



Public Finance Semi-Annual Report

First Half of 2014

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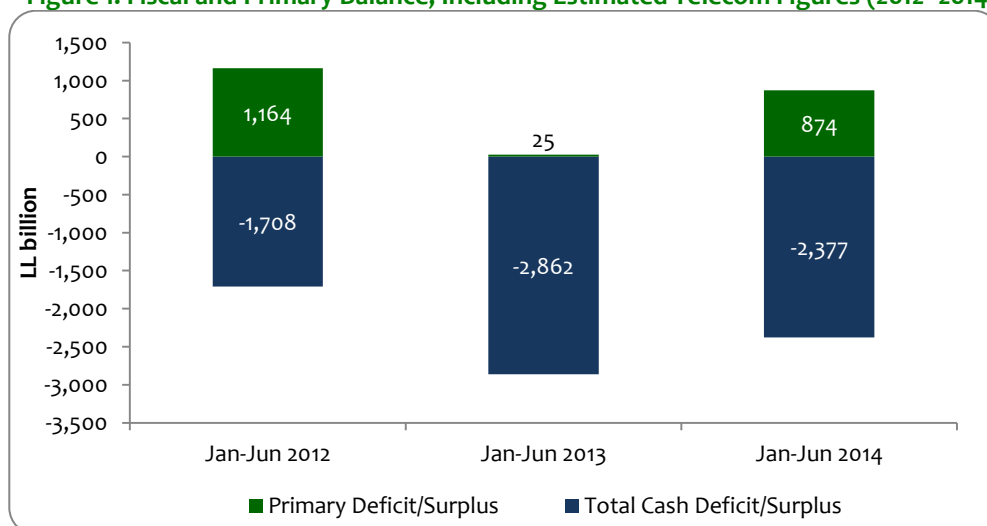
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PUBLIC FINANCE HIGHLIGHTS

General Fiscal Developments page 6

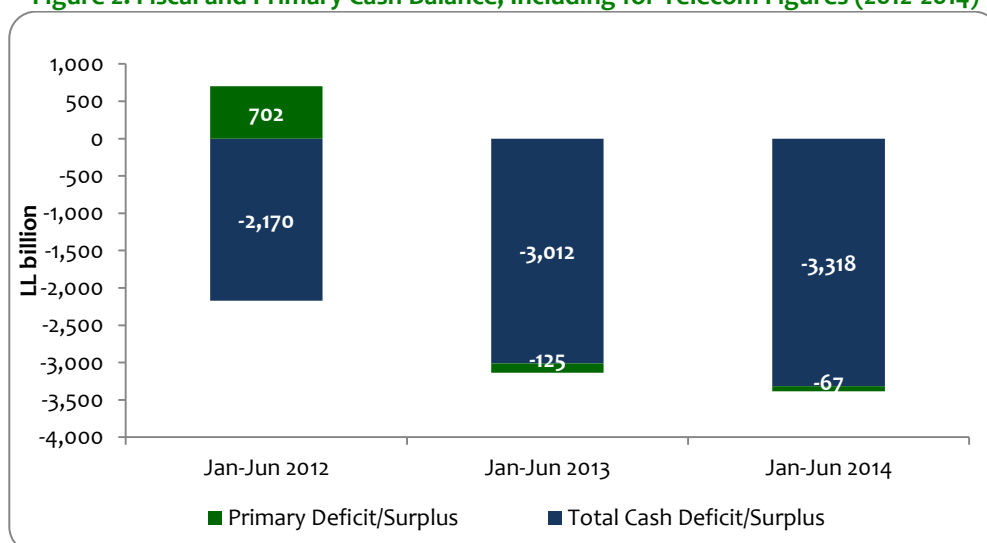
Government finances registered a notable improvement in the first half of 2014 compared to the same period in 2013 despite geopolitical adversities sustained since 2011 and their ramifications in Lebanon, in terms of weakening economic growth and the overstretching of infrastructure and public services with the upsurge in the number of displaced persons from Syria. Revenues improved following a relative stagnation over the period of 2011-2013, mainly as a result of one-time collections of both tax and non-tax revenues as well as reform initiatives in revenue collections undertaken by the Ministry of Finance. Expenditures were constrained by lower discretionary payments and as direct public spending to services for displaced persons remained limited. The fiscal deficit contracted by a total of LL 485 billion, or 17 percent, whereas the primary balance recorded a surplus of LL 874 billion, compared to a surplus of LL 25 billion in Jan-Jun 2013.

Figure 1: Fiscal and Primary Balance, Including Estimated Telecom Figures (2012–2014)



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

Figure 2: Fiscal and Primary Cash Balance, Including for Telecom Figures (2012–2014)



Source: MOF, DGF

Revenues
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Total revenues amounted to LL 7,897 billion during H1 2014, LL 579 billion (8 percent) higher from the LL 7,318 billion registered in Jan-Jun 2013. Tax revenues rose by 6 percent as major tax categories increased compared to the same period of 2013, namely income tax on profits, real estate registration fees, and taxes on salaries and wages. Non-tax revenues grew by 11 percent during H1 2014. However, on a cash basis, non-tax revenues regressed by LL 625 billion to reach LL 712 billion, mainly as cash transfers from the Telecom Surplus were nil during Jan-Jun 2014, compared to LL 754 billion in Jan-Jun 2013.

Expenditure
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Total expenditures scaled up by merely 1 percent end of June 2014, amounting to LL 10,274 billion. Higher interest payments (+LL 359 billion) and transfers to municipalities (+LL 210 billion) were the main contributors the LL 94 billion increase in total expenditures. This was counterbalanced chiefly by a drop in transfers to NSSF (-LL 150 billion), personnel cost (-LL 103 billion), other treasury expenditure mainly comprised of VAT refund (-LL101 billion), and capital expenditure (-LL 91 billion).

**Public Debt
Development**
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The stock of gross public debt reached LL 99,082 billion by end June 2014, climbing by 3.5 percent from its end-2013 level as local currency debt recorded a nominal increase of LL 3,424 billion, overshadowing the small decline in outstanding foreign currency debt. In return, public sector deposits added 5 percent to LL 16,257 billion and as a result curbed the rise in the stock of net public debt to 3.3 percent, ending June 2014 at LL 82,825 billion.

SECTION I: FISCAL OVERVIEW

The **total fiscal balance** recorded a deficit of LL 2,377 billion in Jan-Jun 2014, compared to a LL 2,862 billion deficit during the same period of 2013. This improvement in public finances was mainly the result of an 8 percent increase in **total revenues**, accompanied with a mere 1 percent increase in **total payments**. Correspondingly, the **primary balance** ended at a surplus of LL 874 billion in H1 2014, compared to a surplus of LL 25 billion during the same period of 2013.

Table 1: Summary of Fiscal Performance

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	2014 Jan-Jun	% Change 2014/2013
Total Budget and Treasury Receipts¹	7,642	7,318	7,897	7.9%
Total Budget and Treasury Payments	9,350	10,180	10,274	0.9%
• Interest Payments	2,737	2,771	3,129	12.9%
• Concessional loans principal payment ²	135	116	122	4.7%
• Primary Expenditures ³	6,477	7,293	7,023	-3.7%
Total Deficit/Surplus	(1,708)	(2,862)	(2,377)	-16.9%
Primary Deficit/Surplus	1,164	25	874	N.M.⁴

Source: MOF, DGF

¹ Includes the expected transfer from Telecom Surplus

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

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

⁴ Not Meaningful

Note #1: Accrual versus cash basis.
Given that transfers from the Telecom surplus are calculated on an accrued basis and represent transfers expected by the Ministry of Finance from the Ministry of Telecommunications, the reported fiscal balance for each period usually differs from the cash fiscal balance, with the exception of the end of each year when accrued transfers are realized.

As at June 2014, no cash transfers had been made by MoT, and as a result, the **cash-basis fiscal balance** was at a deficit of LL 3,318 billion, 10 percent larger than the cash deficit recorded in H1 2013, noting that the value of transfers made in H1 2013 amounted to LL 754 billion. Likewise, the **cash primary balance** registered a deficit of LL 67 billion, compared to a LL 125 billion primary deficit in H1 2013. On an accrued basis, telecom transfers were reported at LL 903 billion and LL 941 billion in H1 2013 and H1 2014 respectively¹.

Table 2: Summary of Fiscal Performance on a cash basis

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	2014 Jan-Jun	% Change 2014/2013
Total Budget and Treasury Receipts¹	7,179	7,168	6,956	-3.0%
Total Budget and Treasury Payments	9,350	10,180	10,274	0.9%
• Interest Payments	2,737	2,771	3,129	12.9%
• Concessional loans principal payment ²	135	116	122	4.7%
• Primary Expenditures ³	6,477	7,293	7,023	-3.7%
Total Deficit/Surplus	(2,170)	(3,012)	(3,318)	10.2%
Primary Deficit/Surplus	702	(125)	(67)	-46.2%

Source: MOF, DGF

¹ Includes the actual transfer from Telecom Surplus

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

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

¹ Accrued amounts from the telecom surplus are consistently reported by MoT. In instances when the figures are not disclosed, MoF estimates those using average actual transfers from previous years as a broad indicator, noting that between 2011 and 2013, average annual Telecom transfers were US\$ 1,453 million.

SECTION II: REVENUE OUTCOME

Total revenues amounted to LL 7,897 billion in Jan-Jun 2014, up by 8 percent compared to the corresponding period of 2013. As it was somewhat inconsistent with the modest economic performance observed since 2011, the substantial improvement on the revenue side was most likely boosted by one-off collections, discrepancy in timing of receipts and higher collections of arrears, although property taxes rightly fared better owing to the resiliency in the real estate sector that continued to outperform overall economic activity.

Table 3: Total revenues

(LL billion)	2013 Jan-Jun	2014 Jan-Jun	% Change 2014/2013
Budget revenues	6,912	7,388	6.9%
• Tax revenues	5,426	5,736	5.7%
• Non-tax revenues	1,486	1,652	11.2%
Treasury receipts	406	509	25.3%
Total revenues	7,318	7,897	7.9%

Source: MOF, DGF

On a cash basis, **total revenues** reached LL 6,956 billion in Jan-Jun 2014, decreasing by LL 212 billion from the LL 7,168 billion collected in the same period of 2013, as Telecom Transfers were nil in the first half of 2014, while these amounted to LL 754 billion in Jan-Jun 2013.

Table 4: Total revenues – Cash basis

(LL billion)	2013 Jan-Jun	2014 Jan-Jun	% Change 2014/2013
Budget revenues	6,762	6,447	-4.7%
• Tax revenues	5,426	5,736	5.7%
• Non-tax revenues	1,337	712	-46.8%
Treasury receipts	406	509	25.3%
Total revenues	7,168	6,956	-3.0%

Source: MOF, DGF

TAX REVENUES

Tax revenues amounted to LL 5,736 billion in the first six months of 2014, rising from the LL 5,426 billion registered during the same period of 2013. Barring a decline in **taxes on international trade** reflecting a subdued level of imports, all major sub-components were on the rise albeit at different rates.

Table 5: Tax Revenues

(LL billion)	2013 Jan-Jun	2014 Jan-Jun	% Change 2014/2013
Taxes on Income, Profits, & Capital Gains	1,731	1,962	13.3%
• Income Tax on Profits	895	1,024	14.5%
• Income Tax on Wages and Salaries	311	352	13.0%
• Income Tax on Capital Gains & Dividends	171	197	15.2%
• Tax on Interest Income (5%)	326	351	7.8%
• Penalties on Income Tax	28	38	33.3%
Taxes on Property, of which:	551	649	17.8%
• Built Property Tax	121	148	22.2%
• Real Estate Registration Fees	369	427	15.8%
Domestic Taxes on Goods & Services, of which:	1,848	1,924	4.1%
• Value Added Tax	1,620	1,639	1.2%
• Other Taxes on Goods and Services, of which:	173	165	-4.7%
Private Car Registration Fees	103	104	0.9%
Passenger Departure Tax	69	60	-13.3%
Taxes on International Trade	1,065	962	-9.7%
• Customs	404	378	-6.3%
• Excises, of which:	662	584	-11.8%
Petroleum Tax	237	249	5.1%
Tobacco Tax	198	134	-32.6%
Tax on Cars	222	197	-11.1%
Other Tax Revenues (namely fiscal stamp fees)	230	239	3.8%
Total Tax Revenues	5,426	5,736	5.7%

Source: MOF, DGF

Taxes on income, profits and capital gains jumped by 13 percent in the first half of 2014 despite Lebanon's subdued economic activity², mainly supported by higher **income tax on profits**. Following a 6 percent drop in the first half of 2013, **income tax on profits** climbed by LL 129 billion (14 percent) to reach LL 1,024 billion during Jan-Jun 2014³. The unexpected rise in this revenue item could be due to the fact that the Ministry of Finance is accelerating collections of arrears from previous years, which seems to corroborate with the 33 percent surge in **penalties on income taxes**.

