

Feedback on the draft budget law for the year 2022

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Economic context: Financial / economic / social crisis since 2019

Challenge : Government commitment to IMF / World Bank / other external parties to engage structural reforms.

Major Question: ***Does this Budget Law meet the expectations both in terms of:***

- ***Putting the economy on the path of recovery?***
- ***Convincing the potential international lenders of the strong government commitment to engage in reforms?***

Personal opinion: this document is far below expectations for several reasons (listed below)

Overall remarks on the draft project:

Budget should reflect “temporary emergency measures” aimed at getting the economy out of the crisis. In its actual form it seems to be an extension of the old drafts with some amendments with no actual vision for recovery. A **“temporary emergency Budget” (one year)** should be elaborated, one that invites us to change **“priorities” especially in terms of expenses**

Parallel to the short term emergency budget, the government should have suggested a mid-to-long-term vision for a recovery (for the 5 coming years) – which is inexistent in the draft Budget Law 2022.

Before going into detailed analysis of the content, one should note the extreme difficulty in handling these numbers since revenues and expenditures when done in USD are converted to LBP using different exchange rates: 12 thousand or 14 thousand for one USD for expenditures and 20 thousand for one USD for revenues. Apart from the fact that this is **blamed by the IMF who expressly asked for an exchange rate unification**, besides it gives an impression that suggested numbers are not coherent with reality.

- **Choosing a single exchange rate to evaluate revenues and expenditures is a must for comparability purpose between these two entities**
- **However the big question remains: which exchange rate to choose?** Anyway, where did the 12, 14 and 20 thousand rates come from? Why not adopt the Sayrafa rate, which seems to be kind of “officialized”? and why not consider the black market rate? (since raw materials are bought by government bodies according to this latter)

Specific remarks on draft Budget Law articles:

- **Expenses that are neither priority nor productive should be postponed (if not deleted at all)**
Building highways (that leads nowhere!)

Building public facilities: administration / military headquarters / public schools (while forgetting that teachers are on strike since one year!)

- These expenses should rather be oriented **towards people mainly (!!)** . The economic/social situation is so critical that the starting point should be **“people”**
 - o It is important to help them gain “faith” in the political body – credibility is paramount for the success of any reform plan
 - o It is important as it helps them increase their consumption and stimulate the economic activity
- As concerning the projects that are being **constantly postponed** since 2018 for some of them!! (article 16): 1-it is important to know the reasons of this constant postponement and 2 (and more importantly) if the reasons stills remain then this invite us to be **realistic** and admit that these project won’t be realized this year either. The allocated amount could then be re-affected to more urgent needs (salaries and social help for workers in the related ministries).
- **Incentives for “productive” (private) investment are rather weak or inexistent...and sometime the late motif of this incentive is not even productivity or increased employment**
 - o While Article 10 is about subsidies on investment credit interest rates which is good.
 - o Article 20 entitles exporting companies to an up to 75% of tax credits if these companies repatriate their benefits to Lebanese banks (fresh accounts)...it’s not sure that companies will react with enthusiasm to such a measure since faith towards banking sector has been badly affected. So the objective is not “encouraging exports” but only have fresh money!!That’s unfortunate!
 - o Article 22: Tax credits for startup companies (is it enough to attract them to do business in Lebanon?)
 - o Article 23: Tax credits to companies in specific regions (??) decided by government. Upon what criteria are these regions chosen (equity amongst regions??)
 - o **In period of crisis, tax credits and other incentives should be given to all companies that have a role to play in the recovery of the economy: exporting companies / innovative companies / companies that employ Lebanese workers /**
- **Increased taxes on revenues** (upper wages rate set to 25% instead of 21%) – Increased VAT (3% on imports except for some goods that are inputs, or fuel or solar panels...)– Increased taxes on bank accounts interests (10%) not taking into consideration the tense situation between banks and depositors.
- **Some taxes are collected in USD (or Euro)** : on diplomatic missions, airport taxes (article 75 and 76) Legal??
- Environmental issues (article 96-97-98) weakly talked and not reflecting any willingness to solve the endemic environmental problem in Lebanon

Critical issues that are not tackled in the draft Budget Law 2022:

- **Reforming the EDL**
- **Structural reforming of public service: overemployment, corruption**
- **How will the deficit be financed?** Neither central bank, nor banks, nor the public and even less the outside lenders are ready to do it
- **What about the old debts?** Will it be settled? Rescheduled?