

Economic and Social Commission for Western Asia

Fiscal policy toward promoting employment generation in Lebanon

Dr. Niranjan Sarangi

With inputs from Aline Zayat and Dana Hamdan



Shared Prosperity **Dignified Life**



Fiscal policy toward promoting employment generation in Lebanon



- I. Economy and Fiscal Situation Overview
- II. Structure of Output and Employment
- III. Assessing public budget allocations to support employment generation
- IV. Role of fiscal policy for employment generation:
Policy discussions for Lebanon

Role of fiscal policy for employment generation

Guiding approach

Fiscal policy has a greater role in connecting to real sector development.

Short term fiscal measures: Hands on tools to boost demand in the economy and create immediate jobs

Medium to long term fiscal measures: Steer the economy toward economic diversification and more productive employment generation

However, only fiscal policy is not enough, it should be complemented by conducive monetary policy, industrial policy and a well strategized macroeconomic framework.

Source: (ESCWA 2017 – Rethinking Fiscal Policy for the Arab Region).

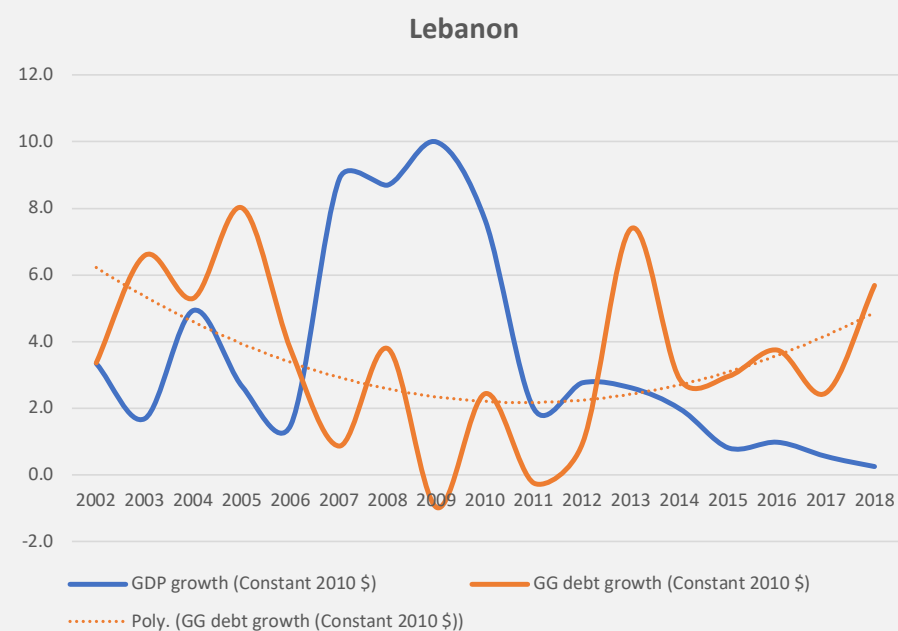
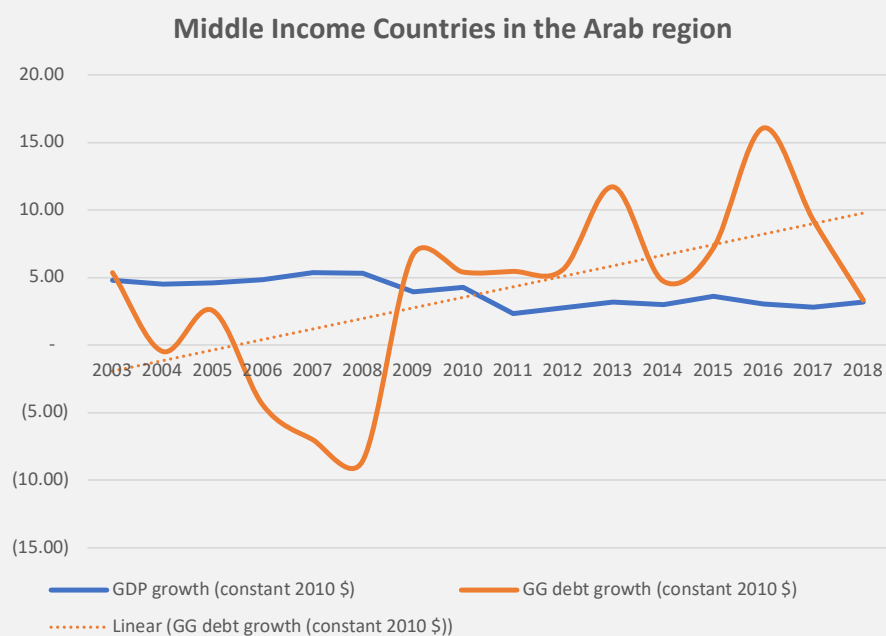


Shared Prosperity **Dignified Life**



I. Economy and Fiscal Situation Overview

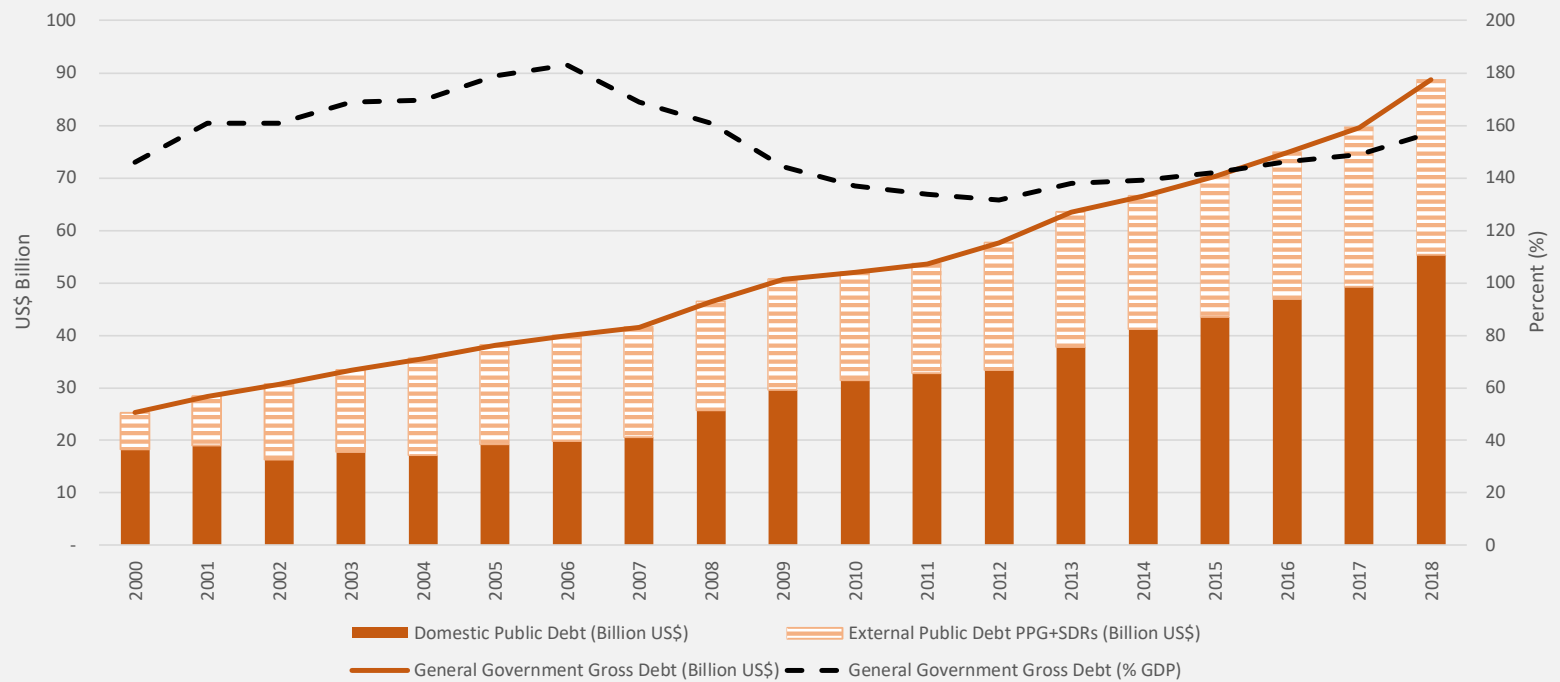
Economic growth remained low, growth of debt shot up MICs in the Arab region vs. Lebanon



