



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE

**Original Draft Proposal**  
**of H.E. Minister Fuad Siniora**  
*Translation of the Public Budget and Annex Budgets*  
*for 2004*

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## **The preamble to the FY 2004 draft budget**

The preamble for the public budget of 2004 outlines the general features of its contents and program. It clarifies the basis and background of its ideas and Articles. It shows what was achieved during the last eight months of the current year and sheds light on the current situation as well as that of past months. The current draft budget stems from these factors. This proposal has five sections. They are:

- The draft budget law of 2004, in light of developments in the previous period, starting from the draft budget proposal for 2003 and the circumstances of its preparation, the Paris II conference and its aftereffects, and ending with the ratification by Parliament of the Budget Law of 2003.
- Progress in executing the 2003 Budget during the first eight months of year and what has been achieved during that period.
- The outline of the 2004 budget proposal, its components, defining points, and problems.
- Other aspects of the structural problems and their effects.
- Conclusion: Orientations and future perspectives

## **First: The 2004 budget proposal in light of the developments in the previous period, starting with the preparation of the FY 2003 draft budget**

The draft budget law of 2003 represented an advanced step in the track adopted by the Lebanese government over the last three years, so as to deal with the financial and economic situation and adopt the structural reforms needed to reduce the deficit, solve the problem of the public debt, and enhance growth and economic stability. This draft had set several primary goals. They are:

1. Efforts to achieve sustainable growth in various economic sectors, stimulate growth in different regions by solving the problem of the public finance, commit to reducing the deficit, increasing primary surplus in the budget, gradually decreasing interest rates and contributing to solving the problem of the public debt
2. Pursue the structural reform drive of the Lebanese economy by downsizing the public sector and improving its efficacy and performance while maintaining the State's control duties and enhancing its supervisory role to protect citizens' interests.
3. Improving returns of using available resources so as to treat the problem of economic waste, increase productive and service competency in public sector administrations and institutions, and enhance economic and social returns of public expenditure.
4. Placing the public sector in the forefront in all productive sectors so as to enhance growth and provide new employment opportunities.
5. Seeking to acclimate with Arab and global economies through liberalization, elimination of barriers, and activation of bilateral and multilateral agreements.

In the framework of the 2003 draft budget law, emphasis was placed on the great importance placed on the implementation of economic and financial reform programs, the necessity of accelerating their rate, completing it with new specified measures, additional structural reforms as part of the a comprehensive and cohesive program. The framework also emphasized the importance of implementing this program in all its articles within specified deadlines in such a way that officials and politicians agree to provide the full support needed to guarantee its success.

On this basis, the draft law for 2003 was approved by the Cabinet as per a set of regulations and estimates based on the necessity of adopting policies and measures geared towards increasing revenue and reducing expenditure without affecting the level of social, health and educational provisions to citizens.

Accordingly, the draft budget law of 2003 sought to reduce public expenditure and improve economic and social returns by agreeing to:

1. Deal with the real reasons behind the ballooning increase in the volume of public expenditure
2. Correct the structural, legal and procedural factors leading to ineffective use of material, human and temporal resources of the Lebanese economy.
3. Increase productivity in public sector administrations and institutions, thereby enhancing the productivity of the Lebanese economy and improving its competitiveness so as to adapt it to the activity and dynamics of Arab and global economies.

The Cabinet's approval of the 2003 draft budget in August 2002, including all proposed reforms, success of the financial adjustment program and, above all, success in implementing the Value Added Tax, helped create a new dynamic for initiatives in various economic sectors. This reflected on the Lebanese

financial market, whereby confidence in the Lebanese economy was boosted in the present and future among the Lebanese as well as among other interested parties.

All these factors provided an adequate foundation to convene the Paris II conference. Additionally, the positive political climate on the local scene in the early months of 2002 and regional and global situation with regard to Lebanon contributed to shaping the objective factors for Lebanon to hold Paris II.

### **1.The convening of the Paris II Conference and the positive results it produced**

The Paris II conference was convened and was attended by senior officials from a number of influential countries in the region and the world. Convening this conference was an unprecedented positive sign of the political and economic support made available to Lebanon. This support was based on the government's financial program and the will and determination of Lebanon and its people to handle their economic and financial situation seriously.

The results of Paris II reflected the efforts exerted by the Lebanese government along with brotherly and friendly countries to grant Lebanon a new chance that includes providing financial support for the government's financial program. This support was unprecedented in its aspects, components, and size—which reached more than \$4 billion in pledges made to Lebanon, in the form of \$3.1 billion in soft loans to be used exclusively in restructuring a sizable portion of the public debt for longer periods and lower costs, and around \$1.3 billion in soft loans to finance constructional, social, and developmental projects.

The results of Paris II reflected the consensus of the international community on the government's commitment

towards Lebanon's financial and economic program, and its resolve to execute Lebanon's economic program in a complete and cohesive manner without delay. This represented a moral agreement that Lebanon had committed itself vis a vis Arab and international countries and institutions that offered Lebanon their support.

The Paris II conference was based on the government's financial and economic program as submitted in the work plan that Lebanon presented to conference participants, which in turn resulted from a framework paper presented by the Ministry of Finance to the Cabinet and approved thereby. The paper included a series of measures and practical necessary reforms intended to reduce the fiscal deficit in the budget and deal with the ballooning public debt by rationalizing the size of the public sector and improving economic and social returns of public expenditure. Additional measures include implementing necessary structural reforms in various public administration, services and institutions; boosting productivity of the public sector to increase national productivity and improve its competitiveness; stimulating economic growth rates; improving the investment climate to create new employment opportunities and further liberalize the Lebanese economy; preparing the local economy for integration with the Arab and global economies. The necessary measures include taking determined progressive steps on the path to privatizing and securitizing several economic services whose privatization would benefit the public sector, the national economy, public finance and citizens.

In summary, this was all reflected in the increased confidence in the economy and public finance. This confidence began to wane as a result of the political, financial and economic situation prevailing in 2002.



## **2. The Convergence of Positive Outcomes Upon the Convening of the Paris II Conference**

Consequently, in the aftermath of Paris II and even before Lebanon began receiving the financial commitments of other countries, positive repercussions began to arrive in succession. One of these was the agreement reached between the Ministry of Finance and the Central Bank, and also with other commercial banks operating in Lebanon—as a result of which the Ministry of Finance received financing from the banks at 0% interest rate over a two-year period. This was accompanied by a build-up of positive signs that began to emerge such as an improvement in the balance of payments, a radical and significant decrease in interest rates on Lebanese Treasury Bonds, and, to a lesser degree, in the creditor interest rates in the Lebanese markets.

In the months pursuant to the conference, the Ministry of Finance exerted every effort to collect the funds pledged by the participants of Paris II. Until now, Lebanon has been able to obtain about 80% of the overall funds pledged, which equals to about \$2,458 million. These were in the form of soft loans from Saudi Arabia, Kuwait, UAE, Qatar, Oman, Malaysia and France. The interest rates on these funds reached 5% (which is less than half the previous interest rates Lebanon used for borrowing before Paris II was convened) over a 15-year period.

