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LEBANON ECONOMIC REPORT

1ST QUARTER 2025

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THE MULTITUDE OF ECONOMIC CHALLENGES FACING THE NEW ERA

Promising political developments with potential macro repercussions

The first few months of 2025 saw promising political developments, starting with the presidential elections, to PM designation and to the formation of a cabinet of qualified experts, with a number of renowned figures in the lineup. Lebanon has seen a significant flow of high level foreign personalities visiting Lebanon over the past three months and could be on the verge of getting international aid and assistance if the historical opportunity that presents itself is appropriately met by lebanese decision makers. Foreign and Arab investors are relocating Lebanon on their radars and some of them have already announced their readiness to invest in the country.

BDL replenishes the FX reserves it lost during the all-out war amid increased demand for LP

The first quarter of the year 2025 was marked by a noticeable surge in demand for the Lebanese pound and sustained currency stability, while the Central Bank of Lebanon has been able to replenish the reserves it lost during the all-out war. The Lebanese pound held firm ground against the US dollar on the parallel FX market over the first quarter of the year 2025, registering only marginal movements, quoted at around 89,600-89,700 despite an escalation in hostilities and fears of a renewed conflict. The Central Bank of Lebanon's liquid foreign reserve assets reached US$ 11,071 million mid-April 2025, their highest monthly level since July-2023, and compared to US$ 10,135 million at year-end 2024, which marks an expansion of US$ 936 million. This followed a US$ 530 million contraction in liquid FX buffers in the fourth quarter of the year 2024 which had witnessed rising monetary pressures due the full-blown war. Concurrently, BDL gold reserves stood at US$ 29,732 million mid-April 2025 (9.2 million ounces at a price of US$ 3,232 per ounce) against US$ 24,102 million at end-December 2024 amid the rise in international gold prices.

Rise in banks liquidity abroad by US$ 350 million over the first two months of the year

Banking sector statistics recently released show a number of noticeable year-to-date developments. Lebanese banks liquidity abroad has increased by US$ 350 million over the first two months of the year to reach US$ 5,044 million in February 2025, against US$ 4,693 million in December 2024 (US$ 8,389 million at the onset of the crisis in October 2019). The year-to-date rise in banks liquidity abroad comes within the context of a more significant rise in banks customers fresh deposits amid the positive developments that the country witnessed at the politico-economic levels. The sector yet suffers from continuing losses, with banks' equity down by US$ 187 million over the first two months of the year to reach US$ 4,633 million in February 2025, down from US$ 4,820 million in December 2024.

Lebanese bond prices close the first quarter of 2025 on a positive note

Lebanon's fixed income market managed to end the first quarter of the year on a positive note within hopes that the recent domestic political breakthroughs would pave the way for the implementation of long-overdue reforms and unlock international financial support. Sovereigns rallied following the Presidential elections, the PM designation and the formation of a cabinet of qualified experts, hitting16.00 cents per US dollar across-the-board at end-March 2025 compared to 12.75 cents per US dollar at end-December 2024, noting that they have reached a five-year high of 19.00 cents per US dollar early-March 2025, amid bets that the recent domestic political breakthroughs would pave the way for the implementation of long-overdue reforms, signing a final deal with the IMF, debt restructuring and constructive negotiations with bondholders.

Several economic challenges facing the new presidential era

Following the rising hopes on behalf of the Lebanese for the new Presidential era, we highlight five main macro priority issues to be dealt with looking ahead, namely (1) Growth and job creation, for the economy to be moving from a sluggish mode to a recovery mode in all sectors of economic activity. (2) External Adjustment, with the persisting significance of external imbalances (3) Monetary tuning and reserve enhancement (4) The adjustment of public finances which represent a continuing vulnerability of the Lebanese economy of nowadays despite the relative improvement recently recorded and (5) Banking adjustment with the needed restructuring, stabilization and financial gap coverage.

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The first few months of 2025 saw promising political developments, starting with the presidential elections, to PM designation and to the formation of a cabinet of qualified experts, with a number of renowned figures in the lineup. Lebanon has seen a significant flow of high level foreign personalities visiting Lebanon over the past three months and could be on the verge of getting international aid and assistance if the historical opportunity that presents itself is appropriately met by lebanese decision makers. Foreign and Arab investors are relocating Lebanon on their radars and some of them have already announced their readiness to invest in the country.

Such a political breakthrough has already translated into financial markets. Noticeable conversions from foreign currencies to Lebanese Pounds took place on the FX market, leading to the BDL reinforcing its FX reserves by US$ 936 million since the begining of the year and to almost replenish so far all the reserves it lost during the All-out war to reach US$ 11.1 billion mid-April. There has been a 167% surge in the Lebanese eurobond prices over the past six months, from 6 cents end-September to 9 cents on November 27th (Ceasefire date) and to around 16 cents today. The flurry in bond prices came amid bets that recent domestic political breakthroughs would pave the way for the implementation of long-overdue reforms, signing a final deal with the IMF, debt restructuring and constructive negotiations with bondholders. A double-digit surge in the Lebanese equity market price index was also recorded, though turnovers remain tiny, with an average market trading value of US$ 1.8 million per day since November 27 in a stock market still lacking liquidity and efficiency.

The change of the regime in Syria presents opportunities not only for the Syrian Arab Republic but to the regional landscape as well. Stabilizing the Syrian Arab Republic would bring benefits to neighbouring countries, especially Lebanon. It would increase the potential for trade and reduce the pressures caused by the presence of large numbers of refugees. Conversely, continued instability would exacerbate problems such as illicit trade, as well as exacerbating regional security risks. The reopening of borders and the establishment of transportation corridors could have immediate positive implications for trade and GDP.