Source: Sarangi 2020. Fiscal policy response to public debt and debt sustainability in Arab States. ESCWA Working Paper forthcoming

Increasing debt accumulation stresses fiscal space in Lebanon

Public Debt, Domestic and External Debt, Debt-to-GDP ratio in Lebanon

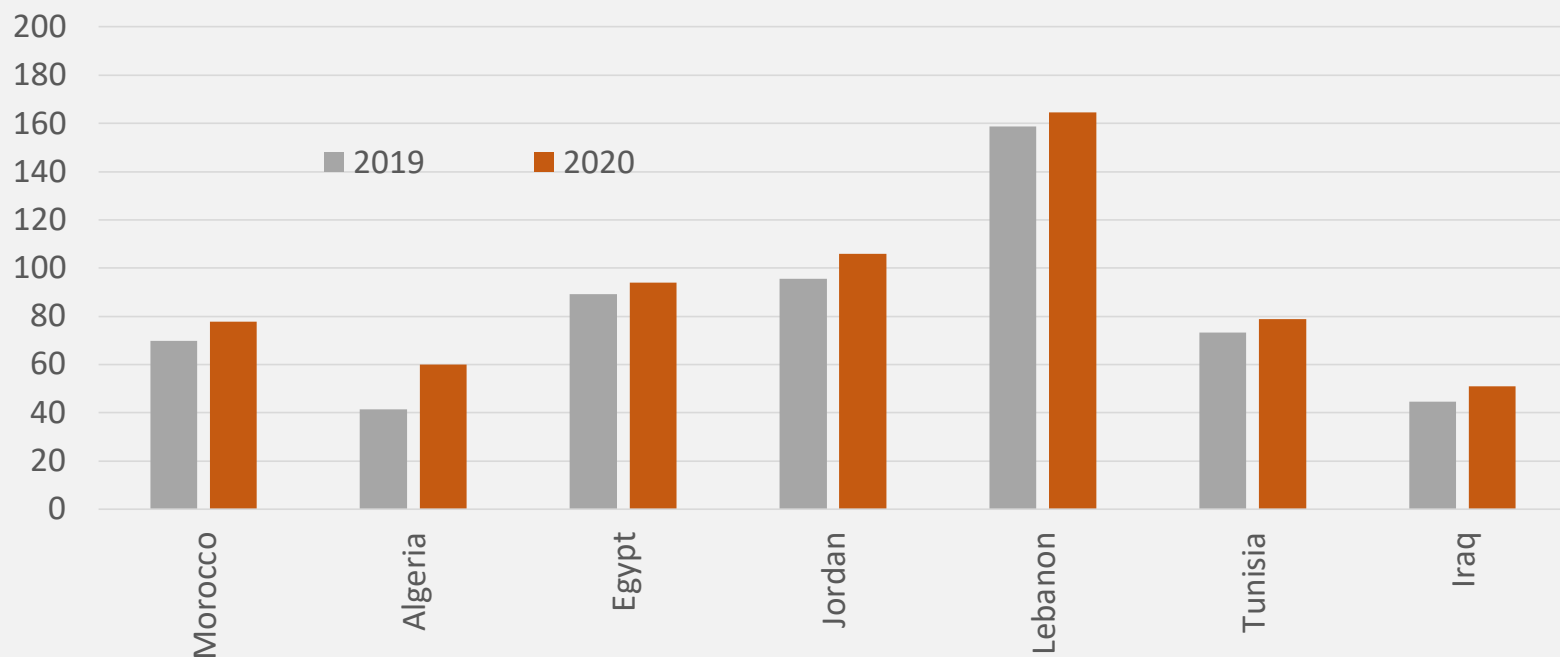


Source: IMF (weo) ; World Bank (IDS).



Lebanon's high share of Debt to GDP is expected to increase further due to multiple shocks including the impact of COVID-19

Debt to GDP in MICs (2019 vs 2020)



Source: ESCWA 2020.

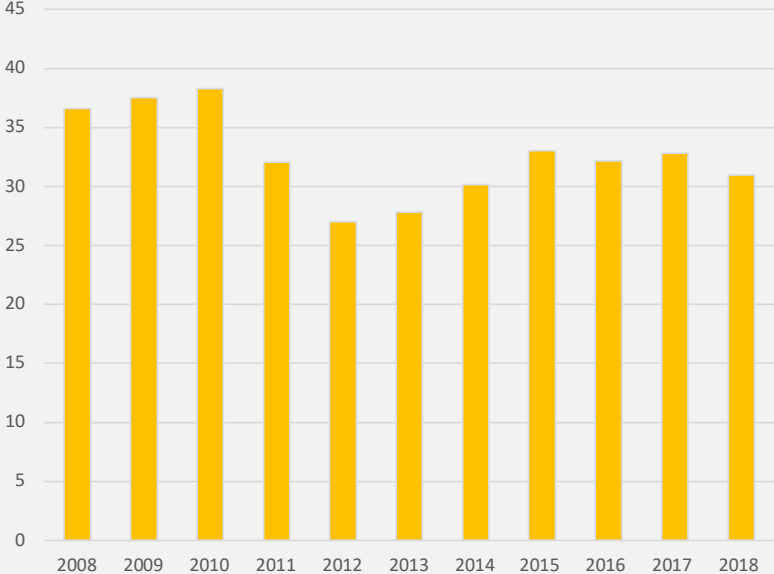
Lebanon: Debt service costs a high share of total expenditure

Limits fiscal space for development expenditures

Wages, Salaries and Capital Expenditure (as a % of total expenditure)

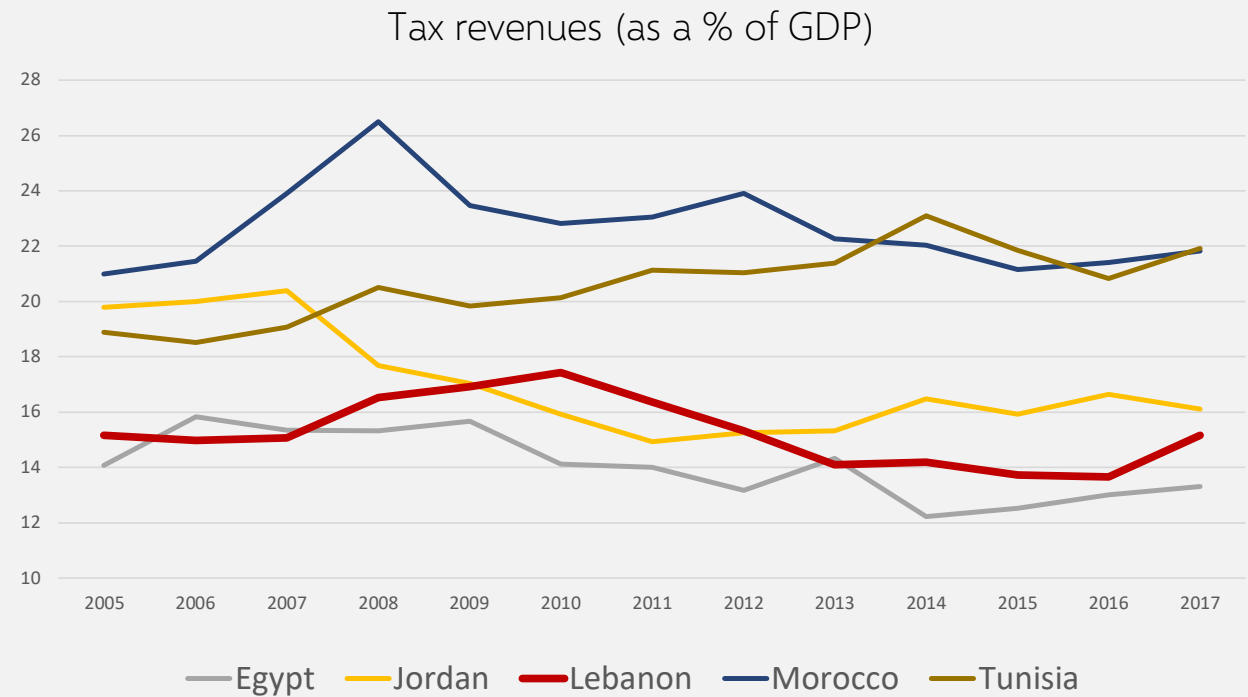


Interest payments (% of total expenditure)



