REPUBLIC OF LEBANON
MINISTRY OF FINANCE

LEBANON

COUNTRY PROFILE 2013*

*As published in the Base Prospectus dated 5 April 2013.

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TABLE OF SELECTED LEBANESE ECONOMIC INDICATORS

Set forth below is an overview 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.

	2008	2009	2010	2011	2012
The Economy[1]					
GDP[2] (*at current market prices in LL billions*)	44,748	52,235	55,965	58,851	62,963
GDP[3] (*at current market prices U.S.$ millions*)	29,684	34,650	37,124	39,039	41,766
Real Growth Rate (%)[2]	8.6	9.0	7.0	1.5	2.0
Balance of Payments (*U.S.$ millions*)[1][4]					
Current account[5]	(4,149)	(6,741)	(7,462)	(4,866)	633
Capital and Financial account[5]	5,874	11,118	1,795	6,097	4,715
Net Change in Foreign Assets[6]	3,462	7,899	3,325	(1,996)	(1,537)
Reserves[1]					
Gross Foreign Currency Reserves (*U.S.$ millions*)[7]	17,062	25,660	28,598	30,815	29,972
Gold (*U.S.$ millions*)[7][8]	8,032	10,062	13,010	14,401	15,312
Gold (*thousands of Troy Ounces*)	9,222	9,222	9,222	9,222	9,222
Public Finance (*LL billions*)[1]					
Government Revenues	10,553	12,705	12,684	14,070	14,164
Government Expenditures[9]	14,957	17,167	17,047	17,600	20,081
Government Overall Deficit	(4,404)	(4,462)	(4,362)	(3,530)	(5,918)
Primary Deficit/Surplus[10]	900	1,625	1,855	2,505	(166)
Public Debt[1]					
Net Domestic Public Debt (*LL billions*)	30,681	34,451	36,836	38,356	37,282
Public External Debt (*LL billions*)[11]	31,934	32,139	31,043	31,547	36,761
Gross Public Debt:GDP (%)	159	148	142	137	138

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 and 2012 figures are IMF estimates.

(3) Translated at period average exchange rates.

(4) The basis for calculation of balance of payments 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.

(5) The 2012 figures are for the six-month period ended 30 June 2012.

(6) The 2008, 2009, 2010, 2011 and 2012 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.

(7) As at 28 February 2013, gross foreign currency reserves (excluding gold reserves) were U.S.$30,344 million and gold reserves were U.S.$14,673 million.

(8) Parliament passed Law № 42/86, dated 24 September 1986, forbidding dispositions of gold reserves without parliamentary legislation.

(9) 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*".

(10) Surplus or deficit, excluding domestic and external debt service.

(11) Calculated at end of period exchange rates.

THE LEBANESE REPUBLIC

General Background

The Republic is situated in the Levant on the eastern most part of the Mediterranean Sea. The Republic's Mediterranean shoreline extends 192 km from north to south; its greatest width from west to east is 85 km. The total area of the Republic is 10,452 km^2.

The Republic is a mountainous country with over half its area lying above 1,000 m. 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 m and the Anti-Lebanon Range, reaching an altitude of 2,814 m, 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. The rain in winter can be torrential and snow falls on mountains above 1,000 m. There is high humidity in the coastal regions with hot, rainless summers.

The historic and cultural heritage of Lebanon dates back over 6,000 years to the Phoenicians and the subsequent civilizations that were established in Lebanon or interacted with the Lebanese. Throughout its history Lebanon has been a contact center between various cultures and civilizations, and, as a result, the Republic today is a highly-cosmopolitan country.

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 United Nations Development Program (the "**UNDP**"), the number of Lebanon's permanent residents in 2007 was 3,759,136, of whom 96.2% were Lebanese. This figure does not include either temporary residents such as migrant workers or residents of Palestinian camps.

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

Population by Age

	Total
	(%)
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* indicated that in 2007 approximately 49% of the population lived 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% in North Lebanon, 13.0% in Bekaa, and 17.6% in South Lebanon, including Nabatiyeh).

History

Overview

From 1516 to 1918, Lebanon was under the administrative rule and political sovereignty of the Ottoman Empire. In 1920, the territory defined by the present-day boundaries became a state called "*Grand Liban*" (Greater Lebanon) by decree of General Gouraud, head of the French troops in the Levant. The state remained under French Mandate until 26 November 1941. A constitution was adopted on 25 May 1926 establishing a democratic republic with a parliamentary system of government. Effective political independence of the Republic occurred on 22 November 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 31 December 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. See "*Risk Factors—Risks Relating to the Republic—Political and Economic Considerations*". Military hostilities effectively came to an end in October 1990 following the signing of the Taif Accords in Saudi Arabia in 1989. In the aftermath of the signing of the Taif Accords, 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.

The 1975–1990 Conflict

The 1975-1990 conflict is summarized briefly below. Investors are urged to do further research should they wish to gain a fuller understanding of the conflict. See also "The Economy—Economic History".

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 return to relative normality until early 1983. However, car bombs at the U.S. Embassy in Beirut and at the U.S. 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 as the 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 were 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.

Recent Developments

In October 1998, General Emile Lahoud was elected President and appointed Dr. Salim Al Hoss as Prime Minister. In October 2000, Mr. Rafik Hariri was appointed Prime Minister by President Lahoud after parliamentary elections in August and September 2000.

On 2 September 2004, the U.N. Security Council adopted Resolution 1559, which was co-sponsored by the United States and France. Among other matters, Resolution 1559 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 1 October 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 3 September 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 26 October 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 a former Minister of Defense.

On 14 February 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. See "*—The Special Tribunal for Lebanon*". Between 1992-2004, 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. See "*The Economy—Economic History—Fiscal Reform and the Paris II Conference*".

On 28 February 2005, Prime Minister Omar Karami submitted the resignation of the Government headed by him. Following mandatory parliamentary consultations, Mr. Karami was reappointed by the President of the Republic as Prime Minister-designate. Mr. Karami was not successful in forming a new Government and advised the President of the Republic accordingly. Following further mandatory parliamentary

consultations, Mr. Najib Mikati, a former minister and prominent businessman, was appointed Prime Minister on 19 April 2005. The primary objective of the Government headed by Mr. Mikati was to organize and oversee the Parliamentary elections in 2005, which resulted in victory for the political parties that subsequently constituted the March 14 Coalition (as defined below). On 29 June 2005, Mr. Fouad Siniora, a former Minister of Finance in the Hariri Governments, was appointed Prime Minister and headed the Government, which included ministers representing the political parties that subsequently constituted the March 8 Coalition and the March 14 Coalition.

On 14 March 2005, one of the largest demonstrations in the history of the Republic took place. More than one million people 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. See "*—History—Recent Developments—The Special Tribunal for Lebanon*" and "*—History—Relations with Syria*". On 26 April 2005, the Syrian government informed the United Nations in a letter that Syrian troops and intelligence operatives had completed their withdrawal from Lebanon.

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 12 December 2005, of Mr. Gebrane Tueni, a Member of Parliament and newspaper editor, on 21 November 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 13 June 2007, of Mr. Walid Eido, a Member of Parliament and of the Future Movement, on 19 September 2007, of Mr. Antoine Ghanem, a Member of Parliament and of the Kataeb Party, on 12 December 2007, of Brigadier General Francois el Hajj of the Lebanese Army, on 25 January 2008, of Captain Wissam Eid of the Internal Security Forces and on 10 September 2008, of Mr. Saleh Aridi, a member of the Lebanese Democratic Party.

On 7 May 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 11 years of incarceration, following the adoption of a special amnesty law.

On 13 July 2006, Israel commenced war on Lebanon. See "*—Conflicts With Israel—The July 2006 War*".

On 11 November 2006, five ministers representing Hizbollah and the Amal party, comprising all of the ministers from the Shiite community, resigned from the Government, followed, a few days later, by a minister from the Orthodox Christian community. 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 1 December 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, which lasted until the conclusion of the Doha Agreement. See "*—History—Recent Developments—The Doha Agreement*".

On 20 May 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 2 September 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.

On 13 February 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 5 May 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 Rafic 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 7 May 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 Future Movement, the Lebanese Forces and members of the former Qornet Shahwan Gathering (collectively, 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 14 May 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. Tensions eased following the conclusion of the Doha Agreement on 21 May 2008. See "*—Recent Developments—Doha Agreement*".

On 25 May 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. Three days later, following mandatory parliamentary consultations, 68 members of Parliament nominated Mr. Siniora as President of the Council of Ministers, and President Sleiman appointed Mr. Siniora to this position.

On 11 July 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 8 October 2008, a new electoral law was promulgated (Law № 25, as amended on 27 December 2008 by Law № 59) governing the parliamentary elections held on 7 June 2009. See "*—History—Recent Developments—The Doha Agreement*".

On 7 June 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*". Subsequently, on 27 June 2009, following mandatory Parliamentary consultations, 86 Members of Parliament nominated Mr. Saad Hariri, the leader of the Future Movement and the son of Mr. Rafik Hariri, as President of the Council of Ministers, and President Suleiman appointed Mr. Hariri to this position. However, Mr. Hariri did not form a government and, after 10 weeks of negotiations regarding the composition of the cabinet, Mr. Hariri stepped down as Prime Minister-designate on 10 September 2009. Again following mandatory Parliamentary consultations, on 18 September 2009, 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 9 November 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 10 December 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 that aimed to strengthen the Republic's official institutions, continue the reforms agreed at the Paris III Conference and reduce the fiscal deficit and the burden of debt service on the Treasury.

On 12 January 2011, ten ministers representing Hizbollah, the Amal Movement and their allies (collectively, the "**March 8 Coalition**"), as well as one of the five ministers representing the President of the Republic,

resigned from the then-Government. Consequently, as more than one third of its ministers had resigned, the Government was considered as resigned pursuant to Article 69 of the Constitution. See "*—Constitutional System*" and "*—Government and Political Parties*". These resignations were preceded by tensions in light of, *inter alia*, the prospective filing of an indictment by the then Prosecutor of the STL in the case of the assassination of former Prime Minister Hariri and his companions, including speculation surrounding the identity of parties who could be charged. See "*—History—Recent Developments—The Special Tribunal for Lebanon*".

On 25 January 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, which he had previously held in a former Government.

On 13 June 2011, after nearly five months of negotiations, a new Government, headed by Prime Minister Mikati and comprised of 29 other ministers, was formed. A thirtieth member was subsequently appointed. The Government obtained the vote of confidence from Parliament on 7 July 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.

The 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.

In January 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 1 February 2012. Although Decree № 7426 applies to private sector employees, similar increases have been proposed in favor of public sector employees. Such increases in the minimum wage and other salaries could have an inflationary impact on prices. In addition, in September 2012 cost of living payments for public sector employees were increased with retroactive effect from 1 February 2012. The Ministry of Finance disbursed LL 632 billion (U.S.$419 million) in 2012 to cover this increase. The annual expenditure for this cost of living increase is estimated at approximately LL 851 billion (U.S.$564 million). In addition, the Council of Ministers approved the transmittal to Parliament of a new salary scale for public sector employees, which may be retroactive. Ongoing demonstrations and strikes in support of this measure, including by members of labor unions and public sector employees, have been occurring in Beirut, and there have been calls for public sector strikes and further demonstrations if the measure is not referred to Parliament. The Prime Minister and the Minister of Finance have stated that this measure will not be implemented until new revenue sources are identified to cover the new expenditures. See "*Risk Factors—Risks Relating to the Republic—Fiscal Deficit*" and "*Risk Factors—Risks Relating to the Republic—Prices and Inflation*".

On 1 February 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 22 February 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 27 February 2012, meetings of the Council of Ministers resumed.

In May 2012, there were armed clashes over several days in Tripoli between residents of the Jabal Mohsen neighborhood, who are supportive of the Syrian government, and residents of the Bab Al-Tabbaneh neighborhood, who are opposed to the Syrian government. The clashes resulted in 18 deaths and more than 70 injuries. The Lebanese army and internal security forces have largely restored order in the city. There

were further sectarian armed clashes in August 2012 in Tripoli between armed groups in the Jabel Mohsen and the Bab Al-Tabbaneh neighborhoods. The clashes resulted in 12 deaths and more than 100 injuries. The Lebanese army and internal security forces had largely restored order in the city, but clashes resumed after the assassination of Brigadier General Wissam al-Hassan in October 2012. These clashes have since eased, but there are periodic but limited outbreaks of hostilities between the two neighborhoods. The President and the Prime Minister called for dialogue as a means to resolve any issues. See "*—History—Relationship with Syria*".

In May 2012, two Sunni Muslim sheikhs were killed after refusing to stop at a military checkpoint in Akkar. Following the killings, there were a number of protests and roads blocked at various points, as well as armed clashes in Beirut between supporters and opponents of the Syrian government. These clashes were ended following the intervention of the Lebanese Army. A military prosecutor ordered that 22 Lebanese Army soldiers, including three officers, be held for questioning pending an investigation into the incident.

On 9 August 2012, former minister Michel Samaha was arrested and subsequently indicted for preparing to incite sectarian trouble through terrorist attacks in the Republic. In February 2013, a military investigative judge issued an arrest warrant against Mr. Samaha and two Syrian officials charging them with plotting to assassinate political and religious figures in north Lebanon.

On 19 September 2012, the Council of Ministers approved a draft law authorizing the Government to spend up to LL 2.4 trillion (U.S.$1.6 billion) over the next five years for purposes of equipping the Lebanese Army. The draft law has not been transmitted to Parliament, but the Council of Ministers issued a decree in March 2013 transferring LL 150 billion from the budget reserve to the Ministry of Defense to be disbursed in 2013. The balance is expected to be financed through grants.

If the law is passed, disbursements in 2013 should not exceed U.S.$100 million. The Council of Ministers' resolution notes that the Government will endeavor to finance most of these expenditures through grants.

On 19 October 2012, a car bomb exploded in the Ashrafiyeh district of Beirut, killing Brigadier General Wissam al-Hassan, the head of the Intelligence Bureau of the Internal Security Forces, his assistant and another person and wounding over 100 persons. There were protests, sometimes violent, following this assassination by supporters of the March 14 Coalition, which is in opposition. The March 14 Coalition has called for the resignation of the Prime Minister and the Cabinet, and certain parties, including the Future Party and the Lebanese Forces, have also called for a boycott of Parliamentary sessions and other dealings with the Cabinet until the Cabinet resigns.

On 23 March 2013, Prime Minister Mikati tendered the resignation of the Cabinet to President Suleiman, citing as reasons for the resignation the failure of the Cabinet to constitute the authority to oversee the upcoming parliamentary elections and to extend the term of the chief of the Internal Security Forces. In his resignation letter, Mr. Mikati called for the formation of a national salvation government that would ensure the participation of all political forces and parliamentary blocs. The President accepted Mr. Mikati's resignation and has directed the Government to assume a caretaker role until a new government is formed. See "*Risk Factors—Risks Relating to the Government—Uncertainties Regarding Formation and Policies of the New Government*".

The Special Tribunal for Lebanon

Mr. Hariri's assassination generated widespread domestic and international condemnation and calls from the European Union and the United States for the immediate implementation of U.N. Security Council Resolution 1559, including the withdrawal of Syrian troops from Lebanon and the disarming of Lebanese and non-Lebanese militia. On 21 March 2005, the report from a U.N. fact finding mission was published. The report concluded, *inter alia*, that the investigation process into the assassinations conducted in Lebanon suffered from serious flaws, and recommended that an international independent investigation be carried out. As a result, on 7 April 2005, the U.N. 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 resolved 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 30 August 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 3 September 2005, the prosecutor general of the Republic issued arrest warrants against the four officers, who were released in April 2009 as described below.

On 19 October 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 31 October 2005, the U.N. Security Council adopted Resolution 1636, which, among other matters, requires U.N. 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.

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

On 16 November 2007, the Secretary-General of the United Nations appointed Mr. Daniel Bellemare as (i) the head of the Commission, replacing Mr. Serge Brammertz (who was appointed on 11 January 2006) and (ii) the prosecutor for the STL. On 27 March 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 Hariri and that this criminal network or parts thereof are linked to some of the other cases within the Commission's mandate.

On 1 March 2009, the STL 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, 49% of the STL's expenses must be borne by the Republic.

On 29 April 2009, following a submission by the Prosecutor of the STL 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 28 June 2011, Pre-Trial Judge confirmed an indictment filed by the Prosecutor of the STL in the case of the assassination of former Prime Minister Hariri and his companions. The indictment and accompanying

arrest warrants for four individuals, reportedly members of Hizbollah, were transmitted to the Lebanese authorities on 30 June 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 30 November 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 for the Government. On 29 February 2012, the U.N. Secretary-General appointed Mr. Norman Farrell as the new Prosecutor of the STL, replacing Mr. Daniel Bellemare on the completion of his term.

