



BUDGET LAW 2002 A BRIEF NOTE

THE MAIN FIGURES OF 2002 BUDGET LAW

The main objective of the 2002 budget law is to exert a concerted effort to correct the country's fiscal imbalances in line with the fiscal consolidation called for by the Government and presented in its policy statement and in the 2001 budget statement. This budget, therefore, relies on a dual track of:

- (a) Decreasing **expenditures** from LL 9,900 billion or 39% of GDP in 2001 budget law to LL9,375 billion or 35% in 2002 budget law as well as rationalizing these expenditures in a more effective way (including the cost of debt service, where the increase is expected to be further contained due to privatization proceeds)
- (b) Increasing **revenues** from an actual level of 17% of GDP to around 20% through introducing new measures, raising some of the existing tax and fee rates, widening the tax base, and improving collection.

Consequently, the **budget deficit** is anticipated to decline from around 20% of GDP in the 2001 budget law to around 15% in 2002 budget law. The **primary budget balance** will shift from a deficit of around 2.8% of GDP in 2001 budget law to a surplus of 2.3% in the 2002 budget law, equivalent to an improvement of 5.1 percentage points of GDP.

Below, please find table 1 comparing 2002 budget law to 2001 budget law:

Table 1: Comparison of 2001 budget law versus 2002 budget law

	Budget 2001	Budget 2002	Magnitude of adjustment over '01 budget	Percentage of adjustment over '01 budget
Budget revenues	4,900	5,500	600	12%
1. Tax revenues	3,447	4,036	589	17%
2. Non-tax revenues	1,453	1,464	11	1%
Budget expenditures	9,900	9,375	-525	-5%
1. Current expenditures	8,711	8,551	-160	-2%
a. Debt service bill	4,300	4,500	200	5%
b. Other current expenditures	4,411	4,051	-360	-8%
2. Capital expenditures	1,189	824	-365	-31%
Budget deficit	-5,000	-3,875	1,125	-23%
Primary deficit / surplus	-700	625	1,325	189%

KEY OBJECTIVES OF 2002 BUDGET LAW

1. The 2002 budget law constitutes the turning point to **reverse the country's debt dynamics**. The main objective of this serious attempt at fiscal consolidation is to contain the growth of domestic public debt and to reduce the absorption of domestic resources by the public sector.
2. As can be seen in table 1, the 2002 budget law projects a **primary budget surplus** equivalent to 6.7% of expenditures and representing an absolute increase of LL 1,325 billion when compared to Budget 2001. Primary budget surpluses will continue over the medium-term, also allowing for a reversal in the debt dynamics and a gradual reduction in interest rates.
3. Through its aggressive attempt towards a sustained fiscal correction and broad-based structural reform, 2002 budget law will lay the foundations for enhancing both domestic and international **confidence**, for a recovery in growth, and for lower interest rates.
4. The 2002 budget law focuses on the provision of **more efficient services** to citizens through privatization and on a gradual decrease in the size of the public sector through cutting expenditures of most ministries and public entities.
5. Although the overall level of spending was decreased by around 4.4 percentage points of GDP when compared to 2001 budget law, the level of **social spending** in the 2002 budget law was maintained at roughly the same level of the 2001 budget law.

MAIN REASONS BEHIND THE CHANGES IN REVENUES AND EXPENDITURES

The 2002 budget law ushers in a decrease in the budget deficit to be attained through a reduction in expenditures, coupled with an augmentation of revenues. The main assumptions behind the modifications on the expenditure and revenue fronts are spelled out here below:

I. On the budget revenues front (please refer to table 2 for revenue details): Budget revenues are expected to amount to LL 5,500 billion, representing an increase of 3.18 percentage points of GDP or 28% compared to 2001 actual budget revenues. This increase is primarily due to the following causes:

