REPUBLIC OF LEBANON
MINISTRY OF FINANCE

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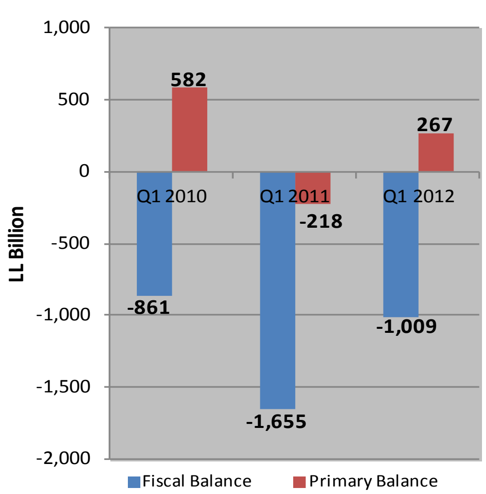
Public Finance Highlights

General Fiscal Developments

The fiscal deficit reached LL 1,009 billion in QI 2012, representing a 39 percent improvement from its level in QI 2011. In parallel, the primary balance recorded a surplus of LL 267 billion in January-March 2012 compared to a deficit of LL 218 billion in January-March 2011.

On a cash basis, i.e. excluding the LL 520 billion expected transfers from the telecom surplus and including the LL 302 billion actual telecom transfers[1], the fiscal deficit in Q1 2012 reached LL 1,227 billion, while the primary balance registered a surplus of LL 48 billion, compared to a larger deficit of LL 1,655 billion and a primary deficit of LL 218 billion in Q1 2011.

Figure 1: Fiscal and Primary Balance (Q1 2010 - Q1 2012)



[1] A Transfer of LL 151 billion was made from the Telecom surplus in March 2012, following a first transfer of LL 151 billion made in February 2012.

Revenues

Total revenues improved by 29 percent in QI 2012, up to LL 3,522 billion compared to LL 2,728 billion in QI 2011. This is primarily the result of stronger tax revenues by 13 percent combined with a surge of 168 percent in non-tax revenues, due to the inclusion of expected Telecom transfers. On a cash basis also, total revenues amounted to LL 3,303 billion and improved by 21 percent versus those of Q1 2011.

Expenditures

Despite the lower interest payments and weaker transfers to NSSF, total public expenditures rose by 3 percent, amounting to LL 4,531 in QI 2012, up from LL 4,383 billion in QI 2011. This was mainly due to the rise in transfers to the loss-making electricity company, and higher payments to municipalities.

Public Debt Developments

The stock of gross public debt totalled LL 81,567 billion by the end-March 2012, up by 0.8 percent compared to the end-December 2011 level. In parallel, the stock of net public debt inched up by 1.2 percent, reaching LL 70,760 billion.

Section I: Fiscal Overview

The **total fiscal balance** registered a deficit of LL 1,009 billion in January-March 2012, 39 percent lower than the deficit registered in January-March 2011, stemming from a 29 percent increase in total receipts simultaneously with a 3 percent rise in total payments.

The **primary balance** registered a surplus of LL 267 billion in QI 2012, compared to a deficit of LL 218 billion in QI 2011, mainly due to a surge of 168 percent in non-tax revenues, as a result of the inclusion of LL 520 billion representing expected transfers from the Telecom Surplus. On a **cash basis**, real transfers reached LL 302 billion; consequently, the fiscal deficit in Q1 2012 becomes LL 1,227 billion, against LL 1,655 billion in Q1 2011, while the primary surplus shrinks to LL 48 billion, compared to a deficit of LL 218 billion during the same period of 2011.

Table 1: Summary of Fiscal Performance

(LL billion)	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	% Change 2012/2011
Total Budget and Treasury Receipts	**3,084**	**2,728**	**3,522**	**29.1%**
Total Budget and Treasury Payments, *of which*	**3,945**	**4,383**	**4,531**	**3.4%**
• Interest Payments	*1,396*	*1,375*	*1,209*	*-12.0%*
• Concessional Loans Principal (1)	*47*	*62*	*66*	*7.1%*
• Primary Expenditures (2)	*2,502*	*2,946*	*3,255*	*10.5%*
Total Deficit/Surplus	**-861**	**-1,655**	**-1,009**	**-39.0%**
Primary Deficit/Surplus	**582**	**-218**	**267**	**-222.3%**

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

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

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

Section II: Revenue Outcome

Total revenues reached LL 3,522 billion in QI 2012, registering a 29 percent improvement compared to the same period of 2011, caused by the combined effect of the 13 percent and 168 percent respective increases in both **tax revenues** and **non-tax revenues**. These two hikes more than offset the 5 percent drop in **treasury receipts**.

In fact, the LL 794 billion improvement in total revenues is explained by LL 288 billion higher tax revenues on one hand and by LL 514 billion increase in non-tax revenues on the other – mainly due to the inclusion of LL 520 billion expected transfers from the telecom surplus[2], against nil in the first quarter of 2011.

Table 2: Total Revenues

(LL billion)	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	% Change 2012/2011
Budget Revenues, ***of which***	**2,914**	**2,550**	**3,352**	**31.5%**
• Tax Revenues	*2,348*	*2,244*	*2,533*	12.8%
• Non-Tax Revenues	*567*	*305*	*820*	168.4%
Treasury Receipts	**170**	**178**	**170**	**-4.8%**
Total Revenues	**3,084**	**2,728**	**3,522**	**29.1%**

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

Tax Revenues

Tax revenues totaled LL 2,533 billion in the first quarter of 2012, up by LL 288 billion from the same period in 2011 – as shown in table 3 below. They accounted for 72 percent of total collected revenues, compared to 82 percent during the first quarter of 2011[3]. Most major components of tax revenues registered increases in collection during the first three months of 2012, except for taxes on international trade, namely gasoline excises[4]. This general improvement in tax receipts may be largely explained by the growth pick-up witnessed in the last quarter of 2011, which was reflected into an estimated 5 percent real growth for the whole year of 2011, against initial estimates of 1.5 percent.

[2] If the expected telecom transfer is excluded and the actual cash transfers are included, non-tax revenues amount to LL 601 billion in QI 2012 compared to LL 305 billion in QI 2011, representing an increase of LL 296 billion (97 percent). In fact, a transfer of LL 151 billion was made from the Telecom surplus in March 2012, following a first transfer of LL 151 billion made in February 2012.

[3] This drop in the share of tax revenues out of total collected revenues is a result of the hike in non-tax receipts, as a result of higher Telecom transfer in QI 2012 (amounting to LL 302 billion on a cash basis, and LL 502 billion on a non-cash basis), compared to none in QI 2011.

[4] Gasoline excises amounted to LL 122 billion in QI 2012, against LL 171 billion in QI 2011, thus decreasing by LL 50 billion (29 percent). This is mainly the result of the decision (number 21/2011) taken by the Higher Council of Customs on February 26, 2011 to reduce the excise on gasoline by LL 5,000 per 20 liters.

Table 3: Tax Revenues

(LL billion)	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	Change 2012/2011
Taxes on Income, Profits, & Capital Gains, *of which*:	**431**	**460**	**580**	**26.1%**
• Income Tax on Profits	133	*125*	*162*	29.9%
• Income Tax on Wages and Salaries	108	*127*	*146*	15.3%
• Income Tax on Capital Gains & Dividends	21	*24*	*84*	258.4%
• Tax on Interest Income (5%)	163	*177*	*167*	-5.5%
• Penalties on Income Tax	5	*8*	*19*	138.8%
Taxes on Property, *of which:*	**275**	**289**	**324**	**12.0%**
• Built Property Tax	65	*71*	*93*	30.7%
• Real Estate Registration Fees	192	*193*	*200*	3.4%
Domestic Taxes on Goods & Services, *of which:*	**867**	**847**	**977**	**15.3%**
• Value Added Tax	780	*775*	*873*	12.7%
• Other Taxes on Goods and Services, *of which*:	84	*68*	*79*	16.5%
- *Private Car Registration Fees*	53	*45*	*46*	0.7%
- *Passenger Departure Tax*	30	*22*	*33*	51.0%
Taxes on International Trade, *of which:*	**663**	**536**	**529**	**-1.4%**
• Customs	191	*178*	*193*	8.4%
• Excises, *of which*:	472	*359*	*336*	-6.2%
- *Petroleum Tax*	253	*171*	*122*	-29.0%
- *Tobacco Tax*	86	*85*	*108*	26.7%
- *Tax on Cars*	133	*100*	*105*	4.4%
Other Tax Revenues (namely fiscal stamp fees)	**111**	**112**	**123**	**10.3%**
Total Tax Revenues	**2,348**	**2,244**	**2,533**	**12.8%**

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

The receipts from **taxes on income profits and capital gains** augmented by 26 percent year-on-year, up to LL 580 billion in QI 2012, driven by the growth across all components – except for the tax on interest income, which dropped by LL 10 billion (6 percent). In fact, income tax on capital gains and dividends registered the highest value and percentage change (LL 61 billion, 258 percent) to reach the level of LL 84 billion at the end of March 2012, against LL 24 billion during the same period of 2011. This was due to the field inspections undertaken during the first quarter of the year by the Revenues Directorate at the Ministry of Finance to audit the declaration forms presented by financial corporations.

Taxes on wages and salaries gained 15 percent to reach LL 146 billion, on account of a larger tax base which could be attributed to natural expansion (at the levels of both number of jobs and/or higher salaries), and/or higher salaries provided by corporations mainly during the last quarter of 2011(on which taxes are collected in QI 2012) in anticipation of the official salary raise that was being discussed[5].

In return, taxes on interest income witnessed a drop of 6 percent to reach LL 167 billion, as a result of the continuous decline in *interest rates,* which offset the *expansion of the deposit base* and the effect of decreased *dollarization* of deposits.

