REPUBLIC OF LEBANON
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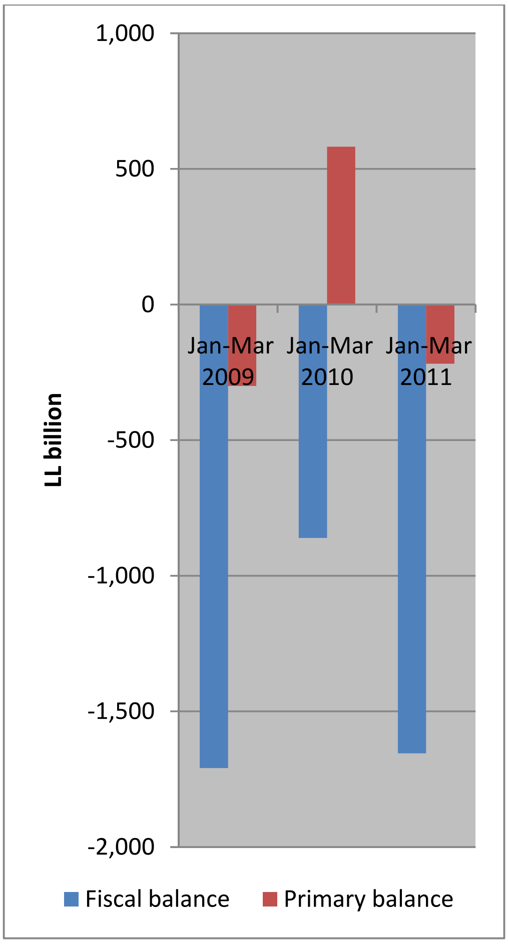
General Fiscal Developments

The fiscal deficit reached LL 1,655 billion in QI 2011, representing a 92 percent increase from its level in QI 2010. In parallel, for the first time since QI 2009, the primary balance recorded a deficit of LL 218 billion in January-March 2011 compared to a surplus of LL 582 billion in January-March 2010.

Figure 1: Fiscal and Primary Balance
January – March 2009 -2011



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

Revenues

Total revenues declined by 12 percent in QI 2011, down to LL 2,728 billion compared to LL 3,084 billion in QI 2010. This is primarily due to the drop in collections from taxes on international trade combined with the absence of transfer from Telecom during the first three months of the year.

Expenditures

Total public expenditures rose by 11 percent, amounting to LL 4,383 in QI 2011, up from LL 3,945 billion in QI 2010. Behind this rise stands an increase in current expenditures driven by personnel cost and an augmentation in capital expenditures.

Public Debt Developments

The stock of gross public debt totalled LL 79,282 billion by the end-March 2011, down by 0.02 percent compared to the end-December 2010 level. In parallel, the stock of net public debt inched up by 1 percent, reaching LL 68,752 billion.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 1,655 billion in January-March 2011, 92 percent higher than the deficit registered in January-March 2010, stemming from a 12 percent drop in total receipts simultaneously with an 11 percent rise in total payments.

For the first time since QI 2009, the **primary balance** registered a deficit of LL 218 billion in QI 2011, down from a surplus of LL 582 billion in QI 2010, mainly due to a 18 percent rise in primary expenditures (expenditures excluding debt-related payments).

Table 1: Summary of Fiscal Performance

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	% Change 2011/2010
Total Budget and Treasury Receipts	**2,828**	**3,084**	**2,728**	**-12%**
Total Budget and Treasury Payments, *of which*	**4,537**	**3,945**	**4,383**	**11%**
• Interest Payments	1,370	1,396	1,375	-2%
• Concessional Loans Principal Payments [1]	39	47	62	31%
• Primary Expenditures [2]	3,128	2,502	2,946	18%
Total Deficit/Surplus	**-1,709**	**-861**	**-1,655**	**92%**
Primary Deficit/Surplus	**-300**	**582**	**-218**	**-137%**

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

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

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

Section II: Revenue Outcome

Total revenues reached LL 2,728 billion in QI 2011, registering a 12 percent decrease compared to the same period of 2010, caused by the combined effect of the 4 percent and 46 percent respective drops in both **tax revenues** and **non-tax revenues**. These two drops more than offset the 5 percent growth in **treasury receipts**.

In fact, the LL 365 billion drop in total revenues is explained by LL 261 billion reduction in non-tax revenues on one hand – due to the absence of transfers from the Telecom Budget Surplus to the Treasury account at BDL in the first three months of 2011 – and by LL 103 billion decline in tax revenues on the other – mainly due to the drop in collection from taxes on international trade.

Table 2: Total Revenues

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	% Change 2011/2010
Budget Revenues, ***of which***	**2,685**	**2,914**	**2,550**	**-13%**
• Tax Revenues	2,014	2,348	2,244	-4%
• Non-Tax Revenues	672	567	305	-46%
Treasury Receipts	**143**	**170**	**178**	**5%**
Total Revenues	**2,828**	**3,084**	**2,728**	**-12%**

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

Tax Revenues

Tax revenues totaled LL 2,244 billion in the first quarter of 2011, down by LL 103 billion from the same period in 2010 – as shown in Table 3 below. They accounted for 82 percent of total collected revenues in 2011, compared to 76 percent in 2010[1]. Most major components of tax revenues registered decreases in collection during the first three months of 2011, namely consumption and transaction taxes including VAT, customs duties, excises on gasoline, and taxes on cars (excises and registration fees), and fiscal stamps. This deceleration may be largely explained by:

(i) a general slowdown in the economy, which translated – among others – into lower car imports, and lower tourism activity

(ii) the policy decision to cut down the gasoline excise, where the Higher Council of Custom's issued decision number 21/2011 on 26 February 2011 to reduce the excise on gasoline by LL 5,000 per 20 liters

On the other hand, income taxes and property taxes witnessed improvement in collection, however could not compensate for the drops in the collection of consumption and transaction taxes.

[1] This rise in the share of tax revenues out of total collected revenues is a result of a sharp decline in non-tax receipts.

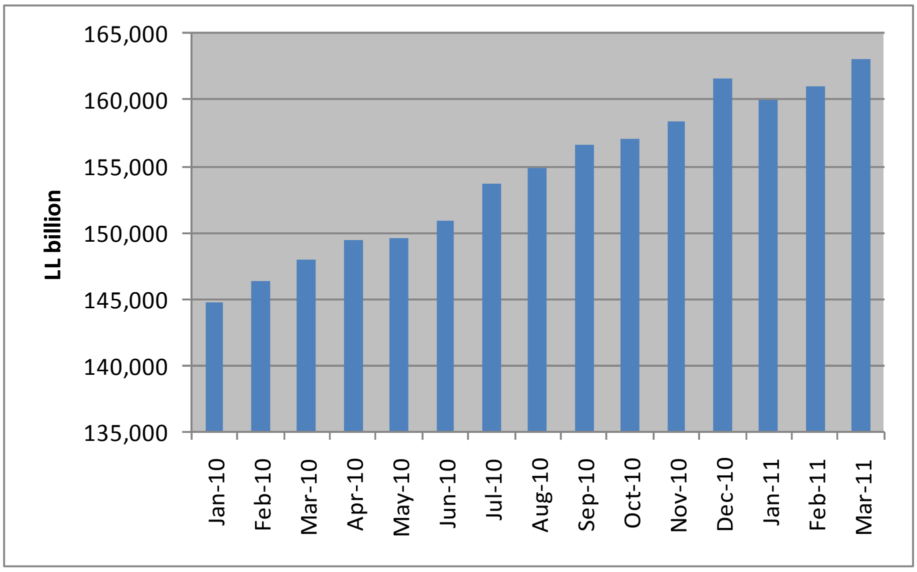
Table 3: Tax Revenues

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Taxes on Income, Profits, & Capital Gains, *of which*:	**373**	**431**	**460**	**7%**
• Income Tax on Profits	111	133	125	-7%
• Income Tax on Wages and Salaries	114	108	127	17%
• Income Tax on Capital Gains & Dividends	17	21	24	11%
• Tax on Interest Income (5%)	127	163	177	8%
• Penalties on Income Tax	5	5	8	47%
Taxes on Property, *of which:*	**170**	**275**	**289**	**5%**
• Built Property Tax	54	65	71	8%
• Real Estate Registration Fees	102	192	193	1%
Domestic Taxes on Goods & Services, *of which:*	**763**	**867**	**847**	**-2%**
• Value Added Tax	686	780	775	-1%
• Other Taxes on Goods and Services, *of which*:	73	84	68	-18%
- *Private Car Registration Fees*	50	*53*	*45*	*-15%*
- *Passenger Departure Tax*	23	*30*	*22*	*-26%*
Taxes on International Trade, *of which:*	**620**	**663**	**536**	**-19%**
• Customs	175	191	178	-7%
• Excises, *of which*:	446	472	359	-24%
- *Petroleum Tax*	240	*253*	*171*	*-32%*
- *Tobacco Tax*	59	*86*	*85*	*-1%*
- *Tax on Cars*	146	*133*	*100*	*-24%*
Other Tax Revenues (namely fiscal stamp fees)	**88**	**111**	**112**	**0%**
Total Tax Revenues	**2,014**	**2,348**	**2,244**	**-4%**

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

The receipts from **taxes on income profits and capital gains** augmented by 7 percent year-on-year, up to LL 460 billion in QI 2011, driven by the growth in the revenues from the withheld taxes on wages and salaries on one hand and from interest income tax on the other. In fact, taxes on wages and salaries gained 17 percent to reach LL 127 billion, on account of a larger tax base owing to the natural expansion process (given no changes at the level of policy). Taxes on interest income witnessed the second-highest change within taxes on income profits and capital gains, rising by 8 percent to LL 177 billion, explained by the *expansion of the deposit base* which counterbalanced the effect of increased *dollarization* of deposits, as well of the decline in *interest rates* on deposits. In fact, *deposits* rose by 10 percent in both resident and non-resident private sectors deposits as of end-March 2011, compared to end-March 2010, to reach LL 163,028,673 billion, thus creating a larger taxable base.

Figure 2: Private Sector Deposits (Jan 2010 – Mar 2011)



Source: Banque du Liban

Dollarization of deposits witnessed an upturn, thus reducing earnings of interest income. In fact, dollarization stood at 65.86 as of end of March 2011 up from 63.28 as of end March 2010, implying lower interest tax collection since interest rates on USD deposits are lower than those on LBP deposits, hence the more the composition of deposits shifts to USD, the less tax on interest the Treasury collects. This is reflected in the composition of interest tax receipts by currency. In fact, the share of tax receipts collected in Lebanese Pounds rose to 71 percent in the first quarter of 2011 compared to 69 percent in the comparable period of 2010, as shown in the table below.

