



Public Finance Semi-Annual Report

First Half of 2015

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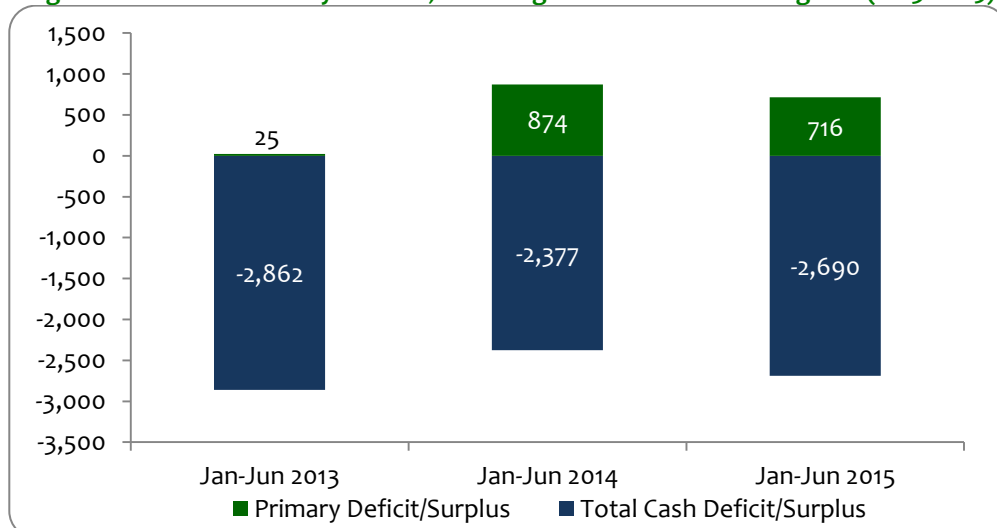
PUBLIC FINANCE HIGHLIGHTS

General Fiscal Developments page 6

Government finances deteriorated in the first half of 2015 reflecting the sustained effect of the region's political crisis on local economic activity and subsequently, on tax collections, while necessitating additional expenditures to ramp up internal security. Alongside the unfavourable domestic conditions, a major drop in international oil prices and declines in the relative prices of other imported goods negatively affected tax collections. On the expenditure side, the resulting sharp drop in the energy subsidy was mostly offset by a jump in public wages associated with increased hiring of military personnel.

The fiscal deficit thus widened by a total of LL 313 billion, or 13 percent, to reach LL 2,690 billion whereas the primary balance recorded a lower surplus of LL 716 billion, compared to a surplus of LL 874 billion in the first half of 2014.

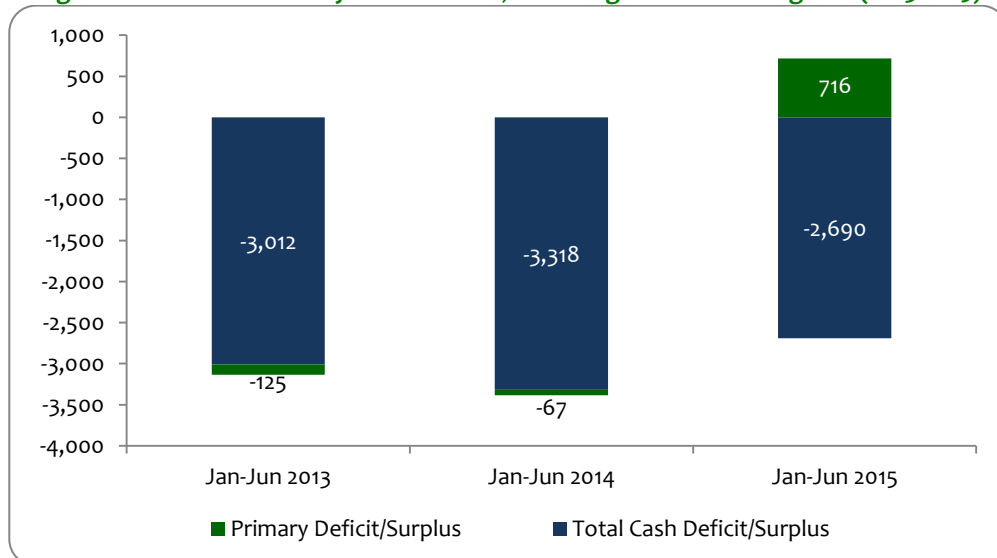
Figure 1: Fiscal and Primary Balance, Including Estimated Telecom Figures (2013–2015)



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

Note: Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.

Figure 2: Fiscal and Primary Cash Balance, Including for Telecom Figures (2013–2015)



Source: MOF, DGF

Revenues
page 7

Total revenues amounted to LL 7,546 billion during H1 2015, LL 350 billion (4 percent) lower from the LL 7,897 billion registered in Jan-Jun 2014. Tax revenues declined by 1 percent as major tax categories regressed compared to the same period of 2014, namely value-added tax, real estate registration fees, and customs. Non-tax revenues decreased by 6 percent during H1 2015. However, on a cash basis, non-tax revenues increased by LL 849 billion to reach LL 1,561 billion, mainly as cash transfers from the Telecom Surplus were nil during Jan-Jun 2014, compared to LL 829 billion in Jan-Jun 2015.

Expenditure
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Total expenditures decreased by 0.4 percent by end of June 2015, amounting to LL 10,237 billion. Lower transfers to EDL (-LL 619 billion) and capital expenditures (-LL 112 billion) were the main contributors to the LL 37 billion decline in total expenditures. This was counterbalanced chiefly by a rise in personnel cost (+LL 444 billion), an increase in other current expenditures (+LL 128 billion), and a climb in interest payments (+LL 106 billion).

**Public Debt
Development**
Page 27

The stock of gross public debt reached LL 104,063 billion by end June 2015, climbing by 3.7 percent from its end-2014 level as local currency debt recorded a nominal increase of LL 2,143 billion, alongside a LL 1,564 billion increase in outstanding foreign currency debt. Net public debt increased by 3.8 percent to LL 89,647 billion, with public sector deposits adding 3.2 percent to reach LL 14,416 billion.

SECTION I: FISCAL OVERVIEW

The **total fiscal balance** recorded a deficit of LL 2,690 billion in Jan-Jun 2015, compared to a LL 2,377 billion deficit during the same period of 2014. This worsening in public finances was mainly the result of a 4 percent decrease in **total revenues**, accompanied with a mere 0.4 percent decrease in **total payments**. Correspondingly, the **primary balance** ended at a lower surplus of LL 716 billion in H1 2015, compared to a surplus of LL 874 billion during the same period of 2014.

Table 1: Summary of Fiscal Performance

(LL billion)	2013 Jan-Jun	2014 Jan-Jun	2015 Jan-Jun	% Change 2015/2014
Total Budget and Treasury Receipts¹	7,318	7,897	7,546	-4.4%
Total Budget and Treasury Payments	10,180	10,274	10,237	-0.4%
• Interest Payments	2,771	3,129	3,235	3.4%
• Concessional loans principal payment ²	116	122	171	40.6%
• Primary Expenditures ³	7,293	7,023	6,830	-2.7%
Total Deficit/Surplus	(2,862)	(2,377)	(2,690)	13.2%
Primary Deficit/Surplus	25	874	716	-18.0%

Source: MOF, DGF

¹ Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF

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)

As at June 2015, LL 829 billion cash transfers had been made by the Ministry of Telecommunication, and as a result, the **cash-basis fiscal balance** was at a deficit of LL 2,690 billion, 19 percent lower than the cash deficit recorded in H1 2014, noting that the value of transfers made in H1 2014 was nil. Moreover, the **cash primary balance** registered a surplus of LL 716 billion, compared to a LL 67 billion primary deficit in H1 2014. On an accrued basis, telecom transfers were reported at LL 941 billion and LL 829 billion in H1 2014 and H1 2015 respectively¹.

Table 2: Summary of Fiscal Performance on a cash basis

(LL billion)	2013 Jan-Jun	2014 Jan-Jun	2015 Jan-Jun	% Change 2015/2014
Total Budget and Treasury Receipts¹	7,168	6,956	7,546	8.5%
Total Budget and Treasury Payments	10,180	10,274	10,237	-0.4%
• Interest Payments	2,771	3,129	3,235	3.4%
• Concessional loans principal payment ²	116	122	171	40.6%
• Primary Expenditures ³	7,293	7,023	6,830	-2.7%
Total Deficit/Surplus	(3,012)	(3,318)	(2,690)	-18.9%
Primary Deficit/Surplus	(125)	(67)	716	N.M.⁴

Source: MOF, DGF

¹ Includes the actual transfer from Telecom Surplus

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

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

⁴ Not Meaningful

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

¹ Transfers from the Telecom Surplus in 2015 are recorded on a cash basis in the Fiscal Performance, whereas for previous years, they remain those that were estimated at the time by the Ministry of Telecommunication and MOF.

SECTION II: REVENUE OUTCOME

Total revenues declined by 4 percent during the first half of 2015, as a result of a lower import bill² driven in turn by lower international oil prices³ and an appreciation of the Lebanese Pound against major currencies. Low economic growth⁴ continued to weigh negatively on consumption and real estate taxes. Finally, income taxes were unchanged from their relatively high base recorded in H1 2014, as exceptional collections of arrears were made during that period.

Table 3: Total Revenues

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change 2015/2014
Budget Revenues, of which:	7,388	7,215	-2.3%
• Tax Revenues	5,736	5,654	-1.4%
• Non-Tax Revenues	1,652	1,561	-5.6%
Treasury Receipts	509	332	-34.8%
Total Revenues	7,897	7,546	-4.4%

Source: MOF, DGF

On a cash basis, total budget revenues reached LL 7,215 billion in Jan-Jun 2015, increasing by LL 768 billion from the LL 6,447 billion collected in the same period of 2014, as telecom transfers amounted to LL 829 billion in the first half of 2015, compared to nil in Jan-Jun 2014.

Table 4: Total Revenues – Cash Basis

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change 2015/2014
Budget Revenues, of which:	6,447	7,215	11.9%
• Tax Revenues	5,736	5,654	-1.4%
• Non-Tax Revenues	712	1,561	119.3%
Treasury Receipts	509	332	-34.8%
Total Revenues	6,956	7,546	8.5%

Source: MOF, DGF

² Total imports dropped by 15 percent during H1 2015, with fuel imports and non-fuel imports declining by 39 percent and 7 percent respectively.

³ According to the U.S. Energy Information Administration, the average Europe Brent Spot Price dropped by 47 percent to US\$ 58 per barrel in Jan-Jun 2015, compared to US\$ 109 per barrel in the corresponding period of 2014.

⁴ Real growth is expected to reach 2.0 percent in 2015 (Source: International Monetary Fund, October 2015 World Economic Outlook Database).

TAX REVENUES

Tax revenues inched down by 1 percent (LL 81 billion) to LL 5,654 billion in Jan-Jun 2015. Most notably, valued-added tax decreased by 5 percent (LL 80 billion) as lower international oil prices considerably reduced VAT collections on gasoline products. Moreover, real estate registration fees dropped by 17 percent (LL 72 billion) owing to a slowdown in property sales, while excises rose by 10 percent (LL 59 billion) driven by higher gasoline excises.

Table 5: Tax Revenues

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change 2015/2014
Taxes on Income, Profits, & Capital Gains	1,962	1,969	0.4%
• Income Tax on Profits	1,024	1,024	0.0%
• Income Tax on Wages and Salaries	352	357	1.5%
• Income Tax on Capital Gains & Dividends	197	181	-8.1%
• Tax on Interest Income (5%)	351	374	6.3%
• Penalties on Income Tax	38	33	-11.7%
Taxes on Property	649	613	-5.5%
• Built Property Tax	148	175	18.1%
• Real Estate Registration Fees	427	355	-16.9%
• Inheritance Tax	73	83	13.2%
Domestic Taxes on Goods & Services, of which:	1,924	1,824	-5.2%
• Value Added Tax	1,639	1,559	-4.9%
• Other Taxes on Goods and Services, of which:	165	174	6.0%
<i>Private Car Registration Fees</i>	104	115	11.1%
<i>Passenger Departure Tax</i>	60	58	-3.0%
• Transfers from Régie	115	85	-26.1%
Taxes on International Trade	962	1,003	4.3%
• Customs	378	360	-4.8%
• Excises, of which:	584	643	10.1%
<i>Gasoline Tax</i>	249	302	21.2%
<i>Tobacco Tax</i>	134	115	-13.9%
<i>Tax on Cars</i>	197	223	13.0%
Other Tax Revenues (namely fiscal stamp fees)	239	245	2.5%
Total Tax Revenues	5,736	5,654	-1.4%

Source: MOF, DGF

Taxes on income, profits and capital gains grew by a minor 0.4 percent over the period, following an exceptional 13 percent rise registered in the first half of 2014 owing to higher collection of arrears (*for more information, kindly refer to the 2014 Public Finance Semi-Annual Report*).