The probability of a positive scenario for Lebanon in the year ahead is on a relative rise. The positive scenario assumes the ceasefire persists, with the launch of a widespread reconstruction effort, the launch of long awaited reforms and a full fledge agreement with the IMF leading to international assistance. In case the conditions of such a scenario materialize, real GDP growth would jump to above 8%, inflation would go down to global levels, BDL reserves would be significantly reinforced and the balance of payments would turn into a surplus of no less than US$ 4 billion. The alternative scenario assumes the ceasefire persists throughout 2025, yet with continuing domestic political bickering, and thus no launch of reforms. Under this scenario, real GDP growth would be close to 2%, BDL reserves would stabilize and the balance of payments would be in quasi-balance.

Within this macro perspective, the need to restore confidence imposes on political authorities the imperative challenge of safeguarding the cease fire, promptly filling the institutional gaps, restoring the firm cohesive role of the State and the army, agreeing on answers and solutions to all pending issues and sending the right signals to the business and investment community at large. The banking restructuring challenge remains the main test, revolving around whether the State would be able to put in force a restructuring law and gap resolution law within the upcoming year, prior to the parliamentary elections in May 2026, after which the Cabinet will turn into Caretaker Cabinet until the formation of a new Cabinet.

The developments in the real sector, external sector, public sector and financial sector for the first quarter of 2025 will be analyzed thereafter while the concluding remarks are left to addressing the economic challenges facing the new presidential era.

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Lebanon's primary and secondary sectors on road to post-war recovery

Lebanon's primary and secondary sectors are embracing sustainable measures and practices to recover from war during the first quarter of 2025.

Looking into the agricultural sector, planting of 2025 winter cereals was delayed until December 2024 due to the intensified conflict, which has restricted farmers' field access in the South, Baalbek-Hermel and the Bekaa Valley. Additionally, there was a significant decline in rainfall rates, with recorded rainfall amounting to only about 30% of the annual average, along with higher than normal weather temperature due to climate change, which have weighed down on agricultural output.

Within this context, the Lebanese Ministry of Agriculture announced the launch of a national campaign to rationalize water consumption in irrigation. This campaign aims to promote sustainable agricultural practices and improve agricultural productivity in the country despite the challenges of water scarcity. The Ministry also called on all farmers to actively participate in training courses and workshops organized by the Ministry across various Lebanese regions, with the aim of providing them with the necessary information and guidance on the latest irrigation and water management techniques.

The Ministry of Agriculture also launched the farmer cards in order to facilitate access to financial and technical support, which would enhance the farmers' ability to develop their agricultural production and achieve sustainability.

In parallel, to sustain rural communities, the Ministry of Agriculture, in partnership with the Food and Agriculture Organization of the United Nations (FAO), the Green Plan (GP) and the Government of Denmark, launched in March 2025 a demand-driven support program, which allows farmers to benefit from subsidies to invest in agricultural infrastructure. More than one thousand small-scale farmers in Lebanon would be able to reclaim 350 hectares of agricultural land, store 100,000 cubic meters of water, and plant 35,000 seedlings. This would improve agricultural productivity, create new job opportunities, and enhance the sustainability of natural resources.

Concurrently, the Ministry of agriculture also signed in January 2025 a cooperation agreement with the German Corporation for International Cooperation (GIZ), which aims to strengthen the ongoing partnership in implementing key projects that would support the agricultural sector, including promoting sustainable agricultural practices, and providing technical and financial support to farmers, which would enhance local agricultural production and achieve food security in Lebanon.

In the context of rehabilitating areas affected by the Israeli aggression, the Ministry is working on securing support from international donors and multilateral partners to fill the necessary funding gaps to support the agricultural sector. As of currently, the Ministry received support from the FAO and the World Food Program to replant damaged areas which exceeds 4,000 hectares.

As to the secondary sector, the industrial activity was resumed after the November 2024 ceasefire deal between Israel and Lebanon. However, the devastating attacks have caused severe destruction of assets and infrastructure, including factories, buildings, equipment, and utilities, which reduced productivity levels. Additionally, the production, distribution and export processes continue to face disruptions, as fears of escalating tensions remain, especially in the Bekaa, the Southern suburbs and the South.

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In parallel, the number of factories listed in various authorities in Lebanon, including Ministries, Chambers of Commerce, Municipalities and others, reached 18,542 factories in 2024, indicating a drop compared to 18,816 industrial establishments listed in 2023, according to the Directory of Lebanese Exports and Industries.

On a positive note, the election of the new president in January 2025 and the formation of a new Cabinet in February 2025 provide upside risks to investor sentiment and help to boost the business activity.

Looking forward, the commencement of reconstruction efforts and negotiating aid to support the country's recovery are vital for revitalizing the primary and secondary sectors.

1.1.2 Construction

Construction & realty sector awaiting external investment for reboot

Despite the end of the conflict in late 2024, the Lebanese construction & realty sector has been in a state of quasi paralysis. This comes amid weak internal demand fundamentals, war damages & losses as well as uncertain foreign investor sentiment awaiting further assurances.

The conflict had major consequences on the realty sector; this comes as around 162,900 housing units (or 9.9% of Lebanon's total housing stock) was either destroyed or damaged. The distribution of damages by type of realty shows that apartments took the lion's share with 150,000 units (9.6% of total stock) were damaged or destroyed. Single family houses came next with 12,000 units (14.3% of total stock) damaged or destroyed. Villas and informal housing units followed with 500 units damaged or destroyed each (10.1% of villa stock and 7.6% of informal housing units stock) during the war.

According to the World Bank, these direct damages are estimated to cost around US$ 4.6 billion and have led to indirect losses of circa US$ 363 million. As a result, the cost of recovery and reconstruction within the sector are estimated at circa US$ 6.3 billion of which US$ 5.8 billion are for reconstruction, repair and maintenance.

