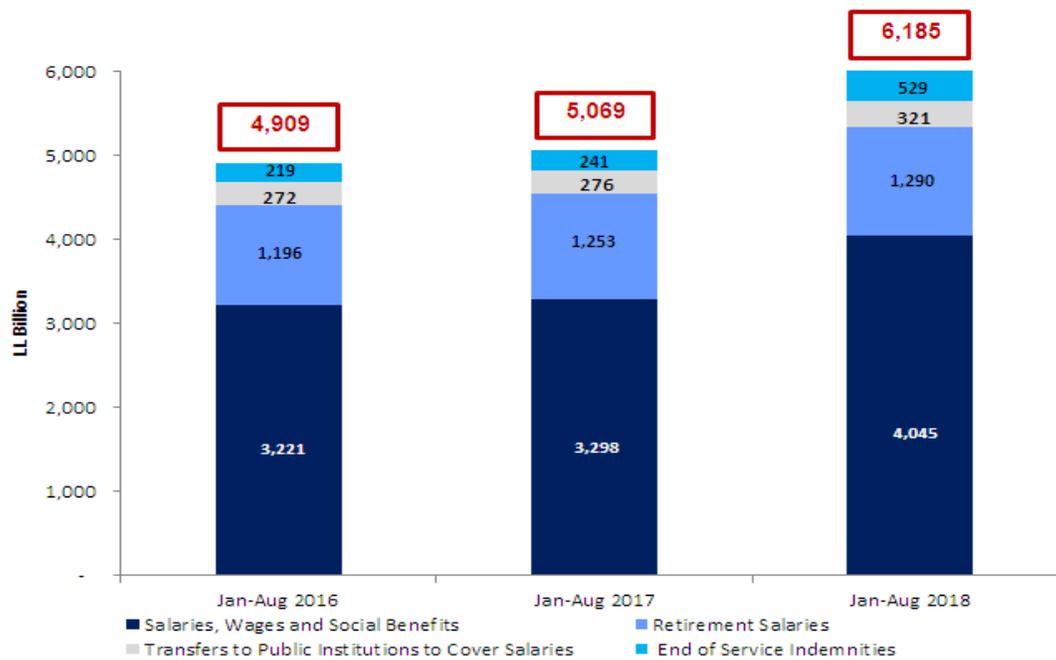


I. Personnel Cost

I.A. General Overview

Personnel cost¹ rose by LL 1,117 billion (22.0 percent) year-on-year during Jan-Aug 2018 to reach LL 6,185 billion compared to LL 5,069 billion during the same period of 2017². The increase was mainly due to the impact of the new salary scale for the public sector employees (Law # 46)³, resulting in a year-on-year growth of 22.7 percent in salaries, wages and related benefits, along with a more significant rise of 119.1 percent⁴ in the end of service indemnities and a 3.0 percent increase in payments for retirement.

Figure 1. Personnel Cost Breakdown by Component in Jan-Aug 2016, Jan-Aug 2017 and Jan-Aug 2018



Source: Ministry of Finance, Directorate General of Finance

I.B. Share of Personnel Cost from Expenditures

Personnel cost accounted for the main bulk of current primary expenditures⁵, contributing to 67.5 percent in Jan-Aug 2016, decreasing to 66.8 percent in Jan-Aug 2017 and to 65.5 percent in Jan-Aug 2018⁶. On the other hand, and when compared to total expenditures, personnel

¹ Personnel cost includes payments for salaries, wages and related 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 Monitor Monthly report - August 2018.

³ Law # 46 was ratified by the Parliament on July 18, 2017 and was signed by the President of the Republic on August 21, 2017.

⁴ The increase in end of service indemnities can be partly explained by the implementation of the new salary scale, which encouraged many public employees to undergo an early retirement plan.

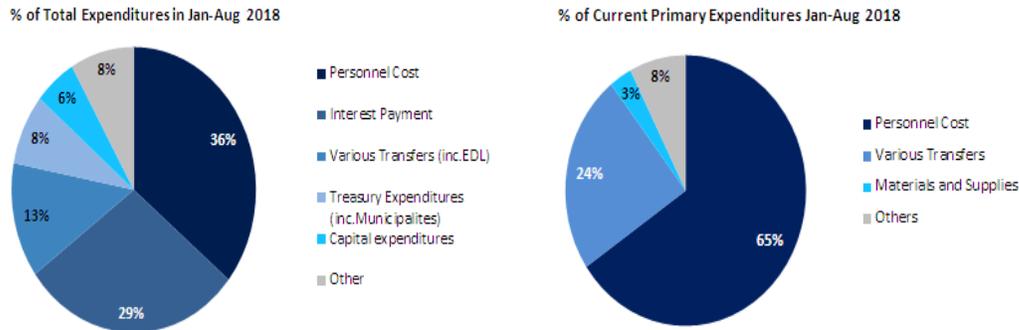
⁵ Current primary expenditures represent current expenditures excluding "Interest Payments" and "Foreign Debt Principal Repayment".

