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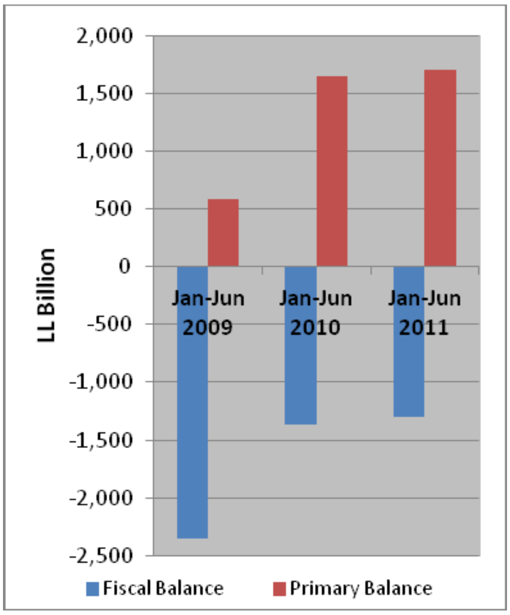
General Fiscal Developments

The **total fiscal balance** registered a deficit of LL 1,304 billion in January-June 2011, compared to a deficit of LL 1,370 billion in 2010.

The **primary balance** recorded a surplus of LL 1,706 billion during the same period of time, including LL 1,062 billion of estimated revenues from telecom, compared to a surplus of LL 1,652 billion in January-June 2010.

When expected telecommunications' revenues are excluded, the fiscal deficit widens to LL 2,366 billion in the first half of 2011, while the primary surplus drops to LL 645 billion.

Figure 1: Fiscal & Primary Balance (Jan-Jun 2009 -2011)



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

Revenues

Total revenues in January-June 2011 amounted to LL 7,186 billion, up by LL 625 billion from the 2010 level, due to an increase of LL 761 billion in non-tax revenues and decrease of LL 136 billion in tax revenues.

If expected telecommunications' revenues are excluded, total revenues would drop by LL 422 billion, due to declines in both tax and non-tax revenues.

Expenditures

Total public expenditures amounted to LL 8,490 billion during HI 2011, representing a 7 percent year-on-year increase. This rise stemmed mainly from a 12 percent increase in current primary expenditures.

Public Debt Developments

The stock of gross public debt totalled LL 79,223 billion by end-June 2011, down by 0.09 percent compared to the end-December 2010 level. The stock of net public debt rose by 1.3 percent over the end-December 2010 level, totalling LL 68,775 billion.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 1,304 billion in January-June 2011 compared to a deficit of LL 1,370 billion in the same period in 2010.

As for the **primary balance**, it recorded a surplus of LL 1,706 billion in the first six months of 2011 compared to a surplus of LL 1,652 billion in the corresponding period of 2010. These figures are the result of a 10 percent increase in revenues (generated by the inclusion of the expected revenues from the Ministry of Telecommunications), and a 7 percent increase in expenditures.

When expected telecommunications' revenues (LL 1,062 billion) are excluded, the fiscal deficit widens to LL 2,366 billion in January-June 2011, while the primary surplus drops to LL 645 billion, due to a 6 percent drop in total receipts, coupled with a 7 percent rise in total payments.

Table 1: Summary of Fiscal Performance

(LL billion)	2009 Jan-Jun	2010 Jan-Jun	2011 Jan-Jun	% Change 2011/2010
Total Budget and Treasury Receipts	6,417	6,547	7,186	10%
Total Budget and Treasury Payments, *of*	8,766	7,916	8,490	7%
• Interest Payments	*2,787*	*2,882*	*2,867*	-1%
• Concessional Loans Principal (1)	*148*	*140*	*144*	3%
• Primary Expenditures (2)	*5,831*	*4,895*	*5,480*	12%
Total Deficit/Surplus	**-2,349**	**-1,370**	**-1,304**	-5%
Primary Deficit/Surplus	**586**	**1,652**	**1,706**	3%

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

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

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

Section II: Revenue Outcome

Total revenues reached LL 7,186 billion in the first half of 2011, up by LL 639 billion from the 2010 level. Although tax revenues fell by 3 percent, total revenues over the said period recorded a 10-percent increase, due to the inclusion of the estimated revenues from the Telecom surplus in the non-tax revenues. If these are excluded, total revenues would drop by LL 422 billion, due to declines in both tax (3 percent) and non-tax revenues (33 percent).

Table 2: Total Revenues

(LL billion)	2010 Jan-June	2011 Jan-June	Change HI 20101HI 2010
Budget Revenues, *of which:*	**6,210**	**6,835**	**10%**
• Tax Revenues	5,304	5,168	-3%
• Non-Tax Revenues	906	1,667	84%
Treasury Receipts	**336**	**351**	**4%**
Total Revenues	**6,547**	**7,186**	**10%**

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

Tax Revenues

Tax revenues totalled LL 5,168 billion in the first half of 2011, down by LL 136 billion from the same period in 2010 – as shown in Table 3 below. Most major components of tax revenues registered decreases in collection during the first six months of 2011, namely consumption and transaction taxes including real estate, VAT, customs duties, excises on gasoline, taxes on cars (excises and registration fees), and fiscal stamps. This deceleration may be largely summarized as:

- a general slowdown in the economy, which translated – among others – into lower car imports, weakened tourism activity and a reduced real estate activity
- the policy decision to cut down the gasoline excise *(the Higher Council of Customs issued decision number 21/2011 on 26 February 2011 to reduce the excise on gasoline by LL 5,000 per 20 litres)*
- limited rise in taxes on interest income, compared to previous years, due to a narrow expansion in deposits, coupled with higher dollarization and slightly lower interest rates

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

Table 3: Tax Revenues

(LL billion)	2010 Jan-June	2011 Jan-June	Change HI 2010/HI 2010
Taxes on Income, Profits, & Capital Gains, *of which*:	**1,390**	**1,645**	**18%**
• Income Tax on Profits	744	929	25%
• Income Tax on Wages and Salaries	196	230	17%
• Income Tax on Capital Gains & Dividends	128	145	13%
• Tax on Interest Income (5%)	310	326	5%
• Penalties on Income Tax	11	14	34%
Taxes on Property, *of which:*	**567**	**537**	**-5%**
• Built Property Tax	100	88	-12%
• Real Estate Registration Fees	426	388	-9%
Domestic Taxes on Goods & Services, *of which:*	**1,746**	**1,699**	**-3%**
• Value Added Tax	1,557	1,544	-1%
• Other Taxes on Goods and Services, of which:	184	150	-19%
- *Private Car Registration Fees*	*118*	*98*	*-17%*
- *Passenger Departure Tax*	*65*	*50*	*-23%*
Taxes on International Trade, *of which:*	**1,376**	**1,068**	**-22%**
• Customs	395	379	-4%
• Excises, of which:	980	688	-30%
- *Petroleum Tax*	*504*	*286*	*-43%*
- *Tobacco Tax*	*174*	*181*	*4%*
- *Tax on Cars*	*299*	*218*	*-27%*
Other Tax Revenues (namely fiscal stamp fees)	**226**	**220**	**-3%**
Total Tax Revenues	**5,304**	**5,168**	**-3%**

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

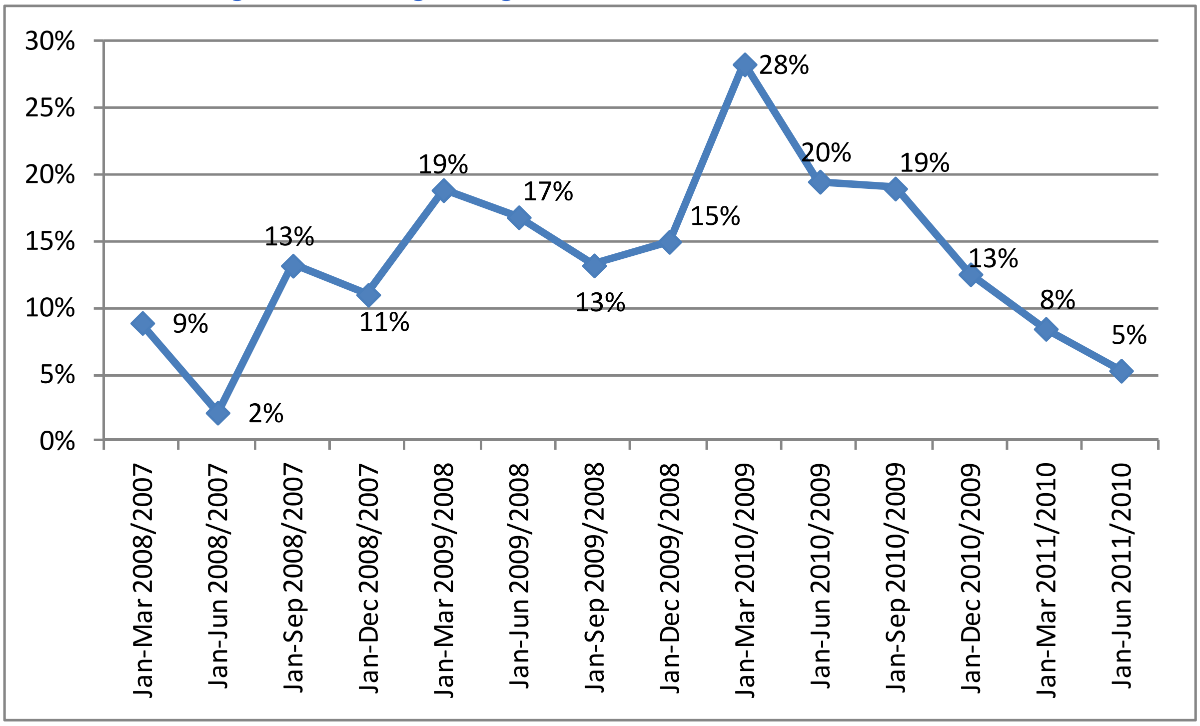
In details, **taxes on income profits and capital gains** collected LL 1,645 billion during HI 2011, representing a LL 255 billion (18 percent) increase from the same period in 2010. This is mainly the result of the solid increases in proceeds from the income tax on profits, and to a lesser extent from income tax on wages and salaries.