[5] The wage raise to the private sector was given through Council of Ministers' Decree 7426 dated January 26, 2012 that stipulated a higher monthly minimum wage of LL 675,000 (up from LL 500,000) effective as of February 1, 2012 on one hand, and salary raise to compensate for inflation that is applicable on the basis of brackets, also effective as of February 1, 2012, on the other.

At the level of *interest rates*, the weighted average interest rate on LBP-denominated deposits fell by 17 bps on a yearly basis to reach 5.46 percent as of end-March 2012, while the average interest rate on deposits in USD remained almost stable, inching up by only 1 bps to reach 2.83 percent during the same period. *Deposits* (both resident and non-resident) however rose by around 9 percent as of end-March 2012, compared to end-March 2011, to reach LL 178,221 billion, thus creating a larger taxable base. In parallel, *dollarization* of deposits witnessed a slight downturn, standing at 65.38 percent as of end of March 2012 down from 65.86 percent as of end March 2011, implying higher interest tax collection since interest rates on USD deposits are lower than those on LBP deposits.

In terms of the composition of tax receipts by currency, those collected in Lebanese Pounds dropped to 65 percent in the first quarter of 2012 compared to 71 percent in the comparable period of 2011, as shown in the table below.

Table 4: Tax on interest income

LL Billion	2010	2011	2012
	Jan-Mar	Jan-Mar	Jan-Mar
By Institution/Instrument	**163**	**177**	**171**
Commercial banks	90	91	100
BDL	73	85	71
Tax dues on LL Treasury Bills	1	1	0
Tax on USD Treasury Bills	0	0	0
By Currency	**163**	**177**	**171**
Lebanese Pounds	112	126	111
Foreign currencies (USD mainly)	51	51	60

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 in the table above (Table 3).

Taxes on Property registered a rise of 12 percent in the first quarter of 2012 to reach LL 324 billion, against a lower increase of 5 percent on average in 2011. This is mainly the result of a 31 percent (LL 22 billion) increase in tax on built properties - which reached LL 93 billion during the first quarter of 2012. Real estate registration fees[6] and inheritance tax collections also rose, however to a lesser extent.

The general rise in taxes on property in the first quarter contrasts with the slowdown in real estate activity throughout 2011. In fact, property registration statistics at Cadastre indicate a rise in total value of transacted properties (8 percent) in the first quarter of 2012, despite a lower number of properties (5 percent), compared to the same period of 2011. These two parameters combined led to a higher average declared value per property, as shown in Table 5 below.

[6] 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.

Table 5: Property Registration Statistics from Cadastre

	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	Change 2012/2011
Number of Properties registered in Cadastre	69,794	73,118	69,431	*-5%*
Declared Aggregate Properties Value in Sales Contracts (LL	3,188	2,726	2,944	*8%*
Declared Average Value per Property (LL million)	45.7	37.3	42.4	*14%*
Total Fees collected from Sales Transactions	178	187	169	*-10%*

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** increased by 15 percent to LL 977 billion by end of March 2012, mainly driven by equal rises of LL 11 billion in each of value added tax and passenger departure tax, noting that private car registration fees remained stable.

Value added tax collected LL 873 billion in QI 2012 as compared to LL 775 billion in QI 2011, thus improving by 13 percent year-on-year. This came as a result of higher receipts at both customs and internally, by 16 percent and 7 percent respectively. As Table 6 below shows, total imports rose by 31 percent in the first quarter of 2012 to accrue to LL 9,009 billion, while VAT at customs went up by 16 percent to reach LL 589 billion. Hence, the effective VAT rate went down from 7.4 percent in QI 2011 to 6.5 percent in QI 2012. This 12 percent drop may be explained by the fact that the rise in "non-fuel" imports stems from "gold", which is not subject to VAT collection at imports (noting that Gold and jewellery are subject to special VAT scheme). It is worth mentioning that EDL fuel imports are not systematically registered at the Directorate of Customs upon arrival to the port; they are in fact admitted into the country through a "special permission" basis. Once these fuel imports are registered, they are reflected in the total imports figure, but not necessarily in the VAT collected, since the corresponding VAT is usually not paid upon registration. Hence, this could be a further explanation of the decline in the effective VAT rate during QI 2012, where the rise in imports is not fully reflected in a corresponding rise in VAT collection.

Table 6: Total Imports & Effective VAT rate

(LL billion)	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	Change QI 2012/QI2011
Total Imports, *of which*	**6,611**	**6,901**	**9,009**	**30.6%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*1,497*	*1,610*	*3,427*	112.9%
• *Non-Fuel Imports*	*5,114*	*5,291*	*5,582*	5.5%
• *Share of Fuel Imports*	*22.6%*	*23.3%*	*38.0%*	*63.3%*
• *Share of Non Fuel Imports*	*77.4%*	*76.7%*	*62.0%*	*-19.2%*
Revenues from VAT at Imports	**539**	**509**	**589**	**15.8%**
Effective VAT rate	***8.2%***	***7.4%***	***6.5%***	**-11.7%**

Source: MOF, DGF

Collections from the passenger departure tax rose by 51 percent to reach LL 33 billion in QI 2012, compared to LL 22 billion in QI 2011. This LL 11 billion increase occurred despite the decline in the number of tourists[7].

It is noteworthy that transfers from tobacco surplus reached LL 20 billion in the first quarter of 2012[8], against none in QI 2011. This is the result of the decision taken by the Ministry of Finance in October 2011 to increase the price of tobacco by LL 250 per pack, which boosted the profits of Regie and thus yielded a surplus that was transferred to the Treasury[9].

Furthermore, **taxes collected from international trade** (customs and excises) dropped by a minor LL 7 billion year-on-year, to reach LL 529 billion, mainly due to a LL 50 billion decline in gasoline excise, which undermined the positive changes of both customs and tobacco excises.

Table 7 below depicts the increase in **tariff revenues** (customs), totalling LL 193 billion in QI 2012, up from LL 178 billion in QI 2011. The limited 8-percent growth in customs relative to the notable 31-percent rise in imports yielded a drop in *the effective customs rate*, from 2.6 percent in QI 2011 to 2.1 percent in QI 2012. This is rooted in the fact that the 2012 imports hold a higher share of fuel imports, which are subject to relatively low custom duties, relative to non fuel imports.

Table 7: Effective Customs Rate

(LL billion)	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	Change QI 2012/QI 2011
Total Imports	**6,611**	**6,901**	**9,009**	**30.6%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*1,497*	*1,610*	*3,427*	112.9%
• *Non-Fuel Imports*	*5,114*	*5,291*	*5,582*	5.5%
• *Share of Fuel Imports*	*22.6%*	*23.3%*	*38.0%*	*63.3%*
• *Share of Non Fuel Imports*	*77.4%*	*76.7%*	*62.0%*	*-19.2%*
Revenues from Custom Duties	**191**	**178**	**193**	**8.4%**
Effective customs rate	***2.9%***	***2.6%***	***2.1%***	**-17.6%**

Source: MoF, DGF

Total excises collected at import[10] registered a 6 percent decline, to reach LL 336 billion, mainly due to a decrease in the revenues of excises on gasoline, as detailed below.

a. Excises on gasoline dropped notably in QI 2012, collecting LL 122 billion compared to LL 171 billion during QI 2011. The 29 percent less revenues on this front is explained by lower excise rate[11] that weakened the positive rise in volume of imported gasoline, given that this excise is a per-unit tax. In fact, the average effective excise rate went down from LL 356 per litre to LL 230 per litre (-35 percent). As for the average

[7] According to data published by the Ministry of Tourism, the number of tourists went down by 8 percent in QI 2012, to reach 313,854.
[8] This LL 20 billion was transferred in March 2012.
[9] For more information about this decision (#1018/1 dated October 1, 2011), kindly refer to Ministry of Finance's Public Finance Annual Review 2011.
[10] 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.
[11] The lower excise rate came as a result of the Higher Council of Customs' decision number 21/2011 issued on February 26, 2011 to reduce the excise on gasoline by LL 5,000 per 20 litres

effective import price of gasoline, it witnessed a 13 percent rise in QI 2012 when compared to QI 2011, reflecting the increase in international oil prices that averaged at US$ 118/barrel in Q1 2012 compared to US$ 105/barrel in Q1 2011.

Table 8: Gasoline Import Statistics

	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	Change QI 2012/QI 2011
Imports (*LL billion*)	427	511	639	24.9%
Volume (*million litres*)	515	481	531	10.3%
Collected excises (*LL billion*)	253	171	122	-29.0%
Average effective Price at imports (LL/litre)	***829***	***1,063***	***1,204***	***13.2%***
Average effective excise rate (LL/litre)	***491***	***356***	***230***	***-35.4%***

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. The collections of excises on tobacco rose by 27 percent from LL 85 billion in QI 2011 to LL 108 billion in QI 2012, coupled with a lower rise in total tobacco imports, which yielded an increase in the average effective excise rate of about 5 percent in QI 2012.

Table 9: Tobacco Import Statistics

	QI 2010	QI 2011	QI 2012	Change 2011/ 2010
Imports (LL billion)	80	84	102	21%
Net weight (in tons)	3,295	3,014	3,342	11%
Collected Excises (LL billion)	86	85	108	27%
Average import price (LL per Kg)	***24,355***	***27,953***	***30,444***	9%
Average effective excise rate (LL per Kg)	***26,058***	***28,306***	***32,339***	*14%*
Average effective excise rate (%)	***107.0%***	***101.3%***	***106.2%***	5%

c. Following substantial increases in 2007, 2008 and 2009, collection from excises on cars started retreating in 2010, and continued their downturn during 2011, before they stagnated during the first quarter of 2012. This component of excise taxes collected LL 105 billion (compared to LL 100 billion in QI 2011), while car imports rose by 8 percent, thus leading to a lower average effective excise rate of 26.7 percent in QI 2012.

