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LEBANON ECONOMIC REPORT

2ND QUARTER 2026

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FROM RECOVERY TO RETRENCHMENT: LEBANON'S ECONOMIC MOMENTUM INTERRUPTED

Real Economy from Recovery to Retrenchment

The Lebanese economy has been under the adverse spillovers of war effects since the beginning of March. While the year 2026 started with a buoyant macro performance, a trend reversal occurred after the second month. All real sector indicators turned from an expansionary mode to a contractionary mode as a result of sluggish demand for goods and services.

Economic Contraction accompanied with inflationary pressures

What exacerbated the contractionary situation is that inflation surged drastically amid rising oil prices. Lebanon's inflation rose to 19.0% year-on-year in May (May 2026 relative to MAy 2025), up from 12.2% year-on-year in December (December 2025 relative to December 2024) as per the Central Administration for Statistics. This year's price surge is widespread across all components of the basket of goods and services, with the most important increase registered in Transport with a 37.8% rise year-on-year. Net of transport cost, Lebanon's CPI would have reported a rise of 15.7% year-on-year in May 2026.

Noticeable contraction of foreign trade amid war

Lebanon's foreign trade got a hit since the start of the war this year, namely starting early March. In fact, despite positive price effect driven by rising inflation, Lebanon's imports, a veritable reflection of its demand curve, declined by 5.8% in the months of March and April relative to the same period last year, while they had started the first two months of the year with an annual growth of 32.3% when compared to the same period last year. Likewise, exports contracted by 10.2% annually in the months of March and April.

The 2025 fiscal surplus at serious risk in 2026

The sane fiscal performance that Lebanon witnessed in the year 2025 with a public finance surplus exceeding 4% of GDP unseen for long in Lebanon, was unfortunately not continued in 2026. In fact, public revenues are falling short of budgeted as a result of weak collection, sluggish business activity, and war direct effects on a significant region of Lebanon. In parallel, public expenditures got incremented driven by war related spending and refugees hosting. As such, Lebanon could see a deficit materializing in 2026 depending on the expected war duration scenarios.

Persisting currency stability in first half of 2026 despite the fiscal strain of war

Currency stability persisted through the first half of 2026, even though Lebanon returned to a fiscal deficit due to overshooting public expenditures tied to Israeli war consequences, which were compounded by contracting public revenues amid low business activity and collection drawbacks. Concurrently, the external front showed relative resilience, with the balance of payments registering a minor real surplus through May as total capital inflows narrowly outpaced outflows.

Banking sector fresh deposits on the rise year-to-date in spite of war conditions

A net contraction in US$ deposits was registered in the first five months, 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$ 85.0 billion at end-May 2026, a year-to-date reduction of US$ 1.2 billion. The decline in FX deposits comes despite the rise of Fresh FX deposits by US$ 0.6 billion year-to-May to reach US$ 5.1 billion notwithstanding war conditions.

Decisive macro outcome of politico-security scenarios ahead following the slight improvement that accompanied the framework agreement

In the scenario of cease fire holding up in the remainder of the year, we forecast Lebanon's real GDP to contract by 5% in full-year 2026. Such a moderate contraction is tied to the short conflict period that will allow the economy to stabilize post-settlement and build on upcoming summer and holiday seasons. Imports will revolve around the US$ 20 billion threshold for the year amid positive price effect, while exports would be close to US$ 3 billion, helped by the recent Saudi decision to remove the ban on Lebanese exports. The other scenario of war extending beyond year-end is definitely much more worrisome. Real GDP would contract by no less than 11% in 2026 as a direct reflection of sluggish demand for goods and services amid war conditions. In particular, investors will maintain their wait and see attitude amid overall macro uncertainties, thus delaying or canceling investment decisions. The touristic sector would be the most hit, as touristic trips and Expatriates travels to Lebanon would be halted amid adverse security conditions.

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The Lebanese economy has been under the adverse spillovers of war effects since the beginning of March. While the year 2026 started with a buoyant macro performance, a trend reversal occurred after the second month. All real sector indicators turned from an expansionary mode to a contractionary mode as a result of sluggish demand for goods and services.

What exacerbated the contractionary situation is that inflation surged drastically amid rising oil prices. Lebanon's inflation rose to 19.0% year-on-year in May (May 2026 relative to MAy 2025), up from 12.2% year-on-year in December (December 2025 relative to December 2024) as per the Central Administration for Statistics. This year's price surge is widespread across all components of the basket of goods and services, with the most important increase registered in Transport with a 37.8% rise year-on-year. Net of transport cost, Lebanon's CPI would have reported a rise of 15.7% year-on-year in May 2026.

Despite imported inflation price effect, Lebanon's imports, a veritable reflection of its demand curve, declined by 6% in the months of March and April relative to the same period last year, while they had started the first two months of the year with an annual growth of 33% when compared to the same period last year.

At the monetary level, the demand for Lebanese pounds weakened since the onset of the war amid rising uncertainties and weaker tax collection. As a reflection of such a monetary trend, BDL's foreign currency reserves that were almost stable at their four-year high of US$ 12 billion over the first two months of 2026, contracted by US$ 0.4 billion since then. In parallel, BDL's gold reserves contracted by US$ 6 billion since end-February while they had increased by US$ 7.4 billion over the first two months of the year. The decrease in gold reserves prices comes amid contracting gold prices as a result of gold being a non-interest bearing asset, while the outlook for global interest rates shifted from expected cuts to expected hikes amid rising global inflation.

In parallel, Lebanon's balance of payments reported a real deficit of US$ 0.2 billion in the months of March, April and May as a result of the decline in all inflows to the country, namely remittances, FDI, touristic receipts and exports. The balance of payments had reported a real surplus of US$ 0.3 billion in the first two months given the excess of inflows over outflows.

