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LEBANON ECONOMIC REPORT

3RD QUARTER 2024

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LEBANON AMID THE WAR SCENARIO: THE ECONOMIC REALITY AND THE OUTLOOK

Upon the finalization of this report, Lebanon had witnessed the eruption of a wide Israel war on Lebanese territories. While the events have inflicted significant damages on the domestic economy, it is still early to evaluate their short-term and long-term direct and indirect repercussions. In what follows is an overview of economic and monetary conditions in the first nine months of 2024, in addition to a preliminary assessment of the most significant economic and financial developments that resulted from the latest hostilities.

Most sectors of the Lebanese economy have ground to a halt

The hostilities have actually inflicted huge human, physical and economic losses in addition to massive exodus that the country did not witness since the end of the civil war in 1990. Most sectors of the Lebanese economy have ground to a halt. While sectors like tourism and agriculture are believed to be the most hit by the attacks, the industrial, real estate, trade and all service sectors were also severely hit by the adverse security conditions.

War damages at no less than 40% of GDP

At the real sector level, losses are obviously massive, estimated at no less than 40% of the country's GDP under the most conservative estimate. The direct damages inflicted by the Israeli attacks on Lebanon include costs on infrastructure, residential units, industrial establishments, agricultural degradation, etc. The indirect costs on the economy are related to foregone economic activity, and which are estimated to exceed considerably the size of direct damages.

Economy expected to witness a phase of stagnation

The economy is expected to witness a phase of stagnation as a result of the sluggishness imposed by the large-scale attacks, with growth ending the year at circa -8% in case of a three-month war on Lebanon and extending to -20% next year in case of a one-year war scenario. Similarly to the 2006 war period, some capital outflows were reported, though so far limited in absolute and relative terms. However unlike the environment prevailing in 2006, the country was already suffering this time from huge economic imbalances and financial sector losses.

Stable Lebanese Lira but BDL reserves down amid war escalation

The country's monetary conditions closed the first nine months of the year 2024 with only marginal movements in the LP/US$ parallel market rate, while BDL's liquid FX buffers were subject to downward pressures early-October after the Central Bank announced exceptional measures aimed to meet the market demand for US dollars. The Central Bank of Lebanon's liquid foreign reserve assets contracted by US$ 343 million during the first half of October 2024 to reach US$ 10,322 million mid-month. This marked their first contraction since the change in BDL leadership at end-July 2023, and is mainly attributed to a special three-month disbursement related to BDL circulars No. 158 and 166 early-October, the payment of public sector salaries in US dollars, and BDL's intervention on the parallel FX market to meet demand for the greenback.

Bond prices up to pre-war levels amid bets on political breakthrough

It is important to mention that Lebanese papers traded internationally are starting to bet on a political breakthrough. Lebanese Eurobond prices went up by 35 percent on international markets over the past month, from 6.5 cents on September 27 to 8.75 cents today. International investors are seeing a glimpse of hope of change in the domestic politico-economic landscape in the medium term, beyond imminent short term challenges.

Room for Lebanon's GDP to regain its pre-crisis level in almost half a decade if the overall confidence factor comes back

Shall the overall confidence factor come back amid war termination, political settlement and reform efforts, there is room for Lebanon's GDP to regain its pre-crisis level in almost half a decade, thus recording a soundly positive real GDP growth for a number of years, with corollary impact on per capita income and socio-economic conditions at large. The conditions for such a hoped for recovery definitely lies upon post-war domestic political will, concessional local behavior, prioritization of national interests, a drastic reforming agenda and a regain of consciousness among concerned economic agents at large.

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The war hostilities have inflicted huge human, physical and economic losses in addition to massive exodus that the country did not witness since the end of the civil war in 1990. Most sectors of the Lebanese economy have ground to a halt. While sectors like tourism and agriculture are believed to be the most hit by the attacks, the industrial, real estate, trade and all service sectors were also severely hit by the adverse security conditions.

At the real sector level, losses are obviously massive, estimated at no less than 40% of the country's GDP under the most conservative estimate. The direct damages inflicted by the Israeli attacks on Lebanon include costs on infrastructure, residential units, industrial establishments, agricultural degradation, etc. The indirect costs on the economy are related to foregone economic activity, and which are estimated to exceed considerably the size of direct damages. The economy is expected to witness a phase of stagnation as a result of the sluggishness imposed by the large-scale attacks, with growth ending the year at circa -8% in case of a three-month war on Lebanon and extending to -20% next year in case of a one-year war scenario. Similarly to the 2006 war period, some capital outflows were reported, though so far limited in absolute and relative terms. However unlike the environment prevailing in 2006, the country was already suffering this time from huge economic imbalances and financial sector losses.

At the monetary level, monetary pressures would depend on the war outlook period. In case of a long lasting war, the Lebanese Pound Exchange rate, that so far had 18 months of quasi stability, would go back to the era of deterioration. Inflation that moderated down to 20 percent recently would go up to triple-digit levels assuming a long lasting war. Liquid FX Reserves at BDL that had increased by US$ 2.1 billion since July 2023 to September 2024 would start to get wiped out. As a matter of fact, reserves went down by US$ 343 million over the first half of October, the first drop since the change in BDL Governorship in July 2023. Last but not least, the balance of payment, which had recorded recent surpluses, would be in a significant deficit depending on the extended war outlook period.

Amid such an environment, the country is cautiously looking to the future, again contemplating the task of rebuilding a battered economy and shattered infrastructure. While post-war reconstruction would be certainly an important growth driver, we however believe such a forecast is only possible in the event of a significant improvement in the investment climate, triggered by a consolidation of the domestic political situation.

It is important to mention within this context that Lebanese papers traded internationally are starting to abet on a political breakthrough. Lebanese Eurobond prices went up by 35 percent on international markets over the past month, from 6.5 cents on September 27 to to 8.75 cents today. International investors are seeing a glimpse of hope of change in the domestic politico-economic landscape in the medium term, beyond imminent short term challenges.

