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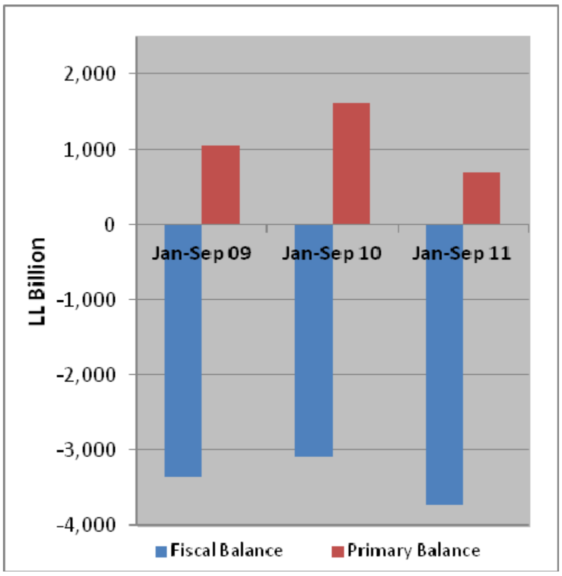
General Fiscal Developments

The **total fiscal balance** registered a deficit of LL 2,103 billion in January-September 2011, compared to a deficit of LL 3,088 billion in the same period of 2010.

The **primary balance** recorded a surplus of LL 2,336 billion during the first nine months of 2011, including LL 1,632 billion of estimated revenues from telecom, compared to a surplus of LL 1,623 billion in January-September 2010.

When expected telecommunications' revenues are excluded, the fiscal deficit widens to LL 3,735 billion in the first nine months of 2011, while the primary surplus drops to LL 704 billion.

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



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

Revenues

Total revenues in January-September 2011 amounted to LL 10,480 billion, up by LL 1,157 billion compared to the same period of 2010. This was due to an increase of LL 1,302 billion in non-tax revenues which largely overweighed the decrease of LL 172 billion in tax revenues.

If expected telecommunications' revenues are excluded, total revenues would drop by LL 475 billion when compared to the preceding year, due to declines in both tax and non-tax revenues.

Expenditures

Total public expenditures amounted to LL 12,584 billion at end-September 2011, representing a 1.4 percent year-on-year increase. Despite the LL 271 billion decline in debt service payments, the rise in spending was due to a LL 444 billion deterioration in primary spending.

Public Debt Developments

The stock of gross public debt totaled LL 81,956 billion by end-September 2011, up by 3.4 percent compared to the end-December 2010 level. The stock of net public debt rose by 1.8 percent over the end-December 2010 level, totaling LL 69,079 billion.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 2,103 billion in January-September 2011 compared to a deficit of LL 3,088 billion in the same period in 2010.

As for the **primary balance**, it recorded a surplus of LL 2,336 billion in the first nine months of 2011 compared to a surplus of LL 1,623 billion in the corresponding period of 2010. These figures are the result of a 12 percent increase in revenues (generated by the inclusion of the expected revenues from the Ministry of Telecommunications).

When expected telecommunications' revenues (LL 1,632 billion) are excluded, the fiscal deficit widens to LL 3,735 billion in January-September 2011, while the primary surplus drops to LL 704 billion, due to a 5.1 percent drop in total receipts, coupled with a 1.4 percent rise in total payments.

Table 1: Summary of Fiscal Performance

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	% Change 2011/2010
Total Budget and Treasury Receipts	9,449	9,323	10,480	12%
Total Budget and Treasury Payments, *of*	12,800	12,411	12,584	1%
• Interest Payments	*4,180*	*4,465*	*4,191*	-6%
• Concessional Loans Principal [(1)]	*217*	*245*	*248*	1%
• Primary Expenditures [(2)]	*8,403*	*7,701*	*8,145*	6%
Total Deficit/Surplus	**-3,351**	**-3,088**	**-2,103**	-32%
Primary Deficit/Surplus	**1,045**	**1,623**	**2,336**	44%

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 for the period January-September 2011 reached LL 10,480 billion, up by LL 1,157 billion from the 2010 level. Although tax revenues fell by 2 percent, total revenues over the said period recorded a 13-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 475 billion, due to declines in both tax (2 percent) and non-tax revenues (29 percent).

Table 2: Total Revenues

(LL billion)	2010 Jan-Sep	2011 Jan-Sep	Change 2011/2010
Budget Revenues [1], *of which:*	**8,809**	**9,939**	**13%**
• Tax Revenues	*7,659*	*7,487*	*-2%*
• Non-Tax Revenues	*1,150*	*2,452*	*113%*
Treasury Receipts	**514**	**542**	**5%**
Total Revenues	**9,323**	**10,480**	**12%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
(1) Non-tax revenues, and thus Budget Revenues and Total Revenues, for Jan-Sep 2011 include anticipated transfers of LL 1,632 billion from the Ministry of Telecommunications, representing revenues accrued for the benefit of Ministry of Finance during the period from January 1, 2011 to September 30, 2011. As for the non-tax revenues for the period January 1 to September 30, 2010 they include the amount of LL 331 billion actually transferred by the Ministry of Telecommunications to the Ministry of Finance.

Tax Revenues

Tax revenues totaled LL 7,487 billion in the first three quarters of 2011, down by LL 172 billion from the same period in 2010 – as shown in Table 3 below. Most major components of tax revenues registered decreases in collection during January-September 2011, namely real estate, customs duties, excises on gasoline, taxes on cars (excises and registration fees), and fiscal stamps. This deceleration may be largely due to :

- 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 liters);*
- 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 Lebanese-pound denominated deposits;

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

Table 3: Tax Revenues

(LL billion)	2010 Jan-Sep	2011 Jan-Sep	Change 2011/2010
Taxes on Income, Profits, & Capital Gains, *of which*:	**1,723**	**2,043**	**19%**
• Income Tax on Profits	767	973	27%
• Income Tax on Wages and Salaries	287	335	17%
• Income Tax on Capital Gains & Dividends	176	212	20%
• Tax on Interest Income (5%)	477	496	4%
• Penalties on Income Tax	15	27	84%
Taxes on Property, *of which:*	**811**	**805**	**-1%**
• Built Property Tax	126	109	-14%
• Real Estate Registration Fees	624	592	-5%
Domestic Taxes on Goods & Services, *of which:*	**2,661**	**2,674**	**0%**
• Value Added Tax	2,375	2,423	2%
• Other Taxes on Goods and Services, of which:	279	242	-13%
- *Private Car Registration Fees*	*180*	*150*	*-16%*
- *Passenger Departure Tax*	*98*	*90*	*-8%*
Taxes on International Trade, *of which:*	**2,127**	**1,631**	**-23%**
• Customs	609	582	-5%
• Excises, of which:	1,517	1,049	-31%
- *Petroleum Tax*	*787*	*419*	*-47%*
- *Tobacco Tax*	*264*	*293*	*11%*
- *Tax on Cars*	*461*	*330*	*-28%*
Other Tax Revenues (namely fiscal stamp fees)	**337**	**334**	**-1%**
Total Tax Revenues	**7,659**	**7,487**	**-2%**

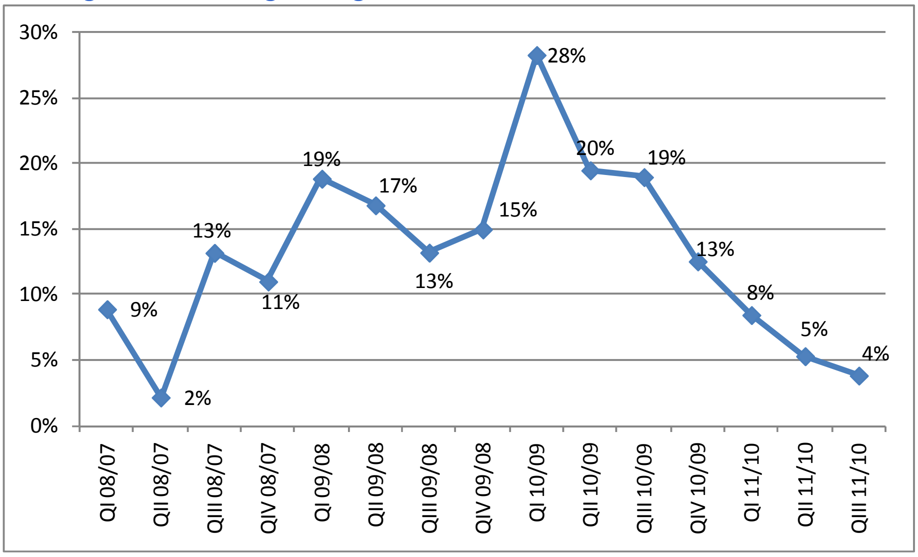
Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

In details, taxes on income profits and capital gains collected LL 2,043 billion during the period January-September 2011, representing a LL 320 billion (19 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 27 percent, reaching LL 973 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 realized in a given year during the following year.

- Collections from **taxes on wages and salaries** gained 17 percent to reach LL 335 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 4 percent in the first three quarters of the year, which is a slower rise when compared to the growth witnessed in this tax component starting mid-2008, as shown in the chart below.

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



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

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 0.63 percent in the first nine months of 2011, against 0.91 percent during the same period of the previous year and 1.34 percent for the period July 2008-December 2010[1].

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 66.25 as of end of September 2011 up from 62.57 as of end September 2010.

3. decline in *interest rates* on Lebanese-pound deposits, where the weighted average interest rate on LBP-denominated deposits fell by 12 bps on a yearly basis to reach 5.58 percent as of end-September 2011. The average interest rate on deposits in USD remained almost stable, going up by only 6 bps to reach 2.84 percent during the same period.

Further, the breakdown of interest tax receipts by institution/instrument (Table 4 below) shows that the contribution from commercial banks (interest earned on deposits) have continued to drop, to reach 53 percent of the total collections in the first nine months of 2011, as opposed to 54 percent and 59 percent in the same period of 2010 and 2009 respectively. The contribution from BDL (interest earned on CDs and T-bills) has however increased slightly, to reach 46 percent of the total collections in January-September 2011.

[1] Private Sector deposits increased from LL 111 848 billion to LL 161 610 billion between July 2008 and December 2010, thus increasing by 44.5 % during the said period.

Table 4: Tax on Interest Income

(LL billion)	Jan-Sep 2009	Jan-Sep 2010	Jan-Sep 2011
By Institution/Instrument			
Commercial Banks	236	257	263
BDL	166	217	229
Tax on US$ & LL Treasury Bills	1	1	4
By Currency			
Lebanese Pounds	256	330	337
Foreign Currencies (US$, Euro)	148	145	158
Total collection	**403**	**476**	**496**

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 1 percent downturn, reaching LL 805 billion during the first nine months of 2011. Within this item, **tax on built properties** dropped by 14 percent and that on **registration**[2] by 5 percent, reflecting an overall holdback in collection compared to the dynamism of the real estate sector witnessed the last couple of years. As for the **inheritance tax**, it rose by around LL 43 billion, coming mainly from the months of April and September 2011, as shown in Table 5 below, mainly attributed to handling high-value inheritance files, with a further dimension in September of a ministerial decision[3] that exempts – until end-September 2011 – tax penalties.