Likewise, the banking sector's fresh customer deposits that were growing by a monthly average of US$ 142 million in the first two months of the year 2026, grew by a monthly US$ 110 million since then. It is yet worth mentioning that the fresh customer deposits witnessed a net contraction in March, but followed by expansions in the months of April and May to reach US$ 5.1billion at end-May.

As to the Eurobond market, while bond prices had grown by 25% over the first two months of the year to reach a 6-year peak of 30 cents with hopes for debt restructuring amid governmental reform efforts, they contracted by 11% since end-February to reach 26 cents by the writing of this report with the outlook for delayed debt restructuring, lower GDP and higher debt burden.

The developments in the real sector, external sector, public sector and financial sector for the second quarter 2026 will be analyzed thereafter while the concluding remarks are left to an assessment of near term macro outlook looking forward.

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

War-induced losses in Lebanon's primary and secondary sectors

The Israeli hostilities since early March 2026 heavily impacted Lebanon's primary and secondary economic outputs. Widespread destruction of agricultural land and acute losses in livestock and farming operations severely impaired the primary sector, while supply and operational disruptions halted industrial manufacturing.

In detail, seasonal agricultural activities were suspended due to the escalation of hostilities and access constraints in key production areas. The harvest period for key crops, particularly potatoes in the Bekaa Valley and Akkar, typically begins around April-May, alongside a seasonal increase in demand for agricultural labor that represents a critical income source for households. However, restricted access to agricultural land, damaged irrigation infrastructure and insecurity are constraining harvesting activities in escalation-affected areas, including southern areas, Bekaa and parts of Baalbek-El Hermel, as per FEWS NET Lebanon, the local branch of the Famine Early Warning Systems Network, funded by USAID.

It is worth mentioning in this context that a joint scientific assessment by the National Council for Scientific Research (CNRS-L) and the Lebanese Ministry of Agriculture (supported by UNDP, FAO and WFP) revealed an unprecedented crisis for South Lebanon's agricultural sector, food security and rural economy.

The agricultural sector in South Lebanon faced losses exceeding US$ 571.7 million, with US$ 530.5 million resulting from disrupted production across 56,320 hectares and US$ 41.2 million in direct infrastructure damage. Additionally, 1,380 hectares of land require extensive restoration due to physical degradation, rendering them unusable for farming. Furthermore, according to the Ministry, losses and damage in Lebanon's agricultural sector currently exceed US$ 1 billion.

Production losses represent the vast majority of the total economic toll. This crisis stems from a compounding mix of halted agricultural operations, inflated production costs, disrupted local marketing networks and environmental degradation. These factors have severely threatened the livelihoods of rural households who depend entirely on farming income.

On a more positive note, it is worth highlighting that Lebanese Authorities welcomed Saudi Arabia's decision to resume imports of Lebanese agricultural products, viewing it as a strategic move for economic recovery that would restore vital export opportunities. This decision aims to rehabilitate the sector, which previously saw a drastic reduction in volume and value following the 2021 import ban, and commits to improving food safety standards to meet international requirements.

In parallel, the Ministry of Agriculture, in partnership with the German Agency for International Cooperation (GIZ), launched an US$ 8.6 million project in May 2026, aimed at strengthening the competitiveness of local farmers and small to medium-sized agricultural enterprises. The funding is specifically allocated to the North, Akkar, Mount Lebanon and Bekaa regions to enhance agricultural value chains and market access. Despite the extensive damage to agricultural infrastructure in South Lebanon, the project is currently focused only on the designated areas. The overarching goal is to transition the sector from a crisis management phase into sustainable development and high productivity.

Concurrently, the Ministry is continuing the implementation of the "Together for Food Security" campaign by launching a project to produce and distribute 1.5 million vegetable seedlings of various varieties in June 2026, in cooperation with the United Nations Development Program (UNDP) and funded by the German Government through KfW Development Bank. This significant initiative aims to enhance local agricultural production, expand cultivated areas, and support farming families across Lebanon.

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Turning to industry, the Lebanese industrial sector faced severe and widespread disruptions in activity. The escalation of the military conflict starting in early March 2026 completely reversed the sector's previous growth, crippling its infrastructure and operating capabilities.

In details, industrial and commercial activity remains severely degraded in South Lebanon and El-Nabatieh, while markets remain largely operational in other areas of the country. Industrial leaders noted that roughly 70% of factories located in high-conflict areas, specifically South Lebanon, the Bekaa Valley and the Southern suburbs of Beirut (Dahieh), have been forced to close entirely. Additionally, supply deliveries to Southern Lebanon have largely halted due to displacement, road inaccessibility and insecurity. Israeli airstrikes also destroyed the last remaining bridge over the Litani River on April 16, severing supply routes for food, fuel and essential goods to southern Lebanon and further isolating southern populations.

Amidst these challenges, the Ministry of Industry announced a comprehensive five-pillar executive plan. The plan targets long-term structural issues and aims to transform the domestic manufacturing sector into an active economic anchor. It is heavily tailored toward reducing Lebanon's massive trade deficit amidst the current structural crisis.

Looking forward, revitalizing Lebanon's primary and secondary industries depends entirely on a cessation of hostilities, infrastructure rehabilitation, and the mobilization of strategic international aid. These comprehensive measures would boost productivity and create the vital foundation needed to ensure long-term economic resilience.

1.1.2 Construction

Real estate demand contracts sharply in H1-2026 as conflict weighs on market confidence

Lebanon's construction and real estate sectors faced a more challenging environment in H1-2026, as the escalation of hostilities weighed on overall activity and eroded market confidence. While construction supply indicators continued to show relative resilience, real estate demand weakened materially, with broad-based declines recorded across transaction volumes, values, and foreign participation. This comes amid heightened geopolitical tensions and a significant slowdown in economic activity, which dampened investment appetite and constrained overall market momentum relative to the gains recorded in 2025.

