



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

PUBLIC FINANCE ANNUAL REVIEW

2012

August 2013

Table of Contents

Public Finance Highlights	4
Section I: Fiscal Overview	5
Section II: Revenue Outcome	6
Tax Revenues	7
Non-Tax Revenues	20
Treasury Receipts	22
Section III: Expenditure Outcome	23
Current expenditures	24
Current primary expenditures.....	26
Interest payments	32
Capital Expenditures.....	37
Treasury Expenditures.....	39
Special Focus: Social Expenditures	40
Section IV: Public Debt Developments	43
Financing Sources.....	43
Public Debt: General Facts	46
Local Currency Debt	48
Foreign Currency Debt	55

List of Boxes

Box #1: EDL Registered vs. Actual Imports and Adjustment of Trade Figures	13
Box #2: VAT from Internal Activities.....	14
Box #3: Car Imports and Related Revenues (2007-2012).....	18
Box #4: Cost of Living Adjustment and New Salary Scale	42
Box #5: Debt Replacement Agreement, December 2012	51
Box #6: Sixth Voluntary Debt Exchange Offer and New Cash Issuance ⁽¹⁾	61

List of Figures

Figure 1: Fiscal and Primary Balance 2010 -2012	4
Figure 2: EDL Registered vs. Actual Imports	13
Figure 3. Total revenues and car-related revenues (2007-2012).....	18
Figure 4. Car Imports and non-correlated car-related revenues (2007-2012).....	19
Figure 5: Share of Commercial Banks' and BDL's subscriptions of Total Treasury bills and bonds auctioned (2011-2012)	49
Figure 6: TB Yield by Instrument January 2011–December 2012	54

List of Tables

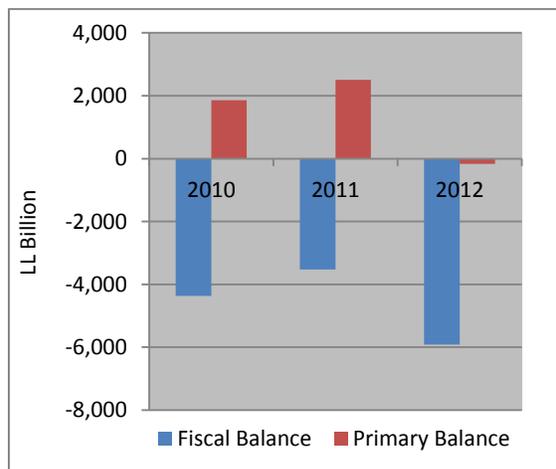
Table 1: Summary of Fiscal Performance.....	5
Table 2: Total Revenues.....	6
Table 3: Tax Revenues.....	7
Table 4: Tax on Interest Income.....	9
Table 5: Real Estate Indicators.....	10
Table 6: Property Registration Statistics from Cadastre.....	11
Table 7: Total Imports & Effective VAT rate.....	12
Table 8: Total Imports & Effective VAT Rate after Adjustment of Trade Figures.....	12
Table 9: Reported Vs. Adjusted Trade Figures.....	13
Table 10: VAT Revenues from Internal Operations (10 Largest Contributing Activities).....	14
Table 11: Effective Customs Rate.....	15
Table 12: Tobacco Import Statistics.....	16
Table 13: Gasoline Import Statistics.....	17
Table 14: Car Import Statistics.....	17
Table 15: Components of car-related revenues (2007-2012).....	18
Table 16: Non-Tax Revenues.....	20
Table 17: Expenditure Summary.....	23
Table 18: Expenditure by Economic Classification.....	24
Table 19: Breakdown of Article 13 - Salaries, Wages and Related Items.....	26
Table 20: Breakdown of Transfers to Public Institutions (Salaries).....	28
Table 21: Transfers to EDL.....	29
Table 22: Budget Allocation to the NSSF.....	30
Table 23: Breakdown of Article 14 by Economic Classification.....	31
Table 24: Interest Payments.....	36
Table 25: Payments to CDR for Construction in Progress.....	37
Table 26: Payments to Municipalities.....	39
Table 27: Main Social Expenditures.....	41
Table 28: New salary scale distribution by category.....	42
Table 29: Financing Sources in 2012.....	45
Table 30: Public Debt Outstanding as of end-December 2012.....	46
Table 31: Domestic Currency Debt by Holder and Instrument as of end-December 2012.....	52
Table 32: Evolution of Primary Market Rates.....	53
Table 33: Foreign Currency Debt by Holder and Instrument as of end-2012.....	55
Table 34: Net issuance of Eurobonds in 2012.....	56
Table 35: Terms and Conditions of Eurobonds issued in 2012.....	58
Table 36: Terms and Conditions of the Exchange.....	61
Table 37: Summary of New Notes.....	62
Table 38: Lebanon Secondary Market Yields.....	63

Public Finance Highlights

☒ General Fiscal Developments

The state balance registered a deficit of LL 5,918 billion in the fiscal year ending December 2012, up from a deficit of LL 3,530 billion in 2011. The percentage of the fiscal deficit in terms of GDP thus widened from 6 percent of GDP in 2011 to 9.5 percent. In parallel, the primary account slightly slid below zero, for the first time since 2006, recording a deficit of LL 166 billion (equivalent to negative 0.3 percent of GDP) in 2012, compared to a surplus of LL 2,505 billion (equivalent to 4.26 percent of GDP) in 2011.

Figure 1: Fiscal and Primary Balance 2010 -2012



☒ Revenues

Total revenues increased by about 1 percent in 2012, amounting to LL 14,164 billion. Lower transfers from the telecom surplus in 2012, and a generally modest improvement in tax revenues held the annual improvement in total

revenues below that of Nominal GDP, causing a reduction in Revenues to GDP to 22.7 percent from 23.9 percent in 2011.

☒ Expenditures

Total expenditures increased by 14 percent in 2012, reaching LL 20,081 billion, up from LL 17,600 billion in 2011 mainly due to a 22 percent rise in personnel cost following cost of living adjustments in the public sector and higher transfers to Electricité du Liban. As a percentage of GDP, expenditures ended 2012 at 31.9 percent, up by 2 percentage points from 2011.

☒ Public Debt Developments

Gross public debt reached LL 86,959 billion by the end of 2012, recording an 8 percent increase from end-2011. This represented the largest annual rise in the debt stock since 2009. Correspondingly, and after having decreased for five consecutive years, the debt-to-GDP ratio crawled up to 138.1 percent from 137.4 percent. The stock of net public debt increased by 5.9 percent, amounting to LL 74,043 billion, compared to LL 69,903 billion in 2011.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 5,918 billion, amounting to 9.5 percent of GDP¹ in 2012. This represented a 68 percent expansion from 2011 when the deficit had reached LL 3,530 billion, or 6 percent of GDP. The deterioration in the 2012 fiscal balance resulted from a 14 percent surge in total payments, which considerably outweighed the 1 percent improvement in total receipts. In terms of GDP, revenues slid by 1 percent in 2012, while expenditures climbed by 2 percent.

The **primary balance** recorded a minor deficit of LL 166 billion, sliding into negative territory for the first time since 2006. This compared to a surplus of LL 2,505 billion (4.3 percent of GDP) in 2011, and was mostly due to the 24 percent surge in primary expenditures (expenditures excluding debt-related payments) compared to a modest annual increase of 1 percent in total receipts.

Table 1: Summary of Fiscal Performance

(LL billion)	2010	2011	2012	% Change
	Jan-Dec	Jan-Dec	Jan-Dec	2012/2011
Total Budget and Treasury Receipts	12,684	14,070	14,164	1%
Total Budget and Treasury Payments, of	17,047	17,600	20,081	14%
• Interest Payments	5,893	5,655	5,457	-3%
• Concessional Loans Principal Payments ⁽¹⁾	324	379	295	-22%
• Primary Expenditures ⁽²⁾	10,829	11,566	14,329	24%
Total Deficit/Surplus	-4,363	-3,530	-5,918	68%
Primary Deficit/Surplus	1,855	2,505	-166	-107%

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

¹ These ratios are based on latest published estimates of GDP for 2011 at LL 58,810 billion and for 2012 at LL 62,324 billion.

Section II: Revenue Outcome

Total revenues amounted to LL 14,164 billion in the fiscal year ending December 2012, recording a 1 percent increase from 2011. This limited growth was reflected as deterioration in terms of percent of GDP, where total public revenues amounted to 22.7 percent in 2012, lower by 1.2 percentage points compared to their 2011 level, at 23.9 percent.

The LL 93 billion improvement in 2012 collections resulted from a LL 303 billion (3 percent) annual increase in **tax revenues**, while **non-tax revenues** and **treasury receipts** decreased by LL 182 billion (5 percent) and LL 27 billion (4 percent) respectively. These movements implied changes at two levels:

- In terms of percent of GDP: both tax and non-tax revenues acquired a lower share of GDP in 2012 compared to 2011, to reach 16.3 percent for the former (down from 16.8 percent in 2011) and 5.3 for the latter (down from 5.9 percent in 2011)
- In terms of share out of total revenues: the share of non-tax revenues out of total collections dropped by 1.4 percentage points to 23.2 percent in 2012, giving way to a higher share of tax revenues of 71.9 percent (compared to 70.3 percent in 2011)– with a rather steady share of Treasury revenues.

Table 2: Total Revenues

(LL billion)	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Budget Revenues, of which	12,018	13,353	13,473	1%
• Tax Revenues	9,976	9,885	10,187	3%
• Non-Tax Revenues	2,043	3,468	3,286	-5%
Treasury Receipts	666	718	691	-4%
Total Revenues	12,684	14,070	14,164	1%

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

Tax Revenues

Collections on all five tax categories improved on a nominal basis from the previous year, although the increase in total collections remained below that of Nominal GDP.

However, some annual declines were recorded in key sub-categories, mainly income tax on profits, tax on interest income, VAT receipts, gasoline excise, and excise on cars.

Tax revenues reached LL 10,187 billion in 2012, up from LL 9,885 billion in 2011, increasing by around 3 percent annually and accounting for 71.9 percent of total collected revenues, compared to 70.3 percent in 2011.

Table 3: Tax Revenues

(LL billion)	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Taxes on Income, Profits, & Capital Gains, of which:	2,050	2,423	2,516	4%
• Income Tax on Profits	808	1,032	1,006	-3%
• Income Tax on Wages and Salaries	378	455	523	15%
• Income Tax on Capital Gains & Dividends	213	243	296	22%
• Tax on Interest Income (5%)	628	652	647	-1%
• Penalties on Income Tax	22	40	42	6%
Taxes on Property, of which:	1,088	1,144	1,193	4%
• Built Property Tax	145	139	171	23%
• Real Estate Registration Fees	853	844	870	3%
Domestic Taxes on Goods & Services, of which:	3,583	3,685	3,749	2%
• Value Added Tax	3,193	3,300	3,276	-1%
• Other Taxes on Goods and Services, of which:	382	336	364	8%
- Private Car Registration Fees	231	197	201	2%
- Passenger Departure Tax	148	137	161	17%
Taxes on International Trade, of which:	2,802	2,179	2,251	3%
• Customs	810	777	796	3%
• Excises, of which:	1,992	1,402	1,455	4%
- Gasoline	1,040	542	495	-9%
- Tobacco	347	404	516	28%
- Cars	598	446	435	-2%
Other Tax Revenues (namely fiscal stamp fees)	453	454	478	5%
Total Tax Revenues	9,976	9,885	10,187	3%

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

Revenues from [taxes on income, profits and capital gains](#) rose by 4 percent year-on-year to reach LL 2,516 billion in 2012, despite decreases in tax on profits and tax on interest income, remaining almost stable at 4 percent in terms of GDP.

Taxes on wages and salaries amounted to LL 523 billion by the end of 2012, and were up by LL 68 billion (15 percent) from the previous year. This increase resulted from two policy decisions taken by the Council of Ministers in 2012:

1. The first decision entailed a *minimum-wage increase to private sector² employees*; it was passed at the end of January 2012 and came into effect starting February. Added revenues corresponding to the raise began to appear in April 2012 when collected taxes on salaries and wages jumped by 20 percent annually to reach LL 113 billion.
2. *Cost of living adjustments for public sector employees* were effective starting February 2012³, but actual payments began in September 2012 (with a retroactive effect starting February 2012). As such, taxes on wages and salaries collected in October amounted to LL 120 billion, representing a 33 percent annual increase⁴.

Income tax on capital gains and dividends reached a total of LL 296 billion in 2012, recording an increase of LL 53 billion (22 percent) from 2011. This improvement was accounted for during the first quarter of the year, when the Revenues Directorate at the Ministry of Finance undertook inspections to audit the declaration forms presented by financial corporations. In this respect, the amount collected in Q1 2012 amounted to LL 84 billion, compared to LL 24 billion in Q1 2011.

Conversely, the proceeds of the **income tax on profits** regressed by LL 26 billion to reach LL 1,006 billion in 2012. Behind this 3 percent decline stands a relatively low estimated real growth in 2011, at 1.5 percent (compared to 7 percent in 2010), as the collections of the income tax in a given year usually pertain to the profits realized during the previous year.

Besides, **taxes on interest income**⁵ witnessed a minor drop of 0.7 percent to reach LL 647 billion. This LL 5 billion decrease was mainly rooted in lower interest rates on LL deposit and Treasury Bills, which were slightly offset by a decrease in dollarization and a growth in deposits. In more details:

- The *weighted average interest rate on LBP-denominated deposits* continued their contraction in 2012 to reach 5.41 percent as of end-December 2012 (down by 22 bps on a yearly basis), while the average interest rate on deposits in USD edged up by 3 bps to reach 2.86 percent in December 2012⁶.

² The wage raise to the private sector was given through Council of Ministers' Decree 7426 dated January 26, 2012 that stipulated a higher monthly minimum wage of LL 675,000 (up from LL 500,000) effective as of February 1, 2012 on one hand, and salary raise to compensate for inflation that is applicable on the basis of brackets, also effective as of February 1, 2012, on the other.

³ Cost of living adjustment was passed through the Council of Ministers decision dated August 16, 2012.

⁴ The bulk of taxes on wages and salaries are collected during the months of January, April, July, and October of each year.

⁵ This tax exempts mainly interest earned on Eurobonds

⁶ It is worth mentioning that the annual average rate on USD deposits remained steady from that of 2011, at 2.84 percent.

- Bank *deposits* (both resident and non-resident) grew by 8.02 percent on an annual basis from end-December 2011, to reach LL 188,435 billion, correspondingly expanding the taxable base. This expansion rate is comparable to the one that prevailed a year earlier, which registered 7.94 percent in December 2011 (over December 2010); yet is lower than those of previous years, with a peak reached in 2009.
- The *dollarization* of deposits slightly decreased to 64.82 percent as of end of December 2012, from 65.92 percent as of end-December 2011, implicating that a higher ratio of the interest tax was collected on LBP deposits in 2012; noting that LBP deposits yielded an average spread premium of 262 bps on USD deposits in 2012.

Table 4: Tax on Interest Income

LL Billion	2010	2011	2012
	Jan-Dec	Jan-Dec	Jan-Dec
By Institution/Instrument	625	652	648
Commercial banks	338	349	375
BDL	285	303	273
Tax dues on LL Treasury Bills	1	6	0
Tax on USD Treasury Bills	0	0	0

Source: MOF- Treasury Department

Please note that figures in this table are obtained from tax declaration forms, which may differ from cash figures presented in the fiscal performance and the Tax Revenues table above (Table 3).

Table 4 above shows that the breakdown of interest tax receipts by institution/instrument indicates higher tax collections from commercial banks (interest earned on deposits of both residents and non-residents), offset by a decrease in tax collections from BDL (*interest earned on certificates of deposits – CDs – and Treasury Bills and Bonds - TB's*). The latter drop was due to the fact that the debt portfolio was carrying a lower weighted average interest rate in 2012 compared to the previous year. In fact the low international yield environment has allowed the Republic to reduce its borrowing costs by rolling over maturing debt instruments with lower coupon debt (*please refer to the Interest payment section for more details*). This was in line with the 3.5 percent annual decline in total interest payments in 2012.

As for the composition of interest tax receipts by currency, the share of tax receipts collected in Lebanese Pounds was 65 percent in 2012, compared to 68 percent in 2011.

Taxes on Property registered an increase of 4 percent in 2012, due to an improvement in the value of taxes collected on built properties and real estate registration fees that outweighed the LL 10 billion contraction in inheritance tax collections. The modest level of the increase, compared to a 34 percent surge in 2010 and a 5 percent rise in 2011,

matched the overall state of the property market that had witnessed a substantial slowdown from the 2007-2010 period. Both demand and supply indicators in the real estate market, such as property transactions, issued construction permits, and cement deliveries, had begun to ease starting 2011 and remained relatively muted in 2012, as shown in Table 5 below.

Table 5: Real Estate Indicators

	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Cement Deliveries (In Tons)	5,226,621	5,549,769	5,308,550	-4%
Construction Permits (Square Meters)	17,608,003	16,464,767	14,680,917	-11%
Number of Transacted Properties	292,196	312,151	280,181	-10%

Sources: MOF-Cadastre, BDL

Taxes on built properties⁷, which are collected on property ownership on a yearly basis, surged by 23 percent (LL 32 billion) annually and amounted to LL 171 billion in 2012, owing to the issuance of tax schedules for the years 2008 and 2009, inducing higher collections. Besides, the improved figures could also be indicative of a possible rise in the number of rental contracts (quantity effect) and/or rental values (price effect), where the upturn in demand for temporary housing by displaced persons from Syria⁸ could be one of the drivers.

Real estate registration fees⁹ increased by 3 percent (LL 27 billion) to reach LL 870 billion in 2012. This rise is in fact mirrored in the Cadastre statistics, which indicate a 1 percent rise in the total value of properties in sales contracts, as shown in Table 6 below. This 1 percent increase in the total value of registered properties, coupled with a decline in the number of registered transactions of 10 percent yielded a 12-percent jump in declared average value per property to LL 48 million in 2012, after having decreased by almost 13 percent year-on-year in 2011. This is indicative of several possible changes in market dynamics, some of which could be shifts in demand towards higher-priced properties or price increases due to supply-side shortages, given that total demand for properties purchases was markedly lower, as shown by transacted properties during the year.