Table 4: Tax on Interest Income

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar
By Institution/Instrument	**127**	**163**	**177**
Commercial banks	79	90	91
BDL	48	73	85
Tax dues on LL Treasury Bills	1	1	1
Tax on USD Treasury Bills	0	0	0
By Currency	**127**	**163**	**177**
Lebanese Pounds	75	112	126
Foreign currencies (USD mainly)	52	51	51

Source: MOF- Treasury Department

As for *interest rate*, the weighted average interest rate on LBP-denominated deposits fell by 48 bps on a yearly basis to reach 5.63 percent as of end-March 2011, while the average interest rate on deposits in USD remained almost stable, going down by only 4 bps to reach 2.82 percent during the same period.

Taxes on Property registered a modest overall rise of 5 percent in the first quarter of 2011 to reach LL 289 billion. In fact, while the recurrent tax on built properties climbed by LL 5 billion (equivalent to 8 percent) to reach LL 71 billion, real estate registration fees[2] underwent a modest improvement of 1 percent, thus amounting to LL 193 billion in the first quarter of 2011 representing an overall holdback in collection compared to the dynamism of the real estate sector witnessed the last couple of years.

Cadastre statistics indicate a change in the composition of the demand for real estate in the first quarter of 2011, as compared to the first quarter of the previous year, in terms of growing volume – but declining value. In fact, the number of properties registered in Cadastre in 2011 rose by 5 percent, while total value declined by 14 percent, thus leading to a lower average declared value per property, as shown in the table below. These results reflect a change in the market structure, probably in favour of smaller size or lower value apartments.

Table 5: Property Registration Statistics from Cadastre

	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Number of Properties registered in Cadastre	68,136	69,794	73,118	*5%*
Declared Aggregate Properties Value in Sales Contracts (LL billion)	1,516	3,188	2,726	*-14%*
Declared Average Value per Property (LL million)	22.3	45.7	37.3	*-18%*
Total Fees collected from Sales Transactions	94	178	187	*5%*

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

Receipts from **domestic taxes on goods and services** regressed by 2 percent to LL 847 billion by end of March 2011, mainly driven by a 15% and 26% respective declines in each of private car registration fees and passenger departure tax, reflecting lower number of tourists on the one hand and less car sales. In fact, data on tourism published by the Ministry of Tourism indicate 13 percent less tourists in QI 2011 as compared to QI 2010, reaching 340,670 down from 393,212. As for car imports, data released by Customs point to a decrease of 22 percent in value and 26 percent in number.

Value added tax collected LL 775 billion in QI 2011 as compared to LL 780 billion in QI 2010. This came as a result of a 6 percent decrease in VAT receipts collected at customs, despite a rise in total imports, indicating a lower effective VAT rate. Total imports rose by 4 percent in the first quarter to accrue to LL 6,901 billion, while VAT at customs went down by 6 percent to reach LL 509 billion. In fact, the effective VAT rate went down from 8.2 percent in 2010 to 7.4 percent in 2011, this may be somehow explained by the fact that the rise in import stems from – besides fuel – "pharmaceuticals" and "gold", two import categories that are either VAT exempt to a large extent or subject to VAT special scheme[3].

[2] Please note that registration is not mandatory, it only preserves the right of ownership. As such, people may acquire a real estate and not decide to register only after a couple of months, years… Therefore fees collected are indicative of the activity in the real estate market today only to a certain extent.

[3] For gold & jewellery, VAT is not collected at imports.

Table 4: Total Imports & Effective VAT rate

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Total Imports, *of which*	**4,768**	**6,611**	**6,901**	4.4%
• *Fuel Imports (fuel derivatives classified under HS 27)*	*1,038*	*1,497*	*1,610*	7.6%
• *Non-Fuel Imports*	*3,730*	*5,114*	*5,291*	3.5%
• *Share of Fuel Imports*	*21.8%*	*22.6%*	*23.3%*	*3.1%*
• *Share of Non Fuel Imports*	*78.2%*	*77.4%*	*76.7%*	*-0.9%*
Revenues from VAT at Imports	**484**	**539**	**509**	-5.6%
Effective VAT rate	***10.2%***	***8.2%***	***7.4%***	**-9.5%**

Source: MOF, DGF

Furthermore, **taxes collected from international trade** (customs and excises) dropped notably by LL 126 billion, to reach LL 536 billion. This is explained primarily by the Higher Council of Customs' decision number 21/2011 issued on February 26th, 2011 to reduce the excise on gasoline by LL 5,000 per 20 litres.

Table 7 below depicts the drop in **tariff revenues**, totalling LL 178 billion in QI 2011, down from LL 191 billion, along with a *drop in the effective customs rate*, indicating that the 4 percent increase in imports is rooted in low-custom-duties products. In fact, the rising share of fuel imports, which are subject to relatively low custom duties, relative to non-fuel imports, coupled with a declining import of cars in QI 2011, explains the drop in the average effective tariff rate.

Table 7: Effective Customs Rate

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Total Imports	**4,768**	**6,611**	**6,901**	4.4%
• *Fuel Imports (fuel derivatives classified under HS 27)*	*1,038*	*1,497*	*1,610*	7.6%
• *Non-Fuel Imports*	*3,730*	*5,114*	*5,291*	3.5%
• *Share of Fuel Imports*	*21.8%*	*22.6%*	*23.3%*	*3.1%*
• *Share of Non Fuel Imports*	*78.2%*	*77.4%*	*76.7%*	*-0.9%*
Revenues from Custom Duties	**175**	**191**	**178**	-6.8%
Effective customs rate	***3.7%***	***2.9%***	***2.6%***	**-10.7%**

Source: MoF, DGF

Total excises collected at import[4] registered a 24 percent decline, to reach LL 359 billion, due to decreases in the revenues of excises on gasoline and cars, as detailed below.

a. Excises on gasoline dropped notably in QI 2011, collecting LL 171 billion compared to LL 253 billion during QI 2010. The 32 percent less revenues on this front is explained by lower excise rate and lower volume[5].

   The average effective import price of gasoline witnessed a 28 percent hike in QI 2011 when compared to QI 2010, reflecting the surge in international oil prices that averaged at $ 105/barrel in QI 2011 compared to $ 76/barrel in QI 2010. This prompted the government to lower the excise rate in order to alleviate the burden on households. As

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

[5] The structure of excises is linked to the volume of gasoline, rather than its value. Hence, the fact that fuel prices rose internationally during the first quarter of 2011 was not reflected positively on excises.

such, on February 26th, 2011, the Higher Council of Customs' issued decision number 21/2011 to reduce the excise on gasoline by LL 5,000 per 20 litres, i.e. from an average of LL 470 per litre for 98 and 95 octane, down to an average of LL 250 per litre. This has cost the Treasury around LL 120 billion in terms of lost revenues over the month of March 2011.

This hike in prices, coupled with a general slowdown of economic activity as revealed by economic indicators for QI 2011, may have further induced lower demand for gasoline, as suggested by 7 percent lower volume of imports. Given the fact that excise rate on gasoline is a specific tax (LL per litre), the lower volume is also behind the lower collection of gasoline excise during the first quarter of the year.

Table 8: Gasoline Import Statistics

	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/ 2010
Imports (*LL billion*)	243	427	511	19.7%
Volume (*million litres*)	493	515	*481*	*-6.6%*
Collected excises (*LL billion*)	240	253	171	*-32.2%*
Average effective Price at imports (LL/litre)	***493***	***829***	***1,062***	***28.1%***
Average effective excise rate (LL/litre)	***487***	***491***	***356***	***-27.4%***

Source: MOF-General Directorate of Customs declaration forms

b. Following substantial increases in 2007, 2008 and 2009, collection from excises on cars started retreating last year, and continued their downturn during the first quarter of 2011. This component of excise taxes collected LL 100 billion (down from LL 133 billion in QI 2010) due to the 22 percent drop in car imports, explained by a 26 percent lower number of imported cars, on year-on-year basis. The average price per unit which stood at of LL 2.4 million in QI 2011 is 6 percent higher than that of QI 2010. This slowdown has possibly two motives:

- a relative saturation of the market in the short-term, following the burst of car sales and imports during the last four years[6]
- an overall slowdown in the economy as a whole, as revealed by various indicators

Table 9: Car Import Statistics

	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/ 2010
Imports (LL billion)	518	463	363	-21.6%
Number of Cars	24,716	21,931	*16,209*	-26.1%
Collected Excises (LL billion)	143	133	100	-24.8%
Average price per car (LL million)	***20.9***	***21.1***	***22.4***	***6.1%***
Average effective excise rate (%)	***27.5%***	***28.8%***	***27.6%***	***-4.1%***

Source: MOF-General Directorate of Customs declaration forms

[6] For more details on the development of car imports and car market activity, kindly refer to the publication entitled "Car Imports and Related Government Revenues (1997-2010)" on www.finance.gov.lb.

Lastly, the receipts from fiscal stamp fees remained almost constant at LL 112 billion during the first quarter of 2011 when compared to the collection in the first quarter of 2010. 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 stamp fee. Hence, the absence of growth in collection of stamp fees on a year on year basis suggests a relative standstill in economic activity.

Non-Tax Revenues

Non-tax revenues declined in the first quarter of 2011, by a notable 46 percent (to reach LL 305 billion), thus continuing the downward trend that started in 2010. In fact, non-tax revenues dropped by 16 percent in QI 2010 (as compared to QI 2009), as compared to only 2 percent in QI 2009 (as compared to QI 2008). This drop is explained by 64 percent lower Income from Public Institutions and Government Properties at a time when receipts from Administrative Fees and Charges slid by only 1 percent.

Table 5 : Non-Tax Revenues

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/ 2010
Income from Public Institutions and Government Properties	**506**	**408**	**145**	**-64%**
• Income from Non-Financial Public Enterprises, *of which*:	452	391	109	-72%
- *Revenues from Casino du Liban*	*45*	*52*	*51*	*0%*
- *Revenues from Port of Beirut*	*62*	*0*	*48*	*NA*
- *Budget Surplus of National Lottery*	*13*	*8*	*10*	*21%*
- *Transfer from the Telecom Surplus*	*331*	*331*	*0*	*-100%*
• Income from Financial Public Enterprises (BdL)	40	0	0	NA
• Property Income (rent of Rafic Hariri International Airport)	11	16	32	103%
• Other Income from Public Institutions (interests)	3	1	4	254%
Administrative Fees & Charges, *of which:*	**135**	**132**	**131**	**-1%**
• Administrative Fees, *of which*:	110	105	103	-2%
- *Notary Fees*	*6*	*7*	*7*	*-6%*
- *Passport Fees/ Public Security*	*25*	*26*	*26*	*-1%*
- *Vehicle Control Fees*	*62*	*51*	*53*	*5%*
- *Judicial Fees*	*5*	*6*	*5*	*-12%*
- *Driving License Fees*	*5*	*6*	*3*	*-43%*
• Administrative Charges	10	11	10	-4%
• Sales (Official Gazette and License Number)	1	1	1	-4%
• Permit Fees (mostly work permit fees)	11	12	13	3%
• Other Administrative Fees and Charges	4	2	4	53%
Penalties and Confiscations	**2**	**2**	**2**	**17%**
Other Non-Tax Revenues (mostly retirement deductibles)	**28**	**25**	**27**	**10%**
Total Non-Tax Revenues	**672**	**567**	**305**	**-46%**

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

The decline in **Income from Public Institutions and Government Properties** is primarily the result of the absence of **transfers from Telecom Budget Surplus** in QI 2011. In fact, it was the year 2010 that witnessed a major disruption in the flow of revenues from the Ministry of Telecom, whereby the Treasury received only two transfers (one in February and another in December) totalling around 1.7 percent of GDP. Prior to 2010, transfers were made almost regularly on a monthly basis and totalled annually at about 4 percent of GDP[7].

