



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Public Finance Quarterly Report

Ministry of Finance

Quarter III – 2013

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PUBLIC FINANCE HIGHLIGHTS

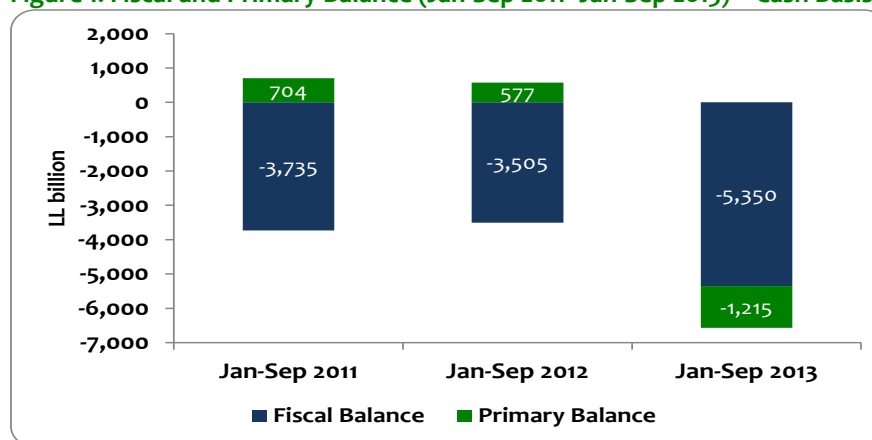
General Fiscal Developments

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The fiscal balance recorded a deficit of LL 4,959 billion in the first three quarters of 2013, rising by LL 1,855 billion from the same period in 2012. In parallel, the primary balance lapsed into a deficit of LL 824 billion from a surplus of LL 979 billion.

On a cash basis - i.e. excluding expected transfers from the telecom surplus in Jan-Sep 2012 and 2013, and including actual telecom transfers - the fiscal balance ended September 2013 with a deficit of LL 5,350 billion, representing a 53 percent surge from the previous year. Correspondingly, the primary surplus recorded a deficit of LL 1,215 billion in Jan-Sep 2013, compared to a LL 577 billion surplus in Jan-Sep 2012.

Figure 1: Fiscal and Primary Balance (Jan-Sep 2011–Jan-Sep 2013) – Cash Basis



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

Revenues

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Total revenues, calculated on a cash basis, amounted to LL 10,201 billion in Jan-Sep 2013, down from LL 10,433 billion in Jan-Sep 2012. Tax revenues decreased by 2 percent as all major tax categories retracted from the previous year, with the exception of a modest rise in domestic taxes on goods and services. Sharp declines were mostly recorded in tobacco excise, taxes on capital gains and dividends, taxes on profits, and real-estate registration fees. Likewise, non-tax revenues registered a drop from the previous year owing to lower cash transfers from the Telecom surplus.

Expenditures

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Total expenditures scaled up by almost 12 percent annually in Jan-Sep 2013, amounting to LL 15,551 billion. Higher personnel cost and transfers to NSSF mostly contributed to the 8 percent increase in current expenditures, while transfers to CDR and maintenance boosted capital spending by almost 87 percent. Moreover, increases in VAT refund, deposits, and guarantees resulted in a 21 percent rise in Treasury expenditures.

Public Debt Developments

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The stock of gross public debt reached LL 94,070 billion by end-September 2013, adding more than 8 percent from its end-2012 level, mirroring proportionate increases in both, local currency and foreign currency debt. The stock of net public debt climbed at a slower pace of 6 percent over the same period, amounting to LL 78,628 billion by end-September 2013, as public sector deposits shot up by almost 20 percent to LL 15,442 billion.

SECTION I: FISCAL OVERVIEW

The **total fiscal balance** recorded a deficit of LL 4,959 billion in Jan-Sep 2013, compared to a LL 3,104 billion deficit during the same period in 2012. This 60 percent deterioration in public finances was the combined result of a 12 percent increase in **total payments** to LL 15,551 billion, along with a 2 percent drop in **total receipts** to LL 10,592 billion. Correspondingly, the **primary balance** ended at a deficit of LL 824 billion in Jan-Sep 2013 and compared to a surplus of LL 979 billion during the same period a year earlier.

Table 1: Summary of Fiscal Performance

(LL billion)	2011 Jan-Sep	2012 Jan-Sep	2013 Jan-Sep	% Change 2013/2012
Total Budget and Treasury Receipts¹	10,480	10,834	10,592	-2.2%
Total Budget and Treasury Payments	12,584	13,938	15,551	11.6%
• Interest Payments	4,191	3,868	3,925	1.5%
• Concessional loans principal payment ²	248	215	210	-2.1%
• Primary Expenditures ³	8,145	9,856	11,416	15.8%
Total Deficit/Surplus	-2,103	-3,104	-4,959	59.8%
Primary Deficit/Surplus	2,336	979	-824	-184.2%

Source: MOF, DGF

¹ Includes the expected transfer from Telecom Surplus

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

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

On a **cash basis**¹, the fiscal deficit widened from LL 3,505 billion in Jan-Sep 2012 to LL 5,350 billion in Jan-Sep 2013, whereas the primary balance plunged to a deficit of LL 1,215 billion from a surplus of LL 577 billion.

Table 2: Summary of Fiscal Performance on a Cash Basis

(LL billion)	2011 Jan-Sep	2012 Jan-Sep	2013 Jan-Sep	% Change 2013/2012
Total Budget and Treasury Receipts	8,849	10,433	10,201	-2.2%
Total Budget and Treasury Payments	12,584	13,938	15,551	11.6%
• Interest Payments	4,191	3,868	3,925	1.5%
• Concessional Loans Principal Payments ⁽¹⁾	248	215	210	-2.1%
• Primary Expenditures ⁽²⁾	8,145	9,856	11,416	15.8%
Total Deficit/Surplus	-3,735	-3,505	-5,350	52.6%
Primary Deficit/Surplus	704	577	-1,215	-310.5%

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)

¹ Actual transfers from the Telecom surplus amounted to LL 1,206 billion and LL 972 billion in Jan-Sep 2012 and 2013 respectively. Transfer expectations provided by the Telecom Ministry had been LL 1,607 billion in Jan-Sep 2012 and LL 1,364 billion in Jan-Sep 2013.

SECTION II: REVENUE OUTCOME

Total revenues, on a non-cash basis, reached LL 10,592 billion in the first nine months of 2013, weakening by 2 percent from the same period of 2012. This LL 242 billion drop resulted from a LL 119 billion decline in **tax revenues** and a LL 264 billion decrease in **non-tax revenues**, but was partially offset by a LL 140 billion increase in **treasury receipts**.

Table 3: Total revenues – Non cash basis

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	% Change 2013/2012
Budget revenues	10,340	9,958	-3.7%
• Tax revenues	7,905	7,787	-1.5%
• Non-tax revenues	2,435	2,171	-10.8%
Treasury receipts	495	635	28.3%
Total revenues	10,834	10,592	-2.2%

Source: MOF, DGF

On a cash basis, **total revenues** reached LL 10,201 billion in Jan-Sep 2013, decreasing by LL 232 billion from the LL 10,433 billion collected in the same period of 2012.

Table 4: Total revenues – Cash basis

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	% Change 2013/2012
Budget revenues	9,938	9,566	-3.7%
• Tax revenues	7,905	7,787	-1.5%
• Non-tax revenues	2,033	1,780	-12.5%
Treasury receipts	495	635	28.3%
Total revenues	10,433	10,201	-2.2%

Source: MOF, DGF

TAX REVENUES

Tax revenues totalled LL 7,787 billion in the first nine months of 2013, down from LL 7,905 billion during the same period of 2012, amounting to 74 percent of total revenues in Jan-Sep 2013, compared to 73 percent during the corresponding period of 2012. Barring a slight increase in **domestic taxes on goods and services**, all major tax components retracted during the period.

Table 5: Tax Revenues

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Taxes on Income, Profits, & Capital Gains	2,154	2,118	-1.7%
• Income Tax on Profits	975	930	-4.5%
• Income Tax on Wages and Salaries	389	450	15.7%
• Income Tax on Capital Gains & Dividends	268	206	-23.1%
• Tax on Interest Income (5%)	488	494	1.3%
• Penalties on Income Tax	33	37	11.2%
Taxes on Property, of which:	876	857	-2.2%
• Built Property Tax	144	144	0.3%
• Real Estate Registration Fees	616	584	-5.2%
Domestic Taxes on Goods & Services, of which:	2,842	2,849	0.2%
• Value Added Tax	2,477	2,480	0.1%
• Other Taxes on Goods and Services, of which:	258	266	3.4%
<i>Private Car Registration Fees</i>	151	156	3.6%
<i>Passenger Departure Tax</i>	105	109	3.6%
Taxes on International Trade	1,677	1,619	-3.5%
• Customs	592	619	4.6%
• Excises, of which:	1,085	1,000	-7.8%
<i>Petroleum Tax</i>	372	362	-2.5%
<i>Tobacco Tax</i>	375	297	-20.8%
<i>Tax on Cars</i>	332	334	0.7%
Other Tax Revenues (namely fiscal stamp fees)	356	344	-3.3%
Total Tax Revenues	7,905	7,787	-1.5%

Source: MOF, DGF

Domestic taxes on goods and services inched up by LL 7 billion year-on-year, to reach LL 2,849 billion by end-September 2013. In detail, **value added tax** collections amounted to LL 2,480 billion, and was almost unchanged from the same period of 2012, as an LL 84 billion surge in internally collected VAT, was counterbalanced by an LL 81 billion drop in VAT receipts at customs.

The effective VAT rate² went down from 6.9 percent in Jan-Sep 2012 to 6.7 percent in Jan-Sep 2013, a decline that can mainly be explained by Law 207 dated March 5th 2012, which exempted both green and red gasoil from the value-added tax.

Collections from the **passenger departure tax** rose by LL 4 billion to LL 109 billion in Jan-Sep 2013 as the number of *departing passengers* at the Rafic Hariri International Airport³ increased by 8.5 percent annually in the first nine months of 2013. It is worth mentioning that revenue collections rose at a slower pace than the number of departing passengers, most likely reflecting a lower effective nominal fee per passenger.

² The effective VAT rate represents total VAT collections at imports during the period Jan-Sep 2013, divided by total imports over the same period.

³ This figure includes both tourist and non-tourists (Source: Lebanese Civil Aviation Authority).

Moreover, **private car registration fees** reached LL 156 billion in the first nine months of 2013, increasing by 4 percent from the comparable period of 2012. This comes as the total number of imported cars was up by 1.3 percent year-on-year, at 57,787 in Jan-Sep 2013.

Transfers from the tobacco surplus amounted to LL 95 billion in Jan-Sep 2013, against LL 100 billion in Jan-Sep 2012. It is noteworthy that transfers in both years pertained to profits made by Régie during the fiscal year 2012.

Table 6: Total Imports & Effective VAT rate

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Total Imports	24,168	23,980	-0.8%
• Fuel Imports (fuel derivatives classified under HS 27)	6,767	5,433	-19.7%
• Non-Fuel Imports	17,400	18,547	6.6%
• Share of Fuel Imports	28.0%	22.7%	-19.1%
• Share of Non Fuel Imports	72.0%	77.3%	7.4%
Revenues from VAT at Imports	1,679	1,598	-4.8%
Effective VAT rate	6.9%	6.7%	-4.1%

Source: MOF, DGF

Note: The effective VAT rate represents total VAT collections at imports during the period Jan-Sep 2013, divided by total imports over the same period.