On 21 February 2013, the start date of the trial of the four individuals who have been indicted, which was 25 March 2013, was indefinitely postponed in response to a request of the individuals' defense counsel. In granting the postponement, the Pre-Trial Judge found that certain disclosure obligations of the prosecution had not yet been met.

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

The Doha Agreement

On 5 January 2008, the Council of the League of Arab States 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 27 January 2008, the Council of the League of Arab States 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.

From 16-21 May 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 League of Arab States and the guidance of the Arab ministerial committee. On 21 May 2008, the parties entered into an agreement (the "**Doha Agreement**") providing for the following:

- the election of the Commander in Chief of the Army, General Michel Sleiman, as President of the Republic;

- 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;

- the adoption for the 2009 parliamentary elections of new smaller electoral constituencies in conformity with the 1960 electoral law, with certain amendments;

- 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 League of Arab States; and

- 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.

Relationship with Syria

In May 1976, at the request of the then-Government, the League of Arab States 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.

On 14 March 2005, one of the largest demonstrations in the history of the Republic took place. More than one million people 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. See "*—History—Recent Developments—The Special Tribunal for Lebanon*". On 26 April 2005, the Syrian government informed the United Nations in a letter that Syrian troops and intelligence operatives had completed their withdrawal from Lebanon. A U.N. mission was conducted from 1-13 May 2005 to verify the withdrawal. In a report dated 23 May 2005, the 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. 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 subsequently 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. See "*—History—Recent Developments—Doha Agreement*".

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, however, have had, and are likely to continue to have, an adverse impact on the political and economic situation in the Republic. For example, there have been armed incidents on and near the border with Syria involving Syrian government troops and rebel forces, as well as various factions in Lebanon. In addition, the Syrian opposition has accused Hizbollah of armed intervention in the Syrian conflict on the side of the regime, and the Syrian government has accused the Future Party of supporting the Free Syrian Army. See "*Risk Factors—Risks Relating to the Republic—Regional Considerations; Syria*" and "*—International Relations—Middle East*".

In addition, the Republic has experienced an inflow of Syrian nationals fleeing the conflict and this trend is expected to continue as long as violent clashes between the Syrian army and rebel forces continue. According to statistics published by the UNHCR in February 2013, over 283,000 Syrian displaced persons are present in Lebanon, including over 185,000 Syrians who are officially registered with the UNHCR. The Government has made a number of appeals for international aid to assist with the provision of health,

education and other basic services to Syrian displaced persons in Lebanon. See "*Risk Factors—Risks Relating to the Republic—Refugees and Displaced Persons*".

In retaliation for the detention of a member of the Lebanese Al-Meqdad clan in Syria, reportedly by the Free Syrian Army in August 2012, members of the clan abducted individuals in Lebanon, including two Turkish and a number of Syrian nationals. A number of other kidnappings for ransom took place in the territory of the Republic. As a result, Turkey, Saudi Arabia, Qatar and other Gulf countries have issued travel warnings for their citizens about travel to Lebanon. The Lebanese Army and internal security forces rescued a number of detainees and other kidnap victims and arrested some of the perpetrators.

Conflicts with Israel

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 11 April 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 27 April 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 24 May 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 U.N. Security Council Resolution 425, which was adopted 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 "Sheba'a 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.

The July 2006 War

On 13 July 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 14 August 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 7 August 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 11 August 2006, the U.N. 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 U.N. Interim Force in Lebanon ("**UNIFIL**"), full implementation of the relevant provisions of the Taif Accords and of U.N. Security Council 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.

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.

On 31 August 2006, the Swedish government hosted a Conference for Lebanon's Early Recovery in Stockholm, at which Lebanon received indications of support amounting to over U.S.$900 million for humanitarian assistance needs and early recovery efforts.

See "*The Economy—Economic History*".

Subsequent Events

On 3 August 2010, clashes erupted at the Israeli-Lebanese border between the Lebanese and Israeli armies, which resulted in the death of three Lebanese soldiers, a Lebanese journalist and an Israeli officer. There have also been repeated violations of Lebanese airspace by Israeli aircraft.

The Republic, Cyprus and Israel are also in a dispute in respect of the southern border of the Republic's Exclusive Economic Zone. As a result, a maritime area of approximately 850 km^2 is claimed both by the Republic and Israel. The U.S. Geological Survey has published estimates indicating that significant offshore oil and natural gas resources may be present in the vicinity.

Constitutional System

Background

Three laws have governed the constitutional system of 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 League of Arab States 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 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.

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 Executive Branch

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 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. 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

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

The Judicial Branch

The Judicial Branch consists of one administrative court, the State Council Court (*Conseil d'Etat*) and judicial courts (which include civil courts (comprising 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 below. The judges of the various courts (excluding certain members of the Constitutional Council) are appointed by the Government after the favorable recommendation of the Supreme Council of Justice.

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.

See "—*Legal System*".

Elections

Parliamentary elections took place in 1992, 1996, 2000, 2005 and 2009 and are scheduled to be held in June 2013, although failure to reach an agreement on an electoral law may lead to the postponement of the elections. See "*Risk Factors—Risks Relating to the Republic—Elections*". 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 7 June 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 Parliament by total number of seats:

Parliament Composition by Political Party

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

On 25 June 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 of 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 13 June 2011, after nearly five months of negotiations, a new Government, headed by Prime Minister Mikati was formed. On 7 July 2011, the Government obtained a vote of confidence from Parliament on the basis of the policy declaration submitted by the Government. See "*—History—Recent Developments—The Government*".

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 Accords, which called for the establishment of special relations between Lebanon and Syria;

- the strengthening and development of ties with Arab countries, the E.U. 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 2013; (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 fiscal 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 (the "**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.

On 23 March 2013, Prime Minister Mikati tendered the resignation of the Cabinet to President Suleiman. The President accepted Mr. Mikati's resignation and has directed the Government to assume a caretaker role

until a new government is formed. See "*Risk Factors—Risks Relating to the Government—Uncertainties Regarding Formation and Policies of the New Government*" and "*—History—Recent 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

Overview

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.

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 U.N. Regional Office for Education, Science and Culture in the Arab Countries, the UNHCR, the Food and Agriculture Office of the U.N., the World Health Organization, the U.N. Fund for Childhood, the UNDP and the Arab Center for Legal and Judicial Research, which is affiliated with the League of Arab States. 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.

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 Islamic Conference, the Organization of the Petroleum Exporting Countries ("**OPEC**") Fund, 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, 29 of which are in effect.

On 16 October 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 1 January 2010.

Middle East

The Great Arab Free Trade Agreement governs the Republic's trade relations with most of the Arab countries members of the League of Arab States, 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.

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 4 June 1967 and the implementation of the right of Palestinian refugees to return to their homeland in Palestine. See "*—History—Relations with Israel*".

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

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 22 May 1991 and ratified by Parliament on 29 May 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, and some members of the March 14 Coalition have called for the abrogation of the Treaty of Fraternity, Cooperation and Coordination. See "*—History—Relations with Syria*".

Europe

On 17 June 2002, the Republic signed an association agreement with the E.U., as part of the Euro-Mediterranean Partnership initiative, which Parliament ratified on 12 December 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 E.U. market, while the progressive elimination of tariffs on E.U. imports into Lebanon is to occur between 2008 and 2014. The ratification of the E.U.-Lebanon Association Agreement (the "**Association Agreement**") by the E.U. Member States was completed in April 2006 and accordingly it has replaced the Interim Agreement. The E.U. 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 E.U. with the

objective of further liberalization and development of sectoral policies to facilitate the implementation of the Association Agreement.

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

See "*External Sector—Foreign Borrowings and Grants*".

World Trade Organization

The Republic applied for membership in the World Trade Organization (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.

Social and Demographic Development

The following table sets forth selected comparative statistical data for the periods and countries indicated.

Comparative Statistics(1)

	Lebanon	Morocco	Egypt	Tunisia	Jordan	Turkey	Algeria	United Kingdom
Gross national income *per capita* (*U.S.$*)(1)	9,140	2,970	2,600	4,070	4,380	10,410	4,470	38,200
Average annual growth of GDP 2010-2011 (%)	3.0	4.5	1.8	(1.8)	2.6	8.5	2.5	0.8
Life expectancy: Female (*years*) (2010/11)	75	74	75	77	75	76	75	82
Life expectancy: Male (*years*) (2010/11)	70	70	71	73	72	72	72	79
Adult literacy rate (%) ages 15 and older (2005 - 2011)	90	56	72	78	93	91	73	—
Under 5 mortality (*per 1,000 live births*) (2011)	9	33	21	16	21	15	30	5

Notes:
(1) Figures published by the World Bank may differ from those published by Lebanese authorities, the IMF and others.
(2) Figures are for the year 2011 and are calculated based on the World Bank *atlas method*.

Source: The World Bank, World Development Indicators.

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% 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 advertizing, and consulting and engineering. The industrial and construction sectors are estimated by the National Accounts Committee to contribute approximately one fifth of Lebanon's GDP. These sectors are provided only with a limited level of protection from international competition.

Economic History

Lebanon has a long and established tradition of having an open and free market economy. The state sector traditionally was small, with the Government having a history of minimal intervention in economic activity. As a result, the Republic had developed into a prosperous, lower-middle-income country by the mid-1970s. Economic growth averaged 5% per year during the period 1960–1970 and then accelerated to 7% 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. Although smaller in size than the services sector, the export-oriented agricultural and manufacturing sectors also grew (at annual rates averaging between 4% and 6%), contributing to overall growth of income. Having grown at an average of 3% *per annum* since 1960, *per capita* gross national product ("**GNP**") was estimated at U.S.$1,070 in 1974, 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 1975-1990 conflict amounted to U.S.$25 billion according to U.N. 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 Lebanon's economic potential. 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 and direct taxes and bills to state-owned utilities were unpaid. This lack of Government revenue and the growing expenditure on public services led to large and rapidly growing Government fiscal deficits. These negative developments, along with the prevailing political uncertainty, plunged the Lebanese economy into a vicious cycle of large

fiscal 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. See "*Monetary System—Prices and Inflation*".

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, and the economy began to recover. In 1991, according to IMF estimates, GDP rose by almost 40% and inflation moderated over 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% 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 began to assume 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, as well as to take 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 was successful to an extent. As the reconstruction program got underway and with the normalization of the economic environment, real economic growth averaged 5.7% over the period from 1992-1997, and, at the same time, the Lebanese Pound gradually appreciated, reaching LL 1,516 per U.S.$1 at the end of 1998. The inflation rate was reduced from over 120% in 1992 to approximately 3% in 1998. Successive governments subsequently implemented measures to revitalize the economy, improve the overall fiscal condition, implement reconstruction projects, modernize the legal system, maintain monetary stability and encourage lower inflation. These efforts resulted in generally sustained GDP growth and lower inflation levels but contributed to increased fiscal deficits and consequential public borrowings. See "*Public Debt*", "*Risk Factors—Risks Relating to the Republic—Public Debt*" and "*Risk Factors—Risks Relating to the Republic—Deficits*".

Fiscal Reform and the Paris II Conference

At the end of 2002, the then-Government implemented a series of measures to address the issue of the sustainability of the public debt. The Paris II Conference, which is described below, was the most prominent of these measures. See "*External Sector—Foreign Borrowings and Grants*". In order to reduce public debt service, BDL issued decision № 8312, pursuant to which all banks operating in Lebanon were required to subscribe for Treasury bills or Eurobonds issued by the 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 other measures, the Republic was able to re-profile approximately 32% 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% prior to the Paris II Conference to 59% in December 2004. Interest payments declined sharply from approximately 16% of GDP in 2002 to approximately 11% in 2005. In 2004, real growth reached more than

7%, the overall deficit declined to less than 10% of GDP (as compared to 23% in 2000) and the primary surplus improved to 3% of GDP. See "*External Sector—Foreign Borrowings and Grants*".

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 then-Government during the Paris II Conference, such as privatization and securitization, have not taken 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. See "*The Lebanese Republic—History—Recent Developments—The Special Tribunal for Lebanon*". 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.

Successive Governments have been successful in reducing the public debt to GDP ratios, principally due to GDP growth and better tax collections, although fiscal deficits have continued to rise. The Government is facing a number of economic challenges, including:

- higher energy prices and the corresponding impact on the Treasury (see "*—Role of Government in the Economy—Privatization—Electricity Sector*"), which has also increased the trade deficit (see "*External Sector*");

- the events in Syria and their impact on the economy of the Republic and the impact of recently implemented measures requiring additional expenditures, including Law № 181 (see "*—Role of the Government in the Economy and Privatization—Electricity Sector*"); and

- the cost-of-living increases for public sector employees and the increases in public sector wages currently under discussion (see "*The Lebanese Republic—History—Recent Developments*").

Despite these challenges, the Government remains committed to improving the Government's fiscal position and the debt-to-GDP ratio. See "*Public Debt*" and "*Risk Factors—Risks Relating to the Republic—Regional and International Considerations; Events in Syria*", "*Risk Factors—Risks Relating to the Republic—Refugees and Displaced Persons*" and "*Risk Factors—Risks Relating to the Republic—Prices and Inflation*".

Role of Government in the Economy and Privatization

In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established the Higher Council for Privatization and provides that the proceeds from privatization will be applied towards debt repayment. The state sector in Lebanon includes several enterprises and types of assets which have been successfully privatized in 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.

The Government expects to utilize public private partnerships ("**PPP**") as a tool to encourage private sector participation in the public sector. In 2012, the Government submitted a draft PPP law to Parliament. Adoption of a PPP law is part of the Government's policy

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, including the proposed privatization of the telecommunication sector. In addition, the mobile telephone network is a significant

generator of revenue for the Government. See "*—Role of Government in the Economy and Privatization—Telecommunications Sector*" and "*Public Finance—Overview of Government Operations—Revenues*".

Telecommunications Sector

The telecommunications law ("**Law № 431**") was adopted by Parliament in July 2002. Law № 431 organizes and regulates the telecommunications sector in the Republic. It provides for the formation of a joint stock company, Liban Telecom, to which the fixed line operations and assets of the Ministry of Telecommunications would be transferred, and grants it a 20-year license for the provision of telecom services. A decree for the formation of Liban Telecom was adopted by the Council of Ministers in December 2004. Law № 431 provides for the sale of up to 40% of Liban Telecom's shares to a strategic partner within two years of the establishment of the company, however the company has not yet been established.

Law № 431 further provides for the establishment of the Telecommunications Regulatory Authority (the "**TRA**") whose functions include tariff monitoring and encouraging competition and transparency. The members of the TRA were appointed by the Government in February 2007, and the TRA has been operational since April 2007. The mandate of the TRA's Board of Directors expired on 29 February 2012, and it is acting in a temporary capacity pending the appointment of a new board.

On 2 November 2007, the Republic, acting through the HCP 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 1 February 2009 (renewable for one additional year), as the management contracts then in effect were about to expire.

On 13 January 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 29 January 2010, and in light of the then-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 have since been extended a number of times, most recently until 30 June 2013, on the same conditions that were approved by the Council of Ministers in January 2010.

In October 2011, both Lebanese mobile telephone operators rolled out third generation (3G) service. This has led to increased data speeds and, combined with significant price decreases in 2009, further increases in the mobile telephone penetration rate, which reached over 85% of the population in 2012, according to figures published by the Ministry of Telecommunications.

The Ministry of Telecommunications is also undertaking a number of major projects to upgrade the Republic's fixed line and internet network and infrastructure.

According to figures published by the Ministry of Telecommunications, there are approximately 3,588,000 mobile telephone users (of which 722,000 have 3G-capable handsets), 854,000 fixed lines and 390,000 DSL users in May 2012.

Electricity Sector

In September 2002, Parliament passed a law ("**Law № 462**") regulating the electricity sector which, among other matters, provides for the establishment of an independent regulator, the separation of production, transmission and distribution activities, the privatization of production and distribution activities through the granting of concessions and the formation of new entities whose shares will be initially owned by the Government and up to 40% subsequently transferred to strategic and other private investors. Law № 462

provides that the transmission assets must remain the property of the Republic, but that management contracts for the operation of the transmission networks may be appointed to private parties. In addition, a grant was awarded by *Agence Française de Développement* ("**AFD**") to finance the preparation of a Generation and Transmission Master Plan for the Electricity Sector by *Electricité de France* ("**EdF**"). EdF started work in September 2007 and submitted several drafts of the plan to the Ministry of Energy and Water, with an updated draft reflecting changes in costs and timing for the execution of the plan expected in the second quarter of 2013.