- Collections of the **Income tax on profits** augmented by 25 percent, reaching LL 929 billion and mirroring the 7 percent estimated growth of the real GDP in 2010, as corporations usually file and settle the income tax on profits realised in a given year during the second quarter of the following year, particularly in May and June. Therefore, proceeds received in May and June account for the tax on profits of corporations, the largest contributors of which are banks.

- Collections from **taxes on wages and salaries** gained 17 percent to reach LL 230 billion, on account of a larger tax base owing to the natural expansion process (given no changes at the policy level).

Collections from **taxes on interest income** rose by LL 17 billion, thus also contributing to the overall growth in taxes on income profits and capital gains. It is worth mentioning however that this rise is small when compared to the growth witnessed in this tax component starting mid-2008, as shown in Figure 2 below.

Figure 2: Percentage Change in Collections from Tax on Interest Income



This limited comparative increase is explained by the following three factors:

1. narrower expansion of the *deposit base*: the average monthly private-sector deposit (both resident and non-resident) growth was about 0.66 percent in the first six months of 2011, against 0.75 percent during the same period of the previous year and 1.34 percent for the period July 2008-December 2010.

2. increased *dollarization* of deposits, given that deposits in US$ earn lower interest than those in domestic currency. In fact, dollarization of deposits witnessed an upturn, to reach 66.77 as of end of June 2011 up from 62.54 as of end June 2010.

3. decline in *interest rates* on Lebanese-pound deposits, where the weighted average interest rate on LBP-denominated deposits fell by 21 bps on a yearly basis to reach 5.62 percent as of end-June 2011. The average interest rate on deposits in USD remained almost stable, going up by only 6 bps to reach 2.81 percent during the same period

Further, the breakdown of interest tax receipts by institution/instrument shows that the contribution from commercial banks (interest earned on deposits) have continued to drop, to reach 53 percent of the total collections in H1 2011, as opposed to 56 percent in H1 2010. The contribution from BDL (interest earned on CDs and T-bills) has however increased, to reach 46 percent of the total collections in H1 2011, as opposed to 44 percent in H1 2010.

Table 4: Tax on Interest Income

(LL billion)	H1 2009	H1 2010	H1 2011
By Institution/Instrument			
Commercial Banks	153	175	173
BDL	107	136	149
Tax on US$ & LL Treasury Bills	1	1	4
By Currency			
Lebanese Pounds	164	214	225
Foreign Currencies (US$, Euro)	97	98	101
Total collection	**262**	**312**	**326**

Source: MOF- Treasury Department - Please note that figures in this table are obtained from tax declaration forms, which may differ from cash figures presented in the fiscal performance and the Tax Revenues table above.

Taxes on property witnessed a 5 percent downturn, reaching LL 537 billion during the first half of 2011. The two components of this item registered decreases, to reflect an overall holdback in collection compared to the dynamism of the real estate sector witnessed the last couple of years. In fact, the recurrent **tax on built properties** by 12 percent and that on **registration**[1] by 9 percent.

Cadastre statistics indicate a change in the composition of the demand for real estate in the first half of 2011, as compared to the first half 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 3 percent (to a total of 148,582 properties), while total value declined by 18 percent (to a total of LL 5,804 billion), thus leading to a lower average declared value per property, as shown in Table 5 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-Jun	2010 Jan-Jun	2011 Jan-Jun	%Change 2011/2010
Number of Properties registered in Cadastre	127,601	144,087	148,582	3%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	3,658	7,106	5,804	-18%
Declared Average Value per Property (LL million)	28.7	49.3	39.1	-21%
Total Fees collected from Sales Transactions	**210**	**386**	**370**	**-4%**

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 3 percent to LL 1,699 billion by end of June 2011, mainly driven by a 17 percent and 23 percent respective declines in each of private car registration fees and passenger departure tax, reflecting less car sales on the one hand and lower number of tourists on the other. In fact, data on tourism published by the Ministry of Tourism indicate a 20 percent decline in the number of tourists in the first half of 2011 as compared to the same period of 2010, reaching 774,214 down from 964,067). As for car imports, data released by the Directorate of Customs point to a decrease of 25 percent in value and 26 percent in number (kindly refer to Table 9 for further information).

[1] 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.

Value added tax collected LL 1,544 billion in the first half of 2011 as compared to LL 1,557 billion in the same period of 2010. This 1 percent decline came as a result of a 4 percent decrease in VAT receipts collected at customs, despite a rise in total imports, indicating a lower effective VAT rate. Total imports rose by 8 percent in the first half to accrue to LL 13,912 billion, while VAT at customs went down by 4 percent to reach LL 1,062 billion. In fact, the effective VAT rate went down from 8.6 percent in 2010 to 7.6 percent in 2011, this may be explained by the fact that one of the major rises within total imports came at the level of "pharmaceuticals" (besides fuel), an import category that is largely VAT exempt, besides a drop in car imports that are a major source of VAT revenues.

Table 6: Total Imports & Effective VAT rate

(LL billion)	2009 Jan-Jun	2010 Jan-Jun	2011 Jan-Jun	%Change 2011/2010
Total Imports, *of which*	**11,688**	**12,935**	**13,912**	***8%***
• *Fuel Imports (fuel derivatives classified under HS 27)*	*2,646*	*2,371*	*2,560*	***8%***
• *Non-Fuel Imports*	*9,042*	*10,564*	*11,352*	***7%***
• *Share of Fuel Imports*	*22.6%*	*18.3%*	*18.4%*	***0%***
• *Share of Non Fuel Imports*	*77.4%*	*81.7%*	*81.6%*	***0%***
Revenues from VAT at Imports	**1,001**	**1,107**	**1,062**	***-4%***
Effective VAT rate	**8.6%**	**8.6%**	**7.6%**	**-11%**

Source: MOF, DGF

Furthermore, taxes collected from international trade (customs and excises) dropped notably by LL 308 billion, to reach LL 1,068 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 379 billion in the first half of 2011, down from LL 395 billion, along with a *drop in the effective customs rate*, indicating that the 8 percent increase in imports is rooted in lower-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.

Table 7: Effective Customs Rate

(LL billion)	2009 Jan-Mar	2010 Jan-Mar	2011 Jan-Mar	%Change 2011/2010
Total Imports	**11,688**	**12,935**	**13,912**	***8%***
• *Fuel Imports (fuel derivatives classified under HS 27)*	*2,646*	*2,371*	*2,560*	***8%***
• *Non-Fuel Imports*	*9,042*	*10,564*	*11,352*	***7%***
• *Share of Fuel Imports*	*22.6%*	*18.3%*	*18.4%*	***0%***
• *Share of Non Fuel Imports*	*77.4%*	*81.7%*	*81.6%*	***0%***
Revenues from Custom Duties	**364**	**395**	**379**	***-4%***
Effective customs rate	**3.1%**	**3.1%**	**2.7%**	**-11%**

Source: MoF, DGF

Total excises collected at import[2] registered a 30 percent decline, to reach LL 688 billion, due to decreases in the revenues of excises on gasoline and cars, as detailed below.

a. Excises on gasoline dropped notably in the first half of 2011, collecting LL 286 billion compared to LL 504 billion during the same period of 2010. The 43 percent less revenues on this front is explained by lower excise rate and lower volume[3].

   The average effective import *price* of gasoline witnessed a 34 percent hike in H1 2011 when compared to the same period of 2010, reflecting the surge in international oil prices that averaged at $ 111/barrel in H1 2011 compared to $ 77/barrel in H1 2010. In order to alleviate the burden on households, the government lowered the excise rate on gasoline starting February 26th, 2011, where 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.

   Historical trends show that demand for gasoline had been inelastic. However recently with the hike in fuel prices in general (and despite lower excise on gasoline), the consumption behaviour may be changing in favour of more energy saving measures. In fact, the volume of imported gasoline declined by 5 percent in the first six months of 2011, compared to the first half of 2010. Other consumption indicators – reflecting the general slowdown in the economy – can be used to further explain this drop, including lower number of imported cars, as well as lower number of tourists. This being said, the first 6 months of the need not be indicative of the overall yearly trend. Thus, sound conclusions cannot be drawn at this stage with regards to the level of gasoline consumption.

   Given the fact that excise rate on gasoline is a specific tax (i.e. LL per litre), the lower *volume* is also behind lower collection of gasoline excise during the first half of the year.

Table 8: Gasoline Import Statistics

	2009 Jan-Jun	2010 Jan-Jun	2011 Jan-Jun	%Change 2011/ 2010
Imports (*LL billion*)	600	895	1,136	27%
Volume (*million litres*)	1,028	1,046	994	-5%
Collected excises (*LL billion*)	492	504	286	-43%
Average effective Price at imports (LL/litre)	***584***	***856***	***1142***	***34%***
Average effective excise rate (LL/litre)	***479***	***482***	***288***	***-40%***

Source: MOF-General Directorate of Customs declaration forms
Note: Figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

[2] 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.
[3] 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.

b. Following substantial increases in 2007, 2008 and 2009, collection from excises on cars started retreating last year, and continued its downturn during H1 2011. This component of excise taxes collected LL 218 billion (down from LL 299 billion in HI 2010) due to 25 percent drop in car imports, explained by 26 percent lower number of imported cars (year-on-year). It is worth noting that the average price per unit did not change between H1 2010 and H1 2011. There are possibly two motives behind the car market slowdown:

- a relative saturation of the market in the short-term, following the burst of car sales and imports during the last four years[4]
- an overall slowdown in the economy as a whole, as revealed by the various indicators.

Table 9: Car Import Statistics

	2009 Jan-Jun	2010 Jan-Jun	2011 Jan-Jun	%Change 2011/ 2010
Imports (LL billion)	1,074	1,074	801	-25%
Number of Cars	52,479	49,828	37,023	-26%
Collected Excises (LL billion)	298	299	218	-27%
Average price per car (LL million)	***20.5***	***21.6***	***21.6***	***0%***
Average effective excise rate (%)	***27.7%***	***27.8%***	***27.2%***	***-2%***

Source: MOF-General Directorate of Customs declaration forms
Note 1: Figures for QI 2008 and 2009 may differ from previously published figures due to revisions by Customs
Note 2: Figures from import declarations may differ slightly from published figures in the Fiscal Performance Report.

