Thematic Report

Lebanon's 2024 Budget: Austerity and Regressive Taxes

May 2024

Credit: AFP

The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the aid community in Lebanon. The information and analysis contained in this report is therefore strictly to inform humanitarian and development actors and associated policymaking on Lebanon.

This study/report is made possible by the support of the American People through the United States Agency for International Development (USAID) and European Union Humanitarian Aid. The contents of this report are the sole responsibility of the LCAT and do not necessarily reflect the views of USAID, the United States Government, or the European Union.

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Executive Summary

Lebanon's prime minister has hailed the country's 2024 budget as a plan to stabilize and revitalize the country's economy. In practice, however, it is based on austerity measures and regressive taxation. Accounting for inflation, planned expenditures in 2024 total less than 20% of those in 2019, falling from 17 billion US dollars (USD) to USD 3.2 billion. Moreover, the budget was not formulated according to a recovery framework, insufficient public investment threatens to slow reform and recovery efforts, and the renewed tax code heavily burdens low-earners and small businesses. This report examines how the budget is expected to affect individuals and households, with a focus on the most vulnerable. It contains a brief review of revenues and expenditures; compares the current budget with pre-crisis budgets; assesses how it will affect consumers, businesses, and households; and concludes with some takeaways for humanitarian actors.

Credit: Marwan Tahtah

Introduction

Lebanon's 2024 budget was passed in late February with sweeping implications for residents across the country. Ostensibly crafted to meet citizens' needs and revitalize the economy, in practice the budget threatens to widen existing socio-economic gaps and neutralize Lebanon's plans of securing much-needed state financial assistance. In other words, the budget does not set Lebanon on a path to greater fiscal stability. Despite the government's claims that the budget has "stopped the collapse," it contains few provisions to stabilize and revitalize the economy.[1]

Given the above, this report adopts a people-centric approach to assessing the budget. We highlight some of its likely effects at ground level, namely what Lebanese residents – many of whom only a few years earlier were enjoying relative financial security in a "middle-income country" – should expect to pay the state, what they should expect in return, and how these compare[2] to the "pre-crisis" years.

The report is divided into three sections. Following a background section to offer context, Section 1 breaks down the budget's revenue streams, highlighting changes affecting the most vulnerable citizens and their direct impact on livelihoods. Section 2 provides a general overview of government expenditures, focusing on public services and public-sector employment. Section 3 discusses the budget's impact on the formal business sector, which under normal circumstances should be both a pillar of economic recovery and a livelihood source for skilled and educated workers. The report concludes with takeaways for the humanitarian sector, summarizing remaining societal vulnerabilities and how these could be affected by the budget.

[1] Reuters, Lebanon's parliament passes 2024 budget, shunning major reforms January 27, 2024.
[2] From 1997 through October 2019, the LBP-USD exchange rate was approximately 1,500 and the Lebanese Central Bank adopted 89,500 as the official rate in 2024. From 2019 to through late 2023, several official exchange rates were used in Lebanon. Exchange rate calculations for these years are based on the annual average parallel-market exchange rate.

Key Takeaways

- The 2024 budget's revenues and expenditures are significantly smaller in real terms[3] compared to pre-crisis budgets due to the country's contracted economy.

- Long-term investment allocations are insufficient to support sustained economic recovery. Low public-sector wages and budgetary cuts to service ministries threaten to constrict access to public services in the coming year.

- Indirect taxes such as value-added tax (VAT) account for most tax revenues and nearly 60% of overall revenues. Indirect taxes are regressive and place a greater burden on lower-income earners than on those earning more. Direct taxes make up a significantly smaller percentage of overall taxes.

- Higher state fees – collected from residents in return for services – and reduced funding for public services such as healthcare and education will likely add to households' financial burdens.

- The budget creates additional financial burdens for small formal sector businesses, which are at a competitive disadvantage compared to their informal sector counterparts.

- The budget will likely necessitate further aid sector support for vulnerable households and developing businesses. Assistance to address a reduction in public services will also likely be necessary.

[3] Real terms denotes the value of a currency or price on a specific date or within a date range, based on inflation and currency depreciation.

Credit: AFP

Background

Socio-economic context

As it has since 2019, Lebanon's GDP continued to contract in 2023. It now stands at 34% of its 2018 value, erasing over 15 years of economic growth.[4] Over the same period, the value of the Lebanese pound (LBP) against the US dollar (USD) has dropped nearly 98%, despite numerous attempts by the Central Bank to slow this depreciation, mainly by heavily drawing on its foreign reserves. Triple-digit inflation has eroded incomes and caused unemployment to surge. Some 80% of the population now live below the poverty line.[5] The economic downturn also precipitated an expansion of the informal economy. As a result, government revenues from tax collection have dipped, diminishing the state's spending capacity. This decrease in spending has severely affected public service delivery, while the decline in revenue generation has made it challenging to adjust wages to offset inflation. Nearly half of all first-category and most second- and third-category public-sector positions remain vacant.[6] Many civil servants and members of the Lebanese Armed Forces (LAF) are leaving their positions; among those who remain, absenteeism rates are high because many staff work second (and sometimes better-paying) jobs.

Passing the 2024 Budget

Prior to 2019, Lebanon's national budgets were often delayed[7] and served as little more than ex-post accounting exercises, documenting the state's accrued expenditures and revenues. Notably, the 2024 budget was approved within the constitutionally mandated deadline.[8]

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[4] World Bank, Lebanon: Normalization of Crisis is No Road to Stabilization May 16, 2023.
[5] ACAPS, The effect of the socioeconomic crisis on healthcare October 19, 2023.
[6] Lebanon has five categories of civil servants. First-category employees are ranked highest.
L'Orient-Le Jour, Vacance, intérim, prorogation : la République libanaise en lambeaux February 22, 2024.
[7] When the cabinet and parliament previously failed to pass budgets, the Lebanese government used the "one-twelfth rule", which allows it to spend one-twelfth of the annual amount allocated in the last approved budget for each month that passes without an updated budget.
[8] PCM, الرئيس ميقاتي بعد اقرار مشروع قانون الموازنة العامة للعام 2024: أول موازنة منذ العام 2002 تقر في مواعيدها الدستورية September 12, 2024.