Other than relatively modest hydroelectric resources and the import of electricity from Syria and natural gas (both of which are currently interrupted), all energy needs are met with imports of petroleum products; gas oil imports were approximately 1.0 million metric tons in 2010, 1.1 million metric tons in 2011 and 1.2 million metric tons in 2012, and fuel oil imports were approximately 1.2 million metric tons in 2010 and 1.1 million metric tons in each of 2011 and 2012. The Government is seeking to reduce the significant cost to the Treasury of fuel imports, which has been increasing in recent years. Among other measures, the Government signed an agreement on 30 May 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. In order to secure a new source of natural gas, the Ministry of Energy and Water issued a request for proposals in 2012 to build, own and operate a liquefied natural gas floating storage and regasification unit. The result of the process is expected to be announced in the first half of 2013.

The Ministry of Energy and Water has been investigating options to diversify its energy sources and reduce its reliance on imported energy products. 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. Other energy diversification studies are underway with the assistance of the UNDP, including, *inter alia*, with respect to Lebanon's wind and solar power generation capacity.

In November 2010, the Minister of Energy and Water announced plans to increase Lebanon's oil storage capacity from 0.35 million m^3 to 1.5 million m^3 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. In 2012, LL 37.5 billion was allocated to increase storage capacities at the Tripoli and Zahrani refineries. EdL accounts for approximately 40% of the Republic's fuel oil and gas oil imports.

See "*—Principal Sectors of the Economy—Energy and Electricity*".

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 then-Hariri 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% 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% 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 5% 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 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) was 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. 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.

For the past several years, the Ministry of Finance has made large contributions to EdL to fund significant continuing losses, with transfers in 2010, 2011 and 2012 amounting to U.S.$1.2 billion, U.S.$1.7 billion and U.S.$2.3 billion, respectively. 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. In addition, contracts were awarded to three private companies in 2012 in an effort to reduce operational costs, technical and non-technical losses and improve bill collection.

In July 2012, the Government entered into a U.S.$360 million three-year contract with Turkish firm *Karkey Karadeniz Elektrik Uretim* to lease two electricity-generating barges. These barges are expected to generate up to an aggregate of 270 MW of electricity. It is expected that this leasing arrangement will permit EdL to reduce certain power rationing measures. The first barge arrived in February 2013 and the second barge is expected to arrive in May 2013.

In February 2013, the Ministry of Energy and Water signed a U.S.$348 million contract with a Danish-German consortium to expand generation capacity by 272 MW by building new production units in Jiyyeh and Zouk, the sites of the largest existing power plants in Lebanon. Construction is expected to take up to 18 months, and the new plants will be able to run on both fuel oil and natural gas. Funding arrangements for the project have not yet been finalized, but the Treasury is expected to make contributions.

Water and Wastewater Sectors

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 E.U., *Deutsche Gesellschaft für Internationale Zusammenarbeit* and the World Bank.

In 2012, the Council of Ministers approved a water sector strategy (Decision № 2 dated 9 March 2012) and a wastewater strategy (Decision № 35 dated 16 November 2012). A program for upgrading the sector is underway and is estimated to cost approximately U.S.$750 million. 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: (i) the upgrading, 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; and (ii) the provision of technical assistance to the Ministry of Energy and Water and to the regional water establishments.

A number of projects are currently in the planning stage and are estimated to cost approximately U.S.$650 million. Such projects include water supply transmission and distribution networks, reservoirs, water treatment plants and sewers networks and management contracts and are intended to serve all regions of Lebanon.

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.

Reconstruction

The Council for Development and Reconstruction and the Reconstruction Program

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

Proposals for projects forming part of the reconstruction program are submitted for parliamentary approval on a project-by-project basis. Approximately 4,542 contracts with a total value of approximately U.S.$11.4 billion were awarded by the CDR for the period since reconstruction efforts started in 1992 to the end of 2012, projects with a total value of U.S.$7.6 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 and Transportation

As a major regional financial center, the Republic had a well-developed infrastructure prior to the 1975-1990 conflict. The country's ports (Beirut, Tripoli, Sidon and Jounieh) and Beirut International Airport (now Rafic 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 solid waste collection has markedly improved.

Contracts totaling U.S.$2.0 billion in value were completed during the period 1991-2012, including, *inter alia*, with respect to the rehabilitation of Beirut's road network, the completion of extensions of the coastal

highway system north to Tripoli and south to Quasmie and 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.$856 million.

The extension and redevelopment of Beirut's international airport, with targeted passenger movement of six million people *per annum*, amounted to U.S.$539 million. Two major contracts totaling U.S.$490 million in aggregate were awarded under a multi-year project approved by Parliament. Financing of U.S.$179 million was secured from the EIB, the Kuwait Fund for Arab Economic Development and the French Government, and a number of the airport's facilities were 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.

Beirut Central District

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 a number of important government buildings and Parliament and has traditionally been considered the center of banking and commerce in Lebanon.

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 in 1991.

SOLIDERE is the sole company with responsibility for the development and reconstruction of the BCD. The entire area is approximately 1.8 million m^2, consisting of the traditional BCD and the reclaimed land. 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 m^2. SOLIDERE has completed infrastructure works in the traditional BCD, the restoration of the majority of preserved buildings, and the Western Marina and is currently focusing on providing infrastructure and road network to the Waterfront District (the reclaimed land).

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. CAS published national accounts for 1994, followed by benchmark national accounts for 1997, which were based on, *inter alia*, an industrial census for 1995, a national manpower survey for 1997 and household budget and living conditions surveys for 1997. Since 1997, Lebanon's national accounts have been updated and published annually (initially by the Ministry of Economy and Trade, and subsequently, by the Presidency of the Council of Ministers), with detailed figures for each year by sector, activity and institutional account. Annual updates were partly based on updated industrial census and living conditions surveys. The latest official national accounts are for the year 2010.

In May 2003, the Ministry of Economy and Trade published GDP figures for 1997. On 30 September 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, and, in April 2012, it published a revised GDP series, *Economic Accounts for Lebanon: Retrospective 1997-2010*. GDP estimates for 2011 and 2012 have been extracted from the *World Economic Outlook* published by the IMF in October 2012. See "*Risk Factors—Risks Relating to the Republic—Accuracy of Financial and Statistical Information*".

The end of the 1975-1990 conflict marked the re-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 the period 1998-2000, it recovered in 2001 and 2002 and growth continued in 2003 and 2004. In 2005 and 2006, GDP growth witnessed a slowdown from 2004 levels following the aftermath of Prime Minister Hariri's assassination and due to the negative impact of the July 2006 War on the economy, as well as the political tensions that followed. See "*The Lebanese Republic—History—Conflicts With Israel—The July 2006 War*" and "*—Economic History*". 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 8.4% in 2007, 8.6% in 2008 and 9.0% in 2009. Real GDP continued to grow in 2010, although at a slower rate of 7.0%, due mainly to the impact of the falling growth rate of demand for the volume of imports and local production. As estimated by the IMF, real GDP growth slowed further in 2011 to 1.5% mainly as a result of political instability in the region. The IMF has projected real GDP growth in 2012 at 2.0%.

The following table sets forth GDP figures for the years 2007-2011.

GDP[1]

	2007	2008	2009	2010	2011[2]
GDP (*at market prices in LL billions*)	37,624	44,748	52,235	55,965	58,851
GDP (*at market prices in U.S.$ millions*)	24,958	29,684	34,650	37,124	39,039
Growth of Real GDP (%)	8.4	8.6	9.0	7.0	1.5
Growth of Nominal GDP (%)	12.5	18.9	16.7	7.2	5.2
GDP Deflator (%)	3.8	9.5	7.1	0.2	3.6

Notes:

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

(2) IMF estimate. See "*Risk Factors—Risks Relating to the Republic—Accuracy of Financial and Statistical Information*".

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts for Lebanon: Retrospective 1997-2010, IMF.

The following table sets forth GDP figures by sector for the years 2007-2011.

GDP by Sector[(1)(2)]

	2007	2008	2009	2010
		(LL billions)		
Agriculture and livestock	2,347	2,609	2,660	2,650
Energy and water supply	(555)	(1,468)	(867)	(1,473)
Industry	3,236	3,693	3,982	4,002
Construction	4,375	6,052	7,018	8,515
Transport and communication	2,595	2,811	3,427	3,084
Market Services	13,137	14,986	16,578	18,721
Trade	8,717	11,796	14,658	15,395
Government	3,773	4,270	4,780	5,071
Total GDP (*at market prices in LL billions*)	**37,625**	**44,748**	**52,235**	**55,965**

Notes:
(1) The figures in this table have been revised and may differ from previously published data.
(2) Figures for subsequent years are not available.

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts for Lebanon: Retrospective 1997-2010.

The following table sets forth the IMF's GDP projections for 2012 extracted from the *World Economic Outlook* published by the IMF in October 2012.

GDP Projections for 2012[1]

	2012
GDP (*at market prices in LL billions*)	62,963
GDP (*at market prices in U.S.$ millions*)	41,766
Growth of Real GDP (%)	2.0
Growth of Nominal GDP (%)	7.0
Estimated GDP deflator (%)	4.9

Note:
(1) See "*Risk Factors—Risks Relating to the Republic—Accuracy of Financial and Statistical Information*".

Source: IMF.

The following table sets forth the composition and evolution of the Republic's GDP for the years 2009 and 2010.

Composition of GDP for 2009-2010 [1][2]

	2009	2010
	(LL billions)	
Agriculture and livestock	5.1	4.7
Energy and water supply	(1.7)	(2.6)
Manufacturing	7.6	7.2
Construction	13.4	15.2
Transport and communications	6.6	5.5
Market Services	31.7	33.5
Trade	28.1	27.5
Government	9.2	9.1
Total	**100.0**	**100.0**

Notes:
(1) The figures in this table have been revised and may differ from previously published data.
(2) Figures for subsequent years are not available.

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts for Lebanon: Retrospective 1997-2010.

Principal Sectors of the Economy

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

Selected Indicators of Economic Activity[1]

	2008	2009	2010	2011	2012
Industry					
Recorded Exports (*U.S.$ millions*)	3,480	3,486	4,254	4,268	4,485
Electricity Production (*millions of KWh*)	11,189	11,920	12,458	12,397	10,966
Cement Deliveries (*thousands of tons*)	4,219	4,897	5,227	5,550	5,309
Construction					
Construction Permits[2]	12,326	12,917	15,641	16,147	16,052
Area (*'000 m²*)	16,024	14,340	17,608	16,465	14,681
Commerce					
Port of Beirut (n*umber of ships*)	2,055	2,395	2,285	2,167	2,125
Beirut Airport (*'000s of passengers*)[3]	4,040	4,953	5,512	5,596	5,903
Documentary Credits for Imports					
(*U.S.$ millions*)	4,762	4,089	4,940	5,294	6,051

Notes:
(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.
(3) Excludes transit passengers.

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% of GDP. In 2010, services accounted for approximately 76% 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 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

	2008	2009	2010	2011	2012
Number of ships	2,055	2,395	2,285	2,167	2,125
Incoming freight(1)	4,946	5,653	5,505	5,879	6,375
Outgoing freight(1)	820	669	820	798	850
Freight in transit(1).....	152	172	147	148	141

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 in 1975, tourism (including hotels and restaurants) contributed approximately 20% 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 31 December 2012, the Government provided 2,545 LL-denominated subsidized loans, administered by BDL, to companies in the tourism sector for a total value of LL 2,353 billion (or approximately U.S.$1,561 million). The interest subsidies on these loans amounted to LL 333 billion as of 30 September 2012.

Since 2001, and especially after the events of 11 September 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 and 2012, the inflow of tourists was adversely affected by regional turmoil, in particular, the events in Syria.

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 tourist arrivals, a 31% increase as compared to 2007. In 2009, 1,851,081 tourists arrived in Lebanon, a 39% increase compared to 2008. In 2010, 2,167,989 tourists arrived in Lebanon, an 18% increase compared to 2009. In 2011, 1,655,051 tourists arrived in Lebanon, representing a 24% decrease compared to 2010. In 2012, 1,365,845 tourists arrived in Lebanon, representing a 17% decrease compared to 2011. The 2011 and 2012 decreases were due mainly to the political instability in the surrounding region, in particular, in Syria.

In January 2013, as a measure to encourage increased tourist numbers, the Minister for Tourism launched a 50-day period campaign during which discounts of up to 50% were applied to airline tickets, hotels, restaurants and purchases at shopping centers.

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 surplus cash flows.

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.$125.0 billion at the end of December 2012. 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 in 1994, BDL established a central depositary, 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.$10,421 million at the end of December 2012. The number of authorized brokers rose from five to 18 and the number of listed companies rose from three to eleven (including one mutual fund) by the end of December 2012.

See "*Monetary System—Securities Markets*".

Construction

Prior to the 1975-1990 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 as the flow of foreign investors, in particular from the Gulf, has diminished following the events in Syria and the related tensions in Lebanon. 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 11.6% in 2007 to 15.2% in 2010.

Manufacturing

In 2007, the manufacturing sector (mainly production of food and beverages, metal, machinery, equipment, timber, rubber, chemical, non-metallic ores, textiles and furniture) accounted for 8.6% of GDP, declining to 7.2% 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 1997-2012, the Government provided 7,792 LL-denominated subsidized loans, administered by BDL, to the industrial sector for a total value of LL 4,561 billion (U.S.$3.0 billion. The interest subsidies on these loans amounted at LL 673 billion (U.S.$446 million) as of 30 September 2012.

Following the Paris III Conference, loans totaling U.S.$2.2 billion were made to private sector entities by Paris III Conference 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

EdL is a vertically-integrated utility that is involved in power generation, transmission and distribution with approximately 1.2 million customers and is the dominant producer, distributer and supplier of electricity in the Republic. Its total installed thermal capacity is 1,963 MW and its functional capacity was approximately 1,650 MW in 2011. In addition, Lebanon has approximately 210 MW of installed hydro plants with seasonal production depending on rainfall. The Republic's energy production facilities include two thermal power stations (900 MW combined installed capacity) and 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.

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. See "*The Lebanese Republic—History—Conflicts With Israel*". In August 2010, Parliament adopted Law № 132 regulating the hydrocarbon exploration and extraction activities in the Republic's territorial waters and Exclusive Economic Zone. Law № 132 provides for the establishment of a regulatory authority, the Petroleum Administration Authority. The Council of Ministers issued a decree in March 2012, which established the framework for the organization of the Petroleum Administration Authority. The members of the Petroleum Administration Authority were appointed by the Council of Ministers in November 2012, and the Council of Ministers approved the first offshore oil and gas licensing round in December 2012. In February 2013, the Ministry of Energy and Water announced the launch of the prequalification round for companies wishing to bid for drilling licenses, the results of which are expected to be announced in April 2013.

See "*—Role of the Government in the Economy and Privatization—Electricity Sector*".

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% to GDP, as compared to approximately 9.9% in 1972. By 2010, the contribution of agriculture to GDP decreased to 4.7%, as compared to 5.1% in 2009, 5.8% in 2008 and 6.2% in 2007, 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 1997-2012, the Government provided 4,021 LL-denominated subsidized loans, administered by BDL, to the agricultural sector for a total value of LL 747 billion (U.S.$495 billion). The interest subsidies on these loans amounted to LL 103 billion (U.S.$68 million) as of 30 September 2012.

Labor Force

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 1975-1990 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% in 2007. In 2012, the World Bank published the results of a survey indicating that the unemployment rate was approximately 11% in 2010, with women and youth particularly negatively affected by unemployment (estimated at 18% for women and 34% for young people). According to the Multiple-Indicator Cluster Survey 2009 conducted by CAS, the composition of workers in the Republic (pursuant to the categorization adopted by the International Labor Organization) was:

- skilled workers: 18.6%;
- unskilled workers: 9.8%;
- general and corporate managers: 14.1%;
- service sector workers and salespersons: 12.7%;
- specialists: 12.1%;
- drivers: 8.4%:
- office employees: 6.4%;
- intermediate professions: 6.3%;
- skilled agricultural and fishery workers: 5.3%; and
- military personnel: 6.2%.

According to the Multiple-Indicator Cluster Survey 2009, the sector breakdown of workers in the Republic was:

- services sector: 36.9%;
- trade sector: 27.0%;
- industry sector: 12.1%;
- construction sector: 8.9%;

- transportation, post and telecommunications sector: 6.8%;
- agriculture sector: 6.3%; and
- other sectors: 2.0%.

In February 2013, the World Bank extended a U.S. $30 million 17-year loan to the Government to support innovation in small and medium sized enterprises through the establishment of a public/private equity fund, which will provide grants and equity investments to SMEs, as well as program management and training facilities to the business community. The project aims to encourage the supply of early-stage investment finance for innovative, new and existing financially-viable firms.