Lastly, the receipts from fiscal stamp fees went down by about 3 percent in H1 2011, to reach LL 220 billion. 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 slowdown in collection of stamp fees on a year on year basis suggests a relative regression in economic activity.

[4] 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.

Non-Tax Revenues

Non-tax revenues, including the estimated figure of LL 1,062 billion as Telecom surplus, rose in the first half of 2011 by 84 percent to reach LL 1,667 billion. When estimated telecom revenues are excluded, non-tax revenues show a decline from LL 906 billion in the first six months of 2010 to LL 606 billion in 2011.

Table 10 : Non-Tax Revenues

(LL billion)	2010 Jan-June	2011 Jan-June	Change 2011/2010
Income from Public Institutions and Government Properties	**595**	**1,336**	**125%**
Income from Non-Financial Public Enterprises, *of which*:	504	1,224	**143%**
- *Revenues from Casino Du Liban*	*86*	*89*	**3%**
- *Revenues from Port of Beirut*	*65*	*48*	**-26%**
- *Budget Surplus of National Lottery*	*21*	*25*	**18%**
- *Transfer from the Telecom Surplus*	*331*	*1,062*	**221%**
Income from Financial Public Enterprises (BdL)	60	60	**1%**
Property Income (rent of Rafic Hariri International Airport)	28	46	**65%**
Other Income from Public Institutions (interests)	2	5	**130%**
Administrative Fees & Charges, ***of which:***	**257**	**261**	**2%**
Administrative Fees, *of which*:	210	212	**1%**
- *Notary Fees*	*15*	*14*	**-4%**
- *Passport Fees/ Public Security*	*56*	*61*	**9%**
- *Vehicle Control Fees*	*94*	*97*	**3%**
- *Judicial Fees*	*12*	*13*	**2%**
- *Driving License Fees*	*12*	*8*	**-35%**
Administrative Charges	14	13	**-7%**
Sales (Official Gazette and License Number)	3	2	**-50%**
Permit Fees (mostly work permit fees)	25	27	**10%**
Other Administrative Fees and Charges	6	7	**24%**
Penalties and Confiscations	**3**	**5**	**51%**
Other Non-Tax Revenues (mostly retirement deductibles)	**52**	**66**	**27%**
Total Non-Tax Revenues	**906**	**1,667**	**84%**

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

Income from Public Institutions and Government Properties is primarily led by **transfers from the Telecom Budget Surplus**; it constitutes about 80 percent of the category. If these expected transfers are excluded, revenues from public institutions and government properties in the first half of 2011 drops to LL 274 billion, a figure that is 54 percent lower than that registered during the same period of 2010.

Revenues from Port of Beirut[5] decreased by LL 17 billion during the first half of 2011, while income from the rent of Rafic Hariri International Airport rose by LL 18 billion.

Administrative fees and charges collected a total of LL 261 billion in the first half of 2011, representing a 1.6 percent rise over HI 2010 revenues. This growth was registered despite a LL 4 billion fall in receipts from driving license fees.

[5] For more info on Transfers from Port of Beirut, kindly refer to the publication "Public Finance Monitor – April 2011 Issue".

Treasury Receipts

Treasury receipts amounted to LL 351 billion by the end of June 2011, up by 4 percent compared to the equivalent period of 2010. The major component of treasury receipts has historically been revenues collected for the Independent Municipal Fund which reached LL 124 billion in January-June 2011, compared to LL 132 billion in HI 2010.

Section III: Expenditure Outcome

Total expenditures (budget and treasury) amounted to LL 8,490 billion during the first half of 2011, higher by 7 percent than their level during the similar period of 2010, at LL 7,916 billion. This rise was driven mainly by a 12 percent increase in **total primary expenditures**, which reached LL 5,480 billion in January-June 2011 up from LL 4,895 billion during the similar period of 2010.

Table 11 below summarises the changes in total expenditures.

Table 11: Expenditure Summary

(LL billion)	2009 Jan-June	2010 Jan-June	2011 Jan-June	%Change 2011/2010
Interest Payments	2,787	2,882	2,867	-1%
Concessional Loans Principal Payments [1]	148	140	144	3%
Total Primary Expenditures [2]	5,831	4,895	5,480	12%
Total Budget and Treasury Payments	**8,766**	**7,916**	**8,490**	**7%**

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 574 billion increase in total outlays arises from the following:

a) A LL 634 billion rise in **current expenditures** mainly explained by (i) a LL 341 billion augmentation in personnel cost, (ii) a LL 270 billion expansion in various transfers and (iii) a LL 20 billion rise in outlays on materials and supplies.

b) A LL 6 billion rise in **capital expenditures**.

c) A LL19 billion increase in **budget advances**.

The rise in these two line items was in part offset by a LL 82 billion drop in "**other Treasury expenditures**" due to lower VAT refund payments by LL 117 billion.

Table 12 below describes the evolution of main expenditure items in H1 2011, presented according to the economic classification.

Table 12: Expenditure by Economic Classification

(LL billion)	Jan-June 2010	Jan-June 2011	%Change 2011/2010
1. Current Expenditures	**7,020**	**7,654**	**9%**
1.a Personnel Cost, *of which:*	2,402	2,743	14%
Salaries, Wages and Related Items (Article 13) 1/	*1,629*	*1,829*	12%
Retirement and End of Service Compensations, of which:	*633*	*748*	18%
Retirement	*531*	*596*	*12%*
End of Service	*102*	*151*	*48%*
Transfers to Public Institutions to Cover Salaries 2/	*140*	*166*	19%
1.b Interest Payments, *of which: 3/*	2,882	2,867	-1%
Domestic Interest Payments	*1,788*	*1,791*	*0%*
Foreign Interest Payments	*1,094*	*1,076*	*-2%*
1.c Foreign Debt Principal Repayment	140	144	3%
1.d Materials and Supplies, *of which:*	133	153	15%
Nutrition	*19*	*25*	*31%*
Fuel Oil	*5*	*4*	*-6%*
Medicaments	*73*	*79*	*8%*
Accounting Adjustments for Treasury	*19*	*22*	*13%*
1.e External Services	58	64	10%
1.f Various Transfers, *of which 4/:*	1,146	1,416	24%
EDL 5/	*849*	*1,031*	*22%*
NSSF	*0*	*120*	
Treasury advances for diesel oil subsidy	*61*	*0*	*-100%*
Wheat Subsidy	*0*	*58*	
Special Tribunal for Lebanon	*41*	*0*	*-100%*
Accounting Adjustments for Treasury	*2*	*18*	*1079%*
1.g Other Current, *of which:*	198	196	-1%
Hospitals	*167*	*150*	*-10%*
Others (judgments & reconciliations, mission costs, other)	*28*	*38*	*37%*
Accounting Adjustments for Treasury	*3*	*7*	*174%*
1.h Reserves	61	72	17%
Interest subsidy	*61*	*72*	*17%*
2. Capital Expenditures	**308**	**314**	**2%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports,	1	1	61%
2.b Equipment	22	24	10%
2.c Construction in Progress, *of which:*	165	160	-3%
Displaced Fund	*30*	*0*	*-100%*
Council of the South	*20*	*13*	*-36%*
CDR	*77*	*65*	*-15%*
Ministry of Public Works and Transport	*30*	*59*	*93%*
Other, of which:	*8*	*22*	*178%*
High Relief Committee	*0*	*13*	
2.d Maintenance	71	117	66%
2.e Other Expenditures Related to Fixed Capital Assets	50	4	-92%
2.f Parliamentary equipment & maintenance *6/*	0	9	
3. Budget Advances *7/*	**113**	**131**	**16%**
4. Customs Administration (exc. Salaries and Wages) *8/*	**21**	**21**	**-1%**
5. Other Treasury Expenditures	**452**	**370**	**-18%**
Municipalities	154	150	-3%
Guarantees	43	29	-33%
Deposits :	35	48	38%
Other, *of which:*	220	121	-45%
VAT Refund	*187*	*70*	*-63%*
High Relief Committee	*0*	*0*	
Treasury Advances for Water Authorities	0	23	
6. Unclassified Expenditures	**3**	**0**	-88%
7. Total Expenditures (Excluding CDR Foreign Financed)	**7,916**	**8,490**	**7%**

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

(1) For a detailed breakdown of salaries, wages and related benefits, kindly refer to Table 13.

(2) For a detailed breakdown of transfers to public institutions, kindly refer to Table 14.

(3) For a detailed breakdown of interest payments, kindly refer to Table 18.

(4)For a detailed breakdown of various transfers, kindly refer to Table 17.

(5) 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.

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

(7) 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.

(8) "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[6] rose by 16 percent over H1 2011, amounting to LL 4,644 billion up from LL 3,998 billion during the corresponding period of 2010. The main components of current primary expenditures are recorded below.

Personnel cost[7] rose by LL 341 billion – equivalent to 14 percent year-on-year – to LL 2,743 billion in January-June 2011 versus LL 2,402 billion in January-June 2010. In details, wages, salaries and related benefits (Article 13) amounted to LL 1,828 billion in H1 2011 compared to LL 1,630 billion in H1 2010, representing a 12 percent increase. As shown in Table 13 below, this 198 billion rise is explained by the combined outcome of an increase of LL 151 billion in basic salaries, an increase of LL 68 billion in allowances, an increase of LL 3 billion in indemnities and a decrease of LL 25 billion in "other"[8] payments. For further details, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin (March to June issues) on the Ministry of Finance website: www.finance.gov.lb.

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

(LL billion)	Basic Salaries		Indemnities 5/		Allowances 6/		Other 7/		Total	
	2010 Jan-Jun	2011 Jan-Jun	2010 Jan-Jun	2011 Jan-Jun	2010 Jan- Jun	2011 Jan-Jun	2010 Jan-Jun	2011 Jan- Jun	2010 Jan-Jun	2011 Jan-Jun
Military Personnel	**793**	**908**	**36**	**35**	**193**	**261**	**1**	**1**	**1,024**	**1,206**
• Army	535	607	24	23	107	162	0	0	666	793
• Internal Security Forces	206	239	10	10	69	80	0	0	285	330
• General Security Forces	40	46	1	2	13	13	1	1	56	62
• State Security Forces 2/	12	15	1	1	4	5	0	0	17	22
Education Personnel	**269**	**313**	**30**	**32**	**0**	**0**	**0**	**0**	**299**	**345**
Civil Personnel 3/, *of which:*	**167**	**159**	**32**	**34**	**1**	**2**	**86**	**62**	**287**	**257**
• Employees Cooperative							71	45	71	45
Customs Salaries 4/									**21**	**21**
Total	**1,229**	**1,380**	**98**	**101**	**195**	**263**	**88**	**63**	**1,629**	**1,829**

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.