Taxes collected from international trade (customs and excises) fell by LL 58 billion year-on-year to reach LL 1,619 billion in Jan-Sep 2013, owing to a LL 78 billion decline in the tobacco excises, which was partly compensated by a LL 27 billion rise in custom duties.

Tariff revenues amounted to LL 619 billion, up from LL 592 billion, as a result of a 7 percent increase in non-fuel imports. In fact, imports of “Food products⁴”, “Pharmaceutical products” and “Engines, appliances & other machinery” increased by 5 percent, 13 percent and 14 percent respectively during the period under consideration. In contrast, fuel imports slumped by 20 percent year-on-year in Jan-Sep 2013, mostly as a result of inconsistent import registrations by Electricite Du Liban; however as those imports are subject to very low tariffs, the *effective customs rate* inched up from 2.4 percent in Jan-Sep 2012 to 2.6 percent in Jan-Sep 2013.

Table 7: Effective Customs Rate

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Total Imports	24,168	23,980	-0.8%
• Fuel Imports (fuel derivatives classified under HS 27)	6,767	5,433	-19.7%
• Non-Fuel Imports	17,400	18,547	6.6%
• Share of Fuel Imports	28.0%	22.7%	-19.1%
• Share of Non Fuel Imports	72.0%	77.3%	7.4%
Revenues from Custom Duties	592	619	4.6%
Effective customs rate	2.4%	2.6%	5.4%

Source: MOF, DGF

Total excises collected at import, registered an LL 85 billion decrease to reach LL 1,000 billion, mainly due to a drop in excises on tobacco and gasoline. This was partially offset by a small rise in car excises. The collections of **excises on tobacco** declined by 21 percent from LL 375 billion in Jan-Sep 2012 to LL 297 billion in Jan-Sep 2013, following an exceptional LL 82 billion (28 percent) year-on-year increase during Jan-Sep 2012 (for more information, kindly refer to Box #1). This deterioration was driven by a 20 percent decrease in tobacco imports to LL 299 billion.

⁴ Including live animals, animal products, vegetable products, fats and oils, prepared foodstuffs, beverages and tobacco. Kindly note that some of these categories fall under a protectionist policy, and are subject to higher customs rate.

Box #1: Performance of Tobacco-related Revenues

According to Regie, after the government's decision in 1999 to raise tobacco excises, large-scale smuggling from Syria to Lebanon accelerated, and it was not until 2007 that Regie was able to curb smuggling, and thus ensure a steady rise in imports. With the rise of the Syrian crisis, the year 2012 witnessed a 26 percent rise in the volume of tobacco imports to Lebanon, primarily due to subsequent informal export to Syria and to a lesser extent, internal consumption of Syrian refugees. The informal export accentuated in 2012, but Régie is exerting efforts to curb this phenomenon in 2013.

In terms of quantities, "cigarettes" remains the largest category of tobacco capturing a share of 73 percent out of total imports during Jan-Sep 2013; lower than the 89 percent share registered in Jan-Sep 2009. The "other" category, mainly consisting of "water-pipe tobacco", came in second position with a share of 14 percent in Jan-Sep 2013, slightly improving from the 11 percent share registered in the same period of 2009. In third position, "stemmed tobacco" rose as a share of total imports to 11 percent in Jan-Sep 2013, compared to nil during Jan-Sep 2009. It is worth mentioning that fluctuations in tobacco imports were mainly affected by quantities of imported cigarettes.

Tobacco Import Statistics

(Net weight, in tons)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	2012 Jan-Sep	2013 Jan-Sep
Tobacco not stemmed or stripped	-	158	40	59	196
Tobacco stemmed or stripped	-	392	555	1,298	1,219
Cigars, cheroots and cigarillo	31	33	51	36	27
Cigarettes containing tobacco	7,289	8,708	8,407	10,607	8,115
Other	860	1,219	1,947	1,630	1,497
Total	8,179	10,512	10,994	13,627	11,055

Source: MOF – General Directorate of Customs declaration forms

Excises on gasoline retreated by LL 9 billion year-on-year to reach LL 362 billion in Jan-Sep 2013. Given that this excise is a per-unit tax, the drop was mainly the result of a 3 percent decrease in the volume of imported gasoline. In fact, the average effective excise rate was almost unchanged, increasing slightly from LL 224 per litre in Jan-Sep 2012 to LL 225 per litre in Jan-Sep 2013. As for the average effective import price of gasoline, it witnessed a 4 percent drop over the period, partly reflecting the decrease in international oil prices from around US\$ 112/barrel to US\$ 108/barrel.

Table 8: Gasoline Import Statistics

	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Imports (LL billion)	2,037	1,898	-6.8%
Volume (million litres)	1,661	1,614	-2.8%
Average effective Price at imports (LL/litre)	1,227	1,176	-4.2%
Average effective excise rate (LL/litre)	224	225	0.3%

Source: MOF – General Directorate of Customs declaration forms

Following substantial increases in 2007, 2008 and 2009, collection from **excises on cars** started retreating in 2010, before plunging during 2011. As a result of market

consolidation, these revenues inched down by 2 percent in 2012 and stagnated throughout the first nine months of 2013. In fact, this component increased by LL 2 billion to reach LL 334 billion in Jan-Sep 2013, owing to modest increases in the average price of cars (1 percent) and the total number of imported cars (1 percent).

Table 9: Car Import Statistics

	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Imports (LL billion)	1,257	1,284	2.1%
Number of Cars	57,056	57,757	1.3%
Average price per car (LL million)	22.0	22.2	0.9%
Average effective excise rate (%)	26.4%	26.0%	-1.4%

Source: MOF-General Directorate of Customs declaration forms

Taxes on income, profits and capital gains retracted by 2 percent year-on-year in Jan-Sep 2013 amounting to LL 2,118 billion, reflecting Lebanon's subdued economic activity during the period⁵.

Income tax on capital gains and dividends plunged by LL 62 billion to LL 206 billion over the same period, reflecting the non-recurrent rise of this component in Jan-Sep 2012.

Income tax on profits fell by LL 44 billion to reach LL 930 billion during Jan-Sep 2013, against LL 975 billion in Jan-Sep 2012, owing to lower company profits in 2012 as this tax is collected on previous year's earning.

Taxes on wages and salaries, gained 16 percent to reach LL 450 billion, on account of a larger tax base mostly owing to the rise in private sector wages and the cost of living adjustment in the public sector. The increase in private sector minimum wage and cost of living adjustment for the public sector were both adopted in February 2012, although the latter started to be paid in September 2012 and the respective retroactive payments during Q4 2012.

Taxes on interest income⁶ recorded a small increase of 1 percent to reach LL 494 billion in the first nine months of 2013 (*for a more detailed breakdown, kindly refer to table 10*).

By institution, collections from Commercial Banks rose as a result of a steady growth in the *deposit base* along with a rise in *interest rates on foreign currency deposits*, partially counterbalanced by a decline in *interest rates on domestic currency deposits*:

- a) Commercial bank private sector deposits grew by 7.9 percent annually to reach LL 198,024 billion by the end of September 2013, slightly improving from the 7.4 percent increase recorded in September 2012.
- b) The weighted average interest on dollar denominated deposits, climbed from 2.84 percent registered in Jan-Sep 2012 to 2.92 percent in Jan-Sep 2013.
- c) The rate on local currency deposits declined from an average of 5.48 percent in Jan-Sep 2012, to reach 5.43 percent during the corresponding period of 2013.

In contrast, collections from Banque du Liban⁷ declined as a result of lower revenues from interest income on *Certificate of Deposits* and to a lower extent, on *Treasury Bills and Bonds*. The latter was partially reflected by the lower expenditure item "Domestic interest

⁵ Real GDP growth was estimated at 2.5 percent in 2012 by the Central Administration of Statistics (CAS). Real GDP growth estimate for 2013, currently stand at 1.5 percent (International Monetary Fund, World Economic Outlook, October 2013).

⁶ Eurobonds are not exempt from Taxes on Interest Income. Holders of Eurobonds receive nonetheless interest payable by the Lebanese Republic without any withholding or deductions, since the Republic covers these withholding or deductions (as per COM decision No 43 dated 08/04/2004).

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.

payment” that was down by LL 33 billion during the first nine months of 2013 (for more information, kindly refer to the Interest Payment Section).

By currency, collections in both domestic and foreign currency were on the rise, with the latter inching up by 1 percentage point as a share of total collections and amounting to 35 percent during the period of January to September 2013.

Table 10: Tax on Interest Income

LL Billion	2012 Jan-Sep	2013 Jan-Sep
By Institution	488	495
Commercial banks	282	302
BDL	205	193
By Currency	494	500
Lebanese Pounds	324	327
Foreign currencies (USD mainly)	170	173

Source: MOF - Cash Management Department (by institutions) and Public Debt Department (by currency)

Please note that figures in this table (by currency) are obtained from tax declaration forms, which may differ from cash figures presented in the fiscal performance and the Tax Revenues table (Table 5).

Taxes on Property declined by LL 19 billion in the first nine months of 2013 reaching LL 857 billion, owing largely to lower collections of **property registration fees** by 5 percent, partially offset by an 11 percent increase in **inheritance tax**.

In detail, **property registration fees** amounted to LL 584 billion in Jan-Sep 2013, dropping by around LL 32 billion over the period. This deterioration was due to a 5 percent decrease in the number of sold properties, and can mainly be attributed to political uncertainty and the resignation of the government during first quarter of 2013. In fact, while these collections slumped by 26 percent year-on-year during the first quarter of 2013, they began to slightly improve in the second and third quarters, rising by 4 percent and 5 percent respectively.

In contrast, revenues from the **inheritance tax** improved by LL 13 billion to reach LL 129 billion in Jan-Sep 2013, owing to the handling of high value files and the fact that Ministry of Finance is speeding up with the collection of pending payments. It is worth mentioning that the **built property tax**, reached LL 144 billion in the first three quarters of 2013, unchanged from the same period of 2012.

Table 11: Property Registration Statistics from Cadastre

	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Number of Sold Properties registered in Cadastre	52,621	49,976	-5.2%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	9,527	9,097	-4.5%
Declared Average Value per Property (LL million)	181	182	0.7%
Total Fees collected from Sales Transactions	548	487	-11.2%

Source: MOF-Cadaster

Kindly note that these are declaration statistics (based on sales contracts) that may differ from collection figures as published in the Fiscal Performance and the Tax Revenues table (Table 5).

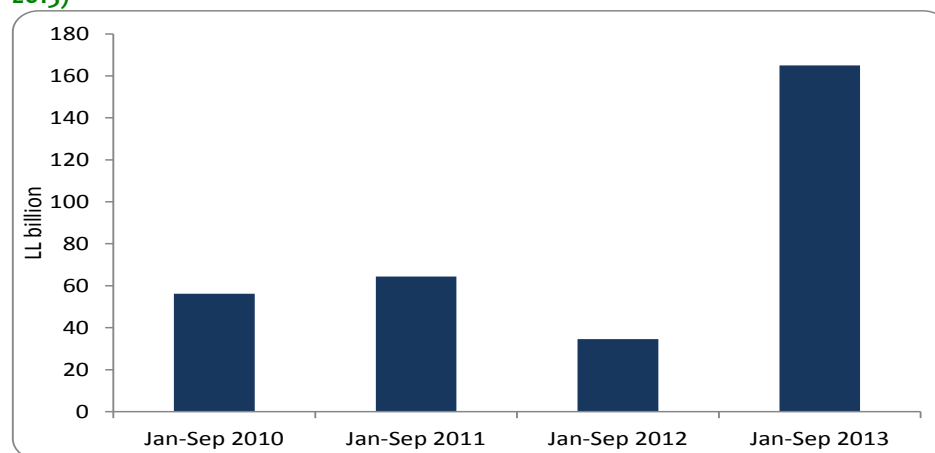
Finally, receipts from **fiscal stamp fees** decreased by LL 12 billion year-on-year to LL 344 billion in Jan-Sep 2013. Receipts from this tax are indicative of the general state of economic activity as they reflect the volume and values of transactions taking place during a given period. Formal sales agreements, contracts, and procedures with municipalities and public administrations are all subject to the stamp fee.

