THE PM SETS LEBANON A NEW BUDGET
BY KAREEM MANSOUR

BEIRUT: Lebanon’s Prime Minister Saad Al-Hariri announced new 2018 state budget since a decade of no government budgets. In an expedited session ahead of the Paris IV aid conference, Al-Harir has referred it to Parliament for ratification.

LEBANON’S ECONOMIC STATE

Lebanon has one of the world’s most indebted governments measured accordingly to its economy size. Economic growth has been slowed down due to the seven year Syria war as well as the years of political conflicts, hence impacting economic factors Lebanon. Even though rGDP Annual Growth Rate in Lebanon averaged 4.40% from 1971 until 2016, the current rGDP growth rate stands at only 2%. At the moment Lebanon has one of the highest debt-to-rGDP ratios in the world at about 150% and its government is desperately trying to restructure its economy towards its target rGDP growth rate of 6-7% higher than its current rGDP.
Unfortunately, the political and socioeconomic status of Lebanon and the influx of Syrian refugees has contributed to a high level of unemployment. The current unemployment rate is at 6.70% in 2017, following an increase in 2016 from 6.50%. It has been fluctuating over the years, but had averaged 7.51% between 1991-2017 and reached its peak of 9% in 2007. The Lebanese economy’s current inflation rate is at a 5.8% as of April 2018. Throughout the years it had experienced drastic changes, reaching its highest of 11.10% in 2012 and lowest of -4.67% in 2015. However it averaged 2.35% between 2008-2018 making the current inflation rate increasingly above average and a cause for concern.

Furthermore, the last recorded GINI index in Lebanon was reported at 50.7 in 2011, according to the Republic of Lebanon Ministry of Finance. This value ranks Lebanon 129 out of 141 countries in terms of its income equality. The 2017 published a report by the Ministry of Finance detailed specifically the high level of income inequality in the country that shows that the top 2% of population accounts for a 17% of the total income of the country, while the bottom 59% only accounts for 22% of the total income share.

Lebanon’s economy is a developing economy, and its markets are best described at the dawn of the new millennium by a private and liberal economic activity and openness to abroad with perfect capital and labor mobility. The private sector contributes to around 75% of aggregate demand, a well-diversified sector that covers the totality of economic sectors and is a major pillar for growth and recovery. Lebanon has a free-market tradition and a strong history of private commercial activity.

Having government revenues and growth low, the country relies on deposits made into local banks by millions of expatriate Lebanese. However, deposits are sensitive to political risk, and economists believe that the government needs to generate higher revenues and boost growth to put the economy on a firmer footing amongst others.

GOVERNMENT POLICIES GEARED TOWARDS GOALS

Lebanon’s Prime Minister Saad Al Hariri is at the forefront of Lebanese economic policy aimed at increasing economic growth and increasing employment in Lebanon. Many of his policies are geared towards increasing long run aggregate supply (LRAS), which have been made, or currently in the process of execution. Lebanon aims to increase LRAS through effectively increasing the utilization of their natural resources, development of capital and infrastructure, and improving the country’s technological advancements.

As of now, Lebanese e-government’s current strategy is currently focused on legalizing technological solutions such as: legalizing electronic information and services, increasing security of electronic services, and protecting of electronic Information. The government is also increasing IT training for government and
civil servants to increase technological competency.

At the same time, telecommunications companies which are owned by the government, plan to modernize national telecoms infrastructure thereby advancing technology in the economy. Specifically, telecommunications Minister Boutros Harb announced the launch of his 2020 Agenda that included a $600 million project that is expected to install 4.5G services and develop 5G services. The project also plans to upgrade the internet infrastructure from copper cables to fiber optics by 2020. In support of these reforms, the former Telecommunications Minister Nicolas Sehnaoui claimed that telecommunication advancements can boost productivity and innovation of all sectors and is an enabler of economic growth. Another way in which the government is addressing the global advancement in technology is through the implementing new regulation of cryptocurrency and increasing access to this new form of currency. The central bank has claimed that increasing access to cryptocurrency has great potential to boost economic growth.

Prime Minister Hariri’s policies have also emphasized focusing on infrastructure which is one of the main determinants that can influence long run aggregate supply. Projects such as expanding the Tripoli port, building a railway between Tripoli and Syria, and bringing the René-Moawad airport back to life have already triggered a substantial increase in the level of employment in Lebanon. The government plans to launch an infrastructure modernization plan worth $16 billion at the upcoming international conference in 2018. More than 250 projects in transportation, water, electricity infrastructure are being proposed. These projects are estimated to lead to an annual real GDP growth rate of 6-7%, which is inline with the government’s target GDP growth rate.

Hariri has said that these government reforms are part of the government efforts to guarantee economic, social and political stability and security.

At the same time, the government is specifically increasing the utilization of their natural resources by developing its oil and gas industry. Prime Minister Saad Hariri’s government has specifically taken measure with the intention of improving the stability of the economy and boosting it. He recently agreed to legislation which that is planned to kick-start the development of its oil and gas Industry.
All of these initiatives will effectively increase LRAS curve as seen on the graph on the right. Therefore, LRAS shifts outwards to LRAS1 which causes an increase in SRAS and AD as well since firms will be able to produce more and overall consumption will increase. In the end this will increase potential GDP from Yf1 to Yf2 while keeping the equilibrium long run price Pe unchanged causing non-inflationary growth.