Table 5: Inheritance Tax

(LL billion)	2009	2010	2011	Value Change 2011/2010
Jan	5	4	8	4
Feb	4	5	8	3
March	5	9	9	0
April	7	8	21	13
May	4	7	8	1
June	12	9	7	-2
July	9	7	6	-1
Aug	4	6	8	2
Sept	5	6	28	22
Total	**55**	**61**	**103**	**43**

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

[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, or years. Therefore fees collected are indicative of the activity in the real estate market today only to a certain extent.

[3] Decision number 712/1 dated 10/6/2012.

Cadastre statistics indicate a change in the composition of the demand for real estate in the first nine months of 2011, as compared to the same period 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 223,416 properties), while total value declined by 13 percent (to a total of LL 9,094 billion), thus leading to a lower average declared value per property, as shown in Table 6 below. These results reflect a change in the market structure in 2011 as compared to 2010, indicating that either demand is shifting towards smaller properties, or consumers are seeking properties away from city centers, or the real estate market in itself is on a downturn. It is worth mentioning that the average declared value per property in 2011, although lower than 2010, is still higher than 2009 and 2008.

Table 6: Property Registration Statistics from Cadastre

	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/2010
Number of Properties registered in Cadastre	193,386	216,185	223,416	3%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	6,441	10,495	9,094	-13%
Declared Average Value per Property (LL million)	33.3	48.5	40.7	-16%
Total Fees collected from Sales Transactions	**355**	**568**	**545**	**-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** stayed almost stable registering LL 2,674 billion by end of September 2011, despite several fluctuations within. In details, both private car registration fees and passenger departure tax declined (by 16 percent and 8 percent respectively), 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 25 percent decline in the number of tourists in the first three quarters of 2011 (reaching 1.28 million down from 1.69 million during the same period of 2010). As for car imports, data released by the Directorate of Customs points to decreases of 27 percent in each of value and volume (kindly refer to Table 10 for further information).

Value added tax collected LL 2,423 billion in the first nine months of 2011 as compared to LL 2,375 billion in the same period of 2010. This 2 percent rise came mainly as a result of:

- VAT collected internally rose, to reach LL 746 billion in January-September 2011 compared to LL 686 billion in the same period of 2010. Part of this 9 percent rise is attributed to the standard annual growth, and another is explained by a notable rise of collections in September 2011 particularly, as the Ministry of Finance announced the end of September as the last chance for settling fines, after which no amnesty will be applicable.

- VAT collected at customs dropped, despite a rise in total imports, indicating a lower effective VAT rate. Total imports rose by 9 percent in January-September 2011 to accrue to LL 21,736 billion, while VAT at customs went down by 1 percent to reach LL 1,678 billion – as indicated in Table 7 below. In fact, the effective VAT rate went down from 8.5 percent in the first three quarters of 2010 to 7.7 percent during the same period of 2011. This may be explained by the fact that the rise in imports stemmed from – besides fuel – "pharmaceuticals", an import category that is largely VAT exempt, and "gold", which is subject to VAT special scheme[4]. In addition, car imports which are a major source of VAT revenues dropped notably.

Table 7: Total Imports & Effective VAT rate

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/2010
Total Imports, *of which*	**18,075**	**19,883**	**21,736**	***9%***
• *Fuel Imports (fuel derivatives classified under HS 27)*	*3,479*	*3,803*	*3,983*	***5%***
• *Non-Fuel Imports*	*14,596*	*16,080*	*17,752*	***10%***
• *Share of Fuel Imports*	*19%*	*19%*	*18%*	***-4%***
• *Share of Non Fuel Imports*	*81%*	*81%*	*82%*	***1%***
Revenues from VAT at Imports	**1,553**	**1,689**	**1,678**	***-1%***
Effective VAT rate	**8.6%**	**8.5%**	**7.7%**	***-9%***

Source: MOF, DGF

Furthermore, taxes collected from international trade (customs and excises) dropped notably by LL 496 billion, to reach LL 1,631 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 liters.

Table 8 below depicts the drop in **tariff revenues**, totaling LL 582 billion in the first nine months of 2011, down from LL 609 billion in 2010, along with a *drop in the effective customs rate*, despite a 9 percent rise in total imports for the said period and despite the rising share of non-fuel imports. This is due to the fact that non-fuel imports' increase was driven by none- or low-custom products (including gold, iron and steel, and pharmaceutical), coupled with a decline in import of cars.

Table 8: Effective Customs Rate

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	*%Change 2011/2010*
Total Imports	**17,958**	**19,883**	**21,736**	***9%***
• *Fuel Imports (fuel derivatives classified under HS 27)*	*3,846*	*3,803*	*3,983*	***5%***
• *Non-Fuel Imports*	*14,112*	*16,080*	*17,752*	***10%***
• *Share of Fuel Imports*	*21.4%*	*19.1%*	*18.3%*	***-4%***
• *Share of Non Fuel Imports*	*78.6%*	*80.9%*	*81.7%*	***1%***
Revenues from Custom Duties	**568**	**609**	**582**	***-5%***
Effective customs rate	**3.2%**	**3.1%**	**2.7%**	***-13%***

Source: MoF, DGF

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

Total excises collected at import[5] registered a 31 percent decline, to reach LL 1,049 billion, due to decreases in the revenues of excises on both gasoline and cars, as detailed below.

a. Excises on gasoline dropped notably in the first nine months of 2011, collecting LL 419 billion compared to LL 787 billion during the same period of 2010. The 47 percent less revenues on this front is explained by lower excise rate and lower volume[6].

The average effective import *price* of gasoline witnessed a 39 percent hike in January-September 2011 when compared to the same period of 2010, reflecting the surge in international oil prices that averaged at $ 112/barrel in the first three quarters of 2011 compared to $ 77/barrel in the corresponding period of 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 liters, i.e. from an average of LL 470 per liter for 98 and 95 octane, down to an average of LL 250 per liter.

Given the fact that excise rate on gasoline is a specific tax (i.e. LL per liter), the slightly lower *volume*[7] is also behind the lower collection of gasoline excise during the first three quarters of the year.

Table 9: Gasoline Import Statistics

	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/ 2010
Imports (*LL billion*)	1,037	1,385	1,858	34%
Volume (mi*llion liters*)	1.59	1.65	1.59	-3%
Collected excises (*LL billion*)	757	787	419	-47%
Average effective Price at imports (LL/liter)	***653***	***841***	***1,166***	***39%***
Average effective excise rate (LL/liter)	***476***	***477***	***263***	***-45%***

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

b. Following substantial increases in 2007, 2008 and 2009, collection from excises on cars started retreating in 2010, and continued its downturn during the first three quarters of 2011. This component of excise taxes collected LL 330 billion (down from LL 461 billion in January-September 2010) due to the 27 percent drop in car imports on year-on-year basis. It is worth mentioning that the average price per unit did not change between January-September 2010 and January-September 2011. Behind the car market slowdown are 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[8]

[5] 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.
[6] 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.
[7] The general slowdown in the economy in 2011, in comparison with 2010, as implied by several indicators (including lower number of imported cars and lower number of tourists) can be used to explain this limited drop.

- an overall slowdown in the economy as a whole, as revealed by the various indicators.

Table 10: Car Import Statistics

	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/ 2010
Imports (LL billion)	1,682	1,672	1,226	-27%
Number of Cars	82,447	77,783	57,129	-27%
Collected Excises (LL billion)	468	461	330	-28%
Average price per car (LL million)	***20.4***	***21.5***	***21.5***	***0%***
Average effective excise rate (%)	***27.8%***	***27.6%***	***26.9%***	***-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 1 percent in the first nine months of 2011, to reach LL 334 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.

[8] 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 1,632 billion from Telecom surplus, rose in the first nine months of 2011 by 113 percent to reach LL 2,452 billion. When estimated telecom revenues are excluded, non-tax revenues show a decline from LL 1,150 billion in the period January-September 2010 to LL 820 billion in 2011.

Table 11: Non-Tax Revenues

(LL billion)	2010 Jan-Sep	2011 Jan-Sep	Change 2011/2010
Income from Public Institutions and Government Properties	**687**	**1,970**	**187%**
Income from Non-Financial Public Enterprises, *of which*:	569	1,841	**224%**
- *Revenues from Casino Du Liban*	*126*	*130*	**3%**
- *Revenues from Port of Beirut*	*65*	*48*	**-26%**
- *Budget Surplus of National Lottery*	*44*	*30*	**-33%**
- *Transfer from the Telecom Surplus*	*331*	*1,632*	**393%**
Income from Financial Public Enterprises (BdL)	60	60	**1%**
Property Income (rent of Rafic Hariri International Airport)	55	62	**14%**
Other Income from Public Institutions (interests)	4	6	**66%**
Administrative Fees & Charges, ***of which:***	**377**	**381**	**1%**
Administrative Fees, *of which*:	310	310	**0%**
- *Notary Fees*	*22*	*22*	**0%**
- *Passport Fees/ Public Security*	*90*	*96*	**7%**
- *Vehicle Control Fees*	*132*	*135*	**2%**
- *Judicial Fees*	*18*	*18*	**1%**
- *Driving License Fees*	*18*	*12*	**-32%**
Administrative Charges	16	15	**-3%**
Sales (Official Gazette and License Number)	4	2	**-39%**
Permit Fees (mostly work permit fees)	39	45	**15%**
Other Administrative Fees and Charges	8	9	**10%**
Penalties and Confiscations	**6**	**7**	**30%**
Other Non-Tax Revenues (mostly retirement deductibles)	**81**	**94**	**16%**
Total Non-Tax Revenues	**1,150**	**2,452**	**113%**

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 nine months of 2011 drops to LL 338 billion, a figure that is 51 percent lower than that registered during the same period of 2010.

Revenues from Port of Beirut[9] decreased by LL 17 billion during the period January-September 2011 (-26 percent), while income from the rent of Rafic Hariri International Airport rose by LL 7 billion (14 percent).

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

Administrative fees and charges collected a total of LL 381 billion in the first nine months of 2011, representing a 1 percent rise over the same period of 2010. This growth was registered despite a LL 6 billion fall in receipts from driving license fees.

Treasury Receipts

Treasury receipts amounted to LL 542 billion by the end of September 2011, up by 5 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 213 billion in January-September 2011, compared to LL 220 billion in the same period of 2010.

Section III: Expenditure Outcome

Total expenditures (budget and treasury) amounted to LL 12,584 billion in the first three quarters of 2011, higher by 1 percent than their level during the corresponding period in 2010, at LL 12,411 billion. This small rise was the combined result of a 6 percent increase in **total primary expenditures**, and a six percent decrease in interest payments, as shown in table 12.

Table 12: Expenditure Summary

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/2010
Interest Payments	4,180	4,465	4,191	-6%
Concessional Loans Principal Payments [(1)]	217	245	248	1%
Total Primary Expenditures [(2)]	8,403	7,701	8,145	6%
Total Budget and Treasury Payments	**12,800**	**12,411**	**12,584**	**1%**

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 evolution of main expenditure items in QIII 2011, according to the **economic classification**, is presented in the above table and reviewed in the sections that follow.