Box #2: Curbing Phone Smuggling

Starting June 1st 2013⁽¹⁾, the Lebanese government introduced a mechanism to reduce the smuggling of mobile phones and equipment. As such, every mobile phone would be identified using the International Mobile Equipment Identity (IMEI), before gaining access to the network.

As a direct consequence of this policy, the value of mobile phone imports jumped from LL 35 billion in Jan-Sep 2012 to LL 165 billion in Jan-Sep 2013, representing approximately LL 20 billion in additional revenues. It is worth mentioning that these electronic devices are subject to a 5 percent custom duty and a 10 percent VAT rate; the full year impact of this measure was estimated at LL 90 billion in additional revenues.

Imports of Telephone Sets for Cellular and Other Networks (Jan-Sep 2010 – Jan-Sep 2013)



Source: Directorate General of Customs, Ministry of Finance

(1) As per decree 9474, dated 10 December 2012 & Ministry of Telecommunication Decision number 224, dated 16 April 2013.

NON-TAX REVENUES

Non-tax revenues retreated by LL 264 billion in the first three quarters of 2013, to reach LL 2,171 billion. This deterioration was caused by lower **Income from Public Institutions and Government Properties**, as most of its components dropped with a notable exception of higher transfers from Port of Beirut.

On a cash basis, non-tax revenues reached LL 1,780 billion in Jan-Sep 2013, recording a LL 254 billion (12 percent) decrease from the same period a year earlier.

Income from Public Institutions and Government Properties amounted to LL 1,241 billion on a cash basis, registering a year-on-year increase of 18 percent, as **transfers from the telecom surplus** decreased by LL 234 billion over the period, to reach LL 972 billion in the first nine months of 2013.

Telecom revenues represent the third largest revenue item after the **value added tax and excises**, amounting to 10 percent of total revenues in Jan-Sep 2013, compared to a slightly higher share of 12 percent during the same period of 2012.

Rent proceeds of Rafic Hariri International Airport (RHIA) represented the sharpest contraction over the period, falling by LL 25 billion to LL 49 billion in Jan-Sep 2013. Annual transfers from RHIA to the Ministry of Finance are usually made on a monthly basis in small one-digit amounts, except for two months of the year when larger amounts are rendered. Two bulk payments of LL 21 billion and LL 16 billion were made in January and May 2012 respectively, compared with just one payment of LL 17 billion in September 2013.

Revenues from Casino Du Liban retreated by LL 26 billion to reach LL 83 billion in Jan-Sep 2013. Lower gains from the Casino were in line with the slowing tourism sector, as the number of tourists to Lebanon fell by 10 percent annually from Jan-Sep 2012. It is worth mentioning that Casino du Liban did transfer its share of profits during the month of September 2013, however because of a discrepancy in timing, the amount was included in the month of October 2013.

Other losses in income from public institutions resulted from a decline in the **budget surplus of the National Lottery**, which ended at LL 40 billion in Jan-Sep 2013, compared to LL 51 billion in the same period of 2012.

Port of Beirut transfers reached LL 30 billion (share of revenues for the year of 2011) in Jan-Sep 2013, against nil in Jan-Sep 2012.

Administrative fees and charges rose by LL 4 billion year-on-year, amounting to LL 423 billion in Jan-Sep 2013, mostly owing to a LL 15 billion increase in **passport fees/public security** to LL 106 billion and a LL 7 billion rise in **administrative charges** to LL 22 billion. This was offset as a result of a dip in **vehicle control fees** by LL 19 billion to reach LL 148 billion and in **judicial fees** by LL 2 billion to reach LL 19 billion.

Table 12: Non-Tax Revenues

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Income from Public Institutions and Government Properties	1,908	1,633	-14.4
• Income from Non-Financial Public Enterprises, of which:	1,769	1,518	-14.2%
- Revenues from Casino du Liban	109	83	-23.5%
- Revenues from Port of Beirut	0	30	-
- Budget Surplus of National Lottery	51	40	-21.9%
- Transfer from the Telecom Surplus 1/	1,607	1,364	-15.2%
• Income from Financial Public Enterprises (BdL)	60	61	1.1%
• Property Income (rent of Rafic Hariri International Airport)	75	49	-33.7%
Administrative Fees & Charges, of which:	419	423	0.9%
• Administrative Fees, of which:	345	340	-1.4%
- Notary Fees	22	23	1.6%
- Passport Fees/ Public Security	91	106	16.1
- Vehicle Control Fees	167	148	-11.3%
- Judicial Fees	21	19	-9.1%
- Driving License Fees	14	14	0.4%
• Administrative Charges	16	22	41.2%
• Permit Fees (mostly work permit fees)	47	48	2.7%
• Other Administrative Fees and Charges	9	10	11.1%
Penalties and Confiscations	8	7	-16.3%
Other Non-Tax Revenues (mostly retirement deductibles)	100	109	9.2%
Total Non-Tax Revenues	2,435	2,171	-10.8

Source: MOF, DGF

1/Out of the expected LL 1,607 billion in Jan-Sep 2012, LL 1,206 billion were effectively made from the Telecom surplus.

Out of the expected LL 1,364 billion in Jan-Sep 2013, only LL 972 billion was effectively transferred from the Telecom Surplus.

TREASURY RECEIPTS

Treasury receipts⁸ increased by LL 140 billion (28 percent) annually to reach LL 635 billion in Jan-Sep 2013 as a result of annual rises in “other accounts” and “deposits” by LL 93 billion and LL 32 billion respectively.

⁸ For further details on annual changes in treasury receipts, kindly refer to the Treasury receipts section on page 15 in the Q2 2013 Public Finance Quarterly Report.

SECTION III: EXPENDITURE OUTCOME

Total expenditure (budget and treasury) increased by 12 percent in Jan-Sep 2013, amounting to LL 15,551 billion, compared to LL 13,938 billion in Jan-Sep 2012. The LL 1,613 billion rise was mainly the combined result of higher **total primary expenditures** and **interest payments** by LL 1,560 billion and LL 58 billion respectively, and was slightly offset by a LL 5 billion decline in concessional-loan principal repayments, as shown in table 13.

Table 13: Expenditure summary

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	% Change 2013/2012
Interest payments	3,868	3,925	1.5%
Concessional loans principal payments ⁽¹⁾	215	210	-2.1%
Primary expenditures ⁽²⁾	9,856	11,416	15.8%
Total budget and treasury payments	13,938	15,551	11.6%

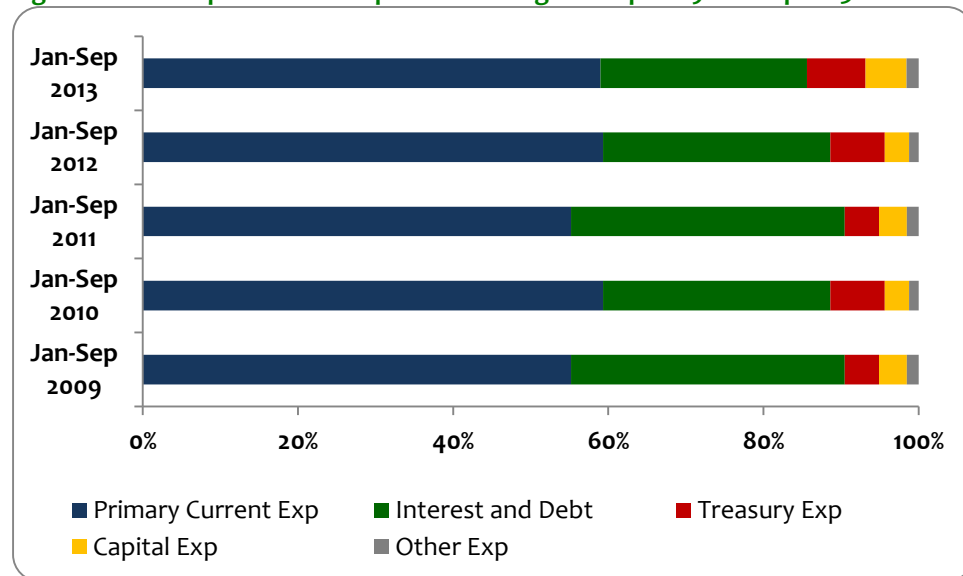
Source: MOF, DGF

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

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

In terms of composition, **primary current expenditure** accounted for 59 percent of total expenditures in Jan-Sep 2013, remaining unchanged from Jan-Sep 2012. **Interest payments** and **foreign debt principal repayments** followed with 29 percent and 27 percent respectively, whereas **treasury expenditure** made up 8 percent in Jan-Sep 2013, up from 7 percent a year earlier. **Capital expenditure** jumped from 3 percent of total expenditure in 2012 to 5 percent in 2013, mainly due to significant increases in **construction in progress** and **maintenance**.

Figure 2: Total expenditure composition during Jan-Sep 2009-Jan-Sep 2013



Source: MOF, DGF

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

Table 14: Expenditure by economic classification

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	% Change
1. Current Expenditures	12,353	13,312	7.8%
1.a Personnel Cost, of which	4,467	4,795	7.3%
Salaries, Wages and Related Items (Article 13)	3,044	3,142	3.2%
Retirement and End of Service Compensations, of which:	1,186	1,379	16.3%
Retirement	837	1,186	41.8%
End of Service	349	193	-44.8%
Transfers to Public Institutions to Cover Salaries	237	274	15.5%
1.b Interest Payments 2/	3,868	3,925	1.5%
1.c Foreign Debt Principal Repayment	215	210	-2.1%
1.d Materials and Supplies, of which:	200	347	73.6%
Nutrition	44	54	23.3%
Fuel Oil	37	11	-70.6%
Medicaments	68	194	182.9%
1.e External Services	88	112	27.3%
1.f Various Transfers, of which:	3,122	3,428	9.8%
EDL 1/	2,621	2,541	-3.0%
NSSF	50	250	400.0%
Higher Council of Relief	74	82	11.5%
Contributions to non-public sectors	176	227	28.7%
Transfers to Directorate General of Cereals and Beetroot	23	60	162.5%
Contributions to water authorities	18	3	-81.7%
1.g Other Current, of which:	262	343	30.6%
Hospitals	215	250	16.3%
Others (judgments & reconciliations, mission costs, other)	46	92	100.9%
1.h Reserves (Interest subsidy)	131	152	15.4%
2. Capital Expenditures	440	822	86.9%
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports, Airports, and Water Networks	0	14	4942.5%
2.b Equipment	37	59	60.6%
2.c Construction in Progress, of which:	280	491	75.2%
Displaced Fund	48	0	-100.0%
Council of the South	30	28	-8.3%
CDR	106	287	171.8%
Ministry of Public Work and Transport	83	114	37.3%
Other of which:	14	53	287.8%
Higher Council of Relief	0	15	N/A
2.d Maintenance	117	231	96.6%
2.e Other Expenditures Related to Fixed Capital Assets	3	28	935.7%
3. Budget Advances 2/	140	202	45.0%
4. Customs Administration (exc. Salaries and Wages) 3/	30	33	7.0%
5. Treasury Expenditures 4/	975	1,177	20.7%
Municipalities	569	571	0.3%
Guarantees	37	77	105.7%
Deposits 5/	74	145	94.3%
Other, of which:	294	385	30.9%
VAT Refund	182	264	45.1%
6. Unclassified Expenditures	0	5	1138.9%
7. Total Expenditures (Excluding CDR Foreign Financed)	13,938	15,551	11.6%

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

(1) EDL has been reclassified to various transfers from "other treasury expenditures", following the reclassification of the 2009 Budget Proposal and in line with the Fiscal Performance.