Henceforth, the country's overall economic outlook depends on the pace at which a number of political developments are able to secure a sound political environment, supportive for investment, growth and recovery. While tangible signals at this level are yet to be elucidated, the investment community has obviously adopted wait-and-see attitude, and is in need of evaluating the inherent political risks to country exposure at large.

Within this perspective, the need to restore a "lost confidence" imposes on political authorities the imperative challenge of firmly fulfilling the requirements of a cease fire, promptly filling the institutional constitutional gap, agreeing on answers and solutions to all pending issues and sending the right signals to the business and investment community at large. Only such a confidence revival can make the Lebanese get out of their political woes, frustrations and distress and bet on a promising economic future, an economic future that concern them all alike, disregarding their affiliations or beliefs. In turn, this calls upon all the Lebanese people to strictly adhere to a firm national integration process, building on their wide pool of means and resources to the benefit of economic reconstruction, sustainable development and growth recovery.

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Primary and secondary sectors severely hit by Israeli war

The Israeli war on Lebanon had a detrimental effect on Lebanon's primary and secondary sectors. Agriculture, in general, has been performing weakly over this year. The war dealt a tough blow to the already fragile agricultural sector and its components, hitting almost all agriculture infrastructure, namely, fruit trees, vegetable and tobacco production, irrigation systems and animal production.

In details, there have been more than 5,600 strikes across Lebanese territories, many of them including the use of internationally prohibited white phosphorus and incendiary bombs. Between 7 October 2023 and 12 September 2024, approximately 1,879 hectares of prime farmland were damaged, according to a report issued by the United Nations Economic and Social Commission for West Asia (UNESCWA). The bombardment had also led to the destruction of approximately 1,200 hectares of both dense and low-density oak forests.

Additionally, the severe harm inflicted upon olive groves would have enduring consequences on farmers, given that rebuilding and replanting would take significant amounts of time and resources. In South Lebanon, the region produces around 36% of the country's olives. Consequently, 121 hectares of olive trees and numerous large dispersed trees have also been burned.

In fact, the agricultural sector in Southern Lebanon and Beqaa has been hit the most by the bombings, which have severely restricted the activities of producers and farmers. Even those farmers whose land has not been damaged by the attacks have halted their harvests or abandoned their land out of fear for their safety.

Concurrently, tobacco, the primary agricultural "cash crop" in the South, has also been negatively affected by the conflict, as 50% of tobacco farmers are from villages and towns along the confrontation line from Naqoura to Shebaa. The annual tobacco yield of areas in the conflict zone is up to 25,000 tones, with a value of at least US$ 12 million, as per UNESCWA.

Strikes have also targeted vital irrigation infrastructure. The main watercourse of the Litani River, which supplies irrigation projects, was directly hit. This strategic irrigation draws over 260,000 cubic meters of water daily to irrigate about 6,000 hectares of agricultural land along the Southern coast. Following this attack, the Litani River waters were cut off from the region.

In parallel, the industrial sector was likewise hit by the war repercussions, disrupting economic activity across most of the country. In particular, massive physical damage and displacement has completely halted industrial activity in the South and Nabatieh and forced a large share of businesses in the suburbs of Beirut and the Bekaa area to shut their operations. The industrial activity is expected to remain suspended for longer should clashes continue or escalate any further.

The disruption of industrial activity would lead to direct losses of employment and source of income for more than 30% of the workforce. This excludes the losses of employment and income in less affected areas and in the sectors indirectly affected by the war, as per Fitch Solutions.

Looking forward, shall the war come to a closure, programs should be put in place to provide immediate financial assistance to farmers and producers, including grants, subsidies and low-interest loans, which would help them to recover from losses and restore agricultural and industrial production. In addition, long-term environmental recovery projects should be envisaged, apt to help to address soil contamination, restore lost agricultural lands and rehabilitate damaged ecosystems.

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1.1.2 Construction

Realty sector continues to mirror Lebanon's political and security situation

The Lebanese realty sector has been reeling from the economic shocks within the country ever since the start of the crises. The sector, which relies on investor sentiment, is usually highly sensitive to the security and political situation within the country.

At the level of demand, the full dollarization of the market has made the purchase of real estate and land too expensive for the majority of residents landing a blow to local demand. Additionally, the ongoing conflict in the country has dampened investor confidence further decreasing demand levels. In parallel, supply side performance has been mostly focused on the finishing of old projects and maintenance since the start of the crisis. Lebanon's short-term prospects weigh on trade, security and investment as domestic challenges and inflation further cripple the economy. Despite openness to foreign investment, Lebanon's risks remain a deterrent to investors, with political polarization, sluggish reforms and exchange rate volatility making other options in the region more desirable.

Looking at foreign demand for real estate in Lebanon, expat and foreign appetite for real estate purchase in Lebanon was increasing up until the end of 2023. This came as real estate prices within the country were relatively cheap for those living abroad and had high yield levels as well as good future value prospects as the country's economy continued to stabilize. This has since changed as the weakened economy, which has been accompanied with issues such as political polarization, sluggish reform momentum and exchange market volatility, has contributed to the increased riskiness of investment inside of Lebanon in the eyes of foreign investors.

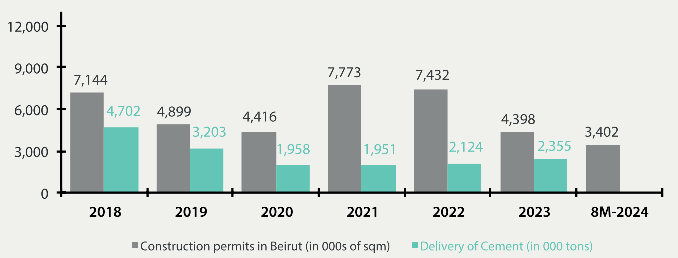
The current conflict, especially following the escalation noted in mid-September, is set to weigh heavily on demand for the purchase of realty with a focus on regions most affected by the conflict (South Lebanon, Bekaa region, Baabda Governorate and Beirut). However, mass internal displacement from affected areas towards the center and northern parts of Beirut along with Northern Lebanon has created massive demand-side pressures on rents within these regions. This pressure was reflected in price hikes within regions and cities considered relatively safe and were sharper in furnished apartments having sometimes quadrupled in price year-on-year. Unfurnished apartments also noted price hikes albeit to a less dramatic degree.

