REPUBLIC OF LEBANON

MINISTRY OF FINANCE

Public Finance Annual Review

2015

Table of Content

List of Tables

List of Figures

List of Boxes

Public Finance Annual Review

2015

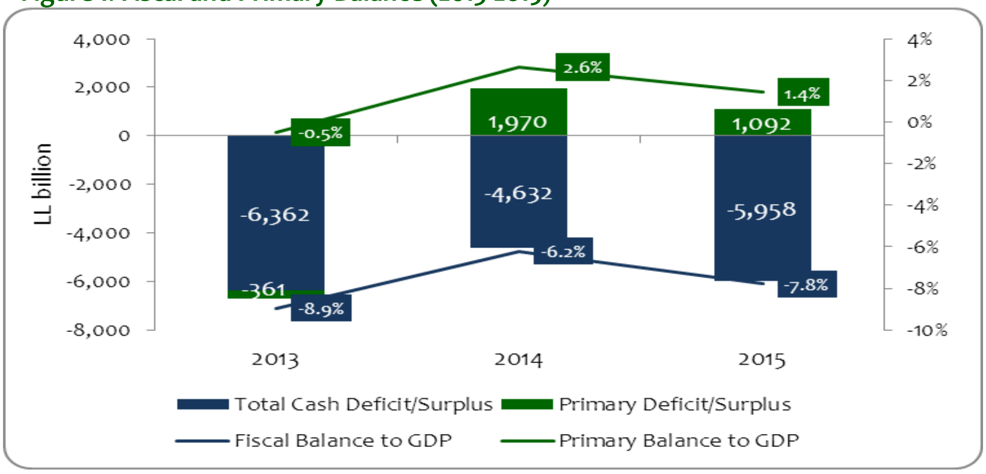
PUBLIC FINANCE HIGHLIGHTS

General Fiscal Developments
Page 6

Lebanon's public finances continued to be strained in 2015 by the deepening impact of the regional crisis on macroeconomic conditions and the ability of the government to undertake necessary fiscal consolidation. The government balance however remained relatively stable ending the year with a primary surplus, comparable to the average 1.5 percent surplus to Gross Domestic Product (GDP)[1] recorded in the five years since 2011. This was supported by tight discretionary spending, reform measures in revenue administration and collection, and a drop in international oil prices that largely cut the government's transfers to Electricite Du Liban. Compared to the previous year, the overall deficit widened by 1.6 percentage points to 7.8 percent of GDP, and the primary surplus decreased by 1.2 percentage points to 1.4 percent of GDP. This deterioration outlined a correction from 2014 when extraordinary revenues were collected by the Treasury on behalf of Municipalities[2]. Adjusting for the one-off revenues of 2014, the fiscal performance in 2015 in fact shows a year-on-year improvement with the overall deficit narrowing from 8.4 percent and the primary surplus increasing from 0.4 percent of GDP.

Revenues were down by 12 percent year-on-year in 2015 although after excluding the previous year's one-off collections, the recorded decline was only 2.2 percent, reflecting the period's modest economic growth and low inflation environment. On the expenditure side, continued tight spending and a sharp drop in international oil prices reduced total outlays by 3 percent from 2014, counterbalancing the adjusted decrease in revenues. Expenditures were still 3 percent above their 2011-2014 average, reflecting higher interest payments, the cost of hiring new military personnel, and additional expenditures associated with the management of the refugee crisis. In nominal terms, the fiscal deficit widened by LL 1,326 billion from 2014, whereas the primary balance recorded a surplus of LL 1,092 billion, compared to a surplus of LL 1,970 billion in 2014.

Figure 1: Fiscal and Primary Balance (2013-2015)



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

[1] GDP was estimated at LL 74,693 billion for 2014 and LL 76,523 billion for 2015, computed using IMF April 2016 WEO real growth and deflator estimates, and based on 2013 Gross Domestic Product from the Central Administration of Statistics (CAS).

[2] Including an estimated LL 1,000 billion in arrears from the Telecom Surplus (classified as Non-tax Revenues) as well as LL 636 billion in telecom arrears collected on behalf of municipalities for the period 2010-2013 (classified as Treasury Revenues) which as of end-December 2015 have not been disbursed back to municipalities.

Revenues
Page 7

Total revenues dropped by 12.0 percent in 2015, mostly reflecting a correction from the previous year when one-off collections from the Ministry of Telecommunications were made. Excluding those, total revenues were still down by 2.2 percent, owing to the generally weak economic environment and low inflation levels. Tax revenues were almost unchanged at LL 10,330 billion, almost 13.5 percent of GDP, with modest increases in taxes on Income, Profits, and Capital gains attributable to collection efforts by the tax administration, and offsetting decreases in consumer taxes and taxes on property.

Expenditure
Page 15

Total expenditures declined by 3 percent to LL 20,393 billion in 2015, or around 26.6 percent of GDP from 28 percent in 2014, as a sharp drop in international oil prices substantially reduced transfers to Electricite Du Liban (EDL), while discretionary spending remained tightly under control. The 46 percent drop in the fuel subsidy was however parially counterbalanced by a LL 408 billion (6.45 percent) increase in interest payments boosted by the growing debt stock, a LL 353 billlion increase in personnel cost (5.2 percent), and a LL 226 billion increase in transfers to municipalities (32 percent).

Public Debt Development
Page 27

Outstanding gross public debt reached LL 106,015 billion by end-2015 increasing by 5.6 percent from the previous year. With Nominal GDP increasing at 2.5 percent from 2014, the Debt-to-GDP ratio rose to around 139 percent from 134 percent. Local currency debt accounted for 61 percent of the total increase in public debt, adding LL 3,443 billion, whereas foreign currency debt grew by an equivalent of LL 2,216 billion. Net public debt added 7.4 percent as public sector deposits decreased by LL 738 billion or 5.3 percent.

SECTION I: FISCAL OVERVIEW

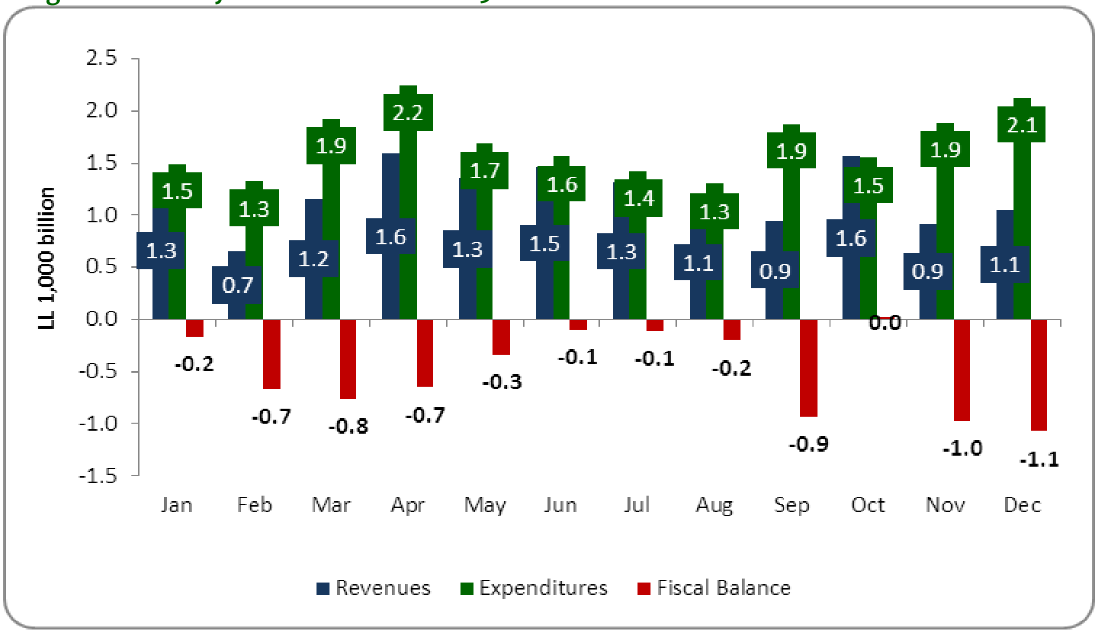
The **total fiscal balance** recorded a deficit of LL 5,958 billion, representing 7.8 percent of GDP in 2015. This result compared to a LL 4,632 billion deficit in 2014, or 6.2 percent of GDP. Total revenues dropped by 12 percent, whereas total payments decreased by around 3 percent. The **primary balance** registered a surplus of LL 1,092 billion, down from a surplus of LL 1,970 billion in 2014.

Table 1: Summary of Fiscal Performance

(LL billion)	2013	2014	2015	% Change 2015/2014
Total Budget and Treasury Receipts[1]	**14,201**	**16,400**	**14,435**	**-12.0%**
Total Budget and Treasury Payments	**20,563**	**21,032**	**20,393**	**-3.0%**
• *Interest Payments*	5,714	6,314	6,722	6.5%
• *Concessional loans principal payment[2]*	287	288	328	13.9%
• *Primary Expenditures[3]*	14,562	14,430	13,343	-7.5%
Total Deficit/Surplus	**(6,362)**	**(4,632)**	**-5,958**	**28.6%**
Primary Deficit/Surplus	**(361)**	**1,970**	**1,092**	**-44.6%**

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*

Figure 2: Monthly Fiscal Evolution in 2015



Source: MOF, DGF

SECTION II: REVENUE OUTCOME

As a result of the economic slowdown since 2011, as well as the government's limited ability to undertake fiscal reforms in light of weakened political institutions, **total revenues** dropped to 18.9 percent of GDP in 2015, the lowest in a decade, compared to 22.0 percent in 2014 and 19.9 percent in 2013.

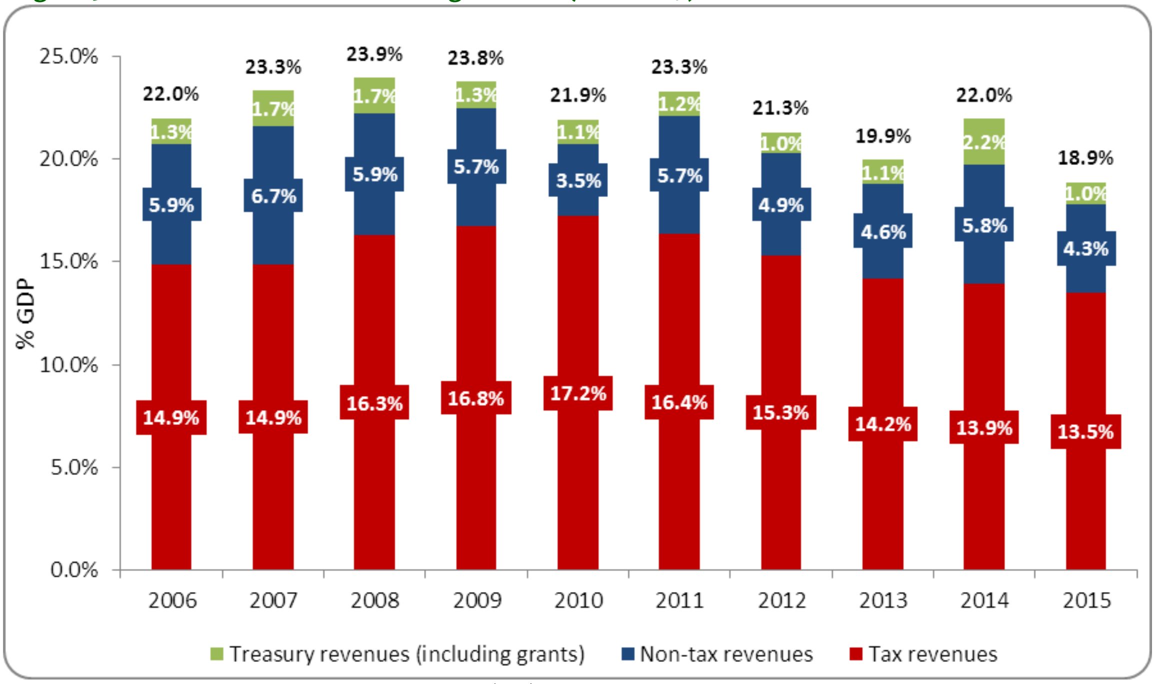
Total revenues declined by 12 percent to reach LL 14,435 billion in 2015, owing primarily to one-off telecom collections made during 2014[3]. Barring these collections, revenues dropped by 2 percent, reflecting the steep decline in commodity prices (*for more information, kindly refer to Box #1 on page* 9) that affected import related taxes such as customs duties and VAT, as well as the downturn in the real estate sector that negatively impacted real estate registration fees.

Table 2: Total Revenues

(LL billion)	2013	2014	2015	% Change 2015/2014
Budget Revenues, of which:	**13,385**	**14,742**	**13,635**	**-7.5%**
• *Tax Revenues*	*10,116*	*10,388*	*10,330*	-0.6%
• *Non-Tax Revenues*	*3,269*	*4,354*	*3,305*	-24.1%
Treasury Receipts	**816**	**1,658**	**800**	**-51.8%**
Total Revenues	**14,201**	**16,400**	**14,435**	**-12.0%**

Source: MOF, DGF

Figure 3: Total Revenues as a Percentage of GDP (2006-2015)



Source: MOF, DGF, Central Administration of Statistics (CAS), IMF

Note: GDP figures prior to 2014 are taken from the CAS *Lebanese National Accounts 2004-2013*. Figures for 2014 and 2015 are computed using IMF April 2016 World Economic Outlook real growth and deflator, based on the 2013 CAS GDP figure.

[3] These include an estimated LL 1,000 billion in arrears from the Telecom Surplus for the period 2010-2013, as well as LL 636 billion in telecom arrears for the years 2010-2013 collected on behalf of Municipalities and classified as Treasury Revenues.

TAX REVENUES

Tax revenues fell by 1 percent (LL 58 billion) to LL 10,330 billion in 2015. As a percentage of GDP, tax revenues also dropped from 14.2 percent in 2013 to 13.9 percent in 2014 and 13.5 percent in 2015. Most notably, the valued-added tax decreased by 4 percent in line with the sharp decrease in commodity prices. Moreover, a slowdown in the property market negatively affected real estate registration fees, which dropped by 11 percent.

