TECHNICAL ASSISTANCE REPORT

LEBANON

Government Personnel Spending: Scoping a Medium-Term Spending Envelope

March 2026

Prepared By

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Acronyms and Abbreviations

BdL	Banque du Liban
CD	Capacity Development
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
CSB	Civil Service Board
EOSI	End of Service Indemnity
FAD	Fiscal Affairs Department (IMF)
GDP	Gross Domestic Product
HRMIS	Human Resource Management Information System
ILO	International Labour Organization
IMF	International Monetary Fund
LBP	Lebanese Pound
LVA	Latest Value Available
MEHE	Ministry of Education and Higher Education
MoF	Ministry of Finance
MTBF	Medium-Term Budget Framework
OECD	Organization for Economic Cooperation and Development
PE	Personnel Expenditure
PI	Public Institutions
SOE	State Owned Enterprise
TVET	Technical and Vocational Education and Training

Preface

At the request of the Minister of Finance, a team from the IMF's Fiscal Affairs Department (FAD) visited Beirut during the period August 25-29 to conduct a technical assistance mission on Public Compensation Management. The mission was led by Mr. Nick Carroll and comprised of Mr. Huy Nguyen (FAD). The purpose of the mission was to assess government personnel spending pressures and to scope available data and policy options.

The mission held meetings with the Ministry of Finance, led by the Minister of Finance, H.E. Mr. Yassine Jaber. The team is grateful for the support of Ms. Lamia Moubayed Bissat, Ms. Sabine Hatem, and their team from the Institute of Finance and the task force on public sector pay, including the Director General of Finance, Mr. Georges Maarawi, the Director of Budget and Expenditure Control, Ms. Carole Abi Khalil, the Director of Expenditures, Ms. Rania Diab and Ms. Zeina Kassem, Advisor to the Minister of Finance, for the collaboration on analysis, the mission discussions and data collection. The mission also met with the Prime Minister, H.E. Nawaf Salam, Deputy Prime Minister, H.E. Mr. Tarek Mitri, the Minister of Economy and Trade, H.E Mr. Amer Bsat, the Minister of State for Administrative Reform, H.E. Mr. Fadi Makki, the Minister of Artificial Intelligence, H.E. Mr Kamal Shehadi and the Minister of Social Affairs, H.E. Ms. Haneen Sayed.

The team met with the Ministry of Public Health led by the Minister of Health, H.E. Dr. Rakan Nassereldine, the Ministry of Education and Higher Education led by the Minister of Education and Higher Education, H.E. Ms. Rima Karameh, and the Ministry for Interior led by Brigadier General Ahmad Al Hajjar, Minister of Interior and Municipalities. The mission team also met the Banque du Liban, the Lebanese Armed Forces and the Civil Service Board. The mission team had meetings with the International Labour Organization (ILO) and with the World Bank in a workshop on government compensation and pension reform.

The mission would also like to thank the IMF Resident Representative, Mr. Frederico Lima, local economist, Ms. Rita El Achkar and the wider Resident Representative office for their cooperation in the coordination of the mission. The mission team would like to thank Yara Vásquez for all administrative support.

Executive Summary

Lebanon weathered overlapping shocks that triggered a collapse of the Lebanese pound, and eroded the value of public sector pay. Prior to 2020 personnel spending in Lebanon was high. Between 2019 and 2025, Lebanon experienced overlapping shocks - the Beirut port explosion, a financial crisis, COVID-19, and a complex set of regional security developments. At the peak of the crisis, the erosion of pay resulted in critical public services being ceased or severely weakened because of a rapid erosion in the purchasing power of the workforce, leading many to leave their positions, strike, or be absent. To respond, the government enacted a series of stopgap fixes to adjust remuneration. The outcome is a fragmented public compensation structure that undermines the delivery of public services.

This public sector pay mission scoped the available data and presents an illustrative baseline and scenarios for reform. This report reviews the issues and options for public sector pay in Lebanon. The analysis is primarily based on government personnel data provided by the Ministry of Finance and the Banque du Liban. The report develops an indicative baseline and various scenarios to support the authorities' efforts to develop a medium-term wage bill management agenda.

Large adjustments to pension benefits and military spending in 2025 limit the space for cross-the-board real wage adjustments, without further revenue raising or savings measures If implemented in 2025, adjustments to pension benefits, expanded military and security sector recruitment, and a higher minimum wage for commercial public institutions (along with similar measures) leaves limited space, over the forecast horizon, for significant across-the-board increases in real wages, unless new revenue sources are found or savings measures are adopted. For example, under a benign baseline scenario, total personnel spending increases from US$2.7b in 2025 to US$3.4b in 2029 (See ES Table). This results in seven percent real annual growth in employee compensation. However, by 2029, both the real compensation of employees (projected at 45 percent) and pension benefits (23 percent) remain below pre-crisis levels.

Additional government personnel spending puts risks on the baseline. Relative to the baseline, higher spending could be driven by larger real wage and salaries, significant increases in certain workforces, and pension increases that exceed the modest real adjustments in the baseline. Such pressures would strain public finances, especially since the baseline assumes only moderate increases. A downside macroeconomic scenario would mean that the government would have less capacity to absorb these extra costs, which could force cuts or postponements in other areas or require new measures.

Beyond this broad picture, more tailored scenarios would be useful to identify more fine-grained spending options. Follow-up activities from this mission could include more detailed assessments of the efficiency and fiscal sustainability of personnel spending in particular sectors such as education, pensions, military and security, social benefits and allowances. Such detailed sectoral assessments would help identify where savings might be found and enable more precise recommendations that reduce the risk of blunt across-the-board cuts or spending increases.

There is an opportunity for Lebanon to chart a fiscally sustainable, equitable medium-term path for personnel spending. This would mean fixing salary scales, ensuring parity with inflation and exchange rate realities, integrating allowances into base pay in a transparent way, and charting a new wage policy and salary structure that restore coherence and equity to the existing fragmented system.

Executive Summary Table. Government Personnel Spending (Illustrative Baseline), Billions of US$

	2019	2025	2026	2027	2028	2029
Total Personnel Spending	6.4	2.7	3.0	3.2	3.4	3.4
Compensation of Employees	3.1	1.3	1.4	1.6	1.7	1.7
of which Military and Security	2.0	0.8	0.8	0.9	1.0	1.0
Social Benefits	0.8	0.6	0.7	0.8	0.9	0.9
Transfers to Public Insitutions for Personnel	0.3	0.1	0.2	0.2	0.2	0.1
Pensions and EOSI	2.3	0.6	0.6	0.7	0.7	0.7

Source: Staff estimates based on an illustrative baseline scenario and data provided by the authorities. EOSI refers to End of Service Indemnities (EOSI). These estimates are based on data in draft 1 of the 2026 Budget Law.

I. Background and Issues

A. Introduction

1. **This report summarizes the findings of a scoping technical mission aimed at providing preliminary advice on medium-term government personnel spending scenarios.** This report analyzes recent trends in personnel spending (this includes compensation of employees, social benefits, transfers to public institutions and pensions) and explores changes in sub-components. It develops an illustrative baseline for 2025-2029 to inform a medium-term government employment and pay strategy. It also develops illustrative scenarios for government personnel spending, based on spending pressures and potential savings options.

