



BUDGET LAW 2004 A BRIEF NOTE

This brief note presents the main points of the 2004 Budget Law, as it was approved by the Parliament on April 7, 2004.

I. Main figures of the 2004 Budget Law:

The main figures of the 2004 Budget Law are as follows:

(a) Budget revenues are anticipated to amount to LL 6,400 billion in the 2004 Budget Law, as compared to an actual level of LL 6,219 billion for year-end 2003. This represents an increase of LL 181 billion, or 2.9 percent. In terms of GDP¹, budget revenues are expected to remain relatively constant, at around 22-23 percent of GDP.

(b) Budget expenditures are expected to reach LL 9,400 billion in the 2004 Budget Law, up from LL 8,600 billion in the 2003 Budget Law, representing an increase of LL 800 billion, or 9.3 percent. As a percent of GDP, budget expenditures will increase by 1.1 percentage points of GDP, from 31.7 percent of GDP in the 2003 Budget Law to around 32.8 percent of GDP in 2004. This is less than the expected real GDP growth rate of around 3 percent for 2004². Compared to actual budget expenditure results for 2003, of LL 8,810 billion, the budgeted figure for 2004 demonstrates an increase of LL 590 billion from the 2003 actual level, or of 6.7 percent. In terms of GDP, budget expenditures are expected to remain almost constant at around 33 percent of GDP in both years.

Consequently, the **budget deficit** is anticipated to increase from around LL 2,125 billion, or 7.8 percent of GDP in the 2003 Budget Law, to a budget deficit of LL 3,000 billion, or around 10.5 percent of GDP in 2004 Budget Law, registering an increase of 2.7 percentage points of GDP. Compared to 2003 actual results, the budget deficit will increase from an actual level of LL 2,591 billion in 2003, or around

¹ Nominal GDP for 2003 is estimated at LL 27,121 billion, and nominal GDP for 2004 is estimated at LL 28,633 billion.

² As per the latest estimates, the real GDP growth rate for 2003 is 2 percent while the real GDP growth rate for 2004 is 3 percent. Please see the following page for more details on macroeconomic assumptions.

9.5 percent of GDP, to LL 3,000 billion in 2004, or around 10.5 percent of GDP, registering an increase of 1 percent of GDP.

The **primary budget balance** will also decline from a surplus of 6.9 percent of GDP in the 2003 Budget Law to a surplus of 4.5 percent of GDP in the 2004 Budget Law. Compared to actual figures for 2003, the primary budget surplus will decrease, according to the 2004 Budget Law, from 8.4 percent of GDP at year-end 2003, to a projected 4.5 percent of GDP in the 2004 Budget Law. Considering that the 2004 Budget Law was drafted before year-end results for 2003 were materialized, it is likely that the primary balance figure projected in the 2004 Budget Law is rather underestimated.

Table 1. Comparison of 2003 Budget Law and 2004 Budget Law

<i>(LL billion)</i>	2003 Budget Law	2004 Budget Law	Magnitude of change over budget '03	Percentage of change over budget '03
Budget Revenues	6,475	6,400	-75	-1
1. Tax revenue	4,726	4,645	-81	-2
2. Non-tax revenue	1,749	1,755	6	0
Budget Expenditures	8,600	9,400	800	9
1. Current expenditure	8,203	8,743	540	7
a. Debt service bill	4,000	4,300	300	8
b. Other current expenditure	4,203	4,443	240	6
2. Capital expenditure	397	657	260	65
Budget Balance	-2,125	-3,000	-875	41
Primary Budget Balance	1,875	1,300	-575	-31

Source: Ministry of Finance.

Note: The table does not account for privatization and securitization proceeds.

II. Main assumptions behind the 2004 Budget Law:

The 2004 Budget Law was drafted based on the following assumptions:

☒ **Conservative expectations** were used in drafting the 2004 Budget Law. For example, proceeds from **privatization and securitization operations were not taken into consideration** to reflect the uncertainty that has predominated regarding these operations during 2003. As a result, the projected **debt service** level in the 2004 Law amounts to LL 4,300 billion (LL 400 billion higher than what would have been projected for 2004 if the savings from the potential privatization and securitization were factored in). Also, the 2004 Budget Law figures were **not based on 2003 year-end performance**, which was better than expected in many areas. Since the strong performance of 2003 is expected to

continue for 2004, given the projected GDP increase, it is therefore likely that many figures in the 2004 Budget Law are rather **underestimated**.