Table 3: Tax Revenues

(LL billion)	2014	2015	% Change 2015/2014
Taxes on Income, Profits, & Capital Gains	**2,795**	**2,887**	**3.3%**
• Income Tax on Profits	1,119	1,103	-1.5%
• Income Tax on Wages and Salaries	643	667	3.8%
• Income Tax on Capital Gains & Dividends	261	283	8.2%
• Tax on Interest Income (5%)	711	767	7.9%
• Penalties on Income Tax	61	67	9.8%
Taxes on Property	**1,245**	**1,179**	**-5.3%**
• Built Property Tax	218	239	9.8%
• Real Estate Registration Fees	866	773	-10.7%
• Inheritance Tax	161	167	3.8%
Domestic Taxes on Goods & Services, *of which:*	**3,811**	**3,717**	**-2.5%**
• Value Added Tax	3,302	3,159	-4.3%
• Other Taxes on Goods and Services, *of which:*	385	408	5.9%
Private Car Registration Fees	217	238	10.0%
Passenger Departure Tax	166	167	0.9%
• Transfers from Régie	115	141	22.6%
Taxes on International Trade	**2,042**	**2,064**	**1.1%**
• Customs	766	713	-6.9%
• Excises, *of which:*	1,276	1,350	5.8%
Gasoline Tax	512	629	22.8%
Tobacco Tax	332	239	-28.2%
Tax on Cars	423	477	12.6%
Other Tax Revenues (namely fiscal stamp fees)	**495**	**483**	**-2.3%**
Total Tax Revenues	**10,388**	**10,330**	**-0.6%**

Source: MOF, DGF

Domestic taxes on goods and services decreased by LL 95 billion in 2015 as a result of a LL 143 billion decease in value-added tax, which was slightly counterbalanced by increases in **transfers from Régie** and **private car registration fees** by respectively LL 26 billion and LL 22 billion.

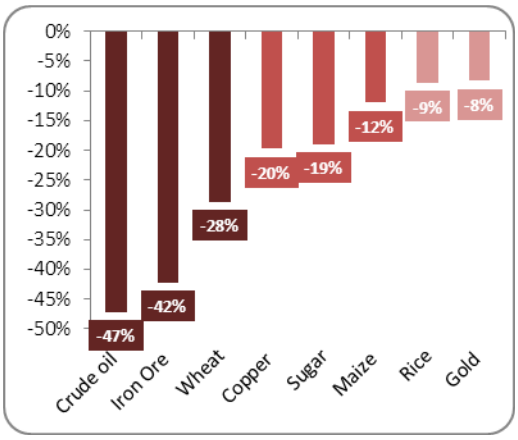
Value-added tax collections decreased by 4 percent to LL 3,159 billion in 2015. In detail, *VAT collected at customs* dropped by 10 percent to reach LL 1,858 billion, mirroring a 12 percent drop in imports. Lower commodity prices coupled with the appreciation of the Lebanese pound against major currencies, are presumably the main reasons behind the drop in both fuel and non-fuel imports. Moreover, the VAT effective rate[4] inched up by 2.1 percent, which in turn suggests that the share of exempted products remained broadly stable over the period. In contrast, *VAT collected internally* recorded a relatively strong performance over the period and rose by 5 percent in 2015, whereby nominal GDP growth was estimated at 2.4 percent during that same year.

[4] The ratio of VAT collections to total imports.

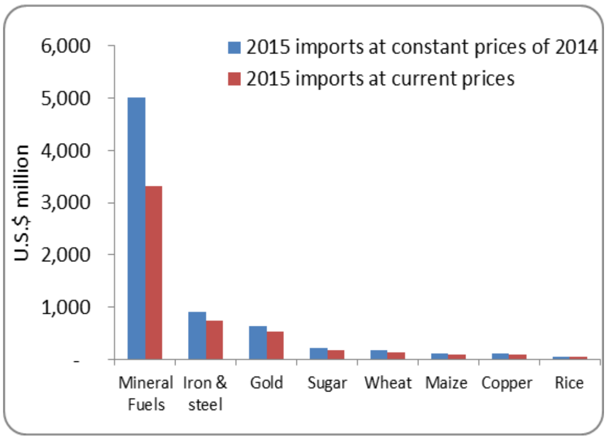
Box #1: Impact of commodity prices on imports

According to the April 2016 World Commodities Market Outlook Report, non-energy commodity price index decreased by 15 percent during 2015 compared to 2014, while the energy price index fell by 45 percent over the same period, resulting from abundant supply, a slowdown in global demand as well as a strong U.S. dollar. Most importantly, crude oil prices dropped by 47 percent, followed by iron ore (42 percent) and wheat (28 percent).

Major Changes in Commodities Prices (2014-2015)



Major Imports of Commodities during 2015



Source: MoF, DGF, World Bank

The recent drop in commodity prices is the main underlying reason behind the 11.8 percent decline in the import bill during 2015. Assuming commodity prices were unchanged in 2015[1] compared to a year earlier, total imports would have decreased by only 2.3 percent. The latter could in turn be explained by a sluggish economic growth, estimated at 1 percent in 2015, driven by a downturn in the real estate and construction sectors that historically accounted for roughly one fifth of GDP.

[1] *We are assuming that the average import price in USD per ton of Wheat (HS 10.01), Maize (HS 10.05), Rice (HS 10.06), Sugar (HS 17), Mineral fuel (HS 27), Precious Metals (HS 71) and Iron and Steel (HS 72-73) was constant over the period 2014-2015. The Harmonized System (HS) is the nomenclature adopted by the Customs Administration to classify goods into their respective category.*

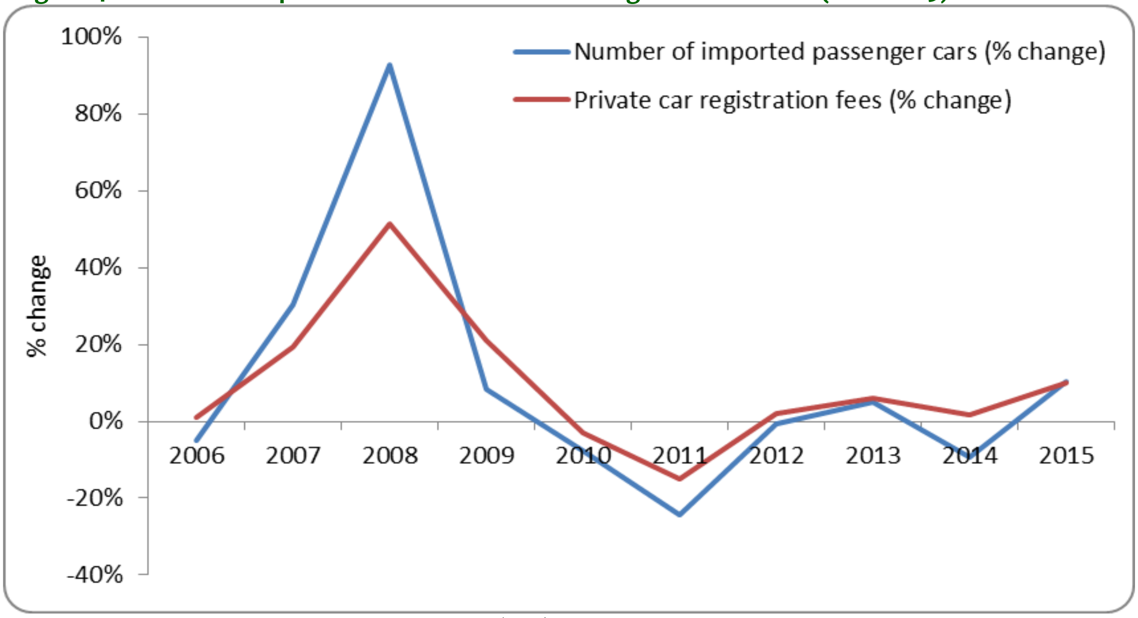
Table 4: Total Imports & Effective VAT Rate

(LL billion)	2014	2015	% Change 2015/2014
Total Imports	**30,905**	**27,248**	**-11.8%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	7,159	5,006	-30.1%
• *Non-Fuel Imports*	23,746	22,242	-6.3%
• *Share of Fuel Imports*	*23.2%*	*18.4%*	*-20.7%*
• *Share of Non Fuel Imports*	*76.8%*	*81.6%*	*6.2%*
Revenues from VAT at Imports	**2,064**	**1,858**	**-10.0%**
Effective VAT rate	***6.7%***	***6.8%***	***2.1%***

Source: MOF, DGF

Collections from the **passenger departure tax** inched up by LL 1 billion (0.9 percent) to LL 167 billion in 2015. Moreover, **private car registration fees** rose by 10 percent to LL 238 billion in 2015. It is worth noting that private car registration fees are tightly correlated with the number of imported cars which in turn rose by 10 percent in 2015.

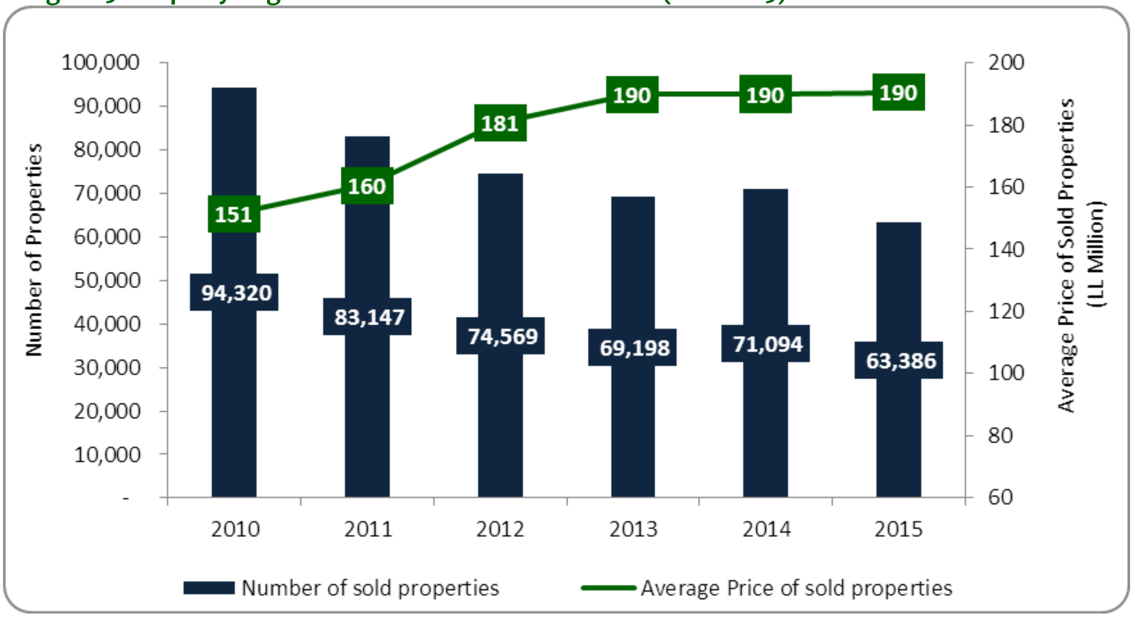
Figure 4: Number of Imported Cars and Private Car Registration Fees – (2006-2015)



Source: MOF, DGF and Directorate General of Customs (DGC)

Taxes on property dropped by LL 65 billion (5 percent) to LL 1,179 billion, owing to a LL 93 billion (11 percent) decrease in real estate registration fees in line with the 11 percent contraction in the number of sold properties, noting that average prices of sold properties were almost unchanged from the previous year[5]. In contrast, built property tax rose by LL 21 billion (10 percent) to reach LL 239 billion and inheritance tax rose by LL 6 billion (4 percent) to LL 167 billion by end 2015.

Figure 5: Property Registration Statistics from Cadaster (2010-2015)

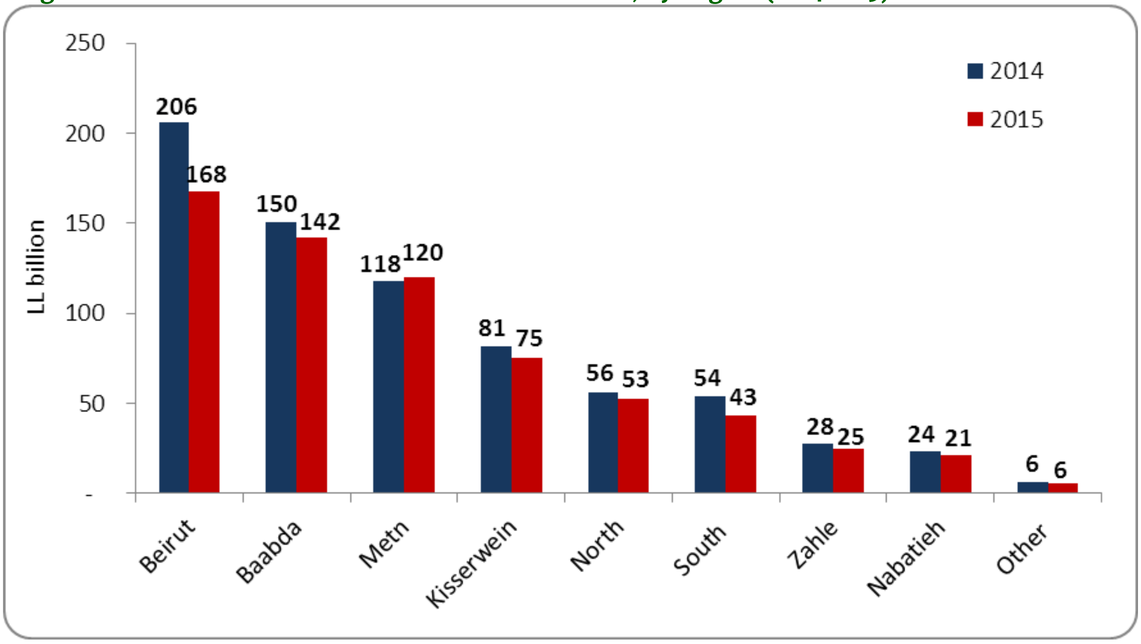


Source: MoF, Cadaster
Note: These are declaration statistics based on sales contracts.

