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The budget outlook for 2019

It took more than seven months to complete the 2019 budget law, despite the pressing need to have completed it by the constitutional deadline of end January 2018. One of the most important reasons to have produced the 2019 budget within the necessary time frame was to restore confidence in the ability of the state to complete its financial functions, which, in turn, would have had positive effects on local financial markets and on the countries and donors that pledged loans and grants to Lebanon on the condition of fiscal reforms at the April 2018 investment conference, known as CEDRE.

Based on figures released for the 2019 budget, the assumption of reducing the fiscal deficit to 7.6 percent from 11.5 percent the previous year is n seen as far-fetched. International financial institutions are in agreement with this. In terms of revenues, it is very difficult to achieve an increase of 8 percent to reach LL19.02 trillion ($12.7 billion) due to the passage of time, the continuing economic recession, and the fact that half the fiscal year had already passed before the 2019 budget was approved. Revenues alone will reach a maximum of LL18.2 trillion ($12.1 billion), and estimates have been adjusted to reflect only the time factor actual revenues for the first half of 2019 amounted to just LL8.672 billion ($5.8 billion).

The expenditures in the budget estimated at LL 25.8 trillion ($17.2 billion) excludes several important budget items: the budget of the Council of Development and Reconstruction, estimated at LL500 billion ($333.3 million) annually, as well as the treasury account with a deficit of approximately LL700 billion ($466.7 million), in addition to the government obligations toward the National Social Security Fund (NSSF) , which exceeds LL360 billion ($240 million), and service of government arrears to the NSSF. These additions are necessary to respect the principle of full inclusion in public accounting total expenditure LL9.2 trillion ($6.1 billion) compared to LL9.1 trillion ($6.07 billion) in 2018. becomes closer, at least, to LL27.4 trillion ($18.3 billion) and the deficit increases to 10.8%.

Another important question to consider is Lebanon's GDP. The deficit ratio estimated in the official 2019 budget assumed that nominal output will rise by about 6.5 percent annually in both 2018 and 2019, to reach LL90.2 trillion ($60.1 billion) this year. The actual figure issued by the Central Administration of Statistics indicates an output of only LL80.5 trillion ($53.7 billion) in 2017 and official estimates are not available after that year. It is difficult to achieve a nominal growth of 6.5 percent in 2019 in the worst recessionary environment we are in, and income growth (GDP), will not exceed 3.5% at the most.

Output GDP is not expected to exceed LL85 billion in 2019. Therefore, the deficit is very likely to be near 11 percent. A reasonable estimate would be to reduce the actual deficit by only 0.6 percent in 2019, despite several measures mentioned in comparison to 2018. However, deficit reductions can be achieved through default and accrual of arrears, but such an approach has serious negative implications on the economy.

Tax measures have a limited impact in 2019. One of the important proposed tax measures is to increase the interest income tax to 10 percent for only r a three-year period. However, this tax may have a negative impact on financial markets and economic activity, as it will lead to higher nominal interest rates and discourage economic growth, especially in the real estate sector. It may also be a negative factor on financial flows to Lebanon due to the decrease in the effective interest on deposits. In addition, the cost of servicing the public debt may rise with the higher nominal interest rate.

Another important proposed tax measure is to increase import duties with some exceptions. Consideration should be given to its impact on trade agreements, and keeping in mind protection is not beneficial to economic growth, to the contrary it may have a negative impact. Raising the income tax rate on high salaries to 25 percent will have a limited impact as it's a narrow category. Instead, it would be more feasible to raise the corporate income tax rate to 20 percent, and apply two VAT rates: 10 percent on non-luxury goods and 15 percent on luxury goods.

In the case of expenditure, the most important item of waste has been deferred and it's in the electricity sector. The rapid completion of an agreement a transparent international purchase agreement (PPA) tender for the equivalent of 1000 MW and raising the tariff rate to 15 cents per kilowatt hour would save the treasury close to $2 billion. It will also save consumers $ 1 billion annually, and it takes a few months to implement and results in annual savings of $ 3 billion. It must be given a top priority. Therefore, it is preferable that the budget figures be based on reality, rather than on an overly optimistic scenario.