

# LEBANON

## COUNTRY PROFILE 2012\*



\*As published in the Base Prospectus dated 23 March 2012.

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## 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 in this Base Prospectus.*

	2007	2008	2009	2010	2011
<b>The Economy<sup>(1)</sup></b>					
GDP <sup>(2)</sup> (at current market prices in LL billions) .....	37,625	44,748	52,235	55,965	58,906
GDP <sup>(3)</sup> (at current market prices U.S.\$ millions) .....	24,959	29,684	34,650	37,124	39,075
Real Growth Rate (percent) <sup>(4)</sup> .....	8.4	8.6	9.0	7.0	1.5
<b>Balance of Payments (U.S.\$ millions)<sup>(1)(5)</sup></b>					
Current account <sup>(6)</sup> .....	(1,605)	(4,149)	(6,741)	(7,462)	(1,814)
Capital and Financial account <sup>(6)</sup> .....	7,604	5,874	11,118	1,795	1,125
Net Change in Foreign Assets <sup>(7)</sup> .....	2,037	3,462	7,899	3,325	(1,996)
<b>Reserves (U.S.\$ millions)<sup>(1)</sup></b>					
Gross Foreign Currency Reserves <sup>(8)</sup> .....	9,778	17,062	25,660	28,598	30,815
Gold <sup>(8)(9)</sup> .....	7,640	8,032	10,062	13,010	14,401
Gold (thousands of Troy Ounces) .....	9,222	9,222	9,222	9,222	9,222
<b>Public Finance (LL billions)<sup>(1)</sup></b>					
Government Revenues .....	8,749	10,553	12,705	12,684	14,070
Government Expenditures <sup>(10)</sup> .....	12,587	14,957	17,167	17,047	17,600
Government Overall Deficit .....	(3,838)	(4,404)	(4,462)	(4,362)	(3,530)
Primary Deficit/Surplus <sup>(11)</sup> .....	1,102	900	1,625	1,855	2,505
<b>Public Debt<sup>(1)</sup></b>					
Net Domestic Public Debt (LL billions) .....	26,846	30,681	34,451	36,836	38,356
Public External Debt (LL billions) <sup>(12)</sup> .....	31,991	31,934	32,139	31,043	31,529
Gross Public Debt as a percentage of GDP .....	168	159	148	142	137

### Notes:

- (1) Certain figures in this table differ from previously published data.
- (2) The GDP figures included in this table are taken from the *Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010* and revised GDP figures for 2007-2009 prepared by the National Accounts Committee. The 2011 figures are estimates by the Ministry of Finance.
- (3) Translated at period average exchange rates.
- (4) The real growth figure for 2011 figures is an estimate.
- (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.
- (6) The 2011 figures are for the six-month period ended June 30, 2011.
- (7) The 2007, 2008, 2009, 2010 and 2011 figures include proceeds from loans and bonds issued in connection with the Paris II Conference, the Paris III Conference and deposits from Saudi Arabia and Kuwait following the July 2006 War.
- (8) As of 31 January, 2012, gross foreign currency reserves (excluding gold reserves) were U.S.\$30,745 million and gold reserves were U.S.\$16,029 million.
- (9) Parliament passed Law № 42/86, dated September 24, 1986, forbidding dispositions of gold reserves without parliamentary legislation.
- (10) 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"*.
- (11) Surplus or deficit, excluding domestic and external debt service.
- (12) Calculated at end of period exchange rates.

## THE LEBANESE REPUBLIC

### 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; this renders the Republic a highly cosmopolitan country enjoying a great deal of tourism.

According to the *National Survey of Household Living Conditions 2007* published in 2008 and conducted jointly by the CAS, the Ministry of Social Affairs and the UNDP, the number of Lebanon's permanent residents in 2007 was 3,759,136, of whom 96.2 percent were Lebanese. This figure does not include either temporary residents such as migrant workers or residents of Palestinian camps.

The following table shows the breakdown of population by age in 2007.

#### Population by Age

	<b>Total</b>
	<i>(percent)</i>
Under 20.....	34.3
20-59.....	52.3
60 and over .....	13.4

Sources: *National Survey of Household Living Conditions, 2007*, CAS, Ministry of Social Affairs and UNDP.

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 *National Survey of Household Living Conditions 2007* shows that in 2007 approximately 49 percent of the population lives in Lebanon's middle regions consisting of the governorates of Beirut and Mount Lebanon (including the Southern Suburbs of Beirut), while the rest of the population is distributed among the remaining

three governorates (20.3 percent in North Lebanon, 13.0 percent in Bekaa, and 17.6 percent in South Lebanon, including Nabatiyeh).

## **History**

### ***Overview and Recent Developments***

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 October 2000, Mr. Hariri was appointed Prime Minister by President Lahoud after parliamentary elections in August and September 2000.

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 then 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 then 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 then Deputy Prime Minister and current Minister of Defense.

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 ten 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 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 information and report his findings 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. Najib Mikati, a former minister and 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 (the "*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 withdrawn from Lebanese territory. However, the report noted that the withdrawal of the Syrian intelligence apparatus has been harder to verify.

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

On May 7, 2005, General Michel Aoun, a former Prime Minister, returned to Lebanon after 15 years in exile in France and participated in the parliamentary elections that took place in May and June 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 were released in April 2009 as described below.

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, members of the military 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, on September 19, 2007, of Mr. Antoine Ghanem, a member of Parliament and of the Kataeb Party, on December 12, 2007, of Brigadier General Francois el Hajj of the Lebanese Army, on January 25, 2008, of Captain Wissam Eid of the Internal Security Forces and on September 10, 2008, of Mr. Saleh Aridi, a member of the Lebanese Democratic Party.

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 did not wish to jeopardize any future prosecutions before the special tribunal to be established to try those responsible for the bombing that killed former Prime Minister Hariri. 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.

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 Council of Ministers adopted a unanimous decision to deploy 15,000 troops from the Lebanese army in Southern Lebanon as the Israeli army withdrew. The deployment took 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 United Nations Interim Force in Lebanon ("*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 then President Lahoud. 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 bombing that killed former Prime Minister Hariri. The dispute between the then 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, subsequently, the holding of early parliamentary elections on the basis of a new electoral law.

On December 1, 2006, the opposition commenced a sit-in in downtown Beirut, as well as a number of large demonstrations and a general strike, which the opposition sought to enforce by blocking public roads. This 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 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 30, 2007, the Security Council, acting under Chapter VII of the Charter of the United Nations, adopted Resolution 1757, which established the STL to prosecute persons responsible for the attack of February 14, 2005 and adopted the Statutes for the STL. Resolution 1757 further provides that if the STL 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 STL.

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, accordingly assumed the powers of the Presidency.

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 adoption of a new law regulating parliamentary elections.

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 members of the military 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 reprisals against 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.

On May 5, 2008, the Council of Ministers adopted a series of resolutions, including: (i) increasing the minimum wage from LL 300,000 per month to LL 500,000 per month; (ii) reassigning the Chief of Security of the Rafik Hariri International Airport to another position; and (iii) declaring that the telecommunications network operated by Hizbollah on the territory of the Republic is illegal and unconstitutional.

The General Labor Confederation called for a national strike and a demonstration to press for further increases in the minimum wage. The strike, which took place on May 7, 2008, degenerated into protests against the Council of Ministers' resolutions by opposition supporters, who blocked a number of roadways, including access to Rafik Hariri International Airport. Armed clashes between supporters of the then opposition led by Hizbollah, on the one hand, and of the March 14 Coalition and the Progressive Socialist Party, on the other hand, took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains and resulted in the deaths of 65 persons and 200 injuries.

On May 14, 2008, the Council of Ministers rescinded the resolutions relating to the reassigning of the Airport Chief of Security and the declarations regarding Hizbollah's telecommunications network.

On May 15, 2008, following negotiations initiated by an Arab ministerial committee established by the Arab League, an agreement was concluded in Beirut between the principal political factions regarding containment of the Lebanese crisis. This agreement provided, in pertinent part, as follows: (i) that Michel Sleiman be elected as President; (ii) that the parties commit to abstain from having recourse to or resuming the use of weapons and violence in order to record political gains; and (iii) that the parties agree to initiate a dialogue on promoting the State's authority over all of the Republic's territory and its relationship with the various Lebanese factions in order to ensure the security of the State and its citizens.

Between May 16, 2008 and May 21, 2008, the Lebanese National Dialogue Conference, which was attended by all the principal political factions in the Republic, was held in Doha, Qatar under the sponsorship of the Emir of Qatar and the Arab League and the guidance of the Arab ministerial committee.

On May 21, 2008, the parties entered into an agreement (the "*Doha Agreement*") providing for the following:

- (i) the election of the Commander in Chief of the Army, General Michel Sleiman, as President of the Republic;
- (ii) the formation of a Government of 30 ministers, including 16 ministers representing the parliamentary majority, 11 ministers representing the opposition and three ministers representing the President;
- (iii) the adoption for the 2009 parliamentary elections of new smaller electoral constituencies in conformity with the 1960 electoral law, with certain amendments;

- (iv) further to the initial agreement reached in Beirut, (x) the prohibition of the use of weapons or violence in any dispute, in order to ensure respect for the framework of the Lebanese political system and to restrict the security and military authority over Lebanese nationals and residents to the State alone so as to ensure civil peace, and (y) the implementation of the law and the upholding of the sovereignty of the State throughout the territory of the Republic so as not to have regions that serve as safe havens for outlaws and to provide for the referral of all those who commit crimes and contraventions to the Lebanese judiciary; with the related dialogue to be resumed under the authority of the newly-elected President and the newly-formed Government with the participation of the Arab League; and
- (v) the reassertion of the commitment of the Lebanese political factions to immediately abstain from resorting to the rhetoric of treason or political or sectarian incitement.

Following the Doha Agreement, the opposition ended its 18-month sit-in in downtown Beirut.

On May 25, 2008, General Michel Sleiman was elected President by an affirmative vote of 118 out of Parliament's 127 members, following a six-month vacancy in the position. This was the first meeting of Parliament following an 18-month inability to convene.

On May 28, 2008, following mandatory parliamentary consultations, 68 members of Parliament nominated Mr. Fouad Siniora as President of the Council of Ministers, and President Sleiman appointed Mr. Siniora to this position.

On July 11, 2008, a new Government was formed reflecting the terms of the Doha Agreement, with 16 ministers representing the March 14 Coalition, as well as the Progressive Socialist Party, 11 ministers representing the March 8 Coalition, as well as the Free Patriotic Movement, and three ministers representing the President.

On October 8, 2008, a new electoral law was promulgated (Law № 25, as amended on December 27, 2008 by Law № 59) governing the parliamentary elections held on June 7, 2009.

In October 2008, Syria and Lebanon established diplomatic ties for the first time since both became independent 60 years ago.

On October 14, 2008, the Council of Ministers resolved to raise the minimum wage of public and private sector employees from LL 300,000 to LL 500,000 and to increase their base salary by LL 200,000 retroactively to May 1, 2008. The wage increase for public sector employees was confirmed by Parliament through adoption of Law № 63, which was ratified on December 31, 2008 and became effective retroactively as of May 1, 2008.

On December 2, 2008, the Commission published its eleventh report, the second while headed by Mr. Bellemare. In total, the Commission has issued eleven reports, two while headed by Mr. Mehlis, seven while headed by Mr. Brammertz and two while headed by Mr. Bellemare.

On March 1, 2009, the STL, which was established pursuant to United Nations Security Council Resolution 1757 initially to prosecute persons responsible for the bombing that killed former Prime Minister Hariri, commenced its operations. Pursuant to the agreement between the United Nations and the Republic on the establishment of the STL, which is annexed to Resolution 1757 of the Security Council of the United Nations, 49 percent of the STL's expenses must be borne by the Republic.

On April 29, 2009, following a submission by the then Prosecutor of the STL, Mr. Bellemare, considering that the information currently available to him was insufficiently credible to warrant indictment of the persons detained and that, in light of these circumstances and of the principle of

presumption of innocence, there was no cause, at the then current stage in the proceedings, to hold them in detention, the Pre-Trial Judge, Judge Daniel Fransen, issued an order releasing the four senior Lebanese security and military officers who were detained in Lebanon.

On June 7, 2009, Parliamentary elections took place in Lebanon, which resulted in the March 14 Coalition and the Progressive Socialist Party headed by Mr. Walid Jumblatt, winning a majority of the seats in Parliament. See “—*Constitutional System—Elections*”.

On June 27, 2009, following mandatory Parliamentary consultations, 86 Members of Parliament nominated Mr. Saad Hariri as President of the Council of Ministers, and President Suleiman appointed Mr. Hariri to this position.

On September 10, 2009, after 10 weeks of negotiations regarding the composition of the cabinet, Mr. Hariri stepped down as Prime Minister-designate.

On September 18, 2009, following mandatory Parliamentary consultations, 73 Members of Parliament nominated Mr. Hariri as President of the Council of Ministers, and President Suleiman re-appointed Mr. Hariri to this position.

On November 9, 2009, after five months of negotiations, a new Government comprised of 30 ministers was formed with 15 ministers representing the March 14 Coalition and the Progressive Socialist Party, ten ministers representing the March 8 Coalition, as well as the Free Patriotic Movement, and five ministers representing the President.

On December 10, 2009, the then Government obtained a vote of confidence from Parliament with a vote of 122 members in favor, out of 124 members present at the session, on the basis of a policy declaration submitted by the Government.

On August 3, 2010, clashes erupted at the Israeli-Lebanese border between the Lebanese and Israeli armies, which resulted in the death of an Israeli officer, three Lebanese soldiers and a Lebanese journalist.

On January 12, 2011, ten ministers representing the March 8 Coalition, as well as one of the five ministers representing the President of the Republic, resigned from the Government. Consequently, the Government was considered as resigned pursuant to Article 69 of the Constitution, since more than one third of its ministers had resigned. These resignations were preceded by tensions in light of, *inter alia*, the prospective filing of an indictment by the then Prosecutor of the STL, Mr. Daniel Bellemare, in the case of the assassination of former Prime Minister Rafik Hariri and his companions, including speculation surrounding the identity of parties who could be charged.

On January 25, 2011, following mandatory Parliamentary consultations, 68 Members of Parliament nominated Mr. Najib Mikati as President of the Council of Ministers, and 60 Members of Parliament nominated Mr. Saad Hariri. Accordingly, President Suleiman appointed Mr. Mikati to this position.

On June 13, 2011, after nearly five months of negotiations, a new Government, headed by Prime Minister Mikati and comprised of 29 other ministers, was formed. It obtained the vote of confidence from Parliament on July 7, 2011 (with a vote of 68 members in favor out of a total number of 128 members of Parliament) on the basis of the policy declaration submitted by the Government. See “—*Government and Political Parties*” for a discussion of the policy declaration. The new Government does not include representatives of the March 14 Coalition who participated in the debate preceding the vote of confidence but withdrew from the parliamentary session prior to the vote. The opposition of the March 14 Coalition to the Government was centered primarily on the Government’s prospective approach to, and dealings with, the STL, as well as the fate of Hizbollah’s weapons. On July 18, 2010,

Mr. Marwan Khairiddine was appointed as Minister of State, bringing the total number of ministers in the Government to 30.

On June 28, 2011, Pre-Trial Judge of the STL, Daniel Fransen, confirmed an indictment filed by the then Prosecutor of the STL, Daniel Bellemare, in the case of the assassination of former Prime Minister Rafik Hariri and his companions. The indictment and accompanying arrest warrants for four individuals reportedly members of Hizbollah were transmitted to the Lebanese authorities on June 30, 2011. According to STL procedures, the Lebanese authorities must inform the President of the STL within 30 days after the confirmation of the indictment of the measures the Republic has taken to arrest the persons named in the indictment. On November 30, 2011, the Government transferred U.S.\$32 million to cover the Republic's share of the STL's expenses for 2011. The Association of Lebanese Banks subsequently announced that it transferred funds in the same amount to the Government as an act of support to the Government.

On January 25, 2012, Decree № 7426 was adopted (i) increasing the monthly minimum wage for private sector employees from LL 500,000 to LL 675,000 and (ii) providing for a cost-of-living increase up to a maximum of LL 299,000 per month, both effective February 1, 2012. Although Decree № 7426 applies to private sector employees, similar increases are likely to be implemented in favor of public sector employees. Such increases in the minimum wage and other salaries could have an inflationary impact on prices.

On February 1, 2012, Prime Minister Mikati suspended meetings of the Council of Ministers on the basis of (i) disagreements with ministers representing the Free Patriotic Movement regarding the decision making process within the Council of Ministers and (ii) the refusal of the then Minister of Labor, Mr. Charbel Nahas (representing the Free Patriotic Movement) to sign a decree relating to the transportation allowance for private sector employees, implementing a resolution of the Council of Ministers. On February 22, 2012, Mr. Nahas resigned from office following his refusal to sign the transportation decree and was replaced by former Judge Selim Jreissati, also representing the Free Patriotic Movement. On February 27, 2012, meetings of the Council of Ministers resumed.

On February 29, 2012, the Secretary-General of the United Nations appointed Mr. Norman Farrell as the new Prosecutor of the STL, replacing Mr. Daniel Bellemare on the completion of his term as Prosecutor of the STL.

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.

#### *Relationship with Syria*

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 then Government declared that the presence of Syrian troops was legal, temporary and necessary.

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. The withdrawal was completed in April 2005.

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

Relations between Lebanon and Syria remained tense following the withdrawal of Syrian troops in 2005, with the then Government accusing Syria of continuing to meddle in Lebanon's internal affairs and Syria's leaders publicly supporting the then opposition efforts to topple the Government headed by Prime Minister Saad Hariri. Tensions between both countries have eased following the Doha Agreement, the election of President Michel Sleiman and the formation of the current Government, and the visit of Prime Minister Saad Hariri to Syria in December 2009.

