 3 percent increase when compared to 2016.

Eurobond coupons, the biggest sub-component, increased by 3.2 percent over the covered period, given the 10% increase in the stock of market-issued Eurobonds from LL 38,063 billion as of end-2016 to LL 41,791 billion as at end-December 2017. This was also driven by a 2 basis points rise in the weighted average cost of foreign currency debt from 6.21 percent at end-2016 to 6.23 percent by end-December 2017. The rise could be attributed to the increase in the stock of market-issued Eurobonds in 2017, boosted by a USD 3 billion issuance in March 2017 and an LL/FX debt swap between MoF and BDL debt in November 2017.

Table 12: Interest Payments

(LL billions)	2015	2016	2017	% Change
Debt Service Payments	**6,722**	**7,185**	**7,521**	**4.70%**
Local Currency	**4,327**	**4,609**	**4,866**	**5.60%**
Discount interest	72	148.9	158.7	6.60%
Coupon payments	4,254	4,421	4,650	5.20%
Foreign Currency	**2,395**	**2,576**	**2,655**	**3.00%**
Eurobond Coupon (including fees)	2,292	2,484	2,564	3.20%
C-loans interest	98	88	89	1.10%
Special Bond (expropriation & contractors)	5	3	2	-33.30%
Memorandum Items:				
Weighted average cost/Local debt				
Short-term (3-6-12)	5.01	5.22	5.2	-0.40%
Long-term (24-36-60-84-96-120-144)	7.02	6.66	6.76	1.50%

Source: MOF

CAPITAL EXPENDITURES

Capital expenditures increased by LL 114 billion, from LL 1,079 billion in 2016 to LL 1,193 billion in 2017, mainly as the result of a LL 143 billion hike in transfers to construction in progress and a LL 16 billion rise in transfers to other expenditures related to fixed capital assets.

Construction in progress increased by 19 percent year-on-year, reaching LL 883 billion in 2017, mainly due to a surge in payments to (i) the **CDR** by LL 149 billion, (ii) the **Higher Council of Relief** by LL 43 billion, and (iii) the **Displaced Fund** by LL 15 billion. In detail, payments to **CDR** increased by 41 percent year-on-year mainly due to higher transfers made for:

a) "Other projects" that increased by LL 112 billion, reaching LL 218 billion by end-2017 as part of a Treasury Advance (LL 126 billion) made for the CDR to cover the expenses of urgent and various pending construction projects[12].

b) Roads projects that grew by LL 67 billion, totaling LL 98 billion in 2017, as contribution payments made for projects related to the coastal highway construction and expansions of existing ones[13].

c) Maintenance of Beirut-Rafic Hariri International Airport that rose by LL 35 billion, mainly due to transfers related to decisions made in 2012[14].

The above increases were slightly counterbalanced by a LL 57 billion drop in Counterpart funding for foreign financed projects in the year 2017, reaching LL 92 billion.

Transfers to the **Ministry of Public Works and Transportation** dropped by LL 17 billion in 2017 to reach LL 95 billion. Also, transfers to the **Ministry of Energy** dropped by LL 52 billion due to various projects regarding the installation of power transmission substations and equipment in different areas back in 2016.

Table 13: Payments to CDR for Construction in Progress

(LL billion)	2016	2017	%Change 2017/2016
CDR Budget Payments (1)	**149**	**127**	**-15.0%**
Counterpart funding for foreign financed projects	149	92	-38.2%
Maintenance of Beirut-Rafic Hariri International Airport	0	35	-
Projects Executed on behalf of Line Ministries (2)	**107**	**167**	**56.1%**
Roads projects	31	98	214.2%
Buildings and other related projects	32	34	3.7%
Water treatment projects	44	36	-17.6%
Other projects	107	218	104.5%
Total Payments to CDR for Construction In Progress	**363**	**513**	**41.1%**

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.

Maintenance expenses declined by 18 percent to reach LL 157 billion in 2017, mainly due to a LL 31 billion decrease in transfers to the **Ministry of Public Works and Transportation,** from LL 144 billion in 2016 to LL 113 billion in 2017, whereby most of these transfers were related

[12] As per decree 3168 dated 7 April 2016, the total Treasury advance is LL 126.0945 billion

[13] As per Minister's decisions 117/2016 dated 15/9/2016(Budget transfer of LL 42 billion), 140/2015 dated 16/7/2015 (Budget transfer of LL 28 billion), 214/2012 dated 28/12/2012 (Treasury advance of LL 10 billion)

[14] As per Minister's decisions 162/2012 dated 29/10/2012, 88/2012 dated 29/5/2012, 22/2012 dated 8/2/2012, 112/2012 dated 11/7/2012, (LL 25.6 billion Budget transfer) and decision 123/2017 dated 10/5/2017 (LL 9 billion Budget transfer)

to the maintenance of roads and buildings, and to projects related to water drainage in 2016. Moreover, transfers to the Ministry of Energy decreased by LL 3 billion to reach LL 1.2 billion in 2017. Transfers to CDR regressed by LL 7 billion in 2017 compared to 2016.

Equipment expenses decreased by LL 14 billion in 2017 to reach LL 74 billion, mainly due to decreases in transfers to (i) the Ministry of Finance by LL 13 billion, (ii) Ministry of Defense by LL 6 billion, and (iii) the Ministry of Energy by LL 3 billion. The latter decreases were slightly counterbalanced by a LL 7 billion increase in transfers to the Ministry of Education.