At the level of demand, during H1-2026, the number of property sales decreased by 27.3% to register 24,096 operations, down from 33,490 operations in H1-2025. The five regions in Lebanon with the highest levels of property sales during the period are Beirut (24.9%), Metn (20.9%), Baabda (16.7%), Keserwan (14.0%) and Tripoli (6.5%). In parallel, the value of the transactions decreased by 8.3% during the period to reach US$ 2,619.1 million in H1-2026, down from US$ 2,854.7 million in the same period the year prior. Additionally, the number of sales to foreigners have noted a 57.7% decline year-on-year reaching 363 sales in H1-2026, down from 858 in H1-2025.

CONSTRUCTION

	2019	Q4-25	2025	H1-25	H1-26	Variation H1/H1
Value of property sales (in millions of US$)	6,839	1,754	6,157	2,855	2,619	-8.3%
Number of property sales	50,352	19,298	70,981	33,297	24,096	-27.6%
o.w. Sales to foreigners	993	344	1,485	858	363	-57.7%
Average value per property sale (in US$ 000)	136	91	87	86	109	26.8%
Property taxes (in millions of US$)	302	86	280	122	119	-2.5%

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The figures point to a broad-based deterioration in real estate demand in H1-2026, driven by the escalation of hostilities and the associated erosion of market confidence. Notably, the contraction in transaction volumes outpaced the decline in transaction values, suggesting a shift in the composition of activity toward higher unit-value deals as lower-end demand retracted more sharply. The collapse in foreign participation, which fell at nearly twice the contraction rate of the overall market, underscores the pronounced sensitivity of external demand to geopolitical conditions, with non-resident buyers effectively withdrawing from the market amid heightened uncertainty. At the regional level, Beirut and Metn recorded the steepest declines among the top five markets, likely reflecting their proximity to conflict-affected areas and elevated security concerns. As such, real estate demand appears increasingly concentrated in select segments and geographies, with the broad-based recovery observed in 2025 having been materially reversed over the course of the first half of 2026.

As to the current construction supply in Lebanon, construction permits in Q1-2026 (latest available figures) increased by 14.4% above figures from the same period of the year prior. Construction permits increased to 1,981,934 sqm in the first quarter of 2026, up from 1,732,598 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.

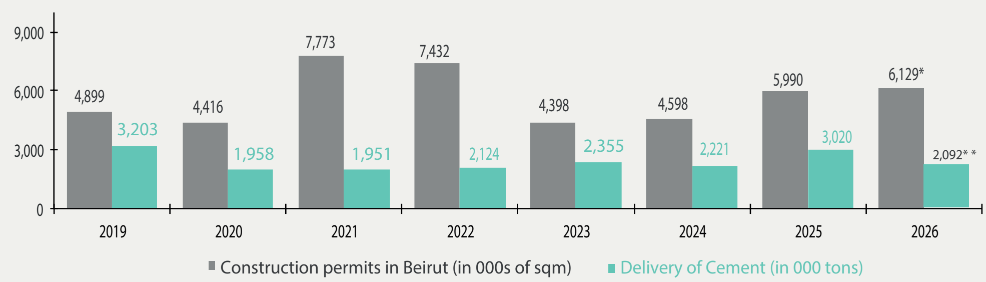
Looking ahead, the outlook for the real estate sector remains tilted to the downside amid prevailing uncertainty. The significant contraction in both transaction volumes and foreign participation observed in H1-2026 suggests that a meaningful recovery in demand is unlikely to materialize in the near term without a durable improvement in the security environment. While the ceasefire and the subsequent normalization of Lebanon's Gulf relationships provide a degree of cautious optimism, the sustainability of these developments remains uncertain. As such, real estate activity is expected to remain subdued over the coming months, with any recovery contingent on a sustained stabilization of security conditions, a normalization of broader economic activity, and the advancement of the structural reform agenda required to restore investor confidence.

1.1.3. Trade and Services

Lebanon's tertiary sector contracts sharply in the first half of the year amid escalating regional hostilities

The tertiary sector's performance in the second quarter of 2026 was defined by the sharp deterioration in conditions that accompanied the escalation of Israeli military operations across Lebanon from March onward, deepening displacement pressures and further suppressing demand across key segments of the sector. Tourism and transport, the sector's most geopolitically sensitive sub-segments, recorded the sharpest impact, with activity diverging materially from the recovery trajectory that had emerged over the course of 2025.

EVOLUTION OF CONSTRUCTION INDICATORS



*Annualized three-month figures ** Annualized two-month figures

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The ceasefire agreement, brokered by the United States, provided a degree of relief, though violations were reported in its immediate aftermath and hostilities continued to weigh on activity through the remainder of the quarter. As such, the sector enters the second half of 2026 in a more vulnerable position than at the start of the year, with the recovery trajectory that had emerged in 2025 having been materially interrupted.

In detail, looking at the tourism sector, the year-on-year results of BIA for the total number of passenger arrivals decreased by 32.5% in H1-2026 when compared to H1-2025. During June 2026, total passenger activity recorded 441,651 passengers, noting a significant year-on-year decrease of 25.1%, with 3,644 total landings and takeoffs recorded in BIA during the month, down from 4,397 in June 2025, reflecting widespread flight cancellations and reduced airline operations amid the escalation in regional conflict. It is worth noting that passenger arrivals reached a recovery rate of 50.1% in H1-2026 against levels recorded in the same period of 2019, showing a decrease of 26.7 percentage points from the recovery rate during 2025, indicating a slowdown of the recovery toward pre-war tourism levels. In parallel, the aviation transport sector has weakened, with passenger activity through MEA recording a year-on-year decrease of 32.5% between H1-2025 and H1-2026, while the number of aircraft and total freight handled by the airport decreased by 24.5% and 23.5% year-on-year respectively during the period.