In October 2008, Syria and Lebanon established diplomatic ties for the first time since both countries became independent 60 years ago; the exchange of ambassadors took place in March and April 2009.

In recent months, Syria has recently been experiencing significant civil unrest and internal conflict. The stated policy of the Government is to maintain neutrality with respect to the events in Syria in an attempt to shield the Republic from any repercussions, although certain ministers have adopted positions in support of the Syrian regime. The events in Syria have had, and are likely to continue to have, an adverse impact on the political and economic situation in the Republic. These include a disruption to the transit of Lebanese and international goods through Syria resulting in higher transit fees for Lebanese exporters, a decline in tourism from Syria and other Arab countries, potential overspill of the dispute in Syria into the Republic and losses incurred by Lebanese companies, including financial institutions, with subsidiaries or affiliates in Syria. There are divisions in the Republic between supporters of the Syrian government and supporters of the Syrian opposition. In addition, the Republic has experienced an inflow of Syrian nationals fleeing the conflict.

### *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 and in the July 2006 War.

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 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," as well as the Kfarshouba Hills and the Lebanese part of Ghajar, 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.

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.

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 July 2006 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 military 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 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. 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 Constitution also specifies that a Supreme Council, constituted of seven members of Parliament 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, commercial and criminal 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, 2005 and 2009. 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, 2005 and 2009 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 and June 2010. 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 on June 7, 2009, resulting in a majority of the seats for the March 14 Coalition together with the Progressive Socialist Party.

Following changes in political alliances (including members of the Progressive Socialist Party headed by Mr. Walid Jumblatt voting with the March 8 Coalition on the designation of Mr. Mikati as President of the Council of Ministers), the majority of Parliamentary seats is now held by the March 8 Coalition, together with the Progressive Socialist Party and certain independent political figures. In

recent months, however, while the Progressive Socialist Party continues to be represented in the Council of Ministers, there have been disagreements between Mr. Jumblatt and members of the March 8 Coalition, in particular in respect of the events in Syria, as Mr. Jumblatt has publicly supported the Syrian opposition.

The following table sets forth the composition of the Parliament by total number of seats as of the date of this Base Prospectus:

#### **Parliament Composition by Political Party**

<b>Political Party</b>	<b>Number of Seats</b>
<b>Parliamentary Majority</b> .....	<b>68</b>
<i>Hizbollah, Amal Movement and allies, collectively known as the March 8 Coalition</i> .....	38
<i>Free Patriotic Movement</i> .....	19
<i>National Struggle Front (which includes the Progressive Socialist Party)</i> .....	7
<i>Independents</i> .....	4
<b>Opposition</b> .....	<b>60</b>
<i>Future Movement, Lebanese Forces, Kataeb Party and members of the former Qornet Shahwan</i> .....	
<i>Gathering, collectively known as the March 14 Coalition</i> .....	51
<i>Independents</i> .....	9
<b>Total</b> .....	<b>128</b>

On June 25, 2009, Mr. Nabih Berri, who has served as Speaker since 1992, was re-elected for a new four-year term by a vote of 90 out 128 Members.

#### **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 political beliefs and backgrounds; they are broadly divided among the March 14 Coalition, the Progressive Socialist Party and the alliance of the March 8 Coalition and the Free Patriotic Movement.

On June 13, 2011, after nearly five months of negotiations, a new Government, headed by Prime Minister Mikati was formed. On July 7, 2011, the Government obtained a vote of confidence from Parliament on the basis of the policy declaration submitted by the Government. See “—History—Overview and Recent Developments”.

The policy declaration includes, among other provisions the following commitments, undertakings and acknowledgements in respect of:

- the strengthening of the Republic’s official institutions (including the military and security forces) and the upholding of the sole authority of the State in all matters concerning the Republic’s general policies;
- an acknowledgment of the rights of the Lebanese people, Army and resistance to liberate the Shebaa Farms, the Kfarshouba Hills and the Lebanese part of Ghajar from Israeli occupation and to defend Lebanon’s territory and territorial waters against enemies;

- the commitment of the Republic to U.N. Security Council Resolution 1701, which called for an end of the hostilities between Hizbollah and Israel in order to secure a permanent cease-fire, and the Government's support of the role of the UNIFIL forces in the south of Lebanon;
- an acknowledgment of the progress that has been achieved in Syrian-Lebanese relations through the establishment of diplomatic ties between the two countries and the strengthening of relations with Syria on the basis of trust, equality and mutual respect;
- a commitment of the Government to the full implementation of the Taif Accord, which called for the establishment of special relations between Lebanon and Syria;
- the strengthening and development of ties with the Arab countries, the EU and international institutions and organizations and the continued implementation of the conventions, treaties, plans and programs to which the Republic is a party;
- an acknowledgement of the right of return of Palestinians and a rejection of their naturalization in Lebanon;
- the confirmation of the Government's desire, on the basis of its respect of international resolutions, to uncover the truth in the assassination of former Prime Minister Hariri and his companions and the commitment of the Government to monitor the activities of the STL, which was established in principle to determine the truth and achieve justice away from politicization or revenge, provided that this does not negatively affect Lebanon's stability, unity or civil peace;
- the preparation of a new elections law meeting the aspirations of the Lebanese people to achieve true and fair political representation;
- the implementation of the Government's fiscal priorities, including: (i) the adoption of a Budget for 2012; (ii) closing the accounts in respect of previous years for which final accounts have not been completed; (iii) reducing the Government's debt service expenditures; (iv) benefiting from the country's natural resources and assets, including its oil and gas resources, maritime and other assets; (v) reforming the taxation system; and (vi) strengthening the Government's fiscal administration, including through the establishment of a public debt service directorate;
- an acknowledgment that a sound Government fiscal position is a necessary precondition for economic growth, the Government will work on improving revenue collections and reducing both the budget deficit and the public debt and consider the reallocation of tax burdens, taking into account the status of Lebanese families with limited income;
- the modernization of the telecommunications sector through encouraging and attracting investment in the sector, the implementation of new technologies and the setting of clear guidelines for interactions between the Ministry of Telecommunications, the Telecommunications Regulatory Authority ("TRA") and *Organisme de Gestion et d'Exploitation de l'ex-société Radio-Orient ("OGERO")*;
- the continued implementation of the electricity sector reform plan adopted in 2010 (see *"The Economy—Role of the Government in the Economy and Privatization—Electricity Sector—Electricity Sector Reform"*);
- the adoption of an oil and gas policy intended to move Lebanon from a net fuel consumer to a net fuel producer through the implementation of relevant ministerial decrees, the

delimitation of Lebanon's maritime boundaries and the granting of licenses to start exploration and drilling activities;

- the implementation of a plan to store and refine oil in Lebanon and link Lebanon to regional oil and gas grids through the construction of a natural gas pipeline and a liquefied natural gas station; and
- the commitment to fight corruption and promote transparency and accountability in public administrations.

See “—History—Overview and Recent Developments” 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, a tax procedure code, a law establishing a debt management office within the Ministry of Finance and a law broadening the scope of activities of Lebanese offshore companies. 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 and a Treasury single account 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 approximately 150 countries and has 92 diplomatic and general consular missions abroad. It hosts 116 diplomatic missions accredited in Lebanon, of which 66 are located in Lebanon. 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.

On October 16, 2009, the General Assembly of the United Nations elected Lebanon to serve as a non-permanent member of the Security Council for a two-year term starting on January 1, 2010. 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. While relations between Lebanon and Syria were tense, these tensions had eased following the Doha Agreement in May 2008, the election of President Michel Sleiman, the formation of the Government, the establishment of diplomatic relations and the exchange of ambassadors. However, recent events in Syria have resulted in internal divisions in the Republic between supporters of the Syrian government and supporters of the Syrian opposition.

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 just over 50 treaties for the promotion and protection of investments, most of which are in effect. The Republic has ratified such treaties with each of Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium/Luxembourg, Benin, Bulgaria, Canada, Chad, 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 Organization of the Petroleum Exporting Countries ("OPEC") Fund, the Organization of the Islamic Conference, Pakistan, Romania, Russia, Slovakia, Spain, Sudan, Sultanate of Oman, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom and Yemen. The Republic has also signed treaties for the avoidance of double taxation with 32 countries, 28 of which are in effect.

On June 17, 2002, the Republic signed an association agreement with the EU, as part of the Euro-Mediterranean Partnership initiative, which Parliament ratified on December 12, 2002. 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 (the "*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. Under the Neighborhood 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 of facilitating the implementation of the Association Agreement.

The Republic applied for membership in the World Trade Organisation (the "*WTO*") and was granted observer status in April 1999. In 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 queries presented to-date by member states. To date, seven Working Party meetings have taken place in Geneva, the most recent of which was in October 2009, in which the Working Party reviewed the Republic's responses to the issues raised by member states.

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 entered into force on January 1, 2007 and covers trade in industrial goods, including fish and other marine products, as well as processed agricultural products.

In November 2010, the Republic also entered into an association agreement with Turkey. To date, this agreement has not been ratified by Parliament.

## 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 National Accounts Committee to contribute over 85 percent to national expenditures 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 industrial and construction sectors are estimated by the National Accounts Committee to contribute approximately one fifth of GDP. These sectors 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 of December 31, 1997, the fiscal deficit represented 21.25 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 13.7 percent and 22.8 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 113 percent of GDP as of December 31, 1999 and 136 percent of GDP as of 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, improve the overall fiscal condition, modernize the legal system, maintain monetary stability and lower inflation. The economy subsequently improved slightly, recording in 2001 a growth rate of 2.3 percent, a (0.4) percent inflation rate and a decline in the fiscal deficit by 6.9 percentage points of GDP to 15.9 percent of GDP and, in 2002, a real growth rate of 3.4 percent, a 1.8 percent inflation rate and a decline in the fiscal deficit by 1 percentage point of GDP to 15.9 percent of

GDP. In 2001, debt service represented 92.8 percent of total revenues and Net Public Debt rose to 153 percent of GDP and, in 2002, debt service represented 79.3 percent of total revenues and Net Public Debt continued to represent 153 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 in cash or through the delivery of Treasury bills or Eurobonds previously issued by the Republic and held by them. 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 23 percent in 2000) and the primary surplus improved to 3 percent of GDP.

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, but these efforts were hampered by the July 2006 War.

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 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 around 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.\$909 million has been fully committed and 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.\$1.2 billion has been disbursed.

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.\$2,794.3 million at the end of December 2006, mainly as a result of the performance of the Lebanese economy during the first half of the year and 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. Furthermore, despite continuing political tensions and security setbacks in 2008, the balance of payments surplus increased to U.S.\$3,461.7 million. The balance of payments recorded surpluses of U.S.\$7,899.1 million in 2009 and U.S.\$3,324.5 million in 2010 and a deficit of U.S.\$1,996.2 million in 2011. See *"External Sector—Balance of Payments and Foreign Trade"*.

The Government is facing a number of economic challenges, including:

- the events in Syria and their impact on the economy of the Republic; and
- additional expenditures approved by Parliament, including Law № 181 (see *"—Role of the Government in the Economy and Privatization—Electricity Sector"*) and Decree № 7426 regarding private sector wages and cost-of-living adjustments and the expected corresponding increases in public sector wages.

Despite these challenges, the Government remains committed to improving the Government's fiscal position and the debt-to-GDP ratio.

### **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 HCP was reactivated, and a General Secretary was appointed through a public selection process. The HCP has been active in developing a public private partnership framework, which has been confirmed in the policy declaration of the Government. A draft PPP law was submitted to Parliament in April 2011.

### ***Telecommunications Sector***

A modern telecommunications law ("*Law No 431*"), was adopted by Parliament in July 2002. Law No 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 No 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 No 431 provides for the establishment of a 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. The mandate of the TRA's Board of Directors expired on February 29, 2012 and was not renewed due to political disagreements and differences between the Minister of Telecommunications and the TRA regarding the powers of the TRA and the implementation of Law No 431.

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. The tender process was suspended due, in large part, to the global financial crisis. The Minister of Telecommunications launched a tender process for the award of two management contracts for a one-year period commencing on February 1, 2009 (renewable for one additional year), as the management contracts then in effect were about to expire.

On January 13, 2009, Zain and Orascom Telecom Holding S.A.E. were declared the winners of the tender process for the award of the two management contracts. On January 29, 2010 and in light of the

forthcoming expiry of the two management contracts, the Council of Ministers adopted a resolution extending the contracts' term for six months (renewable for two consecutive periods of three months each). Such contracts were further extended for a one-year period on January 31, 2011 on the same conditions that were approved by the Council of Ministers in January 2010.

On January 31, 2012, the Council of Ministers authorized the Minister of Telecommunications to extend the aforementioned management contracts for a one-year period to January 31, 2013, which can be terminated early by the Government and directed the Minister of Telecommunications to prepare a public, international tender for the future management of the two mobile networks. The Minister of Telecommunications was also requested to complete the organizational and implementation decrees for the TRA for submission to the Council of Ministers.

### *Electricity Sector*

In September 2002, Parliament passed a law ("*Law No 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 No 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.

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.

The Government seeks to reduce the significant cost to the Treasury of fuel imports. Among other measures, the Government signed an agreement on May 30, 2009 with the Egyptian General Petroleum Corporation ("*EGPC*") and the Egyptian Natural Gas Holding Company ("*EGAS*") regarding the supply of natural gas *via* the Arab Gas Pipeline. As a result, in September 2009 delivery of natural gas to the Deir Amar power plant in North Lebanon commenced. This agreement was ratified by Parliament pursuant in June 2010. However, the supply of gas was irregular and was discontinued in December 2010.

### *Electricity Sector Reform*

The initial plan for the reform of the energy sector was developed by the first Siniora Government (2005-2008) and presented in January 2007. In June 2010, the Government adopted a new sector reform plan, which was proposed by the Minister of Energy and Water. The new plan includes the following ten objectives:

- *Production*: increasing production capacity to 4,000 MW by 2014 and to 5,000 MW thereafter;
- *Transmission*: removing bottlenecks, reducing transmission losses and implementing a control facility to ensure adequate connection between power plants and load centers;
- *Distribution*: implementing a transitional program with the participation of the private sector and encouraging investment in the planning, constructing, operation and maintenance of the distribution sector, including developing modern metering, billing and collection systems;
- *Fuel Sourcing*: implementing a new policy based on diversity and security, pursuant to which two-thirds of the fuel mix would be based on natural gas with multiple sources of supply, more than 12 percent would be based on renewable energies and the remainder would be based on

other sources of fuel, while encouraging the use of technologies that work with both natural gas and fuel oil;

- *Renewable Energy*: encouraging the adoption of renewable energy technologies in order to reach the aforementioned 12 percent goal;
- *Energy Efficiency*: encouraging greater awareness of proper electricity use and the adoption of national programs focused on demand-side management as the basis for effective energy use, peak shaving, load shifting and demand growth control, with the aim of saving a minimum of five percent of total demand;
- *Tariffs*: restructuring and increasing existing tariffs to gradually eliminate the financial deficit in the electricity sector, balancing EdL's budget and reducing the financial burden on users of costly private generators;
- *Norms and Standards*: establishing norms and standards for the provision of electricity services that ensure safety and fair access with the aim of providing a high quality service and at a low cost;
- *Corporatization of EdL*: revitalizing EdL through the establishment of the financial, administrative and human resources flexibility needed to cope with the aforementioned reforms; and
- *Legal Status*: amending of the current legal and organizational framework of the electricity sector, including the revision of Law № 462 and the adoption of a law in connection with the new power plants.

In October 2011, Parliament adopted Law № 181, which provides, *inter alia*, for an increase in electricity production of 700 MW, the upgrading of existing power plants, the establishment of the Electricity Regulatory Authority and the appointment of a new board of directors for EdL. Law № 181 authorizes total expenditures of LL 1,772 billion (approximately U.S.\$1.2 billion), of which LL 414 billion (approximately U.S.\$275 million) is authorized to be spent in 2011 but was not disbursed during that year. The Ministry of Finance accounted for the 2011 expenditures under Law № 181 in its current spending plan for the year and for the 2012 expenditures in the draft 2012 budget submitted to the Council of Ministers. Law № 181 provides that these expenditures will be financed through extraordinary revenues, as well as borrowings in the form of Lebanese Pound- or foreign currency-denominated bonds and concessional loans. There are ongoing discussions with potential financing parties to finance the rehabilitation of the Zouk and Jiyeh power plants. When implemented, Law № 181 and the electricity reform plan approved by the Council of Ministers are expected to enhance electricity generation in order to meet demand and diversify sources of energy. It is expected that Law № 181 would result in a reduction of Government transfers to EdL over time. The Government has also recently revived efforts to restructure EdL.

### **Water sector**

A reform of the water sector was commenced by the last Rafik 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 implementation decrees for Law № 221 were published in June and July 2005 and the four public establishments commenced their work in October 2005, and have received technical assistance from international organizations including the United States Agency for International Development ("USAID"), AFD, the EU, Deutsche Gesellschaft für Internationale Zusammenarbeit and the World Bank.

## **Securitization**

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.

The Government has not engaged in any such transactions to date. However, 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 updates being made on the basis of the new official GDP time series released by the 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 published GDP figures for the period 1997–2002. In May 2006, the National Accounts Committee released GDP figures for 2002 (revised) and 2003. In February 2007, GDP figures for 2004 were published. In October 2007, GDP figures for 2005 were published. In February 2009, GDP figures for 2006 and 2007 were published. In December 2010, the National Accounts Committee released GDP figures for 2005–2008 (revised) and 2009. In January 2012, the National Accounts Committee released GDP figures for 2010. The National Accounts Committee has also prepared revised GDP figures for 2006–2009.

