Bank Audi

LEBANON ECONOMIC REPORT

1ST QUARTER 2026

TABLE OF CONTENTS

CONTACTS

Research

Dr. Marwan Barakat
(961-1) 977409
marwan.barakat@bankaudi.com.lb

Salma Saad Baba
(961-1) 977346
salma.baba@bankaudi.com.lb

Michèle Khoury Sakha
(961-1) 977102
michele.sakha@bankaudi.com.lb

Stephanie Bou Sleiman
(961-1) 952397
stephanie.bousleiman@bankaudi.com.lb

Douna B. Salameh
(961-1) 977356
douna.salameh@bankaudi.com.lb

FIRST MACRO OUTCOME OF WAR: THE MATERIALIZATION OF A STAGFLATION SCENARIO IN 2026

All economic sectors were hit by the war emergence
By beginning March, Lebanon witnessed the eruption of a wide Israeli war on Lebanese territories tied to the Iran war with US/Israel. Parallel to human and material losses, all economic sectors were hit by the war emergence, with the touristic sector receiving the most significant hit. Household consumption showed signs of weakness amid contractionary war effects. Investment turned into a wait-and-see attitude, with investors delaying or canceling their investment decisions. We estimate the daily cost of war over the month of March at around US$ 75 million, of which US$ 35 million of direct cost related to the destruction and US$ 40 million of indirect cost related to the forgone income.

The materialization of a stagflation scenario
The war spillovers on the economy are likely to be both contractionary and inflationary. It is contractionary because of the uncertainties it is generating over a wide scale. And it is inflationary, because of a supply side shock driven by the rise in oil and gas prices. According to the Consultation and Research Institute, consumer prices rose by 15.3% in March 2026 relative to March 2025. As such, Lebanon has fallen in a stagflationary scenario for the near term, with all its macro and social spillover effects, in the hope that the adverse conditions come to an end soon.

A 0% growth scenario for 2026 if ceasefire persists
The economic scenarios seen looking forward are tied to the period of time expected for the conflict to fully subside and its effects on the local economy. By the time of the finalization of this report, a ceasefire was announced on the back of US mediation. If this ceasefire persists, we expect to see a stagnation in real GDP (0% growth) in Lebanon for 2026, avoiding negative growth, albeit down from an estimated real growth of 5% in the year prior. The absence of real contraction is tied to the short conflict period that will allow the economy to recover post-settlement and build on upcoming summer and holiday seasons.

Sustained currency stability coupled with net drawdown in FX reserves
Currency stability persisted over the first quarter of 2026 despite huge economic losses inflicted by the Israeli attacks across various Lebanese territories, while the Central Bank of Lebanon experienced a net drawdown in its liquid foreign currency reserves amid the fiscal strain of war. A US$ 539 million drawdown in BDL's liquid FX reserves occurred between mid-February and end-March 2026, which reflects the fiscal burden of war amid a general budget deficit fueled by emergency war and displacement expenditures alongside a deterioration in public revenues.

No immediate currency depreciation or appreciation risks
Looking at the monetary way forward, there won't be depreciation or appreciation pressures in the short term, which would foster for currency stability. On one hand, there are no fundamental pressures for depreciation, as there would not be massive LL money creation relative to current BDL reserves that would endanger the stability in a short term horizon. On the other hand, there is of course no decision to appreciate the currency from BDL, as monetary authorities prefer to maintain an exchange rate defendable across time, while the IMF is not recommending any appreciation of the currency that could prove to be unsustainable.

In the medium to long term outlook, the story could be different
The difference in a longer term outlook comes from the possibility of going back to fiscal deficits in view of additional spending thus inflating the LP mass, while the foreign currency mass could shrink as a result of the drop in inflows, putting fundamental pressure on the currency. In the medium term, the additional outlays could be related to considerable war and emigration in case the war comes back. In the longer term, public outlays could be related to reconstruction, infrastructure, public salaries, etc. The importance here is that these extra outlays in the long term perspective have to be coupled with higher revenues to maintain a favorable fiscal stance.

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@bankaudi.com.lb

Bank Audi

By beginning March, Lebanon witnessed the eruption of a wide Israeli war on Lebanese territories tied to the Iran war with US/Israel. Parallel to human and material losses, all economic sectors were hit by the war emergence, with the touristic sector receiving the most significant hit. Household consumption showed signs of weakness amid contractionary war effects. Investment turned into a wait-and-see attitude, with investors delaying or canceling their investment decisions.

We estimate the daily cost of war over the month of March at around US$ 75 million, of which US$ 35 million of direct cost and US$ 40 million of indirect cost. The direct cost is related to the engendered destruction in housing, buildings, infrastructure and agriculture. The indirect cost is related to the opportunity loss and the forgone proceeds as a result of the war, of which most importantly the contraction in the investment aggregate and the effects on the touristic sector at large.

It is estimated that the investment aggregate to GDP went below 10% post-war from around 20% in 2025 as investors entered into a cautious mood driven by politico-security concerns. In parallel, given the 65% contraction in the number of incoming passengers at the airport in the month of March 2026 relative to March 2025 and on the basis that each tourist spends on average US$ 3,000 during his stay in Lebanon, the touristic revenues forgone amounted to US$ 10 million daily during the war conditions.

In parallel, inflation has risen significantly, driven by the noticeable surge in global oil prices. According to the Consultation and Research Institute, consumer prices rose by 15.3% in March 2026 relative to March 2025. Transport prices in particular rose by 20.7% year-on-year. It is worth mentioning that international oil prices increased by 49.4% over the period.

While it is quite early to assess the impact of war on the 2026 exercise, spillovers are likely to be both contractionary and inflationary. It is contractionary because of the uncertainties it is generating over a wide scale. And it is inflationary, because of a supply side shock driven by the rise in oil and gas prices. As such, Lebanon has fallen in a stagflationary scenario for the near term, with all its macro and social spillover effects, in the hope that the adverse conditions come to an end soon.