In details, in Saida which is a popular city for IDPs from South Lebanon, rents have ranged between US$ 1,000 to US$ 3,000 per month on average. This high cost, without taking into consideration other cost of living expenses (food, hygiene, transportation, etc.) is already unattainable to large parts of Lebanese society due to the economic crisis, especially not for government employees. Currently, the highest demand is for furnished apartments which make up circa 50% of the supply. This high demand is due to the ability to settle quickly into these residences and in turn, the stock of furnished apartments for rent in the market is almost depleted now. This partially explains why the prices of some properties have increased so sharply.

CONSTRUCTION

	2023	7M-23	7M-24
Value of property sales (in LP billion)	107,392	19,374	119,342
Number of property sales	23,411	4,886	19,693
o.w. Sales to foreigners	442	98	446
Average value per property sale (in LP million)	4,587	3,965	6,060
Property taxes (in LP billion)	3,899	456	5,381

EVOLUTION OF CONSTRUCTION INDICATORS



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At the level of unfurnished apartments, rents have also hiked in recent weeks albeit at a more moderate rate. This relatively moderate hike in prices is due to a lower demand base in general as making the apartment livable usually takes more time and a significant amount of money to furnish it. In parallel to high prices for all types of rent, some IDPs are being faced with the requirement of signing long-term rents sometimes having to pay the price of rent for several months in advance.

Looking at the supply side, according to data from the Order of Engineers and Architects of Beirut (OEAB), construction permits in the first eight months of 2024 jumped by 21.6% against figures from the same period of the year prior. Construction permits for the first eight months of 2024 increased to 3,402,054 m2, up from 2,798,472 m2 in the first eight months of 2023. This shows a relative improvement of construction activity during the period following a stunting of activity between 2022 and 2023.

Looking forward, multiple threats and opportunities present themselves. Looking at future opportunities for Lebanon's real estate and construction sectors, an end of hostilities on the Southern Border might bring forward a reconstruction phase. This phase is bound to increase construction activity within the affected regions. Additionally, if an agreement is reached that includes prospects for long-term stability on the border, demand for real estate in newly renovated and reconstructed areas will expand as initial prices will be cheap and stability will attract foreign investment. At the level of threats, the current political inactivity in Lebanon as well as the conflict are affecting prospects of the sector. If these threats are not tackled and proactive actions are not taken, the construction and real estate sectors' activity will continue to erode as foreigner appetite diverts to other options and local purchasing power is unable to meet the price requirements for the purchase of property at large.

1.1.3. Trade and Services

Tertiary sector accumulates major losses amid the ongoing conflict

Lebanon's tertiary sector, long seen as the country's biggest contributor to GDP, was on a relatively stable recovery path in the first nine months of 2023. This trend was stunted starting in October with the start of the Israel-Hamas war and the skirmishes on Lebanon's Southern Border. This stunting came as travel to Lebanon was warned against by a myriad of countries leading to a decrease in foreigner and expat influx. With the escalation in the conflict within the country, this stunting in activity dramatically worsened with the sector being the most impacted out of all sectors in the Lebanese economy. A continuation of the current pace within the tertiary sector for a prolonged period of time could even lead to a collapse of multiple sub-sectors until the start of the post-conflict phase.

In details, looking at the performance of the Beirut International Airport (BIA), total number of passengers decreased by 15.1% in the first nine months (9M) of 2024 when compared to the same period of 2023, reaching 4,900,322 passengers in the former, down from 5,773,324 in the latter. In addition, the number of aircraft decreased by 13.4% year-on-year. In parallel, the total freight handled by the airport jumped by 15.0% year-on-year during the aforementioned period. Looking at the performance of the summer season (June-September) of 2024, a decrease of 22.8% year-on-year in the number of incoming passengers is noted against the same period of 2023. The number of arriving passengers at BIA during the summer season of 2024 also stands 8.7% below figures noted in the summer season of 2022 showing a relative failure of the summer season to attract much needed foreign currency through tourism.

Looking at the recovery rate in arriving passenger activity at BIA between 9M 2019 and 9M 2024, an indicator of recovery in incoming passengers' activity against pre-conflict, pre-crisis and pre-COVID levels, we note a recovery rate of 69.5%. This shows a drop of 12.7 percentage points against the recovery rate recorded in the same period of 2023. These decreases have led to the recovery rate almost returning to levels recorded in 8M 2022, only being 1.5 percentage points higher. In turn, the conflict has effectively erased almost all progress made in the sector during 2023.

The average year-on-year variation of incoming passengers in 9M-2023 recorded a growth of 22.7% showing a significant improvement in the performance of the airport. However, with the start of the Hamas-Israel war and the tit for tat on Lebanon's southern border prior to the war escalation in mid-September 2024, this growth turned into a worsening trend with incoming passengers decreasing by 12.6% on average. Since the start of the escalations in mid-September, this decrease has worsened dramatically (more than three-fold) as

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the year-on-year inflow of passengers in September 2024 was 38.6% below figures recorded in September 2023. A continuation of such a trend for a prolonged period of time puts a major section of Lebanon's GDP at risk and could potentially crumble the tourism sector and any related sectors until the post-conflict phase.

