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ON THE VERGE OF BOTTOMING OUT, WITH POSSIBLE MACRO INFLECTION AHEAD?

A year of no growth in 2023 amid war spillovers

The year 2023, which was negatively impacted by the Israeli war in its last quarter, is a year of no growth, though the economy seems to have somewhat bottomed out. The touristic sector, which has been a driver of growth in the first nine months, got a hit since October amid the adverse spillover effects of the emerging war on the incoming of tourists and Lebanese expatriates to the home country. The latter is estimated to have contracted by 18% in the last quarter of 2023 relative to the same period last year.

Balance of payments surplus of US\$ 1.6 billion over the first eleven months of 2023

At the external level, the balance of payments reported a surplus of US\$ 1.6 billion in the first eleven months of the year, against a deficit of US\$ 3.2 billion in full-year 2022. This year's surplus in the balance of payments, despite the contraction in BDL net foreign assets by US\$ 0.9 billion, is due to an increase in banks net foreign assets by US\$ 2.6 billion. However, this does not denote a surplus in inflows over outflows as banks FX liquidity rose by only US\$ 0.1 billion (from US\$ 4.2 to 4.3 billion). This mainly results from the decrease in the foreign liabilities of banks by US\$ 3 billion (mainly non-resident deposits) as a result of the devaluation of the official exchange rate from 1507.5 to 15,000 and given that a part of non-resident liabilities is in Lebanese Pound. At a constant official exchange rate, the balance of payments would have been in equilibrium, suggesting no surplus and no deficit over the period.

State Budget 2024: A combination of Pros and Cons

Regarding the State's budget proposal for 2024, a number of positive points (ratification on time, reinforcement of resource mobilization, fiscal equilibrium, etc) and negative points (debatable figures, lack of economic vision, contractionary tax rise effects, etc) surround the Budget. Having said that, the State has no choice but to reduce its fiscal financing needs looking ahead especially in light of BDL's position refraining from public sector financing. Fiscal adjustment has to come from spending austerity, improvement in resource mobilization, bridging the fiscal evasion gap, reforming the electricity sector and registering tangible savings in financial management at large.

Currency stability despite protracted political crisis and war spillovers

After reporting a steep depreciation in the first quarter of 2023, the Lebanese pound held ground against the US dollar on the parallel FX market since the start of the second quarter. The stability in the LP/US\$ parallel market rate took place despite a protracted multifaceted institutional vacuum, lack of political will to implement much-needed reforms and mounting geopolitical tensions since the eruption of the military conflict in the Gaza strip on October 7, 2023. This mainly mirrors (1) a pervasive dollarization in the economy; (2) the "Sayrafa" platform decommissioning and the new BDL policy refraining from financing the government, especially in foreign currencies, and preserving what remains from the FX reserves at the Central Bank; (3) a continuous inflow of hard currency, as remittances are estimated at US\$ 6.4 billion in 2023 (representing 27.5% of GDP) as per the World Bank; and (4) upbeat touristic sector performance during the summer and holidays season.

Banking sector running three distinct balance sheets

At the banking sector level, banks are now running three distinct balance sheets: The balance sheet in LL, the balance sheet in local dollars and the balance sheet in fresh dollars. What was notable over the past few months is the rise in fresh dollar deposits that have reached almost US\$ 3.5 billion today from almost US\$ 2 billion a year ago. Having said that, the full normalization of banking sector activity and standardization of operating conditions await the comprehensive adoption on behalf of State authorities of a full-fledge recovery plan that would settle the financial gap generated by State and BDL imbalances at large.

Three macro scenarios possible for 2024

Our macro forecasts for the year 2024 revolve around three different scenarios at stake (developed in the conclusion of the report): The positive scenario with a probability of realization of circa 25%, the negative scenario with a probability of realization also at circa 25%, and the middle scenario with a probability of realization at circa 50% that makes it identifiable to a kind of base case scenario. Having said that, the 2024 outlook emerges with possible tangible upside and downside risks that might represent a net deviation of the outlook ahead from the base case scenario.

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Real sector indicators were mixed during 2023, mirroring the performance of the real economy. Among real sector indicators that reported a net increase in 2023, we mention number of tourist inflows with 17.1% in the first eleven months, the number of passengers at BIA with 12.1% in full-year 2023, cement deliveries with 10.7% in the first six months and tons of goods at POB with 6.5% in the first ten months of 2023. Among real sector indicators that reported a net decrease in 2023, we mention total value of cleared checks with -66.3% in the first 11 months, construction permits with -40.8% in 2023, exports with -24.0% in the first seven months, electricity production with -13.9% in the first six months and imports with -9.3% in the first seven months of 2023.

At the monetary level, while the currency maintained a relative stability since March, inflation remains at a triple-digit level, with the emergence of inflation in US\$ parallel to currency stability. It is estimated that the inflation rate ended the month of December at 204% relative to the same of the year before, leading to a cumulative inflation of 5,000% since the onset of the crisis in October 2019. What was noticeable over the past few months was the emergence of US\$ inflation that accumulated to a rate of 47% between months of December 2022 and December 2023. With respect to monetary policy, the Central Bank seems keen on preserving its foreign currency reserves which increased by US\$ 0.7 billion since end-July.

At the fiscal level, the Government ratified a 2024 Budget law proposal within constitutional deadlines and transferred it to Parliament for ratification. The State's budgeted figures for 2024 suggested public spending amounting to LL 295.1 trillion (US\$ 3.3 billion), while public revenues amounted to 277.9 trillion (US\$ 3.1 billion), leaving a deficit of LL 17.2 trillion (the equivalent of US\$ 191 million). The Cabinet, which embarked on the discussion of the 2024 budget transferred from the Ministry of Finance to the Cabinet early September, quickly ratified it within constitutional deadlines, a first since the year 2002. The Budget was transferred to Parliament 15 days before the start of the Autumn session mid-October, which according to Article Number 86 of the Constitution allows the Budget to be issued in the form of a Decree rather than a Law in case Parliament does not ratify it on time.