Table 10: Car Import Statistics

	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	Change QI 2012/QI 2011
Imports (LL billion)	463	363	394	8.5%
Number of Cars	21,931	*16,209*	*18,251*	12.6%
Collected Excises (LL billion)	133	100	105	5%
Average price per car (LL million)	***21.1***	***22.4***	***21.6***	***-3.6%***
Average effective excise rate (%)	***28.8%***	***27.6%***	***26.7%***	***-3.4%***

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

Lastly, the receipts from **fiscal stamp fees** increased by LL 11 billion during the first quarter of 2012, to reach LL 123 billion when compared to the collection in the first quarter of 2011. 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 existence of growth in collection of stamp fees on a year on year basis goes in line with the rises witnessed by some tax collections discussed above.

Non-Tax Revenues

Non-tax revenues surged in the first quarter of 2012, by a notable 168 percent (to reach LL 820 billion), thus reversing the downward trend that started in 2010. In fact, non-tax revenues dropped by 46 percent in QI 2011 (as compared to QI 2010), and by 16 percent in QI 2010 (as compared to QI 2009). This hike is explained by 326 percent higher **Income from Public Institutions and Government** due to the inclusion of LL 520 billion expected transfers from the telecom surplus, and an increase in administrative fees and charges (21 percent), owing largely to higher vehicle control fees. However, if the expected telecom transfer is excluded and the actual cash transfers are included, non-tax revenues amount to LL 601 billion in QI 2012 compared to LL 305 billion in QI 2011, representing an increase of LL 296 billion (97 percent).

Table 11: Non-Tax Revenues

(LL billion)	2010 Jan-Mar	2011 Jan-Mar	2012 Jan-Mar	Change QI 2012/QI 2011
Income from Public Institutions and Government Properties	**408**	**145**	**619**	**326.1%**
• Income from Non-Financial Public Enterprises, *of which*:	391	109	585	435.4%
- *Revenues from Casino du Liban*	*52*	*51*	39	*-24.3%*
- *Revenues from Port of Beirut*	*0*	*48*	0	*-100.0%*
- *Budget Surplus of National Lottery*	*8*	*10*	26	*168.6%*
- *Transfer from the Telecom Surplus*	*331*	*0*	520	-
• Income from Financial Public Enterprises (BdL)	0	0	0	-
• Property Income (rent of Rafic Hariri International Airport)	16	32	32	0.5%
• Other Income from Public Institutions (interests)	1	4	2	-62.2%
Administrative Fees & Charges, ***of which:***	**132**	**131**	**158**	**21.3%**
• Administrative Fees, *of which*:	105	103	130	26.2%
- *Notary Fees*	*7*	*7*	7	*7.0%*
- *Passport Fees/ Public Security*	*26*	*26*	28	*8.6%*
- *Vehicle Control Fees*	*51*	*53*	69	*30.1%*
- *Judicial Fees*	*6*	*5*	8	*54.4%*
- *Driving License Fees*	*6*	*3*	5	*35.1%*
• Administrative Charges	11	10	10	-4.9%
• Sales (Official Gazette and License Number)	1	1	1	7.7%
• Permit Fees (mostly work permit fees)	12	13	15	16.3%
• Other Administrative Fees and Charges	2	4	3	-21.4%
Penalties and Confiscations	**2**	**2**	**3**	**27.7%**
Other Non-Tax Revenues (mostly retirement deductibles)	**25**	**27**	**39**	**44.6%**
Total Non-Tax Revenues	**567**	**305**	**820**	**168.4%**

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

Administrative fees and charges collected a total of LL 158 billion in the first quarter of 2012, representing a 21 percent increase over QI 2011 revenues, due mainly to nearly LL 16 billion and LL 3 billion higher receipts from each of vehicle control fees and judicial fees.

Treasury Receipts

Treasury receipts amounted to LL 170 billion in QI 2012, which is LL 9 billion (5 percent) lower than the QI 2011 level. The major component of treasury receipts has historically been revenues collected for the Independent Municipal Fund, which reached LL 80 billion in QI 2012, compared to LL 77 billion in QI 2011.

Section III: Expenditure Outcome

Total expenditures (budget and treasury) amounted to LL 4,531 billion in QI 2012, higher by 3 percent than their beginning 2011 level, at LL 4,383 billion. This small rise was mainly the combined result of a LL 309 billion increase in **total primary expenditures**, offset by a LL 166 billion drop in interest payments, as shown in table 12 below.

Table 12: Expenditure Summary

(LL billion)	2010 Jan-March	2011 Jan-March	2012 Jan-March	Change 2012/2011	%Change 2012/2011
Interest Payments	1,396	1,375	1,209	-166	-12%
Concessional Loans Principal Payments [(1)]	47	62	66	4	7%
Total Primary Expenditures [(2)]	2,502	2,946	3,256	309	11%
Total Budget and Treasury Payments	**3,945**	**4,383**	**4,531**	**148**	**3%**

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 2012, according to the **economic classification**, is presented in the table 13 and reviewed in the sections that follow.

A special focus is made on social expenditures which are calculated using the IMF Government Statistics approach of 2001. For further details, please refer to page 28.

Current expenditures

Current expenditures decreased by LL 59 billion, mainly explained by a decrease in (i) interest payments, LL 166 billion, (ii) other current (mainly others), LL 26 billion, (iii) materials and supplies, LL 9 billion (mainly medicaments) and (iv) external services, LL 7 billion. The drop was partially offset by a LL 136 billion increase in various transfers (mainly to EDL), a LL 189 billion increase in **Treasury expenditures** due to higher payments to municipalities by LL 135 billion, as well as a LL 12 billion increase in **capital expenditures.**

Table 13: Expenditure by Economic Classification

(LL billion)	QI 2011	QI 2012	%Change
1. Current Expenditures	**3,962**	**3,903**	**-1.5%**
1.a Personnel Cost *of which:*	1,496	1,493	-0.2%
Salaries, Wages and Related Items (Article 13) 1/	*1,062*	*948*	*-10.7%*
Retirement and End of Service Compensations, *of which:*	363	452	24.7%
Retirement	*305*	*306*	*0.4%*
End of Service	*58*	*146*	*153.3%*
Transfers to Public Institutions to Cover Salaries 2/	*71*	*92*	*29.5%*
1.b Interest Payments, *of which: 3/*	1,375	1,209	-12.0%
Domestic Interest Payments	*890*	*814*	*-8.6%*
Foreign Interest Payments	*484*	*395*	*-18.4%*
1.c Foreign Debt Principal Repayment	62	66	7.1%
1.d Materials and Supplies, *of which:*	67	58	-13.1%
Nutrition	*19*	*13*	*-32.9%*
Fuel Oil	*3*	*19*	*525.2%*
Medicaments	*25*	*9*	*-64.4%*
Accounting Adjustments for Treasury Advances	*8*	*8*	*-5.0%*
1.e External Services	34	28	-19.1%
1.f Various Transfers, *of which 4/:*	751	886	18.1%
EDL 5/	*504*	*816*	*62.0%*
NSSF	*120*	*0*	*-100.0%*
Contributions to non public sectors	*29*	*15*	*-47.9%*
Treasury advances for diesel oil subsidy	*0*	*0*	-
Directorate General of Cereals and Beetroot	*28*	*0*	*-100%*
Special Tribunal for Lebanon	*0*	*0*	-
Gasoline Subsidy for Taxi Drivers	*0*	*3*	-
Accounting Adjustments for Treasury Advances	*18*	*0*	*-99.8%*
1.g Other Current, *of which:*	143	117	-18.3%
Hospitals	*107*	*101*	*-5.6%*
Others (judgments & reconciliations, mission costs, other)	*28*	*15*	*-47.1%*
Accounting Adjustments for Treasury Advances	*7*	*0*	*-99.4%*
1.h Reserves	34	46	33.3%
Interest subsidy	*34*	*46*	*33.3%*
2. Capital Expenditures	**224**	**236**	**5.3%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads, Ports,	1	0	-74.7%
2.b Equipment	17	15	-16.0%
2.c Construction in Progress, *of which:*	86	161	87.4%
Displaced Fund	*0*	*48*	-
Council of the South	*13*	*30*	*133.9%*
CDR	*15*	*14*	*-9.2%*
Ministry of Public Works and Transport	*49*	*63*	*27.5%*
Other, *of which*:	8	7	-20.0%
High Relief Commission	*0*	*0*	-
2.d Maintenance	109	57	-48.0%
2.e Other Expenditures Related to Fixed Capital Assets	3	1	-56.1%
2.f Parliamentary equipment & maintenance *6/*	8	2	-74.1%
2.g Accounting Adjustments for Treasury Advances	0	0	-
3. Budget Advances *7/*	**46**	**49**	**7.4%**
4. Customs Administration (exc. Salaries and Wages) *8/*	**10**	**12**	**23.2%**
5. Treasury Expenditures 9/	**142**	**331**	**133.6%**
Municipalities	69	204	195.8%
Guarantees	12	9	-29.0%
Deposits	14	20	51.2%

Other, *of which:*	42	98	132.2%
VAT Refund	*24*	*63*	*163.6%*
Other Tax Refund	*10*	*5*	*-50.8%*
Higher Council of Relief	*4*	*1*	*-82%*
Treasury Advances for Water Authorities	5	0	-100%
6. Unclassified Expenditures	**0**	**0**	16.1%
7. Total Expenditures (Excluding CDR Foreign Financed) *10/*	**4,383**	**4,531**	**3.4%**

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 17.
(5) For a detailed breakdown of transfers to EDL, kindly refer to Table 16. EDL has been reclassified to various transfers from "other treasury expenditures", following the reclassification of the 2009 Budget Proposal and in line with the Fiscal Performance.
(6) These are reclassifications of payments made from the guarantees under Law 123 dated July 23rd 2010, that opened, in the 2010 Budget, a LL 20 billion allocation for the equipment and maintenance of the House of Parliament. The law allowed the provision of an emergency advance issued by a Decision from the Speaker of Parliament specifying the amount and the duration of the advance. The advance is to be regularized based on invoices certified by the Secretariat of the Office of Parliament and submitted to MoF.
(7) Budget Advances were previously classified under "other". Given their growth, and in line with the Ministry of Finance's efforts to ensure transparency, they will be published in a separate line. They will be regularized at a later stage, and it is only after their regularization that they can be classified according to their economic nature in the budget system.
(8) "Customs administration" includes payments - excluding salaries and wages - made to customs and paid from customs cashiers. They can only be classified after Customs submit the supporting documents to the Directorate General of Finance.
(9) Starting December 2011, the Treasury expenditures section in the monthly , quarterly and yearly reports and its corresponding figures differ from the eponym section appearing in the Fiscal performance reports published by the Ministry of Finance because of the reclassification affecting certain payments from guarantees and treasury advances accounts which are manually reclassified in their budgetary economic classification articles.
(10) Figures may differ from previously published data because of constant updates and improvements.

