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SLIGHT MACRO IMPROVEMENT IN SUMMER MONTHS FOLLOWING SLUGGISH SECOND QUARTER

Macro activity relatively fared well in summer

Following a very sluggish second quarter of the year amid war, the third quarter showed a slight improvement in Lebanon's economic and markets activity as witnessed by a number of real sector and financial indicators. In fact, despite the uncertainty surrounding the course of the negotiations and the security situation in the south, which is consequently weighing on the momentum of economic activity in general, macro activity relatively fared well in summer.

Foreign trade impacted by war conditions

Lebanon's imports, a reflection of its aggregate demand curve, declined by 5% in the months of March to July relative to the same period last year, while they had started the first two months of the year with an annual growth of 32%. Likewise, exports contracted by 10% annually in the months of March to July. For the first seven months of 2026, imports are up by 4.1% yoy driven by price effects, while exports are down by 16.4% over the period.

An excess of inflows over outflows despite adverse security conditions

The first eight months of 2026 saw a nominal surplus in the balance of payments of US\$ 1,426 million as reported by the increase in the net foreign assets of the financial system (BdL+Banks). Net of the rise in gold reserves impacted by the surge in international gold prices, the real balance of payments reported a surplus of US\$ 844 million over the eight-month period, outlining the excess of inflows over outflows. Such a surplus yet compares to a much higher surplus of US\$ 3,289 million in full-year 2025.

Balanced Government Budget for 2027, targeting 14% increase from previous year

Lebanon's 2027 Budget Proposal, recently ratified by Cabinet, targets a zero overall deficit, yet with a primary surplus of US\$ 173 million, the equivalent of 0.4% of GDP, rising to 2.4% of GDP in 2028 as per Ministry of Finance (MoF) forecast. The 2027 Budget Proposal is based on a 14.2% growth in both public revenues and expenditures to reach US\$ 6.9 billion. Out of total revenues, VAT maintains the lion's share of 52%. Out of total expenses, public salaries maintain the lion's share of 68%.

Currency stability maintained in first nine months of 2026 through tightened currency in circulation

Currency stability has been maintained over the first nine months of 2026 despite the strain of the war, primarily helped by the Central Bank of Lebanon's containing the currency in circulation to curb any speculative activity on the foreign exchange market. Exchange rate stability was further supported by the realisation of a fiscal surplus this year forecasted by the World Bank at 1.3% of GDP in 2026, driven by collection of the excise tax on gasoline since last February and continued fiscal discipline.

Deepened equity losses in first nine months of 2026, bonds extend price surge

Lebanon's equity market faced extended losses over the first nine months of 2026 as investor sentiment deteriorated amid escalating regional geopolitical tensions and continuous Israeli attacks across various Lebanese territories since March 2. In contrast, activity on the Eurobond market remained tilted to the upside over the first nine months of 2026 amid renewed prospects for debt restructuring.

Thoughts about the application of a Currency Board in Lebanon

The analysis of Pros and Cons suggests that a currency board could provide Lebanon with a stabilization and credibility mechanism, particularly given pervasive dollarization and the uncertainty regarding discretionary policies. However, it should be viewed as a capstone to a comprehensive recovery programme—not a substitute for one. Adoption would be defensible only after: (1) the exchange rate is unified and a sustainable conversion rate is selected; (2) sovereign and banking losses are transparently recognized and allocated; (3) viable banks are recapitalized and liquidity safeguards are established; (4) fiscal rules prohibit central-bank financing; and (5) strong governance, reserve-disclosure, and exit provisions are enacted. With these preconditions firmly in place, a currency board could become a durable monetary anchor that helps restore confidence, reinforce stability, and support Lebanon's economic recovery at large.

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Following a very sluggish second quarter of the year amid war, the third quarter showed a slight improvement in Lebanon's economic and markets activity as witnessed by a number of real sector and financial indicators. In fact, despite the uncertainty surrounding the course of the negotiations and the security situation in the south, which is consequently weighing on the momentum of economic activity in general, macro activity relatively fared well in summer.

First, the number of arrivals at Beirut Airport reported a yearly decline of 5.8% in the third relative to the third quarter of last year. The second quarter had witnessed a decline in arrivals by 44.4% amid wide security concerns. The relative improvement in summer was accompanied by the United Arab Emirates lifting its travel ban on visitors to Lebanon, in addition to Saudi Arabia lifting its ban on Lebanese exports.

Second, the Eurobond market in particular witnessed a notable price increase, coinciding with the ratification of legislative laws in Parliament. The latter has helped stimulate demand for Lebanese securities from foreign institutional investors over the past few weeks, particularly since an advancement at the legislation front constitutes a fundamental pillar for launching the public debt restructuring plan and a key milestone in securing the expected financial support from the International Monetary Fund. In this context, government bond prices rose from 24 cents per dollar in June to 30 cents per dollar in September, representing an increase of 25%, noting that trading volumes remained modest amid the summer holiday period for some investors.

Third, Banque du Liban's foreign-currency reserves that had witnessed a drop since the onset of the war at the beginning of March, stabilized during summer months as a result of increased demand for the Lebanese pound on the foreign-exchange market. This occurred despite the fact that Banque du Liban is paying more than US\$ 220 million per month under the various circulars, in addition to its settlement of public-sector salaries, amounting all in all to a total disbursement of above US\$ 400 million per month.

Fourth, another noticeable market factor is the renewed increase in gold prices and its impact on Banque du Liban's reserves. With global gold prices rising over the third quarter, as the price of an ounce jumped from US\$ 4,000 in June 2026 to US\$ 4,200, Banque du Liban's gold reserves are estimated to have increased from US\$ 37 billion in end-June 2026 to approach the US\$ 40 billion threshold again. It is worth mentioning that the increase in BDL gold reserves since the beginning of the crisis in October 2019 stands at circa 177%, the equivalent of US\$ 26 billion.

Fifth, fresh deposits in Lebanese banks increased by an average of US\$ 144 million per month this year, exceeding US\$ 5.6 billion in August. This represents stronger growth than that recorded last year, when fresh deposits increased by US\$ 107 million, and compared with US\$ 33 million in 2024. It is worth recalling that last year had witnessed a significant breakthrough at the broader political and economic level.