At the banking sector level, banks are now running three distinct balance sheets: The balance sheet in LL, the balance sheet in local dollars and the balance sheet in fresh dollars. What was notable over the past few months is the rise in fresh dollar deposits that have reached almost US\$ 3.5 billion today from almost US\$ 2 billion a year ago. Having said that, the full normalization of banking sector activity and standardization of operating conditions await the comprehensive adoption on behalf of State authorities of a full-fledge recovery plan that would settle the financial gap generated by State and BDL imbalances at large.

At the capital markets level, equity markets continued the noticeable surge of the previous couple of years. The BSE price index rose by 41.2% in the twelve months of the year, following a 37.2% increase in the index in 2022, mainly driven by the rise in Solidere shares. This year's rise in prices occurred within the context of a 32.1% annual increase in trading volume year-on-year to reach US\$ 581 million in the twelve months of 2023.

The developments in the real sector, external sector, public sector and financial sector for the year 2023 will be analyzed thereafter while the concluding remarks are left to the 2024 outlook for Lebanon under the different scenarios at stake.

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Primary and secondary sectors pressured by war spillovers and persisting economic crisis

The performance of the country's agricultural and industrial sectors remained constrained in 2023, amid elevated tensions on the Southern Lebanese border, the ongoing economic crisis and the spillovers of the currency depreciation.

In particular, South Lebanon has reported significant losses in the agriculture sector during the fourth quarter of 2023, which is a main source of livelihood and income in the area, according to a recent report issued by UNDP. The conflict has taken place during a critical period (harvesting and land preparation for the next season). Agricultural lands have suffered significant damage, including physical degradation, chemical pollution, and contamination from explosive remnants, resulting in a loss of soil fertility. The use of phosphorus shelling has led to the contamination of crops, surface and ground water, posing threats to livestock and human health. Additionally, fires have impacted various agricultural areas, affecting olive groves, citrus farms, banana farms, and pasture lands.

The main crops that were affected are: olives (and consequently olive oil production), carob, grains and other winter crops. In addition to the losses in production, thousands of trees were burned (for instance 47,000 olive trees were reported to have been burnt by phosphorus bombs). The conflict also causes major losses in the livestock, poultry and aquaculture sectors, as per UNDP report.

This added to persistent challenges faced by the Lebanese agricultural sector, as the latter struggles with issues like inefficient water usage, inadequate infrastructure and limited access to finance. Additionally, high production costs driven by high input prices have affected farmers' ability to produce crops and livestock. As a result, declining productivity, lack of agricultural roads and essential amenities, and decaying irrigation systems impede growth, as per The Lebanese Center for Policy Studies.

Moreover, a significant portion of Lebanon's agricultural workforce hinges on seasonal labor, primarily sourced from neighboring countries. This heavy reliance on external, often unskilled labor, coupled with a high migration rate of Lebanese youth from their villages, have curtailed the introduction of modern techniques and best farming practices that a skilled workforce might offer, as per the same source.

On another note, the Ministry of Agriculture attempts to take actions amid these challenges. In fact, three agreements were signed with the aim of expanding cultivated areas with soft wheat to reach an area of 1,200 acres, which are expected to be distributed to farmers in 2024.

In parallel, in compliance with the national plan for wheat cultivation in Lebanon, which was launched by the Ministry of Agriculture in November 2022, in partnership with the Food and Agriculture Organization (FAO), and the United Nations World Food Program (WFP), and the Arab Organization for Agricultural Development, the Ministry of Agriculture continued to receive requests until December 7, 2023, for the farmers to obtain soft wheat seeds suitable for making bread.

Concurrently, the Ministry of Agriculture and the FAO, signed on November 24, 2023 an agreement on a project funded by the Canadian Government, worth around US\$ 14.8 million. The project aims to improve the performance of fruit and vegetable value chains and increase reliance on good and efficient agricultural practices. The project would increase resilience against climate and economic shocks of fruit and vegetable value chains, thus enhancing food security in Lebanon. In addition, input producers and traders would be supported to develop their business strategies and activities and to adopt modern technologies. Farmers would also be empowered to coordinate their strategies and activities, in order to implement sustainable economic, social and environmental plans.

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Concomitantly, the FAO with the funding of the Canadian Government and through the UN's Productive Sector Development program, concluded a project supporting circa 406 farmers in Northern Lebanon and the Akkar region. The FAO delivered Integrated Crop Management certificates to 65 farmers, as well as Organic Agriculture certificates compliant with EU specifications. This would enable the farmers to enter new markets and distribute their produce. The farmers also received technical training, input distribution and empowerment to apply good agricultural practices in the program, which would improve their production and productivity skills.

At the level of the industrial sector, the fighting on the Southern Lebanese border has resulted in the destruction of assets and infrastructure, and disruption to economic and social services, which is assumed to have weighed on the industrial activity.

Furthermore, Lebanese manufacturers continue to face supply chain issues and bottlenecks, which are resulting in consumer goods shortages, feeding through into supply-side inflation and higher raw materials costs. This was exacerbated by a weak business environment, as Lebanon suffers from high levels of perceived corruption, burdensome procedures, weak infrastructure and shortages of basic services, including electricity at large.

1.1.2 Construction

Construction sector significantly affected by the general economic situation

The Lebanese construction sector has been reeling from the economic shocks within the country ever since the start of the crisis. The sector has generally reflected the general economic situation. On 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. Supply side performance has been mostly focused on the finishing of old projects and maintenance ever since the start of the crisis.

In details, while the LP has relatively stabilized in 2023 and as inflation has relatively eased in the country, the increase in incomes has not caught up yet leading to stunted spending activity. In 2023, real household spending is projected to have grown by circa 1.2% year-on-year with a continued growth trend forecasted for 2024 to reach 2.0% year-on-year for the year. This comes on the back of lower inflation levels, robust remittances inflow, increased public sector wages and relative currency stability among other factors, as per FitchSolutions.

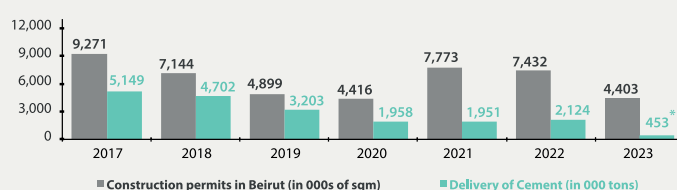
However, the income increase and spending growth will mainly benefit the purchase of essential goods and services as purchasing power remains weak and spending trends gravitate towards necessity in times of crisis. This has greatly stunted real estate purchases from the local population as the Fresh US\$ liquidity is not present in the required volume.

