

LBP 1,240 BILLION 7-YEAR TREASURY-BONDS ISSUANCE DUE 2020 IN LBP VOLUNTARY DEBT EXCHANGE WITH BDL

On 13 June 2013, the Republic of Lebanon settled with Banque du Liban (BdL) a voluntary debt exchange, whereby it redeemed LBP 1,240 billion of Treasury Bonds maturing in the second half of 2013, while issuing the counterpart value in seven-year LL T-bonds. The objective behind this transaction was to ease refinancing in the second half of 2013, while extending the domestic currency maturity profile.

A total number of 122,844,191 2YR and 3YR T-bonds held by BdL and maturing in August-December 2013 were early redeemed at an aggregate premium amount of around LBP 12 billion. The weighted average redeemed coupon rate was calculated at 5.87%. More specifically:

- ❖ 24 months T-bonds for a total face value of LBP 150 billion and a weighted average coupon rate of 5.34%.
- ❖ 36 months T-bonds for a total face worth LBP 1,078 billion, and an average weighted coupon rate of 5.94%.

Table 1. Proposed T-bonds for Redemption by BDL

Inst. Maturity	Coupon rate	Number of bills	Nominal Value (LBP)
24	5.34	15,000,000	150,000,000,000
36	5.94	107,844,191	1,078,441,910,000
	5.87	122,844,191	1,228,441,910,000

Source: Banque du Liban

Note: the coupon rates in the table above are weighted averages, and the nominal value refers to the bonds' face value.

The liquidation prices, a proxy for the “buy-back” prices of the bonds were nearly all “above-par” i.e. Ministry of Finance (MoF) would have to redeem these T-bonds prior to maturity at higher values than the LBP 10,000 face value per bond at issuance. Liquidation values are roughly equivalent to the bonds face value plus accrued interest¹.

¹ Liquidation values were calculated by MoF as equal to the face value of the T-bonds to be redeemed plus accrued interest, using the last coupon payment date, the days remaining until settlement, and the 364 days convention (used by BdL).

Table 2. MOF selected T-bonds for Redemption – value date June 13th, 2013

Maturity Date	Circ/Cat.	Disc. Rate	Nbr of Bills	Nominal Value	Liquid. Price	Liquidation Value
08-Aug-13	461/36	5.800%	5,000,000	50,000,000,000	10,204	51,020,000,000
22-Aug-13	515/24	5.280%	6,500,000	65,000,000,000	10,164	66,066,000,000
05-Sep-13	517/24	5.285%	4,400,000	44,000,000,000	10,144	44,633,600,000
19-Sep-13	519/24	5.285%	4,100,000	41,000,000,000	10,123	41,504,300,000
19-Sep-13	467/36	5.878%	19,844,191	198,441,910,000	10,137	201,160,564,167
17-Oct-13	471/36	5.900%	50,000,000	500,000,000,000	10,091	504,550,000,000
14-Nov-13	475/36	5.925%	32,000,000	320,000,000,000	10,046	321,472,000,000
12-Dec-13	479/36	5.940%	1,000,000	10,000,000,000	10,000	10,000,000,000
Total				1,228,441,910,000		1,240,406,464,167

Source: Banque du Liban

A total number of 124,040,646 7YR T-bonds maturing on June 13th, 2020, were issued to BdL at par, at a coupon rate of 7.50%.

Unlike previous FX/LL debt replacement agreements with BdL², this voluntary debt exchange which extended the maturity of domestic currency debt, also increased interest cost by 163 bps, equivalent to an additional payment of LBP 20 billion in coupons.

Table 3. T-bonds Issued by MOF – value date June 13th, 2013

	Inst. Maturity	CIRC/CAT	CIRC RATE	Face Amount	Number of Bills
Issued Bonds	13-Jun-20	84	7.50%	1,240,406,464,167	124,040,646
Incremental Cost to MoF			1.63%	20,279,301,289	

Source: Banque du Liban

² Reference Brief Notes on the Ministry of Finance's website. The FX/LL debt replacement agreement with BdL resulted in coupon savings to the Treasury, whereby the Treasury redeemed high coupon LL T-bonds in exchange of the issuance of longer dated, lower coupons Eurobonds.



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