



LEBANON COUNTRY PROFILE 2008¹

General Background

Area and Population

The Republic is situated in the Levant on the eastern most part of the Mediterranean Sea. The Republic's Mediterranean shoreline extends 192 kilometers from north to south; its greatest width from west to east is 85 kilometers. The total area of the Republic is 10,452 square kilometers.

The Republic is a mountainous country with over half its area lying above 1,000 meters. There are two parallel ranges of mountains running north to south: the Mount-Lebanon Range, hugging the Mediterranean coast, reaches an altitude of 3,088 meters and the Anti-Lebanon Range, reaching an altitude of 2,814 meters, runs along the eastern border. The fertile Bekaa valley lies between these two mountain ranges. The two main rivers, the Asi (Orontes) and the Litani, flow out of this valley.

The climate of the Republic is alpine in the mountains and Mediterranean along the coast. All four seasons are equally distributed throughout the year. The rain in winter can be torrential and snow falls on mountains above 1,000 meters. There is high humidity in the coastal regions with hot, rainless summers.

The historic and cultural heritage of Lebanon dates back over six thousand years to the Phoenicians and the subsequent civilizations that were established in or interacted with the Lebanese. Throughout its history Lebanon has been a contact center between various cultures and civilizations, which has in the past rendered the Republic a highly cosmopolitan country with a great deal of tourism.

According to "The National Survey of Household Living Conditions 2004" survey dated July 7, 2005 (the "Multipurpose Survey") conducted by the CAS, the Ministry of Social Affairs and the UNDP, the number of Lebanon's permanent residents was estimated in 2004 at 3,755,034, 93.40 percent of whom were Lebanese. This figure does not include temporary residents such as migrant workers and those residing in the Palestinian camps.

The following table shows the breakdown of population by age in 2004.

Population by Age

| | Total |
|-------------------|------------------|
| | <i>(percent)</i> |
| Under 20 | 37.2 |
| 20–59 | 51.9 |
| 60 and over | 10.8 |

Source: 2004–2005 Multipurpose Survey (CAS, Ministry of Social Affairs and UNDP).

¹ As published in Base Prospectus dated 17th April 2008.

The population is composed of Christians, Muslims and minorities, and is Arabic speaking, with French and English being widely used. In the period 1975–1993, a decline in population of about 300,000 occurred, as a result of relocations mainly to North and South America, Europe, Africa, Australia and the Arabian Gulf States.

The main cities are Beirut, the capital, Tripoli, Sidon, Jounieh, Zahle and Tyre. The Multipurpose Survey shows that approximately 50.4 percent of the population lives in Lebanon's middle regions consisting of Beirut and Mount Lebanon.

TABLE OF SELECTED LEBANESE ECONOMIC INDICATORS

Set forth below is a summary of certain information contained elsewhere in this Base Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere, or incorporated by reference in, this Base Prospectus.

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|----------------------|---------|---------|---------|---------|
| The Economy⁽¹⁾ | | | | | |
| GDP ⁽²⁾ (at current market prices in LL billions) | 29,851 | 32,359 | 32,499 | 34,309 | 37,144 |
| GDP ⁽³⁾ (at current market prices U.S.\$ millions) | 19,795 | 21,465 | 21,558 | 22,759 | 24,640 |
| Real Growth Rate (percent) ⁽⁴⁾ | 4.1 | 7.4 | 1.1 | 0.0 | 4.0 |
| Balance of Payments (U.S.\$ millions)⁽¹⁾⁽⁵⁾ | | | | | |
| Current account | (4,930) | (4,080) | (2,279) | (50) | (86) |
| Capital and Financial account | 4,957 | 6,980 | 6,429 | 4,730 | 9,072 |
| Net Change in Foreign Assets ⁽⁶⁾ | 3,386 ⁽⁶⁾ | 169 | 747 | 2,795 | 2,037 |
| Reserves (U.S.\$ millions)⁽¹⁾ | | | | | |
| Gross Foreign currency reserves | 10,197 | 9,494 | 9,845 | 10,207 | 9,778 |
| Gold ⁽⁷⁾ | 3,834 | 4,006 | 4,736 | 5,807 | 7,640 |
| Gold (thousands of Troy Ounces) | 9,222 | 9,222 | 9,222 | 9,222 | 9,222 |
| Public Finance (LL billions)⁽¹⁾ | | | | | |
| Government Revenues | 6,654 | 7,514 | 7,405 | 7,316 | 8,749 |
| Government Expenditures ⁽⁸⁾ | 10,592 | 10,540 | 10,203 | 11,879 | 12,587 |
| Government Overall Deficit | (3,938) | (3,026) | (2,798) | (4,564) | (3,838) |
| Primary Deficit/Surplus ⁽⁹⁾ | 936 | 995 | 736 | (7) | 1,102 |
| Public Debt⁽¹⁾ | | | | | |
| Net Domestic Public Debt (LL billions) | 23,824 | 22,011 | 23,551 | 25,760 | 26,846 |
| Public External Debt (U.S.\$ millions) ⁽¹⁰⁾ | 15,550 | 18,360 | 19,134 | 20,330 | 21,221 |
| Gross Public Debt as a percent of GDP | 168 | 167 | 178 | 177 | 171 |

Notes:

- (1) Certain figures in this table differ from previously published data.
- (2) The GDP figures included in this table are based on the following: the 2002–2005 figures are from the national accounts data published by the National Accounts Committee; and the 2006–2007 GDP figures are based on BDL and IMF estimates.
- (3) Translated at period average exchange rates.
- (4) The real growth figures for 2006 and 2007 are estimates. Preliminary estimates for 2006 showed a real growth rate of negative 5.0 percent for 2006, which was subsequently revised upward to 0 percent.
- (5) The basis for calculation of BOP figures have changed according to the IMF BPM5 manual. See “*Risk Factors—Risks Relating to the Republic—Accuracy of Financial and Statistical Information*”. Therefore, figures may differ from previously published data. The 2007 figures are for the period from January 1, 2007 through September 30, 2007.
- (6) The 2006 and 2007 figures include proceeds from loans and bonds issued in connection with the Paris II Conference and deposits from Saudi Arabia and Kuwait following the July 2006 War.
- (7) Parliament passed Law № 42/86, dated September 24, 1986, forbidding dispositions of gold reserves without parliamentary legislation.
- (8) Not including expenditures by the Council for Development and Reconstruction financed with foreign funds or donor funding for the High Relief Council. See “*Public Finance—Operations of the Government*”.
- (9) Surplus or deficit, excluding domestic and external debt service.
- (10) Calculated at end-of-period exchange rates, commencing in 2003.

History

Overview

From 1516 to 1918, Lebanon was under the administrative rule and political sovereignty of the Ottoman Empire. In 1920, the territory defined by the present-day boundaries became a state called “Grand-Liban” (Greater Lebanon) by decree of General Gouraud, head of the French troops in the Levant. The state remained under French Mandate until November 26, 1941. A constitution was adopted on May 25, 1926 establishing a democratic republic with a parliamentary system of government. Effective political independence of the Republic occurred on November 22, 1943. In 1945, Lebanon became a founding member of the League of Arab States, then of the United Nations. Departure of the foreign troops then on the Republic’s territory was completed on December 31, 1946.

Over the next 30 years, Lebanon became a melting pot with a diverse cultural heritage. The instability in surrounding countries caused Lebanon to experience large waves of immigration from neighboring countries and attracted thousands of skilled laborers, entrepreneurs and intellectuals. The economic force of the Republic has mainly revolved around its entrepreneurs. In addition, Lebanon’s democratic traditions, its attachment to freedom of speech and expression and its educated population enabled the Republic to become the cultural, academic and medical center of the region.

A combination of internal and external factors led to the outbreak of conflict in 1975. The regional instability and conflicting relations between neighboring countries contributed to the destabilization of the domestic political and economic situation. Successive rounds of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982. The period of conflict witnessed a significant reduction of Government authority, large losses in human lives, substantial physical and infrastructure damage and a considerable emigration of skilled labor from the country.

In the aftermath of the Taif Accords signed in Saudi Arabia in 1989, military hostilities effectively came to an end in October 1990. President Elias Hrawi assumed office with Dr. Salim Al Hoss as Prime Minister. In 1992, Mr. Rafik Hariri was appointed Prime Minister and the first parliamentary elections in 20 years were held. In 1995, President Hrawi’s term of office was extended for an additional three year period, after a constitutional amendment.

In October 1998, General Emile Lahoud was elected President and appointed Dr. Salim Al Hoss as Prime Minister. In his inaugural speech before Parliament, President Lahoud emphasized the preeminence of the rule of law, the strengthening of governmental institutions, the requirement for transparency and accountability in the conduct of public affairs and the promotion of social justice and equality.

In October 2000, Mr. Hariri was appointed Prime Minister by President Lahoud after parliamentary elections in August and September 2000. On April 16, 2003, Mr. Hariri resigned and was reappointed Prime Minister on April 17, 2003.

On August 28, 2004, the Council of Ministers adopted a resolution to submit to Parliament a draft law extending the term of the office of Emile Lahoud, the President of the Republic.

On September 2, 2004, the United Nations adopted Resolution 1559, which was co-sponsored by the United States and France. Among other matters, this Resolution declared support for a free and fair electoral process in the Republic without foreign interference or influence, for the restoration of the territorial integrity, full sovereignty and political independence of the Republic, the withdrawal of foreign troops from the territory of the Republic and the disarming of Lebanese and non-Lebanese militia. The Resolution further provided for the Secretary-General to report to the Security Council within 30 days on its implementation by the parties. On October 1, 2004, the Secretary-General submitted his report to the Security Council, which concluded that the requirements imposed on the various parties pursuant to Resolution 1559 had not been met.

On September 3, 2004, President Lahoud’s term of office was extended by Parliament for an additional three-year period, pursuant to a constitutional amendment, amid domestic and international objections. On October 26, 2004, President Lahoud appointed Mr. Omar Karami as Prime Minister.

In October 2004, an assassination attempt against Mr. Marwan Hamade, the current Minister of Telecommunications, and an ally of former Prime Minister Mr. Rafik Hariri and Mr. Walid Jumblatt, was

carried out. This was followed by a series of assassinations or assassination attempts of political figures and journalists, culminating in the assassination of Mr. Rafik Hariri described below, and including an assassination attempt on Mr. Elias Murr, the current Deputy Prime Minister.

On February 14, 2005, the former Prime Minister, Mr. Rafik Hariri, together with a number of his bodyguards and assistants, was assassinated in Beirut. The terrorist act resulted in the death of 20 persons, including Dr. Basil Fuleihan, the former Minister of Economy and Trade and a member of Parliament, and the injury of numerous others. Between 1992 and 2004, Mr. Hariri served as Prime Minister for a total of approximately 10 years. He was instrumental in the economic revival and reconstruction of the Republic following the 1975–1990 conflict and was the principal architect of the Paris II Conference discussed below.

Mr. Hariri's assassination generated widespread domestic and international condemnation and calls from the EU and the United States for the immediate implementation of Security Council Resolution 1559, including the withdrawal of Syrian troops from Lebanon and the disarming of Lebanese and non-Lebanese militia.

On February 15, 2005, the President of the Security Council issued a statement on behalf of the Security Council requesting the Secretary-General of the United Nations to follow closely the situation in the Republic and to report urgently on the circumstances, causes and consequences of the assassination of former Prime Minister Hariri. On February 18, 2005, the Secretary-General announced that he was sending a fact-finding mission to Beirut headed by Deputy Police Commissioner of the Irish Police, Mr. Peter Fitzgerald, to gather such information as necessary for him to report to the Security Council.

On February 28, 2005, Prime Minister Omar Karami submitted the resignation of the Government headed by him. Following mandatory parliamentary consultations, Mr. Karami was reappointed by the President of the Republic as Prime Minister designate. Mr. Karami was not successful in forming a new Government and advised the President of the Republic accordingly. Following further mandatory parliamentary consultations, Mr. Mohamed Najib Mikati, a former Minister and a prominent businessman, was appointed Prime Minister on April 19, 2005.

On March 14, 2005, one of the largest demonstrations in the history of the Republic took place. More than one million persons demanded the withdrawal of Syrian troops from the territory of the Republic and the identification and prosecution of the persons and parties responsible for the assassination of Mr. Hariri and his companions.

On March 21, 2005, the report from the fact-finding mission to Lebanon was published. The report concluded among other matters that the investigation process into the assassinations conducted in Lebanon suffered from serious flaws, and recommended that an international independent investigation be carried out.

On April 7, 2005, the Security Council adopted Resolution 1595, which resolved to establish an international independent investigation Commission based in Lebanon to assist the Lebanese authorities in their investigation of all aspects of Mr. Hariri's assassination. Resolution 1595 further provides that the Commission shall enjoy the full cooperation of the Lebanese authorities, including full access to documentary, testimonial and physical information and evidence in the possession of such authorities.

On April 26, 2005, in a letter to the United Nations, Syria informed the United Nations that Syrian troops and intelligence operatives had completed their withdrawal from Lebanon. A United Nations mission was conducted from May 1 to May 13, 2005 to verify such withdrawal. In a report dated May 23, 2005, this mission concluded that, with the possible exception of withdrawal from the Deir Al-Ashayr area on the Syrian-Lebanese border (the status of which was noted to be unclear), Syrian troops had been withdrawn from Lebanese territory. However, the report noted that the withdrawal of the Syrian intelligence apparatus has been harder to verify.

On May 7, 2005, General Michel Aoun, a former Prime Minister, returned to Lebanon after 15 years in exile in France and has participated in the parliamentary elections in Lebanon that took place in May and June 2005.

In May and June 2005, parliamentary elections were conducted by the Mikati Government. See "*Constitutional System—Elections*". Following mandatory parliamentary consultations, Mr. Fouad Siniora, a former Minister of Finance in the Hariri Governments, was appointed Prime Minister on June 29, 2005.

In July 2005, Dr. Samir Geagea, the former head of the Lebanese Forces, was released from prison after eleven years of incarceration, following the adoption of a special amnesty law.

On August 30, 2005, the Commission questioned four senior Lebanese security and military officers, including the former heads of general security and military intelligence and the chief of the presidential guard. Following this questioning, Mr. Detlev Mehlis, the then-head of the Commission, declared that the four officers were suspects in the murder of Mr. Hariri and recommended that the Lebanese authorities arrest them. On September 3, 2005, the prosecutor general of the Republic issued arrest warrants against the four officers, who are currently under arrest.

On October 19, 2005, the Commission published its first report. In this report, the Commission stated that it had interviewed more than 400 persons and reviewed 60,000 documents and identified several suspects. The report further stated that “there is converging evidence pointing at both Lebanese and Syrian involvement in the terrorist act” and that “given the infiltration of Lebanese institutions and society by the Syrian and Lebanese intelligence services working in tandem, it would be difficult to envisage a scenario whereby such a complex assassination plot would have been carried out without their knowledge”.

On October 31, 2005, the Security Council adopted Resolution 1636, which, among other matters, requires United Nations Member States to freeze the assets of individuals designated by the Commission as suspects of the assassination, establishes a committee of the Security Council to undertake designated tasks relating to such individuals and demands full Syrian cooperation with the investigations of the Commission.

Following the assassination of Mr. Hariri, the Republic witnessed a series of bombings, assassinations and attempted assassinations of politicians, journalists and public figures, including the assassinations, on December 12, 2005, of Mr. Gebrane Tueni, a member of Parliament and newspaper editor, on November 21, 2006, of Mr. Pierre Gemayel, the Minister of Industry, a member of Parliament and the son of Amine Gemayel, the former President of the Republic, on June 13, 2007, of Mr. Walid Eido, a member of Parliament and of the Future Movement and on September 19, 2007, of Mr. Antoine Ghanem, a member of Parliament and of the “*March 14 Coalition*”, a coalition of supporters of the Government and of the parliamentary majority. Messrs. Tueni, Gemayel, Eido and Ghanem were public critics of Syria’s actions in Lebanon.

On December 15, 2005, the Security Council adopted Resolution 1644, which, among other matters, extended the Commission’s mandate for six months with a request that the Commission report to the Security Council at least every three months, including on the cooperation of the Syrian authorities.

On January 11, 2006, the General Secretary of the United Nations appointed Mr. Serge Brammertz as the head of the Commission, replacing Mr. Detlev Mehlis. Mr. Brammertz’s reports have contained less disclosure regarding the progress of the investigation on the grounds that Mr. Brammertz does not wish to jeopardize any future prosecutions before the Special Tribunal. Mr. Brammertz stated that the Commission is receiving support from Syria in providing information and facilitating interviews with individuals located on Syrian territory.

On June 15, 2006, the Security Council adopted Resolution 1686, which supports the Commission’s intention to extend technical assistance to the Lebanese authorities with regard to their investigations into terrorist attacks (other than Mr. Hariri’s assassination) perpetrated in Lebanon since October 1, 2004 and extended the Commission’s mandate until June 15, 2007. On March 27, 2007, the Security Council adopted Resolution 1748, which extended the Commission’s mandate until June 15, 2008.

On July 13, 2006, Israel commenced war on Lebanon, following the kidnapping by Hizbollah of two Israeli soldiers. Attacks were launched against Lebanon and its population by land, sea and air, resulting in loss of human life, large scale displacement and significant damage to private and public property and infrastructure. Israel invaded a portion of territory in southern Lebanon. A cessation of hostilities was reached on August 14, 2006. However, the air and sea blockade on Lebanon continued for a month after the cessation of hostilities. It is estimated that, as a result of the war, Lebanon suffered 1,200 deaths, of whom one-third were children, and approximately 4,400 injuries. Approximately one-quarter of Lebanon’s population was displaced during the war and 100,000 housing units were destroyed or damaged. Additional deaths and injuries have resulted, and continue to be caused, by unexploded ordinances as a consequence of the estimated 1.2 million cluster bombs that were fired into Lebanon during the final days of hostilities. The economic impact of the conflict has been substantial. The impact of the war on public finances resulted in a worsening in the fiscal dynamics and the emergence of a primary deficit for the first time in six years. The Ministry of Finance estimates that the war resulted in a net decline of LL 1,270 billion in the primary balance for 2006.

On August 7, 2006, the Government adopted a unanimous decision to deploy 15,000 troops from the Lebanese army in southern Lebanon as the Israeli army withdrew. The deployment has taken place and represents the first presence of the Lebanese army south of the Litani River in more than 30 years.

On August 11, 2006, the Security Council adopted Resolution 1701, which instituted a cessation of hostilities based on full respect of the Blue Line by Israel and Lebanon, the establishment between the Blue Line and the Litani River of an area free of any armed personnel and weapons other than those of the Government and the UNIFIL, full implementation of the relevant provisions of the Taif Accords and of Resolutions 1559 and 1680, requiring the disarmament of all armed groups in Lebanon, and increased the number of UNIFIL troops to a maximum of 15,000.

On November 11, 2006, five ministers representing Hizbollah and the Amal party, comprising all of the ministers from the Shiite community, resigned from the Government. This was followed a few days later by the resignation of a minister from the Orthodox Christian community who was an ally of the then-President. The initial reason given for the resignations was the lack of sufficient prior notice given to the ministers to analyze and debate the proposed legal framework and statute for the special tribunal to be established to try those responsible for the terrorist bombing that killed former Prime Minister Hariri. The dispute between opposition parties, led by Hizbollah and including General Michel Aoun and his allies, and the majority escalated. Opposition parties requested an expansion of the Council of Ministers so that the opposition would be represented by a minimum of one-third of all the ministers and, more recently, the holding of early parliamentary elections on the basis of a new electoral law.

During his term in office, President Emile Lahoud and opposition parties alleged that, following the resignation of all the ministers representing the Shiite Community in November 2006, the Government is no longer constitutional. However, the Prime Minister did not accept the resignation of the ministers and the majority of such ministers continue to perform some of their functions on an intermittent basis. The Government has rejected this assertion on the basis, among other grounds, that the Constitution does not authorize the President to pass upon the constitutionality of laws and governmental actions, the resignation was a voluntary, unilateral act and Parliament has not withdrawn its vote of confidence in favor of the Government. The Government has continued to meet and adopt resolutions despite the absence of the resigning ministers from the meetings of the Council of Ministers and has invited those ministers to resume their functions. The Government continues to be recognized by all countries with which Lebanon maintains diplomatic relations as the constitutional Government of the Republic.

On December 1, 2006, the opposition commenced a sit-in in the Beirut Central District, which is ongoing, as well as a number of large demonstrations and a general strike, which the opposition sought to enforce by blocking public roads. This has generated sporadic clashes between opposition and majority forces, resulting in a limited number of deaths and injuries and an increase in sectarian tension, especially among the Shiite and Sunni communities.

On May 20, 2007, clashes between members of a fundamentalist militia and the Lebanese Army occurred around the Nahr-El Bared Palestinian refugee camp in Northern Lebanon and surrounding areas, following a raid against suspected members of the militia involved in a bank robbery. These clashes continued until September 2, 2007, when the Lebanese army asserted control over the refugee camp. The clashes resulted in the destruction of the refugee camp and the deaths of over 160 army personnel and more than 220 members of the militia. Approximately 200 members of the militia were arrested. Plans to rebuild the refugee camp with Arab and foreign assistance are underway.

On May 20, 2007 and May 21, 2007, two bombings took place in two residential neighborhoods in Beirut, resulting in one death and a number of injuries.

On May 30, 2007, the Security Council, acting under Chapter VII of the Charter of the United Nations, adopted Resolution 1757, which established a Special Tribunal for Lebanon to prosecute persons responsible for the attack of February 14, 2005 and adopted the Statutes for the Special Tribunal for Lebanon. Resolution 1757 further provides that if the Special Tribunal for Lebanon finds that other attacks that occurred in the Republic between October 1, 2004 and December 12, 2005 (or any later date decided by the United Nations and the Republic with the consent of the Security Council) are connected, in accordance with the principles of criminal justice, and are of a nature and gravity similar to the attack of February 14, 2005, it shall also have jurisdiction over persons responsible for such attacks.

On November 16, 2007, the Secretary General of the United Nations appointed Mr. Daniel Bellemare as (i) the head of the Commission, replacing Mr. Serge Brammertz and (ii) the prosecutor for the Special Tribunal for Lebanon.

On November 23, 2007, the extended term of President Emile Lahoud ended, and President Lahoud vacated the Baabda presidential palace. Article 62 of the Constitution provides that, in the event that the Presidency becomes vacant for any reason whatsoever, the Council of Ministers exercises the powers of the President by delegation. The Council of Ministers, headed by H.E. Fouad Siniora, has accordingly assumed the powers of the Presidency.

The opposition has not been willing to attend successive sessions of Parliament convened for the election of the President and, accordingly, no quorum has been present during those sessions. The opposition has made a number of demands, including requesting a minimum number of ministers representing the opposition so as to ensure veto rights on material resolutions. The President of the Council of Ministers and the March 14 Coalition have indicated that, as provided in the Constitution, the Presidential election must first take place and thereafter discussions regarding the composition of the future Government and other matters can proceed.

The Foreign Minister of France has attempted mediation between the March 14 Coalition and the opposition, but this mediation has not succeeded.

On January 5, 2008, the Council of the Arab League met at the level of the foreign ministers and adopted Resolution 113, which launched a mediation effort headed by its general secretary Mr. Amr Moussa. On January 27, 2008, the Council of the Arab League met again at the level of the foreign ministers and adopted a resolution calling for, among other matters, the election of the Commander in Chief of the Army, General Michel Sleiman, as the consensus candidate for President, the undertaking of discussions for the formation of the national unity government and, promptly following formation of the new government, the preparation of a new law for parliamentary elections.

On December 12, 2007, Brigadier General Francois el Hajj was assassinated in a car bomb explosion in Baabda, which resulted in the death of two persons and five other injuries.

On January 5, 2008, the Council of the Arab League met at the level of the foreign ministers and adopted Resolution 113, which launched another mediation effort headed by its general secretary, Mr. Amr Moussa.

On January 15, 2008, a car bomb explosion targeted a U.S. embassy vehicle and resulted in the death of four people and twenty other injuries, including two embassy employees.

On January 25, 2008, Captain Wissam Eid of the Internal Security Forces was assassinated in a car bomb explosion in Hazmieh, which resulted in the death of six persons and 42 other injuries.

On January 27, 2008, demonstrations and rioting over power cuts took place in a number of Shiite-dominated neighborhoods in the southern suburbs of Beirut, the Bekaa Valley and Southern Lebanon. The riots in the Mar Mikhael-Chiyah suburb of Beirut resulted in a clash with the Lebanese Army, which led to eight deaths and over 50 other injuries. Following protests by a number of opposition leaders, the Lebanese Army launched an investigation into the causes of the riots and, to date, 19 militaries and more than 60 civilians were charged with various crimes.

On February 13, 2008, Imad Moghnieh, believed to be a senior commander in Hizbollah, was killed in Damascus. In response, the leader of Hizbollah publicly threatened to wage open war on Israel.

On March 27, 2008, the Commission published its tenth report, the first while headed by Mr. Daniel Bellemare. In this report, the Commission stated that, on the basis of available evidence, a network of individuals acted in concert to carry out the assassination of former Prime Minister Rafik Hariri and that this criminal network or parts thereof are linked to some of the other cases within the Commission's mandate. To date, the Commission has issued ten reports, two while headed by Mr. Mehlis, seven while headed by Mr. Brammertz and one while headed by Mr. Bellemare.

On March 29 and 30, 2008, a summit meeting of the Arab League was held in Damascus, which the Government elected not to attend due to the vacancy in the office of the President. A final statement issued by the Arab League at the end of the summit renewed the call of the Council of the Arab League for the election of

a new president of the Republic, in accordance with the statement of the Council of the Arab League of January 27, 2008.

The full text of the Security Council Resolutions and the reports of the International Independent Investigation Commission are publicly available from the United Nations website (<http://www.un.org>).

Description of the 1975–1990 Conflict

An attempt is made below to describe the Lebanese conflict briefly. Investors are urged to do further research should they wish to gain a fuller understanding of the conflict.

The 1975–1990 Conflict

The heavily militarized turmoil lasted from April 1975 until October 1990. In 1975, the conflict first appeared to be contained between the Palestinians and the Christian militia but instead it continued to escalate and subsequently included many factions, mostly supported by foreign governments. Many alliances among these factions took place only to be broken. Almost every faction was at war with another. Coalitions were unstable and often short-lived, resulting in widespread fighting between and among all of the factions involved.

In 1982, Israel invaded the southern half of Lebanon up to and including Beirut. The United States, France, Italy and the United Kingdom sent a Multi-National Force to provide security while Israel pulled back and Palestinian forces left for Tunis.

President Amine Gemayel was elected in 1982. There was a relative return to normality until early 1983. However, car bombs at the United States Embassy and the United States and French barracks led the Multinational Force to pull out. Fighting resumed in late 1983.

In 1988, the crisis intensified when Parliament failed to elect a president. The departing president, Amine Gemayel, appointed General Michel Aoun Prime Minister. However, Dr. Salim Al Hoss, Prime Minister of the then-existing Government, refused to recognize the appointment and remained in office at the same time. The Lebanese army, led by General Aoun, and Syrian troops began heavy fighting in Lebanon.

In October 1989, the Taif Accords was signed and, in November of the same year, Elias Hrawi was elected President. A new Government, known as the national reconciliation Government, was formed and began implementation of the Taif Accords.

In January 1990, the Lebanese army, led by General Aoun and the Lebanese Forces (the successor to the Christian militia) engaged in heavy fighting. In October 1990, Syrian troops attacked the Presidential palace and stormed the area controlled by General Aoun. General Aoun took refuge in the French embassy and in September 1991 left for exile in France. He returned to Lebanon in May 2005.

In October 1990, the fighting came to an end and in 1991 most of the militias (with the exception of Hizbollah) were disbanded by the Lebanese Army.

Syrian Presence

In May 1976, at the request of the Lebanese Government, the Arab League agreed to send the Arab Deterrent Force to restore security in the Republic. The Riyadh and Cairo summits arranged for a 30,000-strong Arab Deterrent Force composed mostly of Syrian troops but including Saudis, Yemenis, Libyans and troops from the United Arab Emirates. As the conflict persisted, the Syrian forces stayed while the other Arab forces departed.

The presence of Syrian troops in Lebanese territory was debated among various leaders in Lebanon. Certain leaders requested the withdrawal of Syrian troops from Lebanese territory. The Government declared that the presence of Syrian troops was legal, temporary and necessary. In June 2001, Syrian troops withdrew from some areas around Beirut.

Following the adoption of Resolution 1559 by the United Nations Security Council on September 2, 2004, the assassination of the former Prime Minister, Mr. Rafik Hariri, on February 14, 2005, and one of the largest demonstrations in the history of the Republic, which called for the withdrawal of Syrian troops from the

territory of the Republic on March 14, 2005, Syrian troops were completely withdrawn from the Republic by the end of April 2005.

The Syrian military presence in Lebanon lasted from May 1976 until April 2005.

Relations between Lebanon and Syria are currently tense, with the Government accusing Syria of continuing to meddle in Lebanon's internal affairs and Syria's leaders publicly supporting the opposition's efforts to topple the Government. The Government's position is that it welcomes friendly relations with Syria on the basis of mutual respect for the independence and sovereignty of each country, the establishment of diplomatic relations between the two countries and the exchange of ambassadors and a formal agreement regarding boundaries.