Given the significant discrepancies in the different scenarios anticipated for the remaining of 2026 and for the coming year 2027, the Lebanese are today keeping their fingers crossed so that the war reaches a definite end soon with preset arrangements that it won't resurface again, politicians bear witness of concessional constructive behavior that the country can productively build on, the policy makers embark on the hoped for firm reform path and the international community show readiness to provide the much needed support for domestic resurgence, revival and recovery at large.

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture and Industry

Noticeable measures in Q3 2026 to mitigate effects of war on Lebanon's primary and secondary sectors

Lebanon's primary and secondary sectors are pursuing sustainable measures throughout the third quarter of 2026 to support post-war recovery, as the conflict escalation in March posed significant risks to local production. Although a ceasefire was announced in mid-April, persisting insecurity, large scale population displacement and damage to assets and infrastructure, continue to suppress agricultural and industrial activity. In parallel, shipping disruptions through the Strait of Hormuz contributed to a sharp increase in fuel and fertilizer prices, which led to an increase in domestic production costs.

In the primary sector, up to 56,000 hectares of agricultural land have been affected by direct conflict damage and access constraints, representing approximately 22.5% of the total cultivated area, according to the FAO. Additionally, access to land remains a major challenge, with approximately 78% of farmers in Southern Lebanon reporting that they are unable to access their agricultural land, posing a potential risk to future production cycles. The displacement of farmers and agricultural workers has further contributed to significant losses, including the destruction of over 700 greenhouses, the disruption of seasonal crop cycles, and the loss of more than 1.8 million animals across 1,600 affected farms.

Against this backdrop of agricultural disruption, the Lebanese Ministry of Agriculture and the Saudi Ministry of Environment, Water and Agriculture held their first virtual in late June coordination meeting to enhance bilateral agricultural cooperation and food security. Technical delegations from both nations, covering livestock, agricultural and veterinary quarantine, quarries and food industries, participated in the talks, establishing a collaborative framework to expand partnership opportunities and support local farmers and producers.

In parallel, the Italian Government contributed to up to US\$ 5.6 million in July to an emergency agricultural program in Lebanon to support communities affected by conflict. Implemented by the FAO in partnership with the Ministry, the initiative delivers vital aid across South Lebanon, Nabatieh, the Bekaa and Baalbek-Hermel. Over 9,850 vulnerable households would receive emergency cash, agricultural vouchers, seeds, livestock feed and vaccines. Additionally, approximately 2,200 Internally Displaced Persons (IDPs) would gain temporary employment through "cash-for-work" initiatives. The project would also strengthen 40 agricultural cooperatives and train 60 Ministry of Agriculture employees to improve rapid emergency response.

Concomitantly, under the oversight of the Ministry of Agriculture, a joint agreement was signed in August by the UNDP, the Council for Development and Reconstruction (CDR) and the World Bank, to launch the US\$ 18.5 million GATE project. This climate-smart initiative provides direct cash grants to revitalize Lebanon's crisis- and war-affected agricultural sector, offering up to US\$ 35,000 for cooperatives and US\$ 500 to US\$ 5,000 for individual farmers. The funding targets critical upgrades like renewable energy, irrigation, modern machinery and facility rehabilitation. To promote inclusivity, the standard 20% beneficiary matching contribution is reduced to 10% for women-led operations.

Concurrently, the Order of Malta Lebanon launched in October 2026 a humanitarian agriculture initiative at its Agro-Humanitarian Center in Jezzine. The initiative, which is executed in cooperation with the Lebanese Ministry of Agriculture within the framework of the AHEAD program (supported by Malteser International and funded by the German Foreign Office), distributes specialized fodder and essential inputs to local livestock breeders and farming families.

As to the secondary market, the war negatively affected Lebanon's industrial activity by damaging facilities, disrupting supply chains, increasing production costs, and limiting access to domestic and international markets. The closure of the Strait of Hormuz added another layer of risk, particularly through higher energy

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prices, increased shipping and insurance costs, and delayed in the delivery of raw materials. These pressures affected Lebanese manufacturers by increasing operating expenses, reducing production capacity and weakening competitiveness, especially in energy-intensive industries.

On the other hand, Lebanon's industrial sector is seeking to boost growth through strategic collaborations. In details, the UAE and Lebanon have taken an important step toward strengthening their economic relations through a high-level visit in August by a delegation of around 90 Emirati businessmen, investors, and economic leaders, headed by UAE Ministry of Foreign Trade. The visit aimed to encourage investment, expand trade and establish long-term partnerships between the private sectors of both countries.

During the forum, five memorandums of understanding were signed to strengthen cooperation between the chambers of commerce, establish a joint Lebanese-Emirati Business Council, and promote collaboration in agricultural research, food security and greenhouse technology. Other potential areas of cooperation include renewable energy, digital transformation, artificial intelligence, logistics and tourism. The Lebanese Ministry of Industry emphasized that the country has significant investment potential due to its skilled workforce, entrepreneurial private sector, and strategic location, while acknowledging that financial reforms, political stability, stronger institutions, and improved infrastructure are necessary to attract investors.

Overall, the visit represents a positive step toward restoring confidence in Lebanon's economy, attracting Emirati investment, supporting reconstruction and strengthening industrial and commercial relations. However, the success of this partnership would depend on whether the agreements and discussions lead to concrete investments, new projects, job creation and sustainable economic growth in both countries.

Looking forward, rehabilitating damaged agricultural infrastructure, value chains and processing facilities, and securing financial assistance would be crucial to supporting Lebanon's recovery from the war, revitalizing the primary and secondary sectors, and promoting long-term economic recovery and sustainable development.

1.1.2 Construction

Real estate sector witnesses narrower decline in transaction values amid subdued construction activity

Real estate activity in Lebanon remained subdued during the first eight months of 2026, as reflected by the continued year-on-year contraction in property sales and foreign transactions. Nevertheless, the decline in the value of property transactions was less pronounced, supported by a relative price appreciation and an improvement in activity during the summer months. On the construction front, both the number of permits issued and the authorized construction area recorded declines during the first seven months of the year, pointing to continued weakness in construction activity.

