

Lebanon's deficit down by over 22 pct in 2017

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BEIRUT: Lebanon's fiscal deficit at the end of 2017 fell 22.45 percent to \$3.8 billion compared to 2016 thanks to a tax applied on the proceeds from Banque du Liban's financial engineering. As a result, the deficit ratio to GDP improved from 9.8 percent to 7.4 percent, its best performance in three years.

"According to figures released last week for full-year 2017, Lebanon's public finance deficit reported \$3.8 billion, down from \$4.9 billion in 2016. As a percentage of GDP, the deficit ratio improves from 9.8 percent to 7.4 percent, reporting its best performance in three years," Bank Audi's publication Lebanon Weekly Monitor said.

It added that after deducting debt service of \$5.2 billion, the year ended with a primary surplus of \$1.4 billion, against almost nil in 2016.

"The decline in the deficit comes as a result of a growth in revenues, more important than that of expenditures. Public revenues grew from \$9.9 billion in 2016 to \$11.6 billion, a growth of \$1.7 billion, the equivalent of 17.1 percent.

"The growth in public revenues mainly comes as a result of the tax on financial engineering operations of the Central Bank conducted in 2016 and which amounted to \$775 million," the report explained.

The improvement in tax collection in 2017 was another reason for the decline in the fiscal deficit last year.

"Public expenditures grew by a mere \$500 million, or 3.5 percent, moving from \$14.9 billion to \$15.4 billion. The modest rise in spending in 2017 comes despite a significant 45.1 percent rise in EDL [Electricite du Liban] transfers to reach \$1.3 billion driven by higher oil prices.

The latter had increased by 13 percent in 2017 relative to end-2016," the report said. It added that if EDL's deficit in 2017 had been close to that of 2016, there would have been almost no growth in public expenditures over the year.

"The 2018 budget ratified by Parliament [a] couple of weeks ago has been quite austere following streamlining and cost-cutting efforts though it does not entail tangible fiscal adjustment. It revolves around a lower deficit ratio relative to the 2017 budget (from 9.3 percent to 8.5 percent)," the report said.

The government slightly reduced public spending in the 2018 budget to send a clear signal to the participants in the CEDRE conference, held in Paris earlier this month to raise support for investment in Lebanon, that the country is determined to implement wide financial and administrative reforms to lower the deficit.

"The 2018 budget is based on a real GDP growth of 2.5 percent to 3 percent, slightly higher than the 2.1 percent estimated for 2017, along with a reinforcement of tax collection," the report said.

Prime Minister Saad Hariri has stressed that the soft loans and grants from CEDRE would stimulate the economy and create thousands of jobs over the next five years.

Funds from CEDRE will finance major infrastructure projects across the country, with special emphasis on electricity and water.