[5] 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).

According to declaration statistics, total fees collected from sale transactions[6] decreased to LL 654 billion in 2015, from LL 723 billion during the previous year. Most of this decrease was the result of lower fee collections from the **Beirut** (- LL 38 billion) and **South** (-LL 10 billion) regions, driven by lower average prices of sold properties by 1.6 percent, and 12.5 percent respectively (*for more information, kindly refer to figure 6*).

Figure 6: Total Fees Collected from Sales Transactions, by Region (2014-2015)



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 PFM tables (Table 3). For more information, kindly refer to footnote 6.

Taxes on income, profits and capital gains grew by 3 percent in 2015, following an exceptional 12 percent rise recorded in 2014 owing to higher collection of arrears.

Income tax on profits decreased by 1 percent (LL 16 billion) to reach LL 1,103 billion in 2015 while taxes on wages and salaries rose by 4 percent (LL 24 billion) to reach LL 667 billion over the period. Income tax on capital gains and dividends grew by 8 percent (LL 22 billion) to LL 283 billion in 2015.

Taxes on interest income rose by 8 percent (LL 56 billion) reaching LL 767 billion in 2015 (*for a more detailed breakdown, kindly refer to Figure 7*).

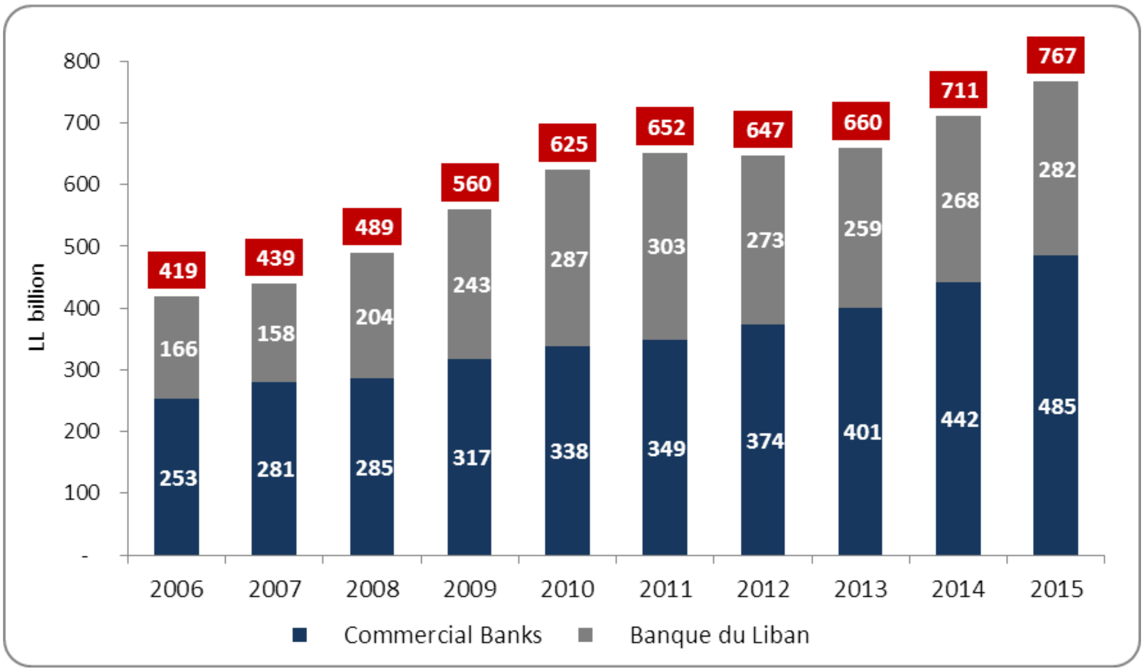
By institution, collections from commercial banks rose by 9.6 percent as a result of a moderate growth in *private sector deposits* coupled with a rise in *interest rates* on both *domestic and foreign currency deposits*. In detail, commercial banks' private sector deposits grew by 5.0 percent annually to reach LL 228,515 billion by end-December 2015. The weighted average interest on dollar denominated deposits climbed from 3.03 percent in 2014 to 3.16 percent in 2015. Moreover, the rate on local currency deposits inched up from an average of 5.52 percent to 5.58 percent.

Collections from Banque du Liban[7] rose, albeit at a slower rate of 5.2 percent, presumably as a result of higher revenues from *Treasury Bills and Bonds.*

[6] Total fees collected from sales transactions are taken from declaration statistics, and defer from the Real Estate Registration Fees included in PFM Table 3, 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.

[7] 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.

Figure 7: Tax on Interest Income, by Institution (2006 - 2015)



Source: MOF, DGF

Taxes collected from international trade (customs and excises) increased by LL 22 billion to reach LL 2,064 billion in 2015. Tariff revenues amounted to LL 713 billion, down from LL 766 billion in 2014, mainly as a result of a drop in the value of non-fuel imports by 6 percent over the period noting that mineral fuels and oils are subject to low customs tariffs.

Total excises rose by 6 percent in 2015 to LL 1,350 billion, driven by increases in gasoline and car excises that were counterbalanced by a decline in tobacco excises.

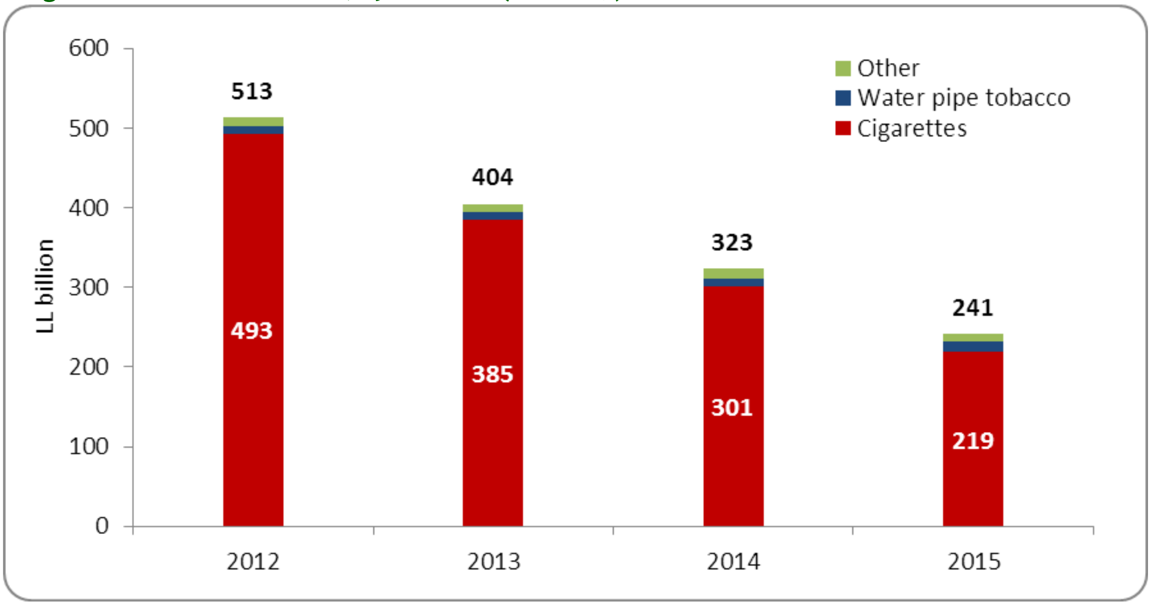
Excises on gasoline rose by LL 117 billion year-on-year to reach LL 629 billion in 2015. The latter rise was the combined result of an 11 percent increase in average gasoline excise rates following a Higher Council of Customs' decision[8], as well as a 10 percent growth in the volume of imported gasoline.

Car excises increased by 13 percent (LL 53 billion) in 2015, driven by a 10 percent increase in the number of imported cars. In detail, the total number of imported cars registered 79,683 in 2015, up from 72,170 cars during 2014.

Tobacco excises registered a sharp 28 percent decrease mainly as a result of continued cross-border smuggling from Syria which reduced the market need for formal tobacco imports. In particular, cigarettes saw the most notable decrease of 36 percent in terms of volume and 27 percent in terms of value. It is worth mentioning that cigarettes have been historically the major source of tobacco excises, accounting more than 90 percent of these revenues over the period 2012-2015.

[8] 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.

Figure 8: Excises on Tobacco, by Products (2012-2015)



Source: MOF, DGC

Note: These are declaration statistics and differ from the ones mentioned in PFM tables (Table 3). According to customs declarations, tobacco products are identified with HS 24, and more specifically cigarettes with HS 24.02.20 and water-pipe tobacco with HS 24.03.11. The Harmonized System (HS) is the nomenclature adopted by the Customs Administration to classify goods into their respective category.

Finally, receipts from **fiscal stamp fees** decreased by 2 percent (LL 11 billion) year-on-year to LL 483 billion in 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

Non-tax revenues decreased by LL 1,049 billion, to reach LL 3,305 billion in 2015 as a result of a drop in **income from public institutions and government properties**. As a percentage of GDP, non-tax revenues decreased from 5.8 percent of GDP in 2014 to 4.3 percent of GDP in 2015. **Income from public institutions and government properties** dropped by LL 1,185 billion to LL 2,313 billion in 2015, owing chiefly to a LL 1,173 billion decrease in transfers from the Telecom Surplus following an exceptional collection of arrears during 2014.

Moreover, property income decreased by LL 30 billion over the period while revenues from Casino Du Liban and budget surplus of the National Lottery dropped by LL 7 billion each. In contrast, revenues from Port of Beirut rose by LL 35 billion to LL 117 billion.

Administrative fees and charges rose by LL 118 billion year-on-year, to reach LL 793 billion in 2015, mostly owing to a LL 95 billion increase in passport fees/public security. In contrast, vehicle control fees decreased by LL 27 billion amounting to LL 258 billion in 2015.

Table 5: Non-Tax Revenues

(LL billion)	2014	2015	%Change 2015/2014
Income from Public Institutions and Government Properties	**3,498**	**2,313**	**-33.9%**
• Income from Non-Financial Public Enterprises, *of which*:	3,300	2,148	-34.9%
- *Revenues from Casino du Liban*	117	110	-6.0%
- *Revenues from Port of Beirut*	82	117	42.2%
- *Budget Surplus of National Lottery*	66	59	-10.1%
- *Transfer from the Telecom Surplus*	3,034	1,860	-38.7%
• Income from Financial Public Enterprises (BdL)	61	61	0.2%
• Property Income (rent of Rafic Hariri International Airport)	127	98	-23.1%
Administrative Fees & Charges, *of which:*	**675**	**793**	**17.5%**
• Administrative Fees, *of which*:	565	667	18.2%
- *Notary Fees*	32	37	17.4%
- *Passport Fees/ Public Security*	163	258	58.3%
- *Vehicle Control Fees*	285	258	-9.4%
- *Judicial Fees*	28	29	3.6%
- *Driving License Fees*	20	33	60.0%
• Administrative Charges	24	29	19.2%
• Permit Fees (mostly work permit fees)	68	73	7.3%
• Other Administrative Fees and Charges	14	20	41.4%
Penalties and Confiscations	**11**	**28**	**148.8%**
Other Non-Tax Revenues (mostly retirement deductibles)	**170**	**171**	**1.0%**
Total Non-Tax Revenues	**4,354**	**3,305**	**-24.1%**

Source: MOF, DGF

Treasury Receipts

Treasury receipts recorded a LL 858 billion (52 percent) decrease in 2015 from LL 1,658 billion in 2014, mainly due to a LL 609 billion decline in revenues collected on behalf of Municipalities. It is worth noting that during 2014, Ministry of Telecommunication transferred LL 739 billion in revenues to municipalities, of which LL 636 billion in one-off arrears for the years 2010-2013. On 3 December 2015, Council of Ministers approved decisions 2338, 2339 and 2340 which specify the modalities of disbursement of these revenues to Municipalities expected to start in 2016.

SECTION III: EXPENDITURE OUTCOME

Total expenditure (budget and treasury) regressed by 3 percent (LL 639 billion) from LL 21,032 billion in end 2014 to LL 20,393 billion in 2015. Excluding interest payments, **total primary expenditure** dropped by LL 1,087 billion mainly owing to lower transfers in all sub-categories of various transfers: (i) **transfer to EDL** by LL 1,446 billion, (ii) **NSSF** by LL 100 billion, and (iii) **Higher Council of Relief** by LL 67 billion.

On the other hand, the aforementioned drops were slightly counterbalanced by increases in (i) **interest payments**, (ii) **personnel cost**, and (iii) **treasury expenditures** by LL 408 billion, LL 353 billion, and LL 304 billion respectively.

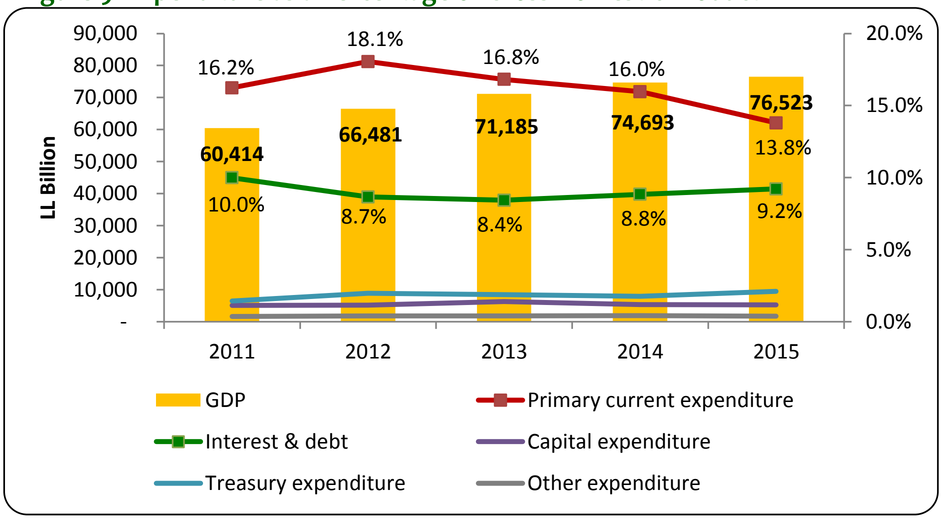
Table 6: Expenditure summary

(LL billion)	2014	2015	% Change 2015/2014
Interest payments	6,314	6,722	6.5%
Concessional loans principal payments (1)	288	328	13.9%
Primary expenditures (2)	14,430	13,343	-7.5%
Total budget and treasury payments	**21,032**	**20,393**	**-3.0%**

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).