CONSTRUCTION

	2019	2025	8M-25	8M-26	Variation 8M/8M
Value of property sales (in millions of US\$)	6,839	6,157	3,891	3,744	-3.8%
Number of property sales	50,352	70,981	45,313	34,549	-23.8%
o.w. Sales to foreigners	993	1,485	1,057	517	-51.1%
Average value per property sale (in US\$ 000)	136	87	86	108	26.2%
Property taxes (in millions of US\$)	302	280	169	168	-0.5%

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At the level of demand, during 8M-2026, the number of property sales decreased by 23.8% to register 34,549 operations, down from 45,313 operations in 8M-2025. The regions in Lebanon with the highest shares of property sales during the period were Beirut (25.3%), Metn (20.4%), Baabda (16.8%) and Keserouan (13.3%), followed by South Lebanon and North Two, each accounting for 6.6% of total sales. In parallel, the value of transactions decreased by 3.8% during the period to reach US\$ 3,744.3 million in 8M-2026, down from US\$ 3,890.5 million in the corresponding period of the previous year. Additionally, the number of sales to foreigners recorded a 51.1% year-on-year decline, reaching 517 sales in 8M-2026, down from 1,057 in 8M-2025, according to data from the Directorate of Land Registry and Cadastre (DLRC).

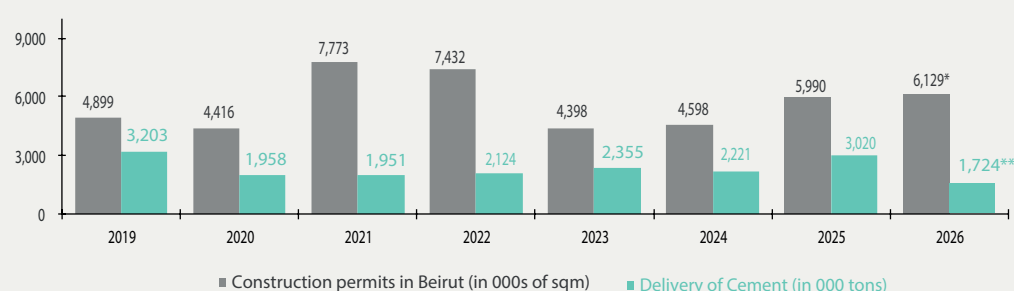
The figures point to continued weakness in real estate demand during 8M-2026, although the summer months witnessed a relative improvement in market activity. Notably, the value of property transactions increased by 8.6% year-on-year during July and August 2026 to reach US\$ 1,125.2 million, compared to US\$ 1,035.8 million during the corresponding period of 2025, despite a 13.0% decline in the number of sales operations over the same period. This divergence was accompanied by an increase in the average recorded transaction value, with the average recorded transaction value increasing by 26.2% year-on-year to US\$ 108,376 in 8M-2026. Meanwhile, the contraction in foreign sales moderated to 22.6% during July and August, compared to a decline of 57.7% during H1-2026, pointing to a relative easing in the weakness of foreign participation. Nevertheless, cumulative property sales remained down by 23.8% year-on-year in 8M-2026, indicating that the improvement in market activity remained uneven.

In parallel, property taxes collected during 8M-2026 reached LP 15.0 trillion (US\$ 167.8 million), registering a marginal year-on-year decline of 0.5% from LP 15.1 trillion (US\$ 168.6 million) during the corresponding period of 2025, reflecting relative stability in property-related tax receipts despite the contraction in transaction activity.

Looking at construction supply in Lebanon, the number of construction permits decreased by 32.5% year-on-year to reach 3,315 permits in 7M-2026, down from 4,909 permits during the corresponding period of 2025, according to data from the Beirut and Tripoli Orders of Engineers. In parallel, the total authorized construction area decreased by 15.3% year-on-year to reach 3,711,690 square meters, reflecting a less pronounced contraction in permitted surfaces compared to the number of authorizations. Looking at the regional distribution of construction permits during 7M-2026, Mount Lebanon accounted for the largest share at 53.7% of total permits, followed by South Lebanon (15.1%), North Lebanon (12.3%), Bekaa (9.5%), Nabatiyeh (7.1%) and Beirut (2.3%). Notably, Beirut and Mount Lebanon recorded increases in the number of permits of 44.2% and 24.8% year-on-year respectively, contrasting with significant declines in North Lebanon (69.3%), Nabatiyeh (64.0%) and South Lebanon (52.6%), highlighting the increasingly uneven geographical distribution of construction activity.

Overall, Lebanon's real estate sector continued to register a contraction during the first eight months of 2026, albeit with some improvement in transaction values during July and August. Meanwhile, construction indicators remained on a downward trend, with lower permit issuances and authorized surfaces, reflecting persistent weakness in construction activity despite the relative improvement observed in real estate transactions.

EVOLUTION OF CONSTRUCTION INDICATORS



*Annualized three-month figures

** Annualized five-month figures

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1.1.3. Trade and Services

Lebanon's tertiary sector witnesses relative improvement in the third quarter following sharp disruptions earlier in the year

Lebanon's tertiary sector witnessed a relative improvement in activity during the third quarter of 2026, following the sharp deterioration in economic conditions recorded during the second quarter amid escalating regional hostilities. Tourism and transport activity showed signs of recovery during the summer months, as reflected in the notable moderation in the contraction of passenger arrivals at Beirut International Airport, supported by improved mobility and the easing of travel restrictions by Gulf countries. On the trade front, the resumption of Lebanese land exports to Saudi Arabia marked a positive development, although maritime merchandise traffic remained subdued compared to the previous year. Overall, the sector recorded a mixed performance during the first nine months of 2026, with the relative improvement witnessed during the third quarter contrasting with the persistent weakness in certain segments of the sector.

In details, looking at the tourism sector, the year-on-year results of BIA for the total number of passenger arrivals decreased by 23.8% in 9M-2026 when compared to 9M-2025. Nevertheless, the third quarter witnessed a notable improvement in airport activity following the sharp disruptions recorded during the second quarter amid the war, with passenger arrivals declining by a relatively modest 5.8% year-on-year in Q3-2026, compared to a contraction of 44.4% in Q2-2026. During September 2026, total passenger activity recorded 652,955 passengers, noting a year-on-year decrease of 4.2%, with 4,985 total landings and takeoffs recorded in BIA during the month, down from 5,227 in September 2025, reflecting a gradual improvement in air traffic activity following the significant disruptions witnessed earlier in the year. It is worth noting that passenger arrivals reached a recovery rate of 60.7% in 9M-2026 against levels recorded in the same period of 2019, showing a decrease of 18.9 percentage points from the recovery rate during 9M-2025. In parallel, the aviation transport sector continued to face challenges, although the pace of contraction moderated, with total passenger activity recording a year-on-year decrease of 21.6% in 9M-2026, compared to a decline of 32.5% in H1-2026. Meanwhile, MEA's share of total passenger traffic stood at 44.0% in 9M-2026, compared to 44.6% in the corresponding period of 2025, while the number of aircraft movements and total freight handled by the airport decreased by 17.3% and 27.4% year-on-year respectively during the period.