⁶ Despite the expansion in the personnel cost over the past two years, current primary expenditures increased at a faster pace, mainly due to the y-o-y rise in the transfers to EDL by 61.5 percent and 29.3 percent respectively in Jan-Aug 2017 and Jan-Aug 2018.

cost represented 34.6 percent in Jan-Aug 2016, increasing to 36.4 percent in Jan-Aug 2017⁷ before going down to 35.8 percent during the same period of 2018. Despite the important year-on-year increase of 22.0 percent in the personnel cost during Jan-Aug 2018 driven by the salary scale effect, its share from total expenditures dropped due to a more pronounced rise in the latter growing by 23.8 percent year-on-year.

The following figures represent the composition of total expenditures and current primary expenditures during the Jan-Aug 2018:

Figure 2. Composition of Total Expenditures and Current Primary Expenditures in Jan-Aug 2018



Source: Ministry of Finance, Directorate General of Finance

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

II. Salaries, Wages, and Related Benefits

Payments for salaries, wages and related benefits increased by LL 747 billion year-on-year to reach LL 4,045 billion in Jan-Aug 2018. Overall, this growth was mainly the result of: (i) a LL 420 billion rise in salaries and wages to military personnel, (ii) a LL 134 billion surge in those paid for education personnel, (iii) a LL 114 billion increase in salaries and wages to civilian personnel, as well as (iv) an increase of LL 86 billion in allowances paid to military personnel.

In details, the rise in salaries, wages and related benefits to military personnel is driven by higher salaries and wages paid for all military bodies, with the following increases: (i) LL 280 billion to the Army, (ii) LL 91 billion to the Internal Security Forces, (iii) LL 36 billion to the General Security Forces, and (iv) LL 14 billion to the State Security Forces. This was followed by the rise in total allowances paid for military bodies driven by a considerable year-on-year increase of LL 95 billion in the allowances paid to the Internal Security Forces.

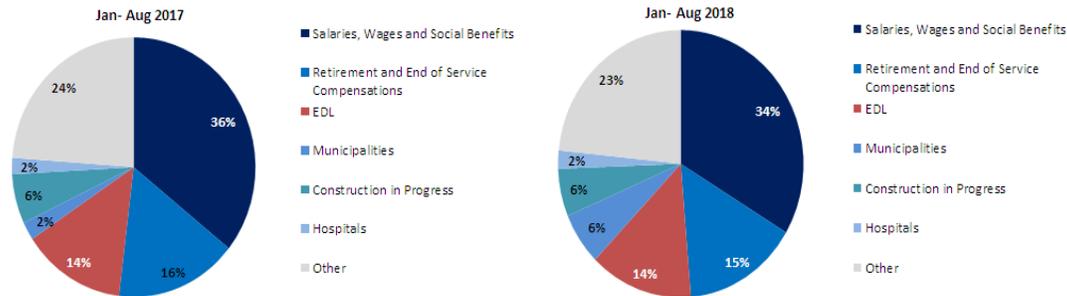
In terms of composition, salaries and wages constituted 74.4 percent of total payments for salaries, wages and related benefits to public sector employees during Jan-Aug 2018, followed by allowances (14.3 percent) and employment benefits (3.5 percent), while “other payments” and “unclassified allowances” represented the remaining 7.8 percent of the total.

⁷ The considerable rise in the share of the personnel cost can be attributed to a significantly lower base level of total expenditures that decreased by 1.7 percent year-on-year in Jan-Aug 2017, driven by lower treasury expenditures, mainly payments to municipalities due to the contradiction in the timing of payments.

Moreover, salaries, wages and related benefits represented 35.7 percent of total primary spending in Jan-Aug 2017, and decreased to 33.6 percent of the total during the same period of 2018⁸.

The following figures represent the primary spending breakdown by component during the period under review.

Figure 3. Primary Spending Breakdown by Component during Jan-Aug 2017 and Jan-Aug 2018



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-Aug 2017 and Jan-Aug 2018

(LL billion)	Salaries and Wages		Employment Benefits 4/		Allowances 5/		Other 6/		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Military Personnel	1,561	1,981	60	65	488	575	2	1	2,110	2,622
Army	1,004	1,284	39	43	306	299	0	0	1,349	1,625
Internal Security Forces	424	515	17	17	142	237	0	0	583	769
General Security Forces	105	141	3	3	31	27	1	1	140	172
State Security Forces	27	41	1	1	10	12	0	0	39	55
Education Personnel	553	687	36	35	0	0	24	28	613	750
Civilian Personnel 1/	230	344	50	43	3	2	32	45	314	434
Government contribution to employees cooperative 2/							224	199	224	199
Customs Salaries 3/									33	40
Unclassified									4	1
Total	2,344	3,012	145	143	491	577	282	273	3,298	4,045

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

2/Government contribution to the 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, which are provided to military personnel only.

6/Amounts given to non-military bodies and includes (i) payments of bonuses, (ii) State contributions to the Mutual Funds covering Members of Parliament, 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.

⁸ Due to a more rapid increase in the expenditure base with primary expenditures increasing by 30.6 percent against a growth of 22.7 percent in salaries, wages and related benefits compared to the same period of 2017.