In parallel, according to data from the Ministry of Tourism, the number of tourist arrivals into Lebanon reached 630,075 in the first half (H1) of 2024. This figure denotes a year-on-year decrease in tourism influx of 16.1%, down from 751,190 during H1 2023. This decrease comes primarily on the back of the conflict in Lebanon which prompted many countries to advise against all travel to Lebanon.

At the level of activity in PoB, the quantity of goods reported an increase of 6.5% year-on-year, registering 3,200.0 thousand tons in the first seven months (7M) of 2024, up from 3,003.6 thousand tons in the same period of 2023. Additionally, the number of ships witnessed an increase over the period reaching 900 ships in 7M 2024 against 760 ships in 7M 2023, showing an increase of 18.4% year-on-year. In parallel, the number of containers registered a yearly increase of 3.9% to reach 321,461 containers in 7M 2024, against 309,270 containers in the same period of the previous year.

At the level of the telecommunication sector, the recent series of escalations in the conflict led the sector to undergo major damages leading to disruptions in the quality of telecommunications services within the country. According to the Lebanese Caretaker Minister of Telecommunications, 113 stations tied to the Lebanese mobile operator "Touch" have been put out of service. Additionally, 114 stations belonging to the Lebanese mobile operator "Alpha" have been put out of service. Concurrently, 9.8% (26 stations) of Ogero's 266 stations have also gone offline. Due to Ogero's stations going out of service, 15,000 subscribers to the public telecommunications operator have been affected, circa 2.2% of the total number of subscribers in Lebanon. The regions most affected by these disruptions in the network are mostly in South Lebanon especially in Marjaayoun, Sour, Hasbaya and Nabattieh. In order to address this, The Lebanese Ministry of Telecommunications (MoT) has activated the National Roaming Service and redistributed resources, particularly by increasing the capacity of the stations that are in higher demand.

At the level of the healthcare sector, following the recent expansion and intensification of the conflict, hospitals are not expected to be able to maintain the same level of operation as they are currently. This comes as the country's resources are limited and the healthcare sector cannot bear the burden of the current conflict. However, the issues within the sector predate the escalation as it faces multiple challenges, including ongoing political and economic crises that result in unaffordable services that are overburdened by demand. Uneven distribution of services means that rural locations have limited access to primary care services and the overall reliance on the private sector is an ongoing trend.

Looking ahead, as regional instability persists and the threats of all-out war in Lebanon remain present, the tertiary sector's activity is set to continue worsening with some sectors at risk of collapse until the end of the hostilities. In turn, the outlook is set to remain dire with the potential to keep worsening if the conflict is prolonged and if the current politico-economic deadlock is not broken.

TRADE AND SERVICES

	2023				2024				Variation	
	Q1	Q2	Q3	9M	Q1	Q2	Q3	9M	Q3/Q3	9M/9M
Number of ships at the port*	306	323	131	760	383	387	130	900	-0.8%	18.4%
Number of containers at the port (in 000s)*	127	139	44	309	123	139	60	321	37.0%	3.9%
Merchandise at the Port (in 000 tons)*	1,268	1,283	453	3,004	1,299	1,385	516	3,200	14.0%	6.5%
Planes at the Airport	12,307	14,478	19,111	45,896	10,887	13,928	14,933	39,748	-21.9%	-13.4%
Number of passengers at the Airport (in 000s)	1,361	1,800	2,612	5,773	1,270	1,726	1,905	4,900	-27.1%	-15.1%
Cleared checks** (in millions of US$)	6,619	1,593	1,199	9,410	716	497	348	1,561	-71.0%	-83.4%

**Q3 figures are for July of each year, 9M figures are for first seven months*
***Q3 figures are for July and August of each year, 9M figures are for first eight months*

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1.2. EXTERNAL SECTOR

Balance of payments surplus pre-war escalation

Lebanon's balance of payments reported a surplus of US$ 363 million over the first half-year 2024, as a result of an expansion of BDL's net foreign assets by US$ 605 million, while banks' net foreign assets declined by US$ 242 million. It is important to mention that the decline in banks' net foreign assets is partly tied to the change in the official exchange rate from LL/US$ 15,000 in December to LL/US$ 89,500 since January, thus impacting the US$ value of LL non-resident liabilities of banks, mainly LL non-resident deposits.

Regarding foreign trade and looking at the structure of imports into Lebanon by product, mineral products took the lion's share accounting for 26.5% of all imports in 2023 (in the absence of official figures for this year). Jewelry and Electrical Equipment & Products followed with shares of 14.4% and 9.3% of the total respectively. Transport Vehicles accounted for 7.2% of total imports while Food Products took a share of 6.6% of total imports into Lebanon during the period. Other products accounted for 36.0% of the total during 2023.

At the level of the structure of imports into Lebanon by country of origin, China took the lion's share accounting for 11.8% of all imports in 2023. Switzerland and Greece followed with shares of 10.0% and 9.6% of the total respectively. Turkey accounted for 7.8% of total imports while Italy took a share of 6.3% of total imports into Lebanon during the period. Other products accounted for 54.5% of the total during 2023.

Looking at the structure of exports from Lebanon by product in 2023, jewelry took the lion's share accounting for 25.4% of all exports in 2023. Metals & Metal Products and Electrical Equipment & Products followed with shares of 14.3% and 12.9% of the total respectively. Food Products accounted for 12.6% of total exports while Chemical Products took a share of 9.9% of total imports into Lebanon during the period. Other products accounted for 24.9% of the total during 2023.

