

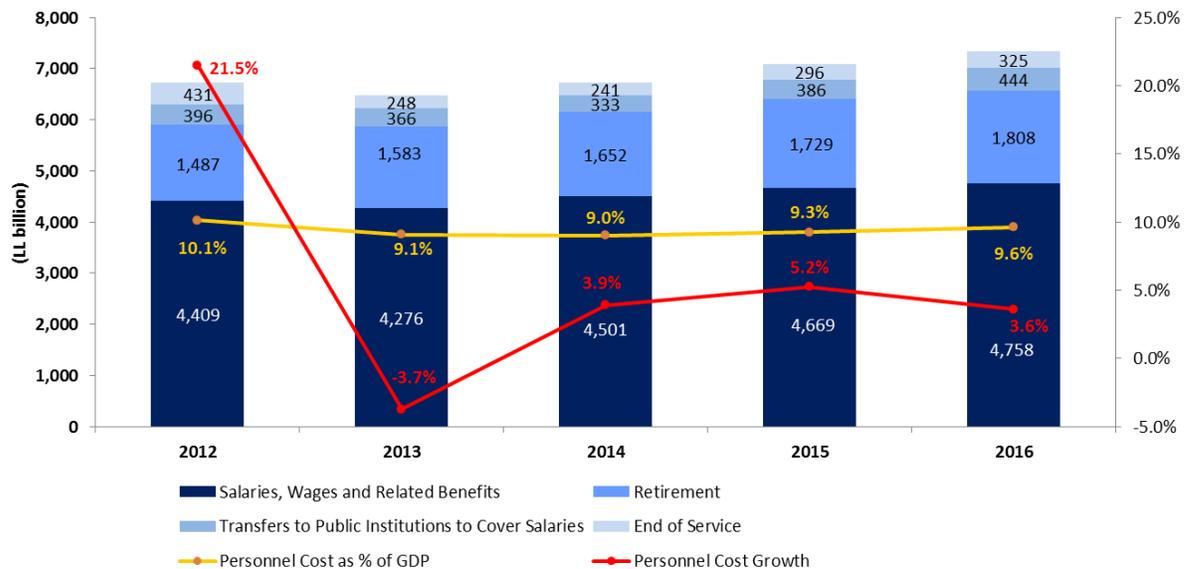
I. Personnel Cost

I.A. General Overview

Personnel cost¹ was subject to an increase of LL 255 billion (4 percent) over the past year reaching LL 7,335 billion in Jan-Dec 2016 from LL 7,080 billion in the same period of 2015². This was mainly driven by an increase in all sub-components that constitute personnel cost. In fact, while salaries, wages and social benefits witnessed an increase of LL 90 billion (2 percent), retirement salaries rose by LL 79 billion (5 percent) and transfers to public institutions to cover salaries witnessed an increase by LL 58 billion (15 percent). The latter increase was mainly driven by a LL 22 billion rise in transfers to Council for Development and Reconstruction (CDR) and an LL 18 billion increase in transfers to the Lebanese University. In addition, end of service indemnities increased by LL 28 billion (10 percent).

The average of personnel cost during the period 2012-2016 reached 9.6 percent of GDP. Particularly, personnel cost accounted for 10.1 percent of GDP in 2012, constituting its greatest share in the period 2012-2016. This was mainly driven by the cost of living adjustment³ and exceptional retroactive payments⁴. Moreover, the average growth of personnel cost for the period 2012-2016 registered 2.3 percent, with the greatest increase in personnel costs in the year 2015 notably by 5.2 percent (for further details, kindly refer to Personnel Cost- December 2015 report).

Figure 1. Personnel Cost Breakdown by Component 2012-2016



Source: Ministry of Finance, Directorate General of Finance Note: GDP figures prior to 2016 are taken from the CAS Lebanese National Accounts 2004-2015. Figures for 2016 are computed using IMF April 2017 World Economic Outlook real growth and deflator, based on the 2015 CAS GDP figure.

¹ Personnel cost includes payments for salaries, wages and social benefits, retirement, end of service indemnities, and transfers to public institutions to cover salaries.

² The figures used are those published in the Public Finance Monthly Monitor report –December 2016.