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, 3.6 percent in 1998, (0.5) percent in 1999 and 1.3 percent in 2000. Real GDP growth was 4.0 percent in 2001, 3.4 percent in 2002, and 3.2 percent in 2003. In 2004, real GDP growth increased to 7.5 percent, while declining to 1.2 percent in 2005. In 2006, real GDP growth was 1.4 percent, increasing to 8.4 percent in 2007, 8.6 percent in 2008, 9.0 percent in 2009 and 7.0 percent in 2010.

The following table shows GDP figures for the years 2006-2010.

<b>GDP<sup>(1)</sup></b>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
GDP (at market prices in LL billions) .....	33,451	37,625	44,748	52,235	55,965
Exchange rate (LL per U.S.\$- period average)...	1,507.5	1,507.5	1,507.5	1,507.5	1,507.5
GDP (at market prices in U.S.\$ millions) .....	22,190	24,959	29,684	34,650	37,124
Growth of Real GDP (%).....	1.4	8.4	8.6	9.0	7.0
Growth of Nominal GDP (%).....	3.5	12.5	18.9	16.1	7.1
GDP Deflator (%).....	2.1	3.8	9.5	7.1	0.2

Note:

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

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010 and revised GDP figures for 2006-2009 prepared by the National Accounts Committee.

The following table shows GDP figures by sector for the years 2006-2010.

<b>GDP by Sector<sup>(1)</sup></b>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Agriculture and livestock .....	2,026	2,347	2,609	2,660	2,650
Energy and water supply.....	(390)	(555)	(1,468)	(867)	(1,473)
Industry .....	3,062	3,236	3,693	3,982	4,002
Construction .....	3,156	4,375	6,052	7,018	8,515
Transport and communication.....	2,293	2,595	2,811	3,426	3,084
Market Services .....	12,183	13,137	14,986	16,578	18,721
Trade.....	7,597	8,717	11,796	14,658	15,396
Government.....	3,524	3,773	4,270	4,780	5,071
Total GDP (at market prices in LL billions) .....	<b>33,451</b>	<b>37,625</b>	<b>44,748</b>	<b>52,235</b>	<b>55,965</b>

Note:

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

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010 and revised GDP figures for 2006-2009 prepared by the National Accounts Committee.

The following table shows GDP estimates for 2011.

<b>GDP Estimates for 2011<sup>(1)</sup></b>	
	<b>2011</b>
GDP (at market prices in LL billions) .....	58,906
Exchange rate (LL per U.S.\$- period average).....	1,507.5
GDP (at market prices in U.S.\$ millions) .....	39,705
Growth of Real GDP (%).....	1.5
Growth of Nominal GDP (%).....	5.3
Estimated GDP deflator (%).....	3.7

Note:

(1) Estimates.

Source: Ministry of Finance.

The following table shows the composition and the evolution of the Republic's GDP for the years 2008, 2009 and 2010.

**Composition of GDP for 2008-2010<sup>(1)</sup>**

	2008	2009 (%)	2010
Agriculture and livestock .....	5.8	5.1	4.7
Energy and water supply .....	(3.3)	(1.7)	(2.6)
Manufacturing .....	8.3	7.6	7.2
Construction .....	13.5	13.4	15.2
Transport and communications .....	6.3	6.6	5.5
Market Services .....	33.5	31.7	33.5
Trade .....	26.4	28.1	27.5
Government .....	9.5	9.2	9.1
<b>Total .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note:

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

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010 and revised GDP figures for 2008-2009 prepared by the National Accounts Committee.

### **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 3.2 percent and 7.5 percent, respectively. In 2005, growth witnessed a slowdown following the aftermath of Prime Minister Hariri's assassination, with real GDP growth at 1.2 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, negatively impacted economic growth. As a result, real growth was 0.9 percent in 2006. Once the consequences of war began to dissipate and the effects of the favorable economic climate of regional expansion began to be felt in the Republic, the Lebanese economy recovered and resumed its growth pattern with real GDP growth estimated at 7.8 percent in 2007, 9.2 percent in 2008 and 8.5 percent in 2009. Real GDP continued to grow in 2010, although at a slower rate of 7.0 percent, due mainly to the impact of the falling growth rate of demand for the volume of imports and local production. Real GDP growth is estimated to have slowed significantly in 2011 to 1.5 percent, mainly as a result of political instability in the region.

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

**Selected Indicators of Economic Activity<sup>(1)</sup>**

	2007	2008	2009	2010	2011
<b>Industry</b>					
Recorded Exports ( <i>U.S.\$ millions</i> ) .....	2,817	3,480	3,486	3,922	4,268
Electricity Production ( <i>millions of KWh</i> ).....	10,548	11,189	11,920	12,458	12,397
Cement Deliveries ( <i>'000s of tons</i> ).....	3,945	4,219	4,897	5,227	5,550
<b>Construction</b>					
Construction Permits <sup>(2)</sup> .....	10,352	12,326	12,917	15,641	16,147
Area ( <i>'000 sq. meters</i> ) .....	9,038	16,024	14,340	17,608	16,144
<b>Commerce</b>					
Port of Beirut ( <i># of ships</i> ) .....	2,187	2,055	2,395	2,285	2,167
Beirut Airport ( <i>'000s of passengers</i> ) .....	3,326	4,085	4,953	5,512	5,596
<b>Documentary Credits for Imports</b>					
( <i>U.S.\$ millions</i> ) .....	3,860	4,762	4,089	4,940	5,294

Note:

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

(2) Figures are based on data provided by the Order of Engineers of Beirut and cover Beirut, Mount Lebanon, North Lebanon, the Bekaa, South Lebanon and Nabatiyeh.

Sources: 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 both 2009 and 2010, services accounted for approximately 76 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 periods indicated.

#### Trade Activity at Beirut Port

	2007	2008	2009	2010	2011
No of ships .....	2,187	2,055	2,395	2,285	2,167
Incoming freight <sup>(1)</sup> .....	4,326	4,946	5,653	5,505	5,879
Outgoing freight <sup>(1)</sup> .....	904	820	669	820	798
Freight in transit <sup>(1)</sup> .....	121	152	172	147	151

Note:

(1) In thousands of metric tons.

Sources: 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 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 being made in the modernization and expansion of this sector and international hotel companies have returned to Lebanon. In parallel, the ecotourism sector is growing as several areas of outstanding natural beauty have been declared protected areas. *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 from 1997 to December 31, 2011, the Government provided 2,220 LL-denominated subsidized loans, administered by *Banque du Liban*, to companies in the tourism sector for a total value LL 2,063 billion (or approximately U.S.\$1,368 million). The interest subsidies on these loans are estimated at LL 570 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. However, in 2011, the inflow of tourists was adversely affected by regional turmoil, in particular, the events in Syria.

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 arrivals was slightly lower in 2007 at 1,017,072 tourists in light of the political and security issues. In contrast, the relatively stable political and security environment following the Doha Agreement resulted in a growth in tourism activities in 2008, with a total of 1,332,551 tourists, represented a 31 percent increase as compared to 2007. In 2009, 1,851,081 tourists arrived in Lebanon, a 39 percent increase from the 2008 levels. In 2010, 2,167,989 tourists arrived in Lebanon, representing an 18 percent increase, as compared to the same period in 2009. In 2011, 1,655,051 tourists arrived in Lebanon, representing a 24 percent decrease, as compared

to 2010. This decrease was due mainly to the political instability in the surrounding region. The largest decrease in tourist numbers was in tourists from Arab countries, which decreased by 35 percent in 2011.

### ***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.

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.\$174.4 billion at the end of December 2011. In addition, since 1996, Lebanese banks have been successfully accessing the international capital 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. In August 2011, Laws № 160 and № 161 prohibiting insider trading and instituting a framework for the regulation of capital markets in the Republic, respectively were also enacted by Parliament. 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. The combined value of the securities listed on the Beirut Stock Exchange (excluding Eurobonds of the Republic), rose from approximately U.S.\$386 million in January 1996 to U.S.\$10,285 million at the end of December 2011. The number of authorized brokers rose from five to 16 and the number of listed companies rose from three to 11 (including one mutual fund) by the end of December 2011.

See "*Monetary System—Securities Markets*".

### ***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. Construction projects are financed

mainly by equity investments. The construction boom resulted in an increase in the construction's share of the economy from 9.4 percent in 2006 to 15.2 percent in 2010.

### ***Manufacturing***

In 2006, the manufacturing sector (mainly production of food and beverages, metal, machinery, equipment, timber, rubber, chemical, non-metallic ores, textiles and furniture) accounted for 9.2 percent of GDP, declining to 7.2 percent in 2010.

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 December 31, 2011, the Government provided 7,019 LL-denominated subsidized loans, administered by *Banque du Liban*, to the industrial sector for a total value of LL 4,053 billion (or approximately U.S.\$2,689 million). The interest subsidies on these loans were estimated at LL 1,091 (or approximately U.S.\$724 million).

Following the Paris III Conference, loans totaling U.S.\$2,169 million were made to private sector entities by Paris III participants, including the European Investment Bank ("*EIB*"), the World Bank, the United States, the Arab Fund for Economic & Social Development, France and the Arab Monetary Fund.

### ***Energy and Electricity***

Preliminary studies conducted on behalf of the Government have shown that the Republic's territorial waters and maritime exclusive economic zone may contain significant hydrocarbon resources. Exploration activities are ongoing in neighboring countries.

In August 2010, Parliament adopted Law № 132 regulating the hydrocarbon exploration and extraction activities in the Republic's territorial waters and Exclusive Economic Zone and establishing a regulatory authority. The Council of Ministers is in the process of preparing the various decrees implementing Law № 132.

Other than relatively modest hydroelectric resources and the import of electricity from Syria, all energy needs are met with imports of petroleum products and natural gas (which is currently interrupted); gas oil imports were approximately 1.1 million metric tons in 2009, 1.0 million metric tons in 2010, and 0.7 million metric tons in 2011, and fuel oil imports were approximately 1.2 million metric tons in both 2009 and 2010 and 1.1 million metric tons in 2011.

The Ministry of Energy and Water has been investigating options to diversify its energy sources and reduce its reliance on imported gas and fuel oil. In 2012, the Ministry of Energy and Water launched a feasibility study to assess hydropower resources in Lebanon and has prepared the terms of reference for the assessment of the potential production of biogas from waste-water treatment and the general assessment of bioenergy potential in Lebanon.

In November 2010, the Minister of Energy and Water announced plans to increase Lebanon's oil storage capacity from 0.35 million cubic meters to 1.5 million cubic meters through the reconstruction and upgrade of the relevant portions of two state-owned refineries (one in Tripoli and one in Zahrani), which are currently non-operational, and are used only as import terminals and storage

facilities for refined oil products. The 2010 budget proposal allocated LL 30 billion for increased storage capacity at the Tripoli refinery. 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. 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 2010 and 2011 amounting to U.S.\$1,192 million and U.S.\$1,742 million, respectively. In June 2010, the Government adopted a reform plan for the electricity sector. See *"The Economy—Role of the Government in the Economy and Privatization—Electricity Sector—Electricity Sector Reform"*.

### ***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. In 1997, agriculture contributed approximately 6.5 percent to the Republic's GDP, as compared to approximately 9.9 percent in 1972. In 2010, the contribution of agriculture to GDP decreased to 4.7 percent, as compared to 5.1 percent in 2009, 5.8 percent in 2008, 6.2 percent in 2007 and 6.1 percent in 2006, due to higher prices of agricultural and other primary products. The Government's policy is to further increase the contribution of agriculture to the economy. Over the period from 1997 to December 31, 2011, the Government provided 3,611 LL-denominated subsidized loans, administered by *Banque du Liban*, to the agricultural sector for a total value of LL 638 billion (or approximately U.S.\$424 million). The interest subsidies on these loans were estimated at LL 157 billion (or approximately U.S.\$104 million).

### **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 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 and (0.4) percent in each of 2000 and 2001. Since 2001, estimated inflation has fluctuated slightly, increasing to 1.8 percent in 2002 and decreasing to 1.3 percent in 2003, before increasing back to 3 percent in 2004 and decreasing to (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 was 5.6 percent in 2006. In 2007, CAS estimated inflation at 9.3 percent on an end-of-period basis, and, on the basis of BDL, the IMF estimated inflation at 6.0 percent on an end-of-period basis and at 4.1 percent on a period average basis. The increase in inflation in 2007 was due to, *inter alia*, the appreciation of the Euro against the Lebanese Pound (the Euro being the currency of the principal trading partners of the Republic) and the global increase in oil and other commodity prices. CAS estimated inflation for 2008 at 5.5 percent on an end-of-period basis, and the IMF estimated inflation at 6.4 percent on an end-of-period basis and 10.8 percent on a period average basis. The increase in inflation in 2008 was due to the same factors as in 2007, but was tempered by the global financial crisis. Inflation slowed in 2009, with CAS estimating inflation at 3.4 percent on an end-of-period basis and 1.2 percent on a period average basis, and the IMF estimating inflation at 1.2 percent on an annual period average basis. Inflation increased in 2010, with CAS estimating inflation at 4.6 percent on an end-of-period basis and 4.0 percent on a period average basis, and the IMF estimating inflation was 4.5 percent on an annual period average basis. Inflation decreased in 2011 on an end-of-period basis, with CAS estimating inflation at 3.1 percent, in line with the IMF's estimation. Inflation in 2011 increased, however, on a period average basis, with CAS estimating inflation at 5.1 percent, compared to an IMF estimate of 5.0 percent on an annual period average basis. The increases in both 2010 and 2011 were principally due to the worldwide increase in energy, food and other commodity prices. The IMF's preliminary inflation projection for 2012 is 3.9 percent on a period-average basis and 4.2 percent on an end-of-period basis.

On January 25, 2012, Decree № 7426 was adopted (i) increasing the monthly minimum wage for private sector employees from LL 500,000 to LL 675,000 and (ii) providing for a cost-of-living increase up to a maximum of LL 299,000 per month, both effective February 1, 2012. Although Decree № 7426 applies to private sector employees, similar increases are likely to be implemented in favor of public sector employees. Such increases in the minimum wage and other salaries could have an inflationary impact on prices.

The Ministry of Finance is currently reviewing a number of revenue enhancement and expenditure reduction measures to offset the expected public wage increases.

## **Reconstruction**

### ***The Council for Development and Reconstruction and the Reconstruction Program***

The Council for Development and Reconstruction ("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 5,697 contracts with a total value of approximately U.S.\$10.9 billion were awarded by the CDR for the period since reconstruction efforts started in 1992 to the end of 2011, projects with a total value of U.S.\$7.7 billion have been completed.

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.

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.

### ***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 Jounieh) 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; 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 National Control Center project is currently in a testing and hand-over phase. In addition, the Policy Paper for the Electricity Sector adopted by the Government in 2010 provides, *inter alia*, for an expected increase in production capacity to 4,000 MW by 2014 and 5,000 MW thereafter to address current electricity rationing issues and to meet increasing demand. In addition, a new national transmission 220 KV network is being installed, and improvements to the distribution sector and other aspects of the electricity sector are being implemented. The rehabilitation program of the Zouk and Jiyeh plants is in a tender phase. Additionally, the Ministry of Energy and Water is currently preparing tender documents for a number of other rehabilitation projects for smaller power plants. A tender for an operation and maintenance contract for the Zahrani and Deir Ammar power plants was launched in the beginning of 2012.

### ***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.\$0.7 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, Nabatiyeh, 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 technical assistance programs and service contracts were awarded between 1992 and 2009 at a value of U.S.\$1,465 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.\$550 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 1,440,000 lines, are operational, in addition to the fixed line system. The mobile telephone networks have been privately financed through two build-operating-transfer (“BOT”) contracts awarded to two different operators, and are currently being operated on behalf of the Government by two private operators pursuant to management contracts.

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.

On January 13, 2009, Zain and Orascom Telecom Holding S.A.E. were declared the winners of the tender process for the award of the two management contracts. On January 29, 2010 and in light of the forthcoming expiry of the two management contracts, the Council of Ministers adopted a resolution extending the contracts' term for six months (renewable for two consecutive periods of three months each). Such contracts were further extended for a one-year period on January 31, 2011 on the same conditions that were approved by the Council of Ministers in January 2010.

On January 31, 2012, the Council of Ministers authorized the Minister of Telecommunications to extend the aforementioned management contracts for a one-year period to January 31, 2013, which can be terminated early by the Government and directed the Minister of Telecommunications to prepare a public, international tender for the future management of the two mobile networks. The Minister of Telecommunications was also requested to complete the organizational and implementation decrees for the TRA for submission to the Council of Ministers.

### ***Transportation***

The first phase of road projects has been substantially completed. Contracts totaling U.S.\$1.1 billion in value were completed during the period 1991-2011. These included the rehabilitation of the capital's road network and the main penetrators, the completion of extensions of the coastal highway system north to Tripoli and south to Quasme, the upgrading of a number of intersections in the Greater Beirut area. The extension of the Northern coastal highway to the Syrian borders and the Southern coastal highway to Tyre City entrance, as well as the upgrade of the Beirut Damascus Road (from Sayad to Masnaa) are all underway. The remaining intersections in the Greater Beirut area and main roads in different regions in connection with the road improvement program are also in progress. The cost of the ongoing contracts is approximately U.S.\$700 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.

### ***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.\$509 million in disbursed contracts and U.S.\$516 in planned contracts. 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, 28 new health care centers covering all regions of Lebanon and 12 new public hospitals have been completed. Work is underway on the construction, expansion and renovation of six hospitals and the construction of four new public hospitals is also planned.