In a positive development for Lebanon's trade and tourism sectors, Saudi Arabia lifted its five-year ban on Lebanese exports in early June 2026, with the first shipment departing Beirut for Jeddah shortly thereafter. This was followed by the United Arab Emirates lifting its travel ban on visitors to Lebanon on June 29, with hotels and resorts in Beirut reporting an immediate pickup in summer reservation inquiries. Taken together, these two developments represent the most tangible external demand signals for Lebanon's service and trade sectors since the onset of the conflict.

According to the latest statistics released by the Port of Beirut (PoB), the quantity of goods increased by 3.3% year-on-year, reaching 2,028.0 thousand tons in 4M-2026, while the number of containers saw a yearly increase of 20.9% and transshipments recorded a year-on-year increase of 35.8%, suggesting that Beirut continued to assert its role as a regional logistics hub despite the challenging operating environment. On the other hand, the number of ships decreased by 11.4% year-on-year, reflecting a consolidation in vessel sizes as operators adjusted to higher shipping costs and regional route disruptions stemming from the conflict. The recovery rate in the quantity of goods imported through PoB during 4M-2026 stood at 86.3% against 2019 levels, standing 2.7 percentage points higher than in 2025, pointing to a continued, if gradual, normalization of port activity relative to pre-crisis levels.

Meanwhile, Lebanon advanced electricity sector reforms with the operational launch of the Electricity Sector Regulatory Authority, which is preparing a roadmap to restructure the sector, establish an independent licensing framework, and facilitate greater private-sector participation alongside renewable energy development. While implementation is expected to take time, these reforms represent an important step toward improving governance and the long-term sustainability of the electricity sector.

In parallel, the telecommunications sector demonstrated notable operational resilience in the aftermath of the ceasefire, with both mobile operators moving rapidly to restore network coverage across conflict-affected areas following the cessation of hostilities in mid-April. At the level of fixed-line infrastructure, data

TRADE AND SERVICES

	2025	2026	Variation
	H1	H1	H1/H1
Number of ships at the port*	465	412	-11.4%
Number of containers at the port (in 000s)*	194	234	20.9%
Merchandise at the Port (in 000 tons)*	1,964	2,028	3.3%
Planes at the Airport	23,949	18,087	-24.5%
Number of passengers at the Airport (in 000s)	2,999	2,026	-32.5%
Cleared checks (in millions of US$)*	516	364	-29.5%

**Figures for H1 are for first 4M of the year*

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indicated that a significant share of telephone exchanges in the South had returned to normal operations, while a number of exchanges sustained complete destruction and others remained out of service due to their location in restricted zones still inaccessible to maintenance crews. The sector's recovery nonetheless remains partial, and the pace of full rehabilitation continues to be contingent on the evolving security situation on the ground.

In conclusion, the tertiary sector's performance in H1-2026 reflects the broader deterioration in Lebanon's economic conditions, as renewed conflict disrupted the fragile recovery momentum that had taken shape over the course of 2025. The figures point to a significant deterioration relative to 2025, with key segments bearing the direct impact of renewed hostilities and the associated collapse in mobility, demand, and consumer confidence. Looking ahead, the outlook is cautiously more constructive, supported by the normalization of Lebanon's Gulf relationships, the new government's commitment to long-overdue structural reforms, and the continued engagement of international partners including the World Bank, the EU, and GCC peers. Nevertheless, meaningful risks persist and the tertiary sector's recovery is expected to remain uneven in the near term, with sustained improvement contingent on durable security conditions and meaningful progress on the structural reform agenda.

1.2. EXTERNAL SECTOR

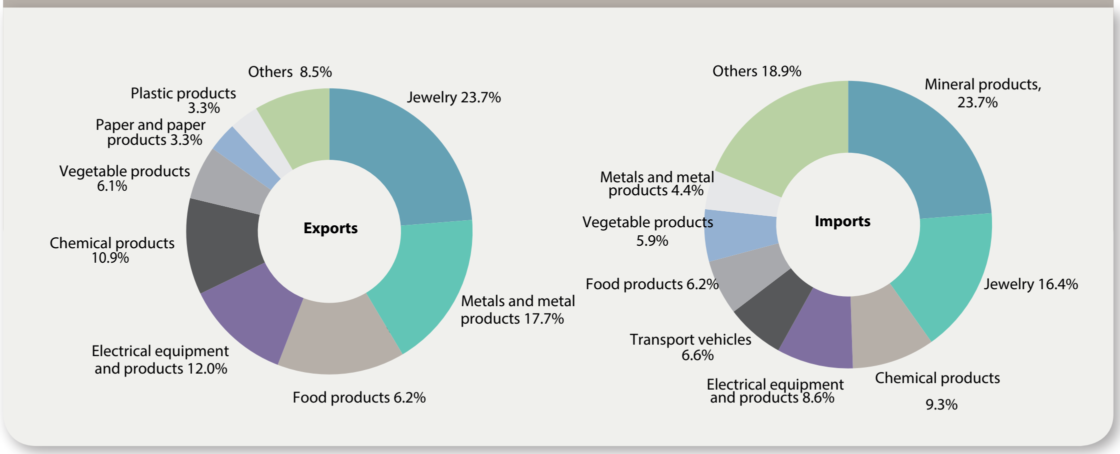
Noticeable contraction of foreign trade amid war

Lebanon's foreign trade got a hit since the start of the war this year, namely starting early March. In fact, despite positive price effect driven by rising inflation, Lebanon's imports, a veritable reflection of its demand curve, declined by 5.8% in the months of March and April relative to the same period last year, while they had started the first two months of the year with an annual growth of 32.3% when compared to the same period last year. Likewise, exports contracted by 10.2% annually in the months of March and April.