Revenues from Port of Beirut and income from rent of Rafic Hariri International Airport increased by LL 48 billion[8] and LL 16 billion respectively,

Administrative fees and charges collected a total of LL 131 billion in the first quarter of 2011, representing a 1 percent drop over QI 2010 revenues, due to nearly LL 3 billion fall in receipts from each of driving licence fees and consular fees.

Treasury Receipts

Treasury receipts amounted to LL 178 billion by the end of QI 2011, up by 5 percent compared to the equivalent period of 2010. In details, revenues to the Independent Municipal Fund totalled LL 77 billion compared to LL 79 billion in QI 2010, while guarantees added up to LL 27 billion thus increasing by 28 percent.

[7] Telecom receipts, which are currently deposited at the telecom account at BDL, were not transferred regularly to the Treasury in 2010 and 2011 and therefore cannot be counted as part of total revenues due to the absence of a treasury single account.

[8] For more info on Transfers from Port of Beirut, kindly refer to the publication "Public Finance Monitor – April 2011 Issue". It is however worth mentioning that the yearly transfers from the Port of Beirut reflect the Port's profit for the preceding year. The said LL 48 billion increase stems from the fact that no transfers were made in QI 2010. However, April 2010 witnessed a transfer of LL 65 billion. Hence, the figures here might not be fully indicative due to a timing issue. It is thus more representative to look at year-end results.

Section III: Expenditure Outcome

Total expenditures (budget and treasury) amounted to LL 4,383 billion during the first quarter of 2011, higher by 11 percent than their level during the similar period of 201, at LL 3,945 billion. **Total primary expenditures** rose by 18 percent, reaching LL 2,946 billion in January-March 2011 up from LL 2,502 billion during the similar period of 2010, as shown in Table 11 below:

Table 61: Expenditure Summary

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Interest Payments	1,370	1,396	1,375	-2%
Concessional Loans Principal Payments [1]	39	47	62	31%
Total Primary Expenditures [2]	3,128	2,502	2,946	18%
Total Budget and Treasury Payments	**4,537**	**3,945**	**4,383**	**11%**

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).

The LL 438 billion increase in total outlays arises from the following:

a) A LL 411 billion rise in **current expenditures** mainly explained by (i) a LL 263 billion augmentation in personnel cost, (ii) a LL 74 billion expansion in various transfers and (iii) a LL 63 billion rise in "other" current outlays.

b) A LL 51 billion rise in **capital expenditures** primarily on account of a LL 50 billion augmentation in maintenance spending.

The rise in these two line items was in part offset by a LL 33 billion drop in "**other Treasury expenditures"** due to lower VAT refund payments by LL 27 billion.

Table 12 describes the evolution of main expenditure items in QI 2011.

Table 12: Expenditure by Economic Classification

(LL billion)	2010	2011	% Change
1. Current Expenditures	**3,551**	**3,962**	**12%**
1.a Personnel Cost, *of which*	1,233	1,496	21%
Salaries, Wages and Related Items (Article 13)	*856*	*1,062*	*24%*
Retirement and End of Service Compensations, of which:	*309*	*363*	*17%*
Retirement	*266*	*305*	*15%*
End of Service	*43*	*58*	*34%*
Transfers to Public Institutions to Cover Salaries [1]/	*68*	*71*	*4%*
1.b Interest Payments, *of which: [2]/*	1,396	1,375	-2%
Domestic Interest Payments	*918*	*890*	*-3%*
Foreign Interest Payments	*479*	*484*	*1%*
1.c Foreign Debt Principal Repayment	47	62	31%
1.d Materials and Supplies, *of which:*	53	67	26%
Nutrition	*12*	*19*	*50%*
Fuel Oil	*3*	*3*	*-9%*
Medicaments	*15*	*25*	*60%*
Accounting Adjustments for Treasury	*9*	*8*	*-9%*
1.e External Services	34	34	1%
1.f Various Transfers, *of which:*	677	751	11%
EDL 3/	*505*	*504*	*0%*
NSSF	*0*	*120*	-
Treasury advances for diesel oil subsidy	*48*	*0*	*-100%*
Wheat Subsidy	*0*	*28*	-
Special Tribunal for Lebanon	*41*	*0*	*-100%*
1.g Other Current, *of which:*	80	143	79%
Hospitals	*62*	*107*	*72%*
Others (judgments & reconciliations, mission costs, other)	*18*	*28*	*60%*
1.h Reserves	31	34	11%
Interest subsidy	*31*	*34*	*11%*
2. Capital Expenditures	**173**	**224**	**29%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports,	0	1	1119%
2.b Equipment	9	17	84%
2.c Construction in Progress, *of which:*	96	86	-11%
Displaced Fund	*30*	*0*	-100%
Council of the South	*20*	*13*	-36%
CDR	*22*	*15*	-30%
Ministry of Public Works and Transport	*19*	*49*	155%
Other	*5*	*8*	66%
2.d Maintenance	58	109	86%
2.e Other Expenditures Related to Fixed Capital Assets	9	3	-68%
2.f Parliamentary equipment & maintenance *4/*	0	8	-
3. Budget Advances *5/*	**33**	**46**	**38%**
4. Customs Administration (exc. Salaries and Wages) *6/*	**11**	**10**	**-14%**
5. Other Treasury Expenditures	**175**	**142**	**-19%**
Municipalities	76	69	-9%
Guarantees	15	12	-19%
Deposits :	12	14	10%
Other, *of which:*	72	42	-41%
VAT Refund	*51*	*24*	-53%
High Relief Committee	*0*	*0*	-
Treasury Advances for Water Authorities	0	5	-
6. Unclassified Expenditures	**1**	**0**	-95%
7. Total Expenditures (Excluding CDR Foreign Financed)	**3,945**	**4,383**	**11%**

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

(1) For a detailed breakdown of those transfers, kindly refer to Table 14.
(2) For a detailed breakdown of interest payments, kindly refer to Table 20.

(3) For a detailed breakdown of transfers to EDL, kindly refer to Table 16. 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.

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

(5) 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.

(6) "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

Current primary expenditures

Current primary expenditures[9] rose by 20 percent over QI 2011, amounting to LL 2,525 billion up from LL 2,108 billion during the corresponding period of 2010.

Details of the main components of current primary expenditures are recorded below.

Personnel cost[10] rose by LL 263 billion equivalent to 21 percent year-on-year to LL 1,496 billion in January-March 2011 versus LL 1,233 billion in January-March 2010.

In details, wages, salaries and related benefits (Article 13) amounted to LL 1,062 billion in QI 2011 compared to LL 856 billion in QI 2010, representing a 24 percent increase in. As shown in Table 13 below, this 206 billion rise is explained by the combined outcome of the following:

a) Basic salaries rose by LL 167 billion driven by :

   i. LL 163 billion higher payments to the military (*for details regarding payments to the military personnel, kindly refer to Box 1)* and

   ii. a LL 17 billion rise in payments to the education personnel of which (i) LL 4 billion is due to the reclassification of primary schools contractors' salaries from transfers to school funds (i.e. various transfers under Article 14) to salaries and wages for contractors under the Directorate General of Education (i.e. salaries and wages and related benefits), (ii) LL 2 billion is due to the payment of salaries of primary school teachers being trained (these seems to be new recruits) and (iii) estimated LL 3.75 billion is due to the provision of a third and last extra echelons to primary school teachers in January as per Law 102 dated March 6th, 2010 and the remaining appears to be natural growth.

b) Allowances rose by LL 65 billion driven by an equivalent increase in payments to the military personnel *(details about the breakdown of allowances by category can be found in the social expenditure table).*

c) Indemnities inched higher by LL 4 billion resulting from an equivalent rise in payments to the civil personnel. This is mainly explained by the payment of LL 3 billion worth of indemnities to the employees of the Ministry of Finance for the performance of their duties in Committees they have been assigned to.

[9] Current primary expenditures are current expenditures excluding interest payments and foreign debt principal repayment.

[10] This includes salaries, wages and related benefits (article 13), transfers to public institutions for payment of salaries and wages, retirement wages and end-of-service indemnities.

d) "Other" payments receded by LL 31 billion on account of a LL 30 billion drop in payments to the Civil Servants' Cooperative probably due to timing issues.

These rises were partially offset by a LL 13 billion decline in payments to the civil personnel.

Table 13: Breakdown of Article 13 - Salaries, Wages and Related Items

(LL billion)	Basic Salaries		Indemnities [5]/		Allowances [6]/		Other [7]/		Total	
	2010 Jan-Mar	2011 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	2010 Jan- Mar	2011 Jan-	2010 Jan-	2011 Jan- Mar	2010 Jan-	2011 Jan-
Military Personnel	**371**	**534**	**18**	**18**	**163**	**228**	**1**	**1**	**554**	**781**
• Army	248	360	12	12	97	156	0	0	**357**	**528**
• Internal Security Forces [1]/	98	138	5	5	54	58	0	0	**158**	**201**
• General Security Forces	20	28	1	1	9	11	1	1	**30**	**40**
• State Security Forces [2]/	5	8	0	0	3	4	0	0	**9**	**13**
Education Personnel	**131**	**148**	**14**	**15**	**0**	**0**	**0**	**0**	**146**	**163**
Civil Personnel [3]/, *of which:*	**84**	**71**	**14**	**18**	**1**	**2**	**49**	**18**	**148**	**109**
• Employees Cooperative							40	10	**40**	**10**
Customs Salaries [4]/									**9**	**9**
Total	**583**	**753**	**47**	**51**	**164**	**229**	**50**	**19**	**857**	**1,062**

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

(1) Includes allowances payments made to Internal Security Forces from Guarantees account.
(2) Includes allowances payments made to State Security Forces from Guarantees account.
(3) Includes salaries payments made to Ministry of Public Health from Guarantees account.
(4) Includes salaries and wages and indemnities payment from guarantees account but excludes payments for allowances which are made from Customs Cashiers and can only be reclassified once Customs has sent the supporting document to the Directorate General of Finance. Field Service indemnity in March 2011 paid to Customs officers was included as well.
(5) Includes payments for family, transportation, overtime as well as various indemnities.
(6) Includes payments for maternity and sickness, marriage, birth, death, hospital, education, medical and various social allowances.
(7) Other includes payments for bonuses, contributions to various public sector mutual funds and contribution of the State as an employer for the National Social Security Fund.