Preserving social expenditures and contributions is one of the main pillars of the 2004 Budget Law. As such, the ratio of social spending as a percent of GDP was kept constant, at 9.5 percent in the 2003 Budget Law and the 2004 Budget Law.

☒ The 2004 Budget Law was drafted taking into consideration that some **revenue measures**, which were incorporated in the 2003 Budget Law, did not materialize in 2003 and are not expected to materialize in 2004. These revenue measures include:

- (a) the implementation of the seashore violation penalty in the amount of LL 45 billion,
- (b) the implementation of the seashore tax in the amount of LL 35 billion,
- (c) the collection of the professional tax, in the amount of LL 45 billion, and
- (d) the collection of Central Bank profits, in the amount of LL 20 billion.

The sum of these measures would have amounted to LL 145 billion. Therefore, the Budget Law 2004 revenue figure of LL 6,400 compares to an *effective* Budget Law 2003 revenue figure of LL 6,330 billion. However, for a more accurate description of the situation, throughout the report, revenue projections for the 2004 Budget Law will be compared to 2003 year-end outcomes.

☒ In the absence of updated data on national accounts, **nominal growth**³ is estimated to reach 4 percent to 5.5 percent in 2004. The **inflation rate** is expected to reach 2 percent to 2.5 percent under a stable exchange rate and tight monetary policy environment, while the **real growth rate** is estimated to be 2 percent to 3 percent.

III. Main reasons behind the changes in revenue and expenditure:

The main reasons behind the modifications on the expenditure and revenue fronts are spelled out below:

A. On the Budget Revenue Front:

Budget revenues are expected to increase from a level of LL 6,219 billion for year-end 2003 to LL 6,400 billion in the 2004 Budget Law, representing a rise of LL 181 billion, or by around 2.9 percent. The following table presents the itemized analysis of expected revenue performance in the 2004 Budget Law, as compared to the 2003 year-end outcome.

³ Based on the latest estimates of the growth rate and inflation rates.

Table 2. Budget revenues in the 2004 Budget Law vs. the 2003 year-end outcome.

<i>(LL billion)</i>	2003 year-end outcome	2004 Budget Law	Change over '03	Percent change over '03
Tax on income, profits and capital gains	783	1,045	262	33
Tax on property	321	350	29	9
Domestic taxes on goods and services, <i>of which</i>	2,705	2,499	-206	-8
<i>Excises</i>	1,169	1,126	-43	-4
<i>VAT</i>	1,361	1,200	-161	-12
Taxes on international trade and transactions	475	550	75	16
Other tax revenues	218	201	-17	-8
Tax Revenues	4,502	4,645	143	3
Income from Public Enterprises	1,252	1,296	44	4
Administrative fees and charges	383	376	-7	-2
Fines and confiscations	6	6	0	0
Other non-tax revenue	76	77	1	1
Non-Tax Revenues	1,717	1,755	38	2
Budget Revenues (tax + non-tax revenues)	6,219	6,400	181	3

Source: Ministry of Finance

A. 1. Tax revenues

Tax revenues are expected to amount to LL 4,645 billion in the 2004 Budget Law, up from LL 4,502 billion for the 2003 year-end outcome⁴, representing an increase of LL 143 billion, or 3 percent. The expected outcome for tax revenues is based on the following:

☒ The **tax on income, profits, and capital gains** is expected to amount to LL 1,045 billion in the 2004 Budget Law, up from LL 783 billion in the 2003 year-end outcome, representing an increase of LL 262 billion, or by 33 percent. This amelioration in revenues from the tax on income, profits, and capital gains is attributed to the following:

- (a) Sustained improvements on the tax collection and assessment fronts, particularly through the continued implementation of the DASS (Deduction at Source on Salaries) and by virtue of Articles 27 and 28 (please refer to box 1), which are expected to enlarge the tax base thus enhancing tax revenue collection. This is expected to result in an increase of 18.5 percent on the collection of the tax on wages and salaries in 2004.
- (b) The 5 percent tax on interest income is expected to yield LL 180 billion in 2004 (an average of LL 15 billion per month), accounting for around 17