Taxes on wages and salaries, gained 13 percent to reach LL 352 billion in Jan-Jun 2014, mostly owing to the natural expansion of the economy. **Income tax on capital gains and dividends** added LL 26 billion to reach LL 197 billion in Jan-Jun 2014.

Taxes on interest income recorded a LL 26 billion rise, amounting to LL 351 billion in the first half of 2014 (for a more detailed breakdown, kindly refer to Figure 3). It is noteworthy that these collections do not include taxes on Eurobonds' interest income⁴.

² Real GDP growth was estimated at 3.0 percent in 2013 (Lebanese National Accounts 2004-2013, Central Administration of Statistics) and at 1.8 percent in 2014 (International Monetary Fund, World Economic Outlook, October 2014).

³ The latter rise reflects higher company profits in 2013 as this tax is collected on previous year's earning.

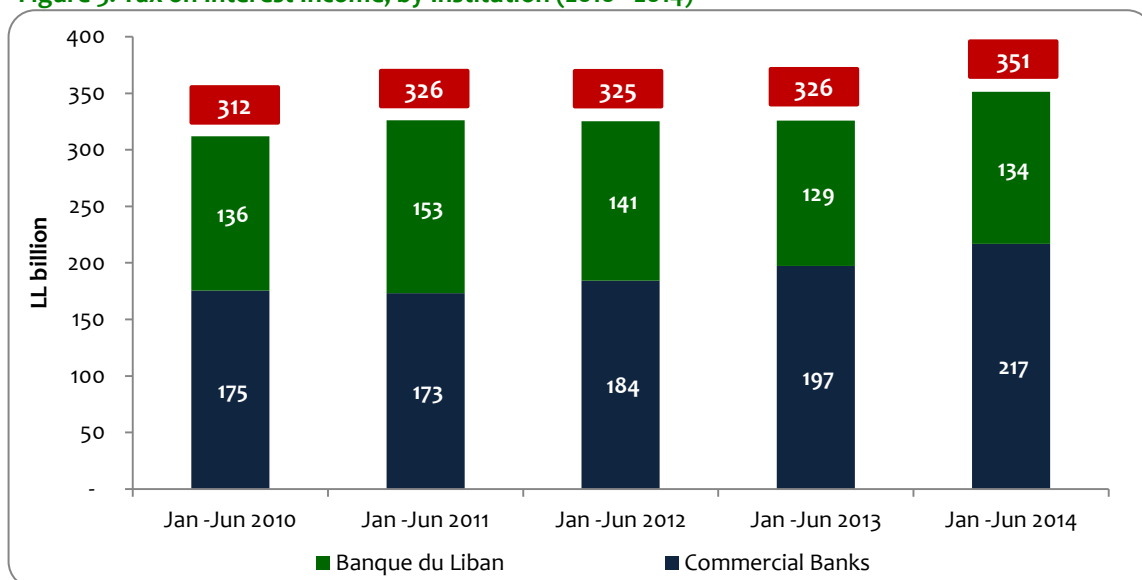
⁴ Holders of Eurobonds receive interest payable by the Lebanese Republic without any withholding or deductions, since the Republic covers these withholding or deductions (as per COM decision No 43 dated 08/04/2004).

By institution, collections from Commercial Banks rose as a result of a steady growth in the deposit base⁵ along with a rise in interest rates on both domestic and foreign currency deposits. In detail, Commercial banks' private sector deposits grew by 6.9 percent annually to reach LL 211,575 billion by the end of June 2014. The weighted average interest on dollar denominated deposits climbed from 2.92 percent in Jan-Jun 2013 to 2.98 percent in the corresponding period of 2014. Moreover, the rate on local currency deposits inched up from an average of 5.44 percent to 5.49 percent.

Collections from Banque du Liban⁶ similarly rose, albeit at a slower rate of 4.6 percent. The latter increase resulted mainly from higher revenues from *Treasury Bills and Bonds*, owing to a year-on-year LL 262 billion rise in "domestic interest payment" during Jan-Jun 2014.

By currency, collections in both domestic and foreign currency were on the rise, maintaining their respective share of 66 percent and 34 percent out of total collections during the period of January to June 2014.

Figure 3: Tax on Interest Income, by Institution (2010 - 2014)



Source: MOF, DGF

Taxes on property improved by LL 98 billion to LL 649 billion, largely owing to a 16 percent increase in the **real estate registration fee** coupled with higher collections of **built property tax** (22 percent).

Real estate registration fees increased by LL 58 billion, outlining a 10 percent expansion in average prices of sold properties, and a 7 percent rise in the number of sold properties⁷. The 27 percent year-on-year jump in registration fees during the first quarter of 2014 had decelerated to 8 percent in the second quarter of the year, a slowdown that could partly be attributed to domestic political disturbances, namely the resignation of the government in March 2013. It is worth mentioning that Banque du Liban launched a stimulus package of USD 1,400 million⁸ in 2013 and again, a package of USD 800 million⁹ in 2014, a portion of which was channelled as housing loans.

⁵ These represent resident and non-resident private sector deposits, both in domestic and foreign currency (Source: Banque du Liban).

⁶ Banque du Liban transfers to the Ministry of Finance tax on interest income from the outstanding stock of Treasury Bills and Bonds pertaining to all TB holders, and covers tax dues on interest income from its issued Certificate of Deposits.

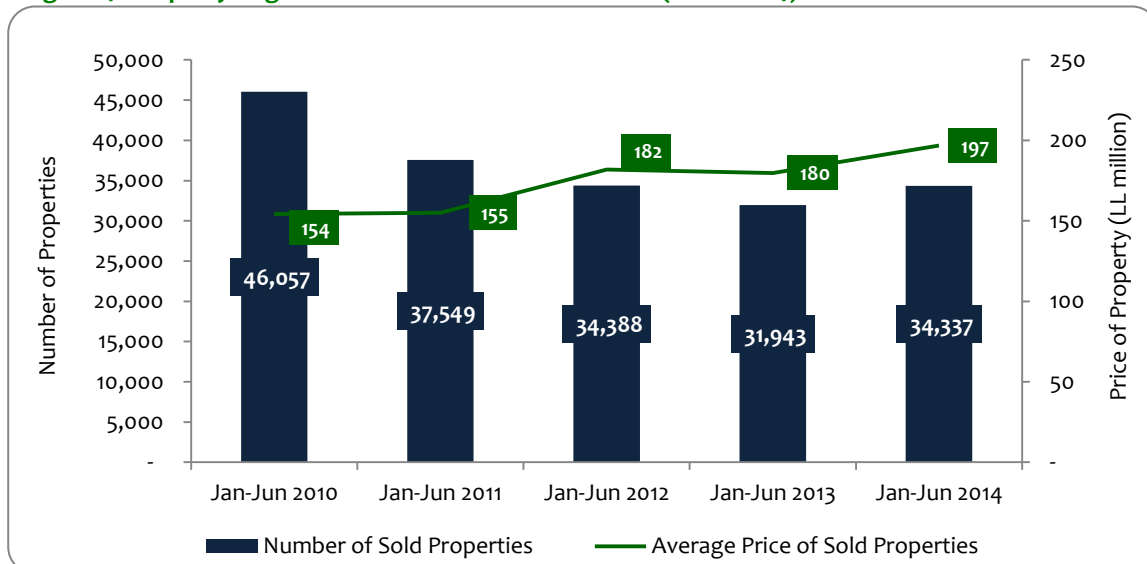
⁷ The number of sold properties and average prices of sold properties are based on sale contracts declared over the period (Source: Cadaster, Ministry of Finance).

⁸ For more information, kindly refer to Banque du Liban's Intermediate Circular No 313, dated January 14, 2013.

⁹ For more information, kindly refer to Banque du Liban's Intermediate Circular No 346, dated November 25, 2013.

Revenues from the **built property tax** improved by LL 27 billion to reach LL 148 billion in the first half of 2014, possibly reflecting a more dynamic housing rental activity in Beirut and other regions of Lebanon, and most likely owing to the rise in Syrian displaced families. Likewise, the **inheritance tax**, reached LL 73 billion in Jan-Jun 2014, LL 13 billion higher than the corresponding period of 2013.

Figure 4: Property Registration Statistics from Cadastre (2010 - 2014)



Source: MOF, DGF

Note: These are declaration statistics based on sales contracts.

Domestic taxes on goods and services rose by LL 76 billion, mainly due to a discrepancy in timing that resulted in higher transfers from Régie, by LL 65 billion. In fact, these transfers amounted to LL 115 billion¹⁰ in Jan-Jun 2014 (with no more transfers expected for the rest of the year), compared to LL 50 billion¹¹ in the same period of 2013 (with an additional transfer of LL 45 billion made in August 2013).

Value-added tax collections stood at LL 1,639 billion in Jan-Jun 2014 or LL 19 billion higher than the same period of 2013, as a result of higher internally collected VAT (by LL 28 billion), partly offset by a LL 9 billion drop in VAT receipts at customs.

Table 6: Total Imports & Effective VAT Rate

(LL billion)	2013 Jan-Jun	2014 Jan-Jun	% Change 2014/2013
Total Imports	16,275	15,503	-4.7%
• Fuel Imports (fuel derivatives classified under HS 27)	4,006	3,507	-12.5%
• Non-Fuel Imports	12,269	11,996	-2.2%
• Share of Fuel Imports	24.6%	22.6%	-8.1%
• Share of Non Fuel Imports	75.4%	77.4%	2.6%
Revenues from VAT at Imports	1,032	1,023	-0.8%
Effective VAT rate	6.3%	6.6%	4.1%

Source: MOF, DGF

The VAT effective rate¹² edged-up to reach 6.6 percent in the first six months of 2014, compared to 6.3 percent in the corresponding period of 2013. The rise in the effective VAT rate was counterbalanced by a 4.7 percent drop in total imports, resulting in lower VAT collections at customs (for more information, kindly refer to Box # 1).

¹⁰ The LL 115 billion pertains to the fiscal year of 2013.

¹¹ The LL 50 billion pertains to the fiscal year of 2012.

¹² The effective VAT rate represents total VAT collections at imports during a particular period, divided by total imports over the same time period.

Box #1: VAT at Customs

According to import declarations, VAT collected at customs inched down by 2 percent in the first six months of 2014. This sluggish performance was mainly the result of lower collections from “tobacco products”, “vehicles other than railway” and “machinery and mechanical appliances”.

These drops were partly counteracted by higher collections from “iron and steel” products, as the construction sector fared better. In detail, cement deliveries were up by 5.2 percent in the first half of 2014, while total area of construction permits (a proxy for future construction) soared by 15.9 percent over the period (Source: *Banque du Liban for cement deliveries and construction permits*).

VAT Revenues Collected at Customs (10 Largest Contributing Items)

Economic Activity (LL billion)	Jan-Jun 2012	Jan-Jun 2013	Jan-Jun 2014	% Change 2014/2013
VAT Customs Collections	1,239	1,021	1,000	-2.0%
Mineral fuels & oils	415	175	174	-0.8%
Vehicles other than railway	137	141	128	-9.4%
Machinery and mechanical appliances	84	92	87	-6.2%
Iron and steel	64	57	69	20.1%
Electrical machinery	69	67	67	-0.8%
Plastic and articles thereof	45	52	52	-0.4%
Tobacco products	47	42	26	-36.8%
Articles of apparel and clothing accessories	22	23	22	-0.9%
Furniture and other stuffed furnishing	18	20	19	-3.1%
Wood and articles of wood	18	18	19	5.9%
Other Categories	318	333	337	1.3%

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

Note: VAT figures represent declared amounts that may differ from collection figures as published in the Fiscal Performance and the Tax Revenues table (Table 5).