The economic scenarios seen looking forward are tied to the period of time expected for the conflict to fully subside and its effects on the local economy. By the time of the finalization of this report, a ceasefire was announced on the back of US mediation. If this ceasefire persists, we expect to see a stagnation in real GDP (0% growth) in Lebanon for 2026, avoiding negative growth, albeit down from an estimated real growth of 5% in the year prior. The absence of real contraction is tied to the short conflict period that will allow the economy to recover post-settlement and build on upcoming summer and holiday seasons. Under this scenario, imports are expected to decrease to reach US$ 18 billion while exports are expected to record US$ 3.2 billion. Concurrently, the real balance of payments is expected to reach an equilibrium in 2026 within the short war scenario. At the level of monetary indicators, inflation for the year is expected to reach 20% year-on-year in 2026, due to increases in oil and transport costs, more than double the inflation rate recorded in 2025. Additionally, BDL FX reserves are set to hover between the US$ 11 billion and US$ 12 billion threshold. Looking at the banking sector, fresh US$ deposits are expected to be maintained at around US$ 4.5 billion while banks' FX liquidity is set to reach US$ 7 billion in 2026 amid this scenario.

The developments in the real sector, external sector, public sector and financial sector for the first quarter 2026 will be analyzed thereafter while the concluding remarks are left to an assessment of the currency short to medium term challenges and outlook.

Bank Audi

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Escalating conflict in first quarter 2026 wipes out recovery in Lebanon's primary and secondary sectors

Lebanon's agriculture and manufacturing sectors were severely disrupted by the eruption of intensified Israeli attacks on March 2, abruptly halting a fragile period of recovery that had been building over the past year. In fact, extensive areas of farmland have been damaged over the first quarter of 2026, while farmers and livestock resources have sustained severe losses, coupled with disruption of industrial activity.

According to the latest report released by the Lebanese Ministry of Agriculture (MoA) on April 3, 2026, approximately 49,564 hectares of agricultural land (roughly 22% of Lebanon's total cultivated area) have been damaged by the conflict. The vast majority of this destruction is concentrated in the South and Nabatiyeh governorates, which account for 47,000 hectares of the total affected area.

As to the crops most affected are olive trees (16,054 hectares), medium to large lands (15,504 hectares), citrus trees (6,783 hectares), small lands (4,886 hectares), banana farms (1,968 hectares), fruit trees (1,813 hectares), abandoned lands (1,799 hectares), greenhouses (691 hectares) and vineyards (68 hectares).

Concurrently, the war severely impacted animal production, resulting in a 49% loss of beehives and 39% loss of fish stocks. These losses, compounded by the displacement of over 76.7% of farmers in affected regions, pose a direct and unprecedented threat to national food security.

In parallel, according to the MoA's survey, farmers in the South and Nabatiyeh identified a critical list of urgent needs to sustain their livelihoods. The most pressing requirements include financial support and access to agricultural medicines, as well as essential infrastructure needs like irrigation water and fuel to power pumping systems. For livestock and crop maintenance, farmers are calling for veterinary services, vaccines and fodder, alongside a general need for modernized agricultural equipment and tools.

Within this context, to support recovery efforts, the MoA in cooperation with the Food Security Sector and Partners, provided direct relief by transferring US$ 610,000 in cash assistance to 1,512 farmers as of March 2026. Additionally, as a specific measure to protect animal production from the ongoing crisis, they successfully transported 820 beehives to safer locations.

As to the secondary market, since the outbreak of full-scale conflict in March 2026, the Lebanese industrial sector has faced a sharp reversal of its recent growth. While the sector entered 2026 with a robust base of 19,106 factories, the war has significantly disrupted operations, supply chains and export capabilities. Industrial unions report that commercial and industrial activity has been disrupted by roughly 60% across the country. Many firms have scaled back operations, reduced purchasing activity to the fastest contraction rate in 16 months and began layoffs to control costs.

In parallel, the destruction of critical transport routes, including the Qasmiyeh coastal bridge and multiple crossings over the Litani River, has isolated industrial zones and severed access to the rest of the country.

In addition, the Lebanese industry lacks a cohesive official framework, leaving many factories to operate without licensing or proper representation. This regulatory gap is compounded by a stark geographical imbalance, where industrial investment remains concentrated in specific zones due to the absence of a decentralized, regionalized industrial vision. Furthermore, the sector faces a hostile business environment, as the local market is flooded with low-cost imports that undermine domestic production since the State fails to utilize existing tools to protect local manufacturers. Without targeted incentive policies and a shift toward protecting the local trade balance, the industry's potential to stabilize the national economy would remain hindered by systemic neglect.

Bank Audi

Looking forward, the path to recovery for Lebanon's primary and secondary sectors hinges on the immediate cessation of hostilities, infrastructure rehabilitation and securing strategic aid to revitalize industrial and agricultural sectors. Such measures would not only provide the immediate relief necessary to jump-start local production but also create the vital foundation needed to ensure long-term economic resilience.

1.1.2 Construction

Real estate activity weakens in early 2026 amid declining demand and heightened uncertainty

Lebanon's construction and real estate sectors are facing a more challenging environment in early 2026, with recent developments weighing on overall activity. While some indicators continue to show relative support on the construction side, real estate demand has weakened, with declines noted across transaction volumes, values, and foreign participation. This comes amid heightened geopolitical tensions and a slowdown in economic activity, which have negatively impacted investment appetite and overall market confidence.

At the level of demand, during Q1-2026, the number of property sales decreased by 29.3% to register 11,949 operations, down from 16,900 operations in Q1-2025. The five regions in Lebanon with the highest levels of property sales during the period are Baabda (20.9% of the total), Metn (14.0%), Keserwan (13.5%), Bekaa (11.7%), and Tripoli (11.0%). In parallel, the value of the transactions decreased by 18.2% during the period to reach US$ 1,253.1 million in Q1-2026, down from US$ 1,531.7 million in the same period the year prior.

