REPUBLIC OF LEBANON
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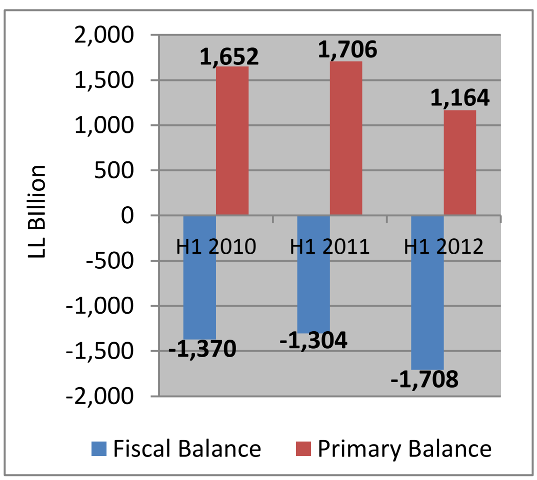
General Fiscal Developments

The fiscal balance recorded a deficit of LL 1,708 billion in the first half of 2012, compared to a lower deficit of LL 1,304 billion during the same period in 2011. In parallel, the primary surplus dropped by 32 percent to LL 1,164 billion in January-June 2012.

On a cash basis - i.e. excluding expected transfers from the telecom surplus in both years, and including actual telecom transfers[1] - the fiscal deficit becomes LL 2,170 billion in H1 2012, improving by LL 196 billion or 8 percent from the LL 2,366 billion cash deficit in H1 2011. As for the primary surplus, it increased by LL 57 billion or 8 percent to LL 702 billion in the first half of 2012 from a surplus of LL 645 billion during the same period of 2011.

Figure 1: Fiscal and Primary Balance (H1 2010 – H1 2012)



[1] In January-June 2012, LL 604 billion was transferred from the Telecom surplus. Nil was transferred in January-June 2011

Revenues

Total revenues improved by 6 percent to reach LL 7,642 billion in H1 2012, compared to LL 7,186 billion in H1 2011. This was mostly due to an across the board 9 percent improvement in most components of tax revenues , and a 1 percent increase in non-tax revenues. On a cash basis, total revenues amounted to LL 7,179 billion in H1 2012, representing a LL 1,055 billion (17 percent) expansion from the LL 6,124 billion collected in H1 2011.

Expenditures

A 43 percent rise in transfers to Electricite Du Liban (EdL), due to higher oil and gas prices in H1 2012, was the main cause behind the 10 percent increase in total expenditures to LL 9,350 billion, from LL 8,490 billion in H1 2011. Along with a rise in Treasury expenditures, transfers to the loss making company, EdL, overshadowed the effect of decreasing interest payments and transfers to NSSF.

Public Debt Developments

The stock of gross public debt totalled LL 83,313 billion by end-June 2012, climbing 3 percent from its end-December 2011 level. In parallel, the stock of net public debt increased by 1.6 percent to reach LL 71,039 billion.

Section I: Fiscal Overview

The **total fiscal balance** recorded a deficit of LL 1,708 billion in January-June 2012, compared to a LL 1,304 billion deficit during the same period in 2011. This 31 percent expansion in the gap between public expenditures and revenues was mainly due to a 10 percent increase in total payments to LL 9,350 billion, and a correspondingly slower rise of 6 percent in total receipts to LL 7,642 billion. The **primary balance** ended the first half of 2012 with a surplus LL 1,164 billion, compared to a surplus of LL 1,706 billion in the first half of 2011.

Table 1. Summary of Fiscal Performance

(LL billion)	2011 Jan-June	2012 Jan-June	%Change 2012/2011
Total Budget and Treasury Receipts[1]	**7,186**	**7,642**	**6.3%**
Total Budget and Treasury Payments, of which	**8,490**	**9,350**	**10.1%**
• *Interest Payments*	*2,867*	*2,737*	-4.5%
• *Concessional loans principal payment[2]*	*144*	*135*	-6.1%
• *Primary Expenditures[3]*	*5,480*	*6,477*	18.2%
Total Deficit/Surplus	**-1,304**	**-1,708**	**30.9%**
Primary Deficit/Surplus	**1,706**	**1,164**	**-31.8%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
[1] *Includes the expected transfer from Telecom Surplus*
[2] *Includes only Principal repayments of concessional loans earmarked for project financing*
[3] *Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)*

On a **cash basis**, LL 604 billion worth of actual transfers from the telecom surplus in H1 2012 compared to nil in H1 2011, meant that the fiscal deficit actually declined by 8 percent to reach LL 2,170 billion in January-June 2012, while the primary surplus climbed by LL 57 billion (9 percent) to LL 702 billion.

Table 2: Summary of Fiscal Performance on a Cash Basis

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Total Budget and Treasury Receipts	**6,547**	**6,124**	**7,179**	**17.2%**
Total Budget and Treasury Payments, *of which*	**7,916**	**8,490**	**9,350**	**10.1%**
• Interest Payments	2,882	2,867	2,737	-4.5%
• Concessional Loans Principal Payments (1)	140	144	135	-6.1%
• Primary Expenditures (2)	4,895	5,480	6,477	18.2%
Total Deficit/Surplus	**-1,370**	**-2,366**	**-2,170**	**8.3%**
Primary Deficit/Surplus	**1,652**	**645**	**702**	**8.9%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
[1] *Includes only principal repayments of concessional loans earmarked for project financing.*
[2] *Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment)*

Section II: Revenue Outcome

Total revenues reached LL 7,642 billion in the first half of 2012, registering a 6 percent improvement compared to the same period of 2011.
This LL 456 billion improvement in total revenues is explained on one hand by a LL 478 billion (9 percent) higher **tax revenues** and on the other by LL 19 billion (1 percent) increase in **non-tax revenues**, which counterbalanced the LL 41 billion (12 percent) decrease in **treasury receipts**.

Table 3: Total Revenues

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Budget Revenues, *of which*	**6,210**	**6,835**	**7,332**	**7.3%**
• Tax Revenues	*5,304*	*5,168*	*5,646*	*9.2%*
• Non-Tax Revenues	*906*	*1,667*	*1,687*	*1.2%*
Treasury Receipts	**336**	**351**	**310**	**-11.8%**
Total Revenues	**6,547**	**7,186**	**7,642**	**6.3%**

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

Tax Revenues

Tax revenues totaled LL 5,646 billion in the first half of 2012, up from LL 5,168 billion during the same period of 2011, hence growing by about 9 percent and accounting for 74 percent of total collected revenues, compared to 72 percent in HI 2011. Almost all components of tax revenues registered increases in collection during the first six months of 2012, albeit not at the same rate.

Table 4: Tax Revenues

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Taxes on Income, Profits, & Capital Gains, *of which*:	**1,390**	**1,645**	**1,794**	**9.1%**
• Income Tax on Profits	744	929	951	2.4%
• Income Tax on Wages and Salaries	196	230	269	16.7%
• Income Tax on Capital Gains & Dividends	128	145	221	52.5%
• Tax on Interest Income (5%)	310	326	325	-0.3%
• Penalties on Income Tax	11	14	26	84.9%
Taxes on Property, *of which:*	**567**	**537**	**606**	**12.9%**
• Built Property Tax	100	88	118	34.1%
• Real Estate Registration Fees	426	388	412	6.2%
Domestic Taxes on Goods & Services, *of which:*	**1,746**	**1,699**	**1,912**	**12.5%**
• Value Added Tax	1,557	1,544	1,676	8.5%
• Other Taxes on Goods and Services, *of which*:	184	150	170	13.4%
- *Private Car Registration Fees*	*118*	*98*	*100*	*1.5%*
- *Passenger Departure Tax*	*65*	*50*	*69*	*37.3%*
Taxes on International Trade, *of which:*	**1,376**	**1,068**	**1,093**	**2.4%**
• Customs	395	379	397	4.7%
• Excises, *of which*:	980	688	696	1.1%
- *Petroleum Tax*	*504*	*286*	*235*	*-17.7%*
- *Tobacco Tax*	*174*	*181*	*236*	*30.7%*
- *Tax on Cars*	*299*	*218*	*221*	*1.4%*
Other Tax Revenues (namely fiscal stamp fees)	**226**	**220**	**241**	**9.7%**
Total Tax Revenues	**5,304**	**5,168**	**5,646**	**9.2%**

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

The receipts from **taxes on income profits and capital gains** improved by 9 percent year-on-year, up to LL 1,794 billion in HI 2012, driven by the growth across all components – except for a minor drop of LL 1 billion in tax on interest income.

In details, income tax on capital gains and dividends registered the highest rise of LL 76 billion (53 percent) to reach LL 221 billion at the end of June 2012, against LL 145 billion in HI 2011. Just like in QI 2012, this is explained by the field inspections undertaken by the Revenues Directorate at the Ministry of Finance during the first quarter of the year to audit the declaration forms presented by financial corporations. Taxes on wages and salaries, gained 17 percent to reach LL 269 billion, on account of a larger tax base which is attributed to two factors:

1. The actual wage raise granted to the private sector[2] at the end of January 2012. The tax corresponding to this raise would start to kick in during the first half of 2012.

2. Even before this raise was approved, the tax on salaries and wages witnessed some improvement, given higher salaries provided by corporations (towards the end of 2011 and beginning of 2012) in anticipation of the official salary raise that was still being discussed back then. Effectively, taxes on wages and salaries reached LL 160 billion for the three months preceding the implementation of the law, compared to LL 124 billion during the same period of 2010-2011.

In return, taxes on interest income[3] witnessed a minor drop of 0.3 percent to reach LL 325 billion, as a result of higher tax collections from commercial banks (interest earned on deposits of both residents and non-residents), offset by a decrease in tax collections from BDL *(interest earned on certificates of deposits – CDs – and Treasury Bills and Bonds - TB's)*. The latter drop is due to the fact that the debt portfolio today is carrying a lower weighted average interest rate. In fact the low international yield environment has allowed the Republic to lower its borrowing cost, thereby replacing maturing high coupon debt with lower coupon debt (*please refer to the Interest payment section for more details*). This is in line with the 4.5 percent drop in total interest payments registered in January-June 2012, as compared to the same period of 2011.

Tax on interest income from commercial banks increased as a result of the *expansion*, albeit moderate, of the *deposit base* and the effect of decreased *dollarization* of deposits, which was not offset by a decline in deposit interest rates. 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 5.45 percent as of end-June 2012, while the average interest rate on deposits in USD decreased by 3 bps on a yearly basis to reach 2.78 percent in June 2012. *Deposits* (both resident and non-resident) however rose by 7.54 percent as of end-June 2012, compared to end-June 2011, to reach LL 180,724 billion, thus creating a larger taxable base. In parallel, *dollarization* of deposits witnessed a downturn, standing at 64.99 percent as of end of June 2012, down from 66.77 percent as of end-June 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 66 percent in the first half of 2012 compared to 69 percent in the comparable period of 2011, as shown in the table below.

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[2] 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.

3 This tax exempts mainly interest earned on Eurobonds

Table 5: Tax on interest income

LL Billion	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun
By Institution/Instrument	**312**	**326**	**330**
Commercial banks	175	173	189
BDL	136	149	138
Tax dues on LL Treasury Bills	1	4	3
Tax on USD Treasury Bills	0	0	0
By Currency	**312**	**326**	**330**
Lebanese Pounds	214	225	217
Foreign currencies (USD mainly)	98	101	113

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 (Table 4).