Income tax on profits remained unchanged at LL 1,024 billion in Jan-Jun 2015. **Taxes on wages and salaries** rose by 2 percent to reach LL 357 billion in Jan-Jun 2015, while **income tax on capital gains and dividends** dropped by 8 percent to LL 181 billion in the first half of 2015.

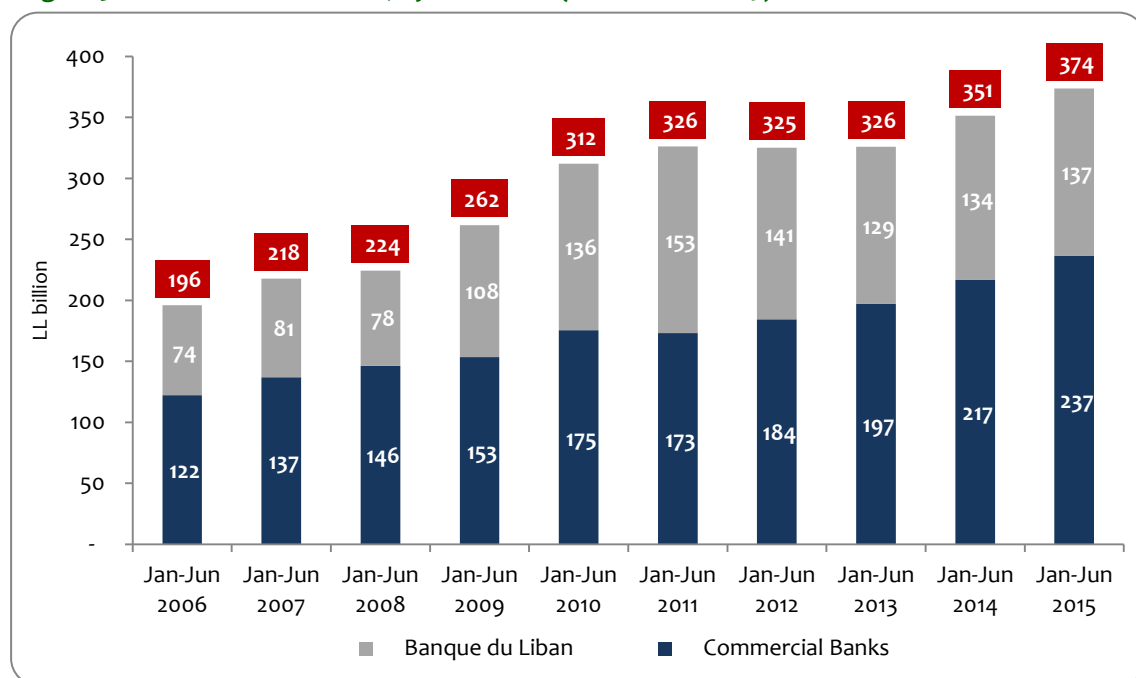
Taxes on interest income recorded a LL 22 billion rise to LL 374 billion in Jan-Jun 2015 (*for a more detailed breakdown, kindly refer to Figure 3*), mainly due to the combined result of an increase in the deposit base as well as higher interests on deposits in domestic and foreign currency.

By institution, collections from commercial banks rose by 9.2 percent as a result of a moderate growth in *private sector deposits* coupled with a rise in *interest rates* on both

domestic and foreign currency deposits. In detail, commercial banks' private sector deposits grew by 5.9 percent year-on-year to reach LL 223,985 billion by the end of June 2015. The weighted average interest on dollar denominated deposits climbed from 2.98 percent in the first half of 2014 to 3.14 percent in the corresponding period of 2015. Moreover, the weighted average interest on local currency deposits inched up from an average of 5.49 percent to 5.57 percent.

Collections from Banque du Liban⁵ inched-up by 1.8 percent as higher revenues from *Treasury Bills and Bonds* were most likely partially offset by lower revenues collected from *Certificate of Deposits* issued by the Central Bank⁶.

Figure 3: Tax on Interest Income, by Institution (H1 2006 – H1 2015)



Source: MOF, DGF

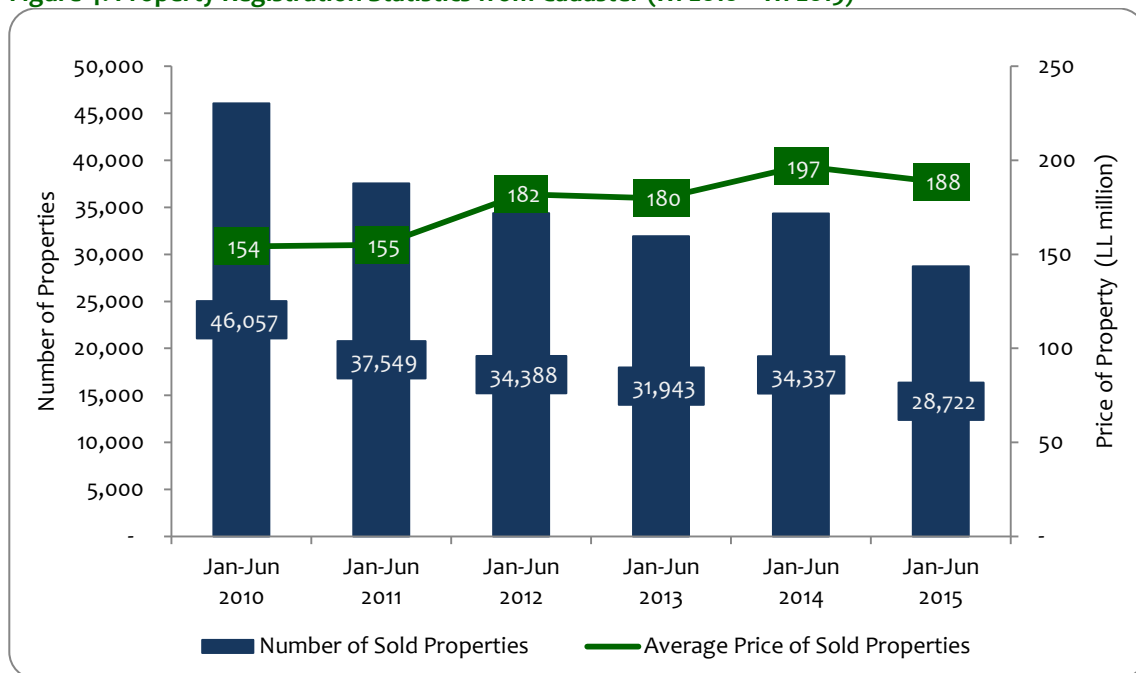
Taxes on property dropped by LL 36 billion to LL 613 billion, owing to a LL 72 billion (17 percent) decrease in **real estate registration fees** reflecting a 16 percent contraction in the number of sold properties along a 4 percent contraction in average prices of sold properties⁷. The activity in the real-estate market remains shy relatively to pre-Syrian war years given the overall weak investment environment. In contrast, **built property tax** rose by LL 27 billion (18 percent) to reach LL 175 billion and **inheritance tax** rose by LL 10 billion (13 percent) to LL 83 billion in Jan-Jun 2015.

⁵ Banque du Liban transfers to the Ministry of Finance tax on interest income from the outstanding stock of Treasury Bills and Bonds pertaining to all TB holders, and covers tax dues on interest income from its issued Certificate of Deposits.

⁶ Currently there exists no breakdown to further differentiate between interest income from Treasury Bills and Bonds and interest income from Certificate of Deposits issued by the Central Bank. However, the former is directly related to interest payments on LL denominated debt, which increased by 9.9 percent over the period under consideration (for more information, kindly refer to the Interest Payment Section of the report).

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

Figure 4: Property Registration Statistics from Cadaster (H1 2010 – H1 2015)



Source: MoF, Cadaster

Note: These are declaration statistics based on sales contracts.

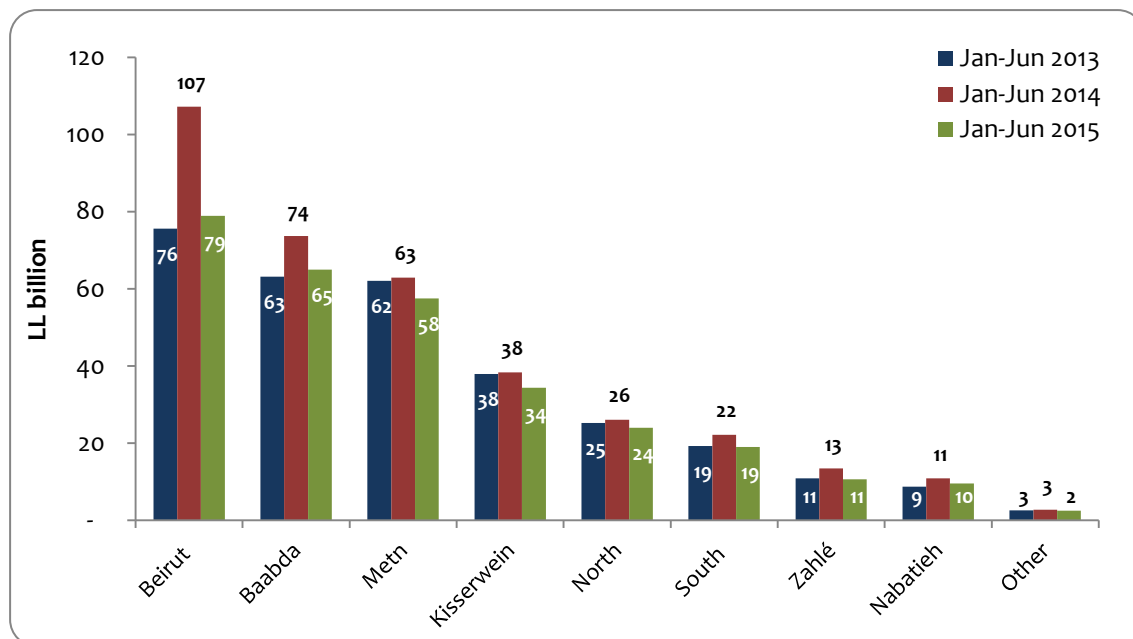
According to declaration statistics, total fees collected from sale transactions⁸ registered a 16 percent (LL 56 billion) year-on-year drop, to reach LL 302 billion in the first six months of 2015. In nominal terms, two-third of this decrease was the result of lower revenues collected from **Beirut** (LL 28 billion) and **Baabda** (LL9 billion). The remaining regions of Lebanon were also adversely affected.

It is noteworthy that the aforementioned property prices are irrespective of the type (built property or land, commercial building or apartment...) or size of property. For example, higher/lower prices of properties in a certain region could possibly reflect one or more of the following:

1. A shift towards bigger/smaller properties,
2. Higher/lower market prices driven by a high/low demand or limited/over supply,
3. A shift towards more/less expensive areas within the same region, or
4. A shift toward built-properties/land, which are usually more/less expensive than land/built-properties (on a *per square meter* basis).

⁸ Total fees collected from sales transactions are taken from declaration statistics and defer from the Real Estate Registration Fees included in the PFM Table 5, with the latter recorded whenever these are transferred to the Treasury, while the former, whenever the sale transaction takes place. Additionally, Real Estate Registration Fees include other miscellaneous fees, not related to sales transactions.

Figure 5: Total Fees Collected from Sales Transactions, by Region (H1 2013 – H1 2015)



Source: MoF, Cadaster

Note: These are declaration statistics based on sales contracts. Additionally, the total figure for all regions differs from the one mentioned in the PFM tables (Table 5). For more information, kindly refer to footnote 8.

Domestic taxes on goods and services decreased by LL 100 billion (5 percent) mainly as a result of a decline in value-added tax and transfers from Régie by LL 80 billion and LL 30 billion respectively.

In detail, VAT collected at customs dropped by 11 percent to reach LL 914 billion, reflecting the 15 percent drop in imports that was partly counterbalanced by a 4 percent increase in the VAT effective rate. Lower international oil prices along with the appreciation of the Lebanese currency, pegged to the US Dollar, are presumably the main reasons behind the drop in fuel imports (39 percent) and non-fuel imports (7 percent). In contrast, VAT collected internally recorded a 5 percent rise over the period, consistent with the expected low level of growth during 2015.