Health System

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 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 since 1991. Work is underway on the construction, expansion and renovation of six hospitals and the construction of four new public hospitals is also planned.

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, Americans, Germans and Italians, among others), there are many and diverse local and foreign religious and secular schools.

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 1975-1990 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: (i) General Education ("**GE**"); (ii) Vocational and Technical Education ("**VTE**"); and (iii) Higher Education ("**HE**"). In academic year 2011-2012, the GE system was comprised of 1,282 public, 1,077 private, 358 subsidized and 69 U.N. Relief and Works Agency ("**UNRWA**") schools, for a total of 2,786 schools. In the same period, there were 117 public and 306 private institutions in the VTE system, and the HE had one public university, the Lebanese University, and 39 private institutions, which include universities, university institutes, technological institutes and institutes for religions studies.

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The following table sets forth an overview of the GE school system during the academic year 2011–2012.

GE School System

Total number of GE schools	2,786
Total number of students in GE schools	943,763
Public schools (as a percentage of total)	46.0
Private schools (as a percentage of total)	38.6
Private subsidized schools (as a percentage of total)	12.8
UNRWA private schools (as a percentage of total)	2.6

Sources: Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical Bulletin 2011-2012.

The table below sets forth the percentage of the population attending schools for the 2011–2012 academic year.

Population Attending School

Age	**Males**		**Females**		**Total**	
	(*number*)	(%)	(*number*)	(%)	(*number*)	(%)
Pre-school	81,904	17.4	76,969	16.3	158,873	16.8
Elementary	235,792	50.2	220,414	46.5	456,206	48.3
Intermediate	97,580	20.8	106,967	22.6	204,547	21.7
Secondary	54,848	11.7	69,289	14.6	124,137	13.2
Total	**470,124**	**100.0**	**473,639**	**100.0**	**943,763**	**100.0**

Sources: Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical Bulletin 2011-2012.

The total number of VTE students was 89,781 during the academic year 2011-2012, of which 36,675 were public sector students. Lebanon's universities had a total of 192,522 students during the academic year 2011-2012, of which 54% were females and 46% were males. Approximately 86.4% were Lebanese and 13.6% of university students were foreigners.

The National Survey of Household Living Conditions 2007 estimated the adult literacy rate was approximately 90% in 2007, as compared to a 1997 estimate of 88% and a 1970 estimate of 68%.

EXTERNAL SECTOR

Balance of Payments and Foreign Trade

Lebanon is a predominantly importing country characterized by large trade deficits; these deficits have generally been 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.$11,010 million in 2008, U.S.$11,179 million in 2009, U.S.$12,258 million in 2010, U.S.$13,897 million in 2011 and U.S.$14,591 million in 2012.

Historically, Lebanon has generally had 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.$2,037 million in 2007, notwithstanding an increase in the trade balance deficit, as a result of an increase in the capital and financial account. The balance of payments surplus increased in 2008 to U.S.$3,462 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 from 2008 levels to U.S.$7,899 million, primarily as a result of easing political tensions and economic growth. In 2010, the balance of payments surplus decreased to U.S.$3,325 million, primarily 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, despite an increase in net services receipts and a reduction in the income deficit. In the first half of 2012, the balance of payments deficit increased to U.S.$1,021 million, as compared to U.S.$479 million in the comparable period in 2011. The increased balance of payments deficit was principally due to a significant increase in the current account deficit due to increased internal demand for goods, principally driven by displaced persons from Syria, which was partially offset by increases in miscellaneous business services and increased remittances from abroad. In 2012, the deficit in the balance of payments decreased by 23% compared to 2011 to U.S.$1,537 million.

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

Balance of Payments Overview[1]

	2008	2009	2010	2011	Jan-June 2012[2]
			(U.S.$ millions)		
Current Account	(4,149.0)	(6,740.9)	(7,587.5)	(4,865.6)	633.0
Goods	(11,010.1)	(11,178.6)	(12,257.7)	(13,896.9)	(7,588.2)
Credit	5,250.5	4,716.2	5,466.5	6,013.1	3,049.1
Debit	(16,260.6)	(15,894.7)	(17,724.2)	(19,910.0)	(10,637.3)
General merchandise	(11,039.9)	(11,694.0)	(12,652.5)	(13,610.4)	(7,802.5)
Exports FOB[3]	3,978.1	3,250.5	3,733.7	4,008.6	1,959.7
Imports FOB[3]	(15,018.0)	(14,944.5)	(16,386.1)	(17,619.0)	(9,762.2)
Goods for processing	67.0	28.7	243.2	30.1	56.3
Repairs on goods	(0.0)	(0.0)	(1.8)	(8.2)	(1.1)
Non-monetary gold	(193.7)	392.2	28.2	(516.7)	64.6
Services	4,063.5	2,838.6	2,578.5	6,780.5	5,917.9
Credit	17,573.9	16,889.1	16,020.3	19,736.2	11,922.4
Debit	(13,510.4)	(14,050.6)	(13,441.8)	(12,955.7)	(6,004.4)
Transportation	(1,491.0)	(1,777.2)	(1,184.1)	(715.9)	(86.3)
Travel	2,254.8	2,762.2	3,138.1	2,655.5	1,126.0
Communication services	80.4	239.0	77.8	114.2	83.5
Insurance services	(34.9)	257.5	(197.2)	(189.3)	(73.3)
Financial services	72.2	87.0	1,065.8	918.5	234.7
Misc. business, professional services	3,185.5	1,278.0	(356.9)	4,010.1	4,757.8
Government services, n.i.e.	(3.1)	(4.8)	44.6	31.7	34.0
Income	437.2	(228.1)	(508.9)	(178.1)	625.3
Credit	2,723.3	2,040.2	1,448.1	1,620.9	1,326.0
Debit	(2,286.1)	(2,268.3)	(1,957.0)	(1,798.9)	(700.7)
Compensation of employees	615.8	139.3	1.3	26.7	405.0
Investment income	(178.6)	(367.3)	(510.2)	(204.7)	220.3
Direct investment	(0.0)	41.4	(12.8)	243.1	73.1
Portfolio investment	(370.3)	(318.5)	(309.8)	(269.1)	(103.9)
Other investment	191.8	(90.3)	(187.7)	(178.8)	251.2
Current transfers	2,360.3	1,827.2	2,600.7	2,428.8	1,677.9
Credit	6,069.6	6,642.0	8,427.0	8,279.3	5,576.4
Debit	(3,709.2)	(4,814.9)	(5,826.3)	(5,850.5)	(3,898.5)
General government	29.7	(2.5)	(12.2)	(24.9)	230.0
Other sectors	2,330.6	1,829.6	2,612.9	2,453.7	1,447.9
Workers' remittances	2,198.8	1,669.7	2,673.3	2,552.2	1,906.9
Other transfers	131.8	159.9	(60.3)	(98.6)	(459.0)
Credit	239.8	235.9	1,560.5	1,473.1	1,347.2
Debit	(108.0)	(75.9)	(1,620.8)	(1,571.7)	(1,806.2)
Capital and financial account	5,874.5	11,118.0	943.4	6,096.7	4,714.8
Capital account	409.5	18.0	267.9	165.0	98.1
Credit	409.9	24.5	672.8	445.9	196.6
Debit	(0.4)	(6.6)	(404.9)	(280.9)	(98.5)
Capital transfers	409.5	18.0	209.7	145.7	66.2
Financial account	5,464.9	11,100.0	675.4	5,931.7	4,616.7
Direct investment	3,346.5	3,677.8	3,793.2	2,731.4	1,568.7
Abroad	(986.6)	(1,125.8)	(486.7)	(744.7)	(282.4)
In reporting economy	4,333.0	4,803.6	4,279.9	3,476.0	1,851.1
Portfolio investment	637.3	3,199.9	(2,448.9)	(1,604.0)	2,644.8
Assets	(565.9)	(825.9)	(1,755.3)	(462.6)	3,069.3
Equity securities	(403.2)	(707.0)	351.6	(1,069.2)	1,359.5
Debt securities	(162.7)	(118.9)	(2,107.0)	606.6	1,709.8
Liabilities	1,203.2	4,025.8	(693.5)	(1,141.4)	(424.5)
Equity securities	465.7	1,151.9	147.0	240.4	90.2
Debt securities	737.5	2,874.0	(840.6)	(1,381.8)	(514.8)
Other investments	8,855.3	12,862.6	2,371.0	7,058.5	1,549.7
Assets	7,819.3	5,083.0	2,025.7	3,134.3	750.0
Loans	4,943.0	7,496.0	4,729.2	3,691.4	45.8
Currency and deposits	2,876.3	(2,413.0)	(2,703.5)	(557.1)	704.2
Liabilities	1,036.0	7,779.6	345.3	3,924.2	799.7
Loans	242.6	35.3	(144.2)	(119.7)	(295.9)
Currency and deposits	793.3	7,744.3	489.5	4,043.8	1,095.6
Reserve Assets	(7,374.1)	(8,640.3)	(3,039.9)	(2,254.2)	(1,146.6)

	2008	2009	2010	2011	Jan-June 2012[2]
Net errors and omissions	(1,725.4)	(4,377.0)	6,644.1	(1,231.0)	(5,347.7)

Notes:
(1) Certain line items and figures differ from previously published data due to ongoing revisions.
(2) Preliminary data.
(3) Customs data.

Sources: Higher Council of Customs and BDL.

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

Destination of Exports[1]

	2008	2009	2010	2011	2012
			(% of total exports)		
Industrialized countries	**24.3**	**36.0**	**25.2**	**25.1**	**23.6**
E.U. 15	15.3	12.9	11.1	11.8	9.9
Italy	1.5	0.7	0.8	0.9	0.8
France	2.4	3.1	1.3	1.3	1.3
Germany	1.0	0.9	1.2	1.1	0.8
United States	1.4	1.4	1.6	1.5	1.4
Japan	0.1	0.1	0.3	0.5	0.6
United Kingdom	1.7	1.1	1.3	1.5	1.0
Switzerland	9.5	22.3	12.8	12.1	12.2
Belgium-Luxembourg	2.4	3.3	2.6	3.1	2.5
Other	0.4	0.4	0.4	13.3	13.7
Developing countries	**75.7**	**64.0**	**74.8**	**74.9**	**76.4**
Middle East and North Africa	49.9	45.7	45.1	35.4	39.3
of which: GAFTA	46.5	44.0	43.7	35.0	*38.5*
Middle East	47.9	43.9	43.8	34.3	37.6
Saudi Arabia	6.0	7.0	6.3	7.2	8.0
Syria	6.4	6.5	5.6	5.0	6.6
Jordan	3.4	3.0	2.6	3.0	3.2
Kuwait	2.8	2.2	1.8	1.8	1.5
U.A.E.	10.0	9.6	10.7	7.6	7.9
Egypt	3.7	2.1	5.1	1.6	2.0
Iraq	7.7	7.8	6.8	4.6	4.7
Other	2.0	1.8	1.3	1.0	1.6
Africa	10.0	10.8	17.6	24.9	27.5
Other Europe	8.7	4.3	7.1	8.1	4.7
Other developing countries and emerging markets	7.1	3.3	5.0	6.5	4.9

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 sets forth the composition of exports for the periods indicated.

Composition of Exports

	2008	2009	2010	2011	2012
			(% of total exports)		
Live animals; animal products	0.5	0.4	0.4	0.4	0.4
Vegetable products	3.8	3.4	3.9	3.8	3.8
Animal or vegetable fats and oils	0.6	0.5	0.6	0.5	0.7
Prepared foodstuffs; beverages, tobacco	8.1	8.1	8.3	8.9	8.7
Mineral products	3.9	2.6	1.4	0.8	2.9
of which: mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	*0.3*	*0.3*	*0.1*	*0.0*	*2.0*
Products of the chemical or allied industries	12.5	6.6	7.9	9.0	7.6
Plastics and articles thereof; rubber	4.3	3.6	3.0	3.1	3.3
Raw hides and skins, leather, fur skins	0.3	0.3	0.3	0.3	0.3
Wood and articles of wood; wood charcoal; cork	1.0	0.8	0.6	0.4	0.5
Pulp of wood; paper and paperboard	5.9	6.6	6.0	5.1	4.1
Textiles and textile articles	3.4	3.1	2.7	3.0	2.6
Footwear, umbrellas, artificial flowers	0.6	0.5	0.6	0.5	0.5
Articles of stone, plaster, cement, glass	1.9	1.6	1.1	0.9	1.0
Pearls, precious stones and metals	16.5	31.5	28.3	35.0	38.5
of which: gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form.	*9.1*	*24.2*	*21.2*	*27.4*	*31.1*
Base metals and articles of base metal	15.2	9.0	11.7	12.3	10.5
Machinery; electrical instruments	15.4	14.6	18.9	12.2	10.7
Vehicles, aircraft, vessels, transport equipment	1.7	2.9	0.7	0.9	0.9
Optical, photographic, medical, musical instruments	0.6	0.7	0.6	0.5	0.4
Arms and ammunition; parts and accessories	0.0	0.0	0.0	0.0	0.0
Miscellaneous manufactured articles	3.3	2.9	2.6	2.2	2.4
Works of art, collectors' pieces and antiques	0.5	0.3	0.2	0.1	0.1

Source: BDL based on Higher Council of Customs.

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

Origin of Imports[1]

	2008	2009	2010	2011	2012
			(% of total imports)		
Industrialized countries	**51.1**	**53.4**	**50.1**	**50.6**	**51.5**
E.U. 15	**36.5**	**38.4**	**35.8**	36.1	38.8
Italy	6.9	7.5	7.8	9.3	8.6
France	8.3	9.7	6.7	7.5	7.2
Germany	6.4	7.6	7.0	5.7	5.6
United States	11.5	10.9	10.6	9.9	11.2
Japan	3.8	4.1	3.5	2.0	1.7
United Kingdom	3.1	3.3	3.3	2.9	2.9
Switzerland	3.8	2.5	3.1	4.9	2.4
Belgium-Luxembourg	1.6	1.6	1.4	1.3	1.3
Other	**14.6**	**15.1**	**14.3**	**14.5**	12.8
Developing countries	**48.9**	**46.6**	**49.9**	**49.4**	**48.5**
Middle East and North Africa	13.5	11.7	13.2	16.4	14.7
of which: GAFTA	13.2	11.4	12.8	16.3	14.6
Middle East	12.9	11.0	12.3	15.6	13.8
Saudi Arabia	1.8	1.9	2.3	2.6	2.0
Syria	1.7	1.4	1.9	1.5	1.3
Jordan	0.7	1.2	1.3	1.8	1.3
Kuwait	3.0	1.8	2.0	1.5	3.0
U.A.E.	2.0	1.6	2.1	2.9	2.0
Egypt	2.8	2.6	2.4	4.7	4.0
Iraq	0.1	0.0	0.0	0.0	0.0
Other	0.7	0.7	0.8	0.8	0.9
Africa	0.8	1.0	2.3	1.7	2.3
Other Europe	14.4	11.9	12.9	12.2	12.3
Other developing countries and emerging markets	20.1	21.9	21.5	19.1	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 sets forth the composition of imports for the periods indicated.

Composition of Imports

	2008	2009	2010	2011	2012
			(% of total imports)		
Live animals; animal products	3.6	4.6	4.8	4.3	3.9
Vegetable products	4.4	3.9	4.0	4.2	4.1
Animal or vegetable fats and oils	0.9	0.8	0.7	0.9	0.9
Prepared foodstuffs; beverages, tobacco	5.3	5.9	6.4	6.4	6.6
Mineral products	26.5	20.5	21.1	22.9	28.4
of which: mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	*24.4*	*19.2*	*19.7*	*21.5*	*27.0*
Products of the chemical or allied industries	8.0	8.4	8.6	8.6	8.2
Plastics and articles thereof; rubber	3.5	3.3	3.6	3.5	3.6
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	1.4	1.4	1.3	1.2	1.2
Pulp of wood; paper and paperboard	2.3	2.1	2.4	2.1	1.7
Textiles and textile articles	4.0	4.3	3.9	3.5	3.5
Footwear, umbrellas, artificial flowers	0.6	0.7	0.7	0.7	0.7
Articles of stone, plaster, cement, glass	1.7	1.9	2.1	2.0	1.9
Pearls, precious stones and metals	5.3	4.9	6.5	10.6	7.4
of which: gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form.	*3.2*	*2.8*	*4.5*	*8.4*	5.6
Base metals and articles of base metal	8.1	6.4	7.1	7.6	7.2
Machinery; electrical instruments	10.5	11.9	12.1	10.6	9.7
Vehicles, aircraft, vessels, transport equipment	10.6	14.8	10.8	7.3	7.1
Optical, photographic, medical, musical instruments	1.4	1.6	1.7	1.5	1.5
Arms and ammunition; parts and accessories	0.1	0.1	0.1	0.1	0.1
Miscellaneous manufactured articles	1.4	1.8	1.7	1.5	1.8
Works of art, collectors' pieces and antiques	0.1	0.1	0.1	0.1	0.2

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 1975-1990 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. See "*The Lebanese Republic—History*" and "*The Economy—Economic History*".

