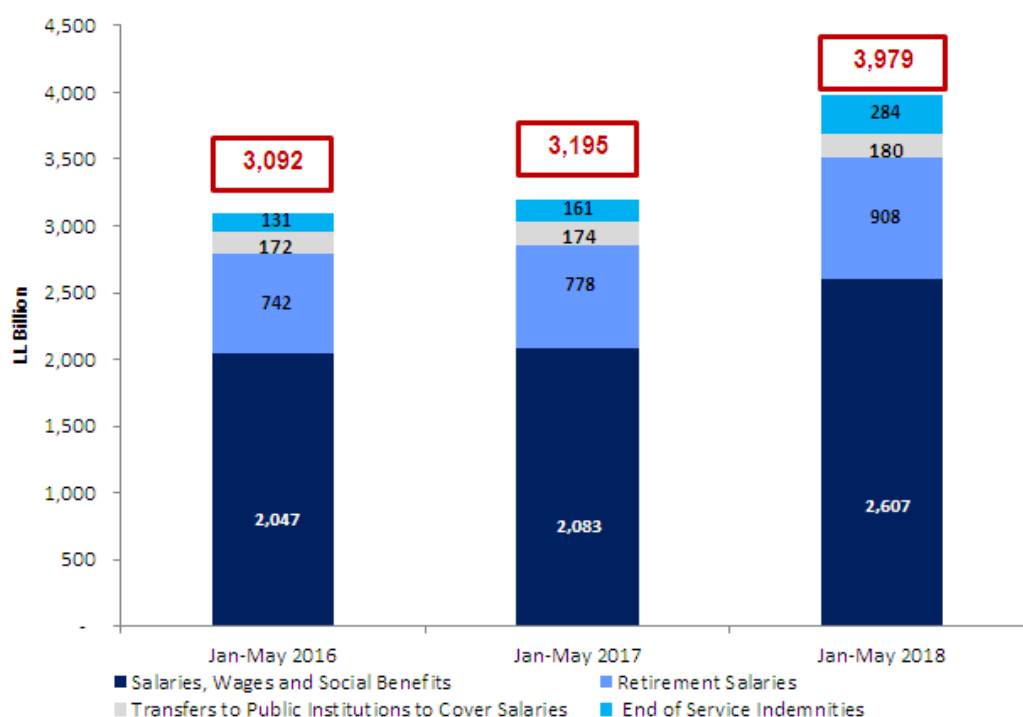


I. Personnel Cost

I.A. General Overview

Personnel cost¹ rose by LL 783 billion (24.5 percent) year-on-year in Jan-May 2018 to reach LL 3,979 billion compared to LL 3,195 billion during the same period of 2017². The increase was mainly the result of the new salary scale for the public sector employees (Law # 46)³, resulting in a year-on-year growth of 25.2 percent in salaries, wages and related benefits, along with a more prominent hike of 76.8 percent⁴ in the end of service indemnities and a 16.7 percent increase in payments for retirement.

Figure 1. Personnel Cost Breakdown by Component in Jan-May 2016, Jan-May 2017 and Jan-May 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 68.0 percent in Jan-May 2016, increasing to 69.1 percent in Jan-May 2017 before going down to 67.8 percent during the same period of 2018. On the other hand, and when compared to total expenditures, personnel cost represented 33.0 percent in Jan-May 2016, moving up 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 - May 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.

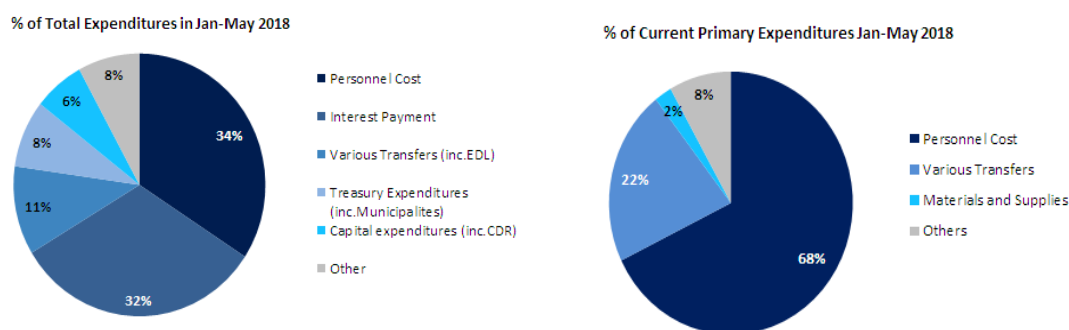
⁴ The increase in end of service indemnities can be partly explained by the implementation of the new salary scale, which encouraged many public employees to undergo an early retirement plan.

