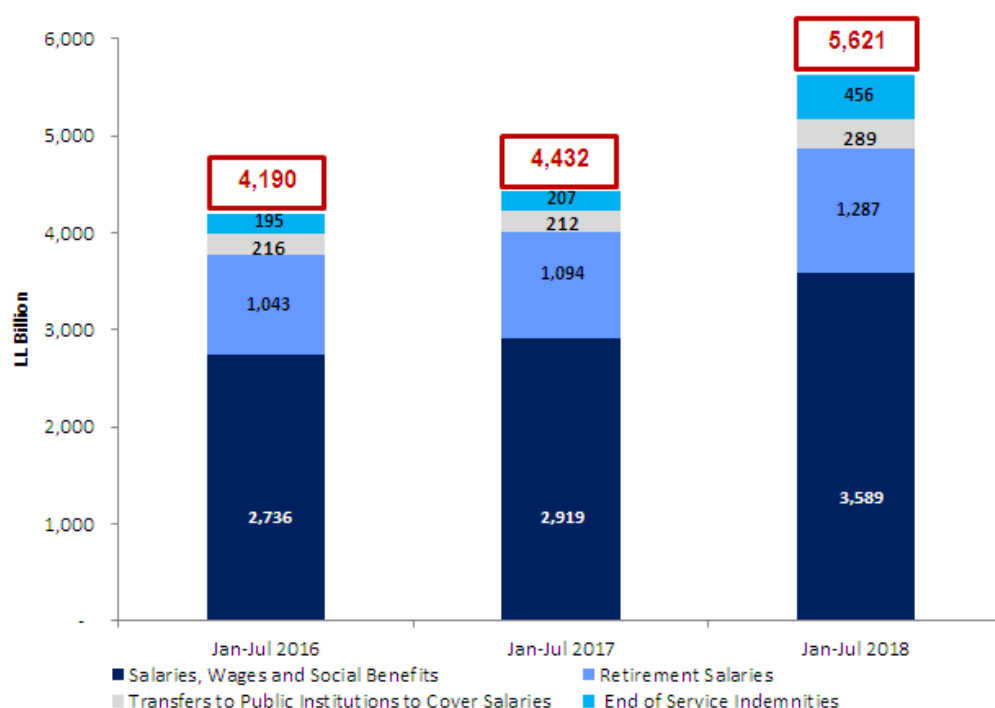


I. Personnel Cost

I.A. General Overview

Personnel cost¹ rose by LL 1,189 billion (26.8 percent) year-on-year during Jan-Jul 2018 to reach LL 5,621 billion compared to LL 4,432 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 22.9 percent in salaries, wages and related benefits, along with a more prominent hike of 120.8 percent⁴ in the end of service indemnities and a 17.7 percent increase in payments for retirement.

Figure 1. Personnel Cost Breakdown by Component in Jan-Jul 2016, Jan-Jul 2017 and Jan-Jul 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 67.1 percent in Jan-Jul 2016, increasing to 68.9 percent in Jan-Jul 2017 before going down to

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 - July 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.

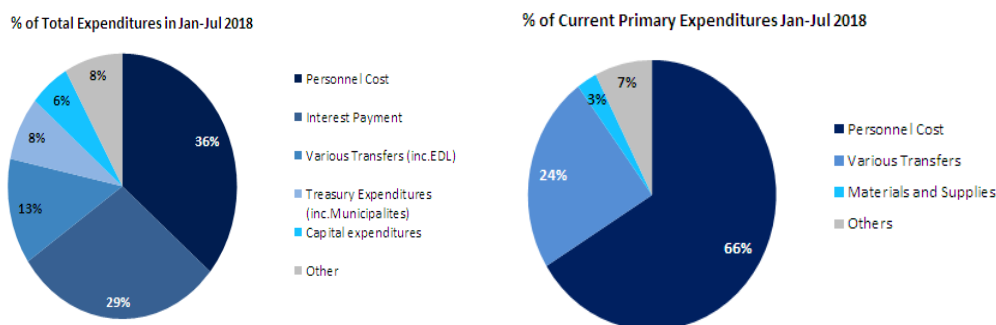
⁴ The increase in end of service indemnities can be partly explained by the implementation of the new salary scale, which encouraged many public employees to undergo an early retirement plan.

