

## BUDGET PROPOSAL 2003 A BRIEF NOTE

The primary aim of the 2003 budget proposal is to contribute towards the improvement in the country's general economic conditions by achieving sustainable fiscal adjustment through a series of fiscal reforms and measures. The Lebanese government is committed to decreasing the budget deficit by 7 percentage points of GDP and to raise the primary budget surplus by 4 percentage points of GDP. Moreover, through the new budget proposal, the government is introducing additional reforms to improve the productivity of the public sector and to increase its efficiency and effectiveness. It constitutes an integral part of the government's medium-term strategy, which aims at improving the country's economic fundamentals, which in turn will gradually help decrease interest rates thereby lessening the cost of deficit financing and triggering an increase in economic activity. Ultimately, the objective is to achieve continuous and sustainable growth that would positively reflect on the fiscal, economic, and social conditions.

### Highlights of the 2003 Budget Proposal

In compliance with the deadline stipulated by the Public Finance Law, the FY 2003 budget proposal was distributed to the Council of Ministers on August 25, 2002 and was approved on September 5, 2002. As approved by the Cabinet, the main expenditure and revenue figures are as follows:

- ☒ **Revenue** will increase from an expected actual level of LL 5,448 billion in FY 2002 to LL 6,450 billion in the FY 2003 budget proposal (or by 18%), reflecting a rise from an expected level of 20% of GDP in FY 2002 to around 22.6% of GDP in the FY 2003 budget proposal. This will be accomplished through the introduction of new revenue measures such as the increase in local fixed line phone call fees and in monthly subscription fees, the application of the progressive income tax on wages and salaries to retirement wages (*the existing income tax law on wages and salaries exempts retirement wages and end of service indemnities*), the introduction of a flat tax on end of service indemnities, the increase in road usage fees, and the decrease in the current VAT threshold. In addition, VAT proceeds will be collected for

the full-year, as opposed to 2002 when the VAT Law was only ratified and applied starting February.

- ☒ **Expenditure** will decrease from LL 9,375 billion in the FY 2002 Budget Law to LL 8,520 billion in the FY 2003 budget proposal (or by 9%). Expenditures excluding debt service amount to LL 4,520 billion in the FY 2003 budget proposal while debt service expenditures are equivalent to LL 4,000 billion compared to LL 4,875 billion and LL 4,500 billion in the 2002 Budget Law. In other words, expenditures will decrease from a level of 34.5% of GDP in the FY 2002 Budget Law to 30% in the FY 2003 budget proposal, mainly through limiting recurrent and capital spending to their minimum possible levels and decreasing the cost of debt service.

**Consequently**, the **budget deficit** is projected to decrease from LL 3,875 billion in the FY 2002 Budget Law to LL 2,070 billion in the 2003 budget proposal or from around 14% of GDP in the 2002 Budget Law to 7.3% of GDP in the 2003 budget proposal. The **primary budget surplus** (the budget deficit excluding debt service) will, therefore, increase from a level of LL 625 billion in the FY 2002 Budget Law (or 2.4% of GDP) to LL 1,930 billion in the FY 2003 budget proposal (or 6.8% of GDP) - (please refer to Table 1).

**Table 1. Comparison of FY 2002 Budget Law and FY 2003 budget proposal**

<i>(LL billion)</i>	2002 Budget Law	2003 Budget Proposal	Magnitude of change over budget '02	Percentage of change over budget '02
<b>Budget Revenue</b>	<b>5,500</b>	<b>6,450</b>	<b>950</b>	<b>17</b>
1. Tax revenue	4,036	4,651	615	15
2. Non-tax revenue	1,464	1,799	335	23
<b>Budget Expenditures</b>	<b>9,375</b>	<b>8,520</b>	<b>(855)</b>	<b>(9)</b>
1. Current expenditures	8,551	8,090	(461)	(5)
a. Debt service bill	4,500	4,000	(500)	(11)
b. Other current	4,051	4,090	39	1
2. Capital expenditures	824	429	(395)	(48)
<b>Budget Deficit</b>	<b>(3,875)</b>	<b>(2,070)</b>	<b>1,805</b>	<b>(47)</b>
<b>Primary Deficit / Surplus</b>	<b>625</b>	<b>1,930</b>	<b>1,305</b>	<b>209</b>

The underlying assumption for nominal growth in the FY 2003 budget proposal, forecasts the nominal growth rate is 3.5%-4%. Indeed, in the absence of data on national accounts, **real growth rate** is estimated to be equivalent to **1.5%-2%** in FY 2003 mainly due to the set of real sector measures already implemented or under preparation by the Government. The **inflation rate** is

expected to be 2% under a stable exchange rate and tight monetary policy environment. It is noteworthy that the same **macroeconomic** assumptions for real growth rate and inflation rate were used to estimate the revenue portion of the FY 2003 budget proposal. Expenditures, on the other hand, were diminished regardless of the rates of inflation and growth.