Looking at foreign demand for real estate in Lebanon, expat and foreign appetite for real estate purchase

CONSTRUCTION

					Variation	
	Q4-21	2021	Q4-22	2022	Q4/Q4	22/21
Value of property sales (in millions of US\$)	5,005	15,550	5,190	14,362	3.7%	-7.6%
Number of property sales	38,514	110,094	23,490	79,990	-39.0%	-27.3%
o.w. Sales to foreigners	466	1,467	249	830	-46.6%	-43.4%
Average value per property sale (in US\$ 000)	130	141	221	180	70.0%	27.1%
Property taxes (in millions of US\$)	283	788	390	1,045	38.1%	32.6%

EVOLUTION OF CONSTRUCTION INDICATORS



*3M figures for 2023

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in Lebanon was increasing up until the fourth quarter of 2023. This came as real estate prices within the country were relatively cheap for those living outside and had high yield levels and good future value prospects as the country's economy continued to stabilize. However, at the start of Q4 and the Israel-Hamas war, instability is set to affect investment into Lebanon including real estate. Additionally, poor fundamentals, weak rule of law, political deadlock, corruption as well as Lebanon's economic structure continued to burden investor sentiment. Lebanon is currently regarded as a risky investment destination with foreigners opting for safer options in the region.

Looking at the supply side, cement deliveries, a coincident indicator of construction activity, saw an expansion of a yearly 10.7% in the first six months of 2023 against the first six months of 2022. Cement deliveries reached circa 1,032.6 thousand tons in the first six months 2023, up from 932.7 thousand tons in the first six months of the year prior, reflecting an improvement in activity from the previous year's figures. This increase follows an expansion of 13.8% year-on-year between the first six months of 2022 and the same period of 2021 with figures reaching 819.6 thousand tons in the latter. This shows a trend of improvement within this component of construction activity in Lebanon, as released by the Central Bank of Lebanon.

However, this improving trend in cement deliveries does not reflect an increase in future construction of new projects. The main driver for cement deliveries regaining momentum is the supply to constructors who had sold apartments prior to the crisis.

Additionally, according to data from the Order of Engineers and Architects of Beirut (OEAB), construction permits in 2023 dropped by 40.7% against figures from the year prior. Construction permits for 2023 decreased to 4,403,444 m², down from 7,431,626 m² in 2022. This shows a significant stunting of construction activity and comes following an upwards trend from 2020 to 2022 with growth during the period totaling 160.5%.

In details, looking at the regional distribution of construction permits in 2023, Mount Lebanon took the lion's share with 34.1% of total reaching 1,500,404 m² in 2023. South Lebanon and Nabattiyeh followed with 30.9% of total, reaching 1,359,297 m² and 18.5% of total, reaching 813,571 m² in 2023 respectively. The Bekaa region came in fourth with 12.4% (545,684 m²) of total construction permits. The region of Beirut had a contribution of 3.3% (146,261 m²) of total followed by North Lebanon with a marginal contribution of 0.9% (38,227 m²) of total. It is worth noting that building permits stand as an economic indicator for forthcoming construction activity in the real estate market. Therefore, this reflects a decrease in future realty supply in 2023 due to the dollarization of the market.

Concurrently, the fourth quarter of 2023 saw some noticeable developments for the realty sector in Lebanon. First, the reopening of some Land Registry Departments in the areas of Mount Lebanon, Jbeil, Keserwan, Metn, Baabda, Aley and Chouf by the Ministry of Finance. The reopening aims to manage citizens' affairs relating to the registry. Some employees were reinstated from the General Directorate of the MoF to the General Directorate of Real Estate Affairs in order to assist 32 employees in the operation of the registries. Second, the decision from Parliament to liberalize old rental contracts of non-residential properties from constraints legislated in 1963. The new law extends the rental period to four years during which the rental rate will note a gradual increase. The new law sets annual rent at 8% of the leased property's value with the tenant required to pay 25% of the rent rate in the first year, 50% in the second year and pay the rent rate in full for the third and fourth rate. In turn, a leased property valued at US\$ 100,000 will have an annual rent of US\$ 8,000. The tenant will pay US\$ 2,000 for the first year, US\$ 4,000 for the second year and US\$ 8,000 for the third and fourth year. This decision has yet created controversy as tenants believe the 8% rate to be too high though this move is bound to free up some supply in the market looking forward as contracts end. This in turn will either lead to an increase in the renting of realty or decrease the price of rent as supply grows above demand.

It is worth noting that non-residential properties are those rented to commercial or industrial businesses or individuals who aim to use the property for non-residential purposes.

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

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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. On the short to medium term, as consumption starts to normalize again, the opportunity to start the recovery of the retail sector in Lebanon arises which would include demand and construction of retail office spaces.

At the level of threats, the current inactivity of the political class in Lebanon as well as border tensions are affecting future prospects of the sector. If these threats are not tackled and proactive actions are not taken, the construction and real estate sectors 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

Prior tertiary sector recovery stunted by Israel war

Lebanon's tertiary sector was on a relatively stable recovery path in the first nine months of 2023. This trend was stunted since 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 influx. Additionally, security concerns led to a stopping in activity as the focus was set on offsetting the risk of war spreading instead of growth.