Source: Based on data from MoF, Lebanon

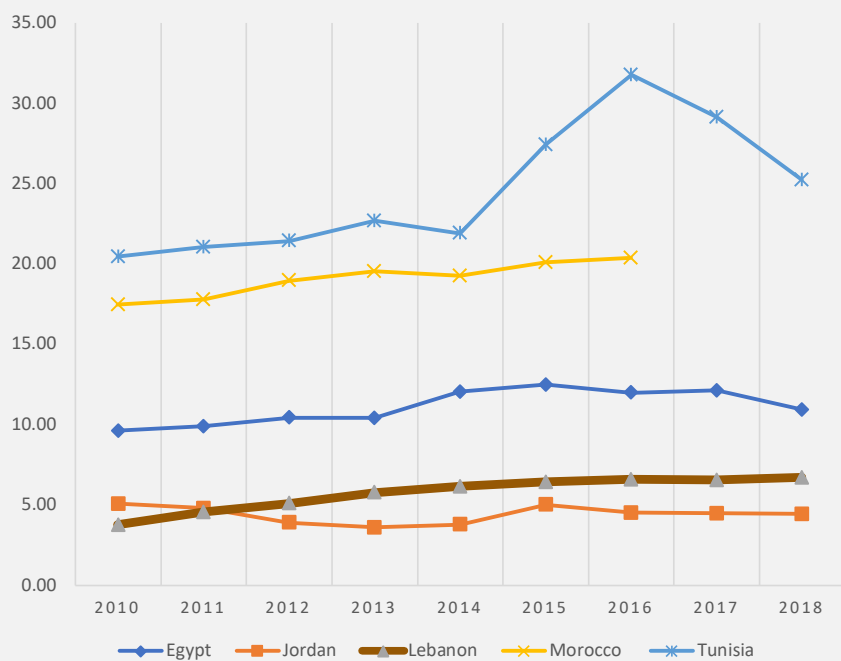
Tax Revenues as a % of GDP in MICs



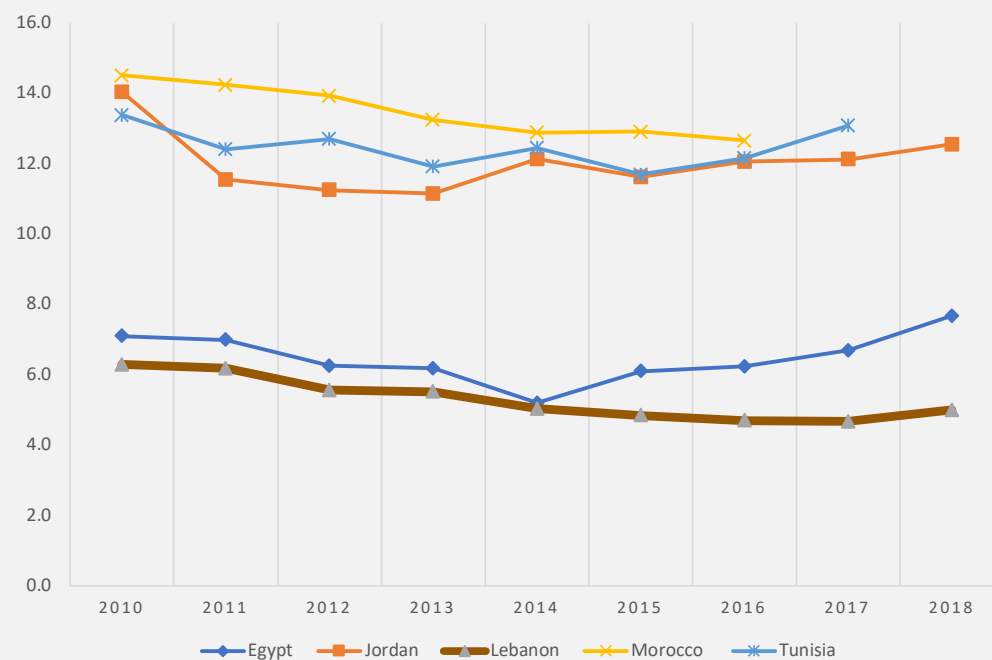
Source: ESCWA 2019. Fiscal Policy Review of Arab States

Share of income tax revenues remained sluggish Goods and services tax collection remained low

Share of personal income tax in total tax revenue



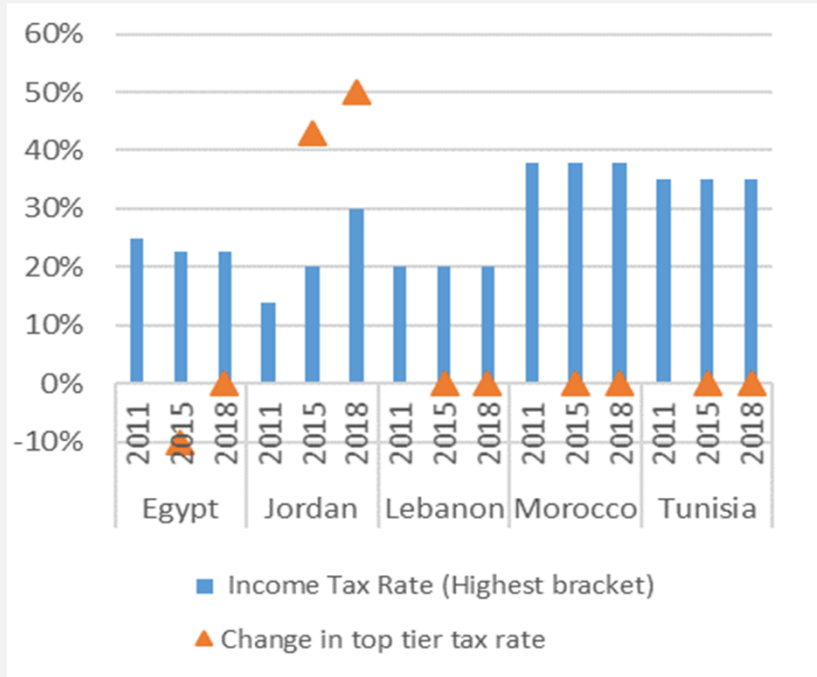
Goods and services tax as a share of private consumption



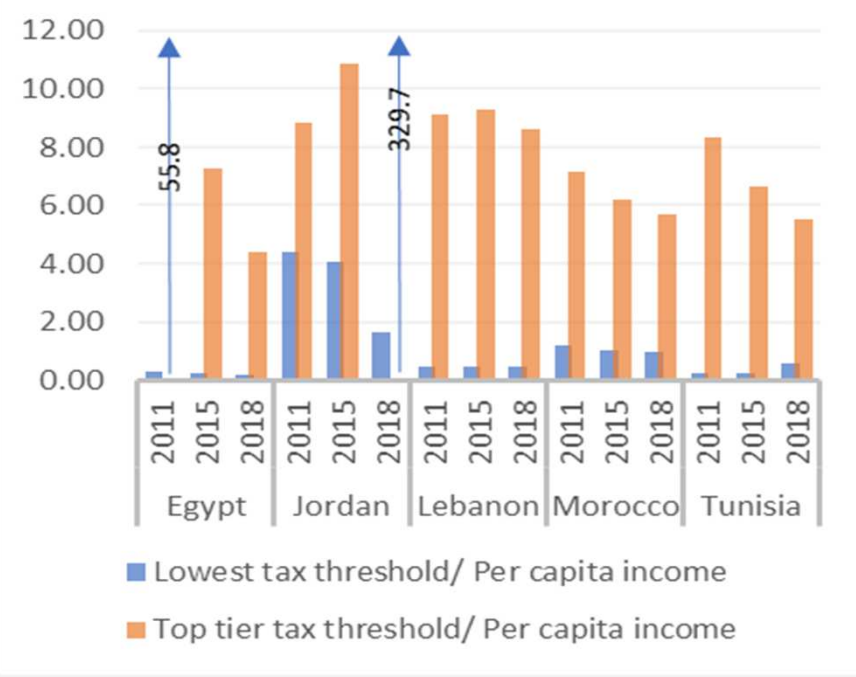
Source: ESCWA 2019. Fiscal Policy Review of Arab States

Income tax reforms have largely relied on increasing tax base: Improving progressivity remained a major challenge