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. According to statistics compiled by the IDAL, a significant number of foreign companies established subsidiaries or representative offices in Lebanon in 2012, with companies from Arab countries accounting for the largest source of foreign direct investment followed by those from Europe.

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 2012, 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.$1.71 billion. In 2012, disbursements from foreign financing loans were approximately U.S.$295 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 E.U., France, Germany, the International Fund for Agricultural Development, the Islamic Development Bank, Italy, Japan, Kuwait, the OPEC Fund for International Development, Saudi Arabia 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 23 November 2002, a conference (the "**Paris II Conference**"), was convened by the President of France. See "*The Economy—Economic History—Fiscal Reform and the Paris II Conference*". 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 and approximately U.S.$1.3 billion in long-term, low-interest financing for projects. As of 31 December 2004, the Government had collected proceeds totaling approximately U.S.$2.4 billion, representing approximately 77% 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% 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.

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

Paris II Conference Funds Received

Creditor	Amount Received
Arab Monetary Fund	U.S.$55 million
E.U.	€12.25 million
France (French Treasury & AFD)	€500 million
Kuwait	U.S.$300 million
Malaysia	U.S.$300 million
Oman	U.S.$50 million
Qatar	U.S.$200 million
Saudi Arabia	U.S.$700 million
United Arab Emirates	U.S.$300 million

Source: Ministry of Finance

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 European Union contributed €12.25 million as a grant to be used for structural adjustments and fiscal reforms.

On 19 September 2005, a high-level meeting was held at the U.N. headquarters in 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 31 August 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 that, as at 31 December 2010, a total of U.S.$909 million had been committed, of which U.S.$760 million had 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.$1.3 billion had been disbursed as at 31 December 2012.

On 25 January 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 E.U., the World Bank, the IMF and the League of Arab States, and resulted in pledges of financial assistance to Lebanon of approximately U.S.$7.6 billion, of which approximately U.S.$4.3 billion had been received as at 31 December 2012.

On 14 November 2008, the Executive Board of the IMF approved the provision of financial assistance to the Republic in the amount of approximately U.S.$37 million in the form of Emergency Post-Conflict Assistance ("**EPCA**"). This amount was additional 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 was 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 specified certain indicative fiscal and privatization targets, as well as certain reporting requirements.

The Republic received the following concessional loans and grants which were pledged in the context of the Paris III Conference. Between January 2007 and 31 December 2012, 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% 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 and a €30,000,000 loan representing part of the second 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
- as at 31 December 2011, budgetary support grants totaling U.S.$306 million had been disbursed to the Republic as follows: (i) a U.S.$100,000,000 grant from the Kingdom of Saudi Arabia; (ii) a U.S.$125,000,000 grant from USAID, the proceeds of which are required to be used for debt repayment; (iii) a U.S.$50,000,000 grant from USAID, the proceeds of which are required to be used for debt repayment; (iv) a U.S.$1,270,000 grant from Greece; a U.S.$130,000 grant from Slovenia; (v) a U.S.$10,000,000 grant from the Sultanate of Oman; and (vi) a €15,000,000 grant from the European Commission.

See "*Public Debt—External Debt*".

E.U. assistance to Lebanon is primarily provided under the European Neighbourhood and Partnership Instrument (the "**ENPI**"). Under the National Indicative Programme for 2011-2013, established under the ENPI, €150 million in grants have been allocated to Lebanon for the period from 2011 to 2013 to: (i) support political reforms (€25 million); (ii) support socio-economic reforms (€91 million); and (iii) support economic reinvigoration and recovery (€34 million). See "*The Lebanese Republic—International Relations—Europe*".

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, required placements on U.S. Dollar deposits with banks, Treasury bill repurchase and swap agreements with banks, as well as Lebanese Pound-denominated certificates of deposits issued by BDL.

The following table sets forth the balance sheet of BDL as at the dates indicated:

BDL Balance Sheet

	As at 31 December				
	2008	2009	2010	2011	2012
			(LL billions)		
Assets					
Gold	12,108	15,169	19,613	21,709	23,083
Foreign currencies	25,722	38,682	43,111	46,453	45,184
Other foreign assets	0	0	0	0	0
Claims on private sector	305	333	350	380	380
Loans to banks and financial corporations	1,543	1,803	1,136	2,099	2,438
Claims on public sector	362	292	218	140	55
Securities portfolio	13,933	15,525	17,681	19,847	24,990
Fixed assets	409	411	404	358	387
Unclassified assets(1)	6,038	8,812	11,868	14,986	19,096
Total assets(2)	**60,420**	**81,027**	**94,381**	**105,972**	**115,613**
Liabilities					
Currency in circulation outside BDL	2,498	2,729	3,088	3,283	3,639
Deposits of commercial banks	36,193	50,033	57,366	68,788	76,018
Deposits of financial corporations(3)	1,314	1,917	2,193	964	1,092
Private sector deposits	28	36	45	42	49
Public sector accounts	6,995	8,932	9,312	7,985	8,908
Valuation adjustment	3,602	6,760	11,170	13,285	14,708
Securities other than shares(4)	3,015	3,015	3,015	3,015	3,015
Foreign liabilities	671	594	353	329	326
Special long-term liabilities	2,682	2,520	2,503	2,503	2,202
Capital accounts	1,870	3,342	4,279	4,556	5,080
Unclassified liabilities(5)	1,552	1,149	1,056	1,222	576
Total liabilities	**60,420**	**81,027**	**94,381**	**105,972**	**115,613**

Notes:

(1) Unclassified assets include the following items: other debtor accounts, counterpart securities, accounts receivable, a regularization account, inventory and fixed assets.

(2) Total assets of the BDL as at 31 January 2013 were LL 117,388 billion.

(3) Includes investment banks and financial institutions.

(4) Certificates of Deposit issued by BDL in April 2005 for an amount of U.S.$2 billion with a maturity of 10 years.

(5) Unclassified liabilities include the following items: notes payable, other creditor accounts and a regularization account.

Source: BDL.

Banking Sector

There are 54 active commercial banks and 17 specialized medium-and long-term credit banks, 53 financial institutions, 13 brokerage institutions, one leasing company in the financial sector and ten representative offices in the Republic. Foreign banks have traditionally established themselves in Lebanon by receiving a banking license, operating through a representative office or acquiring participations in the capital of Lebanese banks.

The banking sector in Lebanon is generally characterized by its openness evidenced by the levels of interaction with correspondent banks and Lebanese abroad. The Lebanese banking sector, with an asset-to-GDP ratio of approximately 364% in December 2012, is well capitalized, and has proven resilient to shocks caused by the global financial crisis, which commenced in 2007. 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 the professional training of employees and in the latest information and communication technology.

Banks in Lebanon are well-regulated and supervised in conformity with international best practices and standards and cooperate fully with the regulatory and supervisory authorities believing that such cooperation is essential for maintaining their credibility both domestically and internationally. In April 2006, BDL required banks in Lebanon to gradually implement the Basel II Accord starting from 1 January 2008. The Banking Control Commission of Lebanon monitored a "Parallel Run Period" during 2008 and 2009. 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, in December 2011, 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% (defined as the ratio of common equity Tier 1 capital to total weighted assets), their Tier 1 ratio to 10% (defined as the ratio of Tier 1 capital to total weighted assets) and their total capital ratio to 12% (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. On 30 June 2012, the total capital adequacy ratio of the banking system stood at 11.62%, which is above the levels required by the Basel III Accord.

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. Parliament also passed laws relating to the listing of bank shares on stock exchanges and the acquisition of bank shares without any discrimination between Lebanese and non-Lebanese and between residents and non-residents. Several banks currently list their eligible shares on the Beirut Stock Exchange. In February 2004, Parliament passed a new law regulating Islamic banking in Lebanon. This law enables the enhancement of Islamic banking activities in Lebanon while assuring a modern regulation and good supervision for such activities.

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

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

The following table sets forth the combined balance sheet of the commercial banks as at the dates indicated:

Balance Sheet of Commercial Banks in Lebanon[1]

	As at 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
			(LL billions)		
Assets					
Reserves	39,114	53,574	61,154	71,535	79,604
Currency	*324*	*346*	*376*	*392*	*425*
Deposits with BDL	*38,790*	*53,228*	*60,778*	*71,143*	*79,179*
Claims on Private Sector	31,751	36,570	45,702	51,595	57,052
Lebanese Pounds	*5,068*	*6,837*	*10,382*	*12,821*	*14,653*
Foreign Currency	*26,683*	*29,733*	*35,320*	*38,774*	*42,399*
Claims on Public Sector	38,313	43,812	44,192	44,055	46,931
Treasury Bills	*38,215*	*43,707*	*44,115*	*43,949*	*46,827*
Other	*98*	*105*	*77*	*106*	*104*
Foreign Assets	28,834	35,698	38,784	38,436	39,447
Fixed Assets	3,695	3,783	4,188	5,131	5,566
Unclassified Assets	383	303	335	1,166	363
Total assets[2]	**142,090**	**173,740**	**194,355**	**211,918**	**228,963**
Liabilities					
Residential Private Sector Deposits	99,908	119,383	133,744	142,386	152,124
Lebanese Pounds	*34,309*	*47,738*	*55,037*	*55,389*	*61,299*
Sight	*2,057*	*2,410*	*2,951*	*3,201*	*3,808*
Term	*32,252*	*45,328*	*52,086*	*52,188*	*57,491*
Foreign currency	*65,599*	*71,645*	*78,707*	*86,997*	*90,825*
Public Sector deposits	1,331	1,590	2,107	2,999	4,008
Non Resident Private Sector Deposits	17,345	24,984	27,866	32,054	36,311
Bonds	93	143	412	661	397
Deposits of Non Resident Financial Sector	6,490	6,935	6,785	8,764	8,897
Capital accounts	10,705	11,977	13,901	16,161	19,058
Unclassified liabilities	6,218	8,728	9,540	8,893	8,169
Total liabilities	**142,090**	**173,740**	**194,355**	**211,918**	**228,963**

Notes:
(1) Certain figures differ from previously published data due to ongoing revisions.
(2) Total assets of the commercial banks in Lebanon as at 31 January 2013 was LL 230,814 billion.

Source: BDL.

On 10 February 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. BDL 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. On 20 August 2012, the U.S. Attorney for the Southern District of New York and the Administrator of the U.S. Drug Enforcement Administration announced the seizure of U.S.$150 million in connection with this claim. The U.S. Attorney stated that the seized funds are substitutes for funds held in an escrow account for LCB shareholders maintained at the Lebanese bank and further stated that there were no allegations of wrongdoing against the affected Lebanese bank or the correspondent U.S. bank. In November 2012, the New

York state court ruled that claims for negligence and breach of duty could be brought against LCB in the New York courts. See "*Risk Factors—Risks Relating to the Republic—Lebanese Banking Sector*".

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 three-month Treasury bills in a multiple price auction. The authorities subsequently extended this system to six- 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 Lebanese Pound-denominated 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—LL-Denominated MTN Program*".

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 and lending rates in Lebanese Pounds and in U.S. Dollars has generally declined in recent years, and the deposit rate spread was 3.89% in December 2008 and 3.70% in December 2009. The spread between lending rates was 2.48% 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, and the spread between the Lebanese Pound lending rate and the U.S. Dollar lending rate declined to 1.76% in December 2009 and 1.17% in December 2010. In 2011, the Lebanese Pound lending rate declined further as lending incentives and exemptions from reserves requirements were offered by BDL, resulting in a further narrowing of the spread between the Lebanese Pound and the U.S. Dollar lending rates to 0.36% in December 2011 and 0.34% in December 2012.

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

Treasury Bill Yields

Calendar Quarter	3 months	6 months	12 months	2 years[1]	3 years[1]	5 years[1][2]
			(%)			
2008 I	5.22	7.24	7.75	8.68	9.54	—
2008 II	5.22	7.22	7.75	8.64	9.47	—
2008 III	5.22	7.22	7.73	8.58	9.27	—
2008 IV	5.10	7.10	7.58	8.43	9.20	—
2009 I	5.07	6.96	7.27	8.12	9.04	—
2009 II	4.94	6.61	6.89	7.70	8.70	—
2009 III	4.87	6.16	6.34	7.10	7.79	8.28
2009 IV	4.55	5.72	5.73	6.42	7.23	7.74
2010 I[3]	—	—	—	—	—	—
2010 II	3.94	4.43	4.88	5.43	6.98	6.16
2010 III	3.93	4.52	4.81	5.41	6.03	6.18
2010 IV	3.93	4.52	4.81	5.41	6.03	6.18
2011 I	3.93	4.50	4.79	5.41	6.03	6.18
2011 II	3.93	4.50	4.81	5.41	6.03	6.18
2011 III	3.93	4.50	4.81	5.41	6.03	6.18
2011 IV	3.93	4.50	4.81	5.41	6.03	6.18
2012 I	4.43	4.99	5.37	5.90	6.58	6.74
2012 II	4.44	4.99	5.35	5.93	6.61	6.74
2012 III[4]	4.44	4.99	5.35	5.93	6.61	6.74
2012 IV[4]	4.43	4.99	5.35	5.93	6.61	6.74

Notes:

(1) The figures represent the associated coupon rates.

(2) The Ministry of Finance launched five-year Treasury bonds as part of the market auction process in July 2009.

(3) The Ministry of Finance suspended the issuance of Treasury Bills in March 2010.

(4) The following Treasury bonds were issued on a one-time basis at auction in 2012: (i) ten-year 8.24%Treasury bonds in September 2012; (ii) eight-year 7.8%Treasury bonds in October 2012; and (iii) seven-year 7.5%Treasury bonds in November 2012.

Source: BDL.

See "*Public Debt—Internal Debt*" and "*Public Debt—Internal Debt—LL-Denominated MTN Program*".

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 Lending and Deposit Rates of Commercial Banks

Calendar Quarter	Lending Rate	Deposits	Current Accounts	Call Deposits	Time Deposits
			(%)		
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
2012 I	7.16	5.46	0.91	2.59	5.72
2012 II	7.44	5.45	1.06	2.50	5.75
2012 III	7.30	5.43	1.11	2.50	5.73
2012 IV	7.07	5.41	1.16	2.93	5.78

Source: BDL.

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

Calendar Quarter	Lending Rate	Deposits	Current Accounts	Call Deposits	Time Deposits
			(%)		
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	2.80	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
2012 I	7.06	2.83	0.47	0.88	3.27
2012 II	7.15	2.78	0.31	0.85	3.25
2012 III	7.16	2.83	0.31	0.83	3.30
2012 IV	6.87	2.86	0.26	0.88	3.35

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% in 1999 and the Lebanese Pound exchange rate has remained unchanged since 2000. Although several external factors can influence the exchange rate, including general investor confidence in the economy, the authorities expect to continue to gear their monetary policy towards maintaining strength and stability in the exchange rate. Direct intervention in the currency markets supplements this policy when necessary to smooth excessive volatility of the exchange rate.

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

Gold and Gross Foreign Currency Reserves

	Gold	Foreign Currency[1]
	(*U.S.$ millions*)	
2008	8,032	17,062
2009	10,062	25,660
2010	13,010	28,598
2011	14,401	30,815
2012	15,312	29,972

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 at 28 February 2013, gross foreign currency reserves (excluding gold reserves) were U.S.$30,344 million and gold reserves were U.S.$14,673 million.

Lebanese Pound/U.S. Dollar Exchange Rate and Dollarization

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.

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% in December 1990 to 56.3% in June 1997. Since 1997, the dollarization rate has fluctuated and was 69.6% at the end of 2008 and 64.5% at the end of 2009. The June 2010 rate, 62.5% was the lowest dollarization rate in nine years. The dollarization rate increased from the June 2010 low to 63.2% at the end of 2010, to 65.9% at the end of 2011 but subsequently declined to 64.8% at the end of 2012.

Prices and Inflation

In the mid-1980s, Lebanon suffered from rapid increases in prices, peaking at 500% *per annum* in Lebanese Pound terms in 1987. High rates of inflation persisted until the 1990s when relative pricing stability began to return. Since 2001, estimated inflation has fluctuated slightly, increasing to 1.8% in 2002 and decreasing to 1.3% in 2003, before increasing back to 3% in 2004 and decreasing to (0.7)% in 2005. The level of inflation during the period was attributable principally to the implementation by BDL of a tight monetary policy, including the maintenance of a stable exchange rate (by using a nominal anchor policy with the U.S. Dollar) and high interest rates on Lebanese Pound assets. See "*The Economy—Economic History*".