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

36.6 percent in Jan-May 2017⁶ before dropping back to 34.2 percent during the same period of 2018. Despite the significant year-on-year increase of 24.5 percent in the personnel cost during Jan-May 2018 driven by the salary scale effect, its share from total expenditures dropped due to a more pronounced rise in the latter growing by 33.3 percent year-on-year.

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

Figure 2. Composition of Total Expenditures and Current Primary Expenditures in Jan-May 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 524 billion year-on-year to reach LL 2,607 billion in Jan-May 2018. Overall, this growth was mainly the result of: (i) a LL 264 billion surge in basic salaries to military personnel, (ii) an increase of LL 129 billion in allowances paid to the military personnel, (iii) a LL 87 billion increase in basic salaries paid for education personnel and (iv) a LL 76 billion increase in basic salaries to civilian personnel.

In details, the increase in salaries, wages and related benefits to military personnel can be attributed to: (i) a LL 176 billion rise in basic salaries to the Army, (ii) a LL 54 billion growth in basic salaries to the Internal Security Forces, and (iii) a LL 25 billion rise in basic salaries to the General Security Forces. This was followed by the rise in allowances paid for all military bodies which witnessed a considerable year-on-year expansion, the most prominent being a rise of LL 82 billion in the allowances paid for the Army and LL 47 billion paid to the Internal Security Forces.

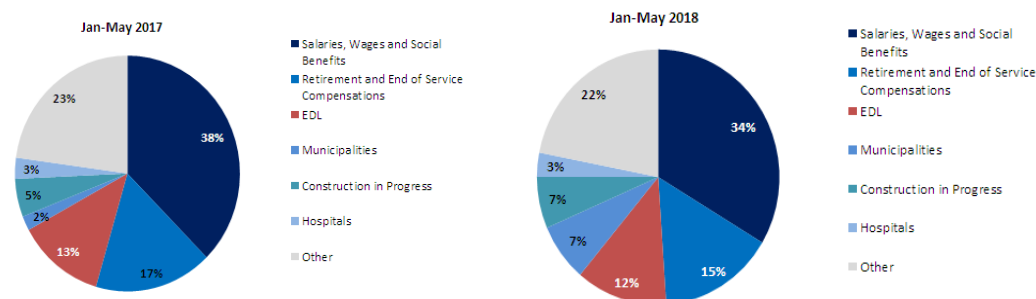
In terms of composition, basic salaries constituted 71.5 percent of total payments for salaries, wages and related benefits to public sector employees during Jan-May 2018, followed by allowances (18.7 percent) and employment indemnities (3.7 percent), while “other payments” and “unclassified allowances” represented the remaining 6.1 percent of the total.

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

Furthermore, salaries, wages and related benefits represented 37.6 percent of total primary spending in Jan-May 2017, and decreased to 33.6 percent of the total in the same period of 2018⁷.

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

Figure 3. Primary Spending Breakdown by Component during Jan-May 2017 and Jan-May 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-May 2017 and Jan-May 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	975	1,239	37	43	357	486	1	1	1,371	1,768
Army	624	800	24	28	193	275	0	0	841	1,103
Internal Security Forces	269	322	11	11	129	177	0	0	409	510
General Security Forces	67	92	2	2	25	24	1	1	95	119
State Security Forces	16	25	1	1	9	11	0	0	26	36
Education Personnel	319	406	24	25	0	0	16	10	359	441
Civilian Personnel 1/	143	219	31	28	2	2	25	22	201	271
Government contribution to employees cooperative 2/							124	100	124	100
Customs Salaries 3/									24	20
Unclassified									3	7
Total	1,437	1,863	93	97	359	487	167	133	2,083	2,607

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.

