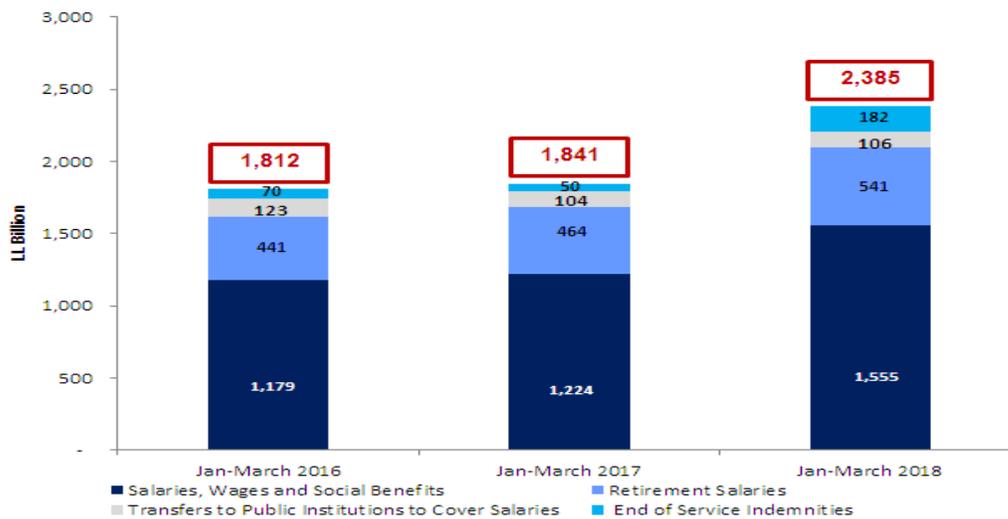


I. Personnel Cost

I.A. General Overview

Personnel cost¹ rose by LL 543 billion (29.5 percent) year-on-year in the first quarter of 2018 to reach LL 2,385 billion compared to LL 1,841 billion during the same period of 2017². The increase was mainly driven by the impact of the new salary scale for the public sector employees (Law # 46)³, resulting in a year-on-year growth of 27.1 percent in salaries, wages and related benefits, along with a significant increase of 267.8 percent⁴ in the end-of-service indemnities and an increase of 16.6 percent in retirement payments.

Figure 1. Personnel Cost Breakdown by Component in Jan-Mar 2016, Jan-Mar 2017 and Jan-Mar 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 64 percent in Jan-Mar 2016, remaining nearly unchanged throughout the same period of 2017 and 2018. On the other hand, when compared to total expenditures, personnel cost represented 31 percent in Jan-Mar 2016, inching up to 36 percent in Jan-Mar 2017⁶ before dropping to 35 percent of the total during the same quarter of 2018. Despite the significant annual increase in personnel cost during the first quarter of 2018, its share from total expenditures dropped due to a more pronounced rise in total expenditures that grew by 33.4 percent compared to the same period of 2017.

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 Monthly Monitor report - March 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.

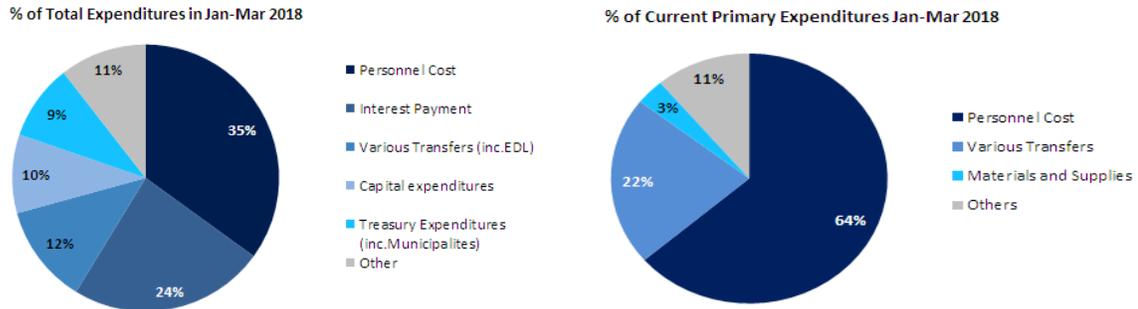
⁴ The increase in end of service indemnities can be partly explained by the implementation of the new salary scale, which encouraged many public employees to undergo an early retirement plan.