Taxes on Property registered a rise of 13 percent in the first half of 2012 reaching LL 606 billion, after last year's five-percent decline compared to 2010. This improved performance was the result of stronger results of the two components of this item, namely the tax on built properties, collected on a yearly basis, and real estate registration fees, the non-recurrent component. In fact, the tax on built properties[4] witnessed a 34 percent (LL 30 billion) increase and reached LL 118 billion during the first half of 2012. In parallel, real estate registration fees[5] increased by 6 percent (LL 24 billion), while inheritance tax collections rose by 24 percent (LL 15 billion) mainly due to the handling of high value files.

After a drop in the declared property values in HI 2011 (from LL 7,106 billion in HI 2010 to LL 5,804 billion in HI 2012), property registration statistics at the Cadastre Directorate indicate a back on the rise in total values of transacted properties (8 percent) in HI-2012, despite a lower number of properties (5 percent). This 8 percent rise helps in explaining to a certain extent the growth registered in both real estate registration fees and built property taxes.

Table 6: Property Registration Statistics from Cadastre

	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Number of Properties registered in Cadastre	144,087	148,582	141,333	-5%
Declared Aggregate Properties Value in Sales Contracts (LL billion)	7,106	5,804	6,255	8%
Declared Average Value per Property (LL million)	49.3	39.1	44.3	13%
Total Fees collected from Sales Transactions	386	370	351	-5%

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

[4] Taxes on built properties are progressive in nature and levied on yearly rent benefiting both investors and property owners, even if occupying their residence. Rent is determined by the lease contract, if available, or otherwise estimated by the tax authorities. This tax exempts several categories including agricultural properties, hospitals, owned properties used for commercial purposes...

[5] Real estate registration fee preserves the right of ownership and is not mandatory upon the sale of a property. On April 3, 2001 Parliament voted Law No. 296, which amended the 1969 Law No. 11614 governing foreign acquisition of property. The new law eased legal limits on foreign ownership of property to encourage investment in Lebanon, especially in industry and tourism. The fee equals to 5 percent of a property sale value, for both Lebanese and foreigners.

Receipts from domestic taxes on goods and services increased by 13 percent to LL 1,912 billion by end of June 2012, mainly driven by a LL 132 billion rise in receipts from the value added tax combined with a LL 19 billion increase in proceeds from the passenger departure tax.

Value added tax collected LL 1,676 billion in the first half of 2012 as compared to LL 1,544 billion during the same period of 2011, thus improving by about 9 percent year-on-year. This came as a result of higher receipts at both customs and internally, by 8 percent and 10 percent respectively.

As Table 7 shows, total imports rose by 18 percent in the first half of 2012 to accrue to LL 16,404 billion, while VAT at customs went up by only 8 percent to reach LL 1,146 billion. As a result, the effective VAT rate went down from 7.6 percent in HI 2011 to 7 percent in HI 2012, a decline that can be explained by the fact that the rise in imports stems largely from EDL's fuel (which registered a 299% increase in the first half of 2012[6]), the VAT of which is not usually paid upon import registration. In fact, EDL fuel imports are not systematically registered at the Directorate of Customs upon arrival to the port; they are rather 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.

Table 7: Total Imports & Effective VAT rate

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Total Imports, *of which*	**12,935**	**13,912**	**16,404**	**17.9%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*2,371*	*2,560*	*4,842*	89.1%
• *Non-Fuel Imports*	*10,564*	*11,352*	*11,562*	1.9%
• *Share of Fuel Imports*	*18.3%*	*18.4%*	*29.5%*	*60.4%*
• *Share of Non Fuel Imports*	*81.7%*	*81.6%*	*70.5%*	*-13.6%*
Revenues from VAT at Imports	**1,107**	**1,062**	**1,146**	**7.9%**
Effective VAT rate	**8.6%**	**7.6%**	***7.0%***	**-8.5%**

Source: MOF, DGF

Despite the decline in the number of tourists[7], collections from the **passenger departure tax** rose by 37 percent to reach LL 69 billion in the first half of 2012, compared to LL 50 billion during the same period of 2011. This reflects the increased number of *passengers* at the Airport (both tourists and non-tourists). The latter rose by 14 percent in the first half of 2012, according to figures released by the Lebanese Civil Aviation Authority, most probably as a result of the tension on the Syrian-Lebanese border, and the consequent substitution of land by air transport.

[6] EDL fuel imports reached LL 1,292 billion in H1 2012, compared to LL 324 billion in H1 2011.

[7] According to data published by the Ministry of Tourism, the number of tourists went down by 8 percent in the first half of 2012, to reach 714,549.

Transfers from the tobacco surplus reached LL 60 billion in H1 2012, against nil in H1 2011. This transfer is the direct result of an increase in Regie's profits as a consequence of a policy decision taken by the Ministry of Finance in October 2011 to increase the price of cigarettes by LL 250 per pack[8].

Taxes collected from international trade (customs and excises) rose by LL 26 billion year-on-year, to reach LL 1,093 billion, despite the LL 51 billion decline in the gasoline excise, which was compensated by rises, mainly in customs and tobacco excises.

Table 8 depicts the increase in tariff revenues (customs), totalling LL 397 billion in the first half of 2012, up from LL 379 billion during the same period of 2011. The limited 5 percent growth in customs relative to the notable 18 percent rise in imports yielded a drop in *the effective customs rate*, from 2.7 percent in HI 2011 to 2.4 percent in HI 2012. This is rooted in the fact that the 2012 imports witnessed a growing share of fuel imports (from 18.4 percent up to 29.5 percent), which are subject to low custom duties, relative to non-fuel imports.

Table 8: Effective Customs Rate

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Total Imports	**12,935**	**13,912**	**16,404**	**17.9%**
• *Fuel Imports (fuel derivatives classified under HS 27)*	*2,371*	*2,560*	*4,842*	89.1%
• *Non-Fuel Imports*	*10,564*	*11,352*	*11,562*	1.9%
• *Share of Fuel Imports*	*18.3%*	*18.4%*	*29.5%*	*60.4%*
• *Share of Non Fuel Imports*	*81.7%*	*81.6%*	*70.5%*	*-13.6%*
Revenues from Custom Duties	**395**	**379**	**397**	**4.7%**
Effective customs rate	***3.1%***	***2.7%***	***2.4%***	**-11.2%**

Source: MoF, DGF

Total excises collected at import[9] registered only a 1 percent increase, to reach LL 696 billion, mainly due to a rise in revenues stemming from excise on tobacco that was almost totally offset by the decline in excises on gasoline, as detailed below:

a. The collections of **excises on tobacco** rose by 31 percent from LL 181 billion in HI 2011 to LL 236 billion in HI 2012, driven mainly by an increase in imports (29 percent) to reach LL 230 billion in HI 2012, due to higher volume of imported tobacco. This 34 percent rise stems mainly from higher quantities of imported cigarettes (by 27 percent) reaching 6,384 tons in HI 2012 compared to the same period of 2011.

[8] For more information about this decision (#1018/1 dated October 1, 2011), kindly refer to Ministry of Finance's Public Finance Annual Review 2011.

[9] 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.

Table 9: Tobacco Import Statistics

	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Imports (LL billion)	170	179	230	28.6%
Net weight (in tons)	6,863	6,168	8,242	33.6%
Collected Excises (LL billion)	174	181	236	30.7%
Average import price (LL per Kg)	***24,698***	***28,940***	***27,845***	***-3.8%***
Average effective excise rate (LL per Kg)	***25,352***	***29,265***	***28,625***	***-2.2%***
Average effective excise rate (%)	***102.6%***	***101.1%***	***102.8%***	***1.7%***

Source: MOF-General Directorate of Customs declaration forms

b. **Excises on gasoline** dropped notably in the first half of 2012, collecting LL 235 billion compared to LL 286 billion in HI 2011. The 18 percent less revenues on this front is explained by 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. This offset the expected increase in excise revenues due to higher volume of imported gasoline, given that this excise is a per-unit tax. In fact, the average effective excise rate went down from LL 288 per litre in H1 2011 to LL 225 per litre in H1 2012 (-22 percent). As for the average effective import price of gasoline, it witnessed an 8 percent rise in HI 2012 when compared to HI 2011, partly reflecting the increase in international oil prices that averaged at US$ 113/barrel in H1 2012 compared to US$ 111/barrel in H1 2011.

Table 10: Gasoline Import Statistics

	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Imports (*LL billion*)	895	1,136	1,294	14.0%
Volume (*million litres*)	1,046	994	1,046	5.2%
Collected excises (*LL billion*)	504	286	235	-17.7%
Average effective Price at imports (LL/litre)	***856***	***1,142***	***1,238***	***8.3%***
Average effective excise rate (LL/litre)	***482***	***288***	***225***	***-21.8%***

Source: MOF-General Directorate of Customs declaration forms

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 resumed a slow growth pattern during the first half of 2012. In fact, this component increased by LL 3 billion to reach LL 221 billion in HI 2012, a rise that can be explained by the combined effect of modest increases in the average price of cars (2 percent) and the total number of imported cars (5 percent).

Table 11: Car Import Statistics

	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Imports (LL billion)	1,074	801	837	4.6%
Number of Cars	49,828	37,023	*38,029*	2.7%
Collected Excises (LL billion)	299	218	221	1.4%
Average price per car (LL million)	***21.6***	***21.6***	***22.0***	***1.8%***
Average effective excise rate (%)	***27.8%***	***27.2%***	***26.4%***	***-3.0%***

Source: MOF-General Directorate of Customs declaration forms

Lastly, the receipts from **fiscal stamp fees** increased by LL 21 billion during the first half of 2012, to reach LL 241 billion when compared to the collection in the first half 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 the 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 increased by LL 19 billion (1 percent) in the first half of 2012, to reach LL 1,687 billion, against LL 1,667 billion during the same period of 2011. This small increase was registered despite the LL 34 billion (3 percent) lower **Income from Public Institutions and Government Properties**, which reached LL 1,302 billion at end-June 2012, against LL 1,336 billion a year earlier. This decline was the result of the absence of transfers from the Port of Beirut in the first half of 2012, compared to revenues amounting to LL 48 billion during the same period of 2011. Revenues from Casino du Liban, dropped as well by 18 percent year-on-year, reflecting the downturn in economic activity. In return, the budget surplus of the National lottery increased by 66 percent, to reach LL 41 billion, against LL 25 billion during H1 2011.

The decline of LL 34 billion in **Income from Public Institutions and Government Properties** was however more than offset by an increase of LL 42 billion in **administrative fees and charges** owing largely to higher vehicle control fees; these have reached LL 131 billion in HI 2012 against LL97 billion during the same period of 2011, mainly due to a penalty exemption for the first two months of 2012.

It is noteworthy that out of the LL 1,066 billion listed under Transfer from Telecom Surplus in H1 2012, only LL 603 billion were actually transferred; and the whole figure of H1 2011 is in fact expected (hence not cash). Thus, when the expected figures are excluded and actual ones are included, non-tax revenues amount to LL 1,224 billion in HI 2012, compared to LL 606 billion in HI 2011, representing an increase of LL 618 billion (102 percent).