For the first four months of 2026, imports are up by 11.4% year-on-year, while exports are down by 21.7% over the period. Based on an imported inflation rate of 3.8%, real imports are up by 7.6%. As a result of growing imports and contracting exports, Lebanon's trade deficit is up by 19.1% year-on-year over the four-month period.

Looking at the evolution of the highest weighted exports from Lebanon in 4M-2026, Jewelry (weight of 23.7%) noted a year-on-year decrease of 51.0% against the same period the year prior. Metals & Metal Products (weight of 17.7%) exports decreased by 13.1% between 4M-2025 and 4M-2026. Food Products (weight of 14.4%) exports noted a year-on-year decrease of 1.5% during the period. In parallel, Electrical Equipment & Products exports (weight of 12.0%) increased by 36.6% year-on-year in 4M-2026. Concurrently, Chemical Products (weight of 10.9%) recorded a year-on-year stagnation while Vegetable Products (weight of 6.1%) exports noted a year-on-year increase of 14.0% during the aforementioned period.

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY (4M-2026)



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At the level of the evolution of exports from Lebanon by highest weighted recipient country, the UAE (weight of 13.0%) noted a year-on-year drop of 37.4% in 4M-2026 compared to 4M-2025, while exports to Switzerland (weight of 9.5%) decreased by 68.7% during the period. In parallel, exports to Turkey (weight of 8.5%) noted a year-on-year jump of 86.0% and exports from Lebanon to Syria (weight of 6.1%) noted a year-on-year increase of 23.9% in 4M-2026 compared to the same period of the year prior. Exports to the USA (weight of 4.9%) increased by 4.5% in 4M-2026.

Looking at the evolution of exports by port of entry during 4M-2026, exports through PoB recorded a year-on-year decrease of 11.0% against numbers in 4M-2025. Additionally, exports through the Port of Tripoli noted a year-on-year drop of 37.6% during the period. Exports through the Port of Saida also noted a year-on-year decrease of 10.0% between 4M-2025 and 4M-2026. In turn, overall exports through the sea showed a year-on-year decrease of 15.0% during the period. Exports through the air (Beirut International Airport) dropped by 39.6% year-on-year between 4M-2025 and 4M-2026. Total export by land (land crossings from Syria) increased by 74.3% in 4M-2026 compared to 4M-2025.

Looking at the evolution of the highest weighted imports into Lebanon in 4M-2026, Mineral Products (weight of 23.7%) imports noted a marginal year-on-year increase of 0.6% against the same period of the year prior. Additionally, Jewelry (weight of 16.4%) imports recorded a year-on-year increase of 10.7% between 4M-2025 and 4M-2026. Chemical Products (weight of 9.3%) recorded a 28.2% year-on-year increase in 4M-2026. Electrical Equipment & Products (weight of 8.6%) imports increased by 24.0% between 4M-2025 and 4M-2026 while Transport Vehicles (weight of 6.6%) imports increased by 60.2% during the period. Additionally, Vegetable Products (weight of 5.9%) increased by 0.2% in 4M-2026 compared to 4M-2025.

At the level of the evolution of imports into Lebanon by highest weighted exporting country, China (weight of 12.3%) noted a year-on-year increase of 29.0% in 4M-2026 compared to 4M-2025. Imports from Switzerland (weight of 8.7%) noted a year-on-year increase of 50.4% while imports from Greece (weight of 7.2%) decreased by 15.0% in 4M-2026. In parallel, imports from the UAE (weight of 6.8%) and Egypt (weight of 6.7%) noted year-on-year decreases of 3.3% and 6.7% respectively during the period. Additionally, imports from Saudi Arabia (weight of 6.5%) more than doubled during the period.

1.3. PUBLIC SECTOR

The 2025 fiscal surplus at serious risk in 2026

The sane fiscal performance that Lebanon witnessed in the year 2025 with a public finance surplus exceeding 4% of GDP unseen for long in Lebanon, was unfortunately not continued in 2026. In fact, public revenues are falling short of budgeted as a result of weak collection, sluggish business activity, and war direct effects on a significant region of Lebanon. In parallel, public expenditures got incremented driven by war related spending and refugees hosting. As such, Lebanon could see a deficit materializing in 2026 depending on the expected war duration scenarios.

In detail, according to Ministry of Finance data, Lebanon recorded an unprecedented budget surplus of US$ 1.45 billion in 2025, nearly six times higher than the surplus recorded in 2024, as strong revenue growth significantly outpaced the increase in public expenditures.

Total government revenues and receipts rose by 59% year-on-year to US$ 6.2 billion in 2025, driven primarily by a 64% increase in tax revenues to US$ 4.66 billion. The improvement reflected stronger revenue collection following the end of the previous conflict, enhanced controls at border crossings, and higher receipts from VAT, real estate registration fees, telecommunications, vehicle control fees, work permits, and penalties. Non-tax revenues also increased by 49% year-on-year to US$ 869 million.

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Meanwhile, total government expenditures increased by 30% year-on-year to US$ 4.74 billion in 2025, reflecting a more moderate pace of growth than revenues. Major spending increases were recorded in personnel costs, which reached US$ 2.58 billion and accounted for more than half of total expenditures, as well as hospital-related spending. The spending policy remained aligned with broader fiscal and monetary objectives aimed at limiting the use of public funds deposited at the central bank and supporting foreign currency reserves.

As a result, Lebanon achieved a primary budget surplus of US$ 1.76 billion in 2025, more than four times the level recorded in 2024, while the overall budget surplus reached US$ 1.45 billion, equivalent to approximately 23% of total revenues. Looking ahead, concerns remain regarding the sustainability of this performance amid the ongoing war and its potential impact on economic activity and revenue collection during 2026.

