

Date: 18/09/2019

Finance Minister Ali Hassan Khalil held a press conference Wednesday afternoon at the Ministry, to present the 2020 draft budget. Please find below the full text of his intervention:

Minister Khalil stated, "I wanted at the beginning of the discussion of the draft Budget in the Council of Ministers to give it full attention, so we, and the public, do not focus only on projects without focusing on the content of this Budget and its commitments. After all, we just finished, few months ago, from 2019 Budget that required many explanations, approaches, discussions and stances that led to many reactions from the public, some that were right and others that were far from the truth. Therefore, I wanted to present the reality of this Budget and the backgrounds from which we set off, as well as the available facts and the final version that we submitted and to which the Ministry of Finance holds on. I think that this Budget meets what we expect from a Budget, but this does not eliminate the urgent need to pass a large series of laws, decrees, decisions and measures to be taken by the State."

He added, "The Budget never had to include all this. It can reflect the financial results, but, as I said during the conclusion of the 2019 Budget discussion, the work of the State must continue, and follow-up must be ensured for laws and decrees that will directly complement the Public Budget."

He continued, "I will start at the conclusion of 2019 Budget and say that we are pursuing the same approach adopted in 2019, which included diligent work toward reducing the deficit or at least maintaining it, according to what was achieved or could be achieved in this Budget, without exaggerating the ability to reduce expenses and the ability to ensure additional revenues. Therefore, the Budget's figures are realistic."

He added, "The second issue is that we want to be in line with the recommendations of the Parliament, within the scope of the discussions that took place in the committees during the General Assembly, by ensuring that the Budget won't be overstuffed with laws or amendments or the so-called "Knights" of the Budget." I would like to clearly say, "We do not want the draft Budget to include 100 articles and see the parliamentary blocks destroy it in the Parliament after approving it at the Council of Ministers, accusing us of overstuffing the Budget and filing appeals against us at the Constitutional Council. Therefore, this Budget

might be smooth and simple in terms of articles, however its figures reflect its facts. There is no article that can be considered a “Budget knight”.

He continued by saying: "We started preparing this Budget from a clear background which is that the economic and financial situation in the country is very difficult and complex. Issues built up and increased pressure on the country. Most importantly, the level of growth became zero, not to say negative. This consequently led to increasing pressure on BDL's foreign currency reserves and to the accumulation of deficit in public finance. In addition, with the increase of interest rates, the debt service began moving upward, which affected consumption and increased economic recession."

"These are facts that cannot be ignored. We discussed them during the preparation of the Budget. This Budget was clearly appreciated by the international institutions, but everyone was saying that this is a step that needs to be pursued in 2020 Budget. It is true that during the first months of the year we went through a crisis in terms of financing the State and exerting pressure on it, in addition to strongly needing foreign reserves, as reflected today by the strike of gas stations and those working in the petroleum products sector. However, this did not prevent us at all from starting from the deficit rate and trying to maintain it."

He added, "I would like here to draw the attention to the fact that there will be a strict and precise commitment to the 2019 Budget in terms of expenditures. Concerning revenues, we are facing a problem due to the delay in the issuance of many implementing decrees of some of the items that generate revenues in 2019, and which we have not started collecting yet, including public license plates, special license plates and the settlement of construction violations. Therefore, we have lost at least two months of revenues."

"Today we are at a turning point that we need to seriously transform into a crucial shift in the management of the financial situation and in the tackling of the situation on the economic, developmental and investment levels, by passing this Budget. We want to reach a stage where there is a balance in all current expenditures, including public debt service and revenues. Until we achieve this, we pledge to increase, in 2020, 2021 and 2022, the initial surplus that reached in our draft Budget for 2020 3.2 %, which is a very important figure that will be followed in 2021 and 2022 by an even bigger improvement."

He added, "To get there, we need to restore the trust of the public in the State, correct the situation of public finance and control public debt, while focusing on

achieving an acceptable growth rate. This requires from the State and all its entities, particularly the government, to return to the rule of law, reject any tampering with public money and ensure proper management and control of public finance. Some say that this is our responsibility, but I say that oversight bodies, at all levels, are directly concerned with this. The second issue is that the State should regain its rights in all public entities. From the 94 public institutions and entities, there are public bodies that have accounts and collected revenues to which we have no access, whether totally or partially owned by the State. The third issue is reconsidering the reality of the institutions, assign joint projects with the private sector with the highest standards of transparency and adopt, in conjunction with the Public Budget, a series of laws that we have submitted to the Council of Ministers. There are four essential laws. The first is the Law on Tax Compliance and the Prevention of Tax Evasion. However, before we get to this issue, let me stress that the Ministry of Finance is clearly committed to reducing the overall deficit of public finance and its ratio to GDP. How can this be achieved? It could happen by increasing taxes, but here let me assure you that, as the Ministry of Finance, we have submitted our Budget and it does not include any additional tax or fee. I am committed to this. As for what will happen in the Council of Ministers, well, I will defend my point of view because people cannot bear additional taxes anymore. People need the State to do its job to improve collection. In 2020, there will not be any additional taxes or fees; this must be settled then. What would help us reduce the deficit is improving tax collection through the law we are adopting today, the Tax Compliance Law, i.e. the Law on Preventing Tax Evasion, and undertaking the reforms of the Tax Procedures Code, as well as the new draft Customs Law, among other things."