The cabinet began discussing the draft of the 2024 Budget Law in August 2023 and submitted it to the parliament for review in October of the same year.[9] [10] It covered both 2023 and 2024, since the parliament failed to pass the 2023 Budget Law within the constitutionally mandated period. Throughout November and December, the parliament's Finance and Budget Committee amended the draft law by increasing state fees, indexing fee rates to inflation, and amending the tax scale and tax rates.[12] [13] These adjustments yielded lower projected taxes than in previous drafts. To remedy this, the Committee made further adjustments – indexing LBP-denominated taxes to USD and fees, among other actions – and approved cuts to long-term investments, all with an eye on "balancing" the budget. The caretaker government cabinet and the parliament's Finance and Budget Committee refrained from defining the LBP-USD exchange rate in the budget but likely used the prevailing LBP-USD parallel market rate as a benchmark. Officially, budget calculations are made using the Central Bank's LBP-USD exchange rate, which since February 15, 2024 has stood at LBP 89,500. The parliament approved the final version of the 2024 budget on January 25, 2024, which was slightly amended during subsequent consultations with the Ministry of Finance in February.[14]

[9] Mercy Corps Lebanon, August Crisis Update September 11, 2023.
[10] Mercy Corps Lebanon, October Crisis Update November 13, 2023.
[11] Ibid.
[12] Mercy Corps Lebanon, November Crisis Update December 8, 2023.
[13] Mercy Corps Lebanon, December Crisis Update January 10, 2024.
[14] L'Orient Today, 2024 budget enacted by caretaker government February 8, 2024.


Credit: AlModon

Section 1: Revenue Streams

The 2024 budget projects revenues totaling LBP 308.435 trillion. Of this, 78.82% will be generated from direct and indirect taxes. Non-tax revenues are projected to account for the remainder (LBP 65.3 trillion, or 21.18%), predominantly from telecommunications (LBP 23.9 trillion), the Port of Beirut (LBP 13.4 trillion), and Beirut Airport (LBP 7.1 trillion).

Indirect tax revenues collected on goods consumption and services comprise the bulk of the Lebanese state's revenues and are forecast to constitute 59.9% of total revenues, a marked increase compared to 40% in 2019. VAT and customs account for most of these indirect taxes and are projected to total LBP 141.4 trillion, generating 45.8% of fiscal revenues, including 32.7% from VAT alone (See Figure 1).[15] **Regarding direct taxes, less than 7% of revenues are sourced from taxes on corporate profits and capital gains, a significant decline compared to 2019 when it stood at 35%.**[16] The share of tax on interest income reduced significantly, dropping from 13% in 2019 to only 1% in 2024. **Strikingly, only 0.1% of overall revenues are expected to be generated by taxes on wages and salaries, compared to 5% in 2019.**

[15] Fees on goods and services accounted for 34.03% of overall revenues in 2018 and 33.17% in 2019. The budget draft originally submitted to the parliament imposed lower tax rates than the version approved by the parliament in January 2024. For example, the budget passed by the parliament stipulated a VAT rate of 12%, whereas it was set at 11% in the draft submitted to the parliament.
[16] Personal, corporate, and capital gains taxes are projected to total only LBP 21.4 trillion in 2024, while property taxes are forecast to reach LBP 36 trillion.

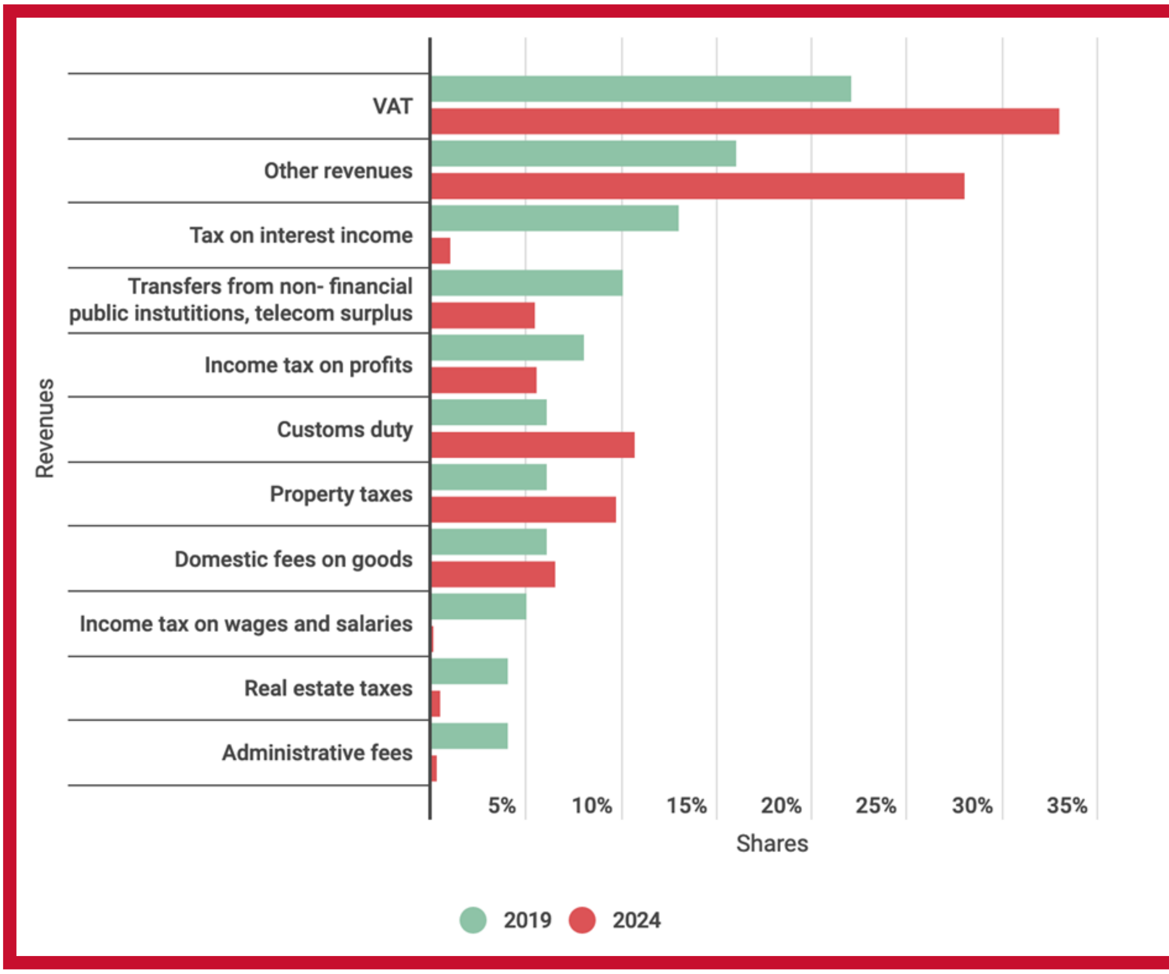

***Figure 1**: Percentage distribution of projected 2024 budget revenues compared to 2019 budget revenues.*

Indirect taxes

Since the introduction of VAT in 2002, the Lebanese state has been heavily dependent on indirect taxation as a source of revenue. This places the bulk of the tax burden on the most vulnerable segments of the population. **Higher indirect taxes and fees skew tax burdens and exacerbate existing social inequalities.** Individuals with higher incomes can better absorb taxes on consumer items compared to vulnerable households because this type of indirect tax accounts for a larger percentage of vulnerable household budgets than wealthy households. Consumption taxes are by nature regressive,[17] and are easier to collect. Had the budget been focused on redistributive and socially just fiscal policies, it likely would have stipulated a more progressive direct taxation regime.

