

## THE LEBANESE GOVERNMENT'S REFORM PROGRAM

### **DRAFT FOR** **DISCUSSION**

*This memorandum highlights the Lebanese government's comprehensive economic program aimed at resolving deep-seated macro-economic, financial and institutional problems, restoring confidence, boosting economic growth, promoting a healthy financial system and achieving debt and financial sustainability. The government is committed to strengthen Lebanon's cooperation with the international community and hopes for its financial and technical support to ease the impact of adjustment on the population and more specifically on the most vulnerable groups. The government is also committed to strongly improve the Lebanese system of governance, change its harmful practices, hold everybody in the public sphere accountable, and recover people's money from wrongdoers.*

#### **BACKGROUND AND RECENT DEVELOPMENTS**

**Lebanon is faced with an unprecedented economic crisis.** Economic indicators point to an acceleration of the contraction of the economy and the coronavirus crisis currently affecting Lebanon and the whole world will only add-up to the already deeply deteriorated economic environment. Output is estimated to have contracted by 6.9% in 2019 following a contraction of 1.9% in 2018. It could contract by an additional 9% to 14% in 2020 as dollar shortage is putting a massive drag on nonfuel imports and consumer demand while driving up consumer prices and squeezing businesses. Unemployment and poverty are rising fast, inflicting unbearable pain on the Lebanese population. Average inflation could accelerate to more than 25% in 2020, creating the risk of an uncontrolled rise in prices fueled by continuous *de facto* depreciation of the Lebanese pound through the parallel market. The banking sector is paralyzed. Deposit inflows have dried up. In November 2019, banks imposed *de facto* capital controls to prevent further large deposit outflows. The budget deficit is projected to widen sharply as revenue collection is collapsing. Primary deficit could reach c. 4% in 2020. In order to stem the depletion of international reserves that have reached a worrying level, and in an attempt to contain the budget deficit, the government decided on March 7, 2020 to withhold the repayment of a Eurobond redemption maturity. Then, on March 23<sup>rd</sup>, Lebanon announced that it will withhold payments on all its foreign currency denominated Eurobonds.

**The current severe economic and financial crisis has its roots in a long history of excessive reliance on large foreign currency inflows and failed attempts to execute credible economic policies.** For years, Lebanon has received massive inflows of dollar deposits in the domestic banking sector, equal to multiple times GDP, which were not mainly recycled into the productive economy but fueled public sector deficits and high levels of consumption. Over the recent period, deeply rooted domestic political economy factors and institutional weaknesses have been exacerbated by a challenging external environment and led to a steady erosion of confidence.

**A popular uprising erupted on October 17 that led to the resignation of the previous government.**

The large demonstrations across the country and across all walks of life demanded an end to corruption, job creation for the youth, and better standards of living with equal opportunities for all. Our government is fully in tune with the legitimate demands of the population and it promises to respond to their needs and aspirations as clearly mentioned in the government's inaugural statement to parliament.

**Lebanon is faced with very large financial imbalances that have reached a level rarely seen in other countries faced with multi-pronged crisis.** Expansionary fiscal policy and an overvalued exchange rate, on the back of massive foreign inflows, have contributed to a persistently wide external current account deficit, driven by high imports, while exports remained modest, and the deterioration of the net external position. The analysis of the aggregate balance sheet of the Lebanese financial sector – commercial banks and Banque du Liban (BdL) combined – points to a very large currency mismatch of c. US\$63 billion, e.g. more than 120% of GDP. This foreign currency mismatch can no longer be mitigated by inflows of foreign deposits that dried-up over the past months and will realistically not recover in the foreseeable future.

**In addition, years of large budget deficits and high interest rates pushed the stock of public debt to an unsustainably high level.** Weak tax compliance in certain areas, a very generous pension system for specific groups, poor governance, and the chronically loss-making electricity sector have, among others, contributed to persistent large fiscal deficits. Consequently, the public debt increased to unsustainable levels, rising from 131% of GDP in 2012 to an estimate of 176% of GDP at end-2019. With interest payments alone accounting for c. 50% of government revenues in 2019, the fiscal accounts are stretched too thin to pursue productivity enhancing social and infrastructure investment.

**This deep and multi-faceted crisis requires immediate action on several fronts at the same time.** The Lebanese people are faced with several years of economic hardships. It is the historic responsibility of the government to implement the key reforms that were delayed for too long and to fully revamp the real economy and the financial sector to provide hope to the country and secure a strong new beginning.

**However, this crisis cannot and should not be tackled by Lebanon alone.** No reform agenda, as ambitious as it could be, can be implemented when the economy is in free fall. Stabilizing the economy is an immediate priority that requires substantial foreign financial assistance.

## A. PROGRAM OBJECTIVES AND STRATEGY

**In the face of the dire economic and financial situation, the government has designed a program that is credible, bold and comprehensive to restore confidence, gather urgent foreign support and put the country back on a long-term sustainable growth path.** The program aims to address forcefully financial and fiscal imbalances, bring down the current account deficit, put the public debt on a firm downward path, restore the stability of the financial sector and restore confidence including by strengthening governance and fighting corruption. The government has every intention for the program to succeed while allocating fairly the cost of accumulated losses and sparing the most vulnerable groups, including small and medium depositors and taxpayers, from its burden. However, domestic resources were already totally insufficient before March 2020, and hence external support was crucial for any program's success before even thinking about restructuring the debt. The program rests on eight central and interrelated pillars:

- A comprehensive debt restructuring strategy that decisively addresses the debt overhang
- A comprehensive restructuring of the financial system to address decisively accumulated FX mismatches at the central bank and in the banking sector, reveal the embedded losses and re-focus a resized banking system on the distribution of credit to the private sector
- A strong phased fiscal adjustment, focused on improving tax compliance, streamlining expenditure and reforming the public sector, including reforming Electricite du Liban (EdL)
- Moving to a more flexible exchange rate policy beyond the near term to lessen the strains on the balance of payments and improve competitiveness
- Growth-enhancing reforms that include measures and laws that would increase productivity and reduce costs, which would enhance the competitiveness of the Lebanese economy
- A social sector reform agenda to improve social indicators and strengthen or develop social safety nets to protect the most vulnerable segments of the population
- An ambitious national anti-corruption strategy, addressing the roots of a major impediment to growth and social justice
- International financial assistance at favorable terms to close the large external financing gap and finance the development of new infrastructures

In addition, the government is fully aware of the necessity to carry out those reforms simultaneously and comprehensively as a prerequisite for success. Also to be noted, we have decided to prepare this “Made in Lebanon” program to minimize the hardship on our population, and we will have to show the highest levels of national unity around it if we want to succeed in convincing our bilateral and multilateral counterparts not to impose harsher measures against critical external funding.

## B. MEDIUM-TERM MACROECONOMIC FRAMEWORK

*The macroeconomic scenario that is described hereafter makes the assumptions that (1) Lebanon will benefit promptly from the required external financial support to serve as a backstop to the recession, and (2) Lebanon will successfully implement the comprehensive package of reforms and decisive actions that are described in this document, be it related to the fiscal consolidation, debt trajectory, structural reforms, financial system restructuring or the reform of the FX system. The macroeconomic scenario depicted hereafter relies on realistic but rather favorable developments, and one should keep in mind that any deviation from this plan could result in far worse outturn of imports contractions, real GDP growth, inflation rate, and budget performance for 2020 onwards.*

**Following a preliminary projection of real output contractions of -12.0% in 2020 and -7.0% in 2021, the economy will then gradually recover and reach 2.0% real growth by 2024 before stabilizing at an estimated 3% growth potential in the longer run.** The recovery will be driven by external support to limit the contraction in imports and domestic consumption, a public investment push in the context of the unlocking of the CEDRE committed financing and the implementation of a well prioritized investment plan, the implementation of a comprehensive pro-growth reform agenda, and competitive gains achieved through the gradual depreciation of the exchange rate. The private sector is also expected to gradually adjust to the new environment by reducing costs and reorienting production towards the external sector and import substitution. The average inflation is expected to increase to 25.1% in 2020 due to the pass-through effects of the *de facto* exchange rate depreciation. Inflationary pressures will gradually decline to 5.2% by 2024.

**Fiscal policy will be driven by an ambitious, albeit necessary, fiscal consolidation plan spread out over 5 years.** Primary budget balance will be improved from -0.9% in 2019 to 1.6% in 2024, reflecting a “domestic primary surplus” of 3.4% excluding the portion of capital expenditures that will be self-financed externally with the unlocking of the CEDRE external financing commitments, therefore reflecting a much tighter primary surplus objective. These ambitious fiscal consolidation efforts, together with the sharp reduction of the public debt interest bill that will be achieved through debt restructuring, will aim at putting the debt-to-GDP ratio on a clear downward trajectory.

**Overall government deficit is projected to narrow from 11.3% of GDP in 2019 to 7.2% in 2020 and further to 1.3% by 2024, under a set of illustrative debt restructuring assumptions (as further described in section D.2).** Neutralizing the effect of the disbursement of CEDRE financing would reflect a balanced overall budget as early as 2024. Under this set of assumptions, the debt-to-GDP will decline steadily from an estimated 176% in 2019 to 103.1% by 2024 and further to 90.2% by 2027. Fiscal consolidation measures will be underpinned by core structural reforms—fiscal responsibility legislation, central treasury management, and public bodies and employment reforms—that entrench fiscal discipline.

**Weak domestic demand as well as the depreciation of the parallel exchange rate will reduce imports of goods and services substantially.** While exports of financial and other business services are expected to be severely affected by developments in the banking sector, political stability and improvement in infrastructure could boost tourism receipts beyond 2020.