Additionally, the number of sales to foreigners have noted a 43.8% decline year-on-year reaching 185 sales in Q1-2026, down from 329 in Q1-2025. The distribution of sales to foreigners by region has both Baabda and Metn taking the lion's share (18.4%). South Lebanon, Keserwan and Bekaa followed with contributions of 14.6%, 14.1% and 11.4% of the total respectively. Tripoli and Beirut followed with contributions of 10.3% and 9.7% respectively in Q1-2026.

These figures indicate a deterioration in real estate demand in Lebanon, with activity declining across both transaction volumes and values during Q1-2026. The contraction is further reflected in the sharp drop in foreign participation, highlighting weakened external demand amid heightened geopolitical uncertainty. This comes in parallel with a slowdown in private sector activity and a decline in tourism inflows, which have weighed on overall market liquidity and investment appetite. As such, real estate demand appears increasingly concentrated in lower-value segments, reflecting a shift toward more affordable offerings in the context of constrained purchasing power and cautious consumer behavior.

Looking at the current construction supply in Lebanon, construction permits recorded in March 2026 showed a year-on-year decrease of 8.5% compared to the same month the year prior, reaching 293,381 sqm. However, construction permits in Q1-2026 increased by 25.5% above figures from the same period of the year prior. Construction permits actually increased to 1,532,138 sqm in the first quarter of 2026, up

CONSTRUCTION

	2019	Q4-25	2025	Q1-25	Q1-26	Variation Q1/Q1
Value of property sales (in millions of US$)	6,839	1,754	6,157	1,532	1,253	-18.2%
Number of property sales	50,352	19,298	70,981	16,900	11,949	-29.3%
o.w. Sales to foreigners	993	344	1,485	329	185	-43.8%
Average value per property sale (in US$ 000)	136	91	87	91	105	15.7%
Property taxes (in millions of US$)	302	86	280	55	63	15.1%

Bank Audi

from 1,220,832 sqm in Q1-2025. Looking at the regional distribution of construction permits in Q1-2026, Mount Lebanon took the lion's share with 52.8% of the total. South Lebanon followed with 19.4% of total during the period. The Beirut and the Bekaa regions followed with 10.1% and 9.5% of total construction permits respectively during the period. The Nabattiyeh region had a contribution of 7.5% of total, followed by North Lebanon with a contribution of 0.7% of total.

The level of the distribution of direct execution order transactions by type, the majority of direct execution orders came for residential buildings (46.1% of the total) in Q1-2026. Single dwellings and trade-related buildings & offices followed with contributions of 42.2% and 5.4% respectively during the period. Economic sector buildings accounted for 2.5% of the total while other projects consisted of 3.8% of the total in Q1-2026, as per data from OEAB.

Looking ahead, the outlook for the real estate sector remains tilted to the downside amid uncertainty. While earlier expectations pointed to a gradual improvement in consumer spending supported by easing inflation and a stabilizing labor market, recent developments have weakened this trajectory. Heightened geopolitical tensions and uncertainty surrounding the sustainability of the ceasefire might continue to weigh on investor confidence and delay investment decisions. As a result, real estate activity is likely to remain subdued in the near term, with any recovery dependent on improved security conditions and a normalization of economic activity at large.

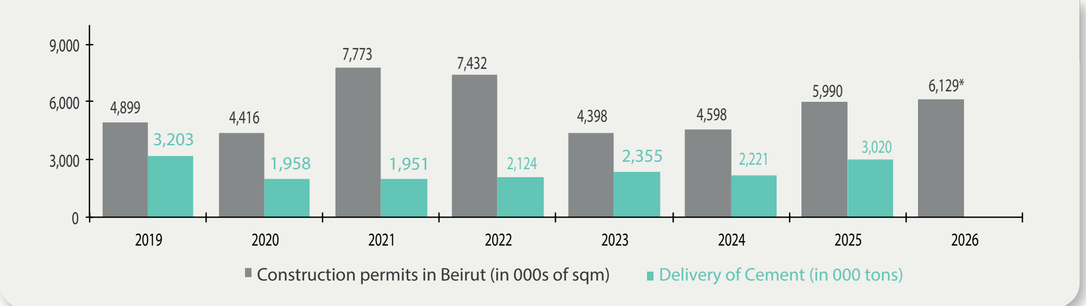
1.1.3. Trade and Services

Tertiary sector loses recovery momentum in 2026 amid renewed geopolitical tensions and structural constraints

Before the eruption of the hostilities, the tertiary sector has played a central role in supporting economic activity in Lebanon, in particular during early 2026, following the partial recovery observed in 2025. However, recent indicators point to a downturn in this recovery, with activity moderating across key segments of the sector. This comes amid a deteriorating macroeconomic backdrop, with the Lebanese economy expected to contract in 2026, reflecting the impact of renewed conflict and weaker private sector activity. This is reflected in the weakening performance of core indicators, particularly within tourism and transport, which remain highly sensitive to evolving geopolitical conditions. As such, the tertiary sector is no longer exhibiting the same growth momentum, with activity showing signs of divergence from pre-crisis levels. This dynamic is occurring within a more challenging environment, where heightened uncertainty and persistent structural constraints are weighing on the sector's ability to sustain its recovery trajectory.

In details, looking at the tourism sector, the year-on-year performance of BIA for the total number of passenger arrivals shiws a decrease of 12.8% in Q1-2026 when compared to Q1-2025, reaching 1,094,176 individuals in the former. During March 2026, total passenger activity recorded 139,190 passengers, noting a significant year-on-year decrease of 65.5%, down from 403,084 passengers in March 2025. This decline follows a period of steady increases in passenger activity recorded over previous months. During the month, 1,441 total landings and takeoffs have been recorded in BIA, down from 4,605 recorded in March 2025, reflecting widespread flight cancellations and reduced airline operations amid the escalation in regional conflict.