Within this environment, the fiscal work completed by the Ministry of Finance and the IMF is now obsolete considering recent developments. Previous assumptions no longer hold. Growth, which was expected to be positive, is now projected to be deeply negative in 2026. Revenues, which were expected to rise significantly, show stagnation or decline in the first four months. Expenditure cuts are not feasible in the current context. The entire Medium-Term Fiscal Framework (MTFF) must be completely redesigned on fundamentally different assumptions than those used before March. It is worth mentioning that the MTFF along with the Banking restructuring bill and the Gap Law constitute three main necessary conditions for a deal between Lebanon and the Fund.

If Lebanon succeeds in overcoming the three obstacles, an agreement with the IMF would become attainable, potentially unlocking between US$ 3 billion and US$ 5 billion, equivalent to at least 10% of GDP. Such an agreement would, in turn, pave the way for a donors' conference, which could generate an additional US$ 7 billion to US$ 12 billion. The path to Lebanon's financial rescue is possible in principle – but it inevitably runs through these three obstacles. A setback on any one of them is yet enough to close the door on the entire reform agenda.

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%

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1.4. FINANCIAL SECTOR

1.4.1 Monetary situation

Persisting currency stability in first half of 2026 despite the fiscal strain of war

Currency stability persisted through the first half of 2026, even though Lebanon returned to a fiscal deficit due to overshooting public expenditures tied to Israeli war consequences, which were compounded by contracting public revenues amid low business activity and collection drawbacks. Concurrently, the external front showed resilience, with the Balance of Payments registering a minor real surplus through May as total capital inflows narrowly outpaced outflows.

In detail, the Lebanese Pound held steady against the US Dollar on the parallel FX market in the first half of 2026 despite the fiscal strain of war, with the LP/US$ exchange rate reporting marginal movements around 89,600-89,700. Currency stability persisted despite concerns that a prolonged war could unravel monetary conditions and pose exchange rate risks. These fears stemmed from a dual macroeconomic threat: a fiscal deficit, stoked by emergency war and displacement expenditures and revenue shortfalls, alongside a drop in foreign currency mass caused by a parallel collapse in remittances, exports, FDI, and touristic spending.

Within this context, the Central Bank of Lebanon reiterated that the sole objective of the Central Bank is to safeguard monetary stability under all circumstances. BDL indicated that the Bank is working on returning depositors' funds in line with mechanisms set out in a Financial Stabilization Law, restoring the banking sector as a key condition for economic growth, and strengthening public finances, including maintaining currency stability, to enable the State to meet its obligations to citizens and public sector employees.

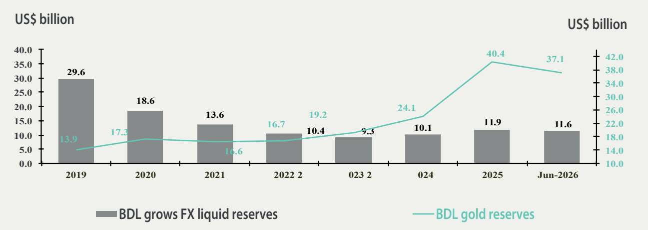
In tandem with the return to a fiscal deficit following the outbreak of the war, the Central Bank of Lebanon's liquid foreign reserve assets contracted by US$ 342 million over the first half of 2026, moving from US$ 11,895 million at end-December 2025 to US$ 11,553 million at end-June. Within this context, it is worth mentioning that BDL saw its foreign exchange reserves draw down by an average of US$ 57 million per month over the first half of 2026. This mild contraction occurred despite substantial cash outflows, with BDL disbursing roughly US$ 200 million monthly under basic circulars 158 and 166, alongside US$ 150 million per month for public sector wages. This underscores the scale of the Central Bank's active foreign currency purchases and parallel market interventions aimed to stabilize the system.

Concomitantly, BDL's gold reserves, which had hit US$ 47,750 million at end-February 2026 at the onset of the war, slid to US$ 37,056 million at end-June. This compares to US$ 40,374 million at end-December 2025, which marks a significant contraction of US$ 3,318 million in the first half of this year. This is mainly explained by a fall in gold prices globally and followed the US Federal Reserve's hawkish shift in its June FOMC meeting. Traders are currently fully pricing in one interest rate hike by the US Federal Reserve as early as September 2026, with more than a 50% probability assigned to a second rate hike by January 2027. This shift has forced market participants to brace for a "higher-for-longer" interest rate environment, significantly dampening demand for non-yielding assets like gold.

MONETARY SITUATION

Flows in US$ million	5M-25	5M-26	Progression
	Vol	Vol	Vol
Net foreign assets (excluding gold)	1,857	161	-1,695
Net claims on the public sector (excluding valuation adjustments)	-1,227	-1,083	145
Claims on the private sector	-157	58	215
Uses=Sources	**472**	**-864**	**-1,336**
Money (M3)	-259	-1,313	-1,054
Valuation adjustment and other items	731	449	-282

EXCHANGE MARKET INDICATORS



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On the other hand, the currency in circulation outside BDL reached LP 58.7 trillion at end-June 2026 compared to LP 71.5 trillion at end-December 2025, marking a contraction of LP 12.8 trillion over the first half of 2026, the equivalent of US$ 143 million. This sheds light on the Central Bank of Lebanon's policy of containing the currency in circulation to prevent any speculative activity on the parallel FX market. Besides, the end-of-June level of currency in circulation represents around 5.7% of BDL's liquid foreign reserve assets, which highlights the Central Bank's ability to meet demand for foreign currencies.

