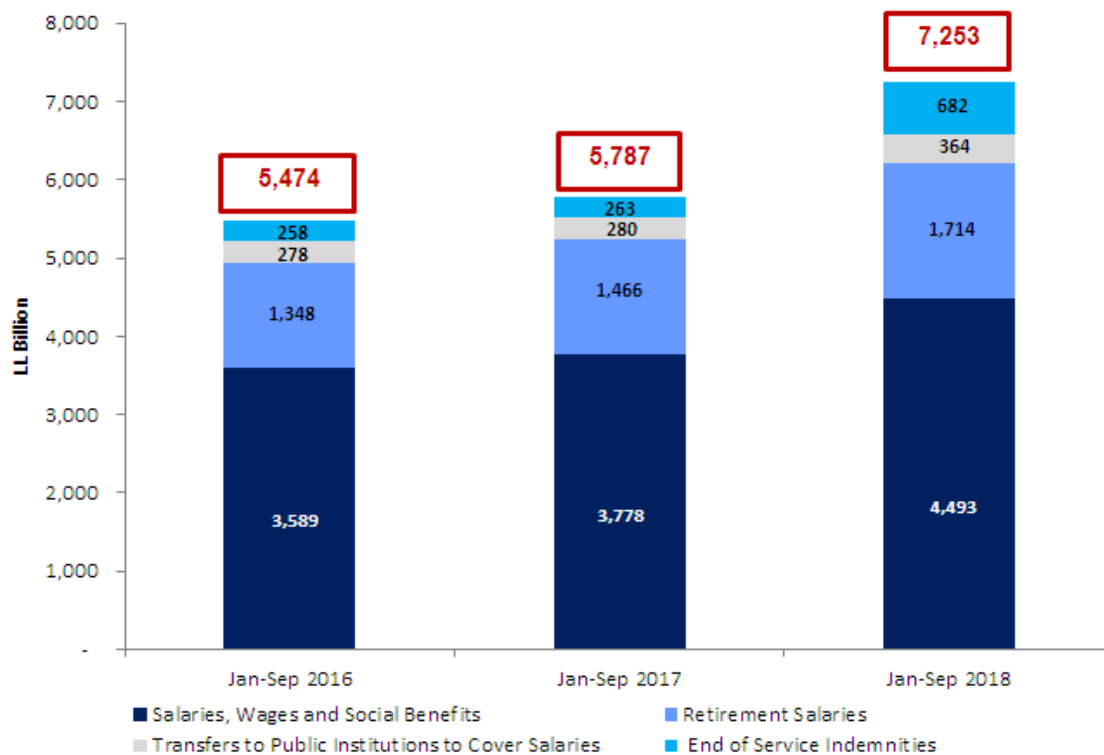


I. Personnel Cost

I.A. General Overview

Personnel cost¹ rose by LL 1,466 billion (25.3 percent) year-on-year during Jan-Sep 2018 to reach LL 7,253 billion compared to LL 5,787 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 18.9 percent in salaries, wages and related benefits, along with a more significant rise of 159.3 percent⁴ in the end of service indemnities and a 16.9 percent increase in payments for retirement.

Figure 1. Personnel Cost Breakdown by Component in Jan-Sep 2016, Jan-Sep 2017 and Jan-Sep 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 67.0 percent in Jan-Sep 2016, increasing to 68.3 percent in Jan-Sep 2017 before going down

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 - September 2018.

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

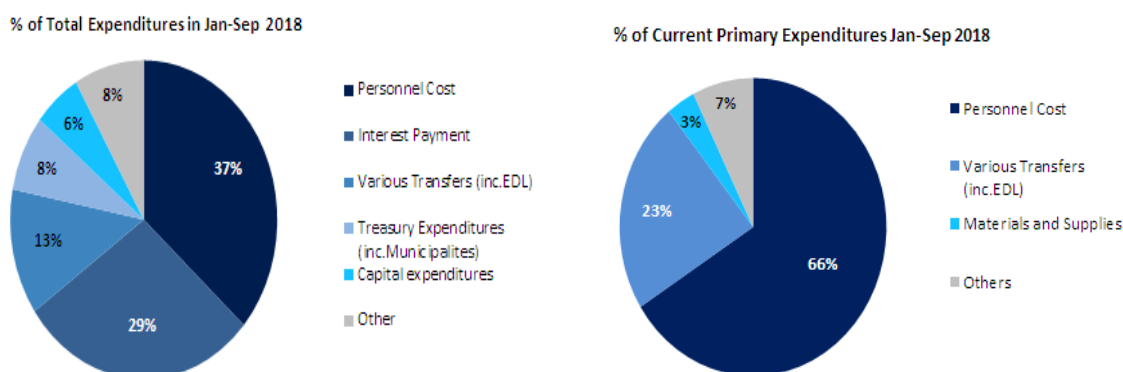
⁴ The increase in end of service indemnities can be partly explained by the implementation of the new salary scale, which encouraged many public employees to undergo an early retirement plan.