⁴ For further details about the 2003 year-end performance, please refer to the “Public Finance Prospects 2003-Ministry of Finance Yearly Report” on www.finance.gov.lb.

percent of the tax on income, profits, and capital gains. This compares to a year-end performance for 2003 of LL 145 billion, or an average of LL 13 billion per month. This 24 percent, or LL 35 billion increase from the 2003 outcome is attributed to the following:

1. the full year implementation of the 5 percent tax on interest income, which was introduced in February of 2003 through Article 51 of the 2003 Budget Law (therefore accounting for an extra month of collection).
 2. the 5 percent tax on interest income does not apply to interest payable on previously existing stock of debt, or debt issued prior to February 2003 (the introduction of the tax). Given that Treasury bill issuances were halted for 9 months during 2003, and has resumed on a bi-monthly basis starting in November of 2003, taxable interest on issued Treasury bills will be substantially greater in 2004 than in 2003.
 3. the bulk of the coupon interest payments incurred as a result of Certificates of Deposits issued by the Central Bank during 2003, are payable in 2004 and beyond, resulting in higher expected revenues from the 5 percent tax on interest income in 2004, as compared to 2003.
- (c) The continued efforts to enhance the income tax base particularly through a tax regularization decision taken during 2003 whereby all professionals (affiliated to their respective syndicates) were called upon to register their incomes with the tax authorities in order to receive a Personal Identification Number (PIN), which would in return exempt them from 90% of previously owed penalties. This measure is expected to enhance revenues from the income tax on profits in 2004 due to the registration of a significant number of active professionals who were previously unaccounted for by the tax authorities. Additionally, tax regularization dues worth LL 25 billion are still outstanding for collection in 2004.⁵

⁵ The Tax Amnesty Law was ratified in 2001 resulting in a total assessment of LL 166 billion. The tax regularization dues were to be paid on installment (LL 99 billion was paid in 2002 and LL 32 billion was paid in 2003). A total of LL 25 billion is outstanding for collection in 2004.

Box 1: Main Amendments to the Wages and Salaries tax in accordance with 2004 Budget Law

Article 27: All businesses, regardless of the basis of their assessment of income tax (real profits, lump-sum profits or estimated profit declaration methods), and regardless of whether they are tax exempt (from tax on profits), must file, by March 1st of each year, the declaration form pertaining to information on overall wages and salaries of all their employees and workers, whether those latter are eligible to taxation or exempt and regardless of their annual remunerations. In addition a yearly individual statement is required on each employee's remuneration and amount of tax withheld during a year. *(Previously submission deadlines for enterprises for filing information on wages and salaries were different for each basis of assessment).*

In addition, all employers must file income declaration forms on a quarterly basis regardless of the amount declared and taxes payable for each quarter, and even in the absence of an amount of tax due. *(Previously, no filing was required in the absence of an amount of tax to be declared. Please note that quarterly declaration became effective with the ratification of 2003 Budget Law).*

Article 28: In addition to the filing requirements from employers (*pertaining to the Article 27 here above mentioned*), all employees and individual workers who have simultaneously more than one wage earning activity, are personally responsible for submitting income tax declaration form, by May 1st of each year; including information on all employers and salaries earned from each employer.

☒ The **tax on property** is anticipated to amount to LL 350 billion in the 2004 Budget Law, up from an actual outcome of LL 321 billion for 2003, representing an increase of LL 29 billion, or around 9 percent. Most of this increase is a result of an expected rise in real estate registration fees, from LL 203 billion in the 2003 year-end outcome, to LL 225 billion in the 2004 Budget Law, increasing by LL 22 billion, or around 10 percent, and suggesting an expected pick up in the real estate market for 2004.

☒ **Domestic taxes on goods and services** are projected to amount to LL 2,499 billion in the 2004 Budget Law, compared to LL 2,704 billion for the 2003 year-end outcome. In fact, the 2004 Budget figures were projected based on the first seven months outcome of the year 2003, which did not capture the surge in revenues witnessed in the last two quarters of the year. As a consequence, the forecasted level of revenues from taxes on goods and services for 2004 came rather underestimated compared to 2003 year end outcome.