As a percentage of GDP, **primary current expenditures** decreased to 13.8 percent in 2015 from the 16.0 percent registered in 2014 and 16.8 percent in 2013. The significant decline observed in 2015 was mainly the result of decreases in transfers to EDL to 2.2 percent of GDP in 2015 compared to 4.2 percent of GDP in 2014 and 4.3 percent in 2013, as cost of petroleum imports decreased due to the drop in international oil prices. Personnel cost slightly increased to 9.3 percent in 2015 compared to 9.0 percent and 9.1 percent in 2014 and 2013 respectively. Moreover, interest payments and foreign debt principal repayments registered an increase from 8.4 percent of GDP in 2013 to 9.2 percent in 2015. **Capital expenditure** stood at an average of 1.2 percent during the period 2010-2015, with the highest figure registered in 2013 at 1.4 percent, resulting from significant transfers to the Council of Development and Reconstruction (CDR) and maintenance.

Figure 9: Expenditure as a Percentage of Gross Domestic Product



Source: MOF, DGF, IMF and CAS

The evolution of the main expenditure items in 2015 according to the economic classification is presented in table 7 below, and reviewed in the sections that follow.

Table 7: Expenditure by economic classification

(LL billion)	2014	2015	% Change 2015/2014
1. Current Expenditures	**18,524**	**17,603**	**-5.0%**
1.a Personnel Cost, *of which*	6,727	7,080	5.2%
Salaries, Wages and Related Items	4,501	4,669	3.7%
Retirement and End of Service Compensations, of which:	1,893	2,025	7.0%
Retirement	1,652	1,729	4.6%
End of Service	241	296	23.0%
Transfers to Public Institutions to Cover Salaries	333	386	15.9%
1.b Interest Payments	6,314	6,722	6.5%
1.c Accounting adjustments 1/	32	-42	-
1.d Foreign Debt Principal Repayment	288	328	13.9%
1.e Materials and Supplies, *of which:*	390	356	-8.6%
Nutrition (Food supply)	77	89	14.6%
Fuel Oil	13	32	134.6%
Medicaments	195	151	-22.5%
1.f External Services	150	141	-6.3%
1.g Various Transfers, *of which:*	4,002	2,344	-41.4%
EDL	3,157	1,711	-45.8%
NSSF	100	0	-100.0%
Higher Council of Relief	96	29	-69.5%
Contributions to non-public sectors	311	276	-11.4%
Transfers to Directorate General of Cereals and Beetroot	70	33	-52.2%
Contributions to water authorities	12	0	-100.0%
1.h Other Current, *of which:*	425	494	16.1%
Hospitals	297	347	17.0%
Others(judgments & reconciliations, mission costs, other)	118	133	12.2%
1.i Reserves (Interest subsidy)	196	181	-7.7%
2. Capital Expenditures	**883**	**888**	**0.5%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	0	104.4%
2.b Equipment	66	60	-9.2%
2.c Construction in Progress, *of which:*	606	631	4.1%
Displaced Fund	30	10	-66.7%
Council of the South	78	59	-24.6%
CDR	281	257	-8.7%
Ministry of Public Work and Transport	71	66	-7.2%
Other	77	233	202.2%
2.d Maintenance	163	141	-13.1%
2.e Other Expenditures Related to Fixed Capital Assets	48	55	13.9%
3. Budget Advances 2/	**263**	**228**	**-13.5%**
4. Customs Administration (exc. Salaries and Wages) 3/	**47**	**56**	**19.0%**
5. Treasury Expenditures 4/	**1,313**	**1,616**	**23.1%**
Municipalities	709	935	31.9%
Guarantees	121	68	-44.3%
Deposits 5/	113	218	93.7%
Other, *of which:*	370	396	6.9%
VAT Refund	275	305	10.9%
6. Unclassified Expenditures	**2**	**3**	**40.0%**
7. Total Expenditures (Excluding CDR Foreign Financed)	**21,032**	**20,393**	**-3.0%**

Source: Statement of Account 36, Cashier Spending, Public Debt Department Figures, Fiscal Performance Gross Adjustment Figures
(1) The line item presents a difference in interest payments due to the new procedure applied by the accounting department since July 2014
(2) 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.
(3) "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.
(4) Figures may differ from previously published data because of constant updates and improvements.
(5) 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 921 billion (or 5.0 percent) mainly driven by the drop in various transfers by LL 1,658 billion and material and supplies by LL 33 billion, which was partly offset by increases in (i) interest payments by LL 408 billion, (ii) personnel cost by LL 353 billion, and (iii) other current expenditures by LL 68 billion.

Current Primary Expenditure

Current primary expenditure registered a LL 1,369 billion decrease to reach LL 10,553 billion in 2015.

Personnel cost amounted to LL 7,080 billion in 2015, increasing by LL 353 billion compared to LL 6,727 billion in 2014. Salaries, wages and related items increased by LL 168 billion in 2015, totalling LL 4,669 billion in 2015. As shown in table 9, this increase was mainly the result of higher (i) allowances paid to the military personnel (LL 89 billion), (ii) basic salaries payment to military personnel (LL 86 billion), and (iii) basic salaries payment to education personnel (LL 32 billion). These increases were partly counterbalanced by a decrease in payments to government subscription and contributions to the Employees Cooperative by LL 53 billion[9].

Table 8: Breakdown of Salaries, Wages and Related Benefits (Jan-Dec 2014- Jan-Dec 2015)

(LL billion)	Basic Salaries		Allowances 1/		Employment Benefits & Other 2/		Total	
	2014	2015	2014	2015	2014	2015	2014	2015
Military Personnel	**2,079**	**2,165**	**557**	**646**	**85**	**87**	**2,721**	**2,898**
Army	1,322	1,385	327	437	51	54	1700	1876
Internal Security Forces	583	593	179	151	25	26	787	769
General Security Forces	137	148	38	45	5	5	179	198
State Security Forces	37	39	14	14	4	2	54	55
Education Personnel	**874**	**906**	**0**	**0**	**89**	**92**	**962**	**997**
Civil Personnel	**339**	**348**	**5**	**5**	**110**	**113**	**454**	**466**
Employees Cooperative					**323**	**270**	**323**	**270**
Customs Salaries							**38**	**37**
Total 3/	**3,292**	**3,418**	**562**	**651**	**607**	**562**	**4,501**	**4,669**

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*
3/ This item includes unclassified expenditures, which amounted to LL 1 billion and LL 3 billion during 2014 and 2015, respectively.

Retirement and end-of-service compensations reached LL 2,025 billion in 2015, increasing by LL 132 billion from the LL 1,893 billion figure recorded in 2014. This was mainly due to a LL 77

[9] For further details and analysis, kindly refer to the Salaries, Wages and Related Benefits monthly bulletin of December 2015 on the Ministry of Finance website: www.finance.gov.lb.

billion rise in retirement compensation along with LL 55 billion higher end-of-service indemnities.

In detail, retirement recorded a 4.6 percent rise, owing to a 4 percent higher number of beneficiaries. As for the end-of-service indemnity, the reason behind the 23 percent increase is mainly due to the following:

a) End-of-service compensation to military personnel increased by LL 59 billion and amounted to LL 256 billion (86 percent of total compensation payments) by end 2015, compared to LL 196 billion (81 percent of total compensation payments) in 2014.

b) End-of-service compensations to civil personnel decreased by LL 4 billion to reach LL 41 billion in 2015. The 8 percent decline was the result of lower number of retirees.

Transfers to public institutions increased by LL 53 billion (or 16 percent) as a result of higher transfers to the Lebanese University by LL 71 billion. The changes in the components of transfers to public institutions are shown in Table 9 below.

Table 9: Breakdown of Transfers to Public Institutions (salaries)

(LL billion)	2014	2015	%Change 2015/2014
Transfer to Council of the South	12	9	-27.4%
Transfer to the Council for Development and Reconstruction	25	17	-32.9%
Transfer to Fund for the Displaced	6	6	0.0%
Transfer to the Lebanese University	277	347	25.5%
Transfer to Educational Centre for Research and Development	14	8	-45.3%
Total Transfers to Public Institutions	**333**	**386**	**15.9%**

Source: MoF, DGF

Purchases of **materials and supplies** dropped from LL 390 billion in 2014 to LL 356 billion in 2015, principally due to a LL 44 billion drop in spending on medicaments. More specifically, medicaments totalled LL 151 billion of which around 63 percent were transferred to the Ministry of Public Health and around 36 percent to military personnel[10]. Spending on nutrition amounted to LL 89 billion, increasing by 15 percent in 2015, and these are mainly dedicated to military personnel.

External services slightly dropped by 6 percent, from LL 150 billion in 2014 to LL 141 billion in 2015. The LL 9 billion drop was mainly due to a decrease in rental payments by LL 5 billion, and a LL 2 billion decline in each of publications, and cleaning services.

Various transfers fell by LL 1,658 billion, reaching LL 2,344 billion in 2015 from a figure of LL 4,002 billion by end 2014, with the bulk of spending transferred to Electricité Du Liban (EDL) and comprising around 73 percent of the total amount. Transfers to EDL[11] reached LL 1,711 billion, down from LL 3,157 billion in 2014, reflecting the drop in international oil prices, as the average weighted price of imported gasoil and fuel oil dropped by around 48 percent in 2015 from the previous year. The oil price effect was marginally counterbalanced by slightly larger imported volumes gasoil in 2015.

[10] The remaining 1 percent was distributed mainly to the Ministry of Agriculture.
[11] For further details on EDL transfers in Jan-Dec 2015, kindly refer to the December issue of Transfers to Electiricité Du Liban, a monthly snapshot, on the Ministry of Finance website: www.finance.gov.lb.

Table 10: Transfers to EDL

(LL billion)	2014	2015	%Change 2015/2014
EDL, *of which:*	**3,157**	**1,711**	**-46%**
Debt Service	**32**	**29**	**-10%**
Reimbursement for purchase of Fuel & Gas Oil	**3,125**	**1,682**	**-46%**

Source: MOF, DGF

Besides the drop in EDL transfers, several changes contributed to the decrease in **various transfers**. In fact, the latter declined from LL 845 billion in 2014 to LL 633 billion in 2015 when transfers to EDL are excluded, or a decrease of 25 percent, mainly owing to the following combined changes:

a) Transfers to NSSF decreased to nil in 2015 from LL 100 billion in 2014 and LL 250 billion transferred in 2013. It is noted that these transfers are discretionary and do not follow a specific trend.

b) Transfers to Higher Relief Council decreased by LL 67 billion to reach LL 29 billion in 2015. The transferred amount was chiefly attributed to compensations for damages following several tragic events in Lebanon that took place in 2014, namely LL 20 billion[12] to cover for the two blasts in Dahr el Baydar and Chiyah areas and the conflicts in Tripoli, LL 6.7 billion[13] to compensate for the tensions in Arsal in North Bekaa, in addition to other reimbursements (LL 1.5 billion)[14].

c) Assistance to the Directorate General of Grains and Sugar Beetroot fell by LL 36 billion, to reach LL 33 billion in 2015. The total transferred amount was paid through three treasury advances: (i) LL 23.8 billion[15] to subsidize wheat harvest for the 2015 season, (ii) LL 6.5 billion[16] to compensate farmers for bad harvest season in 2014, and (iii) LL 3 billion[17] to subsidize beetroot production. On a related note, it is worth mentioning that LL 1.4 billion was reimbursed by the Directorate of Cereals and Beetroot to the Treasury as revenues in 2015, compared to LL 89 billion[18] during the year 2014.

d) Contributions to non-public sectors dropped by LL 35 billion in 2015 mainly due to a LL 31 billion decrease in transfers to the Ministry of Social Affairs and an LL 8 billion decline in transfers to the Ministry of Justice. These decreases were slightly counterbalanced by a LL 6 billion increase in transfers to the Ministry of Education.

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

e) Transfers to the National Agriculture Research Institute increased by LL 13 billion in 2015 from nil in 2014. Of the total amount transferred, LL 8 billion relate to expenses to cover salaries.

f) Transfers to the Lebanese National Higher Conservatory of Music increased by LL 8 billion in 2015. Of the total LL 18 billion[19] transferred in 2015, LL 4 billion relate to the difference between the budget allocation made in 2014 and the ceiling allowed in the 2005 budget.

[12] As per decree 982 dated 11 November 2014, the total treasury advance is LL 20 billion.
[13] As per decree 1391 dated 29 January 2015, the total treasury advance is LL 6.7 billion.
[14] As per decree 1895 dated 23 April 2015, the total treasury advance is LL 1.5 billion.
[15] As per decree 2464 dated 24 December 2015, the total treasury advance is LL 23.8 billion.
[16] As per decree 1159 dated 18 April 2014, the total treasury advance is LL 6.5 billion.
[17] As per decree 1177 dated 23 December 2014, the total treasury advance is LL 3 billion.
[18] 2014 figures have been revised and differ from the 2014 Public Annual Review report.
[19] As per decree 1074 dated 27 November 2014, the total treasury advance is LL 4 billion.

g) Membership Fees in Regional and International Organizations increased from LL 13 billion in 2014 to LL 21 billion in 2015, mainly due to a LL 7 billion rise in transfers to the Ministry of Public Health to cover expenses for the purchase of vaccines from UNICEF.