A special focus, independent of the economic classification, is made on social expenditures. For further details, please refer to page 30.

Current expenditures

Current expenditures increased by 446 billion, mainly explained by increases in (i) personnel cost, LL 292 billion, (ii) various transfers, LL 421 billion, (iii) materials and supplies, LL44 billion, mainly medicines and (iv) interest subsidies, LL 12 billion. The rise was partially offset by a LL 228 billion drop in **other Treasury expenditures** due to lower payments to municipalities by LL133 billion, lower VAT refund payments by LL146 billion and a LL53 billion decrease in **capital expenditures**.

Table 13: Expenditure by Economic Classification

(LL billion)	Jan-Sep 2010	Jan-Sep 2011	%Change
1. Current Expenditures	**10,916**	**11,361**	**4.1%**
1.a Personnel Cost, *of which:*	3,734	4,022	7.7%
Salaries, Wages and Related Items (Article 13) 1/	2,466	*2,683*	8.8%
Retirement and End of Service Compensations, of which:	1,042	*1,099*	5.5%
Retirement	807	*891*	10.5%
End of Service	235	*207*	-11.8%
Transfers to Public Institutions to Cover Salaries 2/	226	*241*	6.4%
1.b Interest Payments, *of which: 3/*	4,465	4,191	-6.1%
Domestic Interest Payments	2,873	*2,622*	-8.7%
Foreign Interest Payments	1,592	*1,569*	-1.5%
1.c Foreign Debt Principal Repayment	245	248	1.1%
1.d Materials and Supplies, *of which:*	208	252	21.3%
Nutrition	47	*41*	-13.0%
Fuel Oil	6	*9*	57.5%
Medicaments	102	*133*	30.6%
Accounting Adjustments for Treasury	26	*32*	21.8%
1.e External Services	82	92	12.8%
1.f Various Transfers, *of which 4/:*	1,770	2,195	24.0%
EDL 5/	*1,250*	*1,703*	36.2%
NSSF	*100*	*120*	20.0%
Treasury advances for diesel oil subsidy	*61*	*0*	-100.0%
Wheat Subsidy	*13*	*58*	335.8%
Special Tribunal for Lebanon	*41*	*0*	-100.0%
Accounting Adjustments for Treasury	*2*	*18*	1,073.6%
1.g Other Current, *of which:*	318	256	-19.4%
Hospitals	*243*	*197*	-19.1%
Others (judgments & reconciliations, mission costs, other)	*65*	*50*	-22.3%
Accounting Adjustments for Treasury	*8*	*7*	-12.4%
1.h Reserves	94	106	12.5%
Interest subsidy	94	106	12.5%
2. Capital Expenditures	**506**	**453**	**-10.6%**
2.a Acquisitions of Land, Buildings, for the Construction of	1	1	18.1%
2.b Equipment	30	39	31.0%
2.c Construction in Progress, *of which:*	323	260	-19.6%
Displaced Fund	*75*	*23*	-70.0%
Council of the South	*20*	*34*	71.8%
CDR	*127*	*99*	-22.6%
Ministry of Public Works and Transport	*83*	*74*	-11.1%
Other, of which:	*17*	*30*	76.4%
High Relief Commission	*0*	*13*	
2.d Maintenance	98	133	35.1%
2.e Other Expenditures Related to Fixed Capital Assets	53	11	-79.4%
2.f Parliamentary equipment & maintenance *6/*	2	9	495.2%
3. Budget Advances *7/*	**146**	**162**	**11.2%**
4. Customs Administration (exc. Salaries and Wages) *8/*	**34**	**29**	**-14.5%**
5. Other Treasury Expenditures	**806**	**578**	**-28.3%**
Municipalities	408	275	-32.6%
Guarantees	56	44	-20.4%
Deposits :	45	59	29.4%
Other, *of which:*	296	177	-40.3%
VAT Refund	*251*	*105*	-58.1%
High Relief Commission	*0*	*0*	-100.0%
Treasury Advances for Water Authorities	0	23	
6. Unclassified Expenditures	**4**	**1**	**-75.7%**
7. Total Expenditures (Excluding CDR Foreign Financed) *9/*	**12,411**	**12,584**	**1.4%**

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 14.

(2) For a detailed breakdown of transfers to public institutions, kindly refer to Table 15.

(3) For a detailed breakdown of interest payments, kindly refer to Table 19.

(4)For a detailed breakdown of transfers to NSSF, kindly refer to Table 16.

(5) For a detailed breakdown of transfers to EDL, kindly refer to Table 17. 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.

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

Current primary expenditures

Current primary expenditures[10] rose by 12 percent over QIII 2011, amounting to LL 6,923 billion up from LL 6,205 billion during the corresponding period of 2010. The main components of current primary expenditures are recorded below.

Personnel cost[11] rose by LL 288 billion – equivalent to 8 percent year-on-year – to LL 4,022 billion in January-September 2011 versus LL 3,734 billion in January-September 2010. In details, wages, salaries and related benefits (Article 13) amounted to LL 2,683 billion in QIII 2011 compared to LL 2,466 billion in QIII 2010, representing a 9 percent increase.

As shown in Table 14 below, this 217 billion rise is explained by the combined outcome of an increase of LL 144 billion in basic salaries, an increase of LL 60 billion in allowances, an increase of LL 7 billion in indemnities and an increase of LL 3 billion in "other"[12] payments. For further details, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin (July to September issues) on the Ministry of Finance website: www.finance.gov.lb

Table 14: Breakdown of Article 13 - Salaries, Wages and Related Items

(LL billion)	Basic Salaries		Indemnities 5/		Allowances 6/		Other 7/		Total	
	2010 Jan-Sep	2011 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep
Military Personnel	**1,149**	**1,278**	**54**	**55**	**301**	**360**	**2**	**2**	**1,507**	**1,695**
• Army	772	851	36	35	188	221	1	0	**996**	**1,108**
• Internal Security Forces 1/	302	339	15	16	89	114	0	0	**406**	**470**
• General Security Forces	58	65	2	2	17	18	1	1	**79**	**86**
• State Security Forces 2/	17	23	2	2	6	7	0	0	**25**	**31**
Education Personnel	**432**	**474**	**38**	**43**	**0**	**0**	**0**	**0**	**470**	**517**
Civil Personnel 3/, *of which:*	**256**	**229**	**47**	**49**	**3**	**4**	**157**	**160**	**462**	**441**
• Employees Cooperative							134	135	**134**	**135**
Customs Salaries 4/									**29**	**29**
Total[8]	**1,837**	**1,981**	**139**	**146**	**304**	**364**	**159**	**162**	**2,466**	**2,683**

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.
(8) Please note that totals might not correspond to the total of the individual items due to rounding

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

[11] 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.

[12] 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 summed up to LL 1,099 billion in QIII 2011 compared to LL 1,039 billion in QIII 2010, representing a 6 percent increase. Behind this LL 60 billion rise stand the following changes:

a) Retirement wage payments rose by LL 85 billion (11 percent) to LL 891 billion in QIII 2011.

b) End-of-service compensations reached LL 207 billion by end-September 2011. This LL 25 billion decrease is primarily the result of a lower payments to military personnel, which amounted to LL 180 billion (87 percent of total compensation payments) in QIII 2011 compared to LL 205 billion (87 percent of total compensation payments) in QIII 2010. This 12 percent downswing was induced either by a lower number of beneficiaries[13] or by the fact that retirees during the period under consideration are of lower grade levels[14] and/or have served for shorter period. As for end-of-service compensations to the civil personnel, they fell by LL 3 billion to LL 27 billion in QIII 2011 compared to LL 30 billion in QIII 2010. This 11 percent decline is probably the result of a drop in the number of beneficiaries which reached 1,331 retirees in QIII 2011, down from 1,526 retirees during the equivalent period of 2010.

Further under personnel cost, transfers to public institutions to cover salaries rose by LL 14 billion (6 percent) to reach LL 241 billion in QIII 2011, mainly driven by the LL 20 billion increase in transfers to the Lebanese University. The change in the components of transfers to public institutions are shown in Table 15 below.

Table 15: Breakdown of Transfers to Public Institutions (Salaries)

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/2010
Transfer to Council of the South	5	10	9	-15%
Transfer to the Council for Development and	38	24[15]	22[16]	-10%
Transfer to Fund for the Displaced	6	5	5	8%
Transfer to the Lebanese University	177	176	196	11%
Transfer to Educational Centre for Research and	10	12	9	-18%
Total Transfers to Public Institutions	**236**	**226**	**241**	**6%**

Source: MOF

<u>Materials and supplies</u> purchases amounted to LL 252 billion in QIII 2011 compared to LL 208 billion in QIII 2010, representing a LL 44 billion (21 percent) year-on-year rise. Excluding the increase in accounting adjustments for treasury advances[17] (which accounts

[13] No statistics are available regarding the number of military retirees.

[14] Indemnities are paid on the basis of the last-month salary.

[15] From this amount, LL7.7 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.

[16] 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.

[17] 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

for LL 6 billion of the total increase), this is explained mainly by a LL 31 billion (31 percent) rise in spending on medicaments, which amounted to LL 133 billion in QIII 2011 compared to LL 102 billion in QIII 2010. Behind this rise stands a LL 28 billion augmentation in medicament purchases by the Public Health Directorate at the Ministry of Public Health.

External Services (rent, postal, insurance, advertisement and public relations) increased by LL 10 billion or 13 percent from LL 82 billion in QIII 2010 to LL92 billion in QIII 2011. This was mainly due to increases in rental payments for printing official documents and fiscal stamps, consultancy services and cleaning contracts.

Various Transfers rose by LL 425 billion, totalling LL 2,195 billion in QIII 2011 compared to LL 1,770 billion in QIII 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 nine months of 2011 compared to LL 100 billion during the same period of 2010. The LL 120 billion transferred to NSSF in QIII 2011 and the LL 100 billion transferred in QIII 2010 were both paid from the allocation covering the State's contribution to the Fund that was included in the 2010 Budget Proposal[18].

Table 16: Transfers to the NSSF

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

Source: MOF

b) Transfers to non-profit organizations increased by LL 50 billion from LL 95 billion in QIII 2010 to LL 145 billion in QIII 2011. This was driven by a LL 55 billion increase in transfers to the NGOs operating on behalf of the Ministry of Social Affairs and which amounted to LL 90 billion in January-September 2011 compared to LL 35 billion during the same period of 2010, representing a 159 percent year-on-year increase[19].

owed by public administrations to public institutions (such as EDL for example) from the treasury advance owed by the public institution to the Treasury.

[18] Although it exceeded the LL 100 billion ceiling set by the 2005 Budget Law, the LL 120 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.