<b>Table 1: Medium-Term Outlook under the Government's Macro-Economic Framework*</b>						
	<b>Estimate</b>	<b>Projections</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Brent Price, USD/bbl**	64.3	41.1	44.5	48.5	51.4	53.3
Official Exchange Rate (USD/LBP)	1,508	1,508	2,607	2,771	2,891	2,979
Parallel Exchange Rate (USD/LBP)	1,600	2,500	n.a.	n.a.	n.a.	n.a.
Effective Exchange Rate (USD/LBP)***	1,582	2,302	n.a.	n.a.	n.a.	n.a.
<i>Implied Depreciation</i>	4.7%	34.5%	42.2%	45.6%	47.8%	49.4%
Real GDP Growth, %	(6.9%)	(12.0%)	(7.0%)	(3.0%)	0.0%	2.0%
Nominal GDP (LBP billion)	77,419	78,706	79,421	81,955	86,164	91,735
Nominal GDP (US\$ billion)	49.0	34.2	30.3	29.5	29.3	30.4
CPI Inflation, %	2.9%	25.1%	12.6%	8.8%	6.6%	5.2%
GDP Deflator, %	0.4%	15.5%	8.5%	6.4%	5.1%	4.4%
Budget Primary Balance, % GDP	(0.9%)	(3.9%)	(3.2%)	(1.9%)	(0.1%)	1.6%
Overall Budget Balance, % GDP	(11.3%)	(7.2%)	(6.2%)	(5.0%)	(3.2%)	(1.3%)
General Government Debt, % GDP	175.6%	91.9%	101.9%	106.5%	106.6%	103.1%
Current Account Balance, % GDP	(23.9%)	(13.9%)	(18.2%)	(17.3%)	(18.9%)	(19.2%)

Sources: Lebanese Authorities, Bloomberg

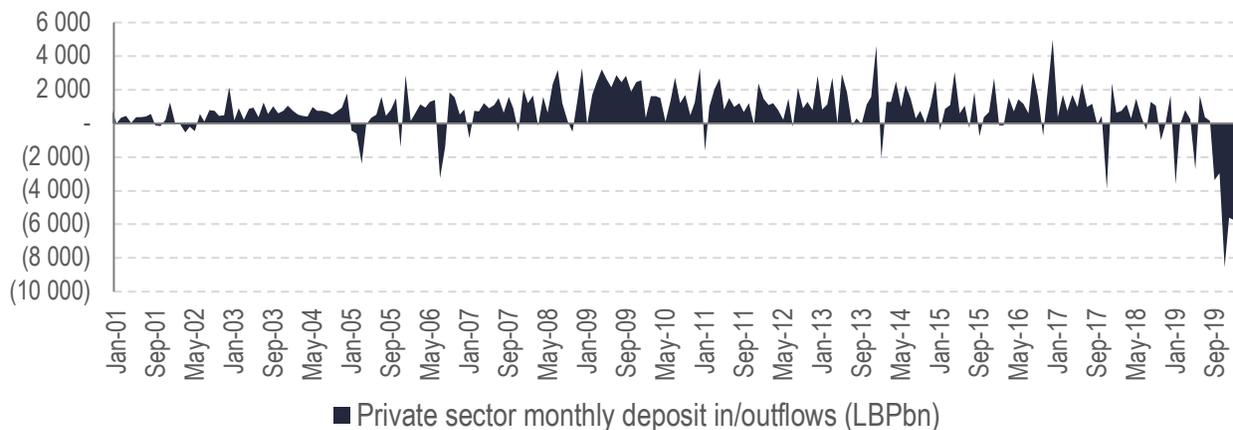
\*All figures taking into consideration the impact of externally financed capital expenditure achieved through CEDRE as well as the public debt restructuring (as described in section D.2)

\*\*Source: Bloomberg as at 13 March 2020

\*\*\*Derived by assuming that 20% of economic transaction are at the official rate and 80% at the parallel rate

### C. LEBANON NEEDS EXTERNAL SUPPORT

**The cash usable reserves at BdL have reached a worrying level and all indicators show that the depletion is not likely to reverse naturally as was the case in previous similar (though less pronounced) episodes of FX outflows.** The size and duration of currently observed trend of deposit outflows is unique in comparison to previous episodes. With capital controls *de facto* in place since end of 2019, and the unprecedented dire situation of the country now widely acknowledged both domestically and abroad, it is difficult to imagine Lebanon coming out of such a deep crisis without the support of the international community at large. It is unrealistic to think that the trend of deposits flows will reverse and that the international markets will reopen for Lebanon, notwithstanding the Covid-19 crisis, without the strong commitment to a large scale and comprehensive recovery plan backed by internationally recognized experts.



Source: Banque du Liban

**External support, in the form of financial commitments but also in support of the Government reform program, is urgently needed to limit the size of the economic contraction, secure basic imported goods, and restore confidence in Lebanon.** The depth of the recession, exacerbated in the context of the Covid-19 crisis, will depend on the availability of dollars to finance the balance of payments in the quasi absence of private capital inflows (except for remittances). A severe contraction of imports that would be limited to basic goods would have a devastating impact on the economic output, leading to a severe deterioration of social indicators and the risk of a protracted recession. It is urgent to break this vicious circle with the announcement of a massive external financial support to backstop the economy, made conditional upon the implementation of a comprehensive recovery plan able to restore confidence and reverse the current trends.

**Net External financing needs over the next five years are projected in the US\$10-15 billion range under an optimistic economic scenario of gradual recovery.** In this baseline scenario, which embeds a large and rapid international support, we assume that the contraction of the current account is limited in size, allowing the economic recovery to materialize within a reasonable timeframe. We assume part of the international support in 2020 will take the form of emergency assistance provided by the IFIs to support spending relating to the COVID-19 crisis<sup>1</sup>. Gross cumulative external funding gap is projected at US\$27

<sup>1</sup> On March 12, 2020, the World Bank has approved a reallocation of US\$40 million under the current Health Resilience Project (US\$120 million) to support Ministry of Health. IMF could lend as per the current mobilization of emergency finance schemes currently deployed all over the world in close coordination with other IFIs.

billion. However, we assume that the external debt default situation is cured in 2020 with a successful public debt restructuring, enabling considerable savings in the external debt service and a gradual return to international capital markets in 3 years' time. We finally assume that inflows of private dollar gradually resume after the full clean-up of the banking sector, including BdL.

<b>Table 2: Balance of Payments (in US\$m)</b>						
	<b>Estimate</b>	<b>Projections</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Current account	(11,724)	(4,741)	(5,528)	(5,098)	(5,551)	(5,824)
Goods balance	(13,365)	(8,744)	(8,661)	(8,628)	(9,511)	(10,222)
Services balance	198	389	489	609	715	806
Income balance	(1,438)	(64)	(384)	(408)	(376)	(310)
Current transfers	2,881	3,678	3,028	3,330	3,621	3,902
Capital account	994	668	668	668	668	668
Financial account	7,635	(3,501)	(2,357)	(768)	688	2,014
Direct investment	1,534	648	828	994	1,143	1,271
Portfolio investment	1,641	(1,062)	(444)	(128)	291	867
Other investment	4,460	(3,087)	(2,742)	(1,633)	(746)	(125)
Reserve assets (depletion)	2,390	7,574	7,217	5,198	4,195	3,142
External financing requirements (cumulative)		7,574	14,791	19,988	24,184	27,326

Sources: Banque du Liban, Lebanese Authorities

**External support in the form of a program supported by international multilateral institutions is expected in such situation and constitutes a realistic and efficient way of restoring confidence.**

Investors and observers are reminding the government that the IMF in particular has been created for the exact purpose of supporting its members going through severe Balance of Payments (BoP) crises, and they are expecting Lebanon to call on the IMF to tackle the current crisis, as numerous countries did in similar circumstances. In their view, this would immediately trigger a shock of confidence and send the right signal both domestically and abroad about the Lebanese government being committed to deal forcefully with all aspects of the current crisis. This would also provide strong backing to the difficult decisions that the government will have to take eventually and that could otherwise be back-loaded. We believe our present plan is a good basis in case of negotiations with the IMF, and our government will keep striving to minimize the harm on the Lebanese population during the correction years.

**The donor and lender community is unanimously telling us that a multilateral intervention in Lebanon would catalyze additional external financial support, in the framework of the *Conférence économique pour le développement par les réformes et avec les entreprises (CEDRE)* and beyond, and would also help achieve a successful public debt restructuring.** The positive spillover effects of an IMF program are also numerous. Though the IMF would most probably not be able to provide sufficient resources to cover all external financing needs of Lebanon for the next five years, even under an exceptional access, it will unlock other sizeable pockets of available funds from multilateral or bilateral partners, and conditioned to the successful implementation of the IMF program. In addition, debt discussions with bondholders will be facilitated in the context of an IMF program, as it would provide an anchor for negotiations, with clear sustainability targets and a methodological framework to rely on. Investors will be far more willing to accept a facial reduction of their debt if they see credible recovery value in what they are left with.

**A Lebanese recovery plan outside of an IMF program that would not tackle full all the imbalances inherited from the past would fall short of the main objective of giving a fresh start to the Lebanese economy while putting it on a viable long-term trajectory** (see appendix 1 for a detailed discussion). This is mainly due to the unwillingness of the international community to commit the extensive support needed, while at the same time the very large accumulated losses in the Lebanese financial system would not be restructured and while no international framework would be put in place to monitor reform implementation over the medium term (foreign donors are well aware that previous experiences have shown a lack of capacity from Lebanese governments to conduct reforms as planned in the context of international support packages).

**In the here-after described scenario, external support from various sources are projected to total c. US\$10-15 billion over 5 years and will be complemented as needed with contributions from bondholders in the context of the debt restructuring and a strategy of returning to the international capital markets in the medium run.** Total contractual debt payments to Eurobond holders were projected at c. US\$19-20 billion over the next five years before the default. Regardless of the nominal discount, the negotiation of a 5-year grace period on principal and the reduction of coupon to a minimum level during that same period would fill an additional US\$15-18 billion of the projected US\$25 billion to US\$30 billion BoP financing requirements. The rest of the gap – besides external support– will be covered by a strategy of gradual re-access to the market as the Lebanese economy recovers and the credit rating improves, as well as the rise in FDI that should be fueled by the emergence of a new Lebanese economy. The overall amount of external support could be higher in case of stricter benchmarks in terms of net foreign assets accumulation by the central bank (reconstitution of higher reserves).

## D. ECONOMIC POLICIES

### 1. FISCAL POLICY

**The fiscal component of the reform package should aim at reaching a primary budget surplus of between 3% and 4% by 2024**, without taking into consideration the impact of externally financed capital expenditure achieved through CEDRE. This requires, in addition to reducing the electricity transfers, rationalizing the wage bill and cutting all inefficient current spending, increasing budgetary revenues by curbing tax fraud and evasion, fighting smuggling across all points of entry, increasing the compliance rate, and revamping the entire tax system to make it fairer and heavier for rent income. In order to preserve the most vulnerable segments of the population, a comprehensive safety net package will be implemented, with cash transfers to the poorest, and education and health adequate measures.

**The government intends to introduce a supplementary 2020 budget in the next few months to put public finances on a sustainable path.** In this context, the government is committed to substantially reducing the overall primary deficit through a combination of corrective revenue and spending measures. The combination of the rapidly deteriorating and unstable economic environment, leading to a sharp fall in the compliance rate, and the drop in taxes on interest income are expected to drive the tax to GDP ratio from 16.2% of GDP in 2019 to 12.6% in 2020. Beyond this year, we expect tax revenues to increase steadily to reach 16.2% of GDP by 2024. The government's primary spending, excluding interest on debt, is expected to shrink from about 22.4% of GDP in 2019 to 17.1% by 2024, supported by a decline in the wage bill and the gradual removal of electricity transfers.