Current primary expenditures

Current primary expenditures[12] rose by 4 percent, amounting to LL 2,627 billion in QI 2012, up from LL 2,525 billion during QI 2011. The main components of current primary expenditures are recorded below.

Personnel cost[13] dropped by LL 3 billion – equivalent to -0.2 percent year-on-year – to LL 1,493 billion in QI 2012 versus LL 1,496 billion in QI 2011. In details, salaries, wages and related items (Article 13) amounted to LL 948 billion in QI 2012 compared to LL 1,062 billion in QI 2011, representing an 11 percent decrease (LL 114 billion). For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin of March 2012 on the Ministry of Finance website: www.finance.gov.lb

As shown in Table 14 below, this drop of LL 114 billion is explained by the combined outcome of a LL 128 billion decrease in allowances, a LL 55 billion decrease in basic salaries, undermined by an increase of LL 61 billion in "other"[14] payments and an LL 8 billion increase in payments of basic salaries and indemnities to Customs.

[12] Current primary expenditures are current expenditures excluding interest payments and foreign debt principal repayment.
[13] 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.
[14] 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. For further details, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin (October to December 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	
	QI	QI	QI	QI	QI	QI	QI	QI	QI	QI2012
Military Personnel	**534**	**414**	**18**	**19**	**228**	**101**	**1**	**1**	**781**	**535**
• Army	360	252	12	12	156	84	0	0	**528**	**349**
• Internal Security	138	105	5	6	57	11	0	0	**200**	**122**
• General Security	28	21	1	1	11	2	1	0	**40**	**23**
• State Security	8	36	0	1	4	4	0	0	**13**	**41**
Education Personnel	**148**	**181**	**15**	**15**	**0**	**0**	**0**	**0**	**163**	**195**
Civil Personnel [3]/, *of*	**71**	**103**	**18**	**18**	**2**	**1**	**18**	**79**	**109**	**201**
• Employees							*10*	*71*	**10**	**71**
Customs Salaries [4]/									**9**	**17**
Total[8]	**753**	**698**	**51**	**52**	**230**	**102**	**19**	**80**	**1,062**	**948**

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

Retirement and end-of-service compensations summed up to LL 452 billion in QI 2012 compared to LL 363 billion in QI 2011, representing a 25 percent increase. Behind this LL 90 billion rise stands mainly a 153 percent increase (LL88 billion) in end of service indemnities which is in return, the combined result of higher payments to military and civil personnel:

- **End-of-service compensation** to military personnel amounted to LL 134 billion (92 percent of total compensation payments) in QI 2012 compared to LL 48 billion (83 percent of total compensation payments) in QI 2011. This 179 percent increase was induced by a higher number of beneficiaries and/or by the fact that retirees during the period under consideration, are of higher grade levels and/or have served for longer period.
- Similarly, **end-of-service compensations** to the civil personnel, climbed by LL 3 billion to LL 12.4 billion in QI 2012 compared to LL 9.6 billion in QI 2011. This 29 percent increase was caused by a slight raise in the number of beneficiaries, which reached 474 retirees in QI 2012, up from 470 during QI 2011, and/or the result of retirees having worked for a longer period and having received higher salaries.

Further under personnel cost, transfers to public institutions to cover salaries increased by LL 21 billion (29 percent) to reach LL 92 billion in QI 2012, mainly driven by the LL 22 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)	QI 2010	QI 2011	QI 2012	%Change 2012/2011
Transfer to Council of the South	5	4	2	-61%
Transfer to the Council for Development and Reconstruction	2	8[15]	9	20%
Transfer to Fund for the Displaced	1	2	2	-8%
Transfer to the Lebanese University	57	55	77	40%
Transfer to Educational Centre for Research and Development	4	3	3	1%
Total Transfers to Public Institutions	**68**	**71**	**92**	**29%**

Source: MOF

Materials and supplies purchases amounted to LL 58 billion in QI 2012 compared to LL 67 billion in QI 2011, representing a LL 9 billion (13 percent) year-on-year decrease. This is explained mainly by (i) a LL 16 billion (64 percent) drop in spending on medicaments, which amounted to LL 9 billion in QI 2012 compared to LL 25 billion in QI 2011, (ii) a LL 6 billion (33 percent) decrease in spending on nutrition, offset by a LL16 billion (525 percent) increase in spending on fuel oil[16].

External Services (rent, postal, insurance, advertisement and public relations) decreased by LL 7 billion or 19 percent from LL 34 billion in QI 2012 to LL 28 billion in QI 2011. This was mainly due to a decrease in rental payments and in publications each by LL 4 billion during the same time period, slightly offset by a 2 billion increase in remuneration for consultancy services from LL 3 billion in QI 2011to LL 5 billion in QI 2012.

Various Transfers rose by LL 135 billion, totalling LL 886 billion in QI 2012 compared to LL 751 billion in QI 2011. This increase primarily resulted from the combined changes in the following items:

a) Transfers to EDL[17] increased by LL 312 billion in QI 2012, amounting to LL 816 billion, compared to LL 504 billion in QI 2011.

[15] From this amount, LL 3 billion are due to the payment in January and February 2011 of two transfers (from Transfer 49870/99) respectively worth LL 1 billion and LL 2 billion that are not related to salaries but that were classified under article 14 (transfers). These payments are intended to cover the cost of projects conducted in the region of Baalbeck-Hermel.

[16] It should be noted that most spending on fuel is through budget advances which are reclassified according to their economic classification after their regularization in the budget system. This is usually achieved a year after they have been paid. Therefore, total spending on fuel for the current year cannot be constructed when the monthly economic classification table is prepared.

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

Table 16: Transfers to EDL

(LL billion)	2010 Jan-March	2011 Jan-March	2012 Jan-March	%Change 2012/2011
EDL, *of which:*	**505**	**504**	**816**	**62%**
a-Debt Service, *of which:*	22	17	18	6%
• C-Loans and Eurobonds, *of which:*	22	17	16	-6%
- *Principal Repayments*	*18*	*13*	*13*	*-3%*
- *Interest Payments*	*4*	*4*	*3*	*-18%*
• BDL-Guaranteed Loan Payments	0	0	2	-
b-Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	**483**	**487**	**798**	**64%**
• KPC and SPC	483	487	798	**64%**
• EGAS	0	0	0	**-**

Source: MOF, DGF

b) Transfers to the school funds amounted to LL 17 billion in QI 2012 while they were nil in QI 2011. The LL 17 billion was intended for payments of public school (primary, middle and secondary levels) registration fees for the academic year of 2011-2012[18].

c) LL 3 billion paid as gasoline subsidy for taxi drivers in QI 2012 compared to none in QI 2011. On October 5 2011, Parliament approved law #182 to subsidize taxi drivers for a period of three months amid increasing fuel and gasoline prices. Total payments since November 2011 till March 2011 have reached LL 44 billion. (For further information, please refer to Box# 4 in the expenditure section of the 2011 Annual Expenditure Report)

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

a) Transfers to the National Social Security Fund (NSSF) amounted to nil during QI 2012 compared to LL 120 billion during the same period of 2011. The LL 120 billion transferred to NSSF in 2011, was paid from the allocation covering the State's contribution to the Fund that was included in the 2010 Budget Proposal[19].

[18] As per Decree 6845 dated 17/11/2011.

[19] 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.

Table 17: Transfers to the NSSF

(LL billion)	2010 Budget Proposal	2011 Budget Proposal	2012 Budget Proposal	Payments from 2010 Budget in QI 2011	Payments from 2011 Budget in QI 2011	Payments from 2011 Budget in QI 2012	Payment from 2012 Budget in QI 2012
Total Allocation, *of which:*	**350**	**380**	**510**	**150**	**120**	**0**	**0**
Annual state	*220*	*220*	*390*	*100*	*120*	*0*	*0*
Past dues	*80*	*80*	*80*	*0*	*0*	*0*	*0*
Optional branch	*50*	*80*	*40*	*50*	*0*	*0*	*0*

Source: MOF

b) Transfers to non-profit organizations decreased by LL 15 billion from LL 26 billion in QI 2011 to LL 12 billion in QI 2012. This was driven by a LL 13 billion decrease in transfers to the NGOs operating on behalf of the Ministry of Social Affairs and which amounted to LL 8 billion in QI 2012 compared to LL 20 billion during the same period of 2011, representing a 62 percent year-on-year decrease[20].

c) Assistance for the Directorate General of Grains and Sugar Beetroot (DCGB) dropped from LL 28 billion in QI 2011[21] to null in QI 2012. The LL 28 billion was used to subsidized the price of bread (as a result of high international wheat prices), by importing 48,533 tons of wheat during the period of January-April 2011.

No payments were made for the diesel oil subsidy or for the Special Tribunal of Lebanon, in QI 2011 and QI 2012.

[20] For further details, please refer to the social expenditures section on page 28.
[21] As per Decree 4947 dated 9/4/2010.