[19] For further details, please refer to the social expenditures section on page .

c) Wheat subsidy transfers amounted to LL 58 billion in QIII 2011 compared to LL 13 billion in QIII 2010. These payments were made as a result of the wheat price crisis which began in the third quarter of 2010 and which continued until the first half of 2011. A total of LL 85 billion were provided to the Directorate General of Cereals and Beetroot over a period of one year starting in QIII 2010 and ending in QIII 2011 to purchase a total of LL 150,000 tons of wheat approximately. The imported wheat was resold to mills at a subsidised price to maintain the price of Arabic bread constant at LL 1,500 per kilogramme. A LL 23 billion had been reimbursed to the Treasury bringing the net cost of the subsidy to LL 62 billion by end September 2011.

d) Transfers to EDL[20] increased by LL 453 billion in the first nine months of 2011 compared to that of 2010, thus amounting to LL 1,703 billion.

Table 17: Transfers to EDL

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/2010
EDL, *of which:*	**1,743**	**1,250**	**1,703**	**36%**
a-Debt Service, *of which:*	**108**	**76**	**75**	**-1%**
• C-Loans and Eurobonds, *of which:*	82	60	55	-9%
- *Principal Repayments*	*69*	*49*	*45*	*-8%*
- *Interest Payments*	*14*	*11*	*9*	*-12%*
• BDL-Guaranteed Loan Payments	26	16	20	25%
b-Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	**1,635**	**1,174**	**1,628**	**39%**
• KPC and SPC	1,635	1,174	1,574	34%
• EGAS	0	0	55	-

Source: MOF, DGF

e) Transfers to the school funds amounted to LL15 billion in QIII 2011 while they had reached LL40 billion in QIII 2010. This 63 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 in QIII 2011 whereas they had amounted to LL 41 billion[21] in QIII 2010.

g) Transfers to cover the diesel oil subsidy were absent in QIII 2011 whereas they had amounted to LL 61 billion[22] in QIII 2010. This drop is explained by the absence of a policy decision to subsidize diesel oil during the 2010-2011 winter.

[20] For further details, check the September 2011 issue of *"Transfers to EDL: A Monthly Snapshot"* available on www.finance.gov.lb.
[21] That were paid from the Treasury advance provided by Decree 3346 dated February 23rd, 2010.
[22] 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 18: Breakdown of Article 14 by Economic Classification

LL Billion	QIII 2010	QIII 2011	% Change
1. Contributions to the Public Sector 1/	**1,538**	**1,899**	**23%**
1a. Electricité Du Liban (EDL)	**1250**	**1703**	**36%**
1b. Other Contributions to the Public Sector, *of which:*	**288**	**196**	**-32%**
National Council for Scientific Research	*5*	*4*	-11%
High Relief Committee (HRC) 1/	*6*	*4*	-35%
Investment Development Authority of Lebanon (IDAL)	*16*	*2*	-88%
Transfers to School Funds	*49*	*15*	-70%
Public Hospitals	*3*	*6*	102%
National Agriculture Research Institute (NARI)	*3*	*8*	149%
Green Project	*8*	*11*	47%
Public Institution for Cooperative Markets 2/	*0.4*	*0.2*	50%
National Social Security Fund (NSSF)	*100*	*120*	20%
Télé-Liban	*5*	*5*	-11%
Diesel Oil Subsidy 3/	*60*	*0*	-100%
Lebanese National Higher Conservatory of Music	*10*	*9*	-8%
2. Contributions to the Non-Public Sector	**101**	**149**	**47%**
2a. Contributions to Non Profit Organizations 4/, *of which:*	**95**	**145**	**53%**
Ministry of Education-Subsidized Schools	*44*	*40*	-8%
Ministry of Youth and Sports (Sport Federations and Prizes for Athletes)	*3*	*1*	-53%
Ministry of Public Health (Blood Bank and Medications through NGOs)	*6*	*6*	0%
Ministry of Social Affairs (Social care)	*35*	*90*	159%
2b. Contributions to Private Parties, *of which:*	**6**	**4**	**-42%**
Ministry of Justice (Contributions to Canonical Tribunals)	*0*	*0*	**NA**
Ministry of Public Health (Childhood, Elderly and Handicapped Centers)	*1*	*0*	-22%
Ministry of Culture (Support to Art)	*3*	*2*	-42%
2c. Students Grants	**0.20**	**0.31**	**53%**
3. Assistance to the Public Sector	**35**	**74**	**110%**
3a. Assistance for the Directorate General of Grains and Sugar Beetroot 5/	**21**	**58**	**180%**
3b. Assistance to Public Institutions, *of which:*	**15**	**15**	**2%**
Institute of finance	*1*	*1*	-17%
Railway and Public Transportation Authority	*10*	*9*	-9%
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	**41**	**1**	**-98%**
5a. Other External Assistance, *of which:*	*41*	1	-98%
Special Tribunal for Lebanon	*41*	*0*	-100%
6. Membership Fees	**14**	**18**	**30%**
6 a. Membership Fees in International and Regional Organizations, *of which:*	14	18	30%
Ministry of Foreign Affairs and Emigrants	*7*	*3*	-50%
Ministry of Public Health (mainly for vaccinations and health prevention policies)	*4*	*8*	118%
7.Stoppings 6/, *of which:*	**39**	**56**	**44%**
Treasury Advances 7/	*2*	*18*	1074%

Lebanese Civil Defense 8/	*20*	*22*	8%
Total 10/	**1,770**	**2,195**	**24%**

Source: DGF, MOF

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

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 receiving transfers from the Ministry of Social Affairs is published in table 22, page 32.

5/ Out of LL 21 billion, LL 13 billion were payments to Directorate General of Grains and Beetroot aimed at subsidizing the price of wheat sold to mills. They were made through a treasury advance issued from Decree 4947 dated September 4th, 2010. In 2011, the payment was made through a treasury advance based on an exceptional decision regularized later through Decree 6056 dated August 6th, 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 regularization in the budget system and process of (i) treasury advances made in previous years and (ii) payments to the Civil Defense from treasury deposit accounts.

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 Defense 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.

9/ The total amount slightly differ from the sum of individual items principally due to rounding issues. It is noteworthy that the total "various transfer" balance differs from published QIII 2010 report and September 2010 PFM.

Other Current Expenditures receded by 19 percent to LL 256 billion in QIII 2011. This LL 62 billion decrease was driven by drops in the following items:

a) Payments to hospitals to cover the cost of hospitalization of uninsured citizens in the private sector declined by LL 46 billion equivalent to 19 percent, amounting to LL 197 billion in January-September 2011 compared to LL 243 billion during the similar period of 2010. A preliminary explanation is the slower pace of file transmission from the Ministry of Public Health to the Directorate of Payment Orders at the Ministry of Finance in 2011 compared to 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) went down by LL 15 billion (22 percent), to reach LL 50 billion in QIII 2011 compared to LL 65 billion in QIII 2010. This is explained by the following:

i. Electoral expenses incurred by the Ministry of Interior and Municipalities to organize municipal elections reached LL21 billion[23] in QIII 2010 versus nil in QIII 2011.

ii. Reconciliation payments to hospitals amounted to LL 10 billion[24] during the first nine months of 2011 compared to nil during the equivalent period of 2010 partly offsetting the decrease due to electoral expenses.

[23] As per Decree 3215 dated February 8th , 2010.
[24] That were paid from the Treasury advance provided by Decree 4946 dated September 9th, 2010.

Interest payments

Interest payments during the first three quarters of the year totaled LL 4,191 billion, 6 percent lower than the amount paid during the equivalent period in 2010. Of these LL 274 billion savings on interest cost, LL 251 billion originated from local currency debt service and LL 23 billion from foreign currency debt service.

Total domestic currency debt service payments totaled LL 2,622 billion in Jan-Sept 2011, nearly 9 percent less than interest payments in Jan-Sept 2010.
More specifically, with LL 73 billion paid in Jan-Sept 2011, **discount interest** (interest on 3, 6, & 12 months T-bills) were 55 percent below the amount paid in Jan-Sept 2010, explained by (i) 41 percent lower amount of principal redeemed in the first three quarters of 2011, compared to the volume of redemption in the first three quarters of 2010, and (ii) lower weighted average interest rate. In fact, whereas the short term T-bills redeemed in Jan-Sept 2010 carried a weighted average interest of 6.13 percent, the short term T-bills maturing in Jan-Sept 2011 carried a weighted average interest rate of 4.69 percent, a 144 basis points (bps)reduction in short term local currency borrowing cost.

Total coupon payments (interest on 2,3, 5 & 7 years) in Jan-Sept 2011 amounted to LL 2,549 billion. Of that amount, LL 60 billion are coupon payments in the context of early T-bills redemption pertaining to (i) January 2011 USD 265 million Eurobond issuance, against redemption of outstanding T-bills held by BDL[25], and (ii) April 2011 issuance of 7 years T-bills against redemption of outstanding T-bills maturing during April-June 2011 held by Commercial banks & BDL.
It is worth noting that the year 2011 witnessed a major development on the local currency debt front, namely the issuance of a new 7 years maturity (outside the T-bills weekly auction process), which has been offered on 3 occasions, in March, April & September 2011, under special schemes (please refer to box 1 on "The 7YR bond issuances in March, April & September 2011").
Total coupon payments in Jan-Sept 2011 were 6 percent below total coupon payments in Jan-Sept 2010, despite nearly 4 percent higher volume of outstanding long-term bonds for which coupons were due in the first three quarters of the year. This is explained by a drop in the weighted average interest rate; in fact, whereas the stock of long-term bonds outstanding in Jan-Sept 2010 carried a weighted average interest rate of 8.94 percent, the outstanding stock of long term bonds in Jan-Sept 2011 carried a weighted average interest rate of 8.06 percent[26]. Therefore the 88 bps drop in the cost of domestic currency long–term borrowing have eased the debt service payments, despite higher volume of outstanding long-term debt.

Total foreign currency debt service payments totaled LL 1,569 billion by end of September 2011, roughly 2 percent below the payments of Jan-Sept 2010. Of that amount LL 1,473 billion are **Eurobond coupons** and related fees settled during the first nine months of 2011, mainly:

25 US$ 265 million 6.10 percent Notes due October 2022 (a reopening of this Note, which was first issued in November 2010) in the context of a "Debt Replacement Agreement" between the MoF and BdL (in which BDL redeemed T-bills from its portfolio).

26 Note that the domestic debt portfolio in 2011 carries instruments of longer maturities, namely the 7 years bonds, whereas the longer maturity in the 2010 domestic debt portfolio was 5 years bond, this will ultimately impact the weighted average coupon rate of the outstanding domestic debt stock.