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

to 66.0 percent in the first nine months of 2018⁶. On the other hand, and when compared to total expenditures, personnel cost represented 34.0 percent in Jan-Sep 2016, increasing to 36.9 percent in Jan-Sep 2017⁷ before going down slightly to 36.5 percent during the same period of 2018. Despite the important year-on-year increase of 25.3 percent in the personnel cost during Jan-Sep 2018 driven by the salary scale effect, its share from total expenditures dropped due to a more pronounced rise in the latter growing by 26.6 percent year-on-year.

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

Figure 2. Composition of Total Expenditures and Current Primary Expenditures in Jan-Sep 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 715 billion year-on-year to reach LL 4,494 billion⁸ in Jan-Sep 2018. Overall, this growth was mainly the result of: (i) a LL 342 billion rise in salaries and wages to military personnel, (ii) a LL 117 billion surge in those paid for education personnel, (iii) a LL 103 billion increase in salaries and wages to civilian personnel, as well as (iv) an increase of LL 152 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 238 billion to the Army, (ii) LL 55 billion to the Internal Security Forces, (iii) LL 36 billion to the General Security Forces, and (iv) LL 12 billion to the State Security Forces. This was followed by the rise in total allowances paid for military bodies driven by a significant year-on-year surge of LL 112 billion in the allowances paid to the Internal Security Forces along with a LL 35 billion increase in those paid to the Army.

⁶ Despite the considerable y-o-y expansion in the personnel cost by the end of the third quarter of 2018, current primary expenditures increased at a faster pace (29.8 percent), mainly due to the rise in transfers to EDL by 37.9 percent over the covered period.

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 2.5 percent year-on-year in Jan-Sep 2017, driven by lower treasury expenditures, mainly payments to municipalities due to the discrepancy in the timing of payments.

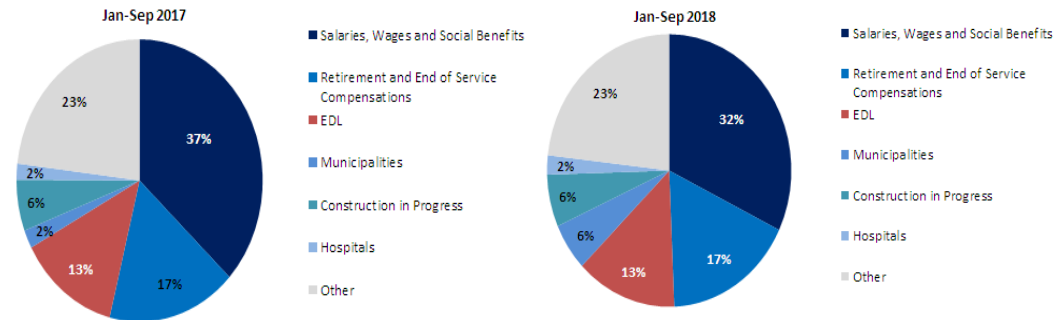
⁸ Figures may differ slightly from the aggregated ones in the Public Finance Monitor due to rounding effect.

In terms of composition, salaries and wages constituted 75.1 percent of total payments for salaries, wages and related benefits to public sector employees during Jan-Sep 2018, followed by the allowances (14.4 percent) and employment indemnities (3.5 percent), while “other payments” and “unclassified allowances” represented the remaining 7.1 percent of the total.

Moreover, salaries, wages and related benefits represented 37.0 percent of total primary spending in Jan-Sep 2017, and decreased to 32.2 percent during the same period of 2018⁹.