[6] Current primary expenditures are current expenditures excluding interest payments and foreign debt principal repayment.
[7] 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.
[8] Other includes (i) payments for bonuses, (ii) State contributions to the Civil Servants' Cooperatives, (iii) State contributions to the Mutual Funds covering Members of Parliament, employees of the Lebanese Parliament, judges, judges' aides and Islamic tribunal judges and (iv) State contributions (as an employer) to the National Social Security Fund public sector employees that are not covered by the Civil Servant Cooperative and the Mutual Funds.

Retirement and end-of-service indemnities accumulated to LL 748 billion in H1 2011 compared to LL 633 billion in H1 2010, representing a 18 percent increase. Behind this LL 115 billion rise stand the following changes:

a) Retirement wage payments rose by LL 66 billion (12 percent) to LL 596 billion in H1 2011

b) End-of-service compensations reached LL 151 billion by end-June 2011. This LL 49 billion expansion is primarily the result of a LL 53 billion rise in payments to military personnel, which amounted to LL 133 billion (88 percent of total compensation payments) in H1 2011 compared to LL 80 billion (78 percent of total compensation payments) in H1 2010. This 67 percent upswing was induced either by a higher number of beneficiaries[9] or by the fact that retirees during the period under consideration are of higher grade levels[10] and/or have served for a longer period. As for end-of-service compensations to the civil personnel, they fell by LL 4 billion to LL 18 billion in H1 2011 compared to LL 22 billion in H1 2010. This 18 percent decline is probably the result of a drop in the number of beneficiaries which reached 901 retirees in H1 2011, down from 1,179 during the equivalent period of 2010.

Further under personnel cost, transfers to public institutions to cover salaries rose by LL 26 billion (26 percent) to reach LL 166 billion in H1 2011, mainly driven by the LL 28 billion increase in transfers to the Lebanese University. The change in the components of transfers to public institutions are shown in Table 14 below.

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

(LL billion)	2009 Jan-	2010 Jan-	2011 Jan-June	%Change 2011/2010
Transfer to Council of the South	4	8	6	-19%
Transfer to the Council for Development and Reconstruction	27	15[11]	16[12]	5%
Transfer to Fund for the Displaced	4	3	3	8%
Transfer to the Lebanese University	120	107	134	26%
Transfer to Educational Centre for Research and Development	7	7	6	-14%
Total Transfers to Public Institutions	**161**	**140**	**166**	**19%**

Source: MOF

[9] No statistics are available regarding the number of military retirees.
[10] Indemnities are paid on the basis of the last-month salary.
[11] From this amount, LL5.7 billion are due to the payment in March and May 2011 of two transfers (from Transfer 49870/99) respectively worth LL 2 billion and LL3.7 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.
[12] From this amount, LL6 billion are due to the payment in January, February and April 2011 of three transfers (from Transfer 49870/99) respectively worth LL 1 billion, LL 2 billion and LL3 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.

Materials and supplies purchases amounted to LL 153 billion in H1 2011 compared to LL 133 billion in H1 2010, representing a LL 20 billion (15 percent) year-on-year rise. Excluding accounting adjustments for treasury advances[13] (which amounted to LL 22 billion in H1 2011), this is explained mainly by the following two increases:

a) A LL 6 billion (8 percent) rise in spending on medicaments, which amounted to LL 79 billion in H1 2011 compared to LL 73 billion in H1 2010. Behind this rise stands a LL 6 billion augmentation in medicament purchases by the Public Health Directorate at the Ministry of Public Health.

b) A LL 6 billion (31 percent) expansion in the nutrition bill which accumulated to LL 25 billion in H1 2011 compared to LL 19 billion during the same period of 2010. This increase is primarily explained by a LL 6 billion rise in food consumption by the army.

External Services (rent, postal, insurance, advertisement and public relations) increased by LL 6 billion or 10 percent from LL 58 billion in H1 2010 to LL64 billion in H1 2011. This was mainly due to increases in payments for printing official documents and fiscal stamps, consultancy services and cleaning contracts.

Various Transfers rose by LL 270 billion, totalling LL 1,416 billion in H1 2011 compared to LL 1,146 billion in H1 2010. This 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 six 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 H1 2011 were paid from the allocation covering the State's contribution to the Fund that was included in the 2010 Budget Proposal[14].

Table15: Transfers to the NSSF

(LL billion)	2010 Budget Proposal	Payments from Budget 2010 in H1 2010	Payments from Budget 2010 in Jan-Dec 2010	Payments from Budget 2010 in H1 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

[13] Accounting adjustment for treasury advances are accounting entries made in the budget and accounting systems of the Ministry of Finance to regularize payments made by treasury advances that have not been reimbursed in cash. The regularization can be from an ex-post budget allocation specifically included in the national budget for regularization purposes or through the netting out of utility bills owed by public administrations to public institutions (such as EDL for example) from the treasury advance owed by the public institution to the Treasury.

[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.

b) Wheat subsidy transfers amounted to LL 58 billion in H1 2011 while they were absent in H1 2010. These payments were made to purchase approximately 100,000 tons of imported wheat that were resold to mills at a subsidised price to maintain the price of Arabic bread constant at LL 1,500 per kilogramme.

c) Transfers to non-profit organizations reached LL 97 billion in H1 2011 compared to LL74 billion in H1 2010 or a LL23 billion (31 percent year on year increase). This was mainly the result of higher transfers to NGOs under contract with the Ministry of Social Affairs. The payments they received amounted to LL 57 billion in January-June 2011 compared to LL 31 billion during the same period of 2010, representing a LL 26 billion equivalent to 85 percent year-on-year increase.

d) Transfers to EDL[15] increased by LL 183 billion in the first half of 2011 compared to that of 2010, thus amounting to LL 1,031 billion.

Table 16: Transfers to EDL

(LL billion)	2009 Jan-Jun	2010 Jan-Jun	2011 Jan-Jun	%Change 2011/2010
EDL, *of which:*	**1,511**	**849**	**1,031**	**22%**
a-Debt Service, *of which:*	**61**	**41**	**42**	**2%**
• C-Loans and Eurobonds, *of which:*	41	31	23	-25%
- *Principal Repayments*	*35*	*27*	*19*	*-28%*
- *Interest Payments*	*6*	*5*	*4*	*-9%*
• BDL-Guaranteed Loan Payments	20	10	19	89%
b-Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	**1,450**	**807**	**989**	**23%**
• KPC and SPC	1,450	807	934	16%
• EGAS	0	0	55	-

Source: MOF, DGF

e) Transfers to the school funds amounted to LL5 billion in H1 2011 while they had reached LL 20 billion in H1 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).

f) Transfers to the Special Tribunal for Lebanon (STL) were absent H1 2011 whereas they had amounted to LL 41 billion[16] in QI 2010.

g) Transfers to cover the diesel oil subsidy were absent in H1 2011 whereas they had amounted to LL 61 billion[17] in QI 2010. This drop is explained by the absence of a policy decision to subsidize diesel oil during the 2010-2011 winter.

[15] For further details, check the June 2011 issue of *"Transfers to EDL: A Monthly Snapshot"* available on www.finance.gov.lb.
[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. The remaining LL13.6 billion were used within the framework of the National Plan for Energy saving. Should you require further information about the diesel oil subsidy policy, kindly refer to Public Finance Quarterly Reports for QI 2010 and QII 2010.

Table 17: Breakdown of Article 14 by Economic Classification

LL Billion	HI 2010	HI 2011	% Change
1. Contributions to the Public Sector 1/	**979**	**1,189**	**21%**
1a. Electricité Du Liban (EDL)	849	1,031	22%
1b. Other Contributions to the Public Sector, *of which:*	130	158	21%
National Council for Scientific Research	*3*	*3*	0%
High Relief Committee (HRC)	*2*	*4*	128%
Investment Development Authority of Lebanon (IDAL)	*16*	*0*	-100%
Transfers to School Funds	*20*	*5*	-76%
Public Hospitals	*2*	*4*	77%
National Agriculture Research Institute (NARI)	*2*	*5*	231%
Green Project	*4*	*4*	-13%
Public Institution for Cooperative Markets 2/	*0.2*	*0.2*	0%
National Social Security Fund (NSSF)	*0*	*120*	NA
Tele-Liban	*3*	*3*	-16%
Diesel Oil Subsidy 3/	*60*	*0*	-100%
Lebanese National Higher Conservatory of Music	*7*	*5*	-35%
2. Contributions to the Non-Public Sector	**78**	**99**	**27%**
2a. Contributions to Non Profit Organizations 4/, *of which:*	74	97	31%
Ministry of Education-Subsidized Schools	*30*	*31*	5%
Ministry of Public Health (Blood Bank and Medications through NGOs)	*5*	*6*	15%
Ministry of Youth and Sports (Sport Federations and Prizes for Athletes)	*2*	*1*	-50%
2b. Contributions to Private Parties, *of which:*	4	2	-35%
Ministry of Justice (Contributions to Canonical Tribunals)	*0*	*0*	0%
Ministry of Public Health (Childhood, Elderly and Handicapped Centres)	*1*	*0*	-22%
Ministry of Culture (Support to Art)	*3*	*1*	-62%
2c. Students Grants	0.17	0.13	**-24%**
3. Assistance to the Public Sector	**10**	**70**	**604%**
3a. Assistance for the Directorate General of Grains and Sugar Beetroot 5/	0	58	**NA**
3b. Assistance to Public Institutions, *of which:*	10	11	11%
Institute of finance	*1*	*1*	-11%
Railway and Public Transportation Authority	*6*	*7*	21%
3c. Other Assistances to the Public Sector, *of which:*	0	1	NA
Ministry of Environment (Joint Projects with Municipalities)	*0*	*1*	NA
4. Assistance to the Non-Public Sector	**0**	**0**	**NA**
5.External Assistance	**42**	**1**	**-98%**
5a. Other External Assistance, *of which:*	42	1	-98%
Special Tribunal for Lebanon	*41*	*0*	-100%
6. Membership Fees	**11**	**14**	**22%**
6 a. Membership Fees in International and Regional Organizations, *of which:*	11	14	22%
Ministry of Foreign Affairs and Emigrants	*5*	*2*	-52%
Ministry of Public Health (mainly for vaccinations and health prevention policies)	*4*	*8*	111%
7.Stoppings 6/, *of which:*	**25**	**44**	**79%**
Treasury Advances 7/	*2*	*18*	1079%
Lebanese Civil Defence 8/	*13*	*16*	24%
Total	**1,146**	**1,416**	**24%**

Source: DGF, MOF

1/ Includes contributions to Public Institutions, to certain Public Corporations(Tele-Liban) and public hospitals.