On the trade front, Lebanese land exports to Saudi Arabia resumed on August 20, 2026, with dozens of trucks loaded with agricultural products passing through the Masnaa border crossing en route to Saudi Arabia, more than two months after the approval of the resumption of Lebanese exports. In this context, plans were announced to redevelop the Masnaa crossing, the main land gateway for Lebanese trade, at an estimated cost of around US\$ 61 million over a three-year period, including dedicated lanes for trucks, buses and passengers. Moreover, Lebanon and Syria agreed in late August on a unified plan to develop transport and railway links between the two countries, with the formation of a joint technical team to follow up on implementation, while discussions also addressed the rehabilitation and reopening of the Al-Arida and Abboudieh border crossings.

TRADE AND SERVICES

	2025				2026				Variation	
	Q1	Q2	Q3	9M	Q1	Q2	Q3	9M	Q3/Q3	9M/9M
Number of ships at the port*	354	330	130	814	300	325	111	736	-14.6%	-9.6%
Number of containers at the port (in 000s)*	137	181	71	388	174	168	51	393	-28.4%	1.2%
Merchandise at the Port (in 000 tons)*	1,438	1,628	576	3,642	1,498	1,374	404	3,275	-30.0%	-10.1%
Planes at the Airport	10,406	13,543	17,851	41,800	10,064	8,023	16,488	34,575	-7.6%	-17.3%
Number of passengers at the Airport (in 000s)	1,255	1,745	2,404	5,403	1,094	932	2,211	4,236	-8.1%	-21.6%
Cleared checks in fresh dollars (in millions of US\$)**	153	201	185	539	365	417	339	1,120	83.3%	107.8%

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

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According to the latest statistics released by the Port of Beirut (PoB), the quantity of goods decreased by 10.1% year-on-year, reaching 3,275.3 thousand tons in 7M-2026, while the number of containers recorded a marginal yearly increase of 1.2%, pointing to relative resilience in container activity despite the contraction in overall merchandise traffic. On the other hand, the number of ships decreased by 9.6% year-on-year, reflecting continued pressures on maritime transport activity amid the challenging regional environment. The recovery rate in the quantity of goods handled through PoB during 7M-2026 stood at 79.5% against 2019 levels, standing 8.9 percentage points lower than in the corresponding period of 2025, suggesting that the recovery in port activity remains uneven despite the broader improvement in economic conditions witnessed during the summer months.

In parallel, the telecommunications sector witnessed positive developments during the third quarter of 2026, supported by continued network rehabilitation efforts and initiatives aimed at modernizing the country's telecommunications infrastructure. In this context, mobile operator Alfa reported the deployment of 93 new network sites across 2025 and 2026, including 46 since the beginning of the year, contributing to an improvement in network coverage in southern Lebanon from approximately 70% during the war to 90% by September. Moreover, both Alfa and Touch advanced the rollout of fifth-generation (5G) mobile services, with Alfa activating the technology in several areas and Touch announcing a phased deployment plan aimed at expanding coverage and enhancing network capacity. At the regulatory level, the Telecommunications Regulatory Authority launched public consultations on fiber-optic network licensing and deployment guidelines, marking a step toward establishing a clearer framework for infrastructure investment and private-sector participation.

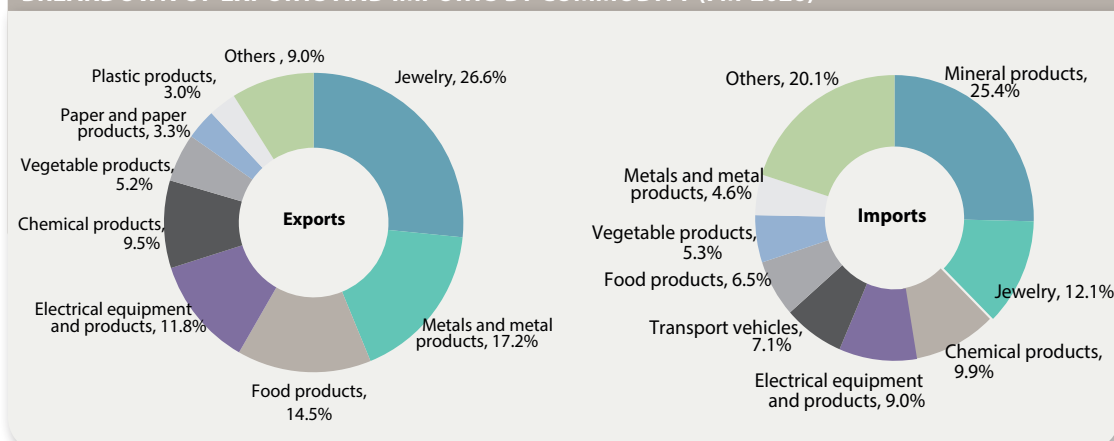
Overall, the tertiary sector's performance during 9M-2026 reflected a gradual stabilization in activity following the disruptions recorded earlier in the year. The relative improvement in tourism and passenger traffic during the third quarter contrasted with the continued contraction in maritime merchandise traffic and air freight, while developments in electricity and telecommunications reflected ongoing efforts to rehabilitate infrastructure and advance sectoral reforms. Taken together, these indicators point to an uneven recovery across the sector, with the summer months marking an improvement in economic activity relative to the particularly weak second quarter.

1.2. EXTERNAL SECTOR

Foreign trade adversely impacted by war conditions

Lebanon's imports, a veritable reflection of its aggregate demand curve, declined by 5% in the months of March to July relative to the same period last year, while they had started the first two months of the year with an annual growth of 32%. Likewise, exports contracted by 10% annually in the months of March to July. For the first seven months of 2026, imports are up by 4.1% yoy driven by price effects, while exports are down by 16.4% over the period.