TREASURY EXPENDITURES

Treasury expenditures dropped by 41.5 percent year-on-year, from LL 2,269 billion in 2016 to reach LL 1,328 billion in 2017. Transfers to municipalities decreased by LL 932 billion in 2017, reaching LL 622 billion (*kindly refer to note in the annual public finance annual report 2016*). As it can be observed in table 14, this drop was mainly due to decreases in all sub-categories, by: (i) LL 817 billion distribution of revenues accruing to municipalities, specifically in revenues from telecom transfers by LL 272 billion, (ii) LL 113 billion in solid waste management, and (iii) LL 1 billion in "other payments (including salaries)".

Table 14: Payments to Municipalities

(LL billion)	2016	2017	%Change 2017/2016
Distribution of Revenues Accruing to Municipalities, of which:	1,150	333	-71.0%
Telecom transfers	595	323	-45.7%
Payments for Solid Waste Management	395	281	-28.7%
Payments to Infrastructure Projects (Landfills)	44	54	24.0%
Other Payments (including salaries)	7	5.4	-13.5%
Total Payments to Municipalities	**1,553**	**622**	**-60.0%**

Source: MoF, DGF
**figures differ from table 8 due to rounding effect*

Deposits increased by LL 53 billion to LL 293 billion in 2017 and guarantees grew by LL 28 billion to LL 109 billion. The mentioned increases were slightly counterbalanced by a decline in VAT refund from LL 269 billion in 2016 to LL 224 billion in 2017.

SOCIAL EXPENDITURES

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 averaged around 7.5 percent of GDP for the two years under review, a low figure when compared to the 21 percent of GDP average among the Organization for Economic Cooperation and Development (OECD) countries[15].

However, the ratio of social expenditures to total spending remained unchanged at 26 percent in 2017, as social expenditures grew by 5 percent year-on-year. In nominal terms, social expenditure increased by LL 297 billion year-on-year and stood at LL 6,065 billion in 2017. The main changes during the year were:

a) Social expenditures related to education increased by LL 48 billion (3 percent) to reach LL 1,926 billion in 2017, mainly due to (i) a rise of LL 65 billion in salaries and wages, and (ii) an increase of LL 20 billion for higher education allowance in the private sector. The

[15] OECD iLibrary Database.

increases were partly counterbalanced by a drop of LL 31 billion in transfers to the Lebanese University.

b) Social expenditures related to health increased by LL 50 billion (4 percent), mainly driven by a LL 103 billion increase in hospitalization of public sector employees in private-sector hospitals and a LL 74 billion increase in purchases of medication. The increases were partly offset by a decrease of LL 136 billion in the hospitalization expenditure in the private sector.

c) End-of-service indemnities and retirement wages increased by 10 percent (LL 214 billion) to reach LL 2,347 billion in 2017 relative to LL 2,132 billion a year earlier.

In terms of spending allocation, **end-of-service indemnities and retirement wages** ranked first with 39 percent of total social spending in 2017, up from 37 percent in 2016. These were followed by **education spending** that accounted for 32 percent in 2017, down from 33 percent in 2016. More specifically, wages and salaries of the General Directorate of Education and transfers to the Lebanese University constituted the bulk of the education spending category, standing at 24 percent of total social expenditures in 2017. Finally, the **health expenditure**'s share of total social expenditure remained unchanged year-on-year at 19 percent of the total in 2017, with this component ranking third among social expenditures in 2016.

Table 15: Main Social Expenditure

(LL billion)	2016	2017	%Change 2017/2016
Health			
Hospitalization in the private sector	473	336	-28.8%
Purchase of Medication	243	317	30.3%
Hospitalization of public sector employees in private sector	245	348	42.1%
Maternity and sickness allowance	60	55	-8.0%
Other	102	116	14.1%
Sub-Total	**1,123**	**1,173**	**4.5%**
Education			
Ministry of Education and Higher Learning, *of which*	1,630	1,658	1.8%
Salaries and wages	*1,048*	*1,113*	*6.2%*
Transfers to the Lebanese University	*365*	*334*	*-8.5%*
Contributions to non-profitable organizations	*85*	*89*	*4.3%*
Education allowance in private sector	248	267	7.9%
Sub-Total	**1,877**	**1,926**	**2.6%**
Other Social Spending			
End of Service Indemnities & Retirement Wages	2,132	2,347	10.0%
Transfers to the National Social Security Fund	70	-	-
Transfers to Civil Servants' Cooperative	266	314	18.0%
Ministry of Social Affairs, *of which*	196	202	3.4%
Transfers to non-profitable organizations	*191*	*193*	*0.9%*
Participation in several mutual funds	72	67	-6.7%
Other social spending allowance (1)	8	7	-13.9%
Sub-Total	**2,768**	**2,967**	**7.2%**
Grand-Total Social Spending	**5,768**	**6,065**	**5.2%**

Source: MOF, DGF
(1) Note: Other social spending allowances mainly include marriage, birth, and death allowances and transfers to the Ministry of Displaced.