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

66.2 percent during the same period of 2018⁶. On the other hand, and when compared to total expenditures, personnel cost represented 33.6 percent in Jan-Jul 2016, moving up to 36.7 percent in Jan-Jul 2017⁷ before dropping back to 36.1 percent during the same period of 2018. Despite the significant year-on-year increase of 26.8 percent in the personnel cost during Jan-Jul 2018 driven by the salary scale effect, its share from total expenditures dropped due to a more pronounced rise in the latter growing by 28.9 percent year-on-year.

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

Figure 2. Composition of Total Expenditures and Current Primary Expenditures in Jan-Jul 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 670 billion year-on-year to reach LL 3,589 billion in Jan-Jul 2018. Overall, this growth was mainly the result of: (i) a LL 369 billion surge in salaries and wages to military personnel, (ii) a LL 119 billion hike in those paid for education personnel, (iii) a LL 102 billion increase in salaries and wages to civilian personnel, and (iv) an increase of LL 100 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 245 billion to the Army, (ii) LL 79 billion to the Internal Security Forces, (iii) LL 32 billion to the General Security Forces, and (iv) LL 13 billion to the State Security Forces. This was followed by the rise in allowances paid for military bodies which witnessed a considerable year-on-year expansion, the most prominent being a rise of LL 92 billion in the allowances paid to the Internal Security Forces.

In terms of composition, salaries and wages constituted 73.2 percent of total payments for salaries, wages and related benefits to public sector employees during Jan-Jul 2018, followed

⁶ Due to a faster rise in the expenditure base with a y-o-y growth rate of 32.1 percent in Jan-Jul 2018, mainly driven by a considerable hike in the transfers to EDL by 50.9 percent (LL 484 billion) compared to the same period of 2017.

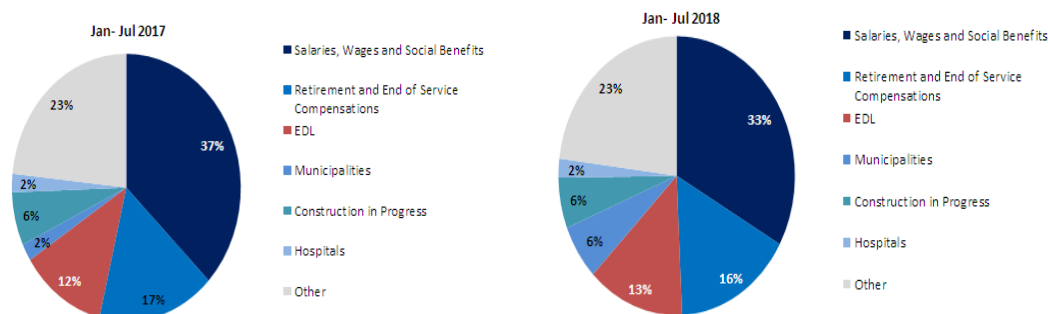
⁷ The considerable rise in the share of the personnel cost can be attributed to a remarkably lower base level of total expenditures that decreased by 3.2 percent year-on-year in Jan-Jul 2017, driven by lower treasury expenditures, mainly payments to municipalities due to the discrepancy in the timing of payments.

by allowances (15.8 percent) and employment benefits (3.6 percent), while “other payments” and “unclassified allowances” represented the remaining 7.4 percent of the total.

Furthermore, salaries, wages and related benefits represented 37.2 percent of total primary spending in Jan-Jul 2017, and decreased to 33.2 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.