Israeli Occupation

An armistice agreement was signed between the Republic and Israel in 1949. The agreement governs the security issues related to the southern border. However, Israeli attacks on Lebanese territory persisted, culminating in Israeli invasions of the Republic's territory in 1978 and 1982.

In 1978, Israel invaded the southern part of Lebanon and declared part of the country a security zone for its border. In 1982, Israel invaded Lebanon up to and including Beirut. The United States, France, Italy and the United Kingdom sent a multi-national force to provide security while Israel pulled back and Palestinian forces left for Tunis. The multi-national force left Lebanon in 1984. Israel partially withdrew from central Lebanon in 1984 and 1985 but enlarged its occupation of the southern part of the country up to the area of Jezzine.

On April 11, 1996, following an escalation in intermittent skirmishes, Israel commenced a bombardment of southern Lebanon and certain other targets in Lebanon, including the southern suburbs of Beirut. On April 27, 1996 a cease-fire came into effect. The cease-fire was based on a written but unsigned agreement drawn up by France and the United States and setting out a position mutually acceptable to Israel, Syria and Lebanon, which expanded and consolidated oral cease-fire understandings reached in July 1993. These arrangements established an international group composed of representatives of the United States, France, Syria, Lebanon and Israel to monitor the cease-fire. Meetings of the monitoring group took place on a regular basis for the purpose of addressing repeated breaches of the cease-fire.

On June 24, 1999, February 7, 2000 and May 5, 2000, Israeli military aircraft attacked several power stations and bridges near Beirut, as part of more frequent recent air attacks on Lebanese territory. The rehabilitation of the infrastructure damaged by these Israeli attacks has been completed.

On May 24, 2000, Israel withdrew its troops from territory in southern Lebanon, which it had been occupying since 1978. The withdrawal followed a notification by Israel to the United Nations that it planned to withdraw its troops in Lebanon to the internationally recognized borders between Lebanon and Israel, in fulfillment of United Nations Resolution 425, which was passed by the United Nations Security Council in 1978 following the first Israeli invasion of Lebanese territory. A significant issue relating to the withdrawal remains unsettled. This relates to the status of certain villages and adjacent land on the eastern side of Alsheikh Mountain, known as the "Shebaa Farms," which have been occupied by Israel since 1967. The Government advised the United Nations that it considers the area to be Lebanese territory and that, as such, the withdrawal must encompass it.

In April and June 2001, Israeli aircraft attacked military positions maintained by Syrian troops in Lebanon, following attacks by members of Hizbollah on Israeli troops in the disputed "Shebaa Farms" area.

Following the September 11, 2001 events in the United States, the United States informally requested that the Government freeze certain assets of Hizbollah in the banking system in the Republic. To date, the Government has not acceded to the informal request on the grounds that Hizbollah is conducting a national liberation campaign and is not engaged in terrorist activities.

In January 2004, Israel and Hizbollah effected an exchange of prisoners held in Israeli jails for the release of an Israeli citizen and the return of the bodies of three Israeli soldiers.

As discussed earlier in this Base Prospectus, in July 2006, Israel waged war on Lebanon following the kidnapping by Hizbollah of two Israeli soldiers from inside Israeli territory. The war resulted in significant casualties and damage to Lebanon and only ceased following adoption by the Security Council of Resolution 1701.

UNIFIL, deployed in southern Lebanon with a mandate to help the Lebanese Government restore security after the Israeli withdrawal requested in Resolution 425 by the Security Council, was reinforced in terms of forces and arms following adoption of Resolution 1701. The number of UNIFIL personnel is currently approximately 12,500.

Constitutional System

Three laws have governed the constitutional system of the Lebanese parliamentary democracy. The first was promulgated in 1926, the second in 1943 and the third in 1990, following the Taif Accords.

The Constitution of September 21, 1990 (the “*Constitution*”) amended the 1926 Constitution and reiterates the principle that the Republic is an independent, united and internationally acknowledged sovereign state. It also confirms the Republic’s Arab identity and involvement in both the Arab League and the United Nations, as a founding and active member. Furthermore, the Constitution emphasizes the respect for freedom of speech and belief, and the Republic’s commitment to human rights, parliamentary democracy, private ownership, free market economics and balanced regional development and emphasizes the firm support for peaceful co-habitation between the various religious communities.

The Republic’s political system is based on the separation of executive, legislative and judicial powers and a system of checks and balances. The Government determines overall policy, appoints senior administrators and submits proposed legislation to Parliament. Parliament, which is elected every four years, proposes and adopts laws and supervises Government policy. Judicial power is fully vested in the courts and is autonomous. The Constitution provides for the formation of a Constitutional Council to rule on the constitutionality of laws and on challenges to the validity of presidential and parliamentary elections. The Constitutional Council was formed in 1994. It consists of a maximum of ten members, five of whom are elected by a simple majority of Parliament and five of whom are appointed by the Council of Ministers acting by vote of a two-thirds majority of the Ministers. The Constitutional Council acts by vote of a majority of seven members and has rendered several significant decisions to date, including the invalidation of the 1996 election of four members of Parliament and the invalidation of governmental decrees extending the term of municipal councils. The Constitutional Council is currently inoperative. The Constitution also specifies that a Supreme Council, constituted of seven deputies elected by Parliament and eight of the highest ranking judges, has jurisdiction to try the Presidents (President of the Republic, Speaker of Parliament and President of the Council of Ministers) and Ministers. The members of the Supreme Council that are elected by Parliament are appointed for a period of four years. The first Supreme Council was constituted in 1996.

The Taif Accords provided the framework for a two-stage process of political reform. The first stage resulted in improving the distribution of political power among representatives of the various religious communities: seats in Parliament are equally divided between Christian and Muslim communities and the powers of the Council of Ministers and of Parliament have been reinforced. The second stage calls for the elimination of the sectarian political system.

The Executive Branch consists of the President of the Republic and the Council of Ministers (the cabinet). The President is the Head of State. The President is elected for a six-year term by a two-thirds majority of Parliament in the first voting round and by a simple majority if a subsequent round is required. The President’s functions include: Chairman of the High Defense Council, Commander in Chief of the Army, which is subject to the authority of the Council of Ministers, and chairing the Council of Ministers whenever he attends its meetings, although he has no voting power at these meetings. The President appoints the Prime Minister following consultations with Parliament. The President must appoint the prime ministerial candidate who has the greatest level of support in Parliament. The President also negotiates treaties in conjunction with the Prime Minister. Treaties become final after the approval of the Council of Ministers and ratification by Parliament. Pursuant to constitutional custom in effect since the Republic’s independence in 1943, the President is a Christian Maronite, the Speaker of Parliament is a Shiite Muslim and the Prime Minister is a Sunni Muslim. The Vice-Speaker and the Vice-Premier traditionally come from the Christian Greek Orthodox community. The Council of Ministers is headed by the Prime Minister. The Prime Minister, as the President of the Council of Ministers, supervises and follows up on the work of ministries and administrators and co-ordinates ministerial policies.

The Legislative Branch consists of a single-chamber Parliament of 128 members. Members are elected for four-year terms in regional ballots, with the number of members for each region determined on the basis of the size and population of each region, subject to an overall number of members for each religious community.

Parliament may be dissolved by the Council of Ministers, acting by vote of a two-thirds majority of the Ministers, upon request of the President of the Republic only on the basis of one of the following grounds:

- if Parliament fails to meet during one ordinary session or two extraordinary sessions (except in the event of *force majeure*); or
- if Parliament fails to pass a budget law for the purpose of paralyzing the Council of Minister's work.

The court system consists of one administrative court, the State Council Court ("*Conseil d'Etat*") and judicial courts (which include civil courts (which comprise commercial chambers) and criminal courts). The Supreme Court is the highest court of appeal for civil and commercial matters. Constitutional matters and conflicts relating to elections are referred to the Constitutional Council discussed above. The judges of the various courts (excluding certain members of the Constitutional Council) are appointed by the Government after favorable recommendation of the Supreme Council of Justice.

Elections

Parliamentary elections took place in 1992, 1996, 2000 and 2005. The 1992 parliamentary elections were the first such elections in Lebanon since 1972. Certain political groups abstained from participating in the elections, although the 1996, 2000 and 2005 parliamentary elections were characterized by high voter participation.

In May and June 1998, municipal elections took place for the first time since 1963. All political parties participated. Municipal elections also took place in May 2004. There are 919 municipal councils in Lebanon with a total of 10,818 elected members.

Parliamentary elections for the election of all 128 members of Parliament took place in May and June 2005. The Beirut elections resulted in success for the Future Movement, founded by former Prime Minister Rafik Hariri. Elections in southern Lebanon resulted in success for the candidates from the Hizbollah and the Amal movement alliance. Elections in three districts composing the Bekaa Valley regions resulted in success for the candidates from the Hizbollah and the Amal movement alliance, the alliance between the Future Movement and the Progressive Socialist Party, and the Free Patriotic Movement (headed by General Michel Aoun), respectively. Elections in Mount Lebanon resulted in success for the alliance among the Future Movement, the Progressive Socialist Party, the Lebanese Forces and members of the Qornet Shahwan Gathering. Elections in Northern Lebanon resulted in success for the alliance between the Future Movement, the Lebanese Forces and members of the Qornet Shahwan Gathering.

The following table sets forth the composition of the Assembly by total number of seats as of the date hereof.

Assembly Composition by Political Party

| Political Party | Number of Seats |
|---|------------------------|
| Future Movement, Progressive Socialist Party, Lebanese Forces and members of the Qornet Shahwan Gathering, collectively known as the March 14 Coalition | 70 |
| Free Patriotic Movement and allies | 21 |
| Amal Movement | 13 |
| Hizbollah | 10 |
| Others | 13 |

On June 28, 2005 Mr. Nabih Berri, who has served as Speaker of Parliament since 1992, was re-elected as Speaker of the Lebanese Parliament for four additional years.

As stated above, following the resignation of all the ministers representing the Shiite community, the then-President considered that the Government was no longer constitutional and refused to countersign any decrees relating to resolutions adopted by the Government. The Government has rejected this position on the basis, among other grounds, that the Constitution does not authorize the President to pass upon the constitutionality of laws and governmental actions and that the resignation was a voluntary, unilateral act and that Parliament has not withdrawn its vote of confidence in favor of the Government. The Government has continued to meet and adopt resolutions despite the absence of the resigning ministers and has invited those ministers to resume their functions. The Government continues to be recognized by all countries with which Lebanon maintains diplomatic relations as the constitutional Government of the Republic.

The opposition is calling for early parliamentary elections. This has been rejected by the majority in Parliament.

Government and Political Parties

The democratic political system in the Republic and the constitutional rights to freedom of speech and belief have nurtured a wide and diversified spectrum of political parties. The classification and categorization of the parties are blurred.

There are more than 30 parties and political groups in Lebanon reflecting many ethnic backgrounds and political beliefs.

In accordance with the Constitution, in October 2000, mandatory consultations between the President and members of Parliament regarding the appointment of the Prime Minister took place following the 2000 elections. A majority, consisting of 106 members of Parliament, selected Mr. Hariri as their nominee for Prime Minister and the President appointed Mr. Hariri Prime Minister as a result of consultations with Parliament's members. Following consultations between Mr. Hariri and members of Parliament, a new Government was formed in October 2000.

On April 16, 2003, Mr. Hariri submitted the Government's resignation to the President of the Republic, who accepted it. As provided in the Constitution, the President of the Republic conducted consultations with members of Parliament, following which Mr. Hariri was reappointed Prime Minister. A new Council of Ministers was formed on April 17, 2003. It was composed of 30 ministers, 19 of whom were members of the prior Government.

Following the extension of President Lahoud's term in September 2004, Mr. Omar Karami was appointed Prime Minister on October 21, 2004, and a new Government composed of 30 members was formed in October 26, 2004. On November 6, 2004, Parliament granted confidence to the Government by a vote of 59 members in favor, out of the 108 members present at the session.

Following the assassination of Mr. Hariri in February 2005, Prime Minister Omar Karami submitted the resignation of the Government headed by him. Following mandatory parliamentary consultations, Mr. Karami was reappointed by the President of the Republic as Prime Minister designate. Mr. Karami was not successful in forming a new Government and advised the President of the Republic accordingly. Following further mandatory parliamentary consultations, Mr. Mohamed Najib Mikati, a former Minister and a prominent businessman, was appointed Prime Minister on April 19, 2005. A Government composed of 14 members was formed on April 19, 2005. On April 27, 2005, Parliament granted confidence to the Government by a vote of 110 members in favor, out of the 120 members present at the session.

Following parliamentary elections in May and June 2005, Mr. Fouad Siniora, a former Minister of Finance in the Hariri Governments, was appointed Prime Minister on June 29, 2005. A Government composed of 24 members was formed on July 19, 2005, 15 of whom are members of the March 14 Coalition. On July 30, 2005, Parliament granted confidence to the Government by a vote of 92 members in favor, out of the 108 members present at the session.

In July 2005, the Siniora Government submitted a program to Parliament indicating that the economic policy of the Government will be based on the following principles:

- Re-gaining international and domestic trust and confidence in the future of the economy by restoring the credibility of the State and implementing the required financial, economic and social reforms whose foundations were set out in the Paris II Conference and in the draft 2005 budget;
- Committing to fighting corruption and the squandering of public funds and promoting transparency and accountability in public financing;
- Working on fighting poverty, illiteracy and diseases and promoting a balanced and sustainable development plan;
- Building a modern economy whose cornerstone would be a dynamic private sector, capable of competing in the international arena;

- Associating political forces, civil society and the international community in the Government's reform process;
- Developing and consolidating economic ties with the Arab countries and the EU and accelerating accession of the Republic to the World Trade Organization; and
- Reducing public expenditure, increasing revenue by modernizing the tax system, modernizing public debt management activities, implementing the privatization program and seeking to renew the support of the Republic's friends and allies in the international community.

On November 23, 2007, the extended term of President Emile Lahoud ended, and President Lahoud vacated the Baabda presidential palace. To date, Parliament has not elected a new president. Article 62 of the Constitution provides that, in the event that the Presidency becomes vacant for any reason whatsoever, the Council of Ministers exercises the powers of the President by delegation. The Council of Ministers headed by H.E. Fouad Siniora has accordingly assumed the powers of the Presidency.

See “—History—Overview” for a discussion of recent political developments.

Legal System

The Republic's legal framework is based on the Constitution and on a body of well-established laws, dating back to 1930. The Constitution and the laws thereunder guarantee the private ownership of property, the free flow of funds and currencies in and out of the country and the freedom of contract between parties (so long as contracts do not contravene public policy).

Lebanese civil law is mostly based on the Code of Obligations and Contracts (which is based on the French Civil Code and was promulgated in 1932) and the Land Ownership Law. Other major legislation includes the Commercial Code (promulgated in 1942), the Code of Money and Credit (promulgated in 1963) and the complementary legislative decrees (issued in 1967) related to commercial agency representation, stock exchange, limited liability companies and business concerns and the New Code of Civil Procedure (promulgated in 1983).

An active legislative reform movement is taking place both in Parliament and through special committees formed by BDL and the Ministry of Justice to modernize Lebanese law following the end of the period of conflict. Significant laws and regulations have been adopted in various areas, including a law authorizing and regulating fiduciary activities, a law eliminating the different classes of shares for banks, a law regulating the issuance of notes and other debt securities by banks and securitization and fund management laws. The Government has also submitted a series of draft laws to Parliament, including drafts of a capital market reform law providing for the establishment of an independent regulator, a Treasury single account law, a tax procedure code and a debt management office law.

International Relations

Lebanon is a founding member of the United Nations and the League of Arab States and is a member of all international organizations under the auspices of the United Nations (United Nations Educational, Scientific and Cultural Organization, Food and Agriculture Organization, International Fund for Agricultural Development and others), the International Bank for Reconstruction and Development (the “*World Bank*”), (and its affiliates, the International Finance Corporation and the Multilateral Investment Guaranty Agency), the IMF and the International Development Association.

The Republic maintains diplomatic relations with 146 countries and has 94 diplomatic and consular missions abroad. It hosts 140 diplomatic missions in its territory, including the diplomatic missions of the EU and the Arab League. The Republic also hosts a number of international organizations such as the United Nations Regional Office for Education, Science and Culture in the Arab Countries, the United Nations High Commission for Refugees, Food and Agriculture Office of the United Nations, the World Health Organization, the United Nations Fund for Childhood, the UNDP and the Arab Center for Legal and Judicial Research, which is affiliated with the Arab League. The Economic and Social Commission for Western Asia, an agency of the United Nations, relocated its headquarters to Beirut in October 1997 and the World Bank opened an office in Beirut in January 2000.

In January 2001, the Secretary General of the United Nations appointed a personal representative for southern Lebanon and entrusted him with responsibility for coordinating United Nations activities in that region.

Having successfully liberated most of its territory from Israeli occupation in May 2000, Lebanon remains committed to the principles agreed upon at the Madrid Peace Conference in 1991. Lebanon supports United Nations and international efforts towards the achievement of a just, comprehensive and lasting settlement in the region. Such a settlement should involve the total withdrawal of Israeli troops from all Arab occupied territories up to the borders in place on June 4, 1967 and the implementation of the right of Palestinian refugees to return to their homeland in Palestine.

The Republic has entered into a number of treaties with Syria relating to cooperation in various areas. These treaties include the Treaty of Fraternity, Cooperation and Coordination, which was entered into on May 22, 1991 and ratified by Parliament on May 29, 1991. This treaty provides for coordination between the two countries in economic, social, foreign and military affairs and establishes a number of high level joint commissions to implement such coordination. Relations between Lebanon and Syria are currently tense, with the Government accusing Syria of continuing to meddle in Lebanon's internal affairs and Syria's leaders publicly supporting the opposition's efforts to topple the Government. The Government's position is that it welcomes friendly relations with Syria on the basis of mutual respect for the independence and sovereignty of each country, the establishment of diplomatic relations between the two countries, including through the exchange of ambassadors and formal agreement regarding boundaries.

The Republic has a long tradition of openness to the international community, with close ties to the Arab world, Europe and America. The Government is implementing a comprehensive strategy for trade liberalization. The Republic is committed to democratic principles.

The Great Arab Free Trade Agreement governs the Republic's trade relations with most of the Arab countries members of the Arab League, pursuant to which, commencing in 1998, tariffs on all agricultural and industrial goods between 17 Arab countries were progressively reduced and subsequently eliminated by January 2005. This Agreement excludes a list of goods that are forbidden to enter some Arab countries for environmental, religious, and sanitary reasons.

Since 1992, the Republic has ratified 48 treaties for the promotion and protection of investments. The Republic has ratified such treaties with each of Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium / Luxembourg, Bulgaria, Canada, Chile, China, Cuba, Cyprus, Czech Republic, Egypt, Finland, France, Gabon, Germany, Greece, Guinea, Hungary, Iceland, Iran, Italy, Jordan, South Korea, Kuwait, Malaysia, Mauritania, Morocco, the Netherlands, the OPEC Fund, the Organization of the Islamic Conference, Pakistan, Romania, Russia, Spain, Sudan, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom and Yemen. The Republic has also signed such a treaty with the Sultanate of Oman, Benin and Chad. The Republic has also ratified or signed treaties for the avoidance of double taxation with 33 countries.

On June 17, 2002, the Republic signed an association agreement, which Parliament ratified on December 12, 2002, with the EU, as part of the Euro-Mediterranean Partnership initiative. An Interim Agreement on trade and trade-related provisions entered into effect in March 2003. As a result, since that date, Lebanese industrial and most agricultural products (within the limits of tariff quotas) enjoy free access to the EU market, while the progressive elimination of tariffs on EU imports into Lebanon is to occur between 2008 and 2014. The ratification of the EU-Lebanon Association Agreement by the EU Member States was completed in April 2006 and accordingly it has replaced the Interim Agreement. The EU is one of the Republic's major trading partners. The Association Agreement establishes, among other areas of cooperation, the necessary conditions for progressive and reciprocal liberalization of trade in goods with a view to establishing a bilateral free trade area, and includes relevant provisions on customs cooperation, competition, protection of intellectual, industrial and commercial property, and services. Negotiations on the liberalization of agricultural and fishery products will start in due course in the context of the Rabat roadmap and the Euromed work program, thus leading to the establishment of the free trade area in 2010. Under the Neighbourhood Policy Action Plan, adopted in January 2007, a number of specific trade and trade-related actions have been agreed upon between the Republic and the EU with the objective of further liberalization and development of sectoral policies with the aim to upgrade Lebanese standards and facilitate the implementation of the EU Association Agreement.

The Republic applied for membership in the World Trade Organization ("WTO") and was granted observer status in April 1999. On May 15, 2001, the Government submitted to the WTO the Memorandum of Foreign Trade Regime as a second step toward its accession. In October 2002, the Government entered into negotiations

with the WTO for full membership and has provided replies to all queries presented to-date by member states. To date, four Working Party meetings have taken place in Geneva in which the Working Party examined the Republic's replies to the issues raised by WTO Members.

In June 2004, the Republic entered into a free trade agreement with the European Free Trade Association ("*EFTA*"), which consists of Switzerland, Liechtenstein, Norway and Iceland. The Agreement was entered into force on January 1, 2007. The EFTA–Lebanon Free Trade Agreement covers trade in industrial goods, including fish and other marine products, as well as processed agricultural products.

THE ECONOMY

Economic System

Lebanon has a long tradition of domestic free trade and investment policies, with free market pricing for most goods and services, an unrestricted exchange and trade system and extensive links with the developed world in practically all economic activities. The Government has maintained a generally non-interventionist stance toward private investment, and public ownership has generally been limited to infrastructure and utilities. There are no restrictions on the movement of capital and goods by residents and non-residents of the Republic, including on entry or exit of firms or on access to foreign exchange, which makes Lebanon a supportive system for private sector development.

The Government continues to favor a strong role for the private sector in a liberal policy environment. It welcomes foreign investment in the economy. There are no legal restrictions on setting up and operating private businesses in Lebanon, subject to limited exceptions. See “*External Sector—Foreign Direct Investment*”. Investment in infrastructure activities historically has been undertaken by the public sector. The absence of exchange controls in Lebanon allows foreign investors to import and export capital freely in any form they wish.

The Lebanese economy, characterized by freedom of exchange and transfers, is based on private initiative. The private sector is estimated by the CAS to contribute over 80 percent to aggregate demand and includes industries such as agriculture, manufacturing, construction, trade and tourism, in addition to services such as banking and finance, hotels and restaurants, media and advertising, and consulting and engineering. The manufacturing and industrial sectors are estimated by the CAS to contribute approximately one-fifth of the national income. They are provided only with a limited level of protection from international competition.

Recent Economic History

The Republic had developed into a prosperous, lower-middle-income country by the mid-1970s. Economic growth averaged 5 percent per year during the period 1960–1970 and then accelerated to 7 percent per year in the period 1970–1975. The main source of growth was the services sector, in particular tourism, banking, insurance and free port activities. The banking sector, aided by a stable and liberal regime, a freely convertible currency, favorable regulations and skilled management, permitted Beirut to serve as a financial center to the Middle East. This environment allowed Lebanese entrepreneurial and financial skills to evolve to a high degree, and in the 1970s its bankers and traders enjoyed an excellent reputation in the region. Although smaller in size than the services sector, the export-oriented agricultural and manufacturing sectors also grew (at annual rates averaging between 4 percent and 6 percent), contributing to overall growth of income. Having grown at an average of 3 percent per annum since 1960, per capita gross national product (“GNP”) was estimated at U.S.\$1,070 in 1974, just prior to the outbreak of the conflict in April 1975.

Estimates put the Republic’s GNP per capita at about U.S.\$820 in 1990, barely one third of its 1975 level in real terms. Damage to infrastructure and physical assets due to the conflict amounted to U.S.\$25 billion according to United Nations estimates, with none of the principal sectors emerging from the conflict unscathed. While limited investment and maintenance expenditure led to the erosion of the capital base, the sizeable emigration of skilled manpower constituted a major loss to the economic potential of Lebanon. As a result, from 1975 to 1990, aggregate national output steadily declined. In addition, the confidence in, and credibility of, the Lebanese Pound and economic stability began to erode. The shift in authority from the Government to non-official entities gave rise to a parallel economy that severely hampered the Government’s ability to collect revenues, as most trading was conducted through unofficial ports of entry. This dearth in Government revenue and the growing expenditure on public services led to large and rapidly growing Government budget deficits. These negative developments, along with the prevailing political uncertainty, plunged the Lebanese economy into a vicious cycle of large budget deficits leading to monetary expansion and inflation, which translated into dollarization of the economy and capital outflows. This in turn led to a dramatic depreciation of the value of the Lebanese Pound and further inflation.

The cessation of hostilities was followed by a recovery of the economy in 1991; according to IMF estimates, GDP rose by almost 40 percent and inflation moderated in the course of the year. Large capital inflows, along with a partial recovery of exports, resulted in an overall balance of payments surplus of over U.S.\$1 billion. However, the fiscal deficit remained high in 1991 (56 percent of expenditures). By the beginning of 1992, BDL had stopped supporting the Lebanese Pound, the value of which declined to all time lows. The cycle of deficit

financing, dollarization and capital outflows led to escalating inflation and exchange rate depreciation, with the value of the Lebanese Pound reaching LL 2,420 per U.S. Dollar in September 1992.

Following the appointment of the first Government led by Mr. Hariri in October 1992, the Government took measures to restore economic stability and renew confidence in the Lebanese Pound.

Between 1993 and 1998, the economic program of the successive Hariri Governments rested on the dual, and sometimes conflicting, tasks of economic revival and stabilization. This framework aimed to rehabilitate the country's damaged infrastructure, replenish the depleted capital stock, reinstate traditional public services, implement programs for the return of displaced persons to their villages and provide an attractive environment for the return of the expatriate Lebanese community, while pursuing exchange rate stability and anti-inflationary policies. This strategy has been successful to a certain extent. As the Government-led reconstruction program got underway and with the normalization of the economic environment, real economic growth averaged 5.7 percent over the period from 1992 to 1997. At the same time, the foreign exchange rate gradually appreciated, reaching LL 1,516 per U.S. Dollar at the end of 1998. The inflation rate was reduced from over 120 percent in 1992 to approximately three percent in 1998. Interest rates have gradually declined since 1995. However, efforts at improving monetary stability and expenditures on large scale reconstruction projects contributed to increased fiscal deficits and consequential public borrowings. As at December 31, 1997, the fiscal deficit represented 21.46 percent of GDP.

The Government headed by Dr. Al Hoss held office from December 1998 until October 2000. The Al Hoss Government continued to foster monetary stability. Inflation was further reduced to 0.25 percent in 1999, the foreign exchange rate remained stable and the balance of payments registered a surplus in 1999.

When it assumed office in October 2000, the then-Hariri Government faced a number of challenges, including an economic slowdown, a large fiscal deficit and a significant debt service burden. For the years ended December 31, 1999 and December 31, 2000, the fiscal deficit represented approximately 14 percent and 23.6 percent, respectively, of GDP and debt service represented approximately 74.4 percent and 89.6 percent, respectively, of total revenues. Net Public Debt (consisting of Net Domestic Debt and Public External Debt) represented approximately 116 percent of GDP as at December 31, 1999 and 141 percent of GDP as at December 31, 2000. See "*Public Finance—The Fiscal Deficit*".

To address these challenges, the then-Hariri Government devised a four-pronged strategy seeking to:

- revitalize the economy by inducing the private sector to act as the conduit for growth, adopting measures designed to promote investment and growth and further integrating Lebanon into the global economy; these measures included the adoption of a new customs law, the extension by BDL of interest subsidies and partial guarantees of loans to enterprises in certain sectors, the easing of restrictions on foreign ownership of real property and the reduction of employers' contributions to social security;
- improve the Republic's overall fiscal condition, by (among other things) controlling discretionary expenditures and enhancing revenues, reducing its heavy debt service burden, imposing VAT on most goods and services, pursuing a comprehensive privatization program, reactivating development projects put on hold by the previous Government (for which external financing has been secured through soft loans), acceding to the WTO, implementing a policy of open skies for the airline industry, reducing customs duties and relaxing other trade barriers, and concluding additional agreements with the EU and other Arab countries;
- modernize the legal system; and
- maintain monetary stability and lower inflation.

As a result of the implementation of this strategy, the economy improved slightly, recording in 2001 a growth rate of 2.0 percent, a (0.4) percent inflation rate and a decline in the fiscal deficit by 7.2 percentage points of GDP to 16.4 percent of GDP and, in 2002, a real growth rate of 2.6 percent, a 1.8 percent inflation rate and a decline in the fiscal deficit by 1.2 percentage point of GDP to 15.3 percent of GDP. In 2001, debt service represented 92.8 percent of total revenues and Net Public Debt rose to 158 percent of GDP and, in 2002, debt service represented 79.3 percent of total revenues and Net Public Debt was at 157 percent of GDP.

At the end of 2002, the then-Hariri Government implemented a series of measures to address the issue of public debt service. The Paris II Conference, which is described below, was the most prominent of these measures. In addition, at the end of December 2002, BDL retired LL 2,700 billion (approximately U.S.\$1.80 billion) of its 24-month Lebanese Pounds Treasury bill portfolio by offsetting this amount against credit balances in the Treasury's account with BDL. BDL also exchanged LL 1,221 billion of Lebanese Pound-denominated Treasury bills and U.S.\$1.04 billion of Eurobonds held by it for a new U.S.\$1.87 billion, 15-year, 4 percent Eurobond with a five-year grace period.