⁷ Taxes on built properties are progressive in nature and levied on yearly rent benefiting both investors and property owners, even if occupying their residence. Rent is determined by the lease contract, if available, or otherwise estimated by the tax authorities. This tax exempts several categories including agricultural properties, hospitals, owned properties used for commercial purposes.

⁸ The United Nations Human Rights Council (UNHRC) estimated that the number of Syrian refugees registered in Lebanon reached 129,106 at end-2012, while the total number of displaced persons was considerably higher.

⁹ Real estate registration fee preserves the right of ownership and is not mandatory upon the sale of a property. On April 3, 2001 Parliament voted Law No. 296, which amended the 1969 Law No. 11614 governing foreign acquisition of property. The new law eased legal limits on foreign ownership of property to encourage investment in Lebanon, especially in industry and tourism. The fee equals to 5 percent of a property sale value, for both Lebanese and foreigners.

Table 6: Property Registration Statistics from Cadastre

	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Number of Transacted Properties	292,196	312,151	280,181	-10%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	14,289	13,327	13,456	1%
Declared Average Value per Property (LL million)	48.9	42.7	48.0	12%
Total Fees collected from Sales Transactions	771	769	762	-1%

Source: MOF-Cadastre, please note that these are declaration statistics (based on sales contracts) that may differ from collection figures as published in the Fiscal Performance and the Tax Revenues table above.

Revenues collected from [domestic taxes on goods and services](#), accounted for about 37 percent of total tax revenues in 2011 and 2012, representing the highest share of collected taxes. This component increased by 2 percent year-on-year to reach LL 3,749 billion in 2012, slightly decelerating from the 3 percent annual improvement in 2011. VAT receipts, which made up 87 percent of the total amount, retreated slightly (in both nominal and percent of GDP terms), but were counterbalanced by upswings in passenger departure tax, and transfers from the tobacco surplus.

Proceeds from [Value Added Tax](#) amounted to LL 3,276 billion in 2012, sliding by less than 1 percent from 2011, due to a LL 90 billion (4 percent) drop in VAT receipts at customs and a LL 66 billion (6 percent) increase in internally-collected VAT. In percentage of GDP, VAT collections went down from 5.6 percent in 2011 to 5.3 percent in 2012.

[VAT at customs](#) diminished by 4 percent annually to reach LL 2,191 billion in 2012, thus accounting for 67 percent of total VAT receipts, compared to a 69-percent share in 2011. This drop was most notably due to the government's decision to lift VAT on gasoil¹⁰ and the lack of systematic import registration – and payment of corresponding VAT – by Electricité du Liban. In more details, the following points can be noted:

- Forgone VAT revenues from exempting red and green gasoil imports at customs are estimated to have been LL 295 billion in 2012.
- In 2012, EDL only covered a portion of its VAT dues on fuel oil and gas oil imports from 2011, amounting to LL 77 billion, but did not make any payments in lieu of its LL 194 billion VAT dues for fuel oil and gas oil imports registered in 2012. In 2011, EDL's VAT payment amounted to LL 82 billion (LL 47 billion of which were due from 2010 imports and 35 billion of which were dues accrued during the year). This discrepancy in EDL's VAT payments is due to the lack of timely registration of the

¹⁰ Law 207, dated March 5, 2012.

company's imports at customs¹¹ and its liquidity shortages (kindly refer to Box #1 below).

The decline in VAT at customs occurred despite a reported 6 percent increase in imports, causing the effective VAT rate to recede to 6.8 percent in 2012 from 7.5 percent in 2011 (Table 7). However, after adjusting for the distortion in the total value of imports reported by customs (due to the inconsistent registrations of EDL fuel oil and gasoil, the effective VAT rate becomes lower in 2012 and 2011 at 6.7 percent and 7.2 percent respectively, as shown in Table 8 below.

Table 7: Total Imports & Effective VAT Rate

(LL billion)	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Total Imports, of which	27,069	30,407	32,080	6%
• Fuel Imports (fuel derivatives classified under HS 27)	5,536	6,738	8,881	32%
• Non-Fuel Imports	21,533	23,669	23,200	-2%
• Share of Fuel Imports	20.5%	22.2%	27.7%	25%
• Share of Non Fuel Imports	79.5%	77.8%	72.3%	-7%
Revenues from VAT at Imports	2259	2281	2191	-4%
Effective VAT rate	8.34%	7.5%	6.8%	-9%

Source: MOF, DGF, General Directorate of Customs

Table 8: Total Imports & Effective VAT Rate after Adjustment of Trade Figures¹²

(LL billion)	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Total Imports, of which	27,069	31,782	32,907	4%
• Fuel Imports (fuel derivatives classified under HS 27)	5,536	8,113	9,707	20%
• Non-Fuel Imports	21,533	23,669	23,200	-2%
• Share of Fuel Imports	20.5%	25.5%	29.5%	16%
• Share of Non Fuel Imports	79.5%	74.5%	70.5%	-5%
Revenues from VAT at Imports	2259	2281	2191	-4%
Effective VAT rate	8.34%	7.2%	6.7%	-7%

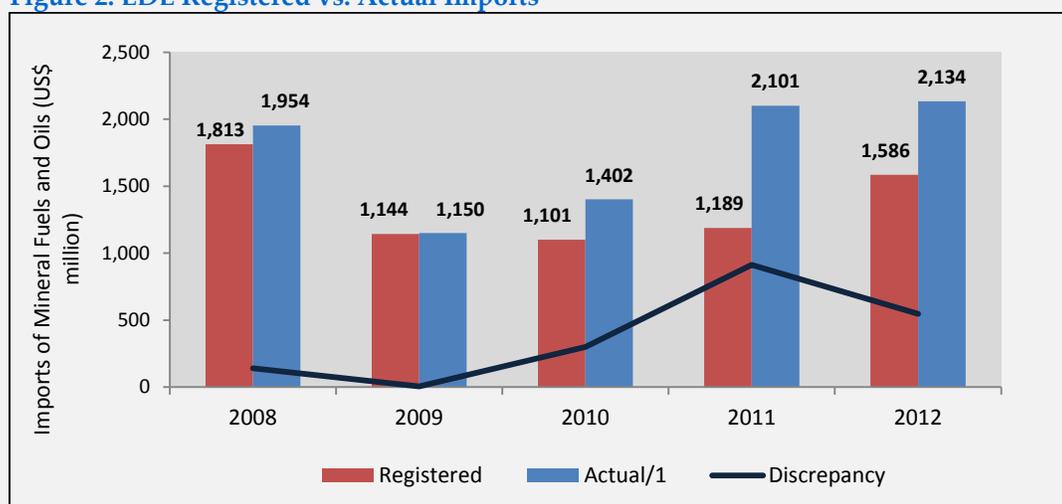
Source: MOF, DGF, General Directorate of Customs

¹¹ Between 2010 and 2012, Electricité Du Liban registered its annual imports at customs inconsistently and in bulks during particular months of the year, rather than regularly registering each shipment upon arrival.

¹² Adjustments in the trade balance for 2011 and 2012 were made by the UNDP Technical Assistance for Fiscal Management and Reform Project, by deducting imports registered at Customs and accounting for actual EDL imports during the corresponding periods. Refer to Box #1.

Box #1: EDL Registered vs. Actual Imports and Adjustment of Trade Figures

- EDL imports enter the market under a “special permit”, which allows the deferral of their registration at customs and the payment of related VAT dues¹³.
- This “special permit” was issued to EDL due to (i) administrative reasons (ii) the urgent need of gasoil and fuel oil imports, given their electricity generation purpose, and (iii) the frequent inability of EDL to pay its VAT dues.
- Foregone VAT from EDL Actual Imports amounted to US\$ 34 million in 2010, US\$ 175 million in 2011, and around US\$ 100 million in 2012, taking into account the exemption of gasoil VAT.

Figure 2: EDL Registered vs. Actual Imports¹⁴

Source: Directorate General of Finance (DGF), General Directorate of Customs

Table 9: Reported Vs. Adjusted Trade Figures

(LL billion)	Reported/Official Trade Figures			Actual Adjusted Trade Figures		
	2011	2012	% change 2012/2011	2011	2012	% change 2012/2011
Imports	30,407	32,080	5.6%	31,782	32,907	3.5%
Exports	6,429	6,758	5.1%	6,429	6,758	5.1%
Trade Deficit	23,959	25,321	5.7%	25,353	26,149	3.1%

Source: Directorate General of Finance (DGF), General Directorate of Customs

¹³ The “special permit” – legislated by Article 106 of the Customs Law - allows the specified imports to enter the market without the payment of any fees (customs/VAT etc.) and without the preparation of the Customs Declaration document. The related imports should be registered prior to the expiration date of the “special permit” and therefore, all related fees should be paid and the Customs Declaration Document should be submitted.

¹⁴ Actual imports made by Electricité du Liban are based on the Letters of Credit (LCs) pertaining to gasoil and fuel oil purchases from fuel suppliers *KPC and Sonatrach* opened at BDL during respective periods.

Internally collected VAT, which is a function of domestic consumption and consumer prices, increased by 6 percent annually in 2012, registering a lower growth for a third consecutive year, after having increased by 23 percent, 13 percent, and 9 percent in 2009, 2010, and 2011 respectively. This deceleration in this item's growth was in line with the slowdown in 2012 economic growth¹⁵ and the drop in tourist arrivals¹⁶ during the year.

Box #2: VAT from Internal Activities

- In 2012, declared VAT from domestic activities amounted to LL 1,044 billion¹⁷, recording an increase of 6 percent from the previous year.
- With the exception of "Manufacture of other products", all economic sectors contributed to higher VAT receipts in 2012.
- The largest contributor in 2012 remained Wholesale and Retail trade, bringing in 28 percent of total VAT, compared to 30 percent in 2011
- The largest annual improvement in VAT collections was recorded by the "Manufacture of food products and beverages" sector.

Table 10: VAT Revenues from Internal Operations (10 Largest Contributing Activities)¹

(LL billion)	Economic Activity	2012	Share	2011	Share	Change 2012/2011
Rank	VAT from internal activity, of which	1,044	100%	975	100%	7%
1	Wholesale and Retail trade	296	28%	291	30%	2%
2	Other Business Activity and Financial Intermediation	247	24%	223	23%	11%
3	Manufacture of other products	95	9%	97	10%	-2%
4	Hotels and restaurants	91	9%	88	9%	4%
5	Construction	86	8%	75	8%	14%
6	Real estate activities	60	6%	55	6%	9%
7	Post and telecommunications	59	6%	55	6%	6%
8	Manufacture of food products and beverages	44	4%	37	4%	18%
9	Sale, maintenance and repair of motor vehicles and motorcycles	40	4%	39	4%	1%
10	Other	26	2%	15	2%	74%

Source: MOF, VAT Directorate, VAT Declaration Forms

(1) VAT figures in this table represent declared amounts, whereas VAT figures in the Revenue section are cash collected amounts. Note that VAT declaration amounts may vary depending on the number of processed declarations at a given date.

Despite the 17-percent decline in the number of tourists in 2012, collections from the **passenger departure tax** rose by LL 24 billion to reach LL 161 billion, due to the 9

¹⁵ Estimates for real GDP growth in 2011 and 2012 are 1.5 percent and 2 percent respectively (according to the IMF), compared to an actual 7 percent real growth rate in 2010 according to National Accounts.

¹⁶ According to data published by the Ministry of Tourism, the number of Tourists to Lebanon was 1,365,845 in 2012, down by 17 percent from 2011.

¹⁷ The amounts of VAT declared (extracted from declaration forms) differ from VAT amounts actually collected on a cash-basis (Fiscal Performance figures).

percent increase in the number of total *passenger departures* at airport in 2012. In fact, the total number of passengers that departed through the airport in 2012 was 3,018,007, compared to 2,780,809 in 2011, according to figures published by the Rafic Hariri International Airport. The increase was likely influenced by the decline in land border travel due to tensions at the Lebanese-Syrian border.

Another notable improvement in domestic taxes on goods and services was the amount of **transfers from the tobacco surplus**, which ballooned to LL 100 billion in 2012, from 40 billion in 2011. In fact, higher gains by “Regie des Tabacs” began to materialize as of October 2011, when the Ministry of Finance adopted a policy decision in which it levied an additional charge of LL 250 to the selling price of a pack of cigarettes¹⁸. The security situation in Syria, the international ban on imports imposed on Syria as well as the presence of Syrian refugees in Lebanon, might be additional reasons behind raising internal demand for tobacco.

Taxes collected from international trade (customs and excises) increased by LL 72 billion (3 percent) year-on-year to reach LL 2,251 billion, although declines were registered for both gasoline and car excises.

Table 11 depicts the increase in **tariff revenues** (customs) totalling LL 796 billion in 2012, up from LL 777 billion in 2011. The 3 percent rise in customs relative to the 6 percent rise in imports caused a drop in *the effective customs rate*, from 2.55 percent in 2011 to 2.48 percent in 2012. This was due to the fact that share of registered fuel imports, which are subject to low custom duties compared to non-fuel imports, increased to about 28 percent in 2012 from 22 percent in 2011.

Table 11: Effective Customs Rate

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Total Imports	27,069	30,407	32,080	6%
• <i>Fuel Imports (fuel derivatives classified under HS 27)</i>	5,536	6,738	8,881	32%
• <i>Non-Fuel Imports</i>	21,533	23,669	23,200	-2%
• <i>Share of Fuel Imports</i>	20.5%	22.2%	27.7%	25%
• <i>Share of Non Fuel Imports</i>	79.5%	77.8%	72.3%	-7%
Revenues from Custom Duties	810	777	796	3%
Effective customs rate	3.0%	2.6%	2.5%	-2.8%

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

¹⁸ For more information about this decision (#1018/1 dated October 1, 2011), kindly refer to Ministry of Finance’s Public Finance Annual Review 2011.

Total excises collected at import¹⁹ increased by 4 percent annually to reach LL 1,455 billion, representing almost 65 percent of total taxes on international trade. In details, revenues from tobacco excises recorded a substantial 28 percent rise from the previous year, to overshadow declines in both excises on gasoline and imported cars.

- a. The collection of **excises on tobacco** sprung up by 28 percent to LL 516 billion in 2012, following a 16 percent annual increase in 2011. Improved collections of tobacco excises have been consistent since 2008 and have been mainly driven by import expansion. In 2012 in particular, it was the quantity effect that led the import value rise. In this respect, and as shown in Table 12 below, the volume of imported tobacco grew by 26 percent year-on-year to reach 18,232 tons and was worth a total of LL 511 billion, more than double the value of tobacco imports in 2008. Similarly, excises on tobacco have increased by about 110 percent from 2008, when they were LL 246 billion.

Table 12: Tobacco Import Statistics

	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Imports (LL billion)	344	407	511	26%
Net weight (in tons)	13,276	14,472	18,232	26%
Collected Excises (LL billion)	347	404	516	28%
Average import price (LL per Kg)	25,911	28,123	28,028	-0.3%
Average effective excise rate (LL per Kg)	26,160	27,949	28,296	1.2%
Average effective excise rate (%)	101.0%	99.4%	101.0%	1.6%

Source: MOF-General Directorate of Customs declaration forms

- b. After having plunged by 48 percent in 2011, the decrease in collected **excises on gasoline** eased considerably to 9 percent in 2012. Collected gasoline excises thus amounted to LL 495 billion in 2012, compared to LL 542 billion in 2011, and LL 1,040 billion in 2010. In fact, the sharp drop registered in 2011, had been a direct result of the Higher Council of Customs' decision number 21/2011, to reduce the excise rate on gasoline by LL 5,000 per 20 litres, as part of the government's policy to alleviate the draining effect of surging oil prices on consumers' purchasing power. As this decision came into effect after it was issued on February 26, 2011, collected excises during the first two months of 2011 were justifiably higher than those collected in January and February 2012 (36 percent). In parallel, excises on gasoline collected between March and December amounted to LL 415 billion in both 2011 and 2012.

Gasoline imports witnessed a 9 percent rise, within which the associated volume grew by about 3 percent. The higher level of imports, coupled with a 9 percent drop

¹⁹Excises are collected on gasoline, tobacco, cars and on alcoholic and non-alcoholic beverages. Most of it is collected at import, except for a small amount that is collected internally on alcoholic beverages.

in excise collection, caused the average effective gasoline excise rate to slide to LL 221.7 per litre from LL 251 per litre in 2011 (12 percent). Moreover, the average effective import price of gasoline recorded a 5 percent increase in 2012, partly reflecting the rise in international oil prices during the year.

Table 13: Gasoline Import Statistics

	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Imports (LL billion)	1,874	2,482	2,704	9%
Volume (million litres)	2,188	2,159	2,234	3%
Collected excises (LL billion)	1,040	542	495	-9%
Average effective Price at imports (LL/litre)	856	1,150	1,210	5%
Average effective excise rate (LL/litre)	475	251	222	-12%

Source: MOF-General Directorate of Customs declaration forms

- c. Collections from **excises on cars** slid by 2.4 percent in 2012, as the number of imported cars was slightly lower at 75,661 compared to 76,049 in 2011 (- 0.5 percent). This marks the third consecutive annual decrease, although the drop in 2012 was relatively contained as excises on cars in 2011 fell by almost 26 percent year-on-year, and the number of imported cars dropped by about 24 percent. The total value of imported cars in 2012 rose by about 1 percent to LL 1,658 billion, and the average price per car reached LL 21.9 million, compared to LL 21.6 million in 2011. Correspondingly, the average effective excise rate decreased by 3 percent to 26.2 percent.