Table 6: Total Imports and Effective VAT Rate

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change 2015/2014
Total Imports	15,503	13,243	-14.6%
• Fuel Imports (fuel derivatives classified under HS 27)	3,507	2,145	-38.8%
• Non-Fuel Imports	11,996	11,099	-7.5%
• Share of Fuel Imports	22.6%	16.2%	-28.4%
• Share of Non Fuel Imports	77.4%	83.8%	8.3%
Revenues from VAT at Imports	1,023	914	-10.7%
Effective VAT rate	6.6%	6.9%	4.5%

Source: MOF, DGF

Passenger departure tax dropped by LL 2 billion (3 percent) to LL 58 billion in Jan-Jun 2015, while **private car registration fees** increased by LL 11 billion (11 percent) to reach LL 115 billion: the latter tends to be highly correlated with car imports, which in turn rose by 15 percent over the same period.

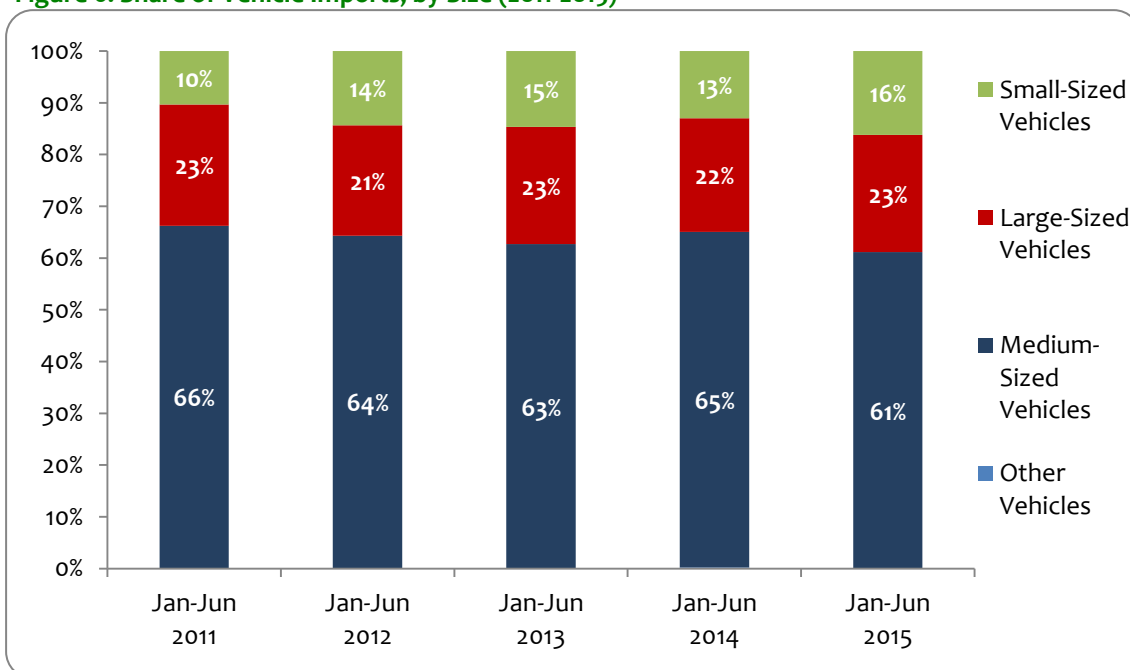
Taxes collected from international trade (customs and excises) rose by LL 41 billion to reach LL 1,003 billion in the first six months of 2015. **Tariff revenues** dropped by 5 percent to LL 360 billion in the first half of 2015, in line with the 7.5 percent drop in non-fuel imports.

Given that mineral fuel and oil are subject to low customs tariffs, it is worth mentioning that the sharp drop in international oil prices did not considerably affect custom revenues.

Total excises rose by 10 percent in Jan-Jun 2015 to LL 643 billion driven by higher gasoline and car excises that were partly counterbalanced by lower tobacco excises. **Excises on gasoline** grew by 21 percent (LL 53 billion) year-on-year to reach LL 302 billion in the first half of 2015. The latter rise was the combined result of an 11 percent increase in average gasoline excise rates following a Higher Council of Customs' decision⁹, as well as a 9 percent growth in the volume of imported gasoline. It is worth mentioning that Lebanon has a pricing mechanism that allows the transmission of lower international prices into the domestic market. In fact, the average weekly price of 95 Octane gasoline was down by 28 percent over the period, which in turn propped demand for gasoline.

Car excises increased by 13 percent over the period, mainly driven by a 10 percent rise in the number of imported vehicles to 36,763 in H1 2015. Around half of this increase originated from higher imports of small vehicles¹⁰, although their share out of total vehicles remained at a low level of 16 percent during the first half of 2015 (for more information, kindly refer to Figure 6 below).

Figure 6: Share of Vehicle Imports, by Size (2011-2015)



Source: Directorate General of Customs.

For more information on the nomenclature of vehicle sizes, kindly refer to Footnote 10.

Tobacco excises recorded a 14 percent (LL 19 billion) drop over the period owing namely to a 5 percent decrease in the value of tobacco imports as well as a 9 percent drop in the average excise rate. Most notably, cigarettes saw the most exacerbated decrease of 15 percent in terms of volume and 7 percent in terms of value, which most likely reflects continued smuggling from neighbouring Syria.

⁹ Following Higher Council of Customs' Decision 1/2015 (dated 13 January 2015), gasoline excise rates were set at LL 5,060 per 20 liters of 95 Octane and LL 4,950 per 20 liters of 98 Octane.

¹⁰ Small-sized vehicles are defined as vehicles with spark-ignition internal combustion reciprocating piston engine of a cylinder capacity not exceeding 1,500 cc, while medium-sized vehicles are of a cylinder capacity between 1,500 and 3,000 cc and large-sized vehicles are of cylinder exceeding 3,000 cc (as per Harmonized System nomenclature of Customs). For more information, kindly refer to the following website: <http://www.customs.gov.lb/customs>

Finally, receipts from **fiscal stamp fees** rose by LL 6 billion year-on-year to LL 245 billion in the first half of 2015. Receipts from this tax are indicative of the general state of economic activity as they reflect the volume and value 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

Starting January 2015, transfers from the Telecom Surplus figures for 2015 are being recorded on a cash basis in the Fiscal Performance, whereas for previous years, these figures remain the ones estimated by the Ministry of Telecommunication and MoF. The cash basis approach reconciles revenues figures, by comparing cash Telecom Transfers for both periods of Jan-Jun 2014 and 2015.

On a cash basis, non-tax revenues more than doubled in comparison with the same period of 2014, as cash transfers from the Telecom Surplus were nil in the first half of 2014, compared to LL 829 billion in Jan-Jun 2015. Of other non-tax revenues, **property income** and **revenues from Port of Beirut** dropped by LL 36 billion, and LL 22 billion respectively. On the other hand, revenues collected from **administrative fees and charges** rose by LL 85 billion (27 percent), primarily driven by a LL 46 billion (59 percent) increase in passport fees.

Table 7: Non-Tax Revenues

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change 2015/2014
Income from Public Institutions and Government Properties	1,252	1,071	-14.5%
• Income from Non-Financial Public Enterprises, of which:	1,101	956	-13.2%
- Revenues from Casino du Liban	60	56	-6.6%
- Revenues from Port of Beirut	82	60	-26.9%
- Budget Surplus of National Lottery	18	11	-40.9%
- Transfer from the Telecom Surplus	941	829	-11.9%
• Income from Financial Public Enterprises (BdL)	61	61	0.2%
• Property Income (rent of Rafic Hariri International Airport)	87	52	-40.8%
• Other Income from Public Institutions	3	2	-17.5%
Administrative Fees & Charges, of which:	311	396	27.3%
• Administrative Fees, of which:	256	328	28.1%
- Notary Fees	16	18	16.4%
- Passport Fees/ Public Security	78	124	58.9%
- Vehicle Control Fees	118	122	3.4%
- Judicial Fees	14	16	13.7%
- Driving License Fees	9	16	77.9%
• Administrative Charges	17	21	26.6%
• Sales (Official Gazette and License Number)	1	1	-0.2%
• Permit Fees (mostly work permit fees)	31	36	16.0%
• Other Administrative Fees and Charges	6	10	57.4%
Penalties and Confiscations	6	12	107.1%
Other Non-Tax Revenues (mostly retirement deductibles)	84	82	-1.9%
Total Non-Tax Revenues	1,652	1,561	-5.6%

Source: MOF, DGF

TREASURY RECEIPTS

Treasury receipts recorded a LL 177 billion (35 percent) decrease to reach LL 332 billion in Jan-Jun 2015.

SECTION III: EXPENDITURE OUTCOME

Total expenditure (budget and treasury) decreased by 0.4 percent by end June 2015, amounting to LL 10,237 billion, compared to LL 10,274 billion in Jan-Jun 2014. In parallel, **total primary expenditure** declined by 2.7 percent to reach LL 6,830 billion during the first half of 2015, compared to LL 7,023 billion during Jan-Jun 2014. The LL 37 billion decline in total expenditure was mainly the result of lower **transfers to EDL** by LL 619 billion, counterbalanced by a LL 444 billion rise in **personnel cost**, a LL 128 billion increase in **other current expenditure**, and a LL 106 billion climb in **interest payments**.

Table 8: Expenditure summary

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change 2015/2014
Interest payments	3,129	3,235	3.4%
Concessional loans principal payments ⁽¹⁾	122	171	40.6%
Primary expenditures ⁽²⁾	7,023	6,830	-2.7%
Total budget and treasury payments	10,274	10,237	0.4%

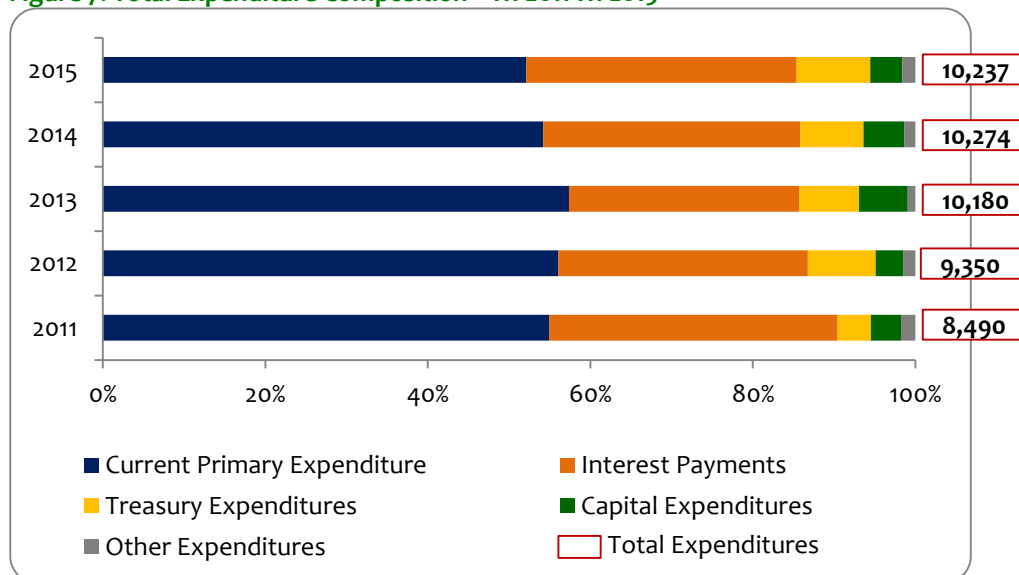
Source: MOF, DGF

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

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

Current primary expenditure accounted for 52 percent of total expenditures during the first half of 2015, down from 54 percent during Jan-Jun 2014 and 57 percent during Jan-Jun 2013. **Interest payments** and **foreign debt principal repayments** accounted for 33 percent during H1- 2015, up from 28 percent and 32 percent during the same period of 2013 and 2014 respectively. These were followed by **treasury expenditures** which averaged 8 percent of total expenditure during H1 of the period 2012-2015, up from a figure of 4 percent during Jan-Jun 2011. As for **capital expenditures**, spending followed a declining trend since 2013 with a share of 6 percent of total expenditure, down to 5 percent and 4 percent during the first half of 2014 and 2015 respectively.

Figure 7: Total Expenditure Composition – H1 2011-H1 2015



Source: MOF, DGF

The evolution of the main expenditure items in Jan-Jun 2015, according to the economic classification, is presented in table 9 below, and reviewed in the sections that follow.