The following table shows the amounts pledged to Lebanon from Paris II participants:

<b><u>Country</u></b>	<b><u>Amount (\$ million)</u></b>
Malaysia	300
Kuwait	300
UAE	300
Oman	50
Saudi Arabia	700
France	500 *
Qatar	200

Arab Monetary Fund	55 **
European Union	12.25 € ***
<b>TOTAL</b>	<b>2458 US DOLLARS</b>

\*The Euro exchange rate was calculated at \$1.08/€

\*\*Short and medium term credit facilities

\*\*\*Grants earmarked for fiscal adjustment operations

All the funds Lebanon received were used for retiring short-term debts due in foreign currency and Lebanese pounds throughout 2003, which resulted in reducing the cost of the public debt, lengthening its maturity, and improving its profile.

The Lebanese government was able, before the end of 2002, and in agreement with the Central Bank, according to Article 115 of the Code of Money and Credit, to cancel \$1,800 million from the overall Treasury debt due to the Central Bank. An amount of \$1,870 million of Lebanese Treasury bills was also exchanged by the Central Bank with other longer-term bills at a 4% interest rate and a maturity of 15 years.

Moreover, the banking sector has taken an unprecedented step in cooperating with the Central Bank to support the government's initiatives by pledging to provide about \$4 billion at a 0% interest rate for a period of two years.

Implementation of the agreement reached between the Central Bank and the commercial banks in Lebanon resulted in providing the Lebanese Treasury with \$3.6 billion in financing for two years at 0% interest rate. However, the overwhelming majority of subscriptions of this amount was made up of 85% near cash instead of the expected 75% in T-bonds.

Given the above, had subscriptions taken place as planned (to be for the most part in T-bonds) this would have contributed to a further decrease in the servicing of the 2003 public debt significantly.

It should be noted, however, that the outcome of this significant contribution will have a major effect in reducing the servicing of the public debt in the years 2004 and 2005.

The following table shows the total amount of funds made available to Lebanon and how they have been used over the past eight months; in terms of canceling some outstanding Treasury bills, exchanging others with long and medium-term T-bills or otherwise employing the funds to retire T-bills that matured during that period.

<b>\$ million</b>	<b>Employment of Revenues</b>			
	<b>Amount of Revenue</b>	<b>Debt Cancellation</b>	<b>Debt Exchange</b>	<b>Debt Principal and Interest Replacement</b>
<b>Operations with the Central Bank</b>	4.1	1.8	1.87	0.4
<b>Paris II contributions</b>	2.5			2.5
<b>Bank allocations</b>	3.6		*0.8	2.8
<b>TOTAL</b>	<b>10.2</b>	<b>1.8</b>	<b>2.67</b>	<b>5.7</b>

\*A major part of this sum is in the form of Treasury bills that will mature in a short period not exceeding 2 months.

Overall, Lebanon was granted a rare opportunity that was unprecedented both in importance and seriousness, whereby financial resources were made available from various sources, exceeding \$10 billion, and significantly changing the profile of the public debt and the cost of servicing it for years to come.

On the other hand, efforts during that period centered on achieving progress on different fronts, and where notable progress was achieved in terms of public finance reforms.

Progress on all fronts was expected to take place as a result of the positive developments. This was expected to accelerate Lebanon's exit from its difficult position, if it had been accompanied by additional efforts on the tracks of reform, rationalization and development by the State; and by seeking to attract backing for the reform program from all those concerned with the public sector in Lebanon; and by progressing along the road to privatization and securitization.

However, as has been known, insufficient progress was made at the appropriate level on some reform tracks, including privatization. This resulted in delays in much needed reforms in the economic and financial situation.

### **3. The Ratification of the FY 2003 Budget Law**

On a different note, the ratification of the 2003 Public Budget Law omitted key reform measures that were included in the 2003 draft budget, as approved by Cabinet. These articles were part of the 2003 draft budget law. Had they been ratified, they would have contributed to achieving an increase in the productivity of the public sector and the Lebanese economy, improving its level of competitiveness, and enhancing macroeconomic growth rates in various productive sectors.

Because of political and union pressure, ratification of the 2003 Public Budget Law in Parliament also disregarded fundamental reforms in public sector administrations and institutions that in turn suffer from structural weaknesses, reduced productivity, weak performance, and a lack of real accountability on the basis of performance, which would have led to improved levels of work-effectiveness. What was abandoned was the ratification and implementation of measures intended for dealing with some laws and practices that have become outdated in terms of

meeting the needs of today's business and administrative practices, preventing optimal use of available resources in the country (economic waste in the use of human, material and temporal resources).

#### **4. The Essence of the Partnership Between Lebanon and the International Community as Agreed upon in the Paris II Conference**

The essence of what was agreed upon at the Paris II conference is that Lebanon requested assistance from the international community on the basis of an adjustment program it presented to participants as well as the measures already adopted. Lebanon obtained the support requested at Paris II in the form of a partnership in which it should have fulfilled its commitments since the other parties had honored their pledges. It was at this time, after Paris II, that there was reluctance and withdrawal. Momentum was lost as a result of not advancing completely with what Lebanon had promised to do on its part.

This was mirrored in the reform program, which was coupled with negative outside developments in the form of the war on Iraq and its occupation, the negative developments in the implementation of the Road Map in Palestine, and the lack of progress on the path of achieving a just peace in the region. All these factors were of great importance impacted the political and economic regional situation as well as Lebanon's economic role in the region.

We should have been prepared for these developments so that Lebanon would have had the right mindset and dynamic to focus on the need to deal with these developments in such a way as to reduce their negative impact on the country. It was also necessary, in light of these conditions, to develop mechanisms, practices, policies and programs that enable Lebanon and its public and private institutions to benefit from the opportunities that regional and international political and economic

developments brought with them. However, dealing with these developments was never on a par with what was required at that stage.

All these internal and external urgent issues contributed to dimming the local atmosphere and reducing the level of positive impressions generated by the Paris II conference.

### **5. The Achievements that Resulted from the Paris II Conference and Subsequent Events:**

Despite the negative local and regional political developments, the efforts exerted on certain fronts resulted in major progress on the level of some reforms. This was noted in the increased size of revenues and the reduction of expenditures in some chapters in the budget, as well as the fundamental reforms achieved in public finance, which were detected by citizens in many cases and which reflected positively on the overall economic climate.

Facts and figures clearly indicate continuous improvement throughout the first eight months of 2003 at the level of the real economy, monetary situation and public finance. Economic indicators registered during this period show visible improvement in many items. For instance, the economy activity (coincident) indicator registered by the Central Bank shows visible improvement, rising from 144.6 at the end of June 2002 to 153.6 at the end of June 2003. It is expected to make further progress during July and August of this year.

Other economic indicators reflect the return of activity in various economic sectors, beginning with export activity. Exports registered an improvement of 42% during the first 7 months of the current year. Import activity also improved by 4% during the same period. Check-clearing activity recorded significant improvement, reflecting improvement in the size of economic activity. An increase was also seen in the tourism sector with the influx of tourists after the end of the war in Iraq.

Many other economic indicators are predicting that Lebanon will achieve real growth during the current year that is no less than 3%. This paves the way to revive private sector initiative and opens the way for it to provide new employment opportunities.