EVOLUTION OF CONSTRUCTION INDICATORS



Annualized three-month figures

Bank Audi

It is worth mentioning that passenger arrivals showed a recovery rate of 59.1% in 2026 against levels recorded in 2019. This reflects a decrease of 21.8 percentage points (pps) from the recovery rate in 2025 and a 14.8 pps decline compared to 2024 levels, pointing to a reversal in the recovery trend, with tourism activity diverging further from pre-war levels. The aviation transport sector has weakened, with passenger activity through MEA recording a year-on-year decrease of 33.8% between Q1-2025 and Q1-2026. Additionally, the number of aircraft decreased by 3.3% year-on-year while the total freight handled by the airport also decreased by 7.2% year-on-year during Q1-2026.

The resumption of conflict with Israel, coupled with disruptions to key maritime routes through the Strait of Hormuz in March 2026, is expected to weigh on Lebanon's trade, transport, and logistics activity. Elevated security risks and higher shipping costs are likely to constrain freight volumes and disrupt supply chains, while ongoing damage to logistics infrastructure from the 2024 conflict will further limit operational capacity. As a result, recovery in trade-related services is expected to remain subdued in the near term. Over the medium term, however, a gradual normalization in regional conditions, alongside reconstruction activity, could support a rebound in freight, logistics, and broader tertiary sector activity.

Meanwhile, persistent deficiencies in the electricity sector remain a critical constraint on services activity. Intermittent grid supply and widespread reliance on private generation significantly increase operating costs for businesses across tourism, retail, and telecommunications. Despite growing investment in off-grid solar capacity and recent initiatives to expand gas-fired generation through public-private partnerships, structural challenges in the sector are expected to persist in the near term, limiting improvements in service quality and operational efficiency.

In parallel, the telecommunications sector faces a challenging outlook, constrained by limited competition, continued state dominance, and insufficient capital investment in infrastructure. Mobile and broadband penetration rates remain below regional peers, while service quality is further undermined by unreliable electricity supply, which disrupts network operations. The rollout of 5G is unlikely in the near-term forecast horizon, as operators' ability to invest remains constrained by Lebanon's tight fiscal environment. As a result, the pace of infrastructure modernization is expected to remain subdued. Nevertheless, favorable demographics, including a young and digitally literate population, alongside strong diaspora linkages, provide a structural demand base that could support gradual improvement in the sector over the longer term.

In conclusion, the tertiary sector remains the lifeline of the Lebanese economy, continuing to mirror its health and provide insight into its trajectory. The figures noted in early 2026, however, point to a slowdown in the recovery observed in 2025, with signs of weakening across key segments of the sector. This comes amid renewed geopolitical tensions and highlights the sensitivity of service activity to external shocks, despite the sector's historically resilient demand base. The current environment is less supportive of growth, reflecting the combined impact of security concerns and persistent structural constraints. As such, the tertiary sector is no longer on a clear path toward regaining its pre-crisis levels of activity, with the recovery expected to remain uneven in the near term. The private sector continues to demonstrate adaptability in the face of evolving consumption patterns, supporting a degree of resilience. However, sustained improvement will require enhanced stability alongside meaningful governmental action to address long-standing structural challenges.

TRADE AND SERVICES

				Variation
	2025	Q1-25	Q1-26	Q1/Q1
Number of ships at the port	1,403	354	N.A	-
Number of containers at the port (in 000s)	696	137	N.A	-
Merchandise at the Port (in 000 tons)	6,409	1,438	N.A	-
Planes at the Airport	55,561	10,406	10,064	-3.3%
Number of passengers at the Airport (in 000s)	7,009	1,255	1,094	-12.8%

Bank Audi

1.2. EXTERNAL SECTOR

Foreign trade up by 21% year-on-year in 2M-2026

Foreign trade figures for the first two months of 2026 suggest imports are up by 32.7% relative to 2M-2025, while exports are down by 31.8% year-on-year. When considering the imported yearly inflation of 4.6%, real imports have grown by 28.1% year-on-year, suggesting growing demand for investment and consumption goods in the country. Imports have actually reported US$ 3.7 billion, while exports have reported US$ 0.4 billion, leading to an overall foreign trade of US$ 4.2 billion, up by 21.0% relative to 2M-2025.

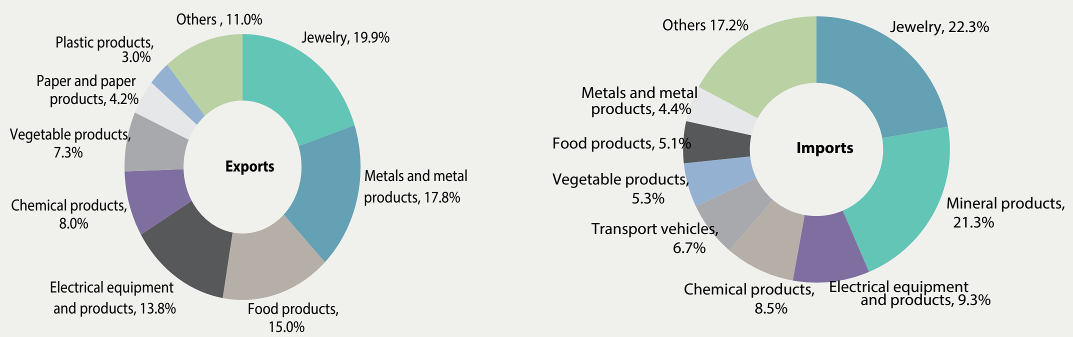
Looking at the evolution of the highest weighted exports from Lebanon in the first two months of 2026, Jewelry (weight of 19.9%) noted a year-on-year decrease of 68.4% against the year prior. Metals & Metal Products (weight of 17.8%) exports decreased by 24.8% between 2M-2025 and 2M-2026. Food Products (weight of 15.0%) exports noted a year-on-year decrease of 3.0% during the period. In parallel, Electrical Equipment & Products exports (weight of 13.8%) increased by 43.9% year-on-year in 2M-2026. Concurrently, Chemical Products (weight of 8.0%) exports noted a year-on-year decrease of 27.7% while Vegetable Products (weight of 7.3%) noted a year-on-year increase of 10.7% during the aforementioned period.

