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Contact Information

Helmi Mrad

Research Associate I

helmi.mrad@blominvestbank.com

Introduction

Lebanese public sector wages witnessed a dramatic transformation since the onset of the economic and financial crisis in late 2019. It sits at the core of the Lebanese broader economic downfall. As such, the massive shrinkage of public wages in US Dollars left hundreds of thousands of public employees struggling to meet their basic needs. Not surprisingly, given fiscal constraints, the wages increase since the start of the crisis were not enough to recoup the purchasing power of these employees; as per the latest proposed increases, public sector employees' salaries will reach around 40% of their 2019 level in USD.

Wage Adjustments and Size of Public Employees

The depreciation of the local currency since late 2019 -- losing 98% of its value -- left wages of public sector employees considerably lower. As such, several raises were given to public sector employees; however, it is still well below the 2019 level. Between 2020 and 2025, salary increases to Lebanese public sector employees were 11 times their 2019 basic salaries. Moreover, in 2026, six additional salaries were approved to public sector employees that are expected to increase government wage expenditure by around \$800 million. As per officials, these additional expenses will be covered by about a \$3.5 excise tax on each fuel tank (20 liters), expected to collect around \$600 million, in addition to more efficient taxes collection that is expected to collect additional \$200 million.

As per *Information International s.a.l.*, the number of public sector employees (civilian and military employees and retirees) in 2026 is estimated at around 320,000, as shown in the breakdown depicted in Table 1 below. No doubt, it is sizable amount, representing about 25% of the Lebanese labor force!

Table 1: Breakdown of Number of Public Sector Employees

Civilian Public Administration	8,000
Contract Employees	35,000
Security Forces	130,000
Public Education Sector	27,000
Retirees - Civilians	40,000
Retirees - Military	80,000
Total Number of Public Sector Employees	320,000

Source: Information International, Annahar Newspaper

In 2019, public sector total compensation (detailed in table 2 below) was around \$6.59 billion and it decreased to around \$1.88 billion in 2024, despite the raises given to public employees due to local currency depreciation. If we assume total personnel costs of public sector employees in 2025 is similar to that of 2024, and it is a most likely assumption as no additions were granted to these employees, total personnel costs in 2026 will be at least \$2.68 billion (\$1.88 billion in 2025 in addition to the additional \$800 million). Therefore, the monthly personnel costs are expected to reach around \$224 million in 2026 compared to around \$158 million in 2025. And given that total compensation was \$6.59 billion in 2019 compared to an expected \$2.68 billion in 2026, then public employees lost close to 60% in compensation between these two time periods, not counting the loss of purchasing power due to inflation.

As such, a higher burden will be put on the Central Bank's (BDL) foreign reserves, thus resulting in more depletion of BDL's foreign reserves, especially that the increased geo-political tension in the region will most probably affect remittances from expats in the Gulf and elsewhere. Between 31/07/2023 and 31/07/2025, BDL foreign reserves increased on average by around \$1.42 billion per year. But the higher personnel costs increase will weigh heavily on Central Bank's foreign reserves, especially if as indicated the war in the Middle East continues for a long period of time.

Table 2: Breakdown of Public Sector Personnel Costs (2019, 2024) in \$ Billions

Category	2019	2024	% Change
Salaries, Wages & Related Items	3.38	0.57	-83.01%
Retirement & End-of-Service Indemnities	2.03	0.31	-84.79%
Other Social Benefits	0.85	0.93	9.93%
Transfers to Public Institutions to Cover Salaries	0.34	0.07	-78.33%
Total Personnel Costs	6.59	1.88	-71.40%

Source: Ministry of Finance, BLOM Invest Bank

It is interesting to note that when comparing the portion of “Other Social Benefits” in total personnel costs between 2019 and 2024, we see that it increased from 12.82% to 49.28%. As such, this validates the government’s position that salary increases are considered as social assistance instead of basic ‘salary increases’.

Fiscal Capability

In terms of fiscal capability, the government’s new fiscal policy is that wage increases have to be financed by additional taxes that are expected to be sustainable. In addition, any increase in expenditures should be covered by an equal increase in revenues in order not to result in fiscal deficit. And despite the decrease in personnel costs in dollar value, it is still the main component in the government’s total expenditures as its share of total expenditures increased from 39% in 2019 to 49% in 2024. As a general benchmark, personnel costs usually shouldn’t exceed 30% of total expenditures, since there are several other priorities such as education, health and investment expenditures that have to be taken into account. Thus, the bloated Lebanese public sector is acting as a ‘black hole’, sucking increasingly needed resources without necessarily a corresponding increase in services and efficiency.

Employment Consequences

Due to low real wages, many talented employees left the public sector and joined the private sector either in Lebanon or abroad. This unfortunately might affect the quality of services provided by public institutions and administrations. Also, working days in public institutions have decreased significantly as most

employees work less than 5 days per week, so as to pursue additional sources of income. And needless to say, due to the low purchasing power of the salaries, this could result in more bribery payments to complete people's requests and services, which in consequence would decrease tax collection.

Institutional Impact

The decline in employees' attendance along with the decrease in State's fiscal capacity affected the services provided for Lebanese citizens. Many public institutions witnessed shortage, such as office stationary, electricity etc... Furthermore, although there is a large number of employees on public payroll, according to the Minister of State for Administrative Reform (OMSAR) the public administration suffers from around 70% vacancy at almost all levels of public institutions. This is due to the fact that most of employees are on contractual basis that were employed by political parties, mostly before elections. As per *Information International s.a.l.*, there are several employees employed without job descriptions such as cooperators, day laborers, and assistants.

Currently, the Civil Service Council is updating job descriptions, as some job positions will be cancelled and other job positions will be added to be up-to-date with current needs. But, no doubt, comprehensive reforms should be done to make the public sector more efficient. Such reforms will not only enhance the services of the public sector, but will also enhance the fiscal capability of the state.

Conclusion

We strongly believe that administration reforms are badly needed for a sustainable and up-to-date governmental services with lower costs. This should also involve finalizing E-governmental services which will reduce bribery, personnel costs and inefficiency, while increasing tax collections, especially in real estate registration. In conclusion, public administration reforms are not optional anymore and have become a precondition for recovery.

Lebanese Public wages, Public Employment, and Fiscal Capability: A Brief Note



For your Queries:

BLOMINVEST BANK s.a.l.

Research Department

Zeituna Bey

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Helmi Mrad

helmi.mrad@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

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