## **6. Financial and Monetary Indicators**

It is on this basis that financial and monetary indicators show progress on many tracks. The cash flow from Paris II and what came after, which exceeded \$10 billion (about 57% of GDP) helped to re-profile Lebanon's public debt, which has progressed on several fronts:

1. The net public debt did not increase, as reported by figures, between the end of November 2002 and the end of July 2003.
2. A part of the public debt was exchanged with medium and long-term engagements originating from a number of brotherly and friendly countries, the Central Bank, the National Social Security Fund (NSSF), and the Deposit Guarantee Institute. This totaled around \$7 billion. The total market debt decreased by 10%, and now occupies no more than 74% of the total public debt.
3. The average maturity of loans owed to foreign countries increased by an average of one year.
4. The debt service level was reduced by 2.5% compared to its pre- Paris II level.
5. There was a notable improvement in the price of Lebanese commercial papers so that returns were proportional and close to their corresponding instruments in emerging markets. Their price has also exceeded their nominal value.
6. The average of creditor interest rates on two year Treasury bills in the secondary market was reduced from around 17-18% to less than 9%.

7. New financing costs undertaken by the Ministry of Finance during the first 8 months were reduced to no more than 3% (Arab and friendly countries: 5%; the Central Bank: 5%; the banks: 0%). This will reflect positively on the overall cost of debt servicing during 2004, 2005 and later.
8. The surplus in balance of payments at the end of August 2003 reached about \$3.2 billion as compared to a deficit of \$635 million in 2001 and a deficit of \$280 million by the end of August 2002.
9. Deposits in the banking sector realized an increase of LL 9,365 billion at a rate of 15% between July 2002 and July 2003.
10. The dollarization level in the economy declined, reaching 66.8% in July 2003 compared to 73.3% in July 2002.
11. Budget and Treasury revenues improved in the first eight months of the current year as compared to revenues realized in the same period last year by about LL 500 billion, representing an increase of around 2% in the GDP. This helped increase the total primary surplus, which rose to about LL 400 billion, despite the increase in total public expenditure by LL 654 billion, of which LL 424 billion resulted from non-interest expenditures.

## **7. The Period of Sluggishness and Failure to Take Initiatives**

Lebanon should have bolstered its situation and enhanced the measure of its benefit from the above mentioned changes. Instead, an atmosphere of political divergence and tension weighed down on advancement in the last few months. This contributed to the emergence of a sense of loosening and sluggishness, which impeded the reform drive and hindered the activity of public sector administrations and institutions. Political and administrative bickering also hampered private sector initiatives and as a consequence the process of adapting to the developments Lebanon was supposed committed to—as



mentioned in the paper presented by Lebanon at the Paris II conference and as required by the economic situation in the country. This also entails a commitment to agreed upon measures and to new means to transcend these difficulties. In some cases, this also necessitated adopting reform measures in order to deal with issues that Lebanon has been faced with. Neither the results nor repercussions of some of these measures were at par with the aspirations of the Lebanese people nor the needs of the Lebanese economy.

Given these developments, it has become essential that in preparing the draft budget law of 2004, we examine what the government has achieved in terms of executing the 2003 Budget. As such, we can gauge what needs to be done, what could be followed up, what has been achieved to date, and what still needs to be done over time.

**Two: Progress in the Implementation of the FY 2003 Budget during the First Eight Months of 2003**

The following table reflects a summary of the financial situation regarding the execution of the Budget Law over the first eight months of 2003, as compared to the execution of the 2002 budget over the same period:

	<b>In LL billions</b>	
	<b>Until August 2002</b>	<b>Until August 2003</b>
<b>Budget Revenues</b>	3,610	4,080
<b>Treasury Revenues</b>	275	314
<b>Total Funds Received</b>	3,885	4,394
<b>Budget Expenditure of which Public Debt Servicing</b>	5,287	5,764
<b>Budget Expenditure</b>	2,862	3,092
<b>Total Funds Paid</b>	1,148	1,325
<b>Primary Budget Surplus</b>	6,435	7,089
<b>Overall Budget Deficit</b>	1,185	1,409
<b>Total Primary Surplus</b>	1,677	1,683
<b>Total Deficit</b>	312	398
<b>TOTAL DEFICIT RATE</b>	3,885	4,394
	39.6%	38.00%

Analyzing the facts prevailing during the last time period indicates that despite the intense pressure exerted to increase expenditure, and other pressures exerted on the Ministry of Finance to rein in efforts aimed at achieving set goals for revenue-collection, the figures reflecting the implementation of the budget indicate a close commitment to the figures set down in the Budget Law, with the exception of changes brought about by several factors, most important of which are:

1. Not ratifying the law dealing with seafront property violations and not implementing the Professional Tax, affecting total revenues.
2. Not progressing with the processes of privatization and securitization at a fast enough pace; which reflected on the size of the public debt servicing, on the efficacy of these economic services as well as other economic sectors, interest rates, economic growth rates, rationalization of the public sector, reducing its cost and increasing its productivity.
3. A major portion of the commercial bank contributions were in the form of monetary subscriptions instead of in the form of T-bonds. This limited the deal's effect on the 2003 Budget (debt service) but will affect the budgets of 2004 and 2005 (instead of having a major impact on the 2003 Budget).

The sum effect of all these factors caused the public debt service level to swell in 2003. This increase could total around LL 800 billion over and above what was set in the budget.

It is noteworthy that the budget was initially drafted, as we know, based on the assumption that the telephone and electricity sectors would be privatized and that customs revenues from tobacco imports would be securitized during the first half of 2003.

On the level of Treasury operations, total fiscal expenditures reached almost LL 1,325 billion by the end of August 2003, exceeding the expected year end level of LL 800 billion. As a result, the Treasury deficit realized by the end of August of this year reached around LL 1,011 billion (or 76.28% of total Treasury operations), as compared to the deficit over the same period last year, which amounted to LL 873 billion (or 76% of total Treasury operations).

The reason for the above mentioned increase in expenditures is attributed to spending of a portion of the expenditures carried over from previous budgets and, essentially, additional Treasury advances granted to the electric company (EDL) to partially finance its financial needs for buying fuel. This totaled LL 174 billion in the first eight months of 2003. In addition, the Treasury paid back debt installments on behalf of EDL for equipping the company and paying interest on its debt servicing. During that period, these expenses exceeded LL 170 billion, which brought the total sum paid by the Treasury on behalf of EDL during the first eight months of this year to about LL 345 billion. In addition to these advances, there were payments disbursed by the Treasury as a result of the implementation of Law 341 and its amendments related to the transportation sector and reduction of pollution as well as advances paid by the Treasury to operate government hospitals.

These factors were beyond the control of the financial administration; and they limited the scope of Paris II's achievements and what came afterwards. They raised the total deficit rate to 38% by the end of August instead of the 27% predicted when the budget was ratified, although that rate will still reflect an improvement over what it was by the end of August 2002.

In what remains of this year, it is hoped that revenues can be maintained at their pace in order to meet the revenue targets projected in the 2003 Budget Law.

Regarding the volume of overall expenditure: Despite the increase in total expenditures amounting to around LL 654 billion as compared to the same period last year, which was due in large part to nonrecurring factors, the Ministry of Finance remains committed to the policy of containing expenditures, limiting the total deficit, and reducing the increase in public

debt. For this to be achieved, cooperation by the various parties involved is required.

