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WANTED: $7.2 million a day*

Is the 2003 budget on the right track?

The 2003 draft budget has gotten off to a running start with the early approval of the draft law for the budget by the Lebanese government, paving its way forward to the Parliament.

However, is such early ratification the important financial indicator that the government claims it is? In actual fact, the parliament will not start studying the budget before the second parliamentary session that begins on October 22, 2002, and has until the end of January 2003 to approve it.

Budget Allocations

Hariri's budget for 2003 envisages a slowdown in expenditure growth, with LL 8,520 billion ($5.6 billion) in expenditures and LL 6,400 billion ($4.2 billion) in revenues, resulting in a deficit of 24.8%. This is in comparison to the budgeted figures for 2002, which reached expenditures of LL 9,375 billion ($6.2 billion) and revenues of LL 5,500 billion ($3.6 billion), equivalent to a deficit of 41%.

The projected decrease in the budget deficit is the result of an LL 855 billion ($567 million) reduction in expenditures (equivalent to 9.1%) and an increase of LL 900 billion ($597 million) in revenues (equivalent to 16.3%). The bulk of budget expenditures has been allocated to the debt service, allowances, wages, retirees' salaries and end-of service indemnities, as well as consumer materials and services, and contributions to public institutions. These make up 91% of budget expenditures, while the remaining 9% represents government contributions to reconstruction projects. (See Graph 1 for total budget expenditure allocation).

Expenditure reduction and revenue growth: A familiar problem

Expenditures

The reduction in expenditures originates from a decrease in the debt service and a reduction in the expenses of some ministries and administrations (See Table 1 for main expenditures by ministry). The debt service for the year 2003 is estimated at LL 4,000 billion ($2.65 billion), shrinking by LL 500 billion, or $332 million, from the previous year.

Such a reduction would appear difficult, if not impossible to achieve, as the national debt has risen this year to approximately LL 45,210 billion, or $30 billion. Therefore, its cost to the borrower, or the government, is going to increase to LL 4,800 billion ($3.2 billion). So, the government is in fact suggesting a reduction in the debt service of LL 800 billion ($530 million), not LL 500 billion ($332 million).

In view of the government's declaration that the decrease in interest rates will be determined by market forces, some allude to the possibility of the government resorting to a reduction in the interest on treasury bills held by the National Social Security Fund (LL 2,400 billion or $1.6 billion) and the Lebanese Central Bank (LL 6,500 billion or $4.3 billion).

Decreasing interest paid on these funds from the current rate of 14%-16% to 7%-8% would translate into a decrease in the servicing of public debt by around LL 500 - LL 616 billion ($332 million - $408 million). Some economists say that this is the only channel open to the government to allow them to justify the figures, while others refer to the possibility of upcoming grants and loans at comparatively improved interest rates from a Paris II donor meeting.

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As for cutbacks in ministerial expenditures, this will stem from the decrease in investment spending allocated for financing of reconstruction and development projects.

* $7.2 million a day or LL 10,854 million equals, over a one-year period, the debt service interest of $2.65 billion or LL 4,000 billion (as stated in the 2003 draft budget).