Table 14: Car Import Statistics

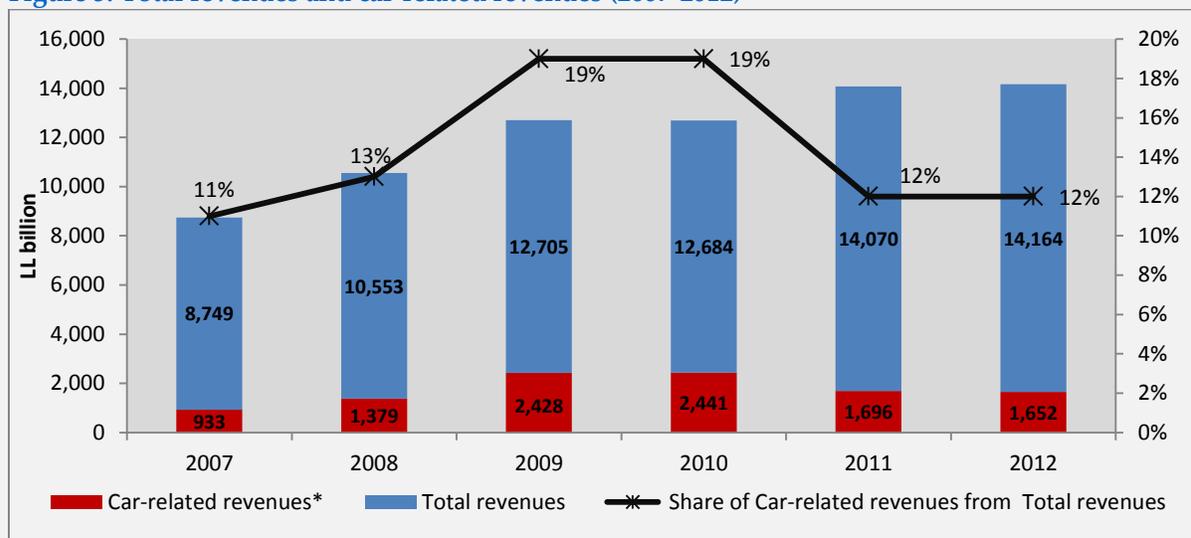
	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Imports (LL billion)	2,151	1,644	1,658	1%
Number of Cars	100,354	76,049	75,661	-1%
Collected Excises (LL billion)	598	446	435	-2%
Average price per car (LL million)	21.4	21.6	21.9	1.4%
Average effective excise rate (%)	27.8%	27.1%	26.2%	-3.3%

Source: MOF-General Directorate of Customs declaration forms

Finally, receipts from **fiscal stamp fees** increased by LL 24 billion to reach LL 478 billion in 2012. Receipts from this tax are indicative of the general state of fiscal activity as they reflect the volume 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. Accordingly, a rise in the collected value of stamp fees on a yearly basis complements the general increase in tax collections discussed above.

Box #3: Car Imports and Related Revenues (2007-2012)

Imports of cars to Lebanon fluctuated widely during the 2007-2012 period. The high growth rates recorded between 2007 and 2009 contributed to a sharp increase in car imports in terms of value and volume. However, this was followed by a period of slowdown in 2010-2012, which in turn altered the car import trend. At an average of 14 percent over the period of 2007-2012, car-related revenues constituted a large portion of total public revenues.

Figure 3. Total revenues and car-related revenues (2007-2012)

* including gasoline excise and vehicle control fees

Source: Ministry of Finance, Public Finance Monitor 2007-2012.

Table 15. Components of car-related revenues (2007-2012)

LL billion	2007	2008	2009	2010	2011	2012
Tax Car-Related Revenues	787	1,190	2,225	2,233	1,460	1,407
Excises	287	539	614	598	446	435
Customs	44	77	85	82	61	61
VAT	141	265	289	282	214	215
Registration Fees	130	197	238	231	197	201
Gasoline Excise ²⁰	185	112	999	1,040	542	495
Non-Tax Car-Related Revenues	146	189	203	208	236	245
Vehicle Control Fees (mécanique)	146	189	203	208	236	245
Total car-related revenues	933	1,379	2,428	2,441	1,696	1,652
% GDP	2.5%	3.1%	4.6%	4.4%	2.9%	2.7%

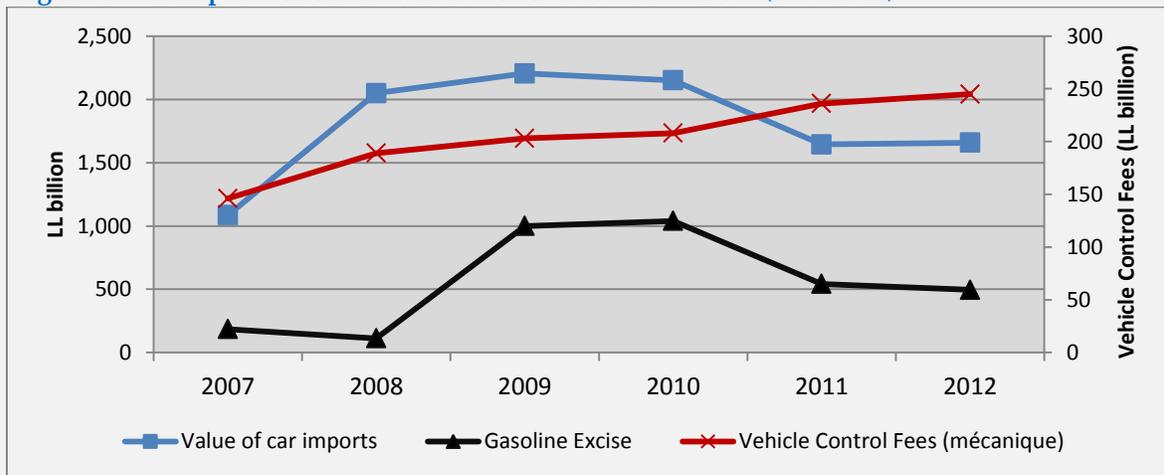
Source for car-related revenues: Ministry of Finance, Public Finance Monitor, 2007- 2012.

Source for GDP growth rate: * National Accounts Committee, Economic Accounts Mission for 2007-2010; and * International Monetary Fund (IMF), WEO, April 2013, for 2011-2012.

²⁰ Excise on gasoline for 95 Octane is 227LL per liter, and 98 Octane is 224 LL per liter as of 26th of February, 2011

While revenues such as excise, customs, VAT, and car registration fees are directly linked to car imports, gasoline excise and vehicle control fees are affected by policy changes. In fact, although in principle excises on gasoline should be directly linked to car imports, they do not follow the exact trend of imports, due to government policies that address excise rates. In particular, it is policies such as the capping/uncapping of gasoline prices at pump stations, or fixing/changing the gasoline excise rates at imports that have direct effects on excise revenues. Vehicle control fees did not follow the trend of car imports either; rather, it independently registered a constant upward curve, being directly related to the stock of cars in circulation. In 2012 specifically, the reduction of penalties on vehicle control fees by 90 percent (through Law 196 dated November 18th 2011) had positive repercussions on the December 2011 and January 2012 collections; moreover, political tensions leading to the declaration of a “Security Month” in May 2012, accompanied with an increase in Internal Security Forces (ISF) checkpoints, contributed in its turn to the overall increase in vehicle control fees for the month of May.

Figure 4. Car Imports and non-correlated car-related revenues (2007-2012)



Source for car-related revenues: Ministry of Finance, Public Finance Monitor, 2007- 2012.

Source for car imports: Lebanese Customs, 2007-2012

Non-Tax Revenues

Non-tax revenues retreated by LL 182 billion (5 percent) annually to reach LL 3,286 billion by the end of 2012, accounting for 5.3 percent of nominal GDP, compared to 5.9 percent of GDP in 2011. This decrease in both absolute and relative terms was mostly due to a drop in income from public institutions and government properties, particularly transfers from the Telecom Budget Surplus to the Treasury account at BDL.

Table 16: Non-Tax Revenues

(LL billion)	2010 Jan-Dec	2011 Jan-Dec	2012 Jan-Dec	%Change 2012/2011
Income from Public Institutions and Government Properties	1,382	2,679	2,530	-6%
• Income from Non-Financial Public Enterprises, of which:	1,255	2,529	2,355	-7%
- Revenues from Casino du Liban	171	168	136	-19%
- Revenues from Port of Beirut	65	48	0	-100%
- Budget Surplus of National Lottery	59	50	61	23%
- Transfer from the Telecom Surplus	957	2,261	2,156	-5%
• Income from Financial Public Enterprises (BdL)	60	60	60	-1%
• Property Income (rent of Rafic Hariri International Airport)	62	82	106	29%
• Other Income from Public Institutions (interests)	5	7	9	21%
Administrative Fees & Charges, of which:	535	570	587	3%
• Administrative Fees, of which:	437	467	482	3%
- Notary Fees	29	29	30	2%
- Passport Fees/ Public Security	116	123	120	-3%
- Vehicle Control Fees	208	236	245	4%
- Judicial Fees	22	25	30	20%
- Driving License Fees	21	17	19	17%
• Administrative Charges	29	26	26	-1%
• Sales (Official Gazette and License Number)	5	4	4	0%
• Permit Fees (mostly work permit fees)	53	61	63	4%
• Other Administrative Fees and Charges	11	13	12	-3%
Penalties and Confiscations	8	10	10	3%
Other Non-Tax Revenues (mostly retirement deductibles)	118	208	159	-24%
Total Non-Tax Revenues	2,043	3,468	3,286	-5%

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

Income from Public Institutions and Government Properties amounted to LL 2,530 billion in 2012, recording a LL 150 billion (6 percent) decrease from the previous year, after having surged 94 percent year-on-year in 2011.

The retraction mainly resulted from a LL 106 billion drop in **transfers from the Telecom Surplus**²¹, which amounted to LL 2,156 billion in 2012, compared to LL 2,261 billion in 2011 (of which LL 302 billion were made in January 2012, on behalf of 2011). This decline was also reflected in terms of GDP, where the share dropped from 3.8 percent in 2011 to 3.5 percent in 2012, after reaching a dip in 2010 (at 1.7 percent of GDP), while the average share prior to 2010 used to be around 4 percent of GDP.

Looking at this component from a cash perspective, hence keeping the January 2012 transfer as part of 2012 total transfers (rather than 2011), Telecom transfers in 2011 and 2012 would have been LL 1,960 billion and LL 2,457 billion respectively, thus registering a growth in 2012 compared to the previous year, and reflecting a higher share of 3.9 percent of GDP in 2012 compared to 3.3 percent in 2011.

Other losses in income from public institutions resulted from absence of **transfers from the Port of Beirut**, and a slide in **revenues from Casino du Liban**. With regard to the former, no transfers were made from Lebanon's main port to the Treasury in 2012, compared to a transferred amount of LL 48 billion in 2011. Port authority generally uses a portion of its income for maintenance and investment, and covers its operational expenses before transferring any available surplus to the Ministry of Finance²². Transfers from the Port to the Treasury thus generally depend on the Port's expenses and its performance during the previous year, which had weakened in 2011, according to published data.

Revenues from Casino du Liban dropped by LL 32 billion (19 percent) to reach LL 136 billion in 2012. The smaller amount of gains from the Casino generally matched the weakened appetite for tourism during the year, as the number of tourists to Lebanon fell by 17 percent annually from 2011. In addition, the revenue decline in 2012 was partly due to the fact that 2011 Casino du Liban transfers included an additional LL 14 billion that represented the fourth and final instalment of the dispute settlement between Casino management and the Government.

In contrast to the lower proceeds from the abovementioned accounts, some improvements in revenues from public institutions and government properties were recorded in 2012, namely from **rent proceeds of Rafic Hariri International Airport**, which rose by 29 percent annually to LL 106 billion, and the **budget surplus of the National Lottery** that improved by 12 billion (23 percent) from 2011, amounting to LL 61 billion.

²¹ The LL 2,261 billion proceeds of 2011 were deposited in the Treasury account in five transfers made during November and December 2011, and January 2012. In contrast, transfers of 2012 telecom proceeds were to some extent more regular, with LL 302 billion transferred in each of the first and second quarters, LL 603 billion in the third quarter, and LL 950 billion in the fourth quarter.

²² For more information about Port of Beirut transfers, kindly refer to the April 2011 Public Finance Monitor.

Administrative fees and charges climbed by LL 17 billion (3 percent) annually and amounted to LL 587 billion in 2012, mostly due to improvements in vehicle control fees that increased by LL 9 billion to reach LL 245 billion, partly owing to a penalty exemption during the first two months of 2012, which encouraged people to settle late payments. Other components also contributed to the improvement in administrative fees and charges, such as judicial fees (by LL 5 billion), driving license fees (by LL 3 billion), and permit fees (by LL 2 billion).

Treasury Receipts

Treasury receipts amounted to LL 691 billion in 2012, LL 27 billion (4 percent) lower than their 2011 level. This mainly resulted from a LL 95 billion decrease in “Other Treasury Revenues”, most of which was due to a decline in repayments of Treasury advances from previous years; it was partly counterbalanced by a LL 61 billion increase in Guarantees to LL 199 billion.

Section III: Expenditure Outcome

Total expenditures (budget and treasury) amounted to LL 20,081 billion in 2012, increasing by 24 percent compared to 2011. This rise was mainly the result of a LL 2,763 billion increase in **total primary expenditures**, partially offset by a LL 198 billion drop in **interest payments**, as shown in Table 16.

Table 17: Expenditure Summary

(LL billion)	2010	2011	2012	Change	%Change
	Jan-Dec	Jan-Dec	Jan-Dec	2012/20	2012/2011
Interest Payments	5,893	5,655	5,457	-198	-3%
Concessional Loans Principal Payments ⁽¹⁾	324	379	295	-85	-22%
Total Primary Expenditures ⁽²⁾	10,829	11,566	14,329	2,763	24%
Total Budget and Treasury Payments	17,047	17,600	20,081	2,481	14%

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).

The evolution of main expenditure items in 2012, according to the **economic classification**, is presented in table 17 and reviewed in the sections that follow.

A special focus is made on social expenditures, which are calculated using the IMF Government Statistics approach of 2001; please refer to page 34.

Current expenditures

Current expenditures increased by LL 1,889 billion, mainly explained by rises in (i) **personnel cost** by LL 1,190 billion, (ii) transfers to **EDL** by LL 783 billion (iii) **Higher Relief Council (HRC)** by LL 185 billion, (iv) **hospitals** by LL 33 billion, and (v) **reserves** (namely interest subsidy) by LL 37 billion. The hike was partially offset by a LL 198 billion decrease in **interest payments**, an LL 85 billion decline in **foreign debt repayment**, a LL 33 billion drop in **gasoline subsidy to taxi drivers**, a LL 24 billion decrease in **materials and supplies** (stemming mainly from **medicaments**) and a LL 20 billion decline in transfers to **NSSF**.

Table 18: Expenditure by Economic Classification

(LL billion)	Jan-Dec 2011	Jan-Dec 2012	%Change 2011/201
1. Current Expenditures	15,864	17,753	12%
1.a Personnel Cost, of which	5,533	6,723	22%
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	3,818	4,409	15%
<i>Retirement and End of Service Compensations, of</i>	1,420	1,918	35%
<i>Retirement</i>	1,189	1,487	25%
<i>End of Service</i>	232	431	86%
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	295	396	34%
1.b Interest Payments, of which: 3/	5,655	5,457	-3%
<i>Domestic Interest Payments</i>	3,552	3,333	-6%
<i>Foreign Interest Payments</i>	2,103	2,124	1%
1.c Foreign Debt Principal Repayment	379	295	-22%
1.d Materials and Supplies, of which:	329	305	-7%
<i>Nutrition</i>	61	62	2%
<i>Fuel Oil</i>	20	40	95%
<i>Medicaments</i>	156	121	-23%
<i>Accounting Adjustments for Treasury advances 4/</i>	40	38	-4%
1.e External Services	135	122	-9%
1.f Various Transfers, of which:	3,301	4,256	29%
<i>EDL 5/</i>	2,626	3,408	30%
<i>NSSF 6/</i>	120	100	-17%
<i>Higher Council of Relief</i>	11	195	1709%
<i>Contributions to non-public sectors</i>	220	221	1%
<i>Treasury advances for diesel oil subsidy</i>	0	19	
<i>Transfers to Directorate General of Cereals and Beetroot</i>	58	65	13%
<i>Gasoline subsidy for taxi drivers</i>	41	8	-80%
<i>Accounting Adjustments for Treasury advances 4/</i>	18	0	-100%
1.g Other Current, of which:	378	404	7%
<i>Hospitals</i>	301	334	11%
<i>Others (judgments & reconciliations, mission costs, other)</i>	67	67	0%
<i>Accounting Adjustments for Treasury advances 4/</i>	7	1	-80%
1.h Reserves	155	192	24%
<i>Interest subsidy</i>	155	192	24%

2. Capital Expenditures	676	760	12%
2.a Acquisitions of Land, Buildings, for the Construction of	1	18	1388%
2.b Equipment	52	70	35%
2.c Construction in Progress, <i>of which:</i>	402	486	21%
<i>Displaced Fund</i>	73	48	-34%
<i>Council of the South</i>	49	63	27%
<i>CDR</i>	145	199	37%
<i>Ministry of Public Work and Transport</i>	92	127	38%
<i>Other of which:</i>	41	40	-3%
<i>Higher Council of Relief</i>	13	4	-68%
2.d Maintenance	186	180	-4%
2.e Other Expenditures Related to Fixed Capital Assets	13	3	-74%
2.f Parliamentary Equipment and Maintenance 7/	22	3	-88%
2.g Accounting Adjustments for Treasury advances 4/	0	0	
3. Budget Advances 8/	179	216	21%
4. Customs Administration (exc. Salaries and Wages) 9/	36	42	18%
5. Treasury Expenditures 10/	845	1,304	54%
Municipalities	368	669	82%
Guarantees	54	57	4%
Deposits	97	107	10%
Other, <i>of which:</i>	325	472	45%
<i>VAT Refund</i>	195	239	22%
<i>Other Tax Refund</i>	52	35	-33%
6. Unclassified Expenditures	1	5	316%
7. Total Expenditures (Excluding CDR Foreign Financed)	17,601	20,081	14%

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

(1) For a detailed breakdown of salaries, wages and related benefits, kindly refer to Table 19.

(2) For a detailed breakdown of transfers to public institutions, kindly refer to Table 20.

(3) For a detailed breakdown of interest payments, kindly refer to Table 24.