I.a Tax revenues

1. The **tax on income, profits, and capital gains** is expected to increase by a conservative LL 23 billion or around 3.7%. The projected income from the tax regularization (which was ratified by Parliament in December 2001) is expected to yield LL100 billion in 2002.
2. The **tax on property** is anticipated to rise by an absolute amount of LL 59 billion or by 22% mainly due to the 24% increase in the revenues from the non-recurrent real estate registration fees. This rise shall be affected by the enactment of the new legislation governing property ownership by non-Lebanese, which increases the legal limits on foreign ownership of property, and lowers real estate registration fees to 5% for both Lebanese and foreign investors. This rise is also precipitated by the expected higher rate of growth.
3. **Domestic taxes on goods and services** will increase by LL 926 billion mainly due to:
 - a. The introduction of the VAT, which is projected to yield a conservative income of LL 800 billion (around 3% of GDP)
 - b. An increase of LL 300 billion due to consecutive rises in the excise on gasoline
4. **Taxes on international trade and transactions** are anticipated to increase by LL 23 billion compared to 2001. This increase is conservative given that 'taxes on international trade and transactions' took the following into consideration:
 - a. The decrease in tariffs on clothing and leather goods by 10%. More specifically, tariffs on imported clothing declined from 15% to 5% whereas tariffs on imported leather and products dropped from 20% to 10%.
 - b. The decline in tariffs on tobacco and products from 138% to 113%.
5. **Other tax revenues** will increase by LL 45 billion mainly owing to the following:
 - a. The professional tax has become effective with the ratification of the tax regularization law. This tax is expected to yield LL 40 billion in 2002.
 - b. The increase in the stamp duties on "aggregate quarries" by 25%.

I.b Non-tax revenues:

6. **Income from public enterprises** is estimated to increase by LL 98 billion mainly due to:
 - a. 8% increase of the revenues of the National Lottery Directorate

- b. increase in the transfers of the Central Bank from LL 21 billion to LL 135 billion in 2002 budget law due to the increase of the Central Bank Treasury Bills portfolio
- c. 3% increase in revenues from the surplus of the telecom

7. **Administrative fees and charges** are expected to grow by LL 58 billion in absolute terms or by 15%. This would be mainly attributable to the following modifications to a number of fees:

- a. License plates registration fees will increase by 50%
- b. Driving license fees will increase by more than 53%
- c. Passport fees will increase by 20%
- d. Residence permit fees will increase by more than 20%
- e. Foreigners' work permits will increase by 20%

Table 2: Actual 2001 versus 2002 Budget Law - Revenue Classification

(LL billion)

Revenue	Actual 2001	Budget Law 2002	Magnitude of adjustment over actual '01	Percentage of adjustment
Tax on income, profits and capital gains	627	650	23	4%
Tax on property	273	332	59	22%
Domestic taxes on goods and services*	1,014	1940	926	91%
Taxes on international trade and transactions	856	879	23	3%
Other tax revenues	190	235	45	24%
Total Tax Revenues	2,960	4,036	1,076	36%
Income from Public Enterprises	800	898	98	12%
Administrative fees and charges	386	444	58	15%
Fines and confiscations	34	11	-23	-68%
Other non-tax revenue	108	111	3	3%
Total Non-Tax Revenues	1,328	1,464	136	10%
Grand Total	4,288	5,500	1,212	28%

* Including excise taxes on gasoline, cars, cement, alcoholic beverages, tobacco and the VAT

II. On the budget expenditures front (please refer to attached tables 3 and 4): Budget expenditures are expected to amount to LL 9,375 billion, representing cuts of 5.3% when compared to 2001 budget law. Current expenditures were decreased by LL 361 billion (excluding debt service) mirroring the efforts of all ministries and public entities to contribute to the fiscal consolidation endeavor. The reduction is mainly due to the following factors:

1. A 22% **decrease in materials and supplies**, mainly due to a 15% decrease in the budget for materials and supplies across all ministries (excluding the electricity, water

and telephone bills), as well as additional reductions in Ministry of Defense expenditures.

