REPUBLIC OF LEBANON
MINISTRY OF FINANCE

معهد باسل فليحان المالي والاقتصادي
Institut des Finances Basil Fuleihan

# A Simple Thread for a Complex Problem: Tackling Public Sector Wage & Pensions – A roadmap

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*This brief memo outlines a set of measures to initiate the reform of Lebanon's public sector salary and pension systems. It proposes concrete actions that can be initiated within weeks to put this sensitive process in motion, provide early visibility on its scope and risks, and guide future discussions on the matter within the government and with international partners.*

## I. Overview

**Lebanon's public sector salary and pension systems are approaching a breaking point.** For years, this politically sensitive issue has been avoided, but the status quo is no longer sustainable, fiscally and socially. Service delivery to citizens is affected, performance of state institutions plummeting.

**Salaries and pensions reform is unavoidable**. Across-the-board salary increases is not feasible. The fiscal space is limited, and in some cases, public sector salaries already exceed market rates. Ad hoc measures are deepening the sense of unfairness and inciting a culture of silent quitting.

**Pension schemes across Lebanon's public sector are deeply unequal and financially unsustainable**. The data on pension sustainability is alarming**.** For instance, public pensions currently absorb approximately 65% of total social protection spending yet benefit fewer than 2% of the population (around 131,000 individuals). Meanwhile, overall coverage remains limited to fewer than 12% of the labor force, or roughly 150,000 workers.

Beyond these figures, there are also significant disparities in both pension coverage and generosity. Notably, substantial gaps exist between:

- Civil servants and military/security personnel
- Full-time staff and contractual employees

**There is mounting pressure on public employment** which will compound the problem given the current state of public finance and the inability of the country to borrow.

**The wage bill crisis and the need to resize the public sector are deeply interconnected**; addressing one without the other will yield limited and unsustainable results.

## II. Three interconnected dimensions

Addressing this complex issue necessitates tackling simultaneously the following three interconnected dimensions:

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1. **Right costing the wage bill** now and in the future. This requires:
    a. **Right sizing the public sector,** starting with revisiting structures and staffing needs based on agreed parameters focused on preserving core posts and eliminating what is not "***fit for purpose***" (*e.g.*, مأمور احراش in the age of drones)
    b. **Comprehensive data to estimate the current wage and pension bills and forecast it for the medium term.** This includes data on salaries, benefits, age, and public sector staffing trends especially in public agencies operating outside the civil service framework. It is important not to underestimate the wage bill avoiding fragmentation and omissions.
    c. **Integrating any proposal for salary adjustment into the government Medium Term Fiscal Framework** (MTFF) to avoid fiscal overruns as well as ad hoc or politically motivated wage hikes that put to risk fiscal sustainability and macroeconomic stability.
2. **Reinstating standards of fairness and equity** by addressing deep-rooted inequalities in wages and benefits across structure and public bodies. This is ideally done before any new increase is effected.
3. **Addressing the fiscal sustainability of pension systems** by reviewing and streamlining benefits and aligning with fiscal realities to avoid long-term unsustainability.

**Any salary adjustment that ignores these three dimensions i.e, size and cost, fairness and equity, as well as pension sustainability will worsen both fiscal imbalances and social injustice.**

## II. Proposed actions

Based on the above, it is important to initiate a process that can address the issue gradually:

**First, by establishing a shared understanding** of the complexity of the problem among all decision makers. This should take place during dedicated discussion sessions (including at COM) based on a report/power point presentation.

**Second, by delegating to each minister** the task of proposing a new structure for their respective ministries and agencies that streamlines functions, removes redundancies and reduces the number of staff needed. The proposals would be submitted within a specific deadline. Reviews may be clustered by sectors (Military/security, social, economic, etc.)

**Coherence across efforts would be ensured through 1/agreed guiding principles, 2/good coordination 3/dialogue and concertation and 4/regulatory safeguards such as recruitment caps (e.g. 1 in 3 retirements rule), salary limits, and other control measures.** These could be developed by an experts' task force and validated by CoM.

**Third, by tasking the Ministry of Finance** to 1/develop a wage bill management policy that is financially sustainable and aligned with the country's fiscal realities and 2/to propose a plan to harmonize salaries and benefits across public bodies.

**Forth, by requesting the Ministry of Finance to** coordinate a Pension Reform Working Group, with support from international partners (ILO/WB).

**Fifth, by requesting the CSB to develop a policy for talent attraction and retention** grounded in principles of competitiveness, meritocracy and career development. This policy would guide the development of a new civil service law that regulates the various forms of employment and set guiding principles for recruitment, mobility and career development.