(4) The expenditure figures as published by the ministry of finance include the regularization from the budget allocations of treasury advances previously paid from treasury accounts.

(5) For a detailed breakdown of transfers to EDL, kindly refer to Table 21. EDL has been reclassified to various transfers from "other treasury expenditures", following the reclassification of the 2009 Budget Proposal and in line with the Fiscal Performance.

(6) For a detailed breakdown of transfers to NSSF, kindly refer to Table 22.

(7) These are reclassifications of payments made from the guarantees under Law 123 dated July 23rd 2010, that opened, in the 2010 Budget, a LL 20 billion allocation for the equipment and maintenance of the House of Parliament. The law allowed the provision of an emergency advance issued by a Decision from the Speaker of Parliament specifying the amount and the duration of the advance. The advance is to be regularized based on invoices certified by the Secretariat of the Office of Parliament and submitted to MoF.

(8) Budget Advances were previously classified under "other". Given their growth, and in line with the Ministry of Finance's efforts to ensure transparency, they will be published in a separate line. They will be regularized at a later stage, and it is only after their regularization that they can be classified according to their economic nature in the budget system.

(9) "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.

(10) Starting December 2011, the Treasury expenditures section in the monthly, quarterly and yearly reports and its corresponding figures differ from the eponym section appearing in the Fiscal performance reports published by the Ministry of Finance because of the reclassification affecting certain payments from guarantees and treasury advances accounts which are manually reclassified in their budgetary economic classification articles.

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

Current primary expenditures

Current primary expenditures²³ rose by 22 percent, amounting to LL 12,001 billion in 2012, up from LL 9,830 billion in 2011. The main components of current primary expenditures are presented below.

Personnel cost²⁴ increased by LL 1,190 billion (22 percent) to reach LL 6,723 billion in 2012 versus LL 5,533 billion in 2011, mainly due to an increase in **salaries and wages and related items** and **retirement and end of service indemnities**, stemming from the 2012 cost of living adjustment.

In details, **salaries, wages and related items** (Article 13) amounted to LL 4,409 billion in 2012 compared to LL 3,818 billion in the previous year, representing an LL 591 billion increase (15 percent). As shown in Table 19, this LL 591 billion hike is explained by the combined outcome of an increase in basic salaries (LL 284 billion), allowances (LL 190 billion) and “other”²⁵ payments (LL 102 billion). For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin of September 2012 on the Ministry of Finance website.

Table 19: Breakdown of Article 13 - Salaries, Wages and Related Items – Jan-Dec 2012

(LL billion)	Basic Salaries		Indemnities ^{5/}		Allowances ^{6/}		Other ^{7/}		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Military Personnel	1,976	1,937	70	77	404	591	2	4	2,452	2,608
• Army	1,402	1,229	45	47	242	395	1	2	1,690	1,673
• Internal Security	457	540	20	23	132	156	0	0	609	719
• General Security Forces	83	105	3	3	23	25	1	1	110	135
• State Security Forces ^{2/}	33	63	2	3	8	15	0	0	42	81
Education Personnel	687	937	68	62	0	0	1	1	756	1,000
Civil Personnel^{3/}, of	312	385	63	66	4	8	192	292	570	750
• Employees							149	250	149	250
• Cooperative Salaries ^{4/}									38	50
Total⁸	2,974	3,259	201	204	408	598	195	297	3,817	4,408

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

²³ Current primary expenditures are current expenditures excluding interest payments and foreign debt principal repayment.

²⁴ This includes salaries, wages and related benefits (article 13), transfers to public institutions for payment of salaries and wages, retirement wages and end-of-service indemnities.

²⁵ Other includes (i) payments for bonuses, (ii) State contributions to the Civil Servants' Cooperatives, (iii) State contributions to the Mutual Funds covering Members of Parliament, employees of the Lebanese Parliament, judges, judges' aides and Islamic tribunal judges and (iv) State contributions (as an employer) to the National Social Security Fund public sector employees that are not covered by the Civil Servant Cooperative and the Mutual Funds. For further details, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin (October to December issues) on the Ministry of Finance website: www.finance.gov.lb

⁽¹⁾ Includes allowances payments made to Internal Security Forces from Guarantees account.

⁽²⁾ Includes allowances payments made to State Security Forces from Guarantees account.

⁽³⁾ Includes salaries payments made to Ministry of Public Health from Guarantees account.

⁽⁴⁾ Includes salaries and wages and indemnities payment from guarantees account but excludes payments for allowances which are made from Customs Cashiers and can only be reclassified once Customs has sent the supporting document to the Directorate General of Finance. Field Service indemnity in June 2011 paid to Customs officers was included as well.

⁽⁵⁾ Includes payments for family, transportation, overtime as well as various indemnities

⁽⁶⁾ Includes payments for maternity and sickness, marriage, birth, death, hospital, education, medical and various social allowances.

⁽⁷⁾ 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.

⁽⁸⁾ Please note that totals might not correspond to the total of the individual items due to rounding

Retirement and end-of-service compensations summed up to LL 1,918 billion in 2012 compared to LL 1,420 billion in 2011, representing a 35 percent increase. Behind this LL 497 billion growth stands mainly a 25 percent rise (LL 298 billion) in retirement salaries and an 86 percent increase (LL 199 billion) in end of service indemnities which is in return due to higher payments to military and civil personnel:

- **End-of-service compensation** to military personnel amounted to LL 387 billion (constituting 90 percent of total compensation payments) in 2012 compared to LL 193 billion (84 percent of total compensation payments) in 2011. This 100 percent increase was mainly induced by a higher number of beneficiaries and/or by the fact that retirees during the period under consideration, are of higher grade levels and/or have served for longer period.
- Similarly, **end-of-service compensations** to the civil personnel, climbed to LL 44 billion in 2012 compared to LL 38 billion in 2011. This 16 percent increase was the result of retirees having worked for a longer period and/or having received higher salaries. It is noteworthy that the number of civil personnel beneficiaries slightly decreased to reach 1,829 retirees in 2012, down from 1,895 retirees in 2011.

Further under personnel cost, **transfers to public institutions to cover salaries** increased by LL 101 billion to reach LL 396 billion in 2012, mainly resulting from a LL 86 billion increase in transfers to Lebanese University due to retroactive payment relating to their respective new salary scale²⁶. The changes in the components of transfers to public institutions are shown in Table 20.

²⁶ As per Law 206 dated March 5, 2012

Table 20: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	Jan-Dec 2010	Jan-Dec 2011	Jan-Dec 2012	%Change 2012/2011
Transfer to Council of the South	13	9	13	48%
Transfer to the Council for Development and	34	27 ²⁷	37	38%
Transfer to Fund for the Displaced	7	6	7	10%
Transfer to the Lebanese University	254	240	327	36%
Transfer to Educational Centre for Research and	14	12	12	-3%
Total Transfers to Public Institutions	322	295	396	34%

Source: MOF

Materials and supplies' purchases amounted to LL 305 billion in 2012 compared to LL 329 billion in 2011, representing a LL 24 billion (7 percent) year-on-year decrease. This is explained mainly by a LL 35 billion (23 percent) drop in spending on medicaments due to a discrepancy in timing of payment. It is worth noting that spending on medicaments are mostly transferred to military personnel. This decline was offset by an increase in spending on **fuel oil**²⁸ and **nutrition** by LL 19 billion (95 percent) and LL 1 billion (2 percent) respectively.

External Services (rent, postal, insurance, advertisement and public relations) decreased by LL 13 billion (9 percent) to LL 122 billion in 2012, down from LL 135 billion in 2011. This was mainly due to a decrease in rental payments and publications by respectively LL 12 billion and LL 5 billion.

Various Transfers rose by LL 955 billion, totalling LL 4,256 billion in 2012 compared to LL 3,301 billion in 2011. This increase primarily resulted from the combined changes in the following items:

- a) Transfers to **EDL**²⁹ increased by LL 783 billion in 2012, amounting to LL 3,408 billion, compared to LL 2,626 billion in 2011.

²⁷ From this amount, LL 3 billion are due to the payment in January and February 2011 of two transfers (from Transfer 49870/99) respectively worth LL 1 billion and LL 2 billion that are not related to salaries but that were classified under article 14 (transfers). These payments are intended to cover the cost of projects conducted in the region of Baalbeck-Hermel.

²⁸ It should be noted that most spending on fuel is through budget advances which are reclassified according to their economic classification after their regularization in the budget system. This is usually achieved a year after they have been paid. Therefore, total spending on fuel for the current year cannot be constructed when the monthly economic classification table is prepared.

²⁹ For further details, check the December 2012 issue of "Transfers to EDL: A Monthly Snapshot" available on www.finance.gov.lb.

Table 21: Transfers to EDL

(LL billion)	Jan-Dec 2010	Jan-Dec 2011	Jan-Dec 2012	%Change 2012/2011
EDL, of which:	1,797	2,626	3,408	30%
a-Debt Service. of which:	100	101	112	11%
• C-Loans and Eurobonds. of which:	67	61	46	-23%
- Princinal Renavments	56	51	39	-23%
- Interest Pavments	11	10	8	-24%
• BDL-Guaranteed Loan Pavments	33	40	65	64%
b-Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	1,697	2,525	3,076	22%
• KPC and SPC	1,655	2,470	3,076	25%
• EGAS	42	55	0	-100%
c-Treasury Advance to EDL	0	0	220	100%
• VAT on fuel oil LC	0	0	40	100%
• Payment to EDL-contract with KARPOWERSHIP	0	0	180	100%

Source: MOF, DGF

- b) Transfers to the **High Relief Committee** increased by LL 185 billion and amounted to LL 195 billion in 2012 compared to LL 11 billion in 2011. This rise stems mainly from the LL 175 billion treasury advance paid as indemnity for destroyed properties during the 2006 war³⁰.
- c) **Diesel oil subsidy** totalled LL 19 billion in 2012, compared to nil in the previous year, and was used to subsidize diesel oil which was imported at LL 3,000 per tank³¹. As per the decree, the total amount of the treasury advance is LL 22.5 billion, providing a temporary measure in anticipation of a VAT exemption on diesel oil as per Law 207 dated March 5, 2012.
- d) **Assistance for the Directorate General of Grains and Sugar Beetroot (DCGB)** increased from LL 58 billion in 2011³² to LL 65 billion in 2012³³. Both amounts were used to subsidize the price of bread as a result of high international wheat prices³⁴.
- e) Transfers to **school funds** fall under Contributions to Public Sector category and these amounted to LL 56 billion in 2012, while they were LL 15 billion in 2011. The

³⁰ As per Decree 7474 dated February 6th, 2012, HRC was provided with a treasury advance in the amount of LL 175 billion to compensate for destructed properties during the 2006 July war.

On a related note, HRC spending relating to the July 2006 Israeli war on Lebanon, totaled LL 383 billion in 2006 and LL 700 billion in 2007, of which LL 19 billion and LL 10 billion were transferred in the form of a treasury advance in both years respectively. In 2008, HRC spending relating to the 2006 July war declined to LL 294 billion, with no transfers made for this purpose. In 2009, HRC paid LL 315 billion for housing indemnities of which LL 270 billion were transferred in the form of a treasury advance.

³¹ As per decree 7566 dated February 22, 2012

³² As per Decree 4947 dated 9/4/2010 and Presidency of the Council of Minister's Letter 97/A dated April 12th, 2011. This exceptional authorization was later formalized by Decree 6056 dated August 6th, 2011 when the new government was formed based on Decree 5818 dated June 13th, 2011.

³³ As per Decree 8011 dated 23/04/2012 and Decree 8348 dated 15/06/2012. It is worth mentioning that a LL 27 billion payment was made from the guarantee account, after the Ministry of Finance's approval.

³⁴ For more information on payments made to the Directorate General of Cereals and Beetroot since 2007, please refer to the thematic report published by the Ministry of Finance in October 2012 under the title: "Bread and Wheat Subsidies 2007-2011".

LL 41 billion was paid for public schools (primary, middle and secondary levels) registration fee for the academic year 2011-2012

- f) **Gasoline subsidy for taxi drivers** reached LL 8 billion in 2012 compared to LL 41 billion in 2011. On October 5, 2011, Parliament approved Law 182/2011 to subsidize taxi drivers for a period of three months amid increasing fuel and gasoline prices, noting that this was a onetime law and is not a recurrent spending³⁵.
- g) **Contributions to non-public sector** remained relatively constant, increasing by LL 1 billion in 2012, mainly driven by an LL 50 billion rise in transfers to the **Ministry of Education (Subsidized schools)**³⁶, but offset by a LL 64 billion decrease in transfers to the Ministry of Social Affairs.

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

- a) Transfers to the **National Social Security Fund (NSSF)** amounted to LL 100 billion in 2012 compared to LL 120 billion during 2011³⁷.

Table 22: Budget Allocation to the NSSF³⁸

(LL billion)	2010	2011	2012
Total Allocation, of which:	350	380	510
<i>Annual state contributions</i>	220	220	390
<i>Past dues</i>	80	80	80
<i>Optional Fund branch deficit</i>	50	80	40

Source: MOF, DGF

- b) Payments to **Water Authorities** declined by 22 percent to reach LL 18 billion in 2012, down from LL 23 billion in 2011. These LL 18 billion could be broken down as follows: a LL 7.5 billion³⁹ treasury advance provided to the **North Lebanon Water Authority** and a LL 10 billion⁴⁰ provided to the **Bekaa Water Authority** to improve their services, increase their revenues, and install new water channels for residents of these regions.

It is worth mentioning that no payments were made for the Special Tribunal for Lebanon in the years 2011 and 2012 from the budget. However, a transfer from HRC accounts was made for the Special Tribunal in 2012.

³⁵ (For further information, please refer to Box 4 in the expenditure section of the 2011 Annual Expenditure Report).

³⁶ It is worth noting that transfers to school funds relate to payments made to public institutions such as public schools. As for transfers made to subsidized schools, these correspond to payments made to private institutions.

³⁷ The LL 120 billion transferred to NSSF in 2011 was paid from the allocation covering the State's contribution to the Fund that was included in the 2010 Budget Proposal, while the LL 100 billion transferred to NSSF in 2012 financed the State's contribution to the Fund from the 2012 Budget Proposal

³⁸ Transfers to the NSSF

(1) In 2011, transfers were made from 2010 Budget Proposal

³⁹ As per Decree 6960 dated 25/11/2011

⁴⁰ As per Decree 6959 dated 25/11/2011

Table 23: Breakdown of Article 14 by Economic Classification

(LL Billion)	2011	2012	% Change
1. Contributions to the Public Sector 1/	2,895	3,896	34%
1a. Electricité Du Liban (EDL)	2,626	3,408	30%
1b. Other Contributions to the Public Sector, of which:	270	482	79%
<i>National Council for Scientific Research</i>	7	9	21%
<i>High Relief Committee (HRC)</i>	11	195	1709%
<i>Investment Development Authority of Lebanon (IDAL)</i>	2	2	0%
<i>Transfers to School Funds</i>	15	56	274%
<i>Public Hospitals</i>	14	12	-14%
<i>National Agriculture Research Institute (NARI)</i>	11	14	27%
<i>Green Project</i>	14	11	-21%
<i>Public Institution for Cooperative Markets 2/</i>	0	8	N/A
<i>National Social Security Fund (NSSF)</i>	120	100	-17%
<i>Tele-Liban</i>	7	9	32%
<i>Treasury Advances for Diesel Oil Subsidy 3/</i>	-	19	N/A
<i>Gasoline subsidy for taxi drivers 4/</i>	41	8	-80%
<i>Lebanese National Higher Conservatory of Music</i>	10	17	68%
2. Contributions to the Non-Public Sector	219	221	1%
2a. Contributions to Non Profit Organizations , of which:	208	209	0%
<i>Ministry of Education-Subsidized Schools</i>	40	91	125%
<i>Ministry of Youth and Sports (Sport Federations and</i>	3	6	104%
<i>Ministry of Public Health (Blood Bank and Medications</i>	9	12	29%
<i>Ministry of Social Affairs (Social care)</i>	148	84	-43%
2b. Contributions to Private Parties, of which:	10	12	19%
<i>Ministry of Justice (Contributions to Canonical Tribunals)</i>	4	4	0%
<i>Ministry of Public Health (Childhood, Elderly and</i>	2	3	44%
<i>Ministry of Culture (Support to Art)</i>	3	2	-32%
2c. Students Grants	0	0	29%
3. Assistance to the Public Sector	101	108	7%
3a. Assistance for the Directorate General of Grains and Sugar	58	65	13%
3b. Assistance to Public Institutions, of which:	19	39	104%
<i>Institute of finance</i>	1	2	83%
<i>Railway and Public Transportation Authority</i>	13	14	8%
<i>Water Authorities</i>	23	18	-22%
3c. Other Assistances to the Public Sector, of which:	1	5	259%
<i>Ministry of Environment (Joint Projects with</i>	1	0	-94%
4. Assistance to the Non-Public Sector	-	-	N/A
5. External Assistance	2	0	-86%
5a. Other External Assistance, of which:	2	0	-86%
<i>Ministry of Environment</i>	2	-	-100%
6. Membership Fees	20	16	-22%
6 a. Membership Fees in International and Regional	20	16	-22%
<i>Ministry of Foreign Affairs and Emigrants</i>	5	5	6%

<i>Ministry of Public Health (mainly for vaccinations and</i>	8	3	-58%
7.Stoppings 6/, of which:	63	20	-69%
<i>Treasury Advances 7/</i>	27	0	-98%
<i>Lebanese Civil Defense 8/</i>	18	10	-45%
Total	3,301	4,256	29%

Source: DGF, MOF

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

2/ These payments were made from the guarantees account based on letters from the Presidency of the Council of Ministers.

3/ These payments were provided through the treasury advance issued from Decree 2986 dated January 1st, 2010.

4/ As per law 182 dated October 5th, 2011. This law provided a subsidy for taxi drivers for a period of three months amid increasing fuel and gasoline prices.

5/ This was a payment to subsidize the price of wheat from Decree 4947 dated September 4th, 2010.

6/ 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 for example, 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.