As a further measure to reduce public debt service, BDL issued decision № 8312, pursuant to which all banks operating in Lebanon were required to subscribe to Lebanese Treasury bills or Eurobonds issued by the Lebanese Republic. These notes do not bear interest and have a maturity of two years, with the aggregate amount subscribed by each bank equaling 10 percent of such bank's deposits in all currencies as at October 31, 2002. The decision provided the commercial banks with the option to subscribe to the non-interest bearing notes in cash or through the delivery of Treasury bills or Eurobonds previously issued by the Lebanese Republic. Total subscriptions by Lebanese banks amounted to approximately U.S.\$3.6 billion, most of which was subscribed in cash.

As a result of the inflow of the funds collected to date from participants in the Paris II Conference and the other debt service reduction measures described above, the Republic was able to re-profile approximately 32 percent of its total debt outstanding at the time of the Paris II Conference by extending its maturity and reducing its cost. The application of Paris II Conference funds, which constitute non-market debt, to repay market debt (*i.e.*, gross public debt excluding the portfolios of BDL, public institutions, bilateral and multilateral loans and debt issued to the Paris II Conference lender countries and agencies) has also lowered the ratio of market to non-market debt from 79 percent prior to the Paris II Conference to 59 percent in December 2004. Interest payments declined sharply from approximately 16 percent of GDP in 2002 to approximately 11 percent in 2005. In 2004, real growth reached more than 7 percent, the overall deficit declined to less than 10 percent of GDP (as compared to 24 percent in 2000) and the primary surplus improved to 3 percent of GDP.

Eurobond issuances of market debt ceased from the Paris II Conference until May 2004. See "*Public Finance – The Fiscal Deficit*". Additionally, the average cost of public debt (in Lebanese Pounds and foreign currency) was declined by 541 basis points from 11.97 percent at the end of November 2002 to 6.56 percent at the end of December 2004. Average interest rates on Treasury bills declined by more than 30 percent with the secondary market yield on the 24-month Treasury bill declining from over 14 percent in November 2002 to approximately 9 percent in January 2003 and to 7.74 percent as at December 2004, which is the lowest yield in over two decades. Gross foreign exchange reserves (excluding gold) were U.S.\$9.5 billion as at the end of December 2004. BDL reduced its rate on 45-day certificates of deposit from 9.50 percent as at the end of November 2002 to 4.50 percent as at the end of May 2003 and to 4.40 percent since November 2003. Average lending rates of commercial banks in Lebanese Pounds decreased by approximately 563 basis points from 16.11 percent in November 2002 to 10.48 percent in December 2004. Average deposit rates in Lebanese Pounds decreased by approximately 343 basis points from 10.44 percent in November 2002 to 7.01 percent in December 2004. The dollarization rate of commercial bank deposits declined from 74.2 percent in May 2002 to 70.0 percent in December 2004. See "*External Sector—Foreign Borrowings and Grants*".

As part of its debt service reduction measures, the Government refinanced U.S.\$0.43 billion of principal and interest on maturing Treasury bills held by BDL by issuing, in July 2003, new Lebanese Pound-denominated Treasury bills maturing in 2008 and bearing interest at 4 percent. The Government has used these funds to redeem and cancel higher-interest bearing maturing debt.

However, the implementation of a significant portion of the economic and fiscal reforms described above, which were included in the fiscal reform program submitted by the Government during the Paris II Conference, such as privatization and securitization, did not take place because of differences in views between political leaders.

Strong economic performance in 2004 was cut short by political tensions that began in late 2004 with the extension of the Presidential mandate and the assassination of Prime Minister Hariri. The period following the assassination of Mr. Hariri in February 2005 witnessed an economic slowdown and significant conversions from Lebanese Pound deposits to foreign currency deposits followed by a decline of foreign currency reserves due to the intervention of BDL on the foreign exchange markets.

Despite the serious political and economic difficulties that followed the assassination of Prime Minister Hariri, the Siniora Government exerted significant efforts to redress the fiscal situation and rejuvenate the economy.

The growth rate for 2006 was expected to reach 5–6 percent, exports were expected to increase by more than 30 percent and the Republic was expecting a record tourist season. The balance of payments recorded a surplus of U.S.\$2.6 billion as at June 30, 2006, as compared to a deficit of U.S.\$1.5 billion for the corresponding period in 2005. The primary surplus more than quadrupled during the first half of 2006, as compared to the first half of 2005.

The total direct cost of the July 2006 War to the Government of early recovery, reconstruction of public infrastructure and housing compensations to be covered by the budget is currently estimated at approximately U.S.\$1.84 billion.

The international community reacted quickly and generously to support Lebanon during the July 2006 War and after the cessation of hostilities. Immediately after the outbreak of the war, Saudi Arabia and Kuwait provided commitments of U.S.\$500 million and U.S.\$300 million respectively as grants for reconstruction. In addition, Saudi Arabia and Kuwait deposited U.S.\$1 billion and U.S.\$500 million respectively with BDL to help maintain confidence and monetary stability.

On August 31, 2006, the Swedish government hosted a Conference for Lebanon's Early Recovery in Stockholm. At that Conference, Lebanon received indications of support amounting to approximately U.S.\$900 million for humanitarian assistance needs and early recovery efforts, in the form of financial assistance, in kind contributions to specific reconstruction activities and others. This financial support allowed for the return of the quarter of the population that was displaced, and restored minimum capacity in terms of infrastructure, access to basic social services and income generating activities, pending full reconstruction. The Ministry of Finance estimates that a total amount of U.S.\$613 million has been committed, of which U.S.\$289 million was disbursed.

In addition to the Kingdom of Saudi Arabia, Kuwait and countries that contributed during the Stockholm Conference, many countries pledged their support to Lebanon. In total and since the beginning of the July 2006 War (but excluding commitments and disbursements as a result of the Paris III Conference), a total of U.S.\$2.1 billion has been pledged in grants (in addition to in-kind relief contributions that were sent during the war), of which U.S.\$1.6 billion has been formally committed.

Following the July 2006 War, the Government had to readjust its reform program. As amended, the reform program, as adopted by the Council of Ministers and presented at the Paris III Conference, consists of the following:

- growth-enhancing reforms encompassing a number of measures and laws aimed at increasing productivity and reducing costs, which would enhance the competitiveness of the Lebanese economy; these comprise:
 - governance and administrative reforms to develop a transparent, accountable and effective administration, including the reduction in the size and cost of the public administration (principally through attrition), modernizing legislation relating to public procurement and accounting and simplifying administrative procedures;
 - financial sector reforms and improvement of debt management, through the preparation and submission to Parliament of draft laws relating to capital markets, insider trading and securities lending, aiming to develop capital markets in the Republic, as well as a draft law establishing a modern debt office at the Ministry of Finance; and
 - improving the business environment to enhance the competitiveness of the Lebanese economy and reducing the cost of doing business in Lebanon through a range of business laws and regulations.
- a social sector reform program to improve social indicators and strengthen social safety nets to protect the most vulnerable segments of the population. Specifically, this program aims at containing social spending and improving social indicators through a series of reform measures at the social ministries level, and at developing and strengthening social safety-net programs for the poor and vulnerable groups through targeting mechanisms and benefit criteria. The program further seeks pension reform, as the current defined benefit schemes impose a heavy burden on the budget and have an implicit debt of close to 60 percent of GDP; the Government is working on the draft law which integrates the three existing systems and converts them into one fully-funded defined contribution plan by 2008;

- a fiscal adjustment plan that aims at increasing the primary surplus through streamlining expenditures—including by reducing waste (including legalized waste) and reforming state-owned enterprises (“SOEs”), including principally EdL—and raising revenues in ways that minimize the negative impact on the poor;
- a privatization program directed primarily at increasing investment, reducing the stock of public debt, and spurring economic growth;
- a prudent monetary and exchange rate policy aimed at maintaining price stability (and with it social stability), facilitating credit to the private sector, and maintaining a sound banking system; and
- international financial assistance to help Lebanon finance the direct and indirect cost of the July 2006 War as well as to complement the domestic adjustment efforts, primarily by reducing interest payments on public debt and creating the kind of confidence that would encourage private sector investment and ease the pain of a domestic adjustment after the war.

Despite the July 2006 War and the political tensions that followed during the remainder of 2006, the balance of payments registered a surplus of U.S.\$2,794.5 million by the end of December 2006 mainly as a result of the Kingdom of Saudi Arabia and the Kuwait deposits at BDL totaling U.S.\$1.5 billion, as well as other inflows following the war. Despite an increase in the trade balance deficit in 2007, the balance of payments remained in, at U.S.\$2,036.6 million, as a result of the increases in the capital and financial accounts.

Role of the Government in the Economy and Privatization

Lebanon has a long and established tradition of having an open and free market economy. The state sector has traditionally been small, with the Government having a history of minimal intervention in economic activity. For the first eight years of the conflict (until 1983/84), Government authority was still present, albeit in a much weaker form than before the conflict began, and some tax revenue was forthcoming. From 1983/84, the Government effectively lost control of all ports, and non-payment of direct taxes and bills to state-owned utilities became widespread, leading to a financing of current Government expenditure through money creation. After the conflict, the Government continued the policy of reliance on private sector initiative, which had served the country well in the pre-conflict era. However, in recent years, the Government has assumed a larger role than it had historically by making substantial investments in infrastructure needed to create an environment conducive to long-term growth based on private sector activity. See “*Public Finance — Operations of the Government*”. However, the various post-conflict Governments have also been seeking to increase private sector participation in infrastructure financing.

In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established a Higher Council for Privatization (“HCP”) and provides that the proceeds from privatization will be applied towards debt repayment. While the state sector in Lebanon does not account for a large portion of GDP (7.4 percent of GDP in 1995, excluding certain Government agencies), it nevertheless includes several enterprises and types of assets which have been successfully privatized in other emerging markets. EdL (which supplies virtually all electricity in the Republic), *Société des Eaux de Beyrouth* and other water companies, the airport and port companies, the fixed-line and mobile telephone networks and other assets, many of which may be eligible for privatization, are directly or indirectly state-owned. BDL also owns significant commercial assets, including substantially all of the shares of the national air carrier, Middle East Airlines.

Due to political interference and disagreements within the executive branch of the Government, the Republic’s privatization program has not been successfully implemented to date.

The Government believes that the privatization component of its reform program is key to the objective of promoting growth and of reducing debt and the fiscal deficit. It would also contribute to the deepening and expansion of the Republic’s capital markets, improving the reliability, quality and costs of public services, reducing operating costs through increased efficiency of operations, expanding the range of products and services offered to customers and introducing competition, which will improve the competitiveness of the economy.

The Government has reactivated the HCP and appointed a General Secretary through a transparent and public selection process.

Telecommunications Sector

A modern telecommunications law ("*Law 431*"), was adopted by Parliament in July 2002. Law 431 organizes and regulates the telecommunications sector in the Republic. It provides for the formation of a joint stock company, Liban Telecom, to which the fixed line operations and assets of the Ministry of Telecommunications will be transferred, and grants it a 20-year license for the provision of telecom services. A decree for the formation of Liban Telecom was adopted by the Council of Ministers in December 2004. Law 431 provides for the sale of up to 40 percent of Liban Telecom's shares to a strategic partner within two years of the establishment of the company. Work on the operational and commercial readiness of Liban Telecom is underway.

In addition, Law 431 provides for the establishment of a Telecommunications Regulatory Authority ("*TRA*") whose functions include tariff monitoring and encouraging competition and transparency. The members of TRA were appointed by the Government in February 2007, and TRA has been operational since March 2007.

On November 2, 2007, the Republic of Lebanon, acting through the Higher Council for Privatization, and the TRA, launched a tender process for the acquisition of the related assets, liabilities and contracts of each of the two existing state-owned mobile telecommunications operators, together, in each case, with the award of a 20-year license to build, own and operate a mobile telecommunications network and provide mobile telecommunications services in Lebanon. Pursuant to the Council of Ministers Resolution № 62 dated January 18, 2008, the HCP and the TRA jointly announced an extension of the tender process timetable that defers the deadline for applications and the date for the auction for three months until the end of May 2008 to reflect the delay in holding presidential elections.

Electricity Sector

In September 2002, Parliament passed a law ("*Law 462*") regulating the electricity sector which, among other matters, provides for the establishment of an independent regulator, the separation of production, transmission and distribution activities, the privatization of production and distribution activities through the granting of concessions and/or the formation of new entities whose shares will be initially owned by the Government and up to 40 percent subsequently transferred to strategic and other private investors. Law 462 provides that the transmission assets must remain the property of the Republic, but that management contracts for the operation of the transmission networks may be appointed to private parties.

The Government has developed an initial plan for the reform of the energy sector, which it presented to donors at the Paris III Conference in January 2007. A steering committee consisting of representatives of the Office of the Prime Minister, the Ministry of Finance, the Ministry of Energy and Water ("*MEW*"), the HCP, the Council for Development and Reconstruction ("*CDR*") and EdL has been formed to finalize and implement the plan.

The Government has taken various initiatives to restructure and develop the electricity sector in the Republic. These include:

- the corporatization of EdL: pursuant to Law 462, a number of advisors have been appointed and are currently working on the project.
- an increase in production capacity: the HCP is currently working on an independent power production project (the "*IPP Project*") for the construction and operation of an approximately 450 MW power station in Northern Lebanon under a build-operate-transfer scheme, and a number of advisors have been appointed and are currently working on the IPP Project.
- reform of the distribution sector: the MEW and the HCP are working on a project for the installation and management of remote metering system.
- the Government is currently considering the appointment of members to the Energy Regulatory Authority ("*ERA*") as contemplated in Law 462.

The appointment of members to the ERA and the commencement of ERA operations are pre-requisites to the above-mentioned projects.

In addition, a grant has been awarded by *Agence Française de Développement* (“AFD”) to finance the execution of a Generation and Master Plan for the Electricity Sector by *Electricité de France* (“EdF”). EdF started work in September 2007.

Water sector

A reform of the water sector was commenced by the last Hariri Government. Law 221 was enacted, which provides for the consolidation of the 21 water authorities into four water and wastewater public establishments responsible for water supply, wastewater and irrigation management. The four public establishments commenced their work, and have received technical assistance from international organizations including the United States Agency for International Development (“USAID”), AFD and the World Bank.

Securitization

Following its desire to reduce borrowing costs and its debt levels, the last Hariri Government submitted to Parliament, and, in June 2002, Parliament adopted a law authorizing the Government to engage in securitization transactions and mandating that the Government deposit the proceeds of any securitization transaction, as well as the revenues derived by the Government from specific sectors, such as telecommunications, tobacco, *Casino du Liban* and others, in a special account at BDL, dedicated to the payment, management and reduction of public debt.

Prospective holders of notes should be aware that, to the extent the Government undertakes securitization transactions, future revenues from the assets or flows being transferred pursuant to any such transactions may no longer be available for the payment of interest and principal in respect of Notes.

Gross Domestic Product

The GDP figures, the ratios which include GDP figures and the statements regarding GDP evolution presented in this Base Prospectus differ from previously published data due to the update made on the basis of the new official GDP time series released by the Presidency of the Council of Ministers, National Accounts Committee.

Since 1977, no official GDP calculations were made, with the exception of the GDP calculations for 1994 and 1995 published by CAS. Recognizing that statistical weaknesses and the absence of reliable and current information concerning GDP figures and other economic data constituted serious obstacles to the analysis of the Republic’s economy, in 2002, the then-Prime Minister founded a steering committee, headed by the Minister of Economy and Trade, for the establishment of a national accounts database for the years 1997–2002. The Government extended the project to include a national account database for the years 2003 and 2004 under the authority of the Presidency of the Council of Ministers. Technical assistance was provided by the French National Institute of Statistics and Economic Studies.

In May 2003, the Ministry of Economy and Trade published GDP figures for 1997. On September 30, 2005, the Ministry of Economy and Trade released GDP figures for the period 1997–2002. In May 2006, the National Accounts Committee released GDP figures for 2002 (revised), 2003 and 2004. In October 2007, GDP figures for 2005 were published in May 2006 and October 2007, respectively.

With the restoration of peace and stability, GDP registered high growth rates for the period from 1993 to 1995, averaging an estimated real growth rate of 7.2 percent per annum. Real GDP grew at slower estimated rates of 4.0 percent in 1996 and 1997, 3.0 percent in 1998, (0.8) percent in 1999 and 0.9 percent in 2000. Real GDP growth was 4.4 percent in 2001, 2.6 percent in 2002, and 4.1 percent in 2003. In 2004, real GDP growth increased to 7.4 percent, while declining to 1.1 percent in 2005. Real GDP growth is estimated to have been 0.0% and 4.0% in 2006 and 2007, respectively.

The following table shows GDP figures for the years 2001–2005.

| GDP⁽¹⁾ | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| GDP (at market prices in LL billions)..... | 25,726 | 28,209 | 29,851 | 32,359 | 32,499 |
| Exchange rate, LL per U.S.\$ (period average)..... | 1,507.50 | 1,507.50 | 1,507.50 | 1,507.50 | 1,507.50 |
| GDP (at market prices in U.S.\$ millions) | 16,679 | 18,712 | 19,795 | 21,465 | 21,558 |
| Growth of Real GDP (percent) | 4.4 | 2.6 | 4.1 | 7.4 | 1.1 |
| Growth of Nominal GDP (percent)..... | 2.3 | 8.2 | 5.8 | 8.4 | 0.5 |
| GDP Deflator (percent)..... | (2.0) | 5.4 | 1.6 | 0.9 | (0.6) |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

Source: Ministry of Economy and Trade, National Accounts Committee, Economic Accounts: 1999–2002 and Presidency of the Council of Ministers - Republic of Lebanon: Lebanon's Economic Accounts 2003, 2004, 2005.

The following table shows GDP figures by sector for the years 2001–2005.

| GDP by Sector⁽¹⁾ | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| Agriculture and livestock..... | 1,546 | 1,627 | 1,639 | 1,705 | 1,690 |
| Energy and water supply..... | 297 | 267 | 187 | 73 | (188) |
| Industry..... | 3,159 | 3,254 | 3,513 | 3,783 | 3,786 |
| Construction..... | 2,099 | 2,136 | 2,202 | 2,404 | 2,669 |
| Transport and communication | 1,715 | 1,973 | 2,098 | 2,404 | 2,360 |
| Services..... | 8,559 | 9,408 | 9,981 | 10,622 | 10,925 |
| Trade..... | 5,070 | 6,092 | 6,693 | 7,756 | 7,534 |
| Public Administration..... | 3,281 | 3,452 | 3,538 | 3,612 | 3,722 |
| Total GDP (at market prices in LL billions) | 25,726 | 28,209 | 29,851 | 32,359 | 32,499 |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

Source: Ministry of Economy and Trade, National Accounts Committee, Economic Accounts: 1999–2002 and Presidency of the Council of Ministers - Republic of Lebanon: Lebanon's Economic Accounts 2003, 2004, 2005.

The following table shows GDP estimates for the years 2006–2007.

| GDP Estimates for 2006–2007⁽¹⁾ | | |
|--|-------------|-------------|
| | 2006 | 2007 |
| GDP (at market prices in LL billions)..... | 34,309 | 37,144 |
| Exchange rate, LL per U.S.\$ (period average)..... | 1,507.50 | 1,507.50 |
| GDP (at market prices in U.S.\$ millions) | 22,759 | 24,640 |
| Growth of Real GDP (percent) | 0.0 | 4.0 |
| Growth of Nominal GDP (percent)..... | 5.6 | 8.3 |
| Estimated GDP deflator (percent)..... | 5.6 | 4.1 |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

Source: Ministry of Finance, BDL and IMF Article IV.

The following table shows the composition and the evolution of the Republic's GDP for the years 2003, 2004 and 2005.

Composition of GDP for 2003–2005⁽¹⁾

| | 2003 | 2004 | 2005 |
|-----------------------------------|--------------|--------------|--------------|
| | | (percent) | |
| Agriculture and livestock..... | 5.5 | 5.3 | 5.2 |
| Energy and water supply | 0.6 | 0.2 | (0.6) |
| Industry..... | 11.8 | 11.7 | 11.6 |
| Construction | 7.4 | 7.4 | 8.2 |
| Transport and communications..... | 7.0 | 7.4 | 7.3 |
| Services | 33.4 | 32.8 | 33.6 |
| Trade..... | 22.4 | 24.0 | 23.2 |
| Non-market services | 11.9 | 11.2 | 11.5 |
| Total..... | 100.0 | 100.0 | 100.0 |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

Source: Presidency of the Council of Minister - Republic of Lebanon.

Principal Sectors of the Economy

At the end of the 1975-1990 conflict, all sectors of the Republic's economy were characterized by widespread damage to physical assets and an obsolescence of remaining facilities, given the reluctance during the years of conflict to invest in new capital or spend funds on maintenance. In addition, there was an outflow of professional and entrepreneurial skills from Lebanon. A lower production capacity, together with rigidities in internal flows of goods and labor, led to low levels of output.

The end of the conflict in 1990 marked the unification of the internal market and an upsurge in output in most sectors of the economy and saw an increase in investment and a gradual return of skilled workers to the country. Although the economy suffered a slow-down in 1998 to 2000, it recovered in 2001 and 2002. Growth continued in 2003 and 2004 with real GDP growth rates of 4.1 percent and 7.0 percent respectively. In 2005, growth witnessed a slowdown following the aftermath of Prime Minister Hariri's assassination, with real GDP growth at 1.1 percent. The first half of 2006 was characterized by a strong revival of the Lebanese economy with real GDP growth estimated at approximately 5 to 6 percent. However, the impact of the July 2006 War on the economy, as well as the political tensions that followed after the war negatively impacted economic growth. Preliminary estimates showed a real growth rate of negative 5.0 percent for 2006, which has been revised upward to 0 percent as per current estimates. Real GDP growth in 2007 is estimated at 4 percent, which was higher than forecasted at the beginning of 2007.

The following table sets forth selected indicators of economic activity in significant sectors for the periods indicated.

Selected Indicators of Economic Activity

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|--------|--------|--------|--------|--------|
| Industry | | | | | |
| Recorded Exports (U.S.\$ millions) | 1,524 | 1,747 | 1,880 | 2,283 | 2,816 |
| Electricity Production (millions of kwh)..... | 10,547 | 10,491 | 10,581 | 10,214 | 10,548 |
| Cement Deliveries ('000 of tons)..... | 2,704 | 2,729 | 3,040 | 3,423 | 3,945 |
| Construction | | | | | |
| Construction Permits..... | 12,895 | 12,441 | 13,080 | 10,464 | 10,352 |
| Area ('000 sq. meters)..... | 8,807 | 9,166 | 9,213 | 8,693 | 9,038 |
| Commerce | | | | | |
| Port of Beirut (no. of ships) | 2,333 | 2,366 | 2,229 | 1,829 | 2,187 |
| Beirut Airport ('000s of passengers)..... | 2,718 | 3,200 | 3,177 | 2,740 | 3,326 |
| Documentary Credits for Imports | | | | | |
| (U.S.\$ millions) | 3,273 | 3,852 | 3,637 | 3,038 | 3,860 |

Source: Ministry of Finance, BDL, Port of Beirut, Order of Engineers of Beirut and Tripoli.

Services

The Lebanese economy is based primarily on the service sector with the following major subsectors: commerce, tourism and financial services. Other components include health care and higher education. In the 1970s, services accounted for approximately 70 percent of GDP. In 2005, services accounted for approximately 75 percent of GDP. This includes market services, such as maintenance and repairs, hotels and restaurants; various personal services, such as leisure and domestic care services; health care; education; financial services; non-market services (provided by the Government); transport and communications; and trade.

Commerce

The Port of Beirut plays an important role in Lebanon's commercial activities. After World War II, Beirut became the most important Arab port on the Eastern Mediterranean serving the Arab world. A free-port area for re-exports added to Beirut's success. During the conflict, the Port of Beirut virtually closed down and related commerce ground to a halt.

The Port of Beirut has completed the construction of a new container terminal, equipped with advanced container handling equipment and operating systems software. The management of this container terminal has been subcontracted through an international bid to a consortium formed by private international companies. The container terminal started its operations in the beginning of 2005. The terminal succeeded in attracting international carriers wishing to use the terminal as their main trans-shipment hub for the East Mediterranean region.

The following table sets forth data concerning trade activity at Beirut Port for the years 2001 to 2007.

Trade Activity at Beirut Port

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-------|-------|-------|-------|-------|
| No. of ships..... | 2,333 | 2,366 | 2,229 | 1,829 | 2,187 |
| Incoming freight ⁽¹⁾ | 4,294 | 4,334 | 3,722 | 3,546 | 4,326 |
| Outgoing freight ⁽¹⁾ | 472 | 727 | 753 | 680 | 904 |
| Freight in transit ⁽¹⁾ | 227 | 433 | 330 | 116 | 121 |

Note:

(1) In thousands of metric tons.

Source: Ministry of Finance, BDL, Port of Beirut.

Tourism

The strategic position of Lebanon, its mild climate and natural beauty, consisting of snow-capped mountains, valleys and the Mediterranean Sea, make it a natural tourist attraction. Apart from its privileged geographical and natural situation, Lebanon benefits from qualified and experienced human resources in the tourism industry.

Prior to the outbreak of the conflict, tourism (including hotels and restaurants) contributed approximately 20 percent to Lebanon's GDP. This is notable given that, at that time, the international tourism industry was not as developed as it is today.

Significant private investment is currently being made in the modernization and expansion of this sector and international hotel companies have returned to Lebanon. Casino du Liban, which historically constituted a major tourist destination, reopened in 1996. Lebanon is the only country in the Arab world that offers skiing on natural snow and related winter sports activities. The Government believes that tourism has the potential to contribute significantly to Lebanon's economy again. In the period 1997–2007, the Government provided 890 loans to companies in the tourism sector for a total value LL 851 billion. The interest subsidies on these loans are estimated at LL 231 billion.

Since 2001, and especially after the events of September 11, 2001, Lebanon regained its attraction for tourists from the Gulf region. Lebanon's tourism industry also relies on the large number of Lebanese living abroad, who return regularly to the country during holiday periods and notably the summer months.

By the end of 2004, incoming tourists (including Lebanese expatriates) reached 1,278,469. Tourist arrivals were expected to continue to increase during 2005. However, the assassination of Prime Minister Hariri in February 2005 adversely affected tourism in 2005, with a total of 1,139,524 incoming tourists in 2005. The first part of 2006 registered strong growth in tourism activities; however, the July 2006 War and subsequent political tensions led to a slight decrease in tourism for the year, with a total of 1,062,635 tourists in 2006. The number of incoming arrivals to the Republic was slightly lower in 2007 at 1,017,072 tourists in light of the political and security developments.

Financial Services

From the 1950s to the start of the conflict in 1975, Beirut was the region's financial services center. At the onset of the oil boom starting in the 1960s, Lebanon-based banks were the main recipients of the region's petrodollars.

Currently, the main financial services offered are commercial banking, investment banking, private banking and insurance. Despite the conflict and a crisis in the late 1980s involving a small number of banks, the commercial banking sector remains a centerpiece of the Republic's service-oriented economy. The Lebanese banking sector has witnessed unprecedented growth during the period from 1992 to the present. Resident and non-resident private sector deposits with commercial banks increased from U.S.\$6.6 billion at the end of 1992 to U.S.\$67.3 billion at the end of December 2007. In addition, since 1996, Lebanese banks have been successfully accessing the international capital markets. Since 1996, Lebanese banks have raised over U.S.\$880 million through the issuance of global depository receipts on the international equity markets. The banking system is seen as having a key role by being the entry point for capital inflows for the region's development. At the same time the authorities are aiming at widening and deepening the financial sector by facilitating the establishment and evolution of, and providing a regulatory framework to, a more diversified financial sector. New laws relating to collective investment schemes, asset securitization, and Islamic banking were enacted in 2004 and 2005. Several investment banks, with capital raised offshore, have been established in Beirut and offer a variety of traditional investment banking services, including debt and equity raising and corporate finance advisory services. Several commercial banks have established investment banking subsidiaries offering similar services.

As part of the Government's strategy of re-establishing Beirut as a regional financial services center, BDL established in 1994 a central depository, settlement and clearing agency, MIDCLEAR, which is a joint stock company organized under the laws of the Republic. The Government reopened the Beirut Stock Exchange in 1996.

Construction

Prior to the conflict, the property sector had always been important, with a substantial portion of the activity concentrated in Beirut, where the housing needs of the city's rapidly increasing urban population had to be met. Beirut saw an almost uninterrupted boom from the late 1950s to the early 1970s, when it expanded dramatically, eventually housing half of the country's population. Mountain towns and villages close to Beirut favored by tourists, such as Aley and Bhamdoun, also experienced a boom.

The post-conflict era has witnessed a significant construction boom. Real estate prices have risen steeply, especially for prime property, but have recently stabilized. The boom has been fuelled by a mixture of local, expatriate and Gulf Arab funds. With respect to residential property, it has been concentrated mostly at the upper end of the housing market. As the stock market has resumed its operations only recently, land and construction have been viewed by many as attractive investment opportunities. Construction projects are financed mainly by equity investments.