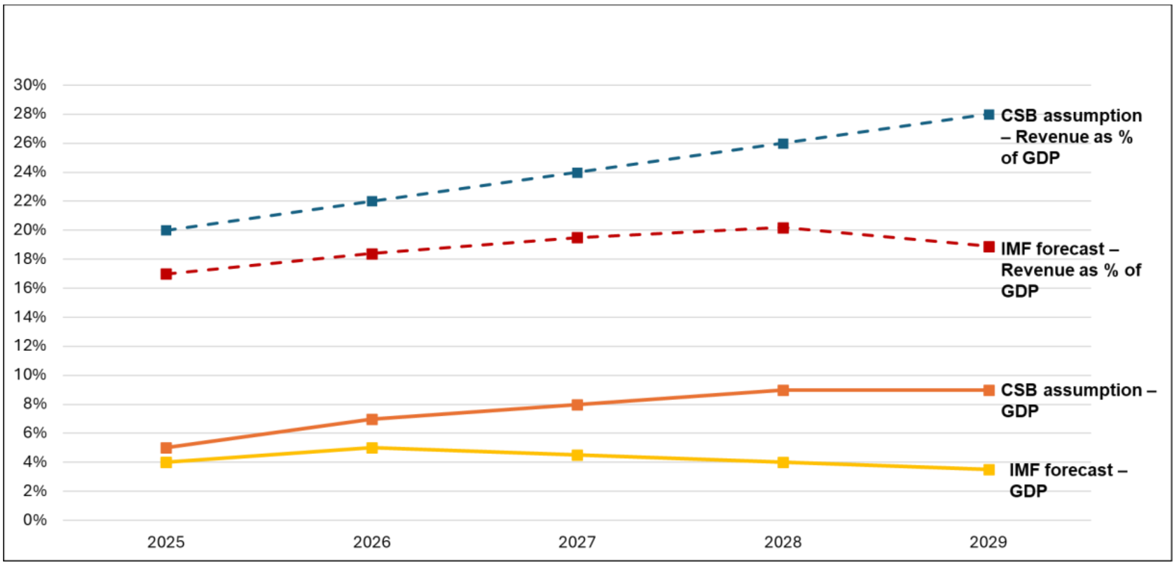
**This process, if well appropriated, represents a golden opportunity to lay the foundations for a fairer, leaner, and more modern public sector, capable of serving Lebanon's needs for the years ahead.**

## III. Proposed Deliverables and timeline

| Deliverable | Principal | Deadline |
|---|---|---|
| Establishing a shared understanding | DPM | ASAP |
| Guiding Principles and regulatory safeguards | DPM + Experts | ASAP |
| Ministries restructuring plans | Respective ministers | 5 months from assignment |
| Wage bill management policy | Minister of Finance | 6 months from assignment |
| Plan to harmonize salaries, and benefits across public bodies. | Minister of Finance | 5 months from assignment |
| Pension reform proposal | Working Group headed by Minister of Finance with support from international partners (IMF/WB) | 4 months from assignment |
| A modern policy for talent attraction and retention | CSB | 3 month from assignment |

## Brief analysis of CSB proposal

1. Although the proposal caps salaries and proposes staged implementation, it is based on unrealistic macroeconomic fundamentals that assume a growth rate of 5% in 2025 with an upward trend up to 9% starting 2028 (as a reminder, the year 2024 ended on an economic contraction of 7.2%). IMF forecasts are below these figures.
2. It is also based on a revenue to GDP ratio of 20 to 28% whereas this share had hit a historical low of 6.6% in 2023 (according to the IMF). IMF forecasts are below these figures.
3. It proposes a fixed increase in salaries per year until 2030, irrespective of the economic performance and fiscal capacity of the state and notwithstanding the Medium Term Fiscal Framework. In that sense, it is a reversely engineered proposal.
4. It was not anchored in a comprehensive census of public sector employees (all types and organizations) nor in projections over the medium term including the evolution in size of the public sector (promotion, appointments, recruitment, retirement)
5. It does not address the structural gaps and flagrant inequities that are already plaguing the system.
6. In terms of scope, it is not clear if the proposed salary adjustments will cover all public sector employees or only the institutions operating under the umbrella of the Civil Service Board and the military and security forces. There is therefore a plausible risk of underestimation of the cost of the increase.




## International Norms:

- International norms stipulate that Ministries of Finance take the lead in coordinating and controlling the wage bill, assessing its impact on fiscal sustainability and macroeconomic stability.
- The IMF strongly recommends that wage-setting be integrated into a Medium-Term Fiscal Framework (MTFF) to avoid ad hoc or politically motivated wage hikes.
- Wage increases should be tied to realistic macroeconomic projections, public sector staffing trends, and productivity improvements.
- The IMF discourages fragmented or decentralized wage-setting, especially in countries where many public agencies operate outside the civil service framework. Lack of coordination leads to inequities, fiscal overruns, and inefficiencies.
- While the IMF acknowledges the role of unions and collective bargaining, it stresses that final wage decisions must respect fiscal limits and national budget priorities.