7/ The expenditure figures as published by the Ministry of Finance include the regularization in the national budget system of treasury advances previously paid from treasury accounts. These regularizations are included on both the revenue and expenditure side for

8/ Payments to the Lebanese Civil Defense are made from treasury accounts and more specifically deposits account. Consequently, at the end of the year, they are regularized to be included in the budget system.

Other Current Expenditures increased by LL 26 billion from LL 378 billion in 2011 to LL 404 billion in 2012. In this economic category, payments to **hospitals** increased by LL 33 billion⁴¹ to reach LL 334 billion in 2012, up from LL 301 billion during 2011. **Other current spending** (which includes mainly compensatory payments to be made by the State following judgement issued by the State Council, reconciliation payments as well as electoral expenses) remained stable and amounted to LL 67 billion in both years.

⁴¹ As per Decree 9575 dated 20/12/2012, Decree 9328 dated 17/11/2012, Decree 8313 dated 14/06/2012, Decree 7564 dated 21/02/2012 and Decree 6435 dated 06/10/2011.

Interest payments

Total **Debt Service payments** amounted to LL 5,457 billion in 2012, nearly 4 percent below the amount paid in 2011, representing a total interest cost saving of LL 198 billion for the year, stemming from lower interest payments on local currency debt.

In fact, **Debt service payments on local currency debt** totaled LL 3,333 billion by end of December 2012, 6 percent (or LL 219 billion) below the interest dues in 2011, explained by (i) 6 percent (or LL 189 billion) lower debt service dues on long-term T-bonds and (ii) 22 percent (or LL 30 billion) lower discount interest on short-term T-bills.

Coupon payments on long term local currency T-bonds (interest paid on 24, 36, 60 & 84 months T-bonds) totaled LL 3,141 billion in 2012 compared to LL 3,356 billion in 2011, representing a saving of LL 215 bn. Note that debt service dues on long-term T-bonds in 2012 accounted for LL 58 billion and LL 27 billion of premium⁴² incurred on the early redemption of T-bonds in the context of LL/FX debt Swap transactions with BDL in the months of June 2012 and December 2012 respectively, and in accordance with Law 212⁴³ Article 1. Similarly in 2011, LL 12 billion and LL 48 billion of premium on the early redemption of T-bonds were incurred in the context of an LL/FX swap deal with BDL in January 2011, and in the context of a market exchange transaction (between maturing Notes & new 7 years Notes) in April 2011, respectively (refer to footnotes under Table 24).

The 6 percent saving on coupon payments is explained by an 80 bps drop in the weighted average coupon rate in 2012, despite (i) a larger stock of long term T-bonds with outstanding coupons in 2012 compared to the stock outstanding in 2011 (refer to Table 30 for the number of outstanding bills), and (ii) a higher share for the longer maturities. In fact, the share of the 60 and 84 months T-bonds has risen from 24 percent in 2011 to 44 percent in 2012, whereas the share of the 24 and 36 months T-bonds dropped from 76 percent to 56 percent in that same period. Therefore, in this low yield environment, the Republic succeeded in extending the maturity profile of domestic debt while still saving on interest cost.

The 80 bps drop in the overall weighted average coupon rate in 2012 is due to a 120 bps decrease in the rate of the 3 year bonds which reached 6.71 percent in 2012, in addition to a 78 bps fall in the rate of 2 year bonds over the period, to 5.42 percent.

⁴² The premium incurred by the Treasury is in fact the liquidation value at which the Bonds are redeemed above the nominal value at which the Bonds were issued.

⁴³ For further details about the June and the December 2012 debt swap with BDL, please refer to Brief Notes published on the Ministry's website.

Indeed, the drop in the weighted average coupon rate stem from the 24 and the 36 months categories: the stock of 24 months T-bonds outstanding in 2012 carries coupon rates ranging between 5.34% and 6.24%, whereas 42 percent of the stock of the 24 months T-bonds outstanding in 2011 carries coupon rates exceeding 6.24% (in 2011, the 24 months T-bonds carried coupon rates ranging between 5.34% and 8.2%). Similarly, the stock of 36 months T-bonds outstanding in 2012 carries coupon rates ranging between 5.86% and 8.98%, whereas 36 percent of the stock of the 36 months T-bonds outstanding in 2011 carries coupon rates exceeding 8.98% (in 2011, the 36 months T-bonds carried coupon rates ranging between 5.86% and 9.32%).

On the other hand, **discount interests on short-term T-bills** (interest paid at maturity of 3, 6, & 12 months T-bills) amounted to LL 107 billion in 2012, compared to LL 137 billion in 2011, explained by: (i) 8 bps drop in the weighted average discount rate from 4.64 percent in 2011 to 4.56 percent in 2012, along with (ii) an almost one percent decrease in the stock of maturing short-term T-Bills⁴⁴, which amounted to LL 4,126 billion in 2012, explained by 54 percent lower volume of maturing 12 months T-bills, which was not offset by the 18 percent and the 54 percent increases in the volume of maturing 3 and 6 months T-Bills respectively⁴⁵.

Interest payments on foreign currency debt totaled LL 2,124 billion in 2012, increasing by 1 percent (equivalent to LL 21 billion higher interest dues) compared to 2011, explained by LL 32 billion increase in coupon payments on Eurobonds.

Eurobond coupons (including fees & expenses) totaled LL 2,004 billion in 2012 compared to LL 1,971 billion during the previous year, mainly due to a 3 percent increase in the stock of outstanding Eurobonds by end of 2011 and carrying coupon dues in 2012, amounted to LL 27,490 billion, whereas the stock of Eurobond outstanding by end of 2010 carrying coupon dues in 2011 amounted to LL 26,738 billion⁴⁶. The rise in volume outweighed the drop in the cost of debt: the outstanding stock of market Eurobonds by end of 2011 carried a lower average coupon rate of 7.02%, compared to 7.31 percent for the stock outstanding at the end of 2010, i.e. 28 bps lower average coupon rate.

Interest payments on Eurobond in 2012 account for the large coupons pertaining to the large size issues namely: (i) the USD 1.5 BN 9.000% March 2017 Notes issued in 2009 in the context of a market exchange and new cash transaction, (ii) the USD 2.092 BN 8.255%

⁴⁴ Note that discount interest is paid at maturity of short-term T-bills, whereas coupons on long-term T-bonds are paid twice a year until maturity.

⁴⁵ The share of maturing 12 months T-bills out of total maturities dropped from 45 percent in 2011 to 21 percent in 2012, whereas the share of maturing 3 and 6 months T-bills rose from 55 percent in 2011 to 79 percent in 2012.

⁴⁶ Reference Table D. Debt Outstanding as of end Period by Type of Debt Holder, December 31st 2011, BDL.

April 2021 Notes issued in 2006 in the context of a market exchange and new cash transaction, than reopened in 2007, and (iii) the USD 1.540 BN 6.100% October 2022 Notes issued in 2010 than reopened 3 times in 2011.

It is worth noting that **Eurobond principal maturities** in 2012 are 41 percent lower than principal maturities in 2011. This is the outcome of the proactive liability management exercise the Government undertook in November 2011, whereby it offered for exchange market maturing bonds in 2012 into 3 new issues, thereby (i) easing refinancing risk for 2012, and (ii) lowering refinancing cost, as these Notes were exchanged into lower coupons Notes⁴⁷.

Interest payments on C-loans in 2012 totaled around LL 115 billion, roughly 10 percent lower than the LL 127 billion paid in 2011. The stock of concessional loans outstanding as of end 2011 and upon which interest is due in 2012 is 6 percent lower than the stock of concessional loans outstanding as of end 2010 and upon which interest is due in 2011⁴⁸. Of the interest amount paid in 2012:

- LL 48 billion are interest on **C-loans for Budget support** that go into the Treasury accounts (largely pertaining to AFD loans in the context of PII & PIII), compared to LL 55 billion paid in 2011.
- LL 67 billion are **interest on C-loans to CDR** (from EIB, AFESD, IDB, ...) for investment purposes, compared to LL 72 billion paid in 2011.

Finally, **Interest payments on FX T-bonds issued for expropriation, and for contractors** totaled LL 5 billion in 2012, slightly higher than the LL 4 billion paid in 2011, explained by a higher stock of outstanding special FX T-bonds (LL 80 billion of FX T-bonds were outstanding as of end 2011, compared to only LL 74 billion outstanding as of end 2010⁴⁹).

⁴⁷ US\$ 600 MN 7.500% due March 2012 Notes, US\$ 600 MN 7.750% due September 2012 Notes, and €535.6 MN 5.875% due April 2012 Notes were exchanged into USD 500 MN 5.45% November 2019, USD 375 MN 6.60% November 2026 and €455 MN 5.35% due November 2018. For further details about the November 2011 debt exchange transaction please refer to the Brief Note on the Ministry of Finance website.

⁴⁸ Reference Table D. Debt Outstanding as of end Period by Type of Debt Holder, December 31st 2011, BDL.

⁴⁹ Reference Table D. Debt Outstanding as of end Period by Type of Debt Holder, December 31st 2011, BDL.

Table 24: Interest Payments

(LL billions)	2011	2012	% change
Debt Service Payments	5,655	5,457	-3.5%
Local Currency	3,552	3,333	-6.2%
Discount interest	137	107	-21.9%
Coupon payment	3,416	3,227	-5.5%
<i>Coupon payments</i>	3,356	3,141	-6.4%
<i>Premium</i>	60	86	43.8%
Foreign Currency	2,103	2,124	1.0%
Eurobond Coupon (including fees)	1,971	2,004	1.6%
C-loans interest	127	115	-9.5%
Special Bond (expropriation & contract.)	4	5	23.3%
Memorandum Items:			
Domestic Currency Principal Maturities	22,204	20,900	-5.9%
Short- term (3-6-12)	4,152	4,126	-0.6%
Long term (24-36-60-84) <i>of which</i>	18,052	16,774	-7.1%
<i>Special transactions*</i>	2,368	4,446	87.8%
Nb. of outstanding T-bonds on which coupon was due	8,289,704,885	9,006,413,005	8.6%
Weighted average cost/Local debt			
Short- term (3-6-12)	4.64	4.56	-1.6%
Long term (24-36-60-84)	7.77	6.97	-10.3%
Weighted average cost/Foreign debt			
Eurobonds**	7.31	7.02	-4.0%
Foreign Currency Principal Maturities	3,725	2,400	-35.6%
Eurobonds	3,220	1,911	-40.6%
C-loans	505	489	-3.2%

Source: PDD tables, MOF

*Special transactions in 2011 account for the following:

Jan 18th, USD 265 million reop. 6.10% 2022 Eurobond were issued to BDL, which proceeds helped redeem LL 392 billion 36 months T-bonds with a LL 11.8 bn of premium incurred.

Apr 21st, maturing T-bills were swapped into 7.9% 7 years T-bonds in the amount of LL1, 976 billion; LL 48 bn of premium was incurred.

* Special transaction in 2012 account for the following:

June 12th, LL 2,957 BN of T-bonds held by BDL were redeemed in exchange of the issuance of USD 2 BN triple tranche Notes (USD 500 4.10% 2015, USD 700 5.15% 2018 and USD 800 6.25% 2025) to BDL and LL 58 bn of premium was paid.

Dec 20th, LL 1,489 BN of T-bonds held by BDL were redeemed in exchange of the issuance of USD 1 BN reop. 5.45% 2019 Notes to BDL and LL 27 bn of premium was incurred

** Note that the weighted average coupon rate on Eurobonds incurred in 2011 pertains largely to the Eurobond stock outstanding as of end 2010 whereas the weighted average coupon rate incurred in 2012 pertains largely to the Eurobond stock outstanding as of end 2011

Capital Expenditures

Capital expenditures amounted to LL 760 billion in 2012, increasing by LL 84 billion (12 percent) compared to the LL 676 billion recorded in 2011. This rise was mainly the result of an increase in **Acquisitions of Land and Buildings** costs, **Equipment**, and **Construction in Progress**. The latter increased by 21 percent to reach LL 486 billion in 2012, up from LL 402 billion mainly due to the combined effect of the following:

- a) A LL 54 billion (37 percent) increase in payments to CDR, to reach LL 199 billion in 2012, up from LL 145 billion in 2011. This is attributed to a LL 48 billion increase in roads, buildings and water projects executed on behalf of line ministries, and a LL 25 billion increase in maintenance of Rafic Hariri International Airport (increasing from LL 9 billion in 2011 to LL 34 billion in 2012). These increases were partially offset by a LL 31 billion decrease in counterpart funding for foreign financed projects.

Table 25: Payments to CDR for Construction in Progress

(LL billion)	Jan-Dec	Jan-Dec 2012
CDR Budget Payments ⁽¹⁾, of which:	118	112
• Counterpart funding for foreign financed projects	109	78
• Maintenance of Rafic Hariri International Airport	9	34
Projects Executed on behalf of Line Ministries of which ⁽²⁾	27	75
• Roads	13	52
• Buildings	14	15
• Water projects	-	9
Other	0	13
Total Payments to CDR for Construction In Progress	145	199

Source: MOF

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

- b) A LL 35 billion increase (38 percent) in allocations to the **Ministry of Public Works and Transport** from LL 92 billion in 2011 to LL 127 billion in 2012, mainly caused by the following measures:

- i) A LL 31 billion increase on investment to expand the **port of Tripoli**⁵⁰.
- ii) A LL 16 billion increase on payments for road reconstruction in several regions and areas.

⁵⁰ As per Decree 6813 dated November 15th, 2011

- iii) A LL 5 billion higher spending on construction of warehouses for snow trucks.
- c) A LL 13 billion increase in payments to the **Council of the South**, which amounted to LL 63 billion in 2012⁵¹ compared to LL 49 billion in 2011⁵².
- d) The increase in Construction in Progress was slightly offset by a LL 25 billion decrease in payments to the **Displaced Fund** in 2012, to reach LL 48 billion⁵³ in 2012, down from LL 73 billion in 2011.

The increase in **Capital Expenditures** was offset by a decrease in the following:

- a) **Parliamentary Equipment related to Fixed capital Assets** transfers declined by LL 19 billion (88 percent), reaching LL 3 billion in 2012, down from LL 22 billion in 2011, and similarly **Other expenditures related to fixed capital** under capital expenditure decreased by 74 percent to LL 3 billion in 2012 down from LL 13 billion in 2011.
- b) **Maintenance** payments decreased by 4 percent to LL 180 billion in 2012 down from LL 186 billion in 2011. This LL 7 billion drop was mainly the effect of a LL 3 billion decrease in payments to Ministry of Energy and a LL 2 billion reduction in maintenance of equipment spending.

It is noteworthy that no transfers were made to **IDAL** for its **Export Plus** program in 2012, compared to LL 5 billion⁵⁴ in 2011.

⁵¹ In 2012, LL 30 billion were paid from the 2011 Budget Proposal, while the remaining LL 18 billion from the 2012 Budget Proposal.

⁵² LL 13 billion were paid from the 2010 Budget Proposal, LL 22 billion were carried forward from previous budget proposal but paid from the 2010 Budget and the remaining LL 15 billion were paid from the 2011 Budget Proposal

⁵³ The LL 48 billion were paid from the LL 120 billion allocated in the 2010 Budget Proposal and carried forward to 2011 and finally disbursed in 2012.

⁵⁴ This amount was carried forward from the 2010 Budget Proposal and paid in 2011.

Treasury Expenditures

Treasury expenditures increased by 54 percent to LL 1,304 billion in 2012 compared to LL 845 billion in 2011. This LL 460 billion increase is primarily attributed to higher payment to **Municipalities** and **Value Added Tax refund** payments.

Payments to **Municipalities** increased by 82 percent to LL 669 billion in 2012 versus LL 368 billion in 2011. The increase is explained by a LL 268 billion increase in payments of **revenues accruing to municipalities**, as shown in Table 26. These payments increased to LL 384 billion in 2012 from LL 116 billion in 2011 mainly because of payment timing issues. **Payments for solid waste management** rose by 11 percent, hovering around LL 270 billion in 2012 compared to LL 243 billion in 2011.

Table 26: Payments to Municipalities

(LL billion)	2011	2012	%Change 2012/2011
Distribution of Revenues Accruing to Municipalities	116	384	231%
Payments for Solid Waste Management	243	270	11%
Payments to the "First Municipality Infrastructure" Project"	7	13	82%
Other Payments	2	15	19%
Total Payments to Municipalities⁽¹⁾	368	669	82%

Source: MOF, DGF

Under "**Other**" Treasury expenditures, **VAT refund** increased by 22 percent to LL 239 billion in 2012 from LL 195 billion in 2011. In fact, **VAT refund** claims were all frozen by the MOF administration in 2011 as a result of a discovered fraud, which is still under investigation by the Attorney General. As such, taxpayers started to carry forward the VAT credit instead of submitting a refund claim.

Special Focus: Social Expenditures

Social expenditures cover the basic social services of: health, education, retirement and end-of-service indemnities, transfers to the National Social Security Fund (NSSF), and other areas of intervention where the Government provides social allowances.

The social bill increased by 24 percent year-on-year, amounting to LL 4,870 billion in 2012, up from LL 3,934 billion in 2011. End-of-Service indemnities and retirement wages accounted for the highest share of social spending in 2012, at 39 percent, increasing from their previous level of 36 percent in 2011. Education spending followed with a share of 33 percent in 2012, compared to a slightly lower share of 32 percent in 2011, covering mainly the Ministry of Education and Higher Education salary and wage bill, education allowances for public sector employees and contributions to non-profit organizations also known as subsidies to private schools, and transfers to the Lebanese University. Lastly, health expenditures ranked third with 17 percent of social outlays in 2012, decreasing from their share of 19 percent in 2011.

The LL 936 billion increase in social spending recorded in 2012 is primarily explained by the combined effect of the following:

- a) End-of-Service indemnities and retirement wages increased by LL 497 billion from LL 1,420 billion in 2011 to LL 1,918 billion in 2012⁵⁵. Transfers to the Civil Servants' Cooperative increased by LL 101 billion to reach LL 250 billion in 2012 up from LL 149 billion in 2011⁵⁶.
- b) Spending on education increased by LL 358 billion mainly due to (1) LL 232 billion increase in salaries and wages of the General Directorate of Education⁵⁷, (2) LL 102 billion rise in education allowances in the private sector, and (3) LL 86 billion increase in transfers to the Lebanese University.
- c) Spending on hospitalization of public sector employees in private hospitals increased LL 69 billion, coupled with a LL 33 billion increase in transfers to hospitalization in private sector. These were offset by a LL 33 billion decline in spending on medication.