[17] Regressive taxes decrease as income increases, whereas progressive taxes increase as income increases.

Direct taxes

The 2024 budget's income tax system is reminiscent of pre-crisis budgets, in that tax rates on lower incomes nearly double when shifting to the next highest bracket,[18] whereas tax rates on higher incomes increase at a lower rate when shifting to the next highest bracket.[19] Nevertheless, the overall tax percentage imposed on annual wages increases at a slower rate as an earner's salary rises.[20] Accordingly, the budget largely stuck to a pre-crisis income tax regime, despite a revamped tax structure being key to an economic recovery. While not explicitly stated in the budget, the new brackets were formulated as though they were indexed to the official exchange rate (89,500 LBP).[21] **These calculations did not take into account that the real value of wages, across sectors, has dropped in line with inflation.**[22]

In addition to the mostly untouched tax codes on fixed salaries, the state is often lenient when taxpayers do not report capital gains or non-fixed earnings in a timely manner, and often fails to collect taxes on them. The Ministry of Finance has extended filing deadlines for tax returns without imposing penalties, including for people earning corporate profits and capital gains.[23] **Although higher income earners benefit from more relaxed tax scrutiny, lower earners are subject to direct and timely tax deductions.**

New fees and fiscal policies

As a result of the depreciation of the Lebanese pound between 2019 and 2023, the cost of state fees and bills fell in real terms, necessitating an adjustment on the part of the state. Restoring the value of these fees to their pre-crisis contribution to state revenues would have required a sixtyfold increase.[24] In practice, however, and for no clear reason, fee increases have varied significantly.

The increased costs of official stamps, coupled with current stamp shortages, could drive black market trading to inflate prices beyond those officially listed in the budget. Unofficial means of procuring stamps are already common, even though purchasers pay more.[25] **Stamp black markets present barriers to citizens and residents who require urgent services and are unable to pay a premium** to obtain official documents.[26] For instance, vulnerable households and individuals who are unable to acquire necessary documentation could face hurdles in accessing state education and health services.

[18] Income brackets are earnings ranges to which different tax rates are applied. In most cases, earners' income is assessed across brackets simultaneously, by taxing specific portions of their incomes at different rates.
[19] For example, taxes on portions of income in the LBP 900 million bracket (4%) are double those of portions of income in the LBP 360 million bracket (2%). However, portions of income in the LBP 7,200 million bracket are taxed at 20% but portions of income in the LBP 13,500 million (and above) bracket are taxed at 25%.
[20] For instance, an individual earning USD 4,000 per year pays 2% in taxes annually. However, a person making USD 60,000 per year pays about 10% in taxes annually. These wages differ by 1,400%, while the taxes levied on them differ by only 400%.
[21] The Ministry of Finance, in coordination with the Central Bank, officially instituted the LBP-USD 89,5000 exchange rate at several institutions throughout 2023, until it was adopted as the de facto official exchange rate by Central Bank in February 2024.
[22] For example, the first annual wage bracket in the 2019 budget was LBP 6 million, equivalent to USD 4,000 at that time. Similarly, the first wage bracket in the 2024 budget is LBP 360 million, equivalent to USD 4,022.35 based on the parallel market exchange rate of LBP/USD 89,500.
[23] The most recent extensions for filing income returns returns and paying taxes were in May 2024.
National News Agency, قرارات للمالية بتمديد مهل 6 May 2, 2024.
National News Agency, وزارة المالية أعلمت المكلفين بتمديد مهلة تسديد ايصالات تحصيل لغاية 51 الحالي دون توجب أية غرامة او فوائد اضافية May 8, 2024.
[24] The official LBP-USD exchange rate of 89,500 is worth about 60 times that of the pre-crisis era rate of 1,500.
[25] For instance, many money transfer operators offer document stamping services in exchange for fees, which can cost up to five times the official value of the stamp.
[26] Including birth certificates, passports, and marriage certificates or to register their businesses, motor vehicles, and private property.
Al-Akhbar, رسوم الموازنة ترفع كلفة إخراج القيد إلى أكثر من مليون ليرة February 20, 2024.

Increased or introduced fees	New fee amount in LBP	Fee amount in USD (2024 LBP-USD exchange rate)	Increases compared to 2019 in LBP	Reference budget article(s)
Official stamp	LBP 50,000	USD 0.59	50 times	40, 41, 42
Individual and family registration statements/ marriage, birth, death, and divorce certificates[27]	LBP 600,000	USD 6.7	20 times	40, 41, 42, 66[28]
Municipal fees	Based on the property and its usage	Based on the property and its usage	Between 10 and 20 times[29]	36
Lump-sum fee on electricity sold by private generators	LBP 100,000 per KVA annually	USD 1.18	About 7 times	68
Traffic fines	LBP 250,000 (minimum)	USD 2.79 (minimum)	10 times	42
Departure tax	Between LBP 3,132,500 and LBP 8,970,000	Between USD 35 and USD 100[30]	Newly Introduced	67

***Table 1**: Some increased and newly introduced fees in the 2024 Budget Law.*

A budget that is genuinely geared toward economic recovery would require a revamped, more efficient fee system with lower collection costs. For example, official stamps could be replaced with a standardized commission payable either in cash or online.

Although municipal fees for commercial units increased between ten and twentyfold, the severe LBP depreciation means that this increase still represents a revenue shortfall.[31] In addition, many municipalities whose post-crisis budgets have been constrained due to poor tax collection rates and depreciation lack the capacity to carry out their mandated duties.[32] Poor tax collection rates and a loss of capacity are expected to take a toll on service provision at municipal level, including road and public water system maintenance, waste disposal, and security.