As to Treasury bills, the outstanding Tbs' portfolio denominated in Lebanese pound remained in a contractionary mode over the first half 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 40,424 billion at end-June 2026, down from LP 47,847 billion at end-December 2025, denoting a contraction of LP 7,423 billion.

In the period ahead, maintaining a stable exchange rate is likely to remain at the forefront of domestic monetary authorities' prioroties. Amid the severe economic shocks of the conflict, a stong coordination between fiscal and monetary policies emerges as a fundamental prerequisite for rationalizing spending and curbing potential war-driven deficit gaps. Without this policy alignment, exchange rate risks could materialize, threatening the currency stability achieved in the first half of 2026 despite the war environment.

1.4.2 Banking activity

Banking sector fresh deposits on the rise year-to-date despite war conditions

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

A net contraction in US$ deposits was registered in the first five months, 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$ 85.0 billion at end-May 2026, a year-to-date reduction of US$ 1.2 billion. The decline in FX deposits comes despite the rise of Fresh FX deposits by US$ 0.6 billion year-to-date notwithstanding war conditions. In parallel, LL deposits reported a slight decrease, to move from LL 84.9 trillion in December 2025 to LL 82.5 trillion in May 2026, decreasing by LL 2.4 trillion, amid thorough BDL control of the LL monetary mass.

The first five months of the year also witnessed an increase in the banking sector gross liquidity. In fact, gross FX liquidity has increased by US$ 0.5 billion to US$ 7.9 billion in May 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$ 1.5 billion).

BANKING ACTIVITY

in millions of US$	Oct-19	Dec-25	May-26	Var 5M-26
Total assets	**262,804**	**102,305**	**100,591**	**-1,714**
Total shareholders' equity	**20,602**	**4,722**	**4,991**	**269**
Total deposits	**168,364**	**87,191**	**85,951**	**-1,240**
o.w. LP deposits	44,727	949	922	-27
o.w. FC deposits	123,637	86,242	85,029	-1,213
Total credits	**54,166**	**5,201**	**5,183**	**-19**
o.w. LP credits	16,029	116	126	9
o.w. FC credits	38,136	5,085	5,057	-28

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With respect to private sector loans, LL loans expanded by LL 895 billion, to move from LL 10.4 trillion in December 2025 to LL 11.3 trillion in May 2026. 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. BDL has published a fresh dollar loan figure of US$ 0.8 billion at end-December 2025.

A slight increase in bank shareholders' equity was recorded in the first five 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$ 5.0 billion in May 2026, up by US$ 0.3 billion since end-December 2025 (US$ 4.7 billion). The relative year-to-date increase comes amid slightly positive profitability, following massive loss trend of the earlier crisis years.

Finally, Lebanon's balance of payments reported a real deficit of US$ 0.2 billion in the months of March, April and May as a result of the decline in all inflows to the country, namely remittances, FDI, touristic receipts and exports amid war conditions. The balance of payments had reported a real surplus of US$ 0.3 billion in the first two months given the excess of inflows over outflows at the start of the year.

1.4.3. Equity and Bond Markets

Extended equity downturn in first half of 2026, bond prices slightly up

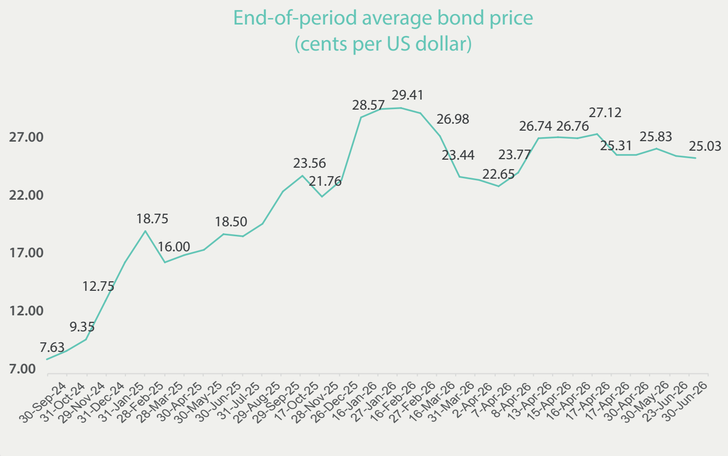
Lebanon's equity market faced an extended downturn over the first half of 2026, mainly as the outbreak of the regional conflict on February 28 and the ongoing Israeli strikes across various Lebanese territories since March 2 dented overall investor sentiment. In contrast, the Eurobond market traded higher so far this year, mainly on the back of the US-brokered historic talks between Lebanon and Israel, which brought Lebanese sovereigns back onto the radar of international institutional investors.

In detail, the Beirut Stock Exchange remained entrenched in a bearish cycle over the first half of the year 2026, with the price index shedding 7.9% following a contraction of 23.4% in 2025. This downturn was primarily driven by the regional geopolitical shock and the ongoing Israeli attacks across various Lebanese territories since March 2, which soured investor sentiment.

FINANCIAL SECTOR (NON BANKS)

	2019	2020	2021	2022	2023	2024	2025	Jun-26
Beirut Stock Exchange								
Market capitalization (In millions of US$)	7,540	7,176	10,625	14,578	20,597	25,693	19,687	18,135
Total trading volume (In millions of US$)	197	233	354	440	581	525	321	135
Annualized trading volume/Market capitalization	2.6%	3.2%	3.3%	3.0%	2.8%	2.0%	1.6%	1.5%
Price index	69.7	63.5	94.0	129.0	182.3	227.4	174.2	160.5
% change in index	-16.9%	-8.9%	48.1%	37.2%	41.3%	24.7%	-23.4%	-7.9%
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	25.03

CAPITAL MARKETS PERFORMANCE



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A closer look at individual stocks shows that heavyweight Solidere "A" and "B" share prices plunged deeper into the red in the first half of 2026, shedding 11.0% and 11.8% respectively to reach US$ 74.75 and US$ 72.95 respectively at end-June. 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 24.8% to US$ 2.18. In contrast, Byblos Bank's "listed" share price jumped by 18.6% in the first half of 2026 to reach US$ 0.70 at end-June, followed by BLOM's GDRs with +13.0% to US$ 6.50, and BLOM's "listed" shares with +8.0% to US$ 6.75. As to industrials, Ciments Libanais' share price nudged up by 0.8% to US$ 72.60. In contrast, Ciments Blancs' share price declined by 2.4% to US$ 36.50.