(a) **Excise taxes** are projected at LL 1,126 billion in the 2004 Budget Law compared to an actual year end outcome of LL 1,169 billion for 2003. This is mainly due to the fact that, as mentioned earlier, when the 2004 Budget Law

was prepared, 2003 end-year expectations were lower⁶ than the actual outcome, which resulted in the underestimation of revenues from trade in 2004. The major components of excise taxes are:

1. **Excise taxes on gasoline** are expected to amount to LL 770 billion compared to LL 819 billion collected in 2003 (due to underestimation).
2. **Excise taxes on tobacco products** are projected at LL 175 billion in the 2004 Budget Law, compared to LL 185 billion collected in 2003 (due to underestimation).
3. **Excise taxes on cars** are expected to increase from the 2003 year-end outcome of LL 161 billion to LL 175 billion in the 2004 Budget Law, representing an increase of LL 14 billion, or 9 percent. This projected increase reflects an expectation of a partial return to normalcy in the car import market, after imports declined during the first half of 2003. This decline was related to the rise in the price of the Euro, which was reflected in car prices and has resulted in the importation of slightly less costly cars on average (which in effect have lower excise taxes levied on them). Note that signs of rebound in the car market (increase in car imports, excises taxes on cars, and car registration fees) were already witnessed in the second half of 2003.

(b) The **VAT** is projected to yield LL 1,200 billion, compared to LL 1,361 billion in the 2003 actual outcome. Please note again that the forecast for VAT receipts in 2004 is effectively an underestimation since it does not reflect the surge in VAT receipts witnessed in the third and fourth quarter of 2003. Moreover, taking into consideration continued improvements in VAT administration and collection, and the additional lowering of the VAT mandatory registration threshold from a minimum annual turnover of LL 300 million to a minimum annual turnover of LL 225 million for 2004⁷, further suggest that the 2004 Budget Law figure is substantially underestimated. Moreover the voted amendments will facilitate the compliance with the VAT (please refer to box 2).

☒ Taxes on international trade (customs) are anticipated to reach LL 550 billion in the 2004 Budget Law, up from LL 475 billion in the 2003 year-end outcome, representing an increase of LL 75 billion, or 16 percent. The performance of trade

⁶ Please note that imports in the first two quarters of 2003 slowed down mirroring the general slow down of activities in the midst of the war in Iraq. The third and fourth quarter of 2003 witnessed a pick up in imports and consequently in trade revenues which the 2004 Budget Law estimations for trade revenues did not account for.

⁷ Article 22 of the Budget Law 2003, lowered the VAT mandatory registration threshold from LL 300 million (effective April 1st 2003) to LL 150 million, effective January 1st 2004. However, the 2004 Budget Law changed the mandatory VAT registration threshold from an annual turnover of LL 150 million to LL 225 million for 2004, postponing the LL 150 million threshold for 2005, granting small businesses additional timing to accommodate to the VAT filing and declaration requirements.

(and by default the tax on international trade) was relatively weak during the first six months of 2003 as a result of the war in Iraq and therefore resulted in a lower than projected year-end figure for 2003. The anticipated figure for 2004 reflects the expected normalization in import levels in 2004.

Other tax revenues are expected to amount to LL 201 billion, compared to LL 218 billion for the 2003 year-end actual outcome. This further represents a rather conservative and possibly underestimated projection.

Box 2: Main Amendments to the VAT law as part of the 2004 Budget Law

Article 20: The mandatory VAT registration threshold was adjusted at the level of LL 225 million of annual turnover (*instead of the LL 150 million previously ratified as part of Article 22 of Budget Law 2003*), to be effective as of 1/1/2004. Businesses and individuals with annual turnover below LL 225 million and above LL 150 million (who registered in VAT in accordance with Budget Law 2003), have the right to de-register. The LL 150 million of annual turnover is to become mandatory as of 1/1/ 2005 (*granting small businesses additional timing to accommodate their accounting to VAT filing and payment requirements*). By virtue of that same Article, the voluntary registration threshold (*previously set at LL 50 million of annual turnover for 2004 in Budget Law 2003*) is cancelled, giving businesses and individuals the right to register in VAT no matter the level of their annual turnover.

Article 22: VAT creditors can now refund their VAT credit twice each year: in June and in December. Previously, they were refunded only at the end of the year (VAT creditors used to carry forward the amount of VAT credited until the end of the year before applying for refund).