Collections from the **passenger departure tax** dropped by LL 9 billion (13 percent) to LL 60 billion in the first six months of 2014, as the number of *departing passengers* from the Rafic Hariri International Airport¹³ decreased by 4.7 percent to reach 1.47 million in Jan-Jun 2014. It is worth mentioning that revenue collections dropped at a faster pace than the number of departing passengers, most likely reflecting discrepancy in timing as well as a lower effective nominal fee per passenger. **Private car registration fees** reached LL 104 billion in Jan-Jun 2014, almost unchanged from the similar period of 2013.

Taxes collected from international trade (customs and excises) fell by LL 104 billion to reach LL 962 billion in Jan-Jun 2014. **Tariff revenues** amounted to LL 378 billion, down from LL 404 billion in Jan-Jun 2013, as a result of a 2 percent drop in non-fuel imports as well as a slight decrease in the effective customs rate from 2.5 percent in Jan-Jun 2013, to 2.4 percent during the corresponding period of 2014. It is worth mentioning that fuel products generally carry a low customs rate or are exempted from customs duties.

According to declaration forms¹⁴ from the Customs Directorate, around 25 percent of Tariff revenues originated from *Food Products* (excluding tobacco), followed by *Machinery and*

¹³ This figure includes both tourist and non-tourists (Source: Lebanese Civil Aviation Authority).

¹⁴ Figures from declaration forms differ from the ones published in the Fiscal Performance and the Tax Revenues table (Table 5).

Electrical Instruments (14 percent) and *Vehicles and Transport Equipment* (10 percent). In fourth position, *Products of the Chemical and Allied Industries* accounted for 10 percent of total collections and *Miscellaneous Manufactured Products* came in fifth position with a share of 8 percent.

Total excises dropped by 12 percent in the first six months of 2014 to LL 584 billion, driven by drops in tobacco and car excises that were counterbalanced by a slight improvement in gasoline excises. **Tobacco excises** registered a sharp 33 percent decrease, mainly due to a reversal of sales into the Syrian market, after having spiked in previous years; noting that demand for tobacco from the Syrian market is believed to be currently supplied by other neighbouring countries. It is worth mentioning that imports of tobacco dipped by 35 percent in value and 27 percent in volume, over the period under consideration.

During the first half of 2014, **car excises** dropped by 11 percent driven by a 12 percent decline in the number of imported cars. In detail, the total number of cars imported amounted to 33,524 during Jan-Jun 2014, compared to a higher figure of 38,115 during Jan-Jun 2013. Moreover, the average price of car slightly inched up by LL 22.8 million in Jan-Jun 2014 compared to LL 22.5 million in the same period of 2013.

Excises on gasoline rose by LL 12 billion year-on-year to reach LL 249 billion in Jan-Jun 2014. Given that this excise is a per-unit tax, the latter increase was mainly the result of a 5 percent growth in the volume of imported gasoline. In fact, the average effective excise rate was almost unchanged from the previous year, standing at LL 225 per litre of gasoline during Jan-Jun 2014.

Finally, receipts from **fiscal stamp fees** rose by LL 9 billion year-on-year to LL 239 billion in Jan-Jun 2014. Receipts from this tax are indicative of the general state of economic activity as they reflect the volumes and values of transactions taking place during a given period. Formal sales agreements, contracts, and procedures with municipalities and public administrations are all subject to the stamp fee.

NON-TAX REVENUES

Non-tax revenues increased by LL 166 billion, to reach LL 1,652 billion in the first half of 2014. This improvement was caused by higher **income from public institutions and government properties** and **administrative fees and charges**.

On a cash basis, these revenues plummeted by LL 625 billion (46.8 percent) as a result of lower Telecom transfers that were nil in the first half of 2014, compared to LL 754 billion in the same period of 2013.

Income from Public Institutions and Government Properties increased to LL 1,252 billion during Jan-Jun 2014, up from LL 1,114 billion in the same period of 2013, owing to higher **property income** by LL 64 billion due to the sale of government properties. Moreover, **revenues from Port of Beirut** rose by LL 52 billion to LL 82 billion, most likely as hefty construction works undertaken since 2010 (and covered from the Port's budget), were completed in 2013, thus allowing a higher surplus to be transferred to the Ministry of Finance.

Budget surplus of the National Lottery reached LL 18 billion in Jan-Jun 2014, compared to LL 30 billion in the same period of 2013. Other losses in income from public institutions resulted from a decline in **revenues from Casino Du Liban**, which inched down by LL 4 billion to reach LL 60 billion in the first six months of 2014, as the number of tourists to Lebanon

fell by 6 percent in the same period under consideration, albeit at a slower rate than previous years.

Administrative fees and charges rose by LL 22 billion year-on-year, amounting to LL 311 billion in Jan-Jun 2014, mostly owing to a LL 12 billion increase in **passport fees/public security** and a LL 12 billion rise in **vehicle control fees**.

Table 7: Non-Tax Revenues

(LL billion)	2013 Jan-Jun	2014 Jan-Jun	%Change 2014/2013
Income from Public Institutions and Government Properties	1,114	1,252	12.4%
• Income from Non-Financial Public Enterprises, of which:	1,027	1,101	7.2%
- Revenues from Casino du Liban	63	60	-5.6%
- Revenues from Port of Beirut	30	82	173.7%
- Budget Surplus of National Lottery	30	18	-40.0%
- Transfer from the Telecom Surplus	903	941	4.2%
• Income from Financial Public Enterprises (BdL)	61	61	0.6%
• Property Income (rent of Rafic Hariri International Airport)	23	87	279.0%
Administrative Fees & Charges, of which:	290	311	7.5%
• Administrative Fees, of which:	230	256	11.0%
- Notary Fees	15	16	6.1%
- Passport Fees/ Public Security	66	78	18.5%
- Vehicle Control Fees	106	118	11.3%
- Judicial Fees	13	14	9.9%
- Driving License Fees	10	9	-3.0%
• Administrative Charges	19	17	-14.1%
• Permit Fees (mostly work permit fees)	31	31	0.6%
• Other Administrative Fees and Charges	8	6	-14.1%
Penalties and Confiscations	5	6	22.3%
Other Non-Tax Revenues (mostly retirement deductibles)	78	84	7.0%
Total Non-Tax Revenues	1,486	1,652	11.2%

Source: MOF, DGF

TREASURY RECEIPTS

Treasury receipts increased by LL 103 billion (25 percent) to reach LL 509 billion in Jan-Jun 2014, mainly as a result of a LL 130 billion increase in “other accounts” slightly offset by a LL 36 billion drop in “deposits”. The 116 percent rise in “other accounts” was in turn due to the following:

- The regularization of a treasury advance paid to the Displaced Fund for a total amount of LL 60 billion (*for more information, kindly refer to Note #2 of the January 2014 Public Finance Monitor*);
- The reimbursement of LL 57 billion worth of treasury advances by the Ministry of Economy and Trade in the first six months of 2014, compared to LL 21 billion in the same period of 2013 (*for more information, kindly refer to box #1 of the June 2014 Public Finance Monitor*); and
- The receipt of LL 30 billion worth of accrued interest on the settlement of the April debt transaction. These are in fact transitory receipts, which will be netted out when the first coupon payments on those issued Notes come due (*for more information, kindly refer to the Eurobonds transaction concluded in April and May 2014 on the Ministry's website*).

SECTION III: EXPENDITURE OUTCOME

Total expenditure (budget and treasury) increased by 1 percent by end of June 2014, amounting to LL 10,274 billion, compared to LL 10,180 billion in Jan-Jun 2013. The LL 94 billion rise was mainly driven by higher **interest payments** and **transfers to municipalities** by LL 359 billion and LL 210 billion respectively. However, **total primary expenditure** declined by LL 270 billion mainly owing to a decrease in personnel cost by LL 103 billion, various transfers and capital expenditures each by LL 91 billion.

Table 8: Expenditure summary

(LL billion)	Jan-Jun 2013	Jan-Jun 2014	% Change 2014/2013
Interest payments	2,771	3,129	12.9%
Concessional loans principal payments ⁽¹⁾	116	122	4.7%
Primary expenditures ⁽²⁾	7,293	7,023	-3.7%
Total budget and treasury payments	10,180	10,274	0.9%

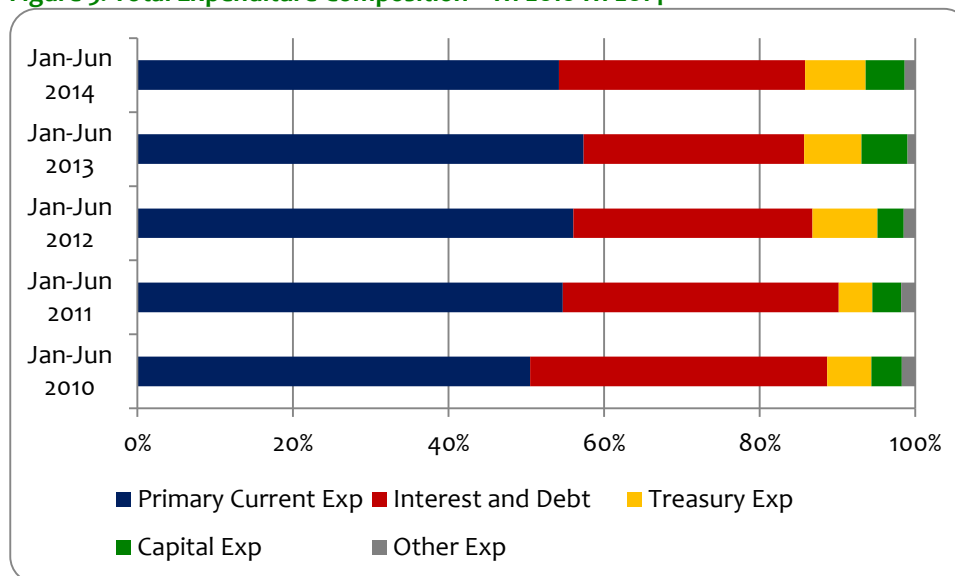
Source: MOF, DGF

1/ Includes only principal repayments of concessional loans earmarked for project financing.

2/ Primary expenditures exclude debt-related payments (Interest payments and concessional loans principal repayment).

In terms of composition, **primary current expenditure** accounted for 54 percent of total expenditures in Jan-Jun 2014, down from 57 percent during Jan-Jun 2013. **Interest payments** and **foreign debt principal repayments** followed with 32 percent during Jan-Jun 2014 compared to 28 percent during Jan-Jun 2013, whereas **treasury expenditure** made up 8 percent in Jan-Jun 2014, up from 7 percent a year earlier. **Capital expenditure** jumped from 3 percent of total expenditure in 2012 to 6 percent in 2013 and 5 percent in 2014, mainly due to significant increases in **construction in progress**.

Figure 5: Total Expenditure Composition – H1 2010-H1 2014



Source: MOF, DGF

The evolution of the main expenditure items in Jan-Jun 2014 according to the economic classification is presented in table 9 below, and reviewed in the sections that follow.