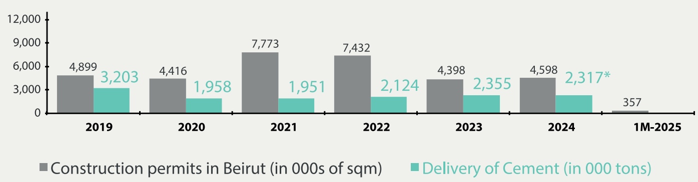
On the other hand, construction permits from the Order of Engineers and Architects in Beirut recorded a year-on-year marginal increase of 1.3% in January 2025 against figures from January 2024. However, this increase is solely tied to a jump in construction permits in the Mount Lebanon area of 77.2%, almost completely offset by decreases in construction permits in all other parts of Lebanon ranging from 9.9% to 86.2% year-on-year. This then shows that construction permits have regressed substantially in the majority of the country and is being artificially inflated by an increase in activity within Mount Lebanon.

At the level of demand, there exists issues both for local and foreign demand hindering the sector's ability to regain momentum.

CONSTRUCTION

	2023	11M-23	11M-24
Value of property sales (in LP billion)	107,392	92,107	223,805
Number of property sales	23,411	20,071	32,056
o.w. Sales to foreigners	442	373	708
Average value per property sale (in LP million)	4,587	4,589	6,982
Property taxes (in LP billion)	3,899	2,998	9,175

EVOLUTION OF CONSTRUCTION INDICATORS



*Annualized ten-month figures

At the local level, demand remains very timid amid weak fundamentals. While unemployment levels are decreasing and household income is slowly improving, the vast majority (circa 73%) of household spending remains on essentials. Additionally, shifts in the country's demography sees the population aged 40-64 (highest probability of purchasing realty) on a decreasing trend of circa 6.4% per annum. In parallel, urbanization rates continue to increase due to inadequate opportunities and services in rural areas. This in turn is leading to a continuous increase in prices within urban areas further reducing the possibility of realty purchase for the average household. The increase in price is also paired with an ageing realty base wherein the majority of buildings in Lebanon are over 25 years old making them more costly due to maintenance and upkeep.

At the level of foreign demand, investors have so far remained on their toes when it comes to direct investments into the economy, potentially waiting for Lebanon to complete the IMF's demands for a loan package, which would secure trust in Lebanon's government and economic prospects to the international community.

In turn, while currently the demand for property purchase remains stunted by the war, a flocking of international investments and purchases is expected in the short-term though tied to continuous and proper governmental reform. The construction & realty sector is set to be one of the primary beneficiaries of such a movement, as properties remain relatively cheap to foreign investors while holding great potential for increases in valuation, especially in Beirut.

As such, it is crucial to look at the sector's opportunities and threats in order to sustainably restore it. First, there exists major opportunities for construction & realty in Lebanon's rural areas. This comes as urban areas have been the focus of the sector for decades with minimal attention set for rural areas leading to an almost saturated market in cities such as Beirut and Tripoli. The expansion of projects towards less saturated areas could bring forward attractive projects that are cheaper to build and cheaper on the customer to buy leading to a potential restart in domestic demand. This expansion would need to be paired with governmental efforts to develop and maintain proper infrastructure within these areas as well as give incentives for these projects and for more businesses to open within them. At the level of threats, the oversaturation of urban areas and the disinterest in rural expansion and development could stunt future prospects. Additionally, it is crucial to maintain control on security as well as key state reforms in order to regain investor confidence.

In conclusion, as Lebanon's construction & realty sector mirrors the overall economic situation in the country, reform and governmental intervention is key to reboot its performance and kick start growth. The outlook also mirrors that of the wider economy, with positive developments expected looking forward as the government continues cooperating with international demands and building trust with the international community. While these developments could take some time amid various internal considerations, the winds of change have begun to sweep through Lebanon's institutions thus making a reboot in the construction & realty sector likely in the short-to-medium term.

1.1.3. Trade and Services

Tertiary sector returns to recovery following the end of hostilities

Within the first quarter of 2025, the tertiary sector has returned to recovery amid a restart in activity. This quarter noted many important events such as the Eid Al-Fitr tourism season, renewed efforts by the private sector, the return of diaspora activity within the airport as well as positive political and constitutional developments. These developments have boosted the sector back on track for faster recovery following a lull in 2024.

It is worth noting that following the end of the war, the scale of damages and losses accumulated by the tertiary sector have become more visible. According to the World Bank, the sector accumulated US$ 6.1 billion (84.6% of the total) in indirect losses and US$ 2.2 billion (31.8% of the total) in direct damages. This led the sector's reconstruction and rehabilitation costs to reach an estimated US$ 3.7 billion (34.1% of the total). This led to a stunting of activity within the sector and the wider economy during 2024.

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Looking at the performance of the Beirut International Airport (BIA) during the first quarter of 2025, the number of incoming passengers increased by 9.5% year-on-year reaching 678,263 in Q1-2025, up from 619,539 in Q1-2024. This increase has led the recovery rate in incoming passengers against pre-crisis, pre-Covid and pre-conflict levels to shoot back up to the highest recorded value in the series (Between 2021 and 2025). This comes following the major decrease in activity noted in 2024. On the other hand, passengers departing from BIA during Q1-2025 reached 576,277 recording a decrease of 11.4% year-on-year, down from 650,569 departing passengers in the same period of the year prior. In turn, though overall BIA passenger activity has decreased marginally during Q1-2025, incoming passenger activity noted substantial growth setting the sector back on track for recovery during the year.

This return to recovery shines a light on BIA's resilient structure of activity as Lebanon's substantial diaspora base could be taken as an inelastic and constant stream of activity towards the airport. This was also noted during the period of instability before the war as activity was not decreasing majorly before the start of the all-out war. This provides a sustainable base that needs to be developed upon by both the private and public sector. The introduction of programs that would attract more diasporas or would ease their travel to the country could have positive effects on the wider economy. Additionally, following the end of the war, touristic programs aimed at foreigners would benefit the overall sector as it would work on rebuilding trust of the international community about the safety of Lebanon as a prime touristic destination. In parallel, the opening of additional airports in the country, some of which aimed at low-cost flights, would prove beneficial to the overall economy and especially the tourism & hospitality sub-sector.