In details, looking at performance of the Beirut International Airport (BIA), total number of passengers increased by 12.1% in 2023 when compared to 2022, reaching 7,094,074 passengers in the former, up from 6,329,747 in the latter. In addition, the number of aircraft increased by 9.0% year-on-year. In parallel,

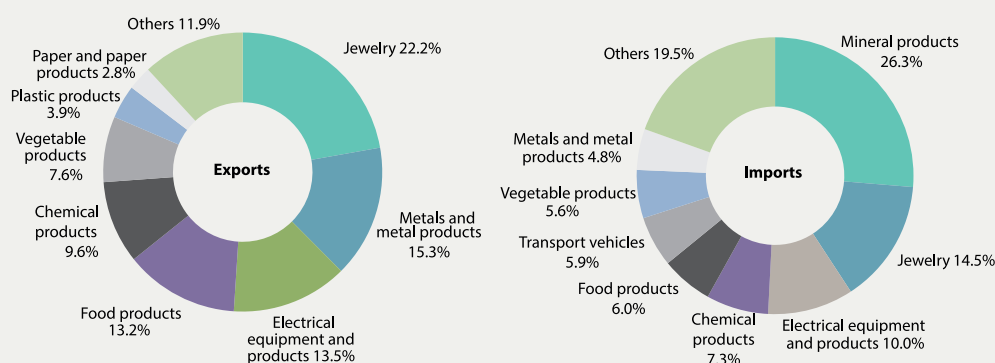
TRADE AND SERVICES

	2022		2023		Variation	
	Q4-22	2022	Q4-23	2023	Q4/Q4	23/22
Number of ships at the port*	103	980	127	1,143	23.3%	16.6%
Number of containers at the port (in 000s)*	50	481	58	461	15.6%	-4.2%
Merchandise at the Port (in 000 tons)*	408	4,251	577	4,527	41.5%	6.5%
Planes at the Airport	12,907	52,495	11,310	57,206	-12.4%	9.0%
Number of passengers at the Airport (in 000s)	1,509	6,330	1,321	7,094	-12.5%	12.1%
Cleared checks** (in millions of US\$)	8,133	33,172	1,206	11,172	-85.2%	-66.3%

*Q4 figures are for October of each year, full year figures are for 10M

**Q4 figures are for October & November of each year, full year figures are for 11M

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY (7M - 2023)



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the total freight handled by the airport decreased by 1.3% year-on-year during the aforementioned period. The number of incoming passengers increased by 11.5% year-on-year reaching 3,477,466 in 2023, up from 3,119,404 in 2022. Passengers departing from BIA during 2023 reached 3,616,608 recording an increase of 12.7%, up from 3,210,343 departing passengers in the year prior. In parallel, landings and take-offs increased by 9.0% year-on-year in 2023 with 28,600 planes landing and 28,606 planes taking-off during the year. In turn, the number of aircraft coming in and out of BIA during 2023 reached 57,206 planes registering a 9.0% year-on-year increase up from 52,495 in 2022.

Looking at the recovery rate in arriving passenger activity at BIA between 2023 and 2019, an indicator of recovery in incoming passengers' activity against pre-crisis and pre-COVID levels, we note a recovery rate of 81.2%. While this shows a slowdown from the recovery rate for BIA's arrivals in the first nine months of 2023 (82.2%), this figure has improved against the recovery rate recorded in November (80.5%) due to the holiday season. In details the holiday season of 2023, which spans over the month of December, noted a slight recovery of activity following the worsening trend noted during October and November. This comes mostly on the back of an influx of expats, which want to celebrate Christmas and the new year with their families. Having said that, 2023's holiday season has had a worse overall performance than the one noted in the year prior all the while providing a crucial support to the country's economy.

In parallel, according to the Ministry of Tourism, the number of tourist arrivals into Lebanon reached 1,566,368 in the first 11 months of 2023. This figure denotes a year-on-year jump in tourism influx of 17.1%, up from 1,337,515 during the same period of 2022. The influx of tourists into the country has been the highest recorded since 2019. However, since the start of hostilities on the Lebanese-Israeli border, the influx of foreigners into Lebanon started an adverse trend.

In details, looking at the distribution of tourist arrivals by nationality in the first 11 months of 2023, the highest contributor were Europeans with 41.0% (642,562) of total tourist arrivals into Lebanon. The second and third highest contribution came from Arab countries and America with 25.5% (399,773) and 20.5% (320,937) of total tourist arrivals during the period. Asia, Oceania and Africa followed with 4.9%, 4.5% and 3.6% of total tourist arrivals into Lebanon.

At the level of the hospitality sub-sector, hotels have been majorly affected by the lackluster tourism performance. In October 2023, occupancy rates for Lebanon's 4 and 5 star hotels reached 31.8% noting a 9.2 percentage point decrease against figures from October 2022.

Looking ahead, as regional instability persists and the risk of war expanding in Lebanon remains present, the tourism and hotel sectors might remain subdued. While hostilities have so far remained mostly confined to the border areas, it has been gradually escalating and widening with time. In January, an Israeli strike was executed on the suburbs of Beirut while strikes in the depths of the Southern region have been more and more frequent. This field escalation of the hostilities on the Lebanese front have raised the fear of a wider war in the region prompting countries to further advise against travel to Lebanon. These factors, especially the major escalation that comes with the striking of the capital are expected to have further negative repercussions on tourism looking ahead as less foreigners visit the country and some expats opt out of a family visit in fear of getting stuck in Lebanon or the expanding of hostilities to encompass the whole country.

At the level of activity in PoB, the quantity of goods reported an increase of 6.5% year-on-year, registering 4,527 thousand tons in the first 10 months of 2023, up from 4,251 thousand tons in the same period of 2022. Additionally, the number of ships witnessed an increase over this period reaching 1,143 ships in the first 10 months of 2023 against 980 ships in the same period of 2022, showing an increase of 16.6% year-on-year. On the other hand, the number of containers registered a yearly decreased of 4.2% to reach 460,997 containers in the first 10 months of 2023, against 481,198 containers in the same period of the previous year.

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1.2. EXTERNAL SECTOR

Balance of payments surplus of US\$ 1.6 billion over the first eleven months of 2023

At the external level, the balance of payments reported a surplus of US\$ 1.6 billion in the first eleven months of the year, against a deficit of US\$ 3.2 billion in full-year 2022. This year's surplus in the balance of payments, despite the contraction in BDL net foreign assets by US\$ 0.9 billion, is due to an increase in banks net foreign assets by US\$ 2.6 billion. However, this does not denote a surplus in inflows over outflows as banks FX liquidity rose by only US\$ 0.1 billion (from US\$ 4.2 to 4.3 billion). This mainly results from the decrease in the foreign liabilities of banks by US\$ 3 billion (mainly non-resident deposits) as a result of the devaluation of the official exchange rate from 1507.5 to 15,000 and given that a part of non-resident liabilities is in Lebanese Pound. So the surplus in the Balance of payments is only an accounting issue not a mirror image of net inflow issue. At a constant official exchange rate, the balance of payments would have been in equilibrium, suggesting no surplus and no deficit over the period.