³ Cost of living payments include both the monthly increment for Sep-2012, Oct-2012, Nov-2012 and Dec-2012 as well as part of the retroactive payment for the period Feb-Aug 2012. All payments were made through a treasury advance as per decree 8851 dated 7 September 2012.

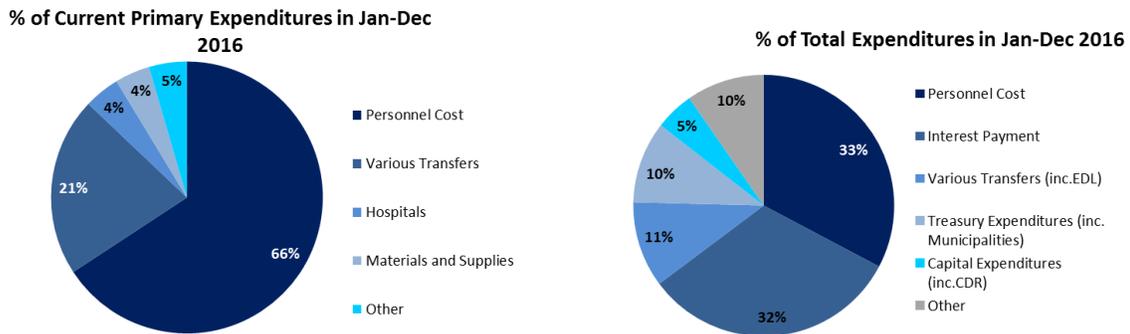
⁴ Retroactive payments include the exceptional degrees for education personnel as per Laws 102 dated 06/03/2010, 159 dated 06/08/2010 and 223 dated 04/04/2012 and the 1996-1998 retroactive disbursements for military and civil personnel.

I.B. Share of Personnel Cost from Expenditures

Personnel cost constituted historically the highest share of current primary expenditure⁵, constituting 56 percent of the total in Jan-Dec 2014 whilst reaching 67 percent and 66 percent in the consecutive periods of Jan-Dec 2015 and Jan-Dec 2016 respectively. The observed decrease in the share of personnel cost in Jan-Dec 2016 is mainly driven by an increase in the base of current primary expenditures which rose by LL 601 billion (6 percent) in this period to reach LL 11,154 billion despite lower transfers to Electricité du Liban which decreased by LL 314 billion over this period (for more information, kindly refer to the Public Finance Monitor- December 2016).

As a percent of total expenditures, personnel cost constituted 32 percent of the total in end-Dec 2014, compared with 35 percent in end-Dec 2015 and 33 percent in end-Dec 2016. The aforementioned decrease in the share of personnel cost could in part be explained by a rise in total expenditures by LL 2,019 billion over the period of 2015-2016. The following figures represent the current primary expenditure and total expenditure composition in Jan-Dec 2016:

Figure 2. Composition of Current Primary Expenditures and Total Expenditures in Jan-Dec 2016



Source: Ministry of Finance, Directorate General of Finance

N.B.: Other expenditures mainly include judgments and reconciliation, mission costs, accounting adjustments and external services.

II. Salaries, Wages, and Social Benefits

Payments for salaries, wages and social benefits rose by LL 90 billion (2 percent) in Jan-Dec 2016, from LL 4,669 billion in Jan-Dec 2015 to reach LL 4,758 billion end of December 2016. This was mainly the result of a rise in basic salaries of military and education personnel by LL 114 billion and LL 24 billion respectively. In addition, other transfers to education personnel increased by LL 21 billion. However, these increases were slightly counterbalanced by a LL 72 billion decrease in allowances to military and a LL 10 billion decline in basic salaries for civil personnel.