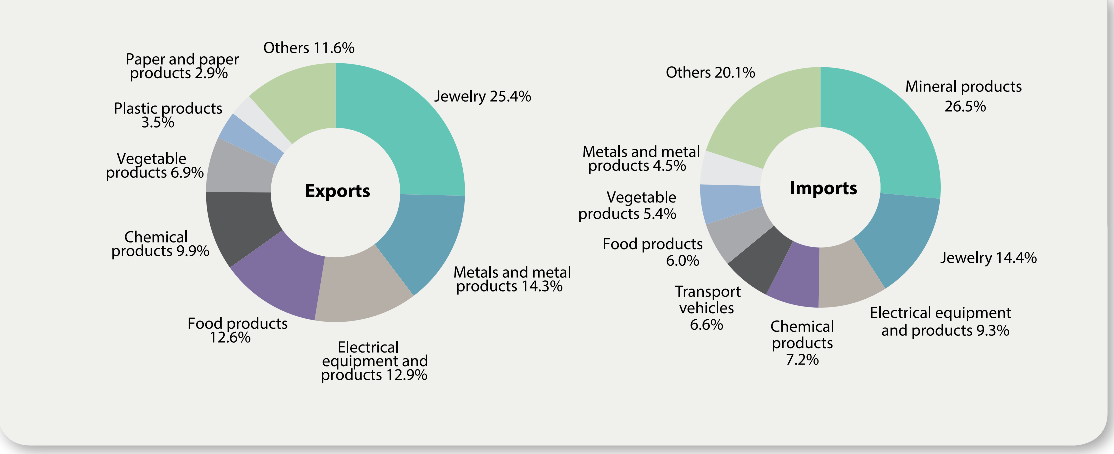
At the level of the structure of exports of Lebanon by recipient country, the UAE took the lion's share accounting for 19.7% of all exports in 2023. Turkey and Egypt followed with shares of 9.8% and 5.4% of the total respectively in 2023. Iraq accounted for 5.1% of total exports while Switzerland took a share of 4.8% of total exports into Lebanon during the period. Other products accounted for 55.2% of the total during 2023.

1.3. PUBLIC SECTOR

Escalating conflict in Lebanon jeopardizing government's budgetary stabilization, financial outlook

The escalating conflict in Lebanon is jeopardizing the government' budgetary position and its financial outlook, though the year started on a positive fiscal note. In fact, at the beginning of the year, the outlook for Lebanon's public finances was relatively positive with the government's budget estimating a budgetary equilibrium for the year with expenditures and revenues equalizing at LP 308 trillion (US$ 3,427 million). This

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY (2023)



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comes following a budgetary deficit of LP 51.6 trillion (US$ 637 million) in 2023 mostly due to increases in the government's current spending. In the first five months of 2024, a budgetary surplus of US$ 0.6 billion was recorded marking a possibility of achieving a surplus of US$ 1.4 billion for the year if the trend continued at a similar pace throughout the year. However, this improvement has since been threatened with a major escalatory trend in the ongoing conflict challenging the government's ability to generate revenue and exacerbating expenditures on various conflict-related issues.

Concurrently, according to the budget proposal for 2025 by the Lebanese Ministry of Finance (MoF) put forward before mid-September, government revenues were set at LP 410.1 billion (US$ 4,557.0 million) noting a year-on-year increase of 33.0% against the year prior. Government expenditures were set to increase by 38.7% in 2025 against figures from 2024 to reach LP 427.7 billion (US$ 4,752.2 million) in the former. This increase in expenditures comes primarily from increases in staff expenses, debt servicing and other current spending items of 11.3%, 114.6% and 52.1% respectively between 2024 and 2025. Additionally, capital spending was forecast to increase by 31.2% year-on-year between 2024 and 2025. In turn, the proposed budget for 2025 notes a budgetary deficit of LP 17,567 billion (US$ 195.2 million). In parallel, the government's primary surplus was set to decrease by 5.0% year-on-year reaching a forecasted LP 13,968 billion (US$ 155.2 million) in 2025, down from LP 14,698 billion (US$ 181.5 million) in 2024.

However, the latest round of escalation which has seen the vast majority of Lebanese regions targeted by strikes and the mass displacement of more than one million people has added major strain on both government revenues and expenditures. Three scenarios have a possibility of happening for Lebanon's fiscal balance in 2025:

- The positive scenario (15% chance of realization): This scenario assumes the end of the current conflict in Q4-2024, widespread reconstruction efforts, end of political deadlock, the election of a president and the launch of reforms. Within this scenario, Lebanon's fiscal balance for 2025 is projected to reach a surplus of US$ 2,500 million amid the post-conflict economic surge.

- The medium scenario (45% chance of realization): This scenario assumes the end of the current conflict in Q4-2024 with the continuation of the political status-quo and no launch of reforms. Within this scenario, Lebanon's fiscal balance for 2025 is projected to reach a deficit of US$ 1,000 million due to added stress on governmental revenues and expenditures albeit not as dramatically as in the case of all-out war.

- The negative scenario (40% chance of realization): This scenario assumes the extension of the war throughout 2025, the continuation of the political deadlock and no launch of reforms. Within this scenario, Lebanon's fiscal balance for 2025 is projected to reach a deficit of US$ 3,000 million amid major added stress on governmental revenues and expenditures.

As such, looking forward, Lebanon's public finances are set to continue mirroring the country's security and political situation. Without the end of the conflict, major reform efforts and the end of the political status-quo, the government's budgetary deficit trend will continue to widen dramatically with less and less reserves to cover the gaps. Additionally, the government's growing expenditure base while its revenues are not expanding at a similar pace pose a risk for the future of government finances irrespective of the conflict.