Table 9: Expenditure by economic classification

(LL billion)	Jan-Jun 2013	Jan-Jun 2014	% Change
1. Current Expenditures	8,727	8,819	1.1%
1.a Personnel Cost, of which	3,130	3,027	-3.3%
Salaries, Wages and Related Items (Article 13)	2,098	2,103	0.2%
Retirement and End of Service Compensations, of which:	879	800	-9.0%
Retirement	791	679	-14.1%
End of Service	88	120	36.9%
Transfers to Public Institutions to Cover Salaries	153	125	-18.5%
1.b Interest Payments	2,771	3,129	12.9%
1.c Foreign Debt Principal Repayment	116	122	4.7%
1.d Materials and Supplies, of which:	168	143	-15.0%
Nutrition (Food supply)	27	24	-10.4%
Fuel Oil	8	3	-64.4%
Medicaments	81	64	-21.3%
1.e External Services	69	79	14.0%
1.f Various Transfers, of which:	2,140	2,050	-4.2%
EDL	1,420	1,565	10.2%
NSSF	250	100	-60.0%
Higher Council of Relief	44	5	-88.7%
Contributions to non-public sectors	166	143	-13.9%
Transfers to Directorate General of Cereals and Beetroot	60	67	11.0%
Contributions to water authorities	3	12	273.7%
1.g Other Current, of which:	230	173	-24.7%
Hospitals	128	126	-1.5%
Others (judgments & reconciliations, mission costs, other)	101	46	-54.8%
1.h Reserves (Interest subsidy)	103	97	-6.4%
2. Capital Expenditures	607	516	-15.0%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	14	0	-98.8%
2.b Equipment	42	23	-44.3%
2.c Construction in Progress, of which:	375	406	8.3%
Displaced Fund	0	30	
Council of the South	18	39	124.3%
CDR	210	186	-11.2%
Ministry of Public Work and Transport	92	37	-59.7%
Other	47	48	2.3%
2.d Maintenance	150	63	-58.0%
2.e Other Expenditures Related to Fixed Capital Assets	27	24	-11.1%
3. Budget Advances 1/	74	117	56.8%
4. Customs Administration (exc. Salaries and Wages) 2/	23	22	-7.4%
5. Treasury Expenditures 3/	747	800	7.1%
Municipalities	352	562	59.6%
Guarantees	57	35	-38.5%
Deposits 4/	85	51	-39.7%
Other, of which:	253	152	-39.9%
VAT Refund	166	113	-32.0%
6. Unclassified Expenditures	1	0	-61.9%
7. Total Expenditures (Excluding CDR Foreign Financed)	10,180	10,274	0.9%

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures
(1) Budget Advances were previously classified under "other". Given their growth, and in line with the Ministry of Finance's efforts to ensure transparency, they are published in a separate line. They will be regularized at a later stage, and it is only after their regularization that they can be classified according to their economic nature in the budget system.

(2) "Customs administration" includes payments - excluding salaries and wages - made to customs and paid from customs cashiers. They can only be classified after Customs submit the supporting documents to the Directorate General of Finance.

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

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

CURRENT EXPENDITURE

Current expenditure expanded by LL 92 billion chiefly explained by a rise in **interest payments** by LL 359 billion. This increase was partly offset by a drop in (i) **personnel cost** by LL 103 billion, (ii) **various transfers** by LL 91 billion, (iii) **other current expenditure** by LL 57 billion, and (iv) **materials and supplies** by LL 25 billion.

CURRENT PRIMARY EXPENDITURE

Current primary expenditure totaled LL 5,568 billion during Jan-Jun 2014, down from LL 5,841 billion during the same period of 2013, registering a decline of 4.7 percent.

Personnel cost dropped by LL 103 billion to LL 3,027 billion in Jan-Jun 2014 compared to LL 3,130 billion in Jan-Jun 2013, mainly due to a discrepancy in timing of payment as LL 1 billion was paid for retirement salaries during the month of June 2014, compared to a monthly average of LL 135 billion. **Salaries, wages and related items** amounted to LL 2,103 billion, increasing by LL 5 billion from the Jan-Jun 2013 figure. As shown in Table 10, this increase was mainly the result of an increase in basic salaries (LL 10 billion) and employees' cooperative (LL 5 billion), partly counterbalanced by a decrease in allowances (LL 6 billion)¹⁵.

Table 10: Breakdown of Salaries, Wages and Related Benefits (Jan-Jun)

(LL billion)	Basic Salaries		Allowances 1/		Indemnities and Other 2/		Total	
	2013	2014	2013	2014	2013	2014	2013	2014
Military Personnel	975	1,023	284	278	39	41	1,299	1,342
Army	624	647	177	140	24	25	825	812
Internal Security Forces	281	296	86	105	12	13	379	413
General Security Forces	54	63	15	26	2	2	71	91
State Security Forces	17	17	6	8	1	1	24	27
Education Personnel	411	390	0	0	39	39	450	430
Civil Personnel	179	161	2	2	55	53	236	217
Employees Cooperative					90	94	90	94
Customs Salaries							25	19
Total	1,565	1,575	286	280	223	228	2,099	2,102

Source: MoF, DGF

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

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

Retirement and end-of-service compensations summed up to LL 800 billion in Jan-Jun 2014 compared to LL 879 billion during the same period of 2013. Behind the LL 79 billion decline stands a LL 112 billion decrease in retirement compensation, slightly offset by a LL 32 billion increase in end-of-service indemnities. **Retirement** registered a decrease of 9 percent mainly as a result of a discrepancy in the timing of payment whereby retirement salaries paid during the month of June 2014 were nil, in addition to exceptional one-time payments

¹⁵ For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits monthly bulletin of June 2014 on the Ministry of Finance website: www.finance.gov.lb.

made in 2013 such as the 1996-1998 retroactive to military retirees. As for the **end-of-service indemnity**, the reason behind the LL 32 billion increase is mainly due to the combined result of the following:

- a) End-of-service compensation to military personnel amounted to LL 98 billion (81 percent of total compensation payments) during Jan-Jun 2014, compared to LL 67 billion (76 percent of total compensation payments) in Jan-Jun 2013; 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.
- b) Similarly, end-of-service compensations to civil personnel increased by merely LL 1 billion to reach LL 23 billion in Jan-Jun 2014. This 7 percent increase was the result of retirees having worked for a longer period and/or having received higher salaries. It is worth noting that the number of beneficiaries slightly decreased to reach 1,023 retirees in H1 2014, down from 1,094 retirees in H1 2013.

Transfers to public institutions to cover salaries were down by LL 28 billion mainly as a result of the LL 18 billion decrease in transfers to the Lebanese University and LL 10 billion drop in transfers to CDR. The changes in the components of transfers to public institutions are shown in Table 11 below.

Table 11: Breakdown of Transfers to Public Institutions (salaries)

(LL billion)	Jan-Jun 2013	Jan-Jun 2014	%Change 2014/2013
Transfer to Council of the South	4	7	100.0%
Transfer to the Council for Development and Reconstruction	18	8	-54.4%
Transfer to Fund for the Displaced	2	2	42.0%
Transfer to the Lebanese University	123	105	-14.6%
Transfer to Educational Centre for Research and Development	7	2	-71.4%
Total Transfers to Public Institutions	153	125	-18.5%

Source: MoF, DGF

Purchases of **Materials and supplies** dropped by LL 25 billion in Jan-Jun 2014, mainly driven by a LL 17 billion decrease in spending on **medicaments**. More specifically, medicaments totalled LL 64 billion of which LL 41 billion were transferred to the Ministry of Public Health and LL 19 billion to military personnel. The main reason behind the higher figure observed in 2013 is the settlement of a backlog pertaining to 2012 and paid in 2013. In addition, transfers to **fuel oil** dropped by LL 5 billion and food supplies spending declined by LL 3 billion during the period under review.

External services (rent, postal, insurance, advertisement and public relations) increased by LL 10 billion totalling LL 79 billion in Jan-Jun 2014, mainly due to a rise in **rental payments** by LL 12 billion, while **remuneration for consultancy service** and **publications** remained quasi the same. Other external services payments declined by LL 2 billion.

Various transfers dropped by LL 91 billion, totalling LL 2,050 billion by end June 2014 compared to LL 2,140 billion in the same period of 2013. Transfers to Electricité Du Liban (EDL)¹⁶ amounted to LL 1,565 billion during Jan-Jun 2014, compared to LL 1,420 billion during the same period of 2013. This increase mainly reflected the larger volume of fuel oil imports in the period between August 2013 and January 2014, as compared to fuel imports made between July 2012 and May 2013, the latter period of which corresponds to H1 2013 payments. Larger fuel oil imports in the latter period correspond to higher capacity

¹⁶ For further details on EDL transfers in Jan-Jun 2014, kindly refer to the June issue of Transfers to Electricité Du Liban, a monthly snapshot, on the Ministry of Finance website: www.finance.gov.lb.

operation of the two fuel-functional electricity generation barges leased by Turkish firm Karpowership, noting the first barge was connected to the grid by March 2013 and the second, by September 2013.

Table 12: Transfers to EDL

(LL billion)	Jan-Jun 2013	Jan-Jun 2014	%Change 2014/2013
EDL, of which:	1,420	1,565	10.2%
Debt Service	40	15	-63.8%
Reimbursement for purchase of Fuel & Gas Oil	1,379	1,550	12.4%

Source: MOF, DGF

When EDL transfers are excluded, **various transfers** amount to LL 721 billion by end of June 2013, compared to LL 485 billion in 2014, implying a drop of LL 236 billion mainly attributed to the following combined changes:

- Transfers to NSSF** decreased by LL 150 billion, totalling LL 100 billion in Jan-Jun 2014, compared to LL 250 billion transferred in 2013, noting these transfers are discretionary and do not follow a specific trend.
- Transfers to **Higher Relief Council** declined by LL 39 billion amounting to LL 5 billion in Jan-Jun 2014 and relate to compensations for victims resulting from a series of tragic events in Lebanon, such as the damages in Chiyah area and Bekaa-Hermel regions (LL 0.4 billion), and the blast that took place in Jnah (LL 4 billion). It is worth noting that more than LL 100 billion are expected to be transfers to HRC as per several decrees issued during 2014, representing indemnities for various tragic events in Lebanon.
- Transfers to **IDAL** to cover administrative expenses dropped by LL 20 billion in Jan-Jun 2014, from LL 23 billion in Jan-Jun 2013.
- Contributions to non-public sectors** decreased from LL 166 billion in Jan-Jun 2013 to LL 143 billion in Jan-Jun 2014, mainly due to a LL 21 billion fall in transfers to the Ministry of Social Affairs (MOSA). More specifically, the reason behind the higher figure observed in transfers to MOSA during Jan-Jun 2013 can be attributed to payments pertaining to 2012 to cover the revised inflation of aid per assisted individual¹⁷.

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

- Transfers to the Directorate General of Cereals and Beetroot** rose by LL 7 billion year-on-year to LL 67 billion in Jan-Jun 2014. Of the total amount paid in 2014, LL 25 billion¹⁸ and LL 29 billion¹⁹ were made through two treasury advances to purchase respectively 50 thousand tons and 60 thousand tons of imported wheat including all expenses for bread production. In addition, a treasury advance in the amount of LL 12 billion²⁰ was made to cover the difference of the cost of wheat for the period Nov2012-Mar2013. On a related note, it is worth mentioning that LL 57 billion was reimbursed by the Directorate of Cereals and Beetroot to the Treasury as revenues during Jan-Jun 2014, compared to LL 21 billion during the same period of 2013.
- Transfers to **public hospitals** increased by LL 18 billion in Jan-Jun 2014 to reach LL 41 billion. Of this total amount, LL 28 billion were transferred in Jan-Jun 2014 to Rafik Hariri University Hospital, compared to LL 11 billion during Jan-Jun 2013.

¹⁷ As per decision 1 dated 16 May 2012.

¹⁸ As per decree 11100 dated 24 January 2014, the total treasury advance is LL 27.150 billion.

¹⁹ As per decree 11276 dated 20 January 2014, the total treasury advance is LL 34.232 billion.

²⁰ As per decree 11063 dated 20 January 2014

g) Transfers to **water authorities** rose by LL 9 billion to reach LL 12 billion during Jan-Jun 2014. More specifically, LL 4.5 billion was paid through CDR to operate and maintain water system and pipelines in Baalbek.