SECTION IV: PUBLIC DEBT DEVELOPMENTS

PUBLIC DEBT: GENERAL FACTS

Gross public debt reached LL 119,889 billion (US $79.5 billion) by the end of 2017, an increase of LL 6,979 billion (6.2 percent) from the previous year. This increase represented a slight decline from the previous year's 6.5 percent debt expansion, owing to the larger primary balance in 2017. The debt to GDP ratio however increased to around 149 percent from 145 percent in 2016 as GDP growth continued to lag behind the increase in interest payments. Local currency debt increased by LL 3,549 billion or 5 percent, and foreign currency debt grew by the equivalent of LL 3,446 billion or around 8 percent.

Net public debt increased almost 6 percent, or by a nominal amount of LL 5,906 to reach a total of LL 104,230 billion, rising at a slower pace than Gross Public debt as a result of an increase in public sector deposits by LL 1,073 billion to LL 15,659 billion. Net debt-to-GDP stood at 130% by end-2017, up from 127% by end-2016, while the ratio of public sector deposits to Gross Public Debt was 12.8% by the end of the year.

Table 16: Public Debt Outstanding as of end-December 2017

(LL billion)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Change 2016/2015	%Change 2016/2015
Gross Public Debt	95,710	100,356	106,031	112,910	119,889	6,979	6.5%
Net Debt(1)	80,215	86,391	92,804	98,642	104,230	5,906	6.3%
Gross Market Debt(2)	65,386	67,373	68,799	70,303	71,944	1,641	2.2%
Nominal GDP*	70,056	73,151	75,240	77,612	80,500	1,748	2.3%
Debt to GDP	136.6%	137.2%	140.9%	145.5%	148.9%	5.8%	NM

Source: MoF, BDL

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

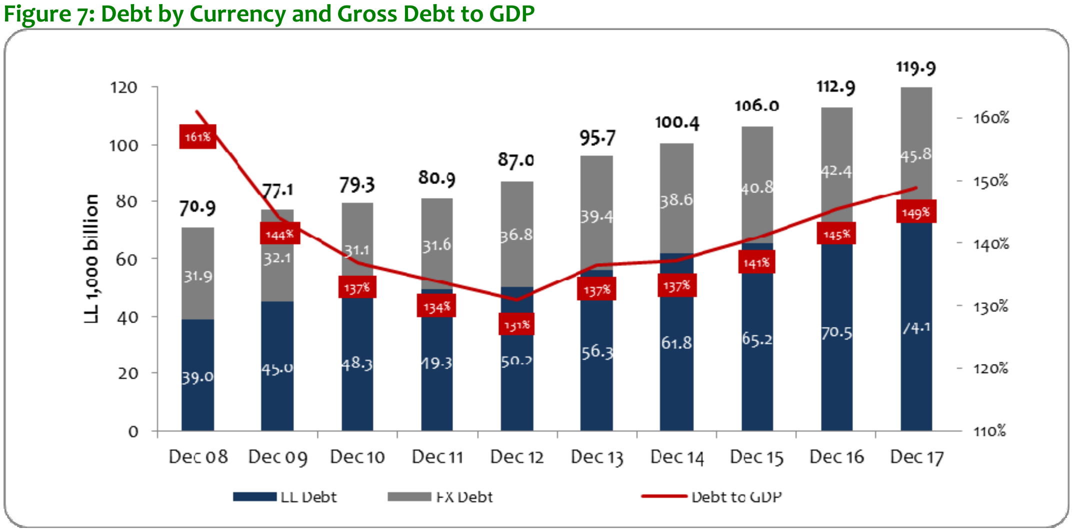
(2) Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

(3) Figures for Dec 12-Dec 15 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

** GDP 2016 was computed using IMF April 2017 WEO real growth and deflator estimates, starting from the 2015 CAS Nominal GDP figure as a base (GDP 2004-2015: Lebanese National Accounts - Comments and Tables 2004-2015).*

Source: MoF, BDL

Figure 7: Debt by Currency and Gross Debt to GDP



Source: MoF

LOCAL CURRENCY DEBT

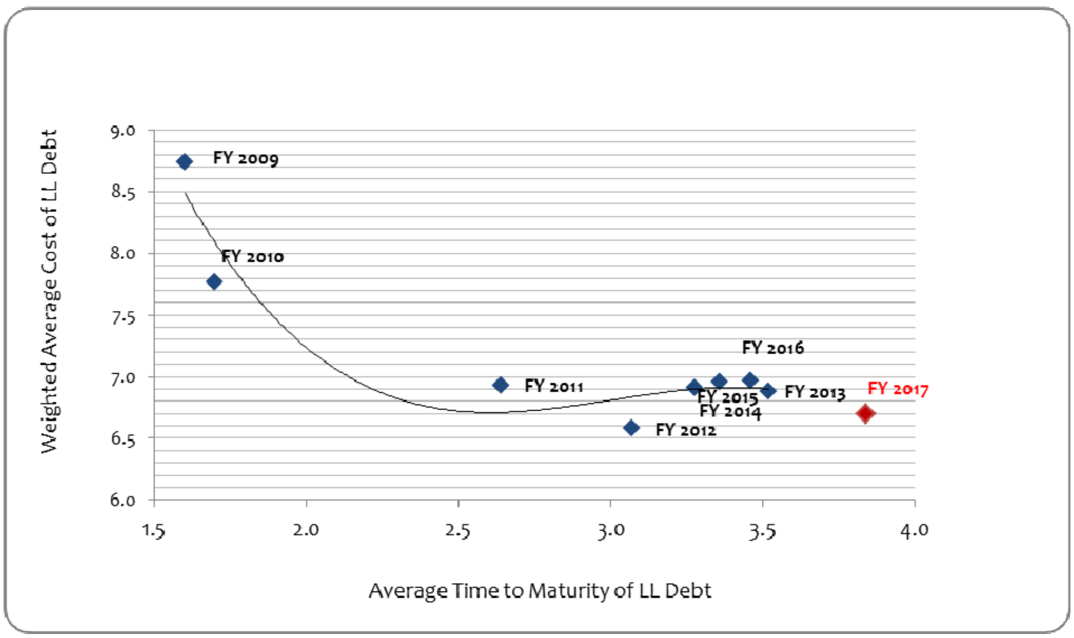
The stock of **Local currency debt** reached LL 74,077 billion by the end of December 2017, adding LL 3,549 billion (5.03 percent) from end of 2016. This compared to an increase of LL 5,333 billion (8 percent) in 2016. The deccelеartion in the increase of LL denominated debt was primarily due to the debt replacement agreement between the Ministry of Finance (MoF) and the Central Bank (BDL), and in which BDL redeemed an equivelant of USD 1.7 billion in local currency Treasury bills and bonds from it's portfolio. By end-2017, the share of local currency debt from gross outstanding debt decreased to 61.8 percent from 62.5 percent in 2016.