Table 11: Breakdown of Article 14 by Economic Classification

(LL billion)	2014	2015	% Change 2015/2014
1. Contributions to the Public Sector 1/	**3,575**	**1,975**	**-44.7%**
1a. Electricité Du Liban (EDL)	3,157	1,711	-45.8%
1b. Other Contributions to the Public Sector, *of which:*	418	264	-36.7%
Transfers to School Funds	42	34	-19.2%
High Relief Committee (HRC)	96	29	-69.5%
Public Hospitals	42	22	-48.1%
Tele Liban	13	14	9.3%
National Council for Scientific Research	7	13	74.2%
National Agriculture Research Institute	0	13	N.M.
Green Project	6	11	83.3%
National Social Security Fund (NSSF)	100	0	-100.0%
Investment Development Authority of Lebanon (IDAL)	17	4	-77.9%
2. Contributions to the Non-Public Sector[20]	**311**	**276**	**-11.3%**
2a. Contributions to Non Profit Organizations , *of which:*	281	258	-8.1%
Ministry of Education-Subsidized Schools	80	86	7.2%
Ministry of Youth and Sports	5	6	42.2%
Ministry of Public Health	10	10	2.1%
Ministry of Social Affairs	178	147	-17.3%
2b. Contributions to Private Parties	28	18	-35.6%
3. Assistance to the Public Sector	**84**	**33**	**-60.4%**
3a. Directorate General of Grains & Sugar Beetroot	70	33	-52.2%
3b. Public Institutions, *of which: 2/*	12	0	-99.9%
Water Authorities	12	-	-100.0%
4. Assistance to the Non-Public Sector	**0**	**0**	**N.M.**
5.External Assistance (Ministry of Environment)	**3**	**0**	**-96.8%**
6. Membership Fees (Regional and International Organizations)	**13**	**21**	**60.6%**
Ministry of Foreign Affairs and Emigrants	8	5	-39.9%
Ministry of Public Health	1	8	514.5%
7.Stoppings 3/	**15**	**32**	**107.6%**
Total	**4,002**	**2,344**	**-41.4%**

Source: MOF, DGF
1/ Contributions to Public Sector consist mainly of contributions made to Public Institutions. Assistance provided to certain Public Corporations, such as Lebanese National Higher Conservatory of Music 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 removed and 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.

[20] The figures for the year end 2014 slightly differ from the figures published in the Public Annual Review 2014 due to classification modifications.

Other current expenditures increased by LL 69 billion in 2015, from a figure of LL 425 billion in 2014 to LL 493 billion. Transfers to hospitals rose by LL 50 billion mainly caused by a difference in the timing of payments whereby around 60 percent of the total amount paid in 2015 relate to the 2014 budget. "Other spending" increased by LL 14 billion in 2015 mainly as a result of a rise in payments for judgments and reconciliations by LL 16 billion, slightly counterbalanced by a drop in secret expenditure. Transfers to the Housing Institutions, classified under "other spending"[21], amounted to LL 40 billion in 2015 compared to LL 35 billion in 2014, noting that these transfers represent interest payments of subsidized loans provided by banks, as per the contract between Banque du Liban and the Housing Institution.

INTEREST PAYMENTS

Debt Service payments rose by LL 408 billion to reach LL 6,722 billion during 2015, mainly on account of a LL 393 billion increase in local currency interest payments. It is worth noting that foreign currency interest payments remained broadly stable over the same period.

Interest payments on local currency debt rose by 10 percent to LL 4,327 billion in 2015, reflecting an almost identical increase in **coupon payments on long-term Treasury bonds** (with a maturity of more than one year) owing in turn to an expansion in the number of outstanding bonds on which coupon was due. In parallel, the stock of long-term domestic debt increased by 8.5 percent in June 2015, compared to June 2013, on account of a higher stock of 2YR, 7YR and 10YR instruments, which rose by LL 965 billion, LL 1,067 billion and LL 2,806 billion respectively. These increases translated solely into higher interest payments during 2015, given that coupon payments are disbursed six months following the issuance of a Bond.

It is worth mentioning that the average interest rate on long-term tenors remained unchanged during 2015, standing at 7.02 percent. On the one hand, average interest rates on 2YR and 3YR instruments rose slightly by 8 bps and 12 bps respectively, partly resulting from the 52 basis points increase in interest rates on instruments with maturity 5-years or less, during March 2012. On the other hand, the average interest rate on 5YR instruments dropped by 28 bps since some of these instruments that were issued in 2009 at relatively high interest rates (varying between 7.74 percent and 9.00 percent) matured in 2014. Moreover, the average interest rate on 10 YR instruments retreated by 13 bps, following a 52 bps reduction on such instrument in March 2016.

In contrast, **discount interest payments** (interest paid at maturity of 3, 6 and 12 months T-bills) dropped by 14 percent to LL 72 billion in 2015, compared to LL 84 billion in 2014.

Interest payments on foreign currency debt amounted to LL 2,395 billion in 2015, recording a 0.6 percent increase compared to 2014.

Eurobond coupons, the biggest sub-component, inched-up by 0.3 percent over the period despite a 4.1 increase in the stock of market-issued Eurobonds from LL 35,291 billion as at end-June 2014 to LL 36,744 billion as at end-June 2015, along a 10 basis points rise in the weighted average cost of Eurobonds to 6.48 percent by end-June 2015, compared to 6.38 percent end-June 2014. This contrasted performance could rather be attributed to the fact that the stock of Eurobonds was down by 1.2 percent over the June to December 2014,

[21] In 2013, transfers to the Housing Institutions were classified under Various Transfers. In 2014, these transfers were reclassified under Other Current Expenditure.

which translated into lower interest payments in the first half of 2015. Moreover, the Lebanese Republic issued in February 2015, new cash Eurobonds for an equivalent amount of USD 2.2 billion and which had only half-year impact over that same year.

Table 12: Interest Payments

(LL billions)	2014	2015	% Change
Debt Service Payments	**6,314**	**6,722**	**6.5%**
Local Currency	**3,934**	**4,327**	**10.0%**
Discount interest	84	72	-13.8%
Coupon payments	3,850	4,254	10.5%
Foreign Currency	**2,380**	**2,395**	**0.6%**
Eurobond Coupon (including fees)	2,285	2,292	0.3%
C-loans interest	120	98	-18.6%
Special Bond (expropriation & contractors)	7	5	-20.7%
Memorandum Items:			
Weighted average cost/Local debt			
Short- term (3-6-12)	4.98%	5.01%	0.6%
Long term (24-36-60-84-96-120-144)	7.02%	7.02	-0.1%

Source: MOF, DGF

CAPITAL EXPENDITURE

Capital expenditures increased by LL 5 billion, from LL 883 billion in 2014 to LL 888 billion in 2015, mainly as a result of a LL 25 billion increase in construction in progress and a LL 7 billion rise in other expenditures related to fixed capital assets. These increases were counterbalanced by a LL 21 billion decrease in maintenance and a LL 6 billion decline in equipment. Generally, the government has been under-spending on capital expenditures relatively to the budgeted figures and the increasing need of infrastructure projects.

Construction in progress reached LL 631 billion in 2015, rising by 4 percent mainly due to a LL 156 billion increase in other construction in progress sub-category. The latter totaled LL 233 billion by end 2015 and increased from a figure of LL 77 billion in 2014 chiefly as a result of the following:

a) LL 96 billion rise in payments made to the Ministry of Energy, totaling LL 141 billion of which (i) LL 51 billion relate to spending on electricity equipment and stations, and installation services in different Lebanese areas; (ii) LL 30 billion were allocated to the dam construction project in Bekaata region; (iii) LL 17 billion were disbursed to the dam construction project and other water projects in the Batroun Disctrict; and (iv) LL 15 billion pertain to water projects in North Lebanon.

b) LL 51 billion increase in payments to HRC, reaching LL 61 billion of which LL 50 billion relate to the execution of development, infrastructure, and public services projects in Akkar District[22].

c) LL 12 billion higher payments to the Ministry of Interior mainly due to an increase in payments pertaining to the development of an indoor and an outdoor shooting field.

d) LL 3 billion decrease in payments to the Ministry of Agriculture and the Ministry of Youth and Sports, slightly counterbalancing the abovementioned increases.

Payments to other sub-categories under construction in progress decreased as per the following: (i) **CDR** by LL 24 billion, (ii) **Displaced Fund** by LL 20 billion, (iii) **Council of the South** by LL 19 billion, and (iv) **Ministry of Public Work and Transportation** by LL 4 billion.

More specifically, payments to **CDR** dropped by LL 24 billion to reach LL 257 billion in 2015, mainly due to lower transfers made for (i) counterpart funding for foreign financed projects (- LL 42 billion), (ii) road projects (- LL 26 billion), (iii) water and sanitation projects (- LL 11 billion), and (iv) maintenance of Rafic Hariri Airport (- LL 8 billion) to reach nil in 2015. These decreases in transfers to CDR were partly counterbalance by an increase in other projects by LL 44 billion[23] and building projects by LL 19 billion.

Table 13: Payments to CDR for Construction in Progress

(LL billion)	2014	2015	%Change 2015/2014
CDR Budget Payments (1)	**147**	**97**	**-34.1%**
Counterpart funding for foreign financed projects	139	97	-30.0%
Maintenance of Rafic Hariri International Airport	8	0	-100.0%
Projects Executed on behalf of Line Ministries (2)	**130**	**112**	**-14.1%**
Roads projects	89	63	-28.9%
Buildings and other related projects	5	24	369.8%

[22] As per decree 2268 dated 16 September 2015, the total treasury advance is LL 150.75 billion to be settled in three equal payments over three consecutive years, with the first payment starting 2015.

[23] As per decree 12068 dated 21 July 2014, the total treasury advance is LL 300 billion and relates to different and urgent CDR projects disclosed in decision number 99 dated 22 May 2015 (for further details, kindly refer to table 15 in the Public Annual Review 2014 report).

Water treatment projects	36	25	-31.2%
Other projects	4	48	1175.3%
Total Payments to CDR for Construction In Progress	**281**	**257**	**-8.7%**

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.

Maintenance dropped by 13 percent to reach LL 141 billion, mainly due to a LL 39 billion decrease in transfers to CDR from a figure of LL 51 billion in 2014 to LL 12 billion in 2015. It is worth noting that the payments to CDR were made through two treasury advances[24] to cover the cost of operating expenses, maintenance and supervision of the Lebanese University in Hadath. This decrease was counterbalanced by a rise in payments to the **Ministry of Public Works and Transportation** from LL 83 billion in 2014 to LL 100 billion in 2015, whereby most of these transfers related to maintenance of roads and buildings, and projects relating to water drainage.

Equipment decreased by LL 6 billion in 2015 to reach LL 60 billion, mainly due to declines in transfers to the Ministry of Defense by LL 9 billion, the Internal Security Forces by LL 3 billion, and other ministries by LL 9 billion. The mentioned decreases were slightly counterbalanced by a LL 15 billion increase in transfers to the Ministry of Energy.

[24] As per decree 10873 dated 21 November 2013 (the total treasury advance is LL 20.6 billion), and decree 726 dated 02 October 2014 (the total treasury advance is LL 20.6 billion).

TREASURY EXPENDITURE

Treasury expenditures increased by 23 percent, from LL 1,313 billion in 2014 to reach LL 1,616 billion in 2015. Transfers to municipalities were the main reason behind this increase, comprising around 58 percent of total treasury expenditures and reaching LL 935 billion in 2015. As can be observed in table 14, this was mainly due to a LL 365 billion rise in distribution of revenues accruing to municipalities[25] and a LL 22 billion increase in cleaning expenses, slightly counterbalanced by a LL 157 billion decrease in payments for solid waste management.

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:

a) Fees collected and directly redistributed to each municipality.

b) 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.

Table 14: Payments to Municipalities

(LL billion)	2014	2015	%Change 2015/2014
Distribution of Revenues Accruing to Municipalities	355	720	102.8%
Payments for Solid Waste Management	337	180	-46.5%
Payments to the "First Municipality Infrastructure Project"	12	6	-50.1%
Cleaning Expenses	5	27	550.9%
Other Payments	0.2	2	982.9%
Total Payments to Municipalities	**709**	**935**	**31.9%**

Source: MoF, DGF

Deposits increased by LL 106 billion in 2015 and VAT refund by LL 30 billion. The mentioned increases were slightly counterbalanced by a decline in guarantees from LL 121 billion in 2014 to LL 68 billion in 2015.

SOCIAL EXPENDITURE

Social expenditures cover 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.

Social expenditure as a percentage of GDP stood at 7 percent for the two years under review, a low figure when compared to the 22 percent average in Organization for Economic Cooperation and Development (OECD) countries[26].

However, the ratio of social expenditures to total spending increased from 24 percent in 2014 to 26 percent in 2015, partly due to a lower base of total expenditures which decreased by 3 percent. In nominal terms, social expenditure was higher by LL 128 billion standing at LL 5,239 billion in 2015 compared to 2014. The main changes during the year were:

a) Social expenditure related to education increased by LL 147 billion (9 percent) to reach LL 1,765 billion in 2015, mainly due to (i) LL 71 billion higher transfers to the Lebanese University, (ii) a LL 40 billion increase in education allowance in private sector, and (iii) LL 35 billion higher salaries and wages.

b) Social expenditure related to health increased by LL 44 billion (5 percent), mainly driven by a LL 42 billion increase in hospitalization expenditure in the private sector, a LL 16 billion increase in maternity and sickness allowance, this was slightly offset by a decrease in purchases of medication by LL 44 billion.

c) End of service indemnities and retirement wages increased by 7 percent (LL 132 billion) to reach LL 2,025 billion in 2015, compared to LL 1,893 billion in 2014.

[25] As per decree 1508 dated 5 March 2015, the total amount of the treasury advance is LL 492 billion and as per decree 2341 dated 30 November 2015, the total amount of the treasury advance is LL 527 billion.
[26] OECD iLibrary Database.

In terms of spending allocation, **end of service indemnities and retirement wages** ranked first with 39 percent of the total in 2015, up from 37 percent in 2014. These were followed by **education spending** accounting for 34 percent in 2015, up from 32 percent in 2014. More specifically, wages and salaries of the General Directorate of Education and transfers to the Lebanese University constituted the bulk of the education spending category, standing at 26 percent of total social expenditure in 2015. Lastly, while **health expenditure**'s share of total social expenditure increased from 17 percent in 2014 to 18 percent in 2015, the component still ranked third in 2015.

