

Lebanon

Capacity Development Activities in Fiscal Year 2024

Central Bank Operations (May 2-12; September 11-13)

At the request of the Banque du Liban (BdL), METAC delivered a scoping mission for Technical Assistance (TA) on the functioning of the foreign currency (FX) market. At the start of the mission the BdL-Governor stated the objective to move towards a floating exchange rate with a transparent, market-determined pricing mechanism. The mission provided clear guidelines and an action plan to introduce an electronic interbank trading platform. Moreover, the interbank market should be guided by transparent rules and compliance checks and an automated, electronic trading platform will allow for a transparent pricing mechanism and reference rate. The mission stressed that an electronic trading platform is a technical tool but needs to be supported by a broader policy measure to obtain a liquid two-way FX market with a market-clearing rate.

An IMF staff team visited Lebanon from September 11–14, 2023, to discuss economic and political developments. METAC CBO advisor assisted the mission on foreign exchange related matters, including discussing TA request from the authorities in this area.

October 26, 2023-April 19, 2024: At the IMF Annual Meetings in October 2023, the Banque du Liban (BdL) requested support to guide the set-up of an electronic Foreign Exchange (FX) trading platform with high priority. This request was a direct follow-up to a May 2023 METAC scoping TA mission. Due to the tensions in the region following October 7th and their direct impact on Lebanon, the BdL has put the implementation of the FX electronic trading platform on hold until further notice. Once the BdL resumes its efforts on this project, METAC is ready to re-engage and provide technical assistance in FY25.

Government Finance Statistics and Public Sector Debt (November 14-December 12)

The remote joint mission with the IMF Statistics Department (STA) supported the Ministry of Finance (MoF) to strengthen budget reporting. The mission assessed the feasibility to enhance the Public Finance Monitor report with critical reporting elements (arrears; reporting on budget advances and treasury advances; payables; and commitments), while ensuring timely issuance in the current context of staffing constraints and long information backlogs. The concept has been validated in the mission and further METAC and STA assistance will be required to define operational details within a timebound plan.

Public Financial Management (July 31-August 4; November 14-December 12; December 12-14; February 6-10)

The scoping mission focused on identifying main challenges and opportunities in reviving the macro-fiscal functions at the ministry of finance and enhancing the medium-term fiscal framework (MTFF). The mission worked with the core technical team at the ministry

of finance, on reviewing analysis and forecasting for main macroeconomic sectors, including the real economy, balance of payments, monetary sector, and the fiscal sector (revenue, expenditure, and financing). In addition to building capacity on MTFF topics, the mission agreed with the team on practical steps for updating, simplifying, and using the framework for fiscal and economic analysis and forecasting, towards higher contribution in budget preparation and policy formulation.

The remote joint METAC-STA mission supported the Ministry of Finance in developing a concept for strengthened budget reporting, based on a stepwise approach. The mission assessed the feasibility to enhance the Public Finance Monitor report, stopped in December 2021, with critical reporting elements—such as arrears; alignment of reporting on budget advances and treasury advances; payables; and commitments—while ensuring timely issuance in the current context of staffing constraints and nearly two years of information backlog. The mission validated the concept. Further assistance will be required to define operational details within a timebound plan.

The remote joint METAC-STA mission supported the Ministry of Finance (MoF) to enhance the Medium-Term Fiscal Framework. The mission worked with the MoF team to develop a user-friendly framework that considers the current constraints, while ensuring it is comprehensive, coherent, and includes the core fiscal and economic variables. The main objective is to support the budget preparation process, and to ensure that fiscal policies are prepared and analyzed within a medium-term macro-fiscal perspective. This mission will be followed by additional support to continue building capacity and improve the tools used in analysis and forecasting.

A METAC mission worked with an MoF team, representing several departments and divisions, on an offsite mission in Amman, to continue developing the Medium-Term Fiscal Framework (MTFF) and enhancing capacity in fiscal analysis and forecasting. This has helped to ensure ownership and continuity of using the framework in internal work related to budget preparation and fiscal analysis. The mission focused on updating the fiscal database and revenue forecasting. Members of the macroeconomic unit were trained on basic forecasting techniques and in creating alternative economic and fiscal scenarios by using the framework.

Real Sector Statistics (April 22-26)

A remote mission assisted the Central Administration for Statistics (CAS) of Lebanon with the development of a Construction Cost Index (CCI). The mission reviewed all of the development work completed by the CAS to date, identified potential methodological improvements, and helped to plan the remaining work required to publish the final index.

Revenue Administration (November 27-December 15; January 8-26; March 3-7; April 15-19)

This remote METAC CD activity supported the Lebanon Customs Administration (LCA) in identifying services currently provided, or to be offered by Customs, and whether legally

supported fees are being, or may be, charged. A list of services for which the LCA may charge fees based on good international practice was developed and submitted to the LCA for review and approval. The LCA was advised to review its services list to determine a final list of services to be charged.

During an offsite CD event, extensive work was done on data analytics and 3 workshops were held in the following areas (i) compliance risk management; (ii) organization, reform and change management (based on VITARA content); (iii) large taxpayers office and tax directorates merger reform projects. Data reports on compliance were produced, together with numerous statistics to identify potential risks in registration, correct filing, payment, and collection in the VAT segment. A database diagnosis of the core IT system SIGTAS was carried out, identifying challenges at the level of data governance, database architecture and data transfer and analysis processes. The mid-term agenda of the FAD-METAC CD was discussed with the participants and 2 tax directorates heads, and the activities for FY24 and FY25 were framed.

A follow-up mission to the Lebanese Customs Administration (LCA) Services Fees Review was carried out, off-site in Amman, Jordan. The mission developed a methodology to facilitate the pricing of services provided by Lebanese Customs. The methodology is designed to price services fairly and based on the recovery of actual costs to customs, as per World Customs Organization - Revised Kyoto Convention (WCO RKC) and World Trade Organization - Trade Facilitation Agreement guidelines (WTO TFA). The mission stressed the need for LTA to engage with the private sector prior to the application of new fees, to ensure users of customs services understand the fee structure and purpose.

A dedicated online mission assessed the training needs of auditors in the two tax directorates in Lebanon. Key knowledge gaps were identified, and an audit training plan was prepared and submitted to the authorities for review and approval. The implementation of the plan would benefit from a blended modality. In-person mission can now resume with the return of METAC and FAD resident advisors to Lebanon.

Tax Policy (November 14-15)

This mission supported the Lebanese authorities in identifying reform options to strengthen income taxation and modernize the income tax law. A new income tax design is needed to move toward a more efficient, effective, and inclusive tax system in the medium term.