He continued, "Reducing expenditures as a third step to reduce the deficit means reducing transfers to EDL. Today in the Budget, we suggested, based on the electricity plan, to subsidize EDL with 1500 billion for this year so when we reach 2022 the deficit would be zero, and therefore EDL would have the required balance.

We have sent to the Council of Ministers a project to reform the pension system. Here, I would like to stress on one thing: the acquired rights of these employees shall not be touched, but we would like to note that the allowances in terms of salaries, wages, social benefits and pensions would exceed 11,000 billion in 2022, if they remain the same. Today, by stopping employment, freezing early retirement and adhering to the content of 2019 Budget, as well as to the reform project of the

pension system we are working on, the cost of salaries will decrease in 2021 from LBP 6,869 Billion to LBP 6,171 Billion, and the cost of retirement from LBP 3,775 to 3,433. A more important decrease would also happen in 2022 and like that, we would have put ourselves on the normal path of reform and we would have really implemented our deficit reduction plan.

The fourth issue is the structuring of the public sector. We heard that the Parliament approved, within the 2019 Budget, the reconsideration of the situation of the whole public sector. Today, there are many questions outside the budget that must be answered. Starting with the survey to be undertaken by committees formed for this purpose by the Ministry of Finance, based on facts and figures. Today, we have a large number of public institutions: 94 public institutions and entities. We certainly no longer need many of them. Some can be integrated with other administrations, others must reduce their expenses, and there are institutions that must provide additional revenues to the Ministry. We are talking about the structuring of the public sector at the level of administrations and public institutions. Here, we have to mainly work in order to move on to e-governance, and we have prepared a special item directly related to this policy or orientation.”

He added, "The solution for us today is to complete this matter with a new law that we have attached to the Budget, even if not included in it. This law is the Public Procurement Law or public tenders. We have prepared a law in accordance with the latest international regulations and standards. This is very important for us and therefore must be adopted first. We are convinced that when we have a public procurement law or a new tender law, we can save as much as 20% of the current public spending on these projects due to the absence of a transparent tender law. Therefore, the amount spared would contribute to the reduction of the Budget deficit. We have a new project in line with international principles; there are 12 principles developed by the OECD, and the first draft of a reference law for public procurement was submitted to the Council of Ministers. Today, I would like to ask for a session to discuss this issue and approve it as soon as possible and refer it to the parliament in parallel with the survey. MAPS 2 represents an international methodology for assessing the procurement or tendering system in any country. It is a survey adopted by 90 countries to date and there are many countries that we consider among the underdeveloped countries that have adopted this approach. It is shameful for Lebanon to stay behind, without model tender documents, which we have also prepared.”

He said, “I am talking about this because it is closely related to the Public Budget as one of the laws that must be annexed to it. Here, if we go back to the procurement system, we can see how much we can save. In 2020 Budget, we allocated 2,333 billion, but we have to be keep in mind that we cannot proceed with CEDRE projects without a new tender law. Therefore, it is true that we will have in 2021 or 2022 projects worth around 2500 billion, but with CEDRE projects, this figure can rise to 3,500 and 4,000 billion, which makes this law even more necessary. In all cases, this is one of the laws requested during CEDRE by donor countries and institutions that have expressed their willingness to support Lebanon.

There is also a new law, the Customs Law, which, as we said, is a vital and fundamental law that will play a major role in controlling this matter. It was developed in cooperation with the World Bank, completed and submitted to the Council of Ministers. It is necessary to pass it as soon as possible.”

Minister Khalil considered that “all that has been decided must be accompanied by serious implementation in 2019 and today. The solution known to all is the improvement of collection rather than confusion and instability in legislation due to raising taxes. If we do not want to increase taxes, collection must be improved, expenses controlled and spending must only happen according to correct scientific bases. All forms of waste and corruption must be prevented, and everyone needs to cooperate in order to achieve this.”