It is with this background in mind that the 2004 Budget was prepared. Dealing with the effects and requirements of Paris II, its repercussions, the political, economic and financial conditions present at that time, and the results of executing the 2003 Budget over the last eight months requires attention, comprehension and courage. However, the current political climate renders progress on this desired track difficult. As a result, the 2004 budget proposal was drafted in light of dealing with these realities and latest pressing developments.

### **Three: The Outline of the FY 2004 Budget Draft:**

On the basis of the present situation and the strategy adopted by the government to work on reducing the budget deficit, the Ministry of Finance has prepared the 2004 budget proposal on the basis of a fundamental fact that successive government budgets have suffered from, which is that current expenditures represent the single largest burden on the budget. This is based on two key factors:

1. Personnel costs (salaries and wages, related benefits, pensions, and end of service indemnities) represent 37% of the total funds enumerated in the draft budget. These expenditure items inherently lacks flexibility, and due to the current situation are not reducible, thus making them fixed expenditures. Furthermore, this matter is exacerbated by the fact that additional expenditures are frequently added after the ratification of annual budgets, creating added burdens on the Treasury.
2. Servicing the public debt represents 47% of the total funds earmarked in the draft law due to the size of the public debt (as there is still a portion of the debt that has not yet matured, which was previously issued and is still subject to relatively high interest rates). In addition, the sluggish progress impacted the financial, economic, privatization and securitization reform tracks as well as on the servicing of the public debt, interest rates and the overall economic activity. This happened despite a large cash injection of funds into the Treasury this year at low or zero interest rates.

As a result, around LL 7,700 billion, equivalent to 84% of the total draft budget law, in effect, cannot bear any reduction in light of the regulations and current laws that must be followed when preparing the draft budget. Hence, the theoretical maneuvering available to make any reduction in the size of

expenditure does not exceed 16% of total expenditure. Given that the items making up this expenditure have been subjected to several previous reduction attempts, it has become apparent that realizing any meaningful reduction on this level will be difficult in the absence of progress on the structural reform track.

On another level, and in light of the recent developments, i.e. the increase in the price level of some consumable goods and services, and the evident increase in some expenditure items to satisfy the need to enhance growing social provisions and to cover the costs of development projects, additional funds were earmarked in the draft budget to meet the needs of the related items.

Consequently, and in order to maintain the level of social services –in terms of health, education and social subsidies according to laws and standards in force- and to empower the government and enable it to operate public services within an acceptable level based on the expenditure criteria and patterns adopted to date, it would be impossible to make additional reductions within the current expenditure rules and trends.

This also demonstrates that there is an urgent need to include some increases in order to be on a par with the natural development of the expenditures (notably in investment expenditures) to maintain the level of growth and stimulate the cycle of the national economy, benefiting from the local counterpart of soft financing, and allowing for the utilization of soft loans. Such increases should be just, well-proportioned and realistic.

Accordingly, expenditures in the draft budget were estimated with a view to safeguard all social services offered to all beneficiaries.

Despite our faith in the importance and need to pursue the administrative and financial reform drive, specified in the 2003

draft budget provisions, we should be aware that the existing social and political conditions are inappropriate to implement the necessary steps to pursue and complete the financial and economic reforms Lebanon needs. Hence, the 2004 draft budget did not include any of the reform provision contained in the 2003 draft budget that were meant to increase the productivity of the public sector, reduce its cost, and enhance its cost-effectiveness on the economy and its profit on citizens.

Given the above, the Ministry of Finance prepared the 2004 draft budget, whose major outlines are the following:

**1- Summary of the FY 2004 budget draft compared with the FY 2002 and FY 2003 budgets and the results of the implementation of the FY 2003 budget until the end of August 2003**

	In LL billion				
Budget operations	2002 Budget Law	2003 Budget Law	2003 budget implementation (8 months)	2004 draft budget (excluding privatization and securitization operations)	2004 draft budget (including privatization and securitization operations)
<b>A- Total expenditure</b>	<b>9,375</b>	<b>8,600</b>	<b>5,764</b>	<b>9,250</b>	<b>8,850</b>
1-expenditures (outside debt servicing)	4,875	4,600	2,672	4,950	4,950
2-public debt servicing	4,500	4,000	3,092	4,300	3,900
<b>B-Revenues</b>	<b>5,500</b>	<b>6,475</b>	<b>4,080</b>	<b>6,400</b>	<b>6,400</b>
<b>C-Primary surplus</b>	<b>625</b>	<b>1,875</b>	<b>1,408</b>	<b>1,450</b>	<b>1,450</b>
<b>Budget Deficit Amount</b>	<b>3,875</b>	<b>2,125</b>	<b>1,684</b>	<b>2,850</b>	<b>2,450</b>
<b>Budget Deficit Rate</b>	<b>41.4%</b>	<b>24.70%</b>	<b>29.21%</b>	<b>30.81%</b>	<b>27.68%</b>
<b>Treasury Operations</b>	<b>2002 Budget Law</b>	<b>2003 Budget Law</b>	<b>2003 budget implementation (8 months)</b>	<b>2004 draft budget (excluding privatization</b>	<b>2004 draft budget (including privatization</b>



				and securitization operations)	and securitization operations
<b>Total Expected Treasury Expenditures</b>	<b>750</b>	<b>800</b>	<b>1,325</b>	<b>900</b>	<b>900</b>
<b>Total Expected Treasury Revenues</b>	<b>350</b>	<b>400</b>	<b>314</b>	<b>450</b>	<b>450</b>
<b>Total Budget and Treasury Operations</b>	<b>2002 Budget Law</b>	<b>2003 Budget Law</b>	<b>2003 budget implementation (8 months)</b>	<b>2004 draft budget (excluding privatization and securitization operations)</b>	<b>2004 draft budget (including privatization and securitization operations)</b>
<b>Total Expenditure Budget and Treasury Operations</b>	<b>10,125</b>	<b>9,400</b>	<b>7,089</b>	<b>10,150</b>	<b>9,750</b>
<b>Total Revenues Budget and Treasury Operations</b>	<b>5,850</b>	<b>6,875</b>	<b>4,394</b>	<b>6,850</b>	<b>6,850</b>
<b>Total Primary Surplus</b>	<b>225</b>	<b>1,475</b>	<b>397</b>	<b>1,000</b>	<b>1,000</b>
<b>Total Deficit</b>	<b>4,275</b>	<b>2,525</b>	<b>2,695</b>	<b>3,300</b>	<b>2,900</b>
<b>Total Deficit Rate</b>	<b>42.3%</b>	<b>26.08%</b>	<b>38.01%</b>	<b>32.51%</b>	<b>29.74%</b>

## **2. The Major features of the FY 2000 Draft Budget**

While preparing 2004 draft budget, the Ministry of Finance had to adopt one of two options: the first option is based on the assumption that no privatization or securitization operations are going to take place during 2004. The second option is based on the assumption that the privatization and securitization operations implemented throughout 2004 will lead to a reduction in debt servicing of roughly LL400 billion, in addition to the positive consequent impact that would reflect on the economy by an increase in growth, a decrease in credit and debit

interest rates, an improvement in confidence resulting in positive expectations for the future.