Industry

In 2005, the industrial sector (mainly production of food and beverages, metal, machinery, equipment, timber, rubber, chemical, non-metallic ores, textiles and furniture) accounted for 11.6 percent of GDP.

Exchange rate and price stability coupled with the gradual decline in Lebanese Pound interest rates have contributed to a better environment for investment and growth in industry. Infrastructure bottlenecks resulting from the conflict are being addressed as improvements in roads, telephones and electricity supply are realized. The Government provides various monetary and fiscal incentives for the establishment of industrial facilities in Lebanon, including tax exemptions and low interest financing. As export promotion is considered a priority by the Government, other export-financing incentives are under consideration.

From 1997 to 2007 a total of 3,167 subsidized loans have been provided to the industrial sector for a total of U.S.\$1,142 million. The interest subsidies on these loans is estimated at U.S.\$296 million.

Following the Paris III Conference, donors pledged approximately U.S.\$1,460 million in loans to the private sector. By end of March 2008, agreements totaling U.S.\$1,173 million have been entered into. The main donors include the European Investment Bank ("*EIB*"), the World Bank, the United States, the Arab Fund for Economic & Social Development, France and the Arab Monetary Fund.

The EIB has also agreed to extend a €60 million loan to ten Lebanese banks.

Energy and Electricity

Lebanon has no known fossil fuel resources. Apart from relatively modest hydroelectric resources and the import of electricity from Syria, all energy needs are met with imports of petroleum products, of which gas oil imports were approximately 0.9 million metric tons and fuel oil imports were approximately 1 million metric tons in 2007.

Two state-owned refineries (one in Tripoli and one in Zahrani) are currently non-operational, and are used only as import terminals and storage facilities for refined oil products. The power sector accounts for about 70 percent of fuel oil and gas oil imports.

The energy sector in Lebanon is dominated by EdL. Its total installed thermal capacity is 2,042 Megawatts (MW). In addition, Lebanon has approximately 282 MW of installed hydro plants with seasonal production depending on rainfall. EdL is a vertically integrated utility which is involved in power generation, transmission and distribution with approximately 1.2 million customers. The Republic's energy production facilities include two thermal power stations (900 MW combined installed capacity), gas turbine stations (35 MW installed capacity in each). The transmission system measures approximately 1,000 km and the transformer capacity is approximately 3,485 MVA. A 360 km transmission system with ten new substations is currently under construction. EdL's distribution network covers most of Lebanon. EdL is also the majority shareholder in the previously privately-owned Kadisha company, a thermal-and hydro-power producer and distributor to about 124,800 customers in North Lebanon.

For the past several years, the Ministry of Finance has made large contributions to EdL to fund significant continuing losses, with transfers in 2007 amounting to LL 1,479 billion. As discussed elsewhere in this Base Prospectus, the Government has prepared a comprehensive energy reform plan

Agriculture

Approximately one third of the Republic is arable. The most fertile areas are located along the coastal strip and in the Bekaa valley. The diversity of the Republic's topography and climate enables cultivation of a wide variety of vegetables, fruits, industrial crops and cereals. The Government estimates that, in 1997, agriculture contributed approximately 6.5 percent to the Republic's GDP, as compared to approximately 9.9 percent in 1972. In 2005, the contribution of agriculture to GDP was 5.2 percent

Prices and Inflation

Movements in the exchange rate of the Lebanese Pound are intertwined with domestic price developments due to the openness of the Lebanese economy. Since the mid-1980s, Lebanon has suffered from rapid increases in prices, peaking at 500 percent per annum in Lebanese Pound terms in 1987. This trend was evident until the appointment of the first Hariri Government in October 1992. The last quarter of 1992 saw a significant appreciation in the value of the Lebanese Pound against major currencies. This, together with the gradual appreciation to date, has been accompanied by a decline in the rate of inflation. Since 1993, inflation is estimated to have declined gradually to approximately 7.8 percent in 1997, 4.5 percent in 1998, 0.2 percent in 1999, (0.4) percent in 2000 and 2001, 1.8 percent in 2002, 1.3 percent in 2003, 1.7 percent in 2004 and (0.7) percent in 2005. This marked the first prolonged return to relative price stability. The level of inflation was attributable principally to the implementation by BDL of a tight monetary policy, including maintaining a stable exchange rate (by using a nominal anchor policy with the U.S. Dollar) and high interest rates on Lebanese Pound assets.

Following inflationary pressures after the July 2006 War, inflation in 2006 was 5.6 percent. In 2007, CAS estimated the 2007 inflation figure at 9.3 percent on an end-of-period basis. The IMF, based on data from BDL, estimated inflation at 6.0 percent on an end-of-period basis and 4.1 percent on a period average basis. In 2007, the increase in inflation was due to, *inter alia*, the appreciation of the Euro against the Lebanese Pound (the Euro is the currency of the principal trading partners of the Republic) and the worldwide increase in oil and other commodity prices.

Reconstruction

The Council for Development and Reconstruction and the Reconstruction Program

The CDR is a government agency entrusted with a key role in the process of reconstruction and economic recovery. It was established in 1977 in response to the needs of reconstruction as a successor to the Ministry of Planning and was reorganized in 1991. The CDR is an executive agency for the Council of Ministers. It is responsible for formulating and monitoring the implementation of public investment projects as well as seeking foreign funding. In 1992, a three-year (1993–1995) U.S.\$2.25 billion National Emergency Reconstruction Program (“NERP”) was established by the CDR. The initial program covered a series of rehabilitation investments, in the fields of power, water and wastewater, solid waste, education, housing and development. Financing for the NERP was provided in part by a World Bank loan of U.S.\$225 million.

Proposals for projects forming part of the reconstruction program are submitted for parliamentary approval on a project-by-project basis. Approximately 4,000 contracts with a total value of approximately U.S.\$8.6 billion were awarded by the CDR for the period since reconstruction efforts started in 1992 to the end of 2007.

The CDR is directly responsible for implementing a large part of the reconstruction program. It acts in this capacity in coordination with the various institutions (consisting principally of the relevant ministries) which will ultimately use or operate the investments. The other parts of the reconstruction program have been implemented by various ministries and other governmental agencies, such as the *Conseil Exécutif des Grands Projets* and the *Conseil Exécutif des Grands Projets de la Ville de Beyrouth*. In March 2001, Parliament adopted a law merging these two agencies into the CDR, thereby expanding the range of reconstruction and development projects for which the CDR is responsible. The rationale for this merger is the desire of the Government to create a single executive agency to implement infrastructure and development projects.

In March 2000, the CDR prepared and submitted to the Government a five-year development program, covering existing and proposed projects in an aggregate amount of approximately U.S.\$6 billion. The development program has been approved by the Government although its implementation is taking place gradually as projects are not being undertaken unless external sources of financing have been secured.

CDR expenditures on reconstruction and development programs are financed partly by grants and borrowings from international development agencies and other overseas entities and partly by appropriations from the budget. These appropriations are included as capital expenditures in the public accounts, but expenditures financed by borrowings as described above are not included in the public accounts (but are included in foreign debt figures). However, interest in respect of these borrowings is included in the national budget for the year in which it is scheduled to be paid. The Government's strategy is to finance the reconstruction and development program principally through the use of external financing, preferably concessionary financing (in the form of grants and soft loans). Other sources of external financing include commercial loans with export credit guarantees and the issuance by the Government of Eurobonds and other international debt securities. As discussed elsewhere, the Government also seeks to partially finance the reconstruction program through participation by private sector companies.

Infrastructure

As a major regional entrepot and financial center, the Republic had a well-developed infrastructure prior to the conflict. The country's ports (Beirut, Tripoli, Sidon and Junieh) and Beirut International Airport (now Rafik Hariri International Airport) were especially productive assets of the economy operating under a free exchange system. Catering to the large number of residents, businesses and international visitors, the housing and telecommunications sectors had been built up to high standards. The development of the road network had not, however, kept pace with the growth of the economy. The years of conflict exacted a heavy toll on the infrastructure. Since 1992, significant progress has been made in restoring and upgrading the infrastructure: electricity is available on a 24-hour basis to most users; telecommunications systems have been significantly upgraded and are functioning better; emergency water supply repairs have been undertaken; road networks are being upgraded; and collection of solid waste has markedly improved.

Electricity Generation

EdL assets were severely damaged during the 1975–1990 war in Lebanon. Post-war reconstruction concentrated mainly on the rehabilitation of EdL's infrastructure. The July 2006 War caused additional damage to the electric utility infrastructure, particularly its fuel storage facilities.

A new national transmission 220 KV network is being installed. A National Control Center project is currently under development, and is expected to be completed by the end of 2008. Feasibility studies have been commissioned to assess the rehabilitation of the Zouk and Jieh power plants, and rehabilitation works are expected to be launched as soon as funding is secured.

Water and Wastewater Sectors

A rehabilitation and development program for the water and wastewater sector is underway and is estimated to cost approximately U.S.\$1.16 billion. This program is designed to comply with the Convention on Protecting the Mediterranean from Pollution and to protect inland water resources from pollution and comprises the following principal components:

- the rehabilitation of existing infrastructure, including wells, springs, reservoirs and transmission and distribution networks for water supply, main sewers and collectors for wastewater;
- the development and extension of the water and wastewater infrastructure, including increasing the available water resources, extending the distribution and transmission networks, and constructing sewer networks and wastewater treatment plants to protect water sources, groundwater and coastal areas;
- the creation of four regional Water Sanitation and Irrigation Establishments, with the provision of technical assistance to the Ministry of Energy and Water and to the regional water establishments; and

- the operation and maintenance of wastewater and storm water systems in the major Lebanese urban centers (Jounieh, Greater Beirut, Tripoli, Zahle, Nabatiya, Saide and Sour).

The rehabilitation program began in May 1993 and cost approximately U.S.\$60 million in the first year. This included urgent repairs related to existing networks throughout Lebanon. Extension of the water treatment plant at Dbaye, which supplies clean water to a large part of Beirut was completed at a cost of approximately U.S.\$5.7 million. The rehabilitation program for Greater Beirut is currently being implemented at a cost of approximately U.S.\$50 million. Rehabilitation and replacement of main water treatment plants and pumping stations in the rest of Lebanon is completed at a cost of approximately U.S.\$43 million. Contracts for operations and maintenance in the main urban centers for 5 years were completed at a cost of U.S.\$89 million

Contracts for the rehabilitation and development of water and wastewater systems and treatment plants in Greater Beirut, North, South Lebanon, Mount Lebanon and the Bekaa and TA programs and service contracts were awarded between 1992 and 2007 at a value of U.S.\$917 million. These contracts comprise feasibility studies, environmental impact studies, design and preparation of tender documents, execution of works, supply and installation, operations and maintenance and supervision.

A number of projects are currently in the planning stage and are estimated to cost approximately U.S.\$832 million. Such projects include water supply networks, water treatment plants and sewers networks and management contracts and are intended to serve all regions of Lebanon.

Telecommunications

Work on the expansion and rehabilitation of the fixed line system commenced in November 1993. In July 1993, 800,000 new digital lines were commissioned and the current installed capacity is 1,800,000, of which 830,000 were connected to subscribers in January 2001. In October 2002, 55,000 telephone lines were installed in southern Lebanon. In April 2003, 6,688 basic access and 570 primary rate ISDN lines have also been installed and an Intelligent Network platform was installed. The total value of rehabilitation and extension contracts entered into is approximately U.S.\$800 million.

Two compatible mobile phone networks, currently aggregating over 800,000 lines, are operational, in addition to the fixed line system. The mobile telephone networks have been privately financed through two BOT contracts awarded to two different operators. In May 2000, the Government notified the two operators that they had each failed to pay to it an amount of U.S.\$300 million on account of back taxes and revenue-sharing under the BOT contracts and that, absent such payments, the BOT contracts would be terminated. In June 2001, the Government notified the two mobile operators of the early termination of their BOT contracts in accordance with their respective terms and the BOT contracts were terminated effective August 31, 2002. Following this dispute, each of the mobile telephone network operators initiated arbitration proceedings. The arbitration proceedings between each of the former mobile operators in the Republic and the Government resulted in two arbitration awards in favor of the former operators in the amount of approximately U.S.\$270 million each. The disputes between the former operators and the Republic have been settled.

Transportation

The first phase of road projects has been substantially completed. It included the rehabilitation of the capital's road network, the completion of extensions started before the conflict and the extension of the coastal highway system north to Tripoli and south to Sidon, which were completed in 1996. An aggregate amount of U.S.\$1 billion was disbursed during the period 1991–2007 in connection with the road improvement program. A program of improvement of the main roads in different regions (including the Beirut–Damascus highway) is underway at a cost of approximately U.S.\$500 million.

The extension and redevelopment of Beirut's international airport, with targeted passenger movement of 6 million people per annum, amounted to U.S.\$539 million. Two major contracts totaling U.S.\$490 million have been awarded under a multi-year project approved by Parliament. Financing of U.S.\$179 million has been secured from the EIB, the Kuwait Fund for Arab Economic Development and the French Government, and a number of the airport's facilities (for example, the car park) have been financed through BOT contracts reducing the portion of the costs to be funded by public expenditure. A new passenger terminal was put in service at the beginning of 1998 and the project was completed in 2000. The principal contractor initiated arbitration proceedings for alleged non-payment of cost overruns and other matters.

A project for the rehabilitation of the Port of Beirut, estimated to cost U.S.\$150 million, is intended to restore port capacity to pre-conflict levels. Contracts relating to the first sections of the civil works component of this project were awarded in October 1996 for an amount of U.S.\$102.8 million, subsequently reduced to U.S.\$90 million. Partial financing for this project amounting to the equivalent of U.S.\$54 million has been secured from the EIB. Contracts relating to the purchase of handling equipment for this project were awarded in 2002 for an amount of U.S.\$30 million.

Solid Waste

Since 1992, a number of contracts relating to the construction of landfills, the procurement of supplies and the operation of waste collection and treatment plants have been awarded in the solid waste sector. The total value of these contracts is approximately U.S.\$682 million. The majority of these contracts are long-term, with terms of up to 10 years.

Public Health

The Government's program for the Health sector is to provide adequate health services to people in all regions of Lebanon. The Government's focus in this sector has been on conducting studies that support and strengthen the administrative capacity of the Ministry of Public Health, with a special emphasis on primary health care and rationalization of increasing health related expenses. To date, 27 new health care centers covering all regions of Lebanon and seven new public hospitals have been completed. Work is underway on the construction, expansion and renovation of 15 hospitals. To date, contracts in the amount of U.S.\$238 million have been awarded. Several projects relating to technical assistance for development and construction of health centers are in the planning stage and are estimated to cost U.S.\$44 million.

SOLIDERE

Following the end of the period of conflict in 1990, the Government was confronted with the issue of how to redevelop areas in Lebanon that had suffered damage during the hostilities. Redevelopment was particularly critical for the Beirut Central District (the "BCD"), which had been the historical center of government and commercial activity and which had also been the subject of extensive damage during the hostilities. The BCD is considered the heart of Beirut. The area contains many important government buildings and the Lebanese Parliament. It has traditionally been considered the center of banking and commerce in Lebanon. The hotel district, internationally renowned before the hostilities, lies at the western edge of the BCD.

In 1991, the Government created a legal framework that would allow for the establishment of private real estate companies to carry out the redevelopment of damaged areas in accordance with a master plan approved by the Government. Such companies would be capitalized partly by cash subscriptions by investors and partly by issuance of shares in exchange for the compulsory contribution of property rights by the original owners and lessees (subject to an option in favor of such owners to regain ownership of certain properties). Parliament established the foundation for this legal framework with the enactment in 1991 of Law 117 ("Law 117").

A master plan for the development of the BCD, supplemented by a detailed plan, defines the geographical limits of the BCD and contains the body of guidelines and rules governing the rehabilitation and redevelopment of the BCD, including certain guiding principles aiming to preserve and promote the historic heritage of the BCD and to ensure the harmonious integration of traditional and modern architecture.

SOLIDERE was the first real estate development and reconstruction company created pursuant to Law 117, in May 1994, and the only such company with responsibility for the development and reconstruction of the BCD (the "Project"). The entire area is approximately 1.8 million square meters, consisting of the traditional BCD and the reclaimed land. The traditional BCD constitutes the area of the BCD which existed prior to the hostilities in Lebanon and covers a surface area of approximately 1.2 million square meters. Under the master plan for the Project, the aggregate permitted built-up floor space in the entire BCD (including certain exempted lots which are government and religious buildings) and the lands reclaimed from the Mediterranean sea is limited to 4.69 million square meters.

SOLIDERE accomplished infrastructure works in the traditional BCD, the restoration of the majority of preserved buildings, and the Western Marina. Many new projects were also completed by SOLIDERE, mainly, the United Nations building, the British Embassy complex near the Serail, the Saifi village, a multi-use complex for offices and residence in Rue de France.

SOLIDERE intends to focus on the new waterfront district with a view toward the re-launching of Beirut as an international regional center. This entails completing the waterfront district infrastructure, after completing treatment works on the reclaimed land, developing the eastern marina and launching new and mixed-use developments.

SOLIDERE's capital at establishment was U.S.\$1,820,001,290, composed of real estate of the original owners and the lessees in the BCD, who received 65 percent of SOLIDERE's shares, (or U.S.\$1,170,001,290) in compensation for their properties and rights, and cash contributions equal to U.S.\$650,000,000 from Lebanese and Arab investors, who subscribed to the flotation of shares in SOLIDERE, which closed on January 10, 1994. In June 1997, SOLIDERE amended its by-laws to reduce its capital to U.S.\$1,650,000,000.

On September 30, 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary Market, were listed and began trading on the Beirut Stock Exchange

On December 3, 1996, 6,700,000 Global Depositary Receipts representing fractional economic interests in SOLIDERE shares were issued and currently are trading on the London Stock Exchange. In September 1997, SOLIDERE amended its by-laws and, in October, 1997, it obtained the necessary governmental approval to permit foreign investors to own shares in SOLIDERE. In March 2005, the shares of SOLIDERE began trading on the Kuwait Stock Exchange.

On June 7 2007, SOLIDERE established a subsidiary, Solidere International Limited, in the Dubai International Financial Centre, in which it holds 37 percent of the shares. Solidere International Limited is expected to undertake real estate development activities outside of the Republic, taking advantage of the goodwill and expertise generated in the reconstruction of the BCD.

Human Resources

Lebanon's human resources have traditionally been the backbone of its economy. The Republic's human resources had been developed to levels comparable to, or higher than, those of lower middle-income countries. Prior to the conflict, Lebanon was endowed with a well-trained population and labor force with adequate health facilities. The conflict resulted in setbacks for the human resources of the Republic. A significant emigration of skilled labor took place with large numbers of professionals, traders, industrial workers and construction workers leaving the country. The education system also suffered. See "Educational System".

The Multipurpose Survey estimated the official unemployment rate at 8.0 percent. The actual unemployment rate is likely to be higher and to have been exacerbated by the July 2006 War.

According to the Multipurpose Survey, the composition of workers in the Republic (pursuant to the categorization adopted by the International Labor Organization) is: skilled workers: 19.2 percent; unskilled workers: 15.5 percent; general and corporate managers: 10.7 percent; service sector workers and salespersons: 10.5 percent; specialists: 9.6 percent; drivers: 9.1 percent; office employees: 8.9 percent; intermediate professions: 7.4 percent; and skilled agricultural and fishery workers: 4.7 percent.

Educational System

The variety of Lebanese educational institutions (schools as well as universities) is a reflection of the openness of the Republic to the international community. Private schools have a long and strong tradition in Lebanon. Aside from private schools established by western clerics (French, Anglo-Saxons, Germans, Italians), there are many and diverse local and foreign religious and secular schools. The Educational Center for Research and Development has recently revised and updated the national curriculum for schools.

Based on information in the 2004 Multipurpose Survey, the adult literacy rate was approximately 90 percent in 2004, as compared to 88 percent in 1997 and 68 percent in 1970.

The Government's emphasis on education is evidenced by the existence of three ministries with responsibilities relating to educational matters. They are the Ministry of Education and Higher Education, the Ministry of Youth and Sport and the Ministry of Culture.

The Republic traditionally had an advanced education structure, and well-trained technicians and engineers. Prior to the conflict, Beirut served as an education center for the region. However, a substantial part of this

human capital was lost during the conflict, and the education system and infrastructure suffered damage and lack of investment. In spite of the turmoil, however, the education system has survived and still retains high standards.

Lebanon's educational system is composed of General Education ("GE"), Vocational and Technical Education ("VTE") and Higher Education ("HE"). In academic year 2006–07, the GE system was comprised of 1,393 public, 1,040 private and 379 subsidized schools, for a total of 2,812 schools. In the same period, there were 85 public and 354 private institutions in the VTE system, and the HE had one public university, the Lebanese University, and 39 private institutions, which include universities, university institutes, technological institutes and institutes for religious studies.

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The following table gives a summary of the GE school system during the academic years 2006–2007.

GE School System

| | 2006–2007 |
|---|-----------|
| Total number of GE schools | 2,812 |
| Total number of students in GE schools | 917,877 |
| Public schools (as a percentage of total) | 50 |
| Private schools (as a percentage of total) | 37 |
| Private subsidized schools (as a percentage of total) | 13 |

Source: The Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical bulletin 2006–2007.

The table below shows the percentage of the population attending schools for the 2006–2007 academic year.

Population Attending School

| Age | Males | | Females | | Total | |
|-------------------------|----------------|------------|----------------|------------|----------------|------------|
| | (number) | (percent) | (number) | (percent) | (number) | (percent) |
| < 5 years | 50,281 | 11 | 46,077 | 10 | 96,358 | 11 |
| 5–9 years..... | 132,560 | 29 | 129,017 | 29 | 261,577 | 28 |
| 10–14 years..... | 173,699 | 38 | 175,094 | 38 | 348,793 | 38 |
| 15–19 years..... | 95,992 | 21 | 105,978 | 23 | 201,970 | 22 |
| 20 years and above..... | 4,571 | 1 | 4,608 | 1 | 9,179 | 1 |
| Total..... | 457,103 | 100 | 460,774 | 100 | 917,877 | 100 |

Source: The Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical bulletin 2006–2007 and The National Survey for Household Living Conditions.

The total number of VTE students was 99,731 during the academic year 2006–2007.

Lebanon's universities had a total of 160,364 students during the academic year 2006–2007, of which 54.3 percent were females and 45.7 percent were males. Approximately 86.7 percent are Lebanese and 13.3 percent of university students are foreigners. Lebanon's universities had a total of 84,446 students during the academic year 1995–1996 and 87,957 students during the academic year 1996–1997. In 1998–1999, the total number of students enrolled at university was 101,400.

The principal universities in Lebanon consist of the Lebanese University, with five branches (72,961 enrolments in 2006–2007), *Université Saint Joseph* (USJ) (founded and run by French Jesuits) (9,512 enrolments in 2006–2007), the Arab University (sponsored by the Egyptian University of Alexandria) 16,758 enrolments in 2006–2007), the American University of Beirut (AUB) (6,806 enrolments in 2006–2007), the Lebanese American University (4,639 enrolments in 2006–2007), Notre Dame University (4,639 enrolments in 2005–2006), *Université Saint Esprit de Kaslik* (6,617 enrolments in 2006–2007), the Balamand University (Hybrid System) (3,020 enrolments in 2006–2007) and Haigazian University (662 enrolments in 2006–2007). Each of the Lebanese University, the USJ, The Beirut Arab University, Balamand and the AUB has a medical school.

As a joint initiative between the Lebanese and French governments, and with the support of the Paris Chamber of Commerce and Industry, BDL and various private sponsors, the “*Ecole Supérieure des Affaires*” (the “ESA”) was established in Beirut in April 1996. The ESA offers a full-and part-time MBA program and, through its Monetary and Financial Institute, aims to attract bank and finance executives who wish to develop their knowledge of modern financial products and financing techniques.

The Government included a three-year reform program regarding education as part of its presentation at the Paris III Conference. The Education Sector Reform Action Plan for the years 2007–2009 span seven reform programs: (i) consolidating policy, planning and resource allocation, (ii) achieving universal basic education for ages 6–15, (iii) improving the efficiency, effectiveness and competence level of the teaching workforce, (iv) enhancing the quality of education, (v) strategic management of educational facilities, (vi) rationalizing VTE, and (vii) quality assurance in HE.

EXTERNAL SECTOR

Balance of Payments and Foreign Trade

Lebanon is a predominantly importing country characterized by large trade deficits; however, these deficits are mostly offset by capital account inflows as well as by inflows from remittances, income earnings, tourism and other services. The trade balance recorded deficits of approximately U.S.\$5,919 million in 2001, U.S.\$4,721 million in 2002, U.S.\$5,089 in 2003, U.S.\$6,507 in 2004 and U.S.\$6,043 in 2005. Even during the conflicts, there was generally a surplus in the balance of payments. It showed minor deficits in 1979, 1983, 1984 and 1986, but larger deficits occurred in 1989 and 1990. All other years in the period 1975–1997 showed a surplus in the balance of payments.

In 2001, the balance of payments registered a deficit of U.S.\$1,169 million due primarily to an increase in the trade balance deficit and the effect of regional developments. During 2002 and the first half of 2003, the Republic's balance of payments improved significantly. By year end 2002, the balance of payments registered a surplus of U.S.\$1,564 million, benefiting from an increase in exports and a substantial inflow of funds from the Paris II Conference in November of 2002. By December 2003, due to the large inflows following the Paris II Conference, the balance of payments surplus increased to U.S.\$3,386 million. During 2004, despite an increase in the trade deficit and a net decline in capital inflows compared to the previous year, the balance of payments recorded a surplus of U.S.\$168.5 million. In 2005, despite the difficult political situation, the balance of payments registered a surplus of U.S.\$747.25 million. As at the end of July 2005 (for the first seven months of 2005), the balance of payments recorded a deficit of U.S.\$748.45 million as compared to a surplus of U.S.\$577.6 million for the same period in 2004. The deficit in the balance of payments was mainly due to a moderate increase in the trade deficit as well as a net decrease in the capital account balance, particularly in February and April, during which significant deficits were recorded. The year ended with a U.S.\$598.10 million surplus in December 2005. Despite the July 2006 War and the political tensions that followed during 2006, the balance of payments registered a surplus of U.S.\$2,794.3 million by the end of December 2006, mainly as a result of the Kingdom of Saudi Arabia and the Kuwait deposits at BDL totaling U.S.\$1.5 billion, as well as other inflows following the July 2006 War. The balance of payments continued to register a surplus in 2007, standing at U.S.\$2,036.6 million, despite an increase in the trade balance deficit, as a result of increases in the capital and financial accounts.

The following table sets out information relating to the Republic's foreign trade for the years 2003–2006 and for the nine months ended September 30, 2007.

