

2000 BUDGET LAW

A brief presentation

2000 Budget Law is prepared in light of the 5-year fiscal adjustment plan and in the objective of containing the fiscal deficit. In this regard, the budget deficit is targeted to be reduced to 37.26% of total expenditures in a general economic environment characterized by an estimated inflation rate of 2.2% and a real growth rate of 1.8%. This decrease in the budget deficit is due to efforts undertaken to reduce expenditures and enhance revenues.

Budget summary, 1999-2000
(In billion of LL)

	1999 Actuals	2000 Law	Budget
I- Budget Expenditures	8,452	8,590	
1- Current Expenditures	7,321	7,854	
of which interest payments	3,624	3,900	
2- Capital Expenditures	1,131	736	
II- Budget revenues	4,868	5,389	
III- Budget Defecit (II-I)	-3,584	-3,201	
IV- Primary Surplus (Excluding interest payments)	40	699	
V- Ratio Deficit / Expenditures	-42.40%	-37.26%	

2000 expenditure projections are generally based on 3 major sets of measures:

- Reducing current expenditures,
- Rationalizing capital expenditures, and
- Stabilizing the personnel cost bill (which is expected to be reduced gradually overtime through privatization and administrative reform)

2000 Budget Law also includes a number of assumptions on the revenue front:

- The revenue impact of some 1999 direct tax measures (detailed on page 3) will only come into effect in January 2000.

- 2000 Budget Law includes a number of additional revenue measures such as the turnover-based tax on corporations, individual companies, and professionals which will be detailed in the revenue section,
- 2000 Budget Law also took into consideration the ongoing efforts to improve revenue collections at the Ministry of Finance.

These combined efforts, both on the revenue and the expenditure fronts will generate a primary surplus of 8% of total expenditures. The primary surplus will help the government gradually overcome the fiscal problem and start decreasing the debt burden. The decrease in debt will therefore be due to 3 major reasons:

- Continuous primary surpluses,
- Better debt management,
- Privatization receipts (at a later stage)

In the context of a better debt management strategy, and according to debt restructuring laws enacted by Parliament, the Government is substituting high cost, long-term domestic debt by low cost, longer dated foreign debt within a maximum ratio of 65% (domestic) and 35% (foreign).

2000 Budget Law includes an article permitting the Government to issue USD 1 billion in international capital markets for the purpose of restructuring short-term costly domestic debt with longer-dated foreign debt. Naturally, this replacement of domestic debt by foreign debt will contribute in reducing interest rates burden on the budget.

1. Budget revenues

2000 revenues are projected to amount to LL 5,389 constituting an increase of 10% over 1999 actual revenues. Some of the measures that have generated the above mentioned revenues are spelled out below:

- The following various direct tax measures enacted in the context of 1999 Budget law will become effective in January 2000.
 1. Increasing rates and progressiveness of income taxes on wages and salaries: maximum rate was augmented from 10% to 20% characterized by additional progressiveness in brackets.
 2. Increasing rates and progressiveness of income taxes on industrial, commercial, and non-commercial professions: maximum rate was augmented from 10% to 21% characterized by additional progressiveness in brackets.
 3. Increasing flat rates of corporate taxes on profits from 10% to 15%.
 4. Increasing flat rates of tax on income derived from movable capital from 5% to 10%.
 5. Increasing flat rates of corporate dividends from 5% to 10%.

6. Increasing rates and progressiveness of inheritance tax rates: maximum rate was augmented from 10% to 16% characterized by additional progressiveness in brackets.
7. Increasing rates and progressiveness of built property taxes: maximum rate was augmented from 10% to 13% characterized by additional progressiveness in brackets.

The revenue impact of those measures, the accompanying revenue enhancement and enforcement of collection and controls and the settlement of previous years' income taxes is expected to amount to around LL 150 billion in comparison with 1999 Actuals.