It should be noted that with regard to the first year's proceeds from privatization and securitization, part of the revenues in 2004, would be classified, according to international accounting standards as being part of the revenues.

Given the above, the table related to the expected total expenditures for 2004 shows the two options mentioned above. According to the first option, total budget expenditures will amount to LL 9,250 billion, and thus the total expenditure (excluding debt servicing) will reach LL 4,950 billion. As for the second option, debt servicing is reduced to LL 3,800 billion, and total budget expenditure will thus reached LL 8,850 billion. Total expenditure, (excluding debt servicing), would remain as it is, at LL 4,950 billion.

In both cases, excluding the debt servicing factor yields a total expenditure of LL 4,950 billion, LL 4,336 billion pertaining to the first section and LL 615 billion for the second section.

Given the above, expenditure in the draft budget is as follows:

**A- Servicing of Public Debt:** The projected increase in debt servicing expenses, based on the first option amounts to, LL 300 billion in addition to draft budget 2003 estimates. As for the second option, the total debt servicing reaches LL 3,900 billion. It should be noted that debt servicing disbursements could reach LL 4,800 billion by the end of 2003, instead of LL 4,000 billion, due to the reasons mentioned earlier.

Except for the difference between the two options, the rest of the expenditure/revenue provisions remain as they are and according to the following:

**B- Investment Expenditures:** The projected increase in this article amounts to roughly LL 218 billion, LL 45 billion of which is allocated for each of the Council of the South and the Central Fund for the Displaced. The increase stems from the necessity to observe at least a minimal compliance with the programs on one hand, and the need to resume the execution of some development projects in order to enhance the development programs in all regions and to secure the local portion of the spending necessary in order to allow Lebanon to benefit from the soft loans put at its disposal.

**C- Other Expenditures:** The projected increase in this article is around LL 132 billion, stemming from the need to meet with the increases and the essential requirements for operational activities.

The table below shows some examples of the changes that occurred, compared to 2003 Budget law:

<b>Article 11</b>	<b>Materials and supplies:</b> the total increased from LL124 billion to LL139 billion. This is attributed to a 15% increase in allocations for prices of fuel and, 10% on pharmaceutical products, given that prices of these products increased.
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<b>Article 12</b>	<b>External Services:</b> the total increased from LL 105 billion to LL 112 billion due to the increase in electricity consumption, phone, publications and public relations allocations.
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<b>Article 13</b>	<b>Salaries and Wages:</b> the allocations in this item decreased from LL 2,178 billion to LL 2,141 billion, i.e. a LL 37 billion reduction, despite the increase stemming from the new appointments, in addition to the recurrent increase in salaries and wages, a 10% increase in disease and maternity provisions and a 5% increase in hospital expenses.
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	<p>The visible reduction resulted from the fact that the 2003 budget included a LL 50 billion allocation intended to cover the difference of the increases in educational sector, over the period 2001- end of 2003.</p> <p>This implies that the amount allocated for this article actually registered an increase.</p> <p>Conversely, examining the total amount of the salaries and subsidies sustained by the state - including the transfers allocated to public institutions, councils and funds and the National Social Security Fund (NSSF)- the total salaries, wages and subsequent allocations, would amount to approximately LL 3,400 billion (LL 2,141 billion for salaries and wages and related benefits + LL 209 billion for salaries and wages from transfers to public institutions + LL 50 billion to the NSSF + LL 1,000 billion for pensions and redundancy payments) compared to LL 3,401 billion during the past year. As mentioned earlier, last year's figure included LL 50 billion in the form of differences stemming from the increase in the educational sector, over roughly the past three years.</p>
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<p><b>Article 14</b></p>	<p><b>Subsidies and Transfers:</b> This item increased from LL 1,470 billion to LL 1,532 billion, a LL 62 billion increase, including LL 40 billion allocated to the expenses of operating the new public hospitals. The remaining amount is intended to cover the increase in contributions to some public institutions according to the following outline: Civil Defense (LL 5 billion), the Lebanese University (LL 5 billion), public employees (LL 2 billion) to cover kidney dialysis expenses, IDAL (LL 2.5 billion) after approving its own financial regulations, railways and common transport office (LL 3 billion) to cover part of the redundancy payments, (Télé-Liban LL 4 billion), provided previously now by transfer from the budget reserve.</p> <p>It should be noted that this item also includes LL 1,000 billion allocated to cover retirement pensions and end-of</p>
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	service indemnity, and LL 50 billion for the NSSF (including the state's share from the expenses of its employees). The remaining amount represents the state's contribution to the NSSF and LL209 billion to cover the allocations, salaries and wages of some public institutions' employees, shown in the transfers item.
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<b>Article 16</b>	<b>Other Expenses:</b> This item increased from LL 239 billion to LL 245 billion, due to the increase in hospital expenses at the Ministry of Public Health (LL 5 billion) and an increase of LL 1 billion for similar administrative costs.
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<b>Article 17</b>	<b>Interest Payments and Financial Charges:</b> They increased from LL 4,000 billion, projected in 2003 Budget Law, to LL 4,300 billion, i.e. a LL 300 billion increase due to the fact that the expected privatization and securitization operations have not been carried out to date. *It must be noted that the sum allocated for debt servicing in the 2003 budget is expected to increase as a result of the reasons mentioned earlier.
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<b>Article 18</b>	<b>Unallocated General Reserves:</b> This item increased from LL 86 billion to LL165 billion; i.e. an increase of LL 79 billion, of which LL 64 billion are earmarked for subsidizing interest on development loans that were not entirely provided for in the budget in previous years. This is according to a legislative article permitting the government to disburse these sums on the condition that credits are later opened to cover them. The remaining total has been allocated into the reserves account to cover various budget items.
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In the second section of the budget proposal, the total rose from LL 396 billion to LL 614 billion, i.e. an increase of LL 218 billion.

**D-Ministries Whose Budgets Witnessed Significant Increases:**

<p><b>1- The Presidency of the Council of Ministers</b></p>	<p><b>LL 118 billion</b></p>	<p>An additional LL45 billion for the Council of the South: LL60 billion in 2004 instead of LL15 billion in 2003 (program law);  An additional LL45 billion for the Central Fund for the Displaced: LL60 billion in 2004 instead of LL15 billion in 2003 (program law);  LL7 billion for the Council for Development and Reconstruction;  LL2 billion for the Public Employee Coop;  LL2 billion for the National Institute of Administration,  LL2 billion for the Higher Council for Privatization ,  LL2.5 billion for IDAL;  LL5 billion for media, marketing, and advertising;  LL1 billion for the project of executing Cabinet decisions  LL6.5 billion for the Directorate General of State Security;</p>
<p><b>2- Ministry of Public Works and Transport</b></p>	<p><b>LL62 billion</b></p>	<p>(Law programs for the road and ports)</p>
<p><b>3-Ministry of Public Health</b></p>	<p><b>LL44 billion</b></p>	<p>To provide the sums needed to operate government hospitals and private sector hospitalization.</p>
<p><b>4-Ministry of Higher Education</b></p>	<p><b>LL30 billion</b></p>	<p>LL5 billion for the Lebanese University;  LL10 billion for the program law for regular public schools;</p>

