



**REPUBLIC OF LEBANON**  
MINISTRY OF FINANCE

## **2001 BUDGET LAW**

### ***Brief summary***

Since its inception, the Cabinet's primary challenge has been to control the development of fiscal imbalances while stimulating economic growth. Realizing the importance of the private sector in reviving the economy by placing it back on the world business map, the government is keen on treating this sector as a full partner in its efforts to stimulate the economy. Moreover, one of the top priorities of the government is to maintain a stable monetary policy, through curbing inflation and maintaining a stable exchange rate.

As a signal of its commitment to stimulate the economy and place it back on the road to recovery, the government immediately undertook a series of measures such as the adoption of the 'Open Skies Policy' and the reduction of custom duties. These measures were followed by other actions stated in the "Recent Economic Measures: Six Months of Economic Reforms", published on the Ministry of Finance's website.

The adopted measures reflect the government's commitment to address the fiscal imbalances, to eliminate the barriers deterring the inflow of productive investments into the country, and to unleash a virtuous circle of steady economic growth. The 2001 budget law was prepared in this frame of mind and constituted a continuation of this economic vision.

### **The 2001 Budget law**

The macroeconomic assumptions underlying the 2001 budget law place the inflation and real growth rates at 2% and 3% respectively, as opposed to a projected level of 1.8% for inflation and 2.2% for anticipated growth in the 2000 budget law and to realized levels of 0 percent for both real growth and inflation.

<b>BUDGET 2000-2001</b> (In LL billion)			
	<b>2000 Budget Law</b>	<b>2000 Budget Actual</b>	<b>2001 Budget Law</b>
<b>I. Budget Expenditure (1+2)</b>	<b>8,590</b>	<b>8,190</b>	<b>9,900</b>
1. Current Expenditure	7,854	n/a	8,712
Of which:			
Interest payment	3,900	4,197	4,300
2. Capital Expenditure	736	n/a	1,188
<b>II. Budget Revenues</b>	<b>5,389</b>	<b>4,089</b>	<b>4,900</b>
Of which:			
<b>Tax revenues</b>	<b>3,731</b>	<b>2,917</b>	<b>3,447</b>
Including:			
Customs duties and excise duties collected at customs	2,341	1,750	1,762
Income & Profit tax	683	486	758
Property tax	425	274	403
<b>Non-tax revenues</b>	<b>1,658</b>	<b>1,168</b>	<b>1,453</b>
<b>Other Treasury Revenues</b>		<b>4</b>	
<b>III. Budget Deficit (II-I)</b>	<b>-3,201</b>	<b>-4,101</b>	<b>-5,000</b>
<b>Primary Balance (Excluding interest payment)</b>	<b>699</b>	<b>96</b>	<b>-700</b>
<b>Ratio Deficit/Expenditure</b>	<b>-37.26%</b>	<b>-50.07%</b>	<b>-50.5%</b>

According to the above-table, the following can be noted:

1. Revenues from income taxes and property taxes were calculated based on the anticipated growth rates for the year 2001 and the actual 2000 figures,
2. Domestic taxes on goods and services exclude revenues from the VAT since the implementation of this tax will only start in 2002 in order to allow a breathing space for the economy and to further enhance preparations for its introduction,
3. Revenues from taxes on international trade were based on actual 2000 figures and took into consideration the decline in customs rates that went into effect during the last month of 2000, a vital element for the economy's revival.

Revenues are expected to mount up to LL 4,900 billion, down by 12.5% from the level anticipated by the previous government (LL 5,600 billion). This decrease mainly attributed to the postponement of the VAT introduction until early 2002, which means that expected revenues of LL 700 billion will not be realized in 2001. However, revenues increased by 20% when compared to 2000 actual budget revenues (LL 4,091 billion), and up by 7.6% when compared to 2000 actual figures including treasury (LL 4,552 billion). The reason behind this increase is detailed in the next section.