	Estimate	Projections				
	2019	2020	2021	2022	2023	2024
Total revenues, % of GDP	21.5%	17.7%	18.7%	19.9%	20.3%	20.5%
<i>o/w tax receipts, % of GDP</i>	16.2%	12.6%	13.8%	15.2%	15.8%	16.2%
Total primary expenditure, % of GDP	22.4%	21.6%	21.8%	21.8%	20.4%	18.9%
<i>o/w wage bill, % of GDP</i>	13.1%	12.8%	12.3%	12.0%	11.4%	10.8%
<i>o/w transfers to EdL, % of GDP</i>	2.9%	2.9%	1.9%	1.2%	0.6%	0.0%
<i>o/w CEDRE spendings, US\$ billion</i>	-	-	0.3	0.6	0.6	0.6
Total primary expenditure (excl. CEDRE), % of GDP	22.4%	21.6%	20.8%	19.8%	18.5%	17.1%
Primary balance, % of GDP	(0.9%)	(3.9%)	(3.2%)	(1.9%)	(0.1%)	1.6%
Primary balance (excl. CEDRE), % of GDP	(0.9%)	(3.9%)	(2.1%)	0.1%	1.8%	3.4%

Source: Lebanese Authorities

**This medium-term fiscal strategy (MTFS) will be adopted by the government and approved by Parliament by end-June 2020.** It will include the following revenue and expenditure measures with a view to distributing fairly the burden of adjustment and to avoiding to the extent possible any additional impact on wage earners and the poor.

**a. Expenditure Reduction Measures:**

**Expenditure measures are expected to yield 4.5% of GDP by 2024 (excl. CEDRE),** while LBP1,055 billion per year will be spent for safety nets in view of limiting the negative impact of fiscal consolidation on the most vulnerable parts of the population. The following measures will be implemented (see Appendix for more details):

- **Electricity sector reform:** budgetary transfers to EdL amounted to US\$1.5 billion in 2019, equivalent to 2.9% of GDP thus representing a heavy burden on the budget
  - Budgetary transfers to EdL amounted to US\$1.5 billion in 2019, equivalent to 2.9% of GDP thus representing a heavy burden on the budget. The government plans to eliminate EDL subsidies as soon as the EDL plan approved in April 2019 is implemented and electricity is provided 24/24 hours per day. Tariff will increase gradually with the generation. The government will continue to implement the measures aiming at improving efficiency, expanding capacity, and reducing waste and theft.
- **Measures targeted at the wage bill reduction:** total wage bill costs in 2019 represented 13.1% of GDP, as compared to an average of c. 10.8% in MENA countries. The government is committed to rationalizing public sector employment with a view to improving efficiency and reducing cost. The objective is to bring total personnel costs to 11.1% of GDP by 2024 through the following measures:
  - Freezing of headcount of military personnel and promotion of military personnel conditioned to empty positions
  - Reduction of the number of contractuels (5% p.a. over 5 years)
  - Nominal freeze of salaries: salaries will be frozen at their current nominal level for a period of 5 years, *de facto* leading to a real depreciation
  - Freezing on the new hiring of public employees: a freeze on public sector hiring will be imposed and the size of the public sector will shrink due to attrition. As several thousand public sector employees are expected to retire in the coming years, only those who are in critical positions will be replaced, yielding important savings.
  - Revision of the package of benefits for high-ranking military (e.g. fuel coupons...)

**In addition to the above-mentioned measures, the government will complete a census of all government and public enterprises positions, compensation, and description of function, and create and maintain a comprehensive database of employment and compensation in the public sector, updating on a regular basis the census information. This should allow further reduction of the wage bill costs in the medium run through a reduction of ghost workers, rationalization of salaries and benefits, and removal of non-essential positions.**

- **Pension Reform:** The fiscal cost of the pension system in Lebanon, especially for the armed forces, is very high by regional and international standards and is likely to increase sharply over the medium and long term. This reform is a priority because of its social, economic, and fiscal impact. In 2019, pension related expenses represented 36.1% of total personnel costs or 4.7% of GDP. The objective will be to reduce it gradually to 3.6% of GDP by 2024. The following measures are contemplated:
  - Revision and proper implementation of measure “number 3” related to military retirement: calculation rules for military retirement will be aligned on other regimes for fairness and cost effectiveness
  - Abolishment of the early retirement scheme
  - Revision of the reversionary pension rules to widows and children
  - Revision of the rules for transfer of familial allowances after death, treating girls & boys the same way
  
- **Reduction of transfers to other SOEs and Public bodies**
  - Rationalization and reform of Lebanon’s public entities (e.g. railways & public transportation related salaries, LPA, university...): The government will perform the review of 73 public entities and devise a plan aimed at merging entities when feasible, to bolster efficiencies, rein in salaries and benefits, and rationalize operational costs, while closing other obsolete entities and eliminate redundancies when deemed relevant.
  - Re-negotiation with NSSF of the arrears clearance schedule and interest charge: current reimbursement schedule over 10 years and prohibitive interest rate of c. 6 to 7% will be renegotiated for longer period and reduced interest rate.
  
- **Reduction in domestically financed capital spending**
  - Domestically financed capital expenditure will be progressively replaced with foreign financed capital expenditures – in particular through the unlocking of CEDRE resulting from the authorities’ implementing this ambitious reform agenda and defining clear priorities – and Private Public Partnership projects and BOT projects when appropriate. This will allow a further reduction of the LBP-denominated budget primary deficit and therefore of the inflationary monetary financing by BdL without reducing the much needed capital expenditure and investment to restart growth.
  
- **Other expenditure reduction measures:**
  - Reduction of school allowances
  - Unification of allowances for all public sector employees
  - Rationalizing of other current expenditures to limit waste
  - Reforming the public expenditure management with the establishment of a central treasury management system (CTMS) to bring responsibility for treasury management functions under one agency, and the creation of a Treasury Single Account (TSA) to improve cash management and consolidate all general government cash resources.

**The fiscal reform package will be accompanied by social safety net (SSN) measures to protect the most vulnerable groups.** The poverty rate is already high, estimated at about 48% of the population and is susceptible to an increase as the country adopts measures to come out of the crisis. Financing an SSN program could be taken up by donors including the World Bank in the context of a full-fledged adjustment program. The Bank and other donors have already provided support to build a poverty targeting system in Lebanon that could be immediately deployed to fund the SSN program. Monthly cash transfers will be considered for approximately 200,000 poor households to cover basic needs and offset the impact of the increase in some prices including fuel.

**b. Revenue-Enhancing Measures:**

**Revenue-enhancing measures are expected to yield up to 4.1% of GDP by 2024**

- **Broadening the tax base:** In the early years of the fiscal consolidation plan, the government will focus its efforts on measures aimed at broadening the tax base, improving compliance rate (focus on areas where tax compliance is significantly below benchmarks) and tax collection. We intend to implement the following measures:
  - Improving customs collection (improving procedures at legal crossings, closing illegal crossings and fighting smuggling through greater control with the deployment of military personnel, introduction of scanners, on-line data for imported goods...)
  - Improvement in the collection of VAT
  - Normalization of tax compliance levels
  - Removal of profits and capital gains tax exemptions for holdings and offshore companies
  - Removal of certain VAT exemptions
  - Strengthening the tax revenue administration

**Fiscal adjustment efforts will also be supported by institutional reforms.** In the context of a comprehensive program of revenue administration reform, the government will increase tax audits, boost tax-related debt collection, and prosecute tax offenders. Addressing tax compliance problems will improve fairness by ensuring that the tax burden is well distributed.

- **Increasing tax:** in a second stage, the government will implement a large overhaul of the tax system aimed at making it fairer and more efficient. It will include the following measures:
  - Increase in corporate tax rate (gradually from 17% to 20%)
  - Increase from 10% to 20% of the tax on interest income on deposits above \$ 1 million
  - Increase of income tax for high salaries (from 25% to 30%)
  - Increase of income tax on capital gains from 10% to 15%
  - Increase of VAT on luxury goods from 11% to 15%
  - Set a 25,000 LL floor price on gasoline and remove the 30,000 LL cap
  - Introduction of 1000 LL excise on gas oil

- **Other revenue increase measures will include:**
  - Introduction (or enforcement) of licensing fees on quarries and crushers, and a special rate for income tax on all taxpayers benefiting from special rights granted by the government
  - Transfer of traffic penalties to the treasury
  - Vehicle inspection fees
  - Port of Beirut
  - Enforcing fines on illegally built Maritime and Wild and river properties
  - Recovery of stolen assets

<b>Table 4: Impact of the fiscal consolidation measures (Summary)</b>						
<i>as a % of GDP, unless otherwise stated</i>	<b>Estimate</b>	<b>Projections</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Total Revenues (without measures)	21.5%	16.9%	16.3%	16.5%	16.3%	16.3%
Impact of Revenues Measures (p.p.)	-	0.7	2.3	3.3	3.9	4.1
Total Revenues (with measures)	21.5%	17.7%	18.7%	19.9%	20.3%	20.5%
Total Primary Expenditures (without measures, excl. CEDRE)	22.4%	21.5%	21.6%	21.5%	21.1%	20.4%
Impact of Expenditures Measures (p.p.)	-	0.5	2.2	3.2	3.9	4.5
Impact of SSN package	-	(0.7)	(1.3)	(1.3)	(1.2)	(1.2)
Total Primary Expenditures (with measures, excl. CEDRE)	22.4%	21.6%	20.8%	19.8%	18.5%	17.1%
Primary Balance (without measures, excl. CEDRE)	(0.9%)	(4.5%)	(5.3%)	(5.1%)	(4.8%)	(4.1%)
Primary Balance (with measures, excl. CEDRE)	(0.9%)	(3.9%)	(2.1%)	0.1%	1.8%	3.4%
Implied Fiscal Consolidation Impact	-	0.6	3.2	5.1	6.6	7.5

Source: Lebanese Authorities

**A tight fiscal policy will not only improve the budgetary situation but also the external position.**

Limiting domestic demand through cutting government spending and reducing wages and benefits will have an impact on private consumption and investment and thus will reduce the demand for imports. As such, this will bring down partially the external current account deficit, and hence the overall balance of payments, which has been a drag on foreign reserves. We project the recession and the imposition of capital controls will significantly reduce the current account deficit over the next five years.

**Fiscal consolidation will also reduce the monetary financing from BdL thus addressing inflationary pressures.**

The reduction in primary deficit, coupled with the renegotiation of domestic debt financial conditions will sharply reduce the government budget deficit and therefore the required issuance of T-bills by the government. In the Lebanese context where BdL has been the main buyer of T-bills through monetary financing, this should help alleviate the inflationary pressure that the country is currently facing in the context of the *de facto* depreciation of the LBP. We expect inflation rate to abate from a forecasted 25% in 2020 to 13% in 2021 and further to 5% by 2024.

## 2. PUBLIC DEBT RESTRUCTURING

**Lebanon's overall public debt restructuring cannot be avoided because the needed fiscal adjustment is just too large.** With public debt interest payment currently representing more than 10% of GDP, the required fiscal consolidation to achieve a balanced or moderately negative overall budget balance would be too much of a burden for the Lebanese people especially in time of recession. Moreover, Lebanon's overvalued official exchange rate will eventually lead to a sharp depreciation to unify it with the current parallel rate, which is currently 40% more depreciated. This will further raise the public debt ratio (as c. 35% of the government debt is denominated in foreign currency) making it less sustainable.

