HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

Lebanon

Government Personnel Spending: Scoping a Medium-Term Spending Envelope

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The High-Level Summary Technical Assistance Report series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT:

This public sector pay mission scoped the available data and presents an indicative baseline and scenarios for reform. There is limited room for major increases in personnel spending and careful prioritization is needed. If implemented in 2025, adjustments to pension benefits, expanded military and security sector recruitment, and a higher minimum wage for commercial public institutions would leave limited space, over the forecast horizon, for significant across-the-board increases in real wages.

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Background

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.

Summary of Findings

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 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 Table). This results in seven percent real annual growth in employee compensation. However, by 2029, both the real compensation of employees and pension benefits 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.

Summary of Recommendations

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.

High Level Summary Table. Government Personnel Spending (Illustrative Baseline), US$b

	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 assumptions in illustrative baseline scenario and data provided by the authorities