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

Figure 3. Primary Spending Breakdown by Component during Jan-Sep 2017 and Jan-Sep 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-Sep 2017 and Jan-Sep 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	1,887	2,229	67	72	492	644	2	1	2,448	2,947
Army	1,208	1,447	44	47	308	343	0	0	1,560	1,837
Internal Security Forces	523	578	19	19	142	254	0	0	684	852
General Security Forces	121	157	3	4	32	32	1	1	157	194
State Security Forces	35	47	1	1	11	15	0	0	47	64
Education Personnel	641	758	37	37	0	0	24	28	702	823
Civilian Personnel 1/	283	386	54	47	3	2	33	46	372	482
Government contribution to employees cooperative 2/							224	199	224	199
Customs Salaries 3/									33	44
Unclassified									0	0
Total	2,810	3,373	159	156	495	646	282	274	3,779	4,494

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).

⁹ Due to a more rapid increase in the expenditure base with primary expenditures increasing by 36.7 percent against a growth of 18.9 percent in salaries, wages and related benefits compared to the same period of 2017.

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. Salaries and Wages

Salaries and wages of public sector employees, excluding indemnities, allowances and other benefits, rose by LL 563 billion (20.0 percent) to reach LL 3,373 billion in the first nine months of 2018. This increase was the result of a rise in the basic salaries for all sub-categories following the implementation of the new salary scale.

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

The 18.2 percent increase in salaries and wages to military personnel during Jan-Sep 2018 was mainly the result of the new salary scale that took effect late August 2017. Basic salaries to the permanent personnel¹⁰ grew by LL 225 billion for the Army, LL 57 billion for the Internal Security Forces, LL 31 billion for the General Security Forces and by LL 12 billion for the State Security Forces. Moreover, it is worth mentioning that payments to clothing indemnity rose by LL 5 billion in Jan-Sep 2018 compared to the previous year.

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

Salaries and wages of education personnel increased by LL 117 billion (18.3 percent) year-on-year reaching LL 758 billion in Jan-Sep 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 57 billion, for those at the secondary education by LL 53 billion, and for permanent employees at Directorate General of Vocational Training by LL 20 billion. In contrast, payments for contractuels at the secondary education dropped by LL 11 billion along with a drop of LL 7 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 of civilian personnel increased remarkably by LL 103 billion (36.6 percent) year-on-year to reach LL 386 billion during Jan-Sep 2018. At the level of ministries, the Ministry of Justice represented the largest wage bill during the covered period with a share of 15.59 percent from total salaries and wages to civilian personnel, followed closely by the Ministry of Foreign Affairs and Emigrants (MoFA) (15.57 percent from total) and the Ministry of Finance (11.73 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 rise in salary payments increasing year-on-year by LL 16.8 billion¹¹ in the first nine months of 2018, followed by the Ministry of Foreign Affairs and Emigrants (MoFA) with LL 13.9 billion.

¹⁰ Payments for salaries in 2017 include the cost of living adjustment, disbursed ahead of the new salary scale implementation starting August 2017.

¹¹ This hike is driven by the increase in payments to contractuels by LL 16 billion during Jan-Sep 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

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

(LL million)	Jan-Sep 2017	Jan-Sep 2018	% from Total Civilian Personnel in 2018
Ministry of Justice	51,353	60,197	15.59%
Ministry of Foreign Affairs and Emigrants	46,266	60,128	15.57%
Ministry of Finance	32,373	45,270	11.73%
Presidency of the Council of Ministers	26,585	37,324	9.67%
Ministry of Public Health	16,616	33,378	8.65%
Parliament	25,008	33,184	8.60%
Ministry of Public Works and Transportation	14,704	20,710	5.36%
Ministry of Agriculture	14,340	19,370	5.02%
Ministry of Interior	9,293	12,789	3.31%
Ministry of National Defense	8,936	11,468	2.97%
Other	37,190	52,270	13.54%
Total	282,665	386,088	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 152 billion (30.7 percent) to reach LL 646 billion during Jan-Sep 2018. The rise was mainly due to an increase of LL 112 billion rise in allowances disbursed to the Internal Security Forces reaching LL 254 billion in Jan-Sep of 2018. This was followed by a LL 35 billion increase in allowances to the Army to reach LL 343 billion by the end of September 2018.

More specifically, allowances to the Internal Security Forces mainly increased in the first nine months of 2018 given the significant rise in hospital expenses by LL 84 billion, and a rise of LL 17 billion rise in school allowances.

Furthermore, allowances to the Army increased by LL 35 billion (11.5 percent) during the covered period, due to an increase LL 32 billion in school allowances and LL 12 billion in sickness and maternity expenses during Jan-Sep 2018. These increases were partly counterbalanced by a LL 20 billion drop in hospital expenses during the mentioned period.

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-Sep 2018 compared to LL 224 billion in Jan-Sep 2017.

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.



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