Table 12: Non-Tax Revenues

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
Income from Public Institutions and Government Properties	**595**	**1,336**	**1,302**	**-3%**
• Income from Non-Financial Public Enterprises, *of which*:	504	1,224	1,181	-3.5%
- *Revenues from Casino du Liban*	*86*	*89*	*73*	*-17.8%*
- *Revenues from Port of Beirut*	*65*	*48*	*0*	*-100.0%*
- *Budget Surplus of National Lottery*	*21*	*25*	*41*	*66.1%*
- *Transfer from the Telecom Surplus 1/*	*331*	*1,062*	*1,066*	*0.4%*
• Income from Financial Public Enterprises (BdL)	60	60	60	-0.7%
• Property Income (rent of Rafic Hariri International Airport)	28	46	58	25.4%
• Other Income from Public Institutions (interests)	2	5	3	-39.2%
Administrative Fees & Charges, *of which:*	**257**	**261**	**303**	**16.0%**
• Administrative Fees, *of which*:	210	212	251	18.2%
- *Notary Fees*	*15*	*14*	*15*	*5.3%*
- *Passport Fees/ Public Security*	*56*	*61*	*58*	*-4.1%*
- *Vehicle Control Fees*	*94*	*97*	*131*	*35.8%*
- *Judicial Fees*	*12*	*13*	*16*	*31.6%*
- *Driving License Fees*	*12*	*8*	*9*	*21.7%*
• Administrative Charges	14	13	13	1.0%

• Sales (Official Gazette and License Number)	3	2	2	8.2%
• Permit Fees (mostly work permit fees)	25	27	30	11.5%
• Other Administrative Fees and Charges	6	7	7	-2.8%
Penalties and Confiscations	**3**	**5**	**6**	**16.8%**
Other Non-Tax Revenues (mostly retirement deductibles)	**52**	**66**	**76**	**16.2%**
Total Non-Tax Revenues	**906**	**1,667**	**1,687**	**1.2%**

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)
1/Out of the expected LL 1,062 billion in H1 2011, no actual transfers were effectively made from the Telecom surplus.
Out of the expected LL 1,066 billion in H1 2012, only LL 603 billion was effectively transferred from the Telecom Surplus.

Treasury Receipts

Treasury receipts amounted to LL 310 billion in HI 2012, which is LL 41 billion (12 percent) lower than the HI 2011 level. This stems mainly from a LL 76 billion decrease in "Other Treasury Revenues".

Section III: Expenditure Outcome

Total expenditures (budget and treasury) amounted to LL 9,350 billion in HI 2012, higher by 10 percent than their comparable 2011 level, at LL 8,490 billion. This rise was mainly the result of a LL 998 billion increase in **total primary expenditures**, offset by a LL 130 billion drop in **interest payments**, as shown in table 13.

Table 13: Expenditure Summary

(LL billion)	2010 Jan-June	2011 Jan-June	2012 Jan-June	Change 2012/2011	%Change 2012/2011
Interest Payments	2,882	2,867	2,737	-130	-5%
Concessional Loans Principal Payments (1)	140	144	135	-9	-6%
Total Primary Expenditures (2)	4,895	5,480	6,477	998	18%
Total Budget and Treasury Payments	**7,916**	**8,490**	**9,350**	**859**	**10%**

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 table 14 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 32.

Current expenditures

Current expenditures increased by LL 435 billion, mainly explained by increases in (i) various transfers, LL 366 billion (mainly EDL), (ii) personnel cost, LL 221 billion and (iii) reserves (namely interest subsidy), LL 19 billion. The hike was partially offset by a LL 130 billion decrease in interest payments, a LL 21 billion drop in materials and supplies (stemming mainly from medicaments) and a LL 9 billion decrease in foreign debt repayment.

Table 14: Expenditure by Economic Classification

(LL billion)	HI 2011	HI 2012	%Change 2012/201
1. Current Expenditures	**7,679**	**8,113**	**5.7%**
1.a Personnel Cost *of which:*	2,743	2,964	8.1%
Salaries, Wages and Related Items (Article 13) 1/	*1,829*	*1,915*	*4.7%*
Retirement and End of Service Compensations, *of which:*	748	885	18.3%
Retirement	*596*	*622*	*4.4%*
End of Service	*151*	*262*	*73.5%*
Transfers to Public Institutions to Cover Salaries 2/	*166*	*164*	*-0.9%*
1.b Interest Payments, *of which: 3/*	2,867	2,737	-4.5%
Domestic Interest Payments	*1,791*	*1,716*	*-4.2%*
Foreign Interest Payments	*1,076*	*1,021*	*-5.1%*
1.c Foreign Debt Principal Repayment	144	135	-6.1%
1.d Materials and Supplies, *of which:*	153	132	-13.4%
Nutrition	*25*	*36*	*43.4%*
Fuel Oil	*4*	*35*	*684.1%*
Medicaments	*79*	*26*	*-66.8%*
Accounting Adjustments for Treasury Advances 4/	*22*	*16*	*-25.4%*
1.e External Services	64	59	-6.9%
1.f Various Transfers, *of which :*	1,439	1,806	25.5%
EDL 5/	*1,031*	*1,479*	*43.4%*
NSSF 6/	*120*	*50*	*-58.3%*
Higher Relief Committee	*4*	*39*	*970.4%*
Contributions to Non Public Sectors	*99*	*99*	*-0.4%*
Treasury Advances for Diesel Oil Subsidy	*0*	*0*	-
Transfers to Directorate General of Cereals and Beetroot	*58*	*12*	*-79.5%*
Special Tribunal for Lebanon	*0*	*0*	-
Gasoline Subsidy for Taxi Drivers	*0*	*4*	-
Accounting Adjustments for Treasury Advances 4/	*18*	*0*	*-99.8%*
1.g Other Current, *of which:*	196	189	-3.8%
Hospitals	*150*	*159*	*5.9%*
Others (judgments & reconciliations, mission costs, other)	*38*	*28*	*-26.3%*
Accounting Adjustments for Treasury Advances 4/	*7*	*1*	*-82.5%*
1.h Reserves	72	90	26.2%
Interest subsidy	*72*	*90*	*26.2%*
2. Capital Expenditures	**314**	**319**	**1.6%**
2.a Acquisitions of Land, Buildings, for the Construction of Roads,	1	0	-74.6%
2.b Equipment	24	17	-29.1%
2.c Construction in Progress, *of which:*	160	213	33.5%
Displaced Fund	*0*	*48*	-

Council of the South	*13*	*30*	*133.9%*
CDR	*65*	*55*	*-15.6%*
Ministry of Public Works and Transport	*59*	*73*	*23.9%*
Other, *of which*:	22	7	-67.2%
High Relief Committee	*13*	*0*	*-100%*
2.d Maintenance	117	84	-28.1%
2.e Other Expenditures Related to Fixed Capital Assets	4	2	-53.5%
2.f Parliamentary equipment & maintenance *7/*	9	3	-69.8%
2.g Accounting Adjustments for Treasury Advances 4/	0	0	-
3. Budget Advances *8/*	**131**	**115**	**-12.5%**
4. Customs Administration (exc. Salaries and Wages) *9/*	**21**	**22**	**8.0%**
5. Treasury Expenditures 10/	**347**	**781**	**124.8%**
Municipalities	150	512	241.3%
Guarantees	29	31	6.6%
Deposits	48	44	-8.7%
Other, *of which:*	121	194	61.0%
VAT Refund	*70*	*135*	*93.5%*
Other Tax Refund	*34*	*19*	*-44.0%*
Higher Relief Committee	*0*	*0*	-
6. Unclassified Expenditures	**0**	**0**	-60.0%
7. Total Expenditures (Excluding CDR Foreign Financed) *11/*	**8,490**	**9,350**	**10.1%**

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)The expenditure figures as published by the ministry of finance include the regularization from the budget allocations of treasury advances previously paid from treasury accounts.
(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) For a detailed breakdown of transfers to NSSF, kindly refer to Table 17.
(7) 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.
(8) 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.
(9) "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.
(10) 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.
(11) Figures may differ from previously published data because of constant updates and improvements.

Current primary expenditures

Current primary expenditures[10] rose by 12 percent, amounting to LL 5,240 billion in HI 2012, up from LL 4,667 billion during HI 2011. The main components of current primary expenditures are recorded below.

Personnel cost[11] increased by LL 221 billion (8 percent) to LL 2,964 billion in HI 2012 versus LL 2,743 billion in HI 2011. In details, salaries, wages and related items (Article 13) amounted to LL 1,916 billion in HI 2012 compared to LL 1,828 billion in HI 2011, representing an LL 85 billion increase (5 percent).

As shown in Table 15, this LL 85 billion hike is explained by the combined outcome of a LL 79 billion increase in "other"[12] payments and a LL 45 billion increase in allowances, undermined by a LL 42 billion drop in basic salaries.

Table 15: Breakdown of Article 13 - Salaries, Wages and Related Items

(LL billion)	Basic Salaries		Indemnities 5/		Allowances 6/		Other 7/		Total	
	HI 2011	HI 2012	HI 2011	HI 2012	HI 2011	HI 2012	HI 2011	HI 2012	HI 2011	HI 2012
Military	**909**	**800**	**35**	**37**	**260**	**305**	**1**	**2**	**1,206**	**1,145**
• Army	607	501	23	23	162	197	0	1	**793**	**724**
• Internal	240	215	10	11	80	86	0	0	**330**	**312**
• General	46	41	2	2	13	12	1	1	**62**	**55**
• State	16	43	1	1	5	9	0	0	**22**	**54**
Education Personnel	**313**	**353**	**32**	**30**	**0**	**0**	**0**	**0**	**345**	**383**
Civil Personnel 3/.	**159**	**185**	**34**	**34**	**2**	**3**	**62**	**139**	**257**	**361**
• Employees							*45*	*121*	**45**	**121**
Customs Salaries 4/									**21**	**27**
Total[8]	**1,38**	**1,33**	**101**	**101**	**262**	**307**	**63**	**142**	**1,828**	**1,916**

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 June 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. 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

For further details and analysis about these results, please refer to Salaries, Wages and Related Benefits (Article 13) monthly bulletin of June 2012 on the Ministry of Finance website: www.finance.gov.lb.

Retirement and end-of-service compensations summed up to LL 885 billion in HI 2012 compared to LL 748 billion in HI 2011, representing an 18 percent increase. Behind this LL 137 billion rise stands mainly a 74 percent increase (LL 111 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 237 billion (constituting 90 percent of total compensation payments) in HI 2012 compared to LL 131 billion (87 percent of total compensation payments) in HI 2011. This 81 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 to LL 25 billion in HI 2012 compared to LL 20 billion in HI 2011. This 26 percent increase was the result of retirees having worked for a longer period and/or having received higher salaries. It is noteworthy that the number of beneficiaries slightly decreased to reach 1,064 retirees in HI 2012, down from 1,107 retirees in HI 2011.

Further under personnel cost, transfers to public institutions to cover salaries remained almost constant (slightly decreasing by LL 1 billion) to reach LL 164 billion in HI 2012. The changes in the components of transfers to public institutions are shown in Table 16.