	<b>US\$ billion</b>	<b>LBP billion</b>	<b>as a % of GDP</b>
LBP-denominated debt	56.8	85,701	110.7%
Multilateral and bilateral debt	2.0	3,017	3.9%
Eurobonds	31.3	47,206	61.0%
<b>Total</b>	<b>90.2</b>	<b>135.9</b>	<b>175.6%</b>

Sources: Lebanese Authorities, Bloomberg

**The overall debt restructuring strategy of the government contemplates a three-pronged approach:**

- (i) Suspending principal and interest payments on Eurobonds to prevent further depletion of the official FX reserves and engage good faith discussions with Eurobonds holders;
- (ii) The rollover of domestic debt principal maturities and the ongoing payment of interest due (except for BdL), albeit at a reduced rate, until a negotiated solution is achieved. The parameters of the Eurobond restructuring, the macroeconomic and fiscal framework (including inflation trajectory), as well as the assessment of the impact of a domestic debt restructuring on the banking sector and on depositors will inform the government decision on domestic debt restructuring. A principal discount on the domestic debt will be required to restore the overall stock of public debt to a sustainable level;
- (iii) Remaining current on debt service payments to multilateral partners and bilateral partners. This stock of debt is limited (c. US\$2 billion, of which c. US\$600 million of bilateral loans), and debt service in 2020 is limited (US\$257 million). Multilateral institutions benefiting from a preferred creditor status will be fully serviced. The Republic will also maintain payments to other multilateral institutions and bilateral partners.

**The objective of the government is to restore a clear downward debt trajectory over the short to medium run while returning to a debt to GDP ratio of c. 90% by 2027.** This objective is achieved under an illustrative scenario of principal discounts on domestic debt<sup>2</sup> and on international bond debt, with a reduction of interest rates to 3% p.a.

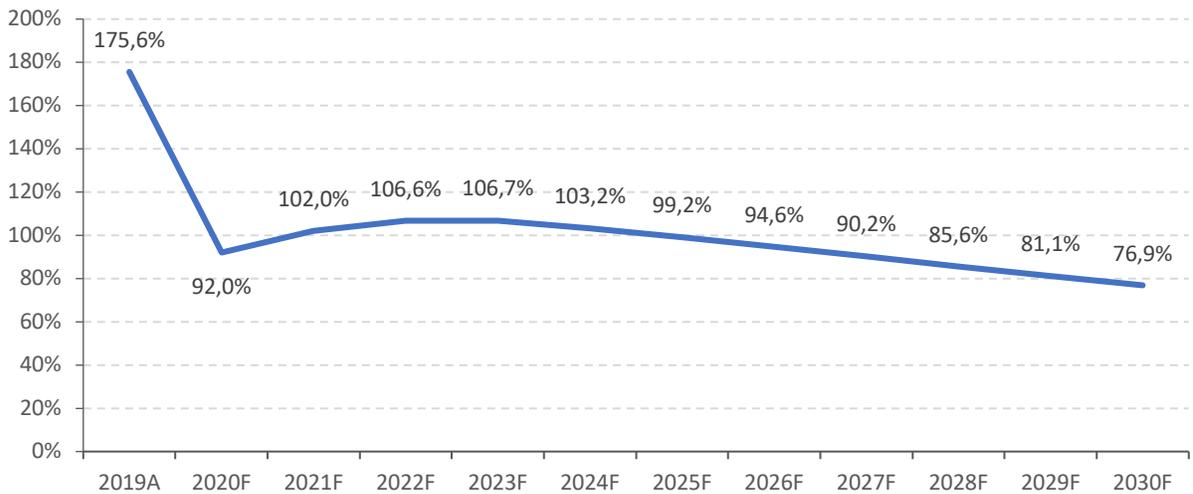
<sup>2</sup> In the illustrative scenario, all holders of T-bills are impacted by the restructuring. This approach will need to be further refined to exclude certain categories of holders (e.g. social security funds)

*Public Debt Dynamics*

While the total public debt will immediately decrease because of the debt restructuring exercise, Lebanon should expect to see the ratio of public debt to GDP increasing again over the period 2020-2024<sup>3</sup> as a consequence of:

- (i) The exchange rate depreciation that will mechanically increase the ratio of USD denominated public debt to GDP, even in the absence of new hard currency debt
- (ii) The ongoing budget deficit that will persist over the fiscal consolidation period, therefore requiring the government to incur new debt, and
- (iii) (as a result of ii) The large amounts of external support that Lebanon is expected to benefit from in the context of the unlocking of CEDRE-related financing and a likely IMF program, or alternatively the support from other multilateral/bilateral partners.

**Evolution of the debt-to-GDP ratio (%) in a scenario including discounts on T-Bills and Eurobonds**



Source: Lebanese Authorities

<sup>3</sup> Total debt figure may be underestimated as it only takes into account the part of the external support that is meant for budgetary support, thus excluding c. US\$6.3 billion of pure BoP support from the total debt stock. The methodological approach will need to be further assessed.

### 3. FINANCIAL SECTOR RESTRUCTURING

#### a. Overall Strategy and Objectives

**In the financial sector, the priority is given to fully restoring financial system soundness.** The reversal of capital inflows from abroad is creating unsustainable pressures on the financial sector as a whole – including BdL – that is unable to meet its financial obligations in FX. In front of massive balance sheet imbalances – representing more than 100% of GDP – complacency or partial solutions are not an option. The Lebanese economy needs a healthy and dynamic banking sector and a strong central bank to grow again. All accumulated losses have to be identified and addressed forcefully. Also, the restructuring of the public debt and the recession will incur further heavy losses on banks' capital position to be added to an already worrying situation.

**A full bail-out of the financial sector is not an option.** All around the world since the 2008 financial crisis, international practice has shifted away from the idea that a failed financial system should be supported by public/taxpayers money. No foreign assistance will be available to cover the losses from a home-made financial collapse. Bail-out is not an option also because of the size of the losses accumulated in the financial sector. No government would take the responsibility to ask future generations to cover such heavy losses from the past.

**The government has elaborated a multi-pronged strategy aiming at fully restoring financial sector stability over the medium term.** The program focuses on (i) a phased restructuring of the banks' balance sheets, including the management of impaired assets, the associated contribution of shareholders and – where appropriate – large depositors to the rebalancing of assets and liabilities (with a compensation mechanism to those depositors); (ii) the introduction of the necessary support elements of the bank restructuring strategy into the legal framework ; (iii) the design and implementation of a strategy for an orderly consolidation of the banking sector and its recapitalization (iv) a full assessment of the financial position of the Banque du Liban and the identification of potential measures aiming at addressing foreign currency mismatches accumulated in its balance sheet, including an appropriate contribution from the banking sector to this restructuring ; and (v) strengthening the governance of financial sector supervision and control, including BdL to prevent any new build-up of financial risks.

#### b. Restructuring of BdL

**Recognizing and allocating past losses accumulated over the years by BdL as well as immediate expected losses resulting from government debt restructuring is the very first step in the comprehensive overhaul of the Lebanese financial system.** Indeed, the further assessment of the domestic banks' net capital position requires the prior valuation of large assets held by Lebanese banks at BdL, essentially deposits and CDs. For that reason, the authorities will first task internationally recognized professionals to conduct a full audit of BdL accounts in accordance with the related decision of the council of ministers, a full review of BdL's financial operations over the last 5 years and a fair valuation of bank exposures to the central bank. This valuation exercise will consider a full restructuring of BdL balance sheet, including the write-off of embedded losses accumulated in the past (as identified by the audit) and the impact of government debt restructuring on BdL holdings of Eurobonds and T-Bills.

### Where are BdL embedded losses coming from?

**The BdL balance sheet includes embedded losses carried forward against future seignorage revenues and accumulated over the last 15 to 20 years.** This accounting practice is commonly used by central banks around the world to deal with temporary losses incurred during a crisis. However, BdL has been using this accounting practice over a much longer period of time, so that total embedded losses now represent more than US\$40 billion, a significant portion of total reported BdL assets and a very large amount (above 100% of GDP) that compares to no other case in the world.

**These embedded losses result from years of loss-making financial transactions operated by BdL** (aiming at accumulating FX reserves to defend the peg and cover the balance of payment funding gap, on top of other sources of losses) **and accumulation accelerated in the context of the “financial engineering” that started in 2016.** These transactions were conducted in the view of replenishing the FX international reserves by attracting FX resources from the banks against costly associated financial transactions in FX and LBP. Ultimately, these transactions proved unsustainable and very risky as they couldn't address the core imbalances that generated the regular fall in FX reserves (a very large current account deficit) and they transferred to the BdL a large exposure to FX risk.



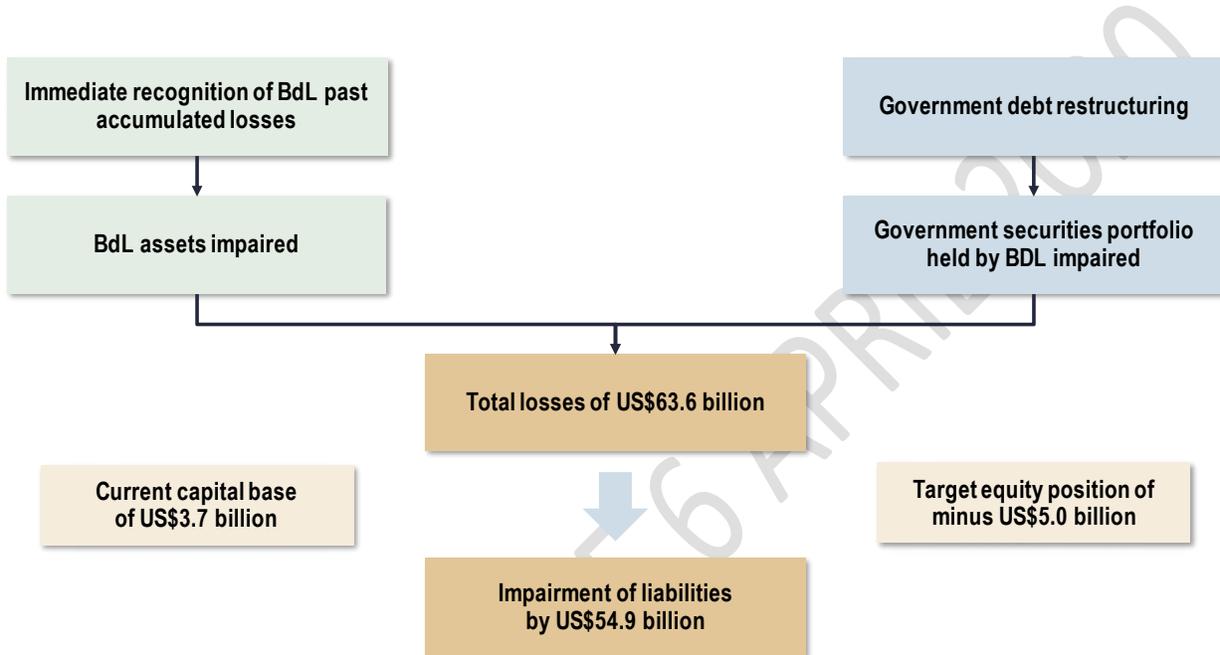
Source: Banque du Liban as of 31 March 2020

**BdL's embedded losses should be restructured and BdL's profitability must be restored.** The uncontrolled accumulation of losses threatens the viability of the BdL, which is the anchor of financial stability, the credibility of the national currency and depositors' confidence in the entire Lebanese financial system. Moreover, accumulated losses represent large amounts of debt transferred to future generations that will put an unbearable burden on Lebanon's future capacity to grow.

