



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

PUBLIC FINANCE QUARTERLY REPORT
MINISTRY OF FINANCE
QUARTER II - 2013

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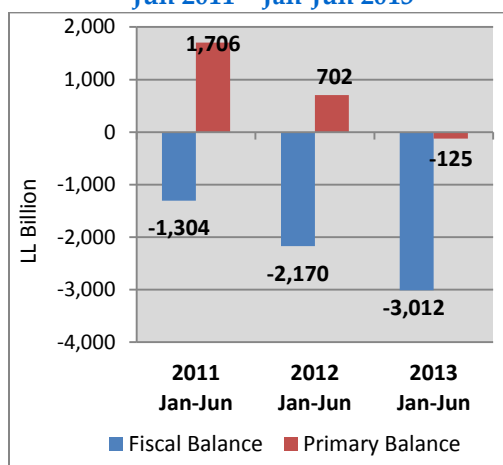
Public Finance Highlights

☒ General Fiscal Developments

The fiscal balance registered a deficit of LL 2,862 billion in first half of 2013, rising by LL 1,154 billion from the comparable period of 2012. In parallel, the primary balance recorded a modest surplus of LL 25 billion, down from a surplus of LL 1,164 billion.

On a cash basis - i.e. excluding expected transfers from the telecom surplus in H1 2012 and 2013, and including actual telecom transfers¹ - the fiscal deficit becomes LL 3,012 billion in the first half of 2013, representing an increase of LL 842 billion (39 percent) from the LL 2,170 billion cash deficit of H1 2012. Correspondingly, the primary surplus turns to a deficit of LL 125 billion, from a LL 702 billion surplus.

Figure 1: Fiscal and Primary Balance (Jan-Jun 2011 – Jan-Jun 2013)



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

¹ LL 226 billion was transferred from the telecom surplus in Q1 2013, whereas LL 302 billion was transferred in Q1 2012. Expected transfers were LL 525 billion and LL 520 billion respectively.

☒ Revenues

Total revenues² amounted to LL 7,168 billion in H1 2013, compared to LL 7,179 billion in H1 2012. Tax revenues decreased by 4 percent as all major tax categories retracted from the previous year. Sharp declines were mostly recorded in VAT at customs, Taxes on profits, capital gains and dividends, and real-estate registration fees. This decline in tax receipts was slightly offset by an improvement in Non-tax revenues, owing to higher cash transfers from the Telecom surplus.

☒ Expenditures

Total expenditures jumped by almost 9 percent annually in H1 2013, amounting to LL 10,180 billion. Higher personnel cost, and transfers to NSSF mostly led to a 7.6 percent annual increase in current expenditures, while transfers to CDR and maintenance boosted capital spending by almost 90 percent, overshadowing a modest decline in Treasury expenditures.

☒ Public Debt Developments

The stock of gross public debt reached LL 90,480 billion by end-June 2013, climbing by more than 4 percent from its end-2012 level. This was mostly due to a rise in foreign currency debt, jumping by 7 percent to LL 39,413 billion. The stock of net public debt increased by 3.6 percent to reach LL 76,741 billion, as public sector deposits rose by 6.4 percent to LL 13,739 billion.

² Calculated on a cash basis

Section I: Fiscal Overview

The **total fiscal balance** recorded a deficit of LL 2,862 billion in January-June 2013, compared to LL 1,708 billion during the same period of 2012. This 68 percent deterioration in public finances was the combined result of a nine percent increase in **total payments** to LL 10,180 billion, along with a four percent drop in **total receipts** to LL 7,318 billion. During the first half of 2013, the **primary balance** ended with a minor surplus of LL 25 billion, compared to a much larger surplus of LL 1,164 billion in the first half of 2012.

Table 1: Summary of Fiscal Performance

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Total Budget and Treasury Receipts¹	7,186	7,642	7,318	-4.2%
Total Budget and Treasury Payments, of which	8,490	9,350	10,180	8.9%
• Interest Payments	2,867	2,737	2,771	1.2%
• Concessional loans principal payment ²	144	135	116	-14.2%
• Primary Expenditures ³	5,480	6,477	7,293	12.6%
Total Deficit/Surplus	-1,304	-1,708	-2,862	67.6%
Primary Deficit/Surplus	1,706	1,164	25	-97.9%

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

On a **cash basis**, when the actual transfers from the telecom surplus – rather than the expected amounts - are accounted for in January-June 2012 and 2013, the fiscal deficit widens from LL 2,170 billion in the first six months of 2012 to LL 3,012 billion in the corresponding period of 2013. Meanwhile, the primary balance reverts from a surplus of LL 702 billion in the first half of 2012 to a deficit of LL 125 billion in 2013.

Table 2: Summary of Fiscal Performance on a Cash Basis

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Total Budget and Treasury Receipts	6,124	7,179	7,168	-0.2%
Total Budget and Treasury Payments, of which	8,490	9,350	10,180	8.9%
• Interest Payments	2,867	2,737	2,771	1.2%
• Concessional Loans Principal Payments ⁽¹⁾	144	135	116	-14.2%
• Primary Expenditures ⁽²⁾	5,480	6,477	7,293	12.6%
Total Deficit/Surplus	-2,366	-2,170	-3,012	38.8%
Primary Deficit/Surplus	645	702	-125	-117.8%

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

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

² Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)

Section II: Revenue Outcome

Total revenues reached LL 7,318 billion in the first half of 2013, weakening by LL 324 billion in nominal terms and 4 percent over the same period of 2012. This is explained by falls of LL 220 billion (4 percent) in **tax revenues** and LL 200 billion (12 percent) in **non-tax revenues**; the latter was partially offset by a LL 96 billion (31 percent) increase in **treasury receipts**.

Table 3: Total Revenues

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Budget Revenues, of which	6,835	7,332	6,912	-5.7%
• Tax Revenues	5,168	5,646	5,426	-3.9%
• Non-Tax Revenues	1,667	1,687	1,486	-11.9%
Treasury Receipts	351	310	406	31.1%
Total Revenues	7,186	7,642	7,318	-4.2%

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

On a cash basis, **total revenues** reached LL 7,168 billion in HI 2013, decreasing by LL 11 billion (0.2 percent) from the LL 7,179 billion collected in H1 2012.

Table 4: Total Revenues on a Cash Basis

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Budget Revenues, of which	5,773	6,870	6,762	-1.6%
• Tax Revenues	5,168	5,646	5,426	-3.9%
• Non-Tax Revenues	606	1,224	1,337	9.2%
Treasury Receipts	351	310	406	31.1%
Total Revenues	6,124	7,179	7,168	-0.2%

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

Tax Revenues

Tax revenues totaled LL 5,426 billion in the first half of 2013, down from LL 5,646 billion during the same period of 2012, weighing 74 percent out of total revenues in both periods. All major components of tax revenues retracted during the first six months of 2013, albeit at different rates.

Table 5: Tax Revenues

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Taxes on Income, Profits, & Capital Gains, of which:	1,645	1,794	1,731	-3.5%
• Income Tax on Profits	929	951	895	-5.9%
• Income Tax on Wages and Salaries	230	269	311	16.0%
• Income Tax on Capital Gains & Dividends	145	221	171	-22.9%
• Tax on Interest Income (5%)	326	325	326	0.2%
• Penalties on Income Tax	14	26	28	7.2%
Taxes on Property, of which:	537	606	551	-9.1%
• Built Property Tax	88	118	121	2.5%
• Real Estate Registration Fees	388	412	369	-10.4%
Domestic Taxes on Goods & Services, of which:	1,699	1,912	1,848	-3.3%
• Value Added Tax	1,544	1,676	1,620	-3.3%
• Other Taxes on Goods and Services, of which:	150	170	173	1.7%
- Private Car Registration Fees	98	100	103	3.1%
- Passenger Departure Tax	50	69	69	-0.1%
Taxes on International Trade, of which:	1,068	1,093	1,065	-2.6%
• Customs	379	397	404	1.6%
• Excises, of which:	688	696	662	-4.9%
- Petroleum Tax	286	235	237	0.8%
- Tobacco Tax	181	236	198	-16.0%
- Tax on Cars	218	221	222	0.5%
Other Tax Revenues (namely fiscal stamp fees)	220	241	230	-4.4%
Total Tax Revenues	5,168	5,646	5,426	-3.9%

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

Domestic taxes on goods and services decreased by 3 percent to LL 1,848 billion by end of June 2013, mainly driven by a LL 56 billion fall in receipts from the **value added tax** which collected LL 1,620 billion in the first half of 2013 as compared to LL 1,676 billion during the same period of 2012. This came as a result of lower receipts at customs by LL 114 billion (10 percent), partly counteracted by a LL 58 billion (11 percent) surge in internally collected revenues (*for more information kindly refer to box #1*).

As Table 6 shows, total imports fell by a slight 1 percent in the first half of 2013 to accrue to LL 16,274 billion, while VAT at customs went down by 10 percent to reach LL 1,032 billion. As a result, the effective VAT rate went down from 7.0 percent in HI 2012 to 6.3 percent in HI 2013, a decline that can mainly be explained by Law 207 dated March 5th 2012, which exempted both green and red gasoil from the value-added tax. In fact, it is

estimated that a total of LL 115 billion³ in VAT on gasoil was collected during the first six months of 2012, against nil in the same period of 2013.

It is important to note that the 17 percent decline in fuel imports during the first six months of 2013 is mainly the result of a 61 percent plunge in Electricité du Liban's fuel imports, due to inconsistent registrations of fuel oil and gasoil. In contrast, non-EDL fuel imports were up by 12 percent over the period.

Table 6: Total Imports & Effective VAT rate

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Total Imports, of which	13,912	16,404	16,274	-0.8%
• Fuel Imports (fuel derivatives classified under HS 27)	2,560	4,842	4,005	-17.3%
• Non-Fuel Imports	11,352	11,562	12,270	6.1%
• Share of Fuel Imports	18.4%	29.5%	24.6%	-16.6%
• Share of Non-Fuel Imports	81.6%	70.5%	75.4%	7.0%
Revenues from VAT at Imports	1,062	1,146	1,032	-10.0%
Effective VAT rate	7.6%	7.0%	6.3%	-9.2%

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

Collections from the passenger departure tax remained unchanged from last year (standing at LL 69 billion in the first half of 2013), despite a 15 percent increase in the number of departing passengers⁴ at the Rafic Hariri International Airport.

This may be explained by the fact that despite a higher volume of passengers, the effective nominal fee per passenger has decreased due to changes in the composition of the tax base, namely:

- (i) Larger share of economy passengers as opposed to business and first class passengers noting that economy passengers pay lower fees⁵,
- (ii) Higher share of passengers travelling to Cyprus or Syria, noting that for these two destinations, passengers' fees are reduced by half. In the context of the Syrian crisis and the ensuing sanctions, it may be possible that international passengers are using Rafic Hariri International Airport as a transit instead of flying directly to Syria (as international carriers are forbidden to travel to Syria). Also, given growing Syrian presence in Lebanon, it may be possible that more and more Syrian Nationals are flying to Syria instead of or in addition to land travel.

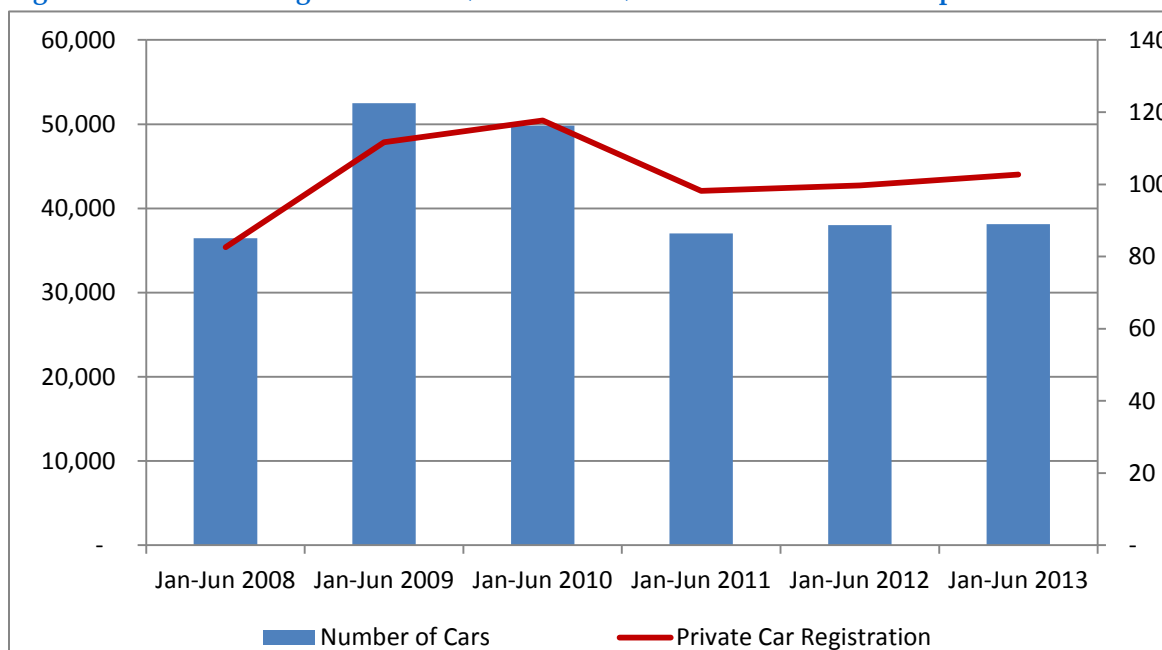
³ Of which LL 77 billion reimbursed by Electricité du Liban, on behalf of previous gasoil purchases.

⁴ Departing passengers include both tourists and non-tourists (Source: Lebanese Civil Aviation Authority).