2/ These payments were made from the guarantees account based on letters from the Presidency of the Council of Ministers.

3/ These payments were provided through the treasury advance issued from Decree 2986 dated January 1st, 2010.

4/Transfers to the Non Profit Organizations under the Ministry of Social Affairs is published in Table 21.

5/ Transfers to subsidize price of wheat sold to mills. They were made through a treasury advance by Decree 4947 dated September 4th, 2010 and a treasury advance based on an exceptional decision regularized later through Decree 6056 dated August 6, 2011 .

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

7/ The expenditure figures as published by the Ministry of Finance include the regularization in the national budget system of treasury advances previously paid from treasury accounts. These regularizations are included on both the revenue and expenditure side for accounting purposes and do not constitute an actual spending that affects the deficit.

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

Other Current Expenditures slightly receded by 1 percent to LL 196 billion in H1 2011. This LL 2 billion decrease was the outcome of opposite changes in the following items:

(a) Payments to hospitals to cover the cost of hospitalization of uninsured citizens in the private sector declined by LL 17 billion equivalent to 10 percent, amounting to LL 150 billion in January-June 2011 compared to LL 167 billion during the similar period of 2010.

(b) The sub-line item "other" expenditures (which includes mainly compensatory payments to be made following judgement issued by the State Council, reconciliation payments as well as electoral expenses) rose by LL 10 billion (37 percent), to reach LL 38 billion in H1 2011 compared to LL 28 billion in H1 2010. This is explained by the following:

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

ii. Payments for "judgements and reconciliations" rose by LL 3 billion equivalent to 109 percent, amounting to LL 6 billion in H1 2011 compared to LL 3 billion in H1 2010.

Interest Payments

Total Interest payments in the first half of the year, amounting to LL 2,867 billion, were nearly in line with payments effected in the first half of 2010.

On **domestic currency debt**, interest payments totalled LL 1,791 billion, near last year, same period payments.

In fact, at LL1,740 billion, **coupon payments** (interest due on 2, 3, 5 and 7 year Treasury bonds), were 3 percent higher than coupon payments in HI 2010: this reflects a nearly 13 percent higher stock of outstanding Treasury bonds upon which coupon is due in this first half of 2011, noting also that Treasury bonds principal maturing in HI 2011 amounts to LL 9,878 billion[19] compared to LL 3,494 billion of principal maturing in HI 2010. However the weighted average cost of the stock of outstanding Treasury bonds on which coupon was due in HI 2011 was 8.19 percent compared to 9.04 percent for the stock outstanding in 2010, a 85 bps reduction which helped ease the burden on fiscal balances. In fact 55 percent of the

[18] That were paid from the Treasury advance provided by Decree 4946 dated September 9th, 2010.
[19] This amount includes early redemption of T-bills in the amount of LL 2,768 billion pertaining to special financing transactions conducted in January (Eurobond placement with BDL), March (swap CD's with 7yr Treasury bonds) & April 2011 (swapping maturing T-bills and bonds with 7 year Treasury bonds).

outstanding stock of Treasury bonds on which coupon was due in HI 2011 carry primary interest rates not exceeding 9 percent, whereas only 36 percent of the stock on which coupon was due in HI 2010 carried primary interest rates not exceeding 9 percent. In other words, the substantial reduction in the borrowing cost witnessed in 2009 and 2010 has allowed the government today to save on interest payments, despite higher volume of outstanding debt.

On the other hand, the 51 percent reduction in **discount interest** (interest due on 3, 6, and 12 months T-bills), which totalled LL 51 billion in HI 2011, counterbalanced the rise in coupon payments. This significant decline in discount interest payments is explained by a (i) 35 percent drop in the volume of short term instruments maturing in HI 2011 compared to that maturing in HI 2010 (HI 2010 witnessed high redemption of T-bills issued in 2009, a year that witnessed large deposit inflows), and by (ii) 157 bps reduction in the weighted average cost.

On **foreign currency debt**, interest payments totalled LL 1,076 billion in HI 2011, 2 percent less than payments in HI 2010. Of this amount LL 1,010 billion represent **coupon payments (incl. related fees) on Eurobonds**, which were slightly (1 percent) above Eurobond coupon payments in HI 2010. These additional payments reflect coupon payments (i) in January 2011 of the USD 250 million, 5.875 percent Note due 2015; (ii) in March 2011 of the USD 1.2 million, 6.375 percent Note due March 2020, and (iii) in May 2011 of the USD 500 million 5.150 percent Note due November 2018, and the USD 1,540 million 6.10 percent Note due October 2022 (first tranche opened in Nov 2010, and two subsequent tranches opened in January & May 2011). On the other hand, coupons were paid in HI 2010 on the USD 700 million 6.875 percent Note held by BDL which was redeemed in November 2010, and hence did not carry coupon dues in HI 2011.

Further under foreign currency debt service: (i) **interest payments on C-loans** totalled LL 64 billion in HI 2011, 25 percent below C-loans interest payments in HI 2010, of which approximately LL 34 billion are interest on C-loans to CDR (compared to LL 78 billion in HI 2010), and LL 29 billion are Budget support[20] to MOF; (ii) **coupon payments on Special bonds** (namely expropriation and contractors bonds) were almost LL 2 billion in HI 2011 compared to LL 9 billion in HI 2010.

Table 18: Interest Payments

	Jan-June 2010	Jan-June 2011	% change
Interest Payments	**2,882**	**2,867**	**-0.5%**
Local Currency	**1,788**	**1,791**	**0.2%**
Discount interest	104	51	-50.6%
Coupon payment	1,684	1,740	3.3%
Foreign Currency	**1,094**	**1,076**	**-1.7%**
Eurobond Coupon (incl.fees)	1,000	1,010	1.0%
C-loans interest	85	64	-25.1%
Special Bond (exprop. & contract.)	9	2	-77.4%
Memorandum item:			
Weighted average cost/Local currency			
Treasury Bills (3-6-12 months)	*6.34*	*4.76*	*-1.57*

[20] These are budget support loans to the Government in the context of PII & PIII, namely AFD loans, EPCA loans, AMF, IBRD, etc…

Treasury bonds (2, 3, 5,and 7 years)	*9.04*	*8.19*	*-0.85*

Source: PDD, MOF

Capital Expenditures

Capital expenditures rose by LL 6 billion (2 percent) year-on-year, reaching LL 314 billion during the first half of 2011 versus LL 308 billion during the same period of 2010.

In details, **equipment** purchases increased by 10 percent to LL 24 billion in HI 2011 compared to LL 22 billion in HI 2010, mainly stemming from an increase in equipment purchases by the Ministry of Finance.

Construction in progress spending dropped by a mere 3 percent to LL 160 billion during the first half of 2011 compared to LL 165 billion during the corresponding period of 2010. This LL 5 billion decline is the combined outcome of the following:

a) Transfers to the Displaced Fund were absent in HI 2011 whereas they had amounted to LL 30 billion in HI 2010[21].

b) Transfers to the Council of the South receded by LL 7 billion (36 percent), reaching LL 13 billion in January-June 2011 against LL 20 billion during the first six months of 2010[22].

c) Transfers to the Council for Development and Reconstruction fell by nearly 15 percent to LL 65 billion in HI 2011 compared to LL 77 billion in HI 2010. As shown in Table 19 below, this LL 12 billion drop is mainly due to the following:

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

   ii. Arbitrage payments to Hoctief (Airport) amounted to LL 26 billion in HI 2010 compared to LL12 billion in the respective period of 2011.

   iii. Payments for the maintenance of Rafic Hariri International Airport cumulated to LL 6 billion in the first half of 2011 against LL 10 billion in H1 2010.

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

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

Table 19: Payments to CDR for Construction in Progress

LL billion	H1 2010	H1 2011
CDR Budget Payments, *of which:*	**68**	**52**
Counterpart funding for foreign financed projects	29	34
Maintenance of Rafic Hariri International Airport	10	6
Maintenance of Grand Sérail	3	0
Arbitrage payments to Hoctief (Airport)	26	12
Other Payments from CDR Budget (1)	0	0
Projects Executed on behalf of Line Ministries *of which*	**9**	**13**
Roads	4	8
Buildings	4	5
Other	**0**	**0**
Total Payments to CDR for Construction In Progress	**77**	**65**

Source: MOF

(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.

d) Transfers to the Ministry of Public Works and Transport surged by 93 percent, totalling LL 59 billion during the first half of 2011 against LL 30 billion during the same period of 2010. Behind this LL 29 billion rise stand the following changes:

   i. A LL 25 billion rise in spending on the construction of roads of which LL 17 billion under the Ministry's Program Law for the construction of roads.

   ii. A LL 5 billion increase in spending under the Ministry's Program Law for the construction of Saida's Port and seafront avenue.

e) Other transfers registered a 178 percent increase largely owing to a surge in transfers to the Higher Council of Relief, which amounted to LL 13 billion in the first half of 2011 compared to nil in the respective period of 2010[23].

