

LOAN AGREEMENT BETWEEN LEBANON AND FRANCE

PARIS III – RAFIC HARIRI CONFERENCE

BRIEF DESCRIPTION - FEBRUARY 25, 2008

I. Background

In the context of the International Conference for Support to Lebanon “Paris III”, or Rafic Hariri” held in Paris on 25 January 2007, France pledged to support Lebanon through loans totaling of €500 million. The French Government allocated €375 million for debt reduction and €125 million for promoting growth through providing credit to the private sector. Both types of support are implemented by Agence Française de Développement (AFD), on behalf of the French Government. AFD has worked with local intermediaries since the Paris III Conference on making the €125 million credit available to the private sector, as reported in the Paris III quarterly progress reports (available on www.finance.gov.lb). The €375 million debt reduction loan was signed on February 21, 2008 and is detailed in this note.

II. Signature of the loan

- The budget support loan was approved by the French Parliament in December 2007. On December 7, the French National Assembly approved Amendment #61, which provides the French government guarantee for the €375 million Paris III budget support loan and gives Agence Française de Développement the mandate to negotiate and sign the loan agreement with the Lebanese Government. Subsequently, the Senate approved the amendment as article 87 of “LOI n° 2007-1824 du 25 décembre 2007 de finances rectificative pour 2007”.
- The Lebanese Council of Ministers by decree number 54 mandated the Minister of Finance to negotiate and sign the loan agreement with AFD on January 18, 2008.
- Under the auspices of the French President, Nicolas Sarkozy and the Lebanese Prime Minister, Fuad Siniora, the loan agreement was signed by the Minister of Finance, Jihad Azour, on behalf of Lebanon and Director General, Jean Michel Severino, on behalf of AFD on February 21, 2008 in the presence of the French Minister of Finance Christine Lagarde.

III. Terms of the Loan

1. Size of the loan: The loan agreement makes available €375 million, to be disbursed in three tranches based on the implementation of the reform program. The first tranche amounts to €150 million and was received on February 27, 2008. The second and third disbursements payments amount to €125 million expected later in 2008 and €100 million expected in 2009.

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2. Coupon payments:

- ⇒ Each tranche has a fixed interest rate set at the time of the disbursement. The interest rate is based on the Euribor (Euro Interbank Offered Rate) + 0.30%
- ⇒ The interest rate on the first tranche (€150 million) was set on February 22, 2008 at 4.67 percent per annum
- ⇒ Interest payments are to be made semi-annually on November 30 and May 31 of each year
- ⇒ Interest payment basis is 30/360 days

3. Maturity and Repayment schedule: The loan has a 15 year maturity with a 3 year grace period for principal payments. Repayment of principal will occur through semi-annual installments on November 30 and May 31 of each year. The first principal repayment is due on 31 May 2011 and the last is on 30 November 2022.

4. Intended uses: Debt repayment

IV. Reporting

The Ministry of Finance will provide semi-annual reporting to the AFD similar to reporting established and provided to the AFD after the Paris II Conference.

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