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The BLOM Lebanon PMI grew further in February by 50.5 despite marginally slowing from January's peak (since May 2013) of 50.6. All sub-indices experienced growth this month, signaling expansion across various economic sectors. Stronger sales, particularly from abroad, supported economic growth and lifted employment into the growth zone for the first time since November 2023. The Future Output Index, a measure of business expectations for the next 12 months, recorded its second highest level ever, following January's peak. This suggests that business confidence is high and expect strong economic growth ahead. The outlook for tourism is particularly promising. In fact, the political landscape has significantly improved business sentiment. The election of a new president and the formation of a cabinet believed to be pro-reform, have boosted optimism among Lebanese businesses. This political stability and the potential for a spectrum of reforms may lead to sustained improvements in the business environment and economic performance.

That said, as per the Central Administration of Statistics (CAS), **the Consumer Price Index (CPI), representing the evolution of goods and services' prices consumed by households, revealed that Lebanon's annual inflation rate slowed to 16.09% in January 2025, down from December 2024's three-month peak of 18.1%. On a monthly basis, CPI rose by 1.10% in January 2025.** The easing of inflation rates over the past year and a half is partly due to increased dollarization in the economy and the stabilization of the exchange rate at around 89,500 LBP per USD.

In details, it is worthwhile to note that Food and Non-Alcoholic Beverages (20% of CPI) Prices rose by 20.86% year-on-year (YoY), Health (7.7% of the CPI) rose by 22.9% yearly, and Housing Water, Electricity, Gas, and Other Fuels (28.4% of CPI) saw a 17.21% annual increase.

In addition**, the activity at Rafic Hariri International Airport decreased by 4.3% YoY in January 2025**, despite a 9.1% YoY increase in arrivals, as departures fell sharply by 15% YoY. The decline in departures is attributed to the previously low number of arrivals in prior months, taking seasonality into account, reducing the pool of individuals leaving the country. Transit passenger numbers also fell by 75.2% in January 2025, driven by safety concerns that led travelers and airlines to avoid passing through Lebanon. However, **on a monthly basis, the airport saw a 13.5% increase in total passenger traffic in January 2025 compared to December 2024**. This growth was influenced by the ceasefire agreement with Israel and the resumption of operations by international airlines. Monthly arrivals decreased by 6.4% in January 2025, which is consistent with seasonal trends; December typically sees higher travel due to holidays, and many individuals who fled Lebanon during the conflict returned in December following the November 27, 2024, ceasefire. Transit passenger traffic surged by 162.3% month-on-month in January 2025 as Lebanon was perceived as safer and international airlines resumed transit operations.

Based on the Ministry of Tourism’s data, **the number of incoming visitors to Lebanon dropped by 32.13% YoY, reaching 1,131,100 by December 2024.** This decline is attributed to the intensification of the Israeli-Hezbollah conflict, particularly in the last few months of 2024. During this period, countries worldwide urged their citizens to leave Lebanon, and most airlines canceled their flights to Lebanon due to safety concerns. This situation led to rising ticket prices and fears of difficulty securing seats. Additionally, concerns about potential Israeli strikes on Beirut’s airport further exacerbated the situation. On November 27, 2024, a ceasefire was implemented, which eased the situation. Airlines resumed flights to Lebanon, and security concerns lessened. However, continuous Israeli breaches to the ceasefire agreement prevented tourism from returning to pre-war levels post-ceasefire.

According to the General Directorate of Land Registry and Cadastre (LRC), the cumulative number of real estate (RE) transactions reached 36,382, valued at $3.7B by December 2024. On a monthly basis, the number of RE transactions increased by 29.52% YoY from 3,340 transactions in December 2023 to 4,326 in December 2024, and compared to 2,500 transactions in November 2024. The value of real estate transactions in December 2024 reached $391.32M. Beirut held the largest share of the total value at 24.61%, amounting to $96.32M. Baabda followed with 24.47% of the total value, equivalent to $95.75M. It is to be noted that a ceasefire agreement was reached on November 27; however, no real estate transactions took place in the Nabatiyeh Governorate due to ongoing speculations, fears that tensions could reignite, and the extensive destruction that has left many areas unlivable.