CAS estimated inflation for 2008 at 5.5% on an end-of-period basis, and the IMF estimated inflation at 6.4% on an end-of-period basis and 10.8% on a period average basis. The increase in inflation in 2008 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. Inflation slowed in 2009, with CAS estimating inflation at 3.4% on an end-of-period basis and 1.2% on a period average basis, and the IMF estimating inflation at 1.2% on an annual period average basis. Inflation increased in 2010, with CAS estimating inflation at 4.6% on an end-of-period basis and 4.0% on a period average basis, and the IMF estimating inflation at 4.5% on an annual period average basis. Inflation in 2011 was estimated by CAS at 3.1% on an end-of-period basis, compared to 3.1% according the IMF's estimate. On a period average basis, inflation in 2011 increased with CAS estimating inflation at 5.1%, compared to an IMF estimate of 5.0%. The increases in both 2010 and 2011 were principally due to the worldwide increase in energy, food and other commodity prices. Inflation in 2012 was estimated by CAS and the IMF at 10.1% on an end-of-period basis, however, housing costs, as a component of inflation, were subject to a one-time adjustment in July 2012, and, accordingly, inflation figures for subsequent periods are not indicative of year-on-year inflation. On a period average basis, inflation in 2012 increased with CAS estimating inflation at 6.4%, compared to an IMF estimate of 6.5%. The increase in 2012 was principally due to increases in the pricing of housing, alcoholic beverages and tobacco and education. The IMF's preliminary inflation projection is 5.7% for 2013 and 2.0% for 2014 on a period-average basis.

See "*The Lebanese Republic—History—Recent Developments*" and "*Risk Factors—Risks Relating to the Republic—Prices and Inflation*".

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 22 January 1996, when the shares of three previously listed Lebanese companies were re-admitted to trading. On 30 September 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary Market, were listed and began trading on the Beirut Stock Exchange. Commencing in 2004, Eurobonds issued by the Republic have been listed 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.$10,421 million as at 31 December 2012.

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

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 continued reconstruction and economic expansion.

As at 31 December 2012, there were five brokers rose from five and three listed companies rose (including one mutual fund), according to the Financial Market Department of BDL.

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 30 December 1963, as amended.

The laws governing 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 15 October 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 15 October and 31 December.

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

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

Analysis of Government Finances

Prior to the 1975-1990 conflict, Lebanon seldom ran fiscal deficits. The conflict, especially from the early 1980s, led to widespread tax evasion and non-payment of public utility bills. See "*The Lebanese Republic—History—1975-1990 Conflict*" and "*The Economy—Economic History*". 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 Council for Development and Reconstruction is a public institution, which is independent from any ministry within the Government. Its financial situation is not fully consolidated in the public accounts, but, starting with the draft budget law for 2007, CDR foreign-financed expenditures were included as 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 (the "**HRC**") is responsible for post-disaster relief, whether as a result of a natural disaster, war or a need for general humanitarian assistance. 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. From the 2010 budget proposal, the HRC is 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 unless otherwise stated. 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. 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 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, 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 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 principal expenditures classifications: current expenditures, capital expenditures, and other Treasury expenditures.

There have been no approved budgets since 2005 due to a variety of factors, including political polarization in Parliament and the dispute regarding extra-budgetary expenditures discussed below. As provided in Article 86 of the Constitution and public accounting law decree № 14969/1963, in the absence of approved Budgets for the years 2006-2013, 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. In October 2012, Parliament approved an increase in the legal spending limit from the last approved budget.

During the period 2006-2012, successive Governments have incurred extra-budgetary expenditures. There was 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 Audit Court. The Minister of Finance and other members of Parliament have proposed draft laws seeking to approve the extra-budgetary expenditures that have not yet been approved. This controversy has

contributed to the non-approval of the Budgets for the years 2006-2012 by Parliament, which in turn limits the Government's ability to have a Budget approved for 2013. See "*Risk Factors—Risks Relating to the Republic—No Approved Budgets; Extra-Budgetary Expenditures*".

In March 2012, Parliament adopted a new law that was published in the *Official Gazette* on 31 March 2012, authorizing the Government to incur new borrowings of up to U.S.$2 billion to finance foreign currency treasury needs and for debt refinancing of up to U.S.$3 billion, in each case with maturities of up to 30 years.

See "*Risk Factors—Risks Relating to the Republic—Accuracy of Financial and Statistical Information*".

In 2012, the Ministry of Finance initiated a process to review and finalize the Government's accounts since 1993. This process is expected to be completed by the end of 2013.

Overview of Government Operations

The following table sets forth an overview of Government operations for the years indicated.

Overview of Government Operations

	2008	2009	2010	2011	2012
			(LL billions)		
Revenues					
I. Tax revenues	7,182	8,967	9,976	9,885	10,187
II. Non-tax revenues[1]	2,612	3,069	2,043	3,468	3,286
III. Budget revenues (I+II)	9.794	12,036	12,018	13,353	13,473
IV. Treasury revenues	758	669	666	718	691
V. Total revenues (III+IV)	10,553	12,705	12,684	14,070	14,164
Expenditures					
I. Current expenditures	13,244	15,041	14,932	16,020	17,969
Personnel cost[2]	3,970	4,936	5,066	5,533	6,723
Debt service [3]	5,304	6,087	6,218	6,034	5,752
Other current[4]	3,970	4,019	3,648	4,453	5,495
II. Capital expenditures[5]	514	550	701	676	760
III. Other Treasury expenditures	1,152	1,523	1,363	867	1,304
IV. Customs administration and unclassified[6]	47	54	50	37	48
V. Total expenditures (I+II+III+IV)[7]	14,957	17,167	17,047	17,600	20,081
Total Deficit	**(4,404)**	**(4,462)**	**(4,362)**	**(3,530)**	**(5,918)**
Budget and Treasury transactions					
Budget balance	**(1,189)**	**(992)**	**(3,168)**	**(2,670)**	**(1,833)**
Budgetary revenues	9,794	12,036	12,018	13,353	13,473
Budgetary expenditures[8]	13,414	15,287	15,187	16,022	15,306
Net Treasury operations	**(3,215)**	**(3,470)**	**(1,194)**	**(860)**	**(4,085)**
Treasury receipts	758	669	666	718	691
Treasury outlays	1,543	1,880	1,860	1,578	4,776
GDP (*LL billions*)[9]	44,748	52,235	55,965	58,851	62,963

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 BDL of which LL 1,959,750 million was transferred in 2011 and the balance of LL 301,500 million in January 2012. The non-tax revenue figure for 2012 includes LL 2,156 million accrued to the benefit of the Ministry of Finance in respect of telecommunications revenue for 2012 and transferred to it from the account of the Ministry of Telecommunications maintained at BDL.

(2) Including wage and salary related payments, *e.g.*, pensions to civil servants and end of service indemnities to Government employees.

(3) Includes principal repayment on foreign loans earmarked for project financing and interest payments on both foreign currency debt and domestic currency debt.

(4) Includes payments to EdL starting in 2010 following their inclusion in the 2009 budget proposal as a subsidy. EdL payments incurred before 2010 had been classified under other Treasury expenditures but are reclassified in the table above for the years 2008 and 2009. Also includes budget advances, which were classified under Other Treasury expenditures in 2008 and 2009.

(5) Expenditure does not include capital expenditures of CDR financed with foreign funds, consisting of LL 304 billion in 2008, LL 279 billion in 2009, LL 304 billion in 2010, LL 420 billion in 2011 and LL 401 billion in 2012. Expenditure does not include HRC extra-budgetary spending amounting to LL 280 billion in 2008.

(6) Customs administration and unclassified expenditures were previously included in total expenditures in 2008 and 2009 and other current expenditures in 2010 and 2011. Such expenditures have been included in a new line item for consistency of presentation.

(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.

(7) Includes payments to EdL starting in 2010 following their inclusion in the 2009 budget proposal as a subsidy. EdL payments incurred before 2010 are classified under other Treasury expenditures. In order to ensure consistency of presentation, EdL payments have been reclassified as Budgetary expenditures.

(8) At current market prices. See "*The Economy—Gross Domestic Product*". 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 and 2012 GDP figures are estimates by the IMF.

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 14,164 billion in 2012, as compared to LL 14,070 billion in 2011, representing an increase of 0.7%, which was primarily attributable to a 3.1% increase in tax revenues, which increased from LL 9,885 billion in 2011 to LL 10,187 billion in 2012. Tax revenues increased due to higher collections of: (i) taxes on income, profits and capital gains, due, in part, to the increase of the private sector minimum wage in February 2012 and the public sector cost of living payments increase in September 2012; (ii) domestic taxes on goods and services, principally due to higher automobile registration fees, passenger departer taxes and transfers from the surplus of the *Regie Libanais des Tabacs et Tombacs* (the state-owned importer and distributor of tobacco products), which were partially offset by a 1% decrease in VAT revenues attributable to the lifting of the VAT on *mazout* in March 2012; and (iii) excise taxes, principally due to higher tobacco taxes.

The increase in tax revenues was partially offset by a 5.2% decrease in non-tax revenues, which declined from LL 3,468 billion in 2011 to LL 3,286 billion in 2012, principally due to lower transfers from the Ministry of Telecommunications, which were LL 2,156 billion in 2012, as compared to LL 2,261 billion in 2012.

Total revenues were LL 14,070 billion in 2011, as compared to LL 12,684 billion in 2010, representing an increase of 11%, which was primarily attributable to an increase in non-tax revenues, partially offset by a 1% 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% 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 in 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%, 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% decrease, which was principally 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%, 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% increase, which was principally 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.

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 2012 were LL 20,081 billion, as compared to LL 17,600 billion in 2011, representing an increase of 14.1%. This increase was principally due to: (i) a 21.5% growth in personnel costs, due to higher retirement and end-of-service payments and the public sector cost of living payment increase; and (ii) a 29.8% increase in payments to EdL in order to fund (x) increased fuel oil and gas oil costs, (y) the rental costs for two electricity-generating barges and (z) EdL's VAT payments. The increases in expenditures were partially offset by lower interest payment costs, which decreased by 3.5% in 2012 as compared to 2011 levels.

Total expenditures in 2011 were LL 17,600 billion, as compared to LL 17,047 billion in 2010, representing an increase of 3.2%. 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, as compared to LL 14,957 billion in 2008, an increase of approximately 15%. This increase is principally due to an approximately 15% 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% 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% 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% 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% increase in other current expenditures (LL 1,596 billion in 2009, as compared to LL 1,364 billion in 2008) principally due to higher transfers to the National Social Security Fund and hospitals and a 5% 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 partially offset by lower transfers to municipalities and EdL. Transfers to EdL were 7% lower (LL 2,259 billion in 2009, as compared to LL 2,430 billion in 2008). This is principally due to lower international oil prices in 2009.

Additional spending in 2009 and 2008 pursuant to Law № 63 dated 31 December 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.

The Fiscal Deficit

Since 1992, a 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 fiscal deficits financed

mainly through domestic borrowing. See "*Public Debt*" and "*The Economy—Economic History*" and "*Risk Factors—Risks Relating to the Republic—Fiscal Deficit*".

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

Fiscal Deficit

	2008	2009	2010	2011	2012
Total Deficit[1] (*LL billions*)	(4,404)	(4,462)	(4,362)	(3,530)	(5,918)
GDP (*LL billions*)[2]	44,748	52,235	55,965	58,851	62,963
Total Revenues/GDP (%)	23.6	24.3	22.7	23.9	22.5
Total Expenditures/GDP (%)	33.4	32.9	30.5	29.9	31.9
Total Deficit/GDP (%)[2]	(9.8)	(8.5)	(7.8)	(6.0)	(9.4)
Net Public Debt/GDP (%)[3]	140	127	121	119	118

Notes:

(1) Excluding foreign financed CDR expenditure and HRC spending, not funded by budgetary allocations and treasury advances.

(2) At current market prices. See "*The Economy—Gross Domestic Product*". 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 and 2012 GDP figures are estimates by the IMF.

(3) See "*Public Debt*".

Source: Ministry of Finance.

The fiscal balance registered a deficit of LL 5,918 billion in 2012, as compared to a deficit of LL 3,530 billion in 2011, representing an increase of 67.6%. The primary balance registered a deficit of LL 166 billion in 2012, as compared to a surplus of LL 2,505 billion in 2011.

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%. 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% 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 decrease of approximately 2%. 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% 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 increase of 1%. 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% increase.

The Primary Balance

The primary balance represents total revenues less primary expenditures (*i.e.,* total expenditures excluding debt service). The primary balance in 2008 was 2.0% of GDP. In 2009, the primary balance improved to 3.1% following an improved performance on the revenue side coupled with a deceleration in primary spending, which nominally increased by 15% and remained broadly stable in real terms (21.2% of GDP in 2009 compared to 21.3% in 2008). The primary balance in 2010 improved further to 3.3% of GDP, principally due a decline of 2% in primary expenditures despite flat revenues. The primary balance improved in 2011 to 4.3%, principally due mainly to an increase in total revenues (mainly due to higher transfers from the telecommunications surplus compared to 2010) and a reduction in the rate of increase in primary expenditures of 3%. Due to flat revenues and significant increases in expenditures, the primary balance became negative in 2012 at (0.3)% of GDP.

The table below shows the evolution of primary surplus for the years indicated.

Primary Surplus

	2008	2009	2010	2011	2012
		(LL billions, except where indicated)			
Total Revenues	10,553	12,705	12,684	14,070	14,164
Total Expenditures	14,957	17,167	17,047	17,600	20,081
Debt Service [1]	5,304	6,087	6,218	6,034	5,752
Primary Balance	900	1,625	1,855	2,505	(166)
Primary Balance/GDP (%)[2][3]	2.0	3.1	3.3	4.3	(0.3)

Notes:

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

(2) See "*The Economy—Gross Domestic Product*".

(3) At current market prices. See "*The Economy—Gross Domestic Product*". 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 and 2012 figures are estimates by the IMF.

Source: Ministry of Finance.

The 2009 Budget

The 2009 budget proposal was approved by the Council of Ministers on 12 June 2009, pursuant to Decree № 2364, and sent to Parliament on 20 June 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 18 June 2010 and sent to Parliament on 9 July 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 7 September 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 13 June 2011 and pursuant to Letter № 573 MS of the Presidency of the Council of Ministers dated 30 June 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 18 January 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 30 September 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 on 19 October 2011 in order to review the proposed expenditures in light of the then proposed increases in public sector wages and to introduce, among other things, revenue-enhancing measures to cover these additional expenditures. On 20 March 2012, the draft 2012 budget proposal was returned to the Ministry of Finance. On 22 May 2012, the Minister of Finance sent the revised 2012 budget proposal to the Presidency of the Council of Ministers for its review and approval by the Council of Ministers. On 11 July 2012, the Council of Ministers approved the 2012 budget proposal, which was transmitted to Parliament on 8 August 2012. The draft 2012 budget proposal was discussed in Parliament, but further discussions are on hold.

The 2013 Budget

The Minister of Finance sent the 2013 budget proposal to the Presidency of the Council of Ministers on 31 August 2012 requesting its submission to the Council of Ministers for review, approval and transmission to Parliament but was subsequently withdrawn due to economic developments and the agreement of the Council of Ministers to requests submitted by various government entities for adjustments to their budgets. A revised draft budget for 2013 was sent by the Minister of Finance to the Council of Ministers on 9 March 2013.

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. See "*The Economy—Economic History*". A new Income Tax Law was promulgated on 30 December 1993 (Law № 282 published in the *Official Gazette № 1* dated 6 January 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% for individuals (excluding certain categories of professionals) and 15% 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% (from 10%) 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 1 February 2002. VAT is levied at a single rate of 10% on all goods and services, subject to certain exemptions, such as medical and educational services. Effective 5 March 2012, pursuant to Law № 207, diesel (*mazout*) is also exempted from VAT.

In January 2003, Parliament adopted the 2003 Budget Law, pursuant to which interest paid in respect of bonds issued by the Lebanese Republic after 31 January 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 5%. See "*Taxation—Lebanese Taxation*".

The Government is engaged in a series of ongoing reforms to strengthen and modernize tax administration. These reforms include, among others:

- the creation of a specialized unit to manage the withholding tax on wages and salaries (in 2003);
- a Tax Roll Department to update and manage the taxpayers identification database (in 2003);
- the establishment of a Large Taxpayers' Office (in 2005),
- the reorganization of the regional tax offices along function-based operations and the establishment of departments in the regional tax offices (in 2005-2006);
- a new Tax Procedure Code that unifies procedures for taxes and fees was adopted by Parliament and implementing regulations were issued (in 2009);
- a new audit and compliance strategy based on risk selection criteria, new audit techniques and procedures and the enforcement of voluntary taxpayer compliance (in 2010);
- the transfer of the tax collection function to the regional tax offices (in 2011);
- 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);
- the transfer of the collection function to the regional tax offices (in 2011); and
- the launch of e-registration (in 2012).