The **average time-to-maturity (ATM) of domestic currency Treasury Bills and Bonds** rose to 3.84 years by the end of December 2017, from 3.46 years in December 2016, reflecting the increase in outstanding longer term tenors including the 7-year and 10-year Treasury bonds that were issued on a regular basis during the year.

The **weighted average cost of outstanding domestic debt** decreased to 6.70 percent from 6.97 percent by end-2016, and 6.96 percent end-2015. This decrease outlined the below-market rate LL denominated debt private placements with the Central Bank on long term maturities as part of the debt replacement agreement between MoF and BDL.

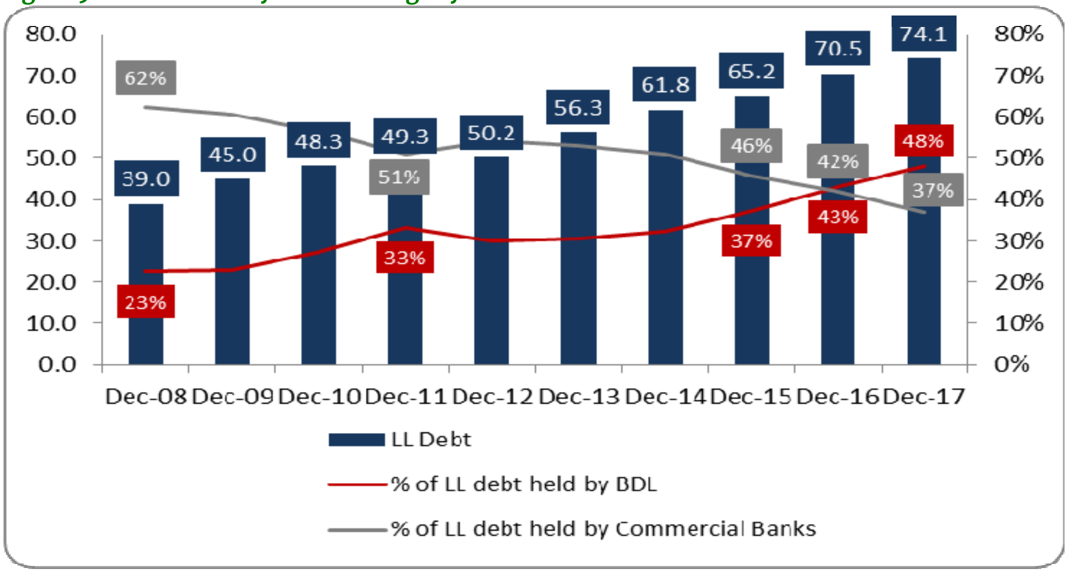
The weighted average cost on short term instruments (3-month, 6-month and 12-month tenors) slightly decreased to 5.21 percent in 2017 from to 5.22 percent in 2016. On long term instruments, the weighted average cost dropped to 5.78 percent from 6.67 percent in 2016.

Figure 8: Average Time to Maturity and Average Cost of LL Debt



Source: MoF, BDL

Figure 9: : Local Currency Debt Holdings by Commercial Banks and BDL



Source: MoF, BDL

Subscriptions by holder

Strong demand was recorded in TB weekly auctions in 2016 and was consistent across the maturity board but mostly concentrated in long term tenors. High levels of demand were also reflected in oversubscription ratios whereby total applied subscriptions reached 499 percent of allocations.

By the end of the year, Commercial banks' total local currency holdings were LL 27,522 billion or 37 percent of outstanding local currency debt, down from 40 percent in the previous year with MoF all0cating less than half of banks' total demand in TB auctions.