Regarding foreign trade, latest figures (available for the first seven months of the year) suggest imports have decreased by 9% while exports have contracted by 24% relative to the first seven months of the previous year. As such, Lebanon's foreign deficit contracted by 6% between the two periods.

The breakdown of imports by product in the first seven months of 2023 suggests that Mineral Products took the lion's share accounting for 26.3% of all imports. Jewelry and Electrical Equipment & Products followed with 14.5% and 10.0% of total imports respectively in the first seven months of 2023. Chemical Product came in fourth accounting for 7.3% of total followed by Food Products, Transport Vehicles and Vegetable Products accounting for 6.0%, 5.9% and 5.6% of total respectively over the aforementioned period.

Looking at the distribution of imports into Lebanon by country of origin in 7M 2023, China took the lion's share accounting for 12.3% of all imports followed by Greece with 10.7% of the total. Switzerland and Turkey followed accounting for 10.2% and 8.3% of total imports during the period. Italy and the USA followed after turkey accounting for 5.7% and 4.3% of total imports in 7M 2023.

As to the distribution of exports from Lebanon by product during 7M 2023, Jewelry took the lion's share with 22.2% of all exports, followed by Metal & Metal Products with 15.3% of total. Electrical Equipment & Products and Food Products followed with 13.5% and 13.2% of total exports in 7M 2023. Chemical Products were next and accounted for 9.6% of total exports during the period.

Looking at the distribution of exports from Lebanon by country in 7M 2023, the UAE took the lion's share accounting for 20.6% of all exports. Turkey, Egypt and Iraq followed with 6.7%, 5.3% and 4.9% of total exports respectively during the period. Switzerland came next accounting for 4.8% of total exports during the first seven months of 2023.

1.3. PUBLIC SECTOR

State Budget 2024: A combination of Pros and Cons

The State's budgeted figures for 2024 suggested public spending amounting to LL 295.1 trillion (US\$ 3.3 billion), while public revenues amounted to 277.9 trillion (US\$ 3.1 billion), leaving a deficit of LL 17.2 trillion (the equivalent of US\$ 191 million).

A number of positive and negative points surround the Budget. At the level of Pros, we mention:

- The Cabinet, which embarked on the discussion of the 2024 budget transferred from the Ministry of Finance to the Cabinet early September, quickly ratified it within constitutional deadlines, a first since the year 2002. The Budget was transferred to Parliament 15 days before the start of the Autumn session mid-October, which according to Article Number 86 of the Constitution allows the Budget to be issued in the form of a Decree rather than a Law in case Parliament does not ratify it on time.

- The Budget has foreseen a reinforcement in the resource mobilization ratio, which used to be 16% of GDP before the crisis and which then contracted significantly to 4% of GDP in 2022 amid drastic currency depreciation post

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crisis onset. The reinforcement of resource mobilization is a crucial need to ensure financial equilibrium and stability in public finances which is by itself a prerequisite for exchange rate stability at large.

-The upward revision of taxes and fees in the Budget 2024 was dictated by the 98% currency depreciation since the beginning of the crisis as the US dollar's exchange rate went up by 60 times generating a 5000% cumulative inflation since crisis onset which imposes partial tax and fee alignment to sustain the public service.

-The budget 2024 suggested tax and fee adjustments come in the aftermath of aligning the customs dollar with the market rate few months ago, which has itself helped in generating a certain financial equilibrium, backing up public finances and supporting the monetary stability that the country has witnessed over the past eight months.

At the level of the Cons, we mention:

-The budget proposal lacks an economic vision that should be accompanying it to explain the rationale and the macro strategy for the Government looking forward within which the annual budget is embodied.

-The LL 17 trillion fiscal deficit (US\$ 191 million) targeted for 2024 seems too utopian, which puts in doubt the figures surrounding the budget, especially in view of emerging war related extra spending.

-The proposed 2024 budget should ensure that it is consistent with the exchange rate unification process, started by BdL, and that the preferential treatment of certain taxpayers over others is avoided.

-In particular, the Article allowing tax payers to settle their taxes through their bank local dollar accounts at an exchange rate of 40 percent of Sayrafa rate should be reconsidered given that it introduces a new exchange rate in the market while the aim should be towards narrowing the multiple exchange rate system.

-The proposed budget 2024 should also include sufficient resources to rebuild the tax administration to strengthen compliance and improve tax fairness.

-The Government should limit the imposition of taxes in US\$ to avoid emerging excessive demand for US dollars in the market of behalf of tax payers for tax settlement purpose. Instead, it should collect in Lebanese Pounds, deposit the proceeds with BDL, and the BDL will make the needed conversion whenever the Government has necessary payment in US\$ to settle.

-Raising taxes aggressively in a contractionary economy makes the real economy more regressive. As an alternative, the State should try to improve tax collection and compliance and fight tax evasion. The Government has to seriously consider addressing a large revenue evasion gap which is estimated at no less than 10% of Lebanon's GDP emanating mainly from income taxes, custom revenues, electricity bills and property taxes.

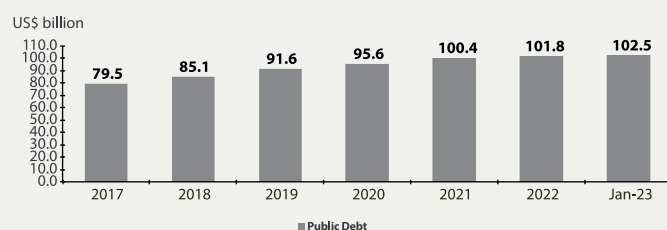
Finally, the State has no choice but to reduce its fiscal financing needs looking ahead especially in light of BDL's position refraining from public sector financing. Fiscal adjustment has to come from spending austerity, improvement in resource mobilization, bridging the fiscal evasion gap, reforming the electricity sector and registering tangible savings in financial management at large.