Table 13: Breakdown of Article 14 by Economic Classification

LL billion	Jan-Jun 2013	Jan-Jun 2014	% Change
1. Contributions to the Public Sector 1/	1,833	1,808	-1.4%
1a. Electricité Du Liban (EDL)	1,420	1,565	-10.2%
1b. Other Contributions to the Public Sector, of which:	413	243	-41.2%
<i>High Relief Committee (HRC)</i>	44	5	-88.7%
<i>Investment Development Authority of Lebanon (IDAL)</i>	23	4	-83.9%
<i>Transfers to School Funds</i>	23	31	34.7%
<i>Public Hospitals</i>	23	41	74.6%
<i>Green Project</i>	6	3	-56.7%
<i>National Social Security Fund (NSSF)</i>	250	100	-60.0%
<i>Lebanese National Higher Conservatory of Music</i>	5	6	29.0%
2. Contributions to the Non-Public Sector	166	143	-13.6%
2a. Contributions to Non Profit Organizations , of which:	160	130	-18.7%
<i>Ministry of Education-Subsidized Schools</i>	72	67	-7.4%
<i>Ministry of Youth and Sports</i>	9	1	-82.6%
<i>Ministry of Public Health</i>	5	8	64.8%
<i>Ministry of Social Affairs</i>	71	50	-29.4%
2b. Contributions to Private Parties	6	13	121.9%
3. Assistance to the Public Sector	71	81	15.0%
3a. Directorate General of Grains & Sugar Beetroot	60	67	11.0%
3b. Public Institutions, of which: 2/	11	12	12.7%
<i>Railway and Public Transportation Authority</i>	5	-	-100.0%
<i>Water Authorities</i>	3	12	273.7%
4. Assistance to the Non-Public Sector	15	-	-100.0%
5.External Assistance (Ministry of Environment)	6	3	-52.4%
6. Membership Fees (International and Regional Organizations)	8	11	50.3%
<i>Ministry of Foreign Affairs and Emigrants</i>	5	7	45.4%
7.Stoppings 3/	41	4	-91.1%
Total	2,140	2,050	-4.1%

Source: MOF, DGF

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

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

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

Other Current Expenditures decreased by LL 57 billion to reach LL 173 billion due to a LL 56 billion drop in payments in "**other spending**"²¹. The reason behind this decrease is mainly attributed to a drop in transfers to Housing Institution from LL 30 billion to LL 5 billion²² whereby these transfers represent the interest payment of subsidized loans provided by

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

²² As per decree 11017 dated 21 December 2013.

banks, as per the contract between Banque du Liban and the Housing Institution. Transfers to **hospitals** declined by LL 2 billion, reaching LL 126 billion in Jan-Jun 2014.

INTEREST PAYMENTS

Debt Service payments amounted to LL 3,129 billion in H1 2014, climbing by LL 359 billion (13 percent) from H1 2013 as a result of higher interest payments on both, local currency and foreign currency debt, by 16 percent and 9 percent respectively.

Interest payments on local currency debt amounted to LL 1,910 billion, adding LL 262 billion compared to the first half of 2013. This rise outlined the continued expansion in the outstanding value of LL Treasury bills and bonds, and the simultaneous hike in the weighted average interest rate of the LL portfolio, due to issuances of higher-cost and longer term Treasury bonds throughout 2013, including the first time issuance of the 12-year tenor, as part of the September 26, 2013 and November 14, 2014 weekly auctions at a coupon rate of 8.74 percent. As a result, **coupon payments on long term Treasury bonds** (2YR, 3YR, 5YR, 7YR, 8YR, 10YR and 12YR) increased by LL 284 billion to reach LL 1,864 billion in H1 2014 from LL 1,580 billion in H1 2013. In detail, the Lebanese Republic had in addition to regularized weekly auctions, issued in 2013, LL 6,370 billion in long term TBs with a maturity of 7-years or longer, as per Table 15, and by end-2013, 7YR, 8YR, 10YR and 12YR Treasury bonds accounted for 33 percent of local currency debt compared to 24 percent as end-2012. The nominal value of long term Treasury bonds outstanding as at end-December 2013 and with coupons due in 2014 reached LL 53,238 billion and compared to a substantially lower stock of LL 46,707 billion as at end-2012, with coupons due in 2013.

In contrast, **discount interest payments** (interest paid at maturity of 3, 6, & 12 months T-bills) amounted to LL 46 billion in H1 2014, down from LL 68 billion in H1 2013, offsetting the increase in coupon payments.

Interest payments on foreign currency debt amounted to LL 1,219 billion in H1 2014, recording a 9 percent increase from interest payments in H1 2013. This rise was chiefly due to the LL 96 billion rise in coupon dues on Eurobonds (including fees & expenses), which in turn can be explained by the rise in the stock of market-issued Eurobonds from LL 29,427 billion as at end-December 2012 to LL 32,688 billion as at end-December 2013²³; noting that interest payments in the first half of each year pertain to the stock of Eurobonds of the previous fiscal period as Eurobond coupons are commonly paid on a semi-annual basis. This increase in Eurobond coupon dues in H1 2014 occurred despite a contraction of 16 basis points in the weighted average cost of Eurobonds to 6.50 percent by end-2013 from end-2012. Other FX interest increases in H1 2014 were marginal in nominal value, amounting to less than LL 1 billion on each of Special bond coupon interest and Concessional loan interest.

²³ For details on Eurobond transaction conducted in 2013, please refer to Box#5 page 39 in the Public Finance Annual Review, 2013.

Table 14: Interest Payments

(LL billions)	H1 2013	H1 2014	% Change
Debt Service Payments	2,771	3,129	12.9%
Local Currency	1,648	1,910	15.9%
Discount interest	68	46	-32.9%
Coupon payments	1,580	1,864	18.0%
Coupon payments	1,545	1,864	20.7%
Premium*	35	0	-100.0%
Foreign Currency	1,123	1,219	8.6%
Eurobond Coupon (including fees)	1,059	1,155	9.1%
c-loans interest	3	4	15.3%
Special Bond (expropriation & contractual)	60	60	0.4%

Source: MOF, DGF

*Premium above par on the early redemption of LL Notes

Table 15: Non-regularly Issued instruments in 2013

Tenor	7 YR	8 YR	10 YR	12 YR
At Auction		June 6 th and June 27 th	June 6 th , June 27 th , and September 26 th	September 26 th and November 14 th
Outside Auction	LL/LL exchange with BDL June 13 th 2013			
Value	LL 1,240 billion	LL 67 billion	LL 1,691 billion	LL 3,372 billion
Coupon	7.50 %	7.80%	8.24%	8.74%

Source: MOF, BDL

CAPITAL EXPENDITURE

Capital expenditures amounted to LL 516 billion during Jan-Jun 2014, contracting by LL 91 billion from Jan-Jun 2013 figure, chiefly attributed to a decrease in **maintenance** (LL 87 billion), **equipment** (LL 18 billion), and **acquisitions of land and buildings** (LL 13 billion).

Maintenance dropped by 58 percent to reach LL 63 billion by end of June 2014. Of this total amount, LL 45 billion were transferred to the **Ministry of Public Works and Transportation** during Jan-Jun 2014, compared to LL 121 billion paid during the same period of 2013. Around 86 percent of the amount transferred during Jan-Jun 2014 relate to maintenance of roads, and the remaining represent maintenance of buildings. In addition, LL 4.5 billion were paid to **CDR** through a treasury advance²⁴ to cover the cost of operating expenses, maintenance and supervision of the Lebanese University in Hadath.

Equipment decreased by LL 18 billion, from LL 42 billion in Jan-Jun 2013 to LL 23 billion during the same period of 2014, mainly due to a decline in transfers made to the Ministry of Finance.

The above mentioned decreases were slightly counterbalanced by an increase in **construction in progress** from LL 375 billion in Jan-Jun 2013, up to LL 406 billion in Jan-Jun 2014. The LL 31 billion increase was mainly due to a payment of LL 30 billion to the **Displaced Fund**, compared to nil in Jan-Jun 2013. Payments to the **Council of the South** amounted to LL 39 billion in Jan-Jun 2014, recording a LL 22 billion increase.

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

- a) A LL 55 billion decline in transfers to the **Ministry of Public Works and Transportation**, reaching LL 37 billion during Jan-Jun 2014 and mainly relating to the development and construction of roads.
- b) Payments to **CDR** dropped by LL 24 billion to reach LL 186 billion during Jan-Jun 2014, mainly due to lower transfers made for (i) buildings and other projects which were nil during Jan-Jun 2014 compared to LL 28 billion during the same period of 2013, (ii) different road projects (- LL 19 billion), and (iii) water treatment projects (- LL 14 billion).

Table 16: Payments to CDR for Construction in Progress

LL billion	Jan-Jun 2013	Jan-Jun 2014	%Change
CDR Budget Payments (1)	57	95	64.8%
Counterpart funding for foreign financed projects	57	73	26.4%
Maintenance of Rafic Hariri International Airport	-	6	N.M.
Other Payments from CDR Budget	-	16	N.M.
Projects Executed on behalf of Line Ministries (2)	152	92	-39.8%
Roads projects	91	72	-21.1%
Buildings and other related projects	28	-	-100.0%
Water treatment projects	33	20	-40.7%
Total Payments to CDR for Construction In Progress	210	186	-11.2%

Source: MOF, DGF

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

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

²⁴ As per decree 9892 dated 18 February 2013, the total treasury advance amounts to LL 20.6 billion.

OTHER TREASURY EXPENDITURE

Other Treasury expenditures augmented by LL 53 billion to reach LL 800 billion during Jan-Jun 2014, primarily attributed to a jump in transfers to **municipalities** by LL 210 billion. More specifically, distribution of revenues accruing to municipalities increased by 105 percent (LL 182 billion)²⁵, and payments to solid waste management companies rose by 14 percent (LL 24 billion) during Jan-Jun 2014.

Table 17: Payments to Municipalities

(LL billion)	Jan-Jun 2013	Jan-Jun 2014	%Change 2013/2012
Distribution of Revenues Accruing to Municipalities	173	355	105.2%
Payments for Solid Waste Management	172	196	14.2%
Payments to the "First Municipality Infrastructure Project"	6	6	-1.5%
Other Payments	0	4	N.M.
Total Payments to Municipalities	352	562	-59.6%

Source: MoF, DGF

This increase was partly counterbalanced by a decline in (i) **VAT refund** (LL 53 billion), (ii) **deposits** (LL 32 billion), and (iii) **guarantees** (LL 22 billion).

SOCIAL EXPENDITURE

Social expenditures cover the basic social services of health, education, transfers to the National Social Security Fund (NSSF), retirement and end-of-service indemnities, and other areas of intervention where the Government provides social allowances. As a percentage of total spending, social expenditure accounted for 25 percent during Jan-Jun 2013 and 23 percent during the period of 2014.

The social expenditure bill decreased by LL 235 billion year-on-year, amounting to LL 2,320 billion in Jan-Jun 2014 compared to LL 2,555 billion during the period of 2013. The main changes to be noted during the period are the following:

- Transfers to NSSF dropped by LL 150 billion year-on-year to reach LL 100 billion in Jan-Jun 2014.
- End of service indemnities and retirement wages totaled LL 800 billion in Jan-Jun 2014, declining by LL 79 billion (for details kindly refer to the "Current primary expenditures" section).
- Purchases of medicaments fell by LL 17 billion, amounting to LL 64 billion in Jan-Jun 2014 compared to LL 81 billion in 2013 (for details kindly refer to the "Current primary expenditures" section).

In terms of spending allocation, **education spending** ranked first with 36 percent during Jan-Jun 2014, up from 32 percent in 2013. More specifically, **wages and salaries of the General Directorate of Education** and **transfers to the Lebanese University** constituted the bulk of the education spending category. These were followed by **end of service indemnities and retirement wages** accounting for 34 percent of the total during both Jan-Jun 2013 and 2014. Lastly, **health expenditure** ranked third with 16 percent during both Jan-Jun 2013 and 2014; whereby **hospitalization in the private sector** was the main component of this category.

Note #2: Transfers to Municipalities

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

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

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

²⁵ As per decree 1180 dated 11 February 2014, the total amount of the treasury advance is LL 490 billion.

Table 18: Main Social Expenditure

(LL billion)	Jan-Jun 2013	Jan-Jun 2014	%Change 2013/2012
Health			
Hospitalization in the private sector	128	126	-1.5%
Purchase of Medication	81	64	-21.3%
Hospitalization of public sector employees in private sector	108	99	-8.9%
Maternity and sickness allowance	31	20	-36.9%
Other	66	70	6.2%
Sub-Total	414	378	-8.7%
Education			
Ministry of Education and Higher Learning, of which	685	698	1.8%
<i>Salaries and wages</i>	450	430	-4.4%
<i>Transfers to the Lebanese University</i>	123	105	-14.6%
<i>Contributions to non-profitable organizations</i>	72	67	-7.1%
Education allowance in private sector	134	136	1.4%
Sub-Total	820	834	1.7%
Other Social Spending			
End of Service Indemnities & Retirement Wages	879	800	-9.0%
Transfers to the National Social Security Fund	250	100	-60.0%
Transfers to Civil Servants' Cooperative	90	94	5.1%
Ministry of Social Affairs, of which	74	64	-13.9%
<i>Transfers to non-profitable organizations</i>	72	61	-14.2%
Participation in several mutual funds	13	21	-65.1%
Other social spending allowance (1)	15	30	-93.9%
Sub-Total	1,321	1,108	-16.1%
Grand-Total Social Spending	2,555	2,320	-9.2%

Source: MOF, DGF

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

SECTION IV: PUBLIC DEBT DEVELOPMENTS

PUBLIC DEBT: GENERAL FACTS

The stock of **gross public debt** reached LL 99,082 billion (US\$ 65.73 billion) by the end of June 2014, adding LL 3,372 billion (3.5 percent) from its end-year level in 2013. This increase represented an expansion in the value of outstanding domestic currency debt by LL 3,424 billion, while the stock of foreign currency debt slightly decreased over the period.