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

(LL billion)	HI 2010	HI 2011	HI 2012	%Change 2012/2011
Transfer to Council of the South	8	6	3	-52.8%
Transfer to the Council for Development and	15	16[13]	14	-15.6%
Transfer to Fund for the Displaced	3	3	3	-7.7%
Transfer to the Lebanese University	107	134	139	3.5%
Transfer to Educational Centre for Research and	7	6	6	0.7%
Total Transfers to Public Institutions	**140**	**166**	**164**	**-0.9%**

Source: MOF

Materials and supplies' purchases amounted to LL 132 billion in HI 2012 compared to LL 153 billion in HI 2011, representing a LL 21 billion (13 percent) year-on-year decrease. This is explained mainly by a LL 53 billion (67 percent) drop in spending

[13] 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.

on medicaments, which was offset by an increase in spending on fuel oil[14] and nutrition by respectively LL 31 billion (684 percent) and LL 11 billion (43 percent) .

External Services (rent, postal, insurance, advertisement and public relations) decreased by LL 4 billion (7 percent) to LL 59 billion in HI 2012 down from LL 64 billion in HI 2011. This was mainly due to a decrease in publications and remuneration for consultancy services by respectively LL 5 billion and LL 2 billion, slightly offset by a LL 1 billion increase in rental payments from LL 35 billion in HI 2011 to LL 36 billion in HI 2012.

Various Transfers rose by LL 366 billion, totalling LL 1,806 billion in HI 2012 compared to LL 1,439 billion in HI 2011. This increase primarily resulted from the combined changes in the following items:

a) Transfers to EDL[15] increased by LL 448 billion in HI 2012, amounting to LL 1,479 billion, compared to LL 1,031 billion in HI 2011.

Table 17: Transfers to EDL

(LL billion)	2010 Jan-Jun	2011 Jan-Jun	2012 Jan-Jun	%Change 2012/2011
EDL, *of which:*	**849**	**1,031**	**1,479**	**43%**
a-Debt Service, *of which:*	41	42	45	6%
• C-Loans and Eurobonds, *of which:*	31	23	19	-19%
- *Principal Repayments*	27	19	15	-19%
- *Interest Payments*	5	4	3	-20%
• BDL-Guaranteed Loan Payments	10	19	26	37%
b-Reimbursement for purchase of Natural Gas, Fuel & Gas Oil:	**807**	**989**	**1,434**	**45%**
• KPC and SPC	807	934	1,434	54%
• EGAS	0	55	0	-100%

Source: MOF, DGF

b) Transfers to the High Relief Committee increased by LL 35 billion and amounted to LL 39 billion in HII 2012 compared to LL 4 billion for the same period of 2011. This rise stems mainly from the LL 35 billion paid as indemnity for destructed properties during the 2006 war[16].

[14] 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.

[15] For further details, check the June 2012 issue of *"Transfers to EDL: A Monthly Snapshot"* available on www.finance.gov.lb.

[16] As per Decree 7474 dated February 6th, 2012, HRC was provided with a treasury advance in the amount of LL 175 billion to compensate for destructed properties during the 2006 July war. According to the Directorate of Payment Orders at MOF, the treasury advance will be settled over 10 payments with LL 17.5 billion per payment, with no specific pre-set timing for each payment. On a related note, HRC spending relating to the July 2006 Israeli war on Lebanon, totaled LL 383 billion in 2006 and LL 700 billion in 2007, of which LL 19 billion and LL 10 billion were transferred in the form of a treasury advance in both years respectively. In 2008, HRC spending relating to the 2006 July war declined to LL 294 billion, with no transfers made for this purpose. In 2009, HRC paid LL 315 billion for housing indemnities of which LL 270 billion were transferred in the form of a treasury advance.

c) Payments to Water Authorities declined by 22 percent to reach LL 18 billion in H1 2012, down from LL 23 billion in H1 2011. These LL 18 billion could be broken down as follows: a LL 7.5 billion[17] treasury advance provided to the **Northern Water Authority** and a LL 10 billion[18] provided to the **Bekaa Water Authority**[19] to improve their services, increase their revenues, and install new water channels for residents of these regions.

d) Transfers to school funds amounted to LL 36 billion in HI 2012 while they were LL 5 billion in HI 2011. The LL 36 billion was paid for public school (primary, middle and secondary levels) registration fees for the academic year of 2011-2012[20]).

e) LL 4 billion paid as gasoline subsidy for taxi drivers in HI 2012 compared to none in HI 2011. On October 5, 2011, Parliament approved Law #182/2011 to subsidize taxi drivers for a period of three months amid increasing fuel and gasoline prices. Total payments since November 2011 till June 2012 have reached LL 45 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 LL 50 billion during HI 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[21], while the LL 50 billion transferred to NSSF in 2012, financed the State's contribution to the Fund from the Budget Proposal 2011.

Table 18: Transfers to the NSSF

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

Source: MOF, DGF

[17] As per Decree 6960 dated 25/11/2011
[18] As per Decree 6959 dated 25/11/2011
[19] As per decrees 6960 and 6959.
[20] As per Decree 6845 dated 17/11/2011, and Decree 7725 dated 14/03/2012. It should also be noted that small payments were made for the World Bank Education Development Project and the transportation of students whose schools were closed and merged with other ones in order to save costs as per Decree 7027 dated December 3rd, 2011 and Decree November 17th, 2011 respectively.
[21] 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.

b) Assistance for the Directorate General of Grains and Sugar Beetroot (DCGB) dropped from LL 58 billion in HI 2011[22] to LL 12 billion in HI 2012[23]. The LL 58 billion was used to subsidized the price of bread (as a result of high international wheat prices), by importing 101,033 tons of wheat during the period of January-June 2011, against 26,250 tons in January-June 2012. For more information on payments made to the Directorate General of Cereals and Beetroot since 2007, please refer to the thematic report published by the Ministry of Finance in October 2012 under the title: "Bread and Wheat Subsidies 2007-2011".

It is worth mentioning that no payments were made for the diesel oil subsidy nor for the Special Tribunal of Lebanon, in both HI 2011 and HI 2012.

Table 19: Breakdown of Article 14 by Economic Classification

LL Billion	HI 2011	HI 2012	% Change
1. Contributions to the Public Sector 1/	**1,189**	**1,646**	**38%**
1a. Electricité Du Liban (EDL)	1,031	1,479	43%
1b. Other Contributions to the Public Sector, *of which:*	158	167	6%
National Council for Scientific Research	*3*	*2*	*-25%*
High Relief Committee (HRC) 1/	*4*	*39*	*970%*
Investment Development Authority of Lebanon (IDAL)	*0*	*0*	*-*
Transfers to School Funds	*5*	*36*	*633%*
Public Hospitals	*4*	*4*	*0%*
National Agriculture Research Institute (NARI)	*5*	*2*	*-68%*
Green Project	*4*	*7*	*100%*
Public Institution for Cooperative Markets 2/	*0*	*0*	*100%*
National Social Security Fund (NSSF)	*120*	*50*	*-58%*
Tele-Liban	*3*	*5*	*61%*
Treasury Advances for Diesel Oil Subsidy 3/	*0*	*0*	*-*
Gasoline subsidy for taxi drivers 4/	*0*	*4*	*-*
Lebanese National Higher Conservatory of Music	*5*	*9*	*97%*
2. Contributions to the Non-Public Sector	**99**	**99**	**-1%**
2a. Contributions to Non Profit Organizations , *of which:*	97	95	-2%
Ministry of Education-Subsidized Schools	*31*	*52*	*69%*
Ministry of Youth and Sports (Sport Federations and Prizes for Athletes)	*1*	*2*	*161%*
Ministry of Public Health (Blood Bank and Medications through NGOs)	*6*	*7*	*8%*
Ministry of Social Affairs (Social care)	*57*	*28*	*-50%*
2b. Contributions to Private Parties, *of which:*	2	4	45%
Ministry of Justice (Contributions to Canonical Tribunals)	*0*	*0*	*-*
Ministry of Public Health (Childhood, Elderly and Handicapped Centers)	*0*	*2*	*459%*
Ministry of Culture (Support to Art)	*1*	*0*	*-80%*
2c. Students Grants	0	0	-37%
3. Assistance to the Public Sector	**93**	**40**	**-43%**
3a. Assistance for the Directorate General of Grains and Sugar Beetroot 5/	58	12	-79%
3b. Assistance to Public Institutions, *of which:*	34	27	143%
Institute of finance	*1*	*1*	*75%*

[22] As per Decree 4947 dated 9/4/2010 and Presidency of the Council of Minister's Letter 97/A dated April 12th, 2011. This exceptional authorization was later formalized by Decree 6056 dated August 6th, 2011 when the new government was formed based on Decree 5818 dated June 13th, 2011.
[23] As per Decree 8011 dated 23/04/2012

Railway and Public Transportation Authority	*7*	*7*	*-1%*
Subsidies to Water Authorities	*23*	*18*	*-22%*
3c. Other Assistances to the Public Sector, *of which:*	1	1	-14%
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	**14**	**10**	**-24%**
6 a. Membership Fees in International and Regional Organizations, *of which:*	14	10	-24%
Ministry of Foreign Affairs and Emigrants	*2*	*5*	*111%*
Ministry of Public Health (mainly for vaccinations and health prevention policies)	*8*	*3*	*-57%*
7.Stoppings 6/, *of which:*	**44**	**11**	**-75%**
Treasury Advances 7/	*18*	*0*	*-100%*
Lebanese Civil Defense 8/	*16*	*0*	*-100%*
Total	**1,439**	**1,806**	**27%**

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 slightly receded by LL 7 billion from LL 196 billion in HI 2011 to LL 189 billion in HI 2012. In this economic category, payments to hospitals increased by LL 9 billion to reach LL 159 billion in the first half of 2012, up from LL 150 billion during the same time period of 2011. Other current spending (which includes mainly compensatory payments to be made by the State following judgement issued by the State Council, reconciliation payments as well as electoral expenses) went down by LL 10 billion to reach LL 28 billion in HI 2012 compared to LL 38 billion in HI 2011. This is explained mainly by the decrease in expenses incurred by the Ministry of Health[24] from LL 10 billion in HI 2011 to nil in HI 2012.

[24] As per Decree 4946 dated 4/9/2010 which provided a LL 15 billion treasury advance to cover reconciliation costs with hospitals.

Interest Payments

Continuing with the downward trend witnessed throughout 2011 and onwards, **total interest payments** for the first half of the year equaled to LL 2,737 billion, nearly 5 percent below the amount paid in the first half of 2011. Those LL 130 billion savings in interest costs in HI 2012, stem from LL 75 billion lower interest payments on domestic currency debt and LL 55 billion less interest payments on FX debt.

Interest payments on local currency debt totaled LL 1,716 billion in HI 2012 four percent below the first six months payments in 2011. Of that amount, LL 48 billion are discount interests on short-term T-bills, compared to LL 51 billion in HI 2011, and LL 1,667 billion are coupons on long-term T-bonds, compared to LL 1,740 billion in HI 2011.