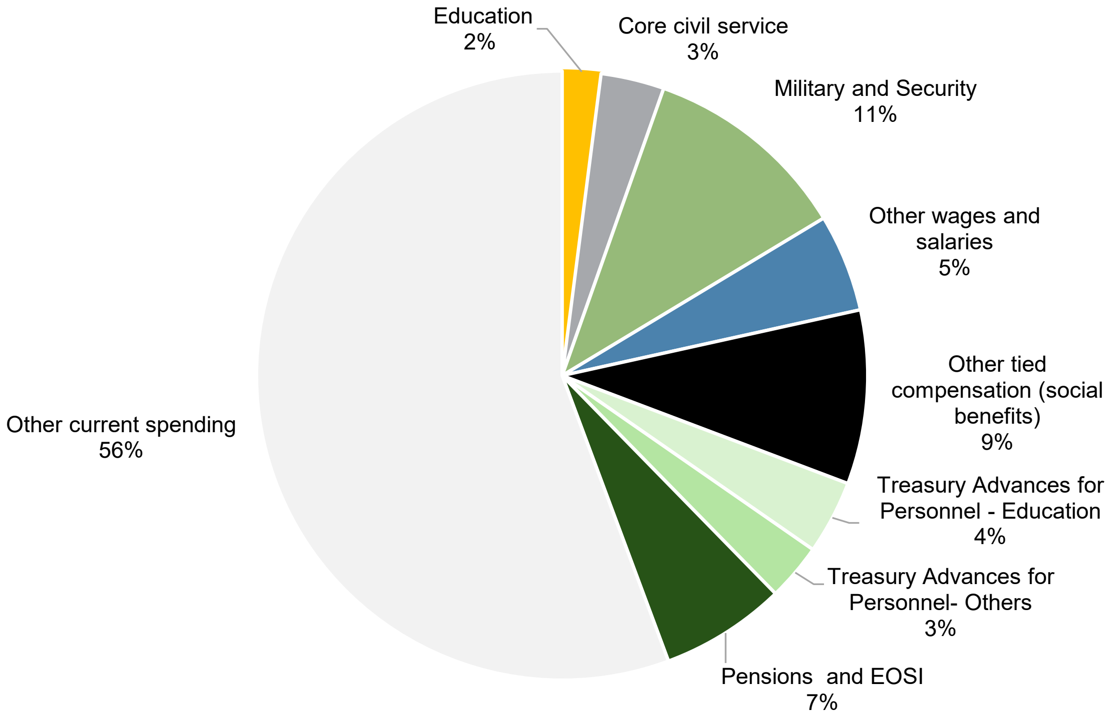
2. **This report focuses on a high-level (top-down) assessment of available financing for government payroll, which has several limitations.** There is a dynamic environment in Lebanon with many payroll policy changes. This is a top-down assessment, rather than being comprehensive of recent policy changes. The macro-economic scenario presented is an optimistic (benign) one (for example, assuming the presence of an IMF program at the start of the baseline period) and there is a high degree of uncertainty. Reliable published data on government personnel have been largely unavailable since 2019. To compensate, this report draws on multiple assumptions and data sources provided by the Lebanese authorities (see Annex for details). Improving the quality, timeliness, and completeness of personnel-level data should be a priority.

3. **The analysis in this report focuses on the available fiscal space in the medium-term, with many of the structural issues previously identified remaining relevant.** This report builds on an IMF Expenditure Policy Diagnostic from 2023, which included wage bill analyses (when public sector wages were lowest in real terms and critical public services were not being delivered).[1] The 2023 mission relied then on published expenditure data up until 2021 and focused on: (1) options to restore critical public services with limited fiscal space, (2) the process of annual wage adjustment and the need for adjustments to be dependent on available revenues, (3) structural issues in the public sector workforce, including the need for functional reviews, a reform of the pay grid and the need for an updated Civil Service Census.

4. **Personnel spending in Lebanon constitutes a large share of total government expenditure.** Personnel spending is not only directly visible through the budget lines for wages and salaries, but also indirectly via transfers to public hospitals, municipalities and transfers to public institutions. In 2024, personnel spending (including pensions) accounted for 48 percent of total current primary government spending (Figure 1). Personnel spending matters for fiscal sustainability, and fair and competitive compensation supports the delivery of public services and social outcomes.

[1] IMF, 2023, *Expenditure Policy Diagnostic Report,* unpublished Technical Report for the Ministry of Finance.

Figure 1. Composition of Current Primary Government Spending, 2024



Source: Calculation based on authorities' data. Note: Due to data challenges, the "Other wages and salaries" components, Treasury Advances and other tied compensation spending includes some personnel spending in education, civil service and military employment.

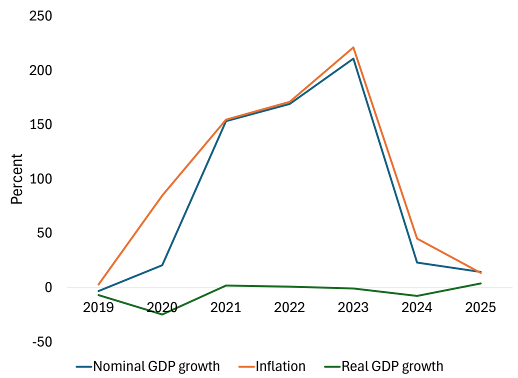
5. **The need for reconstruction following the war, together with large development and social spending obligations, means there is very limited flexibility to reduce spending in other areas**. Difficult security relations in the region affect Lebanon significantly, meaning that security-related expenditures remain a priority. In addition, after the 2023-24 war, Lebanon faces substantial reconstruction spending. The World Bank estimates that war-related damages reach approximately US$11 billion, with direct physical damage totaling about US$6.8 billion and economic losses at around US$7.2 billion representing roughly 40 percent and 25 percent of 2024 GDP, respectively. Furthermore, other current spending needs on unemployment, poverty and other social services remain large, suggesting limited room to further prioritize personnel spending over other current spending.

B. Background and Issues

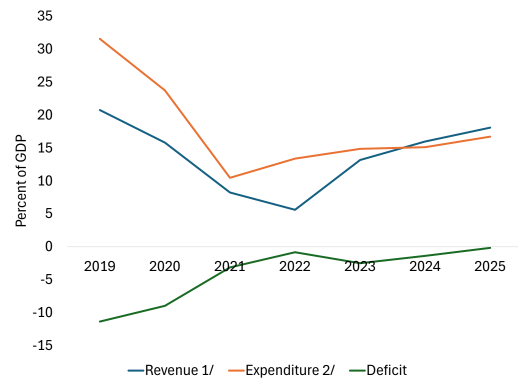
6. **The multiple crises since 2019 caused a sharp fall in real incomes.** Prior to the crisis, government revenue was approximately 20 percent of GDP, while government expenditure ranged between 25 to 30 percent of GDP. Inflation exploded, from around 3 percent in 2019 to over 221 percent in 2023 (Figure 2A). Government revenues and expenditure both collapsed in real terms, reaching less than one-third of their respective pre-crisis levels in 2022 (Figure 2C). By 2024, government expenditure and revenue had recovered somewhat to 15 and 16 percent of GDP, respectively, rising from around 10 percent in 2021 (Figure 2B). However, this increase conceals a decline in the real value of government spending and revenue, as real GDP contracted by about one-third compared to 2018 level (Figure 2C).

Figure 2. General Government Spending and Revenues

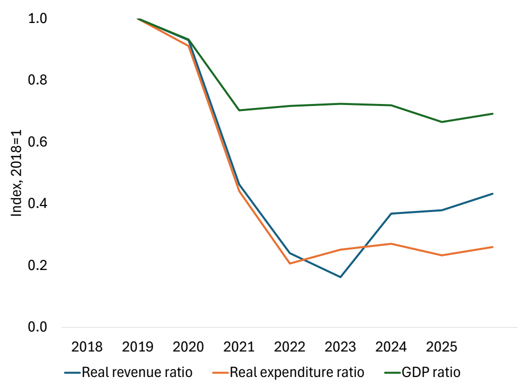
A. Nominal and real GDP Growth, Inflation



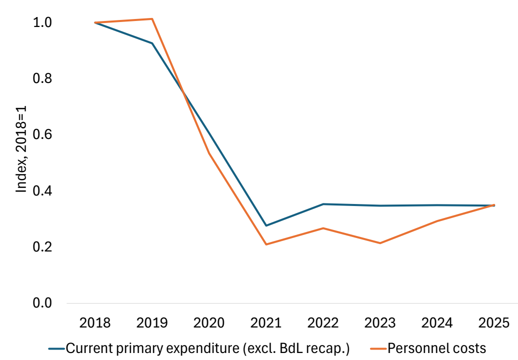
B. Revenue, Expenditure, and Deficits



C. Real Revenue, Expenditure, and GDP



D. Real Current Primary Expenditure and Personnel Expenditure



Source: IMF, 2025, World Economic Outlook database, General Government. Figures are presented for General Government unless otherwise specified and data provided by the authorities. Note that due to large differences between the GDP deflator and the CPI, Figure 2c should not be interpreted as relating to the revenue and expenditure to GDP ratio. 1/ including grants and 2/ Excluding BdL recapitalization cost.