At the level of the evolution of exports from Lebanon by highest weighted recipient country, the UAE (weight of 15.2%) noted a year-on-year drop of 29.3% in 2M-2026 compared to 2M-2025, while exports to Turkey (weight of 10.1%) doubled during the period. In parallel, exports to Syria (weight of 7.0%) noted a year-on-year increase of 30.4% and exports from Lebanon to Iraq (weight of 4.4%) noted a year-on-year decrease of 9.5% in 2M-2026 compared to the same month of the year prior. Exports to Jordan (weight of 4.0%) recorded a 30.8% increase during the period.

Looking at the evolution of exports by port of entry during 2M-2026, exports through PoB recorded a year-on-year decrease of 14.0% against numbers in 2M-2025. Additionally, exports through the Port of Tripoli noted a year-on-year drop of 62.2% during the period. On the other hand, exports through the Port of Saida also noted a year-on-year increase of 85.7% between 2M-2025 and 2M-2026. In turn, overall exports through the sea showed a year-on-year decrease of 17.8% during the period. Exports through the air (Beirut International Airport) dropped by 55.4% year-on-year between 2M-2025 and 2M-2026. Total export by land (land crossings from Syria) noted a 65.7% increase in 2M-2026 compared to 2M-2025.

Looking at the evolution of the highest weighted imports into Lebanon in 2M-2026, Jewelry (weight of 22.3%) imports noted a year-on-year increase of almost three-folds against the same period of the year prior. On the other hand, Mineral Products (weight of 21.3%) imports recorded a year-on-year decrease of 9.3% between 2M-2025 and 2M-2026. Electrical Equipment & Products (weight of 9.3%) recorded a 57.2% year-on-year increase in 2M-2026. Chemical Products (weight of 8.5%) imports increased by 30.2%

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY (2M-2026)



Bank Audi

between 2M-2025 and 2M-2026 while Transport Vehicles (weight of 6.7%) imports more than doubled during the period. Additionally, Vegetable Products (weight of 5.3%) marginally dropped by 0.5% in 2M-2026 compared to 2M-2025.

At the level of the evolution of imports into Lebanon by highest weighted exporting country, China (weight of 12.4%) noted a year-on-year increase of 52.0% in 2M-2026 compared to 2M-2025. Imports from Switzerland (weight of 12.3%) more than tripled during the period. Imports from the UAE (weight of 8.0%) more than doubled in 2M-2026. In parallel, imports from Saudi Arabia (weight of 7.3%) noted a year-on-year increase of almost three-folds while imports from Greece (weight of 6.1%) noted a year-on-year decrease of 14.0% during the period. Additionally, imports from Egypt showed a year-on-year decrease of 23.9%.

1.3. PUBLIC SECTOR

Emerging conflict set to significantly affect short-term fiscal performance

Since the start of 2026, multiple new realities have presented themselves that are set to impact Lebanon's fiscal performance for the year, mostly negative. The Lebanese government's slow-but-steady approach that has been improving fiscal results in prior years is set to be uprooted by these realities triggered by wider regional dynamics. As such, fiscal performance in 2026 is set to be significantly affected, skewing prior forecasts downwards.

The most significant development so far is the start of the war between Israel and Hezbollah on the 2nd of March. This unfortunate reality has set the Lebanese government's prior recovery initiative back and threatens the wider economic environment. As of this moment, civilian infrastructure has been targeted and destroyed, mainly in the south of the country, with the potential of widening seeming plausible. This greatly affects the government's ability to produce and provide its services as well as collect its dues in affected areas. Additionally, the displacement of more than one million citizens creates significant pressure on the state's fiscal balance. This war also stands as a byproduct of a regional conflict that has seen the closing of the Straight of Hormuz (a major artery for global hydrocarbon supply) and the targeting of oil & gas infrastructure in the Gulf. These factors have increased the price of hydrocarbons internationally by a significant margin. This will inevitably lead to an increase in all fiscal burdens tied to hydrocarbon use.

PUBLIC FINANCES: BUDGETED FIGURES (US$ MILLION)

	Budget Law 2025	Budget Proposal 2026
Public Revenues	**4,974**	**5,974**
o.w Tax Revenues	4,038	4,907
o.w. Income taxes	482	644
o.w. Property taxes	330	402
o.w. Internal Consumption taxes (including VAT)	2,274	2,854
o.w. Taxes on international trade	820	826
o.w. Other tax revenues	132	182
o.w Non Tax Revenues	937	1,067
o.w. Revenues of State-owned enterprizes	612	718
o.w. Other non tax revenues	325	349
Public Expenditures	**4,974**	**5,974**
o.w Current spending	4,401	5,340
o.w. Staff expenses	1,077	1,481
o.w. Debt service	352	290
o.w. Other current spending	2,971	3,569
o.w. Social expenses	1,318	1,651
o.w. Consumption goods	589	645
o.w. Emergency expenses	152	218
o.w. Others	911	1,055
o.w Capital spending	574	635
Public deficit	**0**	**0**
Debt Service	352	290
Primary deficit	352	290
Deficit/Expenditures	0.0%	0.0%
Capital Spending/Expenditures	11.5%	10.6%
Deficit/GDP	0.0%	0.0%
Revenues/GDP	11.6%	12.2%
Expenditures/GDP	11.6%	12.2%
Primary Deficit/ GDP	0.8%	0.6%

Bank Audi

The government had earlier decided to increase public sector wages with the increase costing circa US$ 800 million per annum. In parallel, it is worth noting that the government's decision to postpone the parliamentary elections is set to reduce some fiscal pressure albeit in a marginal way.