⁵ The composite structure is as follows: LL 50,000 for economy class passengers, LL 70,000 for business class and LL 100,000 for first class

Private car registration fees reached LL 103 billion in H1 2013, increasing by 3 percent from the comparable period of 2012. This comes as the total number of imported cars inched up by 0.2 percent over the period, to reach 38,115 in January-June 2013

Figure 2: Private Car Registration fee (in LL billion) and Total Number of Imported Cars



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

Transfers from the tobacco surplus reached LL 50 billion in Jan-Jun 2013, declining by LL 10 billion compared to the same period of 2012 owing to a discrepancy in timing. In fact, transfers made during 2013 pertained to Régie's profits for the year of 2012.

Taxes on income profits and capital gains decreased by 4 percent year-on-year, to reach LL 1,731 billion in Jan-Jun 2013, reflecting dampened economic growth.

In details, income tax on profits registered the highest drop of LL 56 billion (6 percent) to reach LL 895 billion during Jan-Jun 2013, against LL 951 billion in Jan-Jun 2012, owing to lower company profits in 2012 as this tax is collected on previous year's earning.

Income tax on capital gains and dividends plunged by LL 51 billion (23 percent) to LL 171 billion over the same period, reflecting the non-recurrent rise of this component in Jan-Jun 2012. It is worth mentioning that during the first quarter of 2012, the Revenues Directorate at the Ministry of Finance undertook inspections to audit the declaration forms presented by financial corporations, thus boosting the 2012 "income tax on capital gains and dividends" to LL 221 billion in Jan-Jun 2012, from LL 145 billion in Jan-Jun 2011.

Box #1: Internally Collected VAT

During the first half of 2013, internal VAT collections grew at a much higher rate than nominal GDP⁽¹⁾ despite the downturn of some internal VAT sub-items, presumably due to the impact of the Syrian conflict. In detail, the food and telecom industries benefitted most from the Syrian displaced, while hotels and retail sales were particularly harmed by the war in Syria (*for more information, kindly refer to Box #3 of the QI 2013 Public Finance Review*).

- VAT dues⁽²⁾ on *manufacture of food products and beverages* went up by 18 percent in 2012, pursuing its upward trend and increasing furthermore by 41 percent in the first half of 2013. *Wholesale trade (except for vehicles)* dues improved by a slight 1 percent during 2012, before surging by around 15 percent in the first half of 2013. The later increase was mainly induced by higher sales of food, beverages, tobacco and household goods. In parallel, dues on *Telecommunication*, which were down by 1 percent at the end of 2012, surged by 46 percent in the first half of 2013.
- The aggregate amount of VAT declared by *hotels and restaurants* fluctuated in 2011 and 2012, albeit remaining at a lower level than the one registered in 2010. This amount reached LL 44 billion in the first six months of 2013, 8 percent lower than the amount registered in Jan-Jun 2012. Similarly, internal VAT dues from *retail trade (except for vehicles)* declined by 23 percent in 2011, before gaining 10 percent in 2012. These dues dropped by 4 percent in Jan-Jun 2013, owing mainly to lower retail sales of clothing and household appliances.

VAT Revenues from Internal Operations (10 Largest Contributing Activities)⁽²⁾

(in LL billion)	Economic Activity	HI 2011	HI 2012	HI 2013	Change HI 2013-2012	% Change HI 2013-2012
Rank	VAT from Internal Activities, of which	454	499	525	26	5%
1	Wholesale trade and commission trade, except of motor vehicles and motorcycles	79	74	85	11	15%
2	Other business activities	62	74	73	(0)	0%
3	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods	58	64	61	(2)	-4%
4	Construction	35	40	44	4	10%
5	Hotels and restaurants	39	48	44	(4)	-8%
6	Real estate activities	26	30	30	1	2%
7	Manufacture of other non-metallic mineral products	20	20	23	2	11%
8	Manufacture of food products and beverages	16	16	23	7	41%
9	Post and telecommunications	15	12	18	5	43%
10	Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel	17	17	16	(1)	-5%

Source: VAT Directorate, VAT Declaration Forms, MOF

⁽¹⁾ Internal VAT cash collections were up by 11 percent during Jan-Jun 2013. In contrast, nominal growth was estimated by the IMF at a low 5.2 percent (Source: WEO October 2013, IMF).

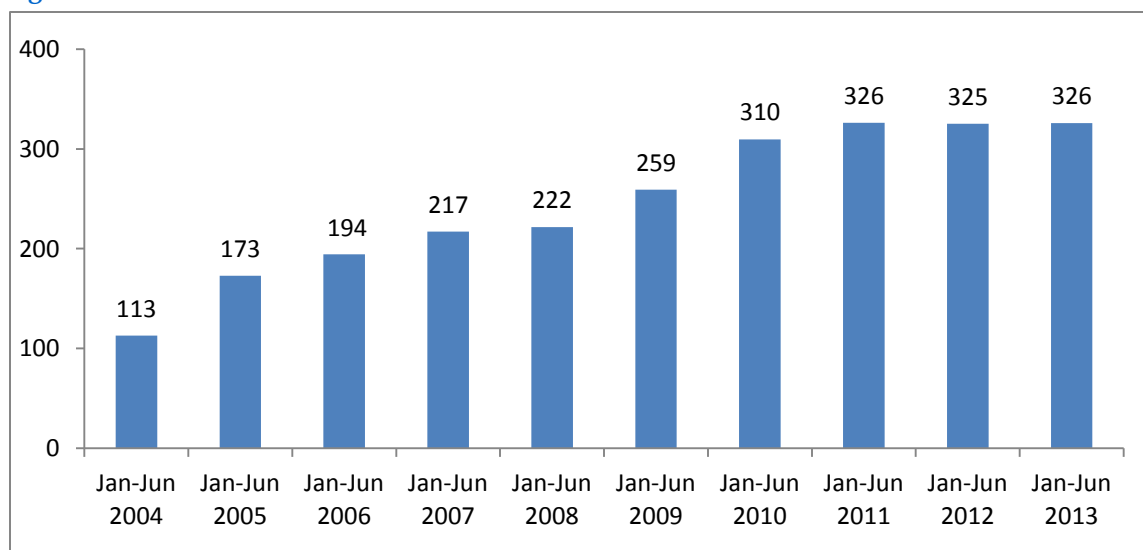
⁽²⁾ VAT figures represent declared amounts, and not the cash collected amounts. Note that VAT declaration amounts may vary depending on the number of processed declarations at a given date.

Taxes on wages and salaries, gained 16 percent to reach LL 311 billion, on account of a larger tax base mostly owing to the rise private sector wages and the cost of living adjustment in the public sector⁶.

Taxes on interest income⁷ recorded a small increase of 0.2 percent over the period, to reach LL 326 billion in the first half of 2013, mostly likely as a result of a relatively faster annual increase in the *deposit base* and higher *interest rates on foreign currency deposits* - partly offset by declines in *Treasury Bonds interest rates* (for more information, kindly refer *Interest Payment Section*).

- Commercial bank private sector deposits grew by 9.5 percent annually to reach LL 197,883 billion by the end of June 2013, from LL 180,724 billion a year earlier, improving from the 7.5 percent annual increase recorded in June 2012 albeit easing from the 11.3 percent recorded in June 2011.
- The rate on local currency deposits declined from an average 5.46 percent in the first six months of 2012, to reach 5.44 percent during the corresponding period of 2013. In contrast, the average weighted interest on dollar denominated deposits, climbed from 2.84 percent in Jan-Jun 2012 to 2.92 percent in Jan-Jun 2013.
- The dollarization rate of private sector deposits slid from an average 65.3 percent in Jan-Jun 2012 to 65.1 percent in Jan-Jun 2013.

Figure 3: Cash Collections from Tax on Interest Income (in LL billion)



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

Taxes on Property declined by 9 percent (LL 55 billion) in the first half of 2013 reaching LL 551 billion, owing largely to lower collections of **inheritance tax** and **property**

⁶ The increase in private sector minimum wage and cost of living adjustment for the public sector were both adopted in February 2012, although the latter started to be paid in September 2012 and the respective retroactive payments during QIV 2012.

⁷ This tax exempts interest earned on Eurobonds.

registration fees by 20 percent and 10 percent respectively. In detail, [property registration fees](#) amounted to LL 369 billion in Jan-Jun 2013, dropping by around LL 43 billion over the period. This deterioration which is due to a 7 percent lower number of sold properties, can mainly be attributed to political uncertainty. In fact, while these collections slumped by a year-on-year 26 percent during Jan-Mar 2013, they slightly improved by a year-on-year four percent during Apr-Jun 2013. In parallel, revenues from the [inheritance tax](#) dropped by LL 15 billion, to reach LL 66 billion in the first half of 2013, as of a time lag in the collection of payments. The aforementioned decreases were partially offset by a LL 3 billion improvement in the [built property tax](#), which reached LL 121 billion in the first half of 2013.

Table 7: Property Registration Statistics from Cadastre

	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Number of Sold Properties registered in Cadastre	37,386	34,388	31,943	-7.1%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	5,804	6,255	5,741	-8.2%
Declared Average Value per Property (LL million)	155	182	180	-1.2%
Total Fees collected from Sales Transactions	370	351	305	-13.0%

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

[Taxes collected from international trade](#) (customs and excises) fell by LL 28 billion (3 percent) year-on-year, to reach LL 1,065 billion, due to a LL 38 billion decline in the tobacco excise, which was partly compensated by a LL 6 billion rise in custom duties. [Tariff revenues](#) (customs) totalled LL 404 billion in the first half of 2013 compared to LL 397 billion during the same period of 2012, owing to a 6 percent increase in non-fuel imports. It is worth mentioning that fuel imports slumped by 17 percent during Jan-Jun 2013, however these imports are subject to low or zero tariff. As a result, the [effective customs rate](#) inched up from 2.4 percent in HI 2012 to 2.5 percent in HI 2013.

Table 8: Effective Customs Rate

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Total Imports	13,912	16,404	16,274	-0.8%
• Fuel Imports (fuel derivatives classified under HS 27)	2,560	4,842	4,005	-17.3%
• Non-Fuel Imports	11,352	11,562	12,270	6.1%
• Share of Fuel Imports	18.4%	29.5%	24.6%	-16.6%
• Share of Non-Fuel Imports	81.6%	70.5%	75.4%	7.0%
Revenues from Custom Duties	379	397	404	1.6%
Effective customs rate	2.7%	2.4%	2.5%	2.4%

Source: MoF, DGF

Total excises collected at import⁸ registered a LL 34 billion (5 percent) decrease, to reach LL 662 billion, mainly due to a drop in excises on tobacco that was partially compensated by rises in excises on gasoline and cars, as detailed below:

- a. The collections of **excises on tobacco** declined by 16 percent from LL 236 billion in Jan-Jun 2012 to LL 198 billion in Jan-Jun 2013, driven by an 11 percent decrease in imports which reached LL 205 billion in the first six months of 2013. Imports of cigarettes, which constituted around 87 percent of total tobacco imports during the first half of 2013, were down by 13 percent in terms of value and 12 percent drop in volume.

Table 9: Tobacco Import Statistics

	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Imports (LL billion)	179	230	205	-10.9%
Net weight (in tons)	6,168	8,242	7,992	-3.0%
Collected Excises (LL billion)	181	236	198	-16.0%
Average import price (LL per Kg)	28,940	27,845	25,590	-8.1%
Average effective excise rate (LL per Kg)	29,265	28,625	24,797	-13.4%
Average effective excise rate (%)	101.1%	102.8%	96.9%	-5.7%

Source: MOF-General Directorate of Customs declaration forms

- b. **Excises on gasoline** increased slightly in the first half of 2013, collecting LL 237 billion or LL 2 billion higher than the first half of 2012. Given that this excise is a per-unit tax, the later rise was mainly the result of 1 percent increase in the volume of imported gasoline. In fact, the average effective excise rate was almost unchanged, increasing slightly from LL 225 per litre in Jan-Jun 2012 to LL 226 per litre in Jan-Jun 2013. As for the average effective import price of gasoline, it witnessed a 5 percent drop over the period, partly reflecting the decrease in international oil prices that averaged US\$ 113/barrel in Jan-Jun 2012 compared to US\$ 107/barrel in Jan-Jun 2013.

Table 10: Gasoline Import Statistics

	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Imports (LL billion)	1,136	1,294	1,239	-4.3%
Volume (million litres)	994	1,046	1,052	0.6%
Collected excises (LL billion)	286	235	237	0.8%
Average effective Price at imports (LL/litre)	1,142	1,238	1,178	-4.8%
Average effective excise rate (LL/litre)	288	225	226	0.2%

Source: MOF-General Directorate of Customs declaration forms

⁸ Excises are collected on gasoline, tobacco, cars and on alcoholic and non-alcoholic beverages. Most of it is collected at import, except for a small amount that is collected internally on alcoholic beverages.

- c. Following substantial increases in 2007, 2008 and 2009, collection from **excises on cars** started retreating in 2010, before plunging in 2011. As a result of market consolidation, these revenues inched down by 2 percent in 2012 and stagnated throughout the first six months of 2013. In fact, this component increased by LL 1 billion to reach LL 222 billion in Jan-Jun 2013, owing to modest increases in the average price of cars (2 percent) and the total number of imported cars (0.2 percent). In contrast, the average excise rate dropped by 1.9 percent over the period, to reach 26 percent in Jan-Jun 2013.

Table 11: Car Import Statistics

	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Imports (LL billion)	801	837	858	2.4%
Number of Cars	37,023	38,029	38,115	0.2%
Collected Excises (LL billion)	218	221	222	0.5%
Average price per car (LL million)	21.6	22.0	22.5	2.2%
Average effective excise rate (%)	27.2%	26.4%	25.9%	-1.9%

Source: MOF-General Directorate of Customs declaration forms

Lastly, the receipts from [fiscal stamp fees](#) decreased by LL 11 billion during the first half of 2013, to reach LL 230 billion when compared to collections made in the first half of 2012. Receipts from this tax are indicative of the general state of economic activity as they reflect the volume and values of transactions taking place during a given period. Formal sales agreements, contracts, and procedures with municipalities and public administrations are all subject to the stamp fee.