Top tier tax rates and changes (%) over time



Lowest and highest individual income tax thresholds as a ratio of per capita income

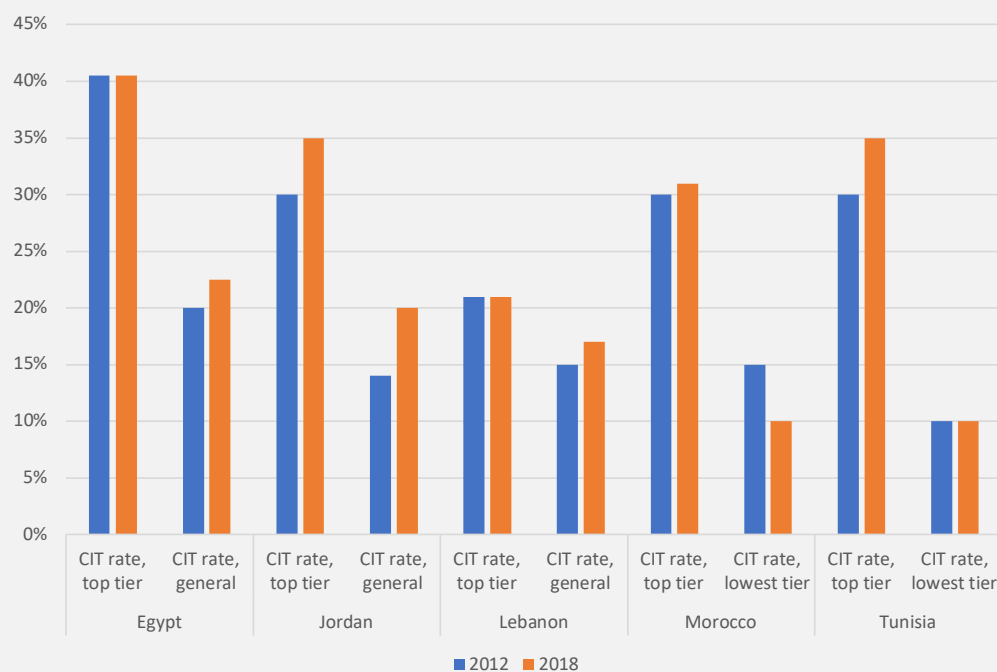


Note: The arrow for Egypt show the top tier tax threshold to GDP per capita ratio in 2011; the arrow for Jordan shows the top tier tax threshold to GDP per capita ratio in 2018.

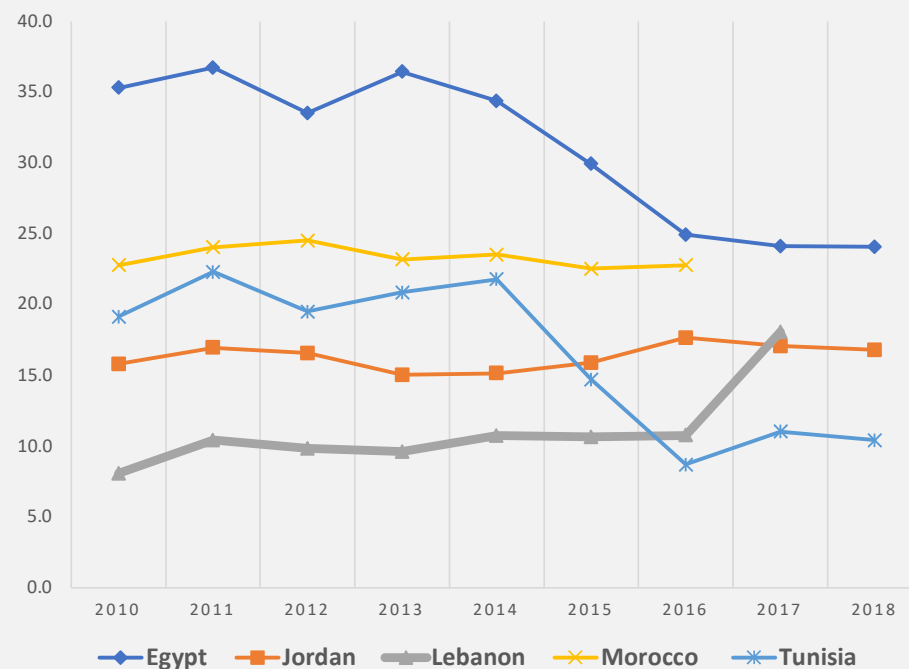
Source: ESCWA 2019. Fiscal Policy Review of Arab States

Efforts to improve tax revenues from corporate tax reforms

Corporate tax rates in middle income countries of the region



Taxes from corporate income (% of total taxes)

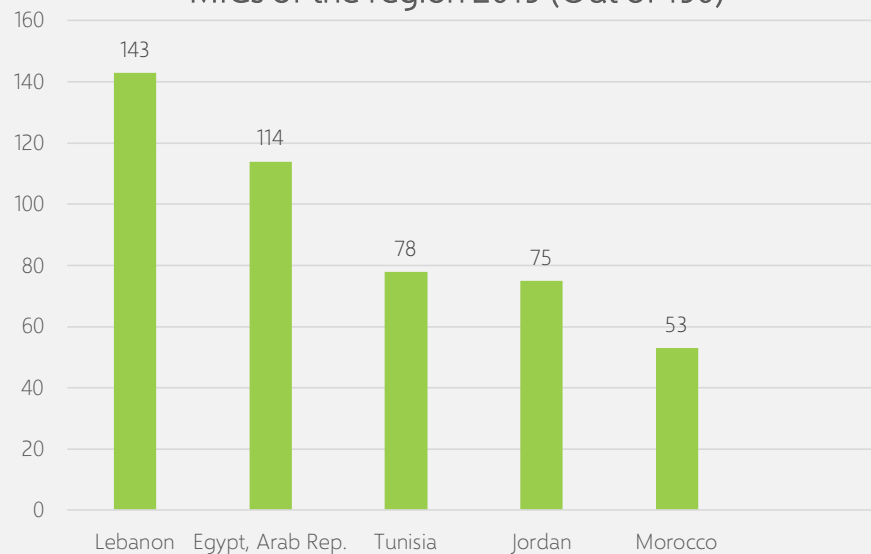


Source: ESCWA 2019. Fiscal Policy Review of Arab States

Lebanon ranks 143 out of 190 countries in ease of doing business index

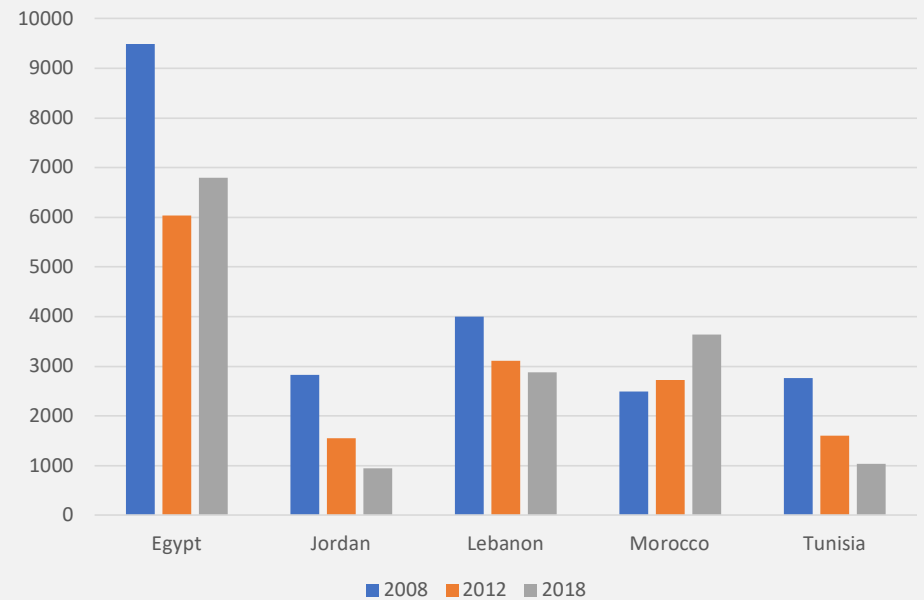
FDI inflows continue to decline over the past decade

Rank in Ease of doing business index in the MICs of the region 2019 (Out of 190)



Source: World Bank (2019)