Balance of Payments Summary⁽¹⁾

| | 2003 | 2004 | 2005 | 2006 | 2007 ⁽²⁾ |
|--|--------------------------------|------------------|------------------|----------------|---------------------|
| | <i>(U.S. Dollars millions)</i> | | | | |
| Current Account | (4,929.7) | (4,080.0) | (2,278.6) | 50.3 | (86.0) |
| Goods..... | (4,794.4) | (6,452.4) | (6,118.3) | (5,021.3) | (4,446.1) |
| Credit..... | 1,733.1 | 2,050.0 | 2,278.2 | 3,207.1 | 2,922.1 |
| Debit..... | (6,527.6) | (8,502.5) | (8,396.6) | (8,228.4) | (7,368.3) |
| General merchandise..... | (5,088.8) | (6,506.9) | (6,043.0) | (6,172.8) | (5,207.2) |
| Exports FOB ⁽³⁾ | 1,272.8 | 1,661.4 | 2,017.6 | 2,227.4 | 2,262.4 |
| Imports FOB ⁽³⁾ | (6,361.7) | (8,168.3) | (8,060.6) | (8,400.2) | (7,469.6) |
| Goods for processing..... | 104.9 | 206.6 | 140.2 | 853.0 | 812.4 |
| Repairs on goods..... | (2.3) | (2.3) | (1.7) | (1.2) | 0.0 |
| Nonmonetary gold..... | 191.8 | (149.8) | (213.8) | 299.7 | (51.3) |
| Services..... | 2,973.8 | 1,474.3 | 2,963.5 | 2,861.3 | 1,949.2 |
| Credit..... | 9,462.0 | 9,703.9 | 10,858.3 | 11,565.9 | 8,930.6 |
| Debit..... | (6,488.1) | (8,229.6) | (7,894.9) | (8,704.6) | (6,981.4) |
| Transportation..... | (493.5) | (708.9) | (894.5) | (994.1) | (772.5) |
| Travel..... | 3,430.9 | 2,241.4 | 2,623.6 | 1,960.7 | 1,302.0 |
| Communication services..... | 66.1 | 26.3 | 102.1 | 88.2 | 37.1 |
| Insurance services..... | (93.4) | (35.3) | (38.7) | (71.7) | (13.0) |
| Financial services..... | 20.6 | 30.4 | 48.2 | 109.3 | 88.3 |
| Misc. business, professional services..... | 40.3 | (85.3) | 1,119.8 | 1,768.1 | 1,312.1 |
| Government services, n.i.e. | 2.8 | 5.8 | 3.0 | 1.0 | (4.2) |
| Income..... | (3,437.6) | (817.6) | (186.4) | 294.5 | 71.7 |
| Credit..... | 1,398.7 | 1,060.3 | 1,732.5 | 2,439.6 | 1,987.7 |
| Debit..... | (4,836.3) | (1,877.9) | (1,918.9) | (2,145.1) | (1,915.9) |
| Compensation of employees..... | 391.9 | (250.7) | (63.8) | (82.0) | 93.7 |
| Investment income..... | (3,829.5) | (566.9) | (122.6) | 376.5 | (22.0) |
| Direct investment..... | 17.9 | (27.3) | 26.0 | (17.4) | 0.7 |
| Portfolio investment..... | (3,663.2) | (438.1) | (383.2) | (397.2) | (301.2) |
| Other investment..... | (184.1) | (101.6) | 234.5 | 791.2 | 278.4 |
| Current transfers..... | 328.5 | 1,715.9 | 1,062.7 | 1,915.8 | 2,339.2 |
| Credit..... | 4,079.1 | 5,325.2 | 4,399.4 | 5,157.5 | 3,886.8 |
| Debit..... | (3,750.7) | (3,609.4) | (3,336.7) | (3,241.6) | (1,547.6) |
| General government..... | 3.7 | 6.0 | 0.1 | 109.2 | (1.9) |
| Other sectors..... | 324.8 | 1,709.9 | 1,062.6 | 1,806.6 | 2,341.1 |
| Workers' remittances..... | 270.0 | 1,609.5 | 976.4 | 1,786.0 | 2,274.5 |
| Other transfers..... | 54.8 | 100.4 | 86.2 | 20.6 | 66.6 |
| Credit..... | 107.7 | 131.7 | 134.3 | 421.8 | 130.0 |
| Debit..... | (53.0) | (31.3) | (48.0) | (401.2) | (63.4) |
| Capital and financial account | 4,956.9 | 6,979.9 | 6,428.8 | 4,729.8 | 9,072.4 |
| Capital account..... | 29.3 | 50.4 | 27.4 | 1,940.4 | 306.0 |
| Credit..... | 30.0 | 53.7 | 27.4 | 1,944.4 | 306.8 |
| Debit..... | (0.7) | (3.3) | (0.0) | (4.0) | (0.8) |
| Capital transfers..... | 29.3 | 50.4 | 27.4 | 1,940.4 | 306.0 |
| Financial account..... | 4,927.6 | 6,929.5 | 6,401.4 | 2,789.4 | 8,766.4 |
| Direct investment..... | | | | | |
| Abroad..... | (40.0) | (212.9) | (122.0) | (70.0) | 113.3 |
| In reporting economy..... | 2,977.0 | 1,993.1 | 2,751.3 | 2,793.9 | 1,883.3 |
| Portfolio investment..... | | | | | |
| Assets..... | (558.6) | (614.3) | (110.4) | (355.1) | 91.7 |
| Equity securities..... | (39.9) | (348.9) | (150.7) | (202.6) | 389.0 |
| Debt securities..... | (518.7) | (265.4) | 40.3 | (152.5) | (297.3) |
| Liabilities..... | 644.0 | (93.0) | 647.7 | 1,308.1 | 847.7 |
| Equity securities..... | 207.4 | 147.6 | 1,435.6 | 550.8 | 503.0 |
| Debt securities..... | 436.6 | (240.6) | (788.0) | 757.4 | 344.7 |
| Other investments..... | | | | | |
| Assets..... | 5,014.8 | 3,864.0 | 3,657.7 | (1,494.4) | 2,321.9 |
| Loans..... | 3,614.9 | 5,232.1 | 4,648.7 | 5,083.4 | 5,838.3 |
| Currency and deposits..... | 1,399.9 | (1,368.1) | (991.0) | (6,577.8) | (3,516.4) |
| Liabilities..... | 1,926.1 | 1,211.1 | 32.3 | 853.5 | 3,461.2 |
| Loans..... | 992.3 | 285.1 | 959.6 | 304.4 | 203.0 |
| Currency and deposits..... | 933.7 | 926.0 | (927.3) | 549.1 | 3,258.2 |
| Reserve Assets..... | (5,035.7) | (781.6) | (455.1) | (246.6) | 47.3 |
| Net errors and omissions..... | (27.2) | (2,899.9) | (4,150.2) | (4,780.1) | (8,986.4) |

Notes:

- (1) Certain line items differ from previously published data due to revisions agreed with the IMF.
- (2) 2007 figures are for the period January 1, 2007 to September 30, 2007.
- (3) Customs data.

Source: Higher Council of Customs and BDL.

The following table indicates the principal destinations of exports for the periods indicated.

| Destination of Exports | | | | | |
|--|-----------------------------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | <i>(percent of total exports)</i> | | | | |
| Industrialized countries | 39.5 | 23.2 | 20.2 | 33.5 | 28.8 |
| EU 15 | 9.4 | 9.0 | 9.5 | 10.7 | 14.8 |
| Italy | 1.9 | 1.1 | 0.9 | 1.2 | 1.2 |
| France | 1.6 | 2.0 | 1.7 | 1.7 | 1.8 |
| Germany | 1.3 | 1.3 | 1.0 | 1.0 | 1.3 |
| United States | 4.3 | 2.8 | 3.1 | 2.3 | 2.4 |
| Japan | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 |
| United Kingdom | 1.1 | 1.3 | 1.7 | 1.6 | 2.8 |
| Switzerland | 24.9 | 10.7 | 6.7 | 19.8 | 10.9 |
| Belgium-Luxembourg | 0.7 | 0.9 | 1.2 | 2.1 | 3.1 |
| Other | 0.5 | 0.4 | 0.8 | 0.5 | 0.5 |
| Developing countries | 60.5 | 76.8 | 79.8 | 66.5 | 71.2 |
| Middle East and North Africa | 41.8 | 53.6 | 54.0 | 44.6 | 46.9 |
| <i>of which: GAFTA</i> | 39.2 | 51.0 | 51.3 | 42.1 | 44.4 |
| Middle East | 39.4 | 51.3 | 51.8 | 43.1 | 45.1 |
| Saudi Arabia | 6.8 | 6.5 | 7.4 | 6.4 | 6.7 |
| Syria | 6.5 | 8.3 | 10.0 | 7.7 | 7.5 |
| Jordan | 3.2 | 3.6 | 4.0 | 3.7 | 3.5 |
| Kuwait | 3.3 | 3.9 | 4.3 | 3.6 | 3.8 |
| U.A.E. | 6.8 | 7.7 | 8.2 | 7.7 | 8.7 |
| Egypt | 1.8 | 2.3 | 2.9 | 2.1 | 4.0 |
| Iraq | 8.0 | 14.6 | 9.5 | 6.0 | 5.2 |
| Other | 2.4 | 2.3 | 2.3 | 1.5 | 1.8 |
| Africa | 6.2 | 7.4 | 9.0 | 8.2 | 10.5 |
| Other Europe | 5.9 | 8.5 | 8.1 | 5.7 | 5.7 |
| Other developing countries and emerging markets | 6.6 | 7.3 | 8.6 | 8.0 | 8.1 |

Sources: Higher Council of Customs, BDL and IMF estimates.

The following table shows the composition of exports for the periods indicated.

| Composition of Exports | | | | | |
|---|-----------------------------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | <i>(percent of total exports)</i> | | | | |
| Live animals; animal products..... | 0.8 | 0.5 | 0.5 | 0.5 | 0.4 |
| Vegetable products | 4.2 | 4.7 | 4.1 | 3.5 | 3.7 |
| Animal or vegetable fats and oils | 0.6 | 0.9 | 0.7 | 0.5 | 0.6 |
| Prepared foodstuffs; beverages, tobacco ... | 9.8 | 8.5 | 10.2 | 8.2 | 8.5 |
| Mineral products | 4.2 | 6.2 | 6.7 | 3.7 | 3.2 |
| <i>Of which: mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes</i> | <i>0.1</i> | <i>0.2</i> | <i>0.3</i> | <i>0.3</i> | <i>0.1</i> |
| Products of the chemical or allied industries | 7.5 | 8.5 | 8.7 | 7.1 | 8.3 |
| Plastics and articles thereof; rubber | 2.4 | 3.4 | 4.1 | 3.7 | 4.2 |
| Raw hides and skins, leather, furskins | 0.9 | 0.9 | 0.7 | 0.6 | 0.4 |
| Wood and articles of wood; wood charcoal; cork | 1.1 | 1.2 | 1.2 | 0.8 | 0.8 |
| Pulp of wood; paper and paperboard | 5.9 | 5.8 | 6.2 | 5.9 | 6.2 |
| Textiles and textile articles | 4.2 | 4.5 | 4.3 | 3.8 | 3.6 |
| Footwear, umbrellas, artificial flowers | 0.7 | 0.8 | 0.9 | 0.7 | 0.7 |
| Articles of stone, plaster, cement, glass | 2.5 | 3.2 | 2.7 | 2.1 | 2.1 |
| Pearls, precious stones and metals | 30.5 | 16.4 | 11.9 | 24.3 | 17.3 |
| <i>Of which: gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form.</i> | <i>23.4</i> | <i>10.3</i> | <i>6.4</i> | <i>19.5</i> | <i>4.5</i> |
| Base metals and articles of base metal | 7.6 | 13.0 | 14.7 | 14.1 | 17.5 |
| Machinery; electrical instruments | 11.8 | 15.7 | 16.7 | 14.6 | 16.3 |
| Vehicles, aircraft, vessels, transport equipment | 1.2 | 1.2 | 1.2 | 1.5 | 1.1 |
| Optical, photographic, medical, musical instruments | 0.6 | 0.8 | 0.9 | 0.9 | 0.8 |
| Arms and ammunition; parts and accessories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Miscellaneous manufactured articles | 3.0 | 3.2 | 3.1 | 3.1 | 3.2 |
| Works of art, collectors' pieces and antiques | 0.5 | 0.7 | 0.5 | 0.4 | 1.0 |

Sources: Higher Council of Customs and BDL.

The following table sets out the major sources of imports for the periods indicated.

| | Origin of Imports | | | | |
|--|-----------------------------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | <i>(percent of total imports)</i> | | | | |
| Industrialized countries | 56.0 | 53.0 | 52.7 | 52.3 | 51.9 |
| EU 15 | 42.4 | 38.4 | 38.2 | 35.4 | 34.7 |
| Italy | 9.4 | 9.9 | 10.4 | 7.6 | 9.0 |
| France | 8.1 | 7.8 | 8.4 | 8.1 | 7.5 |
| Germany | 8.1 | 7.8 | 7.0 | 7.0 | 6.3 |
| United States | 6.0 | 5.9 | 5.9 | 10.8 | 9.6 |
| Japan | 3.8 | 3.7 | 3.3 | 3.0 | 3.3 |
| United Kingdom | 5.2 | 4.7 | 4.0 | 4.8 | 4.1 |
| Switzerland | 3.0 | 4.2 | 4.5 | 2.3 | 2.9 |
| Belgium-Luxembourg | 2.3 | 1.8 | 1.9 | 1.6 | 1.6 |
| Other | 0.8 | 0.8 | 0.8 | 0.8 | 1.2 |
| Developing countries | 44.0 | 47.0 | 47.3 | 47.7 | 48.1 |
| Middle East and North Africa | 13.2 | 14.7 | 14.2 | 15.4 | 14.9 |
| <i>of which: GAFTA</i> | <i>12.5</i> | <i>14.0</i> | 13.8 | 15.0 | 14.6 |
| Middle East | 12.4 | 14.0 | 13.2 | 14.5 | 14.1 |
| Saudi Arabia | 3.1 | 4.4 | 3.5 | 3.2 | 2.4 |
| Syria | 3.6 | 2.6 | 2.1 | 1.9 | 1.7 |
| Jordan | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 |
| Kuwait | 0.2 | 0.2 | 1.1 | 2.0 | 2.3 |
| U.A.E. | 1.3 | 1.6 | 1.5 | 1.4 | 1.8 |
| Egypt | 2.4 | 3.1 | 3.2 | 4.0 | 4.4 |
| Iraq | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Other | 0.8 | 0.7 | 1.0 | 1.0 | 0.8 |
| Africa | 0.5 | 0.7 | 0.5 | 0.6 | 1.0 |
| Other Europe | 6.2 | 6.0 | 6.4 | 7.4 | 6.7 |
| Other developing countries and emerging markets | 24.1 | 25.6 | 26.2 | 24.3 | 25.5 |

Source: Higher Council of Customs, BDL and IMF Staff estimates.

The following table shows the composition of imports for the periods indicated.

| Composition of Imports | | | | | |
|---|-----------------------------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | <i>(percent of total imports)</i> | | | | |
| Live animals; animal products..... | 5.8 | 4.8 | 4.6 | 4.7 | 4.2 |
| Vegetable products | 5.3 | 4.7 | 4.1 | 3.9 | 4.7 |
| Animal or vegetable fats and oils | 0.7 | 0.8 | 0.9 | 1.0 | 1.0 |
| Prepared foodstuffs; beverages, tobacco | 6.6 | 5.6 | 5.7 | 5.7 | 6.4 |
| Mineral products..... | 16.6 | 22.0 | 23.8 | 25.7 | 22.8 |
| <i>Of which: mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes</i> | <i>15.2</i> | <i>20.6</i> | <i>22.4</i> | <i>24.5</i> | <i>21.4</i> |
| Products of the chemical or allied industries | 10.0 | 8.8 | 8.8 | 9.4 | 9.3 |
| Plastics and articles thereof; rubber..... | 3.6 | 3.7 | 3.8 | 3.8 | 4.1 |
| Raw hides and skins, leather, furskins..... | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Wood and articles of wood; wood charcoal; cork..... | 1.5 | 1.5 | 1.5 | 1.4 | 1.5 |
| Pulp of wood; paper and paperboard..... | 3.2 | 2.9 | 2.8 | 2.6 | 2.8 |
| Textiles and textile articles..... | 6.1 | 5.4 | 5.2 | 4.9 | 4.4 |
| Footwear, umbrellas, artificial flowers..... | 1.0 | 0.9 | 0.7 | 0.7 | 0.7 |
| Articles of stone, plaster, cement, glass..... | 1.9 | 1.8 | 1.7 | 1.6 | 1.8 |
| Pearls, precious stones and metals..... | 4.2 | 5.6 | 5.3 | 3.1 | 4.1 |
| <i>Of which: gold (including gold plated with platinum) unwrought or in semi- manufactured forms, or in powder form.</i> | <i>2.3</i> | <i>3.5</i> | <i>3.6</i> | <i>1.5</i> | <i>2.2</i> |
| Base metals and articles of base metal..... | 6.6 | 6.3 | 7.0 | 7.3 | 8.2 |
| Machinery;electrical instruments..... | 12.2 | 11.8 | 11.4 | 12.0 | 12.1 |
| Vehicles, aircraft, vessels, transport equipment..... | 9.7 | 9.0 | 8.7 | 8.1 | 8.4 |
| Optical, photographic,medical, musical instruments | 2.2 | 1.9 | 1.7 | 2.0 | 1.6 |
| Arms and ammunition; parts and accessories..... | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 |
| Miscellaneous manufactured articles..... | 2.0 | 2.0 | 1.8 | 1.7 | 1.5 |
| Works of art, collectors' pieces and antiques | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 |

Source: Higher Council of Customs and BDL.

Foreign Direct Investment

Prior to 1975, foreign direct investment was substantial. It was concentrated in property, services, banking and tourism. Predictably, foreign direct investment was weak during the period of conflict.

The onset of peace marked a reversal of this trend. Since 1990, considerable amounts of private Arab capital have been invested in real estate. Two principal sources for foreign direct investment have been the substantial funds held by Lebanese abroad and the large pool of private Arab wealth.

The Government continues to favor a strong role for the private sector in a liberal policy environment and welcomes foreign direct investment in the economy. The legal framework is sound and conducive to foreign investment. There are no special financial provisions for, or constraints on, foreign investors in the Republic, except that certain restrictions exist on foreign ownership of companies involved in media activity, land ownership (both directly and when holding shares in companies owning real property) and the employment of foreign labor. A government agency, the IDAL, which has been established in 1994, assists foreign investors in setting up their businesses in Lebanon.

Lebanon's membership in the Multilateral Investment Guarantee Agency was ratified by Parliament as a means of reinforcing the confidence of foreign investors wishing to invest in Lebanon. In addition, the National

Institute for the Guarantee of Investment makes insurance coverage available to investors, in the form of compensation, for losses resulting from non-commercial risks.

Foreign Borrowings and Grants

At the end of 2007, the Republic's outstanding principal amounts under foreign financing facilities in the form of contracted loans (excluding outstanding Eurobonds and Paris II loans) were approximately U.S.\$1.97 billion. In 2007, disbursements from foreign financing loans were approximately U.S.\$210 million. These facilities have been provided principally by the following countries and institutions: the Abu-Dhabi Fund for Development, the Arab Fund for Economic and Social Development, Belgium, the EIB, the EU, France, Germany, the International Fund for Agricultural Development, the Islamic Development Bank, Italy, Japan, Kuwait, Qatar, Oman, OPEC Fund for International Development, Saudi Arabia, the United Nations and the World Bank.

The Government's strategy has been to maximize the use of external financing, preferably concessional financing (in the form of grants or soft loans). Other sources of external financing include commercial loans with export credit guarantees and the issuance by the Government of Eurobonds and other international debt securities.

The Government has sought the assistance of friendly countries, such as France, the United States and Japan, and multinational agencies, to address the issues it was facing. To this end, in February 2001, a meeting was convened in Paris by the President of France and was attended by the President of the World Bank, the President of the European Commission, the Vice Chairman of the EIB and members of the French government. The purpose of the meeting was to discuss the Government's economic program and consider proposals to support this program; these proposals included the issuance of partial guarantees of some of the Republic's external debt issues.

On November 23, 2002, a second conference (the "*Paris II Conference*"), was convened by the President of France. The meeting was attended by representatives of a number of countries, including the President of Malaysia, the prime ministers of Belgium, Canada, Germany, Italy and Spain and senior officials from Bahrain, Denmark, Japan, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and the United Kingdom. Also in attendance were senior representatives of the European Commission, the World Bank, the IMF, the EIB and various Arab multilateral agencies. The participants at the conference expressed support for the economic reform measures of the Government and pledged to contribute approximately U.S.\$3.1 billion in long-term, low interest financing to the Treasury of the Government and approximately U.S.\$1.3 billion in long-term, low-interest financing for projects. As at December 31, 2004, the Government had collected proceeds totaling approximately U.S.\$2.4 billion, representing approximately 77 percent of the U.S.\$3.1 billion pledged at the Paris II Conference. In exchange for these contributions, the Republic issued Eurobonds and entered into a loan agreement with the AFD, bearing interest at the rate of 5 percent and having a final maturity of 15 years with a grace period of up to five years. The Government has used these funds to redeem and cancel higher-interest bearing maturing debt.

In addition to the U.S.\$2.4 billion received from the lender countries mentioned above, the Republic also received contributions from two multilateral institutions in the form of a U.S.\$15 million medium term loan for structural adjustment from the Arab Monetary Fund and a U.S.\$40 million facility to be used to finance fuel imports by EdL. The EU contributed €12.25 million as a grant to be used for structural adjustment and fiscal reforms.

The following table details the amounts received from countries and institutions as a result of the Paris II Conference.

Paris II Conference Funds Received

| Creditor | Amounts Received |
|------------------------------------|-------------------|
| Malaysia | U.S.\$300 million |
| Sultanate of Oman | U.S.\$50 million |
| United Arab Emirates | U.S.\$300 million |
| Kuwait | U.S.\$300 million |
| Kingdom of Saudi Arabia | U.S.\$700 million |
| State of Qatar | U.S.\$200 million |
| France-French Treasury & AFD | €500 million |
| Arab Monetary Fund..... | U.S.\$55 million |
| EU..... | €12.25 million |

Source: Ministry of Finance.

On September 19, 2005, a meeting was held at the United Nations Headquarters, New York, which was attended by, among other parties, the Prime Minister, the Finance Minister and other members of the Government, as well as the Secretary General of the United Nations, the President of the World Bank, the High Representative for the Common Foreign and Security Policy of the EU and the foreign ministers of Egypt, Italy, France, Saudi Arabia, the United Kingdom and the United States and representatives of the Russian Federation. The participants expressed their support for the reform program of the Government and agreed to convene a donors' conference in Beirut (the "*Beirut Conference*").

At that time, the Government decided to first seek broad national consensus on this program before holding the Beirut Conference. Given the nature, the magnitude and the scope of the reform measures of the actions that were envisaged, more time than had originally been anticipated was needed to complete the consensus building process, which was also complicated by some political tensions early in the year and the resignation of some ministers. The process was reaching its final stages when the July 2006 War began.

The international community reacted quickly and generously to support Lebanon during the July 2006 War and after the cessation of hostilities. Immediately after the outbreak of the war, Saudi Arabia and Kuwait provided commitments of U.S.\$500 million and U.S.\$300 million respectively as grants for reconstruction. In addition, Saudi Arabia and Kuwait deposited U.S.\$1 billion and U.S.\$500 million respectively with BDL to help maintain confidence and monetary stability.

On August 31, 2006, the Swedish government hosted a Conference for Lebanon's Early Recovery in Stockholm. At that Conference, Lebanon received indications of support amounting to over U.S.\$900 million for humanitarian assistance needs and early recovery efforts, in the form of financial assistance, in kind contributions to specific reconstruction activities and others. This financial support allowed for the return of the quarter of the population that was displaced, and restored minimum capacity in terms of infrastructure, access to basic social services and income generating activities, pending full reconstruction. The Ministry of Finance estimates a total of U.S.\$613 million has been committed, of which U.S.\$289 million has been fulfilled.

In addition to Saudi Arabia, Kuwait and countries that contributed during the Stockholm Conference, many countries pledged their support to Lebanon. In total, and since the beginning of the July 2006 War, a total of U.S.\$2.1 billion has been pledged in grants (in addition to in-kind relief contributions that were sent during the July 2006 War.), of which U.S.\$1.6 billion has been formally committed.

On January 25, 2007, the "International Conference for Support to Lebanon", known as the Paris III Conference and named after the late Prime Minister Rafik Hariri, was held in Paris at the invitation of the President of France. It was attended by representatives of 36 countries and 14 multilateral and supranational institutions, including the United Nations, the EU, the World Bank, the IMF and the Arab League, and resulted in pledges of financial assistance to Lebanon of approximately U.S.\$7.6 billion. The Government is actively pursuing finalization and collections of these pledges.

On April 9, 2007, the Executive Board of the IMF approved the provision of financial assistance to the Republic in the amount of approximately U.S.\$77 million in the form of Emergency Post-Conflict Assistance ("*EPCA*"), which has been disbursed to the Republic. The EPCA financial assistance is part of a package of assistance to

the Republic resulting from the Paris III Donors' Conference held in January 2007. The Memorandum of Understanding between the IMF and the Republic relating to the EPCA financial assistance contains certain indicative fiscal and privatization targets as well as certain reporting requirements.

The Republic received the following concessional loans and grants which were pledged in the context of the Paris III Conference that was held on January 25, 2007. Since January 2007, approximately U.S.\$1.2 billion concessional loans were disbursed to the Republic as follows:

- a U.S.\$100,000,000 Reform Implementation Development Policy Loan from the International Bank for Reconstruction and Development for budgetary support which carries a variable interest rate and has a 15-year maturity;
- an SDR 50,750,000 loan under the IMF's policy for EPCA, the proceeds of which are required to be used for balance of payment purposes;
- a U.S.\$300,000,000 loan from the United Arab Emirates for budgetary support which carries an effective interest rate of 3.00 percent per annum and a 15-year maturity with an amortized repayment structure beginning after a five-year grace period;
- Eurobonds in a principal amount of U.S.\$500,000,000 subscribed by the Central Bank of Malaysia in connection with a rollover and extension of Eurobonds then outstanding; and
- a €150 million loan representing the first tranche of a concessional loan from AFP.
- In addition, U.S.\$225 million grants for budgetary support were disbursed to the Republic as follows:
 - a U.S.\$100,000,000 grant from the Kingdom of Saudi Arabia;
 - a U.S.\$114,776,517 grant from the USAID, of which U.S.\$14,027,803 was disbursed in 2007, U.S.\$96,410,486 was disbursed in January 2008, U.S.\$2,422,279 was disbursed in February 2008, U.S.\$1,915,927 disbursed in March 2008. The proceeds of such grant are required to be used for debt repayment; and
 - a U.S.\$10,000,000 grant from the Sultanate of Oman.

In April 2007, the IMF published a report indicating that the Government and BDL have met all of the December 31, 2007 indicative targets under the ECPA by substantial margins and despite the prolonged political stalemate.

PUBLIC DEBT

General

As at December 31, 2007, the Republic's gross public debt was LL 63,364 billion (U.S.\$42.03 billion) consisting of LL 31,373 billion of gross domestic debt and LL 31,991 billion of public external debt. Net outstanding public debt of the Republic was LL 58,837 billion (U.S.\$39.03 billion) as of December 31, 2007.

The table below shows the Republic's gross and net public sector debt for the periods indicated below.

| | Public Sector Debt⁽¹⁾ | | | | |
|---|---|---------------|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | | | (LL billions) | | |
| I. Gross Domestic Debt..... | 26,843 | 26,371 | 29,141 | 30,204 | 31,373 |
| II. Public External Debt ⁽²⁾ | 23,442 | 27,677 | 28,844 | 30,647 | 31,991 |
| III. Gross Public Debt (I + II) | 50,285 | 54,048 | 57,985 | 60,851 | 63,364 |
| IV. Public Sector Deposits ⁽³⁾ | 3,019 | 4,360 | 5,590 | 4,444 | 4,527 |
| V. Net Domestic Debt (I – IV)..... | 23,824 | 22,011 | 23,551 | 25,760 | 26,846 |
| VI. Net Public Debt (III – IV) | 47,266 | 49,688 | 52,395 | 56,407 | 58,837 |

Notes:

- (1) Debt figures differ from previously published figures due to continuing implementation of the Debt Management System.
- (2) Amounts translated into Lebanese Pounds at end of period rates; includes accrued interest.
- (3) Represent public sector deposits at BDL and commercial banks.

Source: Ministry of Finance and BDL.

The table below shows the Republic's gross and net public debt as a percentage of GDP for the periods indicated below.

| | Public Debt as a Percentage of GDP | | | | |
|------------------------|---|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | | | (percent) | | |
| Gross Public Debt..... | 168 | 167 | 178 | 177 | 171 |
| Net Public Debt..... | 158 | 154 | 161 | 164 | 158 |

Source: Ministry of Finance and BDL.

Net public debt as a percentage of estimated GDP increased from 46 percent in 1992 to 105 percent in 1998, 141 percent in 2000, 158 percent in 2001, 157 percent in 2002, 158 percent in 2003 and decreased to 154 percent in 2004, and increased to 162 percent in 2005 and 164 percent in 2006. In 2007, net public debt decreased to 158 percent.

Internal Debt

The Government has elected to finance the budget deficit principally through the issuance of Lebanese Pound-denominated Treasury bills (with maturities of three months, six months and twelve months), and Treasury bonds (with maturities of 24 months and 36 months and 5 years). Following the Paris II Conference, yields on Treasury bills have been on a declining trend and market auctions were halted for a period of approximately nine months (between mid-February 2003 and the end of October 2003) on account of the inflow of Paris II Conference funds and the commercial bank and BDL debt service reduction measures. The issuance of Treasury bills and bonds resumed during November of 2003, and Treasury bonds in Lebanese Pounds with maturities of 36 months were introduced for the first time to the market. In March 2005, the Ministry of Finance established a medium term note program, complying with best international standards, for the issuance of Lebanese Pound-denominated bonds, directly or through managers and issued a five-year bond. The new bond lengthened maturities for LL instruments, widened distribution and set a new benchmark.

The table below shows the Republic's composition of domestic debt as of December 31, 2006 and December 31, 2007.

Composition of Domestic Debt

| | 2006 | | 2007 | |
|--|---------------|-------------------|---------------|-------------------|
| | (LL billions) | (U.S.\$ millions) | (LL billions) | (U.S.\$ millions) |
| Long term bonds⁽¹⁾ | 26,862 | 17,819 | 28,617 | 18,983 |
| 60 months | 2,172 | 1,441 | 3,699 | 2,454 |
| 54 months | 616 | 409 | 616 | 409 |
| 48 months | 633 | 420 | 633 | 420 |
| 36 months | 21,093 | 13,992 | 21,051 | 13,964 |
| 30 months | — | — | 0 | 0 |
| 24 months | 1,751 | 1,162 | 1,927 | 1,278 |
| Accrued interest | 597 | 396 | 691 | 458 |
| Short term bills | 2,839 | 1,883 | 2,288 | 1,518 |
| 12 months | 1,579 | 1,047 | 529 | 351 |
| 6 months | 1,117 | 741 | 1,750 | 1,161 |
| 3 months | 143 | 95 | 9 | 6 |
| Accrued interest | 88 | 58 | 63 | 42 |
| Other domestic debt | 503 | 334 | 468 | 310 |
| Total Domestic Debt | 30,204 | 20,036 | 31,373 | 20,811 |

Note:

(1) Long-term bonds have maturities of two years or longer.

Source: Ministry of Finance and BDL.