Table 18: Breakdown of Article 14 by Economic Classification

LL Billion	QI 2011	QI 2012	% Change
1. Contributions to the Public Sector 1/	**672**	**855**	**34%**
1a. Electricité Du Liban (EDL)	504	816	62%
1b. Other Contributions to the Public Sector, *of which:*	141	39	-72%
National Council for Scientific Research	*1*	*1*	*0%*
High Relief Committee (HRC) 1/	*4*	*1*	*-82%*
Investment Development Authority of Lebanon (IDAL)	*0*	*0*	*-*
Transfers to School Funds	*0*	*17*	*-*
Public Hospitals	*2*	*3*	*59%*
National Agriculture Research Institute (NARI)	*3*	*0*	*-100%*
Green Project	*2*	*2*	*33%*
Public Institution for Cooperative Markets 2/	*0*	*0*	*0%*
National Social Security Fund (NSSF)	*120*	*0*	*-100%*
Tele-Liban	*2*	*2*	*34%*
Treasury Advances for Diesel Oil Subsidy 3/	*0*	*0*	*-*
Gasoline subsidy for taxi drivers 4/	*0*	*3*	*-*
Lebanese National Higher Conservatory of Music	*4*	*5*	*50%*
2. Contributions to the Non-Public Sector	**29**	**15**	**-48%**
2a. Contributions to Non Profit Organizations , *of which:*	26	12	-56%
Ministry of Education-Subsidized Schools	*1*	*0*	*-56%*
Ministry of Youth and Sports (Sport Federations and Prizes for Athletes)	*1*	*1*	*-10%*
Ministry of Public Health (Blood Bank and Medications through NGOs)	*3*	*0*	*-83%*
Ministry of Social Affairs (Social care)	*20*	*8*	*-62%*
2b. Contributions to Private Parties, *of which:*	2	3	37%
Ministry of Justice (Contributions to Canonical Tribunals)	*0*	*0*	*-*
Ministry of Public Health (Childhood, Elderly and Handicapped Centers)	*0*	*2*	*460%*
Ministry of Culture (Support to Art)	*1*	*0*	*-79%*
2c. Students Grants	0	0	42%
3. Assistance to the Public Sector	**33**	**5**	**-84%**
3a. Assistance for the Directorate General of Grains and Sugar Beetroot 5/	28	0	-100%
3b. Assistance to Public Institutions, *of which:*	4	5	30%
Institute of finance	*0*	*1*	*100%*
Railway and Public Transportation Authority	*3*	*4*	*40%*
3c. Other Assistances to the Public Sector, *of which:*	1	0	-100%
Ministry of Environment (Joint Projects with Municipalities)	*1*	*0*	*-100%*
4. Assistance to the Non-Public Sector	**0**	**0**	**-**
5.External Assistance	**1**	**0**	**-80%**
5a. Other External Assistance, *of which:*	1	0	-80%
Ministry of Environment	*1*	*0*	*-100%*
6. Membership Fees	**13**	**5**	**-59%**
6 a. Membership Fees in International and Regional Organizations, *of which:*	13	5	42%
Ministry of Foreign Affairs and Emigrants	*2*	*5*	*99%*
Ministry of Public Health (mainly for vaccinations and health prevention policies)	*8*	*0*	*-100%*
7.Stoppings 6/, *of which:*	**30**	**6**	**-80%**
Treasury Advances 7/	*18*	*0*	*-100%*
Lebanese Civil Defense 8/	*6*	*0*	*-100%*
Total	**750**	**886**	**31%**

Source: DGF, MOF

1/ Contributions to Public Sector consist mainly of contributions made to Public Institutions. Assistance provided to certain Public Corporations, such as Tele-Liban and all governmental hospitals are also included under this heading.
2/ 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/ As per law 182 dated October 5th, 2011. This law provided a subsidy for taxi drivers for a period of three months amid increasing fuel and gasoline prices.
5/ This was a payment to subsidize the price of wheat from Decree 4947 dated September 4th, 2010.
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.

Other Current Expenditures decreased by LL26 billion from LL 143 billion in QI 2011 to LL 117 billion in QI 2012. The variation in this economic category is due to a LL 6 billion decrease in payments to hospitals and a LL 13 billion decrease to other current spending (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 13 billion (47 percent) to reach LL 15 billion in QI 2012 compared to LL 28 billion in QI 2011. This is explained mainly by the decrease in expenses incurred by the Ministry of Health[22] from LL 10 billion in QI 2011 to nil in 2012.

Interest Payments

Total Interest payments for the first quarter of the year amounted to LL 1,209 billion, 12 percent lower than the amount due in the first quarter of 2011, equivalent to LL 166 billion savings in interest cost, of which LL 77 billion less interest payments on domestic currency Treasury bonds, and LL 89 billion lower coupon dues on foreign currency debt.

Interest payments on local currency debt totalled LL 814 billion, LL 28 billion of which are discount interests on short-term T-bills and LL 786 billion are coupons on long-term T-bonds. The 9 percent drop in discount interest (interest paid on 3, 6, & 12 months T-bills) in Jan-March 2012 comes despite 29 percent higher volume of short term T-bills coming to maturity in the first three months of 2012 (T-bills principal maturing in Jan-March 2012 totalled LL 1,264 billion, compared to LL 977 billion maturing in Jan-March 2011). The drop is therefore explained by 34 bps lower weighted average discount interest rate, in fact the weighted average cost of short term local currency debt pulled down to 4.46% in QI 2012, from to 4.80% in QI 2011, indeed, the highest discount rate paid in QI 2011 was 5.63% compared to a high of 4.81% in QI 2012.

Coupon payments on long term local currency T-bonds (interest paid on 24, 36, 60 & 84 months T-bonds) in Jan-March 2012 decreased by nearly 9 percent from the coupon amount due in Jan-March 2011, explained by a substantial 123 bps drop in the weighted average cost of local currency, long-term debt, which went down from 8.31% in QI 2011 to 7.08% in QI 2012, and this (i) despite the fact that the average coupon rate in QI 2012 accounts for the highest yielding 7 years T-bonds23 which is not the case for the average coupon rate in QI

[22] As per Decree 4946 dated 4/9/2010 which provided a LL 15 billion treasury advance to cover reconciliation costs with hospitals.
[23] The 7 years T-bond was first issued in December 2010 at 7.9%, then subsequently on 3 occasions in 2011 in the context of special debt transactions, at 7.9% & 7.6%.

2011, and (ii) despite the fact that the stock of T-bonds on which coupon was due in the first three months of 2012 was 8 percent higher than the stock outstanding in the first quarter of 2011.

Interest payments on foreign currency debt amounted to LL 395 billion, of which LL 371 billion are Eurobond coupons (incl. fees & expenses), LL 23 billion are interest payments on C-loans and less than LL 1 billion are coupons due on special FX bonds, namely expropriation and contractors bonds.
To note that Eurobond coupons settled in the first quarter of 2012 account for high yield issues such as (i) a 5 years, $ 875 million 9.125% 2013 bond issued in 2008, and (ii) an 8 years $1.5 million 9.00% 2017 bond issued in 2009 (with LL 60 billion and LL 102 billion coupons were due in QI 2012 respectively). Subsequently, in 2010, with the substantial drop in international interest rates, the Government of Lebanon was able to issue a 10 years $ 1.2 billion 2020 bond at 6.375% (upon which LL 57 billion coupon was due in QI 2012).

Table 19: Interest payments

(LL billion)	Jan-March 2011	Jan-March 2012	% change
Interest Payments	**1,375**	**1,209**	**-12.0%**
Local Currency	**890**	**814**	**-8.6%**
Discount interest	31	28	-9.3%
Coupon payment	859	786	-8.6%
Foreign Currency	**484**	**395**	**-18.4%**
Eurobond Coupon (incl. fees)	457	371	-18.8%
C-loans interest	27	23	-12.4%
Special Bond (exprop. & contract.)	1	1	45.6%
Memorandum Items			
Principal Maturities of S/T T-bills (LL billion)	*977*	*1,264*	*29.4%*
Number of L/T T-bonds on which Coupon was due	*2,088,726,298*	*2,262,554,229*	*8.3%*
Weighted average cost/Local currency			
Short- term (3-6-12)	*4.80*	*4.46*	*-0.34*
*Long term (24-36-60-84)**	*8.31*	*7.08*	*-1.23*

Source: PDD tables, MOF

** Note that there was no 84 months T-bonds coupons in QI 2011*

Capital Expenditures

Capital expenditures for QI 2012 amounted to LL 236 billion, increasing by LL 12 billion (5 percent) compared to the LL 224 billion recorded in QI 2011. This rise was mainly the combined effect of an increase in Construction in Progress, offset by a drop in Maintenance costs.

Construction in progress increased by 87 percent to LL 161 billion in QI 2012 from LL 86 billion in QI 2010. This LL 75 billion rise was the combined outcome of:

a) A LL 48 billion increase in payments to the Displaced Fund which totalled LL48[24] billion in QI 2012 up from nil in QI 2011.

b) A LL 17 billion equivalent to 134 percent rise in payments to the Council of the South which amounted to LL 30 billion in QI 2012[25] compared to LL 13 billion in QI 2011[26]

c) A LL 14 billion increase (28 percent) in allocations to the Ministry of Public Works and Transport from LL 49 billion in QI 2011 to LL 63 billion in QI 2012, mainly pushed by the following measures:

   i) A LL 13 billion increase on investment in the **port of Tripoli**[27]
   ii) A LL 4 billion higher spending under the Ministry's Program Law for the construction of **Tripoli's *Palais de Justice***[28].

It is noteworthy that payments to CDR slightly dropped by LL 1 billion (9 percent) from QI 2011 to QI 2012. This could be attributed to a LL 2 billion decrease in counterpart funding for foreign financed project, slightly offset by a LL 350 million increase in the construction of the Sour-Naqura road.