Table 15: Main Social Expenditure

(LL billion)	2014	2015	%Change 2015/2014
Health			
Hospitalization in the private sector	297	347	17%
Purchase of Medication	195	151	-22%
Hospitalization of public sector employees in private sector	245	287	17%
Maternity and sickness allowance	56	73	29%
Other	96	75	-22%
Sub-Total	**889**	**933**	**5%**
Education			
Ministry of Education and Higher Learning, *of which*	1,403	1,510	8%
Salaries and wages	962	997	4%
Transfers to the Lebanese University	277	347	26%
Contributions to non-profitable organizations	80	86	7%
Education allowance in private sector	216	255	18%
Sub-Total	**1,619**	**1,765**	**9%**
Other Social Spending			
End of Service Indemnities & Retirement Wages	1,893	2,025	7%
Transfers to the National Social Security Fund	100	0	-100%
Transfers to Civil Servants' Cooperative	323	270	-16%
Ministry of Social Affairs, *of which*	184	152	-18%
Transfers to non-profitable organizations	179	147	-18%
Participation in several mutual funds	51	51	0%
Other social spending allowance (1)	52	43	-18%
Sub-Total	**2,604**	**2,541**	**-2%**
Grand-Total Social Spending	**5,111**	**5,239**	**2%**

Source: MOF, DGF
Note: 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 106,015 billion (US$ 70.33 billion) by the end of 2015, adding LL 5,659 billion (5.6 percent) from its end-year level in 2014. This increase represented a slight pickup from the previous year's 4.9 percent debt expansion, although with the slow economic growth environment and low inflation levels the debt to GDP ratio increased to around 138.5 percent from 134.4 percent in 2014. Local currency debt increased by LL 3,443 billion or 5.6 percent, and foreign currency debt grew by the equivalent of LL 2,216 billion or around 5.7 percent.

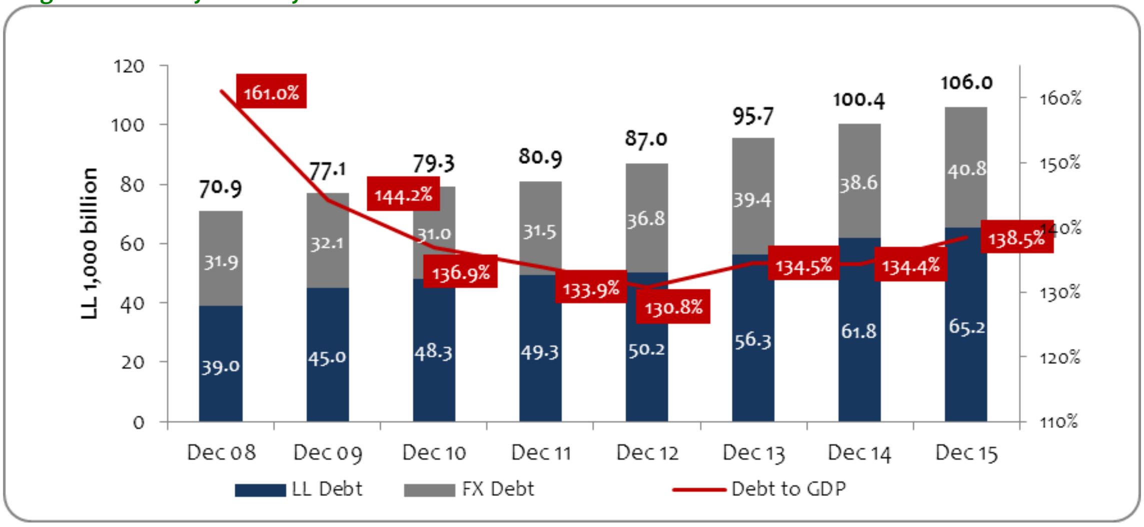
Net public debt increased at a slightly quicker pace of 7.4 percent, or by a nominal amount of LL 6,397 billion to reach LL 92,788 billion, as public sector deposits retracted by LL 738 billion to LL 13,227 billion. Net debt to GDP reached 121.3 percent by the end of 2015, compared to 115.7 percent in 2014, while the ratio of public sector deposits to Gross Public Debt diminished to 12.5% from 13.9%.

Table 16: Public Debt Outstanding as of end-December 2015

(LL billion)	Dec-12	Dec-13	Dec-14	Dec-15	Change Dec 2015/ Dec 2014	%Change Dec 15/Dec14
Gross Public Debt	86,959	95,710	100,356	106,015	5,659	5.64%
Net Debt(1)	74,043	80,215	86,391	92,788	6,397	7.4%
Gross Market Debt(2)	58,623	65,386	67,373	68,799	1,426	2.1%
Nominal GDP*	66,481	71,185	74,693	76,523	1,867	2.5%
Debt to GDP	130.8%	134.5%	134.4%	138.5%	4.1%	NM

Source: MoF, BDL
(1) The stock of net public debt equals the stock of gross public debt minus public sector deposits.
(2) Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.
(3) Figures for Dec 13-Dec 14 may differ from previously published data due to updated information regarding bilateral and multilateral loans in the DMFAS system.
** GDP 2014 and 2015 were computed using IMF April 2016 WEO real growth and deflator estimates starting from the 2013 CAS Nominal GDP figure as a base.*

Figure 10: Debt by Currency and Gross Debt to GDP



Source: MoF, BDL

LOCAL CURRENCY DEBT

The stock of **Local currency debt** reached LL 65,195 billion by end-December 2015, increasing by LL 3,443 billion (5.6 percent) from end-2014. This compared to a larger rise of LL 5,440 billion (9.7 percent) in 2014, when the fiscal deficit was mostly financed by new local currency debt owing to legislative limitations on new foreign currency issuances. With a more currency balanced financing strategy in 2015, local currency debt retained a similar share of gross outstanding debt as the previous year at 61.5 percent.

MoF's debt management policy in 2015 entailed the first time publication of quarterly schedules[27] for weekly auctions of local currency Treasury bills and bonds, which were released by the Public Debt Directorate prior to the beginning of each quarter. The calendars were published on MoF's website specifying instruments to be issued in each of the weekly auctions of the coming quarter. This allowed for better alignment of investors' expectations and helped improve the Ministry's liquidity management. Auction calendars also introduced the regularized issuance 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. This helped to better gauge market demand and smooth primary coupon rates on 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 and remained flat until its last offering in December 2015. The 7-year T-bond was also issued at a lower rate of 7.08% compared to a primary rate of 7.50% when the tenor was last issued by MoF in June 2013 prior to its introduction in regular auction calendar.

Outstanding domestic currency denominated contractor bonds ended 2015 at LL 180 billion unchanged from end-2014.

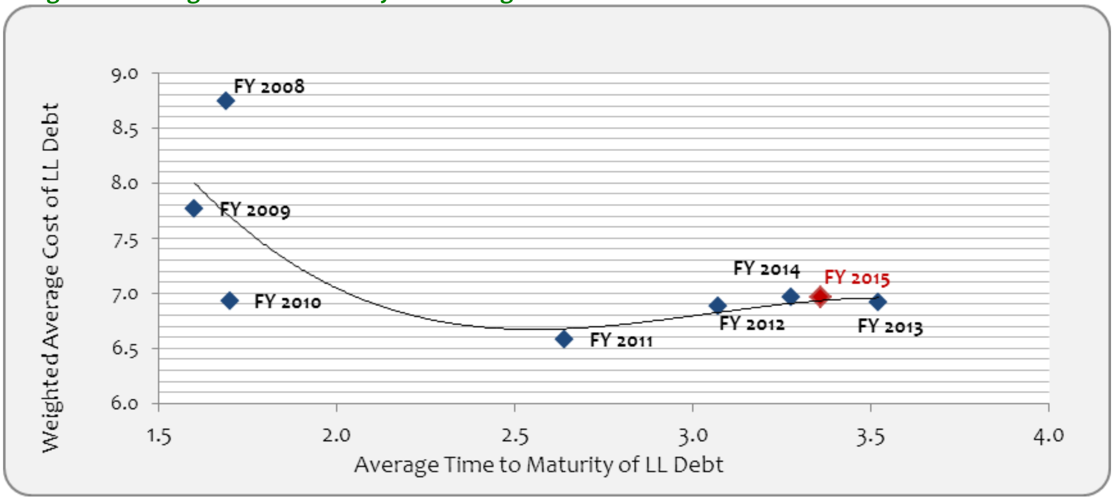
The **average time-to-maturity (ATM) of domestic currency Treasury Bills and Bonds** rose to 3.32 years by the end of December 2015, from 3.27 years in December 2014, reflecting the effect of longer tenors including the 7-year and 10-year Treasury bonds, which were issued on a regular basis in 2015.

The **weighted average cost of outstanding domestic debt** slightly increased to 7.00 percent from 6.96 percent by end-2014, and 6.93 percent end-2013. This increase outlined the larger concentration of new issuances in longer instruments, despite decreases in the weighted average cost of longer tenors individually, namely the 7-year and 10-year T-bonds.

Short-term instruments kept similar weighted average costs of 4.44 percent, 4.99 percent, and 5.35 percent for 3MN, 6MN, and 12MN bills respectively. In long-term instruments, the weighted average cost of 2YR and 3YR bonds was unchanged at 5.84 percent, but slightly increased to 6.5 percent from 6.48 percent for 3-year bonds, and to 6.59 percent from 6.52 percent for 5-year bonds. Those changes reflect the average 52 basis points hike in interest rates in March 2012. In contrast, the weighted average cost of the 7YR tenor decreased by 10 bps to 7.65 percent influenced by the decrease in issuance coupon to 7.08 percent in 2015. Likewise, the weighted average cost of the 10-year tenor decreased to 7.92 percent from 8.13 percent after primary issuance rates dropped to 7.46 percent from 7.98 percent in 2015 and 8.24 percent in 2013.

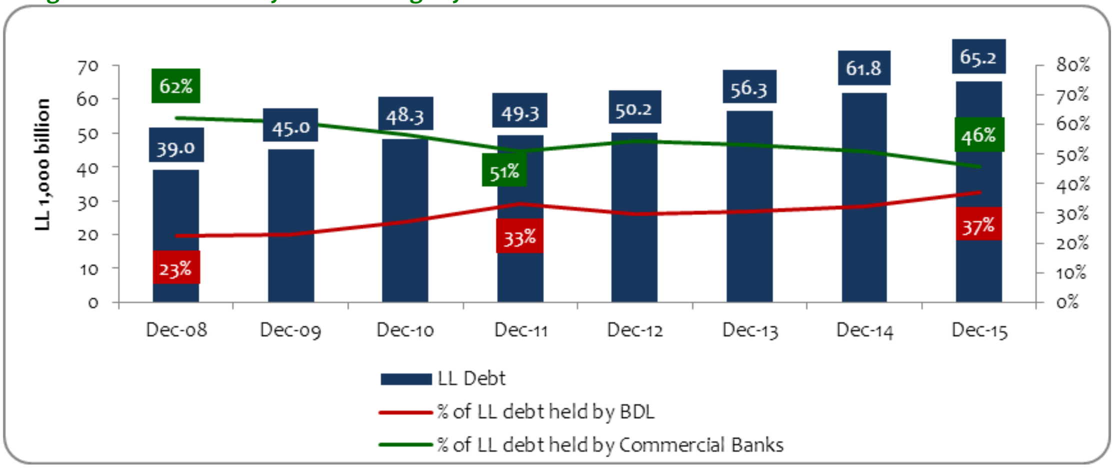
[27] Calendars of Local currency debt weekly auctions are released on MoF's website ten days prior to the beginning of each quarter: http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/LebaneseGovernmentTreasuryBillsandBonds.aspx

Figure 11: Average Time to Maturity and Average Cost of LL Debt



Source: MoF, BDL

Figure 12: Local Currency Debt Holdings by Commercial Banks and BDL



Source: MoF, BDL

Subscriptions by holder

Strong demand was recorded in TB weekly auctions in 2015 and was consistent across the maturity board but mostly concentrated in long term tenors. High levels of demand were also reflected in oversubscription ratios whereby total applied subscriptions reached 160 percent of allocations.

By the end of the year, Commercial Banks' total local currency holdings were LL 29,878 billion or 46 percent of outstanding local currency debt, down from 51 percent in the previous year with MoF allocating less than half of banks' total demand in TB auctions.

In contrast, the Central Bank's (BDL) share of total LL debt holdings increased to LL 24,308 billion or 37 percent of outstanding LL debt. Other holders kept a similar share in 2015 as in 2014, at 17 percent, with public entities increasing their share by 1 percentage point to 13 percent, the general public reducing their holdings to 3 percent from 4 percent, and financial institutions keeping their share of outstanding LL debt at 1 percent.

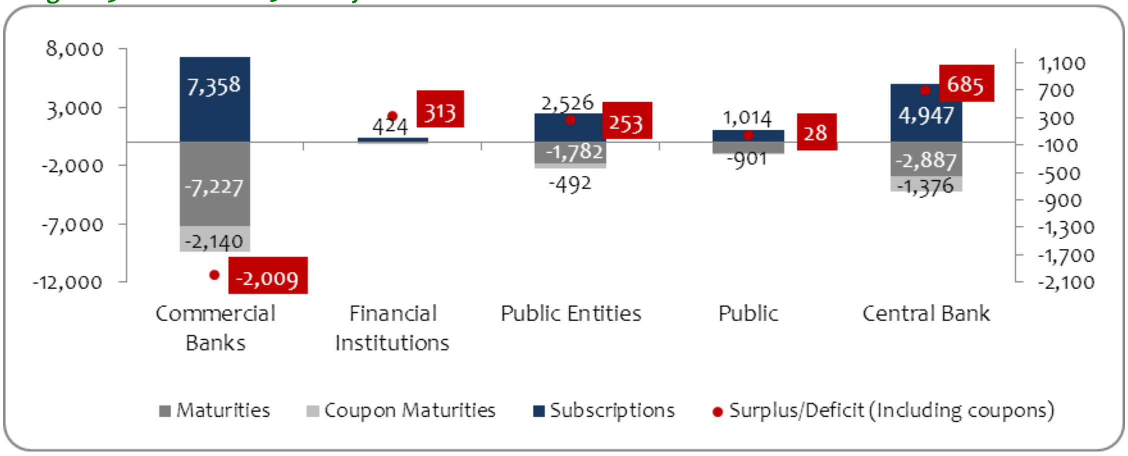
In weekly auctions, Commercial Banks' allocated subscriptions amounted to LL 7,358 billion, accounting for 45 percent of total allocations in 2015, with an over-subscription ratio of 206 percent. Total Banks' allocated subscriptions over maturities, or rollover ratio, reached 102 percent, indicating a full refinancing of principal maturities.