2001 budget expenditures are estimated at LL 9,900 billion, up by 9.3% when compared to the expenditure level proposed in the 2001 retrieved budget proposal (LL 9,055 billion). This increase in the level of expenditures is mainly attributed to the re-incorporation of the extra-budgetary items (provisions allocated to CDR, and Fund for the Displaced) amounting to LL 666 billion that were counted as outside the budget in the previous government's budget proposal.

Expenditures are anticipated to increase by 21% when compared to 2000 actual budget figures (LL 8,190 billion) and to decrease by 3.3% when compared to total expenditures including treasury (LL 10,424 billion).

The 2001 budget law expects debt service to correspond to 43.43% of public spending, amounting to a figure of LL 4,300 billion representing an increase of 4.87% over the level that was projected in the previous government's retrieved budget proposal (LL4, 100 billion), and an increase of 2.45% over the actual figure for the year 2000 (LL 4,197 billion).

Given these conservative estimates, the current 2001 budget law is realistic with a budget deficit amounting to 50.5 %, as opposed to a lower level of 38.2% projected by the previous government's retrieved 2001 budget proposal. This 2001-projected deficit level is closer to the 2000 end-of-year budget deficit, which corresponded to around 50.1% of budget expenditures and a level of 56% of total expenditures including treasury.

### **1. Revenue details**

The 2001 Budget Law estimates revenues at LL 4,900 billion compared to LL 5,389 billion in the 2000 Budget Law. For a better comparison, one should look at the actual revenue figures for the year 2000 which amounted to LL 4,091 billion excluding treasury and LL 4,552 billion including treasury.

The final revenue figures for the fiscal year 2001 were attained following the introduction of a number of amendments to the original budget proposal submitted by the previous Cabinet to the Parliament. The incorporated changes include:

- (1) Decreasing the expected amount of transfer from the Ministry of Post and Telecommunication to the Government's treasury by LL 170 billion, reaching LL 630 billion compared to LL 800 billion. This decrease is due to the expected privatization of this public enterprise and due to the expected selling of the cellular licenses.

This increase in 2001 budget figure when compared to the actual revenue figure for the year 2000 is expected to result mainly from the following:

	<b>2001 Budget Law</b>	<b>2000 Actual</b>	<b>Difference</b>
Professional tax	LL 40 billion	--	LL 40 billion
Tax Amnesty*	LL 100 billion	--	LL 100 billion
Retirement Deductions	LL 80 billion	LL 11 billion	LL 69 billion
Other non tax Revenues	LL 285 billion	LL 16 billion	LL 269 billion

*\* Revenues from the statute of limitations are included under the "Income Tax" item illustrated in the budget 2000-2001 table (page 2), following the law's ratification by Parliament.*

By lowering rates on customs duties and by postponing the implementation of the VAT until the year 2002, the government expects to create a spiral effect that will mobilize the economy, eventually leading to a positive cycle that will help the government regain its revenue losses. The results of these policies have already started to show their effect especially on the customs reduction frontier where customs revenues amounted for LL 384 billion during the first half of this year compared to LL 456 billion during the same period last year and thus representing a decrease of only LL 72 billion compared to an expected decline of LL 112.5 billion, and thus representing an increase of 36% over expectations.

## **2. Expenditure details**

Expenditures in the 2001 Budget Law are divided as follows:

- Current expenditures amounting to LL 8,712 billion, equivalent to 88% of total expenditures (compared to 91% in the 2000 budget law) of which:
  - 24% is allocated for wages and salaries (LL 2,342 billion)
  - 43% is allocated for debt servicing (LL 4,300 billion)
- Capital expenditures amounting to LL 1,188 billion, equivalent to 12% of total expenditures (compared to 9% in the 2000 budget law), of which:
  - 56% is allocated for the Presidency of Council of Ministers details of which are illustrated in the following table (page 5)
  - 20% is allocated for the Ministry of Public Works and Transportation