As part of these reforms, the Government is reviewing the VAT law and the related regulations and work is ongoing for the introduction of a new Individual and Corporate Income Tax Law. In addition, the Government is currently working on a merger of the Directorate of Revenues and the Directorate of VAT following the nomination of a single tax administration director in July 2011. The Ministry of Finance is also in various stages of implementing further electronic filing and payment procedures.

Social Policies

After the July 2006 War, the Government included a social action plan as part of the 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; (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 the management of, and support for, 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 to: (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.

PUBLIC DEBT

General

As at 31 December 2012, the Republic's gross public debt was LL 86,959 billion (U.S.$57.7 billion) consisting of LL 50,198 billion of gross domestic debt and LL 36,761 billion of public external debt. Net public debt of the Republic was LL 74,043 billion (U.S.$49.1 billion) as at 31 December 2012.

The following table sets forth the Republic's gross and net public sector debt as at the dates indicated.

Public Sector Debt[1]

	As at 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
			(LL billions)		
I. Gross Domestic Debt	39,007	44,973	48,255	49,340	50,198
II. Public External Debt[2]	31,934	32,139	31,043	31,547	36,761
III. Gross Public Debt (I + II)...	**70,941**	**77,112**	**79,298**	**80,887**	**86,959**
IV. Public Sector Deposits[3].....	8,326	10,522	11,419	10,984	12,916
V. Net Domestic Debt (I – IV) ...	30,681	34,451	36,836	38,356	37,282
VI. Net Public Debt (III – IV) ..	**62,615**	**66,590**	**67,879**	**69,903**	**74,043**

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.

As at 28 February 2013, the Republic's gross public debt was LL 87,551 billion (U.S.$58.1 billion) consisting of LL 50,598 billion of gross domestic debt and LL 36,953 billion of public external debt. Net public debt of the Republic was LL 75,224 billion (U.S.$49.9 billion) as at 28 February 2013.

The following table sets forth the Republic's gross and net public debt as a percentage of GDP as at the dates indicated.

Public Debt as a Percentage of GDP[1]

	As at 31 December				
	2008	**2009**	**2010**	**2011**[2]	**2012**
			(%)		
Gross Public Debt/GDP	159	148	142	137	138
Net Public Debt/GDP	140	127	121	119	118

Notes:
(1) The figures in this table have been revised and may differ from previously published data.
(2) GDP figures for 2011 and 2012 are IMF estimates.

Sources: Ministry of Finance and BDL.

Net public debt as a percentage of GDP increased from 46% in 1992 to 169% in 2006. It has been declining since then, to 140% in 2008, 127% in 2009, 121% in 2010, 119% in 2011 and 118% in 2012.

Internal Debt

The Government has elected to finance the fiscal 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 two, three and five years). Following the Paris II Conference, yields on Treasury bills have generally declined 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 commercial bank and BDL debt service reduction measures. The issuance of Treasury bills and bonds resumed in November 2003, and Treasury bonds in Lebanese Pounds with maturities of three years were introduced for the first time. In July 2009, the Ministry of Finance launched five-year Treasury notes as part of the market auction process.

In March and April 2011, the Republic issued two stand-alone seven year LL-denominated Treasury bonds with annual yields of 7.90%. In September 2011, the Republic issued an additional stand-alone LL-denominated seven-year bond with an annual yield of 7.60%. On 28 November 2011, pursuant to Law № 69, the Republic issued LL 40,604 million in aggregate principal amount of notes to settle increases in construction costs due to contractors. The notes mature on 28 November 2016 and carry interest at a rate of 6%.

On 3 May 2012, pursuant to Law № 69, the Republic issued LL 59,307 million in aggregate principal amount of notes to settle increases in construction costs due to contractors. The notes mature on 3 May 2017 and carry interest at a rate of 6%. On 2 August 2012, pursuant to Law № 69 dated 23 April 2009 and Council of Ministers Resolution № 96 dated 18 June 2009, the Republic issued LL 33,649 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in 2017 and carry interest at a rate of 6%. See "*Public Debt—External Debt—Issuance of U.S. Dollar-Denominated Notes in Satisfaction of Certain Claims*".

On 20 September 2012, the Republic issued LL 1,151,351 million in aggregate principal amount of ten-year treasury bonds at auction. The treasury bonds mature in 2022 and carry interest at a rate of 8.24%. On 18 October 2012, the Republic issued LL 1,915,613 million in aggregate principal amount of eight-year treasury bonds at auction. The treasury bonds mature in 2020 and carry interest at a rate of 7.80%. On 15 November 2012, the Republic issued LL 1,092,562 million in aggregate principal amount of seven-year treasury bonds at auction. The Treasury bonds mature in 2019 and carry interest at a rate of 7.50%.

LL-Denominated MTN Program

In March 2006, 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. The first series, issued in March 2006, matured and was repaid in 2011. On 17 December 2010, the Republic issued LL 1,500,000,000,000 7.9% Notes due 2017 (Series 2) under the LL-Denominated MTN Program.

The following table sets forth the Republic's composition of domestic debt as at the dates indicated.

Composition of Domestic Debt

	As at 31 December			
	2011		2012	
	(LL billions)	*(U.S.$ millions)*	*(LL billions)*	*(U.S.$ millions)*
Long-term bonds	**46,512**	**30,854**	**47,448**	**31,475**
10 years	—	—	1,151	764
8 years	—	—	1,916	1,271
7 years	7,885	5,231	8,978	5,956
5 years[1]	11,779	7,814	12,162	8,068
3 years	22,129	14,679	18,292	12,134
2 years	3,972	2,635	4,208	2,791
Coupon interest	*747*	*496*	*741*	*492*
Short term bills	**2,583**	**1,713**	**2,591**	**1,719**
12 months	887	588	965	640
6 months	1,569	1,041	1,312	870
3 months	127	84	314	208
Accrued interest	*41*	*27*	*48*	*32*
Other Domestic Debt	**245**	**163**	**159**	**105**
Total Domestic Debt	**49,340**	**32,730**	**50,198**	**33,299**

Note:

(1) Includes LL 41 billion of contractor bonds as at 31 December 2011 and LL 134 billion of contractor bonds as at 31 December 2012.

Sources: Ministry of Finance and BDL.

External Debt

The outstanding public external debt as of the end of 1992, a year after the end of the 1975-1990 conflict, 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 fiscal deficit and to convert its high interest domestic debt into lower interest external debt. As at 31 December 2012, outstanding public external debt of the Republic was approximately U.S$24.4 billion.

The following table below sets forth the composition of the Republic's foreign debt as at the dates indicated:

Composition of Foreign Debt[1][2]

	As at 31 December			
	2011		2012	
	(LL billions)	*(U.S.$ millions)*	*(LL billions)*	*(U.S.$ millions)*
Eurobonds, *of which*	**27,490**	**18,235**	**32,789**	**21,751**
Paris II Conference Eurobonds[3]	1,470	975	1,236	820
Paris III Conference Eurobonds[4]	663	440	317	210
Loans, *of which*	**3,977**	**2,638**	**3,860**	**2,561**
Paris II Conference concessional loans[5]	351	233	279	185
Paris III Conference concessional loans[6]	1,060	703	997	661
Bilateral and multilateral loans	2,548	1,690	2,570	1705
Foreign private sector loans	18	12	14	9
Special Treasury bills in foreign currency[7]	**80**	**53**	**112**	**74**
Total Foreign Debt[8]	**31,547**	**20,927**	**36,761**	**24,385**

Notes:

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

(2) Figures in this table have been revised and differ from previously published data.

(3) Does not include an amortizing U.S.$1.87 billion in original principal amount Eurobond issued to BDL.

(4) Includes originally issued U.S.$300 million debt rescheduling with Malaysia in the context of the Paris III Conference. A U.S.$200 million note was fully repaid in accordance with its terms in July 2012.

(5) Contribution of France to the Paris II Conference (AFD Loan).

(6) Includes U.S.$100 million Development policy loan (World Bank), U.S.$300 million UAE Loan, €150 million French loan (tranche 1), SDR 25.375 million EPCA II loan, first tranche EC/EU loan and AMF loan disbursed in June 2009 and €30 million French loan (part of tranche 2). An SDR 50.75 million (the EPCA I loan) was repaid to the IMF.

(7) U.S. Dollar-denominated bonds issued in satisfaction of expropriation and contractor claims.

(8) Includes accrued interest.

Sources: Ministry of Finance and BDL.

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

Outstanding Eurobonds

Year of Issue	Maturity	Original Principal Amount	Outstanding Principal Amount	Coupon
2001	2016	U.S.$400 million	U.S.$400 million	11.625%
2002[1]	2017	U.S.$138 million	U.S.$69 million	4.000%
2005[2]	2013	U.S.$650 million	U.S.$340 million	8.625%
2005	2016	U.S.$750 million	U.S.$750 million	8.500%
2006[3]	2014	U.S.$677 million	U.S.$677 million	7.375%
2006[3]	2021	U.S.$1,661 million	U.S.$1,661 million	8.250%
2007[4]	2021	U.S.$431 million	U.S.$431 million	8.250%
2008[5]	2014	U.S.$882 million	U.S.$882 million	9.000%
2008	2015	U.S.$500 million	U.S.$500 million	8.500%
2009[6]	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[7]	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[8]	2019	U.S.$500 million	U.S.$500 million	5.450%
2011[9]	2026	U.S.$375 million	U.S.$375 million	6.600%
2011[10]	2018	€445 million	€445 million	5.350%
2012	2026	U.S.$350 million	U.S.$350 million	6.600%
2012	2017	U.S.$600 million	U.S.$600 million	5.000%
2012[7]	2015	U.S.$500 million	U.S.$500 million	4.100%
2012[7]	2018	U.S.$700 million	U.S.$700 million	5.150%
2012[7]	2025	U.S.$800 million	U.S.$800 million	6.250%
2012[11]	2018	U.S.$525 million	U.S.$525 million	5.150%
2012[12]	2023	U.S.$500 million	U.S.$500 million	6.000%
2012[13]	2027	U.S.$500 million	U.S.$500 million	6.750%
2012[7]	2019	U.S.$1,000 million	U.S.$1,000 million	5.450%

Notes:

(1) A first tranche was issued on 31 December 2002, as a special scheme with BDL in the context of the Paris II Conference. On 6 July 2007, the series was reopened for an additional amount of U.S.$137.511 million as a direct subscription with BDL.

(2) A first tranche was issued on 20 June 2005. On 31 May 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.

(3) 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.

(4) Subscribed for cash by BDL.

(5) Originally issued as part of an exchange transaction, in which bonds maturing in 2008 were offered for exchange into new bonds maturing in 2012. Includes U.S.$150 million of new cash subscriptions.

(6) Originally issued as part of an exchange transaction, in which bonds maturing in 2009 were offered for exchange into new bonds maturing in 2017. Includes U.S.$268.9 million of new cash subscriptions.

(7) Originally issued as part of a debt replacement transaction entered into with BDL.

(8) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into new bonds maturing in 2019. Includes U.S.$66.8 million of new cash subscriptions.

(9) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into new bonds maturing in 2026. Includes U.S.$139.5 million of new cash subscriptions.

(10) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into new bonds maturing in 2018. Includes €24.058 million of new cash subscriptions.

(11) Originally issued as part of an exchange transaction, in which bonds maturing in 2013 were offered for exchange into new bonds maturing in 2028. Includes U.S.$339.7 million of new cash subscriptions.

(12) Originally issued as part of an exchange transaction, in which bonds maturing in 2013 were offered for exchange into new bonds maturing in 2023. Includes U.S.$115.1 million of new cash subscriptions.
(13) Originally issued as part of an exchange transaction, in which bonds maturing in 2013 were offered for exchange into new bonds maturing in 2027. Includes U.S.$368.8 million of new cash subscriptions.

Source: Ministry of Finance.

The following table sets forth the Republic's outstanding Eurobonds issued in connection with the Paris II Conference and the Paris III Conference as at 31 December 2012.

Outstanding Paris II and Paris III Conference Eurobonds

Year of Issue	Maturity	Original Principal Amount	Outstanding Principal Amount	Coupon
Paris II Conference				
2002	2017	U.S.$950 million	U.S.$325 million	5.00%
2002	2017	U.S.$1,870 million	U.S.$935 million	4.00%
2003	2018	U.S.$700 million	U.S.$385 million(1)	5.00%
2003	2018	U.S.$200 million	U.S.$110 million	5.00%
Paris III Conference				
2007	2017	U.S.$300 million	U.S.$200 million(2)	3.75%

Notes:
(1) As of 7 March 2013, this amount decreased to U.S.$350 million.
(2) As of 20 January 2013, this amount decreased to U.S.$195 million.

Source: Ministry of Finance.

The following table sets forth the Republic's public external debt by type of creditor as at the dates indicated.

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

	As at 31 December				
	2008	2009	2010	2011	2012
			(U.S.$ millions)		
Bilateral	**1,494**	**1,405**	**1,284**	**1,229**	**1,244**
Abu Dhabi Fund for Development	302	302	305	309	281
AFD	733	662	538	472	481
Artigancassa	5	7	8	10	21
Austria	17	13	9	5	2
Belgium	2	2	1	1	1
China	7	7	8	8	8
Dexia	3	2	2	1	1
Italy	15	11	3	0	0
Kerditanstalt Fur Wiederaufbau	6	2	0	1	1
Kuwaiti Fund for Arab Economic Development	142	140	151	161	179
Mediocredito Centrale	9	8	7	6	5
Natixis	110	106	97	90	86
Overseas Economic Cooperation Fund	56	58	68	71	77
The Saudi Fund for Development	88	84	88	95	101
Multilateral	**1,589**	**1,595**	**1,505**	**1,385**	**1,307**
Arab Fund for Economic and Social Development	385	366	366	368	377
AMF	0	32	31	19	6
EIB	390	363	352	306	5
EC	0	36	33	32	271
EPCA/IMF	119	119	97	58	33
EU	6	6	5	5	20
IBRD	360	316	321	303	251
International Fund for Agricultural Development	7	6	4	3	2
Islamic Development Bank	306	337	283	277	325
The OPEC Fund for International Development	16	14	13	14	18
Commercial Banks	**36**	**18**	**16**	**12**	**9**
Eurobonds	**17,504**	**17,699**	**17,416**	**17,965**	**21,485**
Special T-bills in foreign currency (expropriations)	**278**	**296**	**49**	**54**	**73**
Total[(3)]	**20,900**	**21,014**	**20,271**	**20,645**	**24,118**

Notes:

(1) Certain figures in this table differ from previously published data due to the 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 2008, the Republic issued the following Eurobonds under the Program:

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

- U.S.$731,612,000 9.000% Notes due 2014 (Series 49, Tranche 1) were issued on 2 May 2008. The Series 49, Tranche 1 Notes were issued as part of a voluntary exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding U.S.$250,000,000 7.00% Notes due 2008, U.S.$250,000,000 7.375% Notes due 2008 and U.S.$750,000,000 10.125% Notes due 2008 for new Notes.

- U.S.$150,000,000 9.000% Notes due 2014 (Series 49, Tranche 2) were issued on 12 May 2008. These Notes are consolidated and form a single series with the U.S.$731,612,000 9.000% Notes due 2014 issued by the Republic on 2 May 2008.

- U.S.$500,000,000 8.500% Notes due 2015 (Series 50) were issued on 6 August 2008.

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

- U.S.$424,261,000 7.50% Notes due 2012 (Series 51), U.S.$1,231,063,000 9.00% Notes due 2017 (Series 52), and €211,097,000 5.875% Notes due 2012 (Series 43, Tranche 3) were issued on 19 March 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% Notes due 2009, U.S.$650,000,000 10.25% Notes due 2009, U.S.$625,000,000 Floating Rate Notes due 2009, U.S.$425,000,000 7.00% Notes due 2009 and €225,000,000 7.25% Notes due 2009 for new Notes.

- U.S.$175,739,000 7.50% Notes due 2012 (Series 51, Tranche 2) were issued on 19 March 2009 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the U.S.$424,261,000 7.00% Notes due 2012 (Series 51) issued by the Republic on the same day.

- U.S.$268,937,000 9.00% Notes due 2017 (Series 52, Tranche 2) were issued on 19 March 2009 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the U.S.$1,231,063,000 9.00% Notes due 2017 (Series 52) issued by the Republic on the same day.