Non-Tax Revenues

Non-tax revenues retreated by LL 200 billion (12 percent) in the first half of 2013, to reach LL 1,486 billion, and accounting for 62 percent slump in total revenues. This deterioration was caused by lower **Income from Public Institutions and Government Properties** predominantly from **transfers from the telecom surplus** in addition to lower collection of **administrative fees and charges**, most notably vehicle control fees.

On a cash basis, the analysis indicates a more positive and opposite trend; in fact, non-tax revenues improved by LL 113 billion or 9 percent, reaching LL 1,337 billion by the end of June 2013, a direct impact of inconsistent transfers from the Telecom Surplus to the Treasury.

Income from Public Institutions and Government Properties amounted to LL 964 billion on a cash basis, registering a year-on-year increase of 15 percent, as **transfers from the telecom surplus** increased by LL 151 billion over the period, to attain LL 754 billion in the first half of 2013. Telecom revenues represents the third largest revenue item after the **Value-added Tax** and **Income Tax on Profits**, amounting to 11 percent of total revenues in Jan-Jun 2013, compared to an 8 percent share registered during the same period of 2012.

Rent proceeds of Rafic Hariri International Airport⁹ represented the sharpest contraction over the period, falling by LL 35 billion to LL 23 billion in HI 2013. Annual transfers from RHIA to the Ministry of Finance are usually made on a monthly basis in small one-digit amounts, except for two months of the year when larger amounts are rendered. Two bulk payments of LL 21 billion and LL 16 billion were made respectively during January and May 2012, while no large transfers were made in HI 2013; as a result, fiscal figures indicate a 60 percent annual plunge.

Revenues from Casino Du Liban retreated by LL 10 billion (13 percent) to reach LL 63 billion in HI 2013. Lower gains from the Casino were in line with the slowing tourism sector, as the number of tourists to Lebanon fell by 13 percent annually from HI 2012. In detail, the treasury receives 40 percent of the Casino's total revenues, which themselves have been deteriorating due to the prevailing economic situation

Other losses in income from public institutions resulted from a decline in the **budget surplus of the National Lottery**, which ended HI 2013 at LL 30 billion, compared to LL

⁹ This item includes revenues from (i) aircrafts' landing, (ii) parking, hangarage and long-term storing of aircrafts, (iii) boarding bridges charges, (iv) licensing, (v) certificate of airworthiness, (vi) registration of aircraft and (vii) rental fees of airport premises.

41 billion in HI 2012, whereas [Port of Beirut](#) transfers reached LL 30 billion¹⁰ in HI 2013, against nil in HI 2012. It is noteworthy that since 2009, Port of Beirut (PoB) has been undertaking construction works aimed at increasing capacity. The total value of the project, estimated at USD 130 million, is to be disbursed from Port of Beirut's revenues, which resulted in PoB's inability to transfer its share of profits to Ministry of Finance in a timely manner¹¹.

[Administrative fees and charges](#) contracted by LL 13 billion (4 percent) year-on-year, amounting to LL 290 billion in HI 2013, mostly owing to a dip in [vehicle control fees](#) by LL 25 billion to reach LL 106 billion and [Judicial fees](#) by LL 4 billion to reach LL13 billion. In contrast, [Passport Fees/Public Security](#) added LL 8 billion to LL 66 billion and [Administrative Charges](#) climbed by LL 7 billion to reach LL 19 billion.

Table 12: Non-Tax Revenues

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan- Jun	%Change 2013/2012
Income from Public Institutions and Government Properties	1,336	1,302	1,114	-14.4%
• Income from Non-Financial Public Enterprises, of which:	1,224	1,181	1,027	-13.0%
- Revenues from Casino du Liban	89	73	63	-13.4%
- Revenues from Port of Beirut	48	0	30	-
- Budget Surplus of National Lottery	25	41	30	-26.8%
- Transfer from the Telecom Surplus 1/	1,062	1,066	903	-15.3%
• Income from Financial Public Enterprises (BdL)	60	60	61	1.1%
• Property Income (rent of Rafic Hariri International Airport)	46	58	23	-60.5%
• Other Income from Public Institutions (interests)	5	3	3	5.4%
Administrative Fees & Charges, of which:	261	303	290	-4.3%
• Administrative Fees, of which:	212	251	230	-8.2%
- Notary Fees	14	15	15	-0.2%
- Passport Fees/ Public Security	61	58	66	13.1%
- Vehicle Control Fees	97	131	106	-19.3%
- Judicial Fees	13	16	13	-21.9%
- Driving License Fees	8	9	10	1.2%
• Administrative Charges	13	13	19	51.1%
• Sales (Official Gazette and License Number)	2	2	1	-25.6%
• Permit Fees (mostly work permit fees)	27	30	31	1.9%
• Other Administrative Fees and Charges	7	7	8	10.3%
Penalties and Confiscations	5	6	5	-21.6%
Other Non-Tax Revenues (mostly retirement deductibles)	66	76	78	2.6%
Total Non-Tax Revenues	1,667	1,687	1,486	-11.9%

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

1/Out of the expected LL 1,066 billion in HI 2012, LL 603 billion were effectively made from the Telecom surplus.

Out of the expected LL 903 billion in HI 2013, only LL 754 billion was effectively transferred from the Telecom Surplus.

¹⁰ The transfer of LL 30 billion from the Port of Beirut revenues to the Ministry of Finance, is part of the share of revenues for the year 2011.

¹¹ As per phone interview with Me. Talal Fadel, MoF's representative at Port of Beirut.

Treasury Receipts

Treasury receipts increased by LL 96 billion (31 percent) annually to reach LL 406 billion in Jan-Jun 2013 mainly as a result of a LL 59 billion increase in the “Other Accounts” sub-component. In fact, the increase in “Other Accounts” is due to the reimbursement of LL 21 billion worth of treasury advances by the Ministry of Economy and Trade in the first six months of 2013, compared to nil in the same period of 2012, in the context of the wheat subsidy (*for more information, kindly refer to box #2*). It is also due to LL 40 billion worth of accrued interest received in Treasury accounts on the settlement of the US\$ 1.1 billion dual-tranche offering¹² on April 17th 2013. These are in fact transitory receipts, which will be netted out when the first coupon payments on those issued Notes come due.

Box #2: Wheat Subsidy in Jan-Jun 2013

In line with its policy to subsidize wheat, the Government subsidized wheat imports by providing the Directorate General of Cereals and Beetroot (which is part of the Ministry of Economy and Trade) with a treasury advance of LL 41 billion reflected in expenditures, to purchase wheat at international price and then sell it to the mills at a lower price.

For the period Jan-Jun 2013, proceeds from wheat sales equivalent to the above stated LL 21 billion were reimbursed to the Treasury, with the net fiscal impact equivalent to the subsidy (For more information kindly refer to the Thematic Report on “Wheat and Bread Subsidy”, available on the Ministry’s website). This description may change in the coming months in case the DG of Cereals and Beetroot continues to reimburse the Treasury.

¹² For more information, kindly refer to the “Re-openings of 6.00 percent USD Notes due 2023 and of 6.75 percent USD Notes due 2027, issued 17 April 2013” note available on the Ministry’s website.

Section III: Expenditure Outcome

Total expenditures (budget and treasury) increased by LL 830 billion during H1 2013, amounting to LL 10,180 billion, compared to LL 9,350 billion in H1 2012. This was mainly the combined result of a LL 815 billion increase in **total primary expenditures** and a LL 34 billion rise in interest payment, slightly offset by a LL 19 billion decline in concessional loans principal payments, as shown in table 13.

Table 13: Expenditure Summary

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Interest Payments	2,867	2,737	2,771	1%
Concessional Loans Principal Payments ⁽¹⁾	144	135	116	-14%
Total Primary Expenditures ⁽²⁾	5,480	6,477	7,293	13%
Total Budget and Treasury Payments	8,490	9,350	10,180	9%

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

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

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

The evolution of main expenditure items in 2013, according to the **economic classification**, is presented in table 14 below and reviewed in the sections that follow.

Current Expenditures

Current expenditures jumped by LL 615 billion, explained by increases in (i) **various transfers** (mainly NSSF) by LL 365 billion, (ii) **personnel cost** by LL 166 billion, (iii) **materials and supplies** by LL 35 billion, (iv) **interest payment** by LL 34 billion, and (v) **other current** expenditure by LL 11 billion. These rises were partially offset by a LL 19 billion decline in **concessional loans principal payments**.

Table 14: Expenditure by Economic Classification

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
1. Current Expenditures	8,113	8,727	7.6%
1.a Personnel Cost, of which:	2,964	3,130	5.6%
<i>Salaries, Wages and Related Items (Article 13) 1/</i>	1,915	2,098	9.6%
Retirement and End of Service Compensations, of which:	885	879	-0.7%
<i>Retirement</i>	622	791	27.1%
<i>End of Service</i>	262	88	-66.5%
<i>Transfers to Public Institutions to Cover Salaries 2/</i>	164	153	-6.7%
1.b Interest Payments, of which: 3/	2,737	2,771	1.2%
<i>Domestic Interest Payments</i>	1,716	1,648	-3.9%
<i>Foreign Interest Payments</i>	1,021	1,123	9.9%
1.c Foreign Debt Principal Repayment	135	116	-14.2%
1.d Materials and Supplies, of which:	132	168	26.6%
<i>Nutrition</i>	36	27	-25.9%
<i>Fuel Oil</i>	35	8	-78.4%
<i>Medicaments</i>	26	81	208.8%
<i>Accounting Adjustments for Treasury Advances</i>	16	13	-20.7%
1.e External Services	59	69	16.6%
1.f Various Transfers, of which:	1,806	2,170	20.2%
<i>EDL 4/</i>	1,479	1,420	-4.0%
<i>NSSF</i>	50	250	400.0%
<i>Higher Council of Relief</i>	39	44	13.9%
<i>Contributions to non-public sectors</i>	99	166	68.1%
<i>Treasury advances for diesel oil subsidy</i>	0	0	
<i>Directorate General of Cereals and Beetroot</i>	12	41	247.6%
<i>Contributions to water authorities</i>	18	3	-81.7%
<i>Special Tribunal for Lebanon</i>	0	0	
<i>Gasoline Subsidy for Taxi Drivers</i>	4	1	-66.2%
<i>Accounting Adjustments for Treasury Advances</i>	0	0	-94.9%
1.g Other Current, of which:	189	200	6.0%
<i>Hospitals</i>	159	128	-19.6%
<i>Others (judgments & reconciliations, mission costs, other)</i>	28	71	156.7%
<i>Accounting Adjustments for Treasury Advances</i>	1	0	-97.8%
1.h Reserves	90	103	14.1%

<i>Interest subsidy</i>	90	103	14.1%
2. Capital Expenditures	319	607	90.3%
2.a Acquisitions of Land, Buildings, for the Construction of	0	14	4970.0%
2.b Equipment	17	42	149.3%
2.c Construction in Progress, of which:	213	375	75.6%
<i>Displaced Fund</i>	48	0	-100.0%
<i>Council of the South</i>	30	18	-41.7%
<i>CDR</i>	55	210	281.7%
<i>Ministry of Public Works and Transport</i>	73	92	25.8%
Other, of which:	7	47	542.8%
<i>High Relief Commission</i>	0	15	
2.d Maintenance	84	150	78.6%
2.e Other Expenditures Related to Fixed Capital Assets	2	27	1389.0%
2.f Parliamentary equipment & maintenance 5/	3	0	
2.g Accounting Adjustments for Treasury Advances	0	0	-6.3%
3. Budget Advances 6/	115	74	-35.3%
4. Customs Administration (exc. Salaries and Wages) 7/	22	23	5.5%
5. Other Treasury Expenditures	781	747	-4.4%
Municipalities	512	352	-31.3%
Guarantees	28	57	104.4%
Deposits	44	85	93.9%
Other, of which:	197	253	28.4%
<i>VAT Refund</i>	135	166	23.6%
6. Unclassified Expenditures	0	1	0
7. Total Expenditures (Excluding CDR Foreign Financed) 8/	9,350	10,180	9,350

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

(1) For a detailed breakdown of salaries, wages and related benefits, kindly refer to Table 15.

(2) For a detailed breakdown of transfers to public institutions, kindly refer to Table 16.

(3) For a detailed breakdown of interest payments, kindly refer to Table 20.

(4) For a detailed breakdown of transfers to EDL, kindly refer to Table 18. EDL has been reclassified to various transfers from "other treasury expenditures", following the reclassification of the 2009 Budget Proposal and in line with the Fiscal Performance.

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

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

(7) "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.

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

Current Primary Expenditures

Current primary expenditures¹³ rose by 12 percent, amounting to LL 5,841 billion in H1 2013, up from LL 5,240 billion during H1 2012. The main components of current primary expenditures are recorded below.

Personnel cost¹⁴ went up by LL 166 billion – equivalent to 6 percent year-on-year – to LL 3,130 billion in H1 2013 versus LL 2,964 billion in H1 2012, mainly due to three reasons: (a) a LL 183 billion increase in salaries and wages and related benefits, (b) a LL 6 billion decline in retirement and end of service compensations, and (c) a LL 11 billion decrease in payments to public institutions to cover salaries.

In details, **salaries, wages and related items** (Article 13) amounted to LL 2,098 billion in H1 2013 compared to LL 1,915 billion in H1 2012, representing a 10 percent increase¹⁵. As shown in Table 15 below, the LL 183 billion rise is explained by the combined outcome of a LL 226 billion increase in basic salaries and a LL 12 billion growth in family indemnities, undermined by a decrease of LL 37 billion in “other”¹⁶ payments and a drop of LL 21 billion in allowances.

