

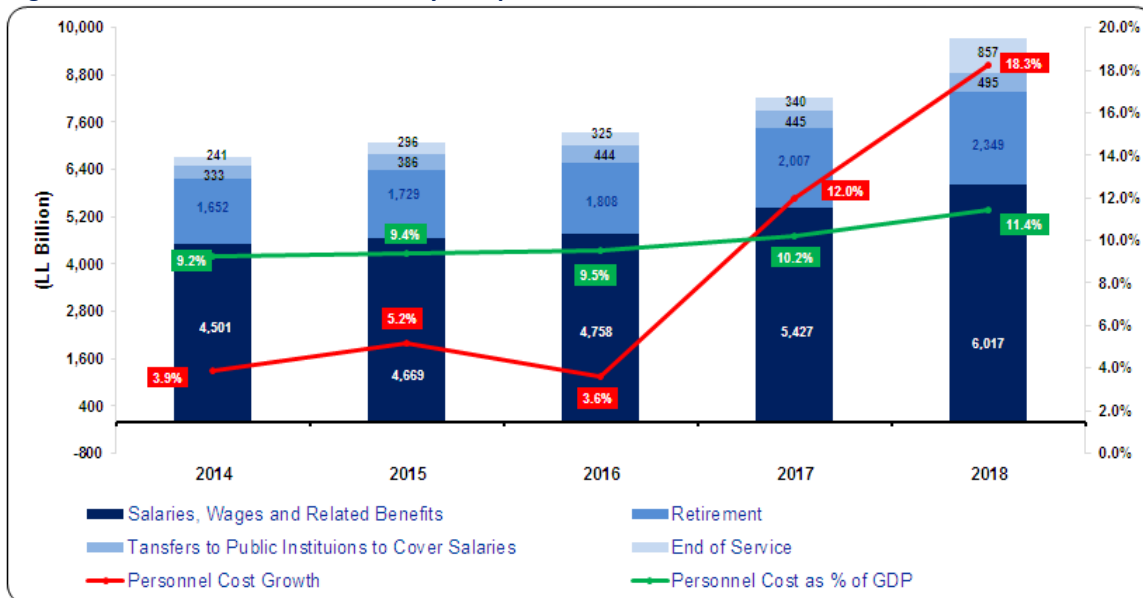
I. Personnel Cost

I.A. General Overview

Personnel cost¹ was subject to a considerable increase of LL 1,501 billion (18.3 percent) over the past year reaching LL 9,719 billion by the end of 2018 up from LL 8,218 billion in 2017². This increase in personnel cost was mainly driven by the new salary scale for public sector employees (Law # 46³), driving all personnel cost sub-components to swell up. In fact, while salaries, wages and social benefits witnessed an increase of LL 591 billion (10.9 percent), retirement and end of service indemnities rose significantly by LL 343 billion (17.1 percent) and LL 518 billion (152.4 percent) respectively. 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. Meanwhile, transfers to public institutions to cover salaries also witnessed an increase by LL 50 billion (11.3 percent).

Personnel cost averaged 10.0 percent of GDP⁴ during the period of 2014-2018. The mentioned ratio increased gradually to reach 11.4 percent in 2018 up from 10.2 percent in 2017, and compared to 9.2 percent in 2014. This share increase was driven by the remarkable year-on-year growth rate of 18.3 percent in personnel cost during 2018 compared to an average growth of 8.3 percent for the 2014-2018 period. In parallel, personnel cost grew by a compound annual growth rate (CAGR) of 8.4% between 2011 and 2018 and by a CAGR of 11.1 percent over the 2015-2018 period.

Figure 1. Personnel Cost Breakdown by Component 2014-2018



Source: Ministry of Finance, Directorate General of Finance

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 2018.

³ Ratified by the Parliament on July 18, 2017 and signed by the President of the Republic on August 21, 2017.

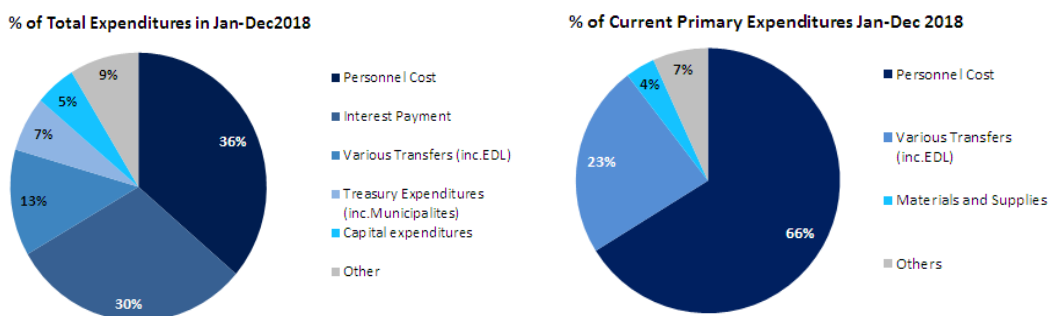
⁴ Gross Domestic Product is estimated at LL 85,037 billion in 2018 as per the International Monetary Fund's (IMF) April 2019 WEO after adopting the official National Accounts figures published by the Central Administration of Statistics up to 2017.

