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Contact Information

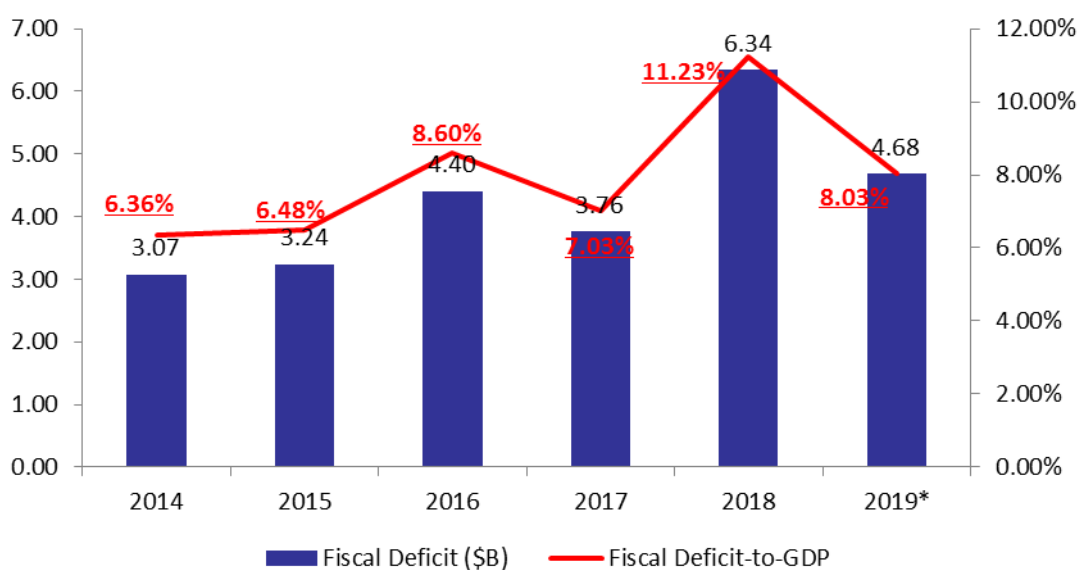
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Facing mounting pressures from the current unsustainable debt, international interference as well as weak economic growth, the Lebanese cabinet is discussing a draft austerity budget with hopes of endorsing it quickly and sending it to the parliament for final ratification. This year's urgency comes from the increasing deficits that threaten the county's financial system and the urge to unlock \$11 billion in soft loans and grants pledged by the international community at CEDRE conference. In fact, the new budget seeks to lower Lebanon's fiscal deficit to GDP from an estimated 11% in 2018 to 8% in 2019.



On the expenditure side, the main driver behind a lower projected deficit would be postponing most infrastructure projects. Expenditures are estimated to reach LBP 25,323B, or \$16.80B in 2019, not taking into account the declines that are being currently discussed on the council of ministers. The salary scale still imposes tremendous pressure on the budget, where personnel costs are estimated to reach 36% of the total, LBP 9,225B, compared to LBP 8,218B in 2017. Moreover, reliance on external funding had also taken its toll on total expenses, where interest expenses are projected to reach LBP 8,362B, \$5.54B, or a total of 33% of expenditures. This number doesn't seem to reflect the reality as in 2019 both interest rates on loans as well as the nominal value of the public debt will increase. In 2018, the effective interest rate on Lebanon's public debt can be estimated at 6.5%, and interest rates are estimated to have reached \$5.6B. Interest expenses mentioned in the 2019 budget seem to underestimate the real number by around \$400M.

The cabinet plans on offering EDL an advance payment of LBP 1,706B, \$1.13B, to pay for its fuel purchases as well as to settle interest on the accumulated loans. EDL is not allowed to use the money for any other purposes. Moreover, the Ministry of Finance would deduct a total of LBP 6B, \$4M, of total municipal revenues in favor for villages, which do not have any municipalities. This donation intends to improve lighting and cleaning services in these villages.

As for the infrastructure projects, the draft austerity budget either postpones most of those projects for the upcoming year or reduces expenses planned for 2019. Few projects are expected to resume of which: the construction of the Ministry of Finance buildings, a unified building for the customs administration office at the Port of Beirut, and a tourist port in Jounieh Bay.

In terms of revenues, the government is seeking to increase its tax revenues by an estimated 8%. In details, the cabinet decided to increase the tax on interest on deposits from 7% to 10%. This includes resident and non-resident saving deposits, corporate bonds, CDs, and treasury bills; however, interbank deposits and Eurobonds are exempt from this increase. The increase in taxes on interest is not expected to lead to a capital outflow, as interest rates on Lebanese deposits remain the highest in the region.

As for income taxes, they remained relatively stable; however, a new bracket has been added. The government included an extra income bracket, where income greater than 225,000,000, will be taxed 25%.

Income Bracket (LBP)	Tax
<6,000,000	2%
6,000,001-15,000,000	4%
15,000,001-30,000,000	7%
30,000,001-60,000,000	11%

60,000,001 - 120,000,000	15%
120,000,001 - 225,000,000	20%
>225,000,0000	25%

In terms of non-tax revenues, additional charges for the annual Mechanic fees will be imposed on private passenger cars of all categories with three, four, and five digit plates. To further generate revenues, the proceeds of fines resulting from traffic violations shall be paid in total to the treasury. Moreover, all custom privileges on registered vehicles would be removed except for people with special needs and government and UN officials. However, non-tax revenues are expected to slightly drop, mainly as a result of the government slashing the penalties imposed on the late payment of municipal fees, mechanic fees, NSSF subscription, etc..

	<b>Annual Fees (LBP)</b>
Three-digit plate	500,000
Four-digit plate	250,000
Five-digit plate	100,000

Lebanon's weak economic growth, projected at 1% in 2018, hindered a better resolution for the budget. Social pressure may be one of the reasons Lebanon is not increasing its tax, despite being an undertaxed country. However, if Lebanon fails to implement such austerity measures, the burden of the deficit will increase and take its toll on the overall economy.

Several questions remain unanswered due to the opacity with which issues are being presented: the government is presenting the budget of 2019 in May, and we still don't have the figure of total spending for 2018 and Q1 2019, which renders any comparison or projection invalid. Moreover, a decree was published in April 2019 whereby the council of ministers has transferred LBP 700B to municipalities; it is still unknown whether this extra spending is being taken into account in the budget.

With the increase in oil prices during the last few months, the subsidy for EDL could be underestimated, especially that it recorded around the same number in 2018, despite lower oil prices. We expect EDL subsidy to register more than LBP 2,100B in 2019. Furthermore, details of the spending are missing from the leaked budget. Only one table that has the economic classification of expenditures has been leaked through the press. It remains strange that the cabinet didn't include any adjustment in electricity tariffs in the budget.

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