- ✓ cumulatively LL 253 billion coupons pertaining to the 4 Eurobonds (7.5% 2012, 9.125% 2013, 9.000% 2017 & 6.375% 2020) settled twice, in March and in September 2011
- ✓ LL 130 billion coupon of the 8.250% 2021 Eurobond paid in April 2011
- ✓ LL 59 billion last coupon paid on the 19th of May 2011 at maturity of the USD 1 billion 7.875% Eurobond
- ✓ LL 42 billion coupons of the USD 750 million 7.5% 2011 Eurobond paid in February and at bond maturity on August 2nd 2011
- ✓ LL 48 billion, paid twice in January & July 2011, pertaining to the 8.5% 2016 Eurobond
- ✓ Cumulatively LL 38 billion, representing two coupon payments pertaining to the USD 700 million, 5.0% 2018 PII Eurobond (with two amortized principal payments of LL 52.763 billion each) paid in March & September 2011

Despite a substantial reduction in the foreign currency borrowing cost, as evidenced by the Republic's three market Eurobond transactions in 2011[27], the last of which saw the issuance of a 15 yrs bond (due November 2026) at 6.60% coupon, it is worth noting that the outstanding debt portfolio still carries some high coupon bonds, namely USD 400 million 11.625% 2016 Eurobond (15 yrs, issued in 2001), on which LL 35 billion coupon was paid in May 2011.

With LL 93 billion paid in Jan-Sept 2011, **interest payments on concessional loans** were 24 percent lower than concessional loans' payments in Jan-Sept 2010:

- ✓ LL 40 billion are interest payment dues on budgetary concessional loans (of which LL 31 billion on AFD-PII & PIII loans, paid in February, May & August 2011)
- ✓ LL 53 billion are interest due on concessional loans to CDR (namely from bilateral donors such as AFESD, Islamic Development Bank, EIB, & IBRD)

27 The $ 1 billion dual tranche offering conducted in May, the US$ 1.2 billion dual tranche transaction conducted in August, and the $ 1.47 billion three tranches transaction raised through a voluntary debt exchange operation and new issuance in November.

Table 19: Interest Payments

	Jan-Sep 2010	Jan-Sep 2011	% change
Interest Payments	**4,465**	**4,191**	**-6.1%**
Local Currency	**2,873**	**2,622**	**-8.7%**
Discount interest	162	73	-54.8%
Coupon payment	2,711	2,549	-6.0%
Foreign Currency	**1,592**	**1,569**	**-1.5%**
Eurobond Coupon (incl.fees)	1,459	1,473	0.9%
C-loans interest	122	93	-23.9%
Special Bond (exprop. & contract.)	11	3	-72.5%
Domestic Currency Principal			
Maturities of short-term T-bills (3,6,12 months)	3,905	2,302	-41.0%
Number of Long term T-bills (2,3,5,7 years) on which coupon was due*	6,116	6,336	3.6%
Average interest on outstanding stock			
Of domestic currency debt			
Treasury Bills (3-6-12 months)	*6.12%*	*4.50%*	*-26.5%*
Treasury bonds (2, 3, 5,and 7 years)	*8.50%*	*7.49%*	*-11.9%*

Source: PDD, MOF
**Excluding those early redeemed T-bonds in January & April 2011*

Box 1. The 7YR bond issuances in March, April and September 2011

On March 24th, April 21st and 15th 2011, the Ministry of Finance issued a 7YR bond with a coupon of 7.9 percent, 7.9 percent and 7.6 percent respectively[1]. These three issuances are 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.

Concerning the **March 2011 issuance**, commercial banks were authorized to subscribe to the 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.

As for the **April 2011 issuance**, banks and financial institutions were authorized to subscribe to the 7YR bond either by swapping Treasury Bills maturing between April 28th, 2011 and end-June 2011 or in exchange for new cash.

Total subscriptions to this issuance amounted to LL 2,658 billion of which:

c) LL 1,459 billion equivalent to 55 percent were subscribed by Banque du Liban in exchange for maturing TBs.
d) LL 1,199 billion equivalent to 45 percent were subscribed by commercial banks. Of this amount:
    i. LL 565 billion equivalent to 47 percent were subscribed by commercial banks in exchange for maturing TBs.
    ii. LL 635 billion equivalent to 53 percent were subscribed by commercial banks in fresh cash.

In other words, of the total subscriptions:

a) LL 2,024 billion equivalent to 76 percent were conducted in exchange for maturing TBs.
b) LL 635 billion equivalent to 24 percent were conducted in fresh cash.

The **September 2011 issuance** allowed commercial banks to subscribe to 7YR Treasury Bonds either by swapping certificates of deposits issued by BDL or purchasing new bonds as per the below table.
This was a voluntary exchange offer from BDL-issued Certificates of Deposit to 7-year Treasury bonds.
Subscriptions to this issuance amounted to LL 1,966 billion, of which 10 percent in exchange for certificates of deposit and 90 percent were in new cash subscriptions.

The table below summarizes the characteristics of the three transactions:

Characteristics of the three LL 7YR bond issuances in March, April and September 2011			
Transaction	March 2011	April 2011	September 2011
Tenor	7YR	7YR	7YR
Maturity date	March 2018	April 2018	September 2018
Date of issuance	March 24th, 2011	April 21st , 2011	September 15th, 2011
Interest rate	7.90 %	7.90 %	7.60 %
Swapped Instruments	BDL CDs	TBs	BDL CDs
Characteristics of swapped instruments			
• ***Tenor***	5YR and 7YR	6MN, 12MN, 2YR, 3YR	2MN and 7YR
• ***Maturity date***	Mar 2013-Oct 2017	April 28th, 2011-June 30th, 2011	November 1st, 2011-March 17th, 2017
• ***Number of swapped instruments***	N/A	200,503,508	191
• ***Interest rate***	N/A	4.42%-9.32%	3.85%-6.50%
• ***Face value (LL)***	1,025,000,000,000	2,005,035,080,000	191,000,000,000
• ***Purchase Value (LL)***	1,045,190,995,315	2,023,605,409,840	191,887,113,326
Total subscriptions (LL), *of which*	1,761,190 995,315	2,658,205,410,000	1,999,330,000,000
• ***Against swapped instruments***	1,045,190,995,315	2,023,605,410,000	191,887,000,000
• ***In cash***	716,000,000,000	634,600,000,000	1,466,330,000,000

[1] Unlike the 7YR bond issuance that took place in December 2010, these three transactions were not conducted under the Ministry's Medium Term Note (MTN) Program.

Capital Expenditures

Capital expenditures for QIII 2011 totalled LL 453 billion, decreasing by 10.6 percent from LL 506 billion collected in QIII 2010. This decrease of LL 53 billion is primarily the outcome of a drop in construction in progress and other expenditures related to fixed capital assets spending over this period.

In details, Construction in progress spending tumbled down by 20 percent to LL 260 billion during the first three quarters of 2011 versus LL 323 billion during the similar period of 2010. This LL 63 billion decline is the combined outcome of the following:

a) Transfers to the Displaced Fund receded by LL 52 billion from LL 75 billion recorded in January-September 2010[28] to LL 23 billion[29] in QIII 2011.

[28] Out of the LL 75 billion paid to the Displaced Fund in January-September 2010, LL 30 billion were from the LL 30 billion allocated to the Fund in the 2009 Budget and carried over. The remaining LL 45 billion were by treasury advance as per decree 4722 dated July 31st, 2010 based on the 2010 budget proposal. These LL 45 billion are to be offset from the amounts allocated to the Displaced fund by Law 362/2001.

[29] This amount was paid from the LL 120 billion allocated in the 2010 Budget Proposal and carried forward to 2011. It should be offset from the amounts allocated to the Displaced Fund under Law 362/2001.

b) Transfers to the Council for Development and Reconstruction retreated by 23 percent to LL 99 billion in QIII 2011 compared to LL 127 billion in QIII 2010. As shown in Table 20 below, this LL 28 billion drop is mainly due to the following:

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

ii. Payments for the maintenance of Rafic Hariri International Airport receded by LL 4 billion from LL 13 billion in QIII 2010 to LL 9 billion in QIII 2011.

iii. Payments for projects executed on behalf of line ministries amounted to LL 20 billion in QIII 2011 compared to LL 44 billion in QIII 2010. Of the LL44 billion paid in QIII 2010, LL24 billion were for international highways[30], LL8 billion for the Ministry of Education (buildings construction and expansion), LL6 billion for the Ministry of Public Health (building construction) and LL1 billion for the Ministry of Youth and Sports (Baalbek Stadium). Of the LL20 billion paid in QIII 2011, LL11 billion were for the Sour-Naqoura Road and 9 billion were for the Baalbek Stadium[31].

iv. Arbitrage payments to Hoctief went from LL 26 billion in Jan-Sept 2010 to nil during the same period of 2011 as these have been finalized in 2010. This has created some space for new capital spending by CDR which, as a result, was able to spend more on counterpart funding by LL 29 billion.

Table 20: Payments to CDR for Construction in Progress

LL billion	Jan-Sept 2010	Jan-Sept 2011
CDR Budget Payments, *of which:*	**83**	**79**
Counterpart funding for foreign financed projects (1)	41	70
Maintenance of Rafic Hariri International Airport	13	9
Maintenance of Grand Sérail	3	0
Arbitrage payments to Hoctief (Airport)	26	0
Other Payments from CDR Budget (2)	0	0
Projects Executed on behalf of Line Ministries (3), *of which:*	**44**	**20**
Roads	24	11
Buildings	20	9
Other	**0**	**0**
Total Payments to CDR for Construction In Progress	**127**	**99**

Source: MOF

(1) A LL 12 billion were reclassified from Arbitrage (Hoctief) to counterpart funding in QIII 2011 following the provision of additional information from CDR

(2) Include payments allocated on a yearly basis for CDR in the first part of the capital expenditure budget.

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

c) Transfers to the Ministry of Public Works and Transport decreased by 11 percent, totalling LL 74 billion during the first three quarters of 2011 against LL 83 billion

30Of which LL20 billion were paid through the treasury advance issued by Decree 4623 dated July 17th, 2010 under Law 246/1993.

31 These were paid through the treasury advance issued by Decree 4575 dated July 8th, 2010.

during the same period of 2010. Behind this LL 10 billion drop stand the following changes:

i. An LL 17 billion drop in spending on the construction of roads of which LL 14 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*.
iii. A LL 6 billion rise in spending under the Ministry's Program Law for the construction of fishing and leisure ports.

d) These decreases which occurred within the **construction in progress** item more than counterbalanced the increase in transfers made to the Council of the South and the Higher Relief Council which rose by LL 14 billion and LL 13 billion, respectively.

Other expenditures related to fixed capital went down by 79 percent to LL 11 billion during the first nine months of 2011 compared to LL 53 billion during the similar period of 2010. This LL 42 billion drop is mainly due to a LL 43 billion decrease (equivalent to 89 percent) in transfers to the Investment Development Authority of Lebanon (IDAL) to cover the spending of its Export Plus Programme. These transfers had amounted to LL 49 billion in QIII 2010.

The magnitude of the decrease in **construction in progress** and **other expenditures related to fixed capital** above has offset the impact of the increase in the following items that constitute the remaining components of **total capital expenditures**:

Equipment purchases increased by 31 percent to LL 39 billion in QIII 2011 compared to a lower level of LL 30 billion in QIII 2010. This LL 9 billion upswing is primarily explained by a LL 4 billion rise and a LL 2 billion rise in spending by Ministry of Energy and Water and the Ministry of Finance, respectively.