At the level of activity in Port of Beirut, the quantity of goods reported an increase of 9.1% year-on-year, registering 880.1 thousand tons in 2M 2025, up from 806.5 thousand tons in the same period of 2024. Looking at the recovery rate in the quantity of goods imported through PoB during 2M-2025 against the same period of 2019, a rate of 77.5% is noted. This recovery rate is 6.5 percentage points higher than the one noted in 2M 2024 and stands as the highest recorded recovery rate since the start of the crisis.

At the level of the telecommunication sector, the escalation of hostilities has led the sector to incur major damages, some 30% of which concern the landline network. However, following the end of the war and with the appointment of a new Lebanese Minister for Telecommunication, the state-owned telecommunication provider Ogero has been working on restoration. Looking forward, the company has also planned for expansions to its network connectivity as well as upgrades to its services with funding from multiple sources. In details, Ogero connected 221,000 households to fiber-optic Internet in 2024 and plans to add 406,000 new subscribers to the network in 2025. The company is also upgrading from Wi-Fi 5, currently used at Beirut Rafic Hariri International Airport, to Wi-Fi 7. The upgrade will provide speeds of up to 3.5 gigabits per second (Gbps) with low latency (ping) of 2-4 milliseconds (ms). Additionally, the network's backhaul capacity is being upgraded from 20 Gbps to 40 Gbps to support enhanced connectivity. Ogero is also expanding its Long-Term Evolution (LTE) wireless broadband communication infrastructure, increasing the number of stations from 97 to 219 by the end of 2025 and 390 by 2026, which translates to better and wider coverage nationwide. The LTE-Advanced capacity will be quadrupled from 10 Gbps to 40 Gbps to enhance performance and service quality.

TRADE AND SERVICES

	2024	Q1-24	Q1-25	Variation Q1/Q1
Number of ships at the port*	1,460	241	225	-6.6%
Number of containers at the port (in 000s)*	557	77	85	9.5%
Merchandise at the Port (in 000 tons)*	5,412	807	880	9.1%
Planes at the Airport	46,680	10,887	10,406	-4.4%
Number of passengers at the Airport (in 000s)	5,620	1,270	1,255	-1.2%
Cleared checks (in million of US$)*	2,176	571	278	-51.3%

Two-month figures for the 1st quarter of 2024 and 2025

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As tertiary sector activity within Lebanon remains highly elastic towards the security situation and the overall political environment, the first quarter of 2025 has provided an adequate base for recovery. Government efforts to restart economic activity as well as regain international trust and funding has had a positive impact on the services sector in Lebanon. Opportunities arise for the sector such as the creation of touristic programs, the opening of other airports, the development of historical and religious tourism as well as cooperation with other countries with a focus on European and Arab countries for reciprocal tourism cooperation, which would increase the influx of foreigners into Lebanon. However, threats remain to the sector's currently fragile health such as security instability, a slowdown in reform momentum and lack of innovation towards refining the sector's offerings. These threats could hamper or slow down the recovery and expansion of the sector on the medium-to-long term.

Looking ahead, the Lebanese state needs to continue building up trust with the international community and working on key reforms to aid the private sector in re-stabilizing the economy. Additionally, friendlier investment policies as well as government support targeted towards certain sectors is recommended in order to bolster the development of the economy and provide a safety net and a solid support base for the private sector to expand faster and safer.

1.2. EXTERNAL SECTOR

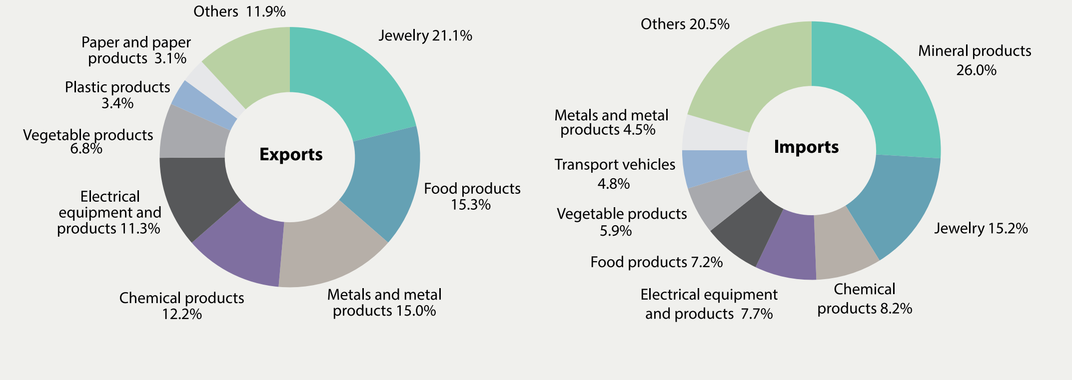
Imports at US$ 16.9 billion and exports at US$ 2.7 billion in 2024

Based on just released foreign trade statistics for 2024, the year reported a contraction in foreign trade as a result of the war-related economic sluggishness according to statistics released recently by the High Customs Council. Imports contracted by 3.5% in 2024 to attain 16.9 billion, while exports dropped by 9.6% to reach US$ 2.7 billion. Car imports reported the most significant drop with a decline of 30%, followed by electrical products with a contraction of 20% and paper products with a decline of 10%. As a result, the country's trade deficit registered US$ 14.2 billion, the equivalent of 50% of GDP, still one of the highest levels in global and regional markets at large.