(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 will be published in a separate line. They will be regularized at a later stage, and it is only after their regularization that they can be classified according to their economic nature in the budget system.

(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 jumped by LL 959 billion, explained by increases in (i) **personnel cost** by LL 328 billion, (ii) **various transfers** (mainly NSSF) by LL 307 billion, (iii) **materials and supplies** by LL 147 billion, (iv) **interest payment** by LL 58 billion, and (v) **other current expenditure** by LL 80 billion. These rises were slightly offset by a LL 5 billion decline in **concessional loans principal payments**.

CURRENT PRIMARY EXPENDITURES

Current primary expenditures rose by 11 percent, amounting to LL 9,177 billion in Jan-Sep 2013, up from LL 8,271 billion in Jan-Sep 2012. The main components and their changes are documented below.

Personnel cost increased by LL 98 billion to LL 4,795 billion in Jan-Sep 2013 versus LL 4,467 billion in Jan-Sep 2012. More specifically, **salaries, wages and related items** amounted to LL 3,142 billion, up from LL 3,044 billion. As shown in table 15, this rise is mainly due to increases in basic salaries (LL 127 billion) and indemnities (LL 22 billion) as a result of the cost of living adjustment. This expansion was partially counterweighted by a drop in allowances (LL 13 billion) and "other" payments (LL 36 billion)⁹.

Table 15: Breakdown of Article 13 – Salaries, wages and related benefits (Jan-Sep)

(LL billion)	Basic Salaries		Allowances 1/		Indemnities and Other 2/		Total	
	2012	2013	2012	2013	2012	2013	2012	2013
Military Personnel	1,445	1,466	454	441	59	61	1,958	1,968
Army	917	937	296	283	37	36	1,251	1,256
Internal Security Forces	398	424	127	126	15	18	541	569
General Security Forces	75	80	17	25	3	3	96	108
State Security Forces	54	25	13	8	3	3	71	35
Education Personnel	521	613	0	0	36	50	557	663
Civil Personnel	244	257	4	3	246	216	317	340
Employees Cooperative					176	137	176	137
Customs Salaries							37	34
Total	2,210	2,337	458	445	341	327	3,045	3,142

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 1,379 billion in Jan-Sep 2013 compared to LL 1,186 billion during the same period in 2012. Behind the LL 193 billion jump stands a LL 350 billion increase in retirement compensation, counterbalanced by a LL 156 billion decline in end of service indemnities. **Retirement** registered an increase of 42

⁹ For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin of September 2013 on the Ministry of Finance website: www.finance.gov.lb.

Note #1: Fuel Oil spending classified under **materials and supplies** is conducted through budget advances which are reclassified according to their economic classification after their regularization in the budget system. This is usually achieved one year after they have been paid. Therefore, total spending on fuel for the current year cannot be constructed when the monthly economic classification table is prepared.

percent mainly as a result of (i) a discrepancy in the timing of payment whereby retirement salaries for the month of September 2012 were paid in October 2012; (ii) the impact of the cost of living adjustment which started in October 2012; (iii) the disbursement of the one-time payment of LL 14 billion of 1996-1998 retroactive to military retirees - March 2013; and (iv) the additional 3,068 retirees during Jan-Sep 2013 compared to Jan-Sep 2012 as per the following distribution:

- The number of military retirees who received a retirement salary increased from 57,808 in Jan-Sep 2012 to 59,679 in Jan-Sep 2013, implying a 3 percent rise.
- Civil retirees receiving a retirement salary reached 24,003 in Jan-Sep 2013, up from 22,806 in Jan-Sep 2012, recording a 5 percent increase.

As for the **end of service indemnity**, the reason behind the large decline is mainly due to the combined result of the following:

- End-of-service compensation to military personnel amounted to LL 164 billion (85 percent of total compensation payments) in Jan-Sep 2013 compared to LL 316 billion (90 percent of total compensation payments) in Jan-Sep 2012. This 48 percent decline was partly due to a discrepancy in timing of payment, but mainly related to the additional one-time benefits granted to military personnel for early retirement in 2012¹⁰. As such, 2013 end of service compensation to military personnel is not expected to reach 2012 level.
- Similarly, end-of-service compensations to civil personnel fell by LL 5 billion to reach LL 29 billion by end-September 2013. This 14 percent drop from the same period in 2012 was mainly caused by a decline in the number of beneficiaries, from 1,610 retirees in Jan-Sep 2012 to 1,312 retirees in Jan-Sep 2013.

Transfers to public institutions to cover salaries were up by LL 37 billion mainly as a result of the LL 32 billion rise in transfers to the Lebanese University. The changes in the components of transfers to public institutions are shown in Table 16 below.

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

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Transfer to Council of the South	5	6	30.3%
Transfer to the Council for Development and Reconstruction	23	24	3.8%
Transfer to Fund for the Displaced	5	4	-4.0%
Transfer to the Lebanese University	197	229	-16.2%
Transfer to Educational Centre for Research and Development	8	11	33.3%
Total Transfers to Public Institutions	237	274	-15.5%

Source: MoF, DGF

Materials and supplies purchases increased by LL 147 billion in Jan-Sep 2013, mainly driven by a LL 155 billion jump in spending on **medicaments**, and a LL 10 billion rise on **nutrition**. This increase was partially offset by a LL 26 billion decline in spending on **fuel oil**.

Medicaments totalled LL 194 billion of which LL 140 billion were transferred to the Ministry of Public Health and the remaining to military personnel. The main reasons behind this rise are (i) a clearing of 2012 backlog, (ii) an overall revision of rates per assisted individual, and (iii) an increase in the cost of new treatments and medicaments, which could be partially due to the appreciation of the Euro against the US Dollar.

¹⁰ As per Law 169 dated 29 August 2011.

External Services (rent, postal, insurance, advertisement and public relations) increased by LL 24 billion, mainly due to a rise in **rental payments** by LL 11 billion and **publications** by LL 6 billion.

Various Transfers rose by LL 307 billion, totalling LL 3,428 billion in Jan-Sep 2013 compared to LL 3,122 billion in the same period of 2012. Besides increases recorded in H1 2013¹¹ (namely, the increase in transfers to NSSF by LL 200 billion and to IDAL by LL 23 billion), some changes to be noted during the period Jan-Sep 2013 include the following:

- a) **Contributions to non-public sectors** climbed to LL 227 billion in Jan-Sep 2013 from LL 176 billion during the same period of 2012, mainly due to an increase of LL 64 billion in transfers to the Ministry of Social Affairs, counterbalanced by an LL 11 billion decline in transfers to the Ministry of Education (private subsidized schools). The increase in transfers to MOSA can be attributed to the payment of previous years' allocations, and higher transfers to cover the revised inflation of aid expenses per assisted individual. As for MOE, transfers declined by LL 11 billion to reach LL 79 billion, mainly due to a discrepancy in the timing of payment.
- b) Transfers to **the Directorate General of Cereals and Beetroot** rose by LL 37 billion to LL 60 billion in Jan-Sep 2013. Of the total amount paid, LL 19 billion represented administrative expenses and the remaining LL 41 billion corresponded to a wheat subsidy provided through a treasury advance¹². The total amount of LL 41 billion was repaid under revenues. It is worth noting that, average international prices remained almost the same in 2013, declining by only 0.3 percent compared to 2012.
- c) Transfers to **Higher Relief Council** grew by LL 8 billion amounting to LL 82 billion in Jan-Sep 2013 mainly due to compensations for a series of tragic events in Lebanon, such as compensation for victims of the clashes that took place by the end of 2012 in Tripoli (LL 24 billion), or in Ain El Helweh and Abra (LL 11 billion).

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

- d) Transfers to **Electricité Du Liban**¹³ dropped by almost LL 80 billion in Jan-Sep 2013, amounting to LL 2,541 billion, compared to LL 2,621 billion in Jan-Sep 2012. This contraction was mostly a result of a 3 percent slide in the volume of petroleum imports – gasoil and fuel oil - and an equal drop in the price of crude oil to US\$ 109.5 per barrel.

Table 17: Transfers to EDL

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
EDL, of which:	2,621	2,541	-3.0%
a- Debt Service, of which:	77	62	-18.8%
• C-Loans and Eurobonds, of which:	40	33	-19.1%
- Principal Repayments	33	27	-19.4%
- Interest Payments	7	6	-17.7%
• BDL-Guaranteed Loan Payments	36	30	-18.6%
b- Reimbursement for purchase of Fuel & Gas Oil:	2,545	2,479	-2.6%
• KPC and SPC	2,545	2,479	-2.6%

Source: MOF, DGF

¹¹ For further details relating to Jan-Jun 2013 main changes, kindly refer to Public Finance Quarterly Report – QII – 2013 on the Ministry of Finance website: www.finance.gov.lb.

¹² As per decree 9967 dated 28 February 2013, the total amount of the treasury advance is LL 64 billion and is provided to purchase 100,000 tons of imported wheat and to produce bread.

¹³ For further details on EDL transfers in Jan-Sep 2013, kindly refer to the September issue of Transfers to Electricité Du Liban, a monthly snapshot, on the Ministry of Finance website: www.finance.gov.lb.

Note #2: Transfers to NSSF

One of the main reasons behind the increase in Various transfers is mainly attributed to the LL 250 billion payment to the NSSF whereby LL 100 billion were settled in January 2013 and LL 150 billion in April 2013, compared to LL 50 billion paid in June 2012. The reason behind this difference is the absence of a structured payment schedule to NSSF. As such, those payments differ from year to year in terms of timing and amount.

e) Treasury advances for **diesel oil subsidy** decreased from LL 19 billion in Jan-Sep 2012 to nil during the same period of 2013, as the subsidy was replaced with a VAT exemption¹⁴. The amount transferred in 2012 was used to subsidize diesel oil which was imported at LL 3,000 per tank¹⁵.