PUBLIC FINANCES (US\$ MILLION)*

	Actual 2019	Actual 2020	Actual 2021	Budget 2022	Budget 2023	Budget 2024
Public Revenues	10,387	2,374	1,250	962	1,824	3,088
Public Expenditures	15,865	3,707	1,105	1,311	2,461	3,279
Debt service	5,024	545	156	119	159	163
Public deficit	-5,478	-1,333	144	-349	-637	-191
Primary deficit	-455	-788	301	-231	-478	-28
Deficit/Expenditures	-34.5%	-36.0%	13.1%	-26.6%	-25.9%	-5.8%
Deficit/GDP	-11.4%	-8.2%	1.2%	-3.5%	-2.6%	-1.1%
Revenues/GDP	21.5%	14.6%	10.1%	9.7%	7.4%	17.0%
Expenditures/GDP	32.9%	22.8%	8.9%	13.2%	10.0%	18.0%
Primary deficit/GDP	-0.9%	-4.9%	2.4%	-2.3%	-2.0%	-0.2%
Exchange rate LL/US\$	1,606	5,601	16,164	31,166	81,000	90,000

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

PUBLIC INDEBTEDNESS



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1.4. FINANCIAL SECTOR

1.4.1 Monetary situation

Currency stability despite protracted political crisis and war spillovers

After reporting a steep depreciation in the first quarter of 2023, the Lebanese pound held ground against the US dollar on the parallel FX market since the start of the second quarter, hovering around 90,000 until year-end, while Lebanon embarked into a new financial and monetary era under the new BDL leadership since the start of August 2023.

In details, the parallel FX market rate, which has peaked at LP/US\$ 145,000 late-March 2023 from a beginning-of-year figure of LP/US\$ 43,000, continued to revolve around LP/US\$ 90,000 since the start of April 2023 till year-end. The stability in the LP/US\$ parallel market rate took place despite a protracted multifaceted institutional vacuum, lack of political will to implement much-needed reforms and mounting geopolitical tensions since the eruption of the military conflict in the Gaza strip on October 7, 2023. This mainly mirrors (1) a pervasive dollarization in the economy; (2) the "Sayrafa" platform decommissioning and the new BDL policy refraining from financing the government, especially in foreign currencies, and preserving what remains from the FX reserves at the Central Bank; (3) a continuous inflow of hard currency, as remittances are estimated at US\$ 6.4 billion in 2023 (representing 27.5% of GDP) as per the World Bank; and (4) upbeat touristic sector performance during the summer season.

In parallel, the year 2023 saw reduced currency in circulation. In fact, figures released by the Central Bank of Lebanon showed that the money in circulation outside BDL contracted significantly by LP 22.1 trillion over the year 2023, moving from LP 80.1 trillion at end-2022 to LP 58.1 trillion at end-2023. Yet, the correlation between the black FX market rate and the currency in circulation was quite weak over the year 2023, as reflected by a coefficient of determination of 13% between the two variables.

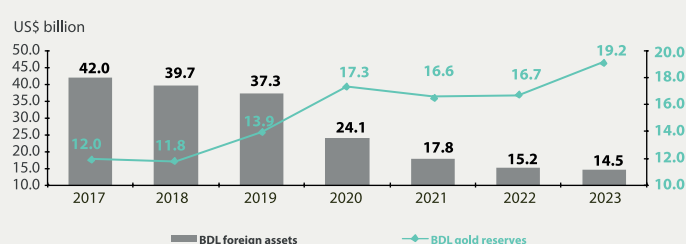
Concurrently, BDL's liquid FX buffers remained on an expansionary mode since the first deputy governor of the Central Bank took over as interim Chief after governor's term ended July 31, 2023. In fact, latest statistics showed that BDL's liquid foreign reserve assets grew by US\$ 748 million since end-July 2023, hitting US\$ 9.321 billion at year-end.

On the other hand, the financial system's total subscriptions in LP Treasury bills amounted to circa LP 18,861 billion in 2023, fully allocated to the Central Bank of Lebanon. These compare to maturities of circa LP 18,756 billion, which resulted into a nominal surplus of circa LP 105 billion in 2023, compared to a nominal deficit of LP 1,773 billion in 2022. Given BDL's continuous intervention on the Treasury bills primary market, the Central Bank's LP securities portfolio registered a growth of LP 5,349 billion in 2023, reaching LP 65,983 billion at end-December.

MONETARY SITUATION

Flows in US\$ million	11M-22	11M-23	Progression
	Vol	Vol	Vol
Net foreign assets (excluding gold)	-3,204	1,669	4,873
Net claims on the public sector (excluding valuation adjustments)	-10,409	-23,303	-12,894
Claims on the private sector	-5,883	-11,567	-5,684
Uses=Sources	-19,496	-33,201	-13,706
Money (M3)	13,699	-74,543	-88,242
Valuation adjustment and other items	-33,195	41,342	74,536

EXCHANGE MARKET INDICATORS



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However, in light of BDL's position refraining from public sector financing, the Ministry of Finance decided on December 28, 2023 to suspend the issuance of LP Treasury bills or bonds in the first quarter 2024 until further notice. This suggests that the Ministry of Finance would draw on its account at the Central Bank of Lebanon to settle LP Treasury bills or bonds maturing in the first quarter of 2024 and totaling LP 3,623 billion.

As to Certificates of Deposits, the total LP CDs' portfolio contracted by LP 8,138 billion over the first eleven months of 2023 to reach LP 35,009 billion at end-November 2023, after remaining stable over the year 2022.

Finally, as a new era started in BDL leadership, the Central Bank of Lebanon is currently preparing the groundwork for the launch of Bloomberg currency platform, with all eyes focused on the upcoming BDL circulars, which would set the framework of the new platform. This came within the context of continuous efforts to promote transparency and governance in an emerging cash economy, and gradually move to a managed float system, while preserving what remains from the FX buffers at BDL.