Box 1: Higher Payments to the Military Personnel

The LL 163 billion rise in basic salary payments to the military personnel is primarily the result of:

a) Transfers worth LL 117 billion to cover the payment of the 1996-1998 wage and salary retroactive for the military personnel[1]. Payment can be broken down as follows: LL 78 billion for the Army, LL 31 billion for the Internal Security Forces, LL 6 billion for the General Security Forces and LL 1 billion for the State Security Forces.

b) A LL 51 billion payment in February 2011 to cover differentials that had accrued on indemnities specific to the military personnel. Payment can be broken down as follows: LL 36 billion for the Army, LL 12 billion for the Internal Security Forces, LL 2 billion for the General Security Forces and LL 1 billion for the State Security Forces.

Regarding the indemnity differentials, military personnel in service are entitled as per Law 718 dated November 5th, 1998 [2] to a range of exclusive indemnities that vary according to their rank. These indemnities are:

- ✓ The field service indemnity to which are entitled enlisted men and non commissioned officers,
- ✓ The military equipment and position indemnities to which are entitled junior officers, senior officers and generals,
- ✓ Specialization indemnities to which are entitled officers who are doctors, dentists, pharmacists, engineers and veterinaries and,
- ✓ Housing indemnity to which are entitled all married military personnel.

The indemnity rates are calculated on an ad valorem basis. Field service, military equipment and position indemnities are calculated as a percentage of the basic salary earned by a first class soldier. Specialization

Box 1: Higher Payments to the Military Personnel (continued)

Indemnities are calculated as a percentage of the basic salary earned by a first echelon lieutenant for junior officers and a first echelon major for senior officers and generals. The housing indemnity is calculated as 12 percent of the wage earned by the recipient.

The adoption of Law 63 dated December 31st, 2008 led to an increase in salary of LL 200,000 for all public sector employees including the military personnel. Indemnities specific to military personnel being calculated as a percentage of the basic salary, they had to be revised as well to take into account the full impact of the LL 200,000 wage increase.

(1) As per Law 716, 717 and 718 dated November 5th, 1998 and Law 63 dated December 31st, 2008. For details concerning the payment of wage and salary retroactive for 1996-1998, kindly refer to the Public Finance Review 2009.
(2) Annex 6 as amended by Decree 90 dated January 13th, 1999.

Retirement and end-of-service indemnities accumulated to LL 363 billion in QI 2011 compared to LL 309 billion in QI 2010, representing a 17 percent increase. Behind this LL 54 billion rise stand the following changes:

a) Retirement wage payments rose by LL 39 billion equivalent to 15 percent, up to LL 305 billion in January-March 2011 from LL 266 billion during the similar period of 2010.

b) End-of-service compensations added up 34 percent to LL 58 billion by the end-March 2011 up from LL 43 billion a year earlier. This LL 15 billion expansion is primarily the result of a LL 18 billion rise in payments to military personnel which amounted to LL 49 billion (85 percent of total compensation payments) in QI 2011 compared to LL 31 billion (72 percent of total compensation payments) in QI 2010. This 58 percent upswing could have been induced either by a higher number of beneficiaries[11] or by the fact that retirees during the period under consideration are of higher grade levels[12] and/or have served for a longer period. As for end-of-service compensations to the civil personnel, they fell by LL 3 billion to LL 9 billion in January-March 2011 compared to LL 12 billion during the similar period of 2010. This 25 percent decline is probably the result of a drop in the number of beneficiaries which reached 436 retirees during the first three months of 2011, down from 524 during the equivalent period of 2010.

Further under personnel cost, transfers to public institutions to cover salaries rose by LL 3 billion equivalent to 4 percent from LL 68 billion in QI 2010 to LL 71 billion in QI 2011. In details, as shown by Table 14 below, transfers to the Council for Development and Reconstruction (CDR) rose by LL 6 billion equivalent to 275 percent, amounting to LL 8 billion in January-March 2011 compared to LL 2 billion during the same period of 2011[13]. In parallel, payments to the Fund for the Displaced rose by LL 1 billion. The increase in the above-mentioned items were offset by a LL 2 billion decline in transfers to the Lebanese University and a LL 1 billion drop in transfers to each of the Council of the South and the Educational Centre for Research and Development.

[11] No statistics are available regarding the number of military retirees.
[12] Indemnities are paid on the basis of the last month salary.
[13] This is mainly due to the payment in January and February 2011 of two transfers (from Transfer 49870/99) respectively worth LL 1 billion and LL 2 billion that are not related to salaries but that were classified under article 14 (transfers). These payments are intended to cover the cost of projects conducted in the region of Baalbeck-Hermel.

Table 14: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Transfer to Council of the South	1	5	4	-23%
Transfer to the Council for Development and Reconstruction	8	2	8	275%
Transfer to Fund for the Displaced	1	1	2	225%
Transfer to the Lebanese University	56	57	55	-3%
Transfer to Educational Centre for Research and Development	4	4	3	-25%
Total Transfers to Public Institutions	69	68	71	4%

Source: MOF

Materials and supplies purchases amounted to LL 67 billion in QI 2011 compared to LL 53 billion in QI 2010, representing a LL 14 billion or 26 percent year-on-year rise. Excluding accounting adjustments for treasury (which amounted to LL 8 billion in QI 2011), this is explained by the following:

a) A LL 9 billion equivalent to 60 percent rise in spending on medicaments which amounted to LL 25 billion in QI 2011 compared to LL 15 billion in QI 2010. Behind this rise stand an LL 8 billion augmentation in medicament purchases by the Public Health Directorate at the Ministry of Public Health. Moreover, the increase in the medication bill tracks the 5 percent appreciation of the Euro between March 2010 and March 2011 as the Eurozone is Lebanon's main supplier of pharmaceutical products.

b) A LL 7 billion equivalent to 50 percent expansion in the nutrition bill which accumulated to LL 19 billion in January-March 2011 compared to LL 12 billion during the corresponding period of 2010, in line with its continuous growth since 2006. This increase is primarily explained by a LL 5 billion rise in food consumption by the army. It tracks the increase in food prices due to the global upswing in commodity prices. In fact, the Food and Agriculture Organization's (FAO) food price index averaged at 205 in QI 2011, 37 percent higher than its average in QI 2010.

External Services (rent, postal, insurance, advertisement and public relations) remained relatively stable, hovering around LL 34 billion.

Various Transfers rose by LL 74 billion, totaling LL 751 billion in QI 2011 compared to LL 677 billion in QI 2010. This LL 74 billion increase primarily resulted from the changes in the following items:

a) Transfers to the National Social Security Fund (NSSF) amounted to LL 120 billion during the first three months of 2011 compared to nil during the same period of 2010. In 2010, transfers to the NSSF were conducted starting August. The LL 120 billion transferred to NSSF in QI 2011 were paid from the allocation covering the State's contribution to the Fund that was included in the 2010 Budget Proposal[14].

[14] Although it exceeded the LL 100 billion ceiling set by the 2005 Budget Law, the LL120 billion was paid from the budget allocation and not by Treasury advance as it used to be in previous years when the payment made exceeded the 2005 ceiling based on the authorization provided by the Court of Audit in its administrative decision number 2228 dated December 14th, 2010.

Table 15: Transfers to the NSSF

(LL billion)	2010 Budget Proposal	Payments from Budget 2010 in QI 2010	Payments from Budget 2010 in Jan-Dec 2010	Payments from Budget 2010 in QI 2011
Total Allocation, *of which:*	**350**	**0**	**150**	**120**
• *Annual state contributions*	*220*	*0*	*100*	*120*
• *Past dues*	*80*	*0*	*0*	*0*
• *Covering the deficit of the*	*50*	*0*	*50*	*0*

Source: MOF

b) Wheat subsidy transfers amounted to LL 28 billion in QI 2011 while they were absent in QI 2010. These payments were made to purchase 48,532 tons of imported wheat that were resold to mills at a subsidized price to maintain the price of Arabic bread constant at LL 1,500 per kilogramme.

c) Transfers to non-profit organizations by the Ministry of Social Affairs amounted to LL 20 billion in January-March 2011 compared to LL 9 billion during the same period of 2010, representing a LL 11 billion equivalent to 116 percent year-on-year increase.

d) Membership fees in international organizations rose by LL 5 billion equivalent to 55 percent to LL 13 billion during the first three months of 2011 compared to LL 8 billion during the same period of 2010. This rise is primarily explained by LL 5 billion higher payments by the Ministry of Public Health.

e) Transfers to EDL[15] remained relatively stable in QI 2011 as they declined by LL 1 billion only to LL 504 billion compared to LL 505 billion in QI 2010. Of the amount transferred to EDL in January-March 2011:

i. LL 487 billion was reimbursements of KPC and Sonatrach Agreements, almost the same level as that of 2010. However, the registered 1 percent upward change is the result of the increase in international oil prices, which was dampened by a substantial drop in quantities of consumed gas oil.

ii. LL 17 billion were debt service payments, down by LL 5 billion from their QI 2010 level, at LL 22 billion.

Table 16: Transfers to EDL

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
EDL, *of which:*	**1,085**	**505**	**504**	**0%**
a- Debt Service, *of which:*	**36**	**22**	**17**	**-23%**
• C-Loans and Eurobonds, *of which:*	***31***	***22***	***17***	**-23%**
- *Principal Repayments*	*26*	*18*	*13*	**-26%**
- *Interest Payments*	*5*	*4*	*4*	**-9%**
• BDL-Guaranteed Loan Payments	6	0	0	**-**
b- Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	**1,048**	**483**	**487**	**1%**
• KPC and SPC	*1,048*	*483*	*487*	**1%**
• EGAS	*0*	*0*	*0*	**-**

Source: MOF, DGF

15 For further details, check the March 2011 issue of *"Transfers to EDL: A Monthly Snapshot"* available on www.finance.gov.lb.

f) Transfers to the school funds were close to zero in QI 2011 while they had reached LL 20 billion in QI 2010. This 100 percent drop is due to the reclassification of the allocation for the salaries of primary schools contractors in the 2011 Budget Proposal from transfers to school funds (Article 14) to salaries and wages and related benefits (Article 13).

g) Transfers to the Special Tribunal for Lebanon (STL) were absent QI 2011 whereas they had amounted to LL 41 billion[16] in QI 2010.

h) Transfers to cover the diesel oil subsidy were absent in QI 2011 whereas they had amounted to LL 48 billion[17] in QI 2010. This drop is explained by the absence of policy decision to subsidize diesel oil during the 2010-2011 winter.