Table 18: Breakdown of Article 14 by Economic Classification

(LL billion)	2012	2013	%Change
	Jan-Sep	Jan-Sep	2013/2012
1. Contributions to the Public Sector 1/	2,868	3,017	5.2%
1a. Electricité Du Liban (EDL)	2,621	2,541	-3.0%
1b. Other Contributions to the Public Sector, of which:	246	476	93.0%
<i>High Relief Committee (HRC)</i>	74	82	11.5%
<i>Investment Development Authority of Lebanon (IDAL)</i>	0	23	-
<i>Transfers to School Funds</i>	38	27	-30.5%
<i>Public Hospitals</i>	11	24	129.5%
<i>Green Project</i>	11	10	-9.1%
<i>National Social Security Fund (NSSF)</i>	50	250	400.0%
<i>Treasury Advances for Diesel Oil Subsidy</i>	19	0	-
<i>Lebanese National Higher Conservatory of Music</i>	14	9	-32.9%
2. Contributions to the Non-Public Sector	175	227	29.2%
2a. Contributions to Non Profit Organizations , of which:	170	220	29.7%
<i>Ministry of Education-Subsidized Schools</i>	90	79	-11.9%
<i>Ministry of Youth and Sports</i>	4	10	143.2%
<i>Ministry of Public Health</i>	8	6	-24.3%
<i>Ministry of Social Affairs</i>	55	120	115.7%
2b. Contributions to Private Parties	6	7	19.4%
3. Assistance to the Public Sector	57	108	88.3%
3a. Directorate General of Grains & Sugar Beetroot	23	60	162.5%
3b. Public Institutions, of which:	32	46	44.3%
<i>Housing Institution</i>	0	30	-
<i>Railway and Public Transportation Authority</i>	10	9	-11.6%
<i>Water Authorities</i>	18	3	-81.7%
4. Assistance to the Non-Public Sector	0	15	-
5.External Assistance (Ministry of Environment)	0	6	3161.2%
6. Membership Fees (International and Regional Organizations)	11	8	-27.5%
<i>Ministry of Foreign Affairs and Emigrants</i>	5	5	-4.2%
7.Stoppings 2/	8	46	506.0%
Total	3,119	3,427	9.9%

Source: MOF, DGF

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

2/ Stoppings also known in Arabic as "Tawqifat" are usually deductions made by the Ministry of Finance from its payments to collect amount owed by the recipient to the Treasury; 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.

¹⁴ Law 207 dated 5 March 2012.

¹⁵ As per decree 7566 dated 22 Feb 2012, the total amount of the treasury advance was LL 22.5 billion and was provided as a temporary measure in anticipation of an exemption of VAT on diesel oil as per Law 207 dated March 5, 2012.

Other Current Expenditures increased by LL 80 billion to LL 343 billion. The variation in this economic category was mainly due to a LL 46 billion jump in payments in “**other spending**”¹⁶ as a result of (i) a LL 26 billion increase in the item *judgments* principally due to the reconciliation between the Ministry of Public Works and Transportation and the General Directorate of Civil Aviation in the amount of LL 13 billion; and (ii) a LL 14 billion rise in secret expenditures to the Internal Security Forces and the Army. Another main reason behind the increase in **Other Current Expenditure** was the LL 35 billion hike in transfers to **hospitals** to LL 250 billion, explained by a discrepancy in the timing of payment.

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

INTEREST PAYMENT

Interest payments totaled LL 3,925 billion by end of September 2013, nearly 2 percent higher than payments in Jan-Sept 2012, mainly explained by 6.5 percent higher interest paid on foreign currency debt.

Interest payments on foreign currency debt amounted to LL 1,488 billion for the first three quarters of the year compared to LL 1,397 billion for the first three quarters of 2012. Of this LL 90 billion total increase, LL 82 billion represented higher coupon amount on Eurobonds. In fact, the stock of outstanding Eurobonds has expanded in 2012, compared to the stock outstanding in 2011, causing higher coupon cost to the Treasury in 2013, as compared to coupon cost in 2012¹⁷. This is largely explained by the ratification of Law 212, in March 2012, which granted the Republic authorization to issue new debt in FX¹⁸ (in addition to the regular refinancing of maturing FX debt authorized under existing legislation).

On the domestic front, **interest payments on LL T-bills and bonds** amounted to LL 2,437 billion by end of September 2013, compared to LL 2,470 billion by end of September 2012. The LL 33 billion interest cost saving stems from:

- a) LL 13 billion lower **coupon dues on long-term LL T-bonds** (interest paid on 2, 3, 5, 7, 8, 10 & 12 YRS T-bonds) explained by lower weighted average coupon rate of outstanding long-term debt. The stock of T-bonds on which coupons were due in 2012 accounts for Notes issued in 2009 and before, when interest rates were at a peak, whereas the stock of T-bonds on which coupons were due in 2013 accounts for a much smaller share of Notes issued at the high rates prevailing in 2009 and before.

It should be noted that the cost of issuing longer maturities (namely 8, 10 & 12 YRS Notes in 2012 & 2013) did not yet reflect substantially in the weighted average cost of long term LL debt outstanding by end of September 2013. In that context, the Government issued 10 & 12 YRS Notes on September 26th, as part of Auction financing. Total subscriptions in the 8.24% 10 YRS Notes amounted to LL 569 billion, whereas total subscriptions in the inaugural 8.74% 12 YRS Notes amounted to LL 1,904 billion.

- b) LL 16 billion lower **premium**¹⁹; in fact LL 58 billion premium was incurred in June 2012 on the early redemption of LL 2,957 billion of LL Notes in the context of USD 2 billion LL/FX debt exchange transaction with BDL.

In 2013, a total of LL 42 billion premium was incurred in the context of 3 debt exchange transactions with BDL: (i) LL 23 billion in April on the early redemption of LL 1,635 billion Notes in the context of USD 1.1 billion FX/LL debt swap, (ii) LL 12 billion in June in the context of LL 1,240 billion LL/LL debt swap, and (iii) LL 6.5 billion in September on the early redemption of LL 262 billion Notes in the context of USD 175 million FX/LL debt swap.

It is worth noting that **discount interest on short-term LL T-bills** (interest paid at maturity of 3, 6, & 12 months T-bills) totaled LL 87 billion in Jan-Sept 2013, nearly 4 percent lower than the amount paid in Jan-Sept 2012, despite a higher weighted average cost caused by

¹⁷ To note that coupon dues in 2013 reflect mostly the Eurobond stock outstanding by end of 2012, whereas coupon dues in 2012 reflect mostly the Eurobond stock outstanding by end of 2011.

¹⁸ To note that the Republic issued USD 5.475 billion Notes in 2012 overall, through (i) two market transactions in April and November (the latter being an exchange plus new cash issuance); and through (ii) two LL/FX debt replacement agreements with BDL in June & December.

All in all, reaching a net increase in Eurobonds of USD 3.5 billion (reference Public Finance Annual Review 2012, Debt section).

¹⁹ In the context of debt exchange transactions with BDL, MoF pays a premium on the early redemption of the T-bills and bonds, which is the difference between the face value of the bond and the liquidation value.

the increase in interest rates in March 2012;, the reason being a lower volume of short term bills maturing in the first three quarters of 2013 than the volume of maturing bills in the first three quarters of 2012 (discount interest is paid at maturity).

Table 19: Interest Payments

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	Change % 2013/2012
Debt Service Payments	3,866	3,925	1.5%
Local Currency	2,470	2,437	-1.3%
Discount interest	90	87	-3.8%
Coupon payment	2,380	2,351	-1.2%
Coupon payments	2,322	2,309	-0.6%
Premium*	58	42	-28.2%
Foreign Currency	1,397	1,488	6.5%
Eurobond Coupon (incl. fees)	1,311	1,393	6.3%
C-loans interest	83	88	6.6%
Special Bond (exp. & contract.)	4	5	37.5%

Source: MOF

*Premium above Par on the early redemption of LL T-bonds in the context of debt replacement

Premium during Jan-Sep 2012 account for the following:

- LL 58 billion paid on June 12th, in the context of USD 2 billion triple tranche Notes issued in exchange of the early redemption of LL 2,957 billion of T-bonds held by BDL

Premium during Jan-Sep 2013 account for the following:

- LL 23 billion paid on April 23rd 2013, in the context of USD 1.1 billion dual tranche Eurobond issuance to BDL in exchange of the early redemption of LL 1,635 BN worth of 3 & 5 YRS T-bonds in BDL portfolio.

- LL 12 billion paid on June 13th 2013, in the context of LL 1,240 billion 7 YRS T-bonds issuance to BDL in exchange of the redemption of 2 & 3 YRS T-bonds in BDL portfolio maturing in Aug-Dec 2013.

- LL 6.5 billion paid on Sept 4th in the context of the issuance of USD 175 million to BDL in exchange of the early redemption of LL 262 billion of 60 million T-bonds from BDL portfolio.

CAPITAL EXPENDITURE

Capital expenditures amounted to LL 822 billion in Jan-Sep 2013, expanding by LL 382 billion from the same period in 2012, chiefly attributed to increases in **construction in progress** and **maintenance**.

In details, **construction in progress** grew from LL 280 billion in Jan-Sep 2012, to LL 491 billion in Jan-Sep 2013. The LL 211 billion increase was the combined outcome of the following:

- a) Payments to **CDR** jumped by LL 181 billion to reach LL 287 billion in Jan-Sep 2013, mainly due to higher transfers for (i) several road projects (+ LL 92 billion), (ii) water treatment projects (+ LL 33 billion), (iii) buildings and other projects (+ LL 19 billion), and (iv) maintenance of Rafic Hariri International Airport (+ LL 30 billion).

Table 20: Payments to CDR for Construction in Progress

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	Change % 2013/2012
CDR Budget Payments (1)	79	119	51.0%
Counterpart funding for foreign financed projects	78	88	13.3%
Maintenance of Rafic Hariri International Airport	1	31	2,980%
Projects Executed on behalf of Line Ministries (2)	24	168	606.1%
Roads projects, of which:	9	101	986.2%
Different road projects in Beirut and its peripheries	0	40	N/A
Batroun-Bajderfil connecting road	0	31	N/A
Sour-Naqoura road	6	13	102.6%
Buildings and other projects, of which:	15	34	133.5%
Supervision and payment fees Olympic Pool in Naccache	0	16	N/A
Baalbeck field	0	6	N/A
Science faculty at the Lebanese University in Tripoli	0	6	N/A
Water treatment projects, of which:	0	33	N/A
Acquisition of real estate properties relating to water treatment project in Keserwan	0	23	N/A
Other (3)	3	0	N/A
Total Payments to CDR for Construction In Progress (1+2+3)	106	287	171.8%

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.

- b) A LL 31 billion increase in transfers to the **Ministry of Public Works and Transportation** mainly relating to the development and construction of roads, and LL 39 billion rise in **“other”** construction in progress expenses (of which LL 15 billion relate to HRC).

- c) Payments to **Displaced Fund** remained nil in Jan-Sep 2013, compared to LL 48 billion in Jan-Sep 2012, while payments to the **Council of the South** amounted to LL 28 billion, recording a LL 3 billion decline over the same period.

Maintenance surged by LL 113 billion to 230 billion in Jan-Sep 2013, mainly due to a rise in transfers to (a) the **Ministry of Public Works and Transportation** (+ LL 80 billion), driven by higher payments for maintenance of buildings and roads, and (b) **CDR** (+ LL 12 billion)

paid through a treasury advance²⁰ in order to operate and maintain the Lebanese University in Hadath.

Other expenditure items that contributed to the increase in capital expenditure include **equipment**, growing by LL 22 billion mainly due to (i) LL 12 billion increase in payments to the Ministry of Finance to purchase office and IT equipment, (ii) LL 8 billion rise in transfers to the Ministry of Defense, and (iii) LL 6 billion to the Ministry of Agriculture, of which LL 1.3 billion were transferred to purchase agricultural products used in 2012. These were counterbalanced by a LL 14 billion drop in transfers to the Ministry of Education.