Despite the fact that expenditures seem to have increased by around 16 % on a year-to-year basis, the actual increase remains much lower: the 2001 Budget Law estimates expenditures at LL 9,900 billion compared to LL 8,590 billion in the 2000 Budget Law. However, actual expenditures for the year 2000 amounted to LL 8,190 billion excluding treasury expenditure and LL 10,424 including treasury. Indeed, resorting to off-budget spending has allowed the previous government to maintain a lower spending figure (LL 8,190 billion). Nevertheless, should the funds allocated to the CDR and the fund for the displaced (from outside the budget) be incorporated in the budget, estimated public spending would have risen to LL 9,256 billion in the 2000 Budget Law; thus, bringing the annual increase in expenditures down from 16% to 7.85% only.

The final expenditure figures for the fiscal year 2001 were attained following the introduction of a number of amendments to the original budget proposal submitted by the previous Cabinet to the Parliament. The incorporated changes include:

- (1) Reincorporating the provisions allocated to the Council for Development and Reconstruction and the Fund for the Displaced – estimated at LL 666 billion – into the budget as part of the government’s capital expenditure. Thus, increasing capital expenditure from the previous proposal’s figure of LL 721 billion to LL 1,188 billion.

- (2) Regrouping the provisions for “Retirement and end of year indemnities” into a separate chapter. This allows a closer monitoring of this expenditure item, which is estimated to stand at a figure close to LL 978 billion.
- (3) Increasing the projected debt service by LL 200 billion to reach the final figure of LL 4,300 billion. The increase was introduced to account for a number of factors including macroeconomic variables and the realized interest payments.

An overview of the major sources of 2001 Budget expenditure increases as compared to 2000 Budget expenditure figures are illustrated in the following matrix:

(In Billion of LBP)

<b>Increase in line ministries' budgets</b>	<b>Budget Law 2001</b>	<b>Budget Law 2000</b>	<b>Difference</b>
<b>1-Ministry of Public Work &amp; Transportation</b>	286,795	190,495	96,300
<b>2- Presidency of the Council of Ministers, of which:</b>	977,988	590,276	387,712
- <i>CDR</i>	284	146	138
- <i>IDAL</i>	57.2	4	53.2
- <i>Council for the Execution of Development Projects</i>	152	---	152
<b>3- Total military &amp; security expenses, of which:</b>	2,066	1,963	103
- <i>Military &amp; security expenses including salaries and wages</i>	1,335	1,245	90
- <i>Retirement</i>	731	718	13

From the above table, it can be noted that investment promotion is given a high priority since IDAL's allocation has been increased by 14 times. Also, the increase in productive spending to CDR, Council for the Execution of Development projects, and the Ministry of Public Works and Transportation shows the government's focus on re-activating the economy. In the same line of reasoning the government is also accelerating the disbursement of existing concessional loans.

Both the amendments introduced to the budget along with the increases that were introduced by the government have helped sculpture the final expenditure and revenue forecasts.

### **3. Financing and Debt Management:**

The government is adopting various measures in order to dampen the level of the debt and its cost. The measures are divided among four means through which the government is planning to decrease the debt level:

- 1- Reduce the debt service through a **debt management strategy**, which entails replacing the existing short-term high cost domestic debt (average coupon payment of 13.2%) with a longer dated and lower cost foreign debt (average coupon payment of 9.2%). This will lead to a reduction of debt service by an average of 4%. This strategy is expected to continue until the ratio of foreign debt to total debt reaches 35%.
- 2- Control and decrease expenditures as well as improve revenue management through the activation and restructuring of the “Revenue Administration”,
- 3- Privatize public enterprises (such as Telecom, EDL, and Water utilities), with all proceeds to be used to decrease the level of debt, as stated by the privatization law, and consequently the level of debt servicing,
- 4- Activate the usage of concessional loans and grants

In order to proceed with these measures, 2001 budget law incorporates an article allowing the government to access international capital markets by an amount equivalent to USD 2 billion; as usual, this amount will be used to refinance maturing foreign bond and/or replacing maturing domestic currency denominated bills and bonds.