7. **Real government revenues and expenditure are expected to remain well below their 2018 levels in 2025.** Since bottoming out in 2022, real revenue and expenditure have been gradually recovering and are expected to reach 43 percent and 26 percent of their 2018 levels, respectively, by 2025. Meanwhile, real GDP is forecasted to reach LBP 59,577 billion in 2025, representing 70 percent of its 2018 level.

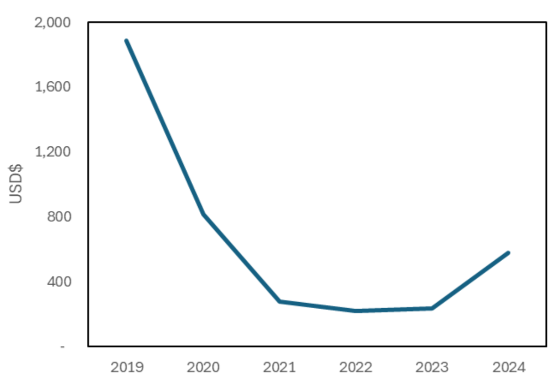
8. **Real personnel expenditure was only a fifth of its 2018 level in both 2021 and 2023, reflecting severe limitations in financing.** Prior to the crisis, personnel spending was higher than in peer countries. Since 2019, real personnel spending has fluctuated due to a reduction in civilian employment, constrained financial resources and various government measures. Between 2019 to 2024, to mitigate the loss of purchasing power of public wage and the increasing exit of public employees, the

government implemented several ad hoc measures that undertook needed remuneration adjustment, but continued to be not integrated into the salary base. These included increasing various monthly allowances for both military and civilian personnel, as well as pensioners. Despite these efforts, real personnel expenditure is projected to reach slightly above one-third of the pre-crisis level by 2025 (Figure 2D).

9. **Real pay for civilian and military and security employees remain below the high levels recorded pre-crisis.** While there are questions about whether personnel spending was fiscally sustainable pre-crisis, the increase in nominal salaries rises since 2020 have been below inflation. As a result, the real value fell to a third of their pre-crisis levels (Figures 3A and 3b). Average real income per civilian employee dropped sharply from US$1886 per month in 2019 to a low of US$287 in 2022. It increased to US$551 in 2024 and is projected to increase further in 2025 (see discussion below). The number of civilian employees has steadily declined since the onset of the crisis, falling from 41,000 employees in 2019 to 30,000 in 2025, a reduction of roughly 26 percent. (Figure 3c). In contrast, military and security employment has stayed near its pre-crisis levels. Full-time teachers decreased from about 25,000 to about 16,000 in 2025.

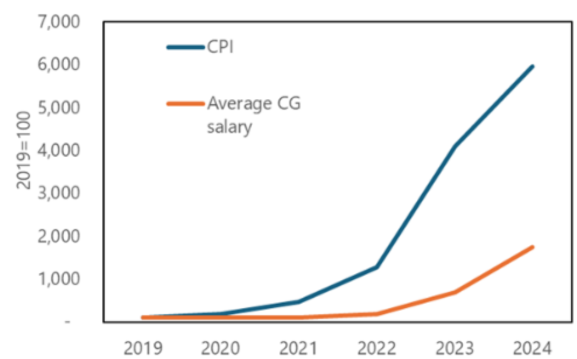
Figure 3. Recent Trends in Public Compensation for Employees

A. Monthly Average Salary, Civil Service ($, nominal)



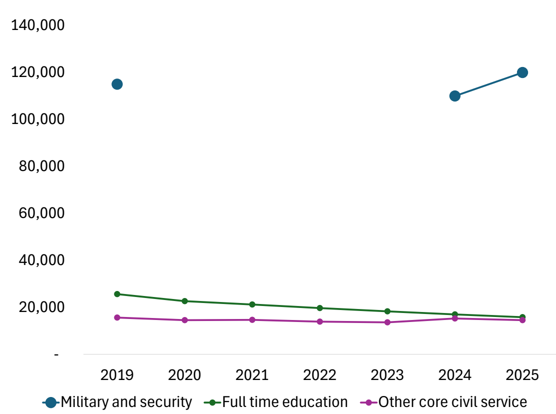
Source: Lebanese authorities.

B. Monthly Average Salary, Civil Service (LL, 2019=100)



Source: World Economic Outlook, Government Financial Statistics and Ministry of Finance.

C. Government Employment, 2019-2025



Source: Lebanese authorities and IMF staff calculations.

10. The decline of real personnel spending to roughly one third of its 2018 level has had significant effects on government service delivery. Public sector employees staged frequent strikes causing significant disruptions in the delivery of public services including courts, schools, and the issuance of identity documents. Retention of staff was challenging with many skilled and senior staff leaving the public sector seeking higher pay in the private sector or opportunities overseas. The impact of the lost skills is compounded by a de-facto hiring freeze in place.

11. Personnel spending increased significantly in nominal terms in 2024 and 2025, driven by large increases in social benefits and temporary / ad-hoc compensation for employees (Table 1). One of the outputs of this mission has been to document personnel spending trends from 2019 to 2025 using data from Public Financial Management (PFM) tables, the Ministry of Finance and Banque du Liban. Table 1 shows that in nominal terms, there have been large increases in personnel spending in 2024 and 2025, particularly in the categories of salaries, wages, and social benefits. The 2025 increase reflects several major measures: the integration of education salary payments into the official budget (replacing former grant funding and treasury advances), the introduction of a LBP 14 million monthly payment for active military personnel and a LBP 12 million monthly payment for pensioners, as well as increased transfers to public institutions to cover wage costs. Between 2020 and 2023, a number of measures included the introduction of additional allowances, adjustments to pension benefits and targeted social benefits. In some cases, grant funding was provided outside of the official budget to finance compensation for particular workforces, notably the education and military and security personnel.

Table 1. Personnel Spending Estimates, 2019-2025, in Billions of LBP

	2019	2020	2021	2022	2023	2024	2025
Personnel cost	10146	9885	9893	34220	88131	174810	239289
Total salaries, wages, and social benefits	6031	6138	5980	23084	75206	142081	170955
Compensation of Employees	4845	4860	4951	20465	51188	82114	113655
Military and Security	3112	3146	3161	6068	17923	40628	68972
Civil Service, of which	1472	1409	1486	2327	7844	19996	35426
Education	946	897	938	1373	4657	7543	22379
Other departments	526	512	548	955	3187	12453	13047
Residual	260	305	304	12069	23737	25141	9257
Grants to cover military top-up				1602	6271		
Other	260	305	304	10559	17466	25141	9257
Social benefits	1186	1278	1029	2619	6338	34262	57300
Treasury Advances cover salaries	0	0	0	0	17680	25705	0
Transfer for PI wages	452	467	437	1528	2597	8087	13389
Pension and EOSI	3664	3280	3475	9608	10328	24642	54945

Source: IMF staff calculations based on data provided by the authorities, PFM tables and other sources (see Annex).

12. Real spending in all personnel categories remains below pre-crisis levels. The estimates in the Annex show personnel spending for 2019-25 in both inflation adjusted real terms and in US$. Adjusted for inflation, wages and salaries have partially recovered during 2023-25, but still well below what they were before the crisis. For instance, total personnel spending was about US$6.4b in

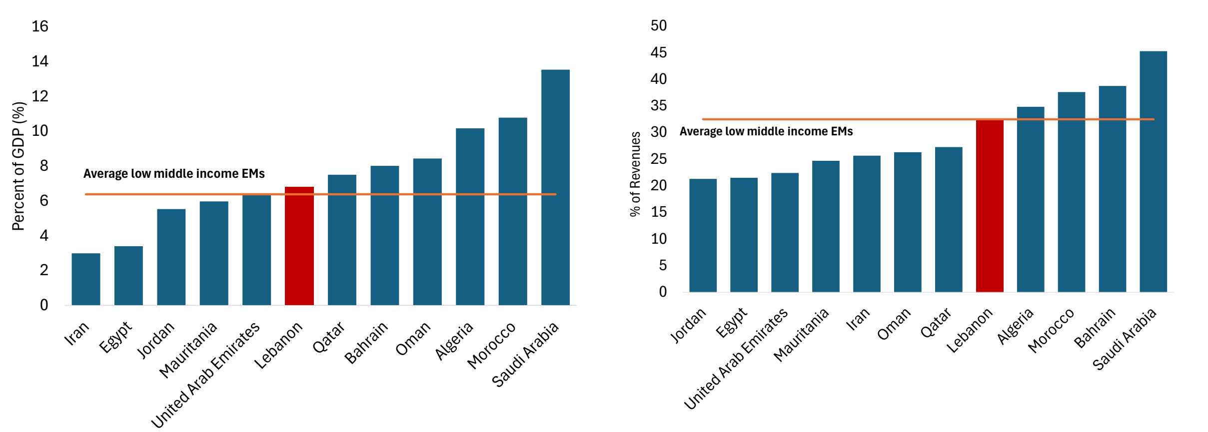
2019 compared to an estimated US$2.7b in 2025. Similarly, spending on salaries, wages and benefits alone dropped from US$3.8b in 2019 to US$1.6b in 2025 (see Annex).[2]