Other Current Expenditures rose by 79 percent to LL 143 billion in QI 2011 from LL 80 billion in QI 2010. This LL 63 billion increase was driven by rises in the following items:

a) Payments to hospitals to cover the cost of hospitalization of uninsured citizens in the private sector rose by LL 45 billion equivalent to 72 percent, amounting to LL 107 billion in January-March 2011 compared to LL 62 billion during the similar period of 2010.

b) The sub-line item "other" expenditures rose by LL 10 billion equivalent to 60 percent, amounting to LL 28 billion in QI 2011 compared to LL 18 billion in QI 2010. This is explained by the following:

   i. Reconciliation payments to hospitals amounted to LL 10 billion[18] during the first three months of 2011 compared to nil during the equivalent period of 2010.

   ii. Payments for "judgements and reconciliations" rose by LL 4 billion equivalent to 134 percent, amounting to LL 6 billion in QI 2011 compared to LL 2 billion in QI 2010.

Capital Expenditures

Capital expenditures rose by LL 51 billion equivalent to 29 percent year-on-year, reaching LL 224 billion during the first three months of 2011 versus LL 173 billion during the same period of 2010.

In details, **equipment** purchases increased by 84 percent to LL 17 billion in QI 2011 compared to a lower level of LL 9 billion in QI 2010. This LL 8 billion is primarily explained by a LL 3 billion rise in spending by each of the Ministry of Finance and the Ministry of Defense.

Construction in progress spending tumbled down by 11 percent to LL 86 billion during the first quarter of 2011 compared to LL 96 billion during the corresponding period of 2010. This LL 10 billion decline is the combined outcome of the following:

[16] That were paid from the Treasury advance provided by Decree 3346 dated February 23rd, 2010.

[17] Of which LL 46.4 billion were paid to cover the cost of diesel oil subsidized in QIV 2009-QI 2010 and LL 1.3 billion were on account of the amounts subsidized in QIV 2008 and QI 2009. Should you require further information about the diesel oil subsidy policy, kindly refer to Public Finance Quarterly Reports for QI 2010 and QII 2010.

[18] That were paid from the Treasury advance provided by Decree 4946 dated September 9th, 2010.

a) Transfers to the Displaced Fund were absent in QI 2011 whereas they had amounted to LL 30 billion in QI 2010[19].

b) Transfers to the Council of the South receded by LL 7 billion equivalent to 36 percent, reaching LL 13 billion in January-March 2011 against LL 20 billion during the first three months of 2010[20].

c) Transfers to the Council for Development and Reconstruction fell by 30 percent to LL 15 billion in QI 2011 compared to LL 22 billion in QI 2010. As shown in Table 17 below, this LL 4 billion drop is mainly due to the following:

    i. Payments for the maintenance of the *Grand Sérail* were absent in QI 2011 whereas they had amounted to LL 3 billion in QI 2010.

    ii. Payments for projects executed on behalf of line ministries were absent in QI 2011 while they had amounted to LL 4 billion in QI 2010.

Table 17: Payments to CDR for Construction in Progress

LL billion	QI 2010	QI 2011
CDR Budget Payments, *of which:*	**18**	**15**
Counterpart funding for foreign financed projects	0	0
Maintenance of Rafic Hariri International Airport	2	3
Maintenance of Grand Sérail	3	0
Arbitrage payments to Hoctief (Airport)	13	12
Other Payments from CDR Budget [(1)]	0	0
Projects Executed on behalf of Line Ministries *of which*	**4**	**0**
Roads	4	0
Buildings	0	0
Other	**0**	**0**
Total Payments to CDR for Construction In Progress	**22**	**15**

Source: MOF

d) Transfers to the Ministry of Public Works and Transport surged by 155 percent, totalling LL 49 billion during the first three months of 2011 against LL 19 billion during the same period of 2010. Behind this LL 30 billion increase stand the following changes:

    i. A LL 26 billion rise in spending on the construction of roads of which LL 22 billion under the Ministry's Program Law for the construction of roads.

    ii. A LL 2 billion increase in spending under the Ministry's Program Law for the construction of Tripoli's *Palais de Justice*.

The **maintenance** bill shot up by 86 percent, amounting to LL 109 billion in January-March 2011 versus LL 58 billion during the same period of 2010. This LL 51 billion upswing is due to a LL 49 billion rise in spending on the maintenance of roads by the Ministry of Public Works and Transport. Further under maintenance, payments to the CDR for the maintenance of the

[19] The LL 30 billion paid in QI 2010 is the full amount allocated to the Displaced Fund in the 2009 Budget Proposal, which was carried forward.

[20] The LL 13 billion paid in QI 2011 were from the LL 60 billion allocation provided to the Council of the South by the 2010 Budget Proposal. Of this allocation LL 26 billion were paid in 2010. The LL 20 billion paid in QI 2010 was from the LL 51.3 billion allocated to the Council of the South in the 2009 Budget Proposal and carried forward.

Lebanese University Campus in Hadath declined by 24 percent, totaling LL 2.6 billion[21] in QI 2011 compared to LL 3.4[22] billion in QI 2010.

Other expenditures related to fixed capital decreased by 68 percent to LL 3 billion during the first quarter of 2011 compared to LL 9 billion during the similar period of 2010. This LL 6 billion drop is mainly due to the absence in QI 2011 of transfers to the Investment Development Authority of Lebanon (IDAL) to cover the spending of its Export Plus Programme. These transfers had amounted to LL 8.5 billion in QI 2010.

Finally under capital expenditures, parliamentary equipment and maintenance totaled LL 8 billion in QI 2011 compared to nil in QI 2010[23].

Treasury Expenditures

Treasury expenditures fell by 19 percent to LL 142 billion in QI 2011 compared to LL 175 billion in QI 2010. This LL 33 billion decline is primarily attributed to lower transfers to municipalities as well as lower Value Added Tax refund payments.

Payments to municipalities declined by 9 percent down to LL 69 billion in January-March 2011 versus LL 76 billion during the same period of 2010. This LL 7 billion is mainly explained by a LL 6 billion equivalent to 11 percent drop in payments for solid waste management, as shown in Table 18 below. These payments decreased to LL 54 billion in QI 2011 from LL 60 billion in QI 2010 mainly to payment timing issues. In parallel, payments of revenues accruing to municipalities rose by 3 percent, hovering around LL 14 billion both in QI 2010 and QI 2011. Of the LL 14 billion that were paid as accrued revenues to municipalities in QI 2011, (i) LL 4.3 billion pertain to the 2009 revenues[24] of the Independent Municipal Fund, (ii) LL 4.9 billion pertain to the 2008 revenues[25], (iii) LL 2.3 billion pertain to the 2007 revenues[26] and (iii) LL 3 billion pertain to the 2006 revenues[27]. Of the LL 14 that were paid as accrued revenues to municipalities in QI 2010, (i) LL 7 billion are on account of the 2007 revenues and (ii) LL 6 billion are on account of the 2006 revenues.

Table 18: Payments to Municipalities

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Distribution of Revenues Accruing to Municipalities	1	14	14	3%
Payments for Solid Waste Management	86	60	54	-11%
Payments to the "First Municipality Infrastructure Project"	7	0	1	108%
Other Payments	0	1	1	-10%
Total Payments to Municipalities[(1)]	94	76	69	-9%

Source: MOF, DGF

[(1)] *Includes minor readjustments to account for the delay between the issuance and the payment of cheques.*

[21] Which were paid from the allocation provided by Decree 3325 dated February 17th, 2010

[22] Of which (i) LL 1 billion were paid from Decree 374 dated September 29th, 2008, (ii) LL 1.3 billion were paid from Decree 3325 dated February 17th, 2010 and (iii) were paid from Decree 938 dated November 19th, 2007.

[23] For details regarding the maintenance and equipment of the Parliament's headquarter, kindly refer to the 2010 Public Finance Review.

[24] That were distributed based on Decree 5177 dated October 8th, 2010

[25] That were distributed based on Decree 4608 dated July 13th, 2010.

[26] That were distributed based on Decree 2339 dated June 19th, 2009.

[27] That were distributed based on Decree 614 dated December 16th, 2008.

Under **"other"** Treasury expenditures, VAT refund declined by 53 percent to LL 24 billion during the first three months of 2011 from LL 51 billion during the similar period of 2010.

Lastly under Treasury expenditures, **Treasury advances for water authorities** totaled LL 5 billion in QI 2011 compared to nil in QI 2010. These LL 5 billion were paid from a Treasury advance[28] provided to the Bekaa Water Authority.

Social Services

Social expenditures cover the basic social services of: health, education, pension and end-of-service indemnity, transfers to the National Social Security Fund (NSSF), and other areas of intervension classified as social assistance.

The social biLL rose by 35 percent year-on-year, amounting to LL 1,164 billion in QI 2011 from a lower level of LL 864 billion in QI 2010. End-of-Service indemnities and retirement wages accounted for the highest share of social spending in QI 2011 at 31 percent, down from 36 percent in QI 2010. Education spending followed with a stake of 28 percent, down from 38 percent in January-March 2010. Education spending mainly covers the Ministry of Education and Higher Learning salary and wage bill, the transfers to the Lebanese University, education allowance for public sector employees and contributions to non-profit organizations also known as subisidies to private schools. Lastly, health expenditures ranked third with 26 percent of social outlays, up from 18 percent during the first three months of 2010.

The LL 300 billion surge in social spending recorded in QI 2011 is primarily explained by the combined effect of the following:

a) Transfers to the NSSF rose by LL 120 billion from zero in QI 2010 to LL 120 billion in QI 2010 due to the timing of payments (*for details kindly refer to the "Current primary expenditures" section*).

b) End-of-Service indemnities and retirement wages increased by LL 54 billion from LL 309 billion in January-March 2010 to LL 363 billion in January-March 2011 (*for details kindly refer to the "Current primary expenditures" section*).

c) The hospitalization biLL of public sector employees in the private sector rose by LL 47 billion to LL 103 billion in January-March 2011 up from LL 56 billion in January-March 2010.

d) Payments of wages and salaries of the General Directorate of Education increased by LL 13 billion to LL 155 billion in QI 2011 from LL 142 billion in QI 2010.

e) Payments for the hospitalization of uninsured citizens in the private sector increased by LL 45 billion to LL 107 billion during the first three months of 2011 from LL 62 billion during the similar period of 2010.

[28] Provided by Decree 5020 dated September 7th, 2010.

f) Transfers to non-profit organizations by the Ministry of Social Affairs augmented by LL 11 billion to LL 20 billion in January-March 2011 from LL 9 billion during the same period of 2010.

g) Purchases of medicaments increased by LL 10 billion, amounting to LL 25 billion in QI 2011 compared to LL 15 billion in QI 2010 (*for details kindly refer to the "Current primary expenditures" section*).

h) Payments of maternity and sickness allowances rose by LL 8 billion to LL 16 billion during the first quarter of 2011 from LL 8 billion during the same period of 2010.

i) Transfers to the Civil Servants' Cooperative declined by LL 30 billion to LL 10 billion in QI 2011 from LL 40 billion in QI 2010, mainly due to the timing of payments.

