

COM: New Indirect Taxes to Finance Public Sector Wage Increases



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Contact Information

Research Department

research@blominvestbank.com

The Lebanese Council of Ministers (COM) approved on 16 February 2026 an increase to public sector wages and benefits (for army and administrative personnel and retirees), in addition to higher indirect taxes to finance the said increase. The cost of the wage and benefits increase is expected to reach \$800 million annually: \$620 million for wages; \$150 million for family allowances; and \$30 million for school allowances. In turn, the COM approved a 1% increase in the VAT (the goods and services tax, to reach 12%) and imposed a higher excise tax on gasoline equal to 300,000 LBP for every 20 liters. The VAT increase is expected to bring in annually an additional \$150 million (perhaps an underestimate) and the excise tax increase an additional \$450 million (perhaps also an understatement), to a total of \$600 million.

As such, if these expected figures were accurate, then there will be a shortfall of \$200 million. The Ministry of Finance (MOF) is counting on better tax collection including customs, higher revenues from public properties, and retrieval of the 'abused subsidies' made during 2020-2022, to cover this shortfall.

Preliminary estimates put the cost increase to the average consumer at 5% (a higher one-shot inflation rate by 5%)¹; and, being the outcome of indirect taxes, the cost increase will be regressive, affecting low income people more than higher ones. Three additional observations could be imposed on the approved fiscal changes: 1) Ideally, the changes should have been part of a fiscal adjustment program that aims at eradicating tax evasion and widening the tax base, rationalizing wasteful public expenditures, and an overall restructuring of the public sector; 2) Practically, if the shortfall is not bridged as was hoped, then in all likelihood it will be funded (as in the past) by BDL, which will consume more of its foreign reserves at a time when these reserves are badly needed to finance the proposed Gap Law. So it is crucial that these fiscal changes are self-financing; 3) Reasonably, to forestall such a shortfall, and if possible to reduce the levy on gasoline, a

¹ An-Nahar Newspaper, February 18, 2026.

supplementary excise tax of one dollar could be levied on (a pack of) cigarettes, as it could have both strong revenue and health effects.

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For your Queries:

BLOMINVEST BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

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