1.4.2 Banking activity

Banks FX liquidity abroad at US\$ 4.3 billion, in addition to US\$ 0.8 billion of FX cash in vault

The cumulative banking sector analysis since the onset of Lebanon's financial crisis, i.e between October 2019 and November 2023, shows the following trends:

- A cumulative decline in total deposits by US\$ 73.4 billion amid noticeable withdrawals and loan redemption: Customer deposits contracted from US\$ 168.4 billion at end-October 2019 to US\$ 95.0 billion at end-November 2023, the equivalent of 44%. Resident deposits contracted by US\$ 59.0 billion, while non-resident deposits dropped by US\$ 14.4 billion. FX Deposits contracted by US\$ 32.4 billion over the period to reach US\$ 91.3 billion, while LL deposits contracted by LL 12.1 trillion to reach LL 55.3 trillion as at end-November 2023. As a result, deposit dollarization went up from 73.4% in October 2019 to 96.1% in November 2023.
- A cumulative decline in total loans by US\$ 45.6 billion amid bank deleveraging efforts: Lebanese banks have been deleveraging significantly since the onset of the crisis. Their loan portfolio dropped from US\$ 54.2 billion to US\$ 8.5 billion, the equivalent of 84%. The loan redemption represents 62% of the deposit contraction over the period. FX loans contracted by US\$ 30.4 billion to reach US\$ 7.7 billion, while LL loans dropped by LL 12.0 trillion to reach LL 12.1 trillion. As a result, loan dollarization went up from 70.4% in October 2019 to 90.5% in November 2023.
- A cumulative decline in LL deposit interest rate by 762 basis points and in US\$ deposit interest rate by 656 basis points: The average LL deposit interest rate dropped from 9.03% at end-October 2019 to 1.41% at end-November 2023, while the average US\$ deposit interest rate declined from 6.61% to 0.05% over the same period. The spread between US\$ deposit rate and 3-month Libor reached close to -5.58% in November 2023, against +4.71% in October 2019.
- A cumulative decline in banks FX liquidity abroad by US\$ 4.1 billion: Lebanese banks' claims on non-resident financial sector dropped from US\$ 8.4 billion at end-October 2019 to reach US\$ 4.3 billion at end-

BANKING ACTIVITY

in millions of US\$	Oct-19	Nov-23	Variation
Total assets	262,804	112,578	-150,225
Total shareholders' equity	20,602	5,194	-15,408
Total deposits	168,364	94,973	-73,391
o.w. LP deposits	44,727	3,689	-41,038
o.w. FC deposits	123,637	91,284	-32,353
Total credits	54,166	8,530	-45,636
o.w. LP credits	16,029	808	-15,222
o.w. FC credits	38,136	7,722	-30,414

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November 2023. This comes as a result of the significant foreign liquidity usage by Lebanese banks to pay in cash for customers withdrawals at the beginning of the crisis period and more recently under BDL Article 158. The current US\$ 4.3 billion of FX liquidity placed abroad adds to US\$ 0.8 billion of US\$ cash in vaults domestically held by Lebanese banks.

- A cumulative decline of US\$ 12.3 billion in banks Eurobonds portfolio amid net domestic sales and provisioning: Lebanese banks Eurobond portfolio reached US\$ 2.4 billion at end-November 2023, against US\$ 14.8 billion at end-October 2019. The portfolio contraction is tied to banks net sales of Eurobonds at loss, mainly at the early months of the crisis, in addition to high provisioning requirements imposed by monetary authorities on bond portfolios.
- A cumulative decline in shareholders' equity by US\$ 15.4 billion amid banks' net losses: Shareholders' equity contracted from US\$ 20.6 billion at end-October 2019 to US\$ 5.2 billion at end-November 2023 as a result of net bank losses over the period. The losses incurred by Lebanese banks come as a result of noticeable FX costs, the effects of mark-ups, the rising operating expenses tied to the surging inflation, in addition to significant provisions to face private and sovereign risks at large.

1.4.3. Equity and Bond Markets

Considerable equity price gains for third year in row, bond prices at record lows amid multifaceted crisis and mounting geopolitical tensions

Lebanon's equity market continued to register strong price gains for the third year in a row, mainly on hedging activity against currency collapse on the black FX market and amid investor tendency to avoid haircuts on their financial placements, noting that equity prices are denominated in domestic US dollars. In parallel, Lebanese Eurobond prices closed the year 2023 at record lows amid a prolonged institutional void, reform uncertainties and fears that the military conflict between Israel and Hamas could spiral out of control in the region.

In details, the Beirut Stock Exchange benefited in 2023 from continuous investor appetite for realty stocks, mainly on hedging activity against crisis and triple-digit inflation, and as market players sought to avoid haircuts on their financial placements. This was reflected by a 41.3% surge in the BSE price index in 2023, following increases of 37.2% in 2022 and 48.1% in 2021.

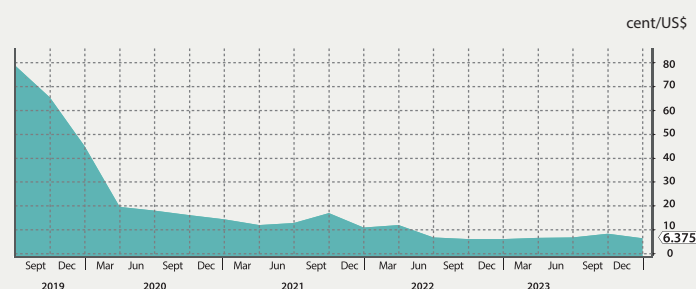
A closer look at individual stocks shows Solidere "A" and "B" share prices jumped by 46.3% and 49.0% respectively in 2023, hitting US\$ 89.10 and US\$ 89.95 respectively at end-December. This brought

FINANCIAL SECTOR (NON BANKS)

	2017	2018	2019	2020	2021	2022	2023
Beirut Stock Exchange							
Market capitalization (In millions of US\$)	10,578	9,117	7,540	7,176	10,625	14,578	20,597
Total trading volume (In millions of US\$)	608	376	197	233	354	440	581
Annualized trading volume/Market capitalization	5.8%	4.1%	2.6%	3.2%	3.3%	3.0%	2.8%
Price index	98.2	83.9	69.7	63.5	94.0	129.0	182.3
% change in index	-8.1%	-14.6%	-16.9%	-8.9%	48.1%	37.2%	41.3%
Lebanese Eurobonds							
Total volume (In millions of US\$)	26,123	30,964	28,314	31,314	31,314	31,314	31,314
Average yield	6.5%	10.0%	30.0%	57.0%	-	-	-