		The remainder covers the increase in salaries and wages and miscellaneous expenditures.
<b>5-Ministry of Defense</b>	<b>LL24 billion</b>	(Equipment, salaries and wages and various subsidies).
<b>6-Ministry of Interior and Municipalities</b>	<b>LL20 billion</b>	LL5 billion for civil defense; LL15 billion for the increase in total salaries, wages and various subsidies.
<b>7-Ministry of Energy and Water</b>	<b>LL9 billion</b>	(Program Law for water and electricity projects).
<b>8-Ministry of Information</b>	<b>LL6 billion</b>	LL4 billion for Tele Liban; LL2 billion for miscellaneous expenditures.
<b>9-Ministry of Social Affairs</b>	<b>LL5 billion</b>	(Social care and development projects).
<b>10-Ministry of Finance</b>	<b>LL5 billion</b>	(Ministry premises)
<b>11-Ministry of Foreign Affairs and Expatriates</b>	<b>LL3 billion</b>	(Salaries, wages and miscellaneous expenditures).
<b>12-Ministry of Youth and Sports</b>	<b>LL3 billion</b>	(Sports facilities).
<b>13-Ministry of</b>	<b>LL2 billion</b>	LL1 billion for scientific research; LL1 billion for miscellaneous

<b>Agriculture</b>		expenditures;
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It must be noted that the 2004 draft budget law was based on the principle of safeguarding the level of social expenditure and social provisions in terms of healthcare, education and social provisions without affecting the method of expenditure in it, despite the urgent need to review methods, standards and regulations in force.

On this basis, the total direct social expenditure—excluding pensions and end-of-service indemnities—rose from LL 1,211 billion in the 2003 Budget Law, to LL 1,291 billion in the 2004 draft budget law, representing an increase of LL 80 billion, spread in the following manner:

**Comparison Table of the size of direct social expenditure in the 2004 draft budget law as compared to the 2003 budget law:**

In billions of Lebanese pounds					
Year	Pensions and end of Service Indemnities	Ministry of Higher Education	Ministry of Public Health	Ministry of Social Affairs	Total Social Expenditures
2003	1,000	826	285	100	2,211
2004	1,000	856	330	105	2,291

The above table shows that total direct social expenditures maintained the same level as a percentage of total budget expenditures of 46.28% (outside debt service) and 24.73% of total budget expenditures (including debt service).

Furthermore, the 2004 budget proposal includes an article that waives registration fees for students of the Lebanese University and regular, vocational, and technical training schools and institutes for a period of one year.



**E-Expected Revenues:** The 2004 budget proposal was drafted on the basis of not introducing any additional taxes or amending any existing taxes, with the exception of temporarily canceling and only for 2004, tuition fees due to the Treasury from pupils and university students.

It must be noted here that the Ministry of Finance has indicated, on more than one occasion, the necessity of increasing the VAT rate from 10% to 12% in 2004. However, current conditions do not seem to allow for the introduction or an increase of any new tax, despite the Treasury's dire need for new financial resources. Also, it is inappropriate to add or modify any existing tax or tariff unless it is accompanied by a reduction in total expenditure and an improvement of its cost-effectiveness for citizens to feel an improvement in their relationship with public administrations and institutions.

The approach of the 2004 draft budget law, based on not modifying or increasing taxes, does not reflect a lack of desire or need to pursue financial and economic reform operations, be it on the level of the national economy or public administrations or institutions. On the contrary, it underscores the increased importance and need of achieving these reforms in a way that consolidates macroeconomic stability and supports the country's social situation in the medium and long-term.

Estimated revenues in the 2004 draft budget reached around LL 6,400 billion as opposed to 6,475 billion in the 2003 Budget Law; i.e. a reduction of LL 75 billion. This decrease is attributed to not having achieved the following revenues, reflecting also their omission in the 2004 draft budget law:

- Central Bank profits: LL 20 billion
- Tax on seafront properties (no special law has been issued to this effect): LL35 billion.
- Resolving the issue of seafront properties (no special law has been issued to this effect): LL 45 billion
- Flat professional tax: LL 45 billion

The estimated revenues in the 2004 draft budget are spread as follows:

	2003 Budget Law	2004 Draft Budget	change	Comments
<b>A-Tax Revenues</b>	<b>4,726</b>	<b>4,645</b>		
-Income, Profits and Capital Tax	<b>1,000</b>	<b>1,045</b>	<b>+45</b>	Activating Control and Collection procedures
- Tax on Properties	<b>400</b>	<b>350</b>	<b>-50</b>	Built up properties: <b>15</b> Sea front properties: <b>35</b>
-VAT + Internal Tariffs + Custom duties	<b>3,076</b>	<b>3,049</b>		
1-VAT	<b>1,100</b>	<b>1,200</b>	<b>+100</b>	As a result of improvement in collection and a reduction of the threshold of businesses to LL 150 million
2-The remaining internal tariffs on goods and services	<b>1,196</b>	<b>1,299</b>	<b>+103</b>	
3-Tariffs on trade and international exchange	<b>780</b>	<b>550</b>	<b>-230</b>	The reduction in custom duties is due to: -Some custom fees being re-classified and becoming consumption tariffs: <b>103</b> -A series of goods were exempted from custom duties during 2003, notably industrial raw material and the impact of bilateral agreements with Arab states and the Arab partnership agreement.
Other tax revenues	<b>250</b>	<b>201</b>	<b>-49</b>	Due to non-implementation of the flat professional tax

	<b>2003 Budget Law</b>	<b>2004 Draft Budget</b>	<b>Increase or reduction</b>	<b>Comments</b>
<b>A-Non-Tax Revenues</b>	<b>1,749</b>	<b>1,755</b>		
<b>-Proceeds from public administrations and institutions</b>	<b>1,180</b>	<b>1,296</b>	<b>+116</b>	
Central Bank Revenues (profits and currency exchange)	<b>20</b>	<b>0</b>	<b>-20</b>	
Beirut International Airport Revenues	<b>35</b>	<b>45</b>	<b>10</b>	
Proceeds from other state properties	<b>2</b>	<b>0</b>	<b>-2</b>	
Casino du Liban Revenues	<b>30</b>	<b>35</b>	<b>+5</b>	
Grottos, ancient and tourist sites	<b>2</b>	<b>2</b>	<b>0</b>	
Beirut Port	<b>10</b>	<b>10</b>	<b>0</b>	
National Lottery	<b>25</b>	<b>47</b>	<b>22</b>	
Communications	<b>1,050</b>	<b>1,150</b>	<b>100</b>	
Other revenues from public institution proceeds	<b>6</b>	<b>7</b>	<b>1</b>	
<b>-Tariffs, administrative proceeds and sales</b>	<b>415</b>	<b>376</b>	<b>-39</b>	
<b>-Fines and seizures</b>	<b>27</b>	<b>6</b>	<b>-21</b>	
<b>Miscellaneous Non-Fiscal Revenues, including:</b>	<b>127</b>	<b>77</b>	<b>-50</b>	
-Pension slashes	<b>75</b>	<b>77</b>	<b>+2</b>	
-Seafront properties settlement fees and construction violations	<b>47</b>	<b>0</b>	<b>-47</b>	Unachieved revenues
-Postal proceeds	<b>5</b>	<b>0</b>	<b>-5</b>	

## **F- Primary Surplus and Deficit Rate in the 2004 Budget Proposal**

According to the above, the estimated primary surplus in the 2004 draft budget, on the basis of the first option, is estimated at LL 1,450 billion.