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY (7M-2026)



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Looking at the evolution of the highest weighted imports into Lebanon in 7M-2026, Mineral Products (weight of 25.4%) imports noted a year-on-year increase of 7.6% against the same period of the year prior. Additionally, Jewelry (weight of 12.1%) imports recorded a year-on-year decrease of 17.5% between 7M-2025 and 7M-2026. Chemical Products (of 9.9%) weight recorded a 24.5% year-on-year increase in 7M-2026. Electrical Equipment & Products (weight of 9.0%) imports increased by 18.1% between 7M-2025 and 7M-2026, while Transport Vehicles (weight of 7.1%) imports increased by 20.3% during the period. Additionally, Food Products (weight of 6.5%) imports increased by 5.5%, while Vegetable Products (weight of 5.3%) posted a year-on-year decrease of 1.8%.

At the level of the evolution of imports into Lebanon by highest weighted exporting country, China (weight of 12.8%) noted a year-on-year increase of 14.2% in 7M-2026 compared to 7M-2025. Imports from Greece (weight of 8.3%) noted a year-on-year increase of 1.0%, while imports from Switzerland (weight of 6.7%) increased by 8.0% in 7M-2026. In parallel, imports from Egypt (weight of 6.4%) and the UAE (weight of 5.1%) noted year-on-year decreases of 5.1% and 21.0%, respectively, during the period. Additionally, imports from Saudi Arabia (weight of 6.3%) increased by 67.8% between 7M-2025 and 7M-2026.

Looking at the evolution of the highest weighted exports from Lebanon in 7M-2026, Jewelry (weight of 26.6%) reported a year-on-year decrease of 40.6% against the same period the year prior. Metals & Metal Products (weight of 17.2%) exports decreased by 2.6% between 7M-2025 and 7M-2026. Food Products (weight of 14.5%) exports noted a year-on-year increase of 3.6% during the period. In parallel, Electrical Equipment & Products exports (weight of 11.8%) increased by 17.5% year-on-year in 7M-2026. Concurrently, Chemical Products (weight of 9.5%) recorded a year-on-year decrease of 17.7%, while Vegetable Products (weight of 5.2%) exports noted a year-on-year increase of 9.5% during the aforementioned period.

At the level of the evolution of exports from Lebanon by highest weighted recipient country, Switzerland (weight of 15.9%) noted a year-on-year drop of 42.4% in 7M-2026 compared to 7M-2025, while exports to the UAE (weight of 10.9%) decreased by 46.7% during the period. In parallel, exports to Turkey (weight of 6.1%) noted a year-on-year jump of 56.5%, and exports from Lebanon to Syria (weight of 5.8%) noted a year-on-year increase of 15.9% in 7M-2026 compared to the same period of the year prior. Exports to Iraq (weight of 5.0%) increased by 12.7%, while exports to the USA (weight of 3.8%) decreased by 19.3% during the period.

Looking at the evolution of exports by port of entry during 7M-2026, exports through the Port of Beirut recorded a year-on-year decrease of 5.4% against numbers in 7M-2025. Additionally, exports through the Port of Tripoli noted a year-on-year drop of 50.3% during the period. Exports through the Port of Saida also noted a year-on-year decrease of 15.4% between 7M-2025 and 7M-2026. In turn, overall exports through the sea showed a year-on-year decrease of 13.1% during the period. Exports through the air (Beirut International Airport) dropped by 34.2% year-on-year between 7M-2025 and 7M-2026. Total exports by land (land crossings from Syria) increased by 72.9% in 7M-2026 compared to 7M-2025.

1.3. PUBLIC SECTOR

Balanced Government Budget for 2027, targeting 14% increase from previous year

Lebanon's 2027 Budget Proposal, recently ratified by Cabinet, targets a zero overall deficit, yet with a primary surplus of US\$ 173 million, the equivalent of 0.4% of GDP, rising to 2.4% of GDP in 2028 as per Ministry of Finance (MoF) forecast. GDP is forecasted at US\$ 42.4 billion by MoF for 2027, up from US\$ 37.6 billion in 2026, then to reach US\$ 47.3 billion in 2028. While real GDP growth is estimated to be contractionary this year at -7.5% as per MoF assumption, it is expected to recover to 4.5% next year and 5.0% the year after. Inflation, which is this year at a high of 15.0%, driven by surging oil prices, is set to contract to 9.0% in 2027 and to 7.0% in 2028.

The 2027 Budget Proposal is based on a 14.2% growth in both public revenues and expenditures to reach US\$ 6.9 billion. Out of total revenues, VAT maintains the lion's share of 52%. Out of total expenses, public salaries maintain the lion's share of 68%.

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Public revenues to GDP is expected to increase from 16.0% in 2026 to 16.2% in 2027 but then to 18.2% in 2028, while public spending to GDP is targeted to remain stable at 16.1% over the next couple of years, thus generating overall surplus and primary surplus.

Among the most important measures foreseen in the 2027 Budget draft prepared by the Ministry of Finance, we mention the following:

The draft budget expands income tax disclosure duties. More categories of taxpayers and institutions, including some that currently benefit from exemptions, must now report more detailed data on salaries, wages, and withheld taxes. The rules for taxing wages are also revised. Piece-rate wages paid to workers on an occasional basis will be taxed at three percent of their full value, with no deductions. Resident companies and individuals get a limited window to declare and pay tax on certain foreign income without facing penalties. This creates a narrow tax settlement opportunity tied to overseas earnings.

Profits from real estate transfers face new tax rates. Individuals not subject to income tax will pay a ten percent on transfer profits. Others will pay 15 percent. An exceptional one percent rate applies to some prior transfers of property. Deductions tied to the length of ownership apply, and profits can become fully exempt after a long holding period. Owners planning property sales should review these thresholds carefully before transacting.

Value added tax rules are revised on several fronts. The draft budget resets the trigger date for VAT liability across delivery of goods, provision of services, receipt of payment, and invoice issuance. Businesses that meet registration thresholds but delay registering will face a defined legal status under the new rules. Finance and accounting teams should review invoicing timelines against these updated triggers.

A broad range of administrative and public service fees are set to rise. These include General Security fees tied to sponsorship, visas, and residency permits, official exam fees, and fees for certificates and services from the Ministry of Education. Certification fees for commercial invoices and certificates of origin at diplomatic missions abroad are set at four per thousand of the value of the goods or document.