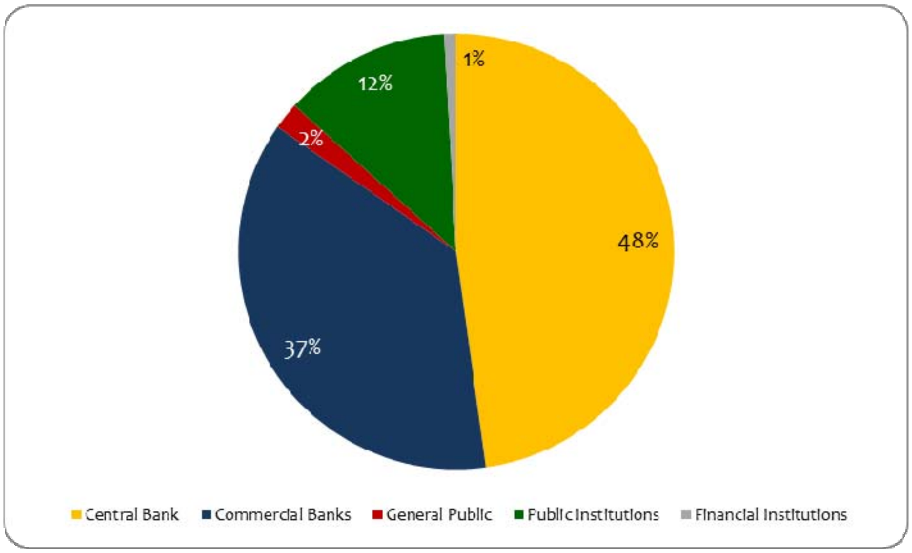
In contrast, the Central Bank's (BDL) share of total LL debt holdings increased to LL 35,580 billion or 48 percent from 43 percent of outstanding LL debt. The share of Public entities from outstanding LL debt remained at 12 percent, the general public's share holdings at 2 percent, and financial institutions at 1 percent.

In weekly auctions, Commercial Banks' allocated subscriptions amounted to LL 11,524 billion, accounting for 42.6 percent of total allocations, with an over-subscription ratio of 863 percent. Banks' allocated subscriptions over maturities, or rollover ratio, reached 210 percent. Of banks' total accepted offers, 5-year T-bonds accounted for 37 percent with over-subscriptions on the tenor reaching 424 percent. 10-year bonds accounted for 31 percent of allocations with an oversubscription of 1,245 percent, followed by 7YR bonds with allocations on the tenor accounting for 14 percent of the total, 6MN bonds with 6 percent of allocations, 12MN bills with 5 percent, 3MN bills with 4 percent, 3YR bills with 2 percent each, and 2YR bonds with 1 percent.

BDL's allocated subscriptions amounted to LL 9,956 billion in 2017 weekly auctions, representing 36.8 percent of their applied offers. BDL's rollover ratio on principal maturities reached 105 percent, although including LL 2,151 billion in coupon maturities, the ratio was 86 percent. Of total BDL accepted subscroptions, the 2YR and 3YR bonds accounted for 33 percent, followed by 5YR bonds with 9 percent, 12MN Tbills with 8 percent, 10YR and 3MN tenors with almost 5 percent, 6MN bills with around 4 percent, and 7YR bonds with 3 percent.

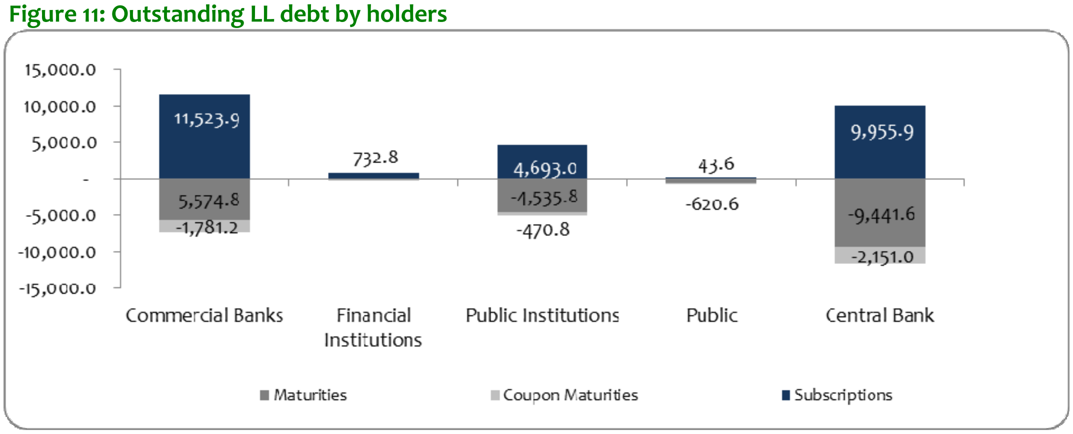
Accepted subscriptions by Public Entities reached LL 4,693 billion, representing 103 percent of their principal maturities and 94 percent of their principal and coupon maturities combined. Allocations mostly went to 3YR having 35 percent of total allocations each, followed by a 27 percent allocation on the 2YR bond. The 12MN bill went for 12 percent of total allocations followed by the 3MN bill having a 10 percent of total allocations; 6MN bill recorded a 8 percent of total allocations. In addition to having a noticeable over subscription on the 7YR bond recording a 598 percent.

Figure 10: Results of 2017 Weekly Auctions



Source: Source: MoF, BD

Figure 11: Outstanding LL debt by holders



Source: MoF, BD

Subscriptions by instrument

Outstanding Long-term Treasury bonds, represented by TBs issued with a maturity of two years or longer reached LL 70,782 billion by end-2017[16], adding LL 3,517 billion from end-2016. Long term bonds excluding accrued interest accounted for 96 percent of outstanding local currency debt, more than 95 percent in 2016, while tenors with a maturity of 7YRs and longer (7, 8, 10, 12, and 15 Years) accounted for 49 percent of long term bonds, compared to 47 percent in 2016, outlining appetite for higher-yielding instruments.