Concurrently, looking at developments that are set to raise government revenues, a decision was taken to increase certain taxes and tariffs in a bid to cover the surge in public salaries. In details, the government has officially raised Value-Added Taxes by one percentage point reaching 12% up from 11%, which is expected to generate additional revenues of circa US$ 200 million per annum. Also, a tariff of LP 300,000 (circa US$ 3.35) per can has been set on gasoline. Container fees have also been increased to reach US$ 50 per container for 20-foot containers and US$ 80 per container for 40-foot containers. Additionally, the government made plans to improve its anti-smuggling efforts and its revenue collection although the current situation is probably going to hinder this initiative substantially.

These developments came after the parliament's approval of the budget with the ratification estimating the fiscal surplus to reach circa US$ 1 billion for 2026. Having said that, the estimated impact of the current situation on the public sector is not yet clear.

In accordance with the effect of the prior 66-day all-out war in Lebanon in the last quarter of 2024, we can also realistically estimate the following: the closing of the state's revenue collection centers in evacuated areas (South Lebanon until the Zahrani river and Beirut's southern suburbs) leading to a major decrease in property tax revenue (In 2024, property taxes collected went from a significant positive performance in the first eight months to a major drop of 52.8% year-on-year for the full year). Additionally, the major decrease in various revenue generating activities (tourism, foreign trade, electricity production, etc.) noted during the prior war, is expected to be similar in the current scenario. These realities, compounded by a natural deviation in consumer behavior towards necessary goods in times of war, are set to create a significant rift between budgeted revenue figures and actual performance. Concurrently, it is possible that the measures set to counteract the effects of the increase in public wages will not prove sufficient or effective in times of war.

As such, amid the current uncertainty regarding the war and its effects, what is certain is that previously budgeted figures no longer mirror the reality on the ground. The government must act to mitigate the effects to the largest extent possible under the circumstances. This is tied to the fact that a substantial disruption to years of recovery and could be exacerbated by the economy being plunged back into a recession or depression.

1.4. FINANCIAL SECTOR

1.4.1 Monetary situation

Sustained currency stability coupled with net drawdown in FX reserves in first quarter of 2026

Currency stability persisted over the first quarter of 2026 despite huge economic losses inflicted by the Israeli attacks across various Lebanese territories, while the Central Bank of Lebanon experienced a net drawdown in its liquid foreign currency reserves amid a fiscal strain of war.

In details, the Lebanese pound maintained its stability against the US dollar on the parallel FX market so far this year, registering only marginal movements around 89,600-89,700. This occurred despite a US$ 539 million drawdown in BDL's liquid FX reserves between mid-February and end-March 2026, which reflects the fiscal strain of war, and a general budget deficit fueled by emergency war and displacement expenditures

alongside a deterioration in public revenues. This brought BDL's liquid foreign reserve assets to US$ 11,534 million at end-March 2026 compared to US$ 11,895 million at end-December 2025, which marks a net contraction of US$ 361 million over the first quarter of the year.

Concomitantly, BDL's gold reserves, which have hit US$ 47,750 million at end-February 2026, slid to US$ 42,121 million at end-March. This compared to US$ 40,374 million at end-December 2025. The significant

Bank Audi

contraction in BDL's gold reserves over the month of March is mainly explained by a 12% slump in gold prices globally on the backdrop of stronger US dollar and as traders abandoned all expectations of interest rate cuts by the US Federal Reserve this year. This followed the massive energy shock stoked by the US-Israel war against Iran and the closure of the Strait of Hormuz, which drove Brent oil prices up by 44% over the month of March, reigniting inflationary concerns.

In parallel, the currency in circulation outside BDL reached LP 66.2 trillion at end-March 2026 compared to LP 71.5 trillion at end-December 2025, which marks a contraction of LP 5.3 trillion, the equivalent of US$ 59 million. This represents 6.4% of BDL's liquid foreign reserve assets.

As to Treasury bills, the outstanding Tbs' portfolio denominated in Lebanese pound remained in a contractionary mode over the first quarter of 2026, noting that Tbs issuance has been suspended since the start of the year 2024 in response to BDL policy refraining from financing the government. That being said, latest figures released by the Association of Banks in Lebanon showed that the outstanding LP Tbs' portfolio reached LP 44,745 billion at end-March 2026, down from LP 47,847 billion at end-December 2025, which denotes a contraction of LP 3,102 billion.

In the period ahead, Lebanon's monetary stability remains closely tied to the domestic security environment, noting that the April 17 ceasefire and the pivot toward high-level peace negotiations between Israel and Lebanon have created a significant buffer, mitigating immediate speculative pressures on the currency and providing the Central Bank with much-needed breathing room to maintain monetary order.

1.4.2 Banking activity

Slight rise in banks' shareholder equity year-to-date following drastic contraction in previous years

Based on the banking and monetary statistics just released for the first two months of the year, financial sector trends revolve around the following:

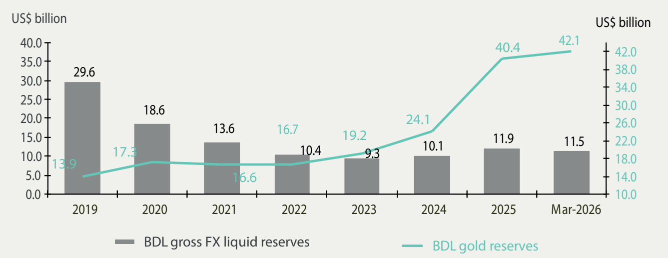
A slight increase in bank shareholders' equity was recorded in the first two months of 2026 following drastic declines over the past few years (contraction of US$ 15.6 billion since crisis onset). Shareholders' equity actually reported US$ 5 billion in February 2026, rising by US$ 0.3 billion relative to end-December 2025 (US$ 4.7 billion). The mild upward correction comes amid slightly positive profitability, following massive loss trend of the earlier crisis years.