PUBLIC FINANCES: ACTUAL AND BUDGETED FIGURES

US$ millions*	Actual 2019	2020 Actual	Actual 2021	Budget 2022	Budget 2023	Budget 2024	Budget Proposal 2025
Public Revenues	**10,387**	**2,739**	**1,254**	**962**	**1,824**	**3,427**	**4,582**
Public Expenditures	**15,865**	**3,468**	**1,118**	**1,311**	**2,461**	**3,427**	**4,779**
o.w Current spending	15,225	3,394	1,102	1,210	2,314	3,072	4,311
o.w. Staff expenses	6,318	1,765	612	694	1,172	1,198	1,341
o.w. Debt service	5,024	521	161	119	159	163	352
o.w. Other current spending	3,884	1,108	329	397	983	1,711	2,618
o.w Capital spending	640	75	15	102	147	355	468
Public deficit	**-5,478**	**-729**	**136**	**-349**	**-637**	**0**	**-196**
Primary deficit	-455	-208	297	-231	-478	163	156
Deficit/Expenditures	-34.5%	-21.0%	12.2%	-26.6%	-25.9%	0.0%	-4.1%
Deficit/GDP	-11.4%	-4.5%	1.1%	-3.5%	-2.6%	0.0%	-1.1%
Revenues/GDP	21.5%	16.9%	10.1%	9.7%	7.4%	18.8%	25.2%
Expenditures/GDP	32.9%	21.4%	9.0%	13.2%	10.0%	18.8%	26.3%
Primary deficit/GDP	-0.9%	-1.3%	2.4%	-2.3%	-2.0%	0.9%	0.9%
Capital spending/Total spending	4.0%	2.2%	1.4%	7.7%	6.0%	10.4%	9.8%

** On the basis of the LL/US$ average yearly parallel market rate*

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1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

BDL's foreign reserve assets down in the wake of Israeli attacks on Lebanon

In the wake of the deadliest Israeli attacks on Lebanon since 2006 and international calls for a ceasefire to avert a full-scale regional war, and amid IMF's warning that "the current conflict is inflicting a heavy human toll, damaging physical infrastructure in southern Lebanon, and exacerbating Lebanon's already fragile macroeconomic and social situation", the country's monetary conditions closed the first nine months of the year 2024 with only marginal movements in the LP/US$ parallel market rate, while BDL's liquid FX buffers were subject to downward pressures early-October after the Central Bank announced exceptional measures aimed to meet the market demand for US dollars.

In details, the Lebanese pound fluctuated only marginally against the US dollar following the eruption of Israeli attacks on Lebanon towards the end of September 2024, with the LP/US$ parallel market rate ranging between LP/US$ 89,600 and LP/US$ 89,700 by the time of editing this report. This followed an 18-month currency stability at LP 89,500 per US dollar.

Concurrently, the Central Bank of Lebanon's liquid foreign reserve assets contracted by US$ 343 million during the first half of October 2024 to reach US$ 10,322 million mid-month. This marked their first contraction since the change in BDL leadership at end-July 2023, and is mainly attributed to a special three-month disbursement related to BDL circulars No. 158 and 166 early-October, the payment of public sector salaries in US dollars, and BDL's intervention on the parallel FX market to meet demand for the greenback.

This brought to the surface concerns of a prolonged war that could cause depletion in BDL's FX buffers, bring back the Lebanese pound to the era of deterioration, and trigger a return in inflation to triple-digit levels, noting that the latter has eased to 21% year-on-year in September 2024.

The contraction in BDL's foreign reserve assets followed a US$ 2,092 million expansion in FX buffers since the change in BDL leadership at end-July 2023 until end-September 2024. The built-up in BDL's foreign currency reserves over the July 2023-to-September 2024 period is mainly attributed to the Central Bank's policy refraining from financing the government in foreign currencies, reconstituting FX reserves, and containing currency in circulation.

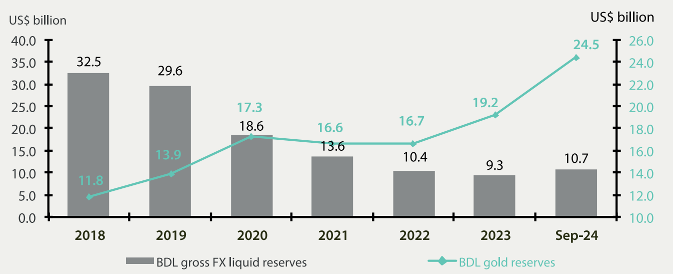
Within this context, it is worth mentioning that the currency in circulation outside BDL reached LP 52.0 trillion mid-October 2024 (which represents 5.6% of BDL's liquid foreign reserve assets), and compared to LP 58.1 trillion at end-December 2023 and LP 62.0 trillion at end-July 2023, when Lebanon embarked into a new financial and monetary era under the new BDL leadership.

Looking forward, monetary pressures would depend on the war outlook period. Reaching a ceasefire deal soon would help Lebanon avoid a renewed currency deterioration and large contractions in FX reserves, while keeping inflation in check.

MONETARY SITUATION

Flows in US$ million	6M-23	6M-24	Progression
	Vol	Vol	Vol
Net foreign assets (excluding gold)	1,149	363	-785
Net claims on the public sector (excluding valuation adjustments)	-17,890	4,370	22,260
Claims on the private sector	-11,019	-1,463	9,556
Uses=Sources	**-27,761**	**3,270**	**31,031**
Money (M3)	-71,188	-6,579	64,609
Valuation adjustment and other items	43,427	9,849	-33,578

EXCHANGE MARKET INDICATORS



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1.4.2 Banking activity

BDL foreign liquidity grow by US$ 600 million over the first half year, while banks foreign liquidity stagnate

Monetary and banking sector figures lately released for end-June 2024 suggest that BDL foreign liquidity grew by US$ 592 million over the first half year, while banks foreign liquidity almost maintained its same level, slightly declining by US$ 53 million over the period. In details, BDL foreign currency assets grew from US$ 9,642 million at end-December 2023 to US$ 10,234 million at end-June 2024. In parallel, banks foreign liquidity slightly dropped from US$ 4,460 million at end-December 2023 to US$ 4,407 million at end-June 2024. The rise in BDL foreign liquidity comes within the context of the Central Bank's purchases of US$ on the foreign exchange market, while the drop in banks' foreign liquidity is tied to the banks' fresh payments on BDL circulars 158 and 166.