The 5 percent drop in **discount interest payments** (interest paid on 3, 6, & 12 months T-bills) in HI 2012 is explained by 33 bps decline in the weighted average discount interest rate. In fact the drop in the weighted average cost of short term local currency debt from 4.76% in HI 2011 to 4.43% in HI 2012, despite 37 percent higher volume of maturities in the first half of 2012[25] (short term T-bills principal maturing in HI 2012 totaled LL 2,199 billion, compared to LL 1,610 billion maturing in HI 2011), is explained by the following: of that higher volume of maturities in HI 2012, only 9% were in the 12 months category earning between 4.79% and 4.81%, whereas 34% of short-term T-bills maturing in HI 2011 were in the 12 months category earning between 4.79% and 5.63%. Therefore the lower interest cost is not only attributed to lower discount rates, but also to a change in the composition of short-term maturities away from the higher yielding 12 months tenor bills, more toward the lower cost 6 months tenor bills.

Coupon payments on long term local currency T-bonds (interest paid on 2, 3, 5 & 7 Year T-bonds) in HI 2012 decreased by 4 percent from the coupon amount paid in HI 2011, despite higher volume -of outstanding T-bonds. In fact, the number of outstanding T-bonds on which coupons were due in HI 2012 amounted to LL 5,041 billion, 3 percent higher than the LL 4,898 billion bonds outstanding in HI 2011. The drop in the interest cost is therefore largely explained by the 121 bps fall in the weighted average cost of local currency, long-term debt.

The LL 1,667 billion coupons paid in HI 2012 account for LL 58 billion of accrued interest settled in June 2012 for the early redemption of LL T-bonds in the context of an LL/FX debt Swap deal with BDL, in accordance with Law 2012[26].

[25] Note that discount interests on short term T-bills are paid at maturity.

[26] The LL 1,740 billion coupon payments in HI 2011 account for accrued interests in the amounts of LL 11.8 billion paid in Jan 2011 on the FX/LL debt swap transaction with BDL, and LL 48 billion paid in April 2011 for the early redemption of S/T T-bills, exchanged into 7 years, 7.9% T-bond. This coupon payment further account for LL 19 billion the last coupon due in March 2011 on the inaugural 5 yrs T-bond issued in March 2006 under MTN, and for the LL 59 billion, first coupon due in June 2011 on the inaugural 7 yrs 7.9% T-bond issued in December 2010, outside the Auction.

It also accounts for 3 coupon payments due on the 7 years T-bonds: (i) the first coupon payment of LL 75 billion paid in March 2012 on the 7.6% 7 years T-bond issued in September 2011, in the context of an LL T-bills/ CD's exchange transaction (ii) LL 105 billion paid in April 2012 on the 7.9% 7 years T-bond issued in April 2011 in the context of a swap transaction between maturing T-bills and 7 yrs T-bond, (iii) LL 59 billion coupon due in June 2012 on the inaugural 7 yrs T-bond issued in December 2010, outside the Auction.

In this internationally low yield environment, the extension of the domestic debt maturity profile did not pull up the average cost of borrowing. The drop in the weighted average coupon rate from 8.19% in HI 2011 to 7.20% in HI 2012, comes despite the increase in the share of the higher yield, longer maturity bonds:

a) the share of the 7 years Notes pulled from 3 percent of total outstanding T-bonds in HI 2011 to 16 percent of total outstanding T-bonds in HI 2012.

b) Investors' appetite for higher return, longer term debt instruments is also expressed through a rise in the share of the 5 years tenor bond (from 15 percent of the outstanding stock of T-bonds in HI 2011 to 23% in HI 2012) and in parallel, a drop in the share of the 3 years tenor bond (from 74 percent of the outstanding stock of T-bonds in HI 2011, to 52 percent in HI 2012.

Box 1: USD 2 billion Debt Replacement Agreement with BDL
June 12th, 2012

In the context of Article 2 of the USD 5 billion borrowing authorization (Law 212, dated March 30th 2012), an LL/FX debt replacement transaction was agreed between MOF and the Central bank. This transaction allows the Central Bank to carry more FX reserves, and the Treasury to move back the currency composition of the debt stock towards higher FX share (FX denominated debt stood at 39% of total debt stock as of end 2011, compared to an average 49 percent in the period 2002-2008). Such transactions have taken place on several occasions in the past, most recently on January 18th 2011, when the Government issued $265 million 6.100% November 2022 Note to BDL in exchange of redeemed 3 years T-bills.

On June 12th, 2012, the Government settled the LL/FX debt swap with BDL, whereby a total number of 295,656,856 T-bonds from BDL portfolio, specifically in the 36 and 60 months tenor, with a total liquidation value of LL 3,015 billion, were replaced with the issuance of three Eurobond tranches, namely (i) USD 500 million 4.10% 2015 Notes (ii) USD 700 million, 5.15% 2018 Notes and (iii) USD 800 million 6.25% 2025 Notes.

It is worth noting that this debt replacement transaction allowed the Treasury to replace high coupon LL T-bonds with an aggregate weighted average coupon rate of 6.24%, with lower coupon FX bonds with an aggregate weighted average coupon rate of 5.33%.

Interest payments on foreign currency debt amounted to LL 1,021 billion in HI 2012, of which LL 961 billion are Eurobond coupons (incl. fees & expenses), LL 58 billion are interest payments on C-loans and LL 2 billion are coupons due on special FX bonds, namely expropriation and contractors bonds.

The 5 percent drop in coupon payments on FX debt in the first six months of 2012 is explained by similarly 5 percent **lower coupon payments on Eurobonds**. This is attributed to the tightening of the spreads which the Republic has been experiencing in the last couple of years due to the fall in international interest rates on the one hand, and to sound debt management which allows the replacement of high cost debt with cheaper debt:

(a) Indeed, the outstanding stock of Eurobond with coupons falling due in HI 2011 carried high coupon Notes which came to maturity (namely the 7.875% May 2011 and 7.5% August 2011 Bonds), and were replaced by the issuance of lower coupon bonds, namely USD 650 million, 6.00% May 2019 Notes, and USD 500 million, 4.750% November 2016 Notes.

(b) In addition the voluntary debt exchange transaction executed in November 2011, further allowed the early redemption of some high coupon Notes with coupon payments otherwise falling due in HI 2012, (namely USD 600 million 7.50% March 2012 Bond, USD 600 million 7.750% September 2012 Bond and USD 536 million 5.875% April 2012 Euro denominated Bond), and their replacement with lower coupon Notes, (namely USD 500 million 5.450% November 2019 Bond, USD 752 million 6.600% November 2026 Bond and Euro 445 million 5.350% November 2018 Bond).

It is worth noting that Eurobond coupons settled in the first quarter of 2012 account for large amounts such as: (i) LL 130 billion pertaining to a USD 2.1 billion, April 2021 8.250% Bond issued in April 2006, (ii) LL 102 billion pertaining to a USD 1.5 billion, March 2017 9.00% Bond issued in March 2009 and (iii) LL 71 billion coupon pertaining to a USD 1.54 billion, October 2022 6.1% Bond issued in 4 consecutive tranches (initially in 2010, then three times reopened in 2011). Finally, is also important to mention that the outstanding stock of Eurobonds today still carries high coupon Notes such as the USD 400 million, May 2016 Bond issued in May 2001 (i.e. a 15 years tenor), earning 11.625% upon which LL 35 billion coupon payments settled on May 9th, 2012.

As for **coupon payments on C-loans**, the total amount paid in HI 2012, account for LL 25 billion of coupons on budgetary support C-loans (largely pertaining to AFD loans in the context of PII & PIII), and LL 32 billion of coupons on C-loans to CDR (from EIB, AFESD, IDB, …).

Table 20: Interest Payments

	Jan-Jun 2011	Jan-Jun 2012	%Change
Interest Payments	**2,867**	**2,737**	-4.5%
Local Currency	**1,791**	**1,716**	-4.2%
Discount interest	51	48	-5.3%
Coupon payment	1,740	1,667	-4.2%
Foreign Currency	**1,076**	**1,021**	-5.1%
Eurobond Coupon (incl. fees)	1,010	961	-4.8%
C-loans interest	64	58	-9.3%
Special Bond (exprop. & contract.)	2	2	9.2%
Memorandum Items			
Domestic Currency Principal Maturities	**11,488**	**10,101**	-12.1%
Short- term (3-6-12)	1,610	2,199	36.6%
Long term (24-36-60-84)	7,110	4,946	-30.4%
Special transactions*	2,768	2,957	6.8%
Stock outstanding L/T T-bonds on which coupon was due in HI	4,898,203,811	5,041,471,221	2.9%
Weighted average cost/Local currency			
Short- term (3-6-12)	4.76	4.43	-7.0%
Long term (24-36-60-84)	8.19	7.20	-12.1%
Foreign Currency Principal Maturities	**2,015**	**1,348**	-33.1%
Eurobonds	1,798	1,110	-86.8%
C-loans	217	237	18.8%

Source: PDD tables, MOF

***Special transactions in 2011 account for the following:**

LL 392 bn, 36 months T-bills redeemed in replacement of a USD 265 mn reop. of 2022 6.1% Notes in the context of a LL/FX debt replacement transaction with BDL on January 18th, 2011

LL 400 bn principal redemption, March 30th 2011, pertaining to inaugural 5 yrs T-bonds issued in 2006 under MTN

LL 1,976 billion of S/T maturing T-bills exchanged for 7 years, 7.9% T-bonds on Apr 21st, 2011

*** Special transaction in 2012 account for the following:**

LL 2,957 bn of 36 and 60 months T-bonds redeemed in replacement of a USD 2 bn , 3 tranches Eurobond issued on June 12th, 2012 in the context of an LL/FX debt replacement with BDL

Capital Expenditures

Capital expenditures for HI 2012 amounted to LL 319 billion, increasing by LL 5 billion (2 percent) compared to the LL 314 billion recorded in HI 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 for HI 2012 increased by 33 percent to LL 213 billion up from LL 160 billion in HI 2011. This LL 54 billion rise was the result of the following:

a) A LL 48 billion[27] increase in payments to the Displaced Fund in HI 2012 up from nil in HI 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 HI 2012[28] compared to LL 13 billion in HI 2011[29].

c) A LL 14 billion increase (24 percent) in allocations to the Ministry of Public Works and Transport from LL 59 billion in HI 2011 to LL 73 billion in HI 2012, mainly caused by the following measures:

    i) A LL 21 billion increase on investment to expand the **port of Tripoli**[30].

    ii) A LL 4 billion higher spending under the Ministry's Program Law for the construction of **Tripoli's Palais de Justice**[31].

It is noteworthy that payments to CDR slightly dropped by LL 10 billion (16 percent) from LL 65 billion in HI 2011 to LL 55 billion in HI 2012. This could be attributed to a LL 10 billion decrease in counterpart funding for foreign financed project and a LL 6 billion decrease in maintenance of **Rafic Hariri International Airport**, which was offset by an LL 8 billion increase in the construction of buildings (mainly on behalf of the Ministry of Health).

[27] 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 HI 2012.
[28] The LL 30 billion in HI 2012 was paid from the 2011 Budget Proposal.
[29] The LL13 billion in HI 2011 was paid from the 2010 Budget Proposal.
[30] As per Decree 6813 dated November 15th, 2011
[31] As per decree 6494 dated October 8th, 2011.