A slight contraction in US$ deposits was registered, mainly due to the withdrawals on BDL circulars 158 and 166 along with the settlement of few FX loans. US$ deposits contracted from US$ 86.2 billion at end-December 2025 to US$ 85.7 billion at end-February 2026, a reduction of US$ 0.5 billion. In parallel, LL deposits reported a decrease as well, to move from LL 84.9 trillion in December 2025 to LL 83.9 trillion in February 2026, contracting by LL 1.1 trillion, amid some LL money creation, along with few FX to LL deposit conversions.

MONETARY SITUATION

Flows in US$ million	2M-25	2M-26	Progression
	Vol	Vol	Vol
Net foreign assets (excluding gold)	841	340	-501
Net claims on the public sector (excluding valuation adjustments)	-222	-445	-223
Claims on the private sector	85	19	-66
Uses=Sources	**703**	**-86**	**-790**
Money (M3)	282	-490	-772
Valuation adjustment and other items	421	404	-18

EXCHANGE MARKET INDICATORS



Bank Audi

The first two months also witnessed an increase in the banking sector gross liquidity. In fact, gross FX liquidity has increased to US$ 7.7 billion in February 2026 (Cash in vaults of US$ 0.8 billion, balances with correspondent banks of US$ 5.5 billion and non-resident security portfolio of US$ 1.4 billion), up by US$ 0.3 billion since year-end 2025.

With respect to private sector loans, LL loans expanded by LL 537 billion, to move from LL 10.4 trillion in December 2025 to LL 10.9 trillion in February. FX loans stabilized at US$ 5.1 billion over the period. The stability in total FX loans comes despite fresh US$ loan extension by few banks, suggesting that there has been some settlement of Lollar FX loans. Fresh US$ loans are estimated at 0.8 US$ billion at end-December 2025.

A real balance of payments surplus of US$ 330 million was registered in the first two months of 2026, denoting the excess of inflows over outflows prior to the war eruption in March. While the gross balance of payments has reported a rise in net foreign assets of the financial system by US$ 7.7 billion in the first two months of 2026, US$ 7.4 billion is tied to the increase in BDL gold reserves as a result of the increase in gold prices, leaving US$ 0.3 billion for the real balance of payments at constant gold prices.

1.4.3. Equity and Bond Markets

Deepening equity sell-off in first quarter of 2026, coupled with bond price volatility

Lebanon's capital markets faced in the first quarter of 2026 a deepening equity sell-off as the outbreak of the regional conflict and the intensifying Israeli strikes across various Lebanese territories solidified a trend among investors to liquidate holdings. In parallel, the Eurobond market endured intense volatility so far this year, as the initial optimism over IMF-aligned fiscal reforms was undercut by escalating security risks and aggressive institutional de-risking. However, the tide has recently turned as the US-brokered ceasefire and the prospect of direct high-level peace talks between Lebanon and Israel sparked a significant relief rally.

In details, the Beirut Stock Exchange deepened its nosedive in the first quarter of 2026, with the price index sliding by 8.8% on the heels of a 23.4% contraction in 2025. While the downturn began earlier this year, the outbreak of the regional conflict on February 28 and the intensifying Israeli attacks across Lebanese territories starting March 2 significantly soured investor sentiment. This has solidified a trend of equity liquidation, as some market players sought to exit their positions and capitalize on the 2025 improvement in "fresh-to-domestic" US dollar ratio.

A closer look at individual stocks shows that heavyweight Solidere "A" and "B" share prices plunged deeper into the red in the first quarter of 2026, shedding 11.3% and 14.8% respectively to reach US$ 84.00 and US$ 82.70 respectively at end-March. Yet, they remain way above levels observed on October 17, 2019, when they traded at US$ 5.45 and US$ 5.55 respectively, which denotes a price surge of more than 13-fold since the onset of the crisis. Amongst banking shares, Bank Audi's "listed" share price plunged by 23.0% to US$ 1.47. Bank Audi's GDR price fell by 15.5% to US$ 2.45. In contrast, BLOM's "listed" shares registered price gains of 19.4% in the first quarter of 2026 to reach US$ 7.46, followed by Byblos Bank's "listed" shares with +16.9% to US$ 0.69, BLOM's GDRs with +11.1% to US$ 6.39. As to industrials, Holcim Liban's share price shed 13.8% to US$ 62.05.

BANKING ACTIVITY

in millions of US$	Oct-19	Dec-25	Feb-26	Var 2M-26
Total assets	**262,804**	**102,305**	**101,903**	**-402**
Total shareholders' equity	**20,602**	**4,722**	**5,011**	**289**
Total deposits	**168,364**	**87,191**	**86,675**	**-516**
o.w. LP deposits	44,727	949	937	-12
o.w. FC deposits	123,637	86,242	85,738	-504
Total credits	**54,166**	**5,201**	**5,239**	**38**
o.w. LP credits	16,029	116	122	5
o.w. FC credits	38,136	5,085	5,117	32

Bank Audi

Along with deep equity price falls, the Beirut Stock Exchange was marked by relatively reduced price volatility in the first quarter of 2026. In fact, the price volatility, measured by the ratio of the standard deviation of prices to the mean of prices, reached 2.8% in the first three months of 2026 compared to a higher price volatility of 4.2% during the corresponding period of 2025.

As to trading volumes, the BSE total turnover expanded by 36.2% year-on-year, moving from US$ 69.7 million in the first quarter of 2025 to US$ 94.9 million in the first quarter of 2026. Solidere shares remained the major player, capturing 71.8% of total activity, followed by the industrial shares with 25.4% and the banking shares with 2.8%. The market capitalization on Lebanon's equity market contracted by 22.2% over a 12-month period, moving from US$ 23,089 million at end-March 2025 to US$ 17,956 million at end-March 2026. Accordingly, the BSE total turnover ratio, measured by the annualized trading value to market capitalization, reached 2.1% in the first quarter of 2026, up from 1.2% in the first quarter of 2025.