Table 20: Payments to CDR for Construction in Progress

LL billion	Jan-March 2011	Jan-March 2012
CDR Budget Payments (1), *of which:*	**12**	**10**
• *Counterpart funding for foreign financed projects*	12	10
• *Maintenance of Rafic Hariri International Airport*	0	0
• *Maintenance of Grand Sérail*	0	0
• *Arbitrage payments to Hoctief (Airport)*	0	0
• *Other Payments from CDR Budget (2)*	0	0
Projects Executed on behalf of Line Ministries *of which (3)*	**3**	**4**
• *Roads*	3	4
• *Buildings*	0	0
Other	**0**	**0**
Total Payments to CDR for Construction In Progress *(4)*	**15**	**14**

Source: MOF

(1) *These payments include payments allocated yearly for CDR in the first part of the capital expenditure budget.*
(2) *Payment of LL 3.145 billion was made from Decree 5385 Dated April 21st, 2001, for the rehabilitation of Rafic Hariri International Airport – which is different than the expenses related to the maintenance of Rafic Hariri International Airport. The remaining LL 1 billion were paid to cover arbitrage expenses other than Hoctief.*
(3) These payments include payments allocated for line ministries on a multi-year basis in the second part of the capital expenditure budget payments or provided to them through treasury advances but are implemented on their behalf by CDR.
(4) Figures published in this report for 2010 are different than those published in the 2010 Annual Report as these have been corrected and their classification readjusted based on new information made available.

[24] These LL 48 billion were paid from the LL 120 billion allocated in the 2010 Budget Proposal and carried forward to 2011 and finally disbursed in QI 2012.
[25] The LL 30 billion in QI 2012 was paid from the 2011 Budget Proposal.
[26] The LL13 billion in QI 2011 was paid from the 2010 Budget Proposal.
[27] As per Decree 6813 dated 15/11/2011.
[28] As per decree 6494 dated 08/10/2011.

Maintenance payments decreased by 48 percent to LL 57 billion in QI 2012 down from LL 109 billion in QI 2011. This LL 57 billion drop was mainly the effect of a LL 47 billion decrease in payments to Ministry of Public Works and Transport which totaled LL 50 billion in QI 2012[29] compared to LL 97 billion in QI 2011[30].

Other expenditures related to fixed capital decreased by 56 percent to LL 1 billion in QI 2012 down from LL 3 billion in QI 2011, and similarly **Parliamentary equipment and maintenance** under capital expenditures dropped by LL 6 billion reaching LL 2 billion in QI 2012, down from LL 8 billion in QI 2011.
It is noteworthy that no transfers were made to IDAL for its Export Plus program in both the first quarters of 2011 and 2012.

[29] Of which LL25 billion were paid through treasury advances as per Decree 6495 dated October 8th, 2011.
[30] Of which LL2.6 billion were for the maintenance of the Lebanese University as per Decree 3325 dated February 17th, 2010.

Treasury Expenditures

Treasury expenditures increased by 134 percent to LL 331 billion in QI 2012 compared to LL 142 billion in QI 2011. This LL 189 billion increase is primarily attributed to higher payment to municipalities and Value Added Tax refund payments.

Payments to municipalities increased by 196 percent to LL 204 billion in QI 2012 versus LL 69 billion in QI 2011. This LL 135 billion increase is explained by a LL 146 billion increase in payments of **revenues accruing to municipalities**, as shown in Table 21 below. These payments increased to LL 160 billion in QI 2012[31] from LL 14 billion in QI 2011[32] mainly because of payment timing issues.

This increase was partially offset by payments of **payments for solid waste management**, which dropped by 31 percent, hovering around LL 37 billion in QI 2012 compared to LL 54 billion in QI 2011.

Table 21: Payments to Municipalities

(LL billion)	QI 2010	QI 2011	QI 2012	%Change 2012/2011
Distribution of Revenues Accruing to Municipalities	14	14	160	1006%
Payments for Solid Waste Management	60	54	37	-31%
Payments to the "First Municipality Infrastructure	0.3	0.6	6.3	909%
Other Payments	0.6	0.5	0.3	-38%
Total Payments to Municipalities[(1)]	**76**	**69**	**204**	**196%**

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 increased by 164 percent to LL 63 billion during QI 2012 from LL 24 billion during the similar period of 2011. This is mainly due to a discovered fraud, which is currently being investigated by the Attorney General. The 2011 VAT refund claims were all frozen by the MOF administration. As a result, taxpayers started to carry forward the VAT credit instead of submitting a refund claim.

Lastly Treasury advances for water authorities were nil in QI 2012 compared to LL 5 billion in QI 2011.

[31] The LL160 billion revenues distributed in QI 2012 were on behalf of year 2010.

[32] Of the LL14 billion distributed in QI 2011, LL3 billion were on behalf of 2006, LL2 billion on behalf of 2007, LL5 billion on behalf of 2008 and LL 4 billion on behalf of 2009.

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 very slightly receded by 10 percent year-on-year, amounting to LL 1,029 billion in QI 2012 from a higher level of LL 1,139 billion in QI 2011. End-of-Service indemnities and retirement wages accounted for the highest share of social spending in QI 2012, at 44 percent, increasing from their previous level of 32 percent in QI 2011. Education spending followed with a share of 29 percent in the first three month of 2012 (same as the share of beginning 2011), covering mainly the Ministry of Education and Higher Education salary and wage bill, education allowances for public sector employees and contributions to non-profit organizations also known as subsidies to private schools, and transfers to the Lebanese University. Lastly, health expenditures ranked third with 18 percent of social outlays in QI 2012 –decreasing from their share of 24 percent in QI 2011.

The LL 110 billion decline in social spending recorded in 2012 is primarily explained by the combined effect of the following:

a) Transfers to the NSSF decreased by LL 120 billion in QI 2011 to nil in QI 2012 due to the timing of payments (for details kindly refer to the "Current primary expenditures" section).

b) Payments for the hospitalization of uninsured citizens in the private sector decreased by LL 6 billion to LL 101 billion during QI 2012, down from LL 107 billion during the similar period of 2011.

c) Spending on education dropped by LL 36 billion mainly due to LL 73 billion drop in allowances in the private sector, which undermined the LL 32 billion rise in salaries and wages of the General Directorate of Education (for details kindly refer to the "Salary and Wages and Related Benefits-Article 13 Report for March 2012).

d) Purchases of medicaments decreased by LL 16 billion, amounting to LL 9 billion in QI 2012 compared to LL 25 billion in QI 2011 (for details kindly refer to the "Current primary expenditures" section).

e) Transfers to non profitable organization made by the Ministry of Social Affairs dropped by LL 13 billion to reach LL 8 billion in QI 2012.

The total LL 110 billion decline was weakened by an increase in spending in the following categories:

a) End-of-Service indemnities and retirement wages increased by LL 90 billion from LL 363 billion in QI 2011 to LL 452 billion in QI 2012.

b) Transfers to the Civil Servants' Cooperative increased by LL 61 billion to LL 71 billion in QI 2012 from LL 10 billion in QI 2011.

Table 22: Main Social Expenditures

(LL billion)	QI 2011	QI 2012	%Change
Health	**277**	**190**	**-31%**
• Hospitalization in the Private Sector	107	101	-6%
• Purchase of Medication	25	9	-64%
• Hospitalization of Public Sector Employees in Private Sector	103	63	-39%
• Maternity and Sickness Allowance	16	5	-69%
• Other	25	12	-52%
Education	**331**	**295**	**-11%**
• Ministry of Education and Higher Education, *of which*:	230	267	16%
- *Wages and Salaries of the General Directorate of Education*	*155*	*186*	*20%*
- *Wages and Salaries of the General Directorate of Higher*	*0*	*0*	*-59%*
- *Wages and Salaries of the General Directorate of Technical*	*8*	*9*	*11%*
- *Transfers to the Lebanese University*	*55*	*77*	*40%*
- *Contributions to Non Profitable Organizations (Private Schools)*	*1*	*0*	*-56%*
- *Construction under Execution (Construction of Schools)*	*0*	*0*	-
• Education Allowance in Private Sector	101	28	-72%
Other Social Spending	**531**	**543**	**2%**
• Marriage Allowance	3	1	-78%
• Birth Allowance	2	0	-76%
• Death Allowance	1	1	-7%
• Other Social Spending Allowance	3	4	30%
• Participation in Several Mutual Funds	4	3	-17%
• Ministry of Social Affairs, *of which*:	23	9	-60%
- *Transfers to Non-Profit Organizations*	*20*	*8*	*-62%*
• Ministry of the Displaced	1	1	-10%
• Transfers to Civil Servants Cooperative	10	71	610%
• End-of-Service Indemnities and Retirement Wages	363	452	25%
• Transfers to the National Social Security Fund	120	0	-100%
Unclassified allowances	**0**	**0**	**-**
Total Social Expenditures	**1,139**	**1,029**	**-9.67%**

Source: MOF, DGF

Section IV: Public Debt Developments

Public Debt: General Facts

Gross public debt amounted to LL 81,567 billion ($ 54.11 billion) by the end of the first quarter of 2012, up by LL 680 billion or 0.84 percent from the end-December 2011 level. This rise resulted from a LL 1,151 billion increase in the stock of local currency debt that offset the LL 471 billion drop in the stock of foreign currency debt.

In parallel, public sector deposits retreated by LL 177 billion (1.6 percent) over QI 2012, leading to an increase in public net debt[33] by LL 857 billion or 1.23 percent between December 2011 and March 2012, amounting to LL 70,760 billion ($ 46.94 billion).

Table 23: Public Debt Outstanding as of end-March 2012

(LL billion)	Dec-10	Dec-11	Mar-12	Change Mar 12 -Dec 11	% Change Mar 12-Dec 11
Gross Public Debt[(1)]	79,298	80,887	81,567	680	0.84%
Net Debt	67,879	69,903	70,760	857	1.23%
Gross Market Debt[(2)]	51,308	50,192	49,326	-866	-1.73%

Source: Ministry of Finance, Banque du Liban

[(1)] Figures for Dec 10 – Mar 12 may differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project loans in the Debt Management and Financial Analysis System (DMFAS).

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

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

Domestic Debt

The stock of **local currency debt** stood at LL 50,491 billion by end-March 2012, or 62 percent of the total stock of gross public debt compared to 61 percent end-December 2011 (including accrued interest). This 2.3 percent increase is explained by a larger stock of long-term bills partly offset by a fall in the stock of short-term instruments.