The total increase in social spending was weakened by a drop in spending in the following categories:

- a) Transfers to non-profit organizations made by the Ministry of Social Affairs dropped by LL 62 billion to reach LL 86 billion in 2012, compared to LL 148 billion in 2011.

⁵⁵ For details kindly refer to the "current expenditures section".

⁵⁶ For details kindly refer to the "Salary and Wages and Related Benefits-Article 13 Report for September 2012.

⁵⁷ For details kindly refer to the "Salary and Wages and Related Benefits-Article 13 Report for September 2012.

- b) Purchases of medicaments declined by LL 35 billion, amounting to LL 121 billion in 2012 compared LL 156 billion in 2012⁵⁸.
- c) Transfers to the NSSF decreased by LL 20 billion, from LL 120 billion in 2011 to LL 100 billion in 2012 due to a discrepancy the timing of payments⁵⁹.

Table 27: Main Social Expenditures

(LL billion)	2011	2012	%Change 2011/2010
Health	763	829	9%
• Hospitalization in the Private Sector	301	334	11%
• Purchase of Medication	156	121	-23%
• Hospitalization of Public Sector Employees in Private Sector	178	247	39%
• Maternity and Sickness Allowance	45	53	17%
• Other	83	74	-11%
Education	1,265	1,623	28%
• Ministry of Education and Higher Education, of which:	1,102	1,358	23%
• Wages and Salaries of the General Directorate of Education	649	881	36%
• Wages and Salaries of the General Directorate of Higher	1	1	4%
• Wages and Salaries of the General Directorate of Technical Education	106	118	11%
• Transfers to the Lebanese University	240	327	36%
• Contributions to Non Profite Organizations (Private Schools)	41	91	123%
• Education Allowance in Private Sector	163	265	62%
Other Social Spending	1,906	2,418	27%
• Marriage Allowance	6	8	30%
• Birth Allowance	3	5	54%
• Death Allowance	4	5	42%
• Other Social Spending Allowance	8	10	21%
• Participation in Several Mutual Funds	31	25	-20%
• Ministry of Social Affairs, of which:	158	90	-43%
• Transfers to Non-Profit Organizations	148	86	-42%
• Ministry of the Displaced	5	6	17%
• Transfers to Civil Servants Cooperative	149	250	68%
• End-of-Service Indemnities and Retirement Wages	1,420	1,918	35%
• Transfers to the National Social Security Fund	120	100	-17%
Total Social Expenditures	3,934	4,870	24%

Source: MOF, DGF

⁵⁸ For details kindly refer to the "Current primary expenditures" section.⁵⁹ For details kindly refer to the "Current primary expenditures" section.

Box# 4: Cost of Living Adjustment and New Salary Scale

On February 19, 2013, civil servants and teachers started an open-ended strike to pressure the government to transfer the new salary scale to Parliament. On March 21, 2013, the Council of Ministers approved the proposal for the increase of the minimum wage, the provision of cost of living, and the amendment of the basic salaries based on the new scale in the public sector, as well as a list of revenue measures.

According to the draft law, the increase in public sector's salaries is twofold: (a) a raise for cost of living and (b) another raise relating to the new salary scale.

The *cost of living* adjustment, effective February 1, 2012, started to be paid since September 2012 before the Parliament approval, in accordance with a treasury advance in the amount of LL 750 billion as per decree 8851 dated September 7, 2012. The monthly cost of this increase was estimated by the Directorate of Payment Orders at MoF to be LL 71 billion.

During the period September-December 2012, the Ministry of Finance disbursed LL 632 billion to cover the cost of living increase along with the retroactive payments for the period February-August 2012. It should be noted that retirees were not paid the full amount of cost of living adjustment partly justifying the difference between the estimated annual cost and the actual amount paid in 2012. Another reason is attributed to the fact that in 2012 cost of living adjustment was paid for 11 months as the effective date is February 1, 2012. As such, starting January 1, 2013, the cost of living increment was embedded in employees' salaries.

The *new salary scale* component was approved by Council of Ministers and transferred to Parliament. If adopted, the monthly cost is estimated at LL 65 billion, as per the Directorate of Payment Orders at MoF.

The parties benefiting from the draft Law include the following: (a) Public administrations, municipalities, and union of municipalities personnel; (b) Civilian personnel, excluding judges and education personnel in the Lebanese University; (c) Diplomats working overseas and in the Central Administration; (d) Primary, intermediate, and secondary education personnel; (e) Military personnel; (f) Public authorities personnel; (g) Contractual personnel in public administrations and the Ministry of Education; (h) Regie Libanaise des Tabacs personnel; and (i) Retirees. The distribution of the estimated cost of the new salary scale among the different parties is presented in the following table:

Table 28: New salary scale distribution by category

LL billion	Monthly cost	Yearly cost
General administration and contractual	8	94
2 exceptional echelons to General Directorate of Aviation technicians	0.01	0.10
Education personnel at Directorate General Education	8	97
6 exceptional echelons to education personnel	16	195
Hourly employees at Directorate General Education	0	4
Hourly employees at Directorate General Vocational & Technical	0	5
Military personnel	10	125
Retirees	15	179
Increase in End of Service Indemnity	6	75
Total	65	775

Source: Directorate of Payment Orders

On a related note, it is worth noting that judges and education personnel at the Lebanese University were excluded from this draft Law as a number of exceptional laws were issued allowing these two categories to benefit from an increase in their salaries, namely Law 173 dated August 29, 2011 for judges, and Law 206 dated March 5, 2012 for Lebanese University professors.

Section IV: Public Debt Developments

Financing Sources

Total deficit (on check-issued basis) in 2012 amounted to 5,919 billion⁶⁰, as a result of a LL 5,465 billion of debt service payment dues and a negative primary balance of LL 404 billion (including LL 50 billion grants), the first primary deficit since 2006. As such, the Treasury had to finance debt payment dues as well as a negative primary balance.

Total net financing amounted to LL 6,239 billion⁶¹ in 2012 (computed as changes in debt stocks and deposit accounts and accounting for exchange rate valuations of FX deposits and FX debt).

In 2012, the Government's main source of financing was through debt issuance in both local and foreign currencies, with a significant reliance on FX financing. This contrasts with financing schemes in the previous year, whereby in the absence of a new enabling legislation for FX financing, the Government relied on T-bills auction (which accounted for 36 percent of total net financing in 2011) and drew on its deposit accounts⁶² as the main financing source (reaching 58 percent of total net financing in 2011 or LL 1,956 billion).

In 2012, the financing outlook changed significantly from the previous years (namely 2010 and 2011, as per Table 29 below), mainly explained by the ratification of Law 212 authorizing the Government to borrow up to USD 5 billion in FX⁶³. The **stock of Eurobonds** increased by LL 5,306 billion (net of LL 22 billion exchange rate valuation), contributing to 85 percent of total net financing in 2012. Indeed, the Government approached FX capital markets on two occasions in 2012, mainly for refinancing purposes (i.e. rolling over maturing debt); it issued⁶⁴:

- (i) USD 950 million dual-tranche 5.0% Notes due October 2017, and 6.60% Notes due November 2026, in April 2012
- (ii) USD 1.525 billion voluntary debt exchange and new cash (of which USD 824 million in new cash) consisting of 5.15% Notes due November 2018, 6.00% Notes due January 2023 and 6.75% Notes due November 2027, in November

⁶⁰ Note that the deficit figure varies from the figure published in the fiscal table (Section I of the report), as it includes the foreign financing of CDR and grants and excludes the C-loans principal payments (of EDL and MoF).

⁶¹ The discrepancy between the overall deficit & the net financing is explained by the change in exchange rate valuation of FX debt & FX deposits, as well as by a time lag between check issued and cash spent.

⁶² In order to reconcile the overall fiscal deficit with the financing, the main deposit accounts considered are the Treasury accounts 36 (in LL and FX), the debt account, and CDR and HRC accounts.

⁶³ In March 2012, Parliament adopted law 212 that was published in the Official Gazette on 31 March 2012, authorizing the Government to incur (i) new borrowings of up to U.S.\$2 billion to finance foreign currency treasury needs (Article 1) and (ii) for debt refinancing of up to U.S.\$3 billion (Article 2), in each case with maturities of up to 30 years.

⁶⁴ For further details about the terms of the FX issuances in 2012, please refer to the Brief Notes published on the Ministry's website.

2012 for the refinancing of the USD 875 million 9.125% and USD 650 million 8.625% Eurobond maturing on March and June 2013 respectively (*kindly refer to Box #6, page 61*).

In addition, the Lebanese Republic conducted two non-market debt replacement transactions with Banque du Liban, of an aggregate value of USD 3 billion in accordance with Article 2 of Law 212, in an effort (i) to extend the maturity profile of public debt and (ii) to reduce the average cost of borrowing⁶⁵:

- (i) USD 1 billion re-opening of 5.45% Notes due November 2019, in December 2012 in exchange for the redemption of 3YR bonds maturing in 2013 and carrying an average weighted interest rate of 5.94%, therefore easing refinancing risk in 2013 (*kindly refer to Box #5, page 51*).
- (ii) USD 2 billion triple tranche 4.10% Notes due in June 2015, 5.15% Notes due in June 2018 and 6.25 Notes due in June 2025 carrying an average coupon rate of 5.33% in June 2012. BDL redeemed the counterpart value from its Treasury bonds portfolio, consisting of 3YR & 5YR bonds with an average coupon rate of 6.24%, therefore realizing 91 bps savings in interest cost.

On the other hand, the **stock of LL denominated T-bills and bonds** grew by LL 944 billion by end of December 2012 (excluding accrued interest) from the stock outstanding by end of December 2011, representing only 15 percent of total net financing in 2012, compared to a much higher contribution in the past (82 percent and 36 percent in 2010 and 2011, respectively), and the second main source of financing for the Government, whereas it used to be a primary source of financing. The main reason behind the relatively shy increase in the stock of T-bills and Bonds in 2012 is the early redemption of USD 3 billion worth of LL T-bonds from BDL portfolio in exchange of Eurobond issuances (reference above paragraph).

More specifically on the LL front, in 2012 the weekly auctions were characterized by the extension of the yield curve through the issuance of longer maturities in an attempt to generate higher appetite⁶⁶. Weekly auctions resulted in a cumulative surplus (including coupons maturities) of LL 2,170 billion in 2012 compared to a deficit of LL 5,740 billion in 2011⁶⁷.

T-bills distribution by holder reveals that the T-bills portfolio of Commercial Banks grew by LL 2,092 billion, compensating for the LL 1,241 billion reduction in the T-bills

⁶⁵ For further details about the Debt Replacement Deals with BDL in 2012, please refer to the Brief Notes published on the Ministry's website.

⁶⁶ Issuances of 7YR, 8YR and 10 YR Treasury Bonds took place as part of the regular weekly auction during the second half of 2012, at a rate of 7.50 percent, 7.80 percent and 8.24 percent respectively.

⁶⁷ Government issued 7.9 percent and 7.6 percent 7YR Treasury Bonds on three occasions and outside weekly auctions in 2011: twice in a context of CD's swap transaction in March and September 2011, and once in exchange of maturing T-bills in April 2011 (*For more information, kindly refer to Box#1 of the Public Finance Quarterly Review QIII 2011, available on the Ministry's website*)

portfolio of Banque du Liban. The latter decrease is mainly rooted in the two debt replacement agreements conducted by the Central Bank with the Ministry of Finance, rather than a lower than usual participation in the weekly auctions. Effectively, Banque du Liban ranked the second largest participant in the auctions, with 22 percent of total subscriptions and a rollover ratio of 281 percent.

It is noteworthy that **Treasury accounts** (mainly Treasury accounts 36 and Debt account 100 in LL and in FX, CDR accounts and EDL blocked accounts) accounted for less than one percent of total financing. In fact, the negative primary balance in 2012, explains the substantially lower financing from the deposits.

Table 29: Financing Sources in 2012

LL billion	Jan-Dec 2010	Jan-Dec 2011	Jan-Dec 2012
Total Net in Financing (1)	4,267	3,391	6,239
LL treasury bills (2)	3,515	1,214	943
Eurobonds (3)	-340	479	5,328
Special T-bills in Foreign currencies	-373	6	32
Bilateral Loans (3)	-114	-86	18
Multilateral Loans (3)	-74	-171	-125
Private sector loans (3)	-2	-6	-4
Change in treasury accounts (-/increase +/decrease)	1,655	1,956	46

(2) The net financing excludes changes in debt stocks & deposit accounts attributed to exchange rate valuations

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

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

Note 1: The difference between the overall balance and the net financing is explained by the exchange rate valuation

Note 2: Positive numbers indicate a net increase and negative numbers indicates a net decrease except for "change in treasury accounts".

Public Debt: General Facts

Gross public debt amounted to LL 86,959 billion (US\$ 57.7 billion) by the end of the fiscal year 2012, climbing LL 6,072 billion (7.5 percent) from its end-2011 level. This rise resulted from an increase in both domestic currency and foreign currency debt, by LL 858 million and LL 5,214 billion, respectively, and represented the fastest annual expansion in gross debt since 2009.

Public sector deposits recorded a LL 1,932 billion (17.6 percent) annual expansion in 2012. Accordingly, **net public debt** increased by LL 4,140 billion (5.9 percent) to reach LL 74,043 billion (US\$ 49.1 billion) at end-December 2012. Lastly, **gross market debt** climbed by LL 8,431 billion (17 percent) to reach LL 58,623 billion by end of December 2012.

Table 30: Public Debt Outstanding as of end-December 2012

(LL billion)	Dec-10	Dec-11	Dec-12	Change Dec11 – Dec12	% Change Dec11 – Dec12
Gross Public Debt	79,298	80,887	86,959	6,072	7.5%
Net Debt ⁽¹⁾	67,879	69,903	74,043	4,140	5.9%
Gross Market Debt ⁽²⁾	51,308	50,192	58,623	8,431	16.8%

Source: Ministry of Finance, Banque du Liban

⁽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.

The **weighted average cost of total foreign debt** fell by 25 bps to 6.32 percent at end-2012 compared to 6.57 percent from the previous year. The weighted average cost of Eurobonds dropped by 32 bps to 6.66 percent in 2012 from 7.02 percent in 2011, whereas the weighted average cost of contracted loans slid by only 3 bps annually to 3.41 percent.

The **weighted average cost of outstanding domestic debt** declined by 34 bps to 6.58 percent as of end-2012 versus 6.92 percent end-2011, thus capturing the stability in primary market rates during most of the period 2010-2011, despite the fact that overall rates increased by an average of 52 bps in March 2012. The latter increase affected for the most part average interest rates on Treasury Bills. In details, regarding short-term instruments, the weighted average cost was 4.43 percent (3.93 percent in 2011) for 3-month bills, 4.99 percent (4.50 percent in 2011) for 6-month bills and 5.26 percent (4.81 percent in 2011) for 12-month Treasury Bills. For long-term instruments, the weighted average cost was 5.46 percent (5.44 percent in 2011) for 2-year bonds, 6.19 percent (6.92

percent in 2011) for 3-year bonds, 6.70 percent (7.33 percent in 2011) for 5-year bonds and 7.79 percent (7.83 percent in 2011) for 7-year bonds. It is worth mentioning that for the first time, 8YR and 10YR instruments were issued as part of the weekly auctions during the second half of 2012, at an interest rate of 7.80 percent and 8.24 percent respectively.

The **average time-to-maturity of Eurobonds** was 6.05 years as of December 31st 2012, up from 5.69 years a year earlier and 4.84 years in 2010. The widening average time-to-maturity resulted from the continued issuance of longer tenors by the Republic.

The **average time-to-maturity (ATM) of domestic currency Treasury Bills and Bonds** rose to 3.07 years by the end of December 2012, compared to 2.64 years as of end-December 2011 reflecting the issuance of 8 and 10 year Treasury bonds for the first time in 2012 as well as the redemption of some 3 and 5 year Treasury bonds from the portfolio in Debt Replacement Agreement transactions. Although the ATM on the total portfolio of Treasury bills and bonds increased in 2012, the average maturity of issued Lebanese pound denominated instruments was 46.3 months end-2012 compared to 47.9 months end-2011⁶⁸. This can be explained by a higher share of treasury bonds with a tenor of 5 years and above issued in 2011 (47.9 percent of issued instruments were in 5 and 7 year bonds in 2011) compared to 2012 (38.6 percent of issued instruments were in 5, 7, 8 and 10 year bonds).

⁶⁸ Kindly note that the methodology used to calculate the average time to maturity of issued instruments was improved to better reflect issuances during the year. As such, comparisons with figures in the 2011 Public Finance Annual Review and prior are not directly comparable.

Local Currency Debt

Local currency debt registered an LL 858 billion increase, standing at LL 50,198 billion end-December 2012 compared to end-December 2011. The share of local currency debt to total debt, however, decreased to 57.7 percent in December 2012, compared to 61.0 percent at end of 2011 (including accrued interest). This three percentage point decrease is mainly attributed to a higher increase in foreign debt, driven mainly by two “Debt Replacement Agreements” conducted on June 12, 2012 (*for details on this transaction, refer to Box 2 in the QII 2012 Public Finance Report*) and on December 20, 2012 (*for details refer to Box 5, page 51*), which contributed to shifting the composition of debt. The decrease in domestic currency debt from this transaction was outweighed by the first time ever issuance of 8-year and 10-year Treasury Bonds and other subscriptions in the weekly auctions.

Analysis of local currency debt by holder

Commercial banks remained the largest holders of local currency debt with 54.3 percent of holdings by end-December 2012, compared to a lower 51.0 percent share of holdings recorded in end-December 2011. This is in line with an 8.3 percent (LL 2,092 billion) rise in their portfolio of Treasury Bills and Bonds.