Table 9: Expenditure by economic classification

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change
1. Current Expenditures	8,819	8,741	-0.9%
1.a Personnel Cost, of which	3,027	3,472	14.7%
Salaries, Wages and Related Items (Article 13)	2,103	2,279	8.4%
Retirement and End of Service Compensations, of which:	800	1,001	25.2%
Retirement	679	855	25.8%
End of Service	120	147	21.9%
Transfers to Public Institutions to Cover Salaries	125	192	53.5%
1.b Interest Payments	3,129	3,235	3.4%
1.c Foreign Debt Principal Repayment	122	171	40.6%
1.d Materials and Supplies, of which:	143	133	-6.4%
Nutrition (Food supply)	24	36	50.1%
Fuel Oil	3	7	160.9%
Medicaments	64	61	-4.9%
1.e External Services	79	73	-6.8%
1.f Various Transfers, of which:	2,050	1,261	-38.5%
EDL	1,565	946	-39.6%
NSSF	100	0	-100.0%
Higher Council of Relief	5	28	474.7%
Contributions to non-public sectors	147	149	1.1%
Transfers to Directorate General of Cereals and Beetroot	67	10	-85.8%
Contributions to water authorities	12	0	-100.0%
1.g Other Current, of which:	173	301	73.7%
Hospitals	126	212	68.0%
Others (judgments & reconciliations, mission costs, other)	46	83	80.4%
1.h Reserves (Interest subsidy)	97	93	-4.2%
2. Capital Expenditures	516	405	-21.7%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	-95.4%
2.b Equipment	23	29	24.4%
2.c Construction in Progress, of which:	406	282	-30.6%
Displaced Fund	30	0	-
Council of the South	39	20	-49.0%
CDR	186	183	-2.0%
Ministry of Public Work and Transport	37	23	-37.3%
Other	48	53	10.8%
2.d Maintenance	63	82	29.7%
2.e Other Expenditures Related to Fixed Capital Assets	24	12	-49.2%
3. Budget Advances 1/	117	125	6.9%
4. Customs Administration (exc. Salaries and Wages) 2/	22	39	80.6%
5. Treasury Expenditures 3/	800	927	15.9%
Municipalities	562	573	1.9%
Guarantees	35	31	-10.4%
Deposits 4/	51	126	146.6%
Other, of which:	152	197	29.6%
VAT Refund	113	159	40.4%
6. Unclassified Expenditures	0	1	102.6%
7. Total Expenditures (Excluding CDR Foreign Financed)	10,274	10,237	-0.4%

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

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

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

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

CURRENT EXPENDITURE

Current expenditure declined by LL 78 billion chiefly driven by a decrease in **transfers to EDL** by LL 619 billion. This decrease was partly offset by an increase in (i) **personnel cost** by LL 444 billion, (ii) **other current expenditure** by LL 128 billion, and (iii) **interest payments** by LL 106 billion.

CURRENT PRIMARY EXPENDITURE

Current primary expenditure recorded a decline of 4.2 percent from LL 5,568 billion during Jan-Jun 2014 to LL 5,335 billion during Jan-Jun 2015.

Personnel cost increased by LL 444 billion to reach LL 3,472 billion in Jan-Jun 2015 compared to LL 3,027 billion during the comparable period of 2014, mainly due to an increase in **retirement salaries** by LL 175 billion coupled with a LL 26 billion rise in **end of service indemnities**. **Salaries, wages and related items** totalled LL 2,279 billion, increasing by LL 176 billion from the Jan-Jun 2014 figure. As shown in Table 10, this increase was mainly the result of a rise in allowances (LL 116 billion) and basic salaries (LL 61 billion), slightly counterbalanced by a decrease in customs salaries (LL 4 billion)¹¹.

Table 10: Breakdown of Salaries, Wages and Related Benefits (H1 2014-H1 2015)

(LL billion)	Basic Salaries		Allowances 1/		Employment Benefits and Other 2/		Total	
	2014	2015	2014	2015	2014	2015	2014	2015
Military Personnel	1,023	1,075	278	393	41	43	1,342	1,510
Army	647	685	140	233	25	26	812	945
Internal Security Forces	296	298	105	118	13	13	413	429
General Security Forces	63	72	26	32	2	2	91	106
State Security Forces	17	20	8	9	1	1	27	30
Education Personnel	390	390	0	0	39	37	430	427
Civil Personnel	161	171	2	3	53	57	217	231
Employees Cooperative					94	94	94	94
Customs Salaries							19	15
Total	1,575	1,636	280	396	223	228	2,102	2,279

Source: MoF, DGF

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

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

Retirement and end-of-service compensations summed up to LL 1,001 billion in Jan-Jun 2015 compared to LL 800 billion during the same period of 2014. Behind the LL 202 billion surge stands a significant LL 175 billion increase in retirement compensation coupled with a LL 26 billion increase in end-of-service indemnities. **Retirement** registered an increase of 26 percent mainly as a result of a discrepancy in the timing of payment. More specifically, the

¹¹ For further details and analysis about these results, please refer to the Personnel Cost monthly bulletin of June 2015 on the Ministry of Finance website: www.finance.gov.lb.

retirement salaries paid during the month of June 2014 were nil and instead paid in July 2014 which implies the LL 175 billion increase between Jan-Jun 2015 compared to 2014. As for the **end-of-service indemnity**, the reason behind the LL 26 billion increase is mainly due to the combined result of the following:

- End-of-service compensation to military personnel amounted to LL 125 billion (85 percent of total compensation payments) during Jan-Jun 2015, compared to LL 95 billion (79 percent of total compensation payments) in Jan-Jun 2014; induced by a higher number of beneficiaries and/or by the fact that retirees during the period under consideration, are of higher grade levels and/or have served for longer period.
- However, end-of-service compensations to civil personnel decreased by LL 2 billion to reach LL 21 billion in Jan-Jun 2015. This 9 percent drop was the result of retirees having worked for a shorter period and/or having received lower salaries compared to previous year. It is worth noting that the number of beneficiaries slightly decreased to reach 955 retirees in H1 2015, down from 1,192 retirees in H1 2014.
- Also, end-of-service compensations to Lebanese University teaching staff decreased by merely LL 1 billion during Jan-Jun 2015, due to lower number of beneficiaries and/or by the fact that retirees during 2014 were of higher grade levels and/or have served for longer period.

Transfers to public institutions to cover salaries increased by LL 67 billion. This was mainly driven by a LL 75 billion rise in transfers to the Lebanese University during Jan-Jun 2015. The changes in the components of transfers to public institutions are shown in Table 11 below.

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

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	%Change 2015/2014
Transfer to Council of the South	7	4	-52.5%
Transfer to the Council for Development and Reconstruction	8	6	-31.9%
Transfer to Fund for the Displaced	2	3	25.7%
Transfer to the Lebanese University	105	180	71.4%
Transfer to Educational Centre for Research and Development	2	0	-100.0%
Total Transfers to Public Institutions	125	192	53.5%

Source: MoF, DGF

Purchases of **materials and supplies** dropped by LL 9 billion in Jan-Jun 2015, mainly driven by a LL 3 billion decrease in spending on **medicaments**. More specifically, medicaments totalled LL 61 billion of which LL 51 billion were transferred to the Ministry of Public Health and LL 10 billion to military personnel. In addition, transfers to **fuel oil** increased by LL 4 billion and food supplies spending rose by LL 12 billion during the period under review.

External services (rent, postal, insurance, advertisement and public relations) dropped by LL 5 billion to reach LL 73 billion in Jan-Jun 2015, mainly attributed to a decrease in **rental payments** by LL 10 billion, while **remuneration for consultancy services** increased by LL 3 billion. **Publications** and **cleaning services** remained quasi the same.

Various transfers declined by LL 788 billion and amounted to LL 1,261 billion by end of June 2015, compared to LL 2,050 billion in the same period of 2014, owing to a significant decline in **transfers to Electricité du Liban (EDL)**. Transfers to the electricity company¹² amounted to LL 946 billion in Jan-Jun 2015, compared to LL 1,565 billion during the same period of 2014. The LL 619 billion drop reflected the decrease in international crude oil prices to an average

¹² Additional details on EDL transfers in Jan-Jun 2015 will be available in the June issue of Transfers to Electricité Du Liban, a monthly snapshot, on the Ministry of Finance website: www.finance.gov.lb.

of US\$ 58 per barrel in the first half of 2015, from around US\$ 109 per barrel in the period corresponding to H1 2014 payments, noting that imports prior to 2015 were made six to nine months ahead of payment date to fuel oil and gasoil suppliers, whereby payments made in the first half of 2015 covered the cost of imports by EDL during the same period. For more details on changes in fuel oil and gasoil supply contracts, please refer to Box#1, page 20.

Table 12: Transfers to EDL

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	%Change 2014/2013
EDL, of which:	1,565	946	-39.6%
Debt Service	15	13	-8.9%
Reimbursement for purchase of Fuel & Gas Oil	1,550	933	-39.8%

Source: MOF, DGF

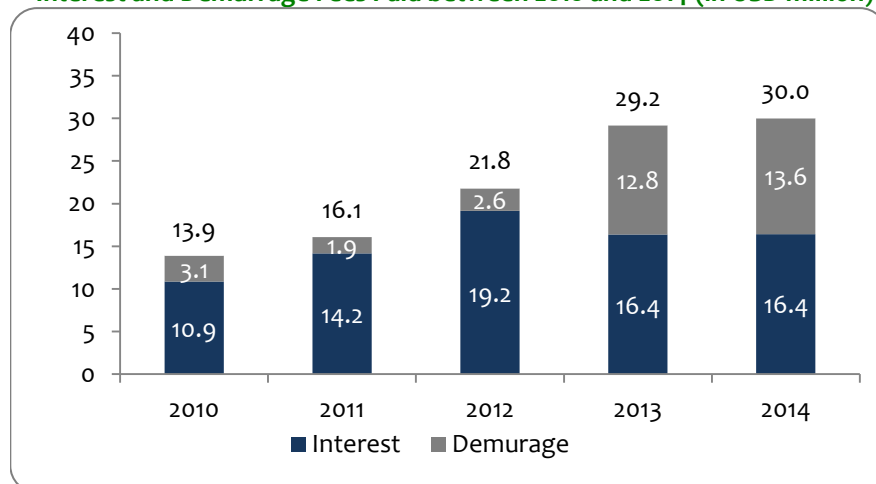
Box #1: Contract Renewals with KPC and Sonatrach

On November 27th 2014, new contracts were signed between the Lebanese Republic and petroleum suppliers, Algeria's Sonatrach and Kuwait Petroleum Corporation KPC, specifying new payment mechanisms for fuel oil and gasoil imports. Under the new contracts, reimbursements for imports were set to be made 30 to 45 days from the opening date of letters of credit, compared to previous periods of 180 to 270 days for Sonatrach and KPC respectively. Likewise, and among other changes, the new contracts introduce operational guidelines that resulted in fewer delays of shipment discharges, and accordingly, lower demurrage fees.

The new payment structure resulted in the elimination of interest payments to suppliers and on the fiscal front in a direct conversion from change in international oil prices to effect on Treasury transfers to EDL.

The below figure shows the value of interest payments made to suppliers in the five years prior to the contract renegotiations.

Interest and Demurrage Fees Paid between 2010 and 2014 (in USD million)



Various transfers amounted to LL 315 billion by the end of June 2015, compared to LL 485 billion in 2014 when transfers to EDL are excluded, implying a drop of LL 169 billion mainly attributed to the following combined changes:

- Transfers to **NSSF** were nil by end June 2015, compared to LL 100 billion during Jan-Jun 2014, noting these transfers are discretionary and do not follow a specific trend.
- Transfers to the **Directorate General of Cereals and Beetroot** decreased by LL 57 billion year-on-year to reach LL 10 billion in Jan-Jun 2015. Of the total amount paid in 2015, LL 6.5 billion¹³ was made through a treasury advance to compensate wheat farmers in all the Lebanese regions for damages resulting from low rain levels during the 2014 season. The remaining LL 3 billion¹⁴ was paid through a treasury advance to subsidize beetroot farmers for the year 2013 harvest. On a related note, it is worth mentioning that LL 57 billion was reimbursed by the Directorate of Cereals and Beetroot to the Treasury as revenues during Jan-Jun 2014, compared to only LL 1 billion during the same period of 2015.
- Transfers to **public hospitals** dropped from LL 41 billion in Jan-Jun 2014 to reach LL 1 billion during the comparative period of 2015. Of the total amount spent in 2014, LL 29 billion were transferred to Rafik Hariri University Hospital, as compared to nil in 2015.
- Transfers to **water authorities** declined by LL 12 billion down to nil by the end of June 2015. Of the total amount paid in 2014, LL 4.5 billion was paid through CDR to operate and maintain water system and pipelines in Baalbek.