The **maintenance** bill shot up by 66 percent, to reach LL 117 billion in H1 2011. This LL 46 billion upswing is due to a LL 47 billion rise in spending on the maintenance of roads by the Ministry of Public Works and Transport. While payments to the CDR for the maintenance of the Lebanese University Campus (Hadath) slightly offset this rise, registering a decrease of 55 percent, totalling LL 2.7 billion[24] in HI 2011 compared to LL 6 billion[25] in HI 2010.

Other expenditures related to fixed capital decreased in H1 2011 to LL 4 billion compared to LL 50 billion in H1 2010. This LL 46 billion drop is mainly due to the absence of transfers to the Investment Development Authority of Lebanon (IDAL) in HI 2011 to cover the spending of its Export Plus Program. These transfers had amounted to LL 48.75 billion in HI 2010.

[23] For more information on the payments made to HRC, please refer to May 2011 Public Finance Monitor.
[24] Which were paid from the treasury advance provided by Decree 3325 dated February 17th, 2010.
[25] Of which (i) LL 1 billion were paid from Decree 374 dated September 29th, 2008, (ii) LL 1.1 billion were paid from Decree 938 dated November 19th, 2007and (iii) LL 3.9 billion were paid from Decree 3325 dated February 17th, 2010.

Finally under capital expenditures, parliamentary equipment and maintenance totalled LL 9 billion in H1 2011 compared to nil in H1 2010[26].

Treasury Expenditures

Treasury expenditures fell by 18 percent to LL 370 billion in H1 2011 compared to LL 452 billion in H1 2010. This LL 82 billion decline is primarily attributed to lower Value Added Tax refund payments.

Payments to municipalities declined by 2 percent to LL 150 billion H1 2011 versus LL 154 billion in H1 2010. This LL 4 billion is mainly explained by a LL 20 billion (15 percent) drop in payments for solid waste management, as shown in Table 20 below. These payments decreased to LL 110 billion in H1 2011 from LL 130 billion in H1 2010 mainly because of payment timing issues. In parallel, payments of revenues accruing to municipalities rose by 84 percent, hovering around LL 39 billion in H1 2011 compared to LL21 billion in H1 2010. Of the LL 39 billion that were paid as accrued revenues to municipalities in QI 2011, (i) LL 4.6 billion pertain to the 2009 revenues[27] of the Independent Municipal Fund, (ii) LL 5.2 billion pertain to the 2008 revenues[28], (iii) LL 14.6 billion pertain to the 2007 revenues[29] and (iii) LL 14 billion pertain to the 2006 revenues[30]. Of the LL 21 billion that were paid as accrued revenues to municipalities in H1 2010, (i) LL 10.8 billion are on account of the 2007 revenues and (ii) LL 9.1 billion are on account of the 2006 revenues.

Table 20: Payments to Municipalities

(LL billion)	2009 Jan-June	2010 Jan-June	2011 Jan-June	%Change 2011/2010
Distribution of Revenues Accruing to Municipalities	1	21	39	84%
Payments for Solid Waste Management	125	130	110	-15%
Payments to the "First Municipality Infrastructure	7	0	1	108%
Other Payments	1	2	1	-30%
Total Payments to Municipalities(1)	136	154	150	-2%

Source: MOF, DGF

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

Under "other" Treasury expenditures, VAT refund declined by 63 percent to LL 70 billion during the first six months of 2011 from LL 187 billion during the similar period of 2010.

Lastly under Treasury expenditures, Treasury advances for water authorities totalled LL 23 billion in H1 2011 compared to nil in H1 2010. These LL 23 billion could be broken down as follows: a LL 5 billion treasury advance provided to the Southern Water Authority[31], a LL10

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

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

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

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

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

[31] Provided by Decree 5019 dated September 7th, 2010.

billion treasury advance[32] provided to the Bekaa Water Authority and a LL7.5 billion treasury advance provided to the Northern Water Authority[33].

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 intervention classified as social assistance.

The social bill rose by 21 percent year-on-year, amounting to LL 2,063 billion in H1 2011 from a lower level of LL 1,705 billion in H1 2010. End-of-Service indemnities and retirement wages accounted for the highest share of social spending in H1 2011 at 36 percent, down from 37 percent in H1 2010. Education spending followed with a stake of 31 percent, down from 34 percent in January-June 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 20 percent of social outlays, down from 21 percent during the first six months of 2010.

The LL 358 billion surge in social spending recorded in H1 2011 is primarily explained by the combined effect of the following:

a) Transfers to the NSSF rose by LL 120 billion from zero in H1 2010 to LL 120 billion in H1 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 115 billion from LL 633 billion in H1 2010 to LL 748 billion in H1 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 53 billion to LL 114 billion in H1 2011 up from LL 61 billion in H1 2010.

d) Payments of salaries and wages of the General Directorate of Education increased by LL 48 billion to LL 345 billion in H1 2011 from LL 280 billion in H1 2010.

e) Payments for the hospitalization of uninsured citizens in the private sector decreased by LL 17 billion to LL 150 billion during the first six months of 2011 from LL 167 billion during the similar period of 2010.

[32] Provided by Decree 5020 dated September 7th, 2010.
[33] Provided by Decree 5021 dated September 7th, 2010.

f) Transfers to non-profit organizations by the Ministry of Social Affairs augmented by LL 26 billion to LL 57 billion in H1 2011 from LL 31 billion in H1 2010.

g) Purchases of medicaments increased by LL6 billion, amounting to LL 79 billion in H1 2011 compared to LL 73 billion in H1 2010 (*for details kindly refer to the "Current primary expenditures" section*).

h) Payments of maternity and sickness allowances rose by LL 7 billion to LL 26 billion during the first semester of 2011 from LL 20 billion during the same period of 2010.

i) Transfers to the Civil Servants' Cooperative declined by LL 26 billion to LL 45 billion in H1 2011 from LL 71 billion in H1 2010, mainly due to the timing of payments.

Table 21: Main Social Expenditures

(LL billion)	H1 2010	H1 2011	%Change
Health	**353**	**411**	**16%**
• Hospitalization in the Private Sector	167	150	-10%
• Purchase of Medication	73	79	8%
• Hospitalization of Public Sector Employees in Private Sector	61	114	87%
• Maternity and Sickness Allowance	20	26	35%
• Other	33	41	26%
Education	**588**	**646**	**10%**
• Ministry of Education and Higher Education, *of which*:	484	538	11%
- *Wages and Salaries of the General Directorate of Education*	*280*	*329*	*15%*
- *Wages and Salaries of the General Directorate of Higher*	*0*	*0*	*15%*
- *Wages and Salaries of the General Directorate of Technical*	*18*	*16*	*-9%*
- *Transfers to the Lebanese University*	*107*	*134*	*26%*
- *Contributions to Non Profitable Organizations (Private Schools)*	*30*	*31*	*5%*
- *Construction under Execution (Construction and Restoration of*	*3*	*0*	*-100%*
• Education Allowance in Private Sector	104	107	3%
Other Social Spending	**763**	**1,003**	**32%**
• Marriage Allowance	3	4	56%
• Birth Allowance	1	2	41%
• Death Allowance	2	2	-2%
• Other Social Spending Allowance	4	4	1%
• Participation in Several Mutual Funds	12	15	21%
• Ministry of Social Affairs, *of which*:	34	61	78%
- *Transfers to Non-Profit Organizations*	*31*	*57*	*85%*
• Ministry of the Displaced	3	3	7%
• Transfers to Civil Servants Cooperative	71	45	-37%
• End-of-Service Indemnities and Retirement Wages	633	748	18%
• Transfers to the National Social Security Fund	0	120	-
Unclassified allowances	**1**	**3**	**328%**
Total Social Expenditures	**1,705**	**2,063**	**21%**

Source: MOF, DGF

Section IV: Public Debt Developments

Financing Sources

Total net financing for the second quarter of 2011 reached LL 1,043 billion, compared to LL 1,337 billion during the same period in 2010.

During QII 2011, Treasury accounts represented the main source of financing as the government reduced its cash balances by LL 672 billion. The issuance of Eurobonds was the second source of financing in QII 2011 as it resulted in a net positive balance of LL 238 billion reflecting the $ 1 billion aggregate Eurobond issuance transaction settled on May 20th, 2011[34].

The net issuance of LL Treasury bills and bonds resumed slowly in QII 2011 with LL 156 billion in net terms, compared to a deficit of LL 402 billion in QI 2011[35], mirroring the developments in the weekly TB auctions over the first half of 2011. In fact, whereas Q1 2011 witnessed an average roll over ratio of 70 percent in the weekly Auction process (the Auction was in deficit during 11 weeks out of the 13 weeks in QI 2011), the QII Auction gained some momentum, with an average roll over ratio of 102 percent (the Auction results improved with only 5 weeks of deficit out of 13 weeks in QII 2011). This is in sharp contrast with the situation in H1 2010 when LL denominated T-bills and bonds' issuance in weekly auctions was a major source of financing. In fact, the net issuance of LL TBs was in surplus of LL 506 billion by end-June 2010 (despite the halt in the weekly auctions during the month of March 2010). In addition to weekly financing through the Auction, the Government conducted an LL denominated financing transaction in April 2011 with the issuance of an aggregate amount of LL 2,658 billion of 7 years, 7.9 percent Treasury bonds, subscribed through cash or through exchanging maturing T-bills and bonds (maturing throughout Apr-Jun 2011).

Table 22: Financing Sources in Jan-Jun 2011

(LL billion)	2010 Jan-June	2011 Jan-June
Overall balance from the financing side (1)		
Total Net in Financing	**1,337**	**1,043**
• LL Treasury bills (3)	506	156
• Eurobonds (2)	-87	238
• Special T-bills in Foreign currencies	24	0
• Bilateral Loans (2)	-199	10
• Multilateral Loans (2)	-186	-33
• Private sector loans (2)	-3	0
• Change in Treasury accounts (-/increase +/decrease)	1,283	672

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
(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.
(2) The net variation of foreign currency debt excludes foreign exchange variations as well as accrued interest
(3) The net variation of treasury bills excludes accrued interest
NB: Positive numbers indicate a net increase and negative numbers indicates a net decrease except for line item "change in treasury accounts".

[34] A dual tranche, $650 million 6.0 percent due May 2019 & $ 350 million 6.1 percent tap of October 2022 bond - Box 2.
[35] Please refer to Public Finance Quarterly Review, QI 2011.