### Key objectives of 2003 budget proposal

1. The 2003 budget proposal projects a **primary budget surplus** (excluding debt service) for the second year in a row, rising from LL 625 billion in the 2002 Budget Law to LL 1,930 billion in the new budget proposal.
2. As a continuation of last year's budget policy, primary budget surpluses will be sustained at a growing rate in future years, allowing for a **reversal in debt dynamics** and a sustainable reduction in interest rates. This trend and its momentum will be further reinforced through decreasing and streamlining expenditures on the one side and improving the process of revenue collection on the other side. Additionally, the FY 2003 budget proposal relies on privatization, securitization, and new financial engineering techniques to help in the stabilization of public debt and to achieve a continuous reduction in its cost.
3. The 2003 budget proposal focuses on the provision of **better services** to citizens by improving productivity in the public sector through: (a) proposing an increase in working hours from 32 to 38 hours per week and introducing a five-working days per week that would decrease transportation allowances (thereby saving 52 days of transportation per year) and end overtime payments, and (b) putting forward an increase in teaching hours to a minimum of 20 hours per week and amending the existing legislation, which calls for a gradual decrease in teaching hours commensurate with teachers' seniority. According an article in the 2003 budget proposal, teachers will be required to teach at least 20 hours per week, regardless of their level of seniority. This measure will positively reflect on the wages and salaries bill since it will curtail the need for future hiring of contractual teachers to cover the teaching hours' gap created by the existing law.  
In addition, the privatization of utilities will also gradually decrease the size of the public sector.
4. While all expenditure items and the budgets of the various public administrations' budgets are reduced and rationalized, **social spending** (consisting of health, education, and other social transfers) is proposed to increase by 2% compared to the FY 2002 Budget Law (please refer to Table 7). The 2003 budget proposal includes an article that proposes the application of a unified hospitalization system for all public sector employees, in line with the structure of the employees' cooperative.

## Main Components of Budget 2003

The FY 2003 budget proposal aims at decreasing the budget deficit by a series of reductions in expenditure, coupled with revenue increases. The main assumptions behind the modifications on the expenditure and revenue fronts are spelled out here below:

### I. On the budget revenue front

Budget revenue are expected to amount to LL 6,450 billion, representing an increase of 2.6 percentage points of GDP (or by 18%) compared to 2002 expected outcome upon which the revenues of the FY 2003 budget proposal figures were based (please refer to Table 3). This increase is primarily attributed to the following factors:

#### I. a Tax revenue

1. The **tax on income, profits, and capital gains** is expected to amount to LL 925 billion, up from LL 815 billion in the FY 2002 expected outcome (representing a 14% increase). The projected increase would result mainly from the following:

- (a) The improvement in the assessment and audit capacity of the Ministry of Finance to be achieved through the Cabinet's support to increase capacity at the Revenue Department, and through the establishment of a Large Taxpayers Unit to audit and review large taxpayers' income tax declarations, resulting in an increase in the profit tax revenue (expected to rise by 16% over 2002 expected outcome).
- (b) The imposing of a new 5% flat tax on retirees' end of service payments and the application of the progressive income tax on wages and salaries to retirement wages (highlighted in Table 2).
- (c) The modernization of the Deduction At Source of income tax on Salaries (DASS) administration by creating a reliable and exhaustive database covering the active and retired labor force in both the private and public sectors.
- (d) The payment of the outstanding tax regularization dues through installments to be made throughout 2003.
- (e) The increase in the frequency of payment of income tax on salaries and wages from semi-annual to quarterly, resulting in lower tax arrears.