Net public debt increased by a smaller nominal amount of LL 2,610 billion to reach LL 82,825 billion, as public sector deposits scaled up by 5 percent to LL 16,257 billion.

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

(LL billion)	Dec-12	Dec-13	Jun-14	Change Jun 2014/ Dec 2013
Gross Public Debt	86,959	95,710	99,082	3,372
Net Debt ⁽¹⁾	74,043	80,215	82,825	2,610
Gross Market Debt ⁽²⁾	58,623	65,386	67,761	2,375

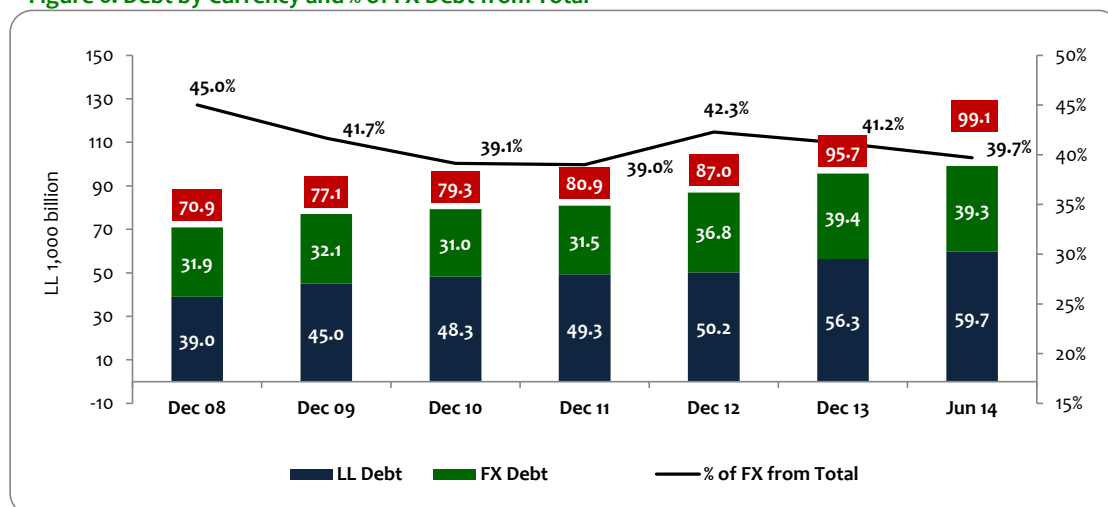
Source: MoF, Banque du Liban (BDL)

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

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

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

Figure 6: Debt by Currency and % of FX Debt from Total



Source: MoF, BDL

LOCAL CURRENCY DEBT

Local currency debt, including accrued interest, amounted to LL 59,736 billion by end-June 2014, rising by LL 3,424 billion (6.1 percent) from end-2013, and the ratio of LL denominated debt increased to 60.3 percent of gross debt from 58.8 percent as at end-2013.

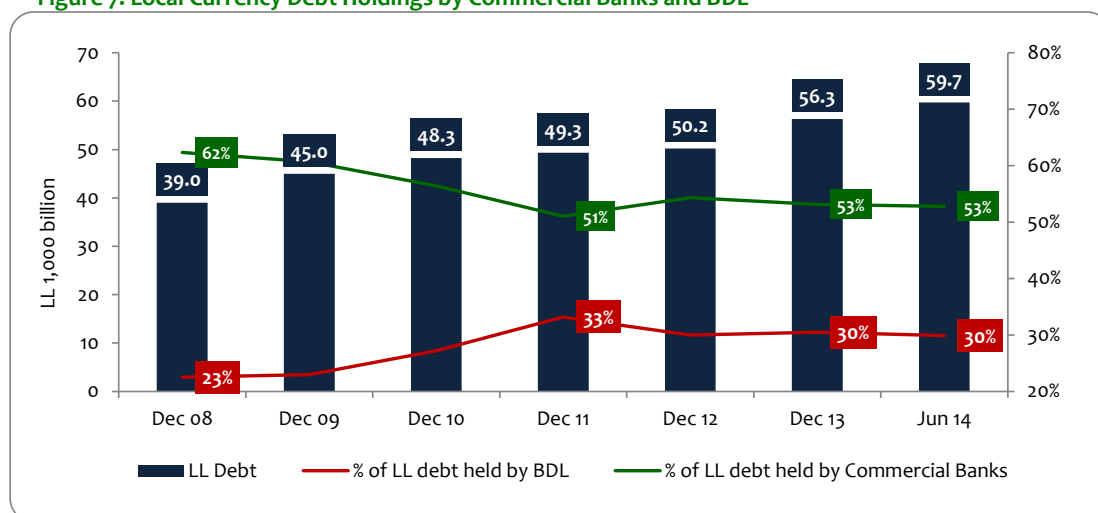
Weekly auctions of Treasury bills and bonds remained the main channel through which local currency debt was issued in the first half of 2014, including one **non-regular issuance** of a 10-year tenor, conducted as part of the June 26, 2014 weekly auction.

The 10-year T-bond issued in June carried a coupon rate of 7.98 percent, 26 basis points (bps) below its 8.24 percent coupon rate, when it was last offered by the Ministry of Finance 6 months earlier as part of the September 26, 2013 weekly auction. This contraction

in the primary issuance rate paralleled BDL's 26 bps interest rate reduction on LL denominated Certificates of Deposit (CDs) with a maturity of seven years and longer²⁶.

The 10-year T-bond gathered almost LL 968 billion in subscriptions, reflecting strong appetite by commercial banks who acquired 97 percent of the issuance. Including the proceeds from the 10-year bond issuance, weekly auctions ended the first half of 2014 with a cumulative surplus of LL 1,440 billion, while excluding the 10-year tenor, the surplus was around LL 472 billion.

Figure 7: Local Currency Debt Holdings by Commercial Banks and BDL



Source: MoF, BDL

Subscriptions by holder

The first half of 2014 saw strong participation in Treasury bill and bond weekly auctions from smaller holders, namely **public institutions**, **financial institutions** and the **general public**. Their improved appetite for LL denominated debt instruments translated into increases in their respective shares of outstanding local currency debt, whereas shares of commercial banks and BDL slightly declined from end-2013. However, **commercial banks** remained by far the largest holders of LL debt with a portfolio LL 31,514 billion, or 52.8 percent of the total outstanding amount, followed by **BDL** with LL 17,851 billion or 29.9 percent of the total.

In weekly auctions, commercial banks' subscriptions amounted to LL 3,047 billion, accounting for 35 percent of total subscriptions in H1 2014. Banks' cumulative rollover ratio reached around 212 percent, designating that banks subscribed more than twice the amount of their principal maturities during the period. Commercial banks' subscriptions were mostly geared towards the 10-year T-bond that was issued in June representing 31 percent of their accepted offers. Excluding the said tenor, banks' subscriptions were still well above principal maturities, by around LL 671 billion, and their cumulative rollover ratio was at 147 percent. Three-year bonds took up 19 percent of banks' subscriptions as a second preferred instrument and were followed by 12MN bills with 13 percent, 3MN bills with 12 percent and 5YR bonds and 6MN bills with 11 percent each. The 2YR share was the lowest with 2 percent.

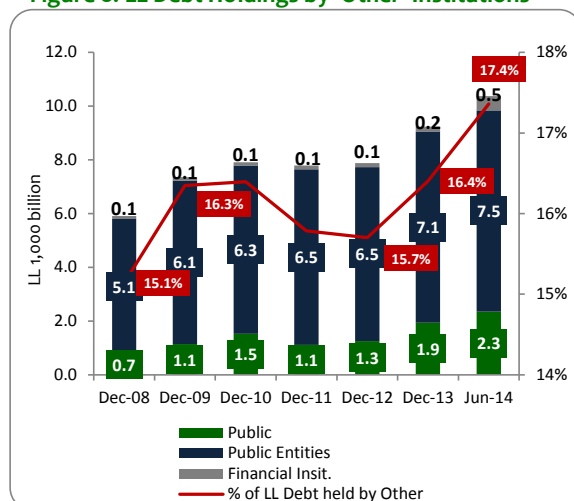
²⁶ Banque Du Liban reduced the coupon rate on its 7-year, 8-year 10-year, 12-year and 13-year Certificates of Deposit (CDs) in 2014.

BDL's participation in weekly auctions resulted in total subscriptions of LL 2,550 billion and a rollover ratio of 136 percent. BDL's accepted offers were concentrated into three year Treasury bonds, which accounted for 93 percent of total subscriptions, followed by 5YR Treasury bonds with 5 percent of subscriptions, 10YR and 3MN tenors with less than 1 percent each. BDL's principal maturities were the largest among market participants in the first half of the year, representing 34 percent of total maturities, ahead of commercial banks' 26 percent share.

Outstanding local currency debt held by "other" entities climbed by 12 percent to LL 10,371 billion, accounting for 17.4 percent of the total amount by end-June 2014, compared to 16.4 percent as at end-2013. TB holdings by Public increased by LL 411 billion or 21 percent to LL 2,349 billion, TBs held by Public Institutions rose by LL 375 billion from end-2013, whereas holdings by Financial Institutions increased by LL 349 billion or by almost 193 percent.

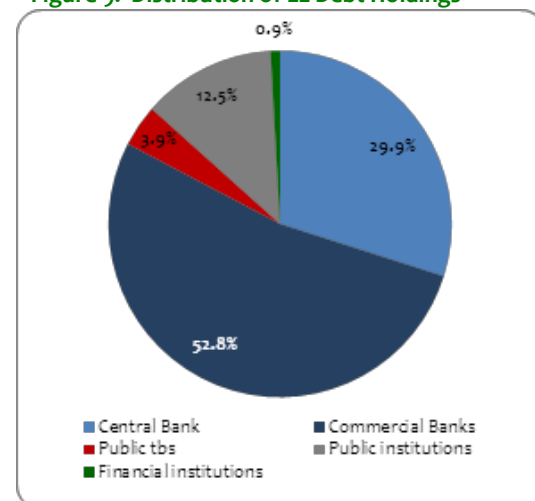
Outstanding domestic currency denominated contractor bonds increased to LL 167 billion from LL 134 billion as at end-2014, following the issuance of LL 33 billion in January at a rate of 5.25 %, due January 2019.

Figure 8: LL Debt Holdings by 'Other' Institutions



Source: MoF, BDL

Figure 9: Distribution of LL Debt Holdings²⁷



Source: MoF, BDL

Subscriptions by instrument

Long-term Treasury bonds, represented by TBs issued with a maturity of 2-years or above, stood at LL 56,467 billion by end-June 2014²⁸, adding LL 3,229 billion from end-2013. This increase was mainly due to large subscriptions in 3YR, 5YR and 10YR tenors compared to a small decline in outstanding 2YR bonds. By end June 2014, long term bonds accounted for 96 percent of total outstanding LL instruments, almost unchanged from end-2013.

Three-year bonds represented the largest addition to the TB portfolio, with the outstanding amount of the tenor expanding by 6.6 percent to LL 22,325 billion from end-2013. In weekly auctions, 3YR bonds recorded a LL 1,385 billion surplus, as LL 3,769 billion in new subscriptions compared to LL 2,384 billion in the tenor's principal maturities, noting that 3YR bonds issued in H1 2014 carried a coupon rate of 6.5 percent, while the maturing 3YR bonds carried a lower coupon rate of 5.94 percent when they were issued in H1 2011.

²⁷ Excluding Contractor Bonds for the amount of LL 167 billion

²⁸ This figure excludes accrued interest on long term T-bonds for the amount of LL 910 billion.