Analysis of local currency debt by holder

By holder, commercial banks remained the largest holders of local currency debt, claiming a 49 percent share by end-March 2012, down from 51 percent at end-December 2011. The drop in the share of local currency debt held by commercial banks mirrors the LL 559 billion (2.2 percent) contraction in their holdings, which was driven by a LL 552 billion (2.2 percent) decrease in their portfolio of Treasury Bills. The drop in commercial banks holdings was counterbalanced by a LL 1,632 billion or 9.97 percent increase in the stock held by Banque du Liban which amounted to LL 18,006 billion at the end of March 2012, up from LL 16,374 billion at the end of 2011. This rise is explained primarily by LL 1,651 billion equivalent to 10.4 percent augmentation in the portfolio of TBs held by the Central Bank. BDL had also issued LL 392 billion worth of repurchase agreements by end QI 2012 compared to an outstanding LL 400 billion by end-2011. Consequently, the share of total domestic currency debt held by BDL rose by 3 percentage points, from 33 percent at the end of December 2011 to 36 percent at the end of the first quarter of 2012.

"Other" holders witnessed a LL 78 billion or 1 percent expansion in the portfolio of TBs which amounted to LL 7,867 billion at the end-March 2012 compared to LL 7,789 billion three months earlier, albeit maintain their 16 percent share of domestic currency debt. This increase was driven by a LL 100 billion raise in the portfolio held by public entities which absorbed the LL 30 billion decrease in the public holdings.

Commercial banks, after a relatively low participation in 2011, were the largest subscriber of TBs in QI 2012 with 43 percent of subscriptions, still down from the 65 percent share in QI 2010. As a result of commercial banks' higher participation, BDL's share of subscriptions retracted from 66 percent in QI 2011 to 40 percent in QI 2012. Public institutions came third, and similarly saw their share decrease by 7 percent since QI 2011 to 15 percent of total offers in QI 2012.

Analysis of local currency debt by instrument

By instrument, the stock of long term bonds rose by LL 1,253 billion equivalent to 2.69 percent to LL 47,765 billion by the end-March 2012 from LL 46,512 billion by the end-December 2011. Conversely, the stock of short term bills receded by LL 84 billion from LL 2,583, billion by the end-December 2011 to LL 2,499 billion by the end of March 2012.

First, regarding long term instruments, the stock of 5YR registered the highest rise of LL 1,488 billion (12.63 percent) to reach LL 13,267 billion by the end of March 2012 up from LL 11,779 billion three months earlier. Conversely, the stock of 3YR bonds recorded the steepest decline among all instruments as it receded by LL 587 billion or 2.65 percent to LL 21,542 billion by the end of the first quarter of 2012, down from LL 22,129 billion by the end of 2011.

Among short term instruments, the stock of 6MN bills witnessed the highest drop, with a LL 553 billion or 35.2 percent to LL 1,016 billion by the end of March 2012 from LL 1,569 billion by the end of 2011. The stock of 12MN TBs increased to LL 1,148 billion representing a LL 261 billion or 29.4 percent increase from its level three months earlier, at LL 887 billion. Similarly, the stock of 3MN bills registered positive growth, adding up LL 208 billion or 163.8 percent to LL 335 billion by the end of QI 2012 from LL 127 billion by the end of 2011.

As usual, long term instruments accounted for the bulk of subscriptions in QI 2012 when their share reached 76 percent versus 90 percent in QI 2011. Correspondingly, the share of short term instruments increased from 10 percent in January-March 2011 to 24 percent during the first three months of 2012. In details, 3YR bonds accounted for the highest share of total subscriptions in QI 2012, at 32 percent down from 40 percent in QI 2011. Five-year bonds ranked second with a share of 30 percent, lower by 8 percentage points than their share in QI 2011 at 38 percent. Two-year bonds followed with 14 percent of total subscriptions during the first quarter of 2012 compared to 12 percent during the corresponding period of 2011. Six-month bills ranked fourth with a stake of 11 percent of subscriptions in QI 2012, up from a lower share of 6 percent during QI 2011. Lastly, 3MN and 12MN bills accounted for 7 and 6 percent respectively of subscriptions in January-March 2012 compared to 3 and 2 percent respectively in January -March 2011.

The share of long term domestic currency debt reached 94.6 percent by end-March 2012, from 94.3 percent three months earlier whereas the share of short term bills in the total stock of LL debt slightly inched down from 5.2 percent by the end of 2011 to 4.9 percent by the end of the first quarter of 2012. Despite the decline in their stock, 3YR bonds still accounted for the highest share of LL debt by the end of March 2012, at 42.7 percent down from 44.9 percent by the end of 2011. Five-year bonds followed with a share of 26.3 percent compared to 23.9 percent by the end of 2011. The share of 2YR bonds increased from 8.1 to 8.6 percent during the same time period. The share of 7YR bonds compared to total LL debt remained relatively unchanged at 16.0 percent in end of 2011 compared to 15.6 percent in QI 2012.

Table 24: Domestic Currency Debt by Holder and Instrument as of end-March 2012

Stocks (end of period)	Dec-10	Dec-11	Mar-12	Change Mar 12 - Dec 11	% Change Mar 12- Dec 11
Local currency debt	48,255	49,340	50,491	1,151	2.33%
A. By Holder					
1. Central Bank (Including REPOs and Loans to EDL)	13,130	16,374	18,006	1,632	9.97%
2.Commercial Banks	27,214	25,177	24,618	-559	-2.22%
3.Other local debt (T-bills)	7,911	7,789	7,867	78	1.00%
o/w Public entities	6,268	6,538	6,638	100	1.53%
o/w Contractor Bonds[1]	0	41	41	0	0.00%
*Accrued interest included in debt	*867*	*788*	*756*	-32	-4.06%
B. By instrument					
1. Long term bonds	43,805	46,512	47,765	1,253	2.69%
1.1 7 years bonds	1,500	7,885	7,885	0	0.00%
1.2 5 years bonds	7,310	11,779	13,267	1,488	12.63%
o/w Contractor Bonds[1]	0	41	41	0	0.00%
1.3 4.5 years bonds	0	0	0	0	-
1.4 4 years bonds	0	0	0	0	-
1.5 3 years bonds	30,782	22,129	21,542	-587	-2.65%
1.6 2.5 years bonds	0	0	0	0	-
1.7 2 years bonds	3,398	3,972	4,355	383	9.64%
1.8 Coupon interest	815	747	716	-31	-4.15%
2. Short term bills	4,155	2,583	2,499	-84	-3.25%
2.1 12 months bills	1,969	887	1,148	261	29.43%
2.2 06 months bills	2,111	1,569	1,016	-553	-35.25%
2.3 03 months bills	75	127	335	208	163.78%
*Accrued interest included	*52*	*41*	*40*	-1	-2.44%
3. Other local debt	295	245	227	-18	-7.35%
3.1 Central bank loans	218	139	128	-11	-7.91%
3.2 Commercial Banks Loans	77	106	99	-7	-6.60%

Source: Ministry of Finance, Banque du Liban

[1]*Contractor bonds issued in LBP. Contractor bonds issued in USD are listed under "Special T-bills in foreign currency" in the foreign currency debt table*

Primary market interest

After a stable interest rate climate on issued Treasury bills and bonds for much of 2010 and 2011, rates increased by an average of 52 basis points across the curve compared with end-2011 levels by the end of March 2012 compared to end-2011 levels. Five-year bonds reflected the largest change with a 56 bps increase and 3 YR bonds the smaller magnitude change with a 48 bps increase.

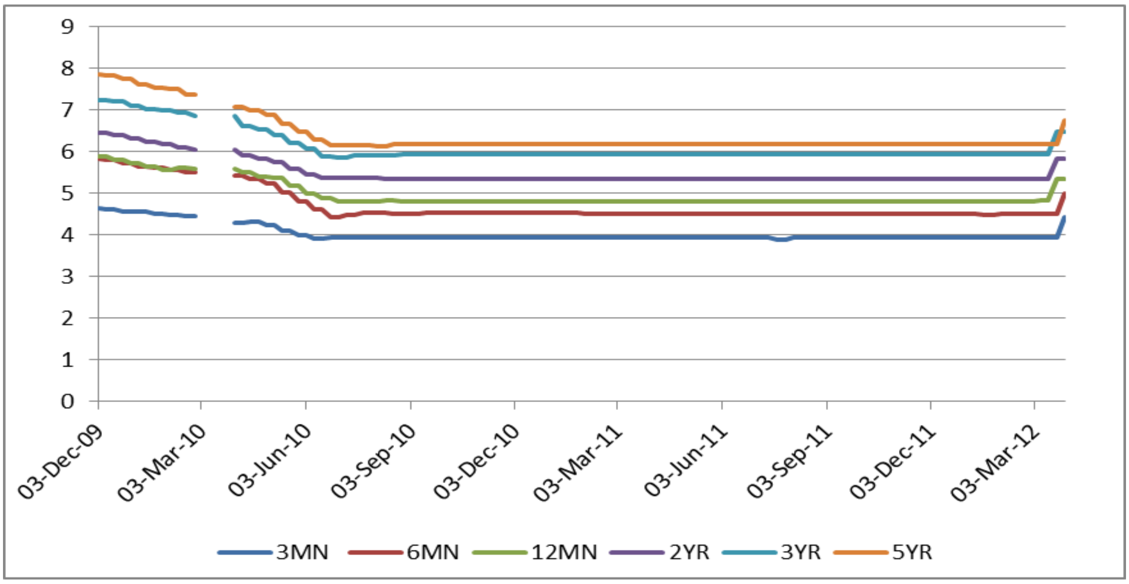
Table 25: Evolution of Primary Market Rates

Maturity	Dec. 31 2009	Dec. 31 2010	Dec. 31,2011	31-Mar-12
3-month	4.55	3.93	3.93	4.43
6-month	5.72	4.52	4.50	4.99
12-month	5.73	4.81	4.81	5.33
24-month	6.32	5.34	5.34	5.82
36-month	7.10	5.94	5.94	6.48
60-month[1]	7.74	6.18	6.18	6.74

Source: Ministry of Finance

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

Figure 2: TB Yield by Category January 2011–March 2012



Source: Ministry of Finance

Note: LL auctions were halted for the month of March 2010.