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

- Transfers to **Higher Relief Council** increased by LL 24 billion amounting to LL 28 billion in Jan-Jun 2015, and relate to compensations resulting from a series of tragic event in Lebanon, namely Dahr el Baydar and Tayyouneh blasts, Tripoli conflicts (LL 20 billion), and Aarsal clashes (LL 6.7 billion), in addition to LL 1.5 billion paid to ensure the return of drivers held in several Arab countries with their trucks.
- Contributions to non-public sectors** increased by LL 2 billion from LL 147 billion in Jan-Jun 2014 to LL 149 billion in Jan-Jun 2015, mainly due to a LL 7 billion rise in transfers to the Ministry of Education (subsidized schools).

Table 13: Breakdown of Article 14 by Economic Classification¹⁵

LL billion	Jan-Jun 2014	Jan-Jun 2015	% Change
1. Contributions to the Public Sector 1/	1,808	1,076	-40.5%
1a. Electricité Du Liban (EDL)	1,565	946	-39.6%
1b. Other Contributions to the Public Sector, of which:	243	130	-46.5%
High Relief Committee (HRC)	5	28	474.7%
Transfers to School Funds	31	18	-42.3%
Green Project	3	8	207.7%
Lebanese National Higher Conservatory of Music	6	12	106.5%
Tele-Liban	6	7	21.6%
National Agriculture Research Institute (NARI)	6	7	16.2%
Public Hospitals	41	1	-98.7%
Investment Development Authority of Lebanon (IDAL)	4	1	-67.7%

¹³ As per decree 1159 dated 18 December 2014, the total treasury advance is LL 6.5 billion.

¹⁴ As per decree 1177 dated 23 December 2014, the total treasury advance is LL 3 billion.

¹⁵ Differences with previous published data are due to some adjustments.

National Social Security Fund (NSSF)	100	-	-100.0%
2. Contributions to the Non-Public Sector	147	149	1.1%
2a. Contributions to Non Profit Organizations , of which:	134	142	5.6%
Ministry of Education-Subsidized Schools	67	74	10.5%
Ministry of Youth and Sports	1	3	83.2%
Ministry of Public Health	8	6	-24.3%
Ministry of Social Affairs	54	54	0.0%
2b. Contributions to Private Parties	13	7	-44.1%
3. Assistance to the Public Sector	80	10	-88.0%
3a. Directorate General of Grains & Sugar Beetroot	67	10	-85.8%
3b. Public Institutions, of which: 2/	12	-	-100.0%
Water Authorities	12	-	-100.0%
4. Assistance to the Non-Public Sector	-	-	N/A
5.External Assistance (Ministry of Environment)	3	-	-100.0%
6. Membership Fees (International and Regional Organizations)	10	8	-25.1%
Ministry of Foreign Affairs and Emigrants	7	2	-68.4%
7.Stoppings 3/	1	19	N.M.
Total	2,050	1,261	-38.5%

Source: MOF, DGF

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

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

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

Other Current Expenditures jumped by LL 128 billion to reach LL 301 billion by end-June 2015, mainly due to an LL 86 billion increase in payments to hospitals and a LL 37 billion rise in payments in "other spending"¹⁶. The reason behind the rise in "other spending" is mainly attributed to an increase in transfers to the Housing Institution from LL 5 billion to LL 40 billion¹⁷, whereby these transfers represent the interest payment of subsidized loans provided by banks, as per the contract between Banque du Liban and the Housing Institution.

¹⁶ "Other spending" mainly includes compensatory payments to be made following judgment issued by the State Council, reconciliation payments as well as electoral expenses.

¹⁷ As per decree 1463 dated 5 March 2015.

INTEREST PAYMENTS

Interest payments rose by LL 106 billion (3 percent) to LL 3,235 billion during the first half of 2015, as interest payments on local currency debt rose by 10 percent outweighing the 7 percent drop in foreign currency interest payments.

Interest payments on local currency debt added LL 190 billion to reach LL 2,100 billion in Jan-Jun 2015. In detail, **coupon payments on Treasury bonds** (2YR, 3YR, 5YR, 7YR, 8YR, 10YR and 12YR) rose by 11 percent, owing largely to an expansion in the number of outstanding Bonds on which coupons were due. In parallel, the stock of long-term domestic debt increased by 10 percent (LL 5,661 billion) in December 2014, compared to December 2013, mainly on account of a higher stock of 3YR, 10YR and 5YR instruments, which rose by LL 3,063 billion, LL 1,946 billion and LL 486 billion respectively. These increases translated solely into higher interest payments during the first half of 2015, given that coupon payments are paid six months following the issuance of a Bond.

In contrast, **discount interest payments** (interest paid at maturity of 3, 6, & 12 months T-bills) amounted to LL 39 billion in the first half of 2015, down from LL 46 billion in the same period of 2014. It is worth mentioning that starting April 2014, discount interest began to be calculated as an expenditure item on issuance of TBs (*accrual basis*), whereas previously interest was calculated as per maturity date (*cash basis*). After adjusting for this calculation change (i.e. comparing both periods on an accrual basis), discount interest dropped by 40 percent (LL 26 billion) reflecting primarily the lower amount of issuances of these instruments during weekly auctions.

Interest payments on foreign currency debt amounted to LL 1,136 billion in Jan-Jun 2015, decreasing by 7 percent compared to 2014. The latter decline reflects in part a drop in the stock of market-issued Eurobonds from LL 35,533 billion as at end-December 2013 to LL 34,850 billion as at end-December 2014, as well as a 10 basis points contraction in the weighted average cost of Eurobonds to 6.40 percent by end-December 2014, compared to 6.50 percent end-December 2013.

Table 14: Interest Payments

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	% Change 2015/2014
Interest Payments	3,129	3,235	3.4%
Local Currency	1,910	2,100	9.9%
Discount interest	46	39	-15.5%
Coupon payments	1,864	2,061	10.6%
Foreign Currency	1,219	1,136	-6.9%
Eurobond Coupon (including fees)	1,155	1,081	-6.5%
C-loans interest	60	52	-13.7%
Special Bond (expropriation & contractors)	4	3	-18.9%

Source: MOF, DGF

CAPITAL EXPENDITURE

Capital expenditures amounted to LL 405 billion during the first half of 2015, declining by LL 112 billion from Jan-Jun 2014 figure, mainly due to a decrease in **construction in progress** by LL 124 billion, coupled with a LL 12 billion drop in **other expenditures related to fixed capital assets**. The latter declined as a result of a LL 10 billion decrease in transfers to IDAL for the Export Plus program.

Construction in progress fell by 31 percent during Jan-Jun 2015 to reach LL 282 billion, chiefly attributed to (i) zero payments to the **Displaced Fund**, compared to LL 30 billion during Jan-Jun 2014, (ii) a LL 14 billion drop in payments to the **Ministry of Public Work and Transport**, (iii) a LL 19 billion decrease in payments to the **Council of the South**, reaching LL 20 billion by end June 2015, and (iv) a LL 4 billion drop in payments to **CDR**.

The 2 percent decline in payments to **CDR** during Jan-Jun 2015 is mainly due to a decrease in (i) projects relating to roads by LL 30 billion, (ii) counterpart funding for foreign financed projects by LL 17 billion, (iii) other payments from CDR budget by LL 16 billion, and (iv) maintenance for Rafic Hariri Airport by LL 6 billion. These decreases were almost offset by a LL 26 billion increase in projects relating to buildings, and a LL 37 billion rise in payments related to other different and urgent projects, paid through a treasury advance¹⁸. The total treasury advance amounted to LL 300 billion and refers to projects disclosed in decision number 99 dated 22 May 2014, (for further details, kindly refer to table 15, Public Finance Annual Review, 2014).

Table 15: Payments to CDR for Construction in Progress

LL billion	Jan-Jun 2014	Jan-Jun 2015	%Change
CDR Budget Payments (1)	95	56	-41.0%
Counterpart funding for foreign financed projects	73	56	-23.2%
Maintenance of Rafic Hariri International Airport	6	-	-100%.
Other Payments from CDR Budget	16	-	-100%
Projects Executed on behalf of Line Ministries (2)	92	90	-2.3%
Roads projects	72	43	-41.0%
Buildings and other related projects	-	26	N.M.
Water treatment projects	20	21	8.9%
Other	-	37	N.M.
Total Payments to CDR for Construction In Progress	186	183	-2.0%

Source: MOF, DGF

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

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

The above mentioned decreases were slightly counterbalanced by an increase in **maintenance** by 30 percent to reach LL 82 billion by end June 2015. Of this total amount, LL 59 billion were transferred to the **Ministry of Public Works and Transportation** during Jan-Jun 2015, compared to LL 45 billion paid during the same period of 2014. In addition, LL 8 billion were paid to **CDR** through two treasury advances¹⁹ to cover the cost of operating expenses, maintenance and supervision of the Lebanese University in Hadath, compared to LL 4.5 billion paid during Jan-Jun 2014.

¹⁸ as per decree 12068 dated 21 July 2014

¹⁹ As per decree 726 dated 2 October 2014 and decree 10873 dated 21 November 2013, whereby the total amount of each treasury advance is LL 20.6 billion.

Equipment increased by LL 6 billion, from LL 23 billion in Jan-Jun 2014 to LL 29 billion during the same period of 2015, mainly due to a rise in transfers made to the Ministry of Finance.

OTHER TREASURY EXPENDITURE

Other treasury expenditures increased by 16 percent, reaching LL 927 billion during the first half of 2015, compared to LL 800 billion during the same comparative period of 2014. The LL 127 billion rise is mainly attributed to an increase in (i) **deposits** by LL 75 billion, (ii) **VAT refund** by LL 46 billion, and (iii) transfers to municipalities by LL 11 billion.

More specifically, distribution of revenues accruing to municipalities increased by 12 percent (LL 42 billion), while payments to solid waste management companies dropped by 16 percent (LL 31 billion) during Jan-Jun 2015.

Table 16: Payments to Municipalities

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	%Change 2015/2014
Distribution of Revenues Accruing to Municipalities	355	397	11.9%
Payments for Solid Waste Management	196	165	-16.0%
Payments to the "First Municipality Infrastructure Project"	6	6	-0.5%
Other Payments	4	5	27.9
Total Payments to Municipalities	562	573	1.9%

Source: MoF, DGF

SOCIAL EXPENDITURE

Social expenditures cover the basic social services of health, education, transfers to the National Social Security Fund (NSSF), retirement and end-of-service indemnities, and other areas of intervention where the Government provides social allowances. As a percentage of total spending, social expenditure accounted for 23 percent during Jan-Jun 2014 and 25 percent during the comparable period of 2015.

The social expenditure bill increased by LL 273 billion year-on-year, amounting to LL 2,594 billion in Jan-Jun 2015 compared to LL 2,320 billion during the same period of 2014. The main changes to be noted during the period are the following:

- End of service indemnities and retirement wages totaled LL 1,001 billion in Jan-Jun 2015, increasing by LL 202 billion (for further details, kindly refer to the "Current primary expenditures" section).
- Expenditures on hospitalization in the private sector increased by LL 86 billion, amounting to LL 212 billion in Jan-Jun 2015 compared to LL 126 billion in 2014.
- Transfers to the Lebanese University amounted to LL 180 billion in Jan-Jun 2015, increasing by LL 75 billion.
- Education allowance in private sector increased by LL 54 billion, reaching LL 190 billion in Jan-Jun 2015. Also, spending on hospitalization of public sector employees in private sector amounted to LL 150 billion in Jan-Jun 2015, increasing by LL 52 billion.
- However, transfers to NSSF dropped by LL 100 billion year-on-year to nil in Jan-Jun 2015.

In terms of spending allocation, **end of service indemnities and retirement wages** ranked first with 39 percent during Jan-Jun 2015, up from 34 percent in 2014. These were followed by **education spending** accounting for 35 percent of the total during Jan-Jun 2015 down from 36 percent in Jan-Jun 2014. More specifically, **wages and salaries of the General Directorate of Education** and **transfers to the Lebanese University** constituted the bulk of

Note #2: Transfers to Municipalities

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

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

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

the education spending category. Lastly, **health expenditure** ranked third with 19 percent during Jan-Jun 2015 up from 16 percent in Jan-Jun 2014; whereby **hospitalization in the private sector** was the main component of this category.