PUBLIC FINANCES: ACTUAL AND BUDGETED FIGURES (US\$ MILLION)

	Actual 2025	Budget Law 2026	Budget Draft 2027
Public Revenues	6,183	6,016	6,871
o.w Tax Revenues	4,646	4,912	5,902
o.w. Income taxes	796	644	889
o.w. Property taxes	351	402	380
o.w. Internal Consumption taxes (including VAT)	2,903	2,858	3,591
o.w. Taxes on international trade	368	826	748
o.w. Other tax revenues	227	182	293
o.w Non Tax Revenues	1,537	1,104	969
o.w. Revenues of State-owned enterprises	650	735	745
o.w. Other non tax revenues	887	369	224
Public Expenditures	4,739	6,016	6,871
o.w Current spending	4,398	5,296	6,128
o.w. Staff expenses	2,582	3,812	4,705
o.w. Debt service	304	290	173
o.w. Other current spending	1,513	1,193	1,250
o.w. Consumption goods	-	603	628
o.w. Emergency expenses	-	164	148
o.w. Others	-	427	474
o.w Capital spending	341	720	743
Public deficit (surplus)	1,445	0	0
Debt Service	304	290	173
Primary deficit (surplus)	1,749	290	173
Deficit/Expenditures	30.5%	0.0%	0.0%
Capital Spending/Expenditures	7.2%	12.0%	10.8%
Deficit(surplus)/GDP	4.0%	0.0%	0.0%
Revenues/GDP	17.3%	1433.1%	16.2%
Expenditures/GDP	13.2%	16.0%	16.2%
Primary Deficit(surplus)/ GDP	4.9%	0.8%	0.4%
GDP	35,800	37,570	42,400
Real GDP growth	4.0%	-7.5%	4.5%
Nominal GDP Growth	17.6%	4.9%	12.7%
Inflation	14.6%	15.0%	9.0%

Sources: IMF, Ministry of finance, Bank Audi's Group Research Department

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The ratification of Budget 2027 along with a Medium Term Fiscal Framework should pave the way for a Staff level Agreement between Lebanon and the International Monetary Fund, specifying prior actions that need to be implemented before a final agreement with the Fund's Board is reached. An IMF delegation is expected to visit Lebanon following the annual meetings of the Fund and the World Bank to resume negotiations aimed at making progress toward reaching a Staff-level Agreement (SLA), while the Lebanese government renewed its commitment to continuing the reform path and completing the legislation and measures necessary to address financial and banking imbalances.

1.4. FINANCIAL SECTOR

1.4.1 Monetary situation

Currency stability maintained in first nine months of 2026 through tightened currency in circulation

Currency stability has been maintained over the first nine months of 2026 despite the strain of the war, primarily helped by the Central Bank of Lebanon's containing the currency in circulation to curb any speculative activity on the foreign exchange market. Exchange rate stability was further supported by the World Bank's projection of a fiscal surplus of 1.3% of GDP in 2026, driven by collection of the excise tax on gasoline since last February and continued fiscal discipline.

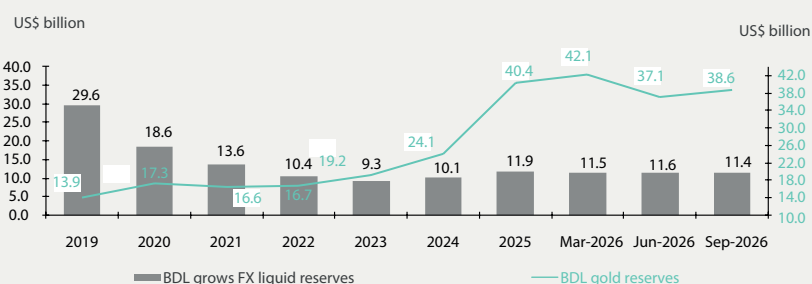
In detail, the LP/US\$ parallel market rate continued to move marginally around 89,600-89,700 over the first nine months of 2026, while the Central Bank of Lebanon's liquid FX reserves reported mild net contractions over the period. In detail, BDL's liquid foreign reserve assets reached US\$ 11,397 million at end-September 2026 against US\$ 11,895 million at end-December 2025, which marks a net decline of US\$ 498 million over the first nine months of the year. Within this context, it is worth mentioning that BDL saw its foreign exchange reserves draw down by an average of US\$ 55 million per month over the first nine months of this year. This mild contraction occurred despite substantial cash outflows, with BDL disbursing more than US\$ 220 million monthly under basic circulars 158 and 166, and paying public sector wages, which 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 peaked at US\$ 47,750 million at end-February 2026, slid to US\$ 38,617 million at end-September. This compared to US\$ 40,374 million at end-December 2025, which marks a net contraction of US\$ 1,758 million in the first nine months of this year. This is mainly explained by a fall in gold prices globally after the US Federal Reserve delivered its first interest rate hike in more than three years in its September FOMC meeting, and as traders are currently pricing in a second rate hike this year in December and two additional rate hikes in 2027.

MONETARY SITUATION

Flows in US\$ million	8M-25	8M-26	Progression
	Vol	Vol	Vol
Net foreign assets (excluding gold)	2,684	833	-1,852
Net claims on the public sector (excluding valuation adjustments)	-2,120	-1,799	321
Claims on the private sector	-262	-151	111
Uses=Sources	302	-1,118	-1,420
Money (M3)	-780	-1,747	-967
Valuation adjustment and other items	1,082	629	-452

EXCHANGE MARKET INDICATORS



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On the other hand, the currency in circulation outside BDL reached LP 55.7 trillion at end-September 2026 compared to LP 71.5 trillion at end-December 2025, marking a contraction of LP 15.8 trillion over the first nine months of 2026, the equivalent of US\$ 176 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-September level of currency in circulation represents around 5.5% 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 nine months 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 38,104 billion at end-September 2026, down from LP 47,847 billion at end-December 2025, denoting a contraction of LP 9,743 billion.

Looking ahead, currency stability in Lebanon would continue to rely heavily on the Central Bank drawing down its FX reserves and maintaining tight local currency liquidity. However, the World Bank sees that the exchange rate anchor could come under pressure in case of prolonged weaker inflows, higher external payments and conflict-related shocks.

1.4.2 Banking activity

An excess of inflows over outflows despite adverse security conditions

The first eight months of 2026 saw a nominal surplus in the balance of payments of US\$ 1,426 million as reported by the increase in the net foreign assets of the financial system (BdL+Banks). Net of the rise in gold reserves impacted by the surge in international gold prices, the real balance of payments reported a surplus of US\$ 844 million over the eight-month period, outlining the excess of inflows over outflows. Such a surplus yet compares to a much higher surplus of US\$ 3,289 million in full-year 2025.