**Table 2. Income Tax Rates on Wages  
and Salaries to be Applied to the Retirement Wage after Deductions\***

Net Yearly Income Brackets	Tax Rate
Below LL 6 million	2%
LL 6 million – LL 15 million	4%
LL 15 million – LL 30 million	7%
LL 30 million – LL 60 million	11%
LL 60 million – LL 120 million	15%
Above LL 120 billion	20%

*\*Important note: Net yearly income brackets mentioned in the table above represent the remaining taxable portion of an employee's income after deducting (a) LL 7.5 million for all income earners, and (b) LL 2.5 million for married employees, and (c) LL 0.5 million for each dependent child.*

2. The **tax on property** is anticipated to amount to LL 400 billion, up from LL 316 billion, representing an increase of LL 84 billion (or by around 27%) compared to the FY 2002 expected outcome. This increase shall be achieved through:

- (a) The collection of the property tax dues for 1999 and 2000, whose assessment schedules were only issued in 2002. This will result in a LL 23 billion increase in taxes on built property.
- (b) The anticipated ratification by Parliament of the Seashore Violations Law, resulting in LL 35 billion in annual rents to be paid by the occupants of the properties. This annual rent payment will only ensue following the enactment of the law.
- (c) The progressive improvement of the property tax revenue reflected in the 2002 outcome (mainly registration fees), primarily caused by the new Real Estate Law, which was put into effect in March 2001. This Law has decreased foreigners' real estate registration fees and facilitated the procedures for foreigners to acquire real estate during an improved tourism season, which in turn has also positively affected the real estate sector.

3. **Domestic taxes on goods and services** are expected to amount to LL 2,296 billion, up from LL 2,026 billion, representing a rise of LL 270 billion (or 13%) compared to FY 2002 expected figures, mainly due to the following reasons:

- (a) VAT is projected to yield an income of LL 1,100 billion, an increase of LL 300 billion (or 38%) over the FY 2002 Budget Law (LL 800 billion) and by LL 150 billion (or by 16%) compared to FY 2002 expected outcome, mainly due to (i) the collection of VAT proceeds for the entire FY 2003, compared to the eleven-months collection basis that occurred in 2002 and (ii) the lowering of the mandatory VAT threshold from the current minimum annual turnover of LL 500 million to LL 300 million (this reform requires a change in the VAT law, which is separate from the budget law).

- (b) It is noteworthy that VAT proceeds for the first seven months of 2002 produced encouraging results, which will lead to better-than-anticipated end-of-year results, exceeding the budgeted amount of LL 800 billion.
- (c) Excise taxes on gasoline are expected to yield LL 660 billion, up from LL 620 billion, representing an increase of LL 40 billion (or 6%) over the expected figures of 2002 mainly attributed to (i) higher proceeds from gasoline excises due to the switching from the environment-harming diesel fuel, which was recently prohibited and (ii) conversion of most customs duties on gasoline to excises
- (d) Excise taxes on tobacco products are projected to amount to LL 160 billion, rising from LL 150 billion, increasing by LL 10 billion (or by 7%) over the FY 2002 expected outcome, consistent with the increasing trend witnessed during the first seven months of 2002.
- (e) Excise taxes on cars are projected to amount to LL 95 billion representing a LL 7 billion increase (or by 8%) over the FY 2002 expected outcome, coherent with the trend witnessed during the first seven months of 2002.

4. **Taxes on international trade** are anticipated to reach to LL 780 billion, up from LL 733 billion, representing a LL 47 billion increase over the 2002 expected outcome, mainly due to two factors:

- (a) The return to a normal level of imports compared to a disruption in 2002 due to the introduction of VAT in February. Indeed, a higher-than-usual import level occurred in the three months that preceded the introduction of the VAT in February 2002, thereby necessitating an adjustment in import levels during February through April 2002.
- (b) The economy's projected nominal growth rate of around 3.5%-4% for FY 2003.

5. **Other tax revenue** is expected to amount to LL 250 billion, rising from LL 200 billion and exhibiting a 25% increase compared to the FY 2002 expected outcome, mainly owing to the following reasons:

- (a) Stamp fees are expected to amount to LL 203 billion, up from LL 197 billion, and representing a 3% increase over FY 2002 expected outcome
- (b) Proceeds from the professional tax are projected to amount to LL 45 billion. These payments will be made in 2003 since the deadline for the declaration of professional flat tax has been postponed until the end of September 2002.