External Debt

The outstanding public external debt end of 1992, a year after the end of the war, was approximately U.S.\$362 million. Commencing in 1994, the Republic became a frequent issuer on the international capital markets as it sought to finance its budget deficit and to convert its high interest domestic debt into lower interest external debt. As at December 31, 2007, the outstanding public external debt of the Republic reached a value of approximately U.S.\$21.2 billion.

The table below shows the composition of the Republic's foreign debt as at December 31, 2006, and December 31, 2007.

Composition of Foreign Debt

| | 2006 | | 2007 | |
|---|---------------|-------------------|---------------|-------------------|
| | (LL billions) | (U.S.\$ millions) | (LL billions) | (U.S.\$ millions) |
| Eurobonds..... | 26,441 | 17,540 | 27,099 | 17,976 |
| Paris II Conference Eurobonds ⁽¹⁾ | 2,789.0 | 1,850 | 2,337 | 1,550 |
| Paris III Conference Eurobonds ⁽⁵⁾ | 0 | 0 | 754 | 500 |
| Loans..... | 3,787 | 2,512 | 4,473 | 2,961 |
| Paris II Conference concessional loans ⁽²⁾ | 932 | 618 | 907 | 602 |
| Paris III Conference concessional loans ⁽⁶⁾ | 0 | 0 | 603 | 400 |
| Bilateral and multilateral loans..... | 2,740 | 1,818 | 2,876 | 1,902 |
| Foreign private sector loans..... | 115 | 76 | 87 | 58 |
| Special Treasury bills in foreign currency ⁽³⁾ | 419 | 278 | 419 | 278 |
| Total Foreign Debt⁽⁴⁾..... | 30,647 | 20,330 | 31,991 | 21,221 |

Notes:

(1) Does not include U.S.\$1.87 billion issued to BDL.

(2) Contribution of France (AFD Loan).

(3) U.S.\$ denominated bonds issued in satisfaction of expropriation claims.

(4) Includes accrued interest.

(5) Includes U.S.\$500 million debt rescheduling with Malaysia in the context of Paris III.

(6) Includes U.S.\$100 million Development policy loan (World Bank) and U.S.\$ 300 million UAE Loan.

Source: Ministry of Finance and BDL.

The following table shows the Republic's outstanding Eurobonds as at the date hereof, excluding Eurobonds issued in connection with the Paris II and Paris III Conference and Eurobonds issued as part of the commercial bank debt service reduction measure.

Outstanding Eurobonds

| Year of Issue | Maturity | Original Principal Amount | Outstanding Principal Amount ⁽¹⁾ | Coupon |
|----------------------------|----------|------------------------------|--|----------------|
| 1997..... | 2007 | U.S.\$100 million | U.S.\$100 million | 7.500% |
| 1997..... | 2007 | U.S.\$400 million | U.S.\$369 million | 8.625% |
| 1999..... | 2009 | U.S.\$650 million | U.S.\$636 million | 10.250% |
| 2001..... | 2008 | U.S.\$750 million | U.S.\$750 million | 10.125% |
| 2001..... | 2016 | U.S.\$400 million | U.S.\$400 million | 11.625% |
| 2004 ⁽²⁾ | 2010 | U.S.\$1,265 million | U.S.\$1,265 million | 7.125% |
| 2004 ⁽²⁾ | 2012 | U.S.\$600 million | U.S.\$600 million | 7.750% |
| 2004..... | 2009 | U.S.\$625 million | U.S.\$625 million | 6 mo L + 325bp |
| 2004..... | 2009 | U.S.\$425 million | U.S.\$425 million | 7.000% |
| 2004..... | 2011 | U.S.\$1,000 million | U.S.\$1,000 million | 7.875% |
| 2004..... | 2009 | €225 million | €225 million | 7.250% |
| 2004 ⁽⁴⁾ | 2008 | U.S.\$700 million | U.S.\$700 million | 6.375% |
| 2004 ⁽¹¹⁾ | 2010 | U.S.\$700 million | U.S.\$700 million | 6.875% |
| 2005 ⁽⁴⁾ | 2007 | U.S.\$1,000 million | U.S.\$1,000 million | 6.500% |
| 2005 ⁽⁴⁾ | 2008 | U.S.\$250 million | U.S.\$250 million | 7.000% |
| 2005..... | 2008 | U.S.\$250 million | U.S.\$250 million | 7.375% |
| 2005 ⁽⁹⁾ | 2013 | U.S.\$650 million | U.S.\$650 million | 8.625% |
| 2005..... | 2016 | U.S.\$750 million | U.S.\$750 million | 8.500% |
| 2006 ⁽⁵⁾ | 2014 | U.S.\$677 million | U.S.\$677 million | 7.375% |
| 2006 ⁽⁵⁾ | 2021 | U.S.\$1,661 million | U.S.\$1,661 million | 8.250% |
| 2006 ⁽⁵⁾ | 2012 | €325 million | €325 million | 5.875% |
| 2006 ⁽⁶⁾ | 2011 | U.S.\$750 million | U.S.\$750 million | 7.500% |
| 2006 ⁽⁷⁾ | 2009 | U.S.\$352 million | U.S.\$352 million | 7.500% |
| 2007 ⁽⁸⁾ | 2008 | U.S.\$569 million | U.S.\$569 million | 6.375% |
| 2007 ⁽⁸⁾ | 2021 | U.S.\$431 million | U.S.\$431 million | 8.250% |
| 2007..... | 2013 | U.S.\$400 million | U.S.\$400 million | 8.375% |
| 2002 ⁽¹⁰⁾ | 2017 | U.S.\$2,007 million | U.S.\$2,007 million | 4.00% |
| 2008..... | 2013 | U.S.\$875 million | U.S.\$875 million | 9.125% |

Notes:

- (1) The outstanding amount of some Eurobonds is less than the original amount due to the cancellation of a portion of such Eurobonds in connection with BDL and commercial bank debt service reduction measures. See *"The Economy—Recent Economic History"*.
- (2) Originally issued as part of an exchange transaction, in which bonds maturing in 2005 were offered for exchange into two new bonds maturing in 2010 and 2012. Include U.S.\$354 million of new cash subscriptions. Bonds maturing in 2012 were re-opened in November 2004 for an additional amount of U.S.\$325 million.
- (3) Eurobonds issued and initially delivered to holders of U.S. Dollar-denominated notes maturing on August 2, 2002, to refinance such notes. See *"Issuance of U.S. Dollar-denominated Notes in Satisfaction of Certain Claims"*.
- (4) Eurobonds issued and initially transferred to BDL in consideration for the cancellation of an equivalent amount of Treasury bills and bonds held by BDL.
- (5) Originally issued as part of an exchange transaction, in which bonds maturing in 2006 were offered for exchange into three new bonds maturing in 2012, 2014 and 2021. Include U.S.\$750 million and €175 million of new cash subscriptions.
- (6) A first tranche of U.S.\$450 million was issued on August 2, 2006, and initially transferred to BDL in consideration for the cancellation of an equivalent amount of Treasury bills and bonds held by BDL. On November 20, 2007, a second tranche of U.S.\$300 million was issued as a direct subscription agreement with BDL.
- (7) A first tranche of 206.591 million U.S.\$ was issued on August 2, 2006, as a direct subscription agreement with BDL. On December 27, 2006, the series was reopened for an additional amount of U.S.\$145 million and initially transferred to BDL in consideration for the cancellation of an equivalent amount of Treasury bills and bonds held by BDL.
- (8) Subscribed for cash by BDL.
- (9) A first tranche was issued on June 20, 2005. On May 31, 2007, the series was reopened for an additional amount of U.S.\$400 million. The issuance was transferred to BDL in consideration for the cancellation of an equivalent amount of bonds held by BDL.
- (10) A first tranche was issued on December 31, 2002, as a special scheme with BDL in the context of Paris II Conference. On July 6, 2007, the series was reopened for an additional amount of U.S.\$137.511 million as a direct subscription with BDL.
- (11) A first tranche was issued on November 10, 2004, and initially transferred to BDL in consideration for the cancellation of an equivalent amount of Treasury bills and bonds held by BDL. On October 4, 2007, the series was reopened for an additional amount of U.S.\$400 million. The issuance was transferred to BDL in consideration for the cancellation of an equivalent amount of treasury bills held by BDL.

Source: Ministry of Finance.

The following table shows the Republic's outstanding Eurobonds issued in connection with the Paris II Conference and the Paris III Conference, as at December 31, 2007.

Outstanding Paris II and Paris III Conference Eurobonds

| <u>Year of Issue</u> | <u>Maturity</u> | <u>Original Principal Amount</u> | <u>Outstanding Principal Amount</u> | <u>Coupon</u> |
|-----------------------------|-----------------|--------------------------------------|---|------------------|
| | | <i>(in U.S. Dollars)</i> | | <i>(percent)</i> |
| Paris II Conference | | | | |
| 2002 | 2017 | 950 million | 650 million | 5.0 |
| 2002 | 2017 | 1,870 million | 1,870 million | 4.0 |
| 2003 | 2018 | 700 million | 700 million | 5.0 |
| 2003 | 2018 | 200 million | 200 million | 5.0 |
| Paris III Conference | | | | |
| 2007 | 2017 | 300 million | 300 million | 3.75 |
| 2007 | 2012 | 200 million | 200 million | 3.75 |

Source: Ministry of Finance.

In addition, in 2003, the Republic issued Eurobonds in an aggregate principal amount of U.S.\$422,905,000 and €236,250,000 as part of the commercial bank debt service reduction measure described in this Base Prospectus.

The following table shows the Republic's public external debt by type of creditor at the end of the periods indicated.

Public Sector External Debt By Type of Creditor⁽¹⁾⁽²⁾

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------------|---------------|--------------------------|---------------|---------------|
| | | | <i>(U.S.\$ millions)</i> | | |
| Bilateral | 1,123 | 1,184 | 1,058 | 1,092 | 1,408 |
| Abu Dhabi Fund for Development | 14 | 11 | 9 | 6 | 305 |
| Agence Française de Développement(AFD)..... | 629 | 689 | 602 | 631 | 619 |
| Artigancassa | | | | 2 | 3 |
| Austrian Government | 31 | 31 | 25 | 24 | 21 |
| Government of Belgium | 2 | 2 | 2 | 2 | 2 |
| Government of China | 6 | 6 | 6 | 6 | 7 |
| Dexia | | | 1 | 3 | 3 |
| Exim Bank..... | 4 | 3 | 3 | 1 | |
| Fortis Bank..... | 1 | 1 | 1 | 1 | 0 |
| Italian Government..... | 29 | 30 | 26 | 28 | 31 |
| Kerditanstalt Fur Wiederaufbau | 33 | 30 | 21 | 17 | 13 |
| Kuwaiti Fund for Arab Economic Development | 140 | 137 | 137 | 133 | 145 |
| Mediocredito Centrale..... | 15 | 14 | 13 | 11 | 10 |
| Natexis Banque | 99 | 108 | 96 | 108 | 117 |
| Overseas Econ. Coop. Fund (OECF)..... | 21 | 25 | 24 | 24 | 39 |
| The Saudi Fund for Development..... | 99 | 96 | 94 | 95 | 94 |
| Multilateral | 1,235 | 1,316 | 1,275 | 1,345 | 1,502 |
| Arab Fund for Economic and Social Development | 344 | 357 | 356 | 375 | 393 |
| <i>Communauté Economique Européenne</i> | 6 | 7 | 6 | 7 | 7 |
| EIB | 347 | 352 | 300 | 377 | 382 |
| International Bank for Reconstruction and Development | 343 | 363 | 360 | 308 | 425 |
| International Fund for Agricultural Development | 9 | 11 | 10 | 9 | 8 |
| Islamic Development Bank | 176 | 213 | 229 | 252 | 270 |
| The OPEC Fund for International Development | 9 | 13 | 14 | 17 | 17 |
| Commercial Banks | 224 | 169 | 105 | 76 | 57 |
| Eurobonds | 12,762 | 15,452 | 16,144 | 17,252 | 17,705 |
| Special T-bills in foreign currency (expropriations) | | | 278 | 278 | 278 |
| TOTAL⁽³⁾ | 15,344 | 18,121 | 18,860 | 20,044 | 20,950 |

Notes:

- (1) Certain figures in this table differ from previously published data due to continuous implementation of the new debt management system; excluding accrued interest.
- (2) Amounts translated into U.S. Dollars at end of period rates.
- (3) This figure does not include accrued interest.

Source: Ministry of Finance.

During 2004, the Republic resumed issuances of Eurobonds in the capital markets, after having met its external financing needs in 2003 principally through borrowings from participants in the Paris II Conference. The Republic issued Eurobonds under the Program in an aggregate principal amount of U.S.\$5.22 billion (including amounts issued pursuant to exchange transaction for the amount of U.S.\$1,186,532,000), divided as follows:

- U.S.\$1,000,000,000 7.875 percent Notes due 2011 (Series 28) and €225,000,000 7.25 percent Notes due 2009 (Series 29) were issued on May 18, 2004.
- U.S.\$1,265,000,000 7.125 percent Notes due 2010 (Series 30) and U.S.\$275,000,000 7.750 percent Notes due 2012 (Series 31) were issued on September 7, 2004. The Series 30 Notes and the Series 31 Notes were

issued as part of an exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding Eurobonds maturing in 2005 in an aggregate principal amount of U.S.\$2,163,995,000 (excluding the zero-coupon Eurobonds issued to Lebanese commercial banks in 2003 in the context of the Paris II Conference) for Series 30 Notes, Series 31 Notes or a combination thereof. U.S.\$1,069,482,000 in aggregate principal amount of Series 30 Notes and U.S.\$117,050,000 in aggregate principal amount of Series 31 Notes were issued pursuant to the exchange offer. The balance of the Series 30 Notes and the Series 31 Notes were issued for cash.

- U.S.\$700,000,000 6.375 percent Notes due 2008 (Series 32) and U.S.\$300,000,000 6.875 percent Notes due 2010 (Series 33) were issued on November 12, 2004. The Series 32 Notes and the Series 33 Notes were issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pounds for the Series 32 Notes and the Series 33 Notes. The transaction was part of the Republic's ongoing debt management program.
- U.S.\$325,000,000 7.750 percent Notes due 2012 (Series 31, Tranche 2) were issued on November 29, 2004. These Notes were issued as part of a reopening transaction and were consolidated and form a single series with the U.S.\$275,000,000 7.750 percent Notes due 2012 (Series 31, Tranche 1) issued by the Republic on September 7, 2004.
- U.S.\$625,000,000 Floating Rate Notes due 2009 (Series 34) were issued on November 29, 2004.
- U.S.\$425,000,000 7.000 percent Notes due 2009 (Series 35) were issued on December 14, 2004.

In 2005, the Republic issued Eurobonds under the Program in an aggregate principal amount of U.S.\$2.5 billion, divided as follows:

- U.S.\$750,000,000 6.50 percent Notes due 2007 (Series 36, Tranche 1) were issued on February 25, 2005. The Series 36 Notes were issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pound for the Series 36 Notes. The transaction was part of the Republic's ongoing debt management program.
- U.S.\$250,000,000 6.50 percent Notes due 2007 (Series 36, Tranche 2) were issued on April 12, 2005. These Notes were issued as part of a reopening transaction and were consolidated and form a single series with the U.S.\$750,000,000 6.50 percent Notes due 2007 (Series 36, Tranche 1) issued by the Republic on February 25, 2005. These Notes were also issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pound for the Series 36 Notes.
- U.S.\$250,000,000 7.00 percent Notes due 2008 (Series 37) were issued on May 11, 2005. The Series 37 Notes were issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pounds for the Series 37 Notes.
- U.S.\$250,000,000 7.375 percent Notes due 2008 (Series 38) and U.S.\$250,000,000 8.625 percent Notes due 2013 (Series 39) were issued on June 20, 2005.
- U.S.\$750,000,000 8.500 percent Notes due 2016 (Series 40) were issued on October 18, 2005.

In 2006, the Republic issued Eurobonds under the Program in an aggregate principal amount equivalent to U.S.\$3.57 billion (based on exchange rate of U.S.\$1 = €0.7603 as of December 28, 2006 and includes U.S.\$1,771,249,675 issued pursuant to an exchange transaction), divided as follows:

- U.S.\$676,902,000 7.375 percent Notes due 2014 (Series 41), U.S.\$911,469,000 8.250 percent Notes due 2021 (Series 42), and €149,542,000 5.875 percent Notes due 2012 (Series 43) were issued on April 12, 2006. The Series 41, Series 42 Notes were issued as part of an exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding U.S.\$1,150,000,000 9.875 percent Notes due 2006, U.S.\$350,000,000 10.50 percent Notes due 2006, U.S.\$500,000,000 10.50 percent Notes due 2006, and U.S.\$750,000,000 10.50 percent Notes due 2006. The Series 43 Notes were issued as part of an

exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding €300,000,000 8.875 percent Notes due 2006.

- U.S.\$750,000,000 8.250 percent Notes due 2021 (Series 42, Tranche 2) and €175,000,000 5.875 percent Notes due 2012 (Series 43, Tranche 2) were issued on April 25, 2006. The Series 42, Tranche 2 Notes were issued as part of a reopening transaction and were consolidated and form a single series with the U.S.\$911,469,000 8.250 percent Notes due 2021 (Series 42) issued by the Republic on April 12, 2006. The Series 43, Tranche 2 Notes were issued as part of a reopening transaction and were consolidated and form a single series with the €149,542,000 5.875 percent Notes due 2012 (Series 43) issued by the Republic on April 12, 2006.
- U.S.\$450,000,000 7.500 percent Notes due 2011 (Series 45) were issued on August 2, 2006. These Notes were issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pound for the Series 45 Notes
- U.S.\$206,591,000 7.500 percent Notes due 2009 (Series 44, Tranche 1) were issued on August 2, 2006.
- U.S.\$145,000,000 7.500 percent Notes due 2009 (Series 44, Tranche 2) were issued on December 27, 2006. These Notes were issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pounds for the Series 44 Notes. These Notes were issued as part of a reopening transaction and were consolidated and form a single series with the U.S.\$206,591,000 7.500 percent Notes due 2009 (Series 44, Tranche 1) issued by the Republic on August 2, 2006.

In 2007, the Republic issued Eurobonds under the Program in an aggregate principal amount of U.S.\$2,737,511,000, divided as follows:

- U.S.\$431,000,000 8.250 percent Notes due 2021 (Series 42, Tranche 3) were issued on February 26, 2007. These Notes are consolidated and form a single series with the U.S.\$911,469,000 8.250 percent Notes due 2021 issued by the Republic on April 12, 2006 and the U.S.\$750,000,000 8.250 percent Notes due 2021 issued by the Republic on April 25, 2006. These Notes were subscribed by BDL for cash.
- U.S.\$569,000,000 6.375 percent Notes due 2008 (Series 32, Tranche 2) were issued on February 26, 2007. These Notes are consolidated and form a single series with the U.S.\$700,000,000 6.375 percent Notes due 2008 issued by the Republic on November 12, 2004. These Notes were subscribed by BDL for cash.
- U.S.\$400,000,000 8.625 percent Notes due 2013 (Series 39, Tranche 2) were issued on May 31, 2007. These Notes are consolidated and form a single series with the U.S.\$250,000,000 8.625 percent Notes due 2013 issued by the Republic on June 20, 2005.
- U.S.\$137,511,000 4.000 percent Notes due 2017 (Series 17, Tranche 2) were issued on July 6, 2007. These Notes are consolidated and form a single series with the U.S.\$1,870,000,000 4.000 percent Notes due 2017 issued by the Republic on December 31, 2002. These Notes were subscribed by BDL for cash.
- U.S.\$300,000,000 3.750 percent Notes due 2017 (Series 46) were issued on July 20, 2007. These Notes were subscribed by Malaysia as part of its Paris III Conference pledge, and the proceeds were used to redeem U.S.\$300,000,000 5.00 percent Notes due 2017 (Series 16) held by Malaysia.
- U.S.\$200,000,000 3.750 percent Notes due 2012 (Series 47) were issued on July 20, 2007. The Notes were subscribed by Malaysia as part of its Paris III Conference pledge, and the proceeds were used to redeem U.S.\$200,000,000 7.125 percent Notes due 2010 (Series 30) held by Malaysia.
- U.S.\$400,000,000 6.875 percent Notes due 2010 (Series 33, Tranche 2) were issued on October 4, 2007. These Notes are consolidated and form a single series with the U.S.\$300,000,000 6.875 percent Notes due 2010 issued by the Republic on November 12, 2004. These Notes were issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pounds for the Notes.

- U.S.\$300,000,000 7.500 percent Notes due 2011 (Series 45, Tranche 2) were issued on November 20, 2007. These Notes are consolidated and form a single series with the U.S.\$450,000,000 7.500 percent Notes due 2011 issued by the Republic on August 2, 2006. These Notes were subscribed by BDL for cash.

To date in 2008, the Republic has issued the following Eurobonds under the Program:

- U.S.\$875,000,000 9.125 percent Notes due 2013 (Series 48), were issued on March 12, 2008.

In addition, on April 25, 2005, BDL issued Euro deposit certificates in foreign currencies (the “*Certificates*”) in an aggregate principal amount of U.S.\$2,000,000,000. The Certificates have a maturity of 10 years, an interest rate of 10 percent and were issued at a price of 96.95 percent. Holders of the Certificates have a put option to request redemption of all or part of the Certificates held by them, exercisable seven years after the issue date. The Certificates are not listed and this was the first issuance by BDL of securities on the international capital markets.

The following table shows the Republic’s public external debt by currency at the end of the periods indicated.

Public Sector External Debt by Type of Currency⁽¹⁾⁽²⁾

| | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | |
|---------------------------------|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|----------------------|------------|
| | (U.S.\$ millions) | (%) | (U.S.\$ millions) | (%) | (U.S.\$ millions) | (%) | (U.S.\$ millions) | (%) | (U.S.\$ millions) | (%) |
| Swiss Francs | 12 | 0.08 | 12 | 0.07 | 9 | 0.05 | 14 | 0.07 | 14 | 0.06 |
| China Yuan | | | | | | | | | | |
| Renmimbi | 6 | 0.04 | 6 | 0.03 | 6 | 0.03 | 6 | 0.03 | 7 | 0.03 |
| Euros ⁽³⁾ | 2,051 | 13.37 | 2,112 | 11.66 | 1,535 | 8.14 | 1,808 | 9.02 | 1,879 | 8.97 |
| Pounds Sterling | 1 | 0.01 | 1 | 0.00 | 1 | 0.00 | 1 | 0.00 | 1 | 0.00 |
| Islamic Dinars | 117 | 0.76 | 142 | 0.78 | 145 | 0.77 | 145 | 0.72 | 138 | 0.66 |
| Japanese Yen | 36 | 0.24 | 40 | 0.22 | 35 | 0.19 | 33 | 0.17 | 47 | 0.22 |
| Kuwaiti Dinars | 484 | 3.15 | 495 | 2.73 | 492 | 2.61 | 508 | 2.53 | 537 | 2.57 |
| Saudi Arabian Riyals | 99 | 0.64 | 96 | 0.53 | 94 | 0.50 | 95 | 0.48 | 94 | 0.45 |
| Special Drawing Rights | 9 | 0.06 | 11 | 0.06 | 10 | 0.05 | 9 | 0.04 | 8 | 0.04 |
| UAE Dirhams | 14 | 0.09 | 11 | 0.06 | 9 | 0.05 | 6 | 0.03 | 5 | 0.02 |
| U.S. Dollars | 12,515 | 81.56 | 15,194 | 83.85 | 16,523 | 87.61 | 17,418 | 86.90 | 18,220 | 86.97 |
| Total | 15,344 | 100 | 18,121 | 100 | 18,860 | 100 | 20,044 | 100 | 20,950 | 100 |

Notes:

- (1) Certain figures in this table differ from previously published figures due to continuing implementation of a new debt management system; excluding accrued interest.
- (2) Amounts translated into U.S. Dollars at end of period rates.
- (3) This category includes external debt incurred in European currency units prior to the introduction of the Euro in January 1, 1999 at the start of the third stage of the European Economic and Monetary Union.

The following table shows the Republic's public external debt projections and estimated future disbursements of contracted amounts for the periods indicated as at March 31, 2008.

Public External Debt Projections

| | 2008 ⁽¹⁾ | 2009 | 2010 | 2011 | 2012 |
|--|---------------------|-------|----------------------------------|-------|-------|
| | | | (U.S.\$ millions) ⁽²⁾ | | |
| Estimated Disbursements ⁽³⁾ | 1,327 | 285 | 145 | 79 | 28 |
| Principal Payments..... | 1,827 | 3,158 | 2,841 | 2,544 | 2,119 |
| Principal Repayment—Loans..... | 266 | 409 | 412 | 408 | 420 |
| Principal Repayment—Expropriation bonds..... | — | — | 278 | — | — |
| Principal Repayment—Eurobonds | 1,561 | 2,749 | 2,151 | 2,136 | 1,699 |
| Eurobond (U.S.\$) 2008..... | 750 | — | — | — | — |
| Eurobond (U.S.\$) 2008..... | 250 | — | — | — | — |
| Eurobond (U.S.\$) 2008..... | 250 | — | — | — | — |
| Eurobond (U.S.\$) 2009..... | — | 386 | — | — | — |
| Eurobond (U.S.\$) 2009..... | — | 250 | — | — | — |
| Eurobond (Euro) 2009..... | — | 356 | — | — | — |
| Eurobond (U.S.\$) 2009..... | — | 625 | — | — | — |
| Eurobond (U.S.\$) 2009..... | — | 425 | — | — | — |
| Eurobond (U.S.\$) 2009..... | — | 207 | — | — | — |
| Eurobond (U.S.\$) 2009..... | — | 145 | — | — | — |
| Eurobond (U.S.\$) 2010..... | — | — | 1,065 | — | — |
| Eurobond (U.S.\$) 2010..... | — | — | 300 | — | — |
| Eurobond (U.S.\$) 2010..... | — | — | 400 | — | — |
| Eurobond (U.S.\$) 2011..... | — | — | — | 1,000 | — |
| Eurobond (U.S.\$) 2011..... | — | — | — | 450 | — |
| Eurobond (U.S.\$) 2011..... | — | — | — | 300 | — |
| Eurobond (U.S.\$) 2012..... | — | — | — | — | 275 |
| Eurobond (U.S.\$) 2012..... | — | — | — | — | 325 |
| Eurobond (Euro) 2012..... | — | — | — | — | 236 |
| Eurobond (Euro) 2012..... | — | — | — | — | 277 |
| Eurobond (U.S.\$) 2012..... | — | — | — | — | 200 |
| Eurobond (U.S.\$) 2017..... | 187 | 187 | 187 | 187 | 187 |
| Eurobond (U.S.\$) 2017..... | 65 | 65 | 65 | 65 | 65 |
| Eurobond (U.S.\$) 2017..... | 14 | 14 | 14 | 14 | 14 |
| Eurobond (U.S.\$) 2017..... | — | — | 30 | 30 | 30 |
| Eurobond (U.S.\$) 2018..... | 35 | 70 | 70 | 70 | 70 |
| Eurobond (U.S.\$) 2018..... | 10 | 20 | 20 | 20 | 20 |

| | 2008 ⁽¹⁾ | 2009 | 2010 | 2011 | 2012 |
|---|---------------------|--------------|----------------------------------|--------------|--------------|
| | | | (U.S.\$ millions) ⁽²⁾ | | |
| Interest & Commissions..... | 1,122 | 1,385 | 1,086 | 910 | 780 |
| Loans..... | 118 | 171 | 160 | 143 | 127 |
| Expropriation bonds..... | 17 | 17 | 17 | — | — |
| Coupon Payments..... | 987 | 1,197 | 909 | 767 | 653 |
| Eurobond (U.S.\$) 2008..... | 38 | — | — | — | — |
| Eurobond (U.S.\$) 2008..... | 9 | — | — | — | — |
| Eurobond (U.S.\$) 2008..... | 9 | — | — | — | — |
| Eurobond (U.S.\$) 2009..... | 40 | 40 | — | — | — |
| Eurobond (U.S.\$) 2009..... | 26 | 26 | — | — | — |
| Eurobond (Euro) 2009..... | 26 | 26 | — | — | — |
| Eurobond (U.S.\$) 2009..... | 47 | 47 | — | — | — |
| Eurobond (U.S.\$) 2009..... | 30 | 30 | — | — | — |
| Eurobond (U.S.\$) 2009..... | 8 | 15 | — | — | — |
| Eurobond (U.S.\$) 2009..... | 5 | 11 | — | — | — |
| Eurobond (U.S.\$) 2010..... | 38 | 76 | 38 | — | — |
| Eurobond (U.S.\$) 2010..... | 21 | 21 | 21 | — | — |
| Eurobond (U.S.\$) 2010..... | 28 | 28 | 28 | — | — |
| Eurobond (U.S.\$) 2011..... | 79 | 79 | 79 | 39 | — |
| Eurobond (U.S.\$) 2011..... | 17 | 34 | 34 | 34 | — |
| Eurobond (U.S.\$) 2011..... | 11 | 23 | 23 | 23 | — |
| Eurobond (U.S.\$) 2012..... | 11 | 21 | 21 | 21 | 21 |
| Eurobond (U.S.\$) 2012..... | 13 | 25 | 25 | 25 | 25 |
| Eurobond (Euro) 2012..... | 14 | 14 | 14 | 14 | 14 |
| Eurobond (Euro) 2012..... | 16 | 16 | 16 | 16 | 16 |
| Eurobond (U.S.\$) 2012..... | 4 | 8 | 8 | 8 | 6 |
| Eurobond (U.S.\$) 2013..... | 22 | 22 | 22 | 22 | 22 |
| Eurobond (U.S.\$) 2013..... | 35 | 35 | 35 | 35 | 35 |
| Eurobond (U.S.\$) 2013..... | — | 120 | 80 | 80 | 80 |
| Eurobond (U.S.\$) 2014..... | 50 | 50 | 50 | 50 | 50 |
| Eurobond (U.S.\$) 2016..... | 47 | 47 | 47 | 47 | 47 |
| Eurobond (U.S.\$) 2016..... | 32 | 64 | 64 | 64 | 64 |
| Eurobond (U.S.\$) 2017..... | 73 | 65 | 58 | 50 | 43 |
| Eurobond (U.S.\$) 2017..... | 32 | 28 | 25 | 22 | 19 |
| Eurobond (U.S.\$) 2017..... | 5 | 5 | 4 | 4 | 3 |
| Eurobond (U.S.\$) 2017..... | 6 | 11 | 11 | 10 | 9 |
| Eurobond (U.S.\$) 2018..... | 18 | 32 | 29 | 25 | 22 |
| Eurobond (U.S.\$) 2018..... | 10 | 9 | 8 | 7 | 6 |
| Eurobond (U.S.\$) 2021..... | 75 | 75 | 75 | 75 | 75 |
| Eurobond (U.S.\$) 2021..... | 62 | 62 | 62 | 62 | 62 |
| Eurobond (U.S.\$) 2021..... | 36 | 36 | 36 | 36 | 36 |
| Total External Debt Service..... | 2,949 | 4,543 | 3,927 | 3,454 | 2,899 |

Notes:

- (1) 2008 figures represent external debt service requirements from April 1, 2008 to December 31, 2008.
- (2) Amounts translated into U.S. Dollars at the rate of U.S.\$1 = €0.6325, the U.S. Dollar/Euro rate of exchange as at March 18, 2008.
- (3) Estimated disbursements in respect of financing arrangements (excluding Eurobonds) entered into by the Republic or its agencies and in effect on December 31, 2006. Estimated disbursements and principal payments exclude debt service in connection with further issuances of Eurobonds and similar securities. External debt incurred by the Republic during the projected period may differ significantly from the amounts shown in the table.