Table 21: Payments to CDR for Construction in Progress

LL billion	Jan-Jun 2011	Jan-Jun 2012
CDR Budget Payments [1], *of which:*	**52**	**36**
• *Counterpart funding for foreign financed projects*	46	36
• *Maintenance of Rafic Hariri International Airport*	6	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]	**13**	**19**
• *Roads*	8	7
• *Buildings*	5	13
Other	**0**	**0**
Total Payments to CDR for Construction In Progress	**65**	**55**

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.

Maintenance payments decreased by 28 percent to LL 84 billion in HI 2012 down from LL 118 billion[32] in HI 2011. This LL 33 billion drop was mainly the effect of a LL 47 billion decrease in payments to Ministry of Public Works and Transport which totaled LL 75 billion in HI 2012[33] compared to LL 103 billion in HI 2011.

Other expenditures related to fixed capital decreased by 53 percent to LL 2 billion in HI 2012 down from LL 4 billion in HI 2011, and similarly **Parliamentary equipment and maintenance** under capital expenditures dropped by LL 6 billion reaching LL 3 billion in HI 2012, down from LL 9 billion in HI 2011.

It is noteworthy that no transfers were made to IDAL for its Export Plus program in both the first halves of 2011 and 2012.

[32] Of which LL2.6 billion were for the maintenance of the Lebanese University as per Decree 3325 dated February 17th, 2010.

[33] Of which LL49 billion were paid through treasury advances as per Decree 6495 dated October 8th, 2011.

Treasury Expenditures

Treasury expenditures increased by 125 percent to LL 781 billion in HI 2012 compared to LL 347 billion in HI 2011. This LL 433 billion increase is primarily attributed to higher payment to municipalities and Value Added Tax refund payments.

Payments to municipalities increased by 241 percent to LL 512 billion in HI 2012 versus LL 150 billion in HI 2011. This LL 362 billion increase is explained by a LL 343 billion increase in payments of **revenues accruing to municipalities**, as shown in Table 22. These payments increased to LL 382 billion in HI 2012[34] from LL 39 billion in HI 2011[35] mainly because of payment timing issues.

Payments for solid waste management rose by 11 percent, hovering around LL 123 billion in HI 2012 compared to LL 110 billion in HI 2011.

Table 22: Payments to Municipalities

(LL billion)	HI 2010	HI 2011	HI 2012	%Change 2012/2011
Distribution of Revenues Accruing to Municipalities	21	39	382	883%
Payments for Solid Waste Management	130	110	123	11%
Payments to the "First Municipality Infrastructure"	0.3	0.6	6.3	909%
Other Payments	1.5	1	0.7	-30%
Total Payments to Municipalities(1)	**154**	**150**	**512**	**241%**

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 94 percent to LL 135 billion during HI 2012 from LL 70 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.

[34] Almost all of the LL382 billion revenue distributed in HI 2012 were on behalf of year 2010.
[35] Of the LL39 billion distributed in HI 2011, LL 14 billion were on behalf of 2006, LL 15 billion on behalf of 2007, LL5 billion on behalf of 2008 and LL 5 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 increased by 10 percent year-on-year, amounting to LL 2,285 billion in HI 2012 from a lower level of LL 2,074 billion in HI 2011. End-of-Service indemnities and retirement wages accounted for the highest share of social spending in HI 2012, at 39 percent, increasing from their previous level of 36 percent in HI 2011. Education spending followed with a share of 35 percent in the first half of 2012, compared to a slightly lower share of 31 percent in HI 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 16 percent of social outlays in HI 2012 –decreasing from their share of 20 percent in HI 2011.

The LL 211 billion increase in social spending recorded in 2012 is primarily explained by the combined effect of the following:

a) Spending on education increased by LL 128 billion mainly due to (1) LL 38 billion rise in salaries and wages of the General Directorate of Education and General Directorate of Technical and Vocational Education[36], (2) LL 34 billion increase in education allowances paid to the military personnel[37], (3) LL31 billion increase in transfers to school funds and (4) LL 21 billion increase in contributions to subsidized schools .

b) End-of-Service indemnities and retirement wages increased by LL 137 billion from LL 748 billion in HI 2011 to LL 885 billion in HI 2012[38]. Transfers to the Civil Servants' Cooperative increased by LL 76 billion to reach LL 121 billion in HI 2012 up from LL 45 billion in HI 2011[39].

The total increase in social spending was weakened by a drop in spending in the following categories:

a) Transfers to the NSSF decreased by LL 70 billion, from LL 120 billion in HI 2011 to LL 50 billion in HI 2012 due to the timing of payments[40].

b) Purchases of medicaments decreased by LL 53 billion, amounting to LL 26 billion in HI 2012 compared to LL 79 billion in HI 2011[41].

c) Transfers to non-profitable organizations made by the Ministry of Social Affairs dropped by LL 28 billion to LL 28 billion in HI 2012 down from LL 57 billion in HI 2011.

[36] For details kindly refer to the "Salary and Wages and Related Benefits-Article 13 Report for June 2012.
[37] For details kindly refer to the "Salary and Wages and Related Benefits-Article 13 Report for June 2012.
[38] For details kindly refer to the "current expenditures section".
[39] For details kindly refer to the "Salary and Wages and Related Benefits-Article 13 Report for June 2012.
[40] For details kindly refer to the "Current primary expenditures" section.
[41] For details kindly refer to the "Current primary expenditures" section.

Table 23: Main Social Expenditures

(LL billion)	HI 2011	HI 2012	%Change 2012/2011
Health	**420**	**374**	**-11%**
• Hospitalization in the Private Sector	150	159	6%
• Purchase of Medication	79	26	-67%
• Hospitalization of Public Sector Employees in Private Sector	114	118	3%
• Maternity and Sickness Allowance	27	30	13%
• Other	50	40	-20%
Education	**648**	**776**	**20%**
• Ministry of Education and Higher Education, *of which*:	538	632	170%
- *Wages and Salaries of the General Directorate of Education*	*328*	*361*	*10%*
- *Wages and Salaries of the General Directorate of Higher*	*0*	*0*	*-27%*
- *Wages and Salaries of the General Directorate of Technical Education*	*16*	*21*	*33%*
- *Transfers to the Lebanese University*	*134*	*139*	*3%*
- *Contributions to Non Profitable Organizations (Private*	*31*	*52*	*70%*
- *Construction under Execution (Construction of Schools)*	*0*	*0*	-
• Education Allowance in Private Sector	110	144	31%
Other Social Spending	**1,003**	**1,120**	**12%**
• Marriage Allowance	4	4	2%
• Birth Allowance	2	3	48%
• Death Allowance	2	3	70%
• Other Social Spending Allowance	4	5	39%
• Participation in Several Mutual Funds	15	16	5%
• Ministry of Social Affairs, *of which*:	61	31	-50%
- *Transfers to Non-Profit Organizations*	*57*	*28*	*-50%*
• Ministry of the Displaced	3	3	19%
• Transfers to Civil Servants Cooperative	45	121	169%
• End-of-Service Indemnities and Retirement Wages	748	885	18%
• Transfers to the National Social Security Fund	120	50	-58%
Unclassified allowances	**0**	**0**	**-**
Total Social Expenditures	**2,071**	**2,270**	**10%**

Source: MOF, DGF

Section IV: Public Debt Developments

Public Debt: General Facts

Gross public debt amounted to LL 83,363 billion (US$ 55.3 billion) by the end of the first half of 2012, up by LL 2,476 billion or 3.1 percent from the end-December 2011 level. This rise resulted from a LL 3,308 billion increase in foreign currency debt that offset the LL 832 billion drop in the stock of domestic currency debt.

In parallel, public sector deposits increased by LL 1,290 billion (11.7 percent) over HI 2012, leading to an increase in public net debt[42] by LL 1,186 billion or 1.7 percent between December 2011 and June 2012, amounting to LL 71,089 billion (US$ 47.16 billion).

Table 24: Public Debt Outstanding as of end-June 2012

(LL billion)	Dec-10	Dec-11	Jun-12	Change Jun 12-Dec 11	% Change Jun 12-Dec 11
Gross Public Debt(1)	*79,298*	*80,887*	*83,363*	*2,476*	*3.06%*
Net Debt	*67,879*	*69,903*	*71,089*	*1,186*	*1.70%*
Gross Market Debt(2)	*51,308*	*50,192*	*53,676*	*3,484*	*6.94%*

Source: Ministry of Finance, Banque du Liban

(1) Figures for June 2012 differ from previously published data by LL 50 billion reflecting an update of disbursement figures for bilateral and multilateral debt 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.

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

Domestic Debt

Local currency debt registered a LL 832 billion reduction, standing at LL 48,508 billion compared to end-December 2011. Similarly, the share of local currency debt to total debt decreased to 58 percent in June 2012, compared to 61 percent in end of year 2011 (including accrued interest). This three percentage point decrease is mainly attributed to a "Debt Replacement Agreement" conducted on June 12, 2012 (for details on this transaction, kindly refer to Box 2 below) in addition to a USD 950 million Eurobond dual-tranche transaction in April 2012.

Analysis of local currency debt by holder

By holder, commercial banks remained the largest holders of local currency debt with 51.2 percent of holdings by end-June 2012, slightly higher than the 51.0 percent share of holdings recorded in end-December 2011. This is despite a LL 340 billion (1.4 percent) drop in their portfolio of Treasury Bills and Bonds which was compensated by a steeper decrease (1.7 percent) in local currency debt. The drop in bank holdings is mainly the result of a LL 47 billion accumulated deficit in the weekly TB auction of HI 2012.

Similarly, Banque du Liban's holdings of local currency debt decreased by LL 805 billion by the end of HI 2012, accounting for a 32.1 percent share of local currency debt, down from 33.2 percent at the end of December 2011. This is partly due to the Debt Replacement Agreement conducted with the Ministry of Finance.

Holdings of local currency debt by "other" holders increased by LL 310 billion since the end of 2011 and noted a 0.9 percent increase in their share of holdings of the Treasury bills and bonds portfolio which stood at 16.7 percent. In this category, public institutions' holdings of TBs were LL 279 billion (or 4.3 percent) higher, and saw their share of local currency debt increase by 0.8 percent to reach 14.1 percent.

Historically, the largest subscribers of TBs are commercial banks. Capturing 68 percent of subscriptions in QII 2012, commercial banks demonstrated higher appetite for TBs compared to QI 2012 at 43 percent of subscriptions. The central bank in contrast had a lower share of subscriptions in QII 2012 with 14 percent of accepted offers, compared to 40 percent in QI 2012. The share of subscriptions of public institutions remained relatively constant for the same time period, at around 15 percent. On a cumulative level, in HI 2012 commercial banks captured 55 percent of subscriptions, followed by Banque du Liban with 28 percent of subscriptions, and then public institutions with 15 percent. This reflects a marked change from subscription rates during HI 2011 during which the central bank subscribed to 59 percent, followed by public institutions and commercial banks subscribing respectively to 23 percent and 17 percent of accepted offers.

Analysis of local currency debt by instrument

By instrument, the stock of long-term bonds decreased by LL 649 billion (1.4 percent) to LL 45,863 billion by the end-June 2012 compared to the end-December 2011 level. Similarly, the portfolio of short-term treasury bills receded by LL 144 billion (5.6 percent), to LL 2,439 billion from LL 2,583 billion by end-2011.