In parallel, the Lebanese Eurobond market endured a period of intense volatility throughout the first quarter of 2026, as prices swung sharply in response to improving domestic fundamentals and heightened geopolitical risks. Earlier this year, investor confidence was bolstered by the IMF mission's constructive discussions with the Lebanese authorities and the cabinet's approval of three revenue-raising measures to fund the wage increase, which gave a clear message to investors that the Lebanese government is aligning its fiscal policy with IMF recommendations. This allowed bond prices to hit the 30 cents on the dollar level by February 20, compared to 23.10c at end-December 2025. However, these price gains were erased by the negative pressure of escalating US-Iran conflict and intensifying Israeli strikes across the Lebanese territories, which triggered aggressive de-risking and sell-offs by international institutional investors. Accordingly, sovereign prices returned to 23c levels at end-March 2026.

By the time of writing this report, the Lebanese Eurobond market experienced a relief rally as bond prices recovered from their March lows, crossing currently above the 28c threshold. This followed the US-brokered preliminary discussions between Lebanese and Israeli Ambassadors on April 14, and the ten-day US-brokered ceasefire announced on April 17 and intended to facilitate historic, direct peace negotiations between the leaders of Israel and Lebanon at the White House, which marks the first such high-level engagement in over 40 years.

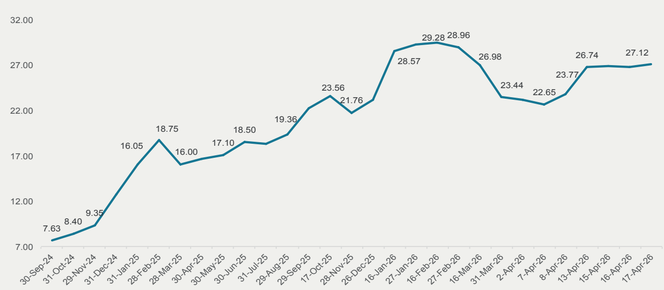
In the coming period, the trajectory of Lebanese Eurobonds would hinge on whether this truce can be transformed into a durable stability that permanently lowers the country's risk premium. Simultaneously, the market is closely watching the progress in reform agenda to unlock much-needed financial support. A successful pivot toward high-level peace talks and verified reform milestones could solidify the current recovery and pave the way for a credible debt restructuring process.

FINANCIAL SECTOR (NON BANKS)

	2019	2020	2021	2022	2023	2024	2025	Mar-26
Beirut Stock Exchange								
Market capitalization (In millions of US$)	7,540	7,176	10,625	14,578	20,597	25,693	19,687	17,956
Total trading volume (In millions of US$)	197	233	354	440	581	525	321	95
Annualized trading volume/Market capitalization	2.6%	3.2%	3.3%	3.0%	2.8%	2.0%	1.6%	2.1%
Price index	69.7	63.5	94.0	129.0	182.3	227.4	174.2	158.9
% change in index	-16.9%	-8.9%	48.1%	37.2%	41.3%	24.7%	-23.4%	-8.8%
Lebanese Eurobonds								
Total volume (In millions of US$)	28,314	31,314	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	23.10	23.20

CAPITAL MARKETS PERFORMANCE

End-of-period average bond price
(cents per US dollar)



Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@bankaudi.com.lb

Bank Audi

CONCLUSION: THE CURRENCY SHORT TO MEDIUM TERM CHALLENGES AND OUTLOOK

Emerging are legitimate questions on whether the currency stability is fictitious and unfounded or whether it is supported by macro fundamentals. Others are questioning the sustainability of currency stability looking forward, especially within the context of war outcome. In those concluding remarks, we throw a glance on the recent factors behind currency stability and its short and medium term outlook.

Reasons for currency stability are both technical and fundamental. At the technical level, the Lebanese Pounds in circulation are significantly contained at US$ 740 million, while FX reserves at the Central Bank approximate today US$ 12 billion. This suggests that there is technically a dominance on behalf of BDL on the FX market.

But also fundamentally, the currency stability comes within the context of surpluses in the fiscal position and the balance of payments last year. The State has reported a fiscal surplus of US$ 1.5 billion in 2025, well exceeded the zero balance budgeted, as a result of public revenues exceeding budget ones by 21% over the past year. In addition, the balance of payments reported a real surplus of US$ 3.3 billion in 2025, denoting the excess of inflows over outflows and alimenting the foreign currency mass in the country.

As to the way forward, there won't be depreciation or appreciation pressures in the short term, which would foster for currency stability. On one hand, there are no fundamental pressures for depreciation, as there would not be massive LL money creation relative to current BDL reserves that would endanger the stability in a short term horizon. On the other hand, there is of course no decision to appreciate the currency from BDL, as monetary authorities prefer to maintain an exchange rate defendable across time, while the IMF is not recommending any appreciation of the currency that could prove to be unsustainable.

In the medium to long term outlook, the story could be different. The difference comes from the possibility of going back to fiscal deficits in view of additional spending thus inflating the LP mass, while the foreign currency mass could shrink as a result of the drop in inflows, putting fundamental pressure on the currency. In the medium term, the additional outlays could be related to considerable war and emigration in case the war extends. In the longer term, public outlays could be related to reconstruction, infrastructure, salaries etc.

The importance here is that these extra outlays in the longer term perspective have to be coupled with higher revenues to maintain a favorable fiscal stance. The additional revenues might not necessarily come from rising taxes but could be tied to improved collection amid a large tax evasion gap in Lebanon. In parallel, the balance of payments has to remain in surplus through attracting foreign inflows towards the country. This could be targeted through improving the ease of business indicators and reducing operating costs which would improve the business environment at large, in addition to improving the overall political/security environment that is conducive of Foreign Direct Investment in Lebanon.

Such fundamental prerequisites are necessary conditions for maintaining monetary and currency stability in a sustainable long term perspective, containing risks and threats and moving from an era of sluggishness to an era of much needed economic recovery at large.