Table 15: Breakdown of Article 13 - Salaries, Wages and Related Items (Jan-Jun)

(LL billion)	Basic Salaries		Indemnities 5/		Allowances 6/		Other 7/		Total	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Military Personnel	800	975	37	38	305	284	2	1	1144	1299
Army	501	624	23	24	197	177	1	0	724	825
Internal Security Forces ^{1/}	215	281	11	12	86	86	0	0	312	379
General Security Forces	41	54	2	2	12	15	1	1	55	71
State Security Forces ^{2/}	43	17	1	1	9	6	0	0	53	24
Education Personnel	353	411	30	39	0	0	0	0	383	450
Civil Personnel ^{3/}, of which:	185	179	34	36	3	2	139	109	361	325
Employees Cooperative							121	90	121	90
Customs Salaries ^{4/}									27	25
Total⁸	1339	1565	101	113	307	286	142	110	1916	2099

Source: MOF, DGF

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

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

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

¹³ Current primary expenditures are current expenditures excluding interest payments and foreign debt principal repayment.

¹⁴ Personnel Cost includes salaries, wages and related benefits (article 13), transfers to public institutions for payment of salaries and wages, retirement wages and end-of-service indemnities.

¹⁵ For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin of June 2013 on the Ministry of Finance website: www.finance.gov.lb

¹⁶ Other includes (i) payments for bonuses, (ii) State contributions to the Civil Servants' Cooperatives, (iii) State contributions to the Mutual Funds covering Members of Parliament, employees of the Lebanese Parliament, judges, judges' aides and Islamic tribunal judges and (iv) State contributions (as an employer) to the National Social Security Fund public sector employees that are not covered by the Civil Servant Cooperative and the Mutual Funds. For further details, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin on the Ministry of Finance website: www.finance.gov.lb

⁽⁴⁾ Includes salaries and wages and indemnities payment from guarantees account but excludes payments for allowances which are made from Customs Cashier and can only be reclassified once Customs has sent the supporting document to the Directorate General of Finance.

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

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

⁽⁷⁾ Other includes payments for bonuses, contributions to various public sector mutual funds and contribution of the State as an employer for the National Social Security Fund.

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

Retirement and end-of-service compensations summed up to LL 879 billion in H1 2013 compared to LL 885 billion in H1 2012, representing a 0.7 percent decline. Behind this LL 6 billion decrease stands mainly an 84 percent drop (LL 175 billion) in end of service indemnities, which in its turn is the combined result of lower payments to military and civil personnel:

- **End-of-service compensation** to military personnel amounted to LL 68 billion (78 percent of total compensation payments) in H1 2013 compared to LL 237 billion (90 percent of total compensation payments) in H1 2012. This 71 percent decline is partly due to a discrepancy in timing of payment, but mainly related to the additional one-time benefits granted to military personnel for early retirement in 2012¹⁷. As such, 2013 end of service compensation to military personnel is not expected to reach 2012 level.
- Similarly, **end-of-service compensations** to the civil personnel, fell by LL 6 billion to reach LL 20 billion in H1 2013 compared to LL 25 billion in H1 2012. This 22 percent drop was mainly caused by a 28 percent decline in the number of beneficiaries, from 1,242 retirees in Jan-Jun 2012 to 890 retirees in Jan-Jun 2013.

Further under personnel cost, **transfers to public institutions to cover salaries** decreased by LL 11 billion (7 percent) to reach LL 153 billion in H1 2013, mainly driven by the LL 16 billion decline in transfers to the Lebanese University explained by the retroactive payments made in 2012. The changes in the components of transfers to public institutions are shown in Table 16 below.

¹⁷ Law 169 dated August 29th, 2011.

Table 16: Breakdown of Transfers to Public Institutions (salaries)

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Transfer to Council of the South	3	4	24%
Transfer to the Council for Development and Reconstruction	14	18	35%
Transfer to Fund for the Displaced	3	2	-46%
Transfer to the Lebanese University	139	123	-11%
Transfer to Educational Centre for Research and Development	6	7	12%
Total Transfers to Public Institutions	164	153	-7%

Source: MOF, DGF

Materials and supplies purchases amounted to LL 168 billion in H1 2013 compared to LL 132 billion in H1 2012, representing a LL 35 billion (27 percent) year-on-year increase. This is explained mainly by a LL 55 billion (209 percent) jump in spending on **medicaments**, which amounted to LL 81 billion in H1 2013 of which around LL 45 billion were transferred to the Ministry of Public Health and LL 25 billion to military personnel. This change can be attributed to two main reasons: (a) a clearing of 2012 backlog - payments to this category were comparatively lower in 2012 than previous years and (b) an overall revision of rates per assisted individual. This increase was offset by (i) a LL 28 billion (78 percent) decrease in spending on **fuel oil**, and (ii) a LL 9 billion drop (26 percent) in spending on **nutrition**. It is worth noting that a number of payments on fuel are conducted through budget advances which are reclassified according to their economic classification after their regularization in the budget system. This is usually achieved one year after they have been paid. Therefore, total spending on fuel for the current year cannot be constructed when the monthly economic classification table is prepared.

External Services (rent, postal, insurance, advertisement and public relations) increased by LL 10 billion or 17 percent from LL 59 billion in H1 2012 to LL 69 billion in H1 2013. This was mainly due to a rise in remuneration for **consultancy services** and **publications** by respectively LL 4 billion and LL 2 billion during the same time period.

Various Transfers rose by LL 365 billion, totalling LL 2,170 billion in H1 2013 compared to LL 1,806 billion in H1 2012. This increase primarily resulted from the combined changes in the following items:

- a) Transfers to the **National Social Security Fund (NSSF)** amounted to LL 50 billion during H1 2012 compared to LL 250 billion during the same period of 2013, mainly due to a difference in the timing of payment. As the table below indicates, over the past five years, yearly transfers to the NSSF did not follow a predetermined trend.

Table 17: Transfers to NSSF throughout the period Jan-Jun 2008-Jan-Jun 2013

(LL billion)	2008 Jan-Jun	2009 Jan-Jun	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun
Transfers to NSSF	100	240	150	120	100	250

Source: MOF, DGF

- b) **Contributions to non-public sectors** climbed to LL 166 billion in H1 2013 from LL 99 billion during the same period of 2012, mainly due to increases in transfers of LL 43 billion and LL 20 billion respectively to the Ministries of Social Affairs and Education (private subsidized schools). The increase in transfers to MOSA can be attributed to the payment of previous years' allocations, and higher transfers to cover the revised inflation of aid expenses per assisted individual. As for MOE, the rise in transfers is mainly due to the payment of previous years' allocations to private subsidized schools, in addition to the subsidization of public school registrations and materials for displaced students from Syria. In fact, according to the Ministry of Education, 51,367 Syrian students registered for the academic year 2012/2013, compared to 18,935 during the 2011/2012 academic year. Typically, MOE pays 50 percent of registration fees (LL 150,000 per student) in September for each academic year, based on the number of students registered during the previous year. In February, the Ministry settles the remaining amount of registration fees as the final number of students becomes available. As such, during H1 2013, the MOE paid around LL 6.3 billion¹⁸ as registration fees for 51,367 Syrian students for the academic year 2012/2013.
- c) Transfers to **Directorate General of Cereals and Beetroot** rose by LL 29 billion, increasing from LL 12 billion during H1 2012 to LL 41 billion during the same period of 2013, provided through a treasury advance. The total amount of the latter is LL 63.5 billion to purchase 100,000 tons of imported wheat and used to produce bread¹⁹. Of the total amount, LL 21 billion was repaid under revenues. It is worth noting that international prices grew by 12 percent as per World Bank data.
- d) Payments to **IDAL** grew by LL 23 billion during H1 2013, whereby LL 2 billion, LL 6 billion, and LL 8 billion respectively relate to administrative expenses for 2010, 2011 and 2012 allocations. The remaining amount (LL 8 billion) represents 2013 administrative expenses.
- e) Transfers to **Public Hospitals** increased by LL 19 billion during H1 2013, to reach LL 23 billion, of which LL 10 billion were paid to Rafic Harriri Hospital to cover operating expenses.

¹⁸ The LL 6.3 billion for registration fees paid by MOE during H1 2013 was calculated based on MOE payment schedule.

¹⁹ As per decree 9967 dated February 28th, 2013.

- f) **Assistance to non-Public Sector** grew by LL 15 billion during H1 2013 compared to nil during the same period of 2012, as a result of a LL 15 billion transfer to the Lebanese Center for Energy Conservation as a financial aid for the year 2012.
- g) **Assistance to Public Institutions** rose by LL 14 billion during H1 2013, mainly driven by the transfer of LL 30 billion to settle the interest payment of subsidized loans provided by banks, as per the contract between Banque du Liban and the Housing Institution.
- h) Transfers to **Higher Relief Committee** grew by LL 5 billion, amounting to LL 44 billion in H1 2013 mainly due to compensations for a series of tragic events in Lebanon²⁰, such as compensation for Tripoli victims of the clashes that took place by the end of 2012 (LL 20 billion)²¹, or the Achrafieh blast during 2012 (LL 5 billion).

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

- i) Transfers to **Electricité Du Liban**²² declined by LL 59 billion in H1 2013, amounting to LL 1,420 billion, compared to LL 1,479 billion in H1 2012. This contraction corresponded to a drop of 8 percent in the volume of fuel imports in May-Dec 2012²³, and a 1 percent slide in the import-weighted price of crude oil during the corresponding period to US\$ 109.6 per barrel. Lower volumes of fuel oil imports also corresponded to a 15 percent decrease in EDL's electricity production in May-Dec 2012 to 7,092 million Kilowatt hours, from 8,369 million KWh in May-Dec 2011.

Table 18: Transfers to EDL

(LL billion)	2011 Jan-Jun	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
EDL, of which:	504	816	862	6%
a-Debt Service, of which:	17	18	19	7%
• C-Loans and Eurobonds, of which:	17	16	12	-27%
- Principal Repayments	13	13	9	-29%
- Interest Payments	4	3	2	-18%
• BDL-Guaranteed Loan Payments	0	2	7	283%
b-Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	487	798	843	6%
• KPC and SPC	487	798	843	6%

Source: MOF, DGF

²⁰ As per Decree 9762 dated January 18th, 2013.

²¹ As per decree 10422 dated June 14th, 2013.

²² For further details, kindly refer to the June 2013 issue of "Transfers to EDL: A Monthly Snapshot" available on www.finance.gov.lb.

²³ Reimbursements for fuel oil and gasoil suppliers are usually made 6 to 9 months from bill of lading, or import date.

- j) Transfers to **School Funds** decreased by LL 13 billion, dropping from LL 36 billion in H1 2012 to LL 23 billion in H1 2013 mainly due to a difference in timing of payments to public schools.

Table 19: Breakdown of Article 14 by Economic Classification

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	% Change 2013/2012
1. Contributions to the Public Sector 1/	1,646	1,852	13%
1a. Electricité Du Liban (EDL)	1,479	1,420	-4%
1b. Other Contributions to the Public Sector, of which:	167	432	159%
<i>National Council for Scientific Research</i>	2	3	28%
<i>High Relief Committee (HRC) 1/</i>	39	44	14%
<i>Investment Development Authority of Lebanon (IDAL)</i>	0	23	
<i>Transfers to School Funds</i>	36	23	-
<i>Public Hospitals</i>	4	23	-36%
<i>National Agriculture Research Institute (NARI)</i>	2	4	446%
<i>Green Project</i>	7	6	159%
<i>Public Institution for Cooperative Markets</i>	0	8	
<i>National Social Security Fund (NSSF)</i>	50	250	-14%
<i>Tele-Liban</i>	5	4	-
<i>Lebanese National Higher Conservatory of Music</i>	9	5	-4%
2. Contributions to the Non-Public Sector	99	166	68%
2a. Contributions to Non Profit Organizations , of which:	95	160	68%
<i>Ministry of Education-Subsidized Schools</i>	52	72	38%
<i>Ministry of Youth and Sports</i>	2	9	312%
<i>Ministry of Public Health</i>	7	5	-24%
<i>Ministry of Social Affairs</i>	28	71	153%
2b. Contributions to Private Parties, of which:	4	6	64%
<i>Ministry of Public Health</i>	2	2	-22%
2c. Students Grants	0	0	770%
3. Assistance to the Public Sector	40	82	106%
3a. Assistance for the Directorate General of Grains and Sugar Beetroot	12	41	248%
3b. Assistance to Public Institutions, of which:	27	41	52%
<i>Housing Institution</i>	0	30	N/A
<i>Railway and Public Transportation Authority</i>	7	5	-30%
<i>Water Authorities</i>	18	3	-82%
3c. Other Assistances to the Public Sector	1	0	-100%
4. Assistance to the Non-Public Sector	0	15	-
5.External Assistance	0	6	3161%
5a. Other External Assistance, of which:	0	6	3161%
<i>Ministry of Environment</i>	0	6	N/A
6. Membership Fees	10	8	-27%
6 a. Membership Fees in International and Regional Organizations, of which:	10	8	-27%
<i>Ministry of Foreign Affairs and Emigrants</i>	5	5	-5%
<i>Ministry of Public Health</i>	3	0	-94%
7.Stoppings 2/, of which:	11	40	263%

Lebanese Civil Defense 3/	0	9	N/A
Total	1,806	2,169	20%

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

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

Other Current Expenditures increased by LL 11 billion from LL 189 billion in H1 2012 to LL 200 billion in H1 2013, mainly due to a LL 44 billion jump in payments in **other current spending** (which includes compensatory payments to be made following judgement issued by the State Council, reconciliation payments as well as electoral expenses). This is explained by:

- The LL 24 billion increase in transfers to **judgements** due to reconciliation between the Ministry of Public Works and Transportation and the General Directorate of Civil Aviation in the amount of LL 13 billion.
- Transfers to **hospitals** declined by LL 31 billion, amounting to LL 128 billion during H1 2013, compared to LL 159 billion during the same period of 2012. This is mainly due to a difference in the timing of payment, as transfers to hospitals are recurrently delayed. More specifically, during the period Jan-Jun 2013, out of the total amount transferred, around LL 112 billion were paid for allocations relating to 2012. Similarly, during the period Jan-Jun 2012, around LL 137 billion were paid for allocations relating to 2011.