Increasing the lump sum fee[33] on electricity sold by private generator owners will lead to higher subscription rates. Electricité du Liban (EdL), the state electricity provider, cut back production between 2020 and 2023, forcing residents to heavily rely on "backup" generator power. Although coverage began to increase in some areas in 2023, in others, state electricity is available for only one or two hours daily.[34]

[27] The cost of these documents includes official stamps, which are issued by the state as a means for collecting indirect taxes.
[28] Directorate General of Civil Status.
[29] Municipal fees, also known as "Mosakkafat", are paid annually by residents.
[30] The departure tax is structured as follows: USD 35 for passengers in economy class, USD 50 for passengers in business class, USD 65 for travelers in first class, and USD 100 for travelers on a private jet or yacht. Twenty percent of the revenue generated from this tax will go to a new dollar-denominated account at the Central Bank that is earmarked for funding airport maintenance.
[31] Article 36 raised municipal fees tenfold for residential and commercial units on a lower floor, 15 times for commercial units on an upper floor, and 20 times for commercial units on a ground floor.
[32] Mercy Corps Lebanon, April Crisis Update May 10, 2024.
[33] Annual lump sum fees are paid to the state based on generator output (measured in kilowatt hours).
[34] A study conducted by LCAT on Informal Social Protection in Bourj Hammoud and Barouk found that 68% of survey participants relied on diesel generators as their primary source of electricity, while only 24% primarily relied on state-produced electricity. The study found that 52.95% of participants received two hours or less of state-generated electricity.

Exceptional taxes

The budget contains a one-off 17% tax on arbitrage profits[35] earned from exchanges on "Sayrafa", the Central Bank's now-defunct official currency exchange platform.[36] The parliament also ratified a 10% tax on companies that benefit from Central-Bank-subsidized imports, namely pharmaceuticals, wheat and flour, and fuel.[37] The Constitutional Council suspended the tax on beneficiaries of subsidies on April 4, though the government may effectively impose the same tax through a decree or a Ministry of Finance decision later in the year. Such a move could prompt further action by importers, who protested when the tax was originally implemented, alongside fuel companies who halted imports and deliveries of petroleum products.[38] As a result, citizens mobbed gas stations due to concerns about potential shortages. Similar future developments could disrupt the domestic energy and transportation sectors.[39]

Article 86 of the budget slashed taxes on profits from real estate sales from 15% to 1% until December 31, 2026. **This could increase demand in the real estate market, though it could also have unwanted effects, such as driving up housing and rental prices.**

[35] Businesses in Lebanon benefitted from arbitrage profits on "Sayrafa" exchanges from June 2021 to July 2023, by purchasing USD from the Central Bank at an exchange rate lower than in the parallel market and reselling the USD for LBP at the parallel-market rate.
[36] Article 93, 2024 budget.
[37] Article 94, 2024 budget.
[38] NNA, شماس : فرض غرامة أو ضريبة استثنائية على الشركات المستوردة أمر مجحف ومرفوض ولا يمكن تطبيقه January 31, 2024.
[39] The Observers, France 24, Lebanon: Hours-long queues, armed clashes at petrol stations as shortages persist July 2, 2021.

Credit: philabouzeid

Section 2: Expenditures

The 2024 budget projects total expenditures of LBP 308.435 trillion – with a forecast deficit of 0%[40] – equal to about 15% of the projected gross domestic product (GDP) in 2024,[41] compared to 31.5% in 2019. The 2024 tax-to-GDP ratio is in line with the World Bank's benchmark rate of about 15%,[42] though in pre-2020 budgets the public expenditure-to-GDP ratio was almost twice that. Current spending[43] in the 2024 budget accounts for 89.6% of total expenditures, with 10.4% reserved for capital expenditures. Personnel and operational costs account for 94.7% of current spending and 84.9% of the total budget.

Prior to the crisis, only 6% of the budget was allocated to public services and infrastructure. **Despite increasing to 10.4% of total state expenditures, projected investments have decreased in real value. The low percentage of expenditures allocated to public services and infrastructure suggests that Lebanon is not on track to enhance the quality of its service delivery.**

As shown in Figure 3, spending on social benefits[44] and goods and services occupies a larger share of total expenditures in the 2024 budget (32%), than in 2019 (19%). However, these expenditures are still lower in real terms compared to 2019 due to the small budget size. The share of the budget allocated to salaries and wages has decreased from 20% in 2019 to 15% in 2024. Overall salaries, wages, and their corresponding social benefits dropped from USD 6.6 billion in 2019 to only USD 1.18 billion, an 82% decrease in real terms.

[40] Article 10 of the 2024 budget prohibits granting treasury advances to the government, which previously resulted in deficit spending. Deficit spending is still possible in 2024, if the parliament passes legislation that allows the government to overspend and/or acquire treasury advances.
[41] IMF, Lebanon: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Lebanon June 29, 2024.
[42] Countries with rates below this percentage are considered to have a financial gap in development, meaning they cannot generate enough revenue to finance investments in human capital, infrastructure, and public services.
World Bank, Taxes and Government Revenues 2024.
[43] Current expenditures account for spending allocated to ongoing operations, including wages and mandatory maintenance costs. Long-term investments and exceptional projects do not qualify as current expenditures.
[44] Social benefits comprise pension payments, salaries for public-sector retirees, and insurance policies for active and retired public employees.