Article 23: Cash operating businesses using cash register for tax record purposes can claim a refund for the cost of one cash register, given that the cash register was purchased after January 31, 2002, and that it meets certain specifications set by the VAT Directorate.

Article 25: amended Article 59 of VAT Law by virtue of which exempt activities (*as specified in that Article*) are granted a special tax refund. The rates were modified to allow a 100% refund of VAT incurred on operating expenses in lieu of the 50% refund previously allowed, (the rate of refund of VAT incurred on capital investment was initially set at 100%).

A. 2. Non-tax revenues

Non-tax revenues are expected to amount to LL 1,755 billion in the 2004 Budget Law, up from LL 1,717 billion collected in 2003, representing a modest increase of LL 38 billion, or 2 percent. The following are the major components of non-tax revenues and their expected performance in the 2004 Budget Law as compared to year-end 2003 figures:

- ☒ **Income from public institutions and government property** is projected to amount to LL 1,296 billion, up from LL 1,252 billion in the 2003 year-end

actual outcome, representing an increase of LL 44 billion, or 4 percent. The following are the major revenue components of the income from public institutions and government property:

- (a) Revenue from the [surplus of the Ministry of Post and Telecommunications' budget](#) is projected to amount to LL 1,150 billion in the 2004 Budget Law, up from LL 1,086 billion in the 2003 year-end actual outcome, representing an increase of LL 64 billion, or almost 6 percent, in line with expectations from the Ministry of Post and Telecommunications.⁸
- (b) Revenue from the [Lottery operations](#) are expected to yield LL 47 billion in the 2004 Budget Law, compared to LL 35 billion for the 2003 year-end outcome, representing an increase of LL 12 billion, or 34 percent. Due to various improvements in the Lottery administration, participation in the "lotto" increased in the second half of 2003. This increased participation is expected to continue growing in 2004. In addition, revenues from Lottery operations are expected to grow, in line with the profit transfer scheme established between the Lottery administration and the Treasury, in which 39 percent of net revenues are expected to be submitted to the Treasury during 2004, as compared to 38 percent in 2003.
- (c) Revenue from [Beirut International Airport](#) is expected to amount to LL 45 billion in the 2004 Budget Law, compared to LL 57 billion in 2003. This projection is underestimated considering the enhanced tourism activity and improvement in aircraft traffic at Beirut International Airport during the second half of 2003⁹, which is anticipated to continue throughout 2004.
- (d) No transfers from the [Central Bank's profits](#) are expected in the 2004 Budget Law, in line with 2003 year-end outcome and following the operations conducted by BDL in the context of the Paris II conference¹⁰.

☒ [Administrative fees and charges](#) are expected to amount to LL 376 billion in the 2004 Budget Law, compared to an actual level of LL 383 billion in 2003.

- (a) [Administrative fees](#) are expected to increase from LL 300 billion for year-end 2003 actual outcome to LL 315 billion in the 2004 Budget Law, increasing by LL 15 billion, or by 5 percent.

⁸ Please note that Article 68 of the 2004 Budget Law reduced the monthly fixed line subscription fees from LL 20,000 to LL 12,000.

⁹ For further details on improvements in tourism activity during 2003, please refer to the "Public Finance Prospects 2003-Ministry of Finance Yearly Report" on www.finance.gov.lb, and to pages 8 & 9 of this report.

¹⁰ For further details, please refer to the "One-Year Progress Report After Paris II" on www.finance.gov.lb

- (b) **Administrative charges** are expected to decline from LL 26 billion for the year-end 2003 outcome to LL 6 billion in the 2004 Budget Law, representing a decrease of LL 20 billion. This may be attributable in part to Article 52 of Budget Law 2004 which exempt parents of public school students enrolled in pre-school and in elementary school from paying contributions to the public school fund.
- (c) **Permit fees** are expected to amount to LL 40 billion in the 2004 budget law compared to an actual level of LL 41 billion in 2003.

Revenue from penalties and confiscations is expected to amount to LL 6 billion in the 2004 Budget Law, in line with the 2003 year-end actual outcome.

Other non tax revenues (mainly retirement deductibles) are projected to yield LL 77 billion in the 2004 Budget Law, remaining relatively stable compared to LL 76 billion in the 2003 year-end outcome.