The drop in long-term Treasury bonds is largely attributable to a LL 1,604 billion decrease in 3YR bonds in part due to the Debt Replacement transaction during the first half of 2012, (*for details on this transaction, kindly refer to Box 2 below*), slightly offset by a LL 521 billion increase (4.4 percent) in 5YR bonds and a LL 499 billion (12.6 percent) in 2YR bonds. Although 3YR Treasury bonds saw the most exacerbated decline, they are the largest TB instrument category with a 42.3 percent share of TB's. Despite the Replacement Agreement, the stock of 5YR Bonds increased, reflecting an accumulated surplus of LL 2,823 billion and obtained the second largest share of accepted offers in the auctions (30 percent) in HI 2012.

The stock of 6MN bills witnessed the largest drop among short-term TB's, with a LL 612 billion (39 percent) decrease by the end of June 2012 from LL 1,569 billion by the end of 2011. This was partially offset by a LL 389 billion increase in 12MN instruments, followed by a LL 79 billion increase in 3MN bills.

Box 2: Debt Replacement Agreement

June 2012

On June 12, 2012 Banque du Liban agreed with the Republic of Lebanon on a Debt Replacement transaction [1]. The Republic of Lebanon issued a triple-tranche Eurobonds transaction for a total value of USD 2 billion dollars, while BDL redeemed the counterpart value from its LL Treasury Portfolio, detailed as follows:

a) Three series of Eurobonds of USD 500, USD 700 and USD 800 million in value were issued with a respective maturity of 3, 6 and 11 years. Their weighted average coupon payment was estimated at 5.33 percent
b) From the redeemed LL TB, 80 percent were held in 5YR bonds while the remaining 20 percent going to 3YR bonds. The Treasury Bills Portfolio had a higher weighted average cost of 6.24 percent

By combining several factors, among them bond maturities and refinancing risks, MoF reduced its borrowing costs. Net debt remained unchanged as a result of this transaction.

Terms and conditions of the Agreement

Series	64	65	66
Issue Size (in USD)	500,000,000	700,000,000	800,000,000
Issue Date	June 12, 2012	June 13, 2012	June 14, 2012
Maturity	June 12, 2015	June 12, 2018	June 12, 2025
Coupon Rate	4.10%	5.15%	6.25%
Coupon Payment	Semi-Annual	Semi-Annual	Semi-Annual
Principal Payment	Bullet Payment at Maturity	Bullet Payment at Maturity	Bullet Payment at Maturity
Issue Price Re-offer Yield	100%	100%	100%
ISIN Code	XS0793155754	XS0793155838	XS0793155911
Lead Manager	Republic of Lebanon		

Source: BDL, MoF

For more information please refer to the online note "Triple tranche: 4.10% USD notes due 2015, 5.15% notes due 2018, and 6.25% notes due 2025, in Debt Replacement Agreement with BDL, Issued 12 June 2012" on the MoF's website

[1] *The Debt Replacement Agreement is authorized under Article 2 of Law Number 212 dated March 30, 2012.*

The majority of subscriptions during the QII 2012 auctions were in long-term instruments (2YR, 3YR and 5YR Treasury bonds) with a share of 80 percent of subscriptions compared to almost 76 percent in QI 2012. On a cumulative level, long-term instruments accounted to 78 percent of subscriptions during the H1 2012 compared to 82 percent in the H1 2011. On the other hand, the share of short-term instruments decreased from 24 percent in QI 2012 to 20 percent during the QII 2012.

On an instrument level, 3YR bonds accounted for the highest share of total subscriptions in QII 2012 as in QI 2012, with a 38 and 32 percent share respectively. In second place, 5YR bonds captured 30 percent of subscriptions in both QI and QII 2012. The share of 2YR bonds decreased from 14 percent in QI 2012 to 11 percent in

QII 2012. Six-month Treasury bills remained in fourth place with a lower share of subscriptions at 9 percent in QII 2012 down from 11 percent in QI 2012.

During the first 6 months of 2012, 3YR bonds held 35 percent of subscriptions followed by 5YR bonds with 30 percent, 2YR bonds with 13 percent, 6MN bills with 10 percent, 3MN and 12 MN bills with 6 percent. In the first half of 2011, 3YR bonds captured 35 percent of subscriptions, followed by 5YR bonds with 29 percent, 2YR bonds with 19 percent, 6MN bonds with 11 percent, 3MN bills with 4 percent and 12MN bills with 3 percent.

The share of long term domestic currency debt reached 94.6 percent by end-June 2012, from 94.3 percent six 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 5.0 percent by the end of QII 2012. Despite the decline in their stock, 3YR bonds still accounted for the highest share of LL debt by the end of June 2012, at 42.3 percent down from 44.9 percent by the end of 2011. Five-year bonds followed with a share of 25.4 percent compared to 23.9 percent by the end of 2011. The share of 2YR bonds increased from 8.1 to 9.2 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 16.3 percent in QII 2012.

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

Stocks (end of period)	Dec-09	Dec-10	Dec-11	Jun-12	Change Dec 11 - Jun 12	% Change Dec 11 - Jun 12
Local currency debt	44,973	48,255	49,340	48,508	-832	-1.69%
A. By Holder						
1. Central Bank (including REPOs and Loans to EDL to finance fuel purchases)[1]	10,334	13,130	16,374	15,569	-805	-4.92%
2. Commercial Banks	27,286	27,214	25,177	24,840	-337	-1.34%
3. Other local debt (T-bills)	7,353	7,911	7,789	8,099	310	3.98%
o/w Public entities	*6,078*	*6,268*	*6,538*	*6,817*	279	4.27%
o/w Contractors[2]	*0*	*0*	*41*	*100*	59	143.90%
**Accrued interest included in debt*	*999*	*867*	*788*	*730*	-58	-7.36%
B. By Instrument						
1. Long term bonds	40,842	43,805	46,512	45,863	-649	-1.40%
1.1 7-year bonds	0	1,500	7,885	7,885	0	-
1.2 5-year bonds	5,036	7,310	11,779	12,300	521	4.42%
o/w Contractors[2]	0	0	41	100	59	143.90%
1.3 4.5-year bonds	0	0	0	0	0	-
1.4 4-year bonds	0	0	0	0	0	-
1.5 3-year bonds	31,908	30,782	22,129	20,525	-1,604	-7.25%
1.6 2.5-year bonds	0	0	0	0	0	-
1.7 2-year bonds	2,989	3,398	3,972	4,471	499	12.56%
1.8 Coupon interest	909	815	747	682	-65	-8.70%
2. Short term bills	3,735	4,155	2,583	2,439	-144	-5.57%
2.1 12-month bills	2,073	1,969	887	1,276	389	43.86%
2.2 6-month bills	1,510	2,111	1,569	957	-612	-39.01%
2.3 3-month bills	152	75	127	206	79	62.20%
** Accrued interest included*	90	52	41	48	7	17.07%
3. Other local debt	396	295	245	206	-39	-15.92%
3.1 Central Bank Loans	291	218	139	97	-42	-30.22%
3.2 Commercial Banks Loans	105	77	106	109	3	2.83%

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.

[2] 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 rates

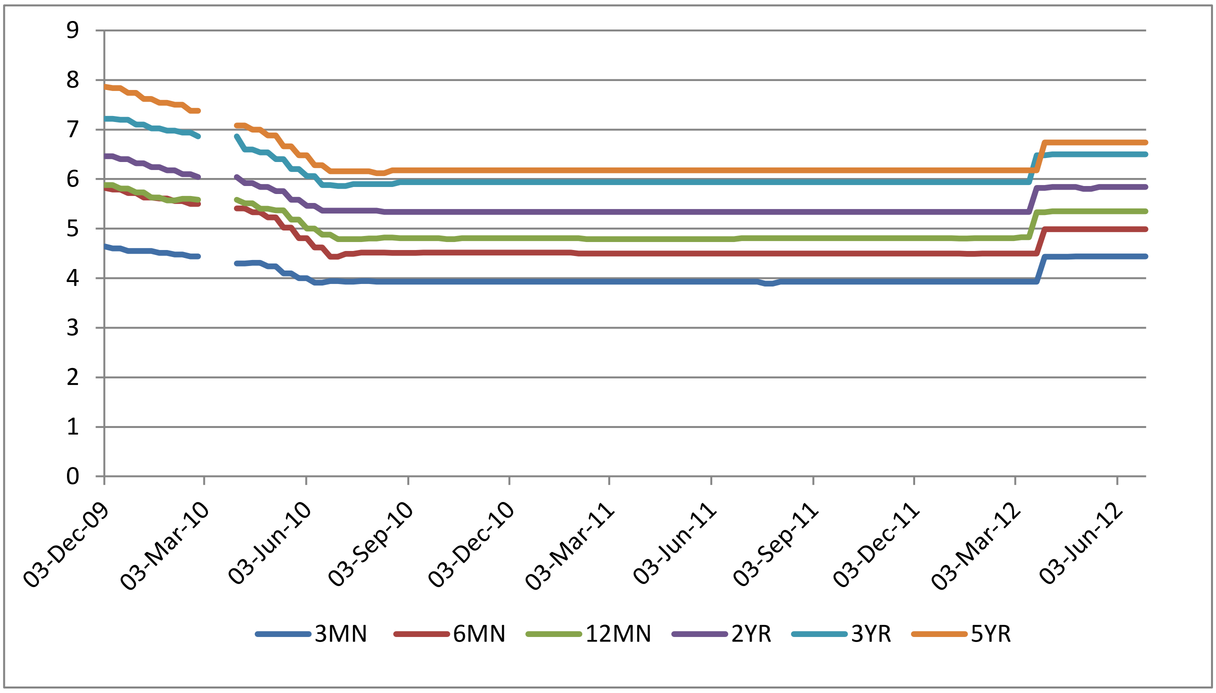
After a stable interest rate climate on issued Treasury bills and bonds for much of 2010 and 2011, rates increased by an average of 52 basis points across the curve by the end of March 2012, compared with end-2011 levels. Five-year bonds reflected the largest change with a 56 bps increase and 3 YR bonds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

Table 26: Evolution of Primary Market Rates

Maturity [(1)]	Dec. 31, 2008 [(3)]	Dec. 31, 2009	Dec. 31, 2010	Dec. 31st, 2011	Jun. 30, 2012
3-month	5.10 percent	4.55 percent	3.93 percent	3.93 percent	4.44 percent
6-month	7.11 percent	5.72 percent	4.52 percent	4.50 percent	4.99 percent
12-month	7.57 percent	5.73 percent	4.81 percent	4.81 percent	5.35 percent
2-year	8.22 percent	6.32 percent	5.34 percent	5.34 percent	5.84 percent
3-year	8.98 percent	7.10 percent	5.94 percent	5.94 percent	6.50 percent
5-year [(2)]	N/A	7.74 percent	6.18 percent	6.18 percent	6.74 percent

Source: Ministry of Finance
(1) 7-year Treasury bonds were introduced in December 2010 under the LBP Medium-Term Note Program with a coupon of 7.90 percent. 7-year bonds were also issued as part of a special scheme in March 2011 and April 2011 with a coupon of 7.90 percent. These bonds do not feature in this table, as they were not issued in the regular auction process.
(2) 5-year Treasury bonds started being issued as part of the Treasury Bill Auction Process as of the week of July 20 2009 (value date 23 July 2009).
(3) Reflects rate of the auction the week of 29 December 2008, value date 1 January 2009.