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

⁶ The exceptional increase in the share of personnel cost can be attributed to a remarkably lower base level of total expenditures that decreased by 12.5 percent year-on-year in Jan-Mar 2017, driven by lower treasury expenditures, mainly payments to municipalities due to the discrepancy in the timing of payments.

The following figures represent the composition of total expenditures and current primary expenditures during the first quarter of 2018:

Figure 2. Composition of Total Expenditures and Current Primary Expenditures in Jan-Mar 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 332 billion year-on-year to reach LL 1,555 billion in Jan-Mar 2018. Overall, this growth was mainly the result of: (i) a LL 157 billion surge in basic salaries to military personnel, (ii) a LL 99 billion increase in allowances paid for military personnel, and (iii) a LL 50 billion increase in basic salaries to education personnel.

In details, the increase in salaries, wages and related benefits to military personnel can be mainly attributed to: (i) a LL 100 billion rise in basic salaries to the Army, (ii) a LL 34 billion growth in basic salaries to the Internal Security Forces, (iii) a LL 17 billion rise in basic salaries to the General Security Forces, and (iv) a LL 79 billion increase in the allowances paid for the Army.

In terms of composition, basic salaries constituted 74 percent of total payments for salaries, wages and related benefits to public sector employees during Jan-Mar 2018, followed by allowances (16 percent), and employment indemnities (4 percent), while “other payments” and “unclassified allowances” represented the remaining 7 percent of the total⁷.

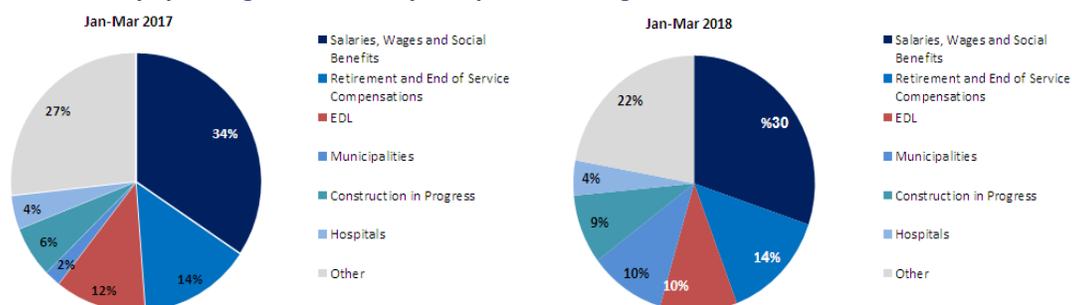
Furthermore, salaries, wages and related benefits represented 34.4 percent of total primary spending in Jan-Mar 2017, and decreased to 30.2 percent of the total in the same period of 2018⁸.

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

⁷ The difference in the percentage share of the total is due to rounding.

⁸ Due to lower expenditure base as mentioned in footnote 6.

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

(LL billion)	Basic Salaries		Employment Benefits 4/		Allowances 5/		Other 6/		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Military Personnel	592	749	23	28	146	246	1	1	762	1,023
Army	376	476	14	19	70	149	0	0	461	644
Internal Security Forces	164	198	7	7	67	85	0	0	238	291
General Security Forces	42	59	1	2	7	8	1	1	51	69
State Security Forces	10	15	0	1	3	4	0	0	13	19
Education Personnel	212	262	14	17	0	0	8	10	234	289
Civilian Personnel 1/	90	137	16	14	1	0	16	20	123	171
Government contribution to employees cooperative 2/							85	60	85	60
Customs Salaries 3/									18	12
Unclassified									3	0
Total	894	1,147	52	59	147	246	110	91	1,224	1,555

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.

II.A. Basic Salaries and Wages

Basic salaries of public sector employees, excluding indemnities, allowances and other benefits, rose by LL 253 billion (28 percent) to reach LL 1,147 billion in Jan-Mar 2018. This increase was the result of an upsurge in the basic salaries for all sub-categories following the implementation of the new salary scale.