Looking at the variation in the value of the major exports categories in 2024 against figures from 2023, Jewelry (with a weight of 21.1%) noted the sharpest decrease during the year, contracting by 4.3% year-on-year. Electrical Equipment & Products (weight of 11.3%) and Vegetable Products (weight of 6.8%) also noted year-on-year decreases of 1.6% and 0.1% respectively between 2023 and 2024. On the other hand, food Products (weight of 15.3%) noted the sharpest increase during the year, expanding by 2.7% year-on-year. Chemical Products (weight of 12.2%) and Metal & Metal Products (weight of 15.0%) followed with year-on-year increases of 2.3% and 0.7% during 2024.

At the level of the variation in the value of exports to major partner countries in 2024 against figures from

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY (2024)



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2023, the majority of major partner countries noted a decrease in the value of imports from Lebanon. In details, Turkey (weight of 5.7%), the UAE (weight of 19.1%), Egypt (weight of 5.0%) and Switzerland (weight of 4.3%) noted year-on-year decreases in value of imports from Lebanon of 4.1%, 0.7%, 0.5% and 0.5% respectively between 2023 and 2024. On the other hand, the USA (weight of 5.7%) and Iraq (weight of 5.8%) noted year-on-year increases in the value of imports from Lebanon of 1.6% and 0.7% respectively during the period.

It is worth noting that, looking at exports from Lebanon by office, that all export offices with the exception of the Abbudiyeh border crossing noted year-on-year decreases in export value from Lebanon ranging from 2.5% to 26.1%. The Abbudiyeh border crossing recorded a year-on-year hike in export value from Lebanon of 70.8% between 2023 and 2024.

Looking at the variation in the value of the major imports categories in 2024 against figures from 2023, the majority of major import categories noted a slight increase in their value. In details, Food products (weight of 7.7%), Chemical products (weight of 8.2%), Jewelry (weight of 15.2%) and Vegetable products (weight of 5.9%) noted year-on-year increases in value of 1.2%, 1.0%, 0.8% and 0.6% respectively between 2023 and 2024. On the other hand, Electrical equipment & products (weight of 7.7%) and Mineral products (weight of 26.0%) noted year-on-year decreases in value of 1.6% and 0.5% respectively during the period.

At the level of the variation in the value of imports from major partner countries in 2024 against figures from 2023, the majority of major partner countries noted a decrease in the value of exports to Lebanon. In details, Switzerland (weight of 6.6%), Turkey (weight of 6.1%), Greece (weight of 8.6%) and China (weight of 11.6%) noted year-on-year decreases in value of exports to Lebanon of 3.4%, 1.7%, 0.9% and 0.2% respectively between 2023 and 2024. On the other hand, the UAE (weight of 5.6%) and Egypt (weight of 5.7%) noted year-on-year increases in the value of exports to Lebanon by 3.3% and 2.4% respectively during the period.

1.3. PUBLIC SECTOR

Critical need for reformist fiscal policy

Following its appointment, the new government took steps to return order to the state's fiscal situation through the approval of the prior administration's 2025 budget without any amendments. The 2025 budget proposal put forward in September 2024 is however widely regarded as controversial due to its lackluster nature, lack of transparency, lack of foresight and no consideration for the cost of reconstruction and rehabilitation.

In details, the 2025 budget estimates a 33.7% increase in revenues to reach US$ 4.6 billion and a 39.5% increase in expenditures to reach US$ 4.8 billion. The budget for the year estimates a budgetary deficit of circa US$ 196 million.

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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Looking at revenues, the government estimates 81.2% of all revenues to come from taxes, showing an increase in the share of tax revenues to total revenues in the state's budget by 2.4 percentage points. This translates into an increase of US$ 1.0 billion in tax revenues during 2025 mostly on the back of an 86.9% increase in value-added tax revenue and a 135.3% jump in income tax revenue. Tax increases might yet generate increases in the price of Lebanese products, which would affect their competitiveness on both national and international markets. Additionally, these increases would make the economic environment somewhat more hostile for new business and MSMEs.

Additional challenges to the budgeted revenue increases are also present such as the substantial cash economy in Lebanon making it harder to collect taxes efficiently, the disruption of government services and collections due to war-related hindrances as well as the elasticity of demand in relation to price increases within Lebanon. This has in turn led multiple economic bodies to ask the state to reconsider and amend tax increases. As a result, the government instructed the Lebanese Minister of Finance to prepare a draft law aiming to review the taxes included in the budget, in order to mitigate their impacts.

However, the positive developments within the political echelon could offer the government the leeway necessary for reconstruction and proper fiscal management. The development of relations with the international community as well as the ongoing efforts tied to key reforms from the IMF loan agreement are expected to pose upside risks towards fiscal revenue sustainability. The public sector yet still needs to make its fiscal policy friendlier towards businesses and instead focus on increasing tax collection efficiency, which could add a substantial amount of revenues to the government without negatively affecting the private economy.

In parallel, the jump in public expenditures was mostly targeted towards current expenditures. This vision lacks any foresight and planning for investments or new projects that could bolster the government's revenue base and focuses instead on short-term immediate payables.

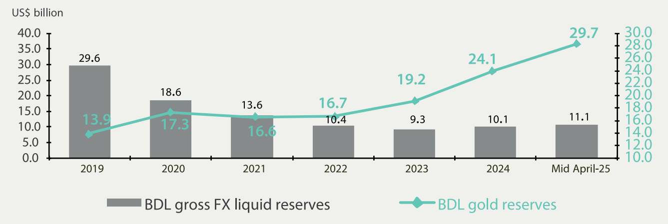
Looking forward, there remains multiple threats to the fiscal sustainability of Lebanon such as the cash economy, reliance on VAT revenue, inefficient tax collection practices and the lack of foresight in the government's expenditures. These issues, if not tackled promptly could lead to a continuously widening fiscal deficit due to growing expenses and stagnating revenues. At the level of opportunities, the government could expand its revenue base through increasing tax collection efficiency through digitalization, improving the business environment conditions and competitiveness of local products.