Table 17: Main Social Expenditure

(LL billion)	Jan-Jun 2014	Jan-Jun 2015	%Change 2015/2014
Health			
Hospitalization in the private sector	126	212	68.0%
Purchase of Medication	64	61	-4.9%
Hospitalization of public sector employees in private sector	99	150	52.4%
Maternity and sickness allowance	20	34	70.2%
Other	70	34	-50.8%
Sub-Total	378	491	29.8%
Education			
Ministry of Education and Higher Learning, of which	698	714	2.3%
Salaries and wages	430	427	-0.7%
Transfers to the Lebanese University	105	180	71.4%
Contributions to non-profitable organizations	67	74	10.5%
Education allowance in private sector	136	190	39.4%
Sub-Total	834	904	8.4%
Other Social Spending			
End of Service Indemnities & Retirement Wages	800	1,001	25.2%
Transfers to the National Social Security Fund	100	0	-100.0%
Transfers to Civil Servants' Cooperative	94	94	0.0%
Ministry of Social Affairs, of which	64	56	-12.0%
Transfers to non-profitable organizations	61	54	-11.9%
Participation in several mutual funds	21	22	6.3%
Other social spending allowance (1)	30	25	-15.8%
Sub-Total	1,108	1,199	8.2%
Grand-Total Social Spending	2,320	2,594	11.8%

Source: MOF, DGF

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

SECTION IV: PUBLIC DEBT DEVELOPMENTS

PUBLIC DEBT: GENERAL FACTS

The stock of **gross public debt** reached LL 104,063 billion (US\$ 69.03 billion) by the end of June 2015, adding LL 3,707 billion (3.7 percent) from end-2014. Local currency debt rose by LL 2,143 billion representing 58 percent of the total debt expansion, while foreign currency debt accounted for the remaining increase with LL 1,564 billion or 4.1 percent.

Net public debt increased at a slightly faster pace than gross debt during the same period, although in nominal terms, the increase was slightly smaller at LL 3,256 billion owing to an increase in public sector deposits by LL 451 billion to LL 14,416 billion.

Table 18: Public Debt Outstanding as of end-June 2015

(LL billion)	Dec-13	Dec-14	Jun-15	Change Jun 15/Dec14	%Change Jun 15/Dec14
Gross Public Debt ⁽¹⁾	95,710	100,356	104,063	3,707	3.69%
Net Debt ⁽²⁾	80,215	86,391	89,647	3,256	3.77%
Gross Market Debt ⁽³⁾	65,386	67,373	68,640	1,266	1.88%

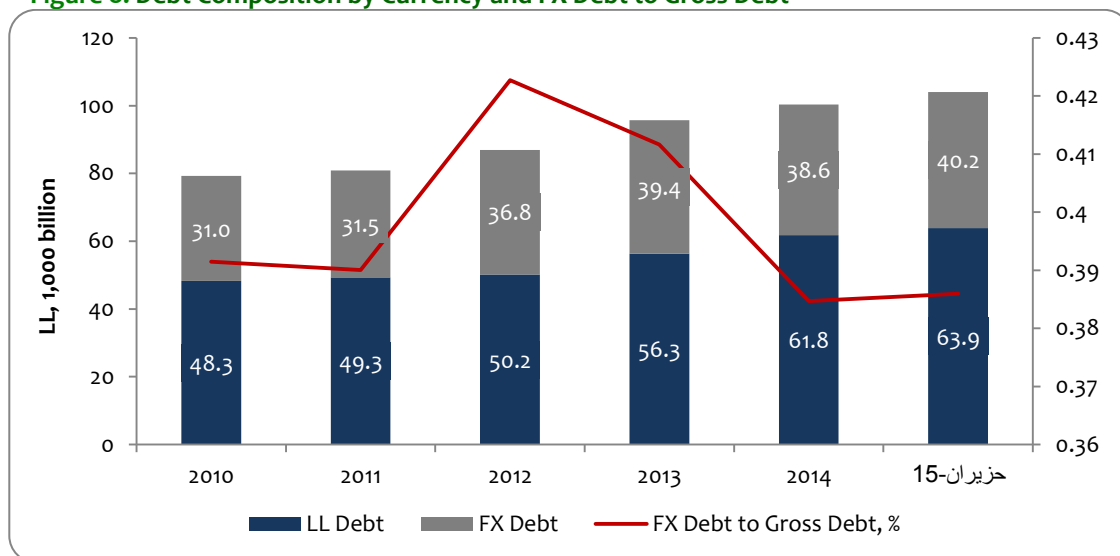
Source: MoF, Banque du Liban (BDL)

(1) Figures for Dec 13-Jun 15 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.

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

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

Figure 8: Debt Composition by Currency and FX Debt to Gross Debt



Source: MoF, BDL

LOCAL CURRENCY DEBT

Local currency debt amounted to LL 63,895 billion by end-June 2015, adding LL 2,143 billion (3.5 percent) from end-2014, while the ratio of LL denominated debt of gross debt edged down by 0.1 percentage points from end-2014 to 61.4 percent.

As part of MoF's debt management strategy, quarterly schedules²⁰ for weekly auctions of Treasury bills and bonds were released by the Public Debt Directorate in the first half of

²⁰ Calendars of Local currency debt weekly auctions are released on MoF's website ten days prior to the beginning of each quarter: <http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/LebaneseGovernmentTreasuryBillsandBonds.aspx>

2015, prior to the beginning of each quarter. The calendars were released on MoF's website specifying instruments to be issued in each auction. This allowed for better alignment of investors' expectations and for improved cash management by the Ministry of Finance. Correspondingly, auctions were largely over-subscribed with total applied offers reaching 191 percent of accepted offers in the first six months of 2015. The newly released calendars also introduced the regularization of longer term instruments in weekly auctions, including the 7-year and 10-year tenors that had been previously issued on a non-regular basis, and captured additional demand from investors interested in those tenors.

The regularization of longer term instruments also allowed for a better gauging of demand from the market and subsequently, a smoothing of primary coupon rates at the longer end of the curve. As a result, the coupon rate of the 10-year bond contracted by 52 basis points to 7.46% during the second offering of the tenor in March 2015, whereas the coupon rate on the 7-year T-bond was 7.08% compared to a primary issuance rate of 7.50% when the tenor was last issued by the Ministry of Finance in June 2013.

Subscriptions by holder

The first half of 2015 saw strong participation in weekly auctions from the **Central Bank (BDL)** as its rollover ratio – accepted offers to principal maturities – reached 199 percent. BDL's share of outstanding local currency debt thus increased to 34.9 percent of total outstanding LL debt from 32.2 percent as of end-2014. **Commercial Banks** also recorded a rollover rate above 100 percent (113 percent) although their local currency debt portfolio slightly decreased by the end of the first half owing to secondary market operations. As a result, the share of Banks' local currency debt holdings decreased to 48.2 percent by end-June 2015, from 51 percent as of end-2014.

Of other investors, appetite from **public institutions** remained strong, as their holdings increased by 7 percent, and share of outstanding LL debt to 12.9 percent from 12.5 percent. In contrast, holdings by **financial institutions** and the **general public** slightly decreased from end-2014.

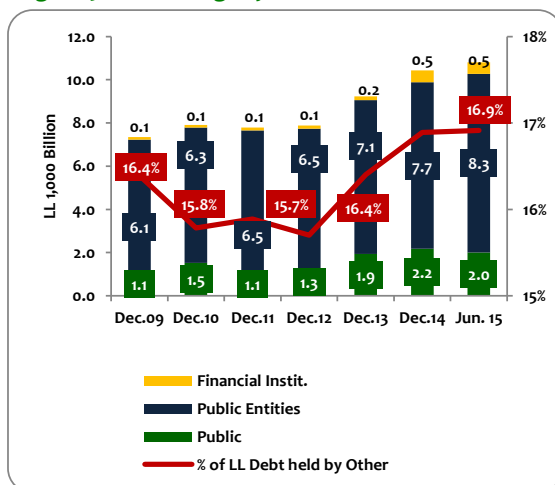
In weekly auctions, **Commercial Banks'** accepted offers amounted to LL 4,496 billion accounting for 53 percent of total subscriptions in H1 2015, while applied offers totalled LL 11,229 billion, representing an oversubscription rate of around 250 percent. Correspondingly, rejected Banks' offers, or those above MoF's financing needs for the period amounted to LL 6,733 billion. The final subscriptions of **Commercial Banks'** mostly went to the 5YR T-bond representing 28 percent of their accepted bids, followed by the 10YR bond with a share of 24 percent and the 7YR bond with 16 percent. Applied offers had however been mostly geared towards longer term tenors, with the 10YR bond accounting for 33 percent of applied offers, and oversubscriptions on the 10YR bond reaching 343 percent. As for the remaining tenors, 3YR bonds took up 14 percent of banks' subscriptions and were followed by 6MN bills with 6 percent, 1YR bills with 5 percent, and 3MN bills and 2YR bonds with 4 percent each. **Commercial Banks** principal maturities were the largest among market participants in the first half of 2015, representing 63 percent of total maturities.

As for the **Central bank**, its participation in weekly auctions resulted in applied offers of LL 2,646 billion and a rollover ratio of 199 percent, although accepted offers were slightly lower at LL 2,419 billion and were mainly concentrated into 10YR bonds, which accounted

for around 30 percent of total subscriptions, followed by 2YR bonds with 26 percent, 3YR bonds with 17 percent, 5YR bonds with 13 percent, and 7YR bonds with 12 percent. As for the remaining tenors, 3MN and 6MN bills accounted for around 1 percent and 2 percent of total subscriptions, respectively.

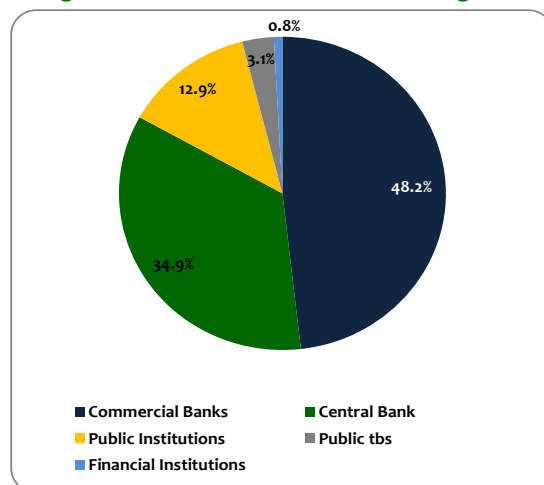
Outstanding local currency debt held by “other” entities climbed by 4 percent to reach LL 10,807 billion, accounting for 16.9 percent of the total amount by end-June 2015, unchanged from end-2014. TB holdings by public institutions increased by LL 570 billion (7 percent) from end-2014, whereas holdings by the public and by financial institutions dropped by LL 183 billion (8 percent) and LL 9 billion (2 percent), respectively. Outstanding local currency denominated contractor bonds remained unchanged from end-2014 at LL 180 billion.

Figure 9 : LL Holdings by Others Institutions



Source: MoF, BDL

Figure 10: Distribution of LL Debt Holdings²¹



Source: MoF, BDL

Subscriptions by instrument

Long-term Treasury bonds, or TBs issued with a maturity of 2-years or above, amounted to LL 61,257 billion by end-June 2015²², adding LL 2,502 billion from end-2014. This increase was mainly due to large subscriptions in 2YR, 7YR and 10YR tenors compared to a decline in outstanding 3YR and 5YR bonds. By end-June 2015, long term bonds accounted for 97 percent of total outstanding LL instruments, similar to their level at end-2014.

Ten-year bonds represented the largest addition to the TB portfolio, with the outstanding amount of the tenor expanding by 38.1 percent to LL 6,617 billion. In auctions, 10YR bonds recorded a LL 1,827 billion surplus, with strong demand in primary issuances allowing for a reduction in rates over the period. Ten-year bonds issued in January 2015 carried a coupon rate of 7.98%, which contracted by 52 basis points to 7.46% during the second and third offerings of the tenor in March and May 2015.

Likewise, the stock of 7YR bonds expanded by LL 1,067 billion to LL 11,286 billion following three issuances of the tenor, at a coupon rate of 7.08 percent. Commercial Banks accounted for almost 68 percent of aggregate subscriptions, followed by BDL and the general public with respective shares of 27 percent and 5 percent. The increase in the outstanding amount of 7YR bonds accounted for almost 50 percent of the rise in local currency debt in H1 2015.

²¹ Excluding Contractor Bonds for the amount of LL 180 billion

²² This figure excludes accrued interest on long term T-bonds for the amount of LL 993 billion.