Interest Payments

Debt Service payments totaled LL 2,771 billion in HI 2013, LL 34 billion higher than the amount paid in HI 2012. After three consecutive years of declining debt service payments (2010-2012), the trend is halted with total interest payments on the rise back in 2013, driven by higher interest payments on FX debt. However, the rising interest cost on FX debt is somehow mitigated by lower interest cost on local currency debt.

In fact, continuing with the declining trend witnessed in the last three years, **total interest payments on local currency debt**, which totaled LL 1,648 billion by end of June 2013, was 4 percent lower when compared to the amount paid in the first half of 2012.

The drop stems from lesser **interest payments on long-term T-bonds**. At LL 1,580 billion by end of June 2013, **coupon payments** (interest paid on 24, 36, 60, 84, 96 & 120 months T-bonds) were 4 percent lower than coupons paid in HI 2012. In addition, the amount of premium paid on the early redemption of T-bonds during debt replacement transactions with BDL in HI 2013 was also 40 percent lower than the total premium amount incurred in HI 2012²⁴. Despite nearly 25 percent rise in the stock of outstanding T-bonds in HI 2013 when compared to the stock outstanding in HI 2012, the almost 8 percent drop in the weighted average coupon rate explains the lower coupon cost.

The drop in weighted average coupon rate on the outstanding stock of T-bonds in HI 2013 compared to that prevailing in HI 2012 is mainly due to the maturity of some high coupons Notes by end of 2012, namely (i) the 5 YRS 11.5% Notes issued in 2007 which last coupons were paid in 2012, and (ii) the 3 YRS 8.8% (on average) Notes issued in 2009 which further matured by end of 2012.

In other words, the stock of T-bonds outstanding in 2013 no longer carries high coupons instruments issued prior to 2009, when interest rates were at a peak, before starting to decline significantly²⁵ (in fact the outstanding stock of T-bonds in 2013 still accounts for some high coupon bonds, namely the 8.4% 60 MNS Notes issued in 2009, but in much smaller shares).

On the other hand, the cost of issuing longer maturities, namely the inaugural 8 YRS 7.8% T-bonds and 10 YRS 8.24% T-bonds in June 2013 did not yet drive the weighted average coupon rate of outstanding T-bonds up yet .

²⁴ Note that in April and June 2013, MoF conducted two debt replacement deals with Bdl, whereby it redeemed T-bonds prior to their maturity at a premium (redemption value being higher than the face value of the bonds, *reference Box on special financing transactions in HI 2013*).

²⁵ Note that the declining trend in interest rates on auctioned instruments started in 2008, but the deceleration pace accelerated in 2009.

Unlike the declining trend in coupon payments that is still pursuing in this first half of the year as described above, **discount interest payments** (interest paid at maturity of 3, 6, & 12 months T-bills) which totaled LL 68 billion in HI 2013, are 41 percent higher than payments in HI 2012. This added interest cost is explained by: (i) 12 percent higher volume of principal maturities (note that discount interest is paid at the maturity of the bond), and (ii) 11 percent rise in the weighted average discount rate, which is caused by the decision to increase interest rates by 50 bps across all auctioned instruments in March 2012.

Interest payments on foreign currency debt totaled LL 1,123 billion in HI 2013, 10 percent higher than the amount paid in HI 2012. This rise is mainly attributed to 10 percent higher **coupon dues on Eurobonds** (including fees & expenses), which is explained by 15 percent larger stock of Eurobonds: the outstanding stock of Eurobond principal totaled LL 30,400 billion (or USD 20 billion) by end of June 2012 increasing by LL 4,668 billion (USD 3 billion), to reach LL 35,068 billion (or USD 23 billion) by end of June 2013. This is largely explained by the ratification of Law 212 authorizing the Government to borrow up to USD 5 billion in FX²⁶, which granted the Government more flexibility in resorting to FX issuances for financing purposes. In the absence of new Budget laws or stand-alone FX borrowing authorizations by Parliament (as was the case prior to March 2012), the Government could only refinance maturing Eurobonds under existing ceilings approved by outstanding legislation, which amounts have been exhausted over time. Therefore, in the context of this new enabling legal framework, numerous Eurobond issuances were conducted, explaining the expansion of the Eurobond stock between June 2012 and June 2013, namely:

- **USD 1.525 billion voluntary debt exchange**, of which **USD 824 million raised in new cash** in November 2012 consisting of 5.15% *Notes due November 2018*, 6.00% *Notes due January 2023* and 6.75% *Notes due November 2027*, for the refinancing of the *USD 875 million 9.125%* and *USD 650 million 8.625%* Eurobond maturing on March and June 2013 respectively.
- **USD 1 billion FX/LL debt replacement agreement with BDL** in December 2012, whereby RoL re-opened the 5.45% *Notes due November 2019*, in exchange for the redemption of the equivalent amount in 3YR LL T-bonds maturing in 2013.

²⁶ In March 2012, Parliament adopted law 212 that was published in the Official Gazette on 31 March 2012, authorizing the Government to incur (i) new borrowings of up to U.S.\$2 billion to finance foreign currency treasury needs (Article 1) and (ii) for debt refinancing of up to U.S.\$3 billion (Article 2), in each case with maturities of up to 30 years.

- **US 1.1 billion dual tranche market issuance** on April 17th 2013 consisting of USD 600 million *re-opening of 6.0% Notes due Jan 2023 (@ yield of 6.150%)* & USD 500 MN *re-opening of 6.75% Notes due Nov 2027 (@ yield 6.70%)*.
- **US 1.1 billion FX/LL debt replacement agreement with BDL** on April 23rd 2013 whereby RoL issued USD 600 MN *4.50% Notes due April 2016* & USD 500 MN *5.50% Notes due April 2019*, in exchange for the redemption of the equivalent amount in 3 & 5 YRS LL T-bonds maturing in 2014-2015 & 2016.
- **USD 600 MN FX Issuance to BDL** on June 20th 2013 consisting of *6.15% Notes due June 2020*.

This rise in Eurobond coupon dues in HI 2013 comes despite a 2 percent decrease in the average coupon rate. The stock of Eurobonds outstanding as of end 2011, with coupon dues in 2012 carried an average coupon rate of 6.65%, whereas the stock of Eurobonds outstanding as of end 2012 with coupon dues in 2013 carries an average coupon rate of 6.49%. However, the growth in the stock prevented savings on coupon dues from lower average borrowing rate.

The rise in FX debt service payments in HI 2013 is also explained by 4 percent higher **interest paid on C-loans**, which totaled LL 60 billion by end of June 2013, of which:

- LL 26 billion in interest on **C-loans to CDR**, granted by Arab Funds (AFESD, Saudi Fund for Development, Abu Dhabi Fund for Development, Islamic Development Bank and Kuwait Fund for Arab Economic Development), AFD, IBRD and EIB.
- LL 26 billion are interest on **C-loans for Budget support** granted by bilateral countries such as Abu Dhabi (in the context of Paris III Donor conference), and by multilateral organizations such as AFD in the context of Paris II & Paris III Donor conferences, IBRD and EU.

Interest payments on FX debt further accounts for LL 3 billion of **coupon dues on special FX T-Bonds** issued to contractors and for expropriations.

Table 20: Details of Debt Service Transactions

(LL billions)	HI 2012	HI 2013	% change
Debt Service Payments	2,737	2,771	1.2%
Local Currency	1,716	1,648	-3.9%
Discount interest	48	68	40.6%
Coupon payment	1,667	1,580	-5.2%
<i>Coupon payments</i>	<i>1,609</i>	<i>1,545</i>	-4.0%
<i>Premium*</i>	<i>58</i>	<i>35</i>	-39.3%
Foreign Currency	1,021	1,123	9.9%
Eurobond Coupon (incl.fees)	961	1,059	10.2%
C-loans interest	58	60	4.4%
Special Bond (exprop. & contract.)	2	3	37.4%
Memorandum Items:			
Domestic Currency Principal Maturity (LL bn)	10,101	8,879	-12.1%
Short- term (3-6-12)	2,199	2,460	11.9%
Long term (24-36-60-84)	4,946	3,556	-28.1%
Special transactions*	2,957	2,863	-3.2%
Nb of outstanding LL T-bonds on which coupon was due	3,842,010,229	4,790,857,910	24.7%
Weighted average cost/Local Currency (in %)			
Short- term discount rate	4.43	4.90	10.6%
Long term coupon rate	7.18	6.64	-7.5%
Average coupon rate/Foreign currency (in %)			
Eurobonds**	6.65	6.49	-2.4%
Foreign Currency Principal Maturities (LL bn)	1,348	1,742	29.2%
Eurobonds	1,110	1,532	38.0%
C-loans	237	210	-11.7%
Eurobond Principal (LL billion) (Stock outstanding as of end period)***	30,400	35,068	15.4%

Source: PDD tables, MOF

- (1) * Premium above Par on the early redemption of LL T-bonds in the context of debt replacement transactions:
- (2) LL 58 bn paid on June 12th 2012, in the context of USD 2 bn triple tranche Eurobond issuance to BDL
- (3) in exchange of the early redemption of LL 2,957 BN worth of T-bonds in BDL portfolio
- (4) LL 23 bn paid on April 23rd 2013, in the context of USD 1.1 bn dual tranche Eurobond issuance to BDL
- (5) in exchange of the early redemption of LL 1,635 BN worth of 3 & 5 YRS T-bonds in BDL portfolio
- (6) LL 12 bn paid on June 13th 2013, in the context of LL 1,240 BN 7 YRS T-bonds issuance to BDL
- (7) in exchange of the redemption of the equivalent amount of 2 & 3 YRS T-bonds in BDL portfolio maturing in Aug-Dec 2013.
- (8) ** Note that the weighted average coupon rate on Eurobonds incurred in 2012 pertains largely to the Eurobond stock
- (9) outstanding as of end 2011 whereas the weighted average coupon rate incurred in 2013 pertains largely to the Eurobond
- (10) stock outstanding as of end 2012 (source: Euromain December 2011 & 2012)
- (11) *** Source BDL Table D. Gross Public Debt stock outstanding as of end period.

Box#3: List of Major Debt Transactions and Issuances in H1 2013

- **April 17th: US 1.1 BN dual tranche Market issuance**
USD 600 MN re.op 6.0% Notes due Jan 2023 (@ yield of 6.150%) & USD 500 MN re.op 6.75% Notes due Nov 2027 (@ yield 6.70%)
- **April 23rd: US 1.1 BN "LL/FX Debt Replacement Agreement" with BDL**
RoL issued US 1.1 BN dual tranche USD 600 MN 4.50% April 2016 & USD 500 MN 5.50% April 2019, (weighted avrg. coupon of 4.95%, ATM 4.36 yrs) & redeemed the equivalent amount in 3 & 5 YRS T-Bonds (maturing in 2014-2015& 2016) with weighted avrg coupon of 6.15% & ATM of 2.51 yrs
- **June 13th: LL 1,240 BN "LL/LL Debt Replacement Agreement" with BDL**
RoL redeemed LL 1,240 BN worth of 2 and 3 YRS T-bonds maturing in Aug-Dec 2013 at a weighted average coupon of 5.87% & issued the equivalent amount in 7 YRS T-bonds (124,040,646 Notes) at a coupon of 7.50%, incurring 163 bps higher interest cost to extend maturity.
- **June 20th: USD 600 MN FX Issuance to BDL** USD 600 MN 6.15% Notes due June 2020
- **June 6th & June 27th Auction: Issuance of 8 & 10 YRS T-bonds**
Total subscriptions amounted to LL 1,190 BN of which LL 67 BN 8 YRS T-bonds and LL 1,123 BN 10 YRS T-bonds

Capital Expenditures

Capital expenditures for H1 2013 amounted to LL 607 billion, expanding by LL 288 billion (90 percent) compared to LL 319 billion recorded in H1 2012 chiefly attributed to rises in, among other items, **Construction in Progress**, and **Maintenance**.

More specifically, construction in progress grew by LL 161 billion or 76 percent to LL 375 billion in H1 2013 from LL 213 billion in H1 2012, due to the combined outcome of the following:

- a) Payments to **CDR** jumped by LL 155 billion (282 percent) from LL 55 billion in H1 2012 to LL 210 billion in H1 2013, mainly due to higher transfers made for (i) different road development projects in Beirut and its peripheries (LL 40 billion)²⁷, (ii) the connecting road between Batroun and Bajderfil (LL 31 billion)²⁸, (iii) the acquisition of a real estate plot to develop a water treatment station in Keserwan (LL 23 billion)²⁹, (iv) counterpart funding for foreign financed projected (LL 21 billion), and (v) the supervision and payment fees of the Olympic pool in Nakkache (LL 16 billion)³⁰.

Table 21: Payments to CDR for Construction in Progress

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
CDR Budget Payments (1), of which:	36	61	60%
• Counterpart funding for foreign financed projects	36	57	60%
Projects Executed on behalf of Line Ministries of which (2)	19	149	686%
• Roads	7	91	1306%
• Buildings and other	13	28	123%
• Water treatment projects	0	33	0%
Total Payments to CDR for Construction In Progress	55	210	282%

Source: MOF

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

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

- b) A LL 39 billion increase in “other” construction in progress expenses, due to: (i) a growing HRC transfer by LL 15 billion mainly due to payments to cover Syrian refugees needs (LL 7 billion)³¹, and compensations resulting from the storm during the winter of 2013 (LL 3 billion), and (ii) higher payments to the Ministry of Interior by LL 11 billion as a result of payments to renew a barrack in

²⁷ As per decree 10284 dated April 30th, 2013.

²⁸ As per decision 57/2013 dated April 4th, 2013.

²⁹ As per decree 6319 dated September 16th, 2011.