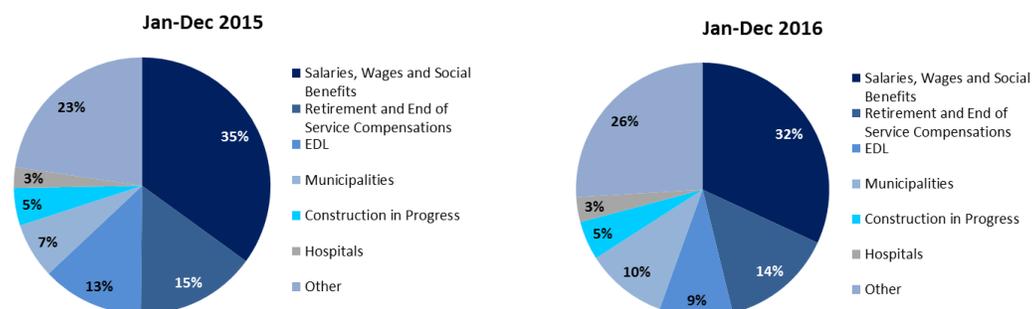
In terms of composition, cost of basic salaries comprised 75 percent of total payments for salaries, wages and social benefits in Jan-Dec 2016, followed by allowances (13 percent), other payments (7 percent), and employment benefits (5 percent).

As a percentage of total primary spending, salaries, wages and social benefits accounted for 31 percent in Jan-Dec 2014, slightly witnessing an increase to reach 35 percent in the same

⁵ Current primary expenditures represent current expenditures excluding "Interest Payments" and "Foreign Debt Principal Repayment".

period of 2015, while decreasing to 32 percent in Jan-Dec 2016. The following figures represent the primary spending breakdown by component during the period under review:

Figure 3. Primary Spending Breakdown by Component during Jan-Dec 2015 and Jan-Dec 2016



Source: Ministry of Finance, Directorate General of Finance

N.B.: Other expenditures mainly include transfers to CDR, transfers to public institutions to cover salaries, contributions to non-public sectors, VAT refund, and medicaments.

Table 1. Salaries, Wages and Related Benefits Breakdown – Jan-Dec 2015 and Jan-Dec 2016

(LL billion)	Basic Salaries		Employment Benefits 4/		Allowances 5/		Other 6/		Total	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Military Personnel	2,165	2,279	84	92	646	574	3	2	2,898	2,947
Army	1,385	1,457	53	57	437	370	1	1	1,876	1,885
Internal Security Forces	593	628	26	26	151	150	1	1	769	805
General Security Forces	148	156	4	4	45	39	1	1	198	199
State Security Forces	39	38	1	5	14	15	0	0	55	58
Education Personnel	906	930	69	75	0	0	23	43	997	1,048
Civilian Personnel 1/	348	338	67	71	5	4	47	42	466	456
Government contribution to employees cooperative 2/							270	266	270	266
Customs Salaries 3/									37	36
Unclassified									1	5
Total	3,418	3,547	220	238	651	578	342	354	4,669	4,758

1/ Includes salaries payments made to Ministry of Public Health from Guarantees account.

2/ Government contribution to employees cooperative is provided to both the education and civil personnel. However, the allocation between the two types of personnel is not available and therefore is presented in a separate line item.

3/ Includes salaries and wages and indemnities payment from guarantees account but excludes payments for allowances which are made from Customs Cashiers and can only be reclassified once Customs has sent the supporting document to the Directorate General of Finance.

4/ Includes payments for family, transportation, overtime as well as various indemnities (including committee compensation and tax returns).

5/ Includes payments for maternity and sickness, marriage, birth, death, hospital, education, medical and various social allowances, and provided to military personnel only.

6/ Other is given to non-military bodies and includes (i) payments for bonuses, (ii) State contributions to the Mutual Funds covering Member of Parliaments, employees of the Lebanese University, judges, judges' aides and Islamic tribunal judges and (iii) State contributions (as an employer) to the National Social Security Fund public sector employees that are not covered by the Civilian Servant Cooperative.

II.A. Basic Salaries and Wages

Out of total salaries, wages and social benefits, basic salaries reached LL 3,547 billion by end of December 2016, following an increase by LL 129 billion from Jan-Dec 2015. The aforementioned increase was mainly due to a LL 114 billion and a LL 24 billion increase in basic salaries of military personnel and of education personnel respectively. On the other side, basic salaries of civilian personnel witnessed a decrease of LL 10 billion standing at LL 338 billion by end of December 2016.