⁷ Due to a more rapid increase in the expenditure base with primary expenditures increasing by 40.1 percent against a growth of 25.2 percent in salaries, wages and related benefits.

II.A. Basic Salaries and Wages

Basic salaries of public sector employees, excluding indemnities, allowances and other benefits, rose by LL 426 billion (29.7 percent) to reach LL 1,863 billion in Jan-May 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 27.0 percent increase in basic salaries to military personnel in Jan-May 2018 was mainly the result of the new salary scale that took effect late August 2017. Salary payments to the permanent personnel⁸ grew by LL 170 billion for the Army, LL 57 billion for the Internal Security Forces, LL 20 billion for the General Security Forces and by LL 9 billion for the State Security Forces. Moreover, it is worth mentioning that payments to clothing indemnity rose by LL 5 billion in Jan-May 2018 compared to the previous year.

II.A.b. Basic Salaries of Education Personnel

Basic salaries of education personnel increased by LL 87 billion (27.1 percent) year-on-year reaching LL 406 billion in Jan-May 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 56 billion, for those at the secondary education by LL 25 billion, and for permanent employees at Directorate General of Vocational Training by LL 9 billion. In contrast, payments for contractuels at the secondary education dropped by LL 6 billion during the mentioned period.

II.A.c Basic Salaries of Civilian Personnel

Basic salary payments to civilian personnel increased by LL 76 billion (53.4 percent) year-on-year to reach LL 219 billion during Jan-May of 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 (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 12 billion⁹ in Jan-May 2018, followed by the Ministry of Finance with LL 11 billion.

⁸ Payments for salaries in 2017 include the cost of living adjustment, disbursed ahead of the new salary scale implementation starting August 2017.

⁹ This hike is driven by the increase in payments to contractuels by LL 10 billion during Jan-May 2018 compared to the same period of 2017. This can be largely attributed to some retroactive payments, namely LL 8 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 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.

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

(LL million)	Jan-May 2017	Jan-May 2018	% from Total Civilian Personnel in 2018
Ministry of Foreign Affairs and Emigrants	25,827	35,471	16%
Ministry of Justice	26,559	31,814	15%
Ministry of Finance	13,696	25,090	11%
Ministry of Public Health	9,548	22,039	10%
Presidency of the Council of Ministers	12,539	19,999	9%
Parliament	13,445	18,947	9%
Ministry of Public Works and Transportation	8,060	11,914	5%
Ministry of Agriculture	6,259	10,739	5%
Ministry of Interior	4,250	7,101	3%
Ministry of National Defense	4,524	6,346	3%
Other	17,838	29,174	13%
Total	142,544	218,635	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 128 billion (35.8 percent) to reach LL 487 billion during Jan-May of 2018. The rise was mainly due to an increase of LL 82 billion in allowances to the Army to reach LL 275 billion in Jan-May 2018, followed by a LL 47 billion rise in allowances disbursed to the Internal Security Forces reaching LL 177 billion in Jan-May 2018. Meanwhile, Allowances disbursed to General Security Forces slightly dropped by LL 1 billion during the mentioned period.

More specifically, allowances to the Army increased by LL 82 billion (42.5 percent) during the covered period, due to an increase of LL 68 billion in hospital expenses and LL 10 billion in sickness and maternity expenses in Jan-May 2018.

Furthermore, allowances to the Internal Security Forces mainly increased in the first five months of 2018 given the significant rise in hospital expenses by LL 30 billion, and a rise of LL 14 billion rise in school allowances.

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 100 billion in Jan-May 2018 compared to LL 124 billion in Jan-May 2017.



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For further information, please contact:

Ministry of Finance

Macroeconomic Analysis and Studies Department

Tel: 961 1 956 000 Ext: 1731-1729

Website: www.finance.gov.lb