FDI inflows (million USD)



Source: UNCTAD 2019



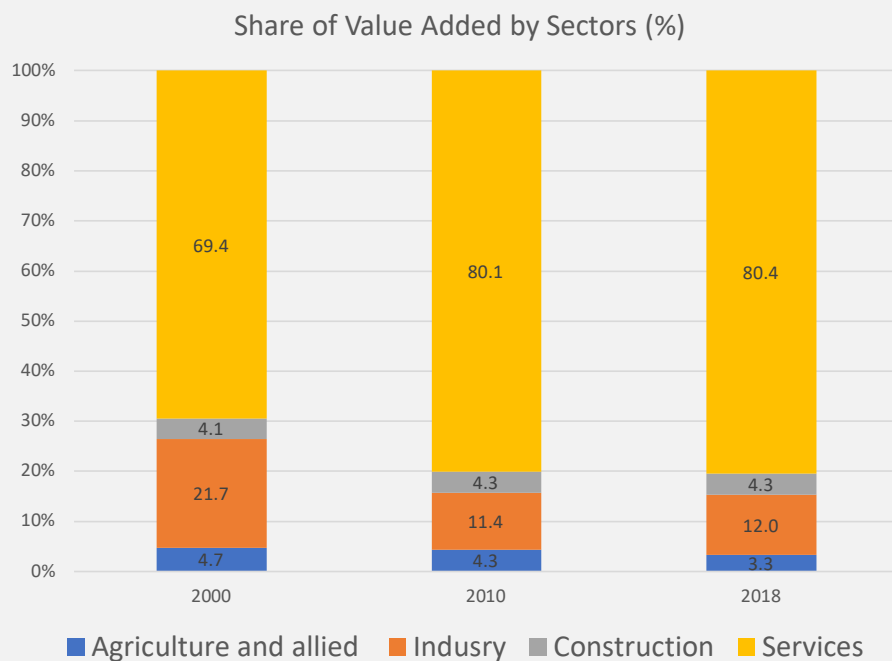
Shared Prosperity **Dignified Life**



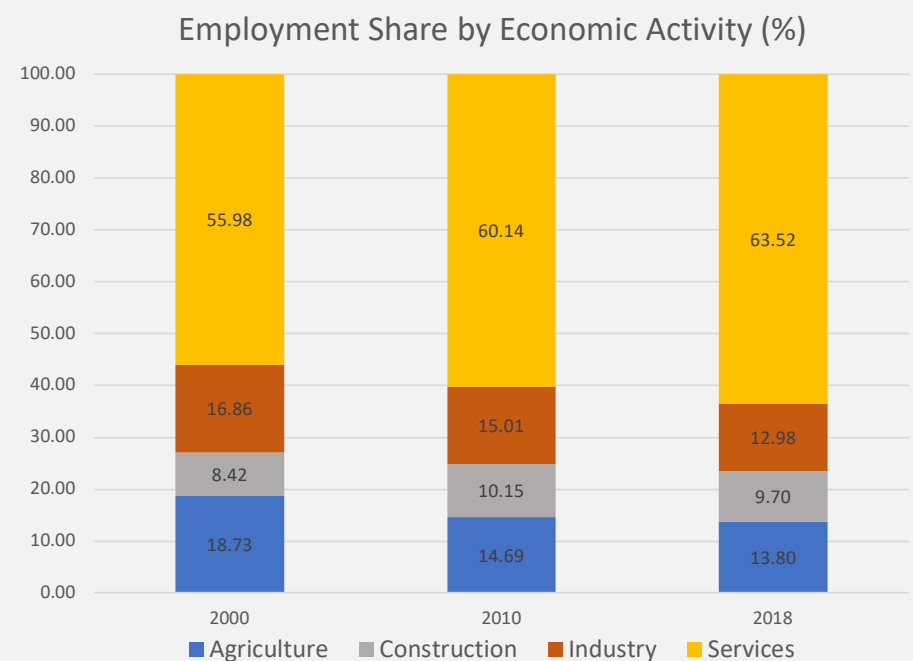
II. Structure of Output and Employment

Sectoral shares of output and employment

Increasing share of services sector in output



Declining share of employment in industry

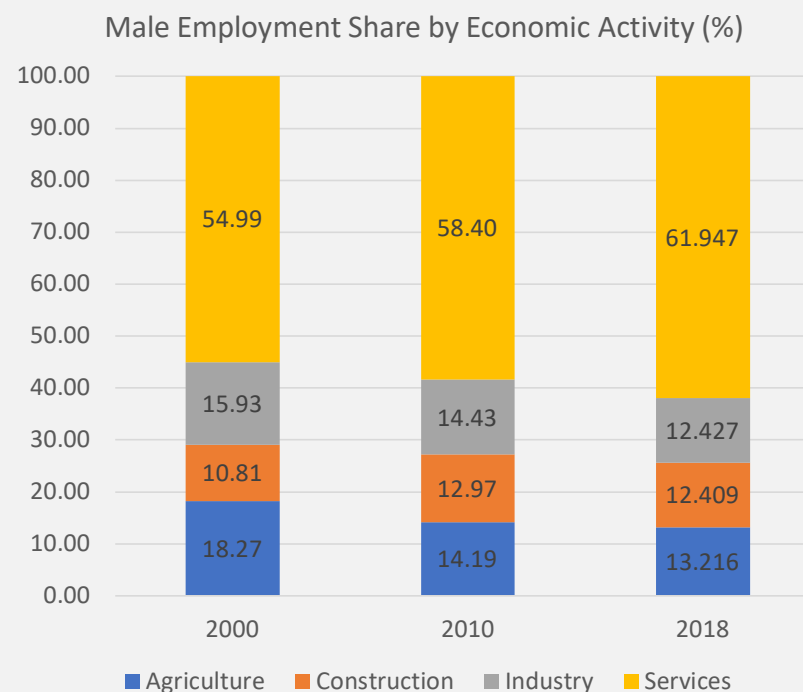
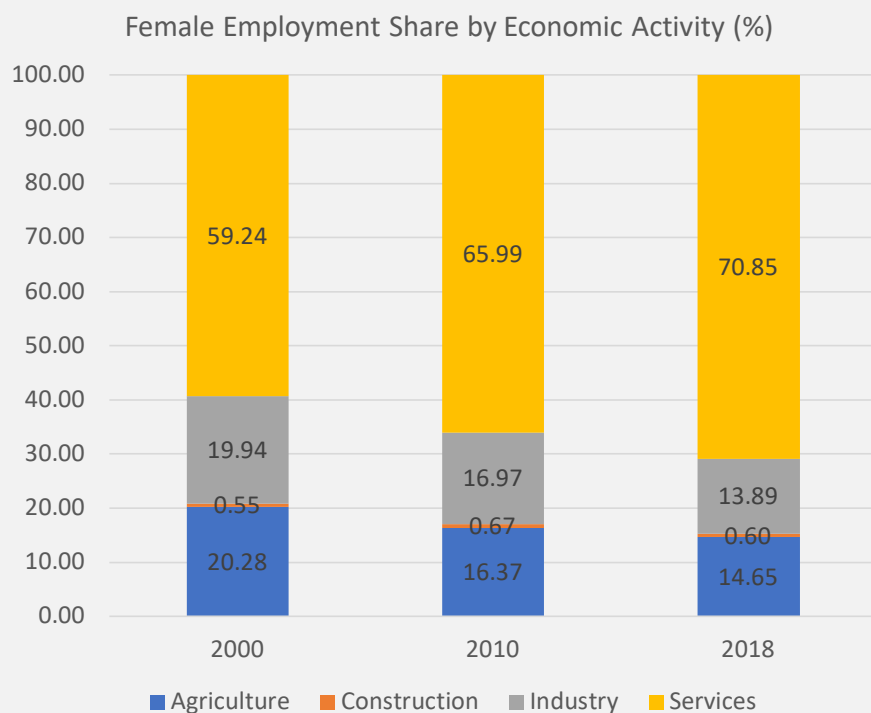


Source: United Nations Statistics Division.

Source: Based on data from ILO.