In regard to firm supply and production, Lebanon's government is focusing on increasing government subsidies, decreasing business taxes as well as decreasing business regulations in order to increase firm investment and increase their production - thereby increasing Short Run Aggregate Supply.

With Lebanon imposing government subsidies, firms cost of production will decrease allowing them the ability to produce more at every price level. Large sums of monetary aid were spent on subsidizing the country's antiquated electricity sector as well as the fossil fuel sector. In addition, the government subsidizes fuel production in the country to stimulate increasing energy supply. This expenditure on fuel was so great, that it amounted to USD 3.1 billion in 2013, a share of 29.5% of total government budget expenditures. The Prime Minister is also concurrently working on new legislation that will will protect rights of business and firms and decrease business regulation in the country.

All of these initiatives will effectively increase SRAS curve as seen on the graph on the right. Therefore, SRAS1 shifts outwards to SRAS2. In the end this will increase real GDP from Y1 to Y2 while decreasing the equilibrium price from P1 to P1 causing deflationary short term growth.
By the same token, Lebanon’s economic policy makers are driven towards ensuring that people who are actively seeking employment are able to find employment and that GDP is growing at an increasing rate. Therefore, many of the government’s policies are specifically directed towards increasing aggregate demand by targeting consumption within the country by increasing tourism and repairing consumer confidence.

Tourism in Lebanon has always been a substantial part of consumption for the country especially in summer. During 2016, tourism’s direct contribution to GDP increased by a yearly 3% reaching 3.3 billion USD towards cultural services, museums and recreational services such as national parks. The government believes that in the longer term, growth of the travel & tourism sector will continue to be strong so long as the investment and development takes place in an open and sustainable manner. Imposing pro-growth travel policies the Lebanese government will not only expect the sector to support over 380 million jobs by 2027, but it will continue to grow its economic contribution, providing the rationale for the further protection of nature, habitats, and biodiversity. Since doing so, the sector has effectively contributed to the reduction of unemployment through a total of 338,600 addition of jobs to the economy.

Lebanon also aims to raise consumer confidence within its society. The growth of consumer confidence in the third quarter of 2017 was driven by the parliament’s ratification of new tax law coupled with a drastic increase in wages and salaries of public sector employees and workers.

After controversy outbreak of PM Saad Al Hariri’s potential resignation many consumers became worried about the economic outlook of Lebanon. However, they announced on November 2017 that Hariri was no longer going to resign. After the media assured that he will remain in his position, consumer confidence boosted up and consumer consumption continued to increase.

All of these initiatives will effectively increase AD curve as seen on the graph below. Therefore, AD1 shifts outwards to AD2. In the end the this will increase real GDP from Y1 to Y2 while increasing the short run equilibrium price from P1 to P2 causing inflationary short term growth.

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Sudoku

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5 8  7
8  4 5  8 1
7 3  9 2
1  8  6
8  6 2  4
7 9  2  8
1 2 3  9
8  1 3
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**Increase in Aggregate Demand in the short run**

![Graph showing increase in aggregate demand](image-url)
American University of Beirut celebrates its 50th anniversary

RECOMMENDED GOVERNMENT POLICIES.

Given that in the long run the economy will always return to the full employment level of output the best way to target economic growth is by focusing on LRAS. Although the Lebanese government already subsidizes the electricity and fossil fuels sector in order to increase aggregate supply, it should instead utilize its revenue on projects geared towards increasing LRAS. Increasing the LRAS of the country will not only increase potential GDP but also simultaneously increase SRAS and AD, and hence lead to more sustainable economic growth.

From the standpoint of economic policy makers, the government should further use their natural resources to lead them to their targeted position regarding LRAS. One of the ways in which it should do so is by upgrading its water resources. The country should also invest in rebuilding and repairing the fields used for crops in the countryside, as that would strengthen and expand agriculture resources. This would also increase the demand for labor as workers will be needed to harvest the newly restored lands and vegetation.

Another strategy Lebanon should implement is aimed towards increasing the skill set of its labor force through advancing educational opportunities in the country. The government should invest in opening new western universities branches in Lebanon that will increase the educational opportunities for the youth, and increase the overall educational potential of the population. Also, education centers should also be established and dedicated to helping unemployed Lebanese learn a new skill set to help them enter the labor force.

The Lebanese government must develop the land’s decaying infrastructure and improve its country’s capital which would be intended to increase the capacity for firms to produce overall. The government should do so by building more malls, highways and roads which would create various job opportunities and increase the country’s capacity for growth. The governments’ work towards renewing the crumbling infrastructure would boost economic growth and make the economy more efficient.

Final recommendations for the Lebanese government in authority would be to drive towards further enhancing the country’s technology, by investing in alternative ways to deliver faster internet which would make businesses and firms’ production more efficient. The government must also invest in research targeted towards finding alternative ways to more efficient electricity that saves energy during production.
All of these initiatives will effectively increase LRAS curve as seen on the graph on the right. Therefore, LRAS shifts outwards to LRAS1 which causes an increase in SRAS and AD as well since firms will be able to produce more and overall consumption will increase. In the end the this will increase potential GDP from Yf1 to Yf2 while keeping the equilibrium long run price Pe unchanged causing non-inflationary growth. Unlike increasing AD or SRAS increasing LRAS results in long run growth which is the most sustainable type of growth for a country.