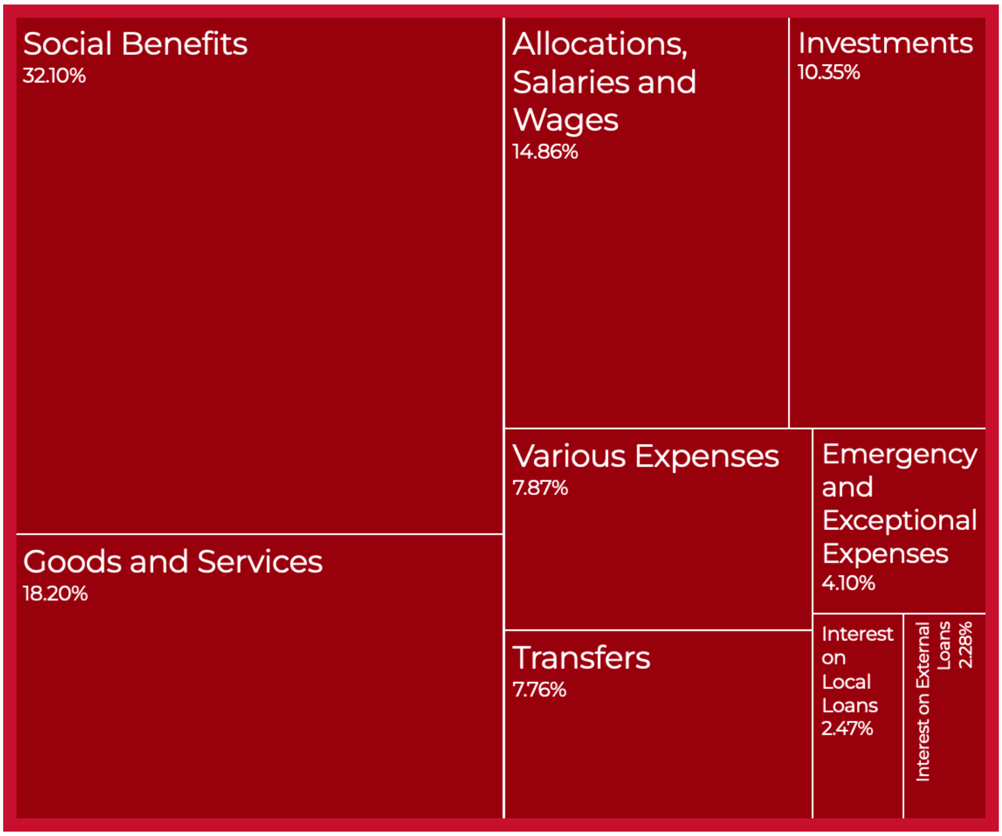

***Figure 2**: Distribution of 2024 budget expenditures by category.*

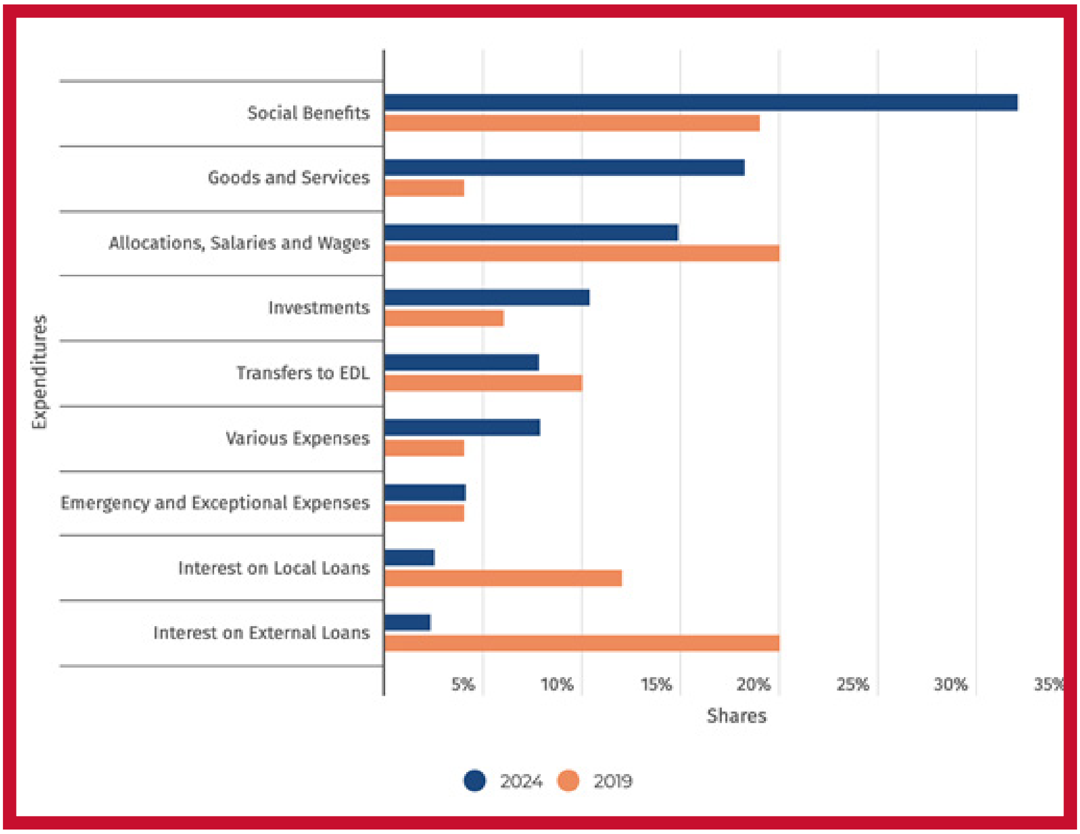

***Figure 3**: Percentage distribution of projected 2024 budget expenditures compared to 2019 budget expenditures.*

One of the most important budget share drops compared to the pre-crisis era is public debt interest servicing, which declined to less than 5% of overall expenditures in 2024, compared to 32% in 2019, equivalent to a drop from around USD 5.44 billion to only USD 160 million. This highlights how debt restructuring – a key requirement for unlocking state financial assistance and spurring sustainable economic growth – is entirely absent from the budget law.

Sovereign versus service ministries in times of crisis

Ministries focused on security, foreign affairs, state finance, and foreign trade are considered "sovereign" ministries, while ministries that extend and maintain services to citizens and residents are considered "service" ministries. Household-level well-being is disproportionately affected by the performance of service ministries. Despite the vulnerable position of many households, sovereign ministries are better funded than service ministries in the 2024 budget.

Sovereign ministries are allocated 33.74% of expenditures, whereas service ministries are allocated 28.67%. **These portions are problematic for a country such as Lebanon, where public services were poor before the economic crisis, and have since deteriorated.**

The 2024 budget limits funding allocated to institutions responsible for maintaining national infrastructure, namely the Ministry of Public Works and Transportation. While it maintains a relatively sizeable share of the budget among service ministries, the Ministry of Public Works is directly financially responsible for maintaining the infrastructure falling under its purview. By contrast, the Ministry of Energy and Water and the Ministry of Telecommunications oversee the work of state companies, from which they collect revenues.

		% of total expenditures
Sovereign Ministries	*Ministry of Interior and Municipalities*	*10.98%*
	Ministry of Finance	*1.67%*
	Ministry of Foreign Affairs and Emigrants	*2.145%*
	Ministry of Defense	*18.48%*
	Ministry of Economy and Trade	*0.47%*
Service Ministries	*Ministry of Public Works and Transportation*	*5.56%*
	Ministry of Education and Higher Education	*6.17%*
	Ministry of Public Health	*13.12%*
	Ministry of Energy and Water	*1.5%*
	Ministry of Post and Telecommunication	*2.32%*

***Table 2**: Allocation of budgetary shares to key ministries.*

Education and healthcare expenditures

Figure 4 shows the 2024 budget's drop in investment in education and healthcare compared to pre-crisis years. **In real terms, spending dropped by 49% on healthcare and 88.5% on education compared to 2019.** While public schools and hospitals will be forced to make do with less, their private counterparts continue to dollarize their prices and thus restore their financial capacity to pre-crisis levels.[45] **The budget's education provision will likely result in lower-quality education**, more limited access to educational resources, **and potential disruptions in the academic year due to staff strikes.** Public schools and universities closed their doors due to labor strikes in 2022 and 2023, preventing many students from vulnerable households from completing their school year.[46] If repeated in 2024, work stoppages would likely have a marked, negative effect on the academic performance of public school students, the effects of which may not be felt for many years.[47]