II.A. Salaries and Wages

Salaries and wages of public sector employees, excluding indemnities, allowances and other benefits, rose by LL 668 billion (28.5 percent) to reach LL 3,012 billion in Jan-Aug 2018. This increase was the result of a rise in the salaries for all sub-categories following the implementation of the new salary scale.

II.A.a. Salaries and Wages of Military Personnel

The 26.9 percent increase in salaries and wages of military personnel during Jan-Aug of 2018 was mainly the result of the new salary scale that took effect late August 2017. Basic salaries to the permanent personnel⁹ grew by LL 268 billion for the Army, LL 93 billion for the Internal Security Forces, LL 31 billion for the General Security Forces and by LL 14 billion for the State Security Forces. Moreover, it is worth mentioning that payments to clothing indemnity rose by LL 5 billion in Jan-Aug 2018 compared to the previous year.

II.A.b. Salaries and Wages of Education Personnel

Salaries and wages of education personnel increased by LL 134 billion (24.2 percent) year-on-year reaching LL 687 billion in Jan-Aug 2018. The increase was mainly due to the new salary scale adjustment in 2017, which contributed to higher salary payments for permanent employees at the primary education by LL 90 billion, for those at the secondary education by LL 40 billion, and for permanent employees at Directorate General of Vocational Training by LL 14 billion. In contrast, payments for contractuels at the secondary education dropped by LL 11 billion along with a drop of LL 6 billion in the payments for trainees at the primary education during the mentioned period.

II.A.c Salaries and Wages of Civilian Personnel

Salaries and wages to civilian personnel increased remarkably by LL 114 billion (49.6 percent) year-on-year to reach LL 344 billion during Jan-Aug 2018. At the level of ministries, the Ministry of Foreign Affairs and Emigrants (MoFA) represented the largest wage bill during the covered period with a share of 16 percent from total salaries and wages to civilian personnel, followed by the Ministry of Justice (15 percent from total) and the Ministry of Finance (12 percent from total). (*For further details, kindly refer to table 2*)

In details, employees at the Ministry of Finance had the most notable nominal rise in salaries that increased year-on-year by LL 18.2 billion¹⁰ in Jan-Aug of 2018, followed by the Ministry of Public Health with LL 16.2 billion¹¹.

⁹ Payments for salaries in 2017 include the cost of living adjustment, disbursed ahead of the new salary scale implementation starting August 2017.

¹⁰ With a LL 16 billion increase in basic salaries for permanent employees at the Ministry of Finance.

¹¹ This hike is driven by the increase in payments to contractuels by LL 15 billion during Jan-Aug 2018 compared to the same period of 2017. This can be largely attributed to some retroactive payments, namely LL 9 billion of salary scale retroactive payments to contractuels pertaining to the years 1996-1997-1998 and from 01/01/1999 till 15/02/2000 compared to LL 2 billion paid during the same period of 2017, in addition to LL 2 billion of retroactive payments covering the period from 21/8/2017 till 31/12/2017 based on law #46 dated 21/8/2017.

Table 2. Civilian Salaries and Wages Breakdown by Ministry – Jan-Aug 2017 and Jan-Aug 2018

(LL million)	Jan-Aug	Jan-Aug	% from Total Civilian Personnel in 2018
	2017	2018	
Ministry of Foreign Affairs and Emigrants	44,257	55,708	16%
Ministry of Justice	42,538	52,321	15%
Ministry of Finance	21,983	40,140	12%
Presidency of the Council of Ministers	20,187	32,695	10%
Ministry of Public Health	14,156	30,367	9%
Parliament	21,945	29,853	9%
Ministry of Public Works and Transportation	12,051	18,331	5%
Ministry of Agriculture	10,331	16,962	5%
Ministry of Interior	6,776	11,241	3%
Ministry of National Defense	7,290	10,168	3%
Other	28,375	46,024	13%
Total	229,889	343,809	100%

Source: Ministry of Finance, Directorate General of Finance

II.B. Payment of Allowances

The cumulative payment of allowances to public sector employees increased by LL 86 billion (17.5 percent) to reach LL 577 billion during Jan-Aug 2018. The rise was mainly due to an increase of LL 95 billion rise in allowances disbursed to the Internal Security Forces reaching LL 237 billion in Jan-Aug of 2018. This was followed by a LL 2 billion increase in allowances to State Security Forces to reach LL 12 billion by the end of August 2018. Meanwhile, allowances disbursed to the Army and the General Security Forces dropped by LL 7 billion and LL 3 billion respectively during the mentioned period.

More specifically, allowances to the Internal Security Forces mainly increased in Jan-Aug 2018 given the significant rise in hospital expenses by LL 73 billion, and a rise of LL 16 billion rise in school allowances.

In addition, allowances to the Army fell down by LL 7 billion (2.3 percent) during the covered period, given a LL 27 billion drop in hospital expenses despite a LL 12 billion rise in sickness and maternity expenses during Jan-Aug 2018.

II.C. Government subscription and contributions in the Employees Cooperative

Payments to government subscription and contributions to the Employees Cooperative declined by LL 25 billion year-on-year to reach LL 199 billion in Jan-Aug 2018 compared to LL 224 billion in Jan-Aug 2017.



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