<b>Normal Revenues</b>		<b>Expenditure excluding servicing debt</b>		
6,400	(-)	4,950	(=)	1,450

The expected deficit in the draft budget, based on this option, would reach LL 2,850 billion, representing a deficit rate of 30.81%.

<b>Deficit in the Draft Budget</b>		<b>Total Expenditure</b>		
2,850	(÷)	9,250	(=)	30.81%

As for the total budget and Treasury deficit, it is accordingly expected to reach LL 3,300 billion. The total deficit percentage would represent about 32.5%, i.e. approximately 11.5% of the GDP.

With regard to the second option, the primary surplus would remain as it is. However, the total budget deficit would decrease to LL2,450 billion. In parallel, the rate will decrease to represent 27.68%. The total deficit will also decrease to LL 2,900 billion, as well as the total deficit rate—which will represent 29.72%, i.e. about 10% of the GDP.

Given the above, the total primary surplus would be less in terms of percentage than the total primary surplus included in the 2003 Budget Law. However, it would exceed the total primary surplus that will be achieved in the 2003 Budget. Despite the fact that the expected total deficit in

the 2004 budget proposal will be slightly superior to the total deficit projected in the 2003 Budget Law, it is expected to improve from the total deficit to be achieved by the end of 2003. This implies that improvement in the percentage of deficit is constant, despite the slow down.

#### **Fourth: Other Aspects of Structural Problems in Expenditures and Revenues, and their Effects:**

Throughout the past years, Lebanon was able to accomplish a significant increase in the size of tax and non-tax revenues as compared to the GDP. Conversely, this was accompanied by a significant increase in the size of expenditures because the Lebanese state was faced with dealing with the problems accumulated over the years of war and its aftermath. This was essentially highlighted in the increase of social, health and educational provisions and the increase in salaries, wages and necessary subsidies to improve the standard and quality of living of employees in public sector administrations and institutions. The increase was also a result of reconstruction, restoration and rehabilitation of public services, as well as the debt servicing burden. All this also implied additional burdens on the Treasury, with a major part executed through programs or proposed laws, outside the subsequent public budgets framework, that took into account neither the rules nor the principles on which budgets are prepared, nor the real cost-effectiveness of such expenditures, nor the Treasury's aptitude to sustain them. This led to an increase in budget deficits year after year.

On another level, this situation was coupled with a political environment that conveyed a gloomy and complex image to citizens, giving them a growing impression that the problem lies exclusively in tax increases. This impression contributed to slowing the process of dealing with the real problems of the Lebanese people and the economy. It also masked the real picture of the problems from which Lebanon is suffering and the importance of the methods that need to be adopted in economic, financial and social solutions, as well as the importance of respecting financial discipline when implementing the budget.

It should be noted that, in addition to the importance of adopting these reforms, emphasis should be placed on the importance of social safety nets, as well as on the importance and need to adopt policies that achieve economic and social growth and sustainable development, and improving employment opportunities.

Over the past ten years the tax impact rose from 6% of the GDP in the early nineties to a current 15%, which does not impact limited-income citizens, contrary to what is said (except for the high consumption taxes imposed mainly on fuel and sustained by all Lebanese without exception).

Statistics show that approximately 6% of taxpayers pay approximately 86% of the total income tax, while the rest of taxpayers pay no more than approximately 14% of all the income tax collected.

Comparative studies show that income tax rates in Lebanon have among the lowest burdens in the world, both because the rates are low and because they have a high level of exemptions for middle and low income groups, as confirmed by the vast majority of economist and international analysts.

Except for custom rates aimed at protecting local products as well as gasoline, tobacco, alcoholic beverages and cars, 36% of total imports are subject to a zero percent custom duty, while another 47% of these imports are subject only to 5% duty.

Furthermore, homeowners residing in their home are exempt from property taxes if the property value does not exceed LL 120 million. Comparable exemptions are applicable to the inheritance tax.

In light of the implementation of the VAT, the implementation process adopted by Lebanon greatly weakened its regressive impact because a major portion of the goods and services (representing a majority of the goods and services consumed by middle and low income people) are exempted from this tax to start with.

In fact, as a result of the major increase in the burden sustained by the Treasury, the deficit (which was financed by borrowing and which led to an increase of the interest rate and the cost of public debt servicing) has increased. The subsequent outcome precipitated further tax hikes .

We need to be aware that every increase in expenditure results in an increase in the deficit and, subsequently, to the crowding out of available financial resources for the economy. As a result, interest rates would remain high and would lead to negative repercussions on growth rates. This would have an impact on the increase in the public debt, as a consequence of which all Lebanese will shoulder an increase in burdens by means of an increase in future fiscal burdens.

Procrastination in adopting economic, financial and administrative reforms will lead in the end to restraining economic growth rates. This will contribute, essentially, to hindering the resolution of structural problems from which the Lebanese economy is suffering. It will also lead to fettering the economy, confusing it, and reducing its competitive edge. It will place additional burdens on public finances and waste a chance for the country to benefit from the important opportunity currently made available by the reduction in international interest rates and the positive impact that Lebanon could benefit from as a result of this. Another consequence would be the burdening of the Lebanese economy with an additional substantial burden, thereby restricting it from playing a



pivotal role in stimulating the economic cycle and creating new job opportunities for thousands of youths that are entering the labor market annually.

On the other hand, the solutions did not take into account the other real problems that the administration is ailing from. That is because the methods and solutions adopted were not up to the required standard, nor were they consistent in their commitment to competence and qualifications neither in recruiting personnel for essential or leadership administrative posts nor regarding in the rules of work performance in public institutions and administrations. Likewise, it failed to take into account both the cost-effectiveness of expenditures and its benefits and accountability in performance and the achievement of expected goals. This played a large part in lack of competency or a reduced cost-effectiveness in using available resources. This would have preserved the interests of the economy, taxpayers and citizens.

The importance of censorship, its reinforcement, independence, and the improvement of its methods is a forgone conclusion. Experience in Lebanon and abroad attests to the indisputable fact that auditing is not an alternative to good management. Instead, what must be a fundamental premise prior to playing the auditing card is that the state must place the appropriate official in an appropriate position where he can carry out his duties and use the full range of his abilities. In this framework, there was little serious work done to achieve a series of reforms that allow the government to designate to government officials, of all levels, their duties and responsibilities and provide them with the needed means to do so. Likewise, it did not do enough to develop employee competency, knowledge and skills so as to take full advantage of financial, human or temporal resources. As a consequence, this practice would have led to competent

and successful leadership of the administration. With its success, this would marginalize the manifestations of decay, decadence, corruption and waste and assist auditing ladies by working in a straightforward and transparent manner. This would bolster the drive for good governance in Lebanon. Only then will the virtuous cycle be completed in terms of enhancing wise and good leadership, providing an adequate environment for investment and growth.