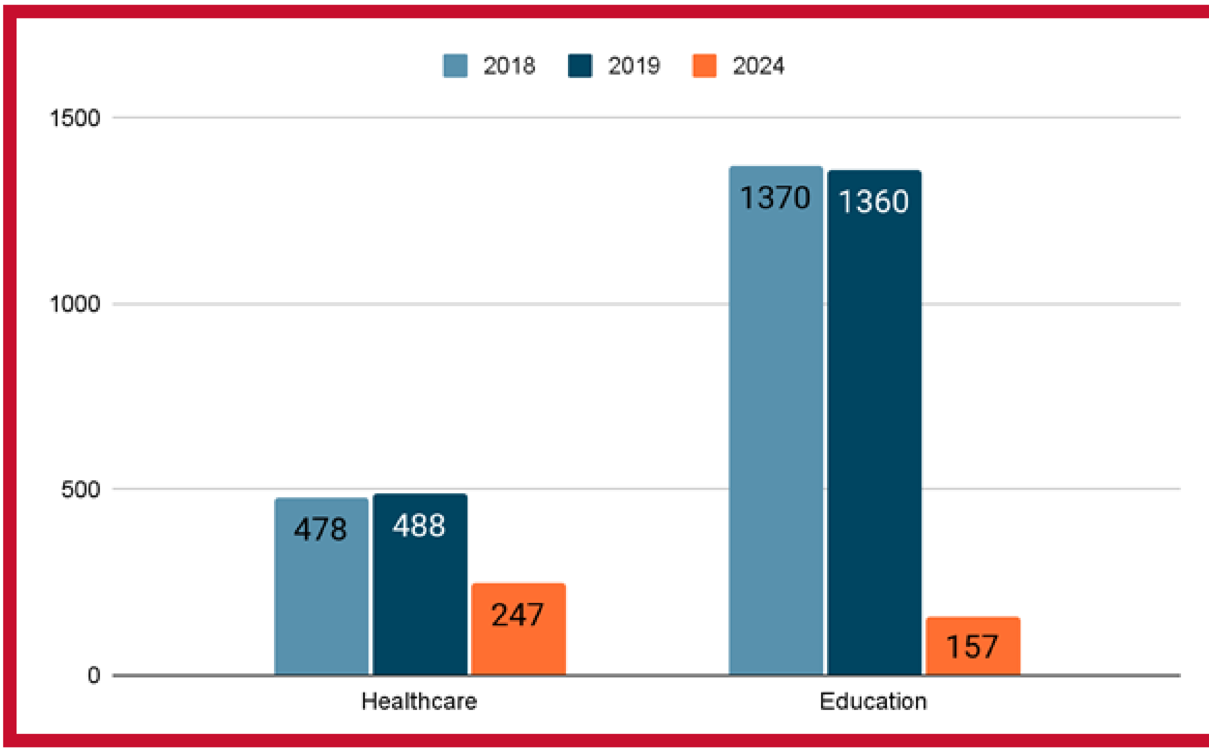

***Figure 4**: Government spending on healthcare and education (in million USD). The exchange rate at which spending is calculated for 2018 and 2019 is LBP/USD 1,500, and the exchange rate at which spending is calculated for 2024 is LBP/USD 89,500.*

Reduced state funding to the healthcare sector may burden individuals seeking medical treatment, limiting access to major health services amid rising costs at private healthcare institutions. Public clinics and healthcare institutions could face shortages in medical equipment and resources, which will negatively affect their ability to deliver medical services in rural areas, as well as to the most vulnerable individuals and families, including refugees and those displaced by the conflict between Israel and Hezbollah.[48]

[45] Mercy Corps Lebanon, End of the Lira – The Impact of Dollarization on Lebanese Households November 17, 2023.
[46] Mercy Corps Lebanon, LCAT Monthly Crisis Updates.
[47] LCPS, On the Brink: The Critical State of Lebanon's Education System March 9, 2022.
[48] Al-Akhbar, الأدوية تنقطع في صيدليات المستشفيات January 11, 2021.

Spending on public employment

Public-sector salaries, pensions, and benefits accounted for 39% of the 2019 budget, of which approximately 85% went to LAF personnel and retirees. By comparison, the share allocated to salaries and pensions in 2024 is 48%, though this higher percentage is primarily due to an overall reduction in the budget size in conjunction with budget cuts in other areas.

Spending on public-sector employment decreased in real terms, due to LBP depreciation and reduced recruitment.[49] Public-sector employee turnover slowed dramatically during the crisis due to employees resigning or retiring, largely due to the depreciated value of their salaries.[50] Younger members of the workforce prefer other sectors and often seek employment abroad.[51] **The shortage of public-sector employees – particularly military, police, and civil service personnel – negatively affects administrative efficiency, criminal justice, and security.**[52] The budget failed to adequately adjust the public-sector salary scale in line with labor market expectations, particularly for low earners. State jobs are therefore less attractive to eligible job seekers, who can likely earn more in the private sector.[53]

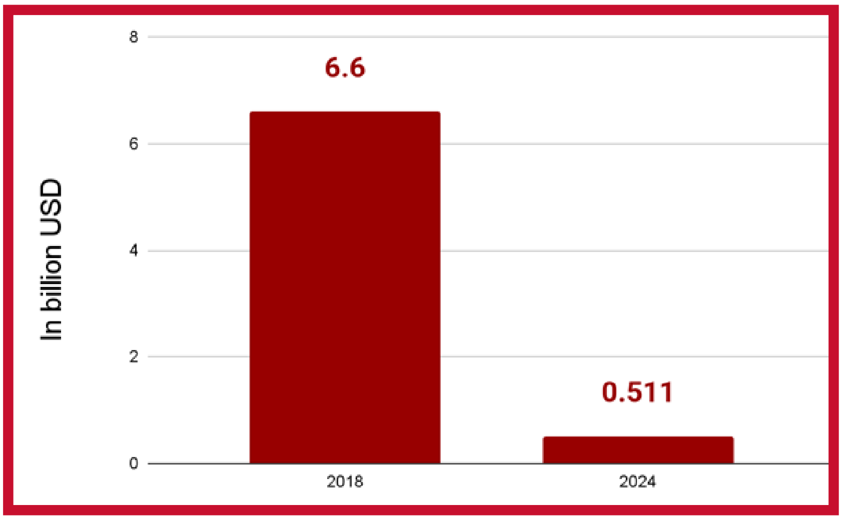

Figure 5*: Expenditure on public-sector employment (in billion USD). The exchange rate at which spending is calculated for 2018 is LBP/USD 1,500, and the exchange rate at which spending is calculated for 2024 is LBP/USD 89,500.*