### I.b Non-tax revenue

Non-tax revenue is expected to amount to LL 1,799 billion, up from LL 1,273 billion in the FY 2002 expected outcome, representing an increase of LL 335 billion (or 23%), primarily attributed to the following factors:

**1. Income from public institutions and government property** is projected to amount to LL 1,180 billion, up from LL 772 billion, and representing an increase LL 408 billion over the FY 2002 expected outcome mainly attributed to:

- (a) Revenue from the surplus of Post and Telecommunications' budget is projected to amount to LL 1,050 billion (LL 654 billion from the fixed line and LL 396 billion from the mobile line), up from LL 665 billion for the 2002 expected outcome, representing an increase of LL 385 billion (or 58%), mainly due to: (i) the increase in local fixed line phone call fees from LL 40 to LL 49 per minute (or by 20%), (ii) the increase in monthly fixed line subscription fees from LL 12,000 to LL 20,000, (iii) an increase in the number of fixed line subscribers during 2003 by 100,000 (generating extra revenues of LL 31.5 billion in subscription fees, local call fees, and new services). Transfers from mobile phone operators are based on the assumption of the 20% government share of 2001 revenues (LL 318 billion) compounded by a growth rate of 10.7% during both 2001 and 2002.
- (b) Transfers from the Central Bank are projected to amount to LL 20 billion, unchanged from FY 2002 expected outcome.
- (c) Revenue from Lottery operations is expected to yield LL 25 billion, representing an LL 8 billion increase (or 47%) over the FY 2002 expected outcome. This is due to the award of a management and operations contract to a new company, "La Libanaise des Jeux" (LDJ), a process conducted through an international bidding. LDJ is expected to manage two of the three lottery games conducted in Lebanon, e.g. the instant lottery and the "lotto". The government's share of gross income from these two operations will amount to 38% and 32% respectively. On the other hand, the sales and distribution processes of the national lottery will be managed by a Lebanese company, namely "The Traditional Company", where the government's share of gross income will amount to 92%.
- (d) Revenue from Beirut International Airport is expected to amount to LL 35 billion, up from LL 30 billion, exhibiting an increase of LL 5 billion (or 17%) over the FY 2002 expected outcome. This is mainly due to the witnessed trend in enhanced tourism activity and the improvement in aircraft traffic at Beirut International Airport during the first seven months of FY 2002.
- (e) Transfers from the Casino du Liban are projected to amount to LL 30 billion, equivalent to the 2002 expected outcome.
- (f) Revenue from the Port of Beirut is expected to amount to LL 10 billion, while no revenue is anticipated for 2002 due to the execution of expansion projects at the Port of Beirut.

**2. Administrative fees and charges** will amount to LL 440 billion, up from LL 391 billion, an increase of LL 49 billion (or by 13%) over the FY 2002 expected outcome, mainly due to the following reasons:

- (a) Road usage fees are expected to amount to LL 200 billion compared to LL 157 billion in the FY 2002 expected outcome, mainly due to the 20% increase in road usage fees' rates.
- (b) Work permit fees, judicial fees, notary fees, and driving license fees are all expected to amount to LL 86 billion, rising from LL 80 billion, and representing a LL 6 billion increase (or 8%) over the FY 2002 expected outcome.

**3. Revenue from penalties and confiscations** are expected to amount to LL 27 billion in the FY 2003 budget proposal compared to LL 35 billion for the FY 2002 expected figures, representing a decrease of LL 8.5 billion (or 24%). Revenue from penalties and confiscations are expected to end the year with better figures than the 2002 Budgeted Law (LL 11 billion) due to measures taken by the Ministry of Finance, the Ministry of Interior, and the Ministry of Justice, aimed at collecting back-dated penalties throughout the remainder of FY 2002.

**4. Other non tax revenue** (penalties and other fees) is projected to yield LL 152 billion, up from LL 74.5 billion, and exhibiting a LL 77.5 billion increase over the FY 2002 expected outcome due to the anticipated LL 45 billion proceeds of penalties from the Seashore Violation Bill and to the LL 27 billion (or by 104%) increase in retirement deductibles owing to the rise in deductibles from 6% to 8% of an employee's wage.