Along with deep equity price falls, the Beirut Stock Exchange was marked by relatively reduced price volatility in the first half of 2026. In fact, the price volatility, measured by the ratio of the standard deviation of prices to the mean of prices, reached 2.3% in the first six months of 2026 compared to a higher price volatility of 9.7% during the corresponding period of 2025.

As to trading volumes, the BSE total turnover contracted by 4.1% year-on-year, moving from US$ 140.5 million in the first half of 2025 to US$ 134.7 million in the first half of 2026. Solidere shares remained the major player, capturing 78.7% of total activity, followed by the industrial shares with 18.3% and the banking shares with 3.0%. The market capitalization on Lebanon's equity market contracted by 16.5% over a 12-month period, moving from US$ 21,721 million at end-June 2025 to US$ 18,135 million at end-June 2026. Accordingly, the BSE total turnover ratio, measured by the annualized trading value to market capitalization, reached 1.5% in the first half of 2026, up from 1.3% in the first half of 2025.

In parallel, the Lebanese Eurobond market closed the first half of 2026 on a positive note, with sovereign prices reaching 24.38-26.50 cents on the dollar at end-June, up from 23.10 cents on the dollar at end-December 2025. This came on the heels of historic US-brokered direct talks between Lebanon and Israel, as well as the signing of a 14-point framework Memorandum of Understanding between the US and Iran, aimed at paving the way for a permanent peace agreement in the Middle East.

However, by the time of writing this report, Lebanon's Eurobond market edged lower amid renewed US-Iran tensions, which cast doubt over the peace negotiations and reignited fears of a fresh round of conflict in the Middle East. As a result, Lebanese sovereign prices retreated slightly to a current level of 24.00-26.13 cents on the dollar.

Against this backdrop, Goldman Sachs noted in a recent report that the outlook in Lebanon remains highly uncertain and the conflict is likely to lower recovery values on Lebanon's defaulted debt for three reasons. First, the conflict stalls essential financial reforms and delays debt restructuring, forcing prospective cash flows to be discounted over a much longer period. Second, it severely damages Lebanon's long-term debt sustainability by depressing economic activity and increasing state financing needs, which will ultimately require a higher nominal haircut on the debt. Third, tighter regional financing conditions in the aftermath of the war are expected to drive up the exit yield, further reducing the net present value of investor claims, as per Goldman Sachs.

In the coming period, a recovery in Lebanese Eurobonds would depend on a durable security stability that fundmentally lowers the country's risk premium, a swift progress on reforms -including the passing of the crucial Gap Law, allocating losses in the financial sector- along with a timely debt restructuring.

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CONCLUSION: MACRO OUTCOME OF WAR SCENARIOS

In the concluding part of this report, we will address the 2026 full-year expectations amid the different scenarios for war in Lebanon and the region in the aftermath of the framework agreement that was accompanied by slight macro/markets improvements. We will be actually covering two scenarios, the first one rests on the domestic cease fire holding for the remainder of the year and the second one is based on war eruption and persisting till at least the end of the current year.

In the first scenario of no war, we forecast Lebanon's real GDP to contract by 5% in full-year 2026. Such a moderate contraction is tied to the short conflict period that will allow the economy to stabilize post-settlement and build on upcoming summer and holiday seasons. Imports will revolve around the US$ 20 billion threshold for the year amid positive price effect, while exports would be close to US$ 3 billion, helped by the recent Saudi decision to remove the ban on Lebanese exports.

In this scenario, CPI inflation would be hovering around 20% amid persisting exchange rate stability as a result of BDL closely monitoring the stock of LL Money Supply in the market. BDL FX reserves will be maintained, fresh deposits would evolve within the US$ 5 to US$ 5.5 billion bracket maintaining banks gross FX liquidity within the US$ 7.5 to US$ 8 billion bracket. The real balance of payments will be in slight deficit, driven by the first half-year stagnation in the net foreign assets of the financial system.

The other scenario of war extending beyond year-end is definitely much more worrisome. Real GDP would contract by no less than 11% in 2026 as a direct reflection of sluggish demand for goods and services amid war conditions. In particular, investors will maintain their wait and see attitude amid overall macro uncertainties, thus delaying or canceling investment decisions. The touristic sector would be the most hit, as touristic trips and Expatriates travels to Lebanon would be halted amid adverse security conditions.

In this worst case scenario, there are serious concerns about exchange volatility driving three-digit inflation rates again. The reason for that is the contraction in foreign currency mass amid the drop in remittances, FDI, exports and touristic receipts. This will generate a disequilibrium in the interaction between the Lebanese Pound monetary mass and the foreign currency monetary mass, putting pressures on the currency. Fundamentally, the balance of payment will be in large deficit, as a result of the wide gap between inflows and outflows, while the fiscal balance would report a noticeable deficit amid contracting public revenues and surging public expenditures at large.

Given the considerable discrepancies between the outcomes of the two scenarios, the Lebanese are today keeping their fingers crossed so that the grim war reaches a definite end soon, a settlement takes place to ensure it does not emerge again, the politicians bear witness of constructive and conciliatory behavior the country can productively build on and the policymakers re-embark on the hoped for firm reform path to ensure the long awaited recovery process is finally put on track.