Both **acquisitions of land and buildings for the construction of roads, ports, airports, and water networks** (increased by LL 14 billion as a result of a real estate transaction with BDL - note #3) and **other expenditures related to fixed capital Assets** (increased by LL 25 billion mainly due to LL 10 billion transfer to IDAL for the Export Plus Program) followed similar trends to that of Jan-Jun 2013²¹.

Note #3:

Acquisitions of land and buildings for the construction of roads, ports, airports, and water networks increased by LL 13 billion in Jan-Sep 2013 after the government reimbursed Banque du Liban LL 13.5 billion for a real estate transaction between the two parties. For more details about this transaction, please refer to Box #4 in the Q2 2013 report 2013 on the Ministry of Finance website: www.finance.gov.lb

²⁰ As per decree 9892 dated 18 February 2013, the total treasury advance amounts to LL 20.6 billion.

²¹ For further details relating to Jan-Jun 2013 main changes, kindly refer to Public Finance Quarterly Report – QII – 2013 on the Ministry of Finance website: www.finance.gov.lb.

OTHER TREASURY EXPENDITURE

Other Treasury expenditures augmented by LL 202 billion to reach LL 1,177 billion in Jan-Sep 2013, primarily attributed to an increase in (i) **VAT refund** (LL 82 billion), (ii) **deposits** (+ LL 70 billion), and (iii) **guarantees** (+ LL 39 billion). As for **municipalities**, transfers stood at LL 571 billion, roughly similar level as the same period in 2012, mainly due to a LL 104 billion increase in payments for solid waste management, counterbalanced by a LL 93 percent decline in distribution of revenues accruing to municipalities.

Table 21: Payments to Municipalities

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Distribution of Revenues Accruing to Municipalities	384	291	-24.2%
Payments for Solid Waste Management	158	262	65.8%
Payments to the "First Municipality Infrastructure Project"	13	13	0.0%
Other Payments	1	5	400.0%
Total Payments to Municipalities	569	571	0.4%

Source: MoF, DGF

Box #3: Transfers to Municipalities

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

- a) Fees collected by the central government, the independent utilities or the public institutions on behalf of municipalities and that are directly redistributed to each municipality.
- b) Fees collected by the central government on behalf of all municipalities and that are deposited into the Independent Municipal Fund.

As for payments for solid waste management, the Independent Municipal Fund bears the cost of their respective services in the perimeter of some municipalities, as per article 64 of the 2001 Budget Law 326 dated June 28th, 2001.

SOCIAL EXPENDITURE

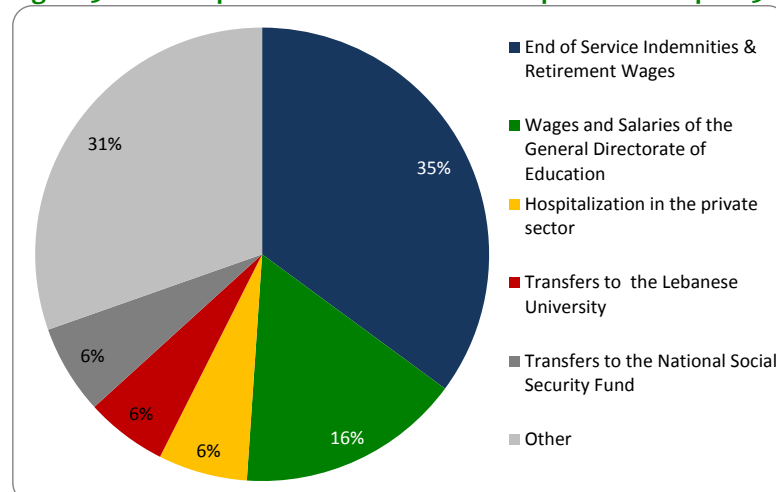
Social expenditures cover the basic social services of health, education, transfers to the National Social Security Fund (NSSF), retirement and end-of-service indemnities, and other areas of intervention where the Government provides social allowances. As a percentage of total spending, social expenditure accounted for 23 percent of the total during Jan-Sep 2012, up to 25 percent during 2013.

The social expenditure bill increased by LL 726 billion year-on-year, amounting to LL 3,930 billion in Jan-Sep 2013 compared to LL 3,204 billion in Jan-Sep 2012. The main changes to be noted during the period are the following:

- a) Transfers to NSSF soared by LL 200 billion year-on-year to reach LL 250 billion in Jan-Sep 2013 due to inconsistencies in the timing of payments, whereby the bulk of 2012 transfers to NSSF were made during the second half of the year.
- b) Purchases of medicaments climbed by LL 125 billion, amounting to LL 194 billion in Jan-Sep 2013 compared to LL 68 billion in 2012 (for details kindly refer to the “Current primary expenditures” section).
- c) Transfers to non-profitable organizations made by the Ministry of Social Affairs grew by LL 62 billion to reach LL 120 billion.

In terms of spending allocation, **end of service indemnities and retirement wages** ranked first with 35 percent of the total, compared to 37 percent during Jan-Sep 2012. These were followed by **education spending**, accounting for 29 percent during Jan-Sep 2012, down to 26 percent in 2013. 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. Lastly, **health expenditure** ranked third with 19 percent during Jan-Sep 2013 and 17 percent during the same period of 2012; whereby **hospitalization in the private sector** was the main component of this category.

Figure 3: Social Expenditure Allocation for the period Jan-Sep 2013



Source: MOF, DGF

Table 22: Main Social Expenditure

(LL billion)	2012 Jan-Sep	2013 Jan-Sep	%Change 2013/2012
Health			
Hospitalization in the private sector	215	250	16%
Purchase of Medication	68	194	183%
Hospitalization of public sector employees in private sector	174	184	6%
Maternity and sickness allowance	40	48	22%
Other	54	89	64%
Sub-Total	551	765	39%
Education			
Ministry of Education and Higher Learning, of which	914	1,037	14%
<i>Wages and Salaries of the General Directorate of Education</i>	477	628	32%
<i>Transfers to the Lebanese University</i>	197	229	16%
<i>Wages and Salaries of the General Directorate of Technical Education</i>	79	34	-57%
<i>Contributions to non-profitable organizations</i>	90	79	-12%
Education allowance in private sector	222	193	-13%
Sub-Total	1136	1231	8%
Other Social Spending			
End of Service Indemnities & Retirement Wages	1,186	1,379	16%
Transfers to the National Social Security Fund	50	250	400%
Transfers to Civil Servants' Cooperative	176	137	-22%
Ministry of Social Affairs, of which	61	124	105%
<i>Transfers to non-profitable organizations</i>	57	120	108%
Participation in several mutual funds	22	22	-1%
Other social spending allowance 1/	24	23	-6%
Sub-Total	1,518	1,935	27%
Grand-Total Social Spending	3,204	3,930	22.66%

Source: MOF, DGF

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

SECTION IV: PUBLIC DEBT DEVELOPMENTS

PUBLIC DEBT: GENERAL FACTS

Gross public debt stood at LL 94,070 billion (US\$ 62.40 billion) by end-September 2013, recording a LL 7,111 billion (8.18 percent) increase from its end-2012 level. This resulted from a rise in both, domestic and foreign currency debt, by LL 4,052 billion and LL 3,059 billion respectively.

Public net debt added a smaller amount of LL 4,585 billion (6.19 percent), amounting to LL 78,628 billion as the value public sector deposits jumped by 19.6 percent to reach LL 15,442 billion.

Table 23: Public Debt Outstanding as of End-Sep 2013

(LL billion)	Dec-11	Dec-12	Sep-13	% Change	Dec 12-Sep 13
Gross Public Debt	80,887	86,959	94,070	8.18%	
Net Debt ⁽¹⁾	69,903	74,043	78,628	6.19%	
Gross Market Debt ⁽²⁾	50,192	58,623	63,963	9.11%	

Source: MoF, Banque du Liban (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.

LOCAL CURRENCY DEBT

Local currency debt climbed LL 4,052 billion in the first three quarters of 2013, amounting to LL 54,250 billion by end-September, while the share of local currency to total debt stood at 58 percent, similar to its end-2012 level, after it had reached 56 percent by end-June 2013. This recovery of the end-2012 debt composition underlined the acceleration of growth in local currency debt to 6.2 percent in Q3, from less than 1 percent in Q2.

Issuances of LL T-bills and bonds needed to finance primary deficits in Jan-Sep 2013, contributed substantially to the stock of local currency debt. Aside from tenors issued in regular weekly auctions (3MN, 6MN, 12MN, 2YR, 3YR and 5YR), notable increases were registered in longer term bonds, of which (i) around LL 1,190 billion in 8-year and 10-year Treasury bonds, issued as part of the June 6 and June 27 weekly auctions, at interest rates of 7.8 percent and 8.24 percent respectively, (ii) LL 1,240 billion in 7-year Treasury bonds issued in the context of an LL/LL voluntary debt exchange with Banque Du Liban²² at an interest rate of 7.5 percent, and (iii) around LL 2,473 billion in 10-year and 12-year Treasury bonds, offered as part of the September 26, 2013 weekly auction, at interest rates of 8.24 percent and 8.74 percent respectively, noting that the September 26, 2013 auction marked the first time issuance of 12-year treasury bonds by the Lebanese Republic.

By holder, commercial banks remained the largest investors in local currency debt, carrying around 52.3 percent of the outstanding amount as at end-September 2013. This compared to a larger share of 54.3 percent as at end-2012, as their portfolio growth of 4 percent since end-2012 behind portfolio increases of Banque du Liban and other entities. BDL added to its local currency holdings almost 11.5 percent to reach LL 16,786 billion,

²² This debt replacement agreement did not contribute to increase in local currency debt as it represented a replacement agreement with shorter term maturing tenors by BDL. For details on the local currency debt exchange with BDL, kindly refer to Box #6 on page 43 in the Q2 2013 Public Finance Quarterly Report.

accounting for 31 percent of local currency debt by end-September, compared to 30 percent as at end-2012. BDL's strong participation in weekly auctions augmented its local currency debt holdings by LL 1,737 billion, with auction subscriptions reaching around 2.4 times the level of maturities (including coupons). This share of domestic currency debt was achieved despite two separate FX/LL debt replacement agreements in April and September 2013, valued at US\$ 1,100 million and US\$ 175 million respectively, and which had reduced BDL's TB holdings by an equivalent of US\$ 1,275 million, whereby BDL redeemed to MoF, Treasury bonds from its existing portfolio for an equivalent LL amount of US\$ 1,275 million in Eurobonds.

Local currency debt subscribed by "other" entities increased by 15 percent, amounting to LL 9,102 billion, and their share of total local currency debt was 16.8 percent by end-September 2013. Public institutions' TB holdings rose by LL 574 billion to LL 7,053 billion, while TBs held by "Public" amounted to LL 1,891 billion adding 51 percent from end-2012. The stock of domestic-currency contractor bonds remained at LL 134 billion.

By instrument, the stock of long-term bonds amounted to LL 51,474 billion by the end of September 2013²³, climbing by a substantial LL 4,767 billion in the first three quarters of 2013, whereas the stock of short-term treasury bills slid to LL 1,848 billion from LL 2,591 billion.

Long-term Treasury bonds mainly grew as surges in 3YR, 7YR, 10YR and 12YR bonds outpaced declines in outstanding 2YR and 5YR bonds.