[16] This figure excludes accrued interest on long term T-bonds for the amount of LL 968 billion.

Outstanding 10YR bonds increased by LL 4,379 billion or 38 percent to LL 15,768 billion by end-2017 from the previous year. Commercial Banks took up 80 percent of aggregate 10YR subscriptions, followed by the Central Bank with 12 percent, and Financial Institutions with 6 percent. Demand for the 10YR tenor remained strong throughout the year.

Refinancing ratios to principal and interest maturities were generally lower in 2015 owing to rejections of over subscriptions from MoF, in line with the currency balanced financing strategy.

The stock of 2YR bonds grew by LL 2,168 billion to LL 7,377 billion by end-2017 as the low value of the tenor's maturities, coupled with strong demand, mostly from BDL, which took up to 71 percent of aggregate 2YR subscription.

The stock of seven-year Treasury bonds decreased by LL 1,185 billion to reach LL 13,495 billion by end-2017. In weekly auctions, the coupon rate of the 7YR tenor remained 7.08 percent in 2017.

Outstanding 3YR Treasury bonds dropped by LL 3,114 billion to reach LL 11,267 billion.

The stock of short-term Treasury bills increased by LL 16 billion owing to an increase of LL 483 billion in the 6MN Tbills, compared to declines of LL 332 billion and 135 billion in the 12MN and 3MN bills respectively.

Table 17: Domestic Currency Debt by Holder and Instrument as of end-2017

Stocks (end of period)	Dec-14	Dec-15	Dec-16	Dec-17	%Change 2017/2016
Local currency debt	**61,752**	**65,195**	**70,528**	**74,077**	**5.0%**
A. By Holder					
**Accrued interest included in debt*	*1,029*	*997*	*1,098*	*1,159*	5.6%
1. Central Bank	19,454	23,907	30,150	35,580	18.0%
2. Commercial Banks	31,869	30,279	29,581	27,756	-6.2%
3. Other local debt (T-bills)	10,429	11,009	10,797	10,741	-0.5%
o/w Public entities	7,701	8,461	8,718	8,941	2.6%
o/w Contractors(2)	180	180	139	166	19%
B. By Instrument					
1. Long term bonds	**59,736**	**63,712**	**67,265**	**70,782**	**5.2%**
**Coupon Interest*	*981*	*968*	*1,019*	*1,099*	*7.9%*
1.1 15 year bonds	0	0	215	215	0%
1.2 12 year bonds	3,373	3,373	3,076	3,076	0%
1.3 10 year bonds	4,790	8,005	11,389	15,768	38%
1.4 8 year bonds	1,982	1,982	1,833	1,833	0%
1.5 7 year bonds	10,219	12,100	14,680	13,495	-8%
1.6 5 year bonds	12,233	13,074	15,463	16,652	8%
1.7 3 year bonds	24,005	19,952	14,381	11,267	-22%
1.8 2 year bonds	2,153	4,258	5,209	7,377	42%
2. Short term bills	**1,860**	**1,343**	**3,045**	**3,061**	**1%**
** Accrued interest included*	*48*	*29*	*79*	*60*	*-24%*
2.1 12 months bills	1,195	801	2,345	2,013	-14%
2.2 06 months bills	564	470	435	918	111%
2.3 03 months bills	101	72	265	130	-51%
3. Other local debt	**156**	**140**	**218**	**234**	**7%**
3.1 Commercial Banks Loans	156	140	218	234	7%

Source: Ministry of Finance, Banque du Liban

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 by the Ministry of Finance remained stable throughout 2017 similar to those of 2016.

Table 18: Evolution of Primary Market Rates

Maturity	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
3-month	4.44 percent	4.44 percent	4.44 percent	4.44 percent
6-month	4.99 percent	4.99 percent	4.99 percent	4.99 percent
12-month	5.35 percent	5.35 percent	5.35 percent	5.35 percent
2-year	5.84 percent	5.84 percent	5.84 percent	5.84 percent
3-year	6.50 percent	6.50 percent	6.50 percent	6.50 percent
5-year (1)	6.74 percent	6.74 percent	6.74 percent	6.74 percent
7-year(2)	7.50 percent	7.08 percent	7.08 percent	7.08 percent
8-year (3)	7.80 percent	N/A	N/A	N/A
10-year(4)	7.98 percent	7.46 percent	7.46 percent	7.46 percent
12-year(5)	8.74 percent	N/A	N/A	N/A
15-year	N/A	N/A	7.90 percent	N/A

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 t Lebanese poutinehe 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.

FOREIGN CURRENCY DEBT

Outstanding **Foreign currency debt** amounted to an equivalent of LL 45,812 billion (US$ 30.4 billion) by end-2017, up by 8.1 percent from the previous year, mainly as new Eurobonds were issued above principal refinancing needs in order to finance debt service needs in foreign currencies.