Of banks' total accepted offers, 10-year T-bonds accounted for 26 percent with over-subscriptions on the tenor reaching 242 percent. Five-year bonds accounted for 24 percent of allocations with an oversubscription of 147 percent, followed by 7YR bonds with allocations on the tenor accounting for 17 percent of the total, 3YR bonds with 14 percent of allocations, 6MN bills with 7 percent, 12MN bills with 5 percent, 3MN bills with 4 percent each, and 2YR bonds with 3 percent. Worth noting that 12MN bills saw the highest oversubscription rate for banks with a 683 percent demand to allocation ratio.

BDL's allocated subscriptions amounted to LL 4,947 billion in 2015 weekly auctions, representing 94 percent of their applied offers. BDL's rollover ratio on principal maturities was 171 percent, although including LL 1,376 billion in coupon maturities, the ratio was 116 percent. The 2YR tenor accounted for almost 32 percent of BDL's allocated offers, followed by 5YR bonds with 21 percent of allocations, 3YR bonds with around 19 percent, 10YR bonds with 18 percent, 7YR bonds with 9 percent, 6MN bills with 1 percent and the 3MN tenor with less than 1 percent.

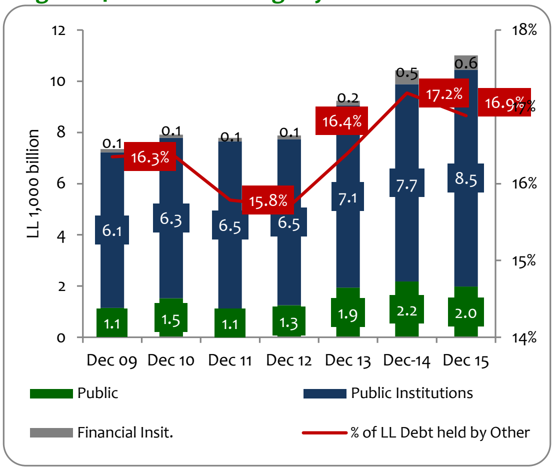
Accepted subscriptions by Public Institutions reached LL 2,526 billion, representing 142 percent of their principal maturities and 111 percent of their principal and coupon maturities combined. Allocations mostly went to 3YR bonds with 36 percent of the total, 2YR bonds with 29 percent of the total, and 5YR bonds with 18 percent. Short term bills accounted for 16 percent of total allocations to Public entities, with a notable over-subscription on the 12MN T-bill of 474 percent.

Figure 13: Results of 2015 Weekly Auctions



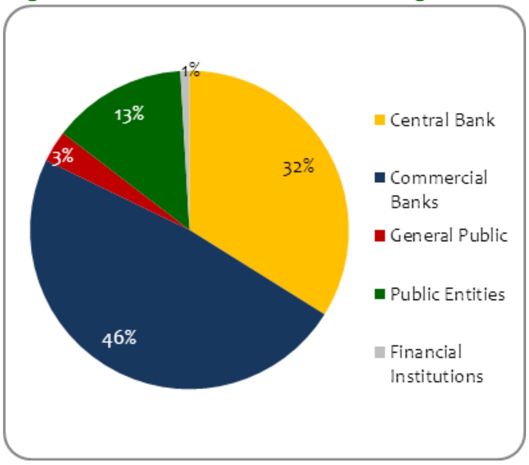
Source: MoF, BDL

Figure 14: LL Debt Holdings by 'Other' Institutions



Source: MoF, BDL

Figure 3: Distribution of LL Debt Holdings[28]



Source: MoF, BDL

Subscriptions by instrument

Outstanding long-term Treasury bonds, represented by TBs issued with a maturity of two years or longer reached LL 62,744 billion by end-2015[29], adding LL 3,989 billion from end-2014. By end-2015, long term bonds excluding accrued interest accounted for 96 percent of outstanding local currency debt, up from 95 percent in 2014, while tenors with a maturity of 7YRs and longer (7, 8, 10, and 12 Years) accounted for 41 percent of long term bonds, compared to 35 percent in 2014, outlining appetite for higher-yielding instruments.

Outstanding 10YR bonds increased by LL 3,215 billion or 67 percent to LL 8,005 billion by end-2015 from the previous year. Commercial Banks took up 59 percent of aggregate 10YR subscriptions, followed by the Central Bank with 28 percent, and Financial Institutions with 10 percent. Demand for the 10YR tenor remained strong throughout the year despite the 52 bps lower coupon that was offered on the bond after the first auction in January 2015.

Refinancing ratios to principal and interest maturities were generally lower in 2015 owing to rejections of over subscriptions from MoF, in line with the currency balanced financing strategy.

The stock of 2YR bonds grew by LL 2,105 billion to LL 4,258 billion by end-2015 as the low value of the tenor's maturities, coupled with strong demand, mostly from BDL, and total allocations of LL 2,523 billion increased the outstanding amount above other tenors with larger redemptions during the year. This also represented the largest nominal increase in the tenor's outstanding stock in more than ten years.

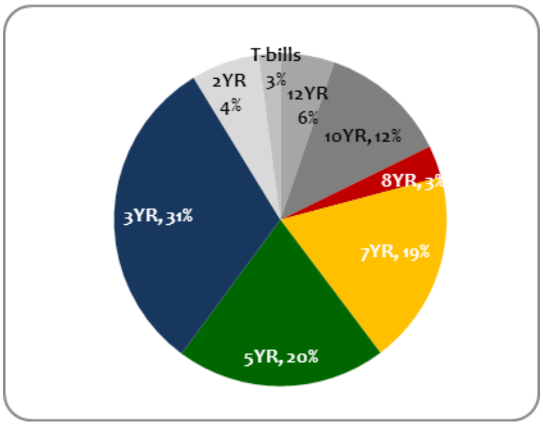
The stock of seven-year Treasury bonds increased by LL 1,881 billion to reach LL 12,100 billion by end-2015. In weekly auctions, 7-year TBs attracted strong demand, mostly from Commercial Banks and BDL with applied offers amounting to LL 3,126 billion and exceeding allocations by a ratio of 1.66. The coupon rate of the 7YR tenor was 7.08 percent in 2015, down from the 7.50 percent coupon when the tenor was last issued in June 2013.

Outstanding 3YR Treasury bonds dropped by LL 4,053 billion as matured 3YR papers were LL 6,987 billion while new subscriptions on the tenor were only LL 2,934 billion.

The stock of short-term Treasury bills decreased by LL 517 billion owing to declines of LL 394 billion, LL 94 billion, and LL 29 billion in the 12MN, 6MN, and 3MN bills respectively.

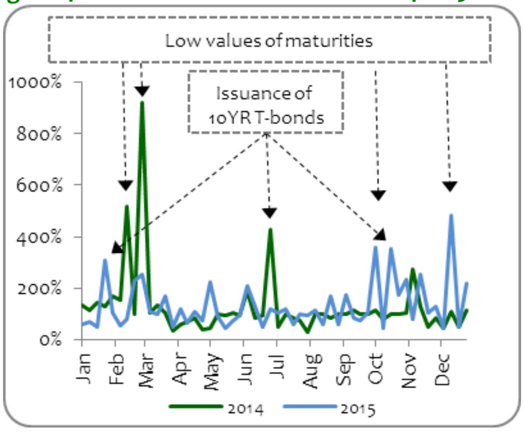
[28] Excluding Contractor Bonds for the nominal amount of LL 180 billion.
[29] This figure excludes accrued interest on long term T-bonds for the amount of LL 968 billion.

Figure 16: Share of Outstanding TBs from LL Debt



Source: MOF, BDL
**T-bills are comprised of 3MN, 6MN and 12MN notes*

Figure 17: Cumulative Rollover Ratios 2014-2015



**Ratio of Subscriptions to Maturities including Coupons*

Table 17: Domestic Currency Debt by Holder and Instrument as of end-2015

Stocks (end of period)	Dec-13	Dec-14	Dec-15	% Change Dec 2015 / Dec 2014
Local currency debt	56,312	61,752	65,195	5.6%
A. By Holder				
**Accrued interest included in debt*	877	1,029	997	-3.1%
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)(1)	17,171	19,855	24,308	22.4%
2. Commercial Banks	29,905	31,468	29,878	-5.1%
3. Other local debt (T-bills)	9,236	10,429	11,009	5.6%
o/w Public entities	7,117	7,701	8,461	9.9%
o/w Contractors(2)	134	180	180	0.0%
B. By Instrument				
1. Long term bonds	**53,238**	**58,755**	**62,744**	6.8%
*Coupon Interest	837	981	968	-1.3%
1.1 12-year bonds	3,373	3,373	3,373	0.0%
1.2 10-year bonds	2,844	4,790	8,005	67.1%
1.3 8-year bonds	1,982	1,982	1,982	0.0%
1.4 7-year bonds	10,219	10,219	12,100	18.4%
1.5 5-year bonds	11,747	12,233	13,074	6.9%
1.6 3-year bonds	20,942	24,005	19,952	-16.9%
1.7 2-year bonds	2,131	2,153	4,258	97.8%
2. Short term bills	**2,109**	**1,860**	**1,343**	-27.8%
** Accrued interest included*	40	48	29	-39.6%
2.1 12-month bills	1,009	1,195	801	-33.0%
2.2 6-month bills	935	564	470	-16.7%
2.3 3-month bills	165	101	72	-28.7%
3. Other local debt	**128**	**156**	**140**	-10.3%
3.1 Central Bank Loans	**0**	**0**	**0**	
3.2 Commercial Banks Loans	**128**	**156**	**140**	-10.3%

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 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 7.46 percent in its second offering during the year.

Table 18: Evolution of Primary Market Rates

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).

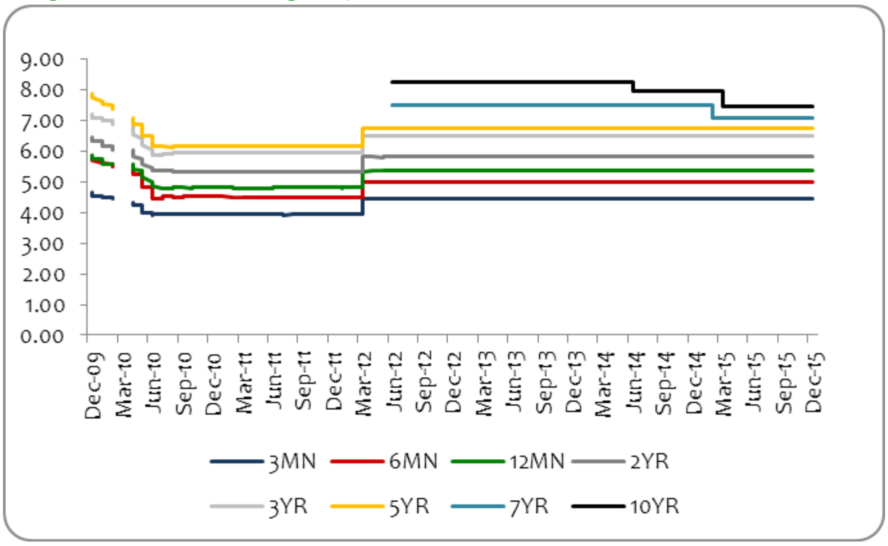
(2) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent, and in September 2011 with a coupon of 7.60 percent. These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

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

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

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

Figure 4: TB Yields for Regularly Auctioned Instruments 2011–2014



Source: MoF

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

FOREIGN CURRENCY DEBT

Outstanding **Foreign currency debt** amounted to an equivalent of LL 40,820 billion by end-2015, adding LL 2,216 billion from end-2014 or 5.7 percent. This increase resulted from issuance of new market Eurobonds above principal refinancing needs and which outweighed declines in Bilateral and Multilateral bonds and loans. The increase in the value of outstanding debt was partially curbed by valuation adjustments on non-USD foreign currency held debt, as the strengthening of the US dollar against major currencies in 2015 resulted in a LL 256 billion (USD 170 million) decrease in the value of outstanding FX debt. The value of euro denominated debt dropped by LL 83 billion on euro-denominated Eurobonds and LL 13 billion on the AFD Paris II loan as the euro depreciated vis-à-vis the US dollar from 1.2165 €/$ to 1.0746 €/$ by end-2015.

Table 19: Foreign Currency Debt by Holder and Instrument as at end-2015

(in LL billion)	Dec-13	Dec-14	Dec-15	% Change Dec 2015/ Dec 2014
B. Foreign currency debt	**39,398**	**38,604**	**40,820**	**5.7%**
4. Eurobonds	**35,533**	**34,850**	**37,561**	**7.8%**
Of which, Paris II at preferential rates(1)	2,130	1,615	1,099	-31.9%
Of which, Paris III at preferential rates(2)	271	226	181	-20.0%
Of which, market-issued Eurobonds	32,688	32,584	35,846	10.0%
** Accrued Interest on Eurobonds*	444	425	435	2.4%
5. Loans	**3,729**	**3,640**	**3,191**	**-12.3%**
5.1 Paris II loans	208	128	83	-35.2%
5.2 Paris III loans(3)	915	760	629	-17.3%
5.3 Bilateral loans (non-Paris II and III)	821	1,192	1,040	-12.7%
5.4 Multilateral loans (non-Paris II and III)	1,691	1,506	1,415	-6.0%
5.5 Foreign Private Sector Loans	94	54	24	-55.6%
6. Other debt	**136**	**114**	**68**	**-40.4%**
6.1 Special Tbs in Foreign currency(4)	136	114	68	-40.4%

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)

The **average time-to-maturity of Eurobonds** reached 6.09 years by December 31st 2015, up from 5.42 years in 2014, as high value longer term tenors were issued during the year.