In conclusion, it is crucial for the current government to work on mitigating the current risks that the budget presents to the local private sector and its competitiveness. It is essential to rebase the government's fiscal policy to more sound fundamentals that prioritize the health and sustainability of the public and private economy over short-term and immediate payables. Additionally, work must crucially begin on the 2026 budget to ensure that it will not hinder Lebanon's recovery and even potentially boost it by attracting international investment and helping reboot local economic activity at large.

MONETARY SITUATION

Flows in US$ million	2M-24	2M-25	Progression
	Vol	Vol	Vol
Net foreign assets (excluding gold)	397	841	443
Net claims on the public sector (excluding valuation adjustments)	37,810	-222	-38,032
Claims on the private sector	-1,082	85	1,167
Uses=Sources	**37,125**	**703**	**-36,422**
Money (M3)	-6,525	282	6,807
Valuation adjustment and other items	43,650	421	-43,228

EXCHANGE MARKET INDICATORS



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1.4. FINANCIAL SECTOR

1.4.1 Monetary situation

BDL replenishes the FX reserves it lost during the all-out war amid increased demand for LP

The first quarter of the year 2025 was marked by a noticeable surge in demand for the Lebanese pound and sustained currency stability, while the Central Bank of Lebanon has been able to replenish the reserves it lost during the all-out war.

The Lebanese pound held firm ground against the US dollar on the parallel FX market over the first quarter of the year 2025, registering only marginal movements around 89,600-89,700 despite an escalation in hostilities and fears of a renewed conflict. Concurrently, the Central Bank of Lebanon's liquid FX buffers were reinforced thanks to noticeable conversions from foreign currencies to Lebanese pounds following Presidential elections and the formation of a "reform and salvation" government, and as BDL continued to intervene as a buyer of the greenback on the FX market through money transfer companies.

In details, the Central Bank of Lebanon's liquid foreign reserve assets reached US$ 11,071 million mid-April 2025, their highest monthly level since July-2023, and compared to US$ 10,135 million at year-end 2024, which marks an expansion of US$ 936 million. This followed a US$ 530 million contraction in liquid FX buffers in the fourth quarter of the year 2024, which witnessed rising monetary pressures due the full-blown war.

Concurrently, BDL gold reserves stood at US$ 29,732 million mid-April 2025 (9.2 million ounces at a price of US$ 3,232 per ounce) against US$ 24,102 million at end-December 2024. The rise in gold reserves is mainly explained by a strong rally in gold prices globally, as investors flew to safe haven assets amid mounting concerns about a global economic slowdown following the new US tariff policy. Within this context, it is worth mentioning that liquefying part of gold reserves at BDL could be among the serious options to bridge the financial sector gap and reimburse depositors, noting that Lebanon has today the highest ratio of gold reserves to GDP in the world at around 100%.

The currency in circulation outside BDL reached LP 82.6 trillion mid-April 2025, compared to a much lower level of LP 65.6 trillion at end-December 2024, which marks an expansion of LP 17.1 trillion, the equivalent of US$191 million. This represents 8.3% of BDL's liquid foreign reserve assets.

As to Treasury bills, the outstanding Tbs' portfolio denominated in Lebanese pound reached LP 63,865 billion at end-February 2025, compared to LP 67,165 billion at end-December 2024, noting that the issuance of Treasury bills has been suspended since the start of the year 2024 in response to the new BDL policy refraining from financing the government.

Looking forward, in order to secure fundamental monetary stability, there is a need to launch long-awaited necessary reforms, implement fiscal adjustment and reach a final agreement with the IMF, is a prerequisite for other donors to come on board, given the donors' insistence on an international watchdog for reform implementation in Lebanon.

BANKING ACTIVITY

in millions of US$	Oct-19	Dec-24	Feb-25	Var 2M-25
Total assets	**262,804**	**102,760**	**102,875**	**115**
Total shareholders' equity	**20,602**	**4,820**	**4,633**	**-187**
Total deposits	**168,364**	**88,646**	**88,775**	**129**
o.w. LP deposits	44,727	759	861	103
o.w. FC deposits	123,637	87,888	87,914	26
Total credits	**54,166**	**5,646**	**5,719**	**73**
o.w. LP credits	16,029	129	129	0
o.w. FC credits	38,136	5,517	5,590	73

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1.4.2 Banking activity

Rise in banks liquidity abroad by US$ 350 million over the first two months of the year

Banking sector statistics released this week show a number of noticeable year-to-date developments.

First, Lebanese banks liquidity abroad has increased by US$ 350 million over the first two months of the year to reach US$ 5,044 million in February 2025, against US$ 4,693 million in December 2024 (US$ 8,389 million at the onset of the crisis in October 2019). The year-to-date rise in banks liquidity abroad comes within the context of a more significant rise in banks customers fresh deposits that are estimated to have approximated a peak of US$ 4 billion in February amid the positive developments that the country witnessed at the politico-economic levels from presidential elections to PM appointment to Cabinet formation.

When adding today's banks liquidity abroad of US$ 5,044 million, to cash in vaults of US$ 676 million, and then deducting customers fresh FX deposits of around US$ 4,000 million, we reach a free liquidity of US$ 1,720 million at end-February 2025, when compared to US$ 3,827 million at end-2021, underlying a significant cash burn in the sector.

Having said that, there has been a cash burn of an annual average of circa US$ 600 million over the past three years suggesting the banking sector is today in a serious pressure mode, especially on the back of annual operating losses of no less than US$ 200 million and BDL circular 158 requirements of US$ 378 million per annum on banks. Looking ahead, such a cash burn puts at stake the sustainability of the sector, with possible ultimate drifts of some banks within a foreseeable horizon in the absence of a way out.