The **maintenance** bill surged up by 35 percent, reaching LL 133 billion in QIII 2011 compared to LL 98 billion during the corresponding period of 2010. This LL 34 billion upswing is due to a LL 36 billion rise in spending on the maintenance of roads by the Ministry of Public Works and Transport. This increase has counteracted for the decrease in payments to the CDR for the maintenance of the Lebanese University Campus in Hadath, which declined by 64 percent, totalling LL 2.7 billion[32] in QIII 2011 compared to LL 9.7 billion in QIII 2010.

Finally **Parliamentary equipment and maintenance** under capital expenditures totalled LL 9 billion in QIII 2011 whereas it had amounted to LL 2 billion QIII 2010[33].

[32] Which were paid from the allocation provided by Decree 3325 dated February 17th, 2010
[33] For details regarding the maintenance and equipment of the Parliament's headquarter, kindly refer to the 2010 Public Finance Review.

Other Treasury Expenditures

Other Treasury expenditures fell by 28 percent to LL 578 billion in QIII 2011 compared to LL 806 billion in QIII 2010. This LL 228 billion decline is primarily attributed to lower Value Added Tax refund payments.

Payments to **municipalities** declined by 33 percent to LL 275 billion in QIII 2011 versus LL 408 billion in QIII 2010. This LL 133 billion decrease is mainly explained by a LL 21 billion (12 percent) drop in payments for solid waste management, as shown in Table 21 below. These payments decreased to LL 151 billion in January-September 2011 from LL 172 billion in January-September 2010 mainly because of payment timing issues. In parallel, payments of revenues accruing to municipalities decreased by 50 percent, hovering around LL 116 billion in QIII 2011 compared to LL 232 billion in QIII 2010. Of the LL 116 billion that were paid as accrued revenues to municipalities in QIII 2011, (i) LL 53 billion pertain to the 2009 revenues[34] of the Independent Municipal Fund, (ii) LL 35 billion pertain to the 2008 revenues[35], (iii) LL 14.6 billion pertain to the 2007 revenues[36] and (iii) LL 14 billion pertain to the 2006 revenues[37]. Of the LL 232 billion that were paid as accrued revenues to municipalities in QIII 2010, (i) LL 207 billion were on account of the 2008 revenues; (ii) LL 13.4 billion were on account of the 2007 revenues and (iii) LL 10.5 billion were on account of the 2006 revenues.

Table 21: Payments to Municipalities

(LL billion)	2009 Jan-Sep	2010 Jan-Sep	2011 Jan-Sep	%Change 2011/2010
Distribution of Revenues Accruing to Municipalities	198	232	116	-50%
Payments for Solid Waste Management	191	172	151	-12%
Payments to the "First Municipality Infrastructure	8	1	7	1281%
Other Payments	1.8	2.1	1.7	-20%
Total Payments to Municipalities[(1)]	400	408	275	-33%

Source: MOF, DGF

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

Under **"other"** Treasury expenditures, VAT refund declined by 58 percent to LL 105 billion during the first nine months of 2011 from LL 251 billion during the similar period of 2010.

Lastly under Treasury expenditures, **Treasury advances for water authorities** totalled LL 23 billion in QIII 2011 compared to nil in QIII 2010. These LL 23 billion could be broken down as follows: a LL 5 billion treasury advance provided to the Southern Water Authority[38], a LL 10 billion treasury advance[39] provided to the Bekaa Water Authority and a LL 7.5 billion treasury advance provided to the Northern Water Authority[40].

[34] That were distributed based on Decree 5177 dated October 8th, 2010
[35] That were distributed based on Decree 4608 dated July 13th, 2010.
[36] That were distributed based on Decree 2339 dated June 19th, 2009.
[37] That were distributed based on Decree 614 dated October 27th, 2008.
[38] Provided by Decree 5019 dated September 7th, 2010.
[39] Provided by Decree 5020 dated September 7th, 2010.
[40] Provided by Decree 5021 dated September 7th, 2010.

Special Focus: Social Expenditures

Social expenditures cover the basic social services of: health, education, retirement and end-of-service indemnities, transfers to the National Social Security Fund (NSSF), and other areas of intervention where the Government provides social allowances.

The social bill rose by 6 percent year-on-year, amounting to LL 3,021 billion in QIII 2011 from a lower level of LL 2,854 billion in QIII 2010. End-of-Service indemnities and retirement wages accounted for the highest share of social spending in QIII 2011, at 36 percent, remaining stable at their QIII 2010 level. Education spending followed with a share of 32 percent, down from 34 percent in January-September 2010. Education spending mainly covers the Ministry of Education and Higher Education salary and wage bill, the transfers to the Lebanese University, education allowances for public sector employees and contributions to non-profit organizations also known as subisidies to private schools. Lastly, health expenditures ranked third with 19 percent of social outlays – stable as compared to the January-September 2010 level.

The LL 167 billion surge in social spending recorded in QIII 2011 is primarily explained by the combined effect of the following:

a) Transfers to the NSSF rose by LL 20 billion from LL 100 billion in QIII 2010 to LL 120 billion in QIII 2011 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 60 billion from LL 1,039 billion in QIII 2010 to LL 1,099 billion in QIII 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 34 billion to LL 147 billion in QIII 2011 up from LL 113 billion in QIII 2010.

d) Payments of salaries and wages of the General Directorate of Education increased by LL 45 billion to LL 488 billion in QIII 2011 from LL 444 billion in QIII 2010.

e) Payments for the hospitalization of uninsured citizens in the private sector decreased by LL 46 billion to LL 197 billion during the first nine months of 2011 from LL 243 billion during the similar period of 2010.

h) Transfers to non-profit organizations delivering services on behalf of the Ministry of Social Affairs augmented by LL 55 billion from LL35 billion in QIII 2010 to LL 90 billion in QIII 2011. Payments in QIII 2010 were exceptionally low and the payments in QIII 2011 are in line with the steady growth of budget lines allocated to the Ministry of Social Affairs since 2009. A more in-depth analysis reveals that of the LL55 billion increase witnessed in QIII 2011: (i) an LL8 billion was due to an increase in the number of recipients from 292 to 335, (ii) a LL12 billion was due to an increase in the payments to Social Service Centres across Lebanon affiliated with the Ministry of Social Affairs, (iii) LL7 billion was due to an increase of payments to projects[41] run by the Ministry of Social Affairs, (iv) a LL6 billion increase to the Islamic Social Welfare Institutions and (v) a LL3 billion increase for the canteens of subsidized schools and the poverty reduction project of the Ministry. The remaining increase which till now cannot be broken down into more refined categories is due to higher transfer to all the non profits organizations that are providing social services to people with disabilities, orphans, high at risk youth and elderly care.

f) Purchases of medicaments increased by LL 31 billion, amounting to LL 133 billion in QIII 2011 compared to LL 102 billion in QIII 2010 (*for details kindly refer to the "Current primary expenditures" section*).

g) Payments of maternity and sickness allowances rose by LL 6 billion to LL 37 billion during the first three quarters of 2011 from LL 31 billion during the same period of 2010. Transfers to the Civil Servants' Cooperative increased by LL 1 billion to LL 135 billion in QIII 2011 from LL 134 billion in QIII 2010, mainly due to the timing of payments.

[41] These include mainly the support directly provided by MOSA to people with disabilities and the Higher Council for Children. Smaller projects include adult literacy, reproductive health and development information dissemination program.

Table 22: Main Social Expenditures

(LL billion)	QIII 2010	QIII 2011	%Change
Health	**535**	**564**	**5%**
• Hospitalization in the Private Sector	243	197	-19%
• Purchase of Medication	102	133	31%
• Hospitalization of Public Sector Employees in Private Sector	113	147	30%
• Maternity and Sickness Allowance	31	37	20%
• Other	46	50	9%
Education	**969**	**964**	**-1%**
• Ministry of Education and Higher Education, *of which*:	822	803	-2%
- *Wages and Salaries of the General Directorate of Education*	*444*	*488*	10%
- *Wages and Salaries of the General Directorate of Higher*	*1*	*1*	35%
- *Wages and Salaries of the General Directorate of Technical*	*25*	*27*	7%
- *Transfers to the Lebanese University*	*176*	*196*	11%
- *Contributions to Non Profitable Organizations (Private Schools)*	*44*	*40*	-8%
- *Construction under Execution (Construction of Schools)*	*9*	*0*	-98%
• Education Allowance in Private Sector	147	161	10%
Other Social Spending	**1,350**	**1,493**	**11%**
• Marriage Allowance	3	6	72%
• Birth Allowance	2	3	42%
• Death Allowance	2	3	41%
• Other Social Spending Allowance	6	6	13%
• Participation in Several Mutual Funds	20	22	9%
• Ministry of Social Affairs, *of which*:	39	95	143%
- *Transfers to Non-Profit Organizations*	*35*	*90*	159%
• Ministry of the Displaced	5	4	-19%
• Transfers to Civil Servants Cooperative	134	135	1%
• End-of-Service Indemnities and Retirement Wages	1,039	1,099	6%
• Transfers to the National Social Security Fund	100	120	20%
Unclassified allowances	**0**	**0**	**286%**
Total Social Expenditures	**2,854**	**3,021**	**6%**

Source: MOF, DGF

Section IV: Public Debt Developments

A. Public debt: General facts

By the end of the third quarter of 2011, **gross public debt** totalled LL 81,971 billion ($ 54.38 billion), representing a LL 2,673 billion or 3.4 percent increase from the end-December 2010 level. This was led by a LL 2,045 billion increase in the stock of local currency debt compared to higher foreign currency debt of LL 628 billion.

Net public debt[42] increased by LL 1,215 billion or 1.8 percent between December 2010 and September 2011, amounting to LL 69,094 billion ($ 45.83 billion). The increase is mainly due to a raise of the total debt stock over the first nine months of the year that outweighed the LL 1,458 billion increase in public sector deposits over that period.

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

(LL billion)	Dec-09	Dec-10	Sept-11	Change Dec 10 - Sept 11	% Change Dec 10 - Sept 11
Gross Public Debt	77,112	79,298	81,971	2,673	3.37%
Net Debt	66,590	67,879	69,094	1,215	1.79%
Gross Market Debt(1)	51,231	51,308	51,106	-202	-0.39%

Sources: Ministry of Finance, Banque du Liban

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

B. Domestic debt

Local currency debt reached LL 50,300 billion by the end of the third quarter of 2011, representing a 4.24 percent rise from the stock prevailing at the end of December 2010. This is primarily due to a rise in the stock of long term instruments, partly offset by a decrease in the stock of short-term bills.