Table 19: Main Social Expenditures

(LL billion)	QI 2009	QI 2010	QI 2011	%Change
Health	**183**	**157**	**297**	**89%**
• Hospitalization in the Private Sector	82	62	107	73%
• Purchase of Medication	23	15	25	67%
• Hospitalization of Public Sector Employees in Private Sector	49	56	103	85%
• Maternity and Sickness Allowance	9	8	16	93%
• Other	20	16	46	191%
Education	**234**	**332**	**331**	**0%**
• Ministry of Education and Higher Education, *of which*:	234	236	230	-3%
- *Wages and Salaries of the General Directorate of Education*	*158*	142	155	9%
- *Wages and Salaries of the General Directorate of Higher Learning*	*0*	*0*	*0*	-3%
- *Wages and Salaries of the General Directorate of Technical Education*	*8*	*8*	*8*	2%
- *Transfers to the Lebanese University*	*56*	*57*	*55*	-3%
- *Contributions to Non Profitable Organizations (Private Schools)*	*1*	*0*	*1*	520%
- *Construction under Execution (Construction and Restoration of Schools)*	*2*	*0*	*0*	-
• Education Allowance in Private Sector	0	97	101	5%
Other Social Spending	**365**	**374**	**535**	**43%**
• Marriage Allowance	2	1	3	167%
• Birth Allowance	1	*1*	2	148%
• Death Allowance	1	0	1	251%
• Other Social Spending Allowance	4	2	3	39%
• Participation in Several Mutual Funds	6	7	7	6%
• Ministry of Social Affairs, *of which*:	17	12	24	99%
- *Transfers to Non-Profit Organizations*	*16*	*9*	*20*	116%
• Ministry of the Displaced	2	2	2	-16%
• Transfers to Civil Servants Cooperative	30	40	10	-75%
• End-of-Service Indemnities and Retirement Wages	303	309	363	17%
• Transfers to the National Social Security Fund	0	0	120	-
Unclassified allowances	**0**	**1**	**0**	-53%
Total Social Expenditures	**782**	**864**	**1,164**	**35%**

Source: MOF, DGF

Interest Payments

Interest payments declined by 2 percent, amounting to LL 1,375 billion in QI 2011 down from a higher level of LL 1,396 billion in QI 2010. This LL 21 billion decline was the outcome of the drop in interest payments on local currency debt that absorbed the slight rise in interest payments on foreign currency debt.

Interest payments on **local currency debt** declined by LL 28 billion equivalent to 3 percent, down to LL 890 billion in January-March 2011 compared to LL 918 billion in January-March 2010. This decline was driven by the substantial drop in discount interest payments that was in part offset by a limited rise in coupon payments.

First, discount interest payments, which are bullet interest payment paid at maturity for 3, 6 and 12-month T-bills, were nearly cut in half in QI 2011 compared to QI 2010. These payments amounted to LL 31 billion in January-March 2011 compared to LL 67 billion in January-March 2010, representing a LL 36 billion drop that stems from the combination of a volume and a price effect. In fact, the volume of short term bills coming to maturity in QI 2011 was lower by 33 percent than the volume of maturities in QI 2010. Further, the weighted average cost of these instruments declined by 179 basis points (bps), to 4.80 percent in QI 2011 compared to 6.59 percent in QI 2010. This decline in the weighted average cost reflects the 91 bps drop in primary market rates on short term instruments in 2010 compared to 2009. Resulting from the drop in primary market interest rates, all short term instruments that matured in QI 2011 had interest rates below 6 percent. In comparison, only 10 percent of bills that matured in QI 2010 (reflecting only 3MN bills) had interest rates below 6 percent while 39 percent of these instruments (reflecting only 12MN bills) had interest rates exceeding 7 percent.

Further, coupon payments on 2, 3 and 5-year bonds inched higher by LL 9 billion equivalent to 1 percent to LL 859 billion in QI 2011 from LL 850 billion in QI 2010. This rise stems from a higher volume of long term T-bills bearing coupons and maturing in QI 2011 that counteracted for the impact of the drop in their weighted average cost. As such, the stock of outstanding long-term instruments by the end of September 2010 was 7 percent higher than its level a year earlier. In parallel, the weighted average cost of long term instruments with coupons maturing in QI 2011 was at 8.29 percent, 66 bps lower than the weighted average cost recorded in QI 2010, at 8.95 percent. The drop in the weighted average cost tracks the 181 bps average decrease in primary market interest rates on long term instruments between end-September 2010 and end-September 2009. It also reflects the redemption in March 2010 of the 5YR bonds with an interest rate of 11.3 percent. Consequently, all 5YR bonds with coupons maturing in QI 2011 had an interest rate below 9.4 percent. With the decline in primary market interest rates, the share of bonds with interest rates not exceeding 9 percent in the total volume of long term instruments with coupon maturing in QI 2011 was at 52 percent (with maturities ranging from 2 to 5 years). This compares to a much lower share of 34 percent (reflecting 2, 3 and 5YR bonds) in QI 2010.

Interest payments on foreign currency debt rose by LL 5 billion equivalent to 1 percent, amounting to LL 484 billion over the first quarter of 2011 from a lower level of LL 479 billion during the same period of 2010. This rise is primarily due to a LL 9 billion equivalent to 2 percent rise in Eurobond coupon payments due to the payment in January 2011 of the first coupon worth $ 7.3 million on the $ 250 million notes maturing in January 2015. It was offset by a LL 3 billion equivalent to 11 percent decline in interest payments on concessional loans.

Concessional loans principal payments rose by 31 percent to LL 62 billion in January-March 2011 up from LL 47 billion during the similar period of 2010. This LL 15 billion rise was mainly the outcome of the principal repayment of the equivalent of SDR 6.3 million on the Paris III IMF EPCA I loan. This loan has an amortized payment structure redeemable in 8 equal quarterly payments starting in July 2010.

Table 20: Details of Debt Service Transactions

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/ 2010
Interest Payments [1]	**1,370**	**1,396**	**1,375**	**-2%**
Local Currency Debt	**890**	**918**	**890**	**-3%**
· *Discount interest*	*19*	*67*	*31*	*-53%*
· *Coupon*	*872*	*850*	*859*	*1%*
Foreign Currency Debt, of which:	**480**	**479**	**484**	**1%**
· *Eurobond Coupon Interest[2]*	*452*	*448*	*457*	*2%*
· *Special Bond Coupon Interest[2]*	*1*	*1*	*1*	*18%*
· *Concessional Loans Interest*	*27*	*30*	*27*	*-11%*
Concessional Project Loans Principal Payments [1]	**39**	**47**	**62**	**31%**

Source: MOF, DGF

[1] Please note that the classification of debt service expenditures is now broken down into two separate categories as follows: Interest payments (as per GFS classification) and repayment of principal on concessional loans earmarked for project financing.

[2] Includes general expenses related to the transaction

Section IV: Public Debt Developments

Financing Requirements

Total net financing requirements for the first quarter of 2011 reached LL 1,855 billion, up from LL 918 billion during the same period in 2010.

In January-March 2011, Treasury accounts represented the main source of financing as the government reduced its cash balances by LL 2,016 billion during the said period. This compares to a much lower decline of LL 226 billion over QI 2010. The issuance of Eurobonds was the second source of financing in QI 2011 as it resulted in a net positive balance of LL 324 billion reflecting the $ 265 million issuance on January 18th, 2011 undertaken through a Debt Replacement Agreement between the Ministry of Finance and Banque du Liban *(for details, kindly refer to Box 2)*. Finally, the net issuance of LL Treasury bills and bonds was in deficit of LL 402 billion, mirroring the aggregate deficit in the weekly TB auctions over the first quarter of 2011. In comparison, in QI 2010, the net issuance of LL TBs was in surplus of LL 651 billion despite the halt in the weekly auctions during the month of March 2010.

Table 21: Financing for January-March 2011 versus January-March 2010

(LL billion)	2010 Jan-Mar	2011 Jan-Mar
Overall balance from the financing side[1]	**-918**	**-1,855**
Total Net in Financing	**918**	**1,855**
• LL Treasury bills (2)	651	-402
• Eurobonds (1)	128	324
• Special T-bills in Foreign currencies	0	0
• Bilateral Loans (1)	-67	-55
• Multilateral Loans (1)	-17	-29
• Private sector loans (1)	-2	1
• Change in Treasury accounts (-/increase +/decrease)	226	2,016

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

(1) The net variation of foreign currency debt excludes foreign exchange variations as well as accrued interest
(2) The net variation of treasury bills excludes accrued interest
Note: Positive numbers indicate a net increase and negative numbers indicates a net decrease except for line item "change in treasury accounts".

[1] The overall balance from the financing side is calculated as the negative sum of total net financing items. It differs from the overall balance of Section 1 (based on a check-issued basis) because it measures cash going in and cash going out; it also includes CDR operations related to project financing loans and is affected by the cash sources and requirements of all debt operations.

Public Debt

The stock of **gross public debt** amounted to LL 79,282 billion ($ 52.6 billion) at the end of the first quarter of 2011, down by LL 19 billion from the end-December 2010 level. This was the combined result of LL 417 billion decrease in the stock of local currency debt and LL 398 billion rise in the stock of foreign currency debt.

Due to the 8 percent drop in public sector deposits in QI 2011, the stock of net public debt[29] increased by LL 870 billion or 1.3 percent between December 2010 and March 2011, and amounted to LL 68,752 billion ($ 45.61 billion).

Table 22: Public Debt Outstanding as of end-March 2011

(LL billion)	Dec-09	Dec-10	Mar-11	Change	% Change Mar
Gross Public Debt[(1)]	77,112	79,301	79,282	-19	-0.02%
Net Debt	66,590	67,882	68,752	870	1.28%
Gross Market Debt[(2)]	51,231	51,308	49,666	-1,642	-3.20%

Source: Ministry of Finance, Banque du Liban

[(1)] Figures for Dec 09 and Dec 10 may differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project loans in the Debt Management and Financial Analysis System (DMFAS).

[(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.

The stock of **local currency debt** stood at LL 47,838 billion or 60 percent of the total stock of gross public debt compared to 61 percent end-December 2010(including accrued interest), explained by a decrease in the stock of short-term bills partly offset by a rise in the stock of long-term instruments.

