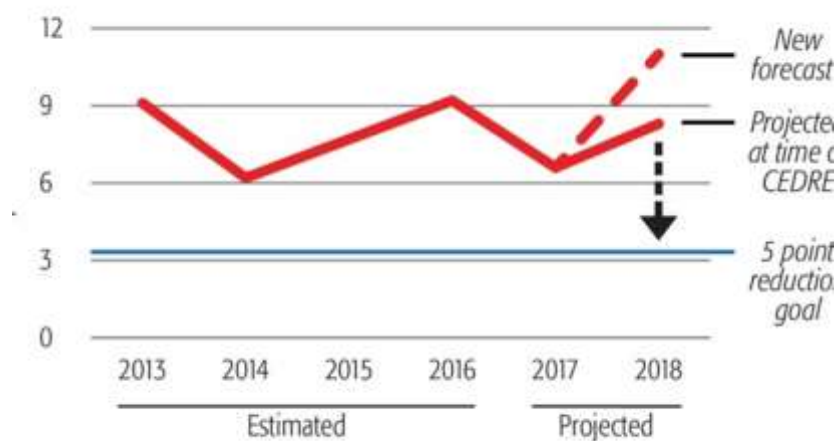


## Lebanon looks to slash 2019 budget

Lebanon's deficit as a percent of GDP



based on estimates from political sources

## changed in the 2018 budget law, by office and category

from 2017 budget law, in thousands of Lebanese lira

23,906,048,924 → 23,891,208,300  
2017 budget total 2018 law

	Consumable materials	Consumable services	Salaries, wages and related items	Financial transfers	Social benefits	Misc. expenses	Financial expenses	Emergency & exceptional expenses	Land	Buildings	Acquisitions for roads, ports & airports	Acquisitions for waterworks	Equipment	Construction currently underway	Maintenance	Expenses for fixed real assets
President	-88,206	-438,348	492,568	-38,000	2,000	-469,000	0	0	0	0	0	0	-538,500	0	-1,282,140	0
Prime Minister	1,304,000	-650,000	12,606,000	0	-5,000	-149,000	0	0	0	0	0	0	267,500	0	0	0
Minister of Economy	-249,307	-134,641	40,681,305	83,760,820	11,560,896	-744,800	0	0	0	0	0	-158,361	-61,847,781	-755,756	-26,503,647	-20
National Council	-4,448	-6,600	-5,200	0	0	0	0	0	0	0	0	0	0	0	-11,600	0
Ministry of Economy	68,800	-959,400	11,213,118	-27,525	-437,000	61,600	0	0	0	0	0	0	-508,350	-15,000	-537,600	0
Ministry of Finance	-99,435	-519,000	8,225,369	-45,000	-4,500	-2,891,000	0	0	0	0	0	0	-14,350	0	-400,000	0
Ministry of Education	-86,742,775	-849,878	218,452,940	-422,500	-2,722,250	-5,362,600	0	0	0	400,000	0	0	28,043,257	6,029,000	-5,028,600	-800,000
Ministry of Health	-211,851	3,966,800	47,575,352	54,254,559	-991,000	-216,640	-2,000,000	0	0	0	0	-12,000,000	1,851,250	1,141,000	-521,800	24,000
Ministry of Justice	75,0574	-274,250	-11,089,957	-77,304	-40,000	-832,540	0	0	-25,000	0	-1,500,000	0	225,300	107,124	-3,055,200	-6,753,000
Ministry of Labor	-8,012,110	-1,361,500	440,427,754	-7,000	12,215,500	-81,800	0	0	0	0	0	0	-81,240,106	-15,350,000	21,666,700	0
Ministry of Environment	19,307	5,294,600	110,003,070	52,479,292	4,098,000	91,000	0	0	0	0	0	0	-2,533,000	-4,095,000	-1,881,000	-575,250
Ministry of Industry	11,075,840	-569,400	9,988,700	-2,407,041	-5,000	-71,300	0	0	0	0	0	0	-222,550	0	596,000	0
Ministry of Agriculture	-13,640	-429,200	2,349,064	-5,063,000	0	19,800	0	0	0	0	0	0	-11,200	0	-22,000	0
Ministry of Social Affairs	-2,410	51,300	13,403,300	12,024,000	71,000	-132,200	0	0	0	0	0	0	-2,020,500	-1,540,000	712,000	100,000
Ministry of Tourism	-5,600	-401,000	-305,600	0	-23,000	-24,800	0	0	0	0	0	0	-2,800	0	2,000	0
Ministry of Transport	-18,960	-556,000	2,081,638	-26,542,621	0	-53,000	0	0	0	0	0	0	55,350	0	-18,200	0
Ministry of Energy	-48,180	-713,800	5,381,112	-1,196,300	-54,000	-104,200	0	0	0	0	0	0	-698,250	0	-124,000	0
Ministry of Higher Education	74,280	-47,300	1,805,897	-12,292,430	-25,500	-50,400	0	0	0	0	0	12,348,000	2,066,350	-55,796,000	-1,877,400	-5,000,000
Ministry of Culture	-16,040	-2,648,400	2,214,592	-15,691,000	13,000	120,400	0	0	0	0	0	0	-53,875	0	-6,000	0
Ministry of Planning	81,480	-21,400	5,721,146	-395,000	35,000	-30,400	0	0	0	0	-300,000	0	114,000	1,840,000	-6,291,000	940,000
Ministry of Information	-5,000	76,334	1,318,400	-1,524,875	0	16,200	0	0	0	0	-310,000	0	-25,590	0	-25,000	-86,000
Ministry of Refugees and Displaced	-53,975	-11,576	1,448,818	-240,000	-5,000	-4,000	0	0	0	0	0	0	4,422	0	-11,000	0
Sports Ministry	-87,860	-80,500	496,500	-1,002,000	0	-157,000	0	0	0	0	0	0	-20,750	0	-21,000	0
Ministry of Tourism	-5,110	-55,000	2,450,500	-1,004,000	18,000	18,200	0	0	0	0	0	0	-8,500	0	-19,800	0
Ministry of Culture	-309,520	-4,218	1,094,322	-731,900	-3,000	-618,600	0	0	0	0	0	0	-14,500	0	-32,600	100,000
Expenditures	0	0	0	2,100,000,000	552,845,964	0	1,174,000,000	0	0	0	0	0	0	0	0	0
Reserves	0	0	42,000,000	0	85,000,000	0	0	472,305,433	0	0	0	0	0	0	0	0
	-11,776,535	-2,542,449	1,255,528,178	-2,020,588,907	671,245,812	-1,164,600	1,112,000,000	-472,305,433	-25,000	-800,000	-1,830,000	540,000	-199,025,667	-135,338,655	-21,054,196	-57,226,597