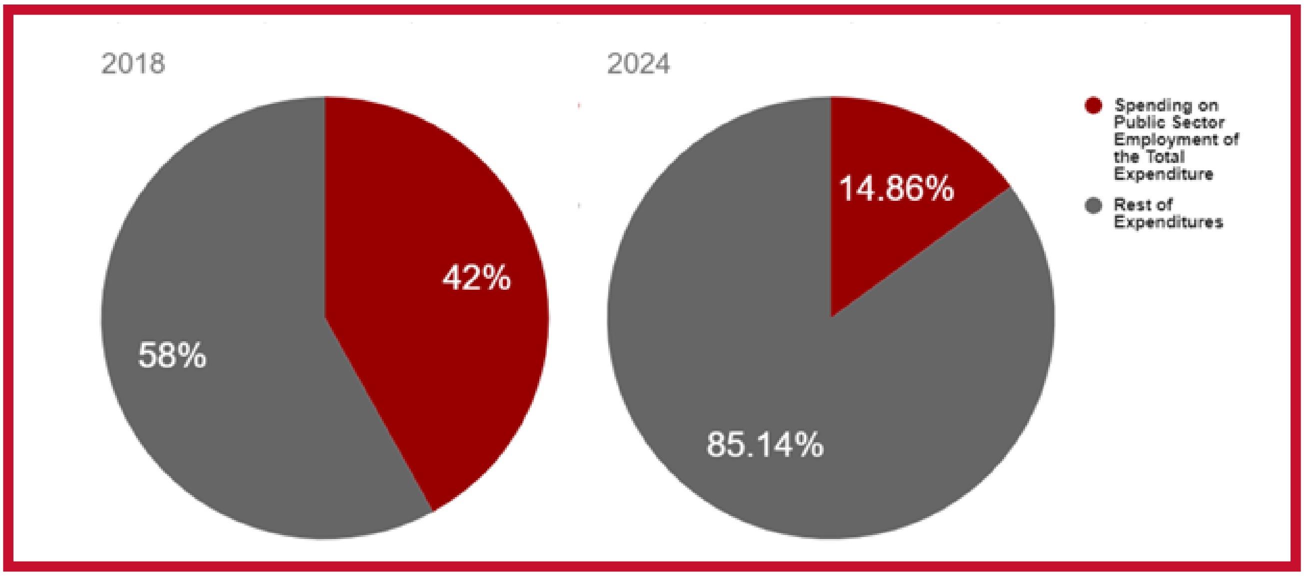

Figure 6*: Expenditure on public-sector employment of total government spending.*

[49] L'Orient Today, Lebanon's civil servants are leaving in droves. They won›t be replaced soon November 5, 2022.
[50] Ibid.
[51] ILO, Synthesis of the crisis impact on the Lebanese labour market and potential business, employment and training opportunities June 14, 2022.
[52] Public Economy Project, Public services, government employment and the budget October 2022.
[53] IZA World of Labor, The effects of public sector employment on the economy 2017.

Credit: AlModon

Section 3: Impact on Micro, Small, and Medium-Sized Enterprises

The taxes outlined in the 2024 budget may hamper micro, small, and medium-sized enterprises' (MSMEs) contributions to economic development and growth. Since the budget lowered the threshold for businesses subject to VAT,[54] registered MSMEs will be at a disadvantage compared to their informal counterparts. Shifts in consumer spending – as people switch to cheaper, informal retailers – may decrease demand for formal MSMEs' goods and services, resulting in **lower revenue and profitability, especially in local shops and neighborhood businesses.**[55] [56] **Businesses facing financial challenges may slash jobs or cut wages, leading to higher unemployment and a drop in household income. In a worst-case scenario, this could lead to businesses closing.**[57]

MSMEs should ideally be able to compete with their informal counterparts and expand their market share. In the long run, if formal sector MSMEs are enabled to expand and make greater profits, they will contribute more to state revenues and offer employment **opportunities to educated and skilled Lebanese laborers, many of whom otherwise will look abroad for work.**

[54] Article 14, 2024 budget.
[55] Berytech, Berytech Celebrates International MSMEs Day: Empowering Businesses for Economic Growth June 27, 2023.
[56] GIZ, Employment And Labour Market Analysis Lebanon 2019.
[57] ILO, Arab States Employment and Social Outlook –Trends 2024 February 20, 2024.

Credit: WFP

Key Takeaways for Humanitarian and Development Actors

Insufficient public investment and spending on public-sector employment indicate that state institutions are likely to deteriorate further and basic services will struggle to cover the basic needs of vulnerable populations. A lack of financial and economic reforms has increased the burden on employers and small businesses, which threatens to slow the economic recovery. The aid sector plays a key role in filling these gaps, whether through direct support to vulnerable populations or through longer-term economic development programming. The 2024 budget makes it clear that this support will continue to be needed.

Disparities in access to social services, which were already prevalent in pre-crisis Lebanon, are likely to become more pronounced. The 2024 budget allocations for education and healthcare signals that services provided in these areas will decline in quality over the year. These sectors remain central focuses for support and relief, particularly amid surging costs to maintain a decent standard of living. Few lower-income residents can afford private education, healthcare expenses, and private water and electricity sources. **Inadequate access to basic services will push the most vulnerable to resort to negative coping mechanisms such as working in illegal or exploitative labor conditions, dropping out of school, child labor, illicit trades, and early marriage.**