**Based on the conclusions of the review, and depending on the remaining BdL net capital position, the government will evaluate options for the restructuring of BdL's liabilities,** including a contribution from banks' deposits and holdings of CDs to cover losses that cannot be covered by the existing BdL capital base. Restoring a positive net capital position upfront would entail important losses to be incurred upfront by depositors through the banking sector (bail-in). In order to reduce the social cost of such a brutal upfront adjustment, the government will consider leaving BdL with a moderate negative net capital position that would be covered over time by future BdL revenues generated after the full restructuring of the balance sheet.

**The below chart illustrates the expected assessment of losses to be transferred to the domestic banking sector as a result of BdL restructuring exercise.** It relies on the illustrative assumption of a

remaining net capital position of minus US\$5 billion or c. 15% of GDP<sup>4</sup>, and on assumptions made on the parameters of government debt restructuring. Pending the audit of BdL, the resulting losses, net of BdL current capital base, amount to c. US\$54.9 billion<sup>5</sup>. The impairment of liabilities will affect CDs and deposits held by the banking sector. The exact allocation of losses will have to take into account the need to restore a positive Net International Reserve position at BdL.



Note: Excludes losses from devaluation or required recapitalization of the banks

Note: Figures as of 31 March 2020  
Sources: Lebanese Authorities, Banque du Liban

**Following its restructuring, BdL will have to rebuild profitability.** Even downsized, the BdL’s balance sheet will remain sizeable compared to the standard balance sheet of a central bank focusing only on core monetary policy activities. It will be exposed to FX risk in the context of a floating/managed floating regime. Depending on a detailed evaluation of the appropriate level of net international reserve (NIR) position, additional foreign support may be required to replenish BdL net reserves at adequate level. Moreover, in the context of the reform of legal provisions related to its responsibilities and management, BdL will elaborate a financial & risk management plan aiming at adapting its accounting practices, reducing its role in the financing of the government and restoring its long-term profitability.

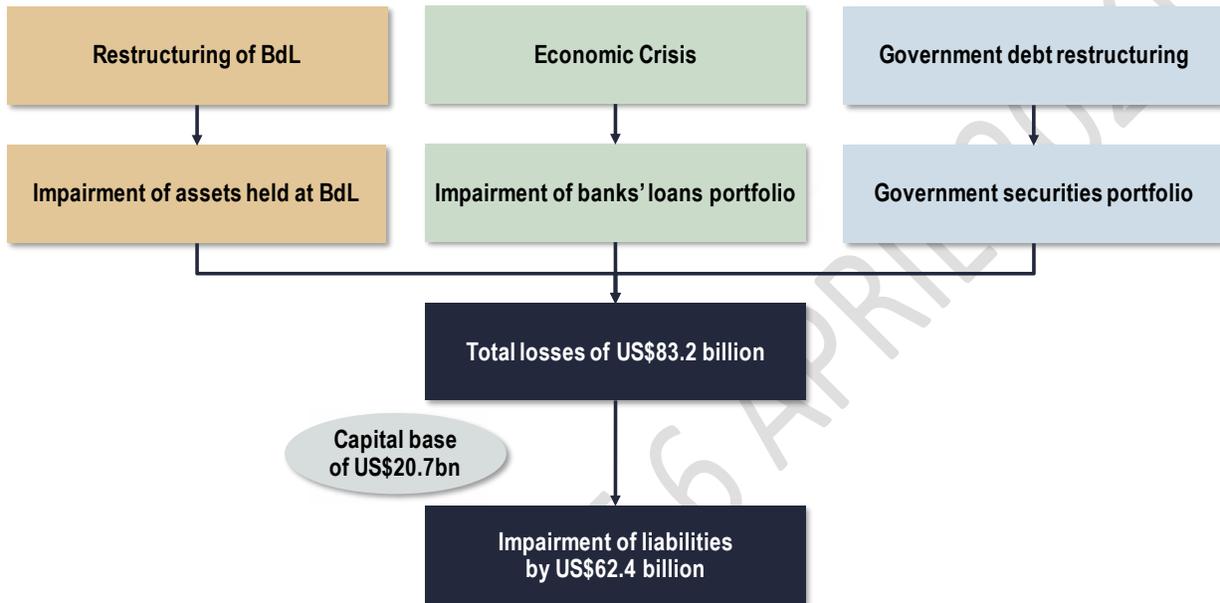
### c. Banking Sector Restructuring

**In addition to indirect losses incurred as a result of BdL restructuring exercise, the domestic banking system will also incur direct losses in the context of the crisis and of the public debt restructuring.** An Asset Quality Review (AQR) will be conducted by an internationally recognized

<sup>4</sup> 15% of GDP for central bank losses carried forward is a metric that has been accepted by IMF in the case of the program currently implemented by Barbados

<sup>5</sup> This estimation does not take into account expected losses for potential devaluation or recapitalization needs

institution to evaluate expected private loans portfolio impairment. In addition, the Authorities will evaluate the total impact of the restructuring of the public debt on the holdings of Eurobonds and T-bills in the banks. Based on illustrative parameters of government debt restructuring and the impairment by 30% of banks' portfolio<sup>6</sup> of claims on residents, total direct losses are expected to amount to more than the banks' current capital base.



Note: Excludes losses from devaluation or required recapitalization of the banks

Note: Figures as of 28 February 2020  
Sources: Lebanese Authorities, Banque du Liban

**The authorities will elaborate a comprehensive strategy for the restructuring of banks' balance sheets. The full valuation of (direct and indirect) losses incurred by the Lebanese banks in their portfolios of assets could reach a total US\$62.4 billion as per preliminary estimates** covering both USD and LBP assets. First, the plan will implement a full bail-in of existing shareholders (i.e. a US\$20.8 billion capital write-off). Second, the balance of losses (i.e. US\$62.4 billion) will be covered by a transitory exceptional contribution from large depositors. The exact parameters of the contribution will be defined with the assistance of external advisors and in the context of a broad and good-faith dialog with the commercial banks. As stated by the Prime minister, the plan will make sure the assets of 90% of the depositors are preserved. Third, the plan will address potential additional losses generated by the FX devaluation and remaining FX mismatch risks.

**Conducting a full restructuring of the banking sector will require new legal powers for the government and the relevant supervisory bodies.** The Authorities, with the assistance of relevant international institutions, will identify and adopt any changes needed in the legal framework to make sure the government and/or relevant supervisory bodies will be in a position to implement any action required

<sup>6</sup> The necessary impairment of commercial banks' portfolio will be assessed after a proper AQR has been performed and may be higher than 30% considering the impact of the recession

to restore financial stability, including the bail-in of existing shareholders as well as a fair, targeted and proportionate contribution of large depositors.

**The full recapitalization of the banking sector will only be possible after a well-devised consolidation aiming at restoring its solvency and viability, reinforcing its resilience and regain public confidence.** One of the key elements of structural reforms is to achieve a smaller, more robust banking sector that serves better the needs of the Lebanese economy. The authorities will rely on the full range of options used by other governments in similar banking crises. In this context, the banking system restructuring strategy will probably involve voluntary or forced mergers of banks. Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring / recapitalization plans including mergers with or acquisitions by other domestic or foreign banks to address their structural funding issues and generate synergies. The government and supervisors will take action if necessary and based on their legal powers to force mergers. They will welcome new foreign players in the domestic banking sector to promote competition and transparency. The new capital base will be rebuilt via (if possible) capital raising in the market or a conversion of remaining deposits into shares.

**Fresh liquidity will be provided to the reorganized banking sector.** BdL will develop the necessary instrument to ensure that liquidity flows in LBP meet adequate levels to support credit distribution in the restructured banking sector. A de-dollarization strategy will be devised by the Ministry of Finance and BdL to reduce the share of credit distribution in FX. Interbank lending will be resumed to cover liquidity needs in FX.

#### d. Other Issues

**The government will establish a special fund to compensate depositors' losses that result from the restructuring. This special fund will receive the proceeds of the ill-gotten assets tracking and recovery program that will be put in place by the relevant authorities with the help of our international partners.**

#### **How to compensate depositors?**

**A first option offered to depositors would be to convert their deposits into their bank's capital** as per the "bail-in" of the banks, following precedents implemented in other jurisdictions.

**Another option would be, instead of an outright loss on deposits, the transfer of private sector deposits targeted for bail-in to a dedicated deposit recovery fund.** The deposits which would be transferred to the fund would be selected based on a framework to be established by the Authorities: small deposits would remain in banks, large deposits could provide a contribution on the basis of their high interest revenue, with an option for medium deposits and a portion of large deposits to be transferred to the recovery fund. This will automatically size down the commercial banks' balance sheets. The selected depositors would be offered by the fund potential long-term recovery, making them entitled to receive revenues over time, up to a limit to be determined. The revenue streams of the fund would come from funds collected through the anti-corruption strategy (stolen funds in particular) and potential other future proceeds from state assets.

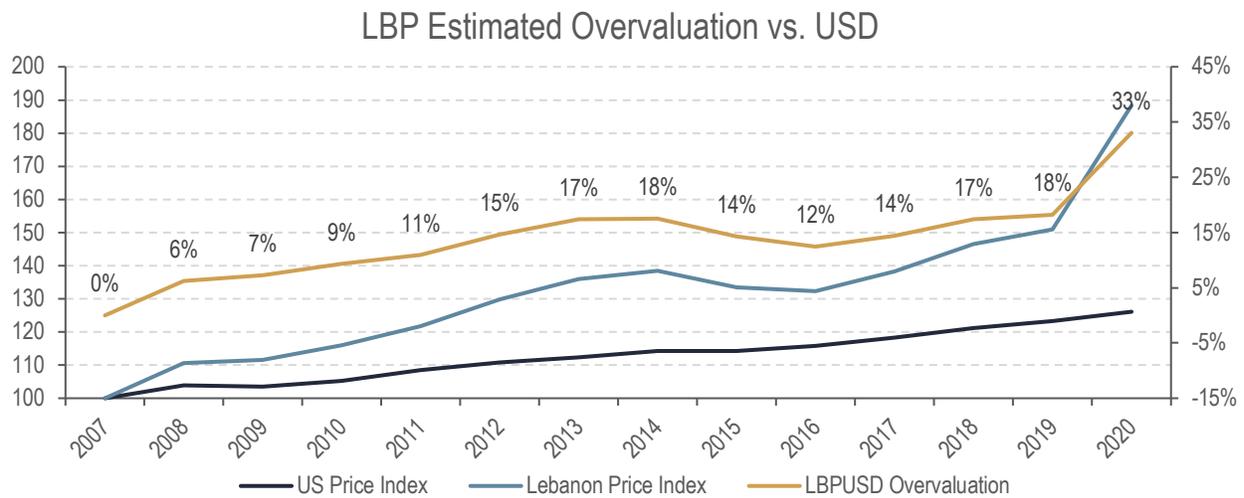
**The government also plans to address the long-standing issue of underdeveloped capital markets and asset management activities outside the banks** as part of a broader strategy to modernize the non-bank financial sector, position Lebanon as a financial hub in the region and stimulate investment and growth. Apart from its growth-enhancing effects, capital markets development would help diversify risk and increase financial resilience in the face of shocks. The role of the stock market is also instrumental in the coming period, as it will help attract long-term financing and provide the private sector with working capital.