category examples: Consumable materials (office supplies, food and clothing, cleaning supplies, water, electricity, communications, etc.), consumable services (roadside maintenance and repairs, postal services, advertising and public relations, etc.), financial transfers (transfers to Etern contributions to the National Social Security Fund, dues to international organizations, certain payments to private entities, etc.), financial expenses (interest payments on public debt, etc.)

17 and 2018 budget laws

Benjamin Redd| The Daily Star

BEIRUT: It's a familiar script. Lebanese politicians say they are "serious" about reducing the budget deficit - ready to make cuts, ready to make hard decisions. The country heard it last year in the run-up to the passage of the 2018 budget, when Prime Minister Saad Hariri ordered ministries to cut their budgets by 20 percent.

"The country needs reforms, the budgets of ministries should be reduced and we have to send real, positive signs" to donor countries, Hariri said on Feb. 26, 2018.

Today the same sounds are coming from politicians - but this time around there is reason to believe they mean it.

"Last year, they were not serious because they were in election mode," says Nassib Ghobril, the head of economic research at Byblos Bank, referencing the national parliamentary elections held in May 2018. "This time it's different."

This year's urgency comes from two factors: spiraling, unsustainable deficits that threaten the country's financial bedrock, and the promise of some \$11 billion in soft loans and grants from the international community. But to get that \$11 billion,

Lebanon must implement deep and difficult reforms - most prominently, a reduction in the deficit-to-GDP ratio of 5 percentage points over five years.

Theoretically, that should translate to a reduction in Lebanon's deficit of about \$600 million a year.

But it might take more than that.

When Lebanon presented the 2018 budget to donors at the CEDRE conference last year - the budget Hariri had ordered across the board, 20 percent cuts to - it was largely fantasy.

First, the 20 percent cuts did not come to fruition. Constrained by obligations like salaries, pensions and debt servicing, the overall 2018 budget came in with just 0.06 percent shaved off the previous year's budget.

Second, to create this razor-thin budget cut, politicians simply sliced \$1.4 billion in electricity subsidies out of the budget. Of course, the government would still pay, but just left the expense off the official budget document.

The other major "cut" was \$450 million from the emergency budget reserve - although it is unclear how much was eventually tapped anyway to cover exceptional needs.

Other substantive cuts were significantly smaller - in the range of tens of millions of dollars - and included equipment for security agencies and programs to clean the Litani River basin.

Equipped with that budget and historical data, the parties at CEDRE agreed on a goal of reducing Lebanon's deficit-to-GDP ratio from its recent average of about 8 percent down to 3 percent over five years.

But in reality, ballooning public payrolls and extrabudgetary spending is set to push the final figures for the country's deficit-to-GDP ratio up to about 11 percent for 2018. The Finance Ministry has yet to report how much money the state collected and spent in December.