Table 19: Foreign Currency Debt by Holder and Instrument as at end-2017

(in LL billion)	Dec-14	Dec-15	Dec-16	Dec-17	% Change 2017/2016
B. Foreign currency debt	**38,612**	**40,836**	**42,382**	**45,812**	**8.1%**
4. Eurobonds	**34,850**	**37,561**	**39,240**	**42,339**	**7.9%**
Of which, Paris II at preferential rates(1)	1,615	1,099	583	68	-88.4%
Of which, Paris III at preferential rates(2)	226	181	136	0	-100.0%
Of which, market-issued Eurobonds	32,584	35,846	38,063	41,791	9.8%
** Accrued Interest on Eurobonds*	425	435	458	480	4.8%
5. Loans	**3,648**	**3,207**	**3,079**	**3,440**	**11.7%**
5.1 Paris II loans	128	83	48	18	-62.5%
5.2 Paris III loans(3)	760	629	525	452	-13.8%
5.3 Bilateral loans (non-Paris II and III)	1,192	1,054	953	935	-1.9%
5.4 Multilateral loans (non-Paris II and III)	1,506	1,417	1,494	1,951	30.6%
5.5 Foreign Private Sector Loans	54	24	59	84	42.4%
6. Other debt	**114**	**68**	**63**	**33**	**-47.6%**
6.1 Special Tbs in Foreign currency(4)	114	68	63	33	-47.6%

Source: MoF, BDL

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

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

(3) IBRD loan, UAE loan, first tranche of the French loan received in February 2008 and part of second tranche received October 2012.

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

Outstanding **Eurobonds** amounted to the equivalent of LL 42,339 billion (US$ 28.1 billion) by the end-2017, increasing by 7.1 percent from the previous year, following two Eurobond transactions for an aggregate face value of US$ 4.7 billion, outweighing dollar denominated principal bond maturities and amortized principal repayments of Paris II and Paris III Eurobonds (See Table 21).

The first market Eurobond transaction for an aggregate value of US$ 3.0 billion was concluded on March 23rd 2017 and consisted of three series, (i) a US$ 1.25 billion 6.85% coupon bond due March 2027, (ii) a US$ 1.00 billion 7.00% coupon bond due March 2032, and (iii) a US$ 750 million 7.25% coupon bond due March 2037. Proceeds from the new bonds were used to finance principal maturities of market Eurobonds in the amount of US$ 2.275 billion, and amortized principal repayments of PII and PIII Eurobonds in the amount of US$ 445.75 million, in addition to a portion of the 2017 dollar debt service needs. The second Eurobond transaction in 2017 was conducted as part of a debt replacement agreement with the Central Bank (BDL) in November 2017, whereby the Ministry of Finance (MoF) issued to BDL US$ 1.7 billion worth of Eurobonds and BDL redeemed to MoF Treasury bonds of an equivalent Lebanese Pounds amount from its existing portfolio. The two Eurobond series consisted of a (i) US$ 700 million 7.00% coupon Eurobond due March 2028, and (ii) a US$ 1,000 million 7.15% coupon Eurobond due November 2031. This transaction did not entail any cash proceeds, however contributed to a temporary shift in the currency composition of gross outstanding debt, increasing the ratio of foreign currency to total debt to 40 percent from 38 percent. By end-2017, this ratio reverted back to 38 percent following an increase in local currency financing operations. Likewise, the debt replacement agreement contributed to extending the average time to maturity of outstanding debt, whereby the average time to maturity of issued Eurobonds was 12.7 years, compared to a 2.3 years average time to maturity of redeemed LL denominated Treasury bonds.

By the end of 2017, the **average time-to-maturity of outstanding market Eurobonds** was 6.45 years up from 6.38 years by end-2016, highlighting the effect of longer term tenors issued throughout the year.

Table 20: Net issuance of Eurobonds in 2017

(in US$)	
Eurobonds issued	**4,700,000,000**
March Transaction New Bonds	3,000,000,000
November Debt Replacement agreement	1,700,000,000
Eurobonds redeemed*	**2,720,751,100**
Paris II and Paris III Eurobonds	445,751,100
Market Eurobonds matured in 2017	2,275,000,000
Net issuance	**1,979,248,900**

Source: MoF

*Including Paris II and Paris III related Eurobonds and excluding FX expropriation bonds for the amount of US$ 19,761,508

Moreover, the **weighted average cost of outstanding market Eurobonds** slightly decreased to 6.43 percent from 6.50 percent in the previous year.

Including Paris II and III related Eurobonds and Loans, bilateral and multilateral loans, and other FX debt, the average time to maturity of outstanding FX debt was 7.34 years by the end of 2017, whereas the weighted average interest rate was 6.23 percent.

Outstanding **foreign currency loans** amounted to LL 3,440 billion by end-2017, increasing by the equivalent of LL 361 billion from end-2016, as new disbursements of multilateral loans exceeded amortized principal repayments of Paris II and Paris III loans, foreign private sector loans, and non-Paris conference related bilateral loans.

a) The stock of Paris II loans decreased by LL 30 billion (62.5 percent) to reach LL 18 billion following the redemption of € 20 million of the *Agence Française de Développement (AFD)* Paris II loan, represented by two amortized repayments made in February and August.