I.B. Share of Personnel Cost from Expenditures

Personnel cost constitutes the highest share of current primary expenditures⁵, contributing to 66.0 percent in Jan-Dec 2016, 66.2 percent in Jan-Dec 2017 and 66.1 percent in Jan-Dec 2018. Moreover, personnel cost represented 32.7 percent of total expenditures by the end of 2016, increasing to 35.4 percent of the total by end-2017, and rising further to 36.2 percent of total expenditures in 2018. This increase was mainly due to the significantly higher growth rate in personnel cost⁶ during the covered period.

The following figures represent the composition of current primary expenditures and total expenditures in 2018:

Figure 2. Composition of Total Expenditures and Current Primary Expenditures in Jan-Dec 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 590 billion (10.9 percent), from LL 5,427 billion in 2017 to LL 6,017 billion in 2018⁷. Overall, this growth is mainly the result of (i) a LL 352 billion surge in salaries and wages to military personnel, (ii) a LL 111 billion increase in allowances paid for military personnel, (iii) a LL 109 billion increase in salaries and wages allocated to civilian personnel, and (iv) a LL 69 billion growth in salaries and wages of education personnel. In contrast, “other payments” to government subscription and contributions in the government employees’ cooperative dropped by LL 65 billion in the covered period.

In details, the increase in salaries, wages and related benefits to the military personnel is attributed to a rise in the salaries and wages for all military bodies as follows: (i) LL 269 billion to the Army, (ii) LL 46 billion to the Internal Security Forces, (iii) LL 23 billion to the General Security Forces, and (iv) LL 14 billion to State Security Forces, along with a LL 107 billion rise in the allowances paid to Internal Security Forces.

In terms of composition, salaries and wages accounted for 76 percent of total payments for salaries wages and related benefits to public sector employees in full year 2018, followed by allowances (13 percent), and employment benefits (4 percent), while “other payments” and

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

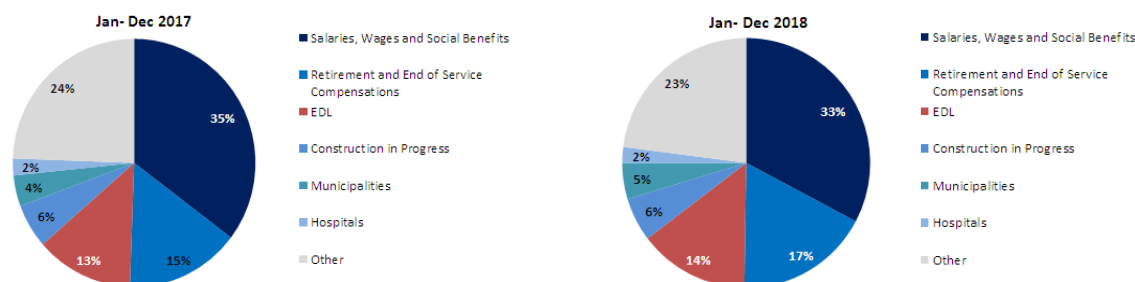
⁶ Personnel cost increased by 12.0 percent and 18.3 percent respectively in 2017 and 2018 compared to y-o-y growth rates of 3.5 percent and 15.7 percent in total expenditures.

⁷ Figures may slightly differ from those published in the Public Finance Monitor report due to rounding effect.

“unclassified allowances” represented the remaining 7 percent of the total. Compared to total primary spending, salaries, wages and related benefits dropped from 35.3 percent in 2017 to 32.8 percent in 2018⁸.

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

Figure 3. Primary Spending Breakdown by Component during Jan-Dec 2017 and Jan-Dec 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 2. Salaries, Wages and Related Benefits Breakdown – Jan-Dec 2017 and Jan-Dec 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	2,632	2,983	92	98	696	808	3	2	3,423	3,891
Army	1,675	1,944	59	63	439	443	1	0	2,174	2,450
Internal Security Forces	724	770	26	26	199	307	1	0	949	1,102
General Security Forces	184	206	4	5	43	40	1	1	232	252
State Security Forces	50	64	4	5	15	18	0	0	69	87
Education Personnel	1,006	1,075	75	69	0	0	32	37	1,113	1,181
Civilian Personnel 1/	409	518	69	62	3	3	44	53	526	636
Government contribution to employees cooperative 2/							314	249	314	249
Customs Salaries 3/									51	57
Unclassified									0	5
Total	4,047	4,577	237	229	700	811	393	340	5,427	6,017

1/Includes salaries payments made to the Ministry of Public Health from the 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 documents 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/Amounts given to non-military bodies and includes (i) payments of 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.

⁸ Due to a more rapid increase in the expenditure base with primary expenditures increasing by 19.5 percent compared to a y-o-y growth of 10.9 percent in salaries, wages and related benefits.

II.A. Salaries and Wages

Salaries and wages of public sector employees, excluding indemnities, allowances and other benefits, increased by LL 530 billion (13 percent) to reach LL 4,577 billion in 2018. This increase was driven by a rise in salary payments to all the sub-categories in the public sector.