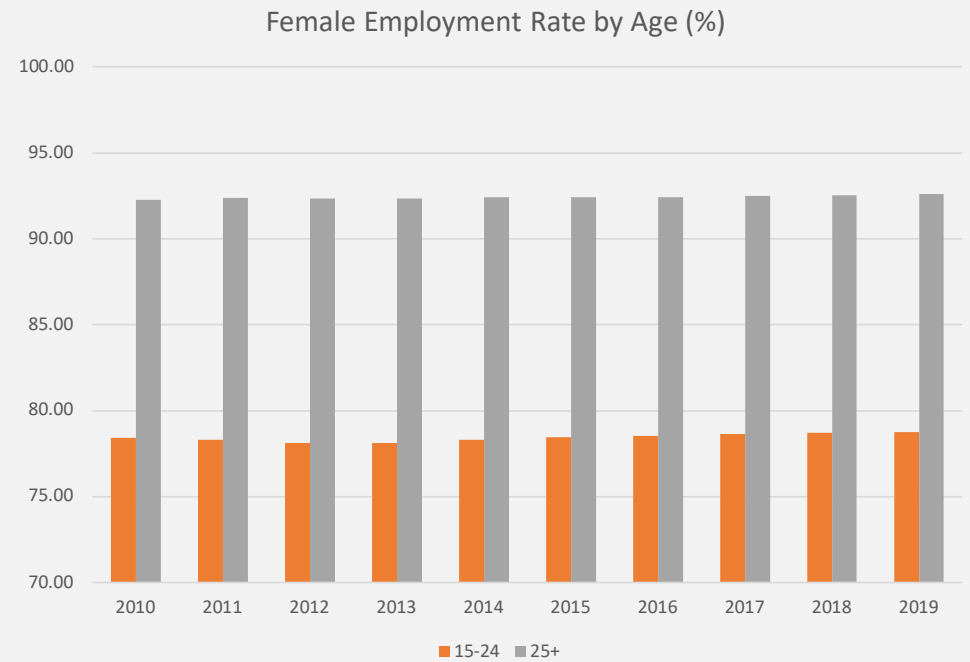
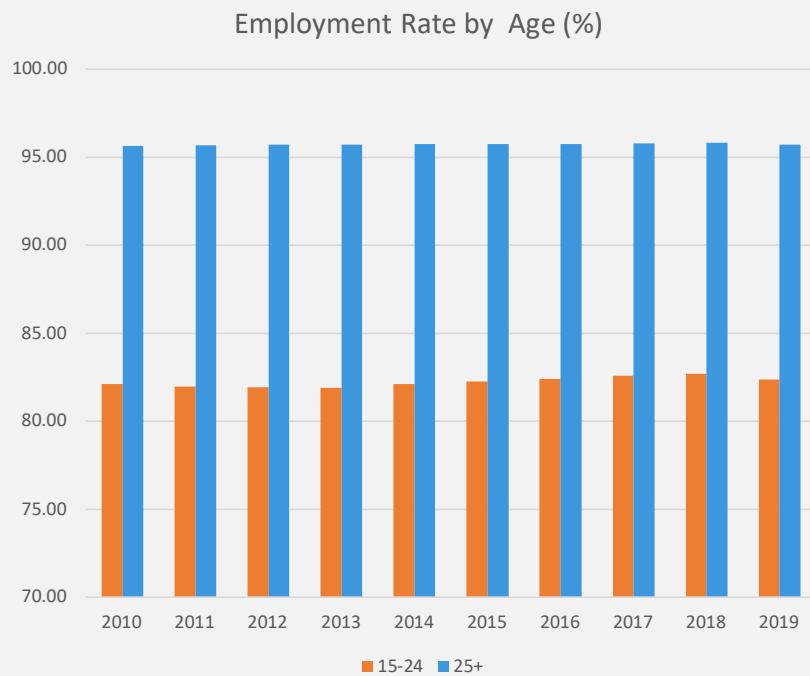
Employment Shares of Males and Females by Economic Activity

Larger share of female employment in services sector as compared to male employment



Source: Based on data from ILO.

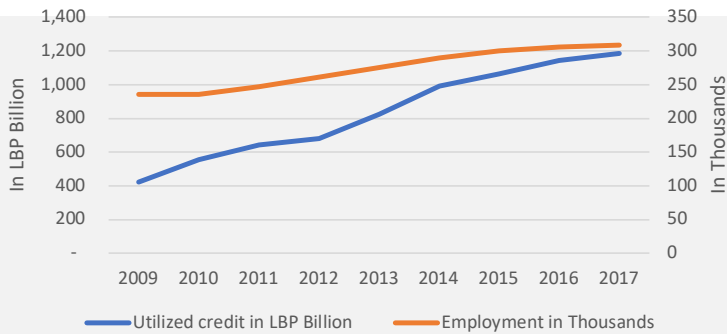
Employment rates: Females and youth females are at disadvantage as compared to national average



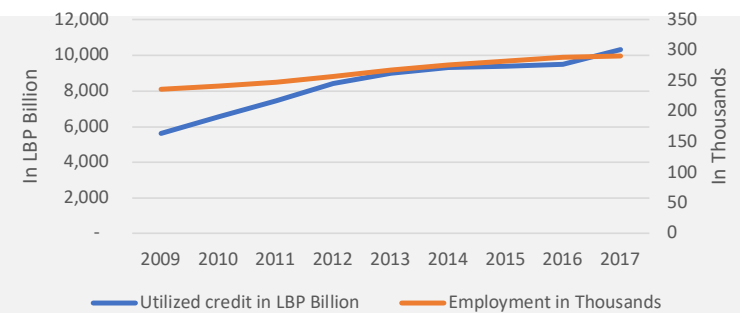
Source: Based on data from ILO.