The stock of two-year Treasury bonds increased by LL 865 billion to LL 3,018 billion, accounting for around 40 percent of the rise in LL denominated currency debt. In auctions, the majority of demand for the 2-year TBs came from **BDL** that represented 61 percent of total subscriptions in the tenor, followed by 16 percent for **Commercial Banks**.

Of other long term tenors, outstanding 3YR bonds diminished by 4.6 percent, but remained the largest of all tenors, carrying a total of LL 22910 billion. The stock of 5YR bonds slid by 1.3 percent to LL 12,071 billion

The stock of **short-term bills** (3-months, 6-months and 1-year notes) declined by LL 344 billion, owing to a LL 362 billion drop in outstanding 12MN bills, compared to an increase in the stock of 6MN and 3MN bills by LL 10 billion and LL 8 billion respectively.

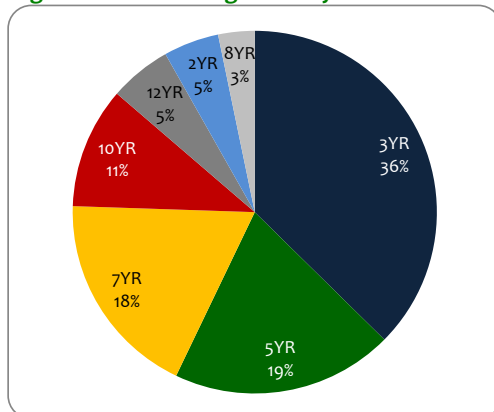
Table 19: Total Maturities and Subscriptions by Holder in 2015

(LL billion)	Commercial Banks	Financial Institutions	Public Institutions	Public	BDL	Total
Maturities	3,989	42	424	648	1,214	6,317
Coupon Maturities	1,059	16	234	42	645	1,997
Accepted Subscriptions	4,496	35	984	501	2,419	8,435
Surplus/(Deficit)*	507	(7)	560	(147)	1,205	2118
Rollover Ratios	113%	85%	232%	77%	199%	134%

Source: MOF, BDL

*excluding Coupons

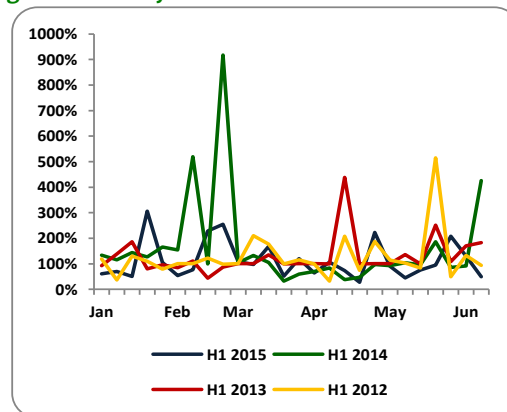
Figure 11: Outstanding Treasury Bonds and Bills



Source: MoF, BDL

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

Figure 12: Weekly Rollover Ratio in H1



Source: MoF, BDL

*Ratio of Subscriptions to Maturities including Coupons

Table 20: Domestic Currency Debt by Holder and Instrument as of end-June 2015

Stocks (end of period)	Dec-13	Dec-14	Jun-15	% Change Jun 2015/ Dec 2014
Local currency debt	56,312	61,752	63,895	3.5%
A. By Holder				
*Accrued interest included in debt	877	1,029	1,025	-0.4%
1. Central Bank (including REPOs)	17,171	19,855	22,294	12.3%
2. Commercial Banks	29,905	31,468	30,794	-2.1%
3. Other local debt (T-bills)	9,236	10,429	10,807	3.6%
o/w Public entities	7,117	7,701	8,271	7.4%
o/w Contractors ⁽¹⁾	134	180	180	0.0%
B. By Instrument				

1. Long term bonds	53,238	58,755	61,257	4.3%
*Coupon Interest	837	981	993	1.2%
12-year bonds	3,373	3,373	3,373	0.0%
10-year bonds	2,844	4,790	6,617	38.1%
8-year bonds	1,982	1,982	1,982	0.0%
7-year bonds	10,219	10,219	11,286	10.4%
5-year bonds	11,747	12,233	12,071	-1.3%
3-year bonds	20,942	24,005	22,910	-0.7%
2-year bonds	2,131	2,153	3,018	-40.2%
2. Short term bills	2,109	1,860	1,516	-18.5%
* Accrued interest included	40	48	32	-33.3%
12-month bills	1009	1,195	833	-30.3%
6-month bills	935	564	574	1.8%
3-month bills	165	101	109	7.9%
3. Other local debt	128	156	129	-17.3%
Central Bank Loans	0	0	0	N/M
Commercial Banks Loans	128	156	129	-17.3%

Source: MoF, BDL

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

Primary market interest rates

Interest rates on local currency instruments issued by the Ministry of Finance remained stable throughout the first half of 2015, to the exception of the coupon on the 7YR bond, which decreased by 42 basis points to 7.08 percent compared to when it was last issued in June 2013, and the coupon on the 10YR bond that declined by 52 basis points to reach 7.46 percent. Decreases in rates on longer term bonds outlined the strong demand recorded in weekly auctions, whereby 7Yr and 10YR bonds were oversubscribed by around 215 percent and 253 percent respectively.

Table 21: Evolution of Primary Market Rates (yield)

Maturity	Dec. 31, 2013	Dec. 31, 2014	Jun. 30, 2015
3-month	4.44 percent	4.44 percent	4.44 percent
6-month	4.99 percent	4.99 percent	4.99 percent
12-month	5.35 percent	5.35 percent	5.35 percent
2-year	5.84 percent	5.84 percent	5.84 percent
3-year	6.50 percent	6.50 percent	6.50 percent
5-year ⁽¹⁾	6.74 percent	6.74 percent	6.74 percent
7-year ⁽²⁾	7.50 percent	N/A	7.08 percent
8-year ⁽³⁾	7.80 percent	N/A	N/A
10-year ⁽⁴⁾	8.24 percent	7.98 percent	7.46 percent
12-year ⁽⁵⁾	8.74 percent	N/A	N/A

Source: MoF

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

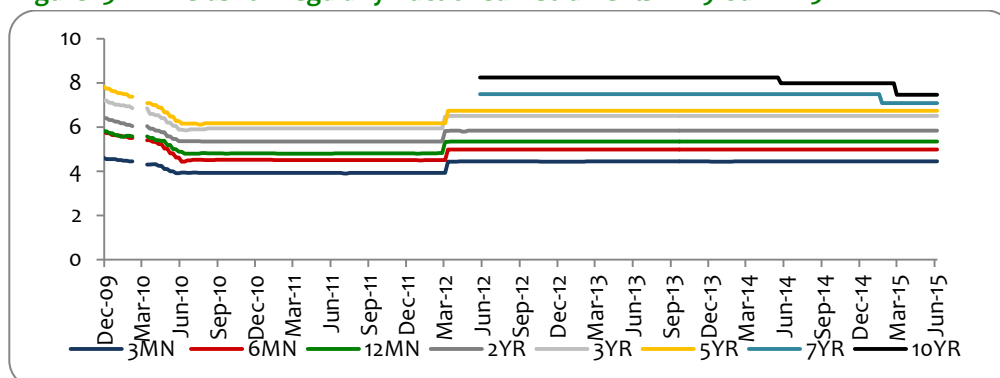
(2) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent, and in September 2011 with a coupon of 7.60 percent. These bonds were included in the regular auction process in 2015.

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

(4) 10-year Treasury bonds were issued on a one time basis, during the weekly auction of September 20, 2012. 10-year bonds were also issued during the June 6, 2013 and June 27, 2013 Auctions. These bonds were included in the regular auction process in 2015.

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

Figure 13: TB Yields for Regularly Auctioned Instruments 2009–Jun 2015



Source: MoF

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

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

FOREIGN CURRENCY DEBT

The stock of **foreign currency debt** reached LL 40,168 billion by end-June 2015, up by 4.1 percent (LL 1,564 billion) from end-2014. This increase outlined the government's foreign currency borrowing over and above principal maturities during the period. New foreign currency debt issuances were consistent with MoF's debt management strategy that aimed to extend the government's maturity profile, while keeping rates at their lowest possible level in line with market rates. The weighted average time to maturity of the largest subcategory of the portfolio, represented by market Eurobonds, expanded to 5.78 years from 5.35 years, while the average weighted coupon rate of outstanding Eurobonds slightly increased to 6.48% from 6.40%.

In general, outstanding Eurobonds increased by LL 1,894 billion in Jan-Jun 2015 to LL 36,744 billion, as a US\$ 2.2 billion market issuance in the month of February overshadowed principal maturities of market Eurobonds and amortized principal repayments of Eurobonds issued in the context of Paris II and Paris III. In contrast, outstanding foreign currency loans diminished by LL 306 billion mostly owing to amortized repayments, and to a lesser extent, negative valuation adjustments related to exchange rate fluctuations, specifically, the depreciation of the euro against the US dollar to \$/€ 1.118 from \$/€ 1.217.

Table 22: Foreign Currency Debt by Holder and Instrument as at end-June 2015

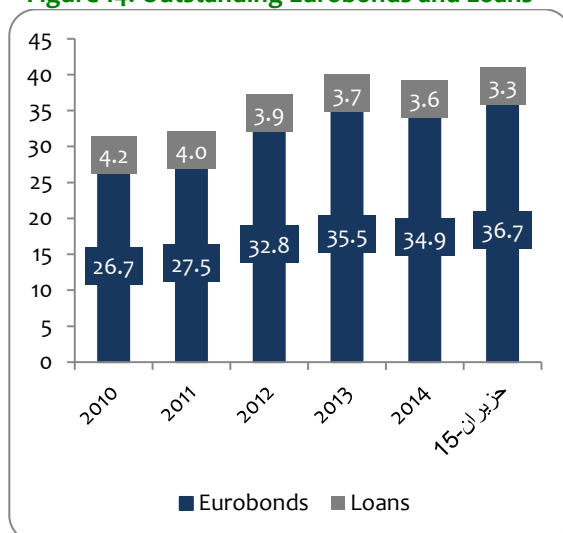
(in LL billion)	Dec-13	Dec-14	Jun-15	% Change Jun 2015 / Dec 2014
B. Foreign currency debt	39,398	38,604	40,168	4.0%
4. Eurobonds	35,533	34,850	36,744	5.4%
Of which, Paris II at preferential rates ⁽¹⁾	2,130	1,615	1,357	-16.0%
Of which, Paris III at preferential rates ⁽²⁾	271	226	204	-10.0%
Of which, market-issued Eurobonds	32,688	32,584	34,695	6.5%
* Accrued Interest on Eurobonds	444	425	489	15.1%
5. Loans	3,729	3,640	3,334	-8.4%
5.1 Paris II loans	208	128	101	-21.1%
5.2 Paris III loans ⁽³⁾	915	760	684	-10.0%
5.3 Bilateral loans (non-Paris II and III)	821	1,192	1,104	-7.4%
5.4 Multilateral loans (non-Paris II and III)	1,691	1,506	1,409	-6.4%
5.5 Foreign Private Sector Loans	94	54	36	-33.3%
6. Other debt	136	114	90	-21.1%
6.1 Special Tbs in Foreign currency ⁽⁴⁾	136	114	90	-21.1%

Source: MoF, BDL

- (1) Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at US\$ 1,870 billion to BDL in the context of the Paris II conference. These bonds have an amortized payment structure.
 (2) Issued to Malaysia as part of its Paris III contribution.
 (3) IBRD loan, UAE loan, first tranche of the French loan received in February 2008 and part of second tranche received October 2012.
 (4) Special Tbs in Foreign currency (expropriation and contractor bonds)

Outstanding **Eurobonds** amounted to LL 36,744 billion by end-June 2015, up from LL 34,850 billion as at end-2014. **Market issued Eurobonds** led the increase, adding LL 2,110 billion to reach LL 34,695 billion, following a US\$ 2.2 billion dual-tranche Eurobond issuance that was concluded in February 26, 2015²³, and which outweighed the period's principal maturities and negative valuation adjustments. The new issuance consisted of an US\$ 800 million 6.200% coupon Eurobond due February 2025 (Series 73) and a US\$ 1,400 million 6.650% coupon Eurobond due February 2030 (Series 74). The issued tranches were 223 percent oversubscribed, whereby the total value of orders from local and international investors amounted to US\$ 4.9 billion, with international orders accounting for 15 percent of the issued amount. Principal maturities of market Eurobonds in the first half of 2015 amounted to US\$ 750 million, owing to the repayment of two expired series, including the US\$ 250 million 5.875% coupon Eurobond due January 2015 and the US\$ 500 million 4.100% Eurobond due June 2015. Valuation adjustments related to the depreciation of the euro against the US dollar resulted in an additional LL 66 billion decrease in outstanding Eurobonds.