The value of outstanding 3YR bonds increased by LL 2,257 billion (12.3 percent) to reach LL 20,549 billion, accounting for around 47 percent of the rise in long term Treasury bonds. This expansion resulted from a LL 3,619 billion surplus recorded on 3YR bonds in weekly auctions, which in turn overshadowed 3YR bond redemptions in debt agreements outside weekly auctions, noting that around LL 291 billion in 3YR TBs were redeemed as part of the April 2013 LL/FX US\$ 1.1 billion Debt Replacement Agreement and an approximate LL 1,078 billion in 3YR TBs were redeemed in the June 2013 LL/LL debt exchange between MoF and BDL. 3YR TBs accounted for almost 38 percent of local currency debt by the end of September 2013.

The second largest increase in LL Treasury bonds pertained to the 12YR tenor that was issued for the first time by the Lebanese Republic, as part of the September 26, 2013 weekly auction, at a rate of 8.74 percent. Around LL 1,904 billion was issued of the new and hitherto longest LBP-denominated bond issued by the Republic, of which 97 percent were subscribed by commercial banks. By end-September 2013, 12YR bonds accounted for around 3.5 percent of local currency debt.

The stock of 10YR bonds reached LL 2,844 billion by end-September, up from LL 1,151 billion at end-2012, following three separate issuances, part of weekly auctions dated June 6, June 27, and September 26, 2013.

The stock of 7YR bonds increased by LL 1,241 billion (13.8 percent), following the June 2013 LL/LL exchange between the Ministry of Finance and Banque du Liban, in which BDL redeemed LL 1,240 billion worth of 2 and 3-year Treasury Bonds maturing up to end-June 2013, for their counterpart value in 7YR LL Treasury bonds.

Of other long term tenors, 2YR and 5YR bonds ended September 2013 at a lower outstanding value than end-2012. The stock of 2YR TBs diminished by LL 1,876 billion in Jan-Sep 2013, mostly owing to weekly auction deficits amounting to LL 1,726 billion and

²³ This figure excludes accrued interest on long term Treasury bonds for the amount of LL 792 billion.

the early redemption of LL 150 billion in 2YR bonds as part of the LL/LL exchange between MoF and BDL. The stock of 5YR bonds retracted by LL 517 billion, as the LL 1,090 billion surplus recorded in weekly auctions was not sufficient to counterbalance the redeemed amounts of LL 1,367 billion and the LL 262 billion in 5YR bonds from the April and September conducted Debt Replacement Agreements.

The stock of short-term bills fell by LL 743 billion, as a result of declines in the stock of all three short-term bills, with outstanding 6MN bills falling by almost 42 percent to LL 763 billion, and outstanding 3MN bills dropping by around 49 percent to LL 155 billion from end-2012 by end-September 2013.

Subscriptions in Weekly Auctions:

Long-term instruments (2YR, 3YR, 5YR, 8YR and 10YR Treasury bonds) accounted for 85 percent of subscriptions in Q3 2013 auctions, compared to 87 percent in Q2, and 75 percent in Q1 2013. On a cumulative basis, long-term instruments accounted for 83 percent of subscriptions in the first three quarters of 2013 compared to around 80 percent during the same period of 2012.

On an instrument level, 3YR bonds accounted for the highest share of total subscriptions in Q3 2013 or 35 percent, down from 58 percent in Q2 2013. This drop resulted from the first-time issuance of 12YR bonds that captured 33 percent of subscriptions. The share of 10YR bonds also decreased to 10 percent in Q3 from 22 percent in Q2, whereas 6MN bills accounted for 8 percent of Q3 subscriptions, compared to 5 percent in Q2. 5YR bonds captured 4.1 percent, followed by 12MN bills with 3.7 percent and finally, 2YR bonds and 3MN bills with 3 percent each.

In the first three quarters of 2013, 3YR bonds captured 48 percent of subscriptions followed by 12YR bonds with 13 percent, 10YR bonds with 12 percent, 5YR bonds with 8 percent, 6MN bills with 7 percent, 12MN bills with 5 percent, 3MN bills with 4 percent, 2YR bonds with 2 percent, and 8YR bonds with less than 1 percent. In comparison, 3YR bonds captured only 38 percent of subscriptions in the first three quarters of 2012, followed by 5YR bonds with 24 percent, 6MN bills with 11 percent, 2YR bonds with 10 percent, 10YR bonds with around 8 percent, 12MN bills with 5 percent and 3MN bills with 4 percent.

Commercial Banks remained the largest subscribers in Treasury bills and bonds in the first three quarters of 2013, capturing up to 47 percent of accepted offers. This share was still lower than banks' 57 percent share during the same period in 2012. On the other hand, Banque du Liban's share of total subscriptions increased to 30 percent of total accepted offers in Jan-Sep 2013, from 26 percent in Jan-Sep 2012, and Public Institutions' share climbed to 18 percent from 14 percent.

Table 24: Domestic Currency Debt by Holder and Instrument as of end-September 2013

Stocks (end of period)	Dec-11	Dec-12	Sep-13	% Change Dec 12 - Sep 13
Local currency debt	49,340	50,198	54,250	8.1%
A. By Holder				
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases) ⁽¹⁾	16,374	15,049	16,786	11.5%
2. Commercial Banks	25,177	27,267	28,362	4.0%
3. Other local debt (T-bills)	7,789	7,882	9,102	15.5%
o/w Public entities	6,538	6,479	7,053	8.9%
o/w Contractors ⁽²⁾	41	134	134	0%
*Accrued interest included in debt	788	789	827	4.8%
B. By Instrument				
1. Long term bonds	46,512	47,448	52,266	10.2%
1.1 12-year bonds	0	0	1,903	
1.2 10-year bonds	0	1,151	2,844	147.1%
1.3 8-year bonds	0	1,916	1,982	3.4%
1.4 7-year bonds	7,885	8,978	10,219	13.8%
1.5 5-year bonds	11,779	12,162	11,645	-4.3%
1.6 3-year bonds	22,129	18,292	20,549	12.3%
1.7 2-year bonds	3,972	4,208	2,332	-44.6%
1.8 Coupon interest	747	741	792	6.9%
2. Short term bills	2,583	2,591	1,848	-28.7%
2.1 12-month bills	887	965	926	-4.0%
2.2 6-month bills	1,569	1,312	763	-41.8%
2.3 3-month bills	127	314	159	-49.4%
* Accrued interest included	41	48	35	-27.1%
3. Other local debt	245	159	136	-14.5%
3.1 Central Bank Loans	139	55	0	-100.0%
3.2 Commercial Banks Loans	106	104	136	30.8%

Source: MoF, BDL

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

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

Primary market interest rates

Primary market rates remains stable in QIII 2014 compared to those in QII 2013. Aside from regularized market issuances made in the first three quarters of 2013, special scheme issuances of 7-year, and non-regular issuances of 8-year, 10-year, and 12-year Treasury bonds retained their interest rates at 7.5 percent, 7.8 percent, 8.24 percent, and 8.74 percent respectively.

Table 25: Evolution of Primary Market Rates

Maturity	Dec. 31st, 2011	Dec. 31, 2012	Sep. 30, 2013
3-month	3.93 percent	4.43 percent	4.44 percent
6-month	4.50 percent	4.99 percent	4.99 percent
12-month	4.81 percent	5.35 percent	5.35 percent
2-year	5.34 percent	5.84 percent	5.84 percent
3-year	5.94 percent	6.50 percent	6.50 percent
5-year ⁽¹⁾	6.18 percent	6.74 percent	6.74 percent
7-year ⁽²⁾	7.60 percent	7.50 percent	7.50 percent
8-year ⁽³⁾	N/A	7.80 percent	7.80 percent
10-year ⁽⁴⁾	N/A	8.24 percent	8.24 percent
12-year ⁽⁵⁾	N/A	N/A	8.74 percent

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).

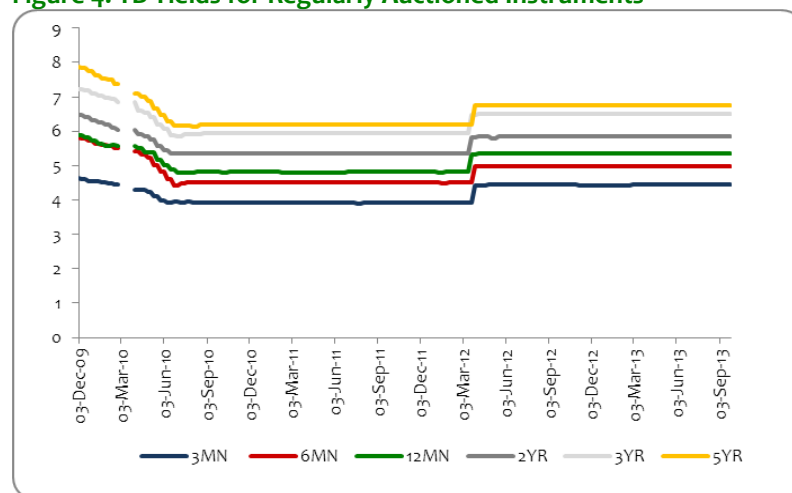
(2) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent, and in September 2011 with a coupon of 7.60 percent. These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

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

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

(5) 12-year Treasury bonds were issued on a one time basis, during the weekly auction of September 26, 2013.

Figure 4: TB Yields for Regularly Auctioned Instruments



Source: MoF

Notes:

(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

Foreign currency debt stood at LL 39,820 billion by the end of September 2013, climbing by LL 3,059 billion from the LL 36,761 billion registered as at end-2012. This increase was mainly the result of four Eurobond transactions that were conducted in April, June, and September 2013.

Exchange rate fluctuations added to this increase, accounting for a LL 28 billion rise in outstanding FX debt. This valuation adjustment mainly included the effect of an appreciated Euro vis-à-vis the US dollar from a rate of 1.3186 €//\$ as at end-2012, to 1.3501 €//\$ at end-September 2013, causing the values of Euro-denominated Eurobonds and the AFD Loan to add around LBP 21 billion and LBP 5 billion, respectively.

Table 26: Foreign Currency Debt by Holder and Instrument as of end-September 2013

(in LL billion)	Dec-11	Dec-12	Sep-13	% Change Year-to-date
B. Foreign currency debt	31,547	36,761	39,820	8.3%
4. Eurobonds	27,490	32,789	36,011	9.8%
Of which, Paris II at preferential rates ⁽¹⁾	3,161	2,646	2,335	-11.7%
Of which, Paris III at preferential rates ⁽²⁾	663	317	271	-14.3%
Of which, market-issued Eurobonds	23,259	29,427	32,681	11.1%
* <i>Accrued Interest on Eurobonds</i>	407	400	724	81.0%
5. Loans	3,977	3,860	3,673	-4.8%
5.1 Paris II loans	351	279	204	-26.9%
5.2 Paris III loans ⁽³⁾	1,060	997	945	-5.2%
5.3 Bilateral loans (non-Paris II and III)	766	835	826	-1.1%
5.4 Multilateral loans (non-Paris II and III)	1,781	1,735	1,687	-2.8%
5.5 Foreign Private Sector Loans	18	14	11	-21.4%
6. Other debt	80	112	136	21.4%
6.1 Special Tbs in Foreign currency ⁽⁴⁾	80	112	136	21.4%

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. These bonds have an amortized payment structure.

(3) IBRD loan, UAE loan, first tranche of the French loan received in February 2008 and part of second tranche received October 2012, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in June 2009.