1. Analysis of local currency debt by holder

By holder, commercial banks remained the largest holders of local currency debt, claiming a share of 52 percent by end-September 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 973 billion (3.58 percent) contraction in their holdings, which was driven by a LL 984 billion (3.63 percent) decrease in their portfolio of Treasury Bills. The drop in commercial banks holdings was more than counterbalanced by a LL 3,127 billion or 23.82 percent increase in the stock held by Banque du Liban which amounted to LL 16,257 billion at the end of September 2011,

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

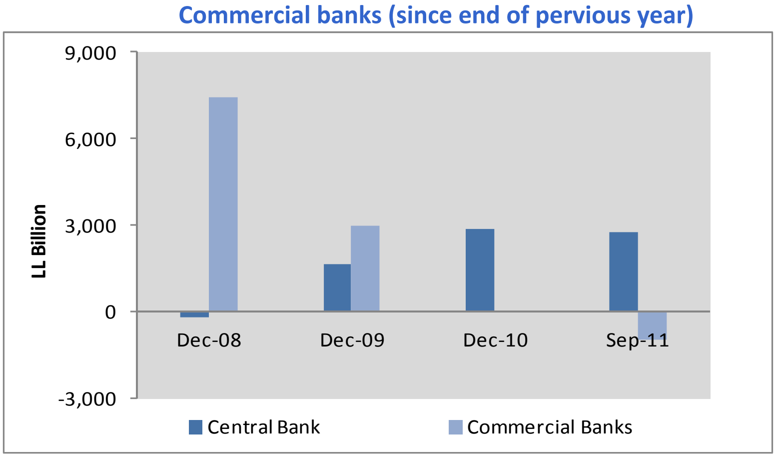
up from LL 13,130 billion at the end of 2010[43]. This rise is primarily explained by (i) LL 2,778 billion equivalent to 21.5 percent augmentation in the portfolio of TBs held by the Central Bank; and (ii), the BDL's issuance of LL 400 billion worth of repurchase agreements by the end of QIII 2011.

"Other" holders witnessed a LL 109 billion or 1.38 percent contraction in the portfolio of TBs which amounted to LL 7,802 billion at end-September 2011 compared to LL 7,911 billion at end-December 2010, thus leading to a 0.88 percentage point decrease in their share of local debt. This decline was driven by a LL 363 billion drop in the portfolio held by the public which absorbed the LL 228 billion rise in public institutions' holdings and the LL 26 billion increase in holdings by financial institutions.

These results reflect the weekly treasury bill and bond auctions during the first nine months of 2011. Historically, the largest subscribers of TBs are commercial banks. Capturing 41 percent of subscriptions in QIII 2011, commercial banks demonstrated low appetite for TBs albeit a healthier one than that witnessed in QII and QI 2011 with 24 percent and 11 percent of subscriptions, respectively. The Central Bank, in contrast, had a lower share of subscriptions in QIII 2011 with 43 percent of subscriptions compared to 51 percent and 66 percent in QII and QI 2011, respectively. As for the share of subscriptions by public institutions, it receded by 9 percentage points in QIII 2011, reaching 14 percent compared to 23 percent in QII 2011 and 22 percent in QI 2011.

On a cumulative level in the first nine months of 2011, Banque du Liban captured 52 percent of subscriptions, followed by commercial banks with 28 percent and then public institutions with 19 percent. This reflects a marked change from subscription rates in the first three quarters of 2010 during which commercial banks subscribed to 49 percent of TBs, followed by the Central Bank with 25 percent and public institutions with 15 percent and public at banks with 10 percent.

Figure 3: Change in Treasury Security Holdings of the Central Bank and Commercial banks (since end of pervious year)



Source: Ministry of Finance, Banque du Liban

[43] 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.

2. Analysis of local currency debt by instrument

By instrument, the stock of long term bonds rose by 5.67 percent to LL 46,287 billion by end-September 2011 compared to end-2010 level in contrast to the decreased stock of short-term bills by 9.55 percent to LL 3,758 billion over the same period.

The pattern of subscriptions in QIII 2011 indicates a spike in long-term Treasury bonds which is largely attributable to a surge in the 7YR Treasury bond portfolio that went up from LL 1,500 billion by end-2010 to LL 7,885 billion by end-September 2011. This is due to the three special scheme transactions that took place during the first nine months of 2011, on in March 2011[44], another in April 2011[45] and lastly in September 2011(*for details concerning this transaction, kindly refer to Box 2 below*). The second largest increase by instrument was for 5YR bonds whose stock increased by 48 percent to LL 10,850 billion over the same period. The volume increase in seven and five-year Treasury bonds more than counterbalanced for the LL 8,246 billion drop in the stock of three-year Treasury bonds to LL 22,536 billion by end of September 2011. Although 3YR Treasury bonds saw the most exacerbated decline of 27 percent, they remained the largest TB instrument category with a 45 percent share of TBs.

As in QI and QII 2011, the stock of 6MN bills witnessed the largest drop among short-term TBs with a LL 498 billion or 23.6 percent decrease by the end of September 2011 from LL 2,111 billion by the end of 2010. Twelve-month bills also receded by LL 137 billion, equivalent to 7.0 percent, to LL 1,832 billion as compared to end-2010. Three-month instruments were the only Treasury bills whose stock increased. With LL 313 billion in stock, 3MN TBs more than quadrupled compared to end-2010.

[44] For details concerning this transaction, refer to Box 3 of the Public Finance Quarterly of QI 2011.
[45] For details concerning this transaction, refer to Box 2 of the Public Finance Quarterly of QII 2011.

Box 2:The 7-YR bond issuance in September 2011

On September 15, 2011, the Ministry of Finance issued 7YR Treasury bonds with a coupon of 7.60 percent[1]. Commercial banks and financial institutions were authorized[2] to subscribe to this 7YR bond either by swapping certificates of deposits issued by Banque du Liban or purchasing new bonds[3]. Total subscriptions to this issuance, including Banque du Liban's participation, amounted to LL 1,966 billion of which:

e) LL 1,774 billion equivalent to 90 percent was subscribed in new cash;
f) LL 192 billion equivalent to 10 percent were subscribed in exchange for certificates of deposits issued by Banque du Liban and held by commercial banks.

Table 24: 7YR Treasury bond issuance September 2011 results

(in LL)	New Cash	Exchanged amount	Total
Commercial Banks and Financial Institutions	1,274,443,000,000	191,887,000,000	1,466,330,000,000
BDL	500,000,000,000	0	500,000,000,000
Total	**1,774,443,000,000**	**191,887,000,000**	**1,966,330,000,000**

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 1/950 dated September 10th, 2011.*
[3] *A similar issuance was conducted on March 24, 2011 with a coupon of 7.90 percent. For details concerning this transaction, kindly refer to Box 3 of the Public Finance Quarterly of QI 2011.*

The majority of subscriptions during the QIII 2011 auctions were in long-term instruments (2-yr, 3-yr and 5-yr Treasury bonds) with a share of 68 percent, albeit a slight retreat from the shares recorded in QII and QI 2011[46], at 73 percent and 90 percent, respectively. In contrast, the share of short-term instruments correspondingly increased every quarter to 32 percent in QIII 2011. On an instrument level, 5YR bonds replaced 3YR bonds as the most popular instrument in QIII 2011, thus accounting for the highest share of total subscriptions at 32 percent compared to 18 percent and 38 percent in QII and QI 2011, respectively. Three-year bonds came in second place, capturing a 21 percent stake of subscriptions in QIII 2011 compared to 28 percent and 40 percent in QII and QI 2011, respectively. Six-month Treasury bills ranked third with an almost constant share of subscriptions as in QII 2011, at 18 percent.

On a cumulative level, 5YR bonds held 30 percent of subscriptions followed by 3YR bonds with 28 percent, 2YR bonds with 17 percent, 6MN bills with 14 percent, 12MN bills with 6 percent and 3MN bills with 4 percent. Compared to the similar period of 2010, 3YR bonds captured 33 percent of subscriptions, followed by 5YR bonds with 28 percent, 6MN bills with 14 percent, 2YR bonds with 12 percent, 12MN bills with 8 percent and lastly 3MN bills with 5 percent.

[46] Although 7-year Treasury note were issued over the first nine months period of 2011, these were issued in special schemes and not part of the weekly auction process.

Table 25: Domestic Currency Debt by Holder and Instrument as of end-September 2011

Stocks (end of period)	Dec-08	Dec-09	Dec-10	Sep-11	Change Dec 10 - Sep 11	% Change Dec 10 - Sep 11
Local currency debt	**39,007**	**44,973**	**48,255**	**50,300**	**2,045**	**4.24%**
A. By Holder						
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)[1]	8,781	10,334	13,130	16,257	3,127	23.82%
2. Commercial Banks	24,320	27,286	27,214	26,241	-973	-3.58%
3. Other local debt (T-bills)	5,906	7,353	7,911	7,802	-109	-1.38%
o/w Public entities	*5,062*	*6,078*	*6,268*	*6,496*	228	3.64%
**Accrued interest included in debt*	*1,029*	*999*	*867*	*790*	-77	-8.88%
B. By Instrument						
1. Long term bonds	36,350	40,842	43,805	46,287	2,482	5.67%
1.1 7-year bonds	0	0	1,500	7,885	6,385	425.67%
1.1 5-year bonds	3,049	5,036	7,310	10,850	3,540	48.43%
1.2 4.5-year bonds	0	0	0	0	0	N/A
1.3 4-year bonds	633	0	0	0	0	N/A
1.4 3-year bonds	29,650	31,908	30,782	22,536	-8,246	-26.79%
1.5 2.5-year bonds	0	0	0	0	0	N/A
1.6 2-year bonds	2,052	2,989	3,398	4,291	893	26.28%
1.7 Coupon interest	966	909	815	725	-90	-11.04%
2. Short term bills	2,197	3,735	4,155	3,758	-397	-9.55%
2.1 12-month bills	676	2,073	1,969	1,832	-137	-6.96%
2.2 6-month bills	1,234	1,510	2,111	1,613	-498	-23.59%
2.3 3-month bills	287	152	75	313	238	317.33%
** Accrued interest included*	63	90	52	65	13	25.00%
3. Other local debt	460	396	295	255	-40	-13.56%
3.1 Central Bank Loans	362	291	218	167	-51	-23.39%
3.2 Commercial Banks Loans	98	105	77	88	11	14.29%

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.

3. Primary market interest rates

In line with their stabilization trend observed since July 2010, interest rates on all Treasury bills and bonds remained unchanged at end-September 2011 compared to end-2010 levels, except for a 2 basis point decline in the yield of 6-month Treasury bills to 4.50 percent.