Other important year-to-date developments revolve around the following:

- A stability in total FX deposits over the first two months (Negligible rise of US$ 26 million), despite the significant rise in fresh FX customer deposits, suggesting that lollar FX deposits are decreasing by circa US$ 200 million a month.

- A rise in total FX loans over the first two months of the year (Up by US$ 73 million), despite some lollar loan settlement, suggesting new waves of fresh loans that some banks have initiated in the economy.

- A drop in LL deposit interest rates by 72 bps over the first two months from their December elevated level, while FX interest rates are still close to nil (up by 5 bps year –to-date)

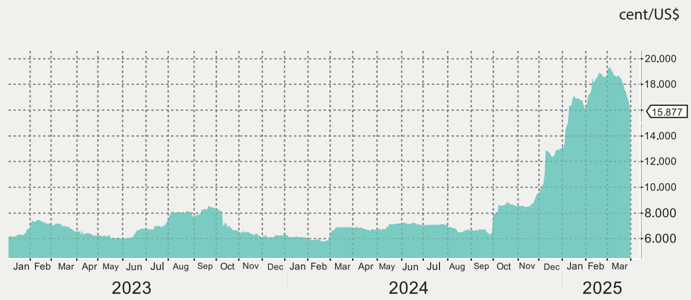
- A rise in banks' eurobond portfolio by US$ 255 million over the first two months, as banks opted to build on opportunities in the Eurobond market prior to potential debt restructuring.

FINANCIAL SECTOR (NON BANKS)

	2019	2020	2021	2022	2023	2024	Mar-25
Beirut Stock Exchange							
Market capitalization (In millions of US$)	7,540	7,176	10,625	14,578	20,597	25,693	23,089
Total trading volume (In millions of US$)	197	233	354	440	581	525	70
Annualized trading volume/Market capitalization	2.6%	3.2%	3.3%	3.0%	2.8%	2.0%	1.2%
Price index	69.7	63.5	94.0	129.0	182.3	227.4	204.3
% change in index	-16.9%	-8.9%	48.1%	37.2%	41.3%	24.7%	-10.1%
Lebanese Eurobonds							
Total volume (In millions of US$)	28,314	31,314	31,314	31,314	31,314	31,314	31,314
End-of-period average bond price (cents per US dollar)	50.23	13.44	10.25	5.75	6.00	12.75	16.00

CAPITAL MARKETS PERFORMANCE

Long-term sovereign bond prices



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- Continuing losses in the sector, with banks' equity down by US$ 187 million over the first two months of the year to reach US$ 4,633 million in February 2025, down from US$ 4,820 million in December 2024.

1.4.3. Equity and Bond Markets

Lebanese equities dip into red, bond prices close the first quarter of 2025 on a positive note

Lebanon's equity market slid into the red in the first quarter of 2025 following four consecutive years of price gains, mainly on fears of a renewed conflict due to the repeated Israeli violations for the truce across the Lebanese territories. Yet, the fixed income market managed to end the first quarter of the year on a positive note amid bets that the recent domestic political breakthroughs would pave the way for the implementation of long-overdue reforms and unlock international financial support.

In details, the Beirut Stock Exchange shifted into a negative territory in the first quarter of the year 2025, as reflected by a 10.1% contraction in the price index, following a strong price rally of 37.8% on annual average over the 2021-2024 period, as some market players sought to lock in their gains following an escalation in hostilities and fears of a renewed conflict, noting that equity prices are denominated in domestic US dollars.

A closer look at individual stocks shows that Solidere "A" and "B" share prices contracted by 20.2% and 16.7% respectively during the first quarter of 2025 to reach US$ 95.80 and US$ 99.55 respectively at end-March, noting that they have peaked at US$ 126 and US$ 125 respectively on January 10, 2025 following Presidential elections. As a result, Solidere "A" and "B" share prices surged more than 17 folds on average since the onset of the crisis, as they traded at US$ 5.45 and US$ 5.55 respectively on October 17, 2019.

In parallel, the banking shares recorded an average price decline of 0.7% in the first quarter of 2025. Bank of Beirut's "listed" shares led the decline, falling by 40.0% to US$ 9.00, followed by Byblos Bank's "listed" shares with -13.7% to US$ 1.01. In contrast, BLOM's GDR price surged by 16.6% to US$ 6.03, followed by BLOM's "listed" shares with +12.0% to US$ 7.00, and Bank Audi's "listed" shares with +10.9% to US$ 2.75. As to industrials, Ciments Blancs Nominal's share price dropped by 4.2% to US$ 39.90. Holcim Liban's share price surged by 12.7% to US$ 79.00.

Along with equity price falls, the Beirut Stock Exchange was marked by relatively reduced price volatility. In fact, the price volatility, measured by the ratio of the standard deviation of prices to the mean of prices, reached 4.2% in the first quarter of 2025, compared to a higher price volatility of 4.4% in the first quarter of 2024.

As to trading volumes, the BSE total turnover contracted by 61.8% year-on-year during the first quarter of 2025 to reach circa US$ 70 million. Solidere shares remained the major player, capturing 81.5% of total activity, followed by the banking shares with 12.1% and the industrial shares with 6.4%. The market capitalization on Lebanon's equity market expanded by 28.4% over a 12-month period, moving from US$ 17,982 million at end-March 2024 to US$ 23,089 million at end-March 2025. Accordingly, the BSE total turnover ratio, measured by the annualized trading value to market capitalization, reached 1.2% in the first quarter of 2025, down from 4.1% in the first quarter of 2024.

At the level of the Eurobond market, sovereigns rallied following the Presidential elections, the PM designation and the formation of a cabinet of qualified experts, hitting16.00 cents per US dollar across-the-board at end-March 2025 compared to 12.75 cents per US dollar at end-December 2024, noting that they have reached a five-year high level of 19.00 cents per US dollar early-March 2025, amid bets that the recent domestic political breakthroughs would pave the way for the implementation of long-overdue reforms, signing a final deal with the IMF, debt restructuring and constructive negotiations with bondholders.