The first half-year 2024 reported a drop in US$ deposits by US$ 1,189 million, to move from US$ 91,280 million in December 2023 to US$ 90,092 million in June 2024. In parallel, the period reported a rise in LL deposits by LL 10,664 billion, to move from LL 52,050 billion in December 2023 to LL 62,740 billion in June 2024. It is worth mentioning that US$ deposits were at US$ 123,637 million in October 2019, while LL deposits were at LL 67,426 billion as at the same date.

With respect to the evolution of interest rates, a significant surge in LL deposit interest rates was observed, while US$ deposit interest rates are still close to nil. In fact, the average LL deposit interest rate rose from 0.55% in December 2023 to 1.46% in June 2024, bearing in mind that they had reached a high of 9.03% in October 2019, on the eve of the crisis onset. Likewise, the average US$ deposit interest rate rose from 0.03% in December 2023 to 0.05% in June 2024, bearing in mind that they had reached a high of 6.61% in October 2019, on the eve of the crisis onset.

The first half-year 2024 also reported a drop in US$ loans by US$ 869 million, to move from US$ 7,562 million in December 2023 to US$ 6,693 million in June 2024. In parallel, the period reported a drop in LL loans by LL 197 billion, to move from LL 11,385 billion in December 2023 to LL 11,188 billion in June 2024. It is worth mentioning that US$ loans were at US$ 31,186 million in October 2019, while LL loans were at LL 24,164 billion as at the same date.

A small rise in banks Eurobond portfolio was also reported in the first half-year 2024. Lebanese Banks eurobond portfolio grew from US$ 2,191 million in December 2023 to US$ 2,258 million in June 2024, an increase of US$ 67 million. The Eurobond portfolio remains well below the October 2019 level when it had reported US$ 14,764 million. The drastic decline in banks Eurobond portfolio over the past few years rests on significant provisioning requirements, in addition to bond sales at the beginning of the crisis.

Finally, shareholders' equity reported US$ 3.0 billion as at end-June 2024, against US$ 5.1 billion at the beginning of the year, mainly reflecting the official devaluation effect. It is worth recalling that shareholders' equity had reached a record high of US$ 20.6 billion in October 2019, prior to the onset of the financial crisis in Lebanon. The noticeable decline in bank capitalization is tied to the significant crisis-related bank losses accumulated over the past five years.

BANKING ACTIVITY

in millions of US$	Oct-19	Dec-23	Jun-24	Var 6M-24
Total assets	**262,804**	**115,249**	**104,318**	**-10,932**
Total shareholders' equity	**20,602**	**5,092**	**2,996**	**-2,095**
Total deposits	**168,364**	**94,750**	**90,792**	**-3,958**
o.w. LP deposits	44,727	3,470	701	-2,769
o.w. FC deposits	123,637	91,280	90,092	-1,189
Total credits	**54,166**	**8,321**	**6,818**	**-1,503**
o.w. LP credits	16,029	759	125	-634
o.w. FC credits	38,136	7,562	6,693	-869

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1.4.3. Equity and Bond Markets

Price gains across Lebanon's equity and bond markets in first nine months of 2024, on hedging activity and bets of post-war political settlement

Despite escalating hostilities across Lebanon and mounting fears of a full-blown regional war, Lebanon's equity market appeared to be back on the radar screen of investors, mainly on hedging activity against adverse developments and currency deterioration. In parallel, Lebanese Eurobonds surged to price levels unseen since May 2022, mainly on speculation about a post-war political settlement that could pave the way for long-awaited reforms and debt restructuring.

In details, the Beirut Stock Exchange registered strong double-digit price gains of 25.0% over the third quarter of 2024, which have wiped out all losses incurred over the first half of the year (-19.1%), mainly as some market players sought to add Lebanese equities to their holdings to hedge against adverse security developments and a long lasting war that could weigh on domestic monetary conditions and result into unchecked currency collapse, noting that equity prices are denominated in domestic US dollars. Within this context, the BSE closed the first nine months of the year 2024 on a positive note, posting price rises of 1.2%.

A closer look at individual stocks shows that Solidere "A" and "B" share prices, which have surged more than 16 folds since the start of the crisis on October 17, 2019 till end-December 2023, posted price rises of 2.1% and 5.2% respectively in the first nine months of 2024 to reach US$ 91.00 and US$ 94.65 respectively at end-September. In contrast, banking stocks recorded an average price fall of 3.6% in the first nine months of 2024. BLC Preferred shares "D" registered that largest price contraction of 95.0% to reach US$ 3.00, followed by Bank Audi Preferred shares "I" with -50.0% to US$ 21.45, Bank Of Beirut Preferred shares "I" with -40.0% to US$ 15.00, Bank Audi's "listed" share price with -23.4% to US$ 1.80, Byblos Bank's Preferred shares "2008" with -7.4% to US$ 25.00 and Byblos Bank's "listed" shares with -7.1% to US$ 0.65. In contrast, BLOM's "listed" share price doubled over the first nine months of 2024 to reach US$ 7.00. BLOM's GDR prices surged by 10.3% to reach US$ 3.31. Amongst industrials, Holcim Liban's share price increased by 6.1% to US$ 63.15. In contrast, Ciments Blancs Nominal's share price fell by 9.1% to US$ 20.00.

In line with equity price gains, the Beirut Stock Exchange was marked by an unprecedented price volatility over the first nine months of 2024. In fact, the price volatility, measured by the ratio of the standard deviation of prices to the mean of prices, hit 159.3% in the first nine months of 2024, mainly stoked by very high price volatility during the third quarter of the year. This compared to a much lower price volatility of 8.8% in the first nine months of 2023.