**The government and the Central Bank of Lebanon (BdL) will continue to take all necessary steps to safeguard financial stability in the short-term.** Capital controls will be formalized and maintained as long as necessary to safeguard financial stability. The government and BdL stand ready to intervene in support of any individual financial institution faced with urgent liquidity or solvency issues, using the instruments already available such as emergency liquidity assistance and forced emergency intervention.

**Finally, the authorities will conduct, with the technical assistance of relevant international institutions, a review of the regulatory and supervisory framework in the financial sector,** including legal provisions in relation to the prerogatives of BdL and the Banking Control Commission. Full independence of the central bank and supervisory authorities will be preserved in the conduct of their policy. At the same time, the government will make sure appropriate oversight and accountability are applied to regulatory bodies in line with best-in-class international practices and in the view of promoting transparent and responsible behaviors in the financial sector.

#### 4. EXCHANGE RATE AND MONETARY POLICY

**The current sudden-stop in inflows that used to finance large current account deficits in the past now exerts heavy pressure on BdL FX reserves and triggered a continuous depreciation of the pound in the parallel FX market.** The peg to the U.S. dollar that has been maintained over decades is now impossible to restore and must be abandoned as part of the Government reform program. This is all the more necessary because the peg resulted in the building-up of a large real overvaluation of the Lebanese pound that participated in the crowding-out of the industrial sector's development. For years, the lack of competitiveness of the Lebanese companies has prevented the emergence of a productive and diversified economic base in Lebanon and encouraged the consumption of imported goods through artificially inflated purchasing power.



Sources: Lebanese Authorities, IMF World Economic Outlook (October 2019)

**The existing dual exchange rate is not suited for the long-term recovery of the Lebanese economy, because of its distortionary nature and the limited availability of FX resources in the parallel market.** The widening gap between the official and parallel rates – currently around 40% - is a source of social inequalities and could lead to the emergence of economic rents for accessing the dollar at the official rate, thus prolonging an already inefficient system. Besides, the *de facto* capital controls imposed by the banks are exacerbating the scarcity of FX, thus preventing the emergence of a functioning parallel market and are driving parallel rates to record highs. The parallel market doesn't allow for the development of a balance between FX demand & supply and would put a severe drag on the recovery. It is not suited to provide the sufficient FX resources the economy needs over time to rebound and grow again.

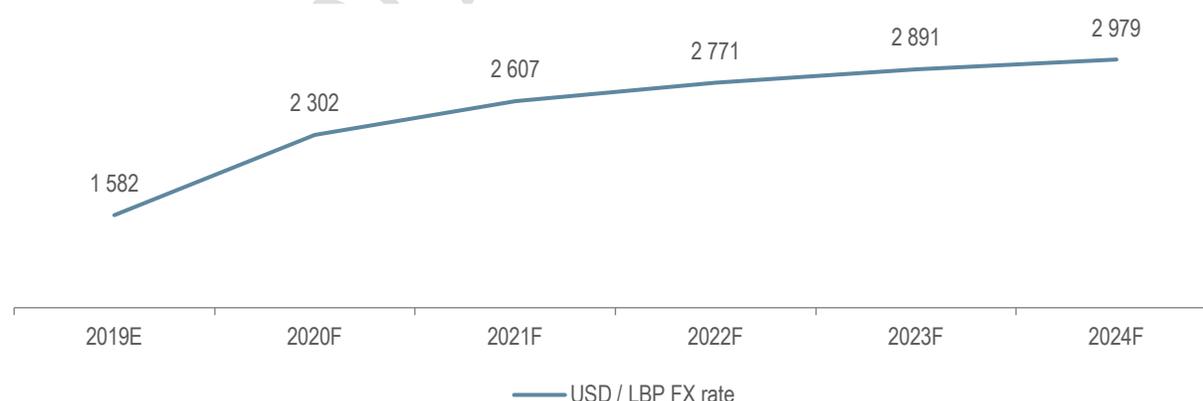
**The unification of the two rates and the formal devaluation of the official exchange rate require the prior stabilization of the economy and the restructuring of the banking sector.** Absent a comprehensive and credible plan to stabilize the economy, the new official exchange rate would be subject to immediate downward pressures and the risk of an overshooting with damaging impact on the overall economy and the most vulnerable part of the population in particular. The unification of the two rates and the associated risks of overshooting in the absence of reforms would also have a large impact on

balance sheets in the financial sector. The comprehensive restructuring of the banking sector is therefore required before any formal devaluation in order to remove FX mismatch from balance sheets. In the meantime, the existing dual exchange rate will be tolerated and BdL will keep servicing at official rate priority imports (fuel, wheat, medicine and medical equipment) as well as the government's remaining financial obligations in FX. This situation is not expected to last beyond mid-2021.

**Devaluation of the official FX rate will enhance transparency and improve liquidity in the forex market.** It will send a strong signal that the rebalancing of the economy has been achieved. A depreciated real effective exchange rate will support the reconstitution of the international reserves up to adequate levels. Combined with structural reforms, it will improve competitiveness, which is essential for boosting production and exports. It will encourage the development of promising sectors, such as IT, manufacturing, agriculture, in addition to Lebanon's traditional sectors such as finance, tourism, and construction.

**The size of the official devaluation will be determined to close the real exchange rate gap.** Existing studies suggest, depending on the methodology used, a real over-valuation of the Lebanese pound of 30% to 60%. The latter estimate has been calculated as necessary to close the gap of the balance of payments. Given that we expect the external debt restructuring to contribute almost half of the external financing gap, we estimate that an upfront adjustment of c. 30% of the exchange rate would allow the smooth realignment of the FX rate without being too damaging for the Lebanese people, in particular in terms of inflation. We anticipate that, over the projection period, inflation differential will drive the nominal depreciation of the official exchange rate to 50% to 60% at the 2024 horizon.

**Going forward, the government intends to move to a more flexible exchange rate.** Transitioning to a fully floating exchange rate is not desirable as long as the economy has not fully transited to a new stable equilibrium. However, FX exchange rate will be set in a way to prevent renewed real appreciation and preserve competitiveness (e.g. managed float or crawling peg). BdL will implement an exchange rate policy that will ensure that adjustable FX rate will reflect inflation differential with major currencies.



Source: Lebanese Authorities

**Monetary policy will seek to control and gradually reduce inflation to lower single digits over the medium term.** This will support real incomes and enhance external competitiveness. We expect average inflation to increase to 25% in 2020 due to the pass-through effects of the large parallel exchange rate depreciation. Going forward, BdL will progressively phase out monetary financing to purchase T-Bills as

the recovery takes place and foreign assistance offers fresh resources to cover the remaining funding needs of the government. Once the economy has stabilized, a new monetary policy framework will be set-up by BdL to focus on monetary base targeting using indirect money market policy instruments. Reserve money will reflect BdL projections of market liquidity consistent with the chosen inflation path. Collaboration between the Ministry of Finance and BdL through the Higher Debt Committee will be strengthened to incorporate public sector flows in the monetary program and develop capacity for analyzing and forecasting high frequency patterns for fiscal revenues, expenditures, and financing needs.

VERSION AS OF 6 APRIL 2020

## 5. BUSINESS ENVIRONMENT AND OTHER STRUCTURAL REFORMS

**As part of its development strategy, the Government will implement a comprehensive program of structural reforms.** The objective is to unlock Lebanon's growth potential, tackle long-lasting impediments to growth (corruption, inefficiencies), increase exports, develop a diversified production base as well as create adequate and well-paid jobs to reduce unemployment and attract talented Lebanese back to the country. It is the government's ambition to significantly improve Lebanon's rating in Doing Business and Global Competitiveness, where Lebanon's rank has declined in recent years (122 out of 190 in 2016, 143 in 2020).

**The reform measures we are implementing aim at creating a competitive business environment,** attracting investment and increasing productivity to provide fertile ground for private sector activity. Parliament will approve the backlog of laws and regulations prepared in the context of the 2018 CEDRE Conference:

- (i) Public procurement law to modernize Lebanon's outdated procurement law and strengthen the procurement administration (to be studied by a dedicated subcommittee at parliament)
- (ii) Competition law (currently elaborated by Ministry of Economy and Trade)
- (iii) Abolishment of exclusive agencies (currently elaborated by Ministry of Economy and Trade)
- (iv) Labor law (Ministry of Labor)
- (v) Implementing decrees for the e-transaction law adopted by parliament in October 2018 (to be finalized before June 2020)
- (vi) Laws related to 1) facilitation of secured lending, 2) institutionalization of judiciary mediation, 3) revision of the insolvency law, 4) establishment of a legal framework for insolvency practitioners (currently at Parliament)
- (vii) Implementation decrees for the law on judicial intermediation (to be adopted by Cabinet)
- (viii) Customs strategy and law including e-single window and on-line access to value at origin (end 2020)
- (ix) PPP regulations (Q1 2021)
- (x) Law for independence of Judiciary Body (at Parliament)
- (xi) Solid waste framework law and appropriate solutions away from expensive sea fill solutions (Q1 2021)
- (xii) Appointment of the Electricity Regulatory Authority
- (xiii) Conduct a credible 2021 budget exercise within the legal deadlines, with a multi-year approach (end 2020)
- (xiv) Water code law (at Parliament)
- (xv) Air quality Law (awaiting implementation decrees)
- (xvi) Integrated solid waste management law (awaiting implementation decrees)
- (xvii) Code of commerce (awaiting implementation decrees)

**With regard to combating corruption, the government will take credible and visible immediate measures to fight corrupt practices, recoup stolen assets and strengthen the anti-corruption legal infrastructure.** Corruption affects citizens and businesses alike, generates large losses for the public finances and tackling this major problem that Lebanon faces is thus a priority for the Government. The Government will conduct an immediate crackdown on corruption in the public sector and appoint well-renowned international forensic specialists to retrieve the stolen funds. It would indeed be unethical to ask the Lebanese to sacrifice so much without doing the utmost to recover their rights. Cracking down on

corruption has multiple wide-ranging benefits. First, we will clean the government body from individuals who have been engaged in embezzlement of public funds or other forms of corruption. This will reduce our over-sized and inefficient public sector, while promoting honest hard-working public employees. This in its turn should increase productivity and facilitate any reforms that will be set in motion at a later stage. Second, it sends a strong message that there is accountability which will act as a deterrent for any potential corruption in the future and increase the credibility of the current administration. Third and most importantly, the government will be seen as working towards the same goals of fairness, transparency, and equality, which matter to the people. And finally, it will contribute in quickly funding the deposit recovery mechanism mentioned here above. Overall, this approach is a win-win situation, leading to a positive economic outcome but also satisfying the primary—and very legitimate—demands of the population.