b) The stock of Paris III loans decreased by LL 73 billion, equivalent to 13.8 percent, to reach LL 452 billion by end-2017, mainly due to (i) two US$ 15 million semi-annual principal repayments made in April and October 2017 on the UAE Paris III loan; (ii) two US$ 5 million semi-annual principal repayments in April and October 2017 on the World Bank IBRD loan, (iii) two 9.375 million euro semi-annual principal repayments made in May and November 2015 on the 150 million euro AFD loan, and (iv) two 1.875 million euro semi-annual principal repayments made in May and November 2017 on the 30 million euro AFD loan.

c) The stock of foreign private sector loans increased by LL 25 billion to reach LL 84 billion.

d) The stock of non-Paris II and non-Paris III bilateral loans dropped by LL 19 billion, equivalent to 1.9 percent to reach LL 935 billion, as loan repayments exceeded disbursements made during the year. Major Principal Repayments included: (i) LL 85.9 billion to ELO, financing arm of EKF export credit facility, (ii) LL 24.3 billion to the Kuwait Fund for Arab Economic Development, (iii) LL 20.5 billion to the Saudi Fund for Development, (iv) LL 9.98 billion to *Agence Française de Développement,* and (v) LL 5.6 billion to Abu Dhabi Fund for Development.

e) Non-Paris II and Paris III multilateral loans increased by LL 457 billion to LL 1,951 billion. Principal repayments included: (i) LL 71 billion to the Arab Fund for Economic and Social Development (AFESD), (ii) LL 40 billion to the Islamic Development Bank, (iii) around LL 38 billion to the European Investment Bank, (iv) LL 8.8 billion to the International Bank for Reconstruction and Development (IBRD), and (v) LL 4 billion to the Organization of Petroleum Exporting Countries (OPEC).

f) The stock of special T-bills in foreign currency declined by LL 30 billion to LL 33 billion, following repayments to expropriation bond holders in January and December 2017.

Table 21: Lebanon Secondary Market Yields

	Mid Yield (%)			
	31-Mar-17	30-Jun-17	30-Sep-17	30-Dec-17
EURO				
LEB 5.350 18	2.59	3.75	3.10	3.62
US Dollars				
LEB 5.150 18	3.38	3.28	N/A	4.85
LEB 5.150 18	3.88	4.46	4.40	5.29
LEB 5.500 19	4.14	4.66	4.68	5.39
LEB 6.000 19	4.41	4.91	4.99	5.42
LEB 5.450 19	4.57	4.94	5.03	5.59
LEB 6.375 20	4.58	5.17	5.32	6.12
LEB 5.800 20	4.78	5.41	5.37	6.27
LEB 6.150 20	4.97	5.45	5.59	6.32
LEB 8.250 21	5.06	5.50	5.59	6.48
LEB 6.250 22	5.18	5.74	5.69	6.68
LEB 6.100 22	5.62	5.69	6.17	6.66
LEB 6.000 23	5.56	5.93	6.09	6.86
LEB 6.400 23	5.65	5.97	6.26	6.96
LEB 6.650 24	5.85	5.99	6.41	7.00
LEB 6.250 24	6.10	6.28	6.58	7.04
LEB 7.000 24	6.21	6.31	6.56	7.09
LEB 6.200 25	6.36	6.34	6.60	7.13
LEB 6.250 25	6.28	6.35	6.61	7.15
LEB 6.600 26	6.33	6.37	6.65	7.26
LEB 6.850 27	6.36	6.49	6.82	7.26
LEB 6.750 27	6.53	6.67	6.87	7.32
LEB 6.650 28	6.59	6.70	6.89	7.43
LEB 6.850 29	6.70	6.76	6.98	7.53
LEB 6.650 30	6.75	6.77	6.98	7.57
LEB 7.000 31	6.74	6.77	6.98	7.60
LEB 7.000 32	6.92	6.86	7.13	7.67
LEB 7.050 35	6.91	6.92	7.20	7.73
LEB 7.250 37	7.04	7.02	7.30	7.90
LEB 7.000 28	7.17	7.15	7.50	N/A

Source: MoF

Box #5: Debt Replacement Agreement Between MoF and BDL

On 20 November 2017 the Lebanese Ministry of Finance (MoF) conducted a "Debt Replacement Agreement" with the Central Bank (BDL), whereby MoF issued to BDL US$ 1.7 billion in Eurobonds and BDL redeemed to MoF Treasury bonds in Lebanese Pounds from its existing portfolio for an equivalent LL amount. Following the transaction, the stock of outstanding debt remained unchanged, while the composition of the portfolio slightly shifted with the share of foreign currency debt to total debt increasing to 40 percent from 38 percent

The transaction also reduced the weighted average cost of the debt portfolio and contributed to extending its average time to maturity. The weighted average cost of the issued Eurobonds was 7.06 percent with an average time to maturity of 12.7 years. This compared to a 7. 3 percent weighted average cost of the redeemed Treasury bonds maturing between 2018 and 2025 with a weighted average time to maturity of 2.3 years from transaction date.

The two Eurobond series consisted of a US$ 700 million 7.00 percent coupon Eurobond due March 2028 (Series 86), and a US$ 1,700 million 7.15 percent coupon Eurobond due November 2031 (Series 87).

Series	86	87
Issue size (in USD)	700,000,000	1,000,000,000
Issue date	20-November-17	20-November-17
Maturity	20-March-28	20-November-31
Coupon rate	7.00%	7.15%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	100.00%	100.00%
Re-offer Yield	7.00%	7.15%
ISIN code	XS1720803326	XS1720805537
Lead Manager	Republic of Lebanon	