Within this context, Goldman Sachs said in a recent report that Lebanon's bullish scenario consists of a bid price of 25 cents per US dollar, which leaves room for extended bond price gains. Goldman Sachs sees that while this estimate is supported by the recent political and geopolitical good news, it is also based on demanding macro assumptions, which include a significant pickup in growth and fiscal consolidation, a well-managed devaluation of the currency, large external support to finance rebuilding costs and, importantly, a successful restructuring of the banking system and of defaulted bonds.

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CONCLUSION: ECONOMIC CHALLENGES FACING THE NEW PRESIDENTIAL ERA

Following the rising hopes on behalf of the Lebanese for the new Presidential era, we highlight five main macro priority issues to be dealt with looking ahead, namely (1) Growth and job creation, for the economy to be moving from a sluggish mode to a recovery mode in all sectors of economic activity. (2) External Adjustment, with the persisting significance of external imbalances (3) Monetary tuning and reserve enhancement (4) The Adjustment of public finances which represent a continuing vulnerability of the Lebanese economy of nowadays despite the relative improvement recently recorded and (5) Banking adjustment with the needed restructuring, stabilization and financial gap coverage.

At the real sector level, growth enhancement and job creation is key to meet with the socioeconomic demands of the Lebanese at large. Real GDP has contracted by 38% since the crisis erupted in 2019. A careful analysis of real and financial sector requirements suggests that reinforcing real GDP growth is technically possible looking forward, yet it requires a supportive political environment and the launch of structural reforms that would stimulate demand for goods and services, reinforce the competitive edges of the Lebanese economy along with strengthening the overall confidence factor. Shall the overall confidence factor come back amid political settlements 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. The key here is to stimulate private demand and in particular private investments, noting that investment has the largest impact on growth through the investment multiplier effect. Lebanon needs to raise the private investment to GDP ratio by 2.5% of GDP per annum from its 30-year record low of below 10% today. The investment growth would reinforce the job component of growth that calls for the creation of job opportunities to absorb more than 30,000 Lebanese who join the labor force every year. Today, the latter rises among critical issues, given that the unemployment rate has doubled over the past half a decade to exceed 30% today. The stimulation of private investment requires the improvement in the business environment through the reduction of operating costs and the improvement of the ease of doing business in Lebanon, in addition to politico-security stability at large.

At the external level, the model of sustaining permanent large trade deficit reliant on large financial inflows is not sustainable. The priority here is to re-stimulate inflows, reduce imports and enhance exports. It is essential for the State to adopt measures that would promote domestic production at the detriment of imports, i.e stimulate import substitution goods and export oriented products in an attempt to reduce Lebanon's trade deficit. It is important within this context to improve and expand the scope of the existing export support programs and to introduce new incentive programs targeting Lebanon's high value added sectors with low investment to value added ratios. Encouraging local production rests on raising some customs tariffs to protect local products, giving tax incentives to local producers, subsidizing as much as possible raw materials imports, and promoting local production abroad.

At the monetary level, a fundamental monetary stability is needed to overall economic recovery. There is a need to reinforce FX reserves at the BDL by resorting to foreign aid. To bridge the gap up to the point where confidence is restored, we need to resort to international assistance. What is needed is to secure an IMF deal that is a prerequisite for other donors to come on board, given the donors' insistence on an international watchdog for reform implementation in Lebanon.

At the public level, fiscal adjustment is critical. Lebanon cannot sustain its monetary stability that was realized over the past couple of years without drastic public sector reforms. The State has no choice but to reduce its fiscal financing needs looking ahead. Fiscal adjustment has to come from spending austerity, improvement in resource mobilization, bridging the fiscal evasion gap and reforming the electricity sector. At the revenue side, what is required is to reinforce resource mobilization, once the government starts seriously to combat corruption for any tax measure to be accepted by the Lebanese. In parallel, bridging

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almost half of the fiscal evasion gap, i.e. the equivalent of 1.0% of GDP per annum over the next 6 years period is needed. Today, public revenues to GDP are less than 15% in Lebanon versus 26% in emerging markets and 40% in advanced countries. There is room to increase resource mobilization by a few percentage points especially by fighting tax evasion. This would generate a decrease in financing needs and a corollary reduction in the stock of public debt and would enable the country to sustain a debt to GDP ratio of below 80% post public and financial sector restructuring.

At the banking level, the financial sector is facing a crisis of systemic nature, caused by public policies that the State is mainly responsible for. Systemic crisis necessitates distinct approaches beyond those used for traditional crises or individual banks crisis. As such rises the urgency to adopt an overall economic and financial rescue plan based on a Systemic approach for the Resolution, apt to re-establish the role of the financial sector as the main financial intermediary in the country, which would reduce the dimension of the precarious cash economy, ensure the creation of the economic value added aimed for and support Lebanon's economic revival. Within this context rises the need for a government plan with IMF support apt to help rebuilding confidence in the financial sector, which is a pre-requisite for quickstarting Lebanon's economic recovery at large. While any thought plan should undeniably involve banking sector sacrifices, which ought to contribute in the prevailing loss redemption, it should take into account the available capabilities of the financial sector, rather than burdening it with solutions that are totally outside their imminent and prospective capacities. The bank rebalancing solutions are the tasks of the State authorities, and in particular the executive and legislative authorities (Government and Parliament). Banks should be ready to be proactive with the State that should itself drive a constructive forward looking restructuring approach at large.

Finally, the formulation and implementation of policies that would respond to the recent political, economic and social demands of Lebanese and the subsequent launch of long awaited necessary reforms could be apt to reduce imbalances and vulnerabilities in the Lebanese economy, provide a relative support to monetary stability, and help ensure the much needed move from an era of economic sluggishness to an era of gradual improvement in the overall standard of living and welfare.