The **weighted average cost of outstanding foreign debt** stood at 6.08 percent in 2015 with the weighted average cost of outstanding Eurobonds remaining at 6.44 percent and the weighted average cost of contracted loans slightly decreasing to 2.99 percent from 3.06 percent. In general, interest rates on foreign currency debt continued to trail low international rates on dollar denominated instruments while the spread against reference rates in primary offers widened with a limited margin despite the challenging economic environment, owing to the strong support of the local financial sector.

Outstanding **Eurobonds** amounted to LL 37,561 billion by the end-2015, growing by an equivalent of LL 2,711 billion, or 7.8 percent from end-2014, as market Eurobonds issued during the year outweighed principal repayments and amortized principal repayments on bonds issued in the context of Paris II and Paris III conferences. Outstanding market Eurobonds increased by an equivalent of LL 3,262 billion (USD 2,164 million) or 10 percent to reach LL 35,846 billion. *(Kindly refer to Table 27 for details).*

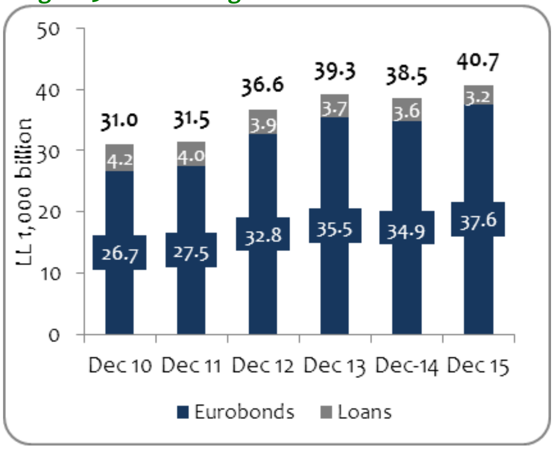
Two market Eurobond transactions were conducted in 2015. The first, in the month of February, entailed the issuance of two new tranches, US$ 800 million 6.200% coupon

Eurobond due February 2025 (Series 73) and a US$ 1,400 million 6.650% coupon Eurobond due February 2030[30] (Series 74). The second transaction, in the month of November, entailed a voluntary exchange and new cash issuance for a total of US$ 1.6 billion. The issued bonds consisted of a new US$ 500 million 6.250% coupon Eurobond due November 2024, a new US$ 500 million 6.650% coupon Eurobond due November 2028, and a new US$ 600 million 7.050% coupon Eurobond due November 2035. Cash proceeds from the transaction amounted to US$ 1,281,664,000 and were used to refinance foreign currency needs in 2015, while a total of US$ 318,336,000 was issued in the context of a voluntary exchange of 42.5 % of US$ 750 million 8.500 percent Notes due January 2016[31].

The stock of Eurobonds issued in the context of Paris II dropped by LL 516 billion (31.9 percent) to reach LL 1,099 billion owing to amortized principal repayments throughout the year including: (i) two US$ 35 million payment in March and September 2015 on Paris II 5.00 percent March 2018 Eurobond originally issued at US$ 700 million; (ii) two US$ 10 million payment in May and November 2015 on Paris II 5.00 percent May 2018 Eurobond originally issued at US$ 200 million; (iii) two US$ 93.5 million payment in June and December 2015 on the Paris II 4.00 percent December 2017 Eurobond originally issued at US$ 1,870 million; and (iv) two US$ 32.5 million payment in June and December 2015 on Paris II 5.00 percent due December 2017 originally issued at US$ 650 million.

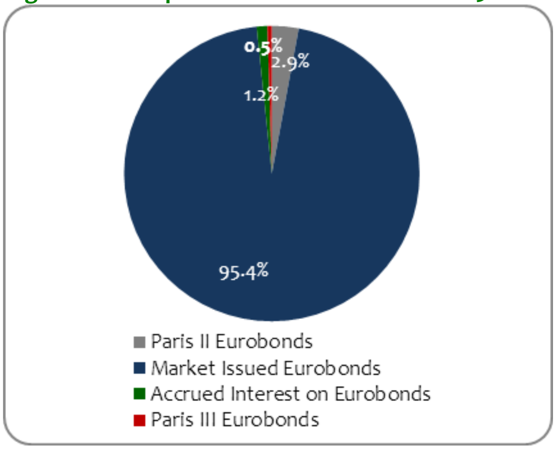
Eurobonds issued in the context of Paris III decreased by LL 45 billion (20.0 percent) to LL 181 billion following two amortized principal repayment amounting to US$ 15 million each in January and July 2015 on the Eurobond due July 2017 originally issued at US$ 300 million.

Figure 5: Outstanding Eurobonds and Loans



Source: MoF, BDL

Figure 20: Composition of Eurobonds end-2015



Source: MoF, BDL

Table 27: Net issuance of Eurobonds in 2015

(in US$)

[30] For more information on February 2015 Eurobond transaction, kindly refer to the Public Finance Semi-Annual Report Box 2 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.

[31] For more information on November 2015 Eurobond transaction, kindly refer to the Box 2 on page 36. Additional details can also be found on MoF's website under the note titled "Eurobond Transaction Concluded in November 2015" on MoF's website.

Eurobonds issued	**3,800,000,000**
February Transaction New Bonds	2,200,000,000
November Transaction New Bonds	1,281,664,000
November Transaction (part of Exchange)	318,336,000
Eurobonds redeemed*	**1,954,087,000**
Paris II and Paris III Eurobonds	385,751,000
Market Eurobonds matured in 2015	1,250,000,000
Early Redemption of portion of Jan 2016 Eurobonds	318,336,000
Net issuance	**1,845,913,000**

Source: MoF

*Including Paris II and Paris III related Eurobonds and excluding FX contractor bonds for the amount of US$ 31,013,365

Box #2: Voluntary Debt Exchange & New Cash Issuance – November 2015

On November 4th 2015, the Lebanese Republic conducted a voluntary exchange of its January 2016 due notes for new notes maturing in November 2024 and November 2028, in addition to a new issue across the same notes and new 2035 notes.

The combined issuance amounted to USD 1.6 billion. The new cash portion of the transaction amounted to USD 1.281 billion, of which USD 500 million was pre-appropriated to the Central Bank (BDL) as repayment for a bridge loan to the Ministry of Finance from August 2015. The remaining amount, or around USD 318 million, were issued in the context of the voluntary exchange and represented 42.4 percent of the US$ 750 8.500 percent Notes due January 2016.

The issuance was the Republic's second tap of international capital markets in 2015. Of the newly issued bonds, the first series consisted of a US$ 500 million 6.250% coupon Eurobond due November 2024 with a yield of 6.250%. The second series was a US$ 500 million 6.650% coupon Eurobond due November 2028 with a yield of 6.650%. The third series was an US$ 800 million 7.050% coupon Eurobond due November 2035 with a yield of 7.050%.

New cash allocations to international investors were around 15 percent of the November 2024 tranche, 5 percent of the November 2028 tranche, and 3 percent of the November 2035 tranche.

New Notes	Yield	Coupon	Amount issued via exchange	Amount of new notes issued	Total notes issued
US$ due November 2024	6.25%	6.25%	US$ 100,753,000	US$ 399,247,000	US$ 500,000,000
US$ due November 2028	6.65%	6.65%	US$ 217,583,000	US$ 282,417,000	US$ 500,000,000
US$ due November 2035	7.05%	7.05%	US$ 0	US$ 600,000,000	US$ 600,000,000

Outstanding **foreign currency loans** amounted to LL 3,190 billion by end-2015, down by LL 450 billion from end-2014, owing to amortized principal repayments on Paris II and Paris III loans, foreign private sector loans, non-Paris II and non-Paris III bilateral and Multilateral loans.

a) The stock of Paris II loans fell by LL 45 billion (35 percent) to reach LL 83 billion following the redemption of € 20 million of the *Agence Française de Développement (AFD)* Paris II loan, represented by two amortized repayments made in February and August, in addition to the effect of a devalued euro against the US dollar.

b) The stock of Paris III loans decreased by LL 131 billion, equivalent to 17 percent, to reach LL 629 billion by end-2015. The decline in the outstanding value of PIII loans was mainly due to (i) two US$ 15 million semi-annual principal repayments made in April and October 2015 on the UAE Paris III loan; (ii) two US$ 5 million semi-annual principal repayments in April and October 2014 on the World Bank IBRD loan, and (iii) two 9.375 million euro semi-annual principal repayments made in May and November 2015 on the 150 million euro AFD loan, (iv) two 1.875 million euro semi-annual principal repayments made in May and November 2015 on the 30 million euro AFD loan.

c) The stock of foreign private sector loans decreased by LL 30 billion to reach LL 24 billion.

d) The stock of non-Paris II and non-Paris III bilateral loans dropped by LL 152 billion, equivalent to 13 percent to reach LL 1,040 billion, as loan repayments exceeded disbursements made during the year. Major principal repayments included: LL 83 billion to ELO, financing arm of EKF export credit facility, (ii) LL 22 billion to the Kuwait Fund for Arab Economic Development, (iii) LL 20 billion to the Saudi Fund for Development, (iv) LL 12 billion to the *Agence Française de Développement, (v)* LL 9 billion to Japan's Overseas Economic Cooperation Fund, and (vi) LL 4 billion to Abu Dhabi Fund for Development.

   In return bilateral loans disbursed were:

   i. LL 37 billion from six loans by Kuwait Fund for Arab Economic Development
   ii. LL 33 billion from ELO, Financing arm of EKF export credit facility[32].
   iii. LL 7 billion from one loan granted by the Abu Dhabi Fund
   iv. LL 5 billion from two loans established by German government-owned development bank, KFW
   v. LL 3 billion from four loans granted by the Saudi Fund for Development

e) Non-Paris II and Paris III multilateral loans dropped by LL 92 billion to LL 1,414 billion. Principal repayments included: (i) LL 64 billion to the Arab Fund for Economic and Social Development (AFESD), (ii) LL 49 billion to the Islamic Development Bank, (iii) around LL 45 billion to the European Investment Bank, (iv) LL 35 billion to the International Bank for Reconstruction and Development (IBRD), and (v) LL 4 billion to the Organization of Petroleum Exporting Countries (OPEC).

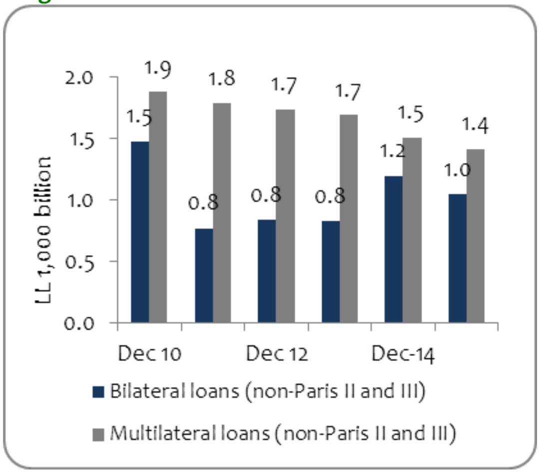
   On the other hand, major primary disbursements included:

   i. LL 72 billion from seven IBRD loans
   ii. LL 52 billion from eight AFESD loans
   iii. LL 19 billion from nine loans granted by the Islamic Development Bank
   iv. LL 6 billion from three OPEC loans
   v. LL 5 billion from one loan granted by European Investment Bank

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

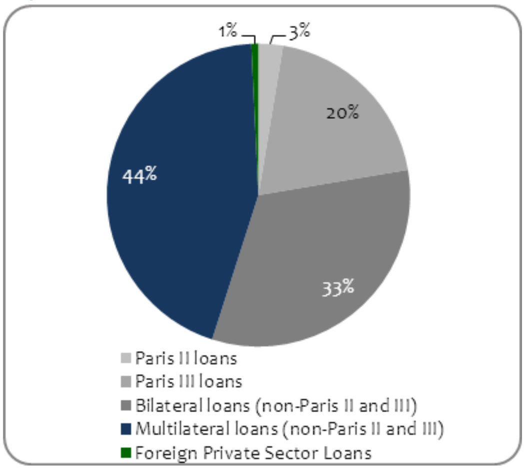
f) The stock of special T-bills in foreign currency declined by LL 46 billion to LL 68 billion, following repayments to contractor bond holders in April, July, and November 2015.

Figure 21: Bilateral & Multilateral Loans



Source: MoF, BDL

Figure 22: Composition of Loans end-2015



Source: MoF, BDL

Table 20: Lebanon Secondary Market Yields

Lebanese Issues	Mid Yield (%)				
	30-Jun-15	14-Aug-15	30-Sep-15	15-Nov-15	31-Dec-15
EURO					
LEB 5.350 18	4.36	3.83	4.19	4.37	4.34
US Dollars					
LEB 5.000 17	4.29	4.06	4.84	5.13	5.23
LEB 9.000 17	4.53	4.52	5.10	5.34	5.15
LEB 5.150 18	4.95	4.89	5.40	5.93	5.28
LEB 5.500 19	5.17	5.31	5.40	5.69	5.75
LEB 6.000 19	5.29	5.15	5.64	6.05	6.05
LEB 5.450 19	5.27	5.21	5.84	6.08	5.97
LEB 6.375 20	5.44	5.37	5.86	6.18	6.17
LEB 5.800 20	5.44	5.39	5.92	6.30	6.23
LEB 6.150 20	5.50	5.42	5.99	6.31	6.25
LEB 8.250 21	5.62	5.52	6.21	6.59	6.21
LEB 6.100 22	5.86	5.81	6.26	6.60	6.46
LEB 6.000 23	5.89	5.84	6.24	6.70	6.56
LEB 6.200 25	6.02	6.05	6.43	6.77	6.70
LEB 6.250 25	6.07	6.12	6.47	6.80	6.72
LEB 6.600 26	6.30	6.25	6.68	6.90	6.85
LEB 6.750 27	6.35	6.29	6.73	7.21	6.91
LEB 6.650 30	6.45	6.42	6.82	7.10	6.93

Source: Citi Bank, Bloomberg

Secondary market yields[33] increased by an average of 65 basis points in the second half of 2015 reflecting diminished market appetite for foreign currency debt instruments, amid a prolonged period of tight economic conditions, after having remained relatively stable in the first half of the year.

[33] Calculated on US$ Eurobonds, between July 1st and December 31th 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