We should also work on a series of comprehensive reforms that will allow us reach the desired outcome when it comes to tackling public debt. This is a very big challenge and I acknowledge that to date we have not achieved what we aspired to accomplish in 2019 in terms of saving 1,000 billion. However, it is not over yet and we are discussing how to deal with it. The most important issue is how to make our economy move forward and achieve a high level of growth. How can these steps, along with the series of reforms reduce the interest costs and thus help us achieve everything as it should be. We have developed a study on this subject, including reform scenarios on what could happen in 2019 and 2020, and how to tackle them. Indeed, if the total debt to GDP ratio remains the same, it will reach 161% in 2022 and this is a very large number, and the cost of debt from revenues will reach 62%, which is a risky figure that must be reduced. We are working on maintaining or reaching a debt to GDP ratio of 140% and debt service to revenue ratio of 43% in 2022.”

He added, “This can be achieved through cooperation between the Ministry of Finance and the Central Bank, and through the improvement of the growth rate, the activation of the economy and the reduction of interest costs at the same time.

Most importantly, all the reforms we talked about should be initiated and the trust of the people in the State should be strengthened.

We are currently working on measures that affect the budget, but we have not talked about them in detail yet, since they I do not want to mention general figures only. Today, we do not want to impose additional burdens on low-income classes, but the State has the responsibility to ensure social stability. This why we must promote all the spending that improves people's lives, and stress on passing the Pension and Social Protection Law, which is very important, in addition to the healthcare services that must be provided in order for a minimum level of social justice to prevail.

Concerning the expenditures and the Budget, we have started to work on a number of measures. In addition to controlling public expenditures, spending must also be controlled and the electricity and telecommunications costs must be reduced. Some may consider this measure to be a drop in the ocean; however, public administrations and institutions spend billions of liras in electricity and telecommunications. Consequently, this situation should be redressed and all this system reviewed again in order to adopt new methods and unified standards for the cleaning services within the administrations. Today, this issue is chaotic. A feasibility study for donations must also be prepared and a competent committee must be formed to follow up on IT equipment. Indeed, each administration, ministry and institution is doing as it pleases in this matter, without any comprehensive and extensive supervision or standardized reference. Today, branches of administrations and institutions are being opened without any financial feasibility study. This must be resolved.

There are regulations and texts that must be reviewed concerning the payment of differences and additional amounts to contractors carrying out projects. There are projects in this country that start with USD 20 million and end up with USD 80 million, because of the differences in price paid.

We need to launch investment projects. This is why we are considering around 15 investment projects in 2020 related to public properties occupancy, part or most of which have been passed in the Parliament and need financing. Part of this

financing is secured and the remaining amounts can be ensured through the projects discussed during CEDRE. '

I do not want to talk about electricity, but I would like to say that we are committed to the electricity plan until we reach zero deficit in 2022. This starts by raising the production level, accelerating the bidding process and then increasing tariffs after everything is settled.

New laws were developed in 2019 to enhance customs collection, improve governance and prevent tax evasion; they should be fully and clearly enforced.

We are seeking to avoid paying rent and today, during the first session of the Council of Ministers, we talked at length about this matter and we gave the example of the Ministry of Finance. We have a project for establishing a single Customs building and another one for the GDLRC, and we have made progress in the bidding process at the Council for Development and Reconstruction. We are currently working on adding floors to the VAT central building of the General Directorate of Public Finance in order to contain all the buildings that are spreading and be a model for other ministries. They will consequently know how to submit their proposals in order to start building government central administrations at the expense of the State and at reasonable cost. We hope that this process has started and we have a law program ready to finance this process.

There are also the issues of public property administration, the tackling of the illegal occupancy of coastal and riverside properties, the organization of the quarries and the pursuit of investors so they pay their tax assessments. ”

He continued, "I would like now to talk a little about the Budget's figures. Today, the total expenditures in the 2020 Budget are 256,00 billion; allowance, salaries, wages and their relevant additional payments equal to 9,779 billion; EDL 1,500 billion; debt service 9,219 billion; transfers to institutions 3,699 billion; The investment expenses form the very limited remaining amount outside the ministries or the spending, which is 1,402 billion.”

The Minister presented a table summarizing what can be achieved in the next three years.

Today, the primary expenditures as percentage of GDP without public debt is 18.3% (with the payment of debt installments). We have revenues that make 21.3 % of GDP. This figure is very important due to an initial surplus of 3.2% and a deficit that reaches 7.4%. It is important to improve these figures that belong to

2020 and improve the revenues so they reach of 22.8% . And consequently we should do find to reduce the deficit.

In 2021, the revenues from GDP should increase to 23.5% as the economic situation improves and the spending should decrease to 14.5% because our economy is supposed to be larger and, consequently, the deficit would reach 2.3% instead of 6.5%. This is a reachable figure. In the 2021 budget, the primary surplus should increase to to 6.4%.

These are the figures we aspire to reach in 2020, 2021 and 2022.

Our revenues are estimated to be slightly over 19 billion. We made sure to be as realistic as possible when calculating them. We lowered a large part of the estimation of revenues that took place in 2019 because, as I said, part of it was done on a basis of 5 months that became later 3 months. An adjustment was done accordingly.