B. On the Budget Expenditure Front:

Budget expenditures in the 2004 Budget Law are expected to amount to LL 9,400, compared to LL 8,600 billion in the 2003 Budget Law. The structure of the 2004 Budget Law is similar to that of previous years' budgets. The composition of budget expenditure in the 2004 Budget Law is the following:

- (a) Around 36 percent of budget expenditures in the 2004 Budget Law are attributed to **personnel costs** (wages, salaries, related benefits, and end of service compensations). In nominal terms, personnel costs are stable over the period under consideration.
- (b) 46 percent of budget expenditures are attributed to **debt service spending**. This item was reduced in 2004 from the 2003 actual outcome level due to lending received from Paris II participating countries, lower interest rates and lower financing requirements due to the projected primary surplus.¹¹ This figure can be reduced further in the future through declines in interest rates, and securitization and privatization operations.
- (c) This leaves a modest 18 percent of expenditures for capital spending and other current expenditure.

The table below presents expenditures in the 2004 Budget Law as compared to 2003 Budget Law figures:

Table 3. 2004 Budget Law vs. 2003 Budget Law: economic classification of expenditures

Code	(LL billion)	2003 Budget Law	2004 Budget Law	Magnitude of change over budget '03	Percentage of change over budget '03
11	Materials and supplies	124	163	39	31
12	External Services	105	112	7	7
13	Salaries and Wages	2,178	2,162	-16	-1
14	Subsidies and Transfers	1,471	1,583	112	8
16	Other Expenses	239	265	26	11
17	Interest Payments and Financial Charges	4,000	4,300	300	8
18	Unallocated General Reserves	86	158	72	84
	Total current expenditures (including debt service)	8,203	8,743	540	7
	Total current expenditures (excluding debt service)	4,203	4,443	240	6
221	Acquisitions of Land	0.13	0.13	0	0
222	Acquisitions of Buildings	0.50	4.00	4	700
223	Acquisitions for the Construction of Roads, Ports, and Airports	2.15	3.25	1	51
224	Acquisitions for the Construction of Water Networks	5.00	3.80	-1	-24
226	Equipment	40.87	55.47	15	36
227	Construction in Progress	260.80	491.38	231	88
228	Maintenance	51.72	64	12	24
229	Other Expenditures Related to Fixed Capital Assets	35.43	34.58	-1	-2
	Total capital expenditures	397	656	260	66
	Grand total	8,600	9,400	800	9

Source: Ministry of Finance

The main expenditures in the 2004 Budget Law are detailed below, in accordance with the economic classification of expenditures:

☒ **Materials and supplies** are expected to increase from a level of LL 124 billion in the 2003 Budget Law to LL 163 billion in the 2004 Budget Law. This LL 39 billion, or 31 percent increase is primarily attributed to:

- (a) an increase in the price of international oil, resulting in an almost LL 10 billion increase in the transportation budget,
- (b) an increase of around LL 4 billion in electricity and telecommunication expenses,

(c) an increase in the price of medication (since Lebanon imports a large portion of its medication from Europe, the increase in the price of the Euro during 2003 resulted in an increase in the cost of medication) resulting in a LL 18 billion increase in the budget allocated for purchasing medicines.

☒ **External services** (rents, postal services, insurance, advertisement & public relations) are projected to amount to LL 112 billion, compared to LL 105 billion in the 2003 Budget Law exhibiting a LL 7 billion, or 7 percent increase mainly due to the increase in miscellaneous costs such as postal services and public relations.

☒ **Wages, salaries, and related benefits** are expected to decline from LL 2,178 billion in the 2003 Budget Law to LL 2,162 billion in the 2004 Budget Law, representing a LL 16 billion, or 1 percent decline. This apparent reduction in spending on wages, salaries, and related benefits is related to the fact that in the 2003 Budget Law, a law adjusting the classification of public school teachers was implemented and thus resulting in salary increases. This retroactive law resulted in a one-time compensation worth LL 50 billion, budgeted in 2003, to cover payments for the period from mid-2001 until the end of 2003. Due to this extraordinary item in the 2003 Budget Law, the level of spending on salaries, wages, and related benefits in the 2004 Budget Law reflects a normalization of expenditures. In fact, the LL 16 billion reduction of spending on wages, salaries, and related benefits (being less than the LL 50 billion increase in the 2003 Budget Law) in the 2004 Budget Law implies that expenditure on this item actually increased, by roughly LL 34 billion, or around 2 percent. This increase accounts mainly for:

- (a) A LL 2 billion, or 16 percent, rise in the contribution for the maternity and sickness funds,
- (b) A LL 5 billion, or 7 percent, increase in spending on hospitals due to the increase in the price of medication as previously mentioned,
- (c) An LL 8.5 billion, or 9 percent, rise in contributions to schools,
- (d) A LL 13 billion or 1 percent rise, in the salaries of permanent employees.