**Table 3. Expected FY 2002 versus FY 2003 Budget Proposal – Revenue Classification**

<i>(LL billion)</i>	*Expected Outcome 2002	2003 Budget Proposal	Magnitude of change over expected '02	Percentage of change over expected '02
<b>Tax Revenue</b>	<b>4,089</b>	<b>4,651</b>	<b>562</b>	<b>14</b>
Tax on income, profits, & capital gains	815	925	110	13
Tax on property	316	400	84	27
Domestic taxes on goods & services	2,026	2,296	270	13
Taxes on international trade	733	780	47	6
Other tax revenue	199	250	51	26
<b>Non-Tax Revenue</b>	<b>1,273</b>	<b>1,799</b>	<b>526</b>	<b>41</b>
Income from public institutions and government property	772	1,180	408	53
Administrative fees & charges	391	440	49	13
Penalties & confiscations	35.5	27	(8.5)	(24)
Other non-tax revenue	74.5	152	77.5	104
<b>Total Revenue</b>	<b>5,362</b>	<b>6,450</b>	<b>1,068</b>	<b>20</b>

*\*Based on the first seven months of 2002*

**II. On the budget expenditure front** (please refer to Table 1):

Budget expenditure is expected to amount to LL 8,520 billion compared to LL 9,975 billion in the FY 2002 Budget Law, representing a decrease of 9%. Current expenditures outside debt service, pensions, and salaries and wages (i.e. materials and supplies, external services, subsidies and transfers, and other current expenditures) are expected to amount to LL 1,983 billion compared to LL 1,990 billion in the FY 2002 Budget Law, remaining at approximately the same level and maintaining around the same level of social spending (please refer to Table 7). When measured only excluding debt service, current expenditures are expected to amount to LL 4,091 billion compared to LL 4,051 billion in the FY 2002 Budget Law, representing a 1% increase owing to a LL 100 billion increase in retirement and a LL 75 billion increase in wages and salaries ( due to the recruitment of additional teachers and an expansion in the size of the Internal Security Forces made in mid 2002). Debt service expenditures are expected to amount to LL 4,000 billion compared to LL 4,500 billion in the FY 2002 Budget Law. In addition to the LL 500 billion cut in debt service expenditures, major reductions were applied to the budgets of the institutions and administrations under the Presidency of the Council of Ministers (reduced by LL 280 billion), the Ministry of Public Works and Transportation (reduced by LL 60 billion), the Labor Ministry, and the Defense Ministry (each reduced by LL 31 billion).

**Table 4: FY 2002 Budget Law versus FY 2003 Budget Proposal - Economic Classification of Expenditures**

<i>(LL billion)</i>		2002	2003	Magnitude	Percentage of
Code		Budget Law	Budget Proposal	of change over budget '02	change over budget '02
11	Materials and supplies	132	124	(8)	(6)
12	External Services	112	104	(8)	(7)
13	Salaries and Wages	2,061	2,108	47	2
14	Subsidies and Transfers	1,397	1,428	31	2
16	Other Expenses	245	239	(6)	(2)
17	Interest Payments and Financial Charges	4,500	4,000	(500)	(11)
18	Unallocated General Reserves	103	86	(17)	(17)
	<b>Total current expenditures (including debt service)</b>	<b>8,551</b>	<b>8,090</b>	<b>(461)</b>	<b>(5)</b>
	<b>Total current expenditures (excluding debt service)</b>	<b>4,051</b>	<b>4,090</b>	<b>39</b>	<b>1</b>
221	Acquisitions of Land	0.425	0.425	0	0
222	Acquisitions of Buildings	3	0.5	(2.5)	(83)
223	Acquisitions for the Construction of Roads, Ports, and Airports	2.763	2.55	(0.213)	(8)
224	Acquisitions for the Construction of Water Networks	8	5	(3)	(38)
226	Equipment	39	41	2	5
227	Construction in Progress	677	292	(385)	(57)
228	Maintenance	64	53	(11)	(17)
229	Other Expenditures Related to Fixed Capital Assets	30	36	6	20
	<b>Total capital expenditures</b>	<b>824</b>	<b>430</b>	<b>(394)</b>	<b>(48)</b>
	<b>Grand total</b>	<b>9,375</b>	<b>8,520</b>	<b>(855)</b>	<b>(9)</b>

1. **Materials and supplies are expected to amount to** LL 124 billion, down from LL 132 billion in the FY 2002 Budget Law, mainly due to the following:

- (a) A decrease of 12% in administrative overhead,
- (b) A decline of 10% in transportation cost, and;
- (c) A decrease of 23% in the cost of uniforms.