## ***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 No 117 ("*Law No 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 No 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 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.

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.

### **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 *National Survey of Household Living Conditions 2007* estimated the official unemployment rate at 9.2 percent in 2007.

According to the *National Survey of Household Living Conditions 2007*, the composition of workers in the Republic (pursuant to the categorization adopted by the International Labor Organization) is: skilled workers: 16.8 percent; unskilled workers: 11.3 percent; general and corporate managers: 11.9 percent; service sector workers and salespersons: 11.8 percent; specialists: 10.3 percent; drivers: 8.4 percent; office employees: 7.5 percent; intermediate professions: 9.7 percent; skilled agricultural and fishery workers: 4.7 percent; and military personnel: 7.5 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 *National Survey of Household Living Conditions 2007* estimated the adult literacy rate was approximately 90 percent in 2007, 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 educational system and infrastructure suffered damage and lack of investment. In spite of the turmoil, however, the educational 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 2010-2011, the GE system was comprised of 1,281 public, 1,072 private, 363 subsidized and 74 United Nations Relief and Works Agency ("UNRWA") schools, for a total of 2,790 schools. In the same period, there were 110 public and 320 private institutions in the VTE system, and the HE had one public university, the Lebanese University, and 38 private institutions, which include universities, university institutes, technological institutes and institutes for religions studies.

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.

The following table gives a summary of the GE school system during the academic years 2010–2011.

#### GE School System

Total number of GE schools.....	2,790
Total number of students in GE schools .....	937,930
Public schools (as a percentage of total).....	45.9
Private schools (as a percentage of total) .....	38.4
Private subsidized schools (as a percentage of total) .....	13.0
UNRWA private schools (as a percentage of total) .....	2.7

Sources: Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical bulletin 2010-2011.

The table below shows the percentage of the population attending schools for the 2010–2011 academic year.

#### Population Attending School

Age	Males		Females		Total	
	(number)	(%)	(number)	(%)	(number)	(%)
Pre-school.....	79,323	17	74,845	16	154,168	16
Elementary.....	236,204	51	220,781	47	456,985	49
Intermediate .....	97,358	21	107,848	23	205,206	22
Secondary.....	53,830	12	67,741	14	121,571	13
<b>Total .....</b>	<b>466,715</b>	<b>100</b>	<b>471,215</b>	<b>100</b>	<b>937,930</b>	<b>100</b>

Sources: Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical bulletin 2010-2011.

The total number of VTE students was 111,866 during the academic year 2010-2011, of which 38,080 were public sector students.

Lebanon's universities had a total of 192,138 students during the academic year 2010-2011, of which 47.6 percent were females and 52.4 percent were males. Approximately 83.5 percent were Lebanese and 16.5 percent of university students were foreigners.

The principal universities in Lebanon consist of the Lebanese University, with five branches (72,507 enrolments in 2010-2011), Université Saint Joseph (USJ) (founded and run by French Jesuits) (9,197 enrolments in 2010-2011), the Arab University (sponsored by the Egyptian University of Alexandria) (15,551 enrolments in 2010-2011), the American University of Beirut (AUB) (7,747 enrolments in 2010-2011), the Lebanese American University (5,954 enrolments in 2010-2011), Notre Dame University (6,256 enrolments in 2010-2011), Université Saint Esprit de Kaslik (6,980 enrolments in 2010-2011), the Balamand University (Hybrid System) (4,451 enrolments in 2010-2011) and Haigazian University (600 enrolments in 2010-2011). 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 higher education.

## 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.\$7,880 million in 2007, U.S.\$11,010 million in 2008, U.S.\$11,179 million in 2009, U.S.\$12,258 million in 2010 and U.S.\$6,253 million in the six-month period ended June 30, 2011.

Even during conflict periods, there was generally a surplus in the balance of payments. Despite the July 2006 War and the political tensions that followed, the balance of payments registered a surplus of U.S.\$2,036.6 million in 2007, despite an increase in the trade balance deficit, as a result of increases in the capital and financial accounts. The balance of payments surplus increased in 2008 to U.S.\$3,461.5 million, as a result of renewed confidence in economic stability that led to capital and financial inflows. In 2009, the balance of payments surplus more than doubled to U.S.\$7,899.1 million, as a result of easing political tensions and economic growth. In 2010, the balance of payments surplus decreased to U.S.\$3,324.5 million, as a result of a slower rate of increase in both foreign assets and liabilities. In 2011, the balance of payments registered a deficit of U.S.\$1,996 million, mainly as a result of an increase in the current deficit, principally due to higher energy costs and a reduction in transfers. In January 2012, the balance of payments registered a deficit of U.S.\$290 million.

The following table sets out information relating to the Republic's foreign trade for the periods indicated.

**Balance of Payments Summary<sup>(1)(2)</sup>**

	2007	2008	2009	2010	Six months ended June 30, 2011
	<i>(U.S. Dollars millions)</i>				
<b>Current Account</b> .....	(1,604.8)	(4,149.0)	(6,740.9)	(7,462.1)	(1,814.3)
Goods.....	(7,880.0)	(11,010.1)	(11,178.6)	(12,257.7)	(6,252.6)
Credit.....	4,046.5	5,250.5	4,716.2	5,466.5	2,943.2
Debit .....	(11,926.4)	(16,260.6)	(15,894.7)	(17,724.2)	(9,195.8)
General merchandise.....	(8,026.4)	(11,039.9)	(11,694.0)	(12,652.5)	(6,265.0)
Exports FOB <sup>(3)</sup> .....	3,170.9	3,978.1	3,250.5	3,733.7	2,009.9
Imports FOB <sup>(3)</sup> .....	(11,197.3)	(15,018.0)	(14,944.5)	(16,386.1)	(8,275.0)
Goods for processing.....	8.8	67.0	28.7	243.2	4.9
Repairs on goods.....	0.0	(0.0)	(0.0)	(1.8)	10.3
Non-monetary gold .....	48.8	(193.7)	392.2	28.2	(97.3)
Services.....	2,766.4	4,063.5	2,838.6	2,548.3	3,031.4
Credit.....	12,754.7	17,573.9	16,889.1	15,975.8	9,444.5
Debit .....	(9,988.3)	(13,510.4)	(14,050.6)	(13,427.6)	(6,413.0)
Transportation.....	(1,139.5)	(1,491.0)	(1,777.2)	(1,184.1)	(508.9)
Travel.....	2,102.4	2,254.8	2,762.2	3,107.9	1,093.8
Communication services.....	39.6	80.4	239.0	77.8	61.6
Insurance services .....	(22.6)	(34.9)	257.5	(197.2)	(80.8)
Financial services .....	85.7	72.2	87.0	1,065.8	631.6
Misc. business, professional services.....	1,706.2	3,185.5	1,278.0	(356.9)	1,804.1
Government services, n.i.e. ....	(4.7)	(3.1)	(4.8)	44.6	10.7
Income .....	740.1	437.2	(228.1)	(508.9)	215.1
Credit.....	3,112.8	2,723.3	2,040.2	1,448.1	846.5
Debit .....	(2,372.7)	(2,286.1)	(2,268.3)	(1,957.0)	(631.4)
Compensation of employees .....	149.7	615.8	139.3	1.3	(23.5)
Investment income.....	590.4	(178.6)	(367.3)	(510.2)	238.5
Direct investment.....	4.7	(0.0)	41.4	(12.8)	174.0
Portfolio investment .....	(444.4)	(370.3)	(318.5)	(309.8)	(132.9)
Other investment .....	1,030.1	191.8	(90.3)	(187.7)	197.5
Current transfers.....	2,768.6	2,360.3	1,827.2	2,756.3	1,191.8
Credit.....	5,218.5	6,069.6	6,642.0	8,393.5	4,099.5
Debit .....	(2,449.9)	(3,709.2)	(4,814.9)	(5,637.2)	(2,907.7)
General government.....	3.3	29.7	(2.5)	(12.2)	(1.2)
Other sectors.....	2,765.4	2,330.6	1,829.6	2,768.5	1,193.0
Workers' remittances.....	2,657.6	2,198.8	1,669.7	2,828.8	1,295.3
Other transfers.....	107.7	131.8	159.9	(60.3)	(102.2)
Credit .....	183.0	239.8	235.9	1,560.5	746.9
Debit.....	(75.3)	(108.0)	(75.9)	(1,620.8)	(849.2)
<b>Capital and financial account</b> .....	7,603.5	5,874.5	11,118.0	1,794.5	1,125.0
Capital account.....	589.7	409.5	18.0	267.9	56.7
Credit.....	590.7	409.9	24.5	672.8	225.1
Debit .....	(1.0)	(0.4)	(6.6)	(404.9)	(168.5)
Capital transfers .....	589.7	409.5	18.0	209.7	59.2
Financial account .....	7,013.8	5,464.9	11,100.0	1,526.6	1,068.4
Direct investment	2,527.9	3,346.5	3,677.8	3,793.2	1,026.5
Abroad.....	(848.1)	(986.6)	(1,125.8)	(486.7)	(556.4)
In reporting economy .....	3,376.0	4,333.0	4,803.6	4,279.9	1,582.9

	2007	2008	2009	2010	Six months ended June 30, 2011
Portfolio investment	170.3	637.3	3,199.9	(1,709.8)	(1,402.0)
Assets.....	(1,560.0)	(565.9)	(825.9)	(1,016.2)	(974.2)
Equity securities.....	(472.5)	(403.2)	(707.0)	1,082.6	(1,435.7)
Debt securities.....	(1,087.6)	(162.7)	(118.9)	(2,098.8)	461.4
Liabilities.....	1,730.3	1,203.2	4,025.8	(693.5)	(427.7)
Equity securities.....	791.1	465.7	1,151.9	147.0	112.7
Debt securities.....	939.3	737.5	2,874.0	(840.6)	(540.5)
Other investments	3,727.9	8,855.3	12,862.6	2,483.0	989.0
Assets.....	528.7	7,819.3	5,083.0	2,081.7	(1,506.3)
Loans.....	5,204.8	4,943.0	7,496.0	4,729.2	1,362.5
Currency and deposits .....	(4,676.1)	2,876.3	(2,413.0)	(2,647.5)	(2,868.8)
Liabilities.....	3,199.3	1,036.0	7,779.6	401.3	2,495.2
Loans.....	237.5	242.6	35.3	(144.2)	(87.0)
Currency and deposits .....	2,961.8	793.3	7,744.3	545.5	2,582.3
Reserve Assets.....	587.7	(7,374.1)	(8,640.3)	(3,039.9)	454.9
Net errors and omissions.....	(5,998.7)	(1,725.4)	(4,377.0)	5,667.6	689.3

Notes:

- (1) Certain line items and figures differ from previously published data due to ongoing revisions.
- (2) Full year figures for 2011 are not available.
- (3) Customs data.

Sources: Higher Council of Customs and BDL.

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

<b>Destination of Exports<sup>(1)</sup></b>					
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>(% of total exports)</i>				
<b>Industrialized countries .....</b>	<b>28.8</b>	<b>24.3</b>	<b>36.0</b>	<b>25.2</b>	<b>25.1</b>
EU 15 .....	16.5	15.3	12.9	11.1	11.8
Italy.....	1.2	1.5	0.7	0.8	0.9
France .....	1.8	2.4	3.1	1.3	1.3
Germany .....	1.3	1.0	0.9	1.2	1.1
United States .....	2.4	1.4	1.4	1.6	1.5
Japan.....	0.2	0.1	0.1	0.3	0.5
United Kingdom .....	2.8	1.7	1.1	1.3	1.5
Switzerland.....	10.9	9.5	22.3	12.8	12.1
Belgium-Luxembourg .....	3.1	2.4	3.3	2.6	3.1
Other .....	0.5	0.4	0.4	0.4	13.3
<b>Developing countries.....</b>	<b>71.2</b>	<b>75.7</b>	<b>64.0</b>	<b>74.8</b>	<b>74.9</b>
Middle East and North Africa	47.5	49.9	45.7	45.1	35.4
<i>of which: GAFTA .....</i>	46.4	46.5	44.0	43.7	35.0
Middle East .....	45.7	47.9	43.9	43.8	34.3
Saudi Arabia.....	6.7	6.0	7.0	6.3	7.2
Syria.....	7.5	6.4	6.5	5.6	5.0
Jordan.....	3.5	3.4	3.0	2.6	3.0
Kuwait.....	3.8	2.8	2.2	1.8	1.8
U.A.E. ....	8.7	10.0	9.6	10.7	7.6
Egypt.....	4.0	3.7	2.1	5.1	1.6
Iraq .....	5.2	7.7	7.8	6.8	4.6
Other .....	1.8	2.0	1.8	1.3	1.0
Africa.....	10.5	10.0	10.8	17.6	24.9
Other Europe.....	6.1	8.7	4.3	7.1	8.1
Other developing countries and emerging markets.....	7.1	7.1	3.3	5.0	6.5

Note:

(1) Certain line items and figures differ from previously published data due to ongoing revisions.

Source: BDL based on Higher Council of Customs.

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

Composition of Exports					
	2007	2008	2009	2010	2011
	(% of total exports)				
Live animals; animal products.....	0.4	0.5	0.4	0.4	0.4
Vegetable products .....	3.7	3.8	3.4	3.9	3.8
Animal or vegetable fats and oils .....	0.6	0.6	0.5	0.6	0.5
Prepared foodstuffs; beverages, tobacco .....	8.5	8.1	8.1	8.3	8.9
Mineral products .....	3.2	3.9	2.6	1.4	0.8
<i>Of which: mineral fuels, mineral oils and     products of their distillation; bituminous     substances; mineral waxes .....</i>	<i>0.2</i>	<i>0.3</i>	<i>0.3</i>	<i>0.1</i>	<i>0.0</i>
Products of the chemical or allied industries .....	8.3	12.5	6.6	7.9	9.0
Plastics and articles thereof; rubber .....	4.2	4.3	3.6	3.0	3.1
Raw hides and skins, leather, fur skins	0.4	0.3	0.3	0.3	0.3
Wood and articles of wood; wood charcoal; cork .....	0.8	1.0	0.8	0.6	0.4
Pulp of wood; paper and paperboard ..	6.2	5.9	6.6	6.0	5.1
Textiles and textile articles .....	3.6	3.4	3.1	2.7	3.0
Footwear, umbrellas, artificial flowers	0.7	0.6	0.5	0.6	0.5
Articles of stone, plaster, cement, glass	2.1	1.9	1.6	1.1	0.9
Pearls, precious stones and metals .....	17.3	16.5	31.5	28.3	35.0
<i>Of which: gold (including gold plated     with platinum) unwrought or in semi-     manufactured forms, or in powder form.</i>	<i>11.1</i>	<i>9.1</i>	<i>24.2</i>	<i>21.2</i>	<i>27.4</i>
Base metals and articles of base metal .	17.5	15.2	9.0	11.7	12.3
Machinery; electrical instruments .....	16.3	15.4	14.6	18.9	12.2
Vehicles, aircraft, vessels, transport equipment .....	1.1	1.7	2.9	0.7	0.9
Optical, photographic, medical, musical instruments .....	0.8	0.6	0.7	0.6	0.5
Arms and ammunition; parts and accessories .....	0.0	0.0	0.0	0.0	0.0
Miscellaneous manufactured articles ...	3.2	3.3	2.9	2.6	2.2
Works of art, collectors' pieces and antiques .....	1.0	0.5	0.3	0.2	0.1

Source: BDL based on Higher Council of Customs.

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

	Origin of Imports <sup>(1)</sup>				
	2007	2008	2009	2010	2011
	(% of total imports)				
<b>Industrialized countries</b> .....	<b>51.9</b>	<b>51.1</b>	<b>53.4</b>	<b>50.1</b>	<b>50.6</b>
EU 15 .....	<b>38.3</b>	<b>36.5</b>	<b>38.4</b>	<b>35.8</b>	36.1
Italy.....	9.0	6.9	7.5	7.8	9.3
France .....	7.5	8.3	9.7	6.7	7.5
Germany .....	6.3	6.4	7.6	7.0	5.7
United States .....	9.6	11.5	10.9	10.6	⊙ î
Japan.....	3.3	3.8	4.1	3.5	2.0
United Kingdom .....	4.1	3.1	3.3	3.3	2.9
Switzerland.....	2.9	3.8	2.5	3.1	4.9
Belgium-Luxembourg .....	1.6	1.6	1.6	1.4	1.3
Other .....	<b>13.6</b>	<b>14.6</b>	<b>15.1</b>	<b>14.3</b>	<b>14.5</b>
<b>Developing countries</b> .....	<b>48.1</b>	<b>48.9</b>	<b>46.6</b>	<b>49.9</b>	<b>49.4</b>
Middle East and North Africa	14.9	13.5	11.7	13.2	16.4
<i>of which:</i> GAFTA .....	14.6	13.2	11.4	12.8	16.3
Middle East .....	14.1	12.9	11.0	12.3	15.6
Saudi Arabia.....	2.4	1.8	1.9	2.3	2.6
Syria.....	1.7	1.7	1.4	1.9	1.5
Jordan.....	0.7	0.7	1.2	1.3	1.8
Kuwait.....	2.3	3.0	1.8	2.0	1.5
U.A.E. ....	1.8	2.0	1.6	2.1	2.9
Egypt.....	4.4	2.8	2.6	2.4	4.7
Iraq .....	0.0	0.1	0.0	0.0	0.0
Other .....	0.8	0.7	0.7	0.8	0.8
Africa.....	1.0	0.8	1.0	2.3	1.7
Other Europe.....	11.0	14.4	11.9	12.9	12.2
Other developing countries and emerging markets.....	21.1	20.1	21.9	21.5	19.1

Note:

(1) Certain line items and figures differ from previously published data due to ongoing revisions.