13. **While real spending on compensation declined during the crisis, Lebanon's spending on government compensation is similar to the average of comparator countries in the region.** In 2025, central government compensation accounted for 6.8 percent of GDP, in line with other MENA countries and the average for low middle income countries (Figure 4A).[3] Prior to the crisis, Lebanon's compensation share was well above most of its peers. When compared to government revenues, compensation spending in 2025 amounts to about one third of revenues, again roughly matching regional comparators (Figure 4B). While a benchmark of real earnings relative to pre-crisis levels is used in this report and by the authorities, this is unlikely to be a sustainable benchmark (given its high-level pre-crisis and given the level of financing that would be required to achieve such spending levels).

Figure 4. International Comparisons of Government Salaries and Benefits Spending to GDP

A. Salaries and Benefits to GDP, Latest Value Available (LVA)

B. Share of Compensation, LVA, Percent Total Revenue



Source: IMF staff calculations. Note: Lebanon data is for 2025 and includes social benefits.

14. **Spending on salaries, wages and social benefits is concentrated in two sectors: education and the military and security.** In total, the central government employs around 183,000 people, and allocates LBP 114,000 billion for salaries and wages, plus another LBP 57,000 billion in social benefits, together amounting to 6.8 percent of GDP. in 2025. Among these: military and security personnel form the largest single group - approximately 120,000 employees, and they receive nearly two-thirds of the total remuneration budget. Contractual (non-permanent) workers in the education sector are also substantial, numbering around 33,000 and accounting for 10 percent of compensation. Civil service staff

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[2] Note due to differences in the real exchange rate, consumer prices and the GDP deflator, ratios of pre-crisis spending may not be consistent between measures depending on the relative movements of the series. In particular, the spending in US dollars relative to pre-crisis levels is higher than the real spending relative to the pre-crisis levels. Given the issues with the measures of the CPI in a period of dollarization and devaluation, the paper uses US$ measures for the historical estimates. In terms of lost purchasing power, if it is well measured, the CPI is the best measure of the real change in incomes going forward, rather than changes in the US$ value of spending.

[3] Social benefits are included for Lebanon, whereas they may not be included for other countries, resulting in the level of spending compared to other countries being potentially over-estimated.

(permanent administration) total about 30,000, with 16,000 in the education ministry and 15,000 in other ministries and departments.

Table 2. Estimated Employment and Compensation, 2025, in Billions of LBP (for Spending Data)

	Number of employees	Share of working age population	Compensation	Social benefits	Share of GDP
Central Government	183,000	5.0	114,000	57,000	6.8
Civil Service	30,000	0.8	21,000	18,000	1.5
Education	16,000	0.4	8,000		
Other Departments	15,000	0.4	13,000		
Military and Security	120,000	3.2	69,000	39,000	4.3
Lebanese Armed Forces	83,000	2.2			
Others	37,000	1.0			
Contractuals (Education)	33,000	0.9	15,000	0	0.6
Other			9,000		0.4

Source: Lebanese authorities and IMF staff calculations based on available data sources and estimates for 2025. The estimated Working Age Population is 3.7m people from the World Bank for 2024. Aggregate 2025 social benefits data is distributed between military and security and civil service workforces based on 2024 ratios. Compensation refers to Compensation of Employees" and "Residual" from Table 1 while social benefits correspond to "Social benefits".

15. There is significant scope to improve efficiency in Lebanon's education sector. The education sector employs approximately 49,000 people, including general education, higher education and Technical and Vocational Education and Training (TVET).[4] The number excludes employment at the national Lebanese university. A joint study by the Ministry of Education and Higher Education (MEHE) and the World Bank found that student-teacher ratio (STRs) are well below OECD averages, with 13:1 students per teacher at the primary level (vs 15:1 OECD average), and only 6:1 students per teacher at the secondary level (vs 13:1 OECD average). Despite these low student-teacher ratios, student learning outcomes are poor. While many Lebanese students face poverty and other out-of-school barriers to learning, Lebanese students scored just above 350 on average, significantly below the OECD average of about 480 and well below regional peers such as Jordan, where the mean score exceeds 400. Notably, Lebanon exhibits the highest standard deviation among the countries assessed, indicating large disparities in student achievement. This wide variability suggests that while some students perform well, many others are left behind, reflecting deep inequalities in educational quality and outcomes.

16. During the crisis, remuneration adjustments were added in the form of allowances to manage public expenditure under constrained fiscal conditions. Measures implemented during the crises include temporary decrees, bonuses for specific employee groups, and ad hoc compensation.[5] The measures did not carry over into retirement benefits, failed to keep up with hyperinflation, and deepened disparities among various categories of personnel. Prior to the crises, over 90 percent of public compensation in Lebanon took the form of basic salaries. As a result of these additional payments being structured as allowances rather than as increases to base pay, the share of *allowances* in total

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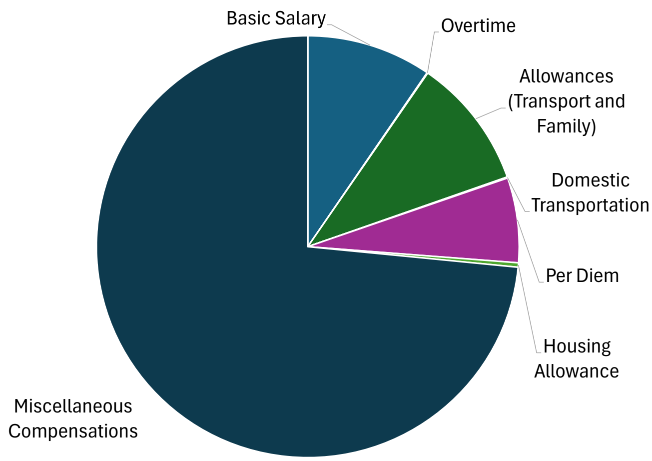
[4] Note that this number is total employed in the education sector and so is not a full-time equivalent figure (that takes account of part-time employees).

[5] Bonuses and decrees (Extra monthly salaries or bonuses for select groups of judges, military, civil servants, retirees, etc, often not part of the base salary or retirement calculations); transportation allowances (fuel vouchers, social assistance offered for commuting costs or fuel, again unevenly and sometimes with restrictive conditions); retroactive wage multipliers (for example, in early 2024 the government approved wage increases retroactive to Dec 1, 2023, multiplying wages by different factors for retirees, military, and administration staff).

remuneration has now risen to over 90 percent (Figure 5). While there are various reasons for this choice, good practice holds that compensation should be concentrated in basic salaries, with allowances and benefits used only to reflect specific circumstances. This could be achieved though holding the nominal level of allowances fixed for an extended time.

Figure 5. Structure of Compensation in 2024



Source: IMF staff estimates based on data provided by the authorities.

17. Fragmented pay adjustments, and weak institutional coordination have created inequities across workforces. Because there is no unified wage-bargaining framework, the public sector has become fragmented. Different employee groups lobby separately for adjustments, leading to large disparities. Judges, for example, have secured high multipliers on base salaries, generous allowances, and preferential exchange rates via their mutual fund. Recent government decisions to align certain salaries (regulatory bodies and some public entities) with market rates sharpen the gap between high-paid positions and other civil servants of the same grade.