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

The 13.4 percent (LL 352 billion) annual increase in salaries and wages to military personnel is mainly the result of the new salary scale, which came into effect as of September 2017. However, the full-year impact was reflected in 2018 figures with a rise in basic salaries to permanent employees by (i) LL 258 billion to the Army, (ii) LL 38 billion to the Internal Security Forces, (iii) LL 25 billion to the General Security Forces and (iv) LL 13 billion to the State Security Forces.

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

Salaries and wages of education personnel grew by 6.8 percent year-on-year in 2018, reaching LL 1,075 billion compared to LL 1,006 billion in 2017. The increase was mainly due to a rise in salary payments to permanent personnel by LL 54 billion for the primary education, LL 26 billion for the secondary education personnel, as well as LL 11 billion for the Directorate General of Vocational Training. However, payments for contractuels witnessed a year-on-year drop of LL 12 billion for the Directorate General of Vocational Training and LL 11 for the secondary education. Also, payments for trainees at the primary education dropped by LL 9 billion year-on-year during the mentioned period.

II.A.c. Salaries and Wages of Civilian Personnel

Salaries and wages payments to civilian personnel surged by LL 109 billion (26.7 percent) in Jan-Dec 2018 compared to full year 2017. At the level of ministries, the Ministry of Foreign Affairs and Emigrants (MoFA) represented the largest wage bill in 2018, with a share of 16.3 percent of total salaries and wages to civilian personnel, followed by the Ministry of Justice (15.6 percent), and the Ministry of Finance (11.7 percent). *(For further details, kindly refer to table 3)*

In details, employees in the Ministry of Public Health witnessed the most notable nominal increase in salaries and wages that grew by LL 19.7 billion (89.0 percent)⁹ year-on-year in 2018, followed by the Ministry of Finance with LL 15.2 billion (33.7 percent). *(For further details, kindly refer to table 4)*

⁹ This hike is driven by the increase in payments to contractuels during Jan-Dec 2018 compared to the same period of 2017. It can be largely attributed to large retroactive payments pertaining to the years 1996-1997-1998 and from 01/01/1999 till 15/02/2000, in addition to some retroactive payments covering the period from 21/8/2017 till 31/12/2017 based on law #46 dated 21/8/2017. Also, other retroactive payments were paid in Jan-Dec 2018 based on the State Council decision #66/2016/2017 dated 09/05/2017 covering the period from 01/01/1999 till 31/08/2017.

Table 3. Civilian Salaries and Wages Breakdown by Ministry - Jan-Dec 2017 and Jan-Dec 2018

(LL million)	Jan-Dec	Jan-Dec	% from Total Civilian Personnel in 2018
	2017	2018	
Ministry of Foreign Affairs and Emigrants	72,475	84,595	16.3%
Ministry of Justice	69,876	80,863	15.6%
Ministry of Finance	45,221	60,444	11.7%
Presidency of the Council of Ministers	37,622	49,743	9.6%
Parliament	37,684	44,333	8.6%
Ministry of Public Health	22,087	41,753	8.1%
Ministry of Public Works and Transportation	21,976	27,636	5.3%
Ministry of Agriculture	20,200	25,684	5.0%
Ministry of Interior	13,394	17,147	3.3%
Ministry of National Defense	12,968	15,367	3.0%
Other	43,438	55,200	13.6%
Total	408,702	517,951	100%

Source: Ministry of Finance, Directorate General of Finance

Table 4. Change in Salaries and Wages of Civilian Personnel by Ministry – 2017/2018

	Nominal Change (LL million)	Annual Percentage Change
	2017/2018	2017/2018
Ministry of Public Health	19,666	89.0%
Ministry of Finance	15,223	33.7%
Presidency of the Council of Ministers	12,121	32.2%
Ministry of Foreign Affairs and Emigrants	12,121	16.7%
Ministry of Justice	10,987	15.7%
Parliament	6,650	17.6%
Ministry of Public Works and Transportation	5,660	25.8%
Ministry of Agriculture	5,484	27.1%
Ministry of Interior	3,754	28.0%
Ministry of National Defense	2,399	18.5%
Other	15,186	27.5%
Overall Change	109,249	26.7%

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 111 billion (15.9 percent) to reach LL 811 billion in 2018. The increase was mainly due to a rise of LL 107 billion in allowances to the Internal Security. In contrast, allowances granted to the General Security Forces dropped by LL 2 billion in 2018.

In details, allowances to the Internal Security Forces mainly increased in 2018, given the surge in hospital expenses of LL 95 billion and a LL 11 billion rise in allowances related to sickness and maternity. These increases were slightly offset by the drop in schools allowances by LL 5 billion during the mentioned period.

On the other hand, allowances to the General Security Forces decreased due to a LL 4 billion drop in school allowances that was partly counterbalanced by a LL 2 billion rise in sickness and maternity expenses over the covered period.

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

Payments to government subscription and contributions to the Employees Cooperative registered LL 249 billion in Jan-Dec 2018, down by 20.8% from LL 314 billion in Jan-Dec 2017.



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