In second place, the stock of 10YR bonds expanded by LL 967 billion to LL 3,811 billion by end-June owing to one issuance of the tenor, conducted as part of the June 26, 2014 weekly auction, at a rate of 7.98 percent. Commercial banks accounted for almost 97 percent of aggregate subscriptions, followed by BDL and general Public. The increase in the outstanding amount of LL 10YR bonds in the first half of 2014 accounted for almost 30 percent of the expansion in Long term TBs and 28 percent of the rise in local currency debt.

The stock of five-year Treasury bonds increased by LL 957 billion to LL 12,704 billion, accounting for around 28 percent of the rise in LL denominated currency debt. In weekly auctions, 5-year TBs attracted strong demand, mostly from commercial banks, BDL, and public institutions, and represented 11 percent of total subscriptions. In contrast maturities of 5-year bonds, which had been issued in H1 2009, were less than LL 2 billion.

Of other long term tenors, the stock of 2YR bonds contracted to LL 2,053 billion from LL 2,131 billion as at end-2013 and LL 2,938 billion as at end-June 2013.

The stock of short-term bills increased by LL 104 billion, owing to a LL 251 billion jump in outstanding 12MN bills, compared to a decrease in the stock of 6MN and 3MN bills by LL 135 billion and LL 12 billion respectively.

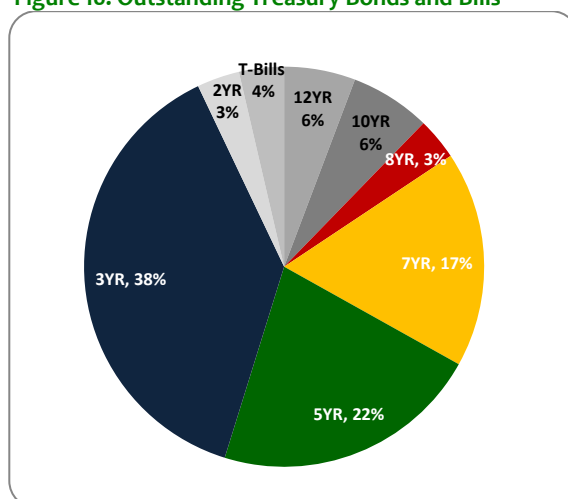
Table 20: Total Maturities and Subscriptions by Holder in 2013 – Including Non-Regular Issuances

(LL billion)	Commercial Banks	Financial Institutions	Public Institutions	Public	BDL	Total
Maturities	1,438	36	1,644	559	1,871	5,548
Coupon Maturities	1,016	4	211	33	538	1,801
Subscriptions	3,047	379	2,007	805	2,550	8,788
Surplus/Deficit*	593	339	152	214	141	1,440
Rollover Ratios	177%	132%	124%	144%	136%	158%

Source: MOF, BDL

*Including Coupons

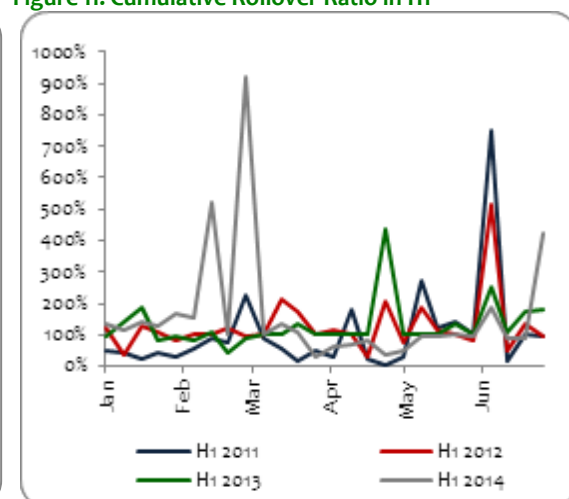
Figure 10: Outstanding Treasury Bonds and Bills



Source: MOF, BDL

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

Figure 11: Cumulative Rollover Ratio in H1



*Ratio of Subscriptions to Maturities including Coupons

Table 21: Domestic Currency Debt by Holder and Instrument as of end-June 2014

Stocks (end of period)	Dec-12	Dec-13	Jun-14	% Change Jun 2014/ Dec 2013
Local currency debt	50,198	56,312	59,736	6.1%
A. By Holder				
*Accrued interest included in debt	789	877	955	8.9%
1. Central Bank (including REPOs)	15,049	17,171	17,851	4.0%
2. Commercial Banks	27,267	29,905	31,514	5.4%
3. Other local debt (T-bills)	7,882	9,236	10,371	12.3%
o/w Public entities	6,479	7,117	7,492	5.3%
o/w Contractors ⁽¹⁾	134	134	167	24.6%
B. By Instrument				
1. Long term bonds	46,707	53,238	56,467	6.1%
*Coupon Interest	741	837	910	8.7%
12-year bonds	0	3,373	3,373	0.0%
10-year bonds	1151	2,844	3,811	34.0%
8-year bonds	1916	1,982	1,982	0.0%
7-year bonds	8,978	10,219	10,219	0.0%
5-year bonds	12,162	11,747	12,704	8.1%
3-year bonds	18,292	20,942	22,325	6.6%
2-year bonds	4,208	2,131	2,053	-3.7%
2. Short term bills	2,591	2,109	2,213	4.9%
* Accrued interest included	48	40	45	12.5%
12-month bills	965	1009	1,260	24.9%
6-month bills	1,312	935	800	-14.4%
3-month bills	314	165	153	-7.3%
3. Other local debt	159	128	146	14.1%
Central Bank Loans	55	0	0	N.M.
Commercial Banks Loans	104	128	146	14.1%

Source: MoF, BDL

(1) 'Other local debt' includes contractor bonds issued in LBP. Contractor bonds issued in US\$ are listed under "Special T-bills in foreign currency" in the foreign currency debt table.

Primary market interest rates

Barring a drop of 26 basis points on the coupon rate of 10-year Treasury bonds to 7.98 percent, interest rates on local currency instruments issued by the Ministry of Finance remained stable throughout the first half of 2014. Despite that, it is worth noting that interest rates on counterpart local currency instruments issued by the Lebanese Central Bank, or LL denominated Certificates of Deposits, with a maturity of 7-years or longer were all lower by 26 bps in 2014 from the previous year.

Table 22: Evolution of Primary Market Rates

Maturity	Dec. 31, 2012	Dec. 31, 2013	Jun. 30, 2014
3-month	4.43 percent	4.44 percent	4.44 percent
6-month	4.99 percent	4.99 percent	4.99 percent
12-month	5.35 percent	5.35 percent	5.35 percent
2-year	5.84 percent	5.84 percent	5.84 percent
3-year	6.50 percent	6.50 percent	6.50 percent
5-year ⁽¹⁾	6.74 percent	6.74 percent	6.74 percent
7-year ⁽²⁾	7.50 percent	7.50 percent	7.50 percent
8-year ⁽³⁾	7.80 percent	7.80 percent	7.80 percent
10-year ⁽⁴⁾	8.24 percent	8.24 percent	7.98 percent
12-year ⁽⁵⁾	N/A	8.74 percent	8.74 percent

Source: MoF

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

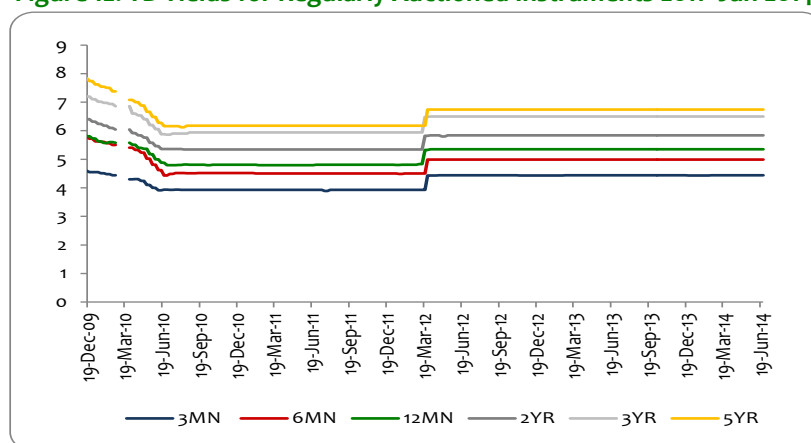
(2) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent, and in September 2011 with a coupon of 7.60 percent. These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

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

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

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

Figure 12: TB Yields for Regularly Auctioned Instruments 2011–Jun 2014



Source: MoF

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

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

FOREIGN CURRENCY DEBT

Foreign currency debt amounted to LL 39,346 billion by end-June 2014, recording a slight decrease of LL 52 billion from end-2013, after having surged by LL 2,637 billion between 2012 and 2013. The small change registered in the first half of 2014 outlined the almost correspondent value of payments and disbursements in the portfolio's outstanding FX bonds and loans. Outstanding market Eurobonds remained almost steady, barring some valuation adjustments on euro-denominated Eurobonds, as issuances in the first half of the year were almost equivalent in value to maturities.

Table 23: Foreign Currency Debt by Holder and Instrument as at end-2013

(in LL billion)	Dec-12	Dec-13	Jun-14	% Change Jun 2014/ Dec 2013
B. Foreign currency debt	36,761	39,398	39,346	-0.1%
4. Eurobonds	32,789	35,533	35,291	-0.7%
Of which, Paris II at preferential rates ⁽¹⁾	2,646	2,130	1,872	-12.1%
Of which, Paris III at preferential rates ⁽²⁾	317	271	249	-8.3%
Of which, market-issued Eurobonds	29,427	32,688	32,694	0.0%
* Accrued Interest on Eurobonds	400	444	476	7.2%
5. Loans	3,860	3,729	3,934	5.5%
5.1 Paris II loans	279	208	164	-21.2%
5.2 Paris III loans ⁽³⁾	997	915	830	-9.3%
5.3 Bilateral loans (non-Paris II and III)	835	821	1,236	50.6%
5.4 Multilateral loans (non-Paris II and III)	1,735	1,691	1,626	-3.8%
5.5 Foreign Private Sector Loans	14	94	77	-18.1%
6. Other debt	112	136	121	-11.0%
6.1 Special Tbs in Foreign currency ⁽⁴⁾	112	136	121	-11.0%

Source: MoF, BDL

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

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

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

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

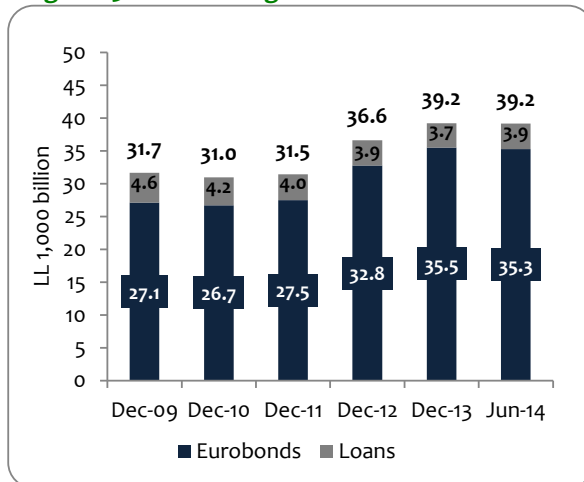
Outstanding **Eurobonds** amounted to LL 35,291 billion by the end-June 2014, edging back by 0.7 percent from end-2013, mainly due to principal amortized payments on Eurobonds issued in the context of Paris II and Paris III, while **outstanding market issued Eurobonds** remained almost unchanged at LL 32,694 billion during the first half of 2014, as new issuances matched corresponding redemptions. Two Eurobond transactions were conducted in April and May 2014²⁹. The first, a US\$ 1.4 billion voluntary exchange transaction and new cash issuance, consisted of the issuance of a new US\$ 600 million 5.800% coupon Eurobond due April 2020, and an US\$ 800 million re-opening of the 6.600% coupon Eurobond due November 2026. Cash proceeds of around US\$ 696 million were used to refinance the 7.375% coupon April 2014 due Eurobond, while the remaining amount was issued in the context of the voluntary exchange of the 9.000% coupon May 2014 due Eurobond, and amounted to around US\$ 704 million, representing a substantial 79.84 percent participation rate in the exchange. In May, MoF conducted the second transaction of 2014, and which comprised a private placement with Audi Bank for the amount of US\$ 175 Million, the proceeds of which were used to refinance the un-exchanged amount of the May 2014 due Eurobond.