18. Inequities across workforces affected morale and retention. With salaries eroded and social safety nets weakened, many civil servants and military personnel have reduced their working hours or turned to secondary employment as a coping strategy, despite formal restrictions. Though precise data is unavailable, anecdotal evidence suggests a significant share of the workforce now works part-time, drawing income from private or informal sectors.

19. While most sectors of the economy have adapted to the new economic realities, some public sector frameworks remain largely unchanged. The official minimum wage in the public sector is still LBP 675,000, which is now worth about US$7.50 and the salary scale is still fixed at its pre-crisis level. In contrast, the private sector's minimum wage has been increased several times since 2021 (most recently in July 2025), and is now set at LBP 28,000,000, approximately US$285.00.[6]

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[6] Institute of Finance Basil Fuleihan, Introduction to the Cost of the Public Sector Workforce and Options for Addressing Its Crisis (unpublished), July 2025.

II. Baseline, Scenarios and Policy Directions

A. Developing an Illustrative Baseline

20. This report provides a baseline projection for personnel spending as well as reform scenarios. A well-justified baseline is essential for medium-term fiscal planning. The baseline is particularly important for Lebanon because budget baselines are largely anchored on the previous year's expenditures, even though actual spending pressures may be growing. Therefore, the technical assistance focuses on developing a well-structured baseline that accounts for several key cost drivers, including: (1) underlying employment pressures (hiring needs, attrition, or over-staffed units), (2) wage pressures (inflation, exchange-rate effects, or benchmark adjustments), (3) increased pressure to spending more on pensions.

21. A benign and relatively optimistic scenario for nominal GDP, inflation, and government revenue is developed (see Table 3). Under this baseline scenario, Lebanon transition gradually from hyperinflation toward economic stabilization. Government revenue is expected to grow, while public expenditure also increases.

- The baseline assumes an IMF program will begin in late 2025 including the grants and loans that typically accompany the program. Under this scenario, nominal GDP growth is assumed to vary between 7.5 percent and 12.4 percent of GDP, and inflation between 4.7 percent and 8.5 percent of GDP.
- Despite strong economic growth and rising revenue, current primary spending is projected to peak at 15.5 percent of GDP in 2028-29 to maintain sustainable financing while scaling up spending for reconstruction and social programs (Figure 6A).
- Personnel spending rises from LBP 239,000 billion in 2025 to LBP 374,000 billion in 2029 or from 8.2 percent of GDP to 9.0 percent of GDP from 2027-29. There is no explicit assumption about whether personnel spending is driven by employment or remuneration per staff member.
- The assumptions in Table 3 for personnel spending were based on data available at the time of the mission (Draft 1 of the 2026 Budget Law). Draft 2 of the Budget Law has 10 percent additional personnel spending in 2026, which means that there is even less room for future increases.

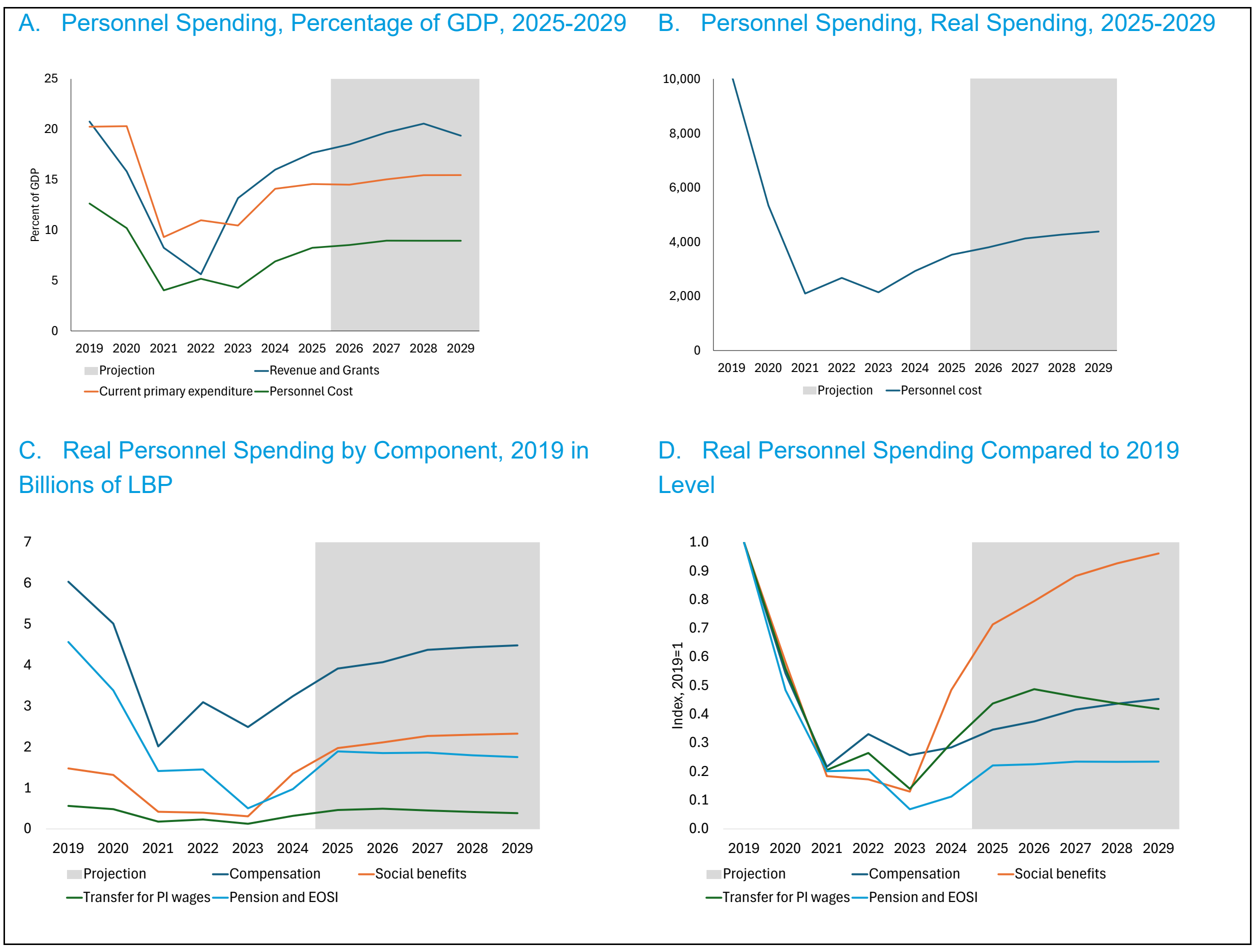
22. Personnel spending is projected to settle at about 9 percent of GDP by 2029 in order to remain fiscally sustainable, assuming an IMF program is put in place (with **no additional policy changes beyond those in the IMF program).** Nominal Personnel Expenditure is projected to rise from LBP 88,000 billion in 2023 (4.3 percent of GDP) to LBP 239,000 billion by 2025 (8.2 percent of GDP), reaching LBP 373,000 billion by 2029 (9 percent of GDP). In real terms (inflation-adjusted), compared to 2019 values, personnel expenditures recovered to 35 percent of pre-crisis levels by 2025 and increased to 43 percent by 2029 (Figures 6B-6D). The recent increases in military remuneration and pension benefits contributed significantly to this projected rise, pushing personnel spending to 8.2 percent of GDP in 2025 (or 47 percent of government revenues).

Table 3. Assumptions and Results for the Baseline Scenario

	2022	2023	2024	2025	2026	2027	2028	2029
Macroeconomic variables								
Nominal GDP growth	169.2	211.0	23.2	14.6	12.4	9.3	8.9	7.5
Annual inflation	171.2	221.3	45.2	14.3	8.5	5.8	5.3	4.7
Aggregate government spending and revenue								
Government revenue and grants (percent of GDP)	5.6	13.2	16.0	18.1	18.3	19.9	20.8	19.7
Current primary government spending (percent of GDP, excl. BdL recap.)	12.0	12.2	14.5	14.3	14.5	15.1	15.5	15.5
Personnel spending								
Personnel spending (percent of GDP)	5.18	4.29	6.9	8.2	8.5	9.0	9.0	9.0
Personnel spending (percent of current primary spending)	43.2	35.2	47.7	57.8	58.1	59.6	57.9	57.8
Nominal personnel spending (LLB)	34,220	88,131	174,810	239,289	275,584	319,561	347,674	373,729
Nominal personnel spending (Billion USD)	1.3	1.0	2.0	2.7	2.9	3.2	3.4	3.4
Growth in nominal personnel spending (APC)	245.9	157.5	98.4	36.9	15.2	16.0	8.8	7.5

Source: IMF staff calculations. Assumes presence of an IMF program, additional revenue measures and that there is sustainable financing for government spending. Government spending projections do not include potential expenditures for the recapitalization of Banque Du Liban (BdL). GDP is estimated GDP from 2022 onwards. Assumes primary deficits consistent with debt sustainability in the IMF macro-framework. Mission undertaken and modelling prepared prior to agreement to draft 2 of the 2026 Budget Law.