Note that total **personnel cost** is not fully covered by the LL 2,162 billion allocated for wages, salaries, and related benefits, as it also includes **transfers** to public entities, for personnel cost and **retirement and end of service compensations**. The table below details the allocated spending on personnel in the 2004 Budget Law as compared to the 2003 Budget Law.

Table 4. 2004 Budget Law versus 2003 Budget Law - personnel cost details

<i>(LL billion)</i>	2003 Budget Law	2004 Budget Law	Magnitude of change over '03 budget	Percentage change over '03 budget
Personnel Cost	3,366	3,359	-7	0%
1. Article 13: Wages, salaries, and related benefits	2,179	2,162	-17	-1%
2. Transfers for personnel cost	187	197	10	5%
-Transfers to Council of the South	6	6	0	0%
-Transfers to CDR	21	17	-4	-19%
- Transfers to Displaced Fund	6	6	0	0%
-Transfers to Lebanese University	147	155	8	5%
-Transfers to the educational center of R&D	7	13	6	86%
3. Retirement and end of service	1,000	1,000	0	0%
- End of service indemnities	350	340	-10	-3%
- Retirement wages	650	660	10	2%

Source: Ministry of Finance

☒ **Subsidies and transfers** are expected to amount to LL 1,583 billion, up from LL 1,471 billion in the 2003 Budget Law, representing an increase of LL 112 billion or by 8 percent. The main changes in subsidies and transfers are as follows:

- (a) a LL 39 billion increase in transfers to the Ministry of Health for operating new public hospitals,
- (b) a LL 28 billion increase in transfers to the Ministries of Education and Higher Learning, of which roughly LL 13 billion is transfers to public schools, LL 8 billion is transfers to salaries of the Lebanese University, and LL 6 billion is transfers to the education center for research and development. This reflects the 2004 budget law 's orientation towards safekeeping social expenditures.

Note that expenditures on this item also include spending on retirement and end of service (in the amount of LL 1,000 billion), and on the National Social Security Fund (NSSF) (in the amount of LL 50 billion), both of which remained constant in the 2004 Budget Law as compared to the 2003 Budget Law.

☒ **Other current expenditures** are expected to amount to LL 265 billion, compared to LL 239 billion in the 2003 Budget Law, exhibiting a LL 26 billion increase, or by 11 percent, mainly due to an increase in spending on hospitalization in the private sector, an increase to cover for rising costs associated with transportation (due to the rise in the price of fuel), and an increased allocation for delegations and conferences.

☒ **Interest payments** are expected to amount LL 4,300 billion, a decline of approximately L.L 600 billion over the 2003 actual outcome. Significant

developments on the debt front have occurred as a result of re-profiling more than 30 percent of the total stock of outstanding debt at the time of the Paris II conference (using Paris II inflows and two schemes with the local commercial banks and the Central Bank). The effect of the Paris II package on public debt includes the following:¹²

- (a) the **average cost of total debt** has been reduced from 11.97 percent at the time of the Paris II conference (November 2002), to 8.21 percent as of end December 2003.
- (b) the **gross market debt**, defined as gross public debt excluding the portfolios of the Central Bank, public institutions, bilateral and multilateral loans, and debt issued to the Paris II donor countries, as compared to total debt, has declined by LL 8,483 billion or 22 percent from November 2002 to December 2003.
- (c) the **average maturity of foreign debt** has been lengthened by more than one year.
- (d) the **rate of growth of the public debt** has slowed down drastically over the past year, from an annualized rate of 14.3% for the 11 months of Jan-Nov 2002 to 6.1% for the year 2003.