The stock of **Eurobonds issued in the context of Paris II** dropped by LL 258 billion (12.1 percent) to reach LL 1,872 billion owing to amortized principal repayments throughout the year: (i) One US\$ 35 million payment in March 2014 on Paris II 5.00 percent March 2018 Eurobond originally issued at US\$ 700 million; (ii) one US\$ 10 million payment in May 2014 on Paris II 5.00 percent May 2018 Eurobond originally issued at US\$ 200 million; (iii) one US\$ 93.5 million payment in June 2014 on the Paris II 4.00 percent December 2017 Eurobond originally issued at US\$ 1,870 million; and (iv) one US\$ 32.5 million payment in June 2014 on Paris II 5.00 percent due December 2017 originally issued at US\$ 950 million.

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

Eurobonds issued in the context of Paris III decreased by LL 23 billion (8.3 percent) to reach LL 249 billion by end-June 2014 due to one amortized principal repayment amounting to US\$ 15 million in January 2014 on the Eurobond due July 2017 originally issued at US\$ 300 million³⁰.

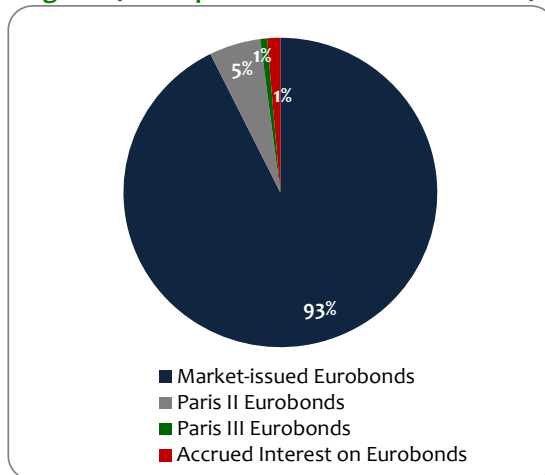
Figure 13: Outstanding Eurobonds and Loans



Source: MoF, BDL

Note: Including Accrued Interest on Eurobonds

Figure 14: Composition of Eurobonds H1 2014



Source: MoF, BDL

³⁰ For more information as to the structure of this bond, kindly refer to the note “Re-Profiling of Debt Held by Central Bank of Malaysia” accessible here: <http://www.finance.gov.lb/Reports+and+Publications/Reports+Related+to+Paris+III+Conference/Agreements+with+Donors/>. This is also summarized in “Box #2: Debt Re-profiling with Malaysia” in the Public Finance Quarterly Report for Q3 2007.

Box #2: Eurobond Transactions Concluded In April and May 2014

The Lebanese Ministry of Finance conducted in April 2014 a US\$ 1.4 billion Eurobond Exchange and New Cash Issuance, and in May 2014, a US\$ 175 million Private Placement with Audi Bank, successfully refinancing April and May 2014 due Eurobonds.

The voluntary exchange portion of the April transaction registered a strong participation rate, whereby 79.84 percent 9.000% Eurobond due May 2014, was exchanged by holders for a combination of the newly issued notes, whereas the bulk of the un-exchanged amount was refinanced through a Private Placement with Audi Bank in May 2014.

Series (tranche)	April 14 2014 Transaction Tranches Issued as part of Voluntary Exchange		April 14 2014 Transaction Tranches Issued as new Cash		May 2014 Placement with Audi Bank	
Series (tranche)	72 (1)	61(4)	72 (2)	61(5)	72 (3)	61(6)
Issue Size (in USD)	285,596,000	445,289,000	341,431,000	354,711,000	100,000,000	75,000,000
Issue date	14-Apr-14	14-Apr-14	23-Apr-13	14-Apr-14	02-May-14	02-May-14
Maturity	14-Apr-20	27-Nov-26	22-Apr-16	27-Nov-26	14-Apr-20	27-Nov-26
Coupon Rate	5.80%	6.60%	5.80%	6.60%	5.80%	6.60%
Re-offer Yield	5.80%	6.70%	5.80%	6.70%	5.80%	6.70%
ISIN Code	XS1052421150	XS0707820659	XS1052421150	XS0707820659	XS1052421150	XS0707820659
Lead Manager	Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG	Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG	Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG	Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG	Republic of Lebanon – Audi Bank S.A.L	Republic of Lebanon – Audi Bank S.A.L

New Notes	Amount issued via exchange	Amount of new notes issued	Amount issued via Placement	Total notes issued
USD due April 2020	US\$ 258,569,000	US\$ 341,431,000	US\$ 100,000,000	US\$ 700,000,000
USD due November 2026	US\$ 445,289,000	US\$ 354,711,000	US\$ 75,000,000	US\$ 875,000,000
USD Total	US\$ 703,858,000	US\$ 696,142,000	US\$ 175,000,000	US\$ 1,575,000,000

Outstanding **foreign currency loans** amounted to LL 3,934 billion by end-June 2014, adding LL 205 billion from end-2013, as new disbursements boosted non-Paris II and non-Paris III bilateral loans by almost 51 percent, overshadowing amortized principal repayments on concessional loans related to Paris II and Paris III, and declines in non-Paris II and non-Paris III multilateral loans.

- a) The stock of **Paris II loans** fell by LL 44 billion (21 percent) to reach LL 164 billion following the redemption of € 20 million of the *Agence Française de Développement* (AFD) Paris II loan, represented by one amortized repayment made in February.
- b) The stock of **Paris III loans** diminished by LL 85 billion, equivalent to 9 percent, to reach LL 830 billion by end-June 2014. This decline was largely due to (i) one US\$ 15 million semi-annual principal payment made in April 2014 on the UAE Paris III loan; (ii) one US\$ 5 million semi-annual principal repayment in April 2014 on the World Bank IBRD loan, and (iii) one principal repayment redeeming the 25 million euro EU loan in June 2014.
- c) The stock of **foreign private sector loans** slid by LL 17 billion to reach LL 77 billion by the end of June 2014, mostly due to repayments on the 40.4 million euro loan disbursed by HSBC Bank, as part of a commercial facility agreement with the Lebanese Republic³¹.
- d) The stock of **non-Paris II and non-Paris III bilateral loans** surged by LL 416 billion, equivalent to 50.6 percent to reach LL 1,236 billion by end-June 2014, as loan disbursements considerably outweighed repayments. Principal repayments most notably included: (i) LL 11 billion to the Saudi Fund for Development, (ii) LL 10 billion to the Kuwait Fund for Arab Economic Development, (iii) LL 7 billion to *Agence Française de Développement*, (iv) LL 5 billion to Japan's Overseas Economic Cooperation Fund, and (v) LL 2 billion to Abu Dhabi Fund for Development

In return bilateral loans disbursed were:

- i. LL 392 billion from one loan granted by ELO, Financing arm of Danish EKF, export credit facility³².
 - ii. LL 15 billion from six loans granted by the Kuwait Fund for Arab Economic Development
 - iii. LL 5 billion from five loans granted by the Saudi Fund for Development
 - iv. LL 1 billion from one loan granted by the Abu Dhabi Fund
 - v. LL 1 billion from two loans established by German government-owned development bank, KfW
- e) Non-Paris II and Paris III multilateral loans dropped by LL 65 billion, amounting to LL 1,626 billion by end-June 2014. Principal repayments included: (i) LL 31 billion to the International Bank for Reconstruction and Development (IBRD), (ii) LL 31 billion to the Arab Fund for Economic and Social Development (AFESD), (iii) LL 30 billion to the Islamic Development Bank (iv) around LL 15 billion to the European Investment Bank, and (v) LL 2 billion to the Organization of Petroleum Exporting Countries (OPEC).

On the other hand, major primary disbursements mainly included:

- i. LL 15 billion from nine AFESD loans
- ii. LL 10 billion from 7 loans granted by the Islamic Development Bank
- iii. LL 5 billion from four IBRD loans

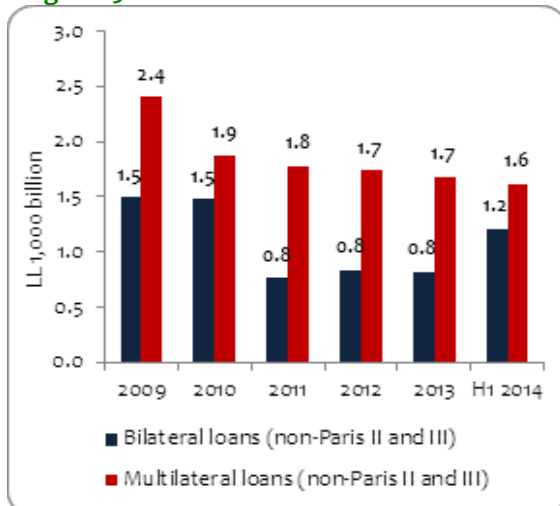
³¹ This lending agreement was signed between the Lebanese Republic and HSBC in November 2013 for a total amount of around 40.4 million euros, representing the 15 percent down-payment on the installation of new electricity generation units at Zouk and Jieh power plants.

³² This loan was signed between the Lebanese republic and Danish export credit agency to cover 85 percent of the cost of installing new electricity generation units at Zouk and Jieh power plants by Danish-German Consortium, Burmeister and Wain A.S and MAN Diesel and Turbo SE.

iv. LL 1 billion from one OPEC loans

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

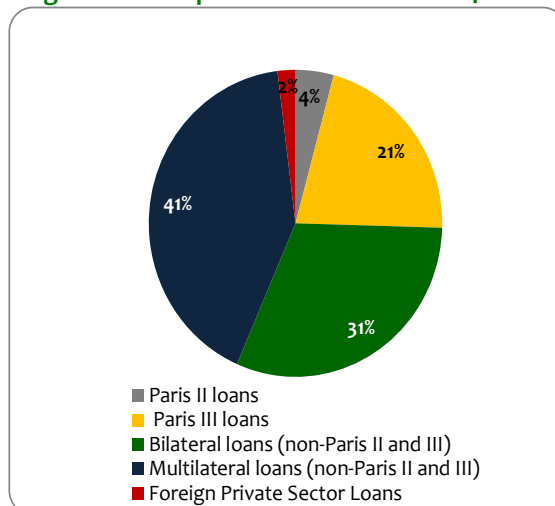
Figure 15: Bilateral & Multilateral Loans



Source: MoF, BDL

Note: Including Accrued Interest On Eurobonds

Figure 16: Composition of Loans H1 2014



Source: MoF, BDL

Table 24: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)				
	31-Dec-13	07-Feb-14	31-Mar-14	15-May-14	30-Jun-14
EURO					
LEB 5.350 18	5.11	4.99	4.73	4.63	4.36
US Dollars					
LEB 5.875 15	4.49	3.93	3.58	4.33	4.91
LIEB 10.000 15	4.37	4.11	3.68	3.74	3.89
LEB 8.500 15	4.55	4.57	4.16	3.75	4.16
LEB 8.500 16	4.66	4.54	4.25	3.98	3.79
LEB 11.625 16	4.68	4.68	4.34	4.09	4.00
LEB 4.750 16	4.84	4.75	4.34	4.32	4.18
LEB 5.000 17	5.18	4.92	4.79	4.64	4.45
LEB 9.000 17	5.48	5.07	5.04	4.96	4.71
LEB 5.150 18	5.50	5.39	5.28	5.18	5.15
LEB 6.000 19	6.00	5.69	5.57	5.54	5.24
LEB 5.450 19	5.96	5.86	5.74	5.69	5.37
LEB 6.375 20	6.03	5.88	5.84	5.66	5.39
LEB 8.250 21	6.29	6.11	6.06	5.91	5.62
LEB 6.100 22	6.52	6.40	6.29	6.26	5.85
LEB 6.000 23	6.59	6.39	6.37	6.30	5.91
LEB 7.000 24	6.67	6.61	6.54	6.47	6.27
LEB 6.600 26	6.80	6.64	6.64	6.60	6.41
LEB 6.750 27	6.92	6.79	6.749	6.72	6.467

Source: Credit Suisse

During the first half of 2014, average **secondary market yields**³³ dropped by 54 basis points to reach 5.04 percent as demand for FX instruments remained strong in both quarters highlighting favourable financial conditions in the domestic market. Average secondary rates thus decreased by 34 bps in the first three months of 2014 and again by 20 bps between March and June 2014.

³³ Calculated on US\$ Eurobonds, between January 1st 2014 and June 30th 2014, and which were outstanding at both dates.



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