³⁰ As per decree 9129 dated October 22, 2012.

³¹ As per decree 9055 dated October 9th, 2012.

Aramoun (LL 4 billion), and to set prefabricated classrooms for Werwar, Dbayeh and Aramoun institutes (LL 3 billion).

- c) A LL 19 billion increase in transfers to the Ministry of Public Works and Transportation mainly relating to the development of the Palace of Justice in Tripoli and the reconstruction of roads in different Lebanese regions.
- d) A LL 48 billion decrease in payments to the **Displaced Fund** which were nil in H1 2013 compared to LL 48³² billion in H1 2012.
- e) A LL 13 billion decline in payments to the **Council of the South**, which were LL 18 billion during H1 2013 compared to LL 30 billion in H1 2012³³.

Maintenance rose by LL 66 billion to reach LL 150 billion in H1 2013, up from LL 84 billion during H1 2012. The reason behind the 79 percent growth is primarily attributed to an increase in transfers to (a) Ministry of Public Works and Transportation (LL 46 billion), driven by higher payments for maintenance of buildings and roads, and (b) Ministry of Interior and municipalities (LL 7 billion) pushed by higher expenses to cover the costs of renewal of identity cards³⁴.

Other expenditure items that contributed to the increase in capital expenditure include the following:

Equipment grew by 149 percent to reach LL 42 billion in H1 2013 compared to LL 17 billion in H1 2012, mainly due to (a) the first installment (LL 6 billion) made by the Ministry of Finance to Oracle in relation to the salaries and wages payroll system, (b) the purchase of a backup storage by MOF (LL 2 billion), (c) equipment to the Army (LL 6 billion), (d) telecom equipment to the General Security Forces (LL 3 billion), and (e) snow removal equipment to the Ministry of Public Works and Transportation (LL 1 billion).

Other Expenditures related to Fixed Capital Assets augmented by LL 25 billion, from LL 2 billion during H1 2012 to LL 27 billion during the same period of 2013, chiefly due to a LL 10 billion transfer to IDAL for the Export Plus Program.

Acquisitions of land and buildings for the construction of roads, ports, airports, and water networks increased by LL 13 billion in H1 2013 up from nil in H1 2012, mainly

³² These LL 48 billion were paid from the LL 120 billion allocated in the 2010 Budget Proposal and carried forward to 2011 and finally disbursed in H1 2012.

³³ The LL 30 billion in H1 2012 was paid from the 2011 Budget Proposal.

³⁴ As per decree 7295 dated December 27th, 2011.

after the government reimbursed Banque du Liban LL 13.5 billion for a real estate transaction between the two parties³⁵. More specifically, the government conceded real estate properties to BDL valued at LL 37 billion, in exchange for real estate properties valued at LL 52 billion (for details on this transaction, kindly refer to Box #4).

Box#4: Exchange Contract between the Lebanese Government and BDL

As per decision 47 dated December 27th, 2012, the Government of Lebanon (GOL) conceded real estate properties to BDL valued at LL 37 billion (US\$ 24.7 million), in exchange for real estate properties valued at LL 52 billion (US\$ 34.6 million) as presented in the following table:

Table 1. Ownership of real estate properties prior to the deal

Properties owned by the GOL prior to the deal	Properties owned by BDL prior to the deal
Properties number 2974, 2977 and 2990 in Ras Beirut (estimated at US\$ 18.7 million)	Real estate number 628 in Mazraa (rented to the GOL, to the MOH)
	Properties number 60 in Hadath (estimated at US\$ 7.3 million), 1374 in Marfa area (estimated at US\$ 27.3 million)

Table 2. Ownership of real estate properties after the deal

Properties owned by the GOL after the deal	Properties owned by BDL after the deal
Properties number 60 in Hadath (valued at US\$ 7.3 million)	Properties number 2974, 2977 and 2990 in Ras Beirut (valued at US\$ 18.7 million)
Real estate number 1374 in Marfa area (valued at US\$ 27.3 million)	GOL ceded the lease contracts relating to real estate number 628 in Mazraa to BDL and agreed to settle the rent for the remaining period valued at US\$ 6 million.
Total amount to be paid by GOL US\$ 34.6 million	Total amount to be paid by GOL US\$ 24.7 million
Net amount to be paid by GOL to BDL US\$ 9.9 million	

As a result of the above real estate transactions, the Lebanese Government should settle to BDL either the amount of LL 13.5 billion (US\$ 9 million) or provide a real estate property with a value of LL 14.85 billion (US\$ 9.9 million).

³⁵ As per decision 47 dated December 27th, 2012.

Other Treasury Expenditures

Other Treasury expenditures declined by 4.4 percent to reach LL 747 billion in H1 2013 compared to LL 781 billion in H1 2012. The LL 34 billion decrease is primarily attributed to lower payments to municipalities by 31 percent – from LL 512 billion in H1 2012 to LL 352 billion in H1 2013, mainly explained by a LL 209 billion reduction in payments of revenues accruing to municipalities, partly offset by a LL 49 billion increase in payments for solid waste management.

As per article 86 of the Decree Law number 118 dated June 30th, 1977 - also known as the Municipalities Law - the central government and public entities collect numerous fees on behalf of municipalities. These fees are divided into two main categories:

1. Fees collected by the central government, independent utilities and public institutions on behalf of municipalities and that are directly redistributed to each municipality.
2. Fees collected by the central government on behalf of all municipalities and that are 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, as per article 64 of the 2001 Budget Law 326 dated June 28th, 2001.

Table 22: Payments to Municipalities

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Distribution of Revenues Accruing to Municipalities	382	173	-55%
Payments for Solid Waste Management	123	172	40%
Payments to the "First Municipality Infrastructure Project"	6	6	0%
Other Payments	1	0.1	-87%
Total Payments to Municipalities	512	352	31%

Source: MOF, DGF

The decrease in other treasury expenditures items was partially offset by an increase in deposits (LL 41 billion), VAT refund (LL 32 billion), and guarantees (LL 29 billion).

Special Focus: Social Expenditures

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.

The social expenditure bill increased by 12 percent year-on-year, amounting to LL 2,552 billion in H1 2013 compared to LL 2,270 billion in H1 2012. End-of-Service indemnities and retirement wages accounted for the highest share of the bill, at 34 percent, down from a 39 percent share in H1 2012. Education spending, which mainly covers the salary and wage bill of the Ministry of Education and Higher Learning, education allowances for public sector employees and contributions to non-profit organizations (also known as subsidies to private schools), and transfers to the Lebanese University, accounted for 27 percent of the bill in H1 2013, down from 28 percent in H1 2012. Health expenditures ranked third with 16 percent of social outlays in H1 2013, standing at the same level of 2012.

The LL 283 billion jump in social spending recorded in 2013 is primarily explained by the combined effect of the following:

- a) Transfers to NSSF soared by LL 200 billion in H1 2013, reaching LL 250 billion during H1 2013, compared to LL 50 billion in H1 2012 due to inconsistencies in the timing of payments, whereby the bulk of 2012 transfers to NSSF were made during the second half of the year.
- b) Spending on education went up by LL 51 billion mainly due to a LL 66 billion increase in salaries and wages of the General Directorate of Education³⁶, coupled with a LL 20 billion rise in subsidies to private schools.
- c) Purchases of medicaments climbed by LL 55 billion, amounting to LL 81 billion in H1 2013 compared to LL 26 billion in H1 2012 (for details kindly refer to the “Current primary expenditures” section).
- d) Transfers to non-profitable organizations made by the Ministry of Social Affairs grew by LL 43 billion to reach LL 72 billion in H1 2013.

The increase in social expenditures was counterbalanced by a decline in spending in the following categories:

- a) Payments for the hospitalization of uninsured citizens in the private sector declined by LL 31 billion to reach LL 128 billion during H1 2013, down from LL 159 billion during the same period of 2012.

³⁶ For details kindly refer to the “Salary and Wages and Related Benefits-Article 13 Report for March 2013.

- b) Transfers to the Civil Servants' Cooperative dropped by LL 31 billion to reach LL 90 billion in H1 2013, compared to LL 121 billion in H1 2012.
- c) Transfers to Lebanese University dropped by LL 16 billion, to attain LL 123 billion in H1 2013, compared to LL 139 billion in 2012.
- d) Education allowances in private sector decreased by LL 10 billion, from LL 144 billion in H1 2012 to LL 134 billion in H1 2013, mainly due to discrepancies in the timing of payments.
- e) End of service indemnities went down by LL 6 billion from LL 885 billion in H1 2012 to LL 879 billion in H1 2013.

Table 23: Main Social Expenditures

(LL billion)	2012 Jan-Jun	2013 Jan-Jun	%Change 2013/2012
Health	374	414	11%
• Hospitalization in the Private Sector	159	128	-20%
• Purchase of Medication	26	81	209%
• Hospitalization of Public Sector Employees in Private Sector	118	108	-8%
• Maternity and Sickness Allowance	30	31	3%
• Other	40	66	65%
Education	776	817	5%
• Ministry of Education and Higher Education, of which:	632	683	8%
- Wages and Salaries of the General Directorate of Education	361	427	18%
- Wages and Salaries of the General Directorate of Technical Education	21	23	7%
- Transfers to the Lebanese University	139	123	-11%
- Contributions to Non-Profitable Organizations (Private Schools)	52	72	38%
• Education Allowance in Private Sector	144	134	-7%
Other Social Spending	1,120	1,321	18%
• Marriage Allowance	4	4	-5%
• Birth Allowance	3	3	-7%
• Death Allowance	3	2	-24%
• Other Social Spending Allowance	5	4	-30%
• Participation in Several Mutual Funds	16	13	-19%
• Ministry of Social Affairs, of which:	31	74	141%
- Transfers to Non-Profit Organizations	28	72	151%
• Ministry of the Displaced	3	3	-8%
• Transfers to Civil Servants Cooperative	121	90	-26%
• End-of-Service Indemnities and Retirement Wages	885	879	-1%
• Transfers to the National Social Security Fund	50	250	400%
Total Social Expenditures	2,270	2,552	12.45%

Source: MOF, DGF

Section IV: Public Debt Developments

Public Debt: General Facts

Gross public debt stood at LL 90,480 billion (US\$ 60.02 billion) by end-June 2013, recording a LL 3,521 billion (4.05 percent) rise from its end-2012 level. This expansion in outstanding debt resulted from increases in both, domestic and foreign currency debt, by LL 869 million and LL 2,652 billion respectively, and compared to a LL 2,476 billion (3.06 percent) rise during the same period in 2012.

In parallel, public sector deposits added LL 823 million (6.4 percent) to reach LL 13,739 billion in the first half of 2013, mitigating the increase in public net debt, which climbed by LL 2,698 billion (3.64 percent) to LL 76,741 billion (US\$ 50.91 billion) by end-June 2013.

Table 24: Public Debt Outstanding as of End-Jun 2013

(LL billion)	Dec-10	Dec-11	Dec-12	Jun-13	Change Dec 12-Jun 13	% Change Dec 12-Jun 13
Gross Public Debt	79,298	80,887	86,959	90,480	3,521	4.05%
Net Debt ⁽¹⁾	67,879	69,903	74,043	76,741	2,698	3.64%
Gross Market Debt ⁽²⁾	51,308	50,192	58,623	60,704	2,081	3.55%

Source: Ministry of Finance, Banque du Liban

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

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

Local Currency Debt

Local currency debt amounted to LL 51,067 billion by end-June 2013, climbing by LL 869 billion (1.7 percent) from end-December 2012, although the share of local currency debt to total debt decreased to 56 percent, from 58 percent (including accrued interest). This shift in the composition of debt resulted from a larger increase in foreign currency debt compared to its local currency counterpart in the first half of 2013 following an LL/FX “Debt Replacement Agreement” between the Ministry of Finance and Banque Du Liban, whereby BdL redeemed to MoF Treasury bonds from its existing portfolio for an equivalent LL amount of USD 1.1 billion in Eurobonds.³⁷ While an LL equivalent of US\$ 1.1 billion decrease in outstanding local currency debt ensued from this transaction, the registered decline was countered by issuances of 8-year and 10-year Treasury bonds in June 2013, for a total amount of LL 1,191 billion. The 8YR and 10YR TBs were issued as part of the June 6 and June 27 weekly auctions at interest rates of 7.8 percent and 8.24 percent respectively.

By holder, commercial banks remained the largest investors in government-issued local currency debt, carrying 50.5 percent of the outstanding amount as at end-June 2013. However, this share still denoted a decline from 54.3 percent as at end-December 2012, and was in line with a 5.6 percent (LL 1,509 billion) drop in commercial banks’ TB portfolio. In contrast, the second largest holder of local currency debt, Banque du Liban, added LL 1,299 billion (8.6 percent) to its local currency portfolio, which amounted to LL 16,348 billion by end-June 2013 accounting for 32 percent of local currency debt, compared to 30 percent as at end-December 2012. BDL’s larger absolute amount and share of local currency debt holdings were realized despite the FX/LL debt replacement agreement in April 2013. This was mainly due to BDL’s high participation rate in weekly auctions, subscribing just over two and a half times the value of its TB maturing in Jan-Jun 2013. Likewise, local currency debt subscribed by “other” entities increased by LL 1,040 billion in the first half of 2013, and their share of total local currency debt climbed by 1.8 percentage points to 17.5 percent. Public institutions’ TB holdings rose by LL 536 billion (or 8.3 percent), while TBs held by Public jumped by 40 percent in the first half of 2013, but remained relatively small in absolute value terms, at LL 1,753 billion. Domestic-currency contractor bonds stood at LL 134 billion by end-June 2013, unchanged from end-2012.

Being Lebanon’s largest holders of liquid assets, Commercial Banks continued to lead in TB subscriptions in the first half of 2013, taking up to 40 percent of accepted offers,

³⁷ For details on the Debt Replacement agreement with BDL, kindly refer to Box 5 on page 41.

although this share of subscriptions was still considerably lower than its 55 percent share in H1 2012. In contrast, Banque du Liban's share of total subscriptions climbed to 33 percent of total accepted offers in H1 2013, from 28 percent in H1 2012, and Public Institutions' share increased to 22 percent from 15 percent.