Source: BDL based on Higher Council of Customs.

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

<b>Composition of Imports</b>					
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>(% of total imports)</i>				
Live animals; animal products.....	4.2	3.6	4.6	4.8	4.3
Vegetable products.....	4.7	4.4	3.9	4.0	4.2
Animal or vegetable fats and oils.....	1.0	0.9	0.8	0.7	0.9
Prepared foodstuffs; beverages, tobacco .....	6.4	5.3	5.9	6.4	6.4
Mineral products .....	22.8	26.5	20.5	21.1	22.9
<i>Of which: mineral fuels, mineral oils     and products of their distillation;     bituminous substances; mineral waxes ....</i>	21.4	24.4	19.2	19.7	21.5
Products of the chemical or allied industries.....	9.3	8.0	8.4	8.6	8.6
Plastics and articles thereof; rubber .....	4.1	3.5	3.3	3.6	3.5
Raw hides and skins, leather, fur skins ...	0.4	0.4	0.4	0.4	0.4
Wood and articles of wood; wood charcoal; cork .....	1.5	1.4	1.4	1.3	1.2
Pulp of wood; paper and paperboard .....	2.8	2.3	2.1	2.4	2.1
Textiles and textile articles .....	4.4	4.0	4.3	3.9	3.5
Footwear, umbrellas, artificial flowers ....	0.7	0.6	0.7	0.7	0.7
Articles of stone, plaster, cement, glass ...	1.8	1.7	1.9	2.1	2.0
Pearls, precious stones and metals.....	4.1	5.3	4.9	6.5	10.6
<i>Of which: gold (including gold plated     with platinum) unwrought or in semi-     manufactured forms, or in powder     form. ....</i>	2.2	3.2	2.8	4.5	8.4
Base metals and articles of base metal .....	8.2	8.1	6.4	7.1	7.6
Machinery; electrical instruments .....	12.1	10.5	11.9	12.1	10.6
Vehicles, aircraft, vessels, transport equipment .....	8.4	10.6	14.8	10.8	7.3
Optical, photographic, medical, musical instruments.....	1.6	1.4	1.6	1.7	1.5
Arms and ammunition; parts and accessories .....	0.1	0.1	0.1	0.1	0.1
Miscellaneous manufactured articles.....	1.5	1.4	1.8	1.7	1.5
Works of art, collectors' pieces and antiques .....	0.0	0.1	0.1	0.1	0.1

Source: BDL based on Higher Council of Customs.

## 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 Investment Development Authority of Lebanon (IDAL), which was established in 1994, assists foreign investors in setting up their businesses in Lebanon. Parliament recently enacted several laws and the Government recently passed several decrees encouraging investments 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 2011, the Republic's outstanding principal amounts under foreign financing facilities in the form of contracted loans (excluding outstanding Eurobonds, Paris II and Paris III loans) were approximately U.S.\$1.69 billion. In 2011, disbursements from foreign financing loans were approximately U.S.\$278.3 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.

On November 23, 2002, a 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 of 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 high-level 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 then Government, as well as donors' representatives. The participants expressed their support for the reform program of the then Government and agreed to convene a donors' conference in Beirut (the "*Beirut Conference*"). At that time, the then Government decided to first seek broad national consensus on this program before holding the Beirut Conference. 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.\$909 million has been committed, of which U.S.\$750 million has been disbursed or otherwise 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.\$2 billion has been formally committed.

On January 25, 2007, the Paris III Conference, 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, of which approximately U.S.\$4.2 billion has been received.

On November 14, 2008, the Executive Board of the IMF approved the provision of financial assistance to the Republic in the amount of approximately US\$37 million in the form of Emergency Post-Conflict Assistance ("*EPCA*"). The amount approved adds to the U.S.\$77 million in Emergency Post-Conflict Assistance provided to Lebanon in April 2007 (which had already been disbursed). The EPCA

financial assistance is part of a package of assistance to the Republic resulting from the Paris III Conference. 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.

In April 2008, the IMF published a report indicating that, despite the prolonged political stalemate, the Government and BDL had met all of the December 31, 2007 indicative targets under the EPCA I.

In the concluding mission for EPCA II in September 2009 and in their staff report dated October 2009, the IMF indicated that the performance through end-June 2009 under the second EPCA-supported program has remained broadly favorable, although there has been limited progress on the structural reforms.

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.\$1.3 billion in 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 I (April 2007), 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;
- a €150,000,000 loan representing the first tranche of a concessional loan from AFD;
- a €25,000,000 loan representing the loan portion of the first tranche of the Macro-Financial Assistance from the European Commission;
- a U.S.\$32,000,000 structural adjustment loan with the Arab Monetary Fund, the proceeds of which were used for debt servicing payment in foreign currency;
- an SDR 25,375,000 under the IMF's policy for EPCA II (November 2008), the proceeds of which are required to be used for balance of payment purposes; and
- in addition, U.S.\$306 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.\$125,000,000 grant from USAID, the proceeds of which are required to be used for debt repayment;
  - a U.S.\$50,000,000 grant from USAID, the proceeds of which are required to be used for debt repayment;
  - a U.S.\$1,270,000 grant from Greece;
  - a U.S.\$130,000 grant from Slovenia;

- a U.S.\$10,000,000 grant from the Sultanate of Oman; and
- a €15,000,000 grant from the European Commission.

## PUBLIC DEBT

### General

As of December 31, 2011, the Republic's gross public debt was LL 80,869 billion (U.S.\$53.6 billion) consisting of LL 49,340 billion of gross domestic debt and LL 31,529 billion of public external debt. Net outstanding public debt of the Republic was LL 69,885 billion (U.S.\$46.4 billion) as of December 31, 2011.

The table below sets forth the Republic's gross and net public sector debt for the periods indicated:

### Public Sector Debt<sup>(1)</sup>

	As of December 31,				
	2007	2008	2009	2010	2011
	<i>(LL billions)</i>				
I. Gross Domestic Debt.....	31,373	39,007	44,973	48,255	49,340
II. Public External Debt <sup>(2)</sup> .....	31,991	31,934	32,139	31,043	31,529
<b>III. Gross Public Debt (I + II) ...</b>	<b>63,364</b>	<b>70,941</b>	<b>77,112</b>	<b>79,298</b>	<b>80,869</b>
IV. Public Sector					10,984
Deposits <sup>(3)</sup> .....	4,527	8,326	10,522	11,419	
V. Net Domestic Debt (I – IV)....	26,846	30,681	34,451	36,836	38,356
<b>VI. Net Public Debt (III – IV) ..</b>	<b>58,837</b>	<b>62,615</b>	<b>66,590</b>	<b>67,879</b>	<b>69,885</b>

Notes:

(1) Debt figures differ from previously published figures due to continuing implementation of the Debt Management and Financial Analysis 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.

Sources: Ministry of Finance and BDL.

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

### Public Debt as a Percentage of GDP<sup>(1)</sup>

	2007	2008	2009	2010	2011 <sup>(2)</sup>
	<i>(percent)</i>				
Gross Public Debt/GDP .....	168	159	148	142	137
Net Public Debt/GDP .....	156	140	127	121	119

Notes:

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

(2) GDP figures for 2011 are estimates.

Sources: Ministry of Finance and BDL.

Net public debt as a percentage of GDP increased from 46 percent in 1992 to 169 percent in 2006. It has been declining since then, to 156 percent in 2007, 140 percent in 2008, 127 percent in 2009, 121 percent in 2010 and 119 percent in 2011.

### 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 five 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 July 2009, the Ministry of Finance launched 60-month Treasury notes as part of the market auction process. In March 2005, the Ministry of Finance established a medium-term note program (the “*LL-Denominated MTN 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. On December 17, 2010, the Republic issued LL 1,500,000,000,000 7.9 percent Notes due 2017 (Series 2) under the LL-Denominated MTN Program. In March and April 2011, the Republic issued two stand-alone seven year LL-denominated Treasury bonds with annual yields of 7.90 percent. In September 2011, the Republic issued an additional stand-alone LL-denominated seven-year bond with an annual yield of 7.60 percent. On November 28, 2011, pursuant to Law № 69, the Republic issued LBP 40,604 million in aggregate principal amount of notes to settle increases in construction costs due to contractors. The notes mature on November 28, 2016 and carry interest at a rate of 6 percent.

The table below sets forth the Republic’s composition of domestic debt for the periods indicated:

	<b>Composition of Domestic Debt</b>			
	<b>December 31, 2010</b>		<b>December 31, 2011</b>	
	<i>(LL billions)</i>	<i>(U.S.\$ millions)</i>	<i>(LL billions)</i>	<i>(U.S.\$ millions)</i>
<b>Long-term bonds.....</b>	<b>43,805</b>	<b>29,058</b>	<b>46,512</b>	<b>30,854</b>
7 years.....	1,500	995	7,885	5,231
60 months <sup>(1)</sup> .....	7,310	4,849	11,779	7,814
54 months.....	0	0	0	0
48 months.....	0	0	0	0
36 months.....	30,782	20,419	22,129	14,679
30 months.....	0	0	0	0
24 months.....	3,398	2,254	3,972	2,635
Coupon interest .....	815	541	747	496
<b>Short term bills.....</b>	<b>4,155</b>	<b>2,756</b>	<b>2,583</b>	<b>1,713</b>
12 months.....	1,969	1,306	887	588
6 months.....	2,111	1,400	1,569	1,041
3 months.....	75	50	127	84
Accrued interest.....	52	34	41	27
<b>Other Domestic Debt .....</b>	<b>295</b>	<b>196</b>	<b>245</b>	<b>163</b>
<b>Total Domestic Debt .....</b>	<b>48,255</b>	<b>32,010</b>	<b>49,340</b>	<b>32,730</b>

Note:

(1) Includes LL 40.6 billion of contractor bonds.

Sources: 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 of December 31, 2011, outstanding public external debt of the Republic was approximately U.S.\$20.9 billion.

The table below sets forth the composition of the Republic's foreign debt for the periods indicated:

### Composition of Foreign Debt<sup>(1)</sup>

	December 31, 2010		December 31, 2011	
	(LL billions)	(U.S.\$ millions)	(LL billions)	(U.S.\$ millions)
<b>Eurobonds, of which</b> .....	26,738	17,737	27,490	18,235
Paris II Conference Eurobonds <sup>(2)</sup> .....	1,703	1,130	1,470	975
Paris III Conference Eurobonds <sup>(3)</sup> .....	709	470	663	440
 <b>Loans, of which</b> .....	 4,231	 2,807	 3,959	 2,626
Paris II Conference concessional loans <sup>(4)</sup> .....	460	305	351	233
Paris III Conference concessional loans <sup>(5)</sup> .....	1,147	761	1,060	703
Bilateral and multilateral loans .....	2,600	1,725	2,530	1,678
Foreign private sector loans .....	24	16	18	12
 Special Treasury bills in foreign currency <sup>(6)</sup> .....	74	49	80	53
<b>Total Foreign Debt<sup>(7)</sup></b> .....	<b>31,043</b>	<b>20,592</b>	<b>31,529</b>	<b>20,915</b>

#### Notes:

- (1) Debt figures differ from previously published figures due to continuing implementations of the Debt Management and Financial Analysis System.
- (2) Does not include a U.S.\$1.87 billion Eurobond issued to BDL.
- (3) Includes originally issued U.S.\$500 million debt rescheduling with Malaysia in the context of the Paris III Conference.
- (4) Contribution of France to the Paris II Conference (AFD Loan).
- (5) Includes U.S.\$100 million Development policy loan (World Bank), U.S.\$300 million UAE Loan, Euro 150 million French loan (tranche 1), SDR 50.75 million EPCA I loan and SDR 25.375 million EPCA II loan, first tranche EC/EU loan and AMF loan disbursed in June 2009.
- (6) U.S. Dollar-denominated bonds issued in satisfaction of expropriation and contractor claims.
- (7) Includes accrued interest.

Sources: Ministry of Finance and BDL.

The following table shows the Republic's outstanding Eurobonds as of 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 <sup>(1)</sup>	Coupon
2001	2016	U.S.\$400 million	U.S.\$400 million	11.625%
2002 <sup>(2)</sup>	2017	U.S.\$2,007 million	U.S.\$1,506 million	4.000%
2004 <sup>(3)</sup>	2012	U.S.\$600 million	U.S.\$292.951 million	7.750%
2005 <sup>(4)</sup>	2013	U.S.\$650 million	U.S.\$650 million	8.625%
2005	2016	U.S.\$750 million	U.S.\$750 million	8.500%
2006 <sup>(5)</sup>	2014	U.S.\$677 million	U.S.\$677 million	7.375%
2006 <sup>(5)</sup>	2021	U.S.\$1,661 million	U.S.\$1,661 million	8.250%
2006 <sup>(5)</sup>	2012	€536 million	€114.697 million	5.875%
2007 <sup>(7)</sup>	2021	U.S.\$431 million	U.S.\$431 million	8.250%
2008 <sup>(8)</sup>	2014	U.S.\$882 million	U.S.\$882 million	9.000%
2008	2015	U.S.\$500 million	U.S.\$500 million	8.500%
2008	2013	U.S.\$875 million	U.S.\$875 million	9.125%
2009 <sup>(9)</sup>	2012	U.S.\$600 million	U.S.\$238.329 million	7.500%
2009 <sup>(10)</sup>	2017	U.S.\$1,500 million	U.S.\$1,500 million	9.000%
2009	2015	U.S.\$250 million	U.S.\$250 million	5.875%
2009	2024	U.S.\$250 million	U.S.\$250 million	7.000%
2010	2020	U.S.\$1,200 million	U.S.\$1,200 million	6.375%
2010	2018	U.S.\$500 million	U.S.\$500 million	5.150%
2010	2022	U.S.\$225 million	U.S.\$225 million	6.100%
2011	2022	U.S.\$265 million	U.S.\$265 million	6.100%
2011	2022	U.S.\$350 million	U.S.\$350 million	6.100%
2011	2019	U.S.\$650 million	U.S.\$650 million	6.000%
2011	2022	U.S.\$700 million	U.S.\$700 million	6.100%
2011	2016	U.S.\$500 million	U.S.\$500 million	4.750%
2011 <sup>(11)</sup>	2019	U.S.\$500 million	U.S.\$500 million	5.450%
2011 <sup>(12)</sup>	2026	U.S.\$375 million	U.S.\$375 million	6.600%
2011 <sup>(13)</sup>	2018	€445 million	€445 million	5.350%

#### 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, commercial bank debt service reduction measures and voluntary debt exchange offers by the Republic. See *"The Economy—Recent Economic History"*.
- (2) 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.
- (3) 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.
- (4) 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.
- (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. Includes U.S.\$750 million and €175 million of new cash subscriptions.
- (6) A first tranche of U.S.\$450 million was issued 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) Subscribed for cash by BDL.
- (8) Originally issued as part of an exchange transaction, in which bonds maturing in 2008 were offered for exchange into two new bonds maturing in 2012. Includes U.S.\$150 million of new cash subscriptions.
- (9) Originally issued as part of an exchange transaction, in which bonds maturing in 2009 were offered for exchange into two new bonds maturing in 2012. Includes U.S.\$175.739 million of new cash subscriptions.

- (10) Originally issued as part of an exchange transaction, in which bonds maturing in 2009 were offered for exchange into two new bonds maturing in 2017. Includes U.S.\$268.937 million of new cash subscriptions.
- (11) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into two new bonds maturing in 2019. Includes U.S.\$66.817 million of new cash subscriptions.
- (12) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into two new bonds maturing in 2026. Includes U.S.\$139.463 million of new cash subscriptions.
- (13) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into two new bonds maturing in 2018. Includes €24.058 million of new cash subscriptions.

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 of December 31, 2011.

#### Outstanding Paris II and Paris III Conference Eurobonds

Year of Issue	Maturity	Original Principal Amount	Outstanding Principal Amount	Coupon
		(in U.S. Dollars)		(%)
Paris II Conference				
2002 .....	2017	950 million	390 million	5.00
2002 .....	2017	1,870 million	1,122 million	4.00
2003 .....	2018	700 million	455 million <sup>(1)</sup>	5.00
2003 .....	2018	200 million	130 million	5.00
Paris III Conference				
2007 .....	2017	300 million	240 million <sup>(2)</sup>	3.75
2007 .....	2012	200 million	200 million <sup>(3)</sup>	3.75

Notes:

- (1) As of March 7, 2012, this amount decreased to U.S.\$420 million.
- (2) As of January 20, 2012, this amount decreased to U.S.\$225 million.
- (3) As of January 20, 2012, this amount decreased to U.S.\$100 million.

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 measures.