The 8-month period witnessed a contraction in FX deposits of US\$ 1,725 million coupled with a quasi-stability in LL deposits. The contraction in FX deposits is mostly tied to the settlement of local dollar deposits through BDL circulars 158 and 166, while fresh deposits have been on the rise. The latest fresh dollar deposit figure is that of August 2026, and which stands at US\$ 5,650 million, up by US\$ 1,149 million since the beginning of the year.

The period also witnessed a contraction in the banks US\$ loan portfolio, despite the extension of new loans in fresh US\$. This is due to the settlement of some old loans in the system. As a matter of fact, the banking sector US\$ loan portfolio dropped from 5,085 million in December 2025 to US\$ 4,844 million in August 2026. Paradoxically, LL loans rose from the equivalent of US\$ 116 million to US\$ 155 million over the same period.

In parallel, interest rates have been on an upward trend this year, especially LL interest rates. The average interest rate on LL deposits rose from 3.68% in December 2025 to 4.79% in August 2026, a rise of 1.11%. The

BANKING ACTIVITY

in millions of US\$	Oct-19	Dec-25	Aug-26	Var 8M-26
Total assets	262,804	102,305	100,509	-1,796
Total shareholders' equity	20,602	4,722	5,516	794
Total deposits	168,364	87,191	85,518	-1,673
o.w. LP deposits	44,727	949	1,001	52
o.w. FC deposits	123,637	86,242	84,517	-1,725
Total credits	54,166	5,201	4,999	-203
o.w. LP credits	16,029	116	155	38
o.w. FC credits	38,136	5,085	4,844	-241

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average interest rate on US\$ deposits rose from 0.09% in December 2025 to 0.20% in August 2026, a rise of 0.11% year-to-date.

As to banking sector US\$ liquidity, a significant surge was reported year-to-date. Gross FX liquidity reported US\$ 8,509 million in August 2026, against US\$ 7,378 million in December 2025. The August 2026 gross FX liquidity is broken down as follows: US\$ 6,019 million in claims on non-resident banks, US\$ 738 million in cash in vault in FX and US\$ 1,752 million in non-resident security portfolio.

Finally, the banking sector shareholder equity reported an increase of US\$ 794 million over the eight-month period to reach US\$ 5,516 million in August 2026. Despite this year equity rise driven by positive profitability, the sector's shareholder equity remains much less than the October 2019 figure of US\$ 20,602 million as a result of substantial accumulated losses since then.

1.4.3 Equity and Bond Markets

Deepened equity losses in first nine months of 2026, bonds extend price surge

Lebanon's equity market faced extended losses over the first nine months of 2026 as investor sentiment deteriorated amid escalating regional geopolitical tensions and continuous Israeli attacks across various Lebanese territories since March 2, alongside a grim World Bank forecast projecting a 6.4% contraction in the Lebanese real economy, reflecting the collapse in tourism, weaker consumption, disrupted supply chains, heightened insecurity and prolonged displacement. In contrast, activity on the Eurobond market remained tilted to the upside over the first nine months of 2026. This came on the heels of US-brokered direct talks between Lebanon and Israel, and the Parliament's legislative site in summer.

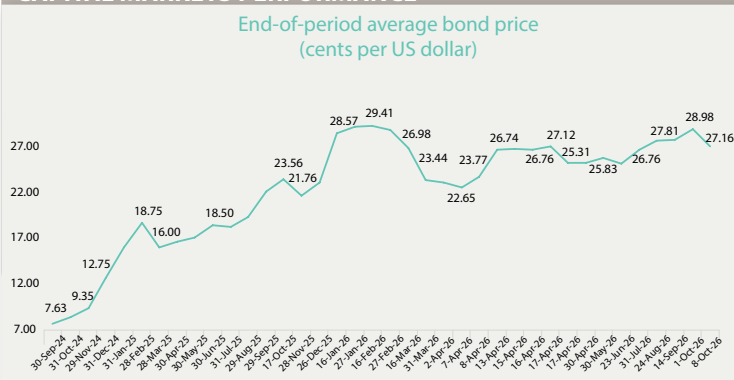
In details, the Beirut Stock Exchange extended its nosedive over the first nine months of the year 2026, with the price index shedding 13.0% on top of a 23.4% contraction in 2025. This prolonged downturn stems primarily from crippled investor sentiment, driven by the intensifying US-Iranian conflict and ongoing Israeli attacks across various Lebanese territories.

A closer look at individual stocks shows that heavyweight Solidere "A" and "B" share prices plunged deeper into the red in the first nine months of 2026, shedding 17.5% and 15.2% respectively to reach US\$ 69.30 and US\$ 70.10 respectively at end-September. 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 12-fold since the onset of the crisis. Amongst banking shares, Bank Audi's "listed" share price declined by 1.6% to

FINANCIAL SECTOR (NON BANKS)

	2019	2020	2021	2022	2023	2024	2025	Sep-26
Beirut Stock Exchange								
Market capitalization (In millions of US\$)	7,540	7,176	10,625	14,578	20,597	25,693	19,687	17,133
Total trading volume (In millions of US\$)	197	233	354	440	581	525	321	184
Annualized trading volume/Market capitalization	2.6%	3.2%	3.3%	3.0%	2.8%	2.0%	1.6%	1.4%
Price index	69.7	63.5	94.0	129.0	182.3	227.4	174.2	151.6
% change in index	-16.9%	-8.9%	48.1%	37.2%	41.3%	24.7%	-23.4%	-13.0%
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	28.74

CAPITAL MARKETS PERFORMANCE



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US\$ 1.88. Bank Audi's GDR price plummeted by 41.1% to US\$ 1.70. BEMO's "listed" share price contracted by 33.3% to US\$ 1.00. In contrast, BLC Preferred shares "D" registered a price surge from US\$ 3.00 at end-December 2025 to US\$ 39.00 at end-September 2026. BLOM's "listed" share price jumped by 27.5% to US\$ 7.97, followed by BLOM's GDRs with +22.1% to US\$ 7.02, and Byblos Bank's "listed" shares with +10.2% to US\$ 0.65. As to industrials, Ciments Libanais' share price fell by 31.9% to US\$ 49.00. Ciments Blancs' share price nosedived by 71.9% to US\$ 10.50.

Along with deep equity price falls, the Beirut Stock Exchange was marked by reduced price volatility in the first nine months of 2026. In fact, the price volatility, measured by the ratio of the standard deviation of prices to the mean of prices, reached 2.4% in the first nine months of 2026 compared to a higher price volatility of 10.3% during the corresponding period of 2025.