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

Outstanding **Eurobonds** reached LL 36,011 billion, by the end of September 2013, an increase of 9.8 percent compared to end-2012, following four transactions conducted in the first three quarters 2013. Exchange rate fluctuations accounted for a LL 21 billion rise in the value of Eurobonds. The first transaction that was concluded on 17 April 2013 comprised a double-tranche Eurobond issuance amounting to a total US\$ 1.1 billion. The transaction consisted of a US\$ 600 million re-opening of the 6.000 percent coupon Eurobond due January 2023 and a US\$ 500 million re-opening of the 6.750 percent coupon Eurobond due November 2027²⁴. The second transaction, also valued at US\$ 1.1 billion, was settled on 23 April 2013, and was conducted in the context of an FX/LL “Debt Replacement Agreement” between the Ministry of Finance and Banque du Liban, increasing the value of outstanding foreign currency debt and contributing to the shift in debt currency composition from LBP to FX debt given the redemption of LBP Treasury bonds²⁵. The third

²⁴ For more information on the April 17, 2013 Eurobond transaction, kindly refer to Box #7 on page 49 in the Q2 2013 Public Finance Quarterly Report. Additional details can also be found in the online note “Re-openings of 6.00 percent USD Notes due 2023 and of 6.75 percent USD Notes due 2027, issued 17 April 2013” on the MoF’s website.

²⁵ For more information on the April 23, 2013 Debt Replacement Agreement between MoF and BDL, kindly refer to Box #5 on page 41 in the Q2 2013 Public Finance Quarterly Report. Additional information can also be found in the online note

transaction took place on 20 June 2013, and comprised a US\$ 600 million 6.150 percent Eurobond issuance, due June 2020, which was subscribed by BDL²⁶. The fourth transaction, valued at US\$ 175 million, was settled on 4 September 2013, and represented the second FX/LL “Debt Replacement Agreement” between the Ministry of Finance and Banque du Liban, (Detailed in Box#4, page 36).

On the other hand, declines in outstanding Eurobonds resulted from the repayment of US\$ 483.599 million remaining from the March 2013-due US\$ 875 million market-issued Eurobond, the repayment of US\$ 340.009 million remaining from the June 2013-due US\$ 650 million market-issued Eurobond (with the first portion of each of the two Eurobonds redeemed in the November 2012 voluntary exchange transaction)²⁷, in addition to amortized principal repayments made on Paris II and Paris III Eurobonds.

Eurobonds issued in the context of Paris II dropped by LL 311 billion (11.7 percent) to reach LL 2,335 billion following amortized principal repayments throughout the first three quarters of the year: (i) Two US\$ 35 million payments in March and September 2013 on Paris II March 2018 Eurobond originally issued at US\$ 700 million; (ii) US\$ 10 million in May 2013 on Paris II 5.00 percent May 2018 Eurobond originally issued at US\$ 200 million; (iii) US\$ 93.5 million in June 2012 on Paris II 4.00 percent December 2017 Eurobond originally issued at US\$ 1,870 million; and (iv) US\$ 32.5 million in June 2012 on Paris II 5.00 percent due December 2017 originally issued at US\$ 950 million.

The value of outstanding Paris III linked Eurobonds dropped by LL 45 billion (14.3 percent) to reach LL 271 billion by the end of September 2013 owing to two principal repayments amounting to US\$ 15 million each, in January and July 2013 on the Eurobond due July 2017 originally issued at US\$ 300 million.²⁸

“Dual-tranche: 4.50% USD Notes due 2016, and 5.50% Notes due 2019 in Debt Replacement Agreement with BDL, issued 23 April 2013” on the MoF’s website.

²⁶ For more information on the June 20, 2013 Eurobond issuance, kindly refer to Box #8 on page 51 in the Q2 2013 Public Finance Quarterly Report.

²⁷ For more information on the November 2012, Voluntary Exchange Transaction, kindly refer to the note “ Voluntary Debt exchange November 2012: Re-opening of 5.15 percent US\$ notes due 2018, New US\$ 6.00% notes due 2023, and New US\$ 6.75% notes due 2027, issued 29 November 2012” available here: <http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/DebtTransactions/>.

²⁸ 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.

Box #4: US\$ 175 MILLION LL/FX Debt Replacement Agreement with BDL

On September 4, 2013, Banque du Liban agreed with the Republic of Lebanon on a Debt Replacement transaction, where the Ministry of Finance issued a US\$ 175 million Eurobond (re-opening of Series 63) and BdL redeemed to MoF 5-year Treasury bonds in Lebanese Pounds carrying a coupon rate of 6.74 percent from its existing portfolio for an equivalent LL amount.

Table 27: Terms and Conditions of the Agreement

Series (tranche)	63 (2)
Issue Size (in US\$)	175,000,000
Issue date	4 September, 2013
Maturity	12 October, 2017
Coupon Rate	5.00%
Coupon Payment	Semi-annual
Principal Payment	Bullet payment at maturity
Issue Price	97.29% + 142 days of accrued interest
Re-offer Yield	5.75%
ISIN Code	XS0769530238
Lead Manager	Republic of Lebanon

Source: MoF, BDL

The second major item that comprises foreign currency debt, or **foreign currency loans**, registered a retraction of 4.8 percent in the first three quarters of 2013, amounting to LL 3,673 billion compared to LL 3,860 billion at end-December 2012. The recorded decline was mainly due to amortized principal repayments on concessional loans related to Paris II and Paris III, in addition to retractions in non-Paris II and Paris III bilateral and multilateral loans. The decline in multilateral and bilateral loans was marginally offset by exchange rate fluctuations of the multi-currency loan portfolios.

- a) The stock of Paris II loans dropped by LL 75 billion, equivalent to 26.9 percent, and amounted to LL 204 billion by the end of September 2013, due to the redemption of € 40 million of the *Agence Française de Développement (AFD)* Paris II loan, denoted by two amortized repayments made in February and August.
- b) The stock of Paris III loans decreased by LL 52 billion, equivalent to 5.2 percent, to reach LL 945 billion by the end of September 2013. This decline was largely due to (i) quarterly principal repayments in February, May, and August 2013 of the equivalent of

SDR 3.2 million each on the IMF EPCA II loan²⁹; (ii) US\$ 15 million semi-annual principal repayment made in April 2013 on the UAE Paris III loan; (iii) US\$ 5 million semi-annual principal repayment, also in April 2013, on the World Bank IBRD loan (iv) and the fourth and final principal repayment of the Arab Monetary Fund loan or the equivalent of AAD 1.365 million, concluding the redemption of the loan in June 2013.

- c) The stock of foreign private sector loans edged down by LL 3 billion, equivalent to 21.4 percent, to reach LL 11 billion by the end of September 2013.
- d) The stock of non-Paris II and non-Paris III bilateral loans decreased by LL 9 billion, equivalent to 1.1 percent to reach LL 826 billion by end-September 2013, as principal repayments outpaced the increase that resulted from disbursements over the period. Principal repayments most notably included: (i) LL 16 billion to the Saudi Fund for Development, (ii) LL 13 billion to the Kuwait Fund for Arab Economic Development, (iii) LL 11 billion to the Japan Bank for International Cooperation, (iv) LL 7 billion to *Agence Française de Développement*, and (v) LL 2 billion to Abu Dhabi Fund for Development.

In return bilateral loans disbursed between January and September 2013 were:

- i. LL 24 billion from one loan granted by the *Agence Française de Développement*
 - ii. LL 14 billion from seven loans granted by Kuwait Fund for Arab Economic Development
 - iii. LL 8 billion from four loans provided by the Saudi Fund for Development
 - iv. LL 5 billion from three loans granted by the Abu Dhabi Fund
 - v. LL 4 billion from two loans established by German government-owned development bank, KfW
 - vi. LL 3 billion from one loan provided by Italian financial institution, Artigiancassa.
- e) Non-Paris II and non-Paris III multilateral loans dropped by LL 48 billion, equivalent to 2.8 percent, and amounted to LL 1,687 billion by the end of September 2013. Principal repayments included: (i) LL 40 billion to the International Bank for Reconstruction and Development (IBRD), around (ii) LL 40 billion to the Islamic Development Bank, (iii) LL 36 billion to the European Investment Bank, (iv) LL 34 billion to the Arab Fund for Economic and Social Development³⁰ (AFESD), and (v) LL 3 billion to the Organization of Petroleum Exporting Countries (OPEC). On the other hand, primary disbursements included:
- i. LL 66 billion from 12 loans granted by the Islamic Development Bank
 - ii. LL 41 billion from eight AFESD loans
 - iii. LL 22 billion from two European Investment Bank loans
 - iv. LL 19 billion from six IBRD loans
 - v. LL 3 billion from two OPEC loans
- f) With respect to other debt in foreign currency, the stock of special T-bills in foreign currency climbed by LL 24 billion in the first three quarters of 2013, to reach LL 136 billion at end-September. This rise from LL 112 billion resulted from the gross issuance of US\$ 16,878,370.95 worth of contractor bonds on 7 February 2013 at a rate of 4.04 percent, coming due in February 2018 (pursuant to Law #69 dated April 23, 2009 and amended by Law #226 date October 22, 2012).

²⁹ The IMF EPCA II loan is amortized through eight quarterly payments of SDR 3,171,875 each, starting February 16th, 2012 and ending on November 18th, 2013.

³⁰ The LL 34 billion repayments to AFESD exclude loans paid on behalf of Electricite Du Liban.

Table 28: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)				
	01-Jul-13	26-Jul-13	23-Aug-13	06-Sep-13	30-Sep-13
<u>EURO</u>					
LEB 5.350 18	5.78	5.34	5.57	5.80	5.690
<u>US Dollars</u>					
LEB 7.375 14	4.05	3.92	3.90	4.34	4.48
LEB 9.000 14	4.31	3.9	3.89	4.2	4.58
LEB 5.875 15	4.5	4.62	5.11	4.48	4.85
LEB 4.000 17 Av Life	4.73	4.54	4.76	4.8	4.78
LIEB 10.000 15	4.74	4.56	4.68	4.74	4.63
LEB 8.500 15	4.81	5.22	4.54	5.01	4.82
LEB 8.500 16	4.90	4.91	4.91	5.29	5.11
LEB 11.625 16	5.13	5.44	5.20	5.87	5.56
LEB 4.750 16	5.08	4.92	4.83	5.36	5.55
LEB 5.000 17	5.38	5.40	5.55	6.12	5.47
LEB 9.000 17	5.53	5.40	5.69	5.91	5.85
LEB 5.150 18	5.59	5.48	5.77	5.83	5.84
LEB 6.000 19	6.00	5.95	6.21	6.32	6.00
LEB 5.450 19	6.22	6.07	6.33	6.54	6.24
LEB 6.375 20	6.56	6.30	6.52	6.86	6.47
LEB 8.250 21	6.43	6.36	6.56	6.92	6.71
LEB 6.100 22	6.46	6.39	6.77	6.93	6.62
LEB 6.000 23	6.57	6.43	6.65	6.8	6.62
LEB 7.000 24	6.74	6.56	6.87	7.00	6.84
LEB 6.600 26	6.95	6.71	6.95	7.25	7.07
LEB 6.750 27	7.08	6.89	7.09	7.44	7.20

Source: Credit Suisse

Between 01 July and 30 September 2013, average **secondary market yields**³¹ added 17 basis points to reach 5.78 percent by end-September. This moderation from secondary market surges recorded in the first two quarters of the year reflected improved market sentiment, given secondary market rates had jumped in the first and second quarters of the year by 23 bps and 55 bps respectively.

³¹ Calculated on US\$ Eurobonds, between July 1st 2013 and September 30th 2013, and which were outstanding at both dates.