

Prepared for

LEADERSCLUB
by **LEBANON OPPORTUNITIES**

Subsidies

The poor's share is under 25 percent

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RESEARCH

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Executive Summary

InfoPro Research has estimated that subsidies by the State and the Central Bank (BDL) are consumed mostly by the non-poor, when measured in terms of money value. According to a study it has undertaken, the poor's share is under 25 percent of the total amount spent by the public sector on subsidies. Direct subsidies by the State and BDL total nearly \$5 billion per year not including basic services such as public education. Therefore \$4 billion of subsidies are being wasted outside their intended target.

To estimate the ratio of the share of the poor, the poverty threshold was revised to become LL34,500 daily income, adjusted from the LL 12,900 pre-devaluation level. The poverty penetration has also increased from 24 percent in 2018 to 52 percent currently.

The subsidies paid by the State are allocated for electricity, medical care, education, and the agricultural sector. They also include interest rate subsidies for housing loans and project finance in addition to subsidies aimed to support non-governmental organizations (NGOs) and civil society organizations. Overall subsidies totaled around \$2 billion in 2019. The lion's share of the subsidies (75 percent of the total) was transferred to Electricité du Liban (EDL).

The Central Bank's subsidy is estimated at around \$2.6 billion per year. BDL's aim from the subsidy is to protect the consumers' purchasing power by providing access to funding for imports of basic commodities at favorable exchange rates. The subsidy consists in the difference between the value of the provided funds at favorable exchange rates and their value at parallel market rates.

BDL is providing access to funding at an exchange rate of LL3,900 for imports of products included in the consumer basket. All remaining commodities, with the exception of industrial raw materials, are getting their funds at an exchange rate of LL1,515. Industrialists are offered access to funds denominated in foreign currencies.

The Central Bank also aims to circumvent the de facto capital controls and allow importers of basic commodities to access bank liquidity. The total amount of funds made accessible for imports of basic commodities is estimated at nearly \$8.7 billion per year if all related circulars and decisions are fully implemented. BDL is also intervening on the parallel exchange market at an annual cost estimated at around \$1.3 billion. This means that the total amount withdrawn from BDL's foreign currency reserves to support the lira and the consumer purchasing power is nearly \$10 billion per year. These various subsidies and access to foreign currencies risks depleting the already dwindling foreign reserves if capital inflows remain weak. The Central Bank has informed the government that it cannot finance imports from mandatory reserves. Out of nearly \$19.5 billion in foreign currencies, \$17 billion are mandatory reserves.

Foreign trade financing is leading to the exit of money, very little of which is returning back.

The Ministry of Economy and Trade (MoET) said that some food prices have increased instead of dropping after the subsidies were introduced. "It is going to stop," it said.

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BDL has asked the Ministry of Energy (MoEW) to determine the country's requirements for various fuels and to which companies they should be distributed. This request aims to meet the needs until the government sets a clear plan while it ensures that it has enough time to do so.

There is an effort to rationalize the issue of the food basket, and it is no secret that exploitation and smuggling are taking place, according to both BDL and MoET.

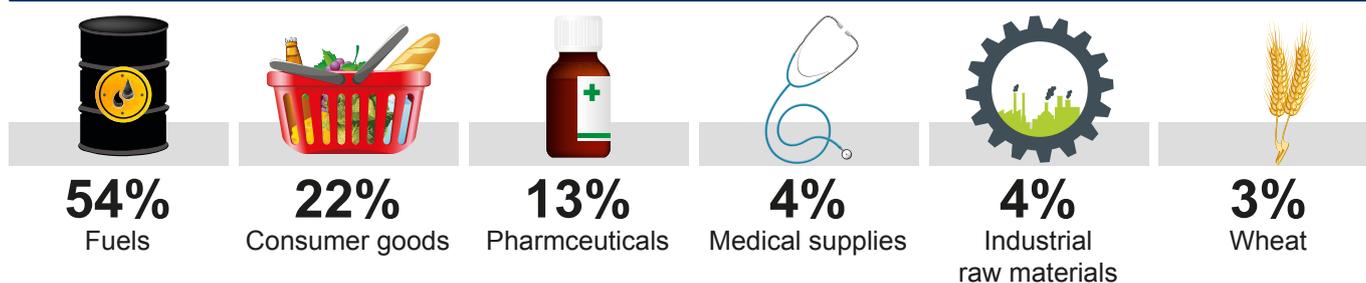
BDL is working with the MoET to issue a card for every citizen in order to enable them to buy goods at the exchange rate of LL1,515 to the dollar. BDL said that this is the responsibility of the government. BDL will be supportive through its technologies. The subsidy will be transferred from importers to citizens. The subsidy cards will be distributed through the banks.

The subsidized goods and services include electricity, food items, medicine, as well as subsidized interest rates on housing loans.

Fuel imports are securing the lion's share (nearly 54 percent) of BDL's foreign exchange subsidy. The basket of expanded consumer goods and pharmaceutical imports are getting 22 percent and 13 percent respectively.

The percentage of the import bill covered by BDL funding varies. It is set at 85 percent for wheat, medicine, and medical supplies, 90 percent for industrial raw materials and fuels, and 100 percent for the items included in the expanded basket of consumer goods.

BDL foreign exchange subsidies



Source: Central Bank, Customs, InfoPro

Foreign currency funds made accessible for imports of basic commodities

Commodities	Funds as percentage of import bill	Exchange rates at which the funds are offered	Estimated Annual Foreign Exchange Subsidy (USD Million)
Wheat	85%	LL1,515	76
Pharmaceuticals	85%	LL1,515	322
Medical supplies	85%	LL1,515	112
Fuels	90%	LL1,515	1,391
Industrial raw materials	90%	In foreign currencies	93
Basket of consumer goods	100%	LL3,900	560
Total			2,554

Source: Central Bank, Customs, InfoPro