2. A 13% **decline in external services**, mainly due to the 15% decrease across all ministries, with the exception of rental allocations and cleaning services.
3. A 1% **decrease in the wage bill** (article 13), mainly due to the decrease in allowances and benefits for public servants, including military personnel.
4. A decrease of 11% to the item entitled “**subsidies and transfers**” mainly caused by the following:
 - (a) Elimination of subsidies from the budget to the tobacco monopoly (LL 60 billion) and the Sugar Beet Office (LL 13 billion),
 - (b) Reduction of transfers to the oil refineries, the Green Plan, the Institution for Deposit Guarantees, the Institution for Research and Development, the state-run television station (Tele-Liban), as well as some transfers to non-profit organizations (among others).

Some of these public entities / institutions are expected to be privatized while others still have some unused carried-over funds.
5. A decline of 10% in “**other current expenditures**” largely due to the decline in the allocation for hospitalization expenses in the private sector owing to the availability of funds from previous year (s) and better allocation.
6. A contained increase of 5% in **interest payments** due to two main reasons:
 - (a) The expected distribution of 2002 financing between foreign and domestic debt,
 - (b) Expected privatization proceeds during 2002
7. A decrease of 31% in **capital expenditures** mainly attributable to the 45.4% decline in capital spending (part 2a), including maintenance and equipment. On the other hand, an effort was exerted to limit the decrease in medium-term investment projects (part 2b) to 8.2% compared to 2001 budget law.

TREASURY REVENUES AND EXPENDITURES

The Ministry of Finance expects **treasury revenues** to amount to LL 350 billion, somewhat less than 2001 treasury revenues which amounted to LL359 billion (including municipalities’ revenues). On the other hand, **treasury expenditures** are projected to amount to LL 750 billion.

FINANCING AND DEBT MANAGEMENT

The government is adopting the following **four measures** in order to reduce the level of the debt and its cost:

- 1- Improve debt management through legislation that allows the government to access the international capital markets by an amount equivalent to USD 2 billion in order to replace the existing short-term (average maturity = 21.6 months) high- cost domestic debt (average coupon payment = 14.34 percent) with a longer-term and lower-cost foreign debt.
- 2- Reduce the budget deficit by around 6 percentage points of GDP through decreasing expenditures as well as expanding revenues and improving their management.
- 3- Privatize certain public enterprises (such as Telecom, EDL, Water utilities, and the Tobacco monopoly), with all proceeds to be used to decrease the principal of the debt, as stipulated by the privatization law. This would consequently reduce the cost of debt servicing.
- 4- Activate the usage of the available USD 2.89 billion worth of concessional loans bearing an interest rate of 6 percent. Indeed, to date, Lebanon has only spent around USD 1 billion of the USD 2.89 billion.

DATE OF RATIFICATION BY PARLIAMENT

In compliance with the deadline stipulated by the public finance law, the 2002 budget proposal was approved by the Council of Ministers on September 6, 2001 and was ratified by the Parliament on February 4, 2002.

Table 3: 2001 Budget Law versus 2002 Budget Law – Administrative Classification
(LL thousand)