Note, however, that reductions in the debt service level beyond the re-profiling that has taken place in the context of Paris II, cannot be achieved without privatization and securitization activities, as proceeds from these operations would be deposited in the Special Account for Debt Management (opened, by law, to incorporate Paris II funds as well as potential privatization and securitization receipts), and would be subsequently used to further reduce the outstanding debt.

- ☒ **Unallocated general reserves** are expected to increase from LL 86 billion in the 2003 Budget Law, to LL 158 billion in the 2004 Budget Law. This LL 72 billion, or 84 percent increase is attributed to additional reserve allocations for general budget needs.
- ☒ **Capital expenditures** are expected to increase from LL 397 billion in the 2003 Budget Law to LL 656 billion in the 2004 Budget Law, representing an increase of LL 260 billion, or by 66 percent. Broken down into its components, capital expenditures increased as follows:

¹¹ For further details, please refer to the “One-Year Progress Report After Paris II” on www.finance.gov.lb

- (a) **Part II a (mainly maintenance and equipment)** increased from LL 235 billion in the 2003 Budget Law to LL 304 billion in the 2004 Budget Law, resulting in a LL 68 billion, or 29 percent increase.
- (b) **Part II b (medium-term investment projects)** increased from LL 162 billion in the 2003 Budget Law to LL 352 billion in the 2004 Budget Law, resulting in a LL 190 billion increase, or by 117 percent.

As part of this process, there were increases in capital spending allocations to various Ministries, including:

- (a) a LL 113 billion increase for the Presidency of the **Council of the Ministers** mainly due to:
1. the more than doubling of the budgets of both the **Displaced Fund** and of the **Council of the South**, resulting in a cumulative increase of LL 90 billion (see table 5). Note that, as part of the 2003 Budget Law, the budgeted allocation to the Displaced Fund had been reduced by LL 46 billion as compared to the 2002 Budget Law, and the budgeted allocation to the Council of the South was decreased by LL 134 billion.
 2. the net increase of LL 12 billion in the allocation for capital spending by the Council for Development and Reconstruction, mostly for construction activities.

Table 5. 2003 Budget Law versus 2004 Budget Law – Allocations to Main Councils and Funds*

<i>(LL billion)</i>	2003 Budget Law	2004 Budget Law	Magnitude of change over '03 budget	Percentage change over '03 budget
Council for Development and Reconstruction	148	160	12	8%
Council of the South	21	66	45	214%
Displaced Fund	21	66	45	214%
Grand Total	190	292	102	54%

Source: Ministry of Finance.

*Figures include administrative budgets which amount to LL 17 billion for the CDR, and LL 6 billion each for the Council of the South and Displaced Fund in the 2004 Budget Law.

As previously noted, maintaining social expenditures is a priority in the 2004 Budget Law. As a result, main social expenditures are expected to remain constant as a percentage of both GDP and total expenditures, registering 9.5 percent of GDP, and 27 percent of total expenditures in both years budgets. (please refer to table 6).

Table 6. 2003 Budget Law versus 2004 Budget Law – Main Social Expenditure

<i>(LL billion)</i>	2003 Budget Law	2004 Budget Law	Magnitude of change over '03 budget	Percentage change over '3 budget
Health				
Hospitalization in the private sector	212	232	20	9%
Purchase of Medication	42	60	18	44%
Hospitalization of public sector employees in private sector	73	79	5	7%
Maternity and sickness allowance	13	15	2	15%
Other	47	73	37	78%
Sub-Total	387	458	82	21%
Education				
Ministry of Education and Higher Learning	810	864	54	7%
Education allowance in private sector	95	104	9	9%
Sub-Total	905	968	63	7%
Other Social Spending				
Ministry of Social Affairs	100	109	9	9%
Ministry of Displaced	5.93	6.17	0.23	4%
Transfers to employees' cooperative	135	140	5	4%
Pensions	1,000	1,000	0	0%
NSSF	50	50	0	0%
Sub-Total	1,291	1,305	14	1%
Grand-Total	2,583	2,731	159	6%

Source: Ministry of Finance

C. Treasury Operations

Treasury revenues are expected to amount to LL 400 billion, at equal level than the 2003 Budget Law level. On the other hand, **Treasury expenditures** are projected to amount to LL 900 billion in the 2004 Budget Law, compared to LL 800 billion in the 2003 Budget Law.