Figure 3. Primary Spending Breakdown by Component during Jan-Jul 2017 and Jan-Jul 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-Jul 2017 and Jan-Jul 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	1362	1732	52	57	465	565	1	1	1,881	2,355
Army	876	1121	34	38	286	295	0	0	1,196	1,454
Internal Security Forces	371	451	15	15	141	233	0	0	528	699
General Security Forces	92	125	2	3	28	26	1	1	124	154
State Security Forces	23	36	1	1	10	11	0	0	34	48
Education Personnel	471	591	34	34	0	0	16	19	521	643
Civilian Personnel 1/	202	304	44	39	3	2	31	41	279	385
Government contribution to employees cooperative 2/							205	169	205	169
Customs Salaries 3/									30	36
Unclassified									3	0
Total	2,035	2,626	131	130	468	567	253	230	2,919	3,589

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.

⁸ Due to a more rapid increase in the expenditure base with primary expenditures increasing by 38.0 percent against a growth of 22.9 percent in salaries, wages and related benefits compared to the same period of 2017.

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 591 billion (29.0 percent) to reach LL 2,626 billion in Jan-Jul 2018. This increase was the result of an upsurge 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 27.1 percent (LL 369 billion) increase in salaries and wages to military personnel during Jan-Jul 2018 was mainly the result of the new salary scale that took effect late August 2017. Basic salary payments to the permanent personnel⁹ grew by LL 235 billion for the Army, LL 81 billion for the Internal Security Forces, LL 27 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-Jul 2018 compared to the previous year.

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

Salaries and wages of education personnel increased by LL 119 billion (25.4 percent) year-on-year reaching LL 591 billion in Jan-Jul 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 78 billion, for those at the secondary education by LL 35 billion, and for permanent employees at Directorate General of Vocational Training by LL 13 billion. In contrast, payments for contractuels at the secondary education dropped by LL 8 billion along with a drop of LL 5 billion in the payments for trainees at the primary education during the mentioned period.

II.A.c Salaries and Wages of Civilian Personnel

Salary and wages paid to civilian personnel increased remarkably by LL 102 billion (50.7 percent) year-on-year to reach LL 304 billion during Jan-Jul 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 increase in salaries that grew year-on-year by LL 15.9 billion in Jan-Jul 2018, followed by the Ministry of Public health with LL 14.6 billion¹⁰.

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 during Jan-Jul 2018 compared to the same period of 2017, largely attributed to retroactive payments pertaining to the years 1996-1997-1998 and from 01/01/1999 till 15/02/2000, in addition to 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-Jul 2017 and Jan-Jul 2018

(LL million)	Jan-Jul 2017	Jan-Jul 2018	% from Total Civilian Personnel in 2018
Ministry of Foreign Affairs and Emigrants	38,614	48,571	16%
Ministry of Justice	37,254	46,630	15%
Ministry of Finance	19,250	35,166	12%
Presidency of the Council of Ministers	17,656	29,066	10%
Ministry of Public Health	12,645	27,271	9%
Parliament	19,215	26,228	9%
Ministry of Public Works and Transportation	10,746	16,443	5%
Ministry of Agriculture	9,006	15,088	5%
Ministry of Interior	5,938	9,739	3%
Ministry of National Defense	6,387	8,917	3%
Other	24,865	40,748	13%
Total	201,574	303,867	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 100 billion (21.5 percent) to reach LL 567 billion during Jan-Jul 2018. The rise was mainly due to an increase of LL 92 billion rise in allowances disbursed to the Internal Security Forces reaching LL 233 billion in Jan-Jul of 2018, followed by a smaller increase of LL 9 billion in allowances to the Army to reach LL 295 billion in Jan-Jul 2018. Meanwhile, Allowances disbursed to the General Security Forces slightly dropped by LL 2 billion during the mentioned period.

More specifically, allowances to the Internal Security Forces mainly increased in Jan-Jul 2018 given the significant rise in hospital expenses by LL 70 billion, and a rise of LL 16 billion rise in school allowances.

Furthermore, allowances to the Army increased by LL 9 billion (3.2 percent) during the covered period, due to an increase LL 11 billion in sickness and maternity expenses and LL 4 billion in marriage allowances in Jan-Jul 2018. These increases were partly counterbalanced by the drop of LL 10 billion 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 year-on-year to reach LL 169 billion in Jan-Jun 2018 compared to LL 205 billion in Jan-Jul 2017.