Foreign Currency Debt

Foreign currency debt declined by LL 471 billion equivalent to 1.49 percent over the first quarter of 2012, amounting to LL 31,076 billion by the end-March 2012 versus LL 31,547 billion by the end of 2011. This factors in an increase of LL 71 billion of the debt due to exchange rate valuations, in Q1 2012 mainly as a result of the appreciation of the Euro from a rate of 1.2927 €/$ at the end of 2011, to 1.3339 €/$ at the end of March 2012.

Table 26: Foreign Currency Debt by Holder and Instrument as of end-March 2012

(in LL billion)	Dec-10	Dec-11	Mar-12	Change	% Change Year-to-date
B. Foreign currency debt[1]	**31,043**	**31,547**	**31,076**	**-471**	**-1.49%**
4. Eurobonds	**26,738**	**27,490**	**26,953**	**-537**	**-1.95%**
Of which, Paris II at preferential rates[2]	3,677	3,161	3,108	-53	-1.67%
Of which, Paris III at preferential rates[3]	709	663	490	-173	-26.14%
** Accrued Interest on Eurobonds*	*483*	*407*	*503*	*96*	*23.59%*
5. Loans	**4,231**	**3,977**	**4,017**	**40**	**1.01%**
5.1 Paris II loans	460	351	322	-29	-8.26%
5.2 Paris III loans[4]	1,147	1,060	1,050	-10	-0.96%
5.3 Bilateral loans (non-Paris II and III)	723	766	818	52	6.74%
5.4 Multilateral loans (non-Paris II and III)	1,877	1,781	1,809	27	1.54%
5.5 Foreign Private Sector Loans	24	18	18	0	0.00%
6. Other debt	**74**	**80**	**106**	**26**	**32.50%**
6.1 Special Tbs in Foreign currency[5]	74	80	106	26	32.50%

Source: Ministry of Finance, Banque du Liban

Notes:

(1) Figures for Dec 10 - Mar 12 may differ from previously published data reflecting an update of disbursement figures of IBRD and IDB project loans in the Debt Management and Financial Analysis System (DMFAS).

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

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

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

(5) Special Tbs in Foreign currency (expropriation bonds)

The decline in foreign currency debt was largely due to a LL 537 billion or 1.95 percent decrease in the **Eurobond portfolio** to reach LL 26,953 billion by the end of March 2012, down from LL 27,490 billion by the end of December 2011. This includes an increase of LL 35 billion due to valuation adjustment. The decrease in the value of the Eurobond portfolio was largely due to the repayment of US$ 292.591 million remaining from the March 2012-due US$ 600 million market-issued Eurobond (the remaining amount was exchanged in the November 2011 voluntary exchange transaction).

Paris III related Eurobonds receded by LL 173 billion equivalent to 26.14 percent, to LL 490 billion by the end of March 2012 from a higher level of LL 663 billion by the end of December 2011. This decline resulted from two principal repayments in January 2012 resulting from the two Paris III issued Eurobonds with amortized payments structures[34]: (i)a US$ 15 million

[34] 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/.

principal repayment on the Eurobond due July 2017 originally issued at US$ 300 million; and (ii) a US$ 100 million principal repayment on the Eurobond due July 2012 originally issued at US$ 200 million.

Eurobonds issued in the context of Paris II decreased by LL 53 billion equivalent to 1.67 percent, to LL 3,108 billion by the end of QI 2012 from LL 3,161 billion by the end of 2011. This drop is explained by the $ 35 million principal repayment in March 2012 on Paris II March 2018 Eurobond originally issued at US$ 700 million.

The decrease in the Eurobond portfolio outweighed the increase in **foreign currency loans**. Concessional loans increased by 1.01 percent to LL 4,017 billion by end-March 2012 from a lower level of LL 3,977 billion at end-2011, driven by non-Paris II and Paris III loans. Exchange rate valuations increased the value of the loan portfolio by LL 36 billion. Otherwise, the following changes materialized in the loan portfolio:

a) The stock of non-Paris II and Paris III bilateral loans rose by LL 52 billion equivalent to 6.74 percent to LL 818 billion by end-March 2012 compared to LL 766 billion by the end of 2011. This rise was recorded despite principal repayments worth LL 7 billion to the Japan Bank for International Cooperation and LL 5 billion to the Saudi Fund for Development. It is mainly explained by the disbursement of:

    i. LL 31 billion from one loan provided by Japan's Overseas Economic Cooperation Fund

    ii. LL 11 billion from six loans granted by the Kuwait Fund for Arab Economic Development

    iii. LL 7 billion from three loans granted by the *Agence Française de Développement*

    iv. LL 5 billion from seven loans provided by the Saudi Fund for Development

    v. LL 2 billion from one loan granted by the Abu Dhabi Fund

b) The stock of non-Paris II and Paris III multilateral loans increased by LL 27 billion equivalent to 1.54 percent, amounting to LL 1,809 billion by the end of QI 2012 compared to LL 1,781 billion by the end of 2011. This rise was recorded despite several principal repayments, of which (i) LL 24 billion to the European Investment Bank, (ii) LL 15 billion to the Arab Fund for Economic and Social Development (AFESD), (iii) LL 12 billion to the Islamic Development Bank, (iv)LL 10 billion to the the International Bank for Reconstruction and Development (IBRD), (v) LL 1 billion to the International Fund for Agricultural Development (IFAD) and (vi) LL 1 billion to the Organization of Petroleum Exporting Countries (OPEC). The impact of these principal repayments was however mitigated by the disbursement of:

    i. LL 21 billion from two European Investment Bank loans

    ii. LL 17 billion from nine AFESD loans

This is also summarized in "Box 2: Debt Re-profiling with Malaysia" in the Public Finance Quarterly Report for QIII 2007.

iii. LL 10 billion from four IBRD loans

iv. LL 3 billion from five loans granted by the Islamic Development Bank

v. LL 3 billion from two OPEC loans

c) The stock of Paris III loans dropped by LL 4 billion equivalent to 0.33 percent, totalling LL 1,057 billion by the end of March 2012, down from LL 1,060 billion three months earlier. This decline is primarily due to the principal repayments in January 2012 of the equivalent of SDR 6.3 million on the IMF EPCA I loans and in February 2012 of the equivalent of SDR 3.2 million on the IMF EPCA II loan[35].

d) The stock of foreign private sector loans remained unchanged, at LL 18 billion by the end of March 2012.

In parallel, the stock of Paris II loans declined by LL 29 billion, equivalent to 8.26 percent, amounting to LL 322 billion by the end of the first quarter of 2012, down from LL 351 billion three months earlier. This drop reflects the redemption of € 20 million of the *Agence Française de Développement (AFD)* Paris II loan in February 2012.

With respect to other debt in foreign currency, the stock of special T-bills in foreign currency increased by LL 26 billion over the first quarter of 2012, to reach LL 106 billion at end-March, compared to LL 80 billion three months earlier. This pertains to US$ 16,516,566 worth of expropriation bonds that were issued on January 23, 2012 at a rate of 4.7 percent, coming due 2017, pursuant to Law #450 dated July 29, 2002 (amending Law # 95 dated June 18, 1999).

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

Table 27: Lebanon Secondary Market Yields

Lebanese Issues	Bid Yield (%) 31-Dec 2011	12-Jan 2012	15-Feb 2011	7-Mar 2012	22-Mar 2012	30-Mar 2012
EURO						
LEB 5.350 18	5.35	5.30	5.26	5.25	5.28	5.28
US Dollars						
LEB 9.125 13	3.70	3.52	3.07	2.99	2.69	2.61
LEB 8.625 13	3.83	3.79	3.30	2.68	2.68	2.81
LEB 7.375 14	4.01	3.96	3.82	3.55	3.54	3.51
LEB 9.000 14	4.00	3.82	3.73	3.55	3.54	3.47
LEB 5.875 15	4.28	4.43	4.39	3.90	3.92	4.00
LEB 4.000 17 Av Life	4.48	4.39	4.19	4.20	4.25	4.10
LIEB 10.000 15	4.30	4.21	4.14	3.97	3.89	3.88
LEB 8.500 15	3.97	4.11	4.11	4.12	4.11	4.13
LEB 8.500 16	4.41	4.50	4.45	4.37	4.31	4.38
LEB 11.625 16	4.91	4.87	4.64	4.45	4.45	4.42
LEB 4.750 16	4.72	4.74	4.69	4.63	4.60	4.63
LEB 5.000 17	-	-	-	-	-	5.00
LEB 9.000 17	4.83	4.90	4.80	4.71	4.68	4.72
LEB 5.150 18	5.26	5.33	5.33	5.15	5.12	5.13
LEB 6.000 19	5.48	5.50	5.41	5.28	5.32	5.28
LEB 5.450 19	5.45	5.49	5.45	5.38	5.37	5.37
LEB 6.375 20	5.56	5.62	5.52	5.44	5.42	5.45
LEB 8.250 21	5.74	5.74	5.70	5.56	5.53	5.58
LEB 6.100 22	5.93	5.96	5.88	5.84	5.82	5.83
LEB 7.000 24	6.31	6.20	6.17	6.07	6.07	6.08
LEB 6.600 26	6.59	6.44	6.31	6.28	6.26	6.33

Source: Credit Suisse

Following their decline by an average of 47 bps in 2011, **secondary market yields** dropped by an average of 29 bps during the course of QI 2012[36]. This decrease in yields is in line with the general downward trend observed since QII 2011.

[36] Calculated between December 31st, 2011 and March 31st, 2012.