- U.S.$250,000,000 5.875% Notes due 2015 (Series 53) were issued on 3 December 2009.

- U.S.$250,000,000 7% Notes due 2024 (Series 54) were issued on 3 December 2009.

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

- U.S.$1,200,000,000 6.375% Notes due 2020 (Series 55) were issued on 9 March 2010.

- U.S.$500,000,000 5.15% Notes due 2018 (Series 56, Tranche 1) were issued on 12 November 2010.

- U.S.$225,000,000 6.10% Notes due 2022 (Series 57, Tranche 1) were issued on 12 November 2010.

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

- U.S.$265,000,000 6.10% Notes due 2022 (Series 57, Tranche 2) were issued on 18 January 2011, which were consolidated and form a single series with the U.S.$225,000,000 6.10% Notes due 2022 (Series 57, Tranche 1) issued by the Republic on 12 November 2010.

- U.S.$350,000,000 6.10% Notes due 2022 (Series 57, Tranche 3) were issued on 20 May 2011, which were consolidated and form a single series with the U.S.$225,000,000 6.10% Notes due 2022 (Series 57, Tranche 1) issued by the Republic on 12 November 2010 and the U.S.$265,000,000 6.10% Notes due 2022 (Series 57, Tranche 2) issued by the Republic on 18 January 2011.

- U.S.$650,000,000 6.00% Notes due 2019 (Series 58) were issued on 20 May 2011.

- U.S.$700,000,000 6.10% Notes due 2022 (Series 57, Tranche 4) were issued on 2 August 2011, which were consolidated and form a single series with the U.S.$225,000,000 6.10% Notes due 2022 (Series 57, Tranche 1) issued by the Republic on 12 November 2010 and the U.S.$265,000,000 6.10% Notes due 2022 (Series 57, Tranche 2) issued by the Republic on 18 January 2011 and the U.S.$350,000,000 6.10% Notes due 2022 (Series 57, Tranche 3) issued by the Republic on 20 May 2011.

- U.S.$500,000,000 4.75% Notes due 2016 (Series 59) were issued on 2 August 2011.

- U.S.$433,183,000 5.45% Notes due 2019 (Series 60), U.S.$235,537,000 6.60% Notes due 2026 (Series 61), and €420,942,000 5.35% Notes due 2018 (Series 62) were issued on 28 November 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% Notes due 2012, U.S.$600,000,000 7.50% Notes due 2012 and €535,639,000 5.875% Notes due 2012 for new Notes.

- U.S.$66,817,000 5.45% Notes due 2019 (Series 60, Tranche 2) were issued on 28 November 2011 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the U.S.$433,183,000 5.45% Notes due 2019 (Series 60) issued by the Republic on the same day.

- U.S.$139,463,000 6.60% Notes due 2026 (Series 61, Tranche 2) were issued on 28 November 2011 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the U.S.$235,537,000 6.60% Notes due 2026 (Series 61) issued by the Republic on the same day.

- €24,058,000 5.35% Notes due 2018 (Series 62, Tranche 2) were issued on 28 November 2011 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the €420,942,000 5.35% Notes due 2018 (Series 62) issued by the Republic on the same day.

In 2012, the Republic issued the following Eurobonds under the Program:

- U.S.$350,000,000 6.60% Notes due 2026 (Series 61, Tranche 3) were issued on 12 April 2012 and were consolidated and form a single series with the U.S.$235,537,000 6.60% Notes due 2026 (Series 61, Tranche 1) issued by the Lebanese Republic on 28 November 2011 and the U.S.$139,463,000 6.60% Notes due 2026 (Series 61, Tranche 2) issued by the Lebanese Republic on 28 November 2011.

- U.S.$600,000,000 5.00% Notes due 2017 (Series 63) were issued on 12 April 2012.

- U.S.$500,000,000 4.10% Notes due 2015 (Series 64) were issued on 12 June 2012 to BDL as part of a debt replacement transaction.

- U.S.$700,000,000 5.15% Notes due 2018 (Series 65) were issued on 12 June 2012 to BDL as part of a debt replacement transaction.

- U.S.$800,000,000 6.25% Notes due 2025 (Series 66) were issued on 12 June 2012 to BDL as part of a debt replacement transaction.

- U.S.$185,318,000 5.15% Notes due 2018 (Series 56, Tranche 2) (which were consolidated with the U.S.$500,000,000 5.15% Notes due 2018 (Series 56, Tranche 1) issued by the Republic on 12 November 2010), U.S.$384,862,000 6.00% Notes due 2023 (Series 67, Tranche 1) and U.S.$131,212,000 6.75% Notes due 2027 (Series 68, Tranche 1) were issued on 29 November 2012, as part of a voluntary exchange offer pursuant to which the Republic offered to exchange any and all of its

outstanding U.S.$875,000,000 9.125% Notes due 2013 and U.S.$650,000,000 8.625% Notes due 2013 for new Notes.

- U.S.$339,682,000 5.15% Notes due 2018 (Series 56, Tranche 3) (which were consolidated with the U.S.$500,000,000 5.15% Notes due 2018 (Series 56, Tranche 1) issued by the Republic on 12 November 2010 and the U.S.$185,318,000 5.15% Notes due 2018 (Series 56, Tranche 2) issued by the Republic on the same day) were issued on 29 November 2012 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the U.S.$500,000,000 5.15% Notes due 2018 issued by the Lebanese Republic on 12 November 2010 and the U.S.$185,318,000 5.15% Notes due 2018 issued by the Republic on 29 November 2012.

- U.S.$115,138,000 6.00% Notes due 2023 (Series 67, Tranche 2) were issued on 29 November 2012 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the U.S.$384,862,000 6.00% Notes due 2023(Series 68, Tranche 1) issued by the Republic on the same day.

- U.S.$368,788,000 6.75% Notes due 2027 (Series 68, Tranche 2) were issued on 29 November 2012 for cash in a separate tranche contemporaneously with the completion of the aforementioned exchange offer and were consolidated and form a single series with the U.S.$131,212,000 6.75% Notes due 2027 (Series 68, Tranche 1 Notes) issued by the Republic on the same day.

- U.S.$1,000,000,000 5.45 per cent. Notes due 2019 (Series 60, Tranche 3) (which were consolidated with the U.S.$433,183,000 5.45 per cent. Notes due 2019 and the U.S.$66,817,000 5.45 per cent. Notes due 2019 issued by the Lebanese Republic on 28 November 2011) were issued on 20 December 2012 to BDL as part of a debt replacement transaction.

In addition, on 25 April 2005, BDL issued Euro deposit certificates in foreign currencies (the "**Certificates**") in an aggregate principal amount of U.S.$2 billion. The Certificates have a maturity of 10 years, an interest rate of 10% and were issued at a price of 96.95% 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 sets forth the Republic's public external debt by currency as at the dates indicated.

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

	As at 31 December									
	2008		**2009**		**2010**		**2011**		**2012**	
	(U.S.$ millions)	(%)	*(U.S.$ millions)*	(%)	*(U.S.$ millions)*	(%)	*(U.S.$ millions)*	(%)	*(U.S.$ millions)*	(%)
Swiss Francs	11	0.05	9	0.04	6	0.03	3	0.01	2	0.01
China Yuan Renminbi	7	0.03	7	0.03	8	0.04	8	0.04	8	0.03
Euros[(3)]	1,885	9.02	1,800	8.57	1,581	7.80	1,490	7.22	1,359	5.64
Islamic Dinars	224	1.07	234	1.11	175	0.86	149	0.72	174	0.72
Japanese Yen	64	0.31	63	0.30	71	0.35	70	0.34	77	0.32
Kuwaiti Dinars	526	2.52	506	2.41	516	2.55	528	2.56	556	2.31
Saudi Arabian Riyals	88	0.42	84	0.40	88	0.43	95	0.46	101	0.42
SDRs	125	0.60	157	0.75	133	0.66	80	0.39	28	0.12
U.A.E. Dirhams	2	0.01	2	0.01	5	0.03	8	0.04	11	0.05
U.S. Dollars	17,966	85.96	18,151	86.38	17,688	87.26	18,212	88.21	21,801	90.40
Total	**20,900**	**100.00**	**21,014**	**100.00**	**20,271**	**100.00**	**20,645**	**100.00**	**24,118**	**100.00**

Notes:

(1) Certain figures in this table differ from previously published figures due to the 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 on 1 January 1999 at the start of the third stage of the European Economic and Monetary Union.

The following table sets forth the Republic's public external debt projections and estimated future disbursements of contracted amounts for the periods indicated as at 31 January 2013.

Public Sector External Debt Service[1]

	2013	2014	2015	2016	2017	2018
			(U.S.$ millions)			
Total External Debt Service	**2,980.9**	**3,654.2**	**3,174.0**	**3,364.3**	**3,714.6**	**3,359.4**
Principal Payments	***1,553.1***	***2,298.3***	***1,932.3***	***2,266.1***	***2,787.6***	***2,573.8***
Principal Repayment–Loans	*358.8*	*335.6*	*265.6*	*226.0*	*222.1*	*200.7*
Principal Repayment–Expropriation Bonds	—	*18.5*	*30.9*	*4.3*	*19.8*	—
Principal Repayment–Eurobonds	*1,194.4*	*1,944.3*	*1,635.8*	*2,035.8*	*2,545.8*	*2,373.1*
Eurobond (U.S.$) 2013	483.6	—	—	—	—	—
Eurobond (U.S.$) 2013	130.8	—	—	—	—	—
Eurobond (U.S.$) 2013	209.2	—	—	—	—	—
Eurobond (U.S.$) 2014	—	676.9	—	—	—	—
Eurobond (U.S.$) 2014	—	731.6	—	—	—	—
Eurobond (U.S.$) 2014	—	150.0	—	—	—	—
Eurobond (U.S.$) 2015	—	—	500	—	—	—
Eurobond (U.S.$) 2015	—	—	500	—	—	—
Eurobond (U.S.$) 2015	—	—	250	—	—	—
Eurobond (U.S.$) 2016	—	—	—	400	—	—
Eurobond (U.S.$) 2016	—	—	—	750	—	—
Eurobond (U.S.$) 2016	—	—	—	500	—	—
Eurobond (U.S.$) 2017	65	65	65	65	65	—
Eurobond (U.S.$) 2017	—	—	—	—	600.0	—
Eurobond (U.S.$) 2017	—	—	—	—	1,231.1	—
Eurobond (U.S.$) 2017	—	—	—	—	268.9	—
Eurobond (U.S.$) 2017	187	187	187	187	187	—
Eurobond (U.S.$) 2017	13.8	13.8	13.8	13.8	13.8	—
Eurobond (U.S.$) 2017	15	30	30	30	90	—
Eurobond (U.S.$) 2018	70	70	70	70	70	35
Eurobond (U.S.$) 2018	—	—	—	—	—	700
Eurobond (U.S.$) 2018	—	—	—	—	—	500
Eurobond (U.S.$) 2018	—	—	—	—	—	185.3
Eurobond (U.S.$) 2018	—	—	—	—	—	339.7
Eurobond (€) 2018	—	—	—	—	—	603.1
Eurobond (U.S.$) 2018	20	20	20	20	20	10
Interest & Commissions	***1,427.8***	***1,355.9***	***1,241.7***	***1,098.2***	***927.0***	***785.6***
Loans	*86.1*	*79.0*	*65.0*	*55.0*	*47.4*	*38.5*
Expropriation & contractors bonds	*3.6*	*3.6*	*2.6*	*1.2*	*0.5*	—
Coupon Payments	*1,338.2*	*1,273.2*	*1,174.1*	*1,042.0*	*879.1*	*747.1*
Eurobond (U.S.$) 2013	22.1	—	—	—	—	—
Eurobond (U.S.$) 2013	5.6	—	—	—	—	—
Eurobond (U.S.$) 2013	9.0	—	—	—	—	—
Eurobond (U.S.$) 2014	49.9	25.0	—	—	—	—
Eurobond (U.S.$) 2014	65.8	32.9	—	—	—	—
Eurobond (U.S.$) 2014	13.5	6.8	—	—	—	—
Eurobond (U.S.$) 2015	42.5	42.5	42.5	—	—	—
Eurobond (U.S.$) 2015	20.5	20.5	10.3	—	—	—
Eurobond (U.S.$) 2015	7.3	14.7	7.3	—	—	—
Eurobond (U.S.$) 2016	46.5	46.5	46.5	23.3	—	—
Eurobond (U.S.$) 2016	31.9	63.8	63.8	31.9	—	—
Eurobond (U.S.$) 2016	23.8	23.8	23.8	23.8	—	—
Eurobond (U.S.$) 2017	30	30	30	30	30	—
Eurobond (U.S.$) 2017	110.8	110.8	110.8	110.8	55.7	—
Eurobond (U.S.$) 2017	15.4	12.2	8.9	5.7	2.4	—

	2013	2014	2015	2016	2017	2018
			(U.S.$ millions)			
Eurobond (U.S.$) 2017	24.2	24.2	24.2	24.2	12.2	—
Eurobond (U.S.$) 2017	35.5	28.1	20.6	13.1	5.6	—
Eurobond (U.S.$) 2017	2.6	2.1	1.5	1.0	0.4	—
Eurobond (U.S.$) 2017	3.7	6.5	5.3	4.2	3.1	—
Eurobond (U.S.$) 2018	18.4	14.9	11.4	7.9	4.4	0.9
Eurobond (U.S.$) 2018	36.1	36.1	36.1	36.1	36.1	18.0
Eurobond (U.S.$) 2018	25.8	25.8	25.8	25.8	25.8	25.8
Eurobond (U.S.$) 2018	9.5	9.5	9.5	9.5	9.5	9.5
Eurobond (U.S.$) 2018	17.5	17.5	17.5	17.5	17.5	17.5
Eurobond (U.S.$) 2018	5.3	4.3	3.3	2.3	1.3	0.3
Eurobond (€) 2018	32.3	32.3	32.3	32.3	32.3	32.3
Eurobond (U.S.$) 2019	39.0	39.0	39.0	39.0	39.0	39.0
Eurobond (U.S.$) 2019	27.3	27.3	27.3	27.3	27.3	27.3
Eurobond (U.S.$) 2019	54.5	54.5	54.5	54.5	54.5	54.5
Eurobond (U.S.$) 2020	76.5	76.5	76.5	76.5	76.5	76.5
Eurobond (U.S.$) 2021	75.2	75.2	75.2	75.2	75.2	75.2
Eurobond (U.S.$) 2021	61.9	61.9	61.9	61.9	61.9	61.9
Eurobond (U.S.$) 2021	35.6	35.6	35.6	35.6	35.6	35.6
Eurobond (U.S.$) 2022	13.7	13.7	13.7	13.7	13.7	13.7
Eurobond (U.S.$) 2022	16.2	16.2	16.2	16.2	16.2	16.2
Eurobond (U.S.$) 2022	21.4	21.4	21.4	21.4	21.4	21.4
Eurobond (U.S.$) 2022	42.7	42.7	42.7	42.7	42.7	42.7
Eurobond (U.S.$) 2023	15.3	23.1	23.1	23.1	23.1	23.1
Eurobond (U.S.$) 2023	4.6	6.9	6.9	6.9	6.9	6.9
Eurobond (U.S.$) 2024	17.5	17.5	17.5	17.5	17.5	17.5
Eurobond (U.S.$) 2025	50	50	50	50	50	50
Eurobond (U.S.$) 2026	24.8	24.8	24.8	24.8	24.8	24.8
Eurobond (U.S.$) 2026	23.1	23.1	23.1	23.1	23.1	23.1
Eurobond (U.S.$) 2027	24.9	24.9	24.9	24.9	24.9	24.9
Eurobond (U.S.$) 2027	8.9	8.9	8.9	8.9	8.9	8.9

Note:

(1) The amortization schedule is as of 31 January 2013 based on outstanding amounts. The applicable exchange rate used to calculate amounts denominated in Euros is U.S.$1.355 = €1.00.

Source: Ministry of Finance

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

On 25 March 2009, pursuant to Law № 450, the Republic issued U.S.$18.483 million in aggregate principal amount of notes to settle certain expropriation claims. The notes mature in March 2014 and carry interest at a rate of 6%.

On 22 April 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%. On 15 July 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%. On 30 November 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%.

On 19 September 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%.

On 23 January 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 2017 and carry interest at a rate of 4.70%. On 6 December 2012, pursuant to Law № 450, the Republic issued U.S.$3.2 million in aggregate principal amount of notes to settle expropriation claims. The notes mature in December 2017 and carry interest at a rate of 4.90%.

On 7 February 2013, pursuant to Law № 69, the Republic issued U.S.$16.9 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in February 2018 and carry interest at a rate of 4.04%.

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 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.