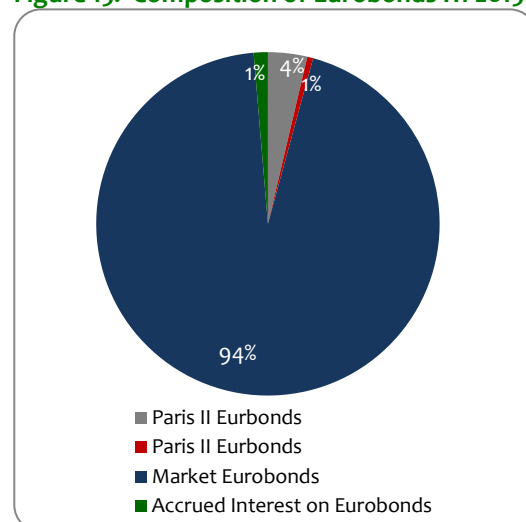
Figure 14: Outstanding Eurobonds and Loans



Source: MoF, BDL

Note: Including Accrued Interest on Eurobonds

Figure 15: Composition of Eurobonds H1 2015



Source: MoF, BDL

The stock of **Eurobonds issued in the context of Paris II** dropped by LL 258 billion (16 percent) to reach LL 1,357 billion owing to amortized principal repayments, including (i) One US\$ 35 million payment in March 2015 on the Paris II 5.00 percent March 2018 Eurobond originally issued at US\$ 700 million; (ii) one US\$ 10 million payment in May 2015 on the Paris II 5.00 percent May 2018 Eurobond originally issued at US\$ 200 million; (iii) one US\$ 93.5 million payment in June 2015 on the Paris II 4.00 percent December 2017 Eurobond originally issued at US\$ 1,870 million; and (iv) one US\$ 32.5 million payment in June 2015 on the Paris II 5.00 percent due December 2017 originally issued at US\$ 950 million.

²³ For more information on February 2015 Eurobond transaction, kindly refer to Box1 # on page 33. Additional details can also be found on MoF's website under the note titled "Dual-tranche: US\$ 800 million 6.20% notes due Feb 2025 and 1.4 billion 6.65% notes due Feb 2030, issued 26 Feb 2015" on MoF's website.

Eurobonds issued in the context of Paris III decreased by LL 23 billion (10 percent) to reach LL 204 billion by end-June 2015 due to one amortized principal repayment amounting to US\$ 15 million in January 2015 on the Eurobond due July 2017 originally issued at US\$ 300 million²⁴.

Outstanding **foreign currency loans** amounted to LL 3,334 billion by end-June 2015, down by LL 306 billion from end-2014, mostly as a result of amortized principal repayments on concessional loans related to Paris II and Paris III, as well as other bilateral and multilateral loans. Valuation adjustments owing to the strengthening US dollar against other major currencies, in which concessional loans to Lebanon are denominated, reduced the overall value of outstanding loans by around LL 145 billion.

- a) The stock of **Paris II loans** retracted by LL 27 billion (21 percent) to reach LL 101 billion owing to the redemption of € 10 million of the *Agence Française de Développement* (AFD) Paris II loan, represented by one amortized repayment made in February.
- b) The stock of **Paris III loans** diminished by LL 76 billion, (10 percent) to reach LL 684 billion, largely due to (i) one US\$ 15 million semi-annual principal payment made in April 2015 on the UAE Paris III loan; (ii) one 9.375 million euro semi-annual principal repayment in May 2015 on the first tranche of the AFD loan, (iii) one US\$ 5 million semi-annual principal repayment in April 2015 on the World Bank IBRD loan, and (iv) one 1.875 million euro semi-annual principal repayment in May 2015 on the second tranche of the AFD loan. Valuation adjustments on the outstanding AFD loans also affected the decrease given sharp 8 percent depreciation in the value of the euro against the US dollar in the first half of 2015 to 1.118 by end-June.
- c) The stock of **non-Paris II and non-Paris III bilateral loans** decreased by LL 89 billion, equivalent to 7 percent to reach LL 1,104 billion, as repayments of outstanding amounts of loans outweighed new disbursements. Principal repayments most notably included: (i) LL 43 billion to ELO, the financing arm of Danish export agency - EKF (ii) LL 11 billion to the Kuwait Fund for Arab Economic Development (iii) LL 10 billion to the Saudi Fund for Development, (iv) LL 6 billion to *Agence Française de Développement*, (v) LL 4 billion to Japan's Overseas Economic Cooperation Fund, and (vi) LL 2 billion to Abu Dhabi Fund for Development.

In return, bilateral loans disbursed were:

- i. LL 33 billion from one loan granted by ELO, Financing arm of Danish EKF, export credit facility²⁵.
 - ii. LL 16 billion from six loans granted by the Kuwait Fund for Arab Economic Development.
 - iii. LL 2 billion from three loans granted by the Saudi Fund for Development.
 - iv. LL 2 billion from two loan granted by the Abu Dhabi Fund.
 - v. LL 2 billion from two loans established by German government-owned development bank, KfW.
- d) **Non-Paris II and Paris III multilateral loans** dropped by LL 96 billion (6 percent), amounting to LL 1,409 billion by end-June 2015. Principal repayments included: (i) LL 31

²⁴ For more information as to the structure of this bond, kindly refer to the note "Re-Profiling of Debt Held by Central Bank of Malaysia" accessible here:

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

This is also summarized in "Box #2: Debt Re-profiling with Malaysia" in the Public Finance Quarterly Report for Q3 2007.

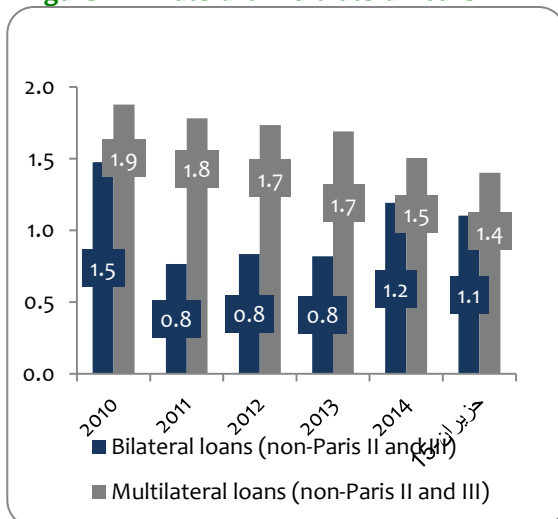
²⁵ This loan was signed between the Lebanese republic and Danish export credit agency to cover 85 percent of the cost of installing new electricity generation units at Zouk and Jieh power plants by Danish-German Consortium, Burmeister and Wain A.S and MAN Diesel and Turbo SE.

billion to the International Bank for Reconstruction and Development (IBRD), (ii) LL 30 billion to the Arab Fund for Economic and Social Development (AFESD), (iii) LL 28 billion to the Islamic Development Bank, (iv) around LL 17 billion to the European Investment Bank, and (v) LL 2 billion to the Organization of Petroleum Exporting Countries (OPEC).

On the other hand, major primary disbursements mainly included:

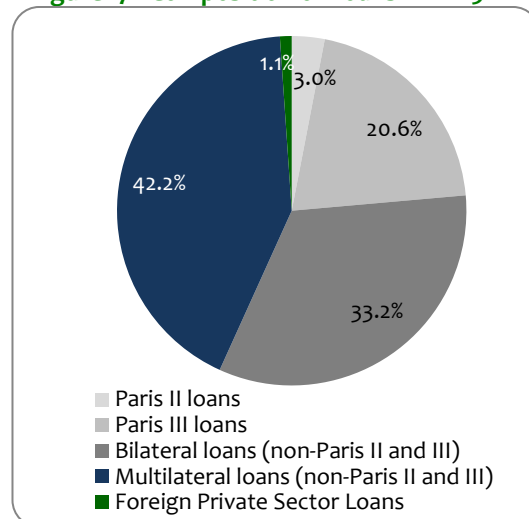
- i. LL 26 billion from eight AFESD loans.
 - ii. LL 6 billion from four loans granted by the Islamic Development Bank.
 - iii. LL 15 billion from five IBRD loans.
 - iv. LL 2 billion from one OPEC loans.
- f) The stock of **foreign private sector loans** slid by LL 18 billion to reach LL 36 billion, mostly due to repayment of part of the 40.4 million euro loan disbursed by HSBC Bank, as part of a commercial facility agreement with the Lebanese Republic²⁶, and around LL 3 billion in repayments to Natixis Bank.
- g) The stock of special T-bills in foreign currency dropped by LL 24 billion to reach LL 90 billion, owing to repayments made to contractors in April 2015.

Figure 16: Bilateral & Multilateral Loans



Source: MoF, BDL

Figure 17: Composition of Loans H1 2015



Source: MoF, BDL

²⁶ This lending agreement was signed between the Lebanese Republic and HSBC in November 2013 for a total amount of around 40.4 million euros, representing the 15 percent down-payment on the installation of new electricity generation units at Zouk and Jieh power plants.

Box #2: Dual-Tranche Eurobond Transaction

On February 26th 2015, the Lebanese Republic issued a US\$ 2.2 billion dual-tranche Eurobond. The issuance represented the Republic's first tap of international capital markets in 2015 and was its largest ever new cash market issuance. Together, the issued tranches were 223 percent oversubscribed, whereby the total value of orders from local and international investors amounted to US\$ 4.9 billion.

The transaction had a weighted average yield of 6.49 percent and an average time to maturity of 13.18 years on the aggregate issues. The first series consisted of an US\$ 800 million 6.200% coupon Eurobond due February 2025 with a yield of 6.200%. The second series was a US\$ 1,400 million 6.650% coupon Eurobond due February 2030 with a yield of 6.650%. International orders accounted for 9 percent of total allocations in the February 2025 Note and for 18 percent of allocations in the February 2030 Note, accounting for 15 percent of the total issued amount.

The proceeds from the issue will be used to finance a portion of Lebanon's foreign currency debt obligations due in 2015.

Table 23: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)				
	31-Dec-14	13-Feb-15	31-Mar-15	15-Apr-15	30-Jun-15
<u>EURO</u>					
LEB 5.350 18	4.10%	3.96%	3.95%	3.78%	4.00%
<u>US Dollars</u>					
LEB 8.500 15	3.62%	3.68%	4.03%	4.50%	4.10%
LEB 8.500 16	4.02%	4.14%	4.24%	4.01%	3.86%
LEB 11.625 16	4.03%	3.85%	4.18%	3.98%	3.91%
LEB 4.750 16	4.27%	4.46%	4.48%	4.37%	4.43%
LEB 5.000 17	4.70%	4.95%	5.16%	4.94%	4.53%
LEB 9.000 17	4.35%	4.87%	4.99%	4.67%	4.29%
LEB 5.150 18	5.19%	5.06%	5.14%	4.91%	4.85%
LEB 6.000 19	5.37%	5.44%	5.43%	5.29%	5.29%
LEB 5.450 19	5.39%	5.49%	5.55%	5.40%	5.27%
LEB 6.375 20	5.48%	5.57%	5.67%	5.45%	5.44%
LEB 8.250 21	5.65%	5.91%	5.87%	5.64%	5.62%
LEB 6.100 22	5.84%	5.88%	5.91%	5.77%	5.86%
LEB 6.000 23	5.90%	5.97%	5.99%	5.86%	5.89%
LEB 7.000 24	6.15%	6.23%	6.19%	6.11%	6.13%
LEB 6.600 26	6.31%	6.30%	6.35%	6.23%	6.30%
LEB 6.750 27	6.41%	6.36%	6.40%	6.28%	6.35%

Source: Citi Bank, Bloomberg

During the first half of 2015, the secondary Eurobond market echoed political and economic uncertainty in Lebanon but continued to operate with reasonable bounds of stability. Average **secondary market yields**²⁷ had thus diminished by 4 basis points to 5.13 percent by end-June 2015, having increased in the first quarter of the year by around 18 bps.

²⁷ Calculated on US\$ Eurobonds, between December 31st 2014 and June 30th 2015, and which were outstanding at both dates.



For further information please contact:

Ministry of Finance

UNDP Project

Tel: 961 1 981057/8

Fax: 961 1 981059

Email: infocenter@finance.gov.lb

Website: www.finance.gov.lb