Source: Ministry of Finance

Issuance of U.S. Dollar-Denominated Notes in Satisfaction of Certain Claims

Following its appointment, the Government of Prime Minister Al Hoss resolved to settle outstanding amounts due from the Republic and its agencies resulting from hospital claims, contractors claims and expropriation of property claims on account of 1998 and preceding years. Such amounts lacked appropriate allocation in previous budgets. In June 1999, Parliament adopted Law № 95, which authorized the Government to issue foreign currency-denominated notes in an aggregate principal amount not exceeding LL 1,242 billion (U.S.\$824 million) in satisfaction of amounts due for the year 1998 and preceding years. The notes were deemed issued as at August 6, 1999 (regardless of their actual issue date or date of delivery) and had a maturity of three years. The notes carried interest at a rate of 5.63 percent per annum, payable annually. Principal was payable in full at maturity. With the exception of claims for expropriation of property, which have been the subject of judicial decisions, claimants submitted proof of claims to specialized commissions for confirmation of the amounts due from the Republic to be exchanged for notes. On August 2, 2002, pursuant to Law № 450 and the 2002 Budget Law, the Republic issued U.S.\$750 million in aggregate principal amount of notes at a rate of 10.5 percent per annum to the holders of these notes for refinancing of the notes issued on August 6, 1999. These refinancing notes matured on August 2, 2006 and were refinanced with notes, carrying interest at a rate of 7.5 percent per

annum and maturing in August 2009. On December 22, 2005, pursuant to Law № 450, the Republic issued U.S.\$277.915 million in aggregate principal amount of notes to settle expropriation claims. The notes mature on December 22, 2010 and carry interest at a rate of 6 percent.

Debt Record

The Republic had little public external debt prior to 1975 and, with one minor exception, has been current on its debt service, including during the 1975–1990 period of conflict. The Republic made payment on its Eurobonds during the July 2006 War. The only instance of arrears during the 1975–1990 period of conflict was in respect of a debt to the United States Commodity Credit Corporation, which financed a sale on concessional terms in 1970. The loan fell into arrears in April 1986 as the Ministry of Finance, which coordinates external debt service, was then unaware of its existence due to loss of records during the conflict period. The loan was not accelerated. The Ministry of Finance assumed responsibility for the debt and the arrears (amounting to U.S.\$5.5 million in principal and accrued interest and U.S.\$713,000 in late interest) were cleared in 1995.

The Republic has never conducted a Paris Club or London Club rescheduling of its external debt.

MONETARY SYSTEM

Role of BDL

The Banque du Liban is the sole custodian of public funds, supervises and regulates the banking system and is vested by law with the exclusive authority of issuing the national currency. BDL's primary role is to safeguard the currency and promote monetary stability, thereby creating a favorable environment for economic and social progress. BDL also advises the Government on various economic and financial matters. In conducting its monetary management function, BDL utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on U.S. Dollar deposits in commercial banks, Treasury bill repurchase and swap agreements with commercial banks, as well as Lebanese Pound-denominated certificates of deposits issued by BDL.

As a result of high inflation prior to 1992, the Lebanese economy became substantially dollarized. Since October 1992, monetary policy has been targeted at stabilizing the Lebanese Pound exchange rate and controlling the inflation rate and money growth. The return of confidence in monetary stability and the high returns on investment in Lebanese Pound-denominated financial securities led to a significant decline of the dollarization of deposits in the economy and to a build up in foreign exchange reserves until the end of 1996. Thus, the proportion of foreign currency deposits decreased from 73.6 percent in December 1990 to 56.3 percent in June 1997 before increasing to 63.9 percent at the end of 1997 and 65.5 percent at the end of 1998 due in part to the turmoil generally affecting emerging markets following the Asian crisis. In 1999, the proportion of foreign currency deposits declined gradually to reach 61.6 percent at year end, with a further decline to 61.0 percent at end-March 2000. From March 2000, the proportion of foreign currency deposits increased to 72.53 percent at December 31, 2001 due to regional tensions and a higher than expected budget deficit. This ratio continued to increase until May 2002, reaching 74.24 percent, when it again started to decline, reaching 69.28 percent by the end of 2002, and 66.14 percent by the end of 2003. Heightened internal political tension during the second half of 2004 once again resulted in a slight increase in the dollarization level, to 70.01 percent by the end of 2004. As a result of the assassination of the late Prime Minister Hariri in February 2005 and the ensuing turmoil, the dollarization level reached 79.20 percent as at end March 2005 but gradually decreased to 73.3 percent at the end of December 2005. During the first half of 2006 the dollarization rate continued to decrease reaching 72.76 percent at the end of June 2006. However, the July 2006 War and ensuing political tensions resulted in a increase in the dollarization level to 76.21 percent by the end of December 2006 and 77.34 percent by the end of December 2007.

The following table sets out the balance sheet of BDL as at December 31 for the years indicated.

| BDL Balance Sheet | | | | | |
|---|----------------------|---------------|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | <i>(LL billions)</i> | | | | |
| Assets | | | | | |
| Gold | 5,779 | 6,039 | 7,140 | 8,754 | 11,517 |
| Foreign currencies..... | 15,372 | 14,313 | 14,841 | 15,387 | 14,740 |
| Other foreign assets..... | 0 | 0 | 0 | 0 | 0 |
| Claims on private sector..... | 398 | 354 | 307 | 280 | 297 |
| Loans to commercial banks..... | 1,827 | 1,859 | 1,796 | 1,843 | 1,690 |
| Claims on public sector..... | 308 | 455 | 453 | 444 | 406 |
| Securities portfolio..... | 12,399 | 13,806 | 14,590 | 13,872 | 13,303 |
| Fixed assets..... | 265 | 383 | 465 | 434 | 435 |
| Unclassified assets ⁽¹⁾ | 1,085 | 2,435 | 3,831 | 5,093 | 6,247 |
| Total assets | 37,433 | 39,644 | 43,423 | 46,107 | 46,635 |
| Liabilities | | | | | |
| Currency in circulation outside BDL | 1,717 | 1,783 | 1,736 | 2,010 | 2,191 |
| Deposits of commercial banks | 28,152 | 29,068 | 28,474 | 27,029 | 27,301 |
| Deposits of financial corporations ⁽²⁾ | 1,287 | 1,260 | 1,136 | 920 | 994 |
| Private sector deposits..... | 27 | 45 | 55 | 59 | 206 |
| Public sector accounts..... | 1,693 | 2,879 | 3,885 | 2,865 | 3,364 |
| Valuation adjustment | 646 | 372 | 1,392 | 3,126 | 3,041 |
| Securities other than shares ⁽³⁾ | | | 3,015 | 3,015 | 3,015 |
| Foreign liabilities | 204 | 195 | 161 | 164 | 531 |
| Special long-term liabilities | 1,343 | 961 | 490 | 3,131 | 3,184 |
| Capital accounts..... | 1,914 | 1,900 | 1,616 | 1,974 | 2,715 |
| Unclassified liabilities ⁽⁴⁾ | 450 | 1,181 | 1,463 | 1,814 | 2,093 |
| Total liabilities | 37,433 | 39,644 | 43,423 | 46,107 | 46,635 |

Notes:

- (1) Unclassified assets include the following items: other debtor accounts, counterpart securities, accounts receivable, a regularization account, inventory and fixed assets.
- (2) Includes investment banks and financial institutions.
- (3) Certificates of Deposit issued by BDL in April 2005, for an amount of U.S.\$ 2 billion with a maturity of 10 years.
- (4) Unclassified liabilities include the following items: notes payable, other creditor accounts and a regularization account.

Source: BDL.

Banking Sector

As at the end of December 2007, there were 54 active commercial banks and 12 specialized medium-and long-term credit banks, with 864 branches, 43 financial institutions, 10 financial intermediaries, and 2 leasing companies in the Republic. Foreign banks were well represented, maintaining 10 entities with 34 branches. Foreign banks have traditionally established themselves in Lebanon, with either receiving a banking license or operating through a representative office or acquiring participations in the capital of Lebanese banks. Foreign presence is seen important to diversifying the financial sector and strengthening competitive forces.

Unlike the banking sector in some other emerging market countries, the banking sector in Lebanon is generally characterized by its openness evidenced by the size of interaction with correspondent banks and Lebanese abroad and the remarkable foreign presence as already mentioned. The Lebanese banking sector, with an asset-to-GDP ratio of approximately 347.8 percent in December 2007, is also well capitalized with key risk and return measures kept in line with those reported by the top international banks with few exceptions for reasons related to the specificities of the Lebanese market. In addition, it plays many critical roles in the economy as a whole of which financial intermediation, payments, guarantor, investment advisor, agency and policy roles.

The banking sector currently offers a diversity of services very close to those offered worldwide including specialized saving plans, retail payment services, consumer credit, corporate credit and trade finance, and investment, private and consulting services. It recruits qualified personnel and invests heavily in professional training of employees and in the latest information and communication technology.

Banks in Lebanon are well regulated and supervised in conformity with the international best practices and standards and cooperate fully with the regulatory and supervisory authorities believing that such cooperation is essential for maintaining their credibility domestically and internationally. From March 1995, commercial banks were required to meet a minimum capital adequacy ratio of 8 percent in line with the Basle Accord. In September 1999, BDL required banks to raise their capital adequacy ratios to 10 percent by the end of 2000 and 12 percent by the end of 2001. During the past three years, banks' capital has increased substantially and, at December 31, 2005, the average capital adequacy ratio of the Lebanese banks was approximately 23.0 percent, and 25 percent at December 31, 2006 and was around 23.4 percent in June 2007. Believing in the benefits of modernization and restructuring in a changing operating environment, regulators, supervisors and banks were heavily engaged over the past few years in proposing banking reforms. A law facilitating bank mergers by (among other things) making banks eligible for soft loans from BDL was passed in 1993 and renewed in 1998 until 2003. It was then reinstated for an indefinite period by a new law in February 2005. In addition, Parliament passed legislation to revitalize the Housing Bank. State participation in the shareholding of this bank has been reduced to a minority stake. Parliament also passed laws relating to the listing of bank shares on stock exchanges and the acquisition of bank shares without any discrimination between Lebanese and non-Lebanese and between residents and non-residents. Several banks currently list their eligible shares on the Beirut Stock Exchange. In February 2004, Parliament passed a new law regulating Islamic banking in Lebanon. This law enables the enhancement of Islamic banking activities in Lebanon while assuring a modern regulation and good supervision for such activities.

Efforts undertaken by the regulatory and supervisory authorities, the Association of Banks in Lebanon, BDL and the Ministry of Finance resulted in the promulgation of a law on money laundering by the Lebanese Parliament in 2001, incriminating money laundering activities and permitting the efficient combating of such activities and the cooperation with the international community on such an issue.

Lebanese banks entered new markets and have received licenses to operate in a number of Arab and North African countries, including Egypt, Saudi Arabia, Syria, Jordan, Sudan, Algeria, the United Arab Emirates, Bahrain, Qatar, Oman and Iraq.

The following table sets out the combined balance sheet of the commercial banks as at the periods indicated.

Balance Sheet of Commercial Banks in Lebanon

| | 2002 | 2003 | 2004 | 2005 ⁽¹⁾ | 2006 ⁽¹⁾ | 2007 |
|---|---------------|---------------|----------------|---------------------|---------------------|----------------|
| | (LL billions) | | | | | |
| Assets | | | | | | |
| Reserves..... | 11,960 | 28,332 | 29,879 | 30,917 | 29,338 | 29,851 |
| Currency..... | 166 | 186 | 197 | 201 | 201 | 262 |
| Deposits with BDL..... | 11,794 | 28,146 | 29,682 | 30,716 | 29,137 | 29,589 |
| Claims on Private Sector..... | 22,927 | 22,836 | 24,020 | 21,799 | 23,091 | 26,762 |
| Lebanese Pounds..... | 4,139 | 3,856 | 4,268 | 3,385 | 3,700 | 4,190 |
| Foreign Currency..... | 18,788 | 18,980 | 19,752 | 18,414 | 19,391 | 22,572 |
| Claims on Public Sector..... | 26,578 | 21,006 | 24,155 | 26,697 | 31,192 | 32,423 |
| Treasury Bills..... | 26,523 | 20,961 | 24,106 | 26,638 | 31,134 | 32,360 |
| Other..... | 55 | 45 | 49 | 58 | 58 | 63 |
| Foreign Assets..... | 14,327 | 14,937 | 20,431 | 19,992 | 24,746 | 31,220 |
| Fixed Assets..... | 2,883 | 2,931 | 3,131 | 3,458 | 3,240 | 3,322 |
| Unclassified Assets..... | 561 | 581 | 571 | 458 | 356 | 421 |
| Total assets | 79,236 | 90,623 | 102,187 | 103,321 | 111,963 | 123,999 |
| Liabilities | | | | | | |
| Residential Private Sector Deposits, of | | | | | | |
| which:..... | 55,451 | 61,791 | 68,268 | 71,632 | 77,366 | 86,980 |
| Lebanese Pounds..... | 19,092 | 23,649 | 23,347 | 22,042 | 21,081 | 22,282 |
| Sight..... | 1,094 | 1,277 | 1,389 | 1,358 | 1,450 | 1,602 |
| Term..... | 17,998 | 22,372 | 21,958 | 20,684 | 19,631 | 20,680 |
| Foreign currency..... | 36,359 | 38,142 | 44,921 | 49,590 | 56,285 | 64,698 |
| Public Sector deposits..... | 591 | 1,325 | 1,480 | 1,705 | 1,579 | 1,163 |
| Non Resident Private Sector Deposits..... | 9,237 | 11,663 | 14,423 | 14,274 | 14,128 | 14,454 |
| Bonds..... | 157 | 58 | 150 | 88 | 95 | 91 |
| Deposits of Non Resident Financial | | | | | | |
| Sector..... | 1,859 | 2,398 | 3,813 | 3,263 | 4,236 | 6,108 |
| Capital accounts..... | 5,023 | 5,499 | 5,809 | 6,411 | 8,718 | 9,439 |
| Unclassified liabilities..... | 6,918 | 7,889 | 8,244 | 5,948 | 5,841 | 5,764 |
| Total liabilities | 79,236 | 90,623 | 102,187 | 103,321 | 111,963 | 123,999 |

Note:

(1) Revised figures for 2005 and 2006. Pursuant to intermediary circular № 138 of BDL dated May 24, 2007 and commencing September 2007 all non performing loans will be stated net of unearned interests, which will be recorded in off-balance sheet.

Source: BDL.

Interest Rates

Prior to 1993, interest rates on Treasury bills were fixed by the Ministry of Finance in consultation with BDL. In May 1993, BDL began selling 3-month Treasury bills in a multiple price auction. The authorities subsequently extended this system to 6- and 12-month Treasury bills in June and September 1993, respectively. In October 1994, the auction system was extended to 24-month Treasury notes. In March and April 2005, 48-month and 60-month notes were introduced for a limited purpose. The issuance of these longer-dated Notes has been discontinued. In March 2005, the Ministry of Finance established a medium-term note program, in accordance with international capital markets standards, for the issuance of Lebanese Pound-denominated bonds, directly or through managers and issued a five-year benchmark bond. The new bond lengthened maturities for LL instruments, widened distribution and set a new benchmark.

BDL also affects interest rates through its Treasury bill discount and repurchase operations on the secondary market. In November 2003, 36-month Treasury notes were introduced to the Treasury bill auctions.

The gradual decline in interest rates on Treasury bills has been accompanied by a decrease in the spread between U.S. Dollar and Lebanese Pound lending and deposit rates. The spread between deposit rates in Lebanese Pounds and in U.S. Dollars narrowed from 11.7 percent in December 1995 to 6.94 percent in December 1998, further declining to 5.67 percent in December 1999 and 4.41 percent in December 2000 only to increase to 5.94 percent in December 2001 following sharp cuts in U.S. interest rates. Following the Paris II

Conference, interest rates on Lebanese Pounds lending and deposit rates declined, narrowing the spread between deposit rates in Lebanese Pounds and in U.S. Dollars to 5.83 percent in December 2002, 4.36 percent in December 2003, 3.76 percent in December 2004, 3.61 percent in December 2005, 2.75 percent in November 2006 and 2.73 percent in December 2006. The spread between lending rates in Lebanese Pounds and in U.S. Dollars narrowed from 16.8 percent in December 1995 to 8.74 percent in December 1998, 7.51 percent in December 1999, 6.97 percent in December 2000, 6.61 percent in December 2001 and 6.48 percent in December 2002. By December 2003, the spread between lending rates in Lebanese Pounds and in U.S. Dollars narrowed to 2.51 percent and to 2.50 percent in December 2004. By the end of 2005, the spread narrowed further to 1.74 percent. The spread widened to 1.82 percent in December 2006 and to 2.08 in December 2007.

The following table sets forth the Treasury bill yields at primary auction for the periods indicated.

| Treasury Bill Yields | | | | | |
|-----------------------------|----------------|---------------------|-----------------|----------------------|----------------------|
| Calendar Quarter | 3-month | 6-month Bill | 12-month | 24-month Bill | 36-month Bill |
| | | | (percent) | | |
| 2000 I..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2000 II..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2000 III..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2000 IV..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2001 I..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2001 II..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2001 III..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2001 IV..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2002 I..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2002 II..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2002 III..... | 11.18 | 12.12 | 13.43 | 14.64 | — |
| 2002 IV..... | 7.77 | 9.15 | 9.13 | 9.41 | — |
| 2003 I..... | 6.96 | 8.18 | 9.13 | 9.41 | — |
| 2003 II..... | 6.96 | 8.18 | 9.13 | 9.41 | — |
| 2003 III..... | 6.96 | 8.18 | 9.13 | 9.41 | — |
| 2003 IV..... | 5.44 | 6.53 | 6.87 | 7.99 | 8.87 |
| 2004 I..... | 5.29 | 6.40 | 6.76 | 7.95 | 8.85 |
| 2004 II..... | 5.20 | 6.32 | 6.69 | 7.89 | 8.87 |
| 2004 III..... | 5.22 | 6.31 | 6.68 | 7.89 | 8.87 |
| 2004 IV..... | 5.22 | 6.31 | 6.69 | 7.89 | 8.87 |
| 2005 I..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.56 |
| 2005 II..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.56 |
| 2005 III..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.56 |
| 2005 IV..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.56 |
| 2006 I..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| 2006 II..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| 2006 III..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| 2006 IV..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| 2007 I..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| 2007 II..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| 2007 III..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| 2007 IV..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| January 2008..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |
| February 2008..... | 5.22 | 7.24 | 7.75 | 8.68 | 9.54 |

Source: Ministry of Finance and BDL.

The following tables set forth commercial bank deposits and lending rates at the average Lebanese Pounds and U.S. Dollar rates across the banking system for the stated type of account for the quarters shown. The stated quarterly rates are the weighted average rates for the last month of the quarter. Time deposits range from one month to no stated maturity and savings accounts are current accounts without payment facilities by check.

Lebanese Pound Deposit and Lending Rates of Commercial Banks

| Calendar Quarter | Lending Rate | Creditor Rate | Current Account | Savings Deposit | Time Deposit |
|--------------------|--------------|---------------|--------------------|--------------------|--------------|
| | | | (percent) | | |
| 2000 I..... | 18.26 | 10.90 | 3.08 | 8.81 | 11.35 |
| 2000 II..... | 18.02 | 10.67 | 2.87 | 8.72 | 11.14 |
| 2000 III..... | 17.96 | 10.44 | 4.50 | 8.03 | 11.04 |
| 2000 IV..... | 17.94 | 10.44 | 3.57 | 7.90 | 11.06 |
| 2001 I..... | 17.46 | 10.33 | 3.38 | 7.95 | 10.93 |
| 2001 II..... | 17.16 | 10.16 | 3.51 | 7.56 | 10.84 |
| 2001 III..... | 17.15 | 9.99 | 3.23 | 7.32 | 10.73 |
| 2001 IV..... | 16.76 | 10.15 | 3.31 | 7.01 | 10.82 |
| 2002 I..... | 16.77 | 10.16 | 3.84 | 7.07 | 10.79 |
| 2002 II..... | 16.89 | 10.22 | 2.27 | 6.46 | 11.20 |
| 2002 III..... | 16.57 | 10.55 | 2.51 | 7.03 | 11.32 |
| 2002 IV..... | 16.10 | 9.83 | 3.04 | 6.36 | 10.46 |
| 2003 I..... | 15.01 | 8.73 | 2.24 | 5.67 | 9.24 |
| 2003 II..... | 13.52 | 8.30 | 3.48 | 5.23 | 8.65 |
| 2003 III..... | 12.04 | 7.93 | 2.91 | 5.14 | 8.31 |
| 2003 IV..... | 11.32 | 7.79 | 2.69 | 4.89 | 8.19 |
| 2004 I..... | 11.10 | 7.26 | 3.15 | 4.91 | 7.53 |
| 2004 II..... | 10.95 | 6.92 | 2.28 | 4.49 | 7.25 |
| 2004 III..... | 10.55 | 6.87 | 3.75 | 4.39 | 7.18 |
| 2004 IV..... | 10.48 | 7.01 | 2.74 | 4.12 | 7.38 |
| 2005 I..... | 10.98 | 7.97 | 2.80 | 4.58 | 8.50 |
| 2005 II..... | 10.97 | 8.19 | 2.44 | 4.55 | 8.73 |
| 2005 III..... | 10.69 | 7.61 | 3.44 | 3.94 | 8.02 |
| 2005 IV..... | 10.12 | 7.70 | 2.56 | 3.58 | 8.11 |
| 2006 I..... | 10.18 | 7.64 | 3.96 | 3.93 | 8.02 |
| 2006 II..... | 10.24 | 7.56 | 2.79 | 3.93 | 7.99 |
| 2006 III..... | 10.24 | 7.43 | 3.38 | 4.54 | 7.96 |
| 2006 IV..... | 10.37 | 7.49 | 3.18 | 4.68 | 8.02 |
| 2007 I..... | 10.56 | 7.51 | 3.55 | 3.77 | 7.99 |
| 2007 II..... | 10.27 | 7.50 | 3.04 | 3.94 | 7.99 |
| 2007 III..... | 10.40 | 7.47 | 2.98 | 3.91 | 7.96 |
| 2007 IV..... | 10.10 | 7.40 | 2.81 | 4.05 | 7.94 |
| January 2008..... | 10.04 | 7.35 | 2.75 | 4.22 | 7.93 |
| February 2008..... | 9.94 | 7.26 | 2.65 | 4.14 | 7.80 |

Source: BDL.

U.S. Dollar Deposit and Lending Rates of Commercial Banks

| Calendar Quarter | Lending Rate | Creditor Rate | Current Account | Savings Deposit | Time Deposit |
|--------------------|--------------|---------------|-----------------|-----------------|--------------|
| | | | (percent) | | |
| 2000 I..... | 11.01 | 5.72 | 1.99 | 2.94 | 6.16 |
| 2000 II..... | 11.43 | 5.99 | 2.06 | 3.05 | 6.44 |
| 2000 III..... | 11.41 | 5.98 | 1.94 | 2.96 | 6.56 |
| 2000 IV..... | 11.15 | 6.03 | 2.01 | 3.20 | 6.56 |
| 2001 I..... | 11.01 | 5.67 | 1.92 | 2.99 | 6.12 |
| 2001 II..... | 10.63 | 4.88 | 1.49 | 2.54 | 5.33 |
| 2001 III..... | 10.56 | 4.57 | 1.43 | 2.36 | 5.01 |
| 2001 IV..... | 10.14 | 4.21 | 1.01 | 1.91 | 4.63 |
| 2002 I..... | 10.24 | 4.16 | 0.93 | 1.81 | 4.61 |
| 2002 II..... | 10.06 | 4.19 | 0.93 | 1.73 | 4.70 |
| 2002 III..... | 9.83 | 4.19 | 0.85 | 1.71 | 4.66 |
| 2002 IV..... | 9.62 | 4.00 | 0.74 | 1.46 | 4.51 |
| 2003 I..... | 9.34 | 3.74 | 0.63 | 1.43 | 4.19 |
| 2003 II..... | 9.13 | 3.53 | 0.64 | 1.30 | 3.93 |
| 2003 III..... | 8.63 | 3.48 | 0.69 | 1.28 | 3.92 |
| 2003 IV..... | 8.81 | 3.43 | 0.70 | 1.21 | 3.85 |
| 2004 I..... | 8.55 | 3.32 | 0.61 | 1.12 | 3.63 |
| 2004 II..... | 8.41 | 3.17 | 0.52 | 1.09 | 3.55 |
| 2004 III..... | 8.22 | 3.27 | 0.51 | 1.09 | 3.65 |
| 2004 IV..... | 7.98 | 3.25 | 0.61 | 1.06 | 3.66 |
| 2005 I..... | 8.22 | 3.46 | 0.63 | 1.25 | 3.80 |
| 2005 II..... | 8.20 | 3.62 | 0.75 | 1.26 | 4.00 |
| 2005 III..... | 8.31 | 3.78 | 0.79 | 1.20 | 4.19 |
| 2005 IV..... | 8.38 | 4.09 | 1.16 | 1.26 | 4.52 |
| 2006 I..... | 8.39 | 4.20 | 0.99 | 1.36 | 4.65 |
| 2006 II..... | 8.45 | 4.39 | 0.96 | 1.42 | 4.89 |
| 2006 III..... | 8.59 | 4.61 | 1.03 | 1.65 | 5.10 |
| 2006 IV..... | 8.55 | 4.76 | 1.13 | 1.77 | 5.30 |
| 2007 I..... | 8.47 | 4.88 | 0.97 | 1.84 | 5.37 |
| 2007 II..... | 8.24 | 4.91 | 1.25 | 1.72 | 5.43 |
| 2007 III..... | 8.20 | 4.96 | 1.16 | 1.86 | 5.45 |
| 2007 IV..... | 8.02 | 4.69 | 1.19 | 1.71 | 5.25 |
| January 2008..... | 7.93 | 4.57 | 1.01 | 1.61 | 5.06 |
| February 2008..... | 7.71 | 4.20 | 0.98 | 1.54 | 4.65 |

Source: BDL.

Foreign Exchange Rates and International Reserves

The currency of the Republic is the Lebanese Pound. The Lebanese Pound is convertible and its exchange rate is generally determined on the basis of demand and supply conditions in the exchange market. Bankers are allowed to engage in spot transactions in any currency. However, they are prohibited from engaging in forward transactions in Lebanese Pounds for speculative purposes. BDL intervenes when necessary in order to maintain orderly conditions in the foreign exchange market. There are no taxes or subsidies on purchases or sales of foreign exchange.

Foreign exchange rate stability is a primary policy objective of the Government and of BDL. BDL's exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. This appreciation was limited to 0.03 percent in 1999 and the Lebanese Pound exchange rate has remained unchanged since 2000. Although several external factors can influence the exchange rate, including general investor confidence in the economy, the authorities expect to continue to gear their monetary policy towards maintaining strength and stability in the exchange rate. Direct intervention in the currency markets supplements this policy when necessary to smooth excessive volatility of the exchange rate.