Today, the total public debt at the end of 2018 is 128,347 billion. An increase of 14% from 2016 was noted because of the increase in interest rates on domestic and foreign bonds due to the economic risks experienced by the country. In the 2019 Budget, the increase will not be that high, but we are also aiming to reduce the figures in subsequent years until we reach the level we mentioned.

Today the public debt is distributed as follows: 62% in local currency and 32% in foreign currencies, and we hope to maintain the same level.

Debt in local currency is distributed among BDL, commercial banks, public institutions, and some internal debts. The percentage of debt in the Lebanese currency in the Central Bank has reached 50.1%, i.e. an increase of 7% from 2017 and there it might increase to reach 52% or 53%.

The public debt with commercial banks is 32%.

He concluded by saying "To summarize, I would like to say that there are no taxes and fees in this Budget. There are some reforms related to purely administrative matters that were hindering in a way or another the order of public finance, such as subjecting the budgets of water public investment institutions to the approval of the Ministry of Finance; subjecting the budgets allocated to the management and investment of Beirut Port and the Wheat Silos to the approval of the Ministry of Finance; eliminating internal funds and the National Investment Guarantee Corporation affiliated to the Ministry of Finance.

Regarding expenditures, we did not add anything to the ministries, except some program laws that have been postponed from 2019 to 2020.

As I said, we have a series of laws that must complement the Budget.

The last point is that there are suggestions from several blocks that I would like to receive in writing.

I would like to be realistic; we are not going to drag out the Budget like in 2019. We will only use the impartial ideas that can be included as figures in the budget, while the remaining issues that require independent laws should be the subject of law proposals or draft laws submitted by the concerned ministries, in order to work on them independently from the Budget, to avoid being questioned about them before the Parliament.”

Q: What is the interest rate of the Eurobond subscription, since the interests in the market are 14%?

A: Regarding the issuance of Eurobonds, unfortunately an international media outlet claimed that we already issued Eurobonds, that no one was interested, and that the interest rate was 14.7%, while we have not started to discuss this matter yet. Yes, we have the intent of issuing bonds in foreign currency worth USD 2 billion. We will soon start to prepare the relevant implementing measures.

I cannot talk about interest rates now. We will follow the market, but I am sure that it will be much lower than the 14.7%. As we have heard today, we are beginning to see positive signs in terms of bond prices abroad.

Q: Since you mentioned positive signs (KSA support to the country), is Lebanon still committed to paying debt interests on time as before?

A: Despite all the circumstances witnessed by the country in the past decades, and until this moment and in the future, Lebanon is firmly committed to paying all external and internal maturities. Regarding bonds in foreign currencies and in the Lebanese currency, we are paying in a regular manner and we were never late in paying the maturities despite all past events. As for the support from abroad, yes, I am discussing this matter with PM Hariri, who went to Saudi Arabia to follow up on this issue. We hope to achieve results in this sense. We are also following up with some friendly countries concerning the issuance and subscription we are planning.

Q: Subscription or deposits?

A: I do not want to get ahead of myself. Everything is possible and anything would help us, whether the subscription to bonds or deposits placed in the central bank account to strengthen its assets in foreign currency.

Q: Is there a dollar crisis?

A: I started by saying that we are in a difficult economic and financial situation, but we are not a collapsed country. At the financial level, we still have the ability to meet the needs. Yes, there is not a large amount of liquidity in foreign currency in the hands of the people in the market, but the dollar exchange rate is still maintaining its level and position in the banks. All the transactions taking place in commercial banks today are based on the official dollar rate. 95% of the transactions, and more, are done in the banks in dollars at this rate. We feel that that liquidity is not available for retail transactions. When the dollar is not available, people go to exchange agents who try to take advantage of this process to manipulate the exchange rate. But we assure you that this has no effect and does not reflect the truth about the commitment to secure the payment of maturities in dollar.

Q: The allocations to EDL are small, including the purchase of fuel. Does this mean that there will be an increase in rationing hours?

First, in 2019 Budget, the reduction was made in agreement with EDL and we are both committed to this.

There is no amendment to the financing. However, if something technical comes up, that would be another matter. The money for the fuel need during 2019 is being secured as agreed.

Q: The draft budget includes economic ideas. Why don't you present them before submitting them to the Council of Ministers?

I have explained the Budget. I consider the Ministry of Finance to be the father of the Budget. The Budget Directorate and the working team of the Ministry at the General Directorate and the assisting team of the Minister have prepared this Budget and we are committed to it. Anyone in the Council of Ministers is entitled to suggest any idea they want and it shall be discussed.

Q: S&P's report is negative

A: All the rating reports are periodic and it is not the first time they issue the report every six months. We hope things will improve by the end of the next six months.