The Association of Lebanese Banks (ABL) reported that **the total number of cleared checks in the Lebanese financial system decreased remarkably from 23,225 checks by January 2024 to 10,235 checks in January 2025. Similarly, the value of cleared checks in local currency decreased from LBP 7,154B in January 2024 to LBP 5,502B in January 2025. However, the value of cleared checks in foreign currency dropped from $ 311 M in January 2024 to $ 78M in January 2025.** Note that Banque du Liban (BDL) recently issued Circular 165, which permits depositors to make payments by check starting June 1st, 2023, as long as their accounts are in either fresh US dollars or Lebanese lira. To support this initiative, BDL has introduced a new clearing system, distinct from the one dedicated to pre-crisis deposits. This circular serves a dual purpose: it encourages customers to open new accounts in both Lebanese pounds and US dollars, while also aiming to decrease the country' s dependence on cash and stimulate economic recovery. As such, **in January 2025, the number of checks issued from fresh accounts reached 4,695, of which 3,410 checks are in USD currency amounting $46.46M and 1,285 checks are in LBP currency amounting LBP 2,834B. On a monthly basis, the total number of cleared checks (LBP & USD) in January 2025 was the highest since the introduction of the new clearing system and reached 4,695 checks.**

According to Lebanon's consolidated commercial banks' balance sheet, total assets declined by 10.84% on YoY basis to stand at $102.76B by December 2024 amid BDL's adoption of a new exchange rate of LBP 89,500 per USD effective 31/01/2024. On the assets side, currency and deposits with Central Bank represented a high figure of 77.52% of total assets; they dropped annually by 5.30% to settle at $79.66B in December 2024. Deposits with the central bank (BDL) represented 99.9% of total reserves, and decreased by 4.84% % YoY, to reach $79.58B in December 2024. Furthermore, vault cash in Lebanese pound declined by 83.71% on a yearly basis to stand at $80.22M by the same period. **On the liabilities side, resident customers' deposits were the main account, representing 65.23% of total liabilities; they dropped by 7.68% since December 2023 to reach $67.03B by the month of December 2024.** In more details, deposits in foreign currencies (being 98.96% of resident customers' deposits) declined by 4.56% YoY to reach $66.34B by December 2024, additionally deposits in LBP (1.04% of resident customers' deposits) fell by 77.61% YoY to stand at $694.4M by December 2024 especially after applying the new official exchange rate of 89,500. As for non-resident customers' deposits, grasping 20.35% of total liabilities, they recorded a drop of 1.06% and stood at $20.91B in December 2024. In details, the deposits in LBP fell by 84.03% to reach $30.36M and deposits in foreign currencies declined by 0.31% to reach $20.88B over the same period. In addition, non-resident financial sector liabilities remained at 2.44% of total liabilities and decreased by 13.12% YoY to reach $2.51B in December 2024.

As per the balance sheet of BDL, **the Central Bank's total assets increased by 0.55% annually, to reach $93.53B by mid-February 2025, amid adopting the 89,500 LBP/USD official rate by BDL since February 1st 2024.** Furthermore, the gold account, representing 28.77% of BDL's total assets, increased by 46.03% yearly to reach $26.9B by mid-February 2025. **BDL foreign reserve assets, consisting of 11.25% of total assets (after transferring the Eurobonds to securities portfolio and the other resident and / or illiquid assets to loans to financial sector) rose by 10.75% YoY and stood at $10.53B by mid-February 2025. Additionally, foreign reserve assets increased by $138.63 in the first two weeks of February 2025**.

On the liabilities front, financial sector deposits, representing 91.09% of BDL's total liabilities, decreased by 1.93% annually and reached $85.19B by mid-February 2025 compared to last year, of which more than 90% are denominated in dollars. Moreover, public sector deposits, representing 6.84% of BDL's total liabilities, rose by 48.18% yearly and reached $6.4B by mid-February 2025. Lastly, currency in circulation outside of BDL, consisting of 1.02% of BDL's total liabilities, rose by 52.85% annually to reach $951M by mid-February 2025 amid adopting the 89,500 LBP/USD official rate by BDL. It is interesting to note that concomitant to the currency increase, foreign reserve assets increased by almost the same at around $1B during the same period.

Based on BDL's latest monetary report, **the Balance of Payments (BOP) recorded a surplus of $6,437M in 2024, far higher than the surplus over the same period last year of $2,237M.** Net Foreign Assets (NFAs) of BDL rose by $5,714M while the NFAs of commercial banks increased by $723M in 2024. In the month of December 2024, the NFA of BDL and commercial banks decreased by $502.5M and $289.9M respectively, generating a deficit of $792.4M.

On a different note, during a presentation with the International Rating Standard & Poor's (S&P), Ministry of Finance (MoF) revealed that a $300 million (LBP 27 trillion) surplus was realized in 2024, contrary to the 2024 budget law that estimated a deficit of LBP 17.19 trillion. The revenues collected in 2024 showed an increase of 18.84% compared to 2024 budget law prepared by the MoF, which estimated revenues to reach $3.45 billion (LBP 308 trillion) out of which $2.72 billion (LBP 243.09 trillion) from tax revenues (mainly Value Added Taxes "VAT"). Regarding expenditures, it totaled $3.8 billion (LBP 340 trillion) and the major part went to