2. **External services** (rents, postal services, insurance, advertisement & public relations) are projected to amount to LL 104 billion, compared to LL 112 billion in the FY 2002 Budget Law and

exhibiting a 7% decrease mainly due to the decrease in the cost of advertising, publications, and public relations, and an 8% drop in office rents.

3. **Wages, salaries, and related benefits** ( please refer to Table 5) are anticipated to amount to LL 2,108 billion in the 2003 budget proposal, up from LL 2,061 billion in the 2002 Budget Law, mainly due to the following reasons:

- (a) The enlistment of 2,000 new recruits into Internal Security Forces in mid 2002, resulting in an LL 8 billion (or 3%) increase in the cost of wages, salaries, and related benefits of the Internal Security Forces.
- (b) The rise in the cost of teachers' salaries and wages' caused by the expected conversion of the contracts of a group of teachers from short-term to permanent ( the resulting impact amounts to LL 20 billion).

To counter-balance this rise, the FY 2003 budget proposal includes an article changing the currently existing teachers' working hours' system (which allows for a gradual decline in working hours with teachers' increasing seniority) to at least 20 hours per week. As a result, future hiring of contractual teachers is expected to decelerate. In addition, the policy calling for a change from a six to five working days per week and the accompanying increase in official daily working hours will positively affect the cost of the transportation allowance (LL 6,000 is paid as a daily transportation allowance for each employee) and the overtime spending bill.

**Table 5: FY 2002 Budget Law versus FY 2003 Budget Proposal - Personnel Cost Details**

<i>(LL billion)</i>	2002 Budget Law	2003 Budget Proposal	Magnitude of change over '02 budget	Percentage change over '02 budget
<b>Personnel Cost</b>	<b>3,155</b>	<b>3,283</b>	<b>128</b>	<b>4</b>
1. Article 13: Wages, salaries, and related benefits	<b>2,061</b>	<b>2,108</b>	<b>47</b>	<b>2</b>
2. Transfers for personnel cost	<b>194</b>	<b>175</b>	<b>(19)</b>	<b>(10)</b>
-Transfers to Council of the South	6	6	0	0
-Transfers to CDR	12	11	(1)	(8)
- Transfers to Displaced Fund	7	6	(1)	(14)
-Transfers to Lebanese University	159	145	(14)	(9)
-Transfers to the educational center of R&D	10	7	(3)	(30)
3. Retirement and end of service	<b>900</b>	<b>1,000</b>	<b>100</b>	<b>11</b>
- End of service indemnities	300	350	50	17
- Retirement wages	600	650	50	8

4. **“Subsidies and transfers”** are expected to amount to LL 1,428 billion, up from LL 1,397 billion in the FY 2002 Budget Law, representing an increase of 2%. This increase is mainly due to the LL

100 billion rise in retirement pensions, LL 70 billion of which is attributed to the increase in retirement and end of service payment for the members of the military services. To offset this increase, transfers to several councils such as the National Council of Scientific Research, NSSF, and the Higher Relief committee were decreased by LL 42 billion.

5. **“Other current expenditures”** are expected to amount to LL 239 billion, compared to LL 245 billion in the FY 2002 Budget Law, exhibiting a LL 6 billion decrease, mainly due to the decline in allocations for delegations and conferences.

6. **Interest payments** are expected to amount to LL 4,000 billion in the new budget proposal, decreasing from LL 4,500 billion in the FY 2002 Budget Law, due to the following reasons:

- (a) The impact of a LL 2,000 billion primary budget surplus on the interest rates and on economic activity
- (b) The effect of the anticipated privatization of utilities such as the electricity and the water sector, and the ongoing privatization of the telecom sector
- (c) The utilization of certain advanced financing techniques such as securitization, privatization bonds, and Islamic "sukuks"
- (d) The outcome of the anticipated Paris II conference during the fall season

7. **Capital expenditure** decreased from LL 824 billion in the FY 2002 Budget Law to LL 430 billion in the FY 2003 budget proposal. Broken down into its components, capital expenditure part II(a) (mainly maintenance and equipment) decreased from LL 391 billion in the FY 2002 Budget Law to LL 271 billion in the FY 2003 budget proposal, mainly due to the cut in road maintenance expenditure which were impacted by LL 100 billion. The second part of capital expenditures, part II(b), (medium-term investment projects) also decreased from LL 433 billion in the FY 2002 Budget Law to LL 159 billion in the FY 2003 budget proposal. As part of this process, capital spending of various entities such as the Council for Development and Reconstruction, the Displaced Fund, and the Council of the South were affected (please refer to Table 6).