- The expected seashore violation fees will boost revenues by LL 150 billion.
- The adoption of a flat professional tax on corporations, individual companies and professionals in anticipation of the introduction of the VAT in 2001 (and will remain beyond 2001) will yield LL 50 billion. This tax will be levied according to the following schedule:
 - Annual tax of LL 2 million (around USD 1,330) on Lebanese joint stock companies
 - Annual tax of LL 750,000 (around USD 500) on limited liability companies and other corporations
 - Annual tax of LL 550,000 (around USD 366) on individual companies taxable according to real profits
 - Annual tax of LL 250,000 (around USD 166) on taxpayers taxable according to lump-sum profits
 - Annual tax of LL 50,000 (around USD 33) on taxpayers taxable according to estimated profits

The flat professional tax is applicable regardless of the year-end result of concerned companies.

- Transfers from the surplus of the telecommunications budget will amount to LL 653 billion (compared to LL 580 billion in 1999 Budget Law).[\[1\]](#)

2. Budget expenditures:

Based on the expected level of revenues and with the objective of containing the fiscal deficit within the limits of 37.26%, 2000 expenditures are expected to amount to LL 8,590 billion. A closer look at expenditures yields to the following observations:

- A necessary increase in the retirement bill of LL 131 billion
- An increase of LL 95 billion in social spending (health, social affairs, and education).
- 2000 Budget Law divides capital spending (totaling LL 1,270 billion) into the following 2 items:
 - a. Part II budget expenditures amounting to LL 736 billion

- b. Domestically loan-financed capital spending for the Council for Development and Reconstruction and the Displaced Fund amounting to LL 534 billion (LL 295 billion for the CDR and LL 239 billion for the Displaced Fund)
- Spending on heavy infrastructure is being replaced by social infrastructure spending such as water and waste water

3. Various incentives

2000 Budget Law contains incentives to promote the development of domestic capital markets and to encourage the capitalization of private companies. These incentives are materialized by the reduction of the tax on dividends by 50%, i.e. from 10% to 5% for the following two types of companies:

- Companies which choose to list on the Beirut Stock Exchange.
- Companies which choose to issue GDRs equivalent to a minimum of 20% of their stock listed on the Beirut Stock Exchange.
- Companies which choose to open their capital by 20% to Arab companies listed on their local stock exchanges and to foreign companies listed on the stock exchange of OECD countries.

4. 2000 Budget Deficit, Primary Surplus, and Financing:

The primary budget surplus is expected to reach LL 699 billion, which constitutes around 8% of total expenditures compared to 6% in the 1999 budget and to 12% in 1999 budget outcome.

2000 budget deficit amount to LL 3,201 billion, which represents 37.26% of total expenditures, compared to 40% in Budget 1999 and to 38% in 1999 outcome.

2000 Budget Law includes a provision to decrease Parliament's permission for issuance of debt in international capital markets from USD 2 billion in 1998 and 1999 to USD 1 billion in 2000 due to declining financing requirements.

[1]The annex budgets such as telecommunications are extra budgetary units whereby a transfer occurs from the annex budgets to the general budget in case of a surplus and in the opposite direction in case of a deficit.

**Administrative Classification, 2000 Budget Law
(LL billion)**

Section No	Sections	Expenditures (part 1)	Expenditures (part 2)	Total Expenditures 2000
1	Presidency of the Republic	3	1	3
2	Parliament	40	1	40
3	Presidency of Council of Ministers	184	407	590
4	Ministry of Justice	42	0	42
5	Ministry of Foreign Affairs	85	2	88
6	Ministry of the Interior	360	15	375
7	Ministry of Finance	1,010	12	1,022
8	Ministry of National Defense	833	37	871
9	Ministry of Education & Fine Arts	483	14	497
10	Ministry of Public Health	272	2	274
11	Ministry of Labour	66	0	66
12	Ministry of Information	21	5	26
13	Ministry of Public Works	16	125	141
14	Ministry of Agriculture	32	1	34
15	Ministry of Economy & Trade	11	3	14
16	Ministry of Post & Telecommunications	12	0	12
17	Constitutional Council	2	1	3
18	Ministry of Hydraulic & Electric Resources	6	74	80
19	Ministry of Tourism	7	0	7
20	Ministry of Oil	19	0	20
21	Ministry of Housing & Cooperatives	3	0	3
22	Ministry of Displaced Affairs	6	0	6
23	Ministry of Municipal & Rural Affairs	1	0	1
24	Ministry of Vocational & Technical Training	39	6	44
25	Ministry of Social Affairs	92	0	93
26	Ministry of Emigrant Affairs	3	0	4
27	Ministry of Transportation	26	24	50