Credit utilization vs employment across sectors

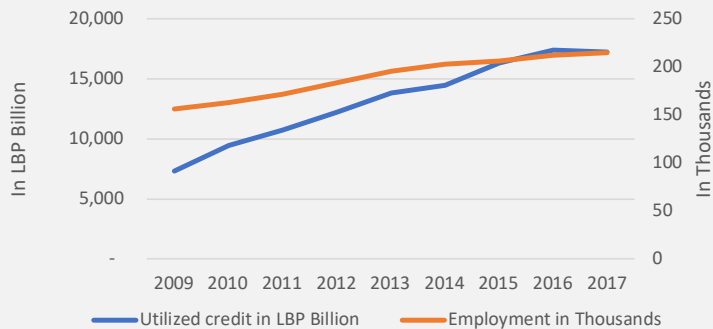
Agriculture Sector



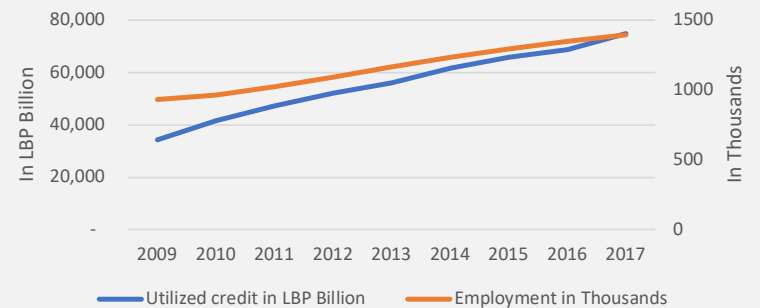
Industry Sector



Construction Sector

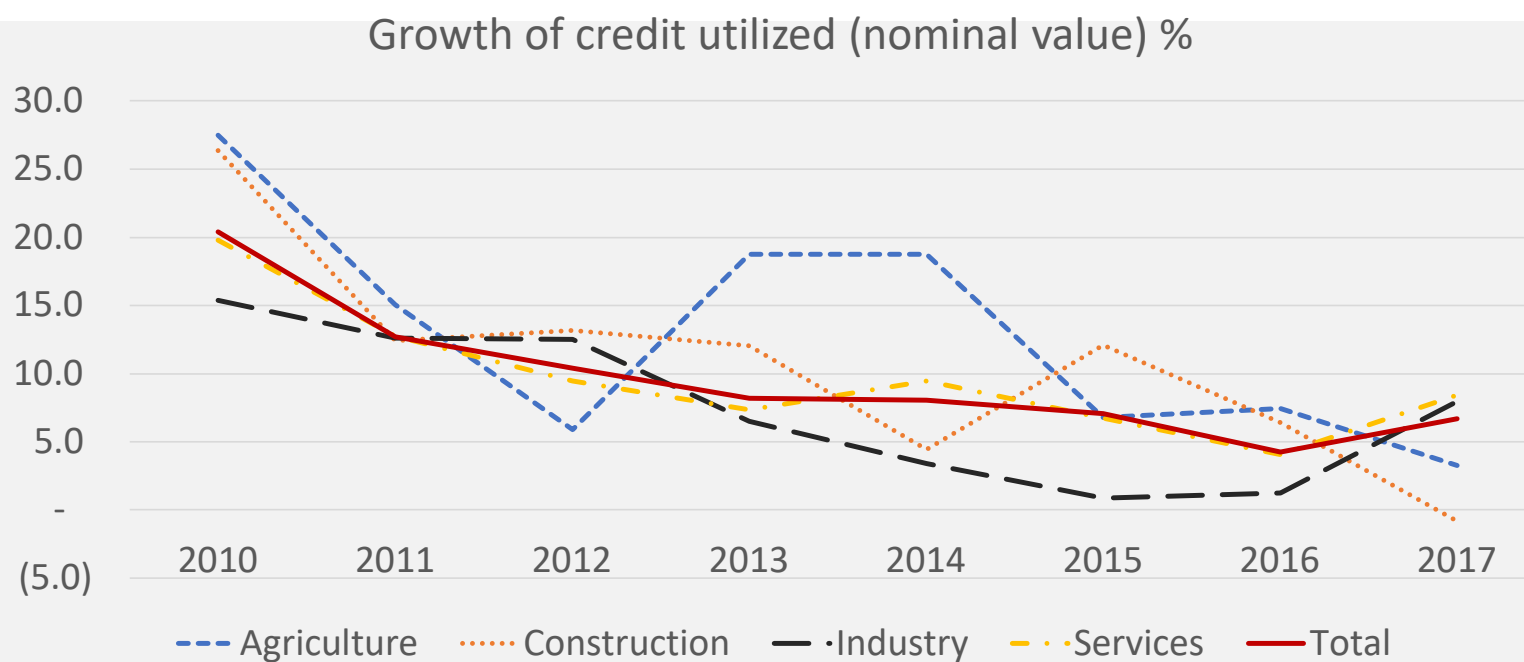


Services Sector



Source: ILO; Banking Association Lebanon Reports (2013, and 2017)

Declining trend in growth of credit utilization Total and sectoral growth rates



Source: Banking Association Lebanon Reports (2013, and 2017)

Summary: Employment challenges in Lebanon



Low productivity activities, a high share of informal employment

Lower female employment rate, higher concentration in services sector

Youth unemployment rate is particularly high

Low demand for skilled workers

Summary: Employment challenges in Lebanon



Declining growth of bank credit utilization shows the challenge of access to finance.

Ex: a study shows 80% of investment activities are funded by individual funds within the enterprises

Skill mismatch: A weak match between education and work

Labour regulations represent a barrier to hiring new workers

Inequalities in the educational system



Shared Prosperity **Dignified Life**



III. Assessing public budget allocations to support employment generation

Social Expenditure Monitor (SEM)

Social Expenditure Monitor:

An integrated framework for supporting macro-fiscal policies and the SDGs

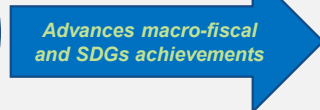
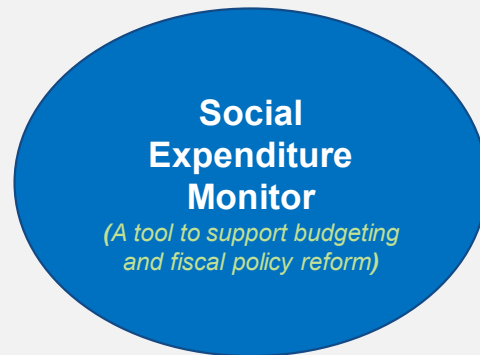


Social expenditure monitor for Arab States

A tool to support budgeting and fiscal policy reform



Shared Prosperity Dignified Life



Social Justice and Inclusive Development
(inform expenditure and policy reforms to address poverty, vulnerability, equity, exclusion)

Growth and Fiscal Sustainability
(facilitate more efficient public service delivery and expenditure switching options)

Better Statistics
(improve collection of public finance statistics in line with National Accounts and SDGs concepts)

SEM Social Expenditure Structure

The indicators in each dimension are designed to map the purpose of expenditure and the main beneficiary population

1. Education

1. Early childhood education
2. Primary education
3. Secondary education
4. Post-secondary skill training
5. Tertiary education
6. Education for adults
7. Research and use of technology on advancing education

2. Health and Nutrition

1. Outpatient services (including residential care)
2. Inpatient hospital services
3. Reproductive health care
4. Discrimination against women and gender-based violence
5. Public health services
6. Expenditure on medicines, medical products, appliances and equipment
7. Research and use of technology related to health and nutrition

3. Housing and Community Amenities

1. Housing
2. Water supply network and reservoirs
3. Quality of water supply
4. Urban commuting
5. Rural connectivity
6. Street lighting
7. Community development
8. Research on housing and amenities

4. Labour market interventions and employment generation programmes

1. Incentives to encourage female employment
2. Training and skills upgrading, including on technology (on the job)
3. Grants and other incentives to private enterprises/start-ups for job creation
4. Employment generation programmes
5. Research on labour market programs and policies

5. Social Protection and Food Security

1. Support towards achieving basic income, housing and food security
2. Unemployment benefits
3. Support to family and children, including maternity benefits
4. Subsidies to food processors
5. Subsidies to fuel (oil and gas)
6. Subsidies to electricity
7. Subsidies and other support to farms
8. Research on social protection and food security
9. Other nationally defined sets of goods and services






6. Art, Culture, and Sports

1. Cultural facilities and events
2. Promoting individuals and organizations in art and cultural fields
3. Sports facilities and services
4. Promoting athletes and teams
5. Research on advancing sports, culture and art

7. Environmental Protection

1. Solid waste management
2. Wastewater management and sanitation facilities
3. Incentives for renewable energy supply (hydroelectricity, solar, wind, biomass)
4. Protecting biodiversity/ combating desertification/land degradation
5. Research on environmental protection

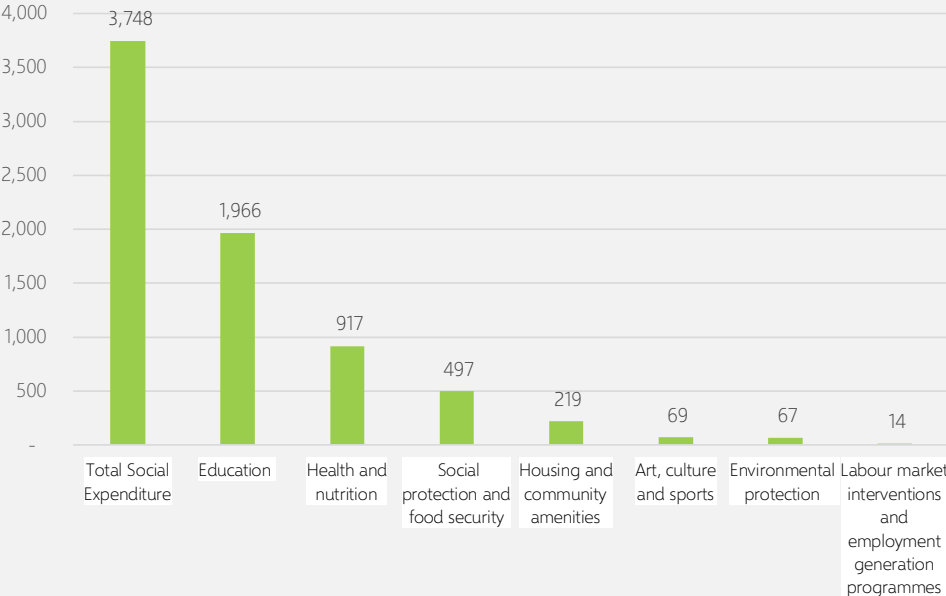
Main Beneficiaries

- Children 
- Young persons(aged 15-24) 
- Adults (aged 25-64) 
- Older persons (aged 65+) 
- Persons with disabilities, sickness and, survivors of conflict 
- Socially marginalized or at risk of social exclusion, refugees and immigrants
- Households/ Families
- Benefits to community at large
- Institutional development and administrative support

Allocations to labour market intervention and employment generation constitutes the lowest share of total social expenditure