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<sup>(1)(2)</sup>**

	2007	2008	2009	2010	2011
	(U.S.\$ millions)				
<b>Bilateral .....</b>	<b>1,405</b>	<b>1,494</b>	<b>1,405</b>	<b>1,284</b>	<b>1,229</b>
Abu Dhabi Fund for Development .....	304	302	302	305	309
<i>Agence Française de Développement</i>					
(AFD) .....	619	733	662	538	472
Artigancassa .....	3	5	7	8	10
Austrian Government .....	21	17	13	9	5
Government of Belgium .....	2	2	2	1	1
Government of China.....	7	7	7	8	8
Dexia .....	2	3	2	2	1
Italian Government .....	31	15	11	3	0
Kerditanstalt Fur Wiederaufbau.....	13	6	2	0	1
Kuwaiti Fund for Arab Economic					
Development.....	145	142	140	151	161
Mediocredito Centrale .....	10	9	8	7	6
Natexis Banque .....	117	110	106	97	90
Overseas Econ. Coop. Fund (OECF) .....	39	56	58	68	71
The Saudi Fund for Development .....	92	88	84	88	95
<b>Multilateral.....</b>	<b>1,507</b>	<b>1,589</b>	<b>1,595</b>	<b>1,505</b>	<b>1,385</b>
Arab Fund for Economic and Social					
Development.....	392	385	366	366	368
AMF.....	0	0	32	31	19
<i>Communauté Economique Européenne.....</i>	7	6	6	5	5
EIB .....	374	390	363	352	306
EC .....	0	0	36	33	32
EPCA/IMF .....	0	119	119	97	58
International Bank for Reconstruction					
and Development .....	425	360	316	321	303
International Fund for Agricultural					
Development.....	8	7	6	4	3
Islamic Development Bank.....	284	306	337	283	277
The OPEC Fund for International					
Development.....	17	16	14	13	14
<b>Commercial Banks .....</b>	<b>57</b>	<b>36</b>	<b>18</b>	<b>16</b>	<b>12</b>
<b>Eurobonds.....</b>	<b>17,705</b>	<b>17,504</b>	<b>17,699</b>	<b>17,416</b>	<b>17,965</b>
<b>Special T-bills in foreign currency</b>					
<b>(expropriations) .....</b>	<b>278</b>	<b>278</b>	<b>296</b>	<b>49</b>	<b>54</b>
<b>Total<sup>(3)</sup> .....</b>	<b>20,951</b>	<b>20,900</b>	<b>21,014</b>	<b>20,271</b>	<b>20,645</b>

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.

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.

In 2008, the Republic 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.
- U.S.\$731,612,000 9.000 percent Notes due 2014 (Series 49, Tranche 1) were issued on May 2, 2008. The Series 49, Tranche 1 Notes were issued as part of an exchange offer pursuant to which the Republic offered to exchange any and all of its U.S.\$250,000,000 7.00 percent Notes due 2008, U.S.\$250,000,000 7.375 percent Notes due 2008, and U.S.\$750,000,000 10.125 percent Notes due 2008.
- U.S.\$150,000,000 9.000 percent Notes due 2014 (Series 49, Tranche 2) were issued on May 12, 2008. These Notes are consolidated and form a single series with the U.S.\$731,612,000 9.000 percent Notes due 2014 issued by the Republic on May 2, 2008.
- U.S.\$500,000,000 8.500 percent Notes due 2015 (Series 50) were issued on August 6, 2008.

In 2009, the Republic issued the following Eurobonds under the Program:

- U.S.\$424,261,000 7.50 percent Notes due 2012 (Series 51), U.S.\$1,231,063,000 9.00 percent Notes due 2017 (Series 52), and €211,097,000 5.875 percent Notes due 2012 (Series 43, Tranche 3) were issued on March 19, 2009 as part of a voluntary exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding U.S.\$351,591,000 7.50 percent Notes due 2009, U.S.\$650,000,000 10.25 percent Notes due 2009, U.S.\$625,000,000 Floating Rate Notes due 2009, U.S.\$425,000,000 7.00 percent Notes due 2009 and €225,000,000 7.25 percent Notes due 2009 for the New Notes.
- U.S.\$175,739,000 7.50 percent Notes due 2012 (Series 51, Tranche 2) were issued on March 19, 2009 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the U.S.\$424,261,000 7.00 percent Notes due 2012 (Series 51) issued by the Republic on the same day.
- U.S.\$268,937,000 9.00 percent Notes due 2017 (Series 52, Tranche 2) were issued on March 19, 2009 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the U.S.\$1,231,063,000 9.00 percent Notes due 2017 (Series 52) issued by the Republic on the same day.
- U.S.\$250,000,000 5.875 percent Notes due 2015 (Series 53) were issued on December 3, 2009.
- U.S.\$250,000,000 7 percent Notes due 2024 (Series 54) were issued on December 3, 2009.

In 2010, the Republic issued the following Eurobonds under the Program:

- U.S.\$1,200,000,000 6.375 percent Notes due 2020 (Series 55) were issued on March 9, 2010.
- U.S.\$500,000,000 5.15 percent Notes due 2018 (Series 56) were issued on November 12, 2010.
- U.S.\$225,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 1) were issued on November 12, 2010.

In 2011, the Republic issued the following Eurobonds under the Program:

- U.S.\$265,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 2) were issued on January 18, 2011.
- U.S.\$350,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 3) were issued on May 20, 2011.
- U.S.\$650,000,000 6.00 percent Notes due 2019 (Series 58) were issued on May 20, 2011.
- U.S.\$700,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 4) were issued on August 2, 2011.
- U.S.\$500,000,000 4.75 percent Notes due 2016 (Series 59) were issued on August 2, 2011.
- U.S.\$433,183,000 5.45 percent Notes due 2019 (Series 60), U.S.\$235,537,000 6.60 percent Notes due 2026 (Series 61), and €420,942,000 5.35 percent Notes due 2018 (Series 62) were issued on November 28, 2011 as part of a voluntary exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding U.S.\$600,000,000 7.75 percent Notes due 2012, U.S.\$600,000,000 7.50 percent Notes due 2012 and €535,639,000 5.875 percent Notes due 2012 for the New Notes.
- U.S.\$66,817,000 5.45 percent Notes due 2019 (Series 60, Tranche 2) were issued on November 28, 2011 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer

and were consolidated and form a single series with the U.S.\$433,183,000 5.45 percent Notes due 2019 (Series 60) issued by the Republic on the same day.

- U.S.\$139,463,000 6.60 percent Notes due 2026 (Series 61, Tranche 2) were issued on November 28, 2011 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the U.S.\$235,537,000 6.60 percent Notes due 2026 (Series 61) issued by the Republic on the same day.
- €24,058,000 5.35 percent Notes due 2018 (Series 62, Tranche 2) were issued on November 28, 2011 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the €420,942,000 5.35 percent Notes due 2018 (Series 62) issued by the Republic on the same day.

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<sup>(1)(2)</sup>**

	<b>2007</b>		<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>2011</b>	
	<i>U.S.\$ millions</i>	<i>(%)</i>	<i>U.S.\$ millions</i>	<i>(%)</i>	<i>U.S.\$ millions</i>	<i>(%)</i>	<i>U.S.\$ millions</i>	<i>(%)</i>	<i>U.S.\$ millions</i>	<i>(%)</i>
Swiss Francs ...	13	0.06	11	0.05	9	0.04	6	0.03	3	0.01
China Yuan Renminbi .....	7	0.03	7	0.03	7	0.03	8	0.04	8	0.04
Euros <sup>(3)</sup> .....	1,875	8.95	1,885	9.02	1,800	8.57	1,581	7.80	1,490	7.22
Pounds Sterling .....	1	0.00	0	0.00	0	0.00	0	0.00	-	-
Islamic Dinars .....	216	1.03	224	1.07	234	1.11	175	0.86	149	0.72
Japanese Yen .....	47	0.22	64	0.31	63	0.30	71	0.35	70	0.34
Kuwaiti Dinars .....	537	2.56	526	2.52	506	2.41	516	2.55	528	2.56
Saudi Arabian Riyals .....	92	0.44	88	0.42	84	0.40	88	0.43	95	0.46
Special Drawing Rights .....	8	0.04	125	0.60	157	0.75	133	0.66	80	0.39
UAE Dirhams .....	4	0.02	2	0.01	2	0.01	5	0.03	8	0.04
U.S. Dollars .....	<u>18,152</u>	<u>86.64</u>	<u>17,966</u>	<u>85.96</u>	<u>18,151</u>	<u>86.38</u>	<u>17,688</u>	<u>87.26</u>	<u>18,212</u>	<u>88.21</u>
<b>Total .....</b>	<b><u>20,951</u></b>	<b><u>100.00</u></b>	<b><u>20,900</u></b>	<b><u>100.00</u></b>	<b><u>21,014</u></b>	<b><u>100.00</u></b>	<b><u>20,271</u></b>	<b><u>100.00</u></b>	<b><u>20,645</u></b>	<b><u>100.00</u></b>

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 of December 31, 2011.

### Public External Debt Projections

	2012	2013	2014	2015	2016
	<i>(U.S.\$ millions)<sup>(1)</sup></i>				
Estimated Disbursements <sup>(3)</sup>					
<b>Principal Payments</b>	<b>1,714.3</b>	<b>2,321.8</b>	<b>2,337.8</b>	<b>1,475.8</b>	<b>2,319.1</b>
Principal Repayment–Loans	449.0	411.0	375.0	309.0	279.0
Principal Repayment–Expropriation Bonds			18.5	31.0	4.3
Principal Repayment–Eurobonds (in U.S.\$)	1,265.3	1,910.8	1,944.3	1,135.8	2,035.8
Eurobond (U.S.\$) 2012	109.2				
Eurobond (U.S.\$) 2012	129.1				
Eurobond (Euro) 2012	41.4				
Eurobond (Euro) 2012	48.4				
Eurobond (Euro) 2012	58.4				
Eurobond (U.S.\$) 2012	200.0				
Eurobond (U.S.\$) 2012	207.1				
Eurobond (U.S.\$) 2012	85.8				
Eurobond (U.S.\$) 2013		250.0			
Eurobond (U.S.\$) 2013		400.0			
Eurobond (U.S.\$) 2013		875.0			
Eurobond (U.S.\$) 2014			676.9		
Eurobond (U.S.\$) 2014			731.6		
Eurobond (U.S.\$) 2014			150.0		
Eurobond (U.S.\$) 2015				500.0	
Eurobond (U.S.\$) 2015				250.0	
Eurobond (U.S.\$) 2016					400.0
Eurobond (U.S.\$) 2016					750.0
Eurobond (U.S.\$) 2016					500.0
Eurobond (U.S.\$) 2017	187.0	187.0	187.0	187.0	187.0
Eurobond (U.S.\$) 2017	65.0	65.0	65.0	65.0	65.0
Eurobond (U.S.\$) 2017	13.8	13.8	13.8	13.8	13.8
Eurobond (U.S.\$) 2017	30.0	30.0	30.0	30.0	30.0
Eurobond (U.S.\$) 2018	70.0	70.0	70.0	70.0	70.0
Eurobond (U.S.\$) 2018	20.0	20.0	20.0	20.0	20.0
<b>Interest &amp; Commissions</b>	<b>1,377.2</b>	<b>1,225.5</b>	<b>1,069.0</b>	<b>967.0</b>	<b>833.4</b>
Loans	123.0	106.0	99.0	87.0	77.0
Expropriation & contractors bonds	3.2	3.2	3.2	2.1	0.3
<b>Coupon Payments</b>	<b>1,251.0</b>	<b>1,116.3</b>	<b>966.8</b>	<b>877.9</b>	<b>756.1</b>
Eurobond (U.S.\$) 2012	8.5				
Eurobond (U.S.\$) 2012	10.0				
Eurobond (Euro) 2012	2.4				
Eurobond (Euro) 2012	2.8				
Eurobond (Euro) 2012	3.4				
Eurobond (U.S.\$) 2012	5.6				
Eurobond (U.S.\$) 2012	7.8				
Eurobond (U.S.\$) 2012	3.2				
Eurobond (U.S.\$) 2013	21.6	10.8			
Eurobond (U.S.\$) 2013	34.5	17.3			
Eurobond (U.S.\$) 2013	79.8	39.9			
Eurobond (U.S.\$) 2014	49.9	49.9	25.0		

	2012	2013	2014	2015	2016
	(U.S.\$ millions) <sup>(1)</sup>				
Eurobond (U.S.\$) 2014	65.8	65.8	32.9		
Eurobond (U.S.\$) 2014	13.5	13.5	6.8		
Eurobond (U.S.\$) 2015	42.5	42.5	42.5	42.5	
Eurobond (U.S.\$) 2015	14.7	14.7	14.7	7.3	
Eurobond (U.S.\$) 2016	46.5	46.5	46.5	46.5	23.3
Eurobond (U.S.\$) 2016	63.8	63.8	63.8	63.8	31.9
Eurobond (U.S.\$) 2016	29.7	23.8	23.8	23.8	23.8
Eurobond (U.S.\$) 2017	43.0	35.5	28.1	20.6	13.1
Eurobond (U.S.\$) 2017	18.7	15.4	12.2	8.9	5.7
Eurobond (U.S.\$) 2017	3.2	2.6	2.1	1.5	1.0
Eurobond (U.S.\$) 2017	8.7	7.6	6.5	5.3	4.2
Eurobond (U.S.\$) 2017	110.8	110.8	110.8	110.8	110.8
Eurobond (U.S.\$) 2017	24.2	24.2	24.2	24.2	24.2
Eurobond (U.S.\$) 2018	21.9	18.4	14.9	11.4	7.9
Eurobond (U.S.\$) 2018	6.3	5.3	4.3	3.3	2.3
Eurobond (U.S.\$) 2018	25.8	25.8	25.8	25.8	25.8
Eurobond (U.S.\$) 2018	30.9	30.8	30.8	30.8	30.9
Eurobond (U.S.\$) 2019	39.0	39.0	39.0	39.0	39.0
Eurobond (U.S.\$) 2019	27.3	27.3	27.3	27.3	27.3
Eurobond (U.S.\$) 2020	76.5	76.5	76.5	76.5	76.5
Eurobond (U.S.\$) 2021	75.2	75.2	75.2	75.2	75.2
Eurobond (U.S.\$) 2021	61.9	61.9	61.9	61.9	61.9
Eurobond (U.S.\$) 2021	35.6	35.6	35.6	35.6	35.6
Eurobond (U.S.\$) 2022	13.7	13.7	13.7	13.7	13.7
Eurobond (U.S.\$) 2022	16.2	16.2	16.2	16.2	16.2
Eurobond (U.S.\$) 2022	21.4	21.4	21.4	21.4	21.4
Eurobond (U.S.\$) 2022	42.7	42.7	42.7	42.7	42.7
Eurobond (U.S.\$) 2024	17.5	17.5	17.5	17.5	17.5
Eurobond (U.S.\$) 2026	24.8	24.8	24.8	24.8	24.8
<b>Total External Debt Service</b>	<b>3,091.5</b>	<b>3,547.3</b>	<b>3,406.6</b>	<b>2,442.8</b>	<b>3,151.5</b>

Notes:

- (1) Amounts translated into U.S. Dollars at the rate of U.S.\$1.2927 = €1 as of December 31, 2011.
- (2) Estimated disbursements in respect of financing arrangements (excluding Eurobonds) entered into by the Republic or its agencies and in effect on December 31, 2011. 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 of 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, which carried interest at a rate of 7.5 percent per annum and matured 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. These notes matured on December 22, 2010 and carried interest at a rate of 6 percent. On March 25, 2009, pursuant to Law № 450, the Republic issued U.S.\$18.483 million in aggregate principal amount of notes to settle expropriation claims tranche 2. The notes mature on March 25, 2014 and carry interest at a rate of 6 percent.

On April 22, 2010, pursuant to Law № 69, the Republic issued U.S.\$15.984 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in April 2015 and carry interest at a rate of 6 percent. On July 15, 2010, pursuant to Law № 69, the Republic issued U.S.\$6.930 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in July 2015 and carry interest at a rate of 6 percent. On November 30, 2010, pursuant to Law № 69, the Republic issued U.S.\$8.098 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in November 2015 and carry interest at a rate of 6 percent.

On November 30, 2010, pursuant to Law № 69, the Republic issued U.S.\$8.1 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in November 2015 and carry interest at a rate of 6 percent.

On September 19, 2011, pursuant to Law № 69, the Republic issued U.S.\$4.3 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in September 2016 and carry interest at a rate of 6 percent.

On January 23, 2012, pursuant to Law № 450, the Republic issued U.S.\$16.5 million in aggregate principal amount of notes to settle expropriation claims. The notes mature in January 23, 2017 and carry interest at a rate of 4.70 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

*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. Between 1999 and 2007, the dollarization level fluctuated between 61.6 percent at the end of 1999 to 77.34 percent at the end of 2007. The ability of the Republic's economy to withstand the shocks of the global financial crisis of 2007-2008 and the ensuing increase in confidence in the Lebanese economy resulted in significant conversions from U.S. dollars to Lebanese pounds during the fourth quarter of 2008, and a corresponding decline of the dollarization rate to 69.57 percent at the end of 2008. Currency conversions operations continued throughout 2009 and the first half of 2010, which maintained the de-dollarization impetus and led to a 64.46 percent rate at end December 2009 and 62.54 percent rate in June 2010, the lowest levels of dollarization in nine years. The dollarization rate registered an increase to 63.24 percent in December 2010 and 65.86 percent in March 2011. In December 2011, the dollarization rate registered a further increase to 65.92 percent, although it declined to 65.88% in January 2012.