On another level, the problem that auditing fails to cover entirely and cannot tackle, is that a great part of the failure in using available financial and human resources is due to laws previously established and considered by beneficiaries as owed rights. It is also due to measures and subsidies granting a preferential treatment to some citizens, employees or organisms over others. These measures have been implemented during a long phase. It must be noted that, should enforcing these laws persists, no improvement in economic and social cost-effectiveness is expected unless these laws, measures and subsidies are reviewed. Neither the Treasury, nor Lebanese taxpayers are able to keep on sustaining their consequences.

Maintaining the same expenditure patterns, with the beneficiaries of these patterns insisting on this expenditure without taking into account the substantial financial burden it engenders, would affect the State's ability to keep on fulfilling the consequences of this expenditure. This would, in turn, lead the country, due to the buildup of these burdens, to a point where it would be unable to continue offering the provisions which are being demanded by those who consider them rightfully theirs. Medium and low income persons, would be among the first to suffer losses.

Thus, given the willingness of the State to shield the social safety net and insure that it continues to provide highly competent and constant social provisions to all strata of society, it must restructure its expenditure patterns and its ways of spending. It must also increase its economic and social cost-effectiveness. This will allow the State to radically, truly and boldly deal with the so-called “legalized squandering”.

What can be noted is that the state can begin asking citizens for additional contributions or sacrifices when they come to feel that the reform and restructuring process is going beyond slogans to actually exerting the necessary effort for clear, positive results. At that point, it will become possible to ask each party to participate according to their ability in financing the financial and economic reform process. These contributions, however, carry with them stages of sacrifice that will eventually benefit low and middle-income individuals in particular and all citizens in general, as well as helping macroeconomic stability.

It was necessary to, once again, undertake the necessary measures and adopt a series of regulations to prepare the 2004 budget. This emanates from a desire to deal with the problem of unexpected expenditure and the unforeseen, recurring increases in it. Similarly, it was necessary to exert efforts to increase revenue to the point where the capacities and potential of the Lebanese people, and their productive institutions, would no longer be fettered. This would result in enhancing the country’s economic and financial reform and engendering action towards a genuine management of basic issues ailing the economy. These problems have to do with:

- Growth
- Enhancing private sector initiatives and increasing its potential to find new employment opportunities
- Diversifying sources of income
- Bolstering economic activity in the country
- Dealing with the problems of public finance so that rational macroeconomic policies can be adopted
- Dealing with citizens' problems
- Putting the country in step with a path that would be more in sync with the status of the economy, the public finance, the region's extremely delicate situation, and international developments on the financial, economic and technological levels

### **Fifth: Future Outlook :**

For almost a year, and especially since Paris II was convened, major, radical and positive changes took place. They were of great importance and impacted on the state of the Lebanese economy, public finances, and monetary conditions.

Various economic indicators point to these changes. They were reflected in enhancing economic growth rates, bolstering macroeconomic stability, and reining in negative factors that affected real economic activity. This also had a positive impact on public finances, whose indicators picked up, both on the level of implementing the budget and in the evolution of the growth of debt, its distribution, maturity profile and servicing. The monetary situation also witnessed positive improvements in terms of the balance of payments, the increase in the Central Bank's foreign currency reserves, the major rise in banking sector deposits and monetary aggregates, and the decline in interest rates to less than half of their level a year ago. The bulk of these indicators translated into

palpable improvement in the overall economic situation, an upsurge in public confidence in the Lebanese economy, as well as an affirmation of the correctness of the government's program for tackling most of the economic and financial problems experienced by investors and those concerned with Lebanon's economic affairs.

These positive improvements and developments opened new horizons for Lebanon and made it possible for it to maintain efforts and build upon the great achievements recorded as a result of the Paris II conference, making it possible to deal with structural problems on the one hand, and working on developing the Lebanese economy so that it can make comparable progress in growth on the other hand.

The Lebanese people have, for decades, gambled on time be the sole answer for their problems. This may have been true in some cases, but the passage of time has shown that, in most cases, relying solely on time was never enough for solving these problems. Rather, it made them worse.

Failure to highlight real problems or temporarily forgetting them does not mean they do not exist. On the contrary, they ferment and become increasingly difficult to reform, change or solve.

A price and sacrifice is being asked of the Lebanese, each according to his position and ability. It is incumbent upon everyone to contribute to it. Tardiness in doing so will only lead to exacerbating these problems and the enlargement of costs of all sorts.

Experience over the last decade has shown that real reform leading to optimum use of human, temporal and economic resources will lead to resolving the real day-to-day problems of citizens. It will minimize suffering and curtail

the size of future sacrifices. Reform will eventually lead to achieving sustainable growth and improving people's standard of life and its quality. It will also treat economic and social problems arising from the addition of so large a number of youths to the labor market.

Unfortunately, regarding all of the above mentioned, the current situation and political climate do not, at least for the time being, allow for the introduction of reform measures that were passed in the 2003 budget proposal, and that constitute the only correct entry way to deal with structural problems that the economy, the country's public finances, and the Lebanese citizens are suffering from. Indeed, this is adversely affecting work areas of Lebanese citizens, including the growth of their economy, the development of their towns, and the improvement of their standards of living and work opportunities, all of which need to be addressed.

The 2004 budget proposal, with its content, ideas, and orientations is, in fact, the most that can be done, although it is less than what is necessary at present; awaiting such a time when the political climate improves, providing the suitable conditions that would allow for the passing of additional financial and economic reforms.

These reforms, which are subject to delays and vacillation, are not something we can do without, nor are they an option we can adopt or abandon. Instead, they are necessities. If we don't achieve them today, we will have to come back to them tomorrow and at a higher price.

For this reason, we must preserve the momentum generated by the series of reforms and measures achieved since 2001, which made the Paris II conference and its outcome possible. Given the right political and social conditions, this momentum would be the real way to

decrease the deficit and debt levels, and to move towards sustainable growth and development.

If what is currently available less than what was desired and hoped for, then the sedative treatment of structural and urgent problems must be homogeneous and appropriate, in such a way as to safeguard the immunity we have attained and strengthened. This will keep the situation from deteriorating or taking a wrong direction that will burden the State and Treasury, unduly both economically and politically.

Therefore, this momentum and the appropriate solutions for problems and detail files are indispensable in the current circumstances. These circumstances include:

- The need to protect immunity and steadfastness in the right direction
- The need to undertake improvements that bolster prospects of progress as allowed by the givens
- Enhancing confidence in the State as one that safeguards citizens and their rights now and later. Likewise, safeguarding the State will translate into protecting citizens' existence, strategic interests and the future prospects of generations to come.

This overall political setting cannot continue to give and survive if its concept does not remain above conflicts, wrangling and divisions. The debate ought to remain within the boundaries of the political system. The State's higher morals should make the case for strategic interests. It is capable of taking decisions, however difficult, and conveying the message to its target for the sake of its existence and the public interest—despite the impact that this message might cause in the short-term.

Safeguarding immunity and tackling problems appropriately are two present factors, stemming from faith

in Lebanon and the ability of its citizens and political and economic figures, and productive sector to undertake a serious effort and achieve consensus both on the greater interests of our nation and its people, based on the idea that good solutions depend on our determination and capacity for rational, far-sighted thinking, as well as our ability to explore new horizons for our economy and our humanity.