II.A.a. Basic Salaries of Military Personnel

Basic salaries of military personnel increased by 5 percent mainly as a result of an increase in payments made to permanent employees of (i) the Army by LL 63 billion, (ii) the Internal Security Forces by LL 41 billion, and (iii) the General Security Forces by LL 22 billion, either due to the recruitment of new personnel or the promotion of current personnel.

Moreover, payments to trainees of the Internal Security forces and clothing indemnities increased by LL 4 billion and LL 3 billion respectively. These increases were partially counterbalanced by an LL 18 billion decrease in salaries of trainees of the General Security Forces.

II.A.b. Basic Salaries of Education Personnel

Basic salaries of education personnel witnessed an increase of 3 percent in Jan-Dec 2016 compared to the same period in 2015, reaching LL 930 billion. This increase was mainly driven by a LL 28 billion increase in retroactive payments and a LL 9 billion increase in the salaries of permanent employees at the Directory General of Vocational Training (DGVT). In addition, salaries of contractuels at the DGVT witnessed an increase by LL 8 billion whilst salaries of permanent employees in primary education increased LL 3 billion. Furthermore, salaries of contractuels in the primary and intermediate education, and in secondary education increased by LL 3 billion and LL 2 billion respectively. These increases were counterbalanced by a LL 15 billion drop in salaries of trainees in the primary and secondary education, as well as a LL 7 billion decrease in salaries of trainees at the DGVT. Moreover, the DGE salaries decreased by LL 5 billion.

II.A.c Basic Salaries of Civilian Personnel

Payments to civilian personnel witnessed a slight decrease of 3 percent to LL 338 billion in Jan-Dec 2016 mainly due to a LL 14 billion decrease in transfers covering missions abroad for the Ministry of Foreign Affairs and Emigrants. This was partly counterbalanced by a LL 3 billion increase in transfers to the ministry of Finance and a LL 2 billion transfer to the The court of cassation in the Ministry of Justice.

At the level of ministries, the Ministry of Justice represents the largest wage bill with a share of 19 percent of total salaries and wages to civilian personnel during Jan-Dec 2016, followed by the Ministry of Foreign Affairs (MoFA) with 18 percent and the Ministry of Finance with 10 percent (*for further details, kindly refer to table 2*).

Basic salaries and wages to employees in the MoFA witnessed the most notable decrease mainly due to a decline in retroactive payments by LL 5 billion.

Table 2. Civilian Salaries and Wages Breakdown by Ministry – Jan-Dec 2015 and Jan-Dec 2016

(LL million)	Jan-Dec 2015	Jan-Dec 2016	% from Total Civilian Personnel in 2016
Ministry of Justice	63,647	64,714	19%
Ministry of Foreign Affairs and Emigrants	74,766	61,167	18%
Parliament	33,286	33,148	10%
Ministry of Finance	29,528	32,890	10%
Presidency of the Council of Ministers	29,724	29,787	9%
Ministry of Public Health	20,607	19,141	6%
Ministry of Public Works and Transportation	17,070	17,445	5%
Ministry of Agriculture	15,291	15,587	5%
Ministry of National Defense	10,631	10,693	3%
Ministry of Interior	9,896	10,268	3%
Other	43,361	43,438	13%
Total	347,809	338,279	100%

Source: Ministry of Finance, Directorate General of Finance

II.B. Payment of Allowances

Allowances decreased by 11 percent to LL 578 billion in Jan-Dec 2016. This was mainly due to decreases in allowances to the Army and General security forces by LL 66 billion and LL 6 billion respectively.

The drop in allowances to the Army was mainly driven by decreases in (i) hospital expenses by LL 38 billion, (ii) sickness and maternity allowances by LL 14 billion, (iii) school allowances by LL 10 billion and (iv) death allowances by LL 3 billion. These decreases were partially offset by a LL 4 billion increase in medical allowances.

Allowances to the General Security Forces declined mainly due to a LL 3 billion decrease in hospital expenses coupled with a LL 3 billion decrease in school allowances.

II.C. Other

Other payments witnessed a LL 12 billion increase to reach LL 354 billion in 2016, mainly due to a LL 21 billion increase in other payments to education personnel. This significant increase nearly mirrors the LL 19 billion increase in transfers to the Mutual fund of the Lebanese University in 2016 compared to 2015.

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