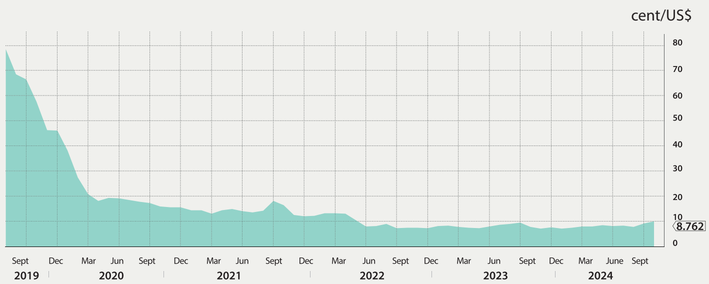
As to trading volumes, the BSE total turnover expanded by 11.3% year-on-year in the first nine months of 2024 to reach US$ 384 million. Solidere shares remained the major player, capturing 91.3% of total activity, followed by the industrial shares with 6.9%, and the banking shares with 1.8%. Concomitantly, the market

FINANCIAL SECTOR (NON BANKS)

	2018	2019	2020	2021	2022	2023	Sep-24
Beirut Stock Exchange							
Market capitalization (In millions of US$)	9,117	7,540	7,176	10,625	14,578	20,597	20,842
Total trading volume (In millions of US$)	376	197	233	354	440	581	384
Annualized trading volume/Market capitalization	4.1%	2.6%	3.2%	3.3%	3.0%	2.8%	2.5%
Price index	83.9	69.7	63.5	94.0	129.0	182.3	184.4
% change in index	-14.6%	-16.9%	-8.9%	48.1%	37.2%	41.3%	1.2%
Lebanese Eurobonds							
Total volume (In millions of US$)	30,964	28,314	31,314	31,314	31,314	31,314	31,314
End-of-period average bond price (cents per US dollar)	83.89	50.23	13.44	10.25	5.75	6.00	7.63

CAPITAL MARKETS PERFORMANCE

Long-term sovereign bond prices



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capitalization on Lebanon's equity market expanded by 12.8% over a 12-month period, moving from US$ 18,477 million at end-September 2023 to US$ 20,842 million at end-September 2024. Accordingly, the BSE total turnover ratio, measured by the annualized trading value to market capitalization, reached 2.5% in the first nine months of 2024, with no change relative to the same period of the year 2023.

At the level of the Eurobond market, Lebanese sovereigns have witnessed over the past few weeks increased appetite from international institutional investors, who have seen a glimpse of hope of change in the domestic politico-economic landscape in the medium term, and on bets about a post-war political settlement that could lay the groundwork for much-needed reforms and debt restructuring, notwithstanding that some investors have recently sought to buy Lebanese debt papers to reinforce their negotiating position in the future.

That being said, prices of Lebanese sovereigns jumped from 6.000-7.000 cents per US dollar at end-2023 to reach a 29-month high level of 8.750-9.500 cents per US dollar by the time of writing this report, topping price levels seen before of the eruption of Gaza conflict on October 7, 2023 (7.875-8.875 cents per US dollar). Within this context, HSBC said in recent report that trading activity has pickup in Lebanese Eurobonds on renewed hope of a change that removes the governance deadlock and paves way for reforms, donor flows, IMF engagement, and debt restructuring.

CONCLUSION: IS THE COUNTRY AND ITS ECONOMY DOOMED OR A LIGHT OF HOPE STILL EXISTS AT THE HORIZON?

Five years since the outburst of the crisis in October 2019, the country is caught in a politico-economic stalemate amid wide cyclical output gap, a lethargic public sector, policy inaction, and a financial sector in drastic need for rebalancing and restructuring.

It is worth noting that more than half of the estimated US$ 75 billion financial gap prevailing in the country nowadays has occurred post-crisis, providing an undeniable proof that the problem lies within the imposed State policies in the realms of economics, monetary and finance. Despite these challenges, the financial sector stands determined and eager to restructure and continue to support the Lebanese economy and its client base.

No economy can flourish without a robust and healthy banking sector. Banks are key in catalyzing economic growth and creating jobs. Banks also help prevent risks associated with non-compliance, money laundering and the cash economy.

In fact, to combat the cash economy, there should be a reinforcement of the financial intermediation through banks, which in turn requires regaining the confidence factor. Without this trust, Lebanon cannot break the cycle of its cash economy. Sanctioning the financial system, such as gray listing by FATF, risks driving more economic activity into the cash economy, hence be counterproductive. The shortcomings in Lebanon's FATF report stem from political, judicial and systemic issues, not the financial sector itself.

In this environment, banks should be preserved and restructured for growth rather than approached from a liquidation perspective. To that end, more than patchwork fixes are needed; a comprehensive restructuring including reforming the public sector, reinforcing governance and the judicial system and overhauling the tax system is imperative. In this context, we see the IMF as a strategic ally to Lebanon, its economy and its financial system; not only as lender but a catalyst that can restore confidence, accelerate recovery, ensure high standards of reform, and restore the inflow of investments and capital.

On a more positive note rise Lebanon's current leverage metrics—with government debt real value reduced from US$ 95 billion pre-crisis, to around US$ 7 billion today. Lebanon's private sector debt (corporates and individuals), dropped from US$ 55 billion pre-crisis to less than US$ 1 billion in market value, or under 5% of GDP, against a global average of 110%. On a consolidated basis, Lebanon's overall debt was reduced from US$ 150 billion to less than US$ 10 billion, which suggests a potential for significant growth in the real economy, once an inflection materializes.

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Another positive aspect is Lebanon's private sector, which has not only survived but has adapted innovatively to an environment where unexpected or 'black swan' events have become the new norm. This sector needs support and financing to counter the growing informal economy.

Shall the overall confidence factor come back amid political settlement and reform efforts, there is room for Lebanon's GDP to regain its pre-crisis level in almost half a decade, thus recording a soundly positive real GDP growth for a number of years, with corollary impact on per capita income and socio-economic conditions at large. The conditions for such a hoped for recovery definitely lies upon post-war domestic political will, concessional local behavior, prioritization of national interests, a drastic reforming agenda and a regain of consciousness among concerned economic agents at large.