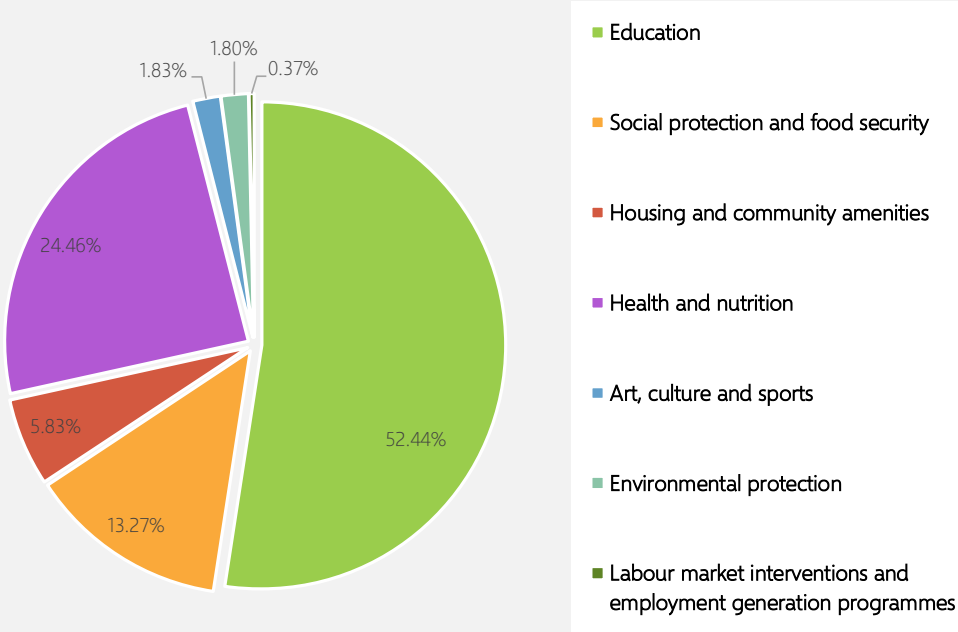
(for discussion only; NOT for citation)

Total Social Expenditure 2020 in Billion LL



Source: Public Budget (2020)

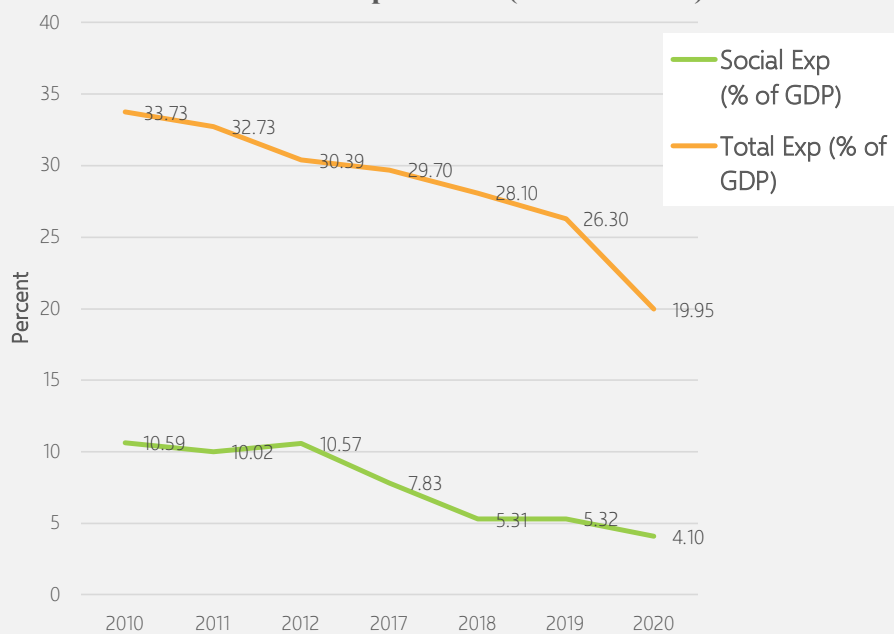
Share of each dimension of Total Social Expenditure (2020)



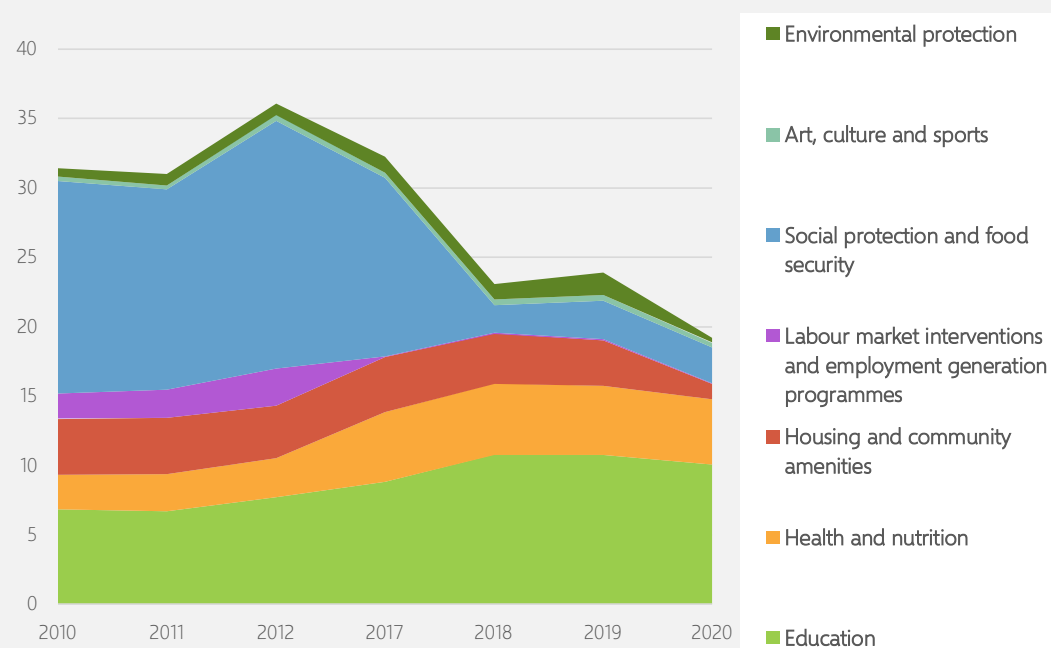
Overall, social expenditure, as a share of GDP, continues to decline which has implications on several aspects of social development and inclusive employment

(for discussion only; NOT for citation)

Total Social Expenditure (share of GDP)



Social expenditure as a share of total budget (%)



Source: Public Budgets , Author's Calculations



Shared Prosperity **Dignified Life**



IV. Role of Fiscal Policy for Employment Generation

Fiscal policy and employment generation

Theoretical Policy Levers



- Tax policy:
 - Corporate tax vs labour tax
 - Capital-intensive product vs labour-intensive product
- Subsidy policy
 - Wage subsidy
 - Exports subsidy/other fiscal incentives
- Government spending
 - Skill training and capacity development
 - Public works programmes
 - Fiscal expansion
- Labour market interventions through
 - Minimum wage setting
 - Public sector wage revisions
- Access to finance to SMEs

Discussion on Policy Issues for Lebanon

Support to boost labour demand:

- Investing in strategic sectors, connecting to global value chains
- Financing reconstruction work
- Improving agricultural production
- Credit expansion to productive sectors and SMEs
- Wage subsidies toward promoting SMEs

Support to improve quality of labour supply:

- Investing in improving quality of education, research and development
- Investing in active labour market programmes such as training and skill upgrading, employment services

Well strategized short –and– medium-term measures can transform the economy toward higher productivity, growth and generation of inclusive and decent employment.

Generating fiscal space is essential to support employment generation

A. Immediate debt relief measures

- DSSI with participation of private creditors and its extension till 2021
- Debt restructuring and write offs
- Gradually shift to debt stabilizing fiscal policies

B. Financial/Monetary policy reforms

- Banking reforms and recapitalization of banks
- Monetary and exchange rate policy
- External finance

C. Harnessing domestic resources

- Improve tax progressivity, not just more taxes on goods and services
- Improve tax compliance, ensure tax filing by all citizens

D. Better public finance management

- Establish social expenditure monitor (SEM)
- Medium term expenditure/revenue framework





Shared Prosperity Dignified Life



Thank you !