By holder, commercial banks remained the largest holders of local currency debt, claiming a share of 53 percent by end-March 2011, down from 56 percent at end-December 2010. The drop in the share of local currency debt held by commercial banks mirrors the LL 1,824 billion (6.70 percent) contraction in their holdings, which was driven by a LL 1,841 billion (7.11 percent) decrease in their portfolio of Treasury Bills. The drop in commercial banks holdings was counterbalanced by a LL 1,455 billion or 11.08 percent increase in the stock held by Banque du Liban which amounted to LL 14,585 billion at the end of March 2011, up from LL 13,130 billion at the end of 2010[30]. This rise is explained primarily by LL 1,069 billion equivalent to 8.3 percent augmentation in the portfolio of TBs held by the Central Bank. BDL had also issued LL 398 billion worth of repurchase agreements by end QI 2011. Consequently, the share of total domestic currency debt held by BDL rose by 3 percentage points, from 27 percent at the end of December 2010 to 30 percent at the end of the first quarter of 2011.

" Other" holders witnessed a LL 48 billion or 0.61 percent contraction in the portfolio of TBs which amounted to LL 7,863 billion at the end-March 2011 compared to LL 7,911 billion three months earlier, albeit maintain their 16 percent share of domestic currency debt. This decline was driven by a LL 271 billion drop in the portfolio held by the public which absorbed the LL 213

[29] The stock of net public debt equals the stock of gross public debt minus public sector deposits.

[30] These figures take into account the redemption of LL 392 billion worth of Treasury bonds in relation to the debt replacement agreement between the Ministry of Finance and Banque du Liban in January 2011. For details concerning this transaction, kindly refer to Box 2.

billion rise in public institutions' holdings and the LL 10 billion increase in holdings by financial institutions.

Box 2: The Debt Replacement Agreement between MoF and BDL

On January 18th, 2011 the Republic of Lebanon issued $ 265 million 6.10 percent Notes due October 2022 (series 57 tranche 2) to be consolidated and form a single series with the $ 225 million 6.10 percent Notes due 2022 (series 57 tranche 1) issued on November 12th, 2010.

This issue of $ 265 million was undertaken through a "Debt Replacement Agreement" between the Ministry of Finance (MoF) and Banque du Liban (BDL). BDL redeemed to MoF Treasury Notes in Lebanese Pounds from its existing portfolio for an equivalent LL amount of $ 265 million of Eurobonds.

These developments are reflected in the results of the weekly TB auctions in QI 2011. In this period, commercial banks, historically the largest subscribers of TBs exhibited a weak appetite for LL debt instruments which was counteracted for by a substantial rise in participation by Banque du Liban in the weekly auctions. Consequently, BDL replaced commercial banks as the largest subscriber of TBs in QI 2011 with 66 percent of subscriptions, up from less than 10 percent and the fourth position in QI 2010. Public institutions followed with 22 percent of subscriptions in January-March 2011 more than double their share during the similar period of 2010 where they ranked third among subscribers. As for commercial banks, they were only third in QI 2011 with 11 percent of accepted offers, down from the first position and a share of 65 percent in QI 2010.

By instrument, the stock of long term bonds rose by LL 186 billion equivalent to 0.42 percent to LL 43,991 billion by the end-March 2011 from LL 43,805 billion by the end-December 2010. Conversely, the stock of short term bills receded by LL 598 billion from LL 4,155 billion by the end-December 2010 to LL 3,557 billion by the end of March 2011.

First, regarding long term instruments, the stock of 7YR bonds[31] recorded the highest rise at LL 1,761 billion equivalent to 117.40 percent totalling LL 3,261 billion by the end of March 2011 up from LL 1,500 billion three months earlier. This rise reflects the 7YR bond issuance that took place on March 24th, 2011 (*for details concerning this transaction, kindly refer to Box 3).* Five-year bonds witnessed a LL 1,024 billion or 14.01 percent upswing in their stock which amounted to LL 8,334 billion by the end of March 2011 compared to LL 7,310 billion by the end-December 2010. Conversely, the stock of 3YR bonds recorded the steepest decline among all instruments as it receded by LL 2,479 billion or 8.05 percent to LL 28,303 billion by the end of the first quarter of 2011, down from LL 30,782 billion by the end of 2010.

Among short term instruments, the stock of 6MN bills witnessed the highest drop, with a LL 386 billion or 18.29 percent to LL 1,725 billion by the end of March 2011 from LL 2,111 billion by the end of 2010. The stock of 12MN TBs also decreased to LL 1,730 billion representing a LL 239 billion or 12.14 percent decline from its level three months earlier, at LL 1,969 billion. As for 3MN

[31] The Lebanese Republic introduced in 2010 a 7YR tenor in domestic currency under its Medium Term Note Programme. For details regarding this transaction, kindly refer to the Public Finance Review 2010.

bills, their stock registered a positive growth, adding up LL 27 billion or 36 percent to LL 102 billion by the end of the first quarter of 2011 from LL 75 billion by the end of 2010.

Box 3: The 7YR bond issuance in March 2011

On March 24th, 2011, the Ministry of Finance issued a 7YR bond with a coupon of 7.9 percent[1]. This issuance is in line with the objective of the Ministry of Finance to lengthen the average time to maturity of Lebanon's existing portfolio of LL denominated debt.
Commercial banks were authorized[2] to subscribe to this 7YR bond either by swapping certificates of deposits issued by Banque du Liban or purchasing new bonds. Total subscriptions to the this issuance amounted to LL 1,761 billion of which:

a) LL 1,045 billion equivalent to 59 percent were subscribed in exchange for certificates of deposits issued by Banque du Liban and held by commercial banks.
b) LL 716 billion equivalent to 41 percent was subscribed in new cash.

The proceeds of the issue were utilized for refinancing operations.

[1] Unlike the 7YR bond issuance that took place in December 2010, this transaction was not conducted under the Ministry's Medium Term Note (MTN) Programme.
[2] By the Minister of Finance's decision 413/1 dated March 17th, 2011.

As usual, long term instruments accounted for the bulk of subscriptions in QI 2011 where their share reached 90 percent versus 72 percent in QI 2010. Correspondingly, the share of short term instruments decreased from 28 percent in January-March 2010 to 10 percent during the first three months of 2010. In details, 3YR bonds accounted for the highest share of total subscriptions in QI 2011, at 40 percent up from 24 percent in QI 2010. Five-year bonds ranked second with a share of 38 percent, higher by 1 percentage points than their share in QI 2010 at 37 percent. Two-year bonds followed with 12 percent of total subscriptions during the first quarter of 2011 compared to 11 percent during the corresponding period of 2010. Six-month bills ranked fourth with a stake of 6 percent of subscriptions in QI 2011, down from a higher share of 15 percent during QI 2010. Lastly, 3MN and 12MN bills accounted for 3 and 2 percent respectively of subscriptions in January-March 2011 compared to 3 and 10 percent respectively in January-March 2010.

Due to these developments, the composition of domestic currency debt shifted towards a higher share of long term instruments. As such, the share of long term reached 92 percent by end-March 2011, up from 91 percent three months earlier whereas the share of short term bills in the total stock of LL debt inched down from 9 percent by the end of 2010 to 7 percent by the end of the first quarter of 2011. Despite the decline in their stock, 3YR bonds still accounted for the highest share of LL debt by the end of March 2011, at 59 percent down from 64 percent by the end of 2010. Five-year bonds followed with a share of 17 percent compared to 15 percent by the end of 2010. The share of 2YR bonds was unchanged at 7 percent similar to that of 7YR bonds.

Table 23: Domestic Currency Debt by Holder and Instrument as of end-March 2011

Stocks (end of period)	Dec-09	Dec-10	Mar-11	Change Mar 11 -Dec	% Change Mar 11-Dec 10
Local currency debt	**44,973**	**48,255**	**47,838**	**-417**	**-0.86%**
A. By Holder					
1. Central Bank (including REPOs and Loans to EDL to	10,334	13,130	14,585	1,455	11.08%
2. Commercial Banks	27,286	27,214	25,390	-1,824	-6.70%
3. Other local debt (T-bills)	7,353	7,911	7,863	-48	-0.61%
o/w Public entities	*6,078*	*6,268*	*6,481*	213	3.40%
**Accrued interest included in debt*	*999*	*867*	*857*	-10	-1.15%
B. By Instrument					
1. Long term bonds	40,842	43,805	43,991	186	0.42%
1.1 7 years bonds	0	1,500	3,261	1,761	117.40%
1.1 5 years bonds	5,036	7,310	8,334	1,024	14.01%
1.2 4.5 years bonds	0	0	0	0	-
1.3 4 years bonds	0	0	0	0	-
1.4 3 years bonds	31,908	30,782	28,303	-2,479	-8.05%
1.5 2.5 years bonds	0	0	0	0	-
1.6 2 years bonds	2,989	3,398	3,301	-97	-2.85%
1.7 Coupon interest	909	815	792	-23	-2.82%
2. Short term bills	3,735	4,155	3,557	-598	-14.39%
2.1 12 months bills	2,073	1,969	1,730	-239	-12.14%
2.2 06 months bills	1,510	2,111	1,725	-386	-18.29%
2.3 03 months bills	152	75	102	27	36.00%
** Accrued interest included*	90	52	65	13	25.00%
3. Other local debt	396	295	290	-5	-1.69%
3.1 Central Bank Loans	291	218	206	-12	-5.50%
3.2 Commercial Banks Loans	105	77	84	7	9.09%

Source: Ministry of Finance, Banque du Liban

Notes:

(1) The BDL has extended loans to EDL for the equivalent amount of US$ 300 million to purchase fuel oil. These loans are listed as Public debt as they are government guaranteed.

Primary market interest

In line with their stabilization trend which started in July 2010, nearly all interest rates remained unchanged over the first quarter of 2011. Only two instruments witnessed slight changes in their interest rates, namely 6MN and 12MN bills. The rates on these instruments retreated by 2 basis points each to 4.50 percent for the 6MN bill and 4.79 percent for the 12MN bill.

Table 24: Evolution of Primary Market Rates

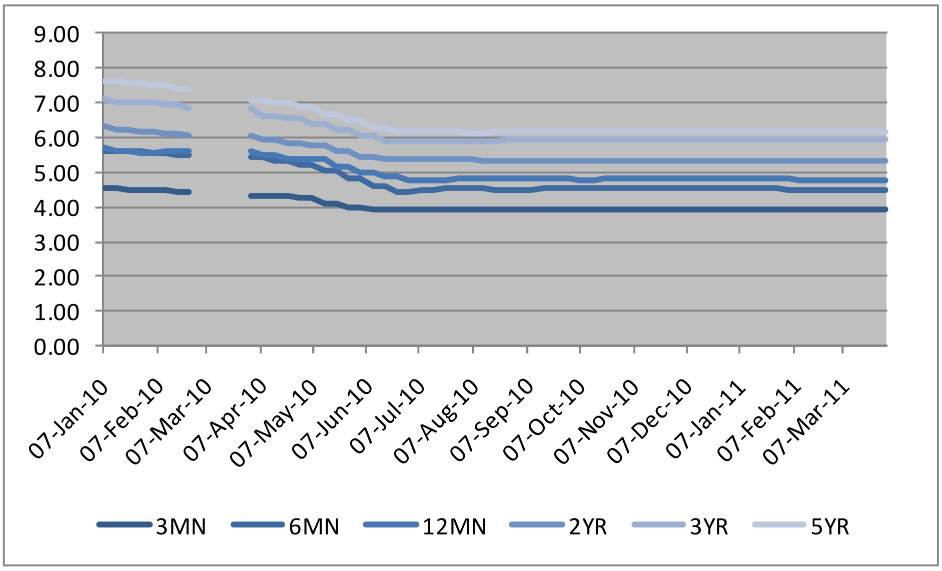
Maturity	Dec. 31, 2008 [2]	Dec. 31, 2009	Dec. 31st, 2010	March 31st, 2011
3-month	5.10 percent	4.55 percent	3.93 percent	3.93 percent
6-month	7.11 percent	5.72 percent	4.52 percent	4.50 percent
12-month	7.57 percent	5.73 percent	4.81 percent	4.79 percent
24-month	8.22 percent	6.32 percent	5.34 percent	5.34 percent
36-month	8.98 percent	7.10 percent	5.94 percent	5.94 percent
60-month[1]	N/A	7.74 percent	6.18 percent	6.18 percent

Source: Ministry of Finance

(1) 60-month Treasury notes were issued as part of the Treasury Bill Auction Process as of the week of July 20th, 2009 (value date 23 July 2009).