Sections	Current exp '01	Capital exp '01	Total exp 2001	Current exp '02	Capital exp '02	Total exp 2002	Magnitude of adjustment (‘01-‘02)	% adjustment
Presidency of the Republic	3,331	745	4,076	3,219	507	3,725	-351	-9%
Parliament	42,965	1,435	44,400	42,052	1,151	43,203	-1,197	-3%
Presidency of Council of Ministers	309,852	668,137	977,988	253,632	478,382	732,014	-245,974	-25%
Constitutional Council	1,777	6	1,783	1,708	4	1,712	-71	-4%
Ministry of Justice	47,033	2,780	49,813	45,813	2,643	48,456	-1,357	-3%
Ministry of Foreign Affairs	93,583	5,234	98,817	90,776	3,186	93,961	-4,856	-5%
Ministry of the Interior, Municipal and Rural Affairs	382,510	34,606	417,117	367,437	18,077	385,514	-31,603	-8%
Ministry of Finance	155,088	17,050	172,138	76,679	9,930	86,609	-85,529	-50%
Ministry of Public Works and Transportation	47,709	239,087	286,795	42,849	151,455	194,303	-92,492	-32%
Ministry of National Defense	852,007	34,748	886,755	798,299	13,596	811,895	-74,861	-8%
Ministry of Education & Fine Arts	728,923	83,685	812,608	727,094	64,832	791,926	-20,681	-3%
Ministry of Public Health	312,301	2,973	315,274	287,740	1,787	289,527	-25,747	-8%
Ministry of Economy and Trade	21,437	6,040	27,477	6,024	2,237	8,261	-19,216	-70%
Ministry of Agriculture	54,016	6,116	60,132	30,998	3,850	34,849	-25,284	-42%
Ministry of Post & Telecommunications	13,108	300	13,408	13,808	99	13,907	499	4%
Ministry of Labor	58,076	69	58,145	57,378	44	57,422	-723	-1%
Ministry of Information	19,024	4,924	23,948	20,230	866	21,096	-2,851	-12%
Ministry of Hydraulic & Electric Resources	27,545	52,390	79,935	11,838	51,489	63,328	-16,607	-21%
Ministry of Tourism	10,235	1,490	11,725	9,016	998	10,014	-1,711	-15%
Ministry of Culture & Higher Education	20,445	4,828	25,273	15,187	3,611	18,799	-6,475	-26%
Ministry of the Environment	3,238	5,755	8,993	3,373	2,022	5,395	-3,598	-40%
Ministry of Displaced Affairs	6,952	235	7,187	6,605	123	6,729	-458	-6%
Ministry of Youth and Sports	9,975	15,185	25,160	9,427	12,932	22,358	-2,801	-11%
Ministry of Social Affairs	106,573	148	106,721	106,118	61	106,179	-542	-1%
Ministry of Industry	6,364	95	6,459	5,128	61	5,188	-1,270	-20%
Debt Servicing	4,300,000		4,300,000	4,500,000		4,500,000	200,000	5%
Indemnity and End of Services	878,000		878,000	900,000		900,000	22,000	3%
Budget Reserves	199,874		199,874	118,631		118,631	-81,244	-41%
TOTAL	8,711,939	1,188,061	9,900,000	8,551,059	823,941	9,375,000	-525,000	-5%

Table 4: 2001 Budget Law versus 2002 Budget Law – Economic Classification
(LL thousand)

Total Expenditures	2001	2002	Magnitude of adjustment	% adjustment
Materials and supplies	170,462	132,226	-38,236	-22%
External Services	128,387	111,982	-16,405	-13%
Salaries and Wages	2,088,995	2,061,456	-27,539	-1%
Subsidies and Transfers	1,572,040	1,397,214	-174,826	-11%
Other Expenses	272,181	245,367	-26,814	-10%
Interest Payments and Financial Charges	4,300,000	4,500,000	200,000	5%
Unallocated General Reserves	179,874	102,814	-77,060	-43%
TOTAL CURRENT EXPENDITURES (including debt service)	8,711,939	8,551,059	-160,880	-2%
TOTAL CURRENT EXPENDITURES (excluding debt service)	4,411,939	4,051,059	-360,880	-8%
Acquisitions of Land	10,600	425	-10,175	-96%
Acquisitions of Buildings	22,500	2,550	-19,950	-89%
Acquisitions for the Construction of Roads, Ports, and Airports	2,000	2,763	763	38%
Acquisitions for the Construction of Water Networks	13,000	8,288	-4,713	-36%
Equipment	83,264	38,672	-44,592	-54%
Construction in Progress	954,864	677,196	-277,668	-29%
Maintenance	80,779	63,652	-17,127	-21%
Other Expenditures Related to Fixed Capital Assets	21,054	30,396	9,342	44%
TOTAL CAPITAL EXPENDITURES	1,188,061	823,941	-364,120	-31%
GRAND TOTAL	9,900,000	9,375,000	-525,000	-5%