Banque du Liban’s holdings of local currency debt decreased by LL 1,325 billion by the end of December 2012, accounting for a 30.0 percent share of local currency debt, down from 33.2 percent at the end of December 2011. This is largely due to both Debt Replacement Agreements conducted with the Ministry of Finance.

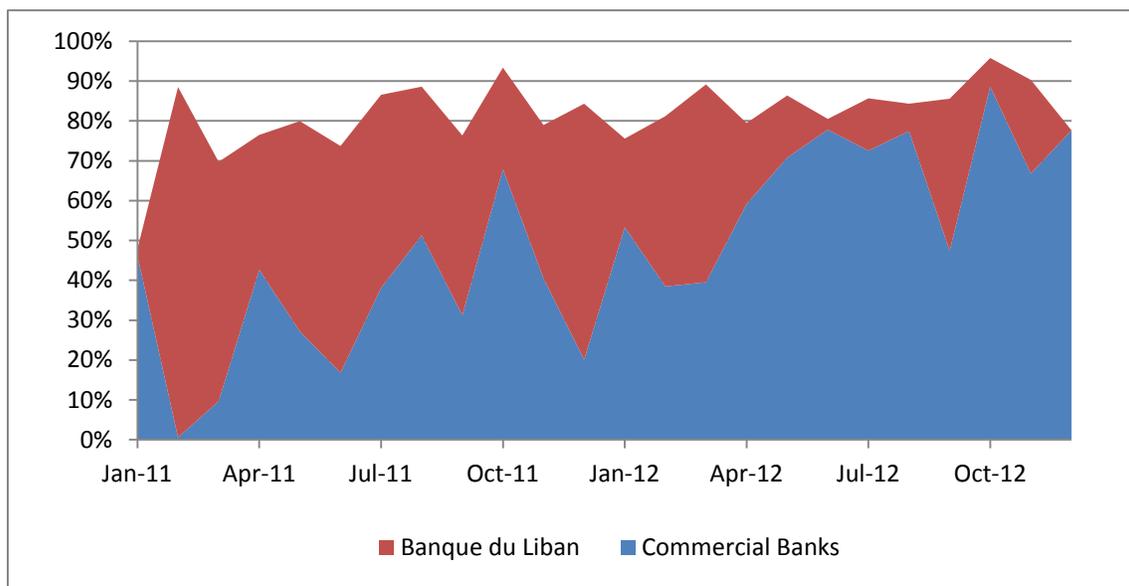
Holdings of local currency debt by “other” holders increased by LL 93 billion since the end of 2011 and noted a minor 0.1 percentage point decrease in their share of local currency debt which stood at 15.7 percent at the end of December 2012. In this category, public institutions’ holdings of TBs were LL 59 billion (or 0.9 percent) lower, and saw their share of local currency debt decrease by 0.3 percentage point, to reach 12.9 percent at the end of 2012. Contractor bonds stood at LL 134 billion by end-December 2012 compared to LL 41 billion at end-2011. This is due to the issuance of 5-year contractor bonds by the Lebanese Republic on May 5th and August 2nd 2012 - both at a rate of 6 percent - for a total amount of LL 59 billion and LL 34 billion, respectively⁶⁹.

Historically, the largest subscribers of TBs are commercial banks. On a cumulative level, commercial banks captured 64 percent of subscriptions in 2012, followed by Banque du Liban with 22 percent of subscriptions, and then public institutions with 12 percent. This reflects a marked change from subscription rates throughout 2011, during which the

⁶⁹ These issuances are pursuant to Law No. 69 dated April 23, 2009 and to Council of Ministers Resolution No. 96 dated June 18, 2009.

central bank subscribed to 50 percent of accepted offers, followed by commercial banks and public institutions subscribing respectively to 31 percent and 17 percent of accepted offers. On a quarterly basis, commercial banks captured 43 percent of total subscriptions in QI 2012, followed by 68 percent, 61 percent and 80 percent in QII, QIII and QIV 2012, respectively. In contrast, Banque du Liban, the second largest subscriber of TBs in 2012, had a higher share of subscriptions in times where commercial banks exhibited lower participation. Banque du Liban accounted for 40 percent of subscriptions in QI 2012 compared to 14 percent, 24 percent and 10 percent in QII, QIII and QIV 2012, respectively.

Figure 5: Share of Commercial Banks' and BDL's subscriptions of Total Treasury bills and bonds auctioned (2011-2012)



Source: Ministry of Finance, BDL

Analysis of local currency debt by instrument

The stock of long-term Treasury Securities (Treasury bonds) increased by LL 936 billion (2.0 percent) to LL 47,448 billion over the period, accounting for 94.5 percent of total local currency debt by end-December 2012, up from 94.3 percent a year earlier. The portfolio of short-term Treasury bills slightly rose by LL 8 billion (0.3 percent), to LL 2,591 billion in 2012, remaining at 5.2 percent of total stock of LL debt by the end of 2012.

The increase in the stock of Treasury bonds over the period is largely attributable to a one time issuance of LL 1,093 billion, LL 1,916 billion and LL 1,151 in 7YR, 8 YR and 10YR, as part of the weekly auction process during the second half of 2012, specifically in November, October and September 2012, respectively⁷⁰. Those increases were partially

⁷⁰ The year 2011 witnessed the issuance of 7 years T-bonds, outside the weekly auction process, and outside the MTN program. This maturity has been offered on 3 occasions: in March and April (with total subscriptions of LL 1,761 billion and LL 2,658 billion respectively at 7.90% coupon rate) & in September (total subscriptions of LL 1,999 billion at 7.6%

offset by a LL 3,837 billion (17.3 percent) decrease in 3YR bonds, mainly due to the two Debt Replacement transactions. In detail, three year bonds remained the largest TB instrument category with a 36.4 percent share of local currency debt, despite seeing the most exacerbated decline in terms of stock. Five year bonds followed, capturing 24.2 percent of local debt currency in December 2012, up from 23.9 percent at the end of 2011. Despite the June 2012 Debt Replacement Agreement, which redeemed LL 2,411 billion of 5YR bonds, the stock of 5YR Bonds increased, reflecting an accumulated surplus of LL 2,651 billion (excluding coupons) and the second largest share of accepted offers (19 percent) obtained in the auctions during 2012. The share of 2YR bonds increased from 8.1 percent to 8.4 percent over the period. The share of 7YR bonds compared to total LL denominated debt climbed from 16.0 percent at the end of 2011 compared to 17.9 percent at end the end of December 2012.

The stock of short-term bills rose by a minor LL 8 billion, mainly driven by an increase in the stock of 3MN and 12 MN bills by LL 187 billion and LL 78 billion, respectively, which was almost offset by a drop in the portfolio of 6MN bills by LL 257 billion.

coupon rate) in the context of special schemes: i.e. these 7 years T-bonds were issued against cash subscription & in exchange of either maturing T-bills (in April) or in exchange of BDL CD's (in March & September). For further details about these 3 special financing transactions, please refer to Box 1 of the Ministry of Finance Quarterly Report QIII 2011

Box #5: Debt Replacement Agreement, December 2012

On December 20, 2012 Banque du Liban agreed with the Republic of Lebanon on a Debt Replacement transaction, the second for 2012. The Republic of Lebanon issued US\$ 1 billion Eurobonds due in November 2019, while BDL redeemed to MoF the counterpart value from its 3-year LL Treasury Bonds maturing in 2013. The Republic managed to reduce its borrowing costs since Eurobonds were issued at a yield of 5.40 percent compared to a weighted average of 5.94 percent for Treasury Bonds.

Terms and conditions of the Agreement

Series (tranche)	60 (3)
Issue Size (in USD)	1,000,000,000
Issue Date	December 20, 2012
Maturity	November 28, 2019
Coupon Rate	5.45%
Coupon Payment	Semi-Annual
Principal Payment	Bullet Payment at Maturity
Issue Price	100% + 22 days of accrued interest from, and including November 28, 2012 to, but excluding, the Issue Date specified herein
Re-offer Yield	5.40%
ISIN Code	XS0707819727
Lead Manager	Republic of Lebanon

Source: BDL, MoF

For more information please refer to the online note [“Re-opening of 5.45 Percent USD Note, Due 2019 in Debt Replacement Agreement with BDL, Issued 20 December 2012”](#) on the MoF’s website

¹ Both Debt Replacement Agreements were pursuant to Article 2 of Law Number 212 dated March 30, 2012.

The majority of subscriptions during the QIV 2012 auctions were in long-term instruments with a share of 85 percent of subscriptions compared to 82 in QIII 2012, 80 percent in QII and 76 percent in QI 2012. Correspondingly, the share of short-term instruments decreased from 24 percent in QI 2012 to 20 percent during the QII 2012, and further to 18 percent in QIII 2012 and down to 15 percent in the last quarter of 2012. On a cumulative level, long-term instruments accounted to 81 percent of subscriptions during

2012, compared to 77 percent in 2011. Short-term instruments' share of total subscriptions reached 19 percent in 2012, down from 23 percent in 2011. In detail, 3YR bonds accounted for the highest share of total subscriptions reaching 35 percent in 2012, compared to 34 percent in 2011. In second place, 5YR bonds captured 19 percent of subscriptions in 2012, in contrast with 28 percent in 2011. Six-month Treasury bills were in third place with a 10 percent share of subscriptions in 2012 compared to 13 percent in 2011.

Table 31: Domestic Currency Debt by Holder and Instrument as of end-December 2012

Stocks (end of period)	Dec-09	Dec-10	Dec-11	Dec-12	Change Dec 11 - Dec 12	% Change Dec 11 - Dec 12
Local currency debt	44,973	48,255	49,340	50,198	858	1.74%
A. By Holder						
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	10,334	13,130	16,374	15,049	-1,325	-8.09%
2. Commercial Banks	27,286	27,214	25,177	27,267	2,090	8.30%
3. Other local debt (T-bills)	7,353	7,911	7,789	7,882	93	1.19%
<i>o/w Public entities</i>	6,078	6,268	6,538	6,479	-59	-0.90%
<i>o/w Contractors</i> ⁽²⁾	0	0	41	134	93	226.83%
*Accrued interest included in debt	999	867	788	789	1	0.13%
B. By Instrument						
1. Long term bonds	40,842	43,805	46,512	47,448	936	2.01%
1.1 10-year bonds	0	0	0	1,151	1,151	-
1.2 8-year bonds	0	0	0	1,916	1,916	-
1.3 7-year bonds	0	1,500	7,885	8,978	1,093	13.86%
1.4 5-year bonds	5,036	7,310	11,779	12,162	383	3.25%
<i>o/w Contractors</i> ⁽²⁾	0	0	41	134	93	226.83%
1.5 4.5-year bonds	0	0	0	0	0	-
1.6 4-year bonds	0	0	0	0	0	-
1.7 3-year bonds	31,908	30,782	22,129	18,292	-3,837	-17.34%
1.8 2.5-year bonds	0	0	0	0	0	-
1.9 2-year bonds	2,989	3,398	3,972	4,208	236	5.94%
1.10 Coupon interest	909	815	747	741	-6	-0.80%

2. Short term bills	3,735	4,155	2,583	2,591	8	0.31%
2.1 12-month bills	2,073	1,969	887	965	78	8.79%
2.2 6-month bills	1,510	2,111	1,569	1,312	-257	-16.38%
2.3 3-month bills	152	75	127	314	187	147.24%
* <i>Accrued interest included</i>	90	52	41	48	7	17.07%
3. Other local debt	396	295	245	159	-86	-35.10%
3.1 Central Bank Loans	291	218	139	55	-84	-60.43%
3.2 Commercial Banks Loans	105	77	106	104	-2	-1.89%

Source: Ministry of Finance, Banque du Liban

Notes:

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

Primary Market Interest Rates

After a stable interest rate climate on issued Treasury bills and bonds for much of 2010 and 2011, rates increased by an average of 52 basis points across the curve by the end of March 2012, compared with end-2011 levels. Rates were generally stable until the end of the year. As of end of 2012, 5YR Treasury bonds had witnessed the largest rate change with a 56-bps increase since end-2011. The yield curve was extended in September 2012 due to the 7.80 percent and 8.24 percent rates of the newly-issued 8-year and 10-year Treasury bonds respectively. Interest rate on the 7YR bonds dropped by 40 bps from December 2011 till December 2012.

Table 32: Evolution of Primary Market Rates

Maturity	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31 st , 2011	Dec. 31, 2012
3-month	5.10 percent	4.55 percent	3.93 percent	3.93 percent	4.43 percent
6-month	7.11 percent	5.72 percent	4.52 percent	4.50 percent	4.99 percent
12-month	7.57 percent	5.73 percent	4.81 percent	4.81 percent	5.35 percent
2-year	8.22 percent	6.32 percent	5.34 percent	5.34 percent	5.84 percent
3-year	8.98 percent	7.10 percent	5.94 percent	5.94 percent	6.50 percent
5-year ⁽¹⁾	N/A	7.74 percent	6.18 percent	6.18 percent	6.74 percent
7-year ⁽²⁾	N/A	N/A	7.90 percent	7.90 percent	7.50 percent
8-year ⁽³⁾	N/A	N/A	N/A	N/A	7.80 percent
10-year ⁽⁴⁾	N/A	N/A	N/A	N/A	8.24 percent

Source: Ministry of Finance

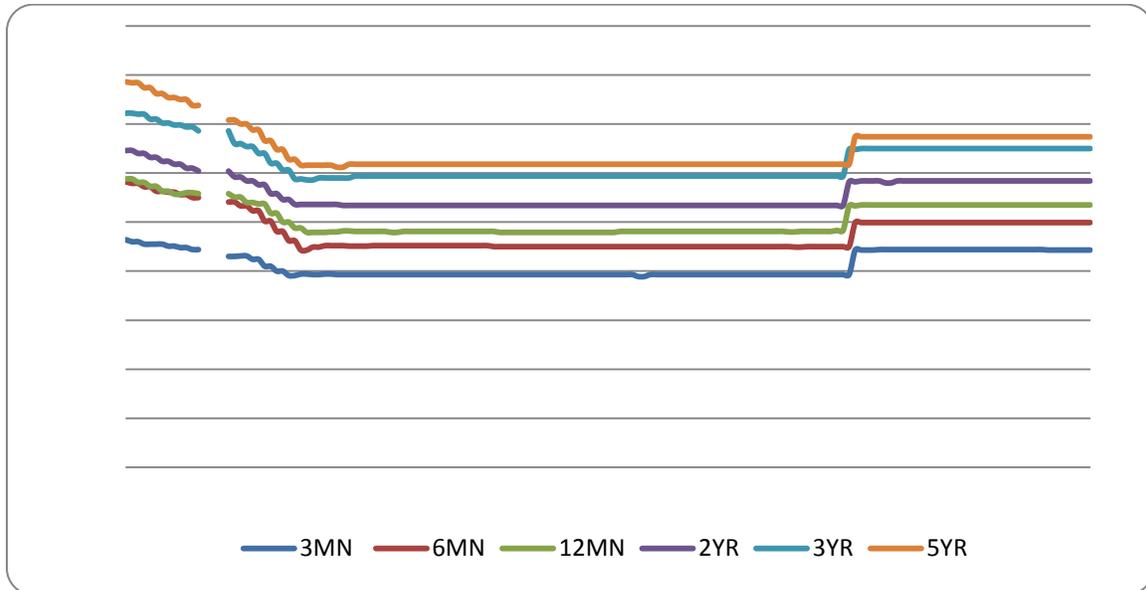
(1) 5-year Treasury bonds started being issued as part of the Treasury Bill Auction Process as of the week of July 20 2009 (value date 23 July 2009).

(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 do not feature in this table as they were not issued in the regular auction process. 7-year bonds were issued on a one time basis, during the weekly auction of November 15, 2012.

(3) 8-year Treasury Bonds were issued on a one time basis, during the weekly auction of October 18, 2012..

(4) 10-year Treasury bonds were issued on a one time basis, during the weekly auction of September 20, 2012.

Figure 6: TB Yield by Instrument January 2011–December 2012



Source: Ministry of Finance

Notes:

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

(2) Issuances of 7YR, 8YR and 10 YR Treasury Bonds took place as part of the regular weekly auction during the second half of 2012, at a rate of 7.50 percent, 7.80 percent and 8.24 percent respectively.

Foreign Currency Debt

Foreign currency debt reached LL 36,761 billion by the end of 2012, recording a LL 5,214 billion (16.5 percent) increase from the end of 2011. This marked the largest annual increase in outstanding foreign currency debt since 2002⁷¹, and was mainly a result of four Eurobond transactions that took place during the year. Exchange rate fluctuations explain approximately LL 28 billion of the increase. This valuation adjustment includes the effect of an appreciated Euro vis-à-vis the US dollar from a rate of 1.2927 €/€ at the end of 2011, to 1.3186 €/€ at the end of 2012, boosting the value of Euro-denominated Eurobonds and the AFD Loan by around LBP 22 billion and LBP 7 billion, respectively. The value of multilateral loans increased by around LBP 2 billion, whereas bilateral loans decreased by almost LBP 3 billion as a result of exchange rates fluctuations of the multi-currency loan portfolios.

Table 33: Foreign Currency Debt by Holder and Instrument as of end-2012

(in LL billion)	Dec-10	Dec-11	Dec-12	Change	% Change Year-to-date
B. Foreign currency debt⁽¹⁾	31,043	31,547	36,761	5,214	16.5%
4. Eurobonds	26,738	27,490	32,789	5,299	19.3%
Of which, Paris II at preferential rates ⁽²⁾	3,677	3,161	2,646	-516	-16.3%
Of which, Paris III at preferential ⁽³⁾	709	663	317	-346	-52.3%
Of which, market-issued Eurobonds	21,870	23,258	29,427	6,168	26.5%
* <i>Accrued Interest on Eurobonds</i>	483	407	400	-7	-1.7%
5. Loans	4,231	3,977	3,860	-117	-2.9%
5.1 Paris II loans	460	351	279	-72	-20.5%
5.2 Paris III loans ⁽⁴⁾	1,147	1,060	997	-63	-6.0%
5.3 Bilateral loans (non-Paris II and III)	723	766	835	69	9.0%
5.4 Multilateral loans (non-Paris II and III)	1,877	1,781	1,735	-46	-2.6%
5.5 Foreign Private Sector Loans	24	18	14	-4	-22.2%
6. Other debt	74	80	112	32	40.0%
6.1 Special Tbs in Foreign currency ⁽⁵⁾	74	80	112	32	40.0%

Source: Ministry of Finance, Banque du Liban

Notes:

⁽¹⁾ Figures for Dec 2012 differ from previously published data reflecting an update of disbursement figures for bilateral and multilateral debt in the Debt Management and Financial Analysis System (DMFAS).