CAPITAL MARKETS PERFORMANCE

Long-term sovereign bond prices



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accumulated price gains in Solidere shares to 1,528% on average since the onset of the crisis, as Solidere "A" and "B" shares traded at US\$ 5.45 and US\$ 5.55 respectively on October 17, 2019. On the other hand, banking stocks recorded an average price rise of 2.5% in 2023. Bank Audi's "listed" shares led the advance on the BSE in 2023, posting strong price gains of 52.6% to reach US\$ 2.35, followed by BLOM's "listed" shares with +31.6% to US\$ 3.50, BLOM's GDRs with +9.1% to US\$ 3.00, and BEMO's "listed" shares with +4.2% to US\$ 1.25. In contrast, Byblos Bank Preferred shares 2009 recorded price falls of 21.0% to reach US\$ 29.99, followed by Bank Audi's GDRs with -20.1% to US\$ 1.11, and Byblos Bank's "listed" shares with -6.7% to US\$ 0.70. Amongst industrials, Ciments Blancs Nominal and Holcim Liban's share prices skyrocketed by 91.3% and 91.9% respectively, hitting US\$ 22.00 and US\$ 59.50 respectively at end-December 2023.

Along with double-digit equity price gains, the Beirut Stock Exchange was marked by reduced price volatility. In fact, the price volatility, measured by the ratio of the standard deviation of prices to the mean of prices, reached 8.3% in 2023 compared to a much higher price volatility of 15.0% in 2022.

Concomitantly, the market capitalization on Lebanon's equity market was at the image of BSE price gains in the absence of any listing or delisting activity, registering a growth of 41.3% in 2023, moving from US\$ 14,578 million at end-December 2022 to US\$ 20,597 million at end-December 2023.

As to trading volumes, the BSE total turnover expanded by 32.1% year-on-year to reach US\$ 581 million in 2023. Solidere shares continued to capture the lion's share of activity (95.4%), followed by the banking shares with 4.3% and the industrial shares with 0.3%. Accordingly, the BSE total turnover ratio, measured by the annualized trading value to market capitalization, reached 2.8% in 2023, down from 3.0% in 2022.

At the level of the Eurobond market, prices of Lebanese sovereigns remained at their lows in 2023, closing the year at 6.00 cents per US dollar. This took place while the country remained mired in political and institutional vacuum, and amid IMF's warning that a lack of domestic political will to launch urgently needed reforms would weigh on the Lebanese economy for years to come, in addition to continuous military operations in Gaza and elevated tensions on the Southern Lebanese border, which fueled concerns that the conflict between could spiral out of control in the region.

As to credit rating changes, Moody's affirmed in December 2023 the government of Lebanon's issuer rating at "C" and has changed the outlook to "stable" from "no outlook". The "stable" outlook reflects Moody's expectation that the rating would remain "C" for the foreseeable future, given the very high likelihood of significant losses for private creditors and Moody's expectation of a very unstable economic environment persisting as a result of recurrent political deadlock and weak institutions.

Looking forward, the outlook of Lebanon's capital markets depends on regional geopolitical developments, the start of reform implementation, the reaching of a final agreement with the IMF and the materialization of international assistance, which would lay the groundwork for constructive negotiations with bondholders.

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CONCLUSION: THE 2024 OUTLOOK UNDER THE DIFFERENT SCENARIOS AT STAKE

In brief, the year 2023 has been erratic in terms of performance. The first quarter of the year reported a steep depreciation of the national currency, with the LL/US\$ exchange rate reaching a peak of circa 145,000 in March from a beginning-of-year figure of 43,000, and with significant adverse effects on socio-economic conditions in Lebanon at large. The second quarter of the year reported a relative improvement in real sector conditions amid monetary and currency stability, with the exchange rate revolving around 90,000 throughout the quarter. The third quarter of the year reported a significant macro upsurge, driven by the upbeat touristic sector performance and amid continuing currency stability. The fourth quarter of the year yet came amid the war spillovers in South Lebanon following the Israel-Hamas conflict that emerged on the 7th of October, with most earnings made by the various economic sectors in the summer season relatively depleted in the fall, though bearing in mind that the war spillovers did not put at stake currency stability so far.

As such, it is estimated that the year 2023 on the overall has reported a net stagnation in the real economy, with real growth close to nil, while growth was slightly positive up to September of the year. Sectors affected the most during the last quarter of hostilities were Tertiary sectors, i.e trade and services sectors, and mostly hotels and restaurants, car rentals, events and conferences sector, etc...

As for expectations for the year 2024, they actually revolve around three different scenarios at stake: The positive scenario with a probability of realization of circa 25%, the negative scenario with a probability of realization also at circa 25%, and the middle scenario with a probability of realization at circa 50% that makes it identifiable to a kind of base case scenario. Having said that, the 2024 outlook emerges with possible tangible upside and downside risks that might represent a net deviation of the outlook ahead from the base case scenario.

The positive scenario actually depends on an end of the current Hamas-Israel war shortly, the imminent election of a Lebanese president, the formation of an effective and efficient government, the start of reform implementation, the reaching of a final agreement with the IMF and the materialization of international assistance. If these conditions are met, we expect real GDP growth rate to exceed 7%, the inflation rate to decline considerably, the exchange rate to stabilize at below 90,000, the BDL's reserves to strengthen, and a surplus in the Balance of Payments (BoP) to be recorded for no less than US\$ 5 billion.

As for the negative scenario, it rests on the widening of the current conflict on Lebanese territory, the absence of presidential elections and therefore the absence of government formation, no implementation of the required economic reforms and no agreement with the IMF. Under these conditions, we forecast a negative growth rate in real GDP of circa -20%, an increase in the inflation rate to 400%, a decline of BDL's reserves to US\$ 3 billion and a deficit in the BoP at around US\$ 5 billion.

Looking at the middle scenario, we assume that the conflict in the south remains but confined while maintaining the rules of engagement, yet without internal political breakthroughs that lead to economic reforms. Under this scenario, we expect real GDP growth rate to be close to nil with the inflation rate nearing 100%. Additionally, a tiny decrease in BDL's reserves is expected along with a slight deficit in the balance of payments.

In view of the significant discrepancy between the three scenarios, we hope that the situation in the south would soon stabilize and that Lebanese politicians will rise above their narrow interests, reduce the bickering between them, strengthen common grounds, and embark on the path of settlement and reform at large.