28	Ministry of Culture & Higher Education	161	5	166
29	Ministry of the Environment	2	1	3
30	Ministry of Industry	3	0	3
31	Debt Servicing	3,900		3,900
32	Budget Reserves	115		115
	SUB-TOTAL (LBP)	7,854	737	8,591
7	National Lotery	69	0	69
15	Grains & Sugar Beet Office	75	0	75
16	Telecommunications	858	92	950
	SUB-TOTAL (LBP)	1,002	93	1,094
	TOTAL (LBP)	8,856	830	9,686

Comparison of 1999 and 2000 Budget Laws

	1999 Budget Law	2000 Budget Law
I- Budget Expenditures (1+2)	8,395	8,590
1. Current Expenditures	7,497	7,854
of which interest payments	3,900	3,900
2. Capital Expenditures	898	736
II- Budget Revenues	4,990	5,389
III- Budget Deficit (II-I)	-3,405	-3,201
IV- Primary Surplus (excluding interest payments)	495	699
V- Ratio Deficit/ Expenditures	-40.56%	-37.26%

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Economic Classification, 2000 Budget Law
(LL billion)

Code	Total Expenditures	2000
11	Materials and supplies	138
12	External Services	100
13	Salaries and Wages	1,926
14	Subsidies and Transfers	1,456
16	Other Expenses	243
17	Interest Payments and Financial Charges	3,900
18	Unallocated General Reserves	93
	TOTAL CURRENT EXPENDITURES	7,854
221	Acquisitions of Land	1
222	Acquisitions of Buildings	7
223	Acquisitions for the Construction of Roads, Ports, and Airports	2
224	Acquisitions for the Construction of Water Networks	10
225	Acquisitions for the Construction of Electricity Networks	
226	Equipment	54
227	Construction in Progress	561
228	Maintenance	81
229	Other Expenditures Related to Fixed Capital Assets	19
	TOTAL CAPITAL EXPENDITURES	736
	GRAND TOTAL	8,590

Functional Classification, 2000 Budget Law

(LL billion)

Main Functions	2000
GENERAL GOVERNMENTAL SERVICES	2,596
General Public Services	1,283
Defense Affairs and Services	958
Public Order and Safety Affairs	355
COMMUNITY AND SOCIAL SERVICES	1,233
Education Affairs and Services	673
Health Affairs and Services	274
Social and Welfare Affairs and Services	134
Housing and Community Amenity Affairs and Services	88
Recreational and Cultural Affairs and Services	61
Religious Affairs and Services	2
ECONOMIC SERVICES	746
Agriculture Affairs and Services	41
Manufacturing, Fuel and Energy Affairs and Services	27
Transportation and Communication Affairs and Services	187
Other Economic Affairs and Services	492
MULTI-FUNCTIONAL EXPENDITURES	4,015
Public Debt Transactions	4,015
Non-classified Budgetary Expenditures	
Reserves	
MULTI-FUNCTIONAL EXPENDITURES	8,590

Revenues, 2000 Budget Law

LL billion

Total Revenues	2000
Tax on income, profits and capital gains	683
Tax on property	425
Domestic taxes on goods and services	1,091
Taxes on international trade and transactions	1,250
Other taxes	282
Total Tax Revenues	3,731
Income from Public Enterprises	788
Administrative fees and charges	545
Fines and confiscations	17
Other non-tax revenue	308
Total Non-Tax Revenues	1,658
GRAND TOTAL	5,389