Table 16: Evolution of Primary Market Rates

Maturity (1)	Dec. 31, 2007	Dec. 31, 2008(3)	Dec. 31, 2009	Dec. 31st, 2010	Sep. 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

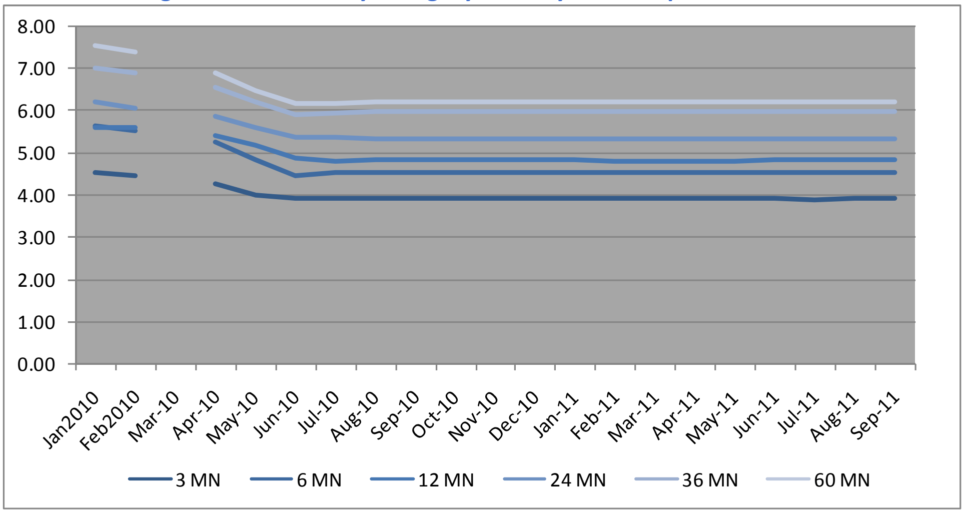
Source: Ministry of Finance

(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 and in September 2011 with a coupon of 7.60 percent. These bonds do not feature in this table, as they were not issued in the regular auction process.

(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.

Figure 4: TB Yield by Category January 2010–September 2011



Source: Ministry of Finance

Note: An exceptional halt in treasury bills auctions took place in March 2010. Consequently, no auctions were held during that month.

C. Foreign currency debt

At LL 31,671 billion by end-September 2011, **foreign currency debt** was two percent higher than the end-2010 amount. Exchange rate valuations were behind LL 79 billion of the increase in foreign currency debt over the first nine months which includes the effect of the slight appreciation of the Euro vis-à-vis the dollar from a rate of 1.325 €/$ at the end of 2010, to 1.354 €/$ at the end of September 2011.

Table 27: Foreign Currency Debt by Holder and Instrument as of end-September 2011

(in LL billion)	Dec-09	Dec-10	Sept-11	Change	% Change Year-to-date
B. Foreign currency debt[1]	**32,139**	**31,043**	**31,671**	**628**	**2.02%**
4. Eurobonds	**27,142**	**26,738**	**27,488**	**750**	**2.80%**
Of which, Paris II at preferential rates[2]	4,192	3,677	3,366	-311	-8.45%
Of which, Paris III at preferential rates[3]	754	709	663	-45	-6. 38%
** Accrued Interest on Eurobonds*	*460*	*483*	*498*	*15*	3.11%
5. Loans	**4,550**	**4,231**	**4,103**	**-128**	**-3.03%**
5.1 Paris II loans	627	460	368	-92	-20.00%
5.2 Paris III loans[4]	1,210	1,147	1,104	-43	-3.72%
5.3 Bilateral loans (non-Paris II and III)	716	723	760	36	5.03 %
5.4 Multilateral loans (non-Paris II and III)	1,971	1,877	1,851	-27	-1.43%
5.5 Foreign Private Sector Loans	27	24	21	-3	-12.50%
6. Other debt	**447**	**74**	**80**	**6**	**8.11 %**
6.1 Special Tbls in Foreign currency[5]	447	74	80	6	8.11%

Source: Ministry of Finance, Banque du Liban

Notes:

[1] Figures for Dec 09, Dec 10 and September 2011 differ from previously published data reflecting an update of disbursement figures project loans in the Debt Management and Financial Analysis System (DMFAS).

[2] Paris II related Eurobonds 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 628 billion increase in foreign currency debt is attributable to a higher stock of Eurobonds which increased by LL 750 billion by end-September 2011 compared to end-2010. This was mainly due to three Eurobond transactions conducted in 2011. In January 2011, the Ministry of Finance and Banque du Liban (BDL) conducted a "Debt Replacement Agreement" consisting of a $ 265 million re-opening of 6.10 percent Notes due October 2022.[47] In May 2011, the Ministry of Finance issued a US$ 1 billion dual-tranche offering. This

[47] For details on previous transactions, kindly refer to summary notes posted on www.finance.gov.lb.

was followed by a US$ 1.2 billion dual-tranche issuance in August 2011 *(Kindly refer to Box 3 for details).*

On the other hand, the non-market portion of the Lebanese Republic's Eurobond portfolio continued to decrease, due to principal repayments of Eurobonds issued in the context of the Paris II and Paris III International Donor Conferences to Lebanon.[48] Of these the following principal repayments were made in the first nine months of 2011: (i) USD 30 million for the Paris III Eurobond due July 2017 originally issued at USD 300 million[49]; (ii) USD 70 million for the Paris II 5.00 percent March 2018 Eurobond originally issued at US$ 700 million; (iii) USD 10 million on Paris II 5.00 percent May 2018 Eurobond originally issued at USD 200 million; (iv) USD 93.5 million on Paris II 4.00 percent December 2017 Eurobond originally issued at USD 1,870 million; (v) US$ 32.5 million on Paris II 5.00 percent due December 2017 originally issued at US$ 950 million.

The stock of concessional loans in foreign currency decreased by LL 128 billion or 3.0 percent by the end of September 2011 compared to end-2010 led by a LL 92 billion decrease in Paris II loans, a LL 43 billion decline in Paris III loans and equivalent decrease in other multilateral loans (non-Paris II and III). This decrease in the total value of concessional loans occurred despite positive exchange rate valuations that accounted for LL 55.3billion during the first nine months of the year, thus depicting an even stronger decrease in the stock of these loans, *ceteris paribus* .

The stock of Paris II loans decreased by 20.0 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 and the € 20 million amortized principal disbursement for the same institution in last August.

In parallel, at LL 1,104 billion by end-September 2011, Paris III loans regressed by 3.71 percent, compared to LL 1,147 billion at end-2010. This is mainly due to the three redemptions paid on the IMF EPCA I loan worth SDR 6.3 million each in January, April and July 2011 and the first principal repayment of the Arab Monetary Fund loan in June 2011 with a value of AAD 1.365 million.

Bilateral and multilateral loans that resulted from the two international conferences evolved in opposite directions, with non-Paris II and III bilateral loans increasing by 4.89 percent to reach LL 759 billion, while non-PII and III multilateral loans decreased by 2.28 percent over the first nine months of the year, to attain LL 1,835 billion.

As for the stock of foreign private sector loans, it decreased by 12.5 percent to reach LL 21 billion at end-September.

[48] 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. Those issued in the context of the Paris III conference also have an amortized payment structure.
[49] 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 final component of foreign currency debt saw a minor change with the stock of special T-bills in foreign currency increasing to LL 80 billion, compared to LL 74 billion at end-December 2010. This was due to the issuance on the 19th of September of US$ 4,269,798.27 6.00 percent contractor bonds due September 2016, pursuant to Law # 69 dated April 23rd, 2009. These bonds were issued to contractors to settle the changes in the cost of construction materials.

Box 3: DUAL-TRANCHE EUROBOND TRANSACTION:
US$ 500 MILLION 4.750 PERCENT NOTES DUE 2016 AND
US$ 700 MILLION RE-OPENING OF 6.100 PERCENT NOTES DUE 2022

On August 2nd, 2011, the Lebanese Republic issued a $ 1.2 billion dual-tranche offering. The transaction was nearly four times oversubscribed and reflected strong and quality demand from both local and international investors. The transaction enabled the Republic to take advantage of the current favorable interest rate structure as it had a weighted average yield of 5.60 percent and an average time to maturity of 8.70 years on the aggregate issues. International orders accounted for 21 percent of the total issued amount.

The first series consisted of a US$ 500 million 4.75 percent coupon Eurobond due November 2016 (Series 59). Its yield of 4.75 percent was the lowest ever paid by the Republic on an issuance in foreign currencies since 1994. The second series was a US$ 700 million re-opening of the 6.10 percent coupon Eurobond due October 2022 (Series 57, Tranche 4) with a yield of 6.20 percent. International orders accounted for 21 percent of subscriptions in each of the two tranches.

The transaction was jointly managed by BLOM Banks S.A.L and Citi.

Terms and Conditions of the Issuance

Series (tranche)	59	57 (4)
Issue size (in USD)	500,000,000	700,000,000
Issue date	August 2nd, 2011	August 2nd, 2011
Maturity	November 2nd, 2016	October 4th, 2022
Coupon rate	4.750%	6.100%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	99.980%	99.195% (plus 80 days accrued interest)
Re-offer Yield	4.750%	6.200%
ISIN code	XS0655338555	XS0559237796
Benchmark Bond on July 28th, 2011*	UST 1.500% due June 2016	UST 3.125% due May 2021
Benchmark Yield on July 28th, 2011*	1.480%	2.941%
Re-offer Spread vs. Benchmark	+327 bps	325.9 bps
Lead Managers	BLOM Bank S.A.L and Citi	

** Pricing date.*
Source: Ministry of Finance

Table 28: Lebanon Secondary Market Yields

	Bid Yield (%)					
Lebanese Issues	13-Jul-11	11-Aug-11	01-Sep-11	11-Sep-11	26-Sep-11	30-Sep-11
EURO						
LEB 5.875 12	3.72	4.22	3.23	3.12	5.72	5.71
US Dollars						
LEB 7.500 12	2.93	4.25	2.95	2.76	5.32	4.11
LEB 7.750 12	3.05	3.27	3.38	3.28	4.45	3.83
LEB 9.125 13	3.52	3.36	3.47	3.40	3.94	3.36
LEB 8.625 13	3.66	3.60	3.65	3.60	4.07	3.52
LEB 4.000 17 Av Life	4.66	4.64	4.55	4.61	4.60	4.37
LEB 7.375 14	4.06	3.97	3.81	3.78	4.43	3.96
LEB 9.000 14	4.02	3.76	3.84	3.80	4.26	3.85
LEB 5.875 15	4.74	4.28	4.26	4.25	4.55	4.22
LIEB 10.000 15	4.79	4.27	4.63	4.19	4.35	4.19
LEB 8.500 15	4.86	4.28	4.36	4.34	4.63	4.19
LEB 8.500 16	5.11	4.59	4.54	4.56	5.08	4.57
LEB 11.625 16	5.00	4.72	4.96	4.93	4.79	5.09
LEB 4.750 16	n/a	4.64	4.69	4.70	5.00	4.74
LEB 9.000 17	5.33	5.10	5.02	5.01	5.33	5.17
LEB 5.150 18	5.74	5.36	5.36	5.36	5.67	5.32
LEB 6.000 19	5.88	5.62	5.55	5.55	5.63	5.51
LEB 6.375 20	5.89	5.68	5.77	5.77	5.77	5.62
LEB 8.250 21	6.11	5.94	5.84	5.84	6.02	5.89
LEB 6.100 22	6.35	6.13	6.10	6.10	6.13	6.08
LEB 7.000 24	6.66	6.35	6.49	6.49	6.46	6.60

Source: Credit Suisse

After a rise of **secondary market yields** by an average of 59 bps during the first 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. Secondary market yields by the end of September 2011 were more or less in line with those achieved at the end of the previous quarter, with yields decreasing by 4.6 bps over QIII 2011.[50]

[50] Calculated between July 13th 2011 and September 30th, 2011 for those bonds that were outstanding at both dates.

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