Public Debt

By the end of the second quarter of 2011, **gross public debt** totalled LL 79,223 billion ($ 52.55 billion), LL 75 billion less than the end-December 2010 level. This was led by a LL 300 billion decrease in the stock of local currency debt compared to a higher foreign currency debt of LL 225 billion.

Net public debt[36] increased by LL 896 billion or 1.3 percent between December 2010 and June 2011, amounting to LL 68,775 billion ($ 45.62 billion). The increase is mainly due to a LL 971 billion reduction in public sector deposits which was most noticeable in QI 2011.

Table 23: Public Debt Outstanding as of end-June 2011

(LL billion)	Dec-09	Dec-10	Jun-11	Change Dec 10 - Jun 11	% Change Dec 10 - Jun 11
Gross Public Debt[(1)]	77,112	79,298	79,223	-75	-0.09%
Net Debt	66,590	67,879	68,775	896	1.32%
Gross Market Debt[(2)]	51,231	51,308	48,294	-3,014	-5.87%

Source: Ministry of Finance, Banque du Liban

[(1)] *Figures for June 2011 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.*

Local currency debt registered a LL 300 billion or 0.62 percent reduction, standing at LL 47,955 billion compared to end-December 2010 (including accrued interest). This is due to 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 50 percent by end-June 2011, down from 56 percent at end-December 2010. This is reflected in their LL 3,147 billion lower local currency debt holdings, led by a smaller Treasury bills and bonds portfolio of LL 3,139 billion. In contrast, the Banque du Liban's holdings of local currency debt increased by LL 2,845 billion by the end of the first half of 2011, accounting for a 33 percent share of local currency debt, up from 27 percent at the end of December 2010. This is due to (i) a LL 2,487 billion (19 percent) increase in the central bank's holdings of Treasury bills and bonds compared to end-2010[37]; and (ii) the BdL's issuance of LL 400 billion worth of repurchase agreements by the end of QII 2011.

Holdings of local currency debt by "other" holders stayed relatively constant, increasing by LL 2 billion since the end of 2010 leading to a 0.2 percentage point increase in their share of holdings of TB portfolio to 16.5 percent. Of this category, public institutions' holdings of TBs were LL 307 billion (or 4.90 percent) higher, leading to a 0.7 percentage point increase in their share of local currency debt to 13.7 percent.

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

[37] 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 of the Public Finance Quarterly of QI 2011.

These results reflect the weekly Treasury bill and bond auctions during the first half of 2011. Historically, the largest subscribers of TBs are commercial banks. Capturing 24 percent of subscriptions in Q2 2011, commercial banks still demonstrated low appetite for TBs albeit a healthier one than that witnessed in Q1 2011 with 11 percent of subscriptions. The central bank in contrast had a lower share of subscriptions in QII 2011 with 51 percent of subscriptions compared to 66 percent in the first quarter of the year. The share of subscriptions by public institutions remained relatively constant at 23 percent in Q2 2011 compared to 22 percent in Q1 2011. On a cumulative level in H1 2011, Banque du Liban captured 59 percent of subscriptions, followed by public institutions with 23 percent and then commercial banks with 17 percent. This reflects a marked change from subscription rates in the first half of 2010 during which commercial banks subscribed to 59 percent of TBs, with the central bank and public institutions subscribing to 14 percent of subscriptions each.

By instrument, the stock of long-term bonds rose by LL 1,419 billion (3.24 percent) to LL 45,224 billion by the end-June 2011 compared to the end-December 2010 level. This contrasts with the LL 1,685 billion reduction in the portfolio of short-term Treasury bills, a notable 40.6 percent, to LL 2,470 billion from LL 4,155 billion by end-2010.

The spike in long-term Treasury bonds is largely attributable to almost a tripling of the 7YR Treasury bond portfolio to LL 5,919 billion due to two special scheme transactions during the first half of 2011, on in March 2011[38] and another in April 2011 (*for details on this transaction, kindly refer to Box 1 below*). The second largest increase by instrument was for 5YR bonds whose stock increased by 21.6 percent to LL 8,892 billion over the same period. The volume increase in seven and five-year Treasury bonds is almost commensurate with the LL 5,072 billion decrease in the stock of three-year Treasury bonds to LL 25,710 billion by end of June 2011. Although 3YR Treasury bonds saw the most exacerbated decline, they are the largest TB instrument category with a 53.6 percent share of TBs.

As in Q1 2011, the stock of 6MN bills witnessed the largest drop among short-term TBs, with a LL 1,382 billion or 65.5 percent by the end of June 2011 from LL 2,111 billion by the end of 2010. The second largest decline was for the 12MN instrument whose stock witnessed close to a 20 percent decrease by the end of QII 2011. Three-month instruments were the only Treasury bills whose stock increased. With LL 159 billion in stock, 3YR TBs increased by 112 percent compared to end-2010.

38 For details concerning this transaction, refer to Box 3 of the Public Finance Quarterly of QI 2011.

Box 1: The 7-YR bond issuance in April 2011

On April 21, 2011, the Ministry of Finance issued 7YR Treasury bonds with a coupon of 7.90 percent[1]. Commercial banks and financial institutions were authorized[2] to subscribe to these 7YR bonds either by exchanging Treasury bonds from their portfolio coming due between 28 April 2011 and 30 June 2011, or purchasing new bonds. Banks and financial institutions could place express interest by placing an order in the transaction between April 16th and 18th, 2011. Total subscriptions to the this issuance, including Banque du Liban's participation, amounted to LL 2,658 billion of which:

a) LL 2,024 billion equivalent to 76 percent were subscribed in exchange for Treasury bonds coming due in QII 2011;
b) LL 635 billion equivalent to 24 percent was subscribed in new cash

Table 1: 7YR Treasury bond issuance April 2011 results

(in LL)	Exchanged amount	New Cash	Total
Commercial Banks	564,507,070,000	634,600,000,000	1,199,107,070,000
BDL	1,459,098,340,000	0	1,459,098,340,000
Total	**2,023,605,410,000**	**634,600,000,000**	**2,658,205,410,000**

Source, Ministry of Finance, Banque du Liban

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 488/1 dated 14 April, 2011.*

The majority of subscriptions during the QII 2011 auctions were in long-term instruments (2-yr, 3-yr and 5-yr Treasury bonds) with a share of 73 percent of subscriptions compared to almost 90 percent in QI 2011.[39] On a cumulative level, long-term instruments accounted to 82 percent of subscriptions during the first half of 2011 compared to 72 percent in the first half of 2010. On the other hand, the share of short-term instruments decreased from 28 percent in January-March 2011 to 10 percent during the first three months of 2011. On an instrument level, 3YR bonds accounted for the highest share of total subscriptions in QII 2011 as in QI 2011, with a 28 and 40 percent share respectively. In second place, 2YR bonds captured 27 percent of subscriptions in QII 2011 compared to 12 percent in Q1 2011. The share of 5YR bonds decreased from 38percent in Q1 2011 to 18 percent in QII 2011, potentially cannibalized by the 7YR special scheme issuance described in Box 1 above. Six-month Treasury bills remained in fourth place albeit with a higher share of subscriptions at 17 percent in QII 2011 compared to 6 percent in Q1 2011. On a cumulative level, 3YR bonds held 35 percent of subscriptions followed by 5YR bonds with 29 percent, 2YR bonds with 19 percent, 6MN bills with 11 percent, 3MN bills with 3.8 percent and 12MN bills with 3.5 percent. In the first half of 2010, 3YR bonds captured 32 percent of subscriptions, followed by 5YR bonds with 30 percent, 6MN bills with 15 percent, 2YR bonds with 10 percent, 12MN bills with 9 percent and 3MN bills with 4 percent.

[39] Although 7-year Treasury bonds were issued in H1 2011, these were issued in special schemes and not part of the weekly auction process.

Table 24: Domestic Currency Debt by Holder and Instrument as of end-June 2011

Stocks (end of period)	Dec-08	Dec-09	Dec-10	Jun-11	Change Dec 10 - Jun 11	% Change Dec 10 - Jun 11
Local currency debt	39,007	44,973	48,255	47,955	-300	-0.62%
A. By Holder						
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)(1)	8,781	10,334	13,130	15,975	2,845	21.67%
2. Commercial Banks	24,320	27,286	27,214	24,067	-3,147	-11.56%
3. Other local debt (T-bills)	5,906	7,353	7,911	7,913	2	0.03%
o/w Public entities	*5,062*	*6,078*	*6,268*	*6,575*	307	4.90%
**Accrued interest included in debt*	*1,029*	*999*	*867*	*847*	-20	-2.31%
B. By Instrument						
1. Long term bonds	36,350	40,842	43,805	45,224	1,419	3.24%
1.1 7-year bonds	0	0	1,500	5,919	4,419	294.60%
1.1 5-year bonds	3,049	5,036	7,310	8,892	1,582	21.64%
1.2 4.5-year bonds	0	0	0	0	0	-
1.3 4-year bonds	633	0	0	0	0	-
1.4 3-year bonds	29,650	31,908	30,782	25,710	-5,072	-16.48%
1.5 2.5-year bonds	0	0	0	0	0	-
1.6 2-year bonds	2,052	2,989	3,398	3,906	508	14.95%
1.7 Coupon interest	966	909	815	797	-18	-2.21%
2. Short term bills	2,197	3,735	4,155	2,470	-1,685	-40.55%
2.1 12-month bills	676	2,073	1,969	1,582	-387	-19.65%
2.2 6-month bills	1,234	1,510	2,111	729	-1,382	-65.47%
2.3 3-month bills	287	152	75	159	84	112.00%
** Accrued interest included*	63	90	52	50	-2	-3.85%
3. Other local debt	460	396	295	261	-34	-11.53%
3.1 Central Bank Loans	362	291	218	179	-39	-17.89%
3.2 Commercial Banks Loans	98	105	77	82	5	6.49%

Source: Ministry of Finance, Banque du Liban

[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 rates

By the end of June 2011, interest rates on all Treasury bills and bonds remained unchanged compared to end-2010 levels except for a 2 basis point reduction in the rate of 6-month Treasury bills to 4.50 percent. This is consistent with a stabilization of rates witnessed since July 2010.