⁽²⁾ Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at USD 1,870 billion to BDL in the context of the Paris II conference. These bonds have an amortized payment structure.

⁽³⁾ Issued to Malaysia as part of its Paris III contribution. These bonds have an amortized payment structure.

⁽⁴⁾ IBRD loan, UAE loan, first tranche of the French loan received in February 2008 and part of the second tranche received in October 2012, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

⁽⁵⁾ Special Tbs in Foreign currency (expropriation and contractor bonds)

⁷¹ In 2002, foreign currency debt jumped by LL 7,544 billion to reach LL 21,974 billion, as a result of the Paris II conference, in which Lebanon secured around US\$ 4.3 billion in low cost funding.

The increase in foreign currency debt was mostly due to a LL 5,299 billion (19.3 percent) surge in the **Eurobond portfolio**, which reached LL 32,789 billion by the end of 2012, compared to LL 27,490 billion at end-2011. Total issuances thus amounted to US\$ 5.48 billion in 2012, compared to US\$ 3.93 billion in 2011 and consisted of four transactions. Two Eurobond market transactions, concluded in April⁷² and November 2012, for US\$ 950 million and US\$ 1,525 million, respectively (Detailed in Box 6, page 61). The remaining two transactions were concluded as “Debt Replacement Agreements” between the Ministry of Finance and Banque du Liban, where BDL substituted US\$ 2 billion worth of its local currency debt for Eurobonds in June⁷³, and US\$ 1 billion worth of its local currency debt in December (Detailed in Box #5, page 51). The Debt Replacement agreements did not affect the outstanding value of gross debt, but contributed to shift in the composition of debt, increasing the ratio of foreign currency debt to 42.3 percent from 39 percent at end-2011. The Debt Replacement Agreements also extended the average time to maturity of the debt portfolio and reduced its weighted average cost of debt.

Table 34: Net issuance of Eurobonds in 2012

(US\$)	
Eurobonds issued	5,475,000,000
Eurobonds redeemed	1,969,146,751
Net issuance	3,505,853,249

Source: Ministry of Finance

Eurobond issuances outweighed the approximately USD 2 billion of principal redemptions during 2012. Three repayments of market issued Eurobond principal amounts took place in 2012: (i) US\$ 292.951 million remaining from the 7.500 percent US\$ 600 million March 2012-due market-issued Eurobond (the remaining amount was exchanged in the November 2011 voluntary exchange transaction); (ii) € 114.697 million remaining from the 5.875 percent April 2012-due € 535.639 million market-issued Eurobond; (iii) US\$ 238.329 million of the 7.750 percent US\$ 600 million September 2012-due Eurobond (with the first portion redeemed in the November 2011 voluntary exchange transaction).

⁷² Kindly refer to Box III in the QII 2012 Public Finance Quarterly for details on the April 2012 Eurobond issuance.

⁷³ Kindly refer to Box II in the QII 2012 Public Finance Quarterly for details on the June 2012 “Debt Replacement Agreement” between the Ministry of Finance and Banque du Liban

The stock of market-issued Eurobonds thus increased by LL 6,168 billion (26.5 percent), to reach LL 29,427 billion by the end of 2012, compared to a lower LL 23,258 recorded at end-December 2011.

As to Paris II and Paris III-related Eurobond redemptions: Paris III-related Eurobonds dropped by LL 346 billion equivalent to 52.3 percent, to LL 317 billion at end of December 2012 from LL 663 billion at end of December 2011. This decrease was a result of four principal repayments in January and July 2012 on two Paris III-issued Eurobonds with amortized payments structures⁷⁴: (i) Two principal repayments, US\$ 15 million each, on the US\$ 300 million 3.750 percent Eurobond due July 2017 originally issued at US\$ 300 million; and (ii) two principal repayments, US\$ 100 million each, which conclude the redemption of the 3.750 percent Eurobond due July 2012 originally issued at US\$ 200 million.

Eurobonds issued in the context of Paris II decreased by LL 516 billion, equivalent to 16.3 percent, to LL 2,646 billion by the end of 2012 from LL 3,161 billion by the end of 2011. This decline was due to the following amortized principal repayments: (i) Two US\$ 35 million payments in March and September 2012 on Paris II 5.00 percent March 2018 Eurobond originally issued at US\$ 700 million; (ii) Two US\$ 10 million in May and November 2012 on Paris II 5.00 percent May 2018 Eurobond originally issued at US\$ 200 million; (iii) Two USD 93.5 million in June and December 2012 on Paris II 4.00 percent December 2017 Eurobond originally issued at US\$ 1,870 million; and (iv) two US\$ 32.5 million in June and December 2012 on Paris II 5.00 percent due December 2017 originally issued at US\$ 950 million.

⁷⁴ For more information as to the structure of these bonds, kindly refer to the note "Re-Profiling of Debt Held by Central Bank of Malaysia" accessible here:

<http://www.finance.gov.lb/Reports+and+Publications/Reports+Related+to+Paris+III+Conference/Agreements+with+Donors/>.

This is also summarized in "Box 2: Debt Re-profiling with Malaysia" in the Public Finance Quarterly Report for QIII 2007.

Table 35: Terms and Conditions of Eurobonds issued in 2012

Transaction	Series (tranche)	Amount issued	Currency	Coupon Rate	Issuance Yield	Issue Date	Maturity Date
April 2012 Dual-tranche transaction	63	600,000,000	USD	5.000	5.000	12-Apr-12	17-Oct-2017
April 2012 Dual-tranche transaction	61(3)	350,000,000	USD	6.600	6.375	12-Apr-12	27-Nov-2026
June 2012 Triple-tranche transaction	64	500,000,000	USD	4.100	4.100	12-Jun-12	12-Jun-2015
June 2012 Triple-tranche transaction	65	700,000,000	USD	5.150	5.150	12-Jun-12	12-Jun-2018
June 2012 Triple-tranche transaction	66	800,000,000	USD	6.250	6.250	12-Jun-12	12-Jun-2025
November 2012 Voluntary exchange transaction	56(2)	185,318,000	USD	5.150	5.150	29-Nov-12	12-Nov-2018
November 2012 Voluntary exchange transaction	56(3)	339,682,000	USD	5.150	5.150	29-Nov-12	12-Nov-2018
November 2012 Voluntary exchange transaction	67	384,862,000	USD	6.000	6.000	29-Nov-12	27-Jan-2023
November 2012 Voluntary exchange transaction	67(2)	115,138,000	USD	6.000	6.000	29-Nov-12	27-Jan-2023
November 2012 Voluntary exchange transaction	68	131,212,000	USD	6.750	6.750	29-Nov-12	29-Nov-2027
November 2012 Voluntary exchange transaction	68(2)	368,788,000	USD	6.750	6.750	29-Nov-12	29-Nov-2027
December 2012 Debt Replacement Agreement with BDL	60(3)	1,000,000,000	USD	5.450	5.400	20-Dec-12	28-Nov-2019

The value of outstanding **foreign currency loans** settled at LL 3,860 billion by the end of 2012, after decreasing by 2.9 percent from LL 3,977 billion at end-2011.

- a) The stock of Paris II loans declined by LL 72 billion, equivalent to 20.5 percent, standing at LL 279 billion by the end of 2012, following redemption of € 40 million of the *Agence Française de Développement (AFD)* Paris II loan, € 20 million in each of February and August 2012.
- b) The stock of Paris III loans decreased by LL 63 billion equivalent to 6 percent, to reach LL 997 billion by the end of 2012, compared to LL 1,060 billion at end-2011. This drop was mainly due to principal repayments of five different loans, counterbalanced by the disbursement of part of the second tranche of the *Agence*

Française de Développement (AFD) Paris III⁷⁵ loan equivalent to € 30 million. Settlements in 2012 included (i) the quarterly principal repayments in January and April 2012 of the equivalent of approximately SDR 6.3 million each, completing repayments on the IMF EPCA I loan; (ii) the quarterly principal repayments in February, May, August, and November 2012 of the equivalent of SDR 3.2 million each, on the IMF EPCA II loan⁷⁶; (iii) the semi-annual principal repayments of US\$ 15 million each, to the UAE Paris III loan; (iv) the third and fourth semi-annual principal repayments, amounting to AAD 1.365 million each, of the Arab Monetary Fund (AMF) loan, and (v) the first US\$ 5 million repayment of the World Bank / IBRD US\$ 100 million loan disbursed in October 2008.

- c) The stock of foreign private sector loans declined by LL 4 billion, equivalent to 22.2 percent, to LL 14 billion by the end of 2012.
- d) The stock of non-Paris II and Paris III **multilateral loans** decreased by LL 46 billion equivalent to 2.6 percent, and amounted to LL 1,735 billion by the end of 2012 compared to LL 1,781 billion in 2011. This decrease was mainly due to the following principal repayments: (i) LL 72 billion to the International Bank for Reconstruction and Development (IBRD), (ii) LL 43 billion to the Islamic Development Bank (iii) LL 40 billion to the Arab Fund for Economic and Social Development (AFESD), (iv) LL 40 billion to the European Investment Bank, , (v) LL 4 billion to the Organization of Petroleum Exporting Countries (OPEC) and (vi) LL 2 billion to the International Fund for Agricultural Development (IFAD).

The impact of these principal repayments was in fact counterbalanced by the disbursement of:

- i. LL 74 billion from eleven AFESD loans
 - ii. LL 55 billion from fourteen loans granted by the Islamic Development Bank
 - iii. LL 31 billion from two European Investment Bank loans
 - iv. LL 20 billion from four IBRD loans
 - v. LL 9.5 billion from two OPEC loans
- e) The stock of non-Paris II and Paris III **bilateral loans** increased by LL 69 billion equivalent to 9.0 percent, to reach LL 835 billion by end-2012 compared to LL 766

⁷⁵ The AFD tranche II loan is amortized through 20 equal semi-annual payments of € 1.5 million each, starting May 31st, 2013 and ending on November 30th, 2022.

⁷⁶ The IMF EPCA II loan is amortized through eight quarterly payments of SDR 3,171,875 each, starting February 16th, 2012 and ending on November 18th, 2013.

billion by end-2011. This rise was registered as loans disbursed outweighed the following principal repayments (i) LL 25 billion to the Kuwait Fund for Arab Economic Development, (ii) LL 17 billion to the Saudi Fund for Development, (iii) LL 13 billion to the Japan Bank for International Cooperation, and (iv) LL 8 billion to *Agence Française de Développement*. The bilateral loans disbursed in 2012 were:

- i. LL 84 billion from four loans granted by the *Agence Française de Développement* (including the € 30 million disbursed as part of the second tranche of the PIII loan)
- ii. LL 59 billion from seven loans granted by the Kuwait Fund for Arab Economic Development
- iii. LL 31 billion from one loan provided by Japan's Overseas Economic Cooperation Fund
- iv. LL 21 billion from seven loans provided by the Saudi Fund for Development
- v. LL 7 billion from two loans granted by the Abu Dhabi Fund

With respect to **other debt in foreign currency**, the stock of special T-bills in foreign currency increased by LL 32 billion in 2012, to reach LL 112 billion. This pertains to US\$ 16,516,566 worth of expropriation bonds that were issued on January 23, 2012 at a rate of 4.7 percent, coming due 2017, and US\$ 3,244,942 million worth of expropriation bonds issued on December 6, 2012 at a rate of 4.9 percent, due 2017, both pursuant to Law #450 dated July 29, 2002 (amending Law #95 dated June 18, 1999).

Box #6: Sixth Voluntary Debt Exchange Offer and New Cash Issuance⁽¹⁾

As part of the Ministry of Finance's objective to conduct proactive debt management operations, MoF approached capital markets with a voluntary exchange transaction of market-issued Eurobonds maturing in 2013 (amounting to US\$ 1.525 billion) and new cash transaction, aiming to increase the Republic's financial flexibility, and extend the redemption profile of maturing Eurobonds within the ceilings allowed under existing laws.

The transaction, launched on November 16th, 2012 and settled on November 29th, 2012, was jointly lead managed by BLOM Bank S.A.L, Byblos Bank S.A.L, and Credit Suisse Securities (Europe) Limited. The transaction size totaled US\$ 1.525 billion (exchange and new cash portion). The Ministry of Finance thus fully raised funding to cover the value of market-issued Eurobonds due in 2013, worth US\$ 1.525 billion. The aggregate participation rate on the deal was 46.0 percent.

Table 36: Terms and Conditions of the Exchange

Original Notes offered for Exchange	US\$ 875,000,000	US\$ 650,000,000
Issue Date	12-Mar-08	20-Jun-05
Maturity	12-Mar-13	20-Jun-13
Coupon rate	9.125%	8.625%
Coupon payment	Semi-annual	Semi-annual
Bid-/Offer Price*	102.500-102.750%	104.300-104.500%
Exchange Price	102.550	104.375
Exchange Price to Bid levels*	+5.00bps	+7.5bps
Exchanged Amount	US\$ 391,401,000	US\$ 309,991,000
Participation Rate	44.70%	47.70%

***On November 15th 2012.*

The Ministry of Finance issued three benchmark-size tenors, with one of these a re-opening of an existing bond. .In addition to the US\$ 701,392,000 exchanged, the Republic issued additional notes for cash amounting to US\$ 823,608,000 resulting in benchmark sizes of the new Notes:

- The first series consisted of a US\$ 525 million 5.15 percent coupon Notes due November 2018 (a re-opening of Series 56).
- The second series was a US\$ 500 million 6.00 percent coupon Notes due January 2023 (Series 67)
- The third series consisted of a US\$ 500 million 6.75 percent Notes due November 2027 (Series 68).

Table 37: Summary of New Notes

New Notes	Yield	Coupon	Amount issued via exchange	Amount of new notes issued	Total notes issued
US\$ due November 2018	5.15%	5.15%	US\$ 185,318,000	US\$ 339,682,000	US\$ 525,000,000
US\$ due January 2023	6.00%	6.00%	US\$ 384,862,000	US\$ 115,138,000	US\$ 500,000,000
USD due November 2027	6.75%	6.75%	US\$ 131,212,000	US\$ 368,788,000	US\$ 500,000,000
Total US\$			US\$ 701,392,000	US\$ 823,608,000	US\$ 1,525,000,000

This US\$ 1.525 billion transaction was Awarded EMEA Finance's Best Sovereign Bond in the Middle East of the Year for 2012. This is the third consecutive year the Lebanese Ministry of Finance was awarded Best Sovereign Bond of the Year in the Middle East following wins in 2011 for the 2011 voluntary exchange transaction and in 2010 for the USD 1.2 billion 6.375 percent transaction. In 2011, the Republic of Lebanon also won EMEA Finance's Best Sovereign Borrower in EMEA.

- (1) For more information on this transaction, kindly refer to a special brief note on the transaction "Sixth Voluntary Debt Exchange Offer and New Cash Issuance; Eurobond exchange (maturing in 2013) and Eurobond New Cash Issuance (Re-opening USD 2018, New USD 2023, and New USD 2027)" available <http://www.finance.gov.lb/en-US/finance/PublicDebt/Documents/Debt%20Transactions/Eurobonds/Exchange/Brief%20Note%20Nov%202012%20Exchange%20and%20New%20Cash%20Transaction%20%28final%29.pdf>

Table 38: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)					
	28-Sep-12	17-Oct-12	15-Nov-12	28-Nov-12	11-Dec-12	28-Dec-12
<u>EURO</u>						
LEB 5.350 18	5.15	5.25	5.24	5.2	5.17	5.15
<u>US Dollars</u>						
LEB 5.875 15	4.16	3.98	4.04	3.95	3.80	3.83
LEB 4.000 17 Av Life	4.43	4.07	3.90	3.92	3.85	3.77
LIEB 10.000 15	4.25	4.43	4.79	4.58	4.28	4.02
LEB 8.500 15	4.17	4.27	3.84	3.88	4.07	4.28
LEB 8.500 16	4.69	4.56	4.43	4.39	4.48	4.44
LEB 11.625 16	4.81	4.81	4.69	4.52	4.47	4.41
LEB 4.750 16	4.95	4.82	4.82	4.78	4.75	4.75
LEB 5.000 17	5.11	4.92	4.86	4.83	4.80	4.78
LEB 9.000 17	5.10	5	5.03	5.00	5.00	5.00
LEB 5.150 18	5.34	5.2	5.23	5.18	5.15	5.15
LEB 6.000 19	5.41	5.29	5.29	5.28	5.28	5.28
LEB 5.450 19	5.71	5.49	5.52	5.47	5.45	5.45
LEB 6.375 20	5.87	5.7	5.63	5.63	5.69	5.69
LEB 8.250 21	6.05	5.83	5.85	5.89	5.91	5.93
LEB 6.100 22	5.93	5.85	5.91	5.91	5.96	5.96
LEB 6.000 23	N/A	N/A	N/A	5.98	5.95	5.96
LEB 7.000 24	6.29	6.27	6.25	6.25	6.28	6.25
LEB 6.600 26	6.41	6.38	6.44	6.45	6.49	6.49
LEB 6.750 27	N/A	N/A	N/A	6.72	6.70	6.71

Source: Credit Suisse

Notes:

Secondary market yields on US dollar denominated Eurobonds decreased by an average 39 basis points between 28 September, 2012 and end-December 2012.⁷⁷ This was in line with the average annual change in Eurobond yields, which retracted in three of the four quarters of the year.

⁷⁷ Calculated on USD Eurobonds between December 31st, 2011 and December 31st, 2012 that were outstanding at both dates.



For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

Email: infocenter@finance.gov.lb

Website: www.finance.gov.lb