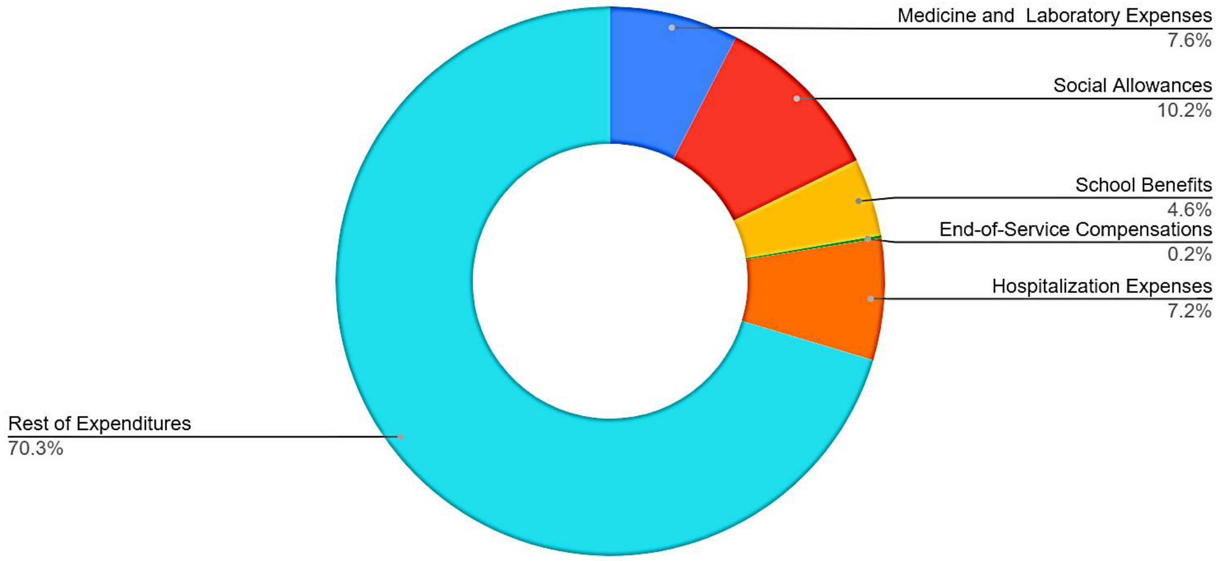

***Figure 7**: Spending on some social services in the 2024 budget.*

The alarmingly low allocations for public education will likely have a negative impact on public schools and the Lebanese University. **This will disproportionately affect students from the most disadvantaged households, whose families in most instances do not have the means to pay for them to attend private schools.**

Higher business taxes risk incentivizing MSMEs to operate in the informal sector, which will negatively affect taxation and limit protections for Lebanese and Syrian employees, both of whom are vulnerable to exploitation. Therefore, it is crucial that aid agencies, especially those working on economic development, continue monitoring working conditions to ensure that their interventions support further formalization and access to labor rights.

MSMEs are crucial to economic recovery and could benefit from initiatives to support their growth in Lebanon. This may include providing financial aid, capacity building, and other forms of assistance to help them overcome economic downturns and contribute to the resilience of their communities. Assuming growth, MSMEs could initiate a flow of labor from the informal to the formal economy, which grants workers access to social security programs, medical insurance, family allowances, and better job security. **Low earners in informal businesses, especially daily workers, benefit the most from such transitions, enhancing their households' standard of living.**

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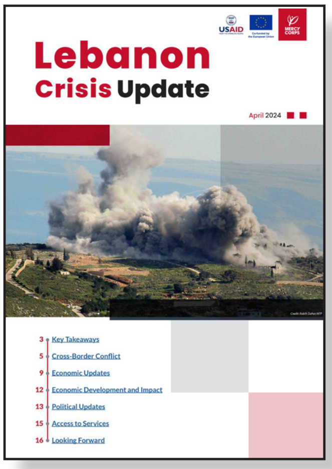

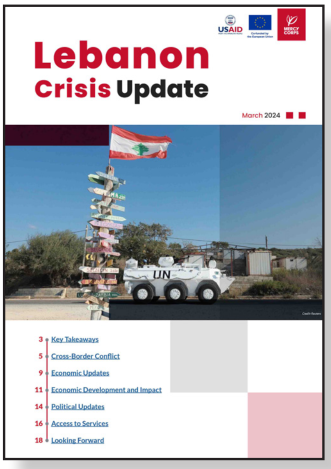

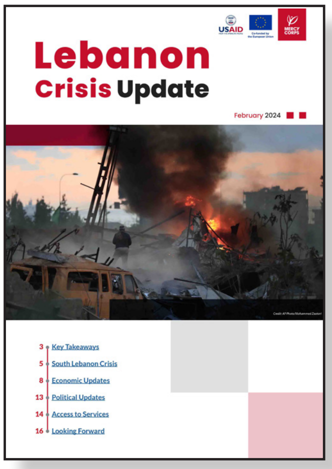

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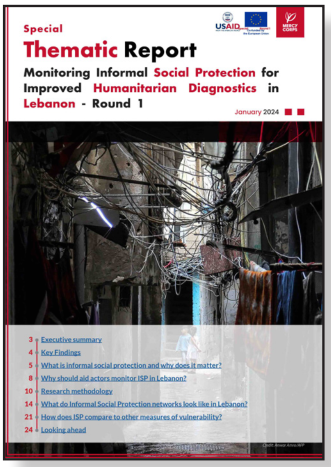

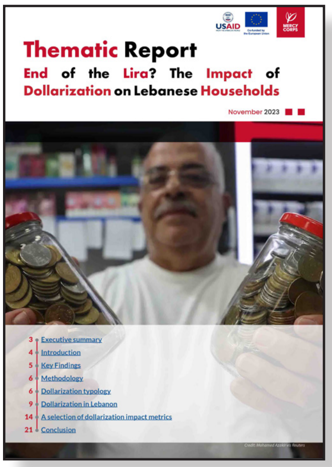

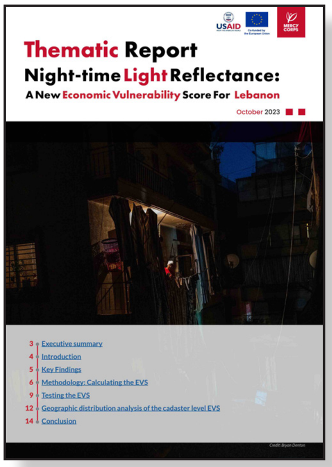

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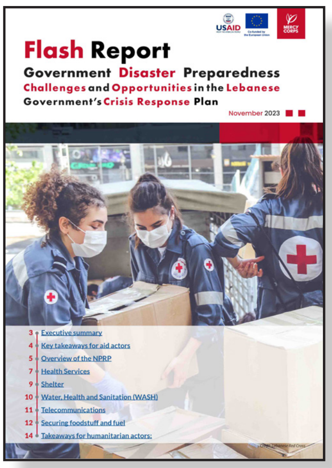

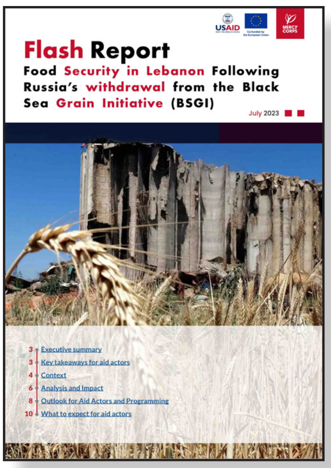

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