(2) Reflects rate of the auction the week of December 29th, 2008, value date January 1st, 2009.

Figure 3: TB Yield by Category January 2010–March 2011



Source: Ministry of Finance#

The stock of **foreign currency debt** rose by LL 398 billion equivalent to 1.28 percent over the first quarter of 2011, accumulating to LL 31,444 billion by the end-March 2011 versus LL 31,046 billion by the end of 2010. Of this rise, LL 193 billion is due to exchange rate valuations including due to the appreciation of the Euro from a rate of 1.3250 €/$ at the end of 2010, to 1.4209 €/$ at the end of March 2011.

Table 25: Foreign Currency Debt by Holder and Instrument as of end-March 2011

(in LL billion)	Dec-09	Dec-10	Mar-11	Change	% Change Year-to-date
B. Foreign currency debt[(1)]	**32,139**	**31,046**	**31,444**	**398**	**1.28%**
4. Eurobonds	**27,142**	**26,738**	**27,104**	**366**	**1.37%**
Of which, Paris II at preferential rates[(2)]	4,192	3,677	3,624	-53	**-1.44%**
Of which, Paris III at preferential rates[(3)]	754	709	686	-23	**-3.19%**
** Accrued Interest on Eurobonds*	*460*	*483*	*448*	-35	**-7.25%**
5. Loans	**4,550**	**4,234**	**4,266**	**32**	**0.76%**
5.1 Paris II loans	627	460	428	-32	**-6.96%**
5.2 Paris III loans[(4)]	1,210	1,147	1,163	16	**1.40%**
5.3 Bilateral loans (non-Paris II and III)	716	726	751	25	**3.49%**
5.4 Multilateral loans (non-Paris II and III)	1,971	1,877	1,898	21	**1.10%**
5.5 Foreign Private Sector Loans	27	24	26	2	**8.33%**
6. Other debt	**447**	**74**	**74**	**0**	**0.00%**
6.1 Special Tbs in Foreign currency[(5)]	447	74	74	0	**0.00%**

Source: Ministry of Finance, Banque du Liban

Notes:

[(1)] *Figures for Dec 09 and Dec 1 0 may differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project*

[(2)] *Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at USD 1,870 billion to BDL in the context of the Paris II*

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

[(4)] *IBRD loan, UAE loan, first tranche of the French loan received in February 2008, IMF loans, first tranche EC/EU loan, and AMF loan disbursed in*

[(5)] *Special Tbs in Foreign currency (expropriation bonds)*

First, the stock of loans in foreign currencies expanded by 0.76 percent to LL 4,266 billion by end-March 2011 from a lower level of LL 4,234 billion three months earlier. Excluding changes that are due to exchange rates valuations, this LL 32 billion rise was induced by the following changes:

a) The stock of non-Paris II and Paris III bilateral loans rose by LL 25 billion equivalent to 3.49 percent to LL 751 billion by end-March 2011 compared to LL 726 billion by the end of 2010. This rise was recorded despite principal repayments worth LL 7 billion to the Japan International Cooperation Agency and LL 4 billion to the Saudi Fund for Development. It is explained by the disbursement of:

   i. LL 7 billion from five loans granted by the Kuwait Fund for Arab Economic Development

   ii. LL 7 billion from four loans provided by the Saudi Fund for Development

   iii. LL 5 billion from four loans granted by the *Agence Française de Développement*

   iv. LL 1 billion from one loan granted by the Abu Dhabi Fund

   v. LL 1 billion from one loan provided by Japan's Overseas Economic Cooperation Fund

   vi. LL 1 billion from two Artigiancassa bank loans

b) The stock of non-Paris II and Paris III multilateral loans increased by LL 21 billion equivalent to 1.10 percent, amounting to LL 1,898 billion by the end of QI 2011 compared to LL 1,877 billion by the end of 2010. This rise was recorded despite several principal repayments, of which (i) LL 25 billion to the European Investment Bank, (ii) LL 10 billion to the Arab Fund for Economic and Social Development (AFESD), (iii) LL 9 billion to the the International Bank for Development and Reconstruction (IBRD), (iv) LL 5 billion to the Islamic Development Bank, (v) LL 1 billion to the International Fund for Agricultural Development (IFAD) and (vi) LL 1 billion to the Organization of Petroleum Exporting Countries (OPEC). The impact of these principal repayments was mitigated by the disbursement of:

    i. LL 26 billion from four IBRD loans
    ii. LL 3 billion from four loans granted by the Islamic Development Bank
    iii. LL 3 billion from seven AFESD loans
    iv. LL 2 billion from three OPEC loans

c) The stock of Paris III loans rose by LL 16 billion equivalent to 1.40 percent, accumulating to LL 1,163 billion by the end of March 2011, up from LL 1,147 billion three months earlier. This rise was recorded despite the principal repayment in January 2011 of the equivalent of SDR 6.3 million on the IMF EPCA I loans.

d) The stock of foreign private sector loans inched higher by LL 2 billion equivalent to 8.33 percent, to LL 26 billion by the end of March 2011 from LL 24 billion by the end of 2010.

Conversely, the stock of Paris II loans declined by LL 32 billion, equivalent to 6.96 percent, amounting to LL 428 billion by the end of the first quarter of 2011, down from LL 460 billion three months earlier. This drop reflects the redemption of € 30 million of the *Agence Française de Développement (AFD)* Paris II loan in February 2011.

With respect to other debt in foreign currency, the stock of special T-bills in foreign currency remained unchanged at LL 74 billion.

As for the outstanding stock of Eurobonds, it rose by LL 366 billion equivalent to 1.37 percent, accumulating to LL 27,104 billion by the end of March 2011, up from LL 26,738 billion by the end of December 2010. This increase is reflective of the $ 265 million issuance on January 18th, 2011 undertaken through a Debt Replacement Agreement between the Ministry of Finance and Banque du Liban (*for details regarding this transaction, kindly refer to Box 2).* Moreover, the stock of Eurobonds issued in the context of Paris II decreased by LL 53 billion equivalent to 1.44 percent, to LL 3,624 billion by the end of QI 2011 from LL 3,677 billion by the end of 2010. This drop is explained by the $ 35 million principal repayment in March 2011 on Paris II March 2018 Eurobond originally issued at US$ 700 million. This is in line with the amortized payment structure of Eurobonds issued in relation to the Paris II conference, redeemable in 20 equal semi-annual payments starting from 2008. Lastly, the stock of Paris III related Eurobonds receded by LL 23 billion equivalent to 3.19 percent, to LL 686 billion by the end of March 2011 from a higher level of LL 709 billion by the end of December 2010. This decline resulted from one $ 15 million principal repayment (in January 2011) on the Eurobond due July 2017 originally issued at US$ 300 million which also has an amortized payment structure.[32]

Table 26: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%)						
	31-Dec 2010	07-Jan 2011	26-Jan 2011	07-Feb 2011	22-Feb 2011	04-Mar 2011	31-Mar 2011
EURO							
LEB 5.875 12	4.20	3.56	5.19	5.40	5.39	5.38	5.61
US Dollars							
LEB 7.875 11	3.78	2.87	5.30	5.94	5.61	5.19	7.65
LEB 4.000 17 Av Life	4.91	4.42	4.68	4.73	4.69	4.65	4.72
LEB 7.500 12	3.85	3.58	4.75	5.14	5.06	4.97	4.26
LEB 7.750 12	3.92	3.66	5.11	5.07	5.01	4.94	4.45
LEB 9.125 13	4.02	3.90	4.85	5.53	4.96	4.89	4.68
LEB 8.625 13	4.07	3.96	4.81	5.42	4.93	4.87	4.70
LEB 7.375 14	4.35	4.34	4.98	5.29	4.77	4.74	4.77
LEB 9.000 14	4.38	4.32	5.12	5.25	4.76	4.76	4.76
LEB 5.875 15	4.80	4.90	5.87	5.59	5.30	5.44	5.46
LIEB 10.000 15	4.89	4.78	5.44	5.42	5.38	5.35	5.29
LEB 8.500 15	4.86	4.74	5.35	5.45	5.31	5.46	5.33
LEB 8.500 16	5.06	4.97	5.58	5.68	5.55	5.70	5.58
LEB 11.625 16	5.58	5.68	5.73	5.81	5.48	5.54	5.58
LEB 9.000 17	5.32	5.14	5.77	6.03	5.88	6.00	5.92
LEB 5.15 18	5.47	5.29	5.71	6.13	5.80	5.80	5.81
LEB 6.375 20	6.00	5.77	6.16	6.26	6.05	6.19	6.19
LEB 8.250 21	6.32	6.12	6.24	6.36	6.14	6.35	6.34
LEB 6.1 22	6.28	6.13	6.53	6.79	6.47	6.53	6.51
LEB 7.000 24	6.66	6.61	6.83	7.11	6.88	7.06	6.91

Source: Credit Suisse

Following their progressive decline over the four quarters of 2010, **secondary market yields** rose by an average of 59 bps during the course of QI 2011[33] . This upswing in yields might have been generated by the climate of heightened political tensions following the resignation of the government on January 12th, 2011 as well as by the political turmoil on a regional level.

[32] For more information as to the structure of these bonds, kindly refer to the note "Re-Profiling of Debt Held by Central Bank of Malaysia "accessible here: http://www.finance.gov.lb/Reports+and+Publications/Reports+Related+to+Paris+III+Conference/Agreements+with+Donors/. This is also summarized in "Box 2: Debt Re-profiling with Malaysia" in the Public Finance Quarterly Report for QIII 2007.

[33] Calculated between December 31st, 2010 and March 31st, 2011.