The following table sets forth the gold and gross foreign currency reserves of BDL in millions of U.S. Dollars for the periods indicated.

Gold and Gross Foreign Currency Reserves

| | Gold | Foreign Currency ⁽¹⁾ |
|---------------------|-------------------|---------------------------------|
| | (U.S.\$ millions) | |
| 2000 | 2,524.6 | 5,748.0 |
| 2001 | 2,561.0 | 4,361.0 |
| 2002 | 3,216.3 | 5,070.4 |
| 2003 | 3,833.5 | 10,197.2 |
| 2004 | 4,006.0 | 9,494.0 |
| 2005 | 4,736.4 | 9,844.9 |
| 2006 | 5,807.3 | 10,207.0 |
| 2007 | 7,639.8 | 9,777.6 |
| January 2008 | 8,518.2 | 9,791.2 |
| February 2008 | 8,947.9 | 10,783.8 |

Note:

(1) Excluding gold reserves.

Source: BDL.

Foreign currency reserves are generally placed by BDL outside the Republic with other central banks or with highly-rated international banks. They include a limited amount of highly-rated foreign debt securities. Although not legally obligated to do so, BDL has been pursuing a policy of setting aside, and segregating from its foreign exchange reserves, certain foreign currency amounts corresponding to the maturing external public debt obligations of the Republic. These foreign currency amounts are being made available to the Republic for payment of its external public debt obligations against payment to BDL of equivalent amounts in Lebanese Pounds. See “*Role of BDL*”.

The following table sets forth the Lebanese Pound/U.S. Dollar closing exchange rate at the end of each quarter for the years 1992 to March 31, 2008.

Lebanese Pound/U.S. Dollar Exchange Rate

| End of Period | Lebanese Pounds per U.S. Dollar | Percent Change from Previous Period |
|--|---------------------------------|-------------------------------------|
| 1992: | | |
| March..... | 1,280.0 | (45.6) |
| June..... | 1,705.0 | (33.2) |
| September | 2,420.0 | (41.9) |
| December..... | 1,838.0 | 24.0 |
| 1993: | | |
| March..... | 1,742.0 | 5.2 |
| June..... | 1,731.0 | 0.6 |
| September | 1,732.5 | 0.4 |
| December..... | 1,711.0 | 0.7 |
| 1994: | | |
| March..... | 1,694.5 | 1.0 |
| June..... | 1,680.0 | 0.9 |
| September | 1,666.0 | 0.8 |
| December..... | 1,647.0 | 1.1 |
| 1995: | | |
| March..... | 1,634.5 | 0.8 |
| June..... | 1,620.5 | 0.9 |
| September | 1,610.5 | 0.6 |
| December..... | 1,596.0 | 0.9 |
| 1996: | | |
| March..... | 1,583.5 | 0.8 |
| June..... | 1,571.0 | 0.8 |
| September | 1,558.5 | 0.8 |
| December..... | 1,552.0 | 0.4 |
| 1997: | | |
| March..... | 1,545.8 | 0.4 |
| June..... | 1,539.8 | 0.4 |
| September | 1,533.3 | 0.4 |
| December..... | 1,527.0 | 0.4 |
| 1998: | | |
| March..... | 1,521.3 | 0.4 |
| June..... | 1,516.3 | 0.3 |
| September | 1,509.7 | 0.4 |
| December..... | 1,508.0 | 0.1 |
| 1999: | | |
| March..... | 1,508.0 | 0.0 |
| June..... | 1,508.0 | 0.0 |
| September | 1,507.5 | 0.3 |
| December..... | 1,507.5 | 0.0 |
| 2000–March 31, 2008 (each quarter)..... | 1,507.5 | 0.0 |

Note:

(1) Negative percentage change signifies depreciation of Lebanese Pound in U.S. Dollar terms.

Source: Ministry of Finance and BDL.

Securities Markets

The Beirut Stock Exchange was created in 1920 by the French mandate authorities in order to privatize public utilities, railways, telecommunications and the post office. Companies from the industrial, banking and tourism sectors were gradually added. The Beirut Stock Exchange flourished from 1954 to 1975. It ceased trading in 1983.

In August 1994, the Government set up the Beirut Stock Exchange Committee to supervise and manage the reopening of the Beirut Stock Exchange. Trading on the Beirut Stock Exchange commenced on January 22, 1996, when the shares of three previously listed Lebanese companies were re-admitted to trading. On September 30, 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary Market, were listed and began trading on the Beirut Stock Exchange.

The Beirut Stock Exchange's capitalization, which includes the value of the securities listed on the Beirut Stock Exchange (excluding Lebanese Republic Eurobonds), rose from approximately U.S.\$386 million in January 1996 to U.S.\$10,894 million at the end of December 2007. The number of authorized brokers rose from five to 14 and the number of listed companies rose from three to 15 (including four mutual funds) by the end of December 2007 according to the Financial Market Department of BDL.

Commencing in 2004, Eurobonds issued by the Republic have been listed on the Beirut Stock Exchange.

The Government regards the re-establishment and development of organized capital markets, including markets for the issue and secondary trading of equity and debt securities, as being of significant importance for the financing of Lebanon's reconstruction and economic expansion.

In addition, since 1996, several Lebanese companies have raised funds (both equity and debt) in the international capital markets.

PUBLIC FINANCE

The Budget Process

The budget preparation and adoption process is governed by relevant provisions of the Constitution and the Law on Public Accounting, implemented by Decree № 14969 dated December 30, 1963, as amended.

The laws governing the budget preparation provide that the proposed budget for each year is prepared by the Ministry of Finance (after review of the estimates prepared by the various Ministries) and submitted to the Council of Ministers by September 1 of the preceding year. The proposed budget, after review by the Council of Ministers, must then be forwarded to Parliament by October 15 for review and approval.

The budget is then approved by Parliament, through specific voting for each article in the budget, after review and debate during a general session to be held between October 15 and December 31.

If Parliament fails to approve a budget, the President of the Republic, with the approval of the Prime Minister, must convene a special session of Parliament to be held no later than January 31 of the relevant year. If no budget is approved during the special session, the President of the Republic has the power, after approval of the Council of Ministers, to adopt the budget submitted to Parliament by the Council of Ministers (Articles 86 of the Lebanese Constitution and 120 of Parliament's internal regulations).

Once the budget law is enacted, the Ministry of Finance becomes responsible for its execution.

Operations of the Government

Prior to the conflict, Lebanon seldom ran budget deficits. The conflict, especially from the early 1980s, led to widespread tax evasion and non-payment of public utility bills. Revenues dropped to very low levels and at one time were not sufficient to cover interest payments on the Republic's internal debt. The Republic resorted to increasing its borrowings from BDL, leading to monetary expansion.

Analysis of Government finances must take account of the following:

- The CDR is a public institution, which is independent from any ministry within the Government. Its financial situation is not fully consolidated in the public accounts, but starting with the draft budget law for 2007, CDR foreign-financed expenditures were included as a line item within Budget expenditures. However, foreign-financed expenditures are still subject to CDR's regulations (in addition to donor requirements) and do not follow budget procedures. CDR expenditures on reconstruction programs are financed partly by grants and borrowings from international development agencies and other overseas entities and partly by appropriations from the budget. These appropriations are included as capital expenditures in the public accounts, but expenditures financed by borrowings as described above are not included in the public accounts (but are included in foreign debt figures). However, interest and principal in respect of these borrowings are included in the national budget for the year in which it is scheduled to be repaid. The borrowings are obligations of the Republic. Foreign indebtedness incurred by the CDR is approved by the Government and by Parliament.
- The Higher Relief Commission ("HRC") manages an extra-budgetary fund responsible for post-disaster relief, whether natural, war, or humanitarian. After the July 2006 War, the HRC began funding the resettlement of residents whose houses were completely or partially destroyed during the war, by paying housing compensations to rebuild or rehabilitate housing units. The HRC is funded through donors contributions outside the budget process to speed-up the process of resettlement. However, as of 2007, spending by the HRC appears in the budget as a separate line item.
- The budget consists of the general budget and of three annex budgets, relating to Post and Telecommunications, National Lottery and the Grain & Sugar Beet Office. Information included in this Base Prospectus relates only to the general budget. Projected deficits or surpluses in the annex budgets are accounted for in the general budget. Actual results for each year also reflect the deficit or surplus of each annex budget.

- Beginning with the 1997 Budget, a new classification, which is substantially in accordance with the guidelines and definitions set forth in the IMF's manual of "*Government Finance Statistics 1986*", was adopted. The Government believes that this classification makes it easier to conduct a proper analysis of the policy, administration and monitoring phases of the budget. The classification used for prior years did not provide a sufficient basis for proper revenue and expenditure management and did not appropriately identify line item expenditures. Therefore, a detailed breakdown of revenues and expenditures is not provided for those years. Further, the reporting for budget execution is currently being done according to "*Government Finance Statistics 2001*" classifications.
- In 1998, the Ministry of Finance developed an updated reporting system for public finance data, principally in the form of a monthly Fiscal Performance Report, which presents revenues and expenditures on a transaction basis, distinguishing between budget transactions and the Treasury transactions. On the revenue side, budget transactions include all tax and non-tax revenues; on the expenditure side, budget transactions account for all debt-related expenses and expenditures pertaining to the execution of the Budget Law for the year under consideration and for expenditures on account of previous years' budgets, noting that such expenditures used to appear in treasury expenditures; however, as of 2007, they have been reclassified under budget expenditures. Revenues classified as Treasury transactions include municipalities' revenues and other inflows in Treasury accounts under guarantees, deposits and grants. Expenditures classified as Treasury transactions include (i) payments not related to Budget Law articles, such as transfers to municipalities' and to EdL, (ii) expenditures paid through withdrawals from guarantees and/or deposits accounts, and (iii) treasury advances to cover emerging expenditures which were not accounted for, such as the diesel oil subsidy and wheat subsidy.
- Beginning in 2002, the Ministry of Finance further refined the presentation of the expenditures data and introduced an economic classification of expenditures which analyses expenditures by type rather than by transactional nature. Under this method, expenditures are classified according to their economic type regardless of the budget year attributable to them. There are three main types along which expenditures are classified: current expenditures, capital expenditures, and other Treasury expenditures.

In accordance with the public accounting law decree 14969, and in the absence of approved Budgets for 2006, 2007 and 2008, Government expenditures have been incurred and are currently incurred on the basis of the "one-twelfth rule", pursuant to which the Government is authorized to spend monthly one-twelfth of the last approved Budget (*i.e.*, the 2005 Budget) and to incur certain other permitted expenditures, such as salaries and wages.

Summary of Government Operations

The following table shows a summary of Government operations for the period from 2003 to 2007.

| Summary of Government Operations | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Economic Classifications | | | (LL billions) | | |
| Revenues | | | | | |
| I. Tax revenues | 4,502 | 5,169 | 4,867 | 4,943 | 5,583 |
| II. Non-tax revenues | 1,717 | 1,907 | 2,117 | 1,945 | 2,511 |
| III. Budget revenues (I+II) | 6,219 | 7,075 | 6,984 | 6,888 | 8,094 |
| IV. Treasury revenues ⁽¹⁾ | 436 | 439 | 421 | 428 | 655 |
| V. Total revenues (III+IV) | 6,654 | 7,514 | 7,405 | 7,316 | 8,749 |
| Expenditures | | | | | |
| I. Current expenditures | 8,820 | 8,051 | 7,924 | 8,927 | 9,661 |
| Personnel cost ⁽²⁾ | 3,087 | 3,094 | 3,193 | 3,307 | 3,583 |
| Debt service | 4,874 | 4,021 | 3,534 | 4,557 | 4,940 |
| Other current | 871 | 936 | 1,197 | 1,063 | 1,137 |
| II. Capital expenditures ⁽³⁾ | 714 | 817 | 534 | 551 | 558 |
| III. Other Treasury expenditures | 1,047 | 1,672 | 1,745 | 2,401 | 2,367 |
| IV. Total expenditures (I+II+III) ⁽⁴⁾ | 10,592 | 10,540 | 10,203 | 11,879 | 12,587 |
| Total Deficit (V-IV) | (3,938) | (3,026) | (2,798) | (4,564) | (3,838) |
| Budget and Treasury transactions | | | | | |
| Budget balance* | (3,330) | (1,850) | (1,493) | (2,544) | (1,977) |
| Budgetary revenues | 6,219 | 7,075 | 6,984 | 6,888 | 8,094 |
| Budgetary expenditures | 9,549 | 8,925 | 8,477 | 9,432 | 10,070 |
| Net Treasury operations* | (608) | (1,177) | (1,305) | (2,019) | (1,862) |
| Treasury receipts | 436 | 439 | 421 | 428 | 655 |
| Treasury outlays | 1,044 | 1,616 | 1,726 | 2,447 | 2,517 |
| Percent of GDP | | | | | |
| Total deficit ⁽⁶⁾ | (13.19) | (9.35) | (8.61) | (13.30) | (10.33) |
| Total revenues | 22.29 | 23.22 | 22.79 | 21.32 | 23.55 |
| Total expenditures ⁽⁶⁾ | 35.49 | 32.72 | 31.59 | 34.62 | 33.89 |
| Nominal GDP⁽⁷⁾ | 29,851 | 32,359 | 32,499 | 34,309 | 37,144 |

Notes:

- (1) Including LL 78 billion and LL 188 billion grants for budgetary support credited to the Treasury accounts in 2006 and 2007 respectively.
- (2) Including wage and salary related payments, *e.g.*, pensions to civil servants and end of service indemnities to Government employees.
- (3) Expenditure does not include capital expenditures of CDR financed with foreign funds, consisting of LL 195 billion in 2002, LL 201 billion in 2003, LL 235 billion in 2004, LL 150 billion in 2005, LL 300 billion in 2006 and LL 317 billion in 2007. Expenditure does not include HRC extra-budgetary financial donor spending amounting to LL 298 billion in 2006 and LL 756 billion in 2007.
- (4) Prior to 2002, the breakdown of expenditures was based on estimates derived from the reconciliation of payment order data and cash payment data. Beginning in 2002, the breakdown of expenditures has been based exclusively on cash payment data. Certain Treasury expenditures are classified as current or capital expenditures and the balance of Treasury expenditures appears under other Treasury expenditures.
- (5) Not including CDR capital expenditures financed externally and HRC donor financed spending in 2006 and 2007, referred to in Note (2) above.
- (6) GDP figures based on 2005 National Accounts and growth and inflation estimates.

Revenues

The main sources of budget revenues are taxes on income, profits, capital gains and dividends, and interest income, taxes on property, domestic taxes on goods and services (including, from February 2002, VAT revenues), taxes on international trade and other transaction taxes (fiscal stamps). Non-tax revenues consist principally of entrepreneurial and property income, such as surplus transfers from the Post and Telecommunications and other annex budgets and distributions and remittances, on account of profits or otherwise, from BDL and in respect of the Republic's ownership of various assets. Additionally, non-tax revenues include administrative fees and charges, fines and confiscated assets.

Total revenues were LL 8,749 billion in 2007, as compared to LL 7,316 billion in 2006, representing an increase of approximately 20 percent which resulted from increases of 13 percent in tax revenues and 29 percent in non-tax revenues. Consumption taxes, taxes on international trade (VAT, customs duties and excises) and transaction taxes (property, registration fees and fiscal stamps) increased in 2007. In addition, the continuous reform effort in the tax administration throughout the last years resulted in an improved collection of income taxes and property taxes. The increase in non-tax revenues is attributable to higher income from government properties (telecommunications, Casino du Liban, Port of Beirut) and to a LL 113 billion transfer from BDL to the Ministry of Finance representing 80 percent of the net income generated by BDL during 2006, which is due to the Ministry of Finance pursuant to Article 113 of the Code of Money and Credit.

Total revenues for 2006 were impacted by the July 2006 War, the subsequent blockade of nearly two months, the subsequent political instability and the increase in international oil prices during the second and the third quarters of the year. As a result, total revenues were LL 7,316 billion, reflecting a 1.2 percent decrease as compared to 2005 revenues. An 8 percent decrease in non-tax revenue was partially offset by 2 percent increases in both tax revenues and Treasury receipts respectively. Domestic taxes on goods and services (namely VAT) and taxes on international trade declined by 3 percent and 15 percent respectively, which were offset by increases of 13 percent in revenues from income taxes and 40 percent in revenues from property taxes. The decrease in non-tax revenue resulted from a 14 percent decline in income from public institutions and Government properties, which, in turn, was caused to a large extent by an 11 percent decline in the transfer from the telecom budget surplus (due to the costs of repairing damage to the fixed and mobile networks caused by the July 2006 War and to the settlement amounts paid to the previous mobile operators) and the absence of transfers from the Port of Beirut.

Total revenues were LL 7,405 billion in 2005, as compared to LL 7,514 billion in 2004, representing a decline of slightly over 1 percent. Tax revenues decreased by 6 percent in 2005 due to a large extent to a decrease in revenues from international trade taxes and, to a lesser extent, decreases in revenues from domestic taxes on goods and services and fiscal stamp fees. Non-tax revenues increased by 11 percent as compared to 2004, mainly as a result of an increase of nearly 15 percent in revenues from public institutions and Government properties.

As a percentage of GDP, total revenues increased from 22.29 percent in 2003 to 23.22 percent in 2004, declining to 22.79 percent and 21.32 percent of GDP in 2005 and 2006, respectively. In 2007, revenues as a percent of GDP increased to 23.55 percent.

Expenditures

Budget expenditures are divided into current expenditures and capital expenditures. The bulk of current expenditures consists primarily of debt service and personnel costs, including salaries, wages and end of service indemnities and other retirement benefits.

Total expenditures were LL 12,587 billion in 2007, as compared to LL 11,879 billion in 2006, representing an increase of approximately 6 percent. This increase is due to a 4 percent increase in non-interest spending (LL 7,647 billion in 2007 as compared to LL 7,322 billion in 2006); and an 8 percent increase in debt service payments (LL 4,940 billion in 2007 as compared to LL 4,557 billion in 2006). The increase in non-interest spending in 2007 was largely caused by an 8 percent increase in transfers to EdL (LL 1,479 billion in 2007 as compared to LL 1,371 billion in 2006).

Total expenditures for 2006 were LL 11,879 billion, as compared to LL 10,203 billion in 2005, representing an increase of 16 percent (this expenditure figure does not account for the LL 298 billion of reconstruction spending on war damaged infrastructure financed by grants, which are also not recorded under revenues). This increase was mainly due to increases of approximately 29 percent and 10 percent in interest payments and non-interest expenditures, respectively. The increase in the debt service expenditures in 2006 resulted from an approximately 55 percent increase in debt service on Lebanese Pound-denominated Treasury obligations and a 9 percent increase in debt service on foreign currency denominated Treasury obligations. These increases resulted from maturities in 2005 and the subsequent refinancing of the zero coupon bonds issued to commercial banks in the context of the Paris II Conference. The increase in non-interest bearing expenditures was due principally to a 64 percent increase in transfers to EdL and a 4 percent increase in personnel cost spending related to security measures under United Nations Resolution 1701.

Total expenditures were LL 10,203 billion in 2005, as compared to LL 10,540 billion in 2004, representing a decrease of 3.2 percent. The principal reason for the decrease in expenditures is lower debt service payments which were at their lowest level since 1998. The reduction in debt service was mainly due to a near 32 percent decline in the servicing of the domestic debt. The decline in the debt service bill was due to the persistent positive impact of Paris II transactions and the overall decline in interest rates.

The Fiscal Deficit

The table below shows the fiscal deficit (including the budget deficit and the results of Treasury operations) and the ratios of deficit to GDP and net public debt to GDP for the years 2003 to 2007.

| | Fiscal Deficit | | | | |
|---|-----------------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| GDP (at current market prices in LL billions) | 29,851 | 32,359 | 32,499 | 34,309 | 37,144 |
| Total Deficit ⁽¹⁾ | (3,938) | (3,026) | (2,798) | (4,564) | (3,838) |
| Deficit/GDP (percent) ⁽¹⁾ | 13.19 | 9.35 | 8.61 | 13.30 | 10.33 |
| Net Public Debt/GDP (%) | 168 | 154 | 161 | 164 | 159 |

Note:

(1) Excluding foreign financed CDR expenditure and HRC spending.

Source: Ministry of Finance.

Since 1992, the focus of the Government has been on regaining public confidence in the economic future of Lebanon through macroeconomic stability and a significant reduction of inflation, while embarking on a major rehabilitation and reconstruction program. However, the Government has had to contend with the effects of the prolonged period of conflict on the Government's expenditures and ability to collect revenues. Public debt began to accumulate in the mid-1970s, as a result of the decline in the Government's control over revenue sources and the expansion of the public deficit. The growth in the public debt resulted from the Government's inability to cover its expenditures from ordinary revenues (the primary budget balance) and growing debt service obligations. As a result, the Government has been running budget deficits financed mainly through domestic borrowing.

The primary balance, representing total revenues less primary expenditures (*i.e.*, total expenditures excluding debt service) has improved by 10 percent of GDP between the years 2000 and 2003–2004. This improvement is considered significant when compared to other countries. However, the years 2005 and 2006 witnessed a slowdown in that trend due to the impact of Prime Minister Hariri's assassination in February 2005, the July 2006 War and the blockade of nearly two months in 2006. However, concerted efforts to reduce spending resulted in the primary surplus despite an impeding political and security environment in 2007. As such, the primary balance in 2007 was 3 percent of GDP.

The table below shows the evolution of primary surplus over the last five years.

| | Primary Surplus | | | | |
|--------------------------------|------------------------|-------------|---------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | | | (LL billions) | | |
| Total Revenues | 6,654 | 7,514 | 7,405 | 7,316 | 8,749 |
| Total Expenditures | 10,592 | 10,540 | 10,203 | 11,879 | 12,587 |
| Debt Service | 4,874 | 4,021 | 3,534 | 4,557 | 4,940 |
| Primary Surplus | 936 | 995 | 736 | (6) | 1,102 |
| Percent of GDP (percent) | 3.1 | 3.1 | 2.3 | (0.02) | 3.0 |
| Nominal GDP | 29,851 | 32,359 | 32,499 | 34,309 | 37,144 |

Source: Ministry of Finance.

The fiscal balance registered a LL 3,838 billion deficit in 2007, as compared to a deficit of LL 4,563 billion in 2006, representing a 16 percent improvement. The primary balance registered a surplus of LL 1,102 billion in 2007, as compared to a deficit of LL 7 billion in 2006, representing a 158 percent improvement.

Due to the increases in interest and non-interest expenditures and lower revenues, the fiscal balance registered a deficit of LL 4,563 billion in 2006, as compared to a deficit of LL 2,798 billion in 2005, a deterioration of 63 percent. The primary balance registered a deficit of LL 6 billion for 2006 as compared to a surplus of LL 736 billion in 2005, a deterioration of 99 percent.

The total deficit was LL 2,798 billion in 2005, as compared to LL 3,026 billion in 2004, an improvement of 7.5 percent. The primary surplus decreased in 2005 to LL 736 billion, as compared to LL 995 billion in 2004, a decline of 26 percent.

The 2005 Budget

A first draft budget proposal was prepared under the Government of Mr. Hariri and sent to the Council of Ministers on September 27, 2004, to be discussed. The draft budget proposal included a comprehensive set of reforms. However, the resignation of the Hariri Government on October 20, 2004, did not permit completion of the process. A second draft budget proposal was prepared by the Karami Government and sent to the Council of Ministers on February 25, 2005. The resignation of the Karami Government on February 28, 2005, also prevented completion of the process. After the formation of the Mikati Government, the draft budget proposal prepared under the Karami Government was sent to the Ministries in order to allow the then newly appointed Ministers to review their budget allocations. Comments were sent back to the Ministry of Finance, however, due to the short tenure of the Mikati Government (which constitutionally ended on June 20, 2005), no budget proposals were sent to the Council of Ministers. A third draft budget proposal was prepared under the Siniora Government and sent to the Council of Ministers on September 14, 2005 for review and adoption. On November 24, 2005, budget proposal was submitted to Parliament and approved by Parliament on February 2, 2006, as Budget Law 715. Although the 2005 Budget was approved outside the constitutional deadline, the Government believed it was necessary for formal approval to take place so that approval of the 2006 Budget and subsequent budgets were not affected.

The 2006 Budget

The 2005 Budget approval delay led to a delay in the preparation and adoption of the 2006 budget as the former had to be approved by the Council of Ministers and Parliament prior to the 2006 budget. Two other factors contributed to the delay:

- 2006 was the first year of the reform program and as such the budget contained measures that required separate approval and adoption by Parliament; and
- the July 2006 War required amendments to the budget proposal and accordingly, its submission to the Council of Ministers and Parliament had to be postponed.

On January 1, 2007, The Council of Ministers approved the 2006 budget proposal and submitted it to Parliament. The 2006 Budget was not adopted by Parliament, in light of the refusal of the Speaker to convene parliamentary sessions.

The 2007 Budget

The draft 2007 budget proposal was approved by the Council of Ministers on May 21, 2007, pursuant to Decree № 403, and sent to Parliament on June 13, 2007. It was published in the Official Gazette № 36, dated June 20, 2007. The 2007 budget was not adopted by Parliament, in light of the refusal of the Speaker to convene parliamentary sessions. The 2007 budget proposal enlarges the scope of budget coverage by partially integrating, for the first time, the largest extra-budgetary entities, namely the CDR and the HRC.

The 2008 Budget

The 2008 budget proposal was approved by the Council of Ministers on October 27, 2007, pursuant to Decree № 977, and sent to Parliament on November 24, 2007. It was published in Official Gazette № 77 dated December 7, 2007. The 2008 budget was not adopted by Parliament, in light of Parliament's inability to meet due to the refusal of the Speaker to convene parliamentary sessions.

Tax System and Taxation Reform

The tax system in the Republic has been subject to sweeping reforms. During the period of conflict, the record of revenue collection was extremely poor, with widespread tax evasion and weak administration. A new Income Tax Law was promulgated on December 30, 1993 (Law № 282 published in the Official Gazette № 1 dated January 6, 1994), and became effective as of the beginning of fiscal year 1994. This law amended the old income tax law and introduced new provisions aimed at reducing tax rates, improving tax implementation and receipts and stimulating private investment. The Income Tax Law was modified in certain respects in the 1999 Budget, which increased income tax rates and dividend tax rates. Currently, the maximum income tax rate for individuals is 21 percent (excluding certain categories of professionals) and for corporations is 15 percent (other than holding companies and off-shore companies incorporated in the Republic, which are not subject to income tax). The 2000 Budget reduced tax on dividends to 5 percent (from 10 percent) for companies listed on the Beirut Stock Exchange. Capital gains on disposal of shares for individuals and for marketable securities are currently generally exempt from tax.

In December 2001, Parliament adopted the VAT law, which became effective on February 1, 2002. VAT is levied at a single rate of 10 percent on all goods and services, subject to certain exemptions, such as medical and educational services.

In January 2003, Parliament adopted the 2003 Budget Law, pursuant to which interest paid in respect of bonds issued by the Lebanese Republic after January 31, 2003, and by private entities, as well as interest paid in respect of bank deposits and other interest bearing assets, is subject to withholding tax at the rate of five percent. See “*Taxation—Lebanese Taxation*”.

In accordance with the economic reform program presented at Paris III on January 25, 2007 and in the context of fiscal consolidation and debt sustainability, the Budget Proposal 2007 calls for an increase in tax rates for revenue enhancement purposes, namely 2 percentage points additional VAT and interest income tax rates. As and when the 2007 budget proposal is ratified by Parliament, a 12 percent VAT and a 7 percent interest income tax will be applicable.

The Government is engaged in a series of reforms to strengthen and modernize tax administration. These reforms include, among others, (i) the creation of a specialized unit to manage the withholding tax on wages and salaries (in 2003); (ii) a Tax Roll Department to update and manage the taxpayers identification database (in 2003); and (iii) the establishment of a Large Taxpayers’ Office (in 2005). The Government is currently working on the reorganization of the revenue administration along a function-based structure with strong headquarters and operational regional offices.

On the legal side, a tax procedure code has been prepared and work on Global Income Tax is underway.

Social Policies

Prior to the July 2006 War, the Government had developed a comprehensive social reform program aimed at improving the efficiency and the targeting of its social sector expenditures.

After the July 2006 War, the Government included a social action plan as part of its fiscal and economic reform program it presented to the Paris III Conference. The main objectives of the social action plan are to: (i) alleviate poverty and improve the quality of education and health indicators; (ii) improve the efficiency of public social spending and keep it at an appropriate and sustainable level; and (iii) reduce regional disparities in development indicators through a proper distribution of investment and other resources and encourage investment and other job-creating activities in the more deprived areas and (iv) improve the social protection system by reforming the National Social Security Fund including the end-of-service indemnity and the health branch.

The National Social Security Fund devised and commenced the implementation of a reform program, financed primarily from its own resources, but with technical (and partial financial) support from the World Bank. The medium-term reform program is comprehensive and includes: (i) the transformation of the End-of-Service-Indemnity program into a fully-funded defined-contribution pension system; (ii) reforms of the health insurance branch to restore its financial balance while introducing incentives to better control utilization, quality and costs; (iii) changes in the Family Allowance Branch to provide affordable and better targeted transfers; and

(iv) changes in business process and information technology infrastructure to improve efficiency in management and support the wider program reforms.