Box#5: Debt Replacement Agreement, April 2013

On April 23, 2013, Banque du Liban agreed with the Republic of Lebanon on a Debt Replacement transaction, where the Ministry of Finance issued a US\$ 1.1 billion dual-tranche Eurobond and BdL redeemed to MoF Treasury bonds in Lebanese Pounds from its existing portfolio for an equivalent LL amount. The two series issued by MoF consisted of a US\$ 600 million 4.50 percent coupon Eurobond due April 2016 (Series 69), and a US\$ 500 million 5.50 percent coupon Eurobond due April 2019 (Series 70). The transaction lowered the weighted average cost of the debt portfolio for the Republic of Lebanon from 6.15 percent to 4.95 percent and contributed to extending its average time to maturity from 2.51 years to 4.36 years.

Terms and conditions of the Agreement

Series (tranche)	69	70
Issue Size (in USD)	600,000,000	500,000,000
Issue Date	April 23, 2013	April 23, 2013
Maturity	April 22, 2016	April 23, 2019
Coupon Rate	4.50%	5.50%
Coupon Payment	Semi-Annual	Semi-Annual
Principal Payment	Bullet Payment at Maturity	Bullet Payment at Maturity
Issue Price	100%	100%
Re-offer Yield	4.50%	5.50%
ISIN Code	XS0922623912	XS0922623755
Lead Manager	Republic of Lebanon	Republic of Lebanon

Source: BDL, MoF

For more information please refer to the online note "[Dual-tranche: 4.50% USD Notes due 2016, and 5.50% Notes due 2019 in Debt Replacement Agreement with BDL, issued 23 April 2013](#)" on the MoF's website

By instrument, the stock of long-term bonds increased by LL 1,839 billion (3.9 percent) to LL 49,287 billion by end-June 2013 compared to end-2012. Conversely, the stock of short-term treasury bills diminished by LL 959 billion (37 percent) to reach LL 1,632 billion at end-2012.

The stock of long-term Treasury bonds mainly grew as surges in 3YR, 7YR and 10YR bonds overshadowed declines recorded in 2YR and 5YR bonds. Outstanding 7YR bonds increased by LL 1,241 billion (13.8 percent) due to their issuance as part of an LL/LL swap transaction between the Ministry of Finance Banque du Liban in the month of June (for details on this transaction, refer to Box #6, page 43), whereby BDL redeemed LL 1,240 billion worth of 2 and 3-year Treasury Bonds maturing up to end-June 2013, for the counterpart value in 7YR LL Treasury bonds. The value of outstanding 3YR bonds increased by LL 1,167 billion (6.4 percent) to LL 19,459 billion, despite the LL/LL debt exchange with BDL and the April 2013 FX/LL Debt Replacement Agreement between BDL and MOF, in which 3YR and 5YR Treasury bonds were redeemed from BDL's portfolio. This increase in 3YR bonds highlighted the substantial surplus seen in weekly auctions on 3YR bonds, amounting to LL 2,529 billion. Three-year bonds continued to represent the largest share in the TB portfolio, accounting for 38 percent of domestic currency debt. The stock of 10YR bonds rose by LL 1,123 billion to reach LL 2,274 billion by end-June, following two separate issuances part of weekly auctions dated June 6 and 27, 2013, while the stock of 8YR bonds edged up by LL 66 billion pursuant to small issuances, also part of the auctions of June 6 and 27, 2013.

In contrast 2YR and 5YR bonds saw a decline in their outstanding values in H1 2013, owing to auction deficits and the result of early redemption through debt transactions. On one hand, the stock of 2YR bonds recorded a sharp decrease of LL 1,270 billion up to June 2013, compared to end-2012, mostly as a result of weekly auction deficits amounting to LL 1,119 billion in H1 2013, and the redeemed 2YR bonds in the LL/LL swap transaction between MoF and BDL. On the other hand, the stock of 5YR bonds dropped by LL 497 billion, as a redeemed amount of LL 1,367 billion in 5YR bonds from the April conducted Debt Replacement Agreement, overshadowed the LL 855 billion surplus from weekly auctions.

The stock of short-term bills fell by LL 959 billion, mainly owing to a LL 731 billion (55.7 percent) drop in the portfolio of 6MN bills, to LL 581 billion by the end of June 2013 from LL 1,312 billion by the end of 2012.

Box#6: LL/LL 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. 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%.

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 BdL, 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.

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: BDL

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

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: BDL

For more information please refer to the online note [“7.50% LBP Treasury Bonds due June 2020, in LBP Voluntary Debt Exchange with BDL, Issued June 13th 2013”](#) on the MoF's website

Subscriptions in Weekly Auctions:

Subscriptions in QII 2013 auctions were mostly absorbed by long-term instruments (2YR, 3YR, 5YR, 8YR and 10YR Treasury bonds) accounting for 82 percent of applied offers compared to 75 in QI 2013. On a cumulative level, long-term instruments accounted for 82 percent of subscriptions in the first half of 2013 compared to 78 percent during the same period of 2012.

On an instrument level, 3YR bonds took the highest share of total subscriptions in QII 2013 or 58 percent, up from 55 percent in QI 2013. In second place, 10YR bonds captured 22 percent of subscriptions in QII 2013. The share of 5YR bonds decreased from 18 percent in QI 2013 to 5 percent in QII 2013, similar to 6MN Treasury Bills that accounted to 5 percent of total subscriptions in QII 2013, down from 9 percent in QI 2013.

In the first half of 2013, 3YR bonds captured 56 percent of subscriptions followed by 10YR bonds with 13 percent, 5YR bonds with 10 percent, 6MN bills with 7 percent, 12MN bills with 6 percent, 3MN bills with 5 percent, 2YR bonds with 2 percent, and 8YR bonds with 1 percent. In comparison, 3YR bonds held a considerably lower 35 percent of total subscriptions in the first half of 2012. This period in 2012 also had 5YR bonds with 30 percent of subscriptions, followed by 2YR bonds with 13 percent, 6MN bonds with 10 percent, and 12MN and 3MN bills with 6 percent each.

Table 25: Domestic Currency Debt by Holder and Instrument as of end-June 2013

Stocks (end of period)	Dec-10	Dec-11	Dec-12	Jun-13	Change Dec 12 - Jun 13	% Change Dec 12 - Jun 13
Local currency debt	48,255	49,340	50,198	51,067	869	1.7%
A. By Holder						
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	13,130	16,374	15,049	16,348	1,299	8.6%
2. Commercial Banks	27,214	25,177	27,267	25,797	-1,470	-5.4%
3. Other local debt (T-bills)	7,911	7,789	7,882	8,922	1,040	13.2%
<i>o/w Public entities</i>	6,268	6,538	6,479	7,015	536	8.3%
<i>o/w Contractors</i> ⁽²⁾	0	41	134	781	-8	-1.0%
*Accrued interest included in debt	867	788	789	16,348	1,299	8.6%
B. By Instrument						
1. Long term bonds	43,805	46,512	47,448	49,287	1,839	3.9%
10-year bonds	0	0	1,151	2,274	1,123	97.6%
1.1 7-year bonds	0	0	1,916	1,982	66	3.4%
1.2 5-year bonds	1,500	7,885	8,978	10,219	1,241	13.8%
<i>o/w Contractors</i> ⁽²⁾	7,310	11,779	12,162	11,665	-497	-4.1%
1.3 4.5-year bonds	0	0	0	0	0	-
1.4 4-year bonds	0	0	0	0	0	-
1.5 3-year bonds	30,782	22,129	18,292	19,459	1,167	6.4%
1.6 2.5-year bonds	0	0	0	0	0	-
1.7 2-year bonds	3,398	3,972	4,208	2,938	-1,270	-30.2%
1.8 Coupon interest	815	747	741	750	9	1.2%
2. Short term bills	4,155	2,583	2,591	1,632	-959	-37.0%
2.1 12-month bills	1,969	887	965	892	-73	-7.6%
2.2 6-month bills	2,111	1,569	1,312	581	-731	-55.7%
2.3 3-month bills	75	127	314	159	-155	-49.4%
* Accrued interest included	52	41	48	31	-17	-35.4%
3. Other local debt	295	245	159	148	-11	-6.9%
3.1 Central Bank Loans	218	139	55	5	-50	-90.9%
3.2 Commercial Banks Loans	77	106	104	143	39	37.5%

Source: Ministry of Finance, Banque du Liban

Notes:

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

⁽²⁾ Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency" in the foreign currency debt table

Primary market interest rates

After a stable interest rate climate on issued Treasury bills and bonds for much of 2010 and 2011, rates increased by an average of 52 basis points across the curve by the end of March 2012, compared with end-2011 levels. Rates remained generally stable since then. As of end-September 2012, 5YR Treasury bonds had witnessed the largest rate increase with a 56-bps increase since end-2011. The yield curve was extended in September 2012 due to the 8.24 percent rates of the newly-issued 10-year Treasury bonds. Aside from regularized market issuances made in the first half of 2013, special scheme issuances of 7-year, and non-regular issuances of 8-year, and 10-year Treasury bonds also retained their interest rates at 7.5 percent, 7.8 percent, and 8.24 percent respectively.

Table 26: Evolution of Primary Market Rates

Maturity	Dec. 31, 2009	Dec. 31, 2010	Dec. 31st, 2011	Dec. 31, 2012	Jun. 30, 2013
3-month	4.55 percent	3.93 percent	3.93 percent	4.43 percent	4.44 percent
6-month	5.72 percent	4.52 percent	4.50 percent	4.99 percent	4.99 percent
12-month	5.73 percent	4.81 percent	4.81 percent	5.35 percent	5.35 percent
2-year	6.32 percent	5.34 percent	5.34 percent	5.84 percent	5.84 percent
3-year	7.10 percent	5.94 percent	5.94 percent	6.50 percent	6.50 percent
5-year ⁽¹⁾	7.74 percent	6.18 percent	6.18 percent	6.74 percent	6.74 percent
7-year ⁽²⁾	N/A	7.90 percent	7.90 percent	7.50 percent	7.50 percent
8-year ⁽³⁾	N/A	N/A	N/A	7.80 percent	7.80 percent
10-year ⁽⁴⁾	N/A	N/A	N/A	8.24 percent	8.24 percent

Source: Ministry of Finance

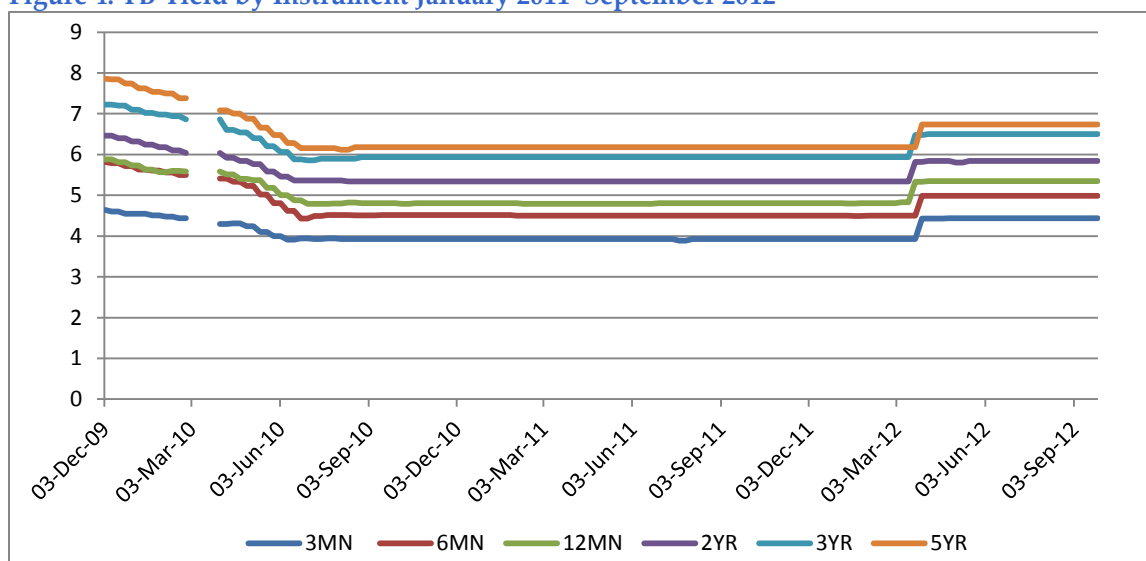
(1) 5-year Treasury bonds started being issued as part of the Treasury Bill Auction Process as of the week of July 20 2009 (value date 23 July 2009).

(2) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent, and in September 2011 with a coupon of 7.60 percent. These bonds do not feature in this table as they were not issued in the regular auction process. 7-year bonds were issued on a one time basis, during the weekly auction of November 15, 2012.

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

(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

Figure 4: TB Yield by Instrument January 2011–September 2012



Source: Ministry of Finance

Notes:

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

(2) 7-year, 8-year, and 10-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 stood at LL 39,413 billion by the end of June 2013, increasing by LL 2,652 billion (7.2 percent) from the LL 36,761 billion registered as at end-2012. This growth mainly resulted from three Eurobond transactions that were conducted in April and June 2013. Exchange rate fluctuations slightly eased this increase, accounting for a LL 56 billion reduction in outstanding FX debt. This valuation adjustment mainly included the effect of a depreciated Euro vis-à-vis the US dollar from a rate of 1.3186 €/€/\$ as at end-2012, to 1.3051 €/€/\$ at end-June 2013, causing the values of Euro-denominated Eurobonds and the AFD Loan to retract by around LBP 9 billion and LBP 3 billion, respectively.