Figure 6. A Baseline Scenario for Personnel Spending



23. **There is room to** increase ***real*** **personnel spending by 5.6 percent per year over the period 2025-29 under this baseline scenario.** Nominal spending on personnel would rise from LBP 239,000

billion in 2025 to LBP 374,000 billion in 2029 (see Annex). In inflation adjusted terms, personnel spending returns to 43 percent of its 2019 level by 2029 (Table 4). Assumptions built into the baseline:

- Compensation (salaries, wages, and social benefits) grows in real terms by 7.2 percent annually between 2025 and 2029. In other words, social benefits and non-military and security compensation grow at the same amount, and at the maximum available amount under the available space for spending.
- Transfers to Public Institutions remain fixed in nominal terms starting from 2025. This is because it is assumed that there are (real) savings to be found, given that many Public Institutions are able to raise financing separately for salaries and wages.
- Pensions and End of Service indemnities rise by 1.5 percent per year above inflation. This assumption illustrates the potential maximum space available for compensation of employees, given the conservative track for pensions and EOSI growth. The higher the spending on pensions and EOSI is, the less available space elsewhere.

24. By 2029, personnel spending in real terms (excluding social benefits) is projected to recover though it will remain below the high levels of pre-crisis.

- Military and Security personnel compensation (excluding social benefits) will be about 42 percent of its 2019 real value.
- Education-sector personnel spending will be about 47 percent of its 2019 level.
- Social benefits are expected to reach approximately 95-96 percent of their 2019's real value, reflecting stronger growth in these benefits between 2019 and 2025.

Table 4. An Illustrative Baseline Scenario of Personnel Spending, in Billions of LBP, 2019 (Real)

	2025	2026	2027	2028	2029
Personnel cost	239289	278232	319457	347660	373724
Total salaries, wages, and social benefits	170955	201692	236873	261752	284326
Compensation of Employees	113655	132786	155948	172327	187188
Military and Security	68972	79052	92841	102592	111440
Civil Service, of which	35426	42602	50033	55288	60056
Education	22379	26912	31607	34926	37938
Other departments	13047	15690	18426	20362	22118
Residual	9257	11132	13073	14446	15692
Social benefits	57300	68906	80926	89425	97137
Transfer for PI wages	13389	16101	16101	16101	16101
Pension and EOSI	54945	60439	66483	69807	73298

25. There will be less room to increase real wages and salaries if government employment continues to expand significantly in 2025-2029.

- If employment is fixed between 2025-29, real wages per person can increase by about a third (32 percent over those four years).
- However, if employment rises by 10 percent (12,000 military staff and 6,000 Civilian staff), then the per-person increase in real wages, salaries and benefits per person would only rise by 20 percent.

26. There is even less room for additional personnel spending in 2026-2029 given recent budget decisions. This mission was undertaken prior to the agreement and publication of the second draft of the 2026 Budget law in October 2025 and so the modelling in this report is based on a 2026 spending estimate drawing on draft 1 of the2026 Budget law. The second draft includes: (1) an additional 21,000 billion LBP on salaries, wages and associated benefits (article 13), and (2) an additional 17,000 billion LBP on Social Benefits and Pensions, reflecting a more than 10 percent increase in budget spending on personnel in 2026. Updated baseline and scenario forecasts would therefore have less room available for additional spending in 2027-2030.

B. Alternative Scenarios for Personnel Spending

27. There are significant spending pressures beyond those reflected in the baseline scenario. The baseline assumes controlled personnel spending with modest real wage growth, pension spending growing at 1.5 percent above inflation annually, and limited employment expansion. However, there are significant pressures to spend more than the baseline.

- In the baseline scenario, total spending on salaries, allowances and benefits remains at 55 percent of pre-crisis levels in 2029, with remuneration excluding social benefits at 45 percent of pre-crisis levels. However, there is growing pressure to restore real wages and salaries to closer to pre-crisis levels. For example, the Civil Service Board Indexation proposal includes a 76.6 percent increase.
- To help accommodate these spending pressures, there are policy options to create fiscal space to finance additional spending, including (1) reducing low priority or redundant employment and (2) capping nominal allowances and benefits to gradually shift more compensation into base salaries (for example by allowing wages and salaries to grow with inflation and not adjusting nominal allowance).[7]

28. The authorities face tough choices about how to prioritize and contain different parts of the wage bill, including policies related to base salaries, allowances, promotions, and hiring. A structured decision-framework will help ensure choices are well-informed by weighing the trade-offs of the benefits and costs associated with the different options. In practice, actual spending outcomes will depend on several things:

- The baseline scenario (what’s assumed without further policy change),
- How spending pressures (wage demands, promotion backlogs, hiring needs, etc.) are managed,
- Which savings options are implemented,

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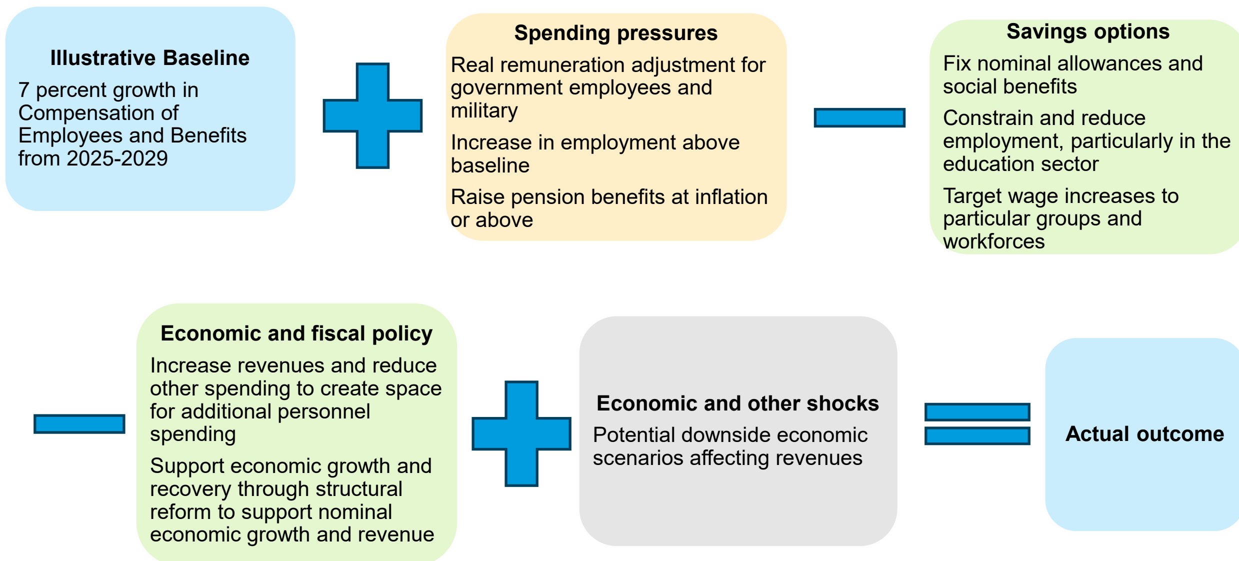
[7] Note that the costing of the impacts on pension benefits needs to be undertaken when remuneration is increasingly included in base salaries and wages.

- Whether additional revenue is raised,
- And the broader economic performance (growth, inflation, etc.) (see Figure 7 for how these factors interact).