II.A.a. Basic Salaries of Military Personnel

The 27 percent increase in basic salaries to military personnel in Jan-Mar 2018 was mainly the result of the new salary scale hike that took effect late August 2017. Salary payments to the permanent personnel⁹ grew by LL 96 billion for the Army, LL 33 billion for the Internal Security Forces, LL 12 billion for the General Security Forces and by LL 5 billion for the State Security Forces. Moreover, it is worth mentioning that payments to clothing indemnity rose by LL 5 billion in Jan-Mar 2018 compared to the previous year.

II.A.b. Basic Salaries of Education Personnel

Basic salaries of education personnel increased by LL 50 billion (23 percent) compared to Jan-Mar 2017 and stood at LL 262 billion in the first quarter of 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 33 billion, for those at the secondary education by LL 15 billion, and for permanent employees at Directorate General of Vocational Training by LL 5 billion. In contrast, payments for contractuels at the secondary education dropped by LL 6 billion in the mentioned period.

II.A.c Basic Salaries of Civilian Personnel

Basic salary payments to civilian personnel increased by LL 46 billion (51 percent) year-on-year to reach LL 137 billion during the first quarter of 2018. At the level of ministries, the Ministry of Foreign Affairs and Emigrants (MoFA) represented the largest wage bill in the covered period, with a share of 18 percent from total salaries and wages to civilian personnel, followed by the Ministry of Justice (14 percent from total) and the Ministry of Public Health (11 percent from total). (For further details, kindly refer to table 2)

In details, employees at the Ministry of Public health had the most notable nominal increase in basic salaries that grew year-on-year by LL 9 billion¹⁰ in Jan-Mar 2018, followed by the Ministry of Finance with LL 7 billion.

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

(LL million)	Jan-Mar 2017	Jan-Mar 2018	% from Total Civilian Personnel in 2018
Ministry of Foreign Affairs and Emigrants	18,966	24,254	18%
Ministry of Justice	16,090	19,028	14%
Ministry of Public Health	6,443	15,625	11%
Ministry of Finance	8,216	15,034	11%
Presidency of the Council of Ministers	7,530	12,085	9%
Parliament	8,277	11,615	9%
Ministry of Public Works and Transportation	4,932	6,779	5%
Ministry of Agriculture	3,741	6,352	5%
Ministry of Interior	2,551	4,311	3%
Ministry of National Defense	2,704	3,819	3%
Other	10,782	17,628	13%
Total	90,231	136,530	100%

Source: Ministry of Finance, Directorate General of Finance

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

¹⁰ This hike is driven by the increase in payments to contractuels by LL 8.6 billion during the first quarter of 2018 compared to the same period of 2017. This can be largely attributed to some retroactive payments, namely LL 6.7 billion of salary scale retroactive payments to contractuels pertaining to the years 1996-1998 and from 01/01/2000 till 15/02/2000, in addition to LL 1.9 billion of retroactive payments covering the period from 21/8/2017 till 31/12/2017 based on law #46 dated 21/8/2017.



II.B. Payment of Allowances

The cumulative payment of allowances to public sector employees increased by LL 99 billion (67 percent) to reach LL 246 billion during the first quarter of 2018. The increase was mainly due to a rise of LL 79 billion in allowances to the Army, followed by the LL 19 billion increase in allowances disbursed to the Internal Security Forces reaching LL 85 billion in Jan-Mar 2018.

In details, allowances to the Army grew year-on-year during Jan-Mar 2018, given a significant rise in hospital expenses spending by LL 66 billion and a LL 12 billion increase in sickness and maternity.

Furthermore, allowances to the Internal Security Forces increased by LL 19 billion (28 percent) during the covered period, due to an LL 18 billion rise in hospital expenses amounting to LL 66 billion in Jan-Mar 2018.

In addition, allowances to the General Security Forces increased by LL 1 billion (14 percent) during the covered period, given a LL 2 billion rise in sickness allowances, despite the LL 1.8 billion drop in hospital expenses in Jan-Mar 2018.

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

Payments to government subscription and contributions to the Employees Cooperative declined year-on-year to reach LL 60 billion in Jan-Mar 2018 compared to LL 85 billion in Jan-Mar 2017.



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