The following table sets out the balance sheet of BDL for the periods indicated:

### BDL Balance Sheet

	As of December 31,				
	2007	2008	2009	2010	2011
	(LL billions)				
<b>Assets</b>					
Gold .....	11,517	12,108	15,169	19,613	21,709
Foreign currencies.....	14,740	25,722	38,682	43,111	46,453
Other foreign assets .....	0	0	0	0	0
Claims on private sector.....	297	305	333	350	380
Loans to banks and financial corporations.....	1,690	1,543	1,803	1,136	2,099
Claims on public sector .....	406	362	292	218	140
Securities portfolio .....	13,303	13,933	15,525	17,681	19,847
Fixed assets .....	435	409	411	404	358
Unclassified assets <sup>(1)</sup> .....	6,247	6,038	8,812	11,868	14,986
<b>Total assets .....</b>	<b>48,635</b>	<b>60,420</b>	<b>81,027</b>	<b>94,381</b>	<b>105,972</b>
<b>Liabilities</b>					
Currency in circulation outside BDL .....	2,191	2,498	2,729	3,088	3,283
Deposits of commercial banks.....	27,301	36,193	50,033	57,366	68,788
Deposits of financial corporations <sup>(2)</sup> .....	994	1,314	1,917	2,193	964
Private sector deposits.....	206	28	36	45	42
Public sector accounts.....	3,364	6,995	8,932	9,312	7,985
Valuation adjustment .....	3,041	3,602	6,760	11,170	13,285
Securities other than shares <sup>(3)</sup> .....	3,015	3,015	3,015	3,015	3,015
Foreign liabilities.....	531	671	594	353	329
Special long-term liabilities...	3,184	2,682	2,520	2,503	2,503
Capital accounts .....	2,715	1,870	3,342	4,279	4,556
Unclassified liabilities <sup>(4)</sup> .....	2,093	1,552	1,149	1,056	1,222
<b>Total liabilities .....</b>	<b>48,635</b>	<b>60,420</b>	<b>81,027</b>	<b>94,381</b>	<b>105,972</b>

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 of the date of this Base Prospectus, there were 69 active commercial banks and two specialized medium-and long-term credit banks, 52 financial institutions, 13 brokerage institutions, two leasing companies in the financial sector and 10 representative offices in the Republic. 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.

The average capital adequacy ratio of Lebanese banks was 11.8 percent as of the end of June 2011.

The banking sector in Lebanon is generally characterized by its openness evidenced by the size of interaction with correspondent banks and Lebanese abroad. The Lebanese banking sector, with an asset-to-GDP ratio of approximately 343 percent in December 2011, is well capitalized, and has proven resilient to shocks caused by the global financial crisis of 2007 and 2008. In addition, the banking sector plays many critical roles in the economy as a whole of which financial intermediation, payments, guarantor, investment adviser, agency and policy roles. Lebanese banks are the principal subscribers to the Eurobonds issued by the Republic.

The banking sector currently offers a diversity of services 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 Basel Accord (Basel 1). In September 1999, BDL required banks in Lebanon to raise their capital adequacy ratio to 10 percent by end of 2000 and by 12 percent by the end of 2001. During the past years, banks' capitals as well as the average capital adequacy ratio have significantly increased. In April 2006, BDL required banks in Lebanon to gradually implement the Basel Capital Accord (Basel 2) starting from January 1, 2008. The Banking Control Commission of Lebanon monitored a "Parallel Run Period" during 2008 and 2009 and the average capital adequacy ratio of Lebanese banks was 11.8 percent as of the end of June 2011. In order to increase the capital resources of the Lebanese banking sector and to respond to potential and unexpected losses, in December 2011, the BDL issued Intermediary Circular № 282 requiring banks to gradually raise their capital adequacy ratios by the end of 2015. Pursuant to the circular, banks are required to have raised their Common Equity Tier 1 ratio to 8 percent (defined as the ratio of common equity Tier 1 capital to total weighted assets), their Tier 1 ratio to 10 percent (defined as the ratio of Tier 1 capital to total weighted assets) and their total capital ratio to 12 percent (defined as the ratio of the sum of the Tier 1 ratio and the Tier 2 ratio to total weighted assets) by the end of 2015. The circular also imposes intermediate annual thresholds for such ratios from the end of 2012. The requirements are in line with Basel 3.

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. 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.

On February 10, 2011, the U.S. Department of the Treasury designated LCB as "a financial institution of primary money laundering concern" under Section 311 of the USA PATRIOT Act. In its finding, the U.S. Department of the Treasury noted that the Lebanese banking sector faces certain

vulnerabilities. *Banque du Liban* is taking measures to address the concerns raised by the U.S. Department of the Treasury and has arranged for the sale of assets of LCB. In April 2011, the U.S. Ambassador to Lebanon stated that the U.S. government is not targeting the Lebanese banking sector in general and views LCB as an isolated case. The U.S. government has since filed a claim in New York against LCB and other parties seeking to attach certain assets. See “*Risk Factors—Risks Relating to the Republic—Lebanese Banking Sector*”.

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 of the periods indicated:

### Balance Sheet of Commercial Banks in Lebanon

	As of December 31,				
	2007	2008	2009	2010	2011
	(LL billions)				
<b>Assets</b>					
Reserves .....	29,851	39,114	53,574	61,154	71,535
Currency .....	262	324	346	376	392
Deposits with BDL.....	29,589	38,790	53,228	60,778	71,143
Claims on Private Sector .....	26,762	31,751	36,570	45,702	51,595
Lebanese Pounds .....	4,190	5,068	6,837	10,382	12,821
Foreign Currency.....	22,572	26,683	29,733	35,320	38,774
Claims on Public Sector.....	32,423	38,313	43,812	44,192	44,055
Treasury Bills .....	32,360	38,215	43,707	44,115	43,949
Other.....	63	98	105	77	106
Foreign Assets .....	31,220	28,834	35,698	38,784	38,436
Fixed Assets .....	3,322	3,695	3,783	4,188	5,131
Unclassified Assets .....	421	383	303	335	1,166
<b>Total assets .....</b>	<b>123,999</b>	<b>142,090</b>	<b>173,740</b>	<b>194,355</b>	<b>211,918</b>
<b>Liabilities</b>					
Residential Private Sector					
Deposits, of which: .....	86,980	99,908	119,383	133,744	142,386
Lebanese Pounds .....	22,282	34,309	47,738	55,037	55,389
Sight .....	1,602	2,057	2,410	2,951	3,201
Term.....	20,680	32,252	45,328	52,086	52,188
Foreign currency.....	64,698	65,599	71,645	78,707	86,997
Public Sector deposits	1,163	1,331	1,590	2,107	2,999
Non Resident Private Sector					32,054
Deposits.....	14,454	17,345	24,984	27,866	
Bonds .....	91	93	143	412	661
Deposits of Non Resident					8,764
Financial Sector.....	6,108	6,490	6,935	6,785	
Capital accounts .....	9,439	10,705	11,977	13,901	16,161
Unclassified liabilities.....	5,764	6,218	8,728	9,540	8,893
<b>Total liabilities .....</b>	<b>123,999</b>	<b>142,090</b>	<b>173,740</b>	<b>194,355</b>	<b>211,918</b>

Note:

(1) Certain figures differ from previously published data due to ongoing revisions.

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 the LL-Denominated MTN 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. In December 2010, the Ministry of Finance introduced a seven-year benchmark bond under the LL-Denominated MTN Program. See *“Public Debt—Internal Debt”*.

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. In July 2009, 60-month Treasury notes were introduced to the Treasury bill auctions.

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, 2.73 percent in December 2006 and 2.71 percent in December 2007. The spread rose to 3.89 percent in December 2008 due to the decline in U.S. dollar deposit rates but declined to 3.70 percent in December 2009. 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, 6.79 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. However, the spread widened to 1.82 percent in December 2006, 2.08 percent in December 2007 and 2.48 percent in December 2008. In 2009, as a result of the incentives provided by BDL in order to stimulate lending to certain economic sectors, the Lebanese Pound lending rate declined gradually, and the spread between the Lebanese Pound lending rate and the U.S. dollar lending rate declined to 1.76 percent in December 2009 and 1.17 percent in December 2010. In 2011, the Lebanese Pound lending rate declined further as lending incentives and exemptions from reserves requirements were offered by *Banque du Liban*, resulting in a further narrowing of the spread between the Lebanese Pound and the U.S. Dollar lending rates to 0.36 percent in December 2011.

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 <sup>(1)</sup>	36-month Bill <sup>(1)</sup>	60-month Bill <sup>(1)(2)</sup>
				(%)		
2007 I.....	5.22	7.24	7.75	8.50	9.32	-
2007 II .....	5.22	7.24	7.75	8.50	9.32	-
2007 III .....	5.22	7.24	7.75	8.50	9.32	-
2007 IV .....	5.22	7.24	7.75	8.50	9.32	-
2008 I.....	5.22	7.24	7.75	8.50	9.32	-
2008 II .....	5.22	7.22	7.75	8.46	9.26	-
2008 III .....	5.22	7.22	7.73	8.40	9.06	-
2008 IV .....	5.10	7.10	7.58	8.26	9.00	-
2009 I.....	5.07	6.96	7.27	7.96	8.84	-
2009 II .....	4.94	6.61	6.89	7.56	8.52	-
2009 III .....	4.87	6.16	6.34	6.98	7.64	8.28
2009 IV .....	4.55	5.72	5.73	6.32	7.10	7.74
2010 I <sup>(3)</sup> .....	-	-	-	-	-	-
2010 II .....	3.94	4.43	4.88	5.36	5.88	6.16
2010 III .....	3.93	4.52	4.81	5.34	5.94	6.18
2010 IV .....	3.93	4.52	4.81	5.34	5.94	6.18
2011 I.....	3.93	4.50	4.79	5.34	5.94	6.18
2011 II .....	3.93	4.50	4.81	5.34	5.94	6.18
2011 III .....	3.93	4.50	4.81	5.34	5.94	6.18
2011 IV .....	3.93	4.50	4.81	5.34	5.94	6.18

Notes:

- (1) The figures represent the associated coupon rates.
- (2) The Ministry of Finance launched 60-month Treasury Bills as part of the market auction process in July 2009.
- (3) The Ministry of Finance suspended the issuance of Treasury Bills in March 2010.

Source: BDL.

On December 17, 2010, the Republic issued LL 1,500,000,000,000 7.9 percent Notes due 2017 (Series 2) under the LL-Denominated MTN Program. In March and April 2011, the Republic issued two stand-alone seven year LL-denominated Treasury bonds with annual yields of 7.90 percent. In September 2011, the Republic issued an additional stand-alone LL-denominated seven-year bond with an annual yield of 7.60 percent. On November 28, 2011, pursuant to Law № 69, the Republic issued LBP 40,604 million in aggregate principal amount of notes to settle increases in construction costs due to contractors. The notes mature on November 28, 2016 and carry interest at a rate of 6 percent. See “Public Debt—Internal Debt”.

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 longer maturities and savings accounts are current accounts without payment facilities by check.

**Lebanese Pound Weighted Average Deposit and Lending Rates of Commercial Banks**

<b>Calendar Quarter</b>	<b>Lending Rate</b>	<b>Creditor Rate</b>	<b>Current Account</b>	<b>Savings Deposit</b>	<b>Time Deposit</b>
			(%)		
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
2008 I.....	9.92	7.22	2.64	4.06	7.79
2008 II .....	10.09	7.25	2.46	3.89	7.68
2008 III .....	9.98	7.18	3.29	4.07	7.63
2008 IV .....	9.95	7.22	1.72	4.21	7.62
2009 I.....	10.10	7.10	1.46	4.38	7.44
2009 II .....	9.76	6.96	1.58	3.82	7.31
2009 III .....	9.22	6.94	1.27	3.85	7.26
2009 IV .....	9.04	6.75	1.46	3.69	7.07
2010 I.....	8.69	6.11	1.28	3.37	6.36
2010 II .....	8.37	5.83	1.24	3.03	6.10
2010 III .....	8.11	5.70	1.07	3.00	5.96
2010 IV .....	7.91	5.68	1.04	2.78	5.97
2011 I.....	7.73	5.63	1.09	2.98	5.92
2011 II .....	7.59	5.62	1.12	2.92	5.94
2011 III .....	7.37	5.58	0.96	2.72	5.85
2011 IV .....	7.38	5.63	1.05	2.73	5.91

Source: BDL.

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

Calendar Quarter	Lending Rate	Creditor Rate	Current Account	Savings Deposit	Time Deposit
			(%)		
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
2008 I.....	7.57	3.84	1.05	1.55	4.30
2008 II.....	7.28	3.55	0.77	1.44	4.00
2008 III.....	7.37	3.57	0.78	1.52	4.06
2008 IV.....	7.47	3.33	0.60	1.53	3.81
2009 I.....	7.32	3.26	0.57	1.23	3.68
2009 II.....	7.24	3.18	0.64	1.20	3.63
2009 III.....	7.24	3.16	0.69	1.13	3.59
2009 IV.....	7.28	3.05	0.50	1.10	3.53
2010 I.....	7.15	2.86	0.35	1.02	3.29
2010 II.....	7.03	2.75	0.41	0.98	3.21
2010 III.....	7.24	2.78	0.37	0.95	3.21
2010 IV.....	6.74	2.8	0.45	0.93	3.26
2011 I.....	7.24	2.82	0.41	1.00	3.24
2011 II.....	6.98	2.81	0.34	0.92	3.29
2011 III.....	6.92	2.84	0.35	0.91	3.26
2011 IV.....	7.02	2.83	0.44	0.93	3.31

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 <sup>(1)</sup>
	(U.S.\$ millions)	
2007 .....	7,639.8	9,777.6
2008 .....	8,031.7	17,062.4
2009 .....	10,062.0	25,659.9
2010 .....	13,009.9	28,597.7
2011 .....	14,400.7	30,814.9

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.

As of December 31, 2011, gross foreign currency reserves (excluding gold reserves) were U.S.\$30,814.9 million and gold reserves were U.S.\$14,400.7 million.

### Lebanese Pound/U.S. Dollar Exchange Rate

Since September 1999, BDL has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed average closing rate of LL 1,507.5 per U.S.\$1.00.

### 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.\$10,285 million as of December 31, 2011.

The number of authorized brokers rose from five to 16 and the number of listed companies rose from three to 11 (including one mutual fund) by the end of December 2011, 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 first included as an annexed table before being included as a budget line item within budget expenditures in the 2010 budget proposal. 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 in respect of these borrowings is included in the national budget for the year in which it is scheduled to be repaid. Principal repayment of these borrowings is no longer included in the budget following the inclusion of the CDR foreign-financed expenditures as a budget item in the 2010 budget proposal. The borrowings are obligations of the Republic. Foreign indebtedness incurred by the CDR is approved by the Government and by Parliament.
- The Higher Relief Committee ("*HRC*") is responsible for post-disaster relief, whether natural, war, or humanitarian. After the July 2006 War, the HRC began funding the re-settlement of

residents whose houses were completely or partially destroyed during the war, by paying housing compensations to rebuild or rehabilitate housing units. The HRC was mainly funded through donors' contributions and treasury advances to speed-up the process of resettlement. Starting from the 2010 budget proposal, the HRC will be mainly funded from allocations included in the budget or treasury advances to be regularized from the allocations included in the budget.

- 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.

As provided in Article 86 of the Constitution and public accounting law decree № 14969/1963, in the absence of approved Budgets for 2006, 2007, 2008, 2009, 2010, 2011 and 2012, 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 other enabling legislation. During the period 2006-2011, successive Governments have incurred extra-budgetary expenditures.

There is a controversy regarding the extra-budgetary expenditures incurred during the period 2006-2010 with certain members of the March 8 Coalition having requested a review of these expenditures

by the Court of Accounts (the audit court). The Minister of Finance and other members of Parliament have proposed draft laws seeking to ratify the extra-budgetary expenditures for the period 2006-2010, as well as for 2011.

This controversy is currently blocking approval of the Budgets for the years 2006-2011, which in turn limits the Government's ability to have a Budget approved for 2012. If not resolved, this controversy may hamper the Government's flexibility in managing its debt. See *"Risk Factors—Risks Relating to the Republic—Extra-Budgetary Expenditures"*.

Budget proposals for 2006, 2007, 2008, 2009 and 2010 were approved by the Council of Ministers and sent to Parliament but have not been ratified. The budget proposal for 2011 was initially submitted by the Minister of Finance to the Council of Ministers but was subsequently withdrawn for review. The draft budget proposal for 2012 was sent by the Minister of Finance to the Council of Ministers. However, a request to withdraw the draft 2012 budget proposal was subsequently sent by the Minister of Finance to the President of the Council of Ministers in order to review the proposed expenditures in light of potential increases in public sector wages and to introduce, among other things, revenue-enhancing measures to cover these additional expenditures.

In March 2012, Parliament adopted a new law providing for, among other things, the Government to borrow the equivalent of U.S.\$2 billion in foreign currency for the purposes of financing treasury foreign currency requirements. The new law has not yet been published in the *Official Gazette*.

## Summary of Government Operations

The following table shows a summary of Government operations for the period from 2007 to 2011.