**The government will promote inter-ministerial work to secure efficiency and cost control.** It will also improve its public investment management framework in accordance with international best practices. The government will quickly put in place a follow-up mechanism for CEDRE that will secure the most effective control on the use of funds, the highest levels of transparency, and the rationalization of the implementation of projects.

**Parliament is expected to adopt a legislation for the establishment of a National Anti-Corruption Commission.** A national anti-corruption strategy has been completed that outlines four main strategic objectives: 1) enshrining transparency; 2) activating accountability; 3) limiting discretion in public administration; and 4) ending impunity; and actions required for their achievement. A plan for its implementation has been devised with assistance from UNDP and the national strategy and implementation plan will be submitted to the Cabinet soon.

**The Ministry of Finance has prepared the modernization of the land administration system,** to be implemented with the support of the World Bank. The project represents the first phase of a 10-year Land Administration Modernization Program. The project's development objective is to improve access to land use and value data, property rights data, and geospatial information through the Land Registry and Cadastre system modernization. On top of that, immediate and effective measures will be taken to tackle corruption through the standardization of procedures and a broad investigation with regards to previous operations.

**The Ministry of Finance has laid out a comprehensive strategy for Customs reforms.** The strategy is focused on: (i) simplifying procedures; (ii) updating the existing ASYCUDA-based system to support e-payments; (iii) enhancing electronic data entry and developing an electronic registration module, including an e-single window focusing on coordination among all of government's border agencies; (iv) strengthening risk management; and (v) introducing a full-fledged Authorized Economic Operator (AEO) program, which will enable proven low-risk traders to avoid overly-burdensome inspection procedures.

**Digital transformation of the Government.** A comprehensive strategy for government digital transformation has been developed. The strategy has been reviewed by the World Bank. OMSAR has developed a program for the implementation of the strategy, to be adopted by Cabinet soon.

**Sectoral Reforms.** The government is committed to undertake the required sectoral reforms that are needed to advance the sectors, making them more efficient and sustainable, in line with the basic framework of recommendations suggested by the World Bank. The reform initiatives currently underway, and those planned for short to medium term are presented below.

**The judiciary system's governance** will be modernized, in particular through amending the law to ensure that judges are elected by judges to key positions, and that a firewall is installed between judges and political and administrative positions. The required texts will be amended to allow any high-level politician involved in the misuse of public funds to be prosecuted and indicted by the relevant control bodies and courts. Only political accusations will be judged by the parliamentary court for presidents and ministers. The draft law is currently at Parliament.

**Oil and gas.** A sovereign wealth fund will be established to manage the oil and gas assets. It will be geared toward protecting the rights of future generations. Assets will be invested outside Lebanon and proceeds will be partly used as government revenue, thus keeping Lebanon away from Dutch disease symptoms. The fund will act as a stabilization body during its first five years.

**Electricity.** Electricity tariffs will be adjusted with a view to reducing EdL's losses. One of the fundamental reforms that remains to be implemented in the electricity sector is establishing the regulatory authority to regulate the sector, as per article 7 of Law no. 462/2002 entitled "Regulation of the Electricity Sector". The aforementioned law has been updated. Another key reform is the corporatization of Electricité du Liban so that it becomes a well-established company with an assigned Board. The Board must overview EdL's functions based on commercial foundations and create the necessary framework for activities related to generation, transmission and distribution. In addition to that, the status of the contracted employees within EdL will be settled in order to secure EdL's operation and sustainability. The transportation infrastructure will be restructured for the optimal transportation of gas and fuel to the power plants. In addition to that, the transmission network infrastructure will be improved to secure the vital requirements for the efficient and successful operation of the distribution service providers.

**Solid waste.** Responsibility for solid waste management will be decentralized to municipalities. A Framework Law setting forth the mechanism for developing solid waste strategies and plans will be adopted by Parliament. The proposed law 1) establishes an integrated management of solid waste while taking into consideration scientific advancements in this field, 2) adopts "waste-to-energy" principles, and 3) identifies the role of municipalities within the framework of administrative decentralization of waste management.

**Water.** A national strategy for the water sector was approved by the Cabinet in 2012. The strategy aims to 1) maximize potential of surface water resources and improve management and protection of ground water resources, 2) ensure proper and continuous access to high quality water supply through increased network coverage, 3) provide adequate quantities and quality of irrigation water, 4) increased coverage of waste water collection networks and treatment capacities, 5) introduce and implement a new tariffs strategy, and 6) enhance the legal set up to support the implementation of the national water sector strategy. The Ministry of Energy and Water plans to revise and update the strategy, to identify achievements to date as well as prepare a work plan for the remaining measures and projects that are yet to be implemented in line with the strategy approved by Cabinet in 2012. The Water Code Law, which is to cement the process of international agreements in the field of water and promote an integrated water resource management and provides for delegation of management to the private sector, is currently in Parliament. More specifically, the law 1) confines authority over this sector to a single entity entrusted with the integrated management of the sector, including waste water and irrigation, 2) regulates management and usage of wells, 3) identifies a system to regulate, rationalize, develop and exploit water resources, 4) increases the efficiency of the systems for transport, distribution and operation of water facilities, in order to ensure sustainable management of water resources, and 5) adopts a "polluter pays" principle.

**Telecommunication.** The Government intends to develop and adopt a telecom policy aimed at liberalizing the sector and opening it further to private sector investment and utilization. This entails a revision of the telecom law (Law 431). The Government also intends to appoint the telecom regulatory authority, and appoint the board of Liban Telecom, therefore leading to its corporatization. The investment program of OGERO, the state-owned telecommunications operator of the fixed line, includes projects to upgrade the fixed-line network (built in the 1990s as part of the Government's post-war recovery program) and deploy a nationwide fibre-optics based broadband network. The investment program of the 2 mobile companies (Alpha and Touch), both state-owned but privately operated, includes projects aimed at finalizing a nationwide deployment of 3G and 4.5G network with high coverage and quality of service. A significant part of the investments in the sector is financed from revenue generated by the sector.

**Development of a Strategy for the Diversification of Lebanon's Productive Sectors and Realization of Lebanon's Export Potential.** The Government will diagnose the cross-cutting and specific constraints to an expansion and diversification of Lebanon's productive and services sectors, and identify potential sectors taking into account experiences in other countries.

**Capital market reforms.** The Capital Market Authority is currently implementing a market development plan with support from the World Bank. It aims at: (i) transforming the Beirut Stock Exchange into a joint stock company, as a first step prior to privatization (a Government decree was issued for this purpose in August 2017); (ii) launching of an electronic trading platform, which would also include SMEs and start-ups, and provide for access to trading by the Lebanese Diaspora.

## Appendix

### **Appendix 1: Discussion on alternative scenario with lower external support**

**A homegrown recovery plan outside of a program supported by the multilateral institutions would fall short of the main objective of giving a fresh start to the Lebanese economy while putting it on a viable long-term trajectory.** The only credible alternative scenario to multilateral intervention is the unconditional support of a bilateral friend, similar to what Egypt unsuccessfully tried to do back in 2014 with Saudi Arabia and the UAE to avoid the currency devaluation the IMF was asking for as a pre-condition to its intervention. It would entail a sizeable bilateral support from a friend to help financing the current account deficit and rebuild reserves for a few years, outside of any comprehensive package to bring long-term remedies to the crisis. The immediate visible costs to the Lebanese people would be smaller, with only a modest fiscal consolidation, the rescheduling of domestic debt without a discount, a protracted default situation on external debt, and the postponement of banking sector restructuring, leaving the burden of past-accumulated losses to the next generations. Under such scenario, the CEDRE funds would not be disbursed, leaving the budget with no investment capacity whatsoever and the economy will undoubtedly be surviving for a few years, with capital controls in place and a distorting parallel FX market, before being faced with the exact same (or even worse) situation as today, a few years down the road.

**Under such scenario also, privatizing public assets or using public sector companies as a resource to cover the massive losses accumulated in the financial sector would fall very short of the needed amounts.** In a context where the economy would not have credible chances of recovery and where the government would obtain no support from abroad for the implementation of reforms, the authorities would not be able to attract foreign investors and to restructure public entities to restore profitability. In addition, the size of the losses accumulated over time in the financial sector represent multiple times GDP and Lebanon possesses too few public assets to monetize.

**By failing to tackle the core imbalances of the Lebanese economy, the scenario of no or very limited external support would considerably increase the risks of a complete collapse.** Trying to escape from a full-fledged IMF program usually does not bode well for the future of a country. The import contraction that would be necessary in the absence or quasi-absence of external financial commitments would not only lead to an even more severe economic contraction and the rise of poverty, but could also trigger a spiraling recession with the inevitable shortage of basic goods and the explosion of the parallel FX rate as Venezuela has been experiencing for some time now. Continued high level of monetary financing from BdL would inevitably lead to the acceleration of inflation and the total loss of confidence in the Lebanese pound. Depositors and investors in local currency would lose the value of their holdings over time, while foreign currency depositors would have no chance to recover any assets.

**Although it comes at a cost, the scenario that is described in the rest of the document offers far better perspectives to restart the Lebanese economy.** It entails immediate and sizeable support from the international community in various forms. The objective of the government will be to secure exceptional external funding and its rapid disbursement to immediately stop the bleeding of the economy and allocate fiscal space to alleviate the effect of the recession in the form of a social safety net package. The government will also ensure that all commitments made at the CEDRE conference are included in its program, to ensure the disbursement of the committed funds over time to invest in the infrastructure of the country.