Figure 2: TB Yield by Instrument January 2011–June 2012



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

Foreign Currency Debt

Foreign currency debt rose during the first half of 2012, increasing by LL 3,308 billion or 10.5 percent to reach LL 34,855 billion by end-June 2012 versus LL 31,547 billion by the end of 2011. This is mainly the result of two debt transactions that took place respectively in April and June; the first one consisted of a market-issuance of US$ 950 million (for more details, refer to Box 3 below), while the second transaction implied a US$ 2 billion issuance in the context of a "Debt Replacement Agreement" between the Ministry of Finance and Banque du Liban, as detailed in Box 2.

Table 27: Foreign Currency Debt by Holder and Instrument as of end-June 2012

(in LL billion)	Dec-10	Dec-11	Jun-12	Change	% Change Year-to-date
B. Foreign currency debt[1]	**31,043**	**31,547**	**34,855**	**3,308**	**10.49%**
4. Eurobonds	**26,738**	**27,490**	**30,824**	**3,334**	**12.13%**
Of which, Paris II at preferential rates[2]	3,677	3,161	2,903	-258	-8.15%
Of which, Paris III at preferential rates[3]	709	663	490	-173	-26.14%
Of which, market-issued Eurobonds	21,870	23,258	27,007	3,748	16.12%
** Accrued Interest on Eurobonds*	*483*	*407*	*424*	*17*	*4.18%*
5. Loans	**4,231**	**3,977**	**3,925**	**-52**	**-1.31%**
5.1 Paris II loans	460	351	303	-48	-13.68%
5.2 Paris III loans[4]	1,147	1,060	974	-86	-8.11%
5.3 Bilateral loans (non-Paris II and III)	723	766	823	56	7.37%
5.4 Multilateral loans (non-Paris II and III)	1,877	1,781	1,808	26	1.49%
5.5 Foreign Private Sector Loans	24	18	17	-1	-5.56%
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 June 2012 differ from previously published data by LL 50 billion reflecting an update of disbursement figures for bilateral and multilateral debt in the Debt Management and Financial Analysis System (DMFAS).

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

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

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

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

The increase in foreign currency debt was largely due to a LL 3,334 billion or 12.1 percent increase in the **Eurobond portfolio** to reach LL 30,824 billion by the end of June 2012, up from LL 27,490 billion by the end of December 2011. The hike in the value of the Eurobond portfolio was largely due to two issuances of US$ 950 million and US$ 2 billion that took place in April and June, respectively, that largely counterbalanced the repayment of US$ 293 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). These two debt transactions have substantially boosted the stock of market-issued Eurobonds, by LL 3,748 billion (16.1 percent), to reach LL 27,007 billion as of end-June 2012, from a lower LL 23,258 billion by the end of December 2011.

In return, Paris III related Eurobonds receded by LL 173 billion equivalent to 26.1 percent, to LL 490 billion by the end of June 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[43]: (i) US$ 15 million 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.

In parallel, Eurobonds issued in the context of Paris II also decreased, declining by LL 258 billion equivalent to 8.2 percent, to LL 2,903 billion by the end of June 2012 from LL 3,161 billion by the end of 2011. This drop is explained by the following principal repayments throughout the first half of the year: (i) US$ 35 million in March 2012 on Paris II March 2018 Eurobond originally issued at US$ 700 million; (ii) US$ 10 million in May 2012 on Paris II 5.00 percent May 2018 Eurobond originally issued at US$ 200 million; (iii) USD 93.5 million in June 2012 on Paris II 4.00 percent December 2017 Eurobond originally issued at US$ 1,870 million; and (iv) US$ 32.5 million in June 2012 on Paris II 5.00 percent due December 2017 originally issued at US$ 950 million.

The hike in the Eurobond portfolio largely outweighed the decline in **foreign currency loans**. Concessional loans decreased by 1.6 percent to LL 3,925 billion by end-June 2012 from a higher level of LL 3,977 billion at end-2011, driven by the repayment of Paris II and Paris III loans.

a) The stock of Paris III loans dropped by LL 86 billion equivalent to 8.1 percent, to reach LL 974 billion by the end of June 2012, down from LL 1,060 billion six months earlier. This decline is primarily due to (i) the quarterly principal repayments in January and April 2012 of the equivalent of SDR 6.3 million each on the IMF EPCA I loan; (ii) the quarterly principal repayments in February and May 2012 of the equivalent of SDR 3.2 million each on the IMF EPCA II loan[44]; (iii) US$ 15 million principal repayment to the UAE Paris III loan; and (iv) the third principal repayment of the Arab Monetary Fund (AMF) loan redeemed in June 2012 with a value of AAD 1.365 million.

b) In parallel, the stock of Paris II loans declined by LL 48 billion, equivalent to 13.7 percent, amounting to LL 303 billion by the end of the first half of 2012, down from LL 351 billion six months earlier. This drop reflects the redemption

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

[44] 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.

of € 20 million of the *Agence Française de Développement (AFD)* Paris II loan in February 2012.

c) The stock of foreign private sector loans declined by LL 1 billion equivalent to 5.6 percent, to LL 17 billion by the end of June 2012.

d) In return, the stock of non-Paris II and Paris III multilateral loans increased by LL 26 billion equivalent to 1.5 percent, amounting to LL 1,808 billion by the end of June 2012 compared to LL 1,781 billion by the end of 2011. Barring valuation adjustments, this increase occurred despite the following principal repayments: (i) LL 38 billion to the the International Bank for Reconstruction and Development (IBRD), (ii) LL 24 billion to the European Investment Bank, (iii) LL 21 billion to the Islamic Development Bank, (iv) LL 20 billion to the Arab Fund for Economic and Social Development (AFESD), (v) LL 2 billion to the Organization of Petroleum Exporting Countries (OPEC) and (vi) LL 1 billion to the International Fund for Agricultural Development (IFAD). The impact of these principal repayments were in fact counterbalanced by the disbursement of:

  i. LL 35 billion from ten AFESD loans
  ii. LL 21 billion from twelve loans granted by the Islamic Development Bank
  iii. LL 14 billion from two European Investment Bank loans
  iv. LL 8 billion from four IBRD loans
  v. LL 3 billion from two OPEC loans

e) The stock of non-Paris II and Paris III bilateral loans rose by LL 56 billion equivalent to 7.37 percent to LL 823 billion by end-June 2012 compared to LL 766 billion by the end of 2011. This rise was recorded despite principal repayments worth LL 8 billion to the Saudi Fund for Development, LL 6 billion to the Japan Bank for International Cooperation and LL 4 billion to *Agence Française de Développement*. In addition to a valuation adjustment impact, itt is mainly explained by the disbursement of:

  i. LL 21 billion from one loan provided by Japan's Overseas Economic Cooperation Fund
  ii. LL 14 billion from seven loans granted by the Kuwait Fund for Arab Economic Development

iii. LL 11 billion from three loans granted by the *Agence Française de Développement*

iv. LL 6 billion from seven loans provided by the Saudi Fund for Development

v. LL 2 billion from two loans granted by the Abu Dhabi Fund

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 half of 2012, to reach LL 106 billion at end-June, compared to LL 80 billion six 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).

Box 3: Dual-Tranche Eurobond Transaction

As part of the Ministry of Finance's objective to conduct proactive debt management operations, the Lebanese Republic issued, on April 12th, 2012 a US$ 950 million dual-tranche offering. The transaction was almost three times oversubscribed and reflected strong and quality demand from both local and international investors. International orders accounted for 33 percent of the total issued amount.

The first series consisted of a US$ 600 million 5.000 percent coupon Eurobond due October 2017 (Series 63). This tranche was almost two times oversubscribed with international orders allocated 20 percent of subscriptions of the issued amount.

The second series was a US$ 350 million re-opening of the 6.600 percent coupon Eurobond due November 2026 (Series 61, Tranche 3) with a yield of 6.375 percent. The order book on this tranche was more than four times oversubscribed. International orders accounted for 57 percent of subscriptions on this tranche.

The proceeds of the issue were utilized for refinancing operations. It marks the first tap of international capital markets for the Lebanese Republic in 2012, with the last transaction being the ~US$ 1.47 billion voluntary exchange offer conducted in November 2011.

The transaction that settled on April 12th, 2012 was jointly managed by Byblos Bank and Bank of America Merrill Lynch.

Terms and conditions of the Issuance

Series (tranche)	Issue size (in USD)	Issue date	Maturity	Coupon rate	Coupon payment	Yield
63	600,000,000	April 12th, 2012	October 12th, 2017	5.000%	Semi-Annual	5.000%
61 (3)	350,000,000	April 12th, 2012	November 12th, 2017	6.600%	Semi-Annual	6.375%
Total US$	**US$ 950,000,000**					

Table 28: Lebanon Secondary Market Yields

	Bid Yield (%)					
Lebanese Issues	30-Mar 12	18-Apr 12	9-May 12	23-May 12	7-Jun 12	29-Jun 12
EURO						
LEB 5.350 18	5.28	5.24	5.21	5.30	5.44	5.25
US Dollars						
LEB 9.125 13	2.61	2.85	3.55	3.82	3.98	3.70
LEB 8.625 13	2.81	2.81	3.48	3.82	4.08	3.80
LEB 7.375 14	3.51	3.52	3.53	3.88	4.23	4.41
LEB 9.000 14	3.47	3.48	3.68	4.09	4.13	4.52
LEB 5.875 15	4.00	4.09	4.05	4.15	4.20	4.60
LEB 4.000 17 Av Life	4.10	4.22	4.20	4.30	4.36	4.31
LIEB 10.000 15	3.88	3.92	4.01	4.04	4.20	4.35
LEB 8.500 15	4.13	4.11	4.15	4.42	4.34	4.63
LEB 8.500 16	4.38	4.40	4.41	4.58	4.58	4.77
LEB 11.625 16	4.42	4.48	4.44	4.56	4.70	4.73
LEB 4.750 16	4.63	4.69	4.73	4.91	4.88	5.01
LEB 5.000 17	5.00	5.05	4.92	5.13	5.09	5.22
LEB 9.000 17	4.72	4.82	4.82	5.03	4.96	5.13
LEB 5.150 18	5.13	5.12	5.14	5.26	5.34	5.43
LEB 6.000 19	5.28	5.31	5.27	5.43	5.47	5.51
LEB 5.450 19	5.37	5.41	5.40	5.47	5.49	5.62
LEB 6.375 20	5.45	5.44	5.40	5.53	5.57	5.76
LEB 8.250 21	5.58	5.64	5.54	5.73	5.68	5.92
LEB 6.100 22	5.83	5.84	5.81	5.99	5.98	6.10
LEB 7.000 24	6.08	6.08	6.05	6.24	6.24	6.32
LEB 6.600 26	6.33	6.36	6.26	6.41	6.41	6.45

Source: Credit Suisse

Following their decline by an average of 29 bps in QI 2012, **secondary market yields** were an average of 46 bps higher by the end of QII 2012[45] . This increase in yields is contrary to the general downward trend in yields that was observed since QII 2011.

[45] Calculated on USD Eurobonds between March 31st, 2012 and June 29th, 2012.