As to trading volumes, the BSE total turnover contracted by 16.6% year-on-year, moving from US\$ 221.0 million in the first nine months of 2025 to US\$ 184.3 million in the first nine months of 2026. Solidere shares remained the major player, capturing 82.3% of total activity, followed by the industrial shares with 13.6% and the banking shares with 4.1%. The market capitalization on Lebanon's equity market contracted by 16.3% over a 12-month period, moving from US\$ 20,474 million at end-September 2025 to US\$ 17,133 million at end-September 2026. Accordingly, the BSE total turnover ratio, measured by the annualized trading value to market capitalization, reached 1.4% in the first nine months of 2026, with no change relative to the corresponding period of 2025.

In contrast, the Lebanese Eurobond market maintained its strong upward momentum during the first nine months of 2026. Building on the significant gains recorded in 2025, this ongoing rally was propelled by US-mediated direct talks between Lebanon and Israel, alongside the Parliamentary legislative site. Sentiment was further bolstered by the cabinet's approval of the 2027 draft budget, alongside market anticipation of an upcoming IMF mission visit following the Fund's October meetings. Consequently, by end-September, prices of Lebanese Eurobonds returned to levels unseen since the outbreak of Israeli military strikes in early-March 2026, ranging between 28.13 and 30.75 cents on the dollar, up from 23.10 cents at end-December 2025 and 12.70 cents at end-December 2024.

However, by the time of writing this report, the Lebanese Eurobond market has experienced a price retreat, with sovereign valuations slipping to 26.00–28.63 cents on the dollar. This pullback reflects growing investor caution, as market participants now see that securing a Staff-Level Agreement with the IMF remains highly challenging. In fact, significant friction persists over the Bank Resolution Law. Furthermore, a final agreement hinges on enacting a Financial Gap Law that is consistent with international standards, securing a debt-sustainable 2027 budget and medium-term fiscal framework, and establishing enhanced public financial management and governance.

Against this backdrop, Goldman Sachs noted in a recent report that uncertainties related to the legislative and geopolitical hurdles that remain in the way of an eventual debt restructuring justify some caution with respect to the valuation of Lebanon's defaulted Eurobonds. Accordingly, Goldman Sachs continues to view pricing at around 29 cents on the dollar as "overly optimistic".

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CONCLUSION: APPLYING A CURRENCY BOARD TO LEBANON - PROS AND CONS

In the concluding part of the report, we will be addressing the Pros and Cons of Applying a Currency Board Regime in Lebanon. Starting with the concept, a currency board would legally fix the Lebanese pound to an anchor currency—most plausibly the US dollar—while requiring the monetary authority to exchange pounds for dollars on demand and to back the monetary base fully, or nearly fully, with liquid foreign assets. Unlike a conventional peg, it would sharply restrict discretionary money creation, central-bank financing of government, and lender-of-last-resort support. The arrangement would therefore seek to replace policy discretion with a transparent, rules-based commitment.

Potential Advantages from having a currency Board in Lebanon are many. They revolve around the following:

A strong nominal anchor. After the pound lost more than 98% of its value during the crisis, a credible statutory peg could rapidly lower exchange-rate uncertainty and help anchor inflation expectations. Tighter control of money supply, cessation of government financing, and exchange-rate stability already contributed to a marked deceleration of inflation since mid-2023.

- Greater policy credibility and fiscal discipline. Full reserve backing would prevent monetary financing of fiscal deficits and constrain future quasi-fiscal operations. For Lebanon, where confidence in monetary institutions has been severely damaged, the simplicity and verifiability of the rule could strengthen credibility.
- Consistency with de facto dollarization. Large parts of Lebanon's cash economy, pricing system, remittance flows, and external trade already operate in US dollars. A dollar-linked board could formalize prevailing behavior while preserving a domestic currency for smaller transactions.
- Lower transaction costs and risk premia. A durable peg could reduce currency-conversion costs, improve price transparency, and—if accompanied by broader reforms—support trade, investment, remittances, and gradual financial intermediation.
- Encouragement of capital repatriation and formalization. By guaranteeing convertibility at a transparent rate and strengthening confidence in the currency, a credible board could encourage capital inflows, improving liquidity and supporting productive investment.
- Protection against political interference. A legally independent board with published reserve coverage would narrow the scope for discretionary interventions and increase accountability.

The application of a Currency Board Regime yet holds some disadvantages. Among these we mention the following most important ones:

- Loss of monetary flexibility. Lebanon would be unable to adjust interest rates or the exchange rate in response to domestic recessions, external shocks, or changes in competitiveness. Adjustment would instead occur through wages, prices, employment, and fiscal policy—potentially imposing high social costs.
- Demanding reserve requirements. Credibility requires sufficient unencumbered foreign assets to cover the defined monetary liabilities, plus a liquidity buffer. Gross reserves are not equivalent to freely usable net reserves, so a transparent asset-and-liability audit would be essential.
- No solution to legacy losses. A currency board would not by itself restructure public debt, allocate banking-sector losses, restore deposits, recapitalize viable banks, repair public finances, or reform electricity and governance. Exchange-rate unification would need to form part of a comprehensive recovery plan.

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- Risk of an inappropriate conversion rate. An overvalued rate would weaken competitiveness and drain reserves; an undervalued rate would crystallize wealth losses and raise domestic prices. Selecting the parity before balance-sheet restructuring could create major distributional effects.
- Credibility remains vulnerable to politics. The board would fail if fiscal deficits re-emerged, reserve data lacked transparency, exemptions weakened the rule, or authorities later altered the parity.

In sum, a currency board could provide Lebanon with a stabilization and credibility mechanism, particularly given pervasive dollarization and the uncertainty regarding discretionary policies. However, it should be viewed as a capstone to a comprehensive recovery programme—not a substitute for one. Adoption would be defensible only after: (1) the exchange rate is unified and a sustainable conversion rate is selected; (2) sovereign and banking losses are transparently recognized and allocated; (3) viable banks are recapitalized and liquidity safeguards are established; (4) fiscal rules prohibit central-bank financing; and (5) strong governance, reserve-disclosure, and exit provisions are enacted. With these preconditions firmly in place, a currency board could become a durable monetary anchor that helps restore confidence, reinforce stability, and support Lebanon's economic recovery at large.

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