Figure 7. Summary of Spending Pressures, Savings and Economic Policy Choices



29. We model a baseline and five alternative scenarios to illustrate the potential scale of both spending pressures and savings options. In addition to the baseline scenario that is described above:

- **Scenario A:** A 10 percent additional increase in wages and salaries of civil servants and military and security personnel (including educational workers) over the baseline growth in 2026.
- **Scenario B:** Implements the Civil Service Board's Indexation proposal, which raises government employees' wages to 46 times their pre-crisis levels bringing real spending back to 76.6 percent of the pre-crisis amount.
- **Scenario C:** An additional 5 percent growth per year in pension spending between 2027 and 2029.
- **Scenario D:** A reduction of total government employment by 3400 staff over the 4 years (or a 5 percent reduction in 2025 levels in the civil service and education workforce), which could be particularly in the education sector.
- **Scenario E**: Social benefit spending is fixed in nominal terms (i.e. does not increase for inflation or real growth).

30. There is scope to balance modest increases in real wage and pension spending growth, with reductions in employment and slower growth in nominal spending on social benefits. The key findings from the alternative scenarios are summarized below (see Table 5):

- <u>Cost pressure scenarios:</u> These scenarios reflect upward spending pressure driven by increases in wages or pensions:

Scenario A – 10 percent wage increase in 2026: A one-time 10 percent increase in wages for civil servants and military personnel in 2026 leads to a permanent rise in spending, increasing the wage bill by 0.4 percentage points of GDP above the baseline from 2027 onward.

Scenario B – CSB Indexation proposal (raising wages to 46 times pre-crisis levels)**:** Spending would jump by 1.6 percentage points of GDP above the baseline in 2026 and gradually rises to 2.9 percentage points by 2029. This is the costliest scenario and would be fiscally unsustainable without major revenue reforms and cost savings measures.

Scenario C – Pension Spending Growth: If pension benefits grow by an additional 5 percent annually from 2027 to 2029, total spending would grow steadily to 0.7 percentage points of GDP above the baseline by 2029.

- Saving scenarios**:** these scenarios explore two options for reducing spending relative to the baseline.

Scenario D – Baseline and a 3400 reduction in civilian employment: Under this scenario, the baseline plus a reduction of 3,400 civilian staff over the period 2025 2029 (with much of the reduction in the education sector) leads to modest savings. By 2029, total spending is projected to be about 0.2 percentage points of GDP lower than under the baseline. This illustrates that staff cuts can yield substantial savings that could be spent on salary increases.

Scenario E – Baseline and freeze social benefit spending at its 2026 nominal level: By 2029, spending under this scenario would fall by 0.6 percentage points of GDP below the baseline. Freezing non-wage benefits at this level offers a larger savings opportunity, which could also be used to finance higher salaries or increases in pension benefits.

Table 5. Summary of Alternative Scenarios, Difference in Personnel Spending from Baseline (in Percent of GDP)

	2025	2026	2027	2028	2029
Baseline	8.2	8.5	9.0	9.0	9.0
Cost Pressures					
Scenario A: +10 percent salaries growth		0.4	0.4	0.4	0.4
Scenario B: CSB Indexation Proposal		1.6	1.8	2.4	2.9
Scenario C: +5 percent pension growth pa		0.0	0.3	0.5	0.7
Savings Options					
Scenario D: 3400 reduction in employment		0.0	-0.1	-0.2	-0.2
Scenario E: Fixed nominal Social Benefits		0.0	-0.3	-0.5	-0.6

Source: IMF staff calculations.

31. Lower economic growth outcomes would substantially reduce the amount available for personnel spending. The scenario presented so far is a relatively benign scenario and assumes an IMF program beginning in late 2025. To show how outcomes might differ under weaker conditions, we also construct a downside economic scenario, where inflation follows the baseline scenario but real GDP growth averages 2 percent per year during 2026-2029. Under this downside scenario, real spending on compensation grows by 10 percent over the four-year period, compared to a 32 percent increase under the baseline. This wide variation between the projections illustrates why decisionmakers should avoid committing to higher future spending until economic growth and government revenues are more certain and revenue increase.

C. Policy Directions

32. There is very limited fiscal space for raising salaries and wages beyond a real growth rate of 6.5 percent per year under the baseline assumptions. The key finding of this report is that even under favorable economic conditions - including inflation of 8-10 percent and effective revenue measures - nominal spending on personnel would not rise by more than 10-15 percent per year over 2025-29. That would translate to real increases in total personnel spending of 5.6 percent annually and real spending on salaries and wages of 7.2 percent (including the accommodation for spending in draft 2 of the 2026 Budget Law). In that baseline, real spending on salaries and wages recover to around 43 percent of pre-crisis levels by 2029, while pension benefits recover to 23 percent of their pre-crisis levels by 2029. [8,9] It is important to note as well that pre-crisis compensation spending as a share of GDP was high compared to peers and that it is unlikely that spending would return to those levels in the medium-term. Going forward, in both the public and private sectors, it is important that wage growth reflects productivity growth.

33. Given the limited fiscal space, the government must carefully prioritize how it allocates personnel spending, within the available spending envelope, while also addressing fairness across different categories of public sector. This means that, building on the work on this report, there is the need to develop a medium-term envelope for personnel spending consistent with sustainable public finances. Going forward, spending decisions on employment, pensions, social benefits and allowances should be assessed within a clear medium-term fiscal envelope; one that aligns with fiscal sustainability and ensures equitable treatment across sectors. Each policy proposal should include multi-year cost estimates and show how much of the available fiscal space it would consume. This will help highlight the trade-offs involved and support more informed decision-making over 2025–2029.

34. Increases in salaries, wages and pension benefits (above the baseline) could be partly financed by reducing lower-priority employment, implementing parametric pension reform and slowing growth in allowances and benefits. One area where savings could be considered is in reducing employment in sectors that have high employment, such as education (although some caution is required to ensure that they do not unduly undermine public services). Other savings could include ensuring that allowances and social benefits grow at a slower pace than base salaries and wages. Reform of pension benefit parameters could result in significant savings from the baseline (for example, in the accrual rates for military pension benefits). These proposals of policy reforms should draw on the work of the World Bank and the Civil Service Board on parametric pension reform. Alongside cost-savings, these measures should be balanced with possible revenue measures to ensure the public sector compensation system remains both fair and fiscally sustainable consideration.

[8] In terms of real income per public employee (including security sector), real salaries are projected to increase from approximately 11,656,000 Lebanese pounds in 2025 to around 15,257,000 Lebanese pounds by 2029.

[9] This should not be interpreted as a policy recommendation, but more of a scenario of how Lebanon could manage competing spending pressures.

35. Making progress on prioritization will require collaboration across Ministries. The challenge of making good prioritization decisions in personnel requires clear top-down decisions on spending allocations with strong engagement on sectoral priorities and cost savings (to avoid blunt across the board cuts). This means that inter-ministerial coordination will be required to align personnel and employment decisions with the available fiscal space. Clear and consistent communication on personnel spending will be important to anchor expectations.

36. Functional reviews provide a structured approach to improving efficiency and effectiveness. They help the government map out which services need to be delivered and how to deliver them in the most effective and efficient way. Are services provided relevant? Are there services currently offered relevant to what citizens need? Are there services the public sector should provide but currently does not? Who is best positioned to deliver each service - central government, autonomous agency, local authority, private contractor or NGO? And what delivery methods (outsourcing, shared services, digital channels, etc.) offer the best value given the sector's constraints? By answering these questions, functional reviews can reveal wasted resources, gaps in service, overlaps between agencies, and opportunities for restructuring.

37. Policy should explicitly allow for downside scenarios. The baseline economic and revenue assumptions are relatively favorable and include the presence of an IMF program along with the associated additional financing and economic recovery. Given the persistent high level of uncertainty, the level of personnel spending projections need to be stress-tested under a conservative economic and revenue scenario (building on the analysis presented above). In addition, policy decisions on salaries, wages, and pensions should not unduly commit to future spending allocations and should allow for flexibility. Annual nominal spending growth should be flexible, calibrated each year in line with actual economic performance and revenue collection.

38. There are choices to be made on the framework for cost-of-living adjustments in public sector pay, but options should maintain flexibility. Currently, public sector pay and employment decisions are made on an irregular basis in budgets or by the Council of Ministers. While this provides flexibility for political and economic considerations and fiscal space, it risks large differential catchups in wages, and creates uncertainty for medium-term fiscal planning, and for employees. Some countries' index public sector pay to prices (fully or partially) while allowing discretionary increases to reflect productivity, labor market or other sector issues. However, this introduces rigidities, particularly where there are significant negative fiscal surprises, or lead to inflation persistence.[10] An alternative approach is to use independent expert bodies to provide tailored advice based on data and circumstances (Box 1).