**Table 6. FY 2002 Budget Law versus FY 2003 Budget Proposal – Allocations to Main Councils and Funds**

<i>(LL billion)</i>	2002 Budget Law	2003 Budget Proposal	Magnitude of change over '02 budget	Percentag e change over '02 budget
Council for Development and Reconstruction	353	160	(193)	(55)
Council of the South	155	21	(134)	(86)
Displaced Fund	67	21	(46)	(69)
<b>Grand Total</b>	<b>575</b>	<b>202</b>	<b>(373)</b>	<b>(65)</b>

As noted so far, streamlining expenditures has affected all administrations, councils, and funds, while maintaining social spending at approximately the same level as the FY 2002 Budget Law (please refer to Table 7).

**Table 7. FY 2002 Budget Law versus the FY 2003 Budget Proposal – Main Social Expenditure**

<i>(LL billion)</i>	2002 Budget Law	2003 Budget Proposal	Magnitude of change over '02 budget	Percentage change over '02 budget
<b>Health</b>				
Hospitalization in the private sector	212	212	0	0
Purchase of Medication	42	41	(1)	(2)
Hospitalization of public sector employees in private sector	76	73	(3)	(4)
Maternity and sickness allowance	15	13	(2)	(13)
Other	51	55	4	8
<b>Sub-Total</b>	<b>396</b>	<b>394</b>	<b>(2)</b>	<b>.5</b>
<b>Education</b>				
Ministry of Education and Higher Learning	792	809	17	2
Education allowance in private sector	101	95	(6)	(6)
<b>Sub-Total</b>	<b>893</b>	<b>904</b>	<b>11</b>	<b>1</b>
<b>Other Social Spending</b>				
Ministry of Social Affairs	106	100	(6)	(6)
Ministry of Displaced	7	6	(1)	(14)
Transfers to employees' cooperative	135	125	(10)	(7)
Pensions	900	1,000	100	11
NSSF	50	20	(30)	(60)
<b>Sub-Total</b>	<b>1,198</b>	<b>1,251</b>	<b>53</b>	<b>4</b>
<b>Grand-Total</b>	<b>2,487</b>	<b>2,549</b>	<b>62</b>	<b>1</b>

### III. Treasury Operations

**Treasury revenues** are expected to amount to LL 400 billion. On the other hand, **Treasury expenditures** are projected to amount to LL 800 billion.

### IV. The Next Milestone

Looking forward, the government is committed to continuing its efforts to address the country's fiscal imbalances while stimulating economic activity. The 2003 budget proposal and the complementary measures planned by the Government constitute an integral part of a comprehensive

medium-term economic program that would help Lebanon emerge from its current economic challenges and plan for a better socio-economic future.

Furthermore, the Government will soon propose a draft law that pledges to decrease total deficit in the medium-term through specifying budget deficit ceilings and allowing the Government to make-up for the deficit slippages during a given fiscal year through additional revenue and expenditure measures.

On the revenue front, as part of its overall plan to improve revenue collection, the Government is paving the way for the introduction of the Global Personal Income tax in FY 2004 by restructuring the Revenue Department. Additionally, the VAT rate will be increased from 10% to 12% starting in the same fiscal year.

Expenditures will be further decreased by maintaining a freeze on wages and salaries and by reforming the current expenditures management system, whereby legislative amendments will be introduced to the carry-over process, and a reshuffle of the public enterprises' financial systems will lead to their privatization.

Privatization, which constitutes one of the cornerstones of the Government's economic program, will be accelerated in order to provide more efficient services to citizens and to help stabilize the debt dynamics.

At the same time, the Government will also focus its attention on addressing the real sector challenges. Indeed, the Government will adapt sectoral policies aimed at enhancing growth while emphasizing high value and rapidly growing sectors. It will also improve product quality through the enforcement of international standards. Moreover, laws promoting competition will be legislated while public accounting and public auctioning laws will be modernized. The Government will continue to enhance funding programs sponsored by friendly countries and multilateral agencies and to establish the groundwork for the private sector to penetrate international markets through benefiting from international agreements such as the WTO, the Euro-Med Agreement, the duty free trade zones with Egypt, Syria, Iraq, and the GCC, as well as conventions related to the avoidance of the double taxation.