So how big of a cut does Lebanon need to make in 2019 to appease the CEDRE donors?

France, which organized the conference and committed \$673 million, believes cutting the deficit to around 9 percent of the GDP in 2019 would be a positive step, according to an embassy spokesperson.

Another source close to recent donor meetings is more blunt. "One percent is probably no longer viable. They need to cut at least 2 percent in 2019," the source says, requesting anonymity due to the sensitivity of the issue.

A cut from 11 to 9 percent would entail reducing state spending - or increasing revenues - by about \$1.2 billion this year.

That is likely off the table: With no 2019 budget, state administrations are operating off the same spending numbers as last year. A law passed in Parliament last week allows this situation to continue through the end of May. And although the Cabinet won confidence over a month ago, it has yet to begin reviewing the 2019 draft budget.

That is not a reason to despair, however. Even if Lebanon fails to reach its target budget cuts in 2019, it can still make impressive headway, according to several sources.

The key: political will. "You have three axes to attack," says MP Michel Moawad, a member of Parliament's Finance and Budget Committee.

First, electricity. Moawad says Energy Minister Nada Boustani is preparing a plan to finally fix the country's dismal electricity sector, which costs the state between \$1.5 billion and \$2 billion per year.

Depending on the specifics of the eventual plan, it could save the government some LL400 billion (about \$260 million) just in the first year, he says - assuming it is adopted.

Others are more bullish. According to another source briefed on the plan, whose broad outlines are agreed but whose specifics are still being negotiated, "the preliminary objective is to do this by the end of the year ... increase supply to more than 20 hours, allowing for an increase in tariffs." This would eliminate electricity's drain on state coffers, "which [averages] about 4 percent" of GDP, the source adds.

Cutting the electricity bill will be the “main instrument” to meet the CEDRE budget goal, the source says.

Moawad’s second plank: the state payroll. “This represents 38 percent of the budget, but the OECD average is 16 percent,” he says, referencing the club of mostly rich nations. “Here, we at least need to stop the bleeding.”

The Finance and Budget Committee is in the middle of a series of hearings into allegations of illegal state hiring. At the same time MPs were drawing up the 2018 budget, preaching fiscal discipline and attending CEDRE, the state made some 5,000 new hires - breaking the law but perhaps pleasing those who got jobs just before the elections.

The committee’s investigation has also revealed there are potentially around 15,000 state workers who occupy positions outside those recognized under the law.

“This is the first place to start,” says Karim Daher, a public finance expert and the president of the Lebanese Association for Taxpayers’ Rights. “If we find workers employed against the law, we can find savings. ... We have to starve the beast first.”

Finally, Moawad says a series of small, quick measures should be pursued. Subsidies to non-governmental organizations, which are “given without criteria,” should be slashed in half from \$400 million per year to \$200 million, he says. Government offices that pay high rents in Beirut could relocate. Refurbishments could be postponed for a couple of years. All in all, you could save \$400 million per year from these smaller measures, he says.

Ghobril, the economist, suggests additional possibilities. End the United Nations Development Program’s administrative assistance project, saving some \$66 million per year, he says.

Or splashier: Ask MPs to cut their own salaries in half for 2019.

But Ghobril also points to the other side of the deficit equation: state revenues. “Only about 40 to 45 percent [of enterprises] pay their taxes in full,” he says. “The informal economy makes up about 30 percent of GDP. ... There’s so much space to increase tax collection.” This will require political will, he says. “You need a stick. ... You have to say, ‘Comply or I will shut you down.’”

But if it is done, “fighting tax evasion and [ensuring] fee collection alone” would generate enough money to cover Lebanon’s CEDRE commitment for 2019, Ghobril says.

Daher adds that there are a number of loopholes in the law allowing certain businesses to reduce or eliminate taxes altogether. “All these exemptions should be reviewed.”

Another potential source of revenue could come from the value added tax. A 2-3 percentage point increase in VAT could net \$400 million to \$600 million, Daher says.

Finance Minister Ali Hasan Khalil has ruled out any new taxes. But he is clearly concerned with the deficit: In the Parliament session two weeks ago, he told lawmakers he was uncomfortable with the 2019 draft budget because it showed “decreasing state income and increasing expenditures.”

Current projections, he said, show an increase of half a percentage point in the deficit-to-GDP ratio - very much the wrong direction in light of CEDRE.

According to the timeline suggested by Parliament Speaker Nabih Berri, the government should take about a month and a half to adjust and ratify the budget, then Parliament should take another month and a half.

But this year, politicians will need more than the accounting tricks pulled in 2018. They will have to find at least hundreds of millions of dollars, either in spending cuts or taxes.

“Unless there is a new political climate in the country, unless we wake up to the necessity of austerity, there will be major problems,” MP Yassine Jaber says. “We have to change course immediately.”