[10] IMF, 2023, "Fiscal Monitor April 2023: On the Path to Policy Normalization", particularly chapter 2.

Box 1. Three Case Studies of Regular Wage Setting: UK and Ireland, Denmark and Romania

Pay review bodies have been used to analyze data and inform wage adjustment process in the UK and Ireland. In the UK, the eight pay review bodies established ensure a key input in the monitoring process and inform the wage adjustment process for over 45 percent of public sector staff (the rest being civil servants and local government employees).

Decentralized wage setting with collective bargaining in Denmark. The wage bill is not linked to strict employment limits but to programs. Therefore, institutions can decide whether to hire less and pay more competitively within an overall budget. This ensures a high level of flexibility in wage bill planning, within an overall budgetary envelope determined centrally by the Ministry of Finance.

Strategic workforce planning by a centralized agency in Romania. Strategic planning of public sector wage policy belongs to the Ministry of Labour and Social Solidarity (MLSS). They are responsible for implementation of annual normative acts for the enforcement of the Framework Law No. 153/2017, guiding public institutions in the application of the wage system, and monitoring implementation of wage legislation. Line ministries support application of wage system legislation and can develop normative acts in the application of the Framework law, related to conditions for specific bonuses. The Ministry of Finance is responsible for wage bill planning and monitoring of budgetary expenditure (including personnel costs).

Source: OECD (2024), Salary Systems in Public Administration and their Reforms.

39. **The challenges that Lebanon faces in creating an efficient, effective and financially sustainable government go beyond budget decisions.** Strong spending prioritization decisions are only part of the picture to improve the delivery of public services. The Civil Service Board, as well as the Office of the Minister for Administrative Reform, have been undertaking work to review the functions of government, augment and improve the pay grid and start modernizing government. There is a need to progress work on revising pay grids to address inequities that developed during the crisis from ad-hoc decision-making and ensure that pay reflects the needs of a modern workforce, including the apparent pay compression that has occurred since 2019. The issues of affordability should be a central design principle in all these work programs.

40. **Public sector performance management needs to be modernized.** Over the medium-term, strengthening the link between public sector performance and compensation could enhance productivity and service delivery. Ongoing adjustments and reforms such as implementing performance-based incentives and career development pathways could improve productivity and motivation within the public workforce.

41. **Data collection and monitoring systems need to be strengthened to regularly track personnel expenditures, wage trends, and workforce composition to inform timely policy adjustments.** Given the scale of the crises facing Lebanon, unsurprisingly the quality and comprehensiveness of fiscal reporting has been reduced. There has been significant gaps in reporting on government spending, including in personnel spending since 2021. This has made it challenging to assess the trends in spending and for decisions to be evidence based.

D. Next Steps

42. This report provides an illustrative baseline and reform scenarios based on the available data. This report is based on the data and information that was available during the mission. In particular, it was not possible during the mission to access detailed information on budget-financed education spending on personnel between 2021-25 and verify this in detail with the Ministry of Education and Higher Education. In addition, as mentioned above, the results should be read in the light of the high uncertainty in the assumptions of the baseline.

43. This report is based on a combination of a macro-fiscal framework assessment of total spending available, with assumptions about the growth in sub-categories of spending. The baseline and scenarios presented here are not based on a cohort model of wage growth and therefore do not account for the increase in costs that emerge at the staff level from existing policy changes (for instance an ageing workforce will tend to increase seniority, increasing costs, and result in increased flows to pension benefits).

44. Detailed modelling using individualized payroll data would enable more precise modelling. Anonymized individual payroll data enables the calculation of a 'wage drift' term that is the growth of the payroll of the government in the absence of policy change (through for example the ageing of the workforce). It enables a range of policy scenarios to be modelled that would not otherwise be possible (for example, non-replacement of job exits, or reducing hiring by 50 percent, or grand-parenting provisions such as allowances), including more analysis by sector. The modelling approach using this data is our standard approach and so has received greater peer review and quality assurance.

45. Future work could develop more fine-grained analysis of spending issues in Ministries and more tailored reform scenarios. Follow-up activities from this mission could include more detailed assessments of the efficiency and fiscal sustainability of personnel spending in particular areas, like in education, military and security, social benefits and allowances. This would support the identification of savings, as well as providing more fine-grained recommendations that reduce the risk of blunt across the board cuts or spending increases.

Annex. Additional Information and Data Sources

Estimation of Personnel Spending in Lebanon

The estimation of baseline personnel spending in Lebanon integrates multiple data sources, including public financial management (PFM) tables, BdL payroll records, and macroeconomic projections. Compensation expenditures are categorized into major subcomponents aligned with the availability of existing data. These subcomponents include military personnel, civil service employees in education and other departments, social benefits, transfers to public institutions, and retirement compensations. The figures are then reconciled across data sources and ministries to ensure consistency and accuracy.

- Between 2019 and 2021: The primary data source for most spending categories is the fiscal table prepared by the 2023 FAD mission on expenditure diagnostics. Social benefit figures are derived from BdL payment records. Residual figures represent reconciled values between these two sources.
- Between 2022 and 2024: Ministry of Finance is the source for estimates of payroll spending and employment for the Civilian workforce, social benefits and transfers to public institutions, as well as an estimate of aggregate spending. This information is supplemented by information from BdL on the total spending on payroll and pensions. Residual figures indicate reconciled values across these sources.
- For 2025: BdL payment estimates are the main data source for most spending items, except Social Benefits, which are based on the 2025 approved budget, and transfers to Public Institutions for wages, which are sourced from the Ministry of Finance.
- Between 2026 and 2029: The projected spending envelope is an illustrative example based on the implementation of an IMF Program in late 2025 and standard IMF debt sustainability frameworks. Projections of most subcomponents correspond with anticipated macroeconomic conditions and mostly stable shares (but with a decline in relative pension spending overtime).

Additional Results from Baseline Analysis

Table 6. Baseline Personnel Spending in Billions of LBP Nominal Terms

	2025	2026	2027	2028	2029
Personnel cost	239,289	278,232	319,457	347,660	373,724
Total salaries, wages, and social benefits	170,955	201,692	236,873	261,752	284,326
Compensation of Employees	113,655	132,786	155,948	172,327	187,188
Military and Security	68,972	79,052	92,841	102,592	111,440
Civil Service, of which	35,426	42,602	50,033	55,288	60,056
Education	22,379	26,912	31,607	34,926	37,938
Other departments	13,047	15,690	18,426	20,362	22,118
Residual	9,257	11,132	13,073	14,446	15,692
Grants to cover military top-up	0	0	0	0	0
Other	9,257	11,132	13,073	14,446	15,692
Social benefits	57,300	68,906	80,926	89,425	97,137
Treasury Advances cover salaries	0	0	0	0	0
Transfer for PI wages	13,389	16,101	16,101	16,101	16,101
Pension and EOSI	54,945	60,439	66,483	69,807	73,298

Source: Lebanese authorities and IMF staff calculations.

Table 7. Baseline Personnel Spending in Billion US$

	2025	2026	2027	2028	2029
Personnel cost	2.7	3.0	3.2	3.4	3.4
Total salaries, wages, and social benefits	1.9	2.1	2.4	2.5	2.6
Compensation of Employees	1.3	1.4	1.6	1.7	1.7
Military and Security	0.8	0.8	0.9	1.0	1.0
Civil Service, of which	0.4	0.5	0.5	0.5	0.6
Education	0.3	0.3	0.3	0.3	0.3
Other departments	0.1	0.2	0.2	0.2	0.2
Residual	0.1	0.1	0.1	0.1	0.1
Grants to cover military top-up	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.1	0.1	0.1	0.1
Social benefits	0.6	0.7	0.8	0.9	0.9
Treasury Advances cover salaries	0.0	0.0	0.0	0.0	0.0
Transfer for PI wages	0.1	0.2	0.2	0.2	0.1
Pension and EOSI	0.6	0.6	0.7	0.7	0.7

Source: Lebanese authorities and IMF staff calculations.