Table 25: Evolution of Primary Market Rates

Maturity (1)	Dec. 31, 2007	Dec. 31, 2008 (3)	Dec. 31, 2009	Dec. 31st, 2010	Jun. 30, 2011
3-month	5.22 percent	5.10 percent	4.55 percent	3.93 percent	3.93 percent
6-month	7.24 percent	7.11 percent	5.72 percent	4.52 percent	4.50 percent
12-month	7.75 percent	7.57 percent	5.73 percent	4.81 percent	4.81 percent
2-year	8.50 percent	8.22 percent	6.32 percent	5.34 percent	5.34 percent
3-year	9.32 percent	8.98 percent	7.10 percent	5.94 percent	5.94 percent
5-year (2)	N/A	N/A	7.74 percent	6.18 percent	6.18 percent

Source: Ministry of Finance
(1) 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. These bonds do not feature in this table, as they were not issued in the regular auction process.
(2) 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).
(3) Reflects rate of the auction the week of 29 December 2008, value date 1 January 2009.

At LL 31,268 billion by end-June 2011, **foreign currency debt** was 0.7 percent higher than the end-2010 amount. Exchange rate valuations were behind LL 252 billion of the increase in debt given that the stock of debt did not increase substantially during this period. This includes the effect of the appreciating Euro from a rate of 1.325 €/$ at the end of 2010, to 1.448 €/$ at the end of June 2011.

Table 26: Foreign Currency Debt by Holder and Instrument as of end-June 2011

(in LL billion)	Dec-09	Dec-10	Jun-11	Change	% Change Year-to-date
B. Foreign currency debt[1]	**32,139**	**31,043**	**31,268**	**225**	**0.72%**
4. Eurobonds	**27,142**	**26,738**	**26,894**	**156**	**0.58%**
Of which, Paris II at preferential rates[2]	4,192	3,677	3,419	-258	-7.01%
Of which, Paris III at preferential rates[3]	754	709	686	-23	-3.19%
** Accrued Interest on Eurobonds*	*460*	*483*	*432*	*-51*	-10.56%
5. Loans	**4,550**	**4,231**	**4,300**	**69**	**1.63%**
5.1 Paris II loans	627	460	437	-23	-5.00%
5.2 Paris III loans[4]	1,210	1,147	1,147	0	0.00%
5.3 Bilateral loans (non-Paris II and III)	716	723	763	40	5.57%
5.4 Multilateral loans (non-Paris II and III)	1,971	1,877	1,929	52	2.75%
5.5 Foreign Private Sector Loans	27	24	24	0	0.00%
6. Other debt	**447**	**74**	**74**	**0**	**0.00%**
6.1 Special Tbls in Foreign currency[5]	447	74	74	0	0.00%

Source: Ministry of Finance, Banque du Liban

(1) Figures for Dec 08, Dec 09 and June 2011 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) Paris II related debt (Eurobonds and Loans) including a Eurobond originally issued at USD 1,870 billion to BDL in the context of the Paris II conference. These bonds have an amortized payment structure.

(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 June 2009.
(5) Special Tbs in foreign currency (expropriation and contractor bonds)

The bulk of the LL 225 billion increase in foreign currency debt is attributable to a higher stock of Eurobonds which increased by LL 156 billion by end-June 2011 compared to end-2010. This was due to the issuance of US$ 265 million in Eurobonds in a Debt Replacement Agreement between the Ministry of Finance and Banque du Liban.[40] In May 2011, the Ministry of Finance issued a US$ 1 billion Eurobond dual-tranche market to refinance a US$ 1 billion 7.875 percent Eurobond due in May 2011[41]. The non-market portion of the Lebanese Republic's Eurobond portfolio continued to decrease on the other hand, due to principal repayments of Eurobonds issued in the context of the Paris II and Paris III International Donor Conferences to Lebanon. [42] Of these the following principal repayments were made in the first half of 2011: (i) USD 15 million in January 2011 for the Eurobond due July 2017 originally issued at USD 300 million[43]; (ii) USD 35 million in March 2011 on Paris II 5.00 percent March 2018 Eurobond originally issued at US$ 700 million; (iii) USD 10 million in May 2011 on Paris II 5.00 percent May 2018 Eurobond originally issued at USD 200 million; (iv) USD 93.5 million in June 2011 on Paris II 4.00 percent December 2017 Eurobond originally issued at USD 1,870 million; and (v) US$ 32.5 million in June 2011 on Paris II 5.00 percent due December 2017 originally issued at US$ 950 million.

[40] For more information on this Debt Replacement Agreement, kindly refer to Box 2 of the Public Finance Quarterly QI 2011.
[41] For details concerning this transaction, kindly refer to Box 2 below.
[42] Eurobonds issued in the context of the Paris II conference have an amortized payment structure redeemable in 20 equal semi-annual payments starting from 2008.
[43] 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.

The stock of concessional loans in foreign currency increased by LL 69 billion or 1.6 percent by the end of June 2011 compared to end-2010 let by a LL 92 billion increase in non-Paris II and III bilateral and multilateral loans, largely due to exchange rate valuation. The stock of Paris II loans decreased by LL 23 billion or 5.0 percent during this period due to the € 30 million amortized principal repayment of the *Agence Française de Développement (AFD)* Paris II loan in February 2011. Paris III loans appear to have remained constant, with a value of LL 1,147 billion at both end-June 2011 and end-2010. Exchange rate valuations mask stock changes. Principal repayments were made on Paris III loans with two redemptions paid on the IMF EPCA I loan worth SDR 6.3 each in January and April 2011. Additionally, the first principal repayment of a Paris III Arab Monetary Fund loan was redeemed in June 2011 with a value of AAD 1.365 million.

The stock of foreign private sector loans was unchanged at LL 24 billion including a LL 2 billion increase due to exchange rate valuation.

The final component of foreign currency debt also saw no change with the stock of special T-bills in foreign currency constant at LL 74 billion.

Box 2: Dual-Tranche May 2011 Eurobond Transaction:

US$ 650 Million 6.00 percent Notes due 2019 and
US$350 Million Re-Opening of 6.100 percent Notes due 2022

On May 20, 2011, the Lebanese Republic issued a US$ 1 billion dual-tranche offering with international orders accounting for 28 percent of subscriptions on the aggregate amount. The transaction was more than two times oversubscribed and reflected domestic demand and quality demand from international investors.

The first series consisted of a US$ 650 million 6.00 percent coupon Eurobond due May 2019 (Series 58) with international orders subscribing to 28 percent of the issue. The second series was a US$ 350 million re-opening of the 6.10 percent coupon Eurobond due October 2022 (Series 57, Tranche 3) with international orders accounting for 29 percent of subscriptions. The lead managers for the transaction were Byblos Bank SAL, Fransa Invest Bank SAL, and HSBC Bank PLC. The proceeds of the issue were utilized for refinancing operations.

Terms and Conditions of the Issuance

Series (tranche)	58	57 (3)
Issue size (in USD)	650,000,000	350,000,000
Issue date	May 20, 2011	May 20, 2011
Maturity	May 20, 2019	October 4, 2022
Coupon rate	6.000%	6.100%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	100.00%	97.016% (plus .136% accrued interest)
Re-offer Yield	6.000%	6.475%
ISIN code	XS0629509943	XS0559237796
Benchmark Bond on 17 May, 2011*	2.625% due April 2018 ('CT7')	3.125% due May 2021 ('CT10')
Benchmark Yield on 17 May, 2011*	2.475%	3.130%
Re-offer Spread vs. Benchmark	CT7 + 352.5 bps	CT10 + 334.5 bps
Lead Managers	Byblos Bank SAL, Fransa Invest Bank SAL, and HSBC Bank PLC	

**Pricing date.*

Table 27: Lebanon Secondary Market Yields

	Bid Yield (%)					
Lebanese Issues	8-Apr-11	3-May-11	10-May-11	20-May-11	14-Jun-11	30-Jun-11
EURO						
LEB 5.875 12	5.87	5.29	5.28	5.25	3.92	3.82
US Dollars						
LEB 7.875 11	7.64	4.49	1.39	N/A	N/A	N/A
LEB 7.500 12	4.18	4.09	4.02	3.42	2.99	2.86
LEB 7.750 12	4.22	4.24	4.19	3.62	3.09	3.01
LEB 9.125 13	4.44	4.36	4.31	3.89	3.69	3.62
LEB 8.625 13	4.49	4.44	4.41	4.05	3.84	3.74
LEB 4.000 17 Av Life	4.66	4.66	4.66	4.60	4.63	4.63
LEB 7.375 14	4.76	4.66	4.64	4.44	4.32	4.10
LEB 9.000 14	4.69	4.65	4.63	4.41	4.31	4.07
LEB 5.875 15	5.46	5.31	5.30	5.19	5.02	4.86
LIEB 10.000 15	5.23	5.20	5.18	5.15	5.07	5.03
LEB 8.500 15	5.31	5.31	5.29	5.15	5.01	4.88
LEB 8.500 16	5.54	5.45	5.44	5.33	5.27	5.13
LEB 11.625 16	5.56	5.50	5.49	5.35	5.29	5.19
LEB 9.000 17	5.82	5.73	5.69	5.63	5.44	5.39
LEB 5.15 18	5.89	5.90	5.90	5.90	5.91	5.65
LEB 6.00 19	N/A	N/A	N/A	6.00	5.94	5.86
LEB 6.375 20	6.15	6.15	6.15	6.08	5.93	5.93
LEB 8.250 21	6.34	6.30	6.29	6.27	6.17	6.12
LEB 6.1 22	6.60	6.48	6.48	6.45	6.38	6.40
LEB 7.000 24	6.91	6.91	6.91	6.87	6.86	6.69

Source: Credit Suisse

During 2010, **secondary market yields** saw a general decrease in rates. The trend was interrupted in QI 2011 when yields rose by an average of 59 bps during the course of the first quarter, partly influenced by political developments nationally and regionally. By the end of the second quarter of 2011, rates on average were back at their end-2010 levels having decreased by an average of 58 bps over the course of QII 2011.[44]

[44] Calculated between April 8th 2011 and June 30th, 2011 for those bonds that were outstanding at both dates.

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