**Appendix 2: Detailed annex on fiscal consolidation measures****Expenditure reduction measures**

- Electricity sector reform: The sector reform (as per the voted plan) was supposed to be implemented starting 2020 with a cap on transfers of LL 1,500 billion in 2020, gradually eliminated through 2023. Amid deadlocks, the direct effect of the plan on transfers to EDL is postponed to 2021.
- Measures targeted at the wage bill reduction: The reforms include a freeze of the number of military personnel and a reduction of contractuels by 5% per annum over 5 years, alongside a nominal freeze of salaries, a freeze of the new hiring of public employees and promotions conditioned to empty positions in the military. Moreover, the package of benefits for high ranking military will be revised.
- Pension reform: One of the key measures is the revision and proper implementation of measure number 3 related to military retirement alongside the abolishment of the early retirement scheme. The effect of this current measure is widely seen on the level of End of Service indemnities as well as Retirement. Military personnel was incentivized to go for early retirement which induces less Salaries - when the freeze in recruitment is applicable - and more End of Service and Retirement. Due to the revision, we assume that the military personnel will be more incentivized to remain in service rather than go for retirement. Therefore, the impact would be an increase in salaries, and huge decrease in End of Service indemnities, and lower one in Retirement. Moreover, a revision of the reversionary pension rules to widows and children, and of the rules for transfer of familial allowances after death will be conducted. This measure will also have a very important positive redistribution effect, as only a few high-ranking officers benefit from most of the money distributed.
- Reduction of transfers to other SOEs and public bodies: The rationalization will have an impact on both salaries & wages and operational costs of the SOEs. Regarding NSSF, the current reimbursement schedule of accumulated arrears and prohibitive interest rate will be renegotiated.
- Reduction in domestically financed capital spending: Part of the domestically financed capital financed will be replaced by foreign financed one coupled with PPP projects and BOT projects.
- Other expenditure reduction measures: These measures include:
  - Reduction of school allowances and unification of allowances for all public sector employees;
  - Rationalizing of other current expenditure to limit waste include the following items: Salaries & wages (Bonus & Overtime), Materials and Supplies to all administrations

- except military (taken into account in the above mentioned measure), External services and other current expenditures;
- Reforming the public expenditure management with the establishment of a central treasury management system CTMS.
- 
- Social Safety net coupling the expenditure reduction measures to protect the most vulnerable groups amounting to LL 1.055 billion: It could be taken up by donors including the World Bank.

### **Revenue-Enhancing measures**

- Improving customs collection: Despite the increase in the tax rate on imports, customs collections did not follow as expected mainly due to the increase in the illegal transfers of goods through the borders with Syria, but also massive losses at ports and airport. A tighter control of all borders and closure of illegal crossings with the introduction of scanners – together with online information from countries where goods originated from - will help increase the collections of custom fees.
- Improvement of VAT collection: A higher control of the imported goods and an amelioration of customs collections will result in an increase in the VAT outcomes mainly the VAT collected at customs and applied to the imported goods.
- Normalization of tax compliance levels: On top of long standing but steadily improving weaknesses, tax compliance levels have been highly affected by the recent developments occurring mainly at the financial level, leading taxpayers to withhold tax dues given the new liquidity constraints. The widening scope of e-payments to cover all taxes in addition to an increasing access to the available bank deposits will help taxpayers better align with their historical behavior. Also, the enhancement of the historical compliance level is subject to the adoption of the currently proposed compliance law.
- Removal of profits and capital gains tax exemptions for holding and offshore companies: The current preferential treatment for holding and offshore companies has led to an increasing level of tax evasion for corporates. An equal tax treatment for all types of companies will help increase income tax collections by ensuring a fair and equal treatment for all taxpayers.
- Removal of certain VAT exemptions: Mainly related to activities benefiting from VAT refunds. Removing these exemptions will help reduce the unfair competition with the private sector subject to tax and therefore ensure equal opportunities for all stakeholders.
- Strengthening of the tax revenue administration: An increase in the tax administration prerogatives in addition of merging of different departments in order to cover both incomes taxes and VAT will help lowering the administrative costs as well as raising higher revenues and significantly reducing the work time.

- Increase in corporate tax rate (gradually from 17% to 20%): This increase in the tax rate will ensure higher revenues over the medium term as well as a better alignment with the international average tax rate.
- Increase from 10% to 20% of the tax on interest income on deposits above certain thresholds: In addition to the benefit of higher revenue collections, this measure will help depositors search for better investment alternatives for their savings, potentially increasing the activity on the stock market.
- Increase of income tax for high salaries (from 25% to 30%): the increase of the tax rate for the highest salary tranche is supposed to provide additional revenues without affecting the middle class disposable income.
- Increase of income tax on capital gains from 10% to 15%: this increase is introduced to be in line with other tax rates, and not to create an incentive for tax evasion.
- Increase of VAT on luxury goods from 11% to 15%: luxury goods are assumed to account for about 10% in terms of value, and therefore this share will be affected by the rate increase.
- Set a 25,000 LL floor price on gasoline: the increasing drop in international fuel prices has provided a beneficial margin to the treasury in case of application of a minimum price for gasoline, potentially generating much needed revenues without the need to increase the tax given the high social sensitivity related to this item. A floor has been already introduced at 24,000 LL.
- Introduction of 1000 LL excise on gas oil: the drop in the international fuel prices is a favorable factor to introduce this excise without triggering a social discontent.
- Introduction (or enforcement) of licensing fees on quarries and crushers and a special rate for income on those taxpayers: this measure is supposed to compensate for the considerable negative environmental externality related to these types of activities.
- Transfer of traffic penalties to the treasury: currently the collected traffic penalties are distributed among several judicial and military bodies with a minor share going to the treasury. A better allocation of these revenues in order to increase the budget revenues is crucial. This will also be in line with the principle that forbids pre-allocation of public money.
- Vehicle inspection fees: an increase in the current inspections fees is supposed to generate additional revenues and potentially contribute to reduce car renewals, therefore negative balance of payments effects of car imports.
- Port of Beirut: these additional revenues cover several measures related to the regular transfer of revenues from the Port of Beirut to the treasury, in addition to a better control of this vital public utility.
- Enforcing fines on illegally built Maritime and Wild and River properties: illegal usage of public properties is generating high negative externalities that should be compensated by high fines covering the resulting public damage.
- Recovery of stolen assets. Exact valuation will depend on prosecution and other initiatives taken by the government.

**Appendix 3: Detailed impact of the fiscal consolidation measures**

<b>Table 6: Fiscal Measures (as a % of GDP)</b>						
	<b>Estimate</b>	<b>Projections</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Expenditure reduction measures</b>						
Total primary expenditure (without measures, excl. CEDRE)	22.4%	21.5%	21.6%	21.5%	21.1%	20.4%
Electricity sector reform	-	0.0%	1.0%	1.5%	2.1%	2.5%
Measures targeted at the wage bill reduction	0.0%	0.1%	0.2%	0.4%	0.6%	0.7%
Freezing of military headcount, promotions conditional to empty positions	-	0.0%	0.0%	0.0%	0.1%	0.1%
Reduction of the number of contractuels (5% p.a. over 5 years)	-	0.0%	0.0%	0.0%	0.1%	0.1%
Freezing on the new hiring of public employees	-	0.0%	0.0%	0.1%	0.3%	0.4%
Salaries, wages and other benefits	-	0.0%	0.0%	0.0%	0.1%	0.1%
Revision of the package of benefits for high-ranking military	-	0.1%	0.1%	0.1%	0.1%	0.1%
Pension reform	0.0%	0.2%	0.4%	0.5%	0.5%	0.5%
Revision and proper implementation of measure number 3 on military retirement	-	0.2%	0.4%	0.4%	0.4%	0.4%
Abolishment of the early retirement scheme	-	0.0%	0.0%	0.1%	0.1%	0.1%
Revision of the reversionary pension rules to widows and children	-	0.0%	0.0%	0.0%	0.0%	0.0%
Revision of the rules for transfer of familial allowances after death	-	0.0%	0.0%	0.0%	0.0%	0.0%
Reduction of transfers to other SOEs and Public bodies	0.0%	0.0%	0.3%	0.3%	0.3%	0.4%
Rationalization and reform of Lebanon's public entities	-	0.0%	0.1%	0.2%	0.2%	0.3%
Re-negotiation with NSSF of the arrears clearance schedule and interest charge	-	0.0%	0.1%	0.1%	0.1%	0.1%
Reduction in domestically financed capital spending	-	0.2%	0.2%	0.2%	0.2%	0.2%
Other expenditure reduction measures	0.0%	0.0%	0.2%	0.2%	0.2%	0.2%
Reduction of school allowances	-	0.0%	0.0%	0.0%	0.0%	0.0%
Unification of allowances for all public sector employees	-	0.0%	0.1%	0.1%	0.1%	0.1%
Rationalizing of other current expenditures to limit waste	-	0.0%	0.0%	0.0%	0.0%	0.0%
Introduction of safety nets	-	(0.7%)	(1.3%)	(1.3%)	(1.2%)	(1.2%)
Total primary expenditure (with measures, excl. CEDRE)	22.4%	21.6%	20.8%	19.8%	18.5%	17.1%

	Estimate	Projections				
	2019	2020	2021	2022	2023	2024
<b>Revenue-enhancing measures</b>						
Total revenue ( without measures)	21.5%	16.9%	16.3%	16.5%	16.3%	16.3%
Broadening the tax base	0.0%	0.3%	0.9%	1.1%	1.3%	1.4%
Improving customs collection	-	0.1%	0.3%	0.3%	0.3%	0.4%
Improvement in the collection of VAT	-	0.0%	0.1%	0.1%	0.1%	0.1%
Removal of profits and capital gains tax exemptions for holdings and offshore companies	-	0.0%	0.3%	0.3%	0.3%	0.3%
Removal of certain VAT exemptions	-	0.1%	0.1%	0.1%	0.1%	0.1%
Strengthening tax revenue administration	-	0.1%	0.3%	0.4%	0.5%	0.5%
Increasing tax	0.0%	0.2%	0.9%	1.7%	2.1%	2.2%
Increase in corporate tax rate	-	0.0%	0.0%	0.0%	0.1%	0.1%
Increase from 10% to 20% of the tax on interest income on deposits above US\$1 million	-	0.0%	0.4%	0.8%	0.8%	0.8%
Increase of income tax for high salaries (from 25% to 30%)	-	0.0%	0.0%	0.0%	0.0%	0.0%
Increase of income tax on capital gains from 10% to 15%	-	0.0%	0.0%	0.3%	0.7%	0.7%
Increase of VAT on luxury goods from 11% to 15%	-	0.1%	0.2%	0.2%	0.2%	0.2%
Set a 25,000 LL floor price on gasoline	-	0.1%	0.2%	0.2%	0.2%	0.2%
Introduction of 1000 LL excise on gas oil	-	0.1%	0.2%	0.2%	0.2%	0.2%
Other revenue increasing measures	0.0%	0.2%	0.4%	0.5%	0.5%	0.5%
Introduction (or enforcement) of licensing fees on quarries and crushers	-	0.1%	0.2%	0.2%	0.2%	0.2%
Transfer of traffic penalties to the treasury	-	0.0%	0.0%	0.0%	0.0%	0.0%
Vehicle inspection fees	-	0.0%	0.0%	0.0%	0.0%	0.0%
Port Of Beirut	-	0.0%	0.1%	0.1%	0.1%	0.1%
Enforcing fines on illegally built maritime and wild and river properties	-	0.0%	0.1%	0.2%	0.2%	0.2%
Total revenue (with measures)	21.5%	17.7%	18.7%	19.9%	20.3%	20.5%

Source: Lebanese Authorities