Summary of Government Operations					
	2007	2008	2009	2010	2011
	(LL billions)				
Revenues					
I. Tax revenues.....	5,583	7,182	8,967	9,976	9,885
II. Non-tax revenues <sup>(1)</sup> .....	2,511	2,612	3,069	2,043	3,468
III. Budget revenues (I+II).....	8,094	9,794	12,036	12,018	13,353
IV. Treasury revenues <sup>(2)</sup> .....	655	758	669	666	718
V. Total revenues (III+IV).....	8,749	10,553	12,705	12,684	14,070
Expenditures					
I. Current expenditures.....	9,661	10,639	12,617	12,922	15,800
Personnel cost <sup>(3)</sup> .....	3,583	3,973	4,935	5,066	5,533
Debt service <sup>(4)</sup> .....	4,940	5,304	6,087	6,218	6,034
Other current <sup>(5)</sup> .....	1,137	1,362	1,596	3,698	4,449
II. Capital expenditures <sup>(6)</sup> .....	558	514	550	701	676
III. Other Treasury expenditures.....	2,367	3,757	3,947	1,363	908
IV. Total expenditures (I+II+III) <sup>(7)</sup> .....	12,587	14,957	17,167	17,047	17,600
<b>Total Deficit (V-IV).....</b>	<b>(3,838)</b>	<b>(4,404)</b>	<b>(4,462)</b>	<b>(4,362)</b>	<b>(3,530)</b>
Budget and Treasury transactions					
<b>Budget balance.....</b>	<b>(1,977)</b>	<b>(1,189)</b>	<b>(992)</b>	<b>(3,168)</b>	<b>(2,670)</b>
Budgetary revenues.....	8,094	9,794	12,036	12,018	13,353
Budgetary expenditures <sup>(8)</sup> .....	10,070	10,984	13,028	15,187	16,022
<b>Net Treasury operations.....</b>	<b>(1,862)</b>	<b>(3,215)</b>	<b>(3,470)</b>	<b>(1,194)</b>	<b>(860)</b>
Treasury receipts.....	655	758	669	666	718
Treasury outlays.....	2,517	3,973	4,139	1,860	1,578
Percent of GDP <sup>(9)</sup>			(%)		
Total deficit <sup>(10)</sup> .....	(10.20)	(9.84)	(8.54)	(7.80)	(5.99)
Total revenues.....	23.25	23.58	24.32	22.66	23.89
Total expenditures.....	33.45	33.42	32.87	30.46	29.88
<b>Nominal GDP<sup>(7)</sup>.....</b>	<b>37,625</b>	<b>44,748</b>	<b>52,235</b>	<b>55,965</b>	<b>58,906</b>

### Notes:

- (1) The non-tax revenue figure for 2011 includes LL 2,261,250 million accrued to the benefit of the Ministry of Finance in respect of telecommunications revenue for 2011 and transferred to it from the account of the Ministry of Telecommunications maintained at *Banque du Liban* of which LL 1,959,750 million was transferred in 2011 and the balance of LL 301,500 million in January 2012.
- (2) Including LL 200 billion grants for budgetary support credited to the Treasury accounts in 2007.
- (3) Including wage and salary related payments, e.g., pensions to civil servants and end of service indemnities to Government employees.
- (4) Includes principal repayment on foreign loans earmarked for project financing and interest payments on both foreign currency debt and domestic currency debt.
- (5) Includes payments to EdL starting 2010 following their inclusion in the 2009 budget proposal as a subsidy. EdL payments incurred before 2010 are classified under other Treasury expenditures.
- (6) Expenditure does not include capital expenditures of CDR financed with foreign funds, consisting of LL 317 billion in 2007, LL 304 billion in 2008, LL 279 billion in 2009, LL 304 billion in 2010 and LL 420 billion in 2011. Expenditure does not include HRC extra-budgetary spending amounting to LL 756 billion in 2007 and LL 280 billion in 2008.
- (7) 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.

- (8) Includes payments to EdL starting 2010 following their inclusion in the 2009 budget proposal as a subsidy. EdL payments incurred before 2010 are classified under other Treasury expenditures.
- (9) The GDP figures included in this table are taken from the *Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010* and revised GDP figures for 2007-2009 prepared by the National Accounts Committee. The 2011 figures are estimates by the Ministry of Finance.
- (10) Not including CDR capital expenditures financed externally and HRC spending that was funded outside the budget and treasury process in 2007 and 2008 referred to in Note (4) above.

## 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 14,070 billion in 2011, as compared to LL 12,684 billion in 2010, representing an increase of 11 percent, which was primarily attributable to an increase in non-tax revenues, partially offset by a 1 percent decline of tax revenues, principally due to a decrease in excise tax receipts following a decision of the Higher Council of Customs to reduce the excise tax on gasoline by LL 5,000 per 20 liters and the decline in excise tax receipts on cars, reflecting a decline in car imports.

Non-tax revenues increased by 69.8 percent to LL 3,468 billion in 2011 from LL 2,043 billion in 2010, principally due to higher transfers from the Ministry of Telecommunications, which were LL 2,261 billion in 2011, as compared to LL 957 billion in 2010. Of this amount, LL 1,959,750 million was transferred 2011 and the remaining balance of LL 301,500 million was transferred in January 2012.

Total revenues were LL 12,684 billion in 2010, as compared to LL 12,705 billion in 2009, representing an increase of 0.16 percent, which was primarily attributable to a LL 1,026 billion decrease in non-tax revenues. Non tax revenues were LL 2,043 billion in 2010, as compared to LL 3,069 billion in 2009, representing a 33.4 percent decrease, which was mainly due to lower transfers from the Ministry of Telecommunications.

Total revenues were LL 12,705 billion in 2009, as compared to LL 10,553 billion in 2008, representing an increase of approximately 20 percent, which was primarily attributable to a LL 1,785 billion increase in tax collections (income taxes, property registration fees, VAT, custom duties as well as car and fuel excises). Non tax revenues were LL 3,069 billion in 2009, as compared to LL 2,613 billion in 2008, representing a 17 percent increase, which was mainly due to higher transfers from the Ministry of Telecommunications, the Rafic Hariri International Airport and the Port of Beirut and to an increase of vehicle control fees.

Total revenues were LL 10,553 billion in 2008, as compared to LL 8,749 billion in 2007, representing an increase of approximately 21 percent, which was primarily attributable to a LL 1,600 billion increase in tax collections (income taxes, property registration fees, VAT, custom duties and car excises). Non tax revenues were LL 2,613 billion in 2008, as compared to LL 2,511 billion in 2007, representing a 4 percent increase, which was mainly due to a special payment from *Casino du Liban* in settlement of a tax dispute, and to higher transfers from the Ministry of Telecommunications.

As a percentage of GDP, total revenues increased from 23.25 percent in 2007 to 23.89 percent in 2011 after having reached 24.32 percent in 2009.

## *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 in 2011 were LL 17,600 billion, as compared to LL 17,047 billion in 2010, representing an increase of 3.2 percent. This increase was principally due to (i) increased personnel costs in 2011, which were LL 5,533 billion in 2011, as compared to LL 5,066 billion in 2010 and (ii) higher transfers to EdL, which were LL 2,626 billion in 2011, as compared to LL 1,797 billion in 2010, principally due to an LL 816 billion increase in payments for fuel and gas oil and a LL 55 billion payment for natural gas to Egyptian Natural Gas Holding Company. The increase in expenditures was partially offset by (i) a decrease in capital expenditures from LL 701 billion in 2010 to LL 676 billion in 2011, (ii) a reduction of payments to municipalities from LL 735 billion in 2010 to LL 368 billion in 2011 and (iii) a decline in VAT refunds from LL 384 billion in 2010 to LL 195 billion in 2011.

Total expenditures in 2009 were LL 17,167 billion compared to LL 14,957 billion in 2008, an increase of approximately 15 percent. This increase is due to an approximately 15 percent increase in non-debt service expenditures (LL 11,080 billion in 2009, as compared to LL 9,653 billion in 2008) and an increase of approximately 17 percent in interest payments (LL 5,784 billion in 2009, as compared to LL 4,957 billion in 2008), which was slightly offset by a 13 percent decrease in principal repayments of foreign currency debt reflecting the repayment of World Bank loans amounting to U.S.\$50 million in June 2009 and the repayment of World Bank loans amounting to U.S.\$88 million in January 2008, both through the proceeds of a USAID grant pledged at the Paris III conference.

The increase in non-debt service expenditures in 2009 was caused by a 24 percent increase in personnel cost (LL 4,935 billion in 2009 as compared to LL 3,970 billion in 2008) following implementation of Law № 63 (as discussed below), a 17 percent increase in other current expenditures (LL 1,596 billion in 2009, as compared to LL 1,364 billion in 2008) due mainly to higher transfers to the National Social Security Fund and hospitals and a 5 percent increase (LL 3,947 billion in 2009, as compared to LL 3,757 billion in 2008) following higher transfers to the High Relief Committee that were partly offset by lower transfers to municipalities and EdL. Transfers to EdL were 7 percent lower (LL 2,259 billion in 2009, as compared to LL 2,430 billion in 2008). This is mainly explained by the lower oil prices.

Additional spending in 2009 and 2008 pursuant to Law № 63 dated December 31, 2008 was comprised of (i) an increase the minimum wage in the public sector to LL 500,000 per month, (ii) a salary increase of LL 200,000 per month for all public sector employees (including the employees of state-owned enterprises, municipalities and the *Régie Libanaise des Tabacs et Tombacs*) and (iii) an increase of LL 100,000 per month to all public sector retirees. In addition, transfers to the STL, the National Social Security Fund, hospitals and others were paid by a Treasury advance authorized by decrees following decisions taken by the Council of Ministers and are expected to be subsequently regularized in the relevant budget.

Total expenditures were LL 14,957 billion in 2008, as compared to LL 12,587 billion in 2007, representing an increase of approximately 19 percent. This increase is due to an increase of approximately 27 percent in non-debt service expenditures (LL 9,653 billion in 2008, as compared to LL 7,647 billion in 2007, an increase of approximately 6 percent in interest payments (LL 4,957 billion in 2008, as compared to LL 4,695 billion in 2007) and an increase of approximately 41 percent in principal repayments of foreign currency debt due to the early repayment of three World Bank loans settled with the proceeds of a USAID grant for budgetary support. The increase in non-debt service expenditures in 2008 was largely caused by a 64 percent increase in transfers to EdL (LL 2,430 billion

in 2008, as compared to LL 1,479 billion in 2007), a 72 percent increase in transfers to municipalities (LL 527 billion for 2008, as compared to LL 306 billion in 2007) and the effects of Law № 63.

### 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 2007 to 2011.

	Fiscal Deficit				
	2007	2008	2009	2010	2011
GDP (at current market prices in LL billions) <sup>(1)</sup> .....	37,625	44,748	52,235	55,965	58,906
Total Deficit <sup>(2)</sup> .....	(3,838)	(4,404)	(4,462)	(4,362)	(3,530)
Deficit/GDP (%) <sup>(2)</sup> .....	(10.20)	(9.84)	(8.54)	(7.80)	(5.99)
Net Public Debt/GDP (%) .....	156	140	127	121	119

Note:

- (1) The GDP figures included in this table are taken from the *Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010* and revised GDP figures for 2007-2009 prepared by the National Accounts Committee. The 2011 figures are estimates by the Ministry of Finance.
- (2) Excluding foreign financed CDR expenditure and HRC spending, not funded by budgetary allocations and treasury advances.

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 fiscal balance registered a deficit of LL 3,530 billion in 2011, as compared to a deficit of LL 4,362 billion in 2010, representing a decrease of approximately 19 percent. The primary balance registered a surplus of LL 2,505 billion in 2011, as compared to a surplus of LL 1,855 billion in 2010, representing a 35 percent increase.

The fiscal balance registered a deficit of LL 4,362 billion in 2010, as compared to a deficit of LL 4,462 billion in 2009, representing a slight decrease of approximately 2 percent. The primary balance registered a surplus of LL 1,855 billion in 2010 as compared to a surplus of LL 1,625 billion in 2009, representing a 14 percent increase.

The fiscal balance registered a deficit of LL 4,462 billion in 2009, as compared to a deficit of LL 4,404 billion in 2008, representing a slight increase of 1 percent. The primary balance registered a surplus of LL 1,625 billion in 2009 as compared to a surplus of LL 900 billion in 2008, a representing an 80 percent increase.

The fiscal balance registered a deficit of LL 4,404 billion in 2008, as compared to a deficit of LL 3,838 billion in 2007, representing a 15 percent deterioration. The primary balance registered a surplus of LL 900 billion in 2008 as compared to a surplus of LL 1,102 billion in 2007, representing an 18 percent decrease.

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

<b>Primary Surplus</b>					
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Total Revenues .....	8,749	10,553	12,705	12,684	14,070
Total Expenditures.....	12,587	14,957	17,167	17,047	17,600
Debt Service <sup>(1)</sup> .....	4,940	5,304	6,087	6,218	6,034
Primary Surplus .....	1,102	900	1,625	1,855	2,505
Percent of GDP (%).....	2.93	2.01	3.11	3.31	4.25
Nominal GDP .....	37,625	44,748	52,235	55,965	58,906

Note:

- (1) Including principal repayment on foreign loans earmarked for project financing and interest payments on both foreign currency debt and domestic currency debt.

Source: Ministry of Finance.

The primary balance, representing total revenues less primary expenditures (*i.e.*, total expenditures excluding debt service) improved by 10 percent of GDP from 2000 to 2004. However, in 2005 and 2006, the trend slowed 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 impending political and security environment in 2007. As such, the primary balance in 2007 was 2.93 percent of GDP. In 2008, higher revenue collections (by 21 percent) were offset by higher primary spending (by 26 percent), which was fuelled by a new salary and wage policy for the public sector and higher transfers to EdL and municipalities. The primary balance in 2008 was 2.01 percent of GDP. In 2009, the primary balance significantly improved to its pre-2005 level following an improved performance on the revenue side (a 20 percent increase) coupled with a deceleration in primary spending, which nominally increased by 15 percent and remained broadly stable in real terms (21.2 percent of GDP in 2009 compared to 21.3 percent in 2008). The primary balance in 2010 improved slightly compared to its 2009 level to 3.31 percent of GDP, due mainly to flat revenues, and a decline of 2 percent in primary expenditures. The primary balance continued to improve in 2011 compared to its 2010 level to 4.25 percent of estimated GDP, due mainly to an 11 percent increase in total revenues (mainly due to higher transfers from the telecommunications surplus compared to 2010) and a lower increase in primary expenditures of 3 percent compared to 2010.

### **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 was 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.

### **The 2009 Budget**

The 2009 budget proposal was approved by the Council of Ministers on June 12, 2009, pursuant to Decree № 2364, and sent to Parliament on June 20, 2009. The 2009 budget was not adopted by Parliament as the budgets for 2006, 2007 and 2008 must be approved first.

### **The 2010 Budget**

The 2010 budget proposal was approved by the Council of Ministers on June 18, 2010 and sent to Parliament on July 9, 2010 pursuant to Decree № 4600.

### **The 2011 Budget**

The Minister of Finance sent the 2011 budget proposal to the Presidency of the Council of Ministers on September 7, 2010 requesting its submission to the Council of Ministers for review, approval and transmission to Parliament. Following the formation of the new Government pursuant to Decree № 5818 dated June 13, 2011 and pursuant to Letter № 573 MS of the Presidency of the Council of Ministers dated June 30, 2011, the 2011 budget proposal has been returned to the Ministry of Finance to allow the then-incoming Ministers to review their respective budgets and amend them, if necessary. A revised version of the 2011 budget proposal reflecting the priorities of the new Government is expected to be submitted by the Minister of Finance to the Council of Ministers. Pursuant to Decision № 18, dated January 18, 2012, the Government capped total spending for 2011 at

LL 18,900 billion, representing an additional LL 8,900 billion, as compared to the LL 10,000 billion set by the 2005 Budget Law. This additional spending is to be regularized by a special law.

### **The 2012 Budget**

The Minister of Finance sent the 2012 budget proposal to the Presidency of the Council of Ministers on September 30, 2011 requesting its submission to the Council of Ministers for review, approval and transmission to Parliament. However, a request to withdraw the draft 2012 budget proposal was subsequently sent by the Minister of Finance to the President of the Council of Ministers in order to review the proposed expenditures in light of potential increases in public sector wages and to introduce, among other things, revenue-enhancing measures to cover these additional expenditures.

### **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 is 21 percent for individuals (excluding certain categories of professionals) and 15 percent for corporations (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 the Paris III Conference on January 25, 2007 and in the context of fiscal consolidation and debt sustainability, the 2007 budget proposal calls for an increase in tax rates for revenue enhancement purposes, namely two 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 seven 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); (iii) the establishment of a Large Taxpayers' Office (in 2005), (iv) the reorganization of the regional tax offices along function-based operations and the establishment of sections in Mount-Lebanon and Beirut tax offices and LTO in line with the created departments in the regional tax offices (in 2005-2006); (v) the completion of logistics arrangements to establish taxpayer services in two satellite offices (in 2009) and the appointment of Department heads in all offices (in 2010); and (vi) the transfer of the collection function to the regional tax offices (in 2011). The

Government is currently working on a merger between the Directorates of Revenues and VAT after the nomination of a single Tax Administration Director in July 2012.

A Tax Procedure Code that unifies procedures for taxes and fees has been adopted by Parliament and became effective on January 1, 2009, and implementing regulations were issued in July 2009. The VAT law and related regulations are under review, and work is ongoing for the introduction of the new Individual and Corporate Income Tax Law.

In March 2012, Parliament adopted Law № 207 (amending Article 17 of Law № 379 dated December 14, 2011), which exempts diesel (*mazout*) from VAT.

## **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. 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. The Ministry of Social Affairs, in collaboration with the Presidency of the Council of Ministers, is also pursuing the reform efforts that began after the Paris III Conference, including a poverty targeting mechanism. In 2011, the Ministry of Social Affairs published the National Social Development Strategy of Lebanon 2011, which has the following general objectives: (i) achieve better health; (ii) strengthen social protection; (iii) provide quality education; (iv) improve opportunities for equitable and safe employment; and (v) revitalize communities and develop the social capital.

In the context of developing social policies, the Government entered into a U.S.\$6 million grant agreement with the World Bank, to provide technical assistance and capacity building to agencies working in the social field to pursue their reforms initiated under the Paris III program. These include the Ministry of Social Affairs, the Ministry of Education and Higher Education, the Ministry of Public Health and the Ministry of Labor. The major axis of reforms will be the national roll out the Poverty Targeting System, designing the “First-Time Job Seekers” pilot program and establishing a MILES (Labor Market) unit within the Ministry of Labor, improving the programming capacity of the Ministry of Education and Higher Education and improving the quality of education, and enhancing resource utilization and the quality of services at the Ministry of Public Health.