Table 27: Foreign Currency Debt by Holder and Instrument as of end-June 2013

(in LL billion)	Dec-11	Dec-12	Jun-13	Change	% Change Year-to-date
B. Foreign currency debt	31,547	36,761	39,413	2,652	7.2%
4. Eurobonds	27,490	32,789	35,535	2,746	8.4%
Of which, Paris II at preferential rates ⁽¹⁾	3,161	2,646	2,388	-258	-9.7%
Of which, Paris III at preferential rates ⁽²⁾	663	317	294	-23	-7.1%
Of which, market-issued Eurobonds	23,259	29,427	32,386	2,959	10.1%
* <i>Accrued Interest on Eurobonds</i>	<i>407</i>	<i>400</i>	<i>467</i>	<i>67</i>	<i>16.8%</i>
5. Loans	3,977	3,860	3,742	-118	-3.1%
5.1 Paris II loans	351	279	236	-43	-15.4%
5.2 Paris III loans ⁽³⁾	1,060	997	938	-59	-5.9%
5.3 Bilateral loans (non-Paris II and III)	766	835	820	-15	-1.8%
5.4 Multilateral loans (non-Paris II and III)	1,781	1,735	1,737	2	0.1%
5.5 Foreign Private Sector Loans	18	14	11	-3	-21.4%
6. Other debt	80	112	136	24	21.4%
6.1 Special Tbs in Foreign currency ⁽⁴⁾	80	112	136	24	21.4%

Source: Ministry of Finance, Banque du Liban

Notes:

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

⁽²⁾ Issued to Malaysia as part of its Paris III contribution. These bonds have an amortized payment structure.

⁽³⁾ IBRD loan, UAE loan, first tranche of the French loan received in February 2008, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

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

Box#7: US\$ 1.1 billion Dual Tranche Eurobond Transaction, April 17, 2013

On April 17th 2013, the Lebanese Republic issued a US\$ 1.1 billion dual-tranche offering. The transaction had a weighted average yield of 6.40 percent and an average time to maturity of 11.98 years on the aggregate issues.

The transaction was jointly managed by Fransa Invest Bank, Natixis and Standard Chartered Bank.

The first series consisted of US\$ 600 million re-opening of the 6.000 percent coupon Eurobond due January 2023 (Series 67, Tranche 3) with a yield of 6.150 percent. The second series was a US\$ 500 million re-opening of the 6.750 percent coupon Eurobond due November 2027 (Series 68, Tranche 3) with a yield of 6.700 percent.

Terms and conditions of the Agreement

Series (tranche)	67(3)	68(3)
Issue Size (in USD)	600,000,000	500,000,000
Issue Date	April 17, 2013	April 17, 2013
Maturity	January 27, 2023	November 29, 2027
Coupon Rate	6.000%	6.750%
Coupon Payment	Semi-Annual	Semi-Annual
Principal Payment	Bullet Payment at Maturity	Bullet Payment at Maturity
Issue Price	98.882% (plus 138 days of accrued interest)	100.451% (plus 138 days accrued interest)
Re-offer Yield	6.150%	6.700%
ISIN Code	XS0859367194	XS0859366899
Lead Manager	Republic of Lebanon	Republic of Lebanon

Source: BDL, MoF

For more information please refer to the online note [“Re-openings of 6.00 percent USD Notes due 2023 and of 6.75 percent USD Notes due 2027, issued 17 April 2013”](#) on the MoF’s website.

Outstanding **Eurobonds** reached LL 35,535 billion, by the end of June 2013, an increase of 8.4 percent compared to end-2012, following three transactions conducted in the first half of 2013 which overshadowed corresponding declines. Exchange rate fluctuations accounted for a LL 9 billion reduction in the value of Eurobonds. The first transaction that was concluded on 17 April 2013 comprised a double-tranche Eurobond issuance amounting to a total US\$ 1.1 billion. The transaction consisted of a US\$ 600 million re-opening of the 6.000 percent coupon Eurobond due January 2023 and a US\$ 500 million re-opening of the 6.750 percent coupon Eurobond due November 2027 (Detailed in Box#7, page 48). The second transaction, also valued at US\$ 1.1 billion, was settled on 23 April 2013, and was conducted in the context of an FX/LL “Debt Replacement Agreement” between the Ministry of Finance and Banque du Liban, therefore increasing the value of outstanding foreign currency debt and contributing to the shift in debt currency composition from LBP to FX debt (Detailed in Box#5, page 41). The third transaction took place on 20 June 2013, and comprised a US\$ 600 million 6.150 percent Eurobond issuance, due June 2020, which was subscribed by BDL (Detailed in Box #8, page 50).

In turn, decreases in outstanding Eurobonds resulted from the repayment of US\$ 483.6 million remaining from the March 2013-due US\$ 875 million market-issued Eurobond, the repayment of US\$ 340 million remaining from the June 2013-due US\$ 650 million market-issued Eurobond (with the first portion of each of the two Eurobonds redeemed in the November 2012 voluntary exchange transaction)³⁸, in addition to repayments made on Paris II and Paris III Eurobonds.

Eurobonds issued in the context of Paris II dropped by LL 258 billion (9.7 percent) to reach LL 2,388 billion by the end of June 2012 from LL 2,646 billion by the end of 2012. This drop was a result of the following amortized principal repayments throughout the first half of the year: (i) US\$ 35 million payment in March 2013 on Paris II March 2018 Eurobond originally issued at US\$ 700 million; (ii) US\$ 10 million in May 2013 on Paris II 5.00 percent May 2018 Eurobond originally issued at US\$ 200 million; (iii) USD 93.5 million in June 2012 on Paris II 4.00 percent December 2017 Eurobond originally issued at US\$ 1,870 million; and (iv) US\$ 32.5 million in June 2012 on Paris II 5.00 percent due December 2017 originally issued at US\$ 950 million.

Paris III related Eurobonds diminished by LL 23 billion equivalent to 7.1 percent, to LL 294 billion by the end of June 2013 from LL 317 billion by the end of December 2012.

³⁸ For more information on the November 2012, Voluntary Exchange Transaction, kindly refer to the note “ Voluntary Debt exchange November 2012: Re-opening of 5.15 percent USD notes due 2018, New USD 6.00% notes due 2023, and New USD 6.75% notes due 2027, issued 29 November 2012” available here: <http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/DebtTransactions/>. A summary of the transaction is also available in Box # 6, Public Finance Annual Review, 2012, Page 61.

This decrease was a result of a US\$ 15 million principal repayment in January 2013 on the Eurobond due July 2017 originally issued at US\$ 300 million³⁹.

Box#8: US\$ 600 Million 6.150 Percent Notes Due 2020 With BDL

On 20 June 2013 the Republic of Lebanon, acting through the Ministry of Finance, issued Eurobonds in a principal amount of US\$ 600 million which were subscribed by the Republic's central bank, BDL. The transaction consisted of a US\$ 600 million 6.15 percent coupon Eurobond due June 2020 (Series 71).

Terms and conditions of the Agreement

Series (tranche)	71
Issue Size (in USD)	600,000,000
Issue Date	June 20, 2013
Maturity	June 19, 2020
Coupon Rate	6.150%
Coupon Payment	Semi-Annual
Principal Payment	Bullet Payment at Maturity
Issue Price	100.00%
Re-offer Yield	6.150%
ISIN Code	XS0944226637
Lead Manager	Republic of Lebanon

Source: BDL, MoF

For more information please refer to the online note "[New Issue: US\\$ 600 million 6.15% USD note due 2020](#)" on the MoF's website.

³⁹ 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 QIII 2007.

In contrast to the rise recorded in the Eurobond portfolio, **foreign currency loans** were marginally lower by the end of first half of 2013, compared to end-2012. Concessional loans amounted to LL 3,742 billion by end-June 2013, sliding by 3.1 percent from LL 3,860 billion at end-December 2012. The value of multilateral loans dropped by around LBP 20 billion, whereas bilateral loans decreased by almost LBP 24 billion as a result of exchange rates fluctuations of the multi-currency loan portfolios.

- a) The stock of Paris III loans retracted by LL 59 billion equivalent to 5.9 percent, to reach LL 938 billion by the end of June 2013, compared to LL 997 billion at end-2012. This decline was largely due to (i) quarterly principal repayments in February and May 2013 of the equivalent of SDR 3.2 million each on the IMF EPCA II loan⁴⁰; (ii) US\$ 15 million semi-annual principal repayment made in April 2013 on the UAE Paris III loan; (iii) US\$ 5 million semi-annual principal repayment, also in April 2013, on the World Bank IBRD loan (iv) and the fourth and final principal repayment of the Arab Monetary Fund (AMF) loan of the equivalent of AAD 1.365 million, concluding the redemption of the loan in June 2013.
- b) The stock of Paris II loans fell by LL 43 billion, equivalent to 15.4 percent, and amounted to LL 236 billion by the end of June 2013, owing to the redemption of € 20 million of the *Agence Française de Développement (AFD)* Paris II loan in the month of February.
- c) The stock of foreign private sector loans diminished by LL 3 billion, equivalent to 21.4 percent, to LL 11 billion by the end of June 2013.
- d) The stock of non-Paris II and Paris III bilateral loans decreased by LL 15 billion, equivalent to 1.8 percent, to reach LL 820 billion by end-June 2013. Principal repayments in Jan-Jun 2013 most notably included: (i) LL 12 billion to the Kuwait Fund for Arab Economic Development, (ii) LL 7 billion to the Saudi Fund for Development, (iii) LL 6 billion to the Japan Bank for International Cooperation, (iv) LL 5 billion to *Agence Française de Développement*, and (v) LL 2 billion to Abu Dhabi Fund for Development. In return bilateral loans disbursed between January and June 2013 were:
 - i. LL 24 billion from one loan granted by the *Agence Française de Développement*
 - ii. LL 5 billion from six loans granted by the Kuwait Fund for Arab Economic Development

⁴⁰ The IMF EPCA II loan is amortized through eight quarterly payments of SDR 3,171,875 each, starting February 16th, 2012 and ending on November 18th, 2013.

- iii. LL 3 billion from two loans granted by the Abu Dhabi Fund
 - iv. LL 2 billion from two loans provided by the Saudi Fund for Development
 - v. LL 2 billion from one loan provided by Spanish financial institution, Artigiancassa.
- e) The stock of non-Paris II and Paris III multilateral loans climbed by LL 2 billion, equivalent to 0.1 percent, and amounted to LL 1,737 billion by the end of June 2013. From largest to smallest absolute amounts, principal repayments included:
- (i) LL 33 billion to the International Bank for Reconstruction and Development (IBRD), LL 20 billion to the Islamic Development Bank, (iii) LL 20 billion to the Arab Fund for Economic and Social Development (AFESD), (iv) LL 9 billion to the Arab Monetary Fund (AMF), (v) LL 5 billion to the European Investment Bank, and (vi) LL 2 billion to the Organization of Petroleum Exporting Countries (OPEC). On the other hand, primary disbursements included:
 - i. LL 51 billion from ten loans granted by the Islamic Development Bank
 - ii. LL 25 billion from eight AFESD loans
 - iii. LL 22 billion from two European Investment Bank loans
 - iv. LL 13 billion from six IBRD loans
 - v. LL 2 billion from two OPEC loans
- f) With respect to other debt in foreign currency, the stock of special T-bills in foreign currency climbed by LL 24 billion in the first half of 2013, to reach LL 136 billion at end-June. This rise from LL 112 billion resulted from the gross issuance of US\$ 16,878,370.95 worth of contractor bonds on 7 February 2013 at a rate of 4.04 percent, coming due in February 2018 (pursuant to Law #69 dated April 23, 2009 and amended by Law #226 date October 22, 2012).

Table 28: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)					
	27-Mar-13	11-Apr-13	3-May-13	22-May-13	14-Jun-13	1-Jul-13
EURO						
LEB 5.350 18	5.24	5.24	5.29	5.40	5.78	5.78
US Dollars						
LEB 7.375 14	2.91	2.76	2.6	3.57	4.23	4.05
LEB 9.000 14	2.84	2.65	2.52	3.47	4.25	4.31
LEB 5.875 15	4.11	4.07	4.01	4.27	4.54	4.50
LEB 4.000 17 Av Life	3.88	4.03	3.86	3.70	5.05	4.73
LIEB 10.000 15	4.19	4.13	3.92	4.15	4.51	4.74
LEB 8.500 15	4.52	4.24	4.48	4.24	5.02	4.81
LEB 8.500 16	4.82	4.78	4.70	4.63	4.95	4.90
LEB 11.625 16	4.63	4.25	4.45	4.66	5.22	5.13
LEB 4.750 16	4.75	4.83	4.67	4.75	5.16	5.08
LEB 5.000 17	5.06	5.09	4.97	5.02	5.56	5.38
LEB 9.000 17	5.16	5.19	5.13	5.26	5.66	5.53
LEB 5.150 18	5.25	5.31	5.26	5.26	5.92	5.59
LEB 6.000 19	5.56	5.51	5.56	5.60	6.10	6.00
LEB 5.450 19	5.59	5.54	5.61	5.82	6.31	6.22
LEB 6.375 20	5.84	5.84	5.72	5.85	6.65	6.56
LEB 8.250 21	6.02	6.05	6.04	6.18	6.79	6.43
LEB 6.100 22	5.96	6.03	6.08	6.14	6.57	6.46
LEB 6.000 23	6.03	6.2	6.24	6.28	6.71	6.57
LEB 7.000 24	6.21	6.21	6.26	6.29	6.94	6.74
LEB 6.600 26	6.4	6.46	6.57	6.60	7.19	6.95
LEB 6.750 27	6.43	6.75	6.75	6.75	7.37	7.08

Source: Credit Suisse

Secondary **market yields** continued to widen in the second quarter of 2013, after having increased by 23 basis points in the first quarter. Between 28 March 2013 and 1 July, 2013, average secondary market yields surged by 55 bps to 5.61 percent⁴¹.

⁴¹ Calculated on USD Eurobonds, between March 28th 2013 and July 1st 2013, and which were outstanding at both dates.