

## I. Personnel Cost

### I.A. General Overview

Personnel cost<sup>1</sup> increased by LL 883 billion (12 percent) over the past year reaching LL 8,218 billion in 2017 from LL 7,335 billion in 2016<sup>2</sup>. This increase in personnel cost was mainly driven by the new salary scale for public sector employees (Law # 46) that was ratified on July 18, 2017 and was signed by the President of the Republic on August 21, 2017. In fact, personnel cost totaled LL 3,149 billion in Sep-Dec 2017, reflecting an increase of LL 723 billion or 30 percent from the same period of 2016.

Law # 46 mandated the increase in the salaries & wages and the cost of living attributions of employees, retirees and contractuels in public sector administrations, the Lebanese University, municipalities, the union of municipalities and in state-owned enterprises that are not subject to the Labor Law. In addition, the new law stipulates the modification of the salaries of the government's administrative staff and to members of the educational body in the Ministry of Education & Higher Education, as well as to military personnel.

In fact, basic salaries of public sector employees grew significantly in the last four months of 2017 from the same period a year earlier, with Education personnel experiencing the highest increase in salaries over the covered period, followed by Civilian personnel and military personnel (For further details, kindly refer to table 1 and box #1). It is important to note, however, that the full impact of the salary scale and the growth rate of salaries and wages in each professional category will be more significant when analyzing full year figures in 2018 compared to prior years.

**Table 1. Basic Salaries Breakdown by Professional Category - Sep-Dec 2016 and Sep-Dec 2017**

(LL million)	Sep-Dec 2016	Sep-Dec 2017	Annual Nominal Change	Annual Percentage Change
<b>Military Personnel</b>	<b>779</b>	<b>1,071</b>	<b>292</b>	<b>37.50%</b>
Army	497	671	174	35.20%
Internal Security Forces	213	300	87	40.30%
General Security Forces	57	78	21	37.70%
State Security Forces	12	22	10	78.40%
<b>Education Personnel</b>	<b>239</b>	<b>453</b>	<b>214</b>	<b>89.80%</b>
<b>Civil Personnel</b>	<b>113</b>	<b>179</b>	<b>66</b>	<b>58.00%</b>
<b>Total</b>	<b>1,131</b>	<b>1,703</b>	<b>572</b>	<b>50.60%</b>

Source: Ministry of Finance, Directorate General of Finance

Personnel cost averaged 9.4 percent of GDP during the 2010-2017 period. In fact, personnel cost increased from 8.7 percent of GDP in 2010 to 9.2 percent of GDP in 2014 and to 10.1 percent of GDP<sup>3</sup> in 2017, reflecting its highest share in 8 years. The increase was driven by the implementation of the new salary scale law and a stagnant economic environment.

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

<sup>2</sup> The figures used are those published in the Public Finance Monthly Monitor report –December 2017.

<sup>3</sup> Computed using IMF, WEO October 2018 real growth and deflator based on CAS 2016 GDP figures.

Moreover, personnel cost grew by a compound annual growth rate (CAGR) of 7.2% between 2010 and 2017 and by a CAGR of 6.9 percent over the 2014-2017 period. On an annual basis, personnel cost increased by 5.2 percent in 2015, 3.6 percent in 2016 and surged to 12 percent in 2017.

### Box #1: New Salary Scale Average Increases Breakdown

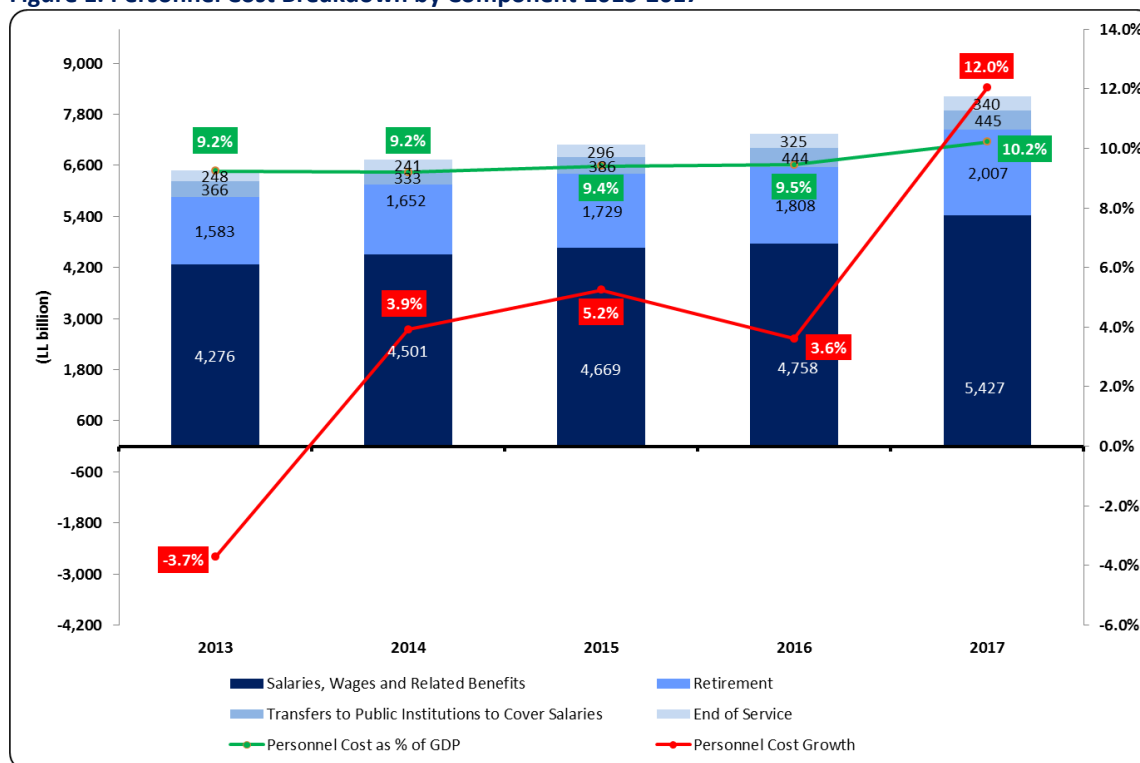
After implementing the new salary scale in September, public sector employee's salary increase varied between each grade and level. Public sector employees:

- Level: Gain one level every two years
- Grade: gets promoted to a higher grade by undergoing an exam in the Civil Service Board with the exception of the Second (under certain requirements) and First Grade (appointed by the Council Of Ministers)

Average percentage increase	
Public Sector First Grade	60%
Public Sector First Grade (Civil Service Board or Central Inspection)	62%
Public Sector Second Grade	105%
Public Sector Head of supervision and studies in the civil Service Board/ inspector / supervisor / or auditor in court of account or civil Service Board or central inspection - Engineer or Doctor or Pharmacist (Manager or Head of Unit)	102%
Public Sector Third Grade	77%
Public Sector Fourth Grade-First Degree	75%
Public Sector Technicians and Special Service in Officers in the Directorate General of Civil Aviation Fourth Grade First Degree	74%
Public Sector Fourth Grade-Second Degree	53%
Public Sector Technician and Special Service Officers in the Directorate General of Civil Aviation- Second Degree	52%
Public Sector Fifth Grade	32%
Pilot in the Directorate General of Civil Aviation	81%
Navigator in the Directorate General of Civil Aviation	89%
Foreign Service Officers First Grade	23%
Foreign Service Officers Outside Lebanon Second Grade	31%
Foreign Service Officers Outside Lebanon Third Grade	39%
Education Committee before University Education	88%

Source: Ministry of Finance

**Figure 1. Personnel Cost Breakdown by Component 2013-2017**



Source: Ministry of Finance, Directorate General of Finance

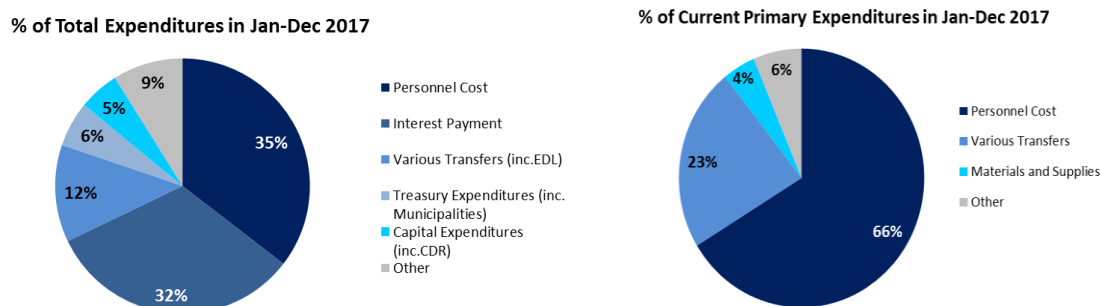
### **I.B. Share of Personnel Cost from Expenditures**

Personnel cost constitutes the highest share of current primary expenditures<sup>4</sup>, contributing to 67.1 percent in Jan-Dec 2015, 65.8 percent in Jan-Dec 2016 and 66.2 percent in Jan-Dec 2017. Moreover, personnel cost represented 34.8 percent of total expenditures by the end of 2015, decreasing to 32.7 percent of the total by end-2016, but then jumped back to 35.4 percent of total expenditures in 2017. The increases in the personnel cost as a share of current primary expenditures and as a share of total expenditure was mainly due to the significantly higher growth rate in personnel cost during the covered period.

The following figures represent the composition of current primary expenditures and total expenditures in 2017:

<sup>4</sup> Current primary expenditures represent current expenditures excluding "Interest Payments" and "Foreign Debt Principal Repayment".

**Figure 2. Composition of Total Expenditures and Current Primary Expenditures in Jan-Dec 2017**



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 669 billion (14 percent), from LL 4,758 billion in 2016 to LL 5,427 billion in 2017. Overall, this growth is mainly the result of (i) a LL 353 billion surge in basic salaries to military personnel, (ii) a LL 123 billion increase in allowances paid for military personnel, (iii) a LL 76 billion increase in basic salaries for education personnel, and (iv) a LL 70 billion growth in basic salaries allocated to civilian personnel.

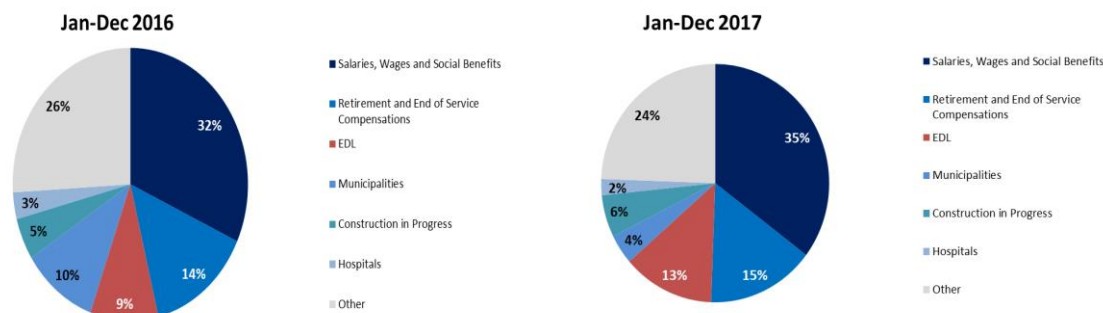
In details, the increase in salaries, wages and related benefits was attributed to (i) a LL 218 billion rise in basic salaries to the Army, (ii) a LL 95 billion growth in basic salaries to the Internal Security Forces, (iii) a LL 69 billion surge in allowances to the Army, (iv) a LL 48 billion growth in “other payments” to government subscription and contributions in the government employees cooperative, (v) a LL 28 billion increase in basic salaries to General Security Forces, and (vi) a LL 12 billion rise in basic salaries to State Security Forces.

In terms of composition, basic salaries accounted for 75 percent of total payments for salaries wages and related benefits to public sector employees in full year 2017, followed by allowances (13 percent), and employment benefits (4 percent), while “other payments” and “unclassified allowances” represented the remaining 8 percent of the total. Furthermore, salaries, wages and related benefits represented 32 percent of total primary spending in 2016 and increased to 35.3 percent of the total in 2017.

The following figures present the primary spending breakdown by component during the period under review<sup>5</sup>.

<sup>5</sup> The main reason behind the increase in the share of salaries, wages and related benefits relative to primary expenditure in 2017 is due to a significantly higher growth rate in salaries, wages and related benefits (+ 14 percent) vis-à-vis a lower annual increase of 3 percent in total primary expenditures.

**Figure 3. Primary Spending Breakdown by Component during Jan-Dec 2016 and Jan-Dec 2017**



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 2016 and Jan-Dec 2017**

(LL billion)	Basic Salaries		Employment Benefits 4/		Allowances 5/		Other 6/		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>Military Personnel</b>	<b>2,279</b>	<b>2,632</b>	<b>92</b>	<b>92</b>	<b>574</b>	<b>696</b>	<b>2</b>	<b>3</b>	<b>2,947</b>	<b>3,423</b>
Army	1,457	1,675	57	59	370	439	1	1	1,885	2,174
Internal Security Forces	628	724	26	26	150	199	1	1	805	949
General Security Forces	156	184	4	4	39	43	1	1	199	232
State Security Forces	38	50	5	4	15	15	0	0	58	69
<b>Education Personnel</b>	<b>930</b>	<b>1,006</b>	<b>75</b>	<b>75</b>	<b>0</b>	<b>0</b>	<b>43</b>	<b>32</b>	<b>1,048</b>	<b>1,113</b>
<b>Civilian Personnel 1/</b>	<b>338</b>	<b>409</b>	<b>71</b>	<b>69</b>	<b>4</b>	<b>3</b>	<b>42</b>	<b>44</b>	<b>456</b>	<b>526</b>
<b>Government contribution to employees cooperative 2/</b>							<b>266</b>	<b>314</b>	<b>266</b>	<b>314</b>
<b>Customs Salaries 3/</b>									<b>36</b>	<b>51</b>
<b>Unclassified</b>									<b>5</b>	<b>0</b>
<b>Total</b>	<b>3,547</b>	<b>4,047</b>	<b>238</b>	<b>237</b>	<b>578</b>	<b>700</b>	<b>354</b>	<b>393</b>	<b>4,758</b>	<b>5,427</b>

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.

## **II.A. Basic Salaries and Wages**

Basic salaries of public sector employees, excluding indemnities, allowances and other benefits, increased by LL 500 billion (14 percent) to reach LL 4,047 billion in 2017. This increase was primarily the result of an increase in basic salaries of all the sub-categories in the public sector.

### ***II.A.a. Basic Salaries of Military Personnel***

The 15 percent annual increase in basic salaries to military personnel is mainly the result of the new salary scale combined with an increase in retroactive payments for military personnel by LL 85 billion (LL 48.3 billion to the Army and LL 27.5 billion to the Internal Security Forces<sup>6</sup>). The new salary scale that came into effect as of September 2017 resulted in an increase of salary payments to permanent employees related to the Army by LL 170 billion, the Internal Security Forces by LL 69 billion, and the General Security Forces by LL 13 billion. Moreover, these increases were partly offset by a LL 4 billion decrease in payments to the trainees of the Internal Security Forces.

### ***II.A.b. Basic Salaries of Education Personnel***

Basic salaries of education personnel grew by 8 percent year-on-year in 2017, reaching LL 1,006 billion compared to LL 930 billion in 2016. The increase was mainly due to a LL 46 billion surge in salary payments to primary education personnel, as well as to a LL 20 billion rise in the salaries of secondary education personnel. In addition, salaries paid for Permanent Employees at the Directorate General of Vocational Training grew by LL 9 billion annually in 2017. However, the increase was slightly offset by a LL 31 billion drop in “other salaries” to education personnel.

### ***II.A.c Basic Salaries of Civilian Personnel***

Basic salary payments to civilian personnel surged by LL 70 billion (21 percent) in Jan-Dec 2017 compared to full year 2016. At the level of ministries, the Ministry of Foreign Affairs and Emigrants (MoFA) represented the largest wage bill in 2017, with a share of 18 percent of total salaries and wages to civilian personnel, followed by the Ministry of Justice (17 percent), and the Ministry of Finance (11 percent). *(For further details, kindly refer to table 3)*

In details, employees in the Ministry of Finance witnessed the most notable nominal increase in basic salaries and wages that grew by LL 12.3 billion (37 percent) year-on-year in 2017, mainly due to the impact of the new salary scale to public sector employees. *(For further details, kindly refer to table 4)*

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<sup>6</sup> Based on decision # 1960 dated 31/12/2016 and decision # 62 dated 17/01/2017, professional allowances of LL 1.5 billion paid to specialized military officers and to the recruitment and promotion of military personnel

**Table 3. Civilian Salaries and Wages Breakdown by Ministry - Jan-Dec 2016 and Jan-Dec 2017**

(LL million)	Jan-Dec 2016	Jan-Dec 2017	% from Total Civilian Personnel in 2017
Ministry of Foreign Affairs and Emigrants	61,167	72,475	17.7%
Ministry of Justice	64,714	69,876	17.1%
Ministry of Finance	32,890	45,221	11.1%
Parliament	33,148	37,684	9.2%
Presidency of the Council of Ministers	29,787	37,622	9.2%
Ministry of Public Health	19,141	22,087	5.4%
Ministry of Public Works and Transportation	17,445	21,976	5.4%
Ministry of Agriculture	15,587	20,200	4.9%
Ministry of National Defense	10,693	12,968	3.2%
Ministry of Interior	10,268	13,394	3.3%
Other	43,438	55,200	13.5%
<b>Total</b>	<b>338,279</b>	<b>408,702</b>	<b>100%</b>

Source: Ministry of Finance, Directorate General of Finance

**Table 4. Change in Salaries and Wages of Civilian Personnel by Ministry – 2016/2017**

	Nominal Change (LL million) 2016/2017	Annual Percentage Change 2016/2017
Ministry of Finance	12,331	37.5%
Ministry of Foreign Affairs and Emigrants	11,307	18.5%
Presidency of the Council of Ministers	7,835	26.3%
Ministry of Justice	5,162	8.0%
Ministry of Agriculture	4,613	29.6%
Parliament	4,536	13.7%
Ministry of Public Works and Transportation	4,531	26.0%
Ministry of Interior	3,126	30.4%
Ministry of Public Health	2,946	15.4%
Ministry of National Defense	2,275	21.3%
Other	11,762	27.1%
<b>Overall Change</b>	<b>70,423</b>	<b>20.8%</b>

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 122 billion (21 percent) to reach LL 700 billion in 2017. The increase was mainly due to a rise of LL 69 billion in allowances to the Army and a LL 49 billion increase in allowances paid to the Internal Security Forces. Moreover, the allowances granted to the General Security Forces increased by LL 4 billion in 2017.

In details, allowances to the Army grew by LL 69 billion in 2017, given the increase of LL 103 billion in hospital expenses and to a LL 20 billion rise in school expenses.

In addition, allowances to the Internal Security Forces mainly increased in 2017, given the surge in hospital expenses of LL 34 billion and an LL 18 billion rise in school allowances which were slightly counterbalanced by a drop of LL 5 billion in allowances related to sickness and maternity.

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

Payments to government subscription and contributions to the Employees Cooperative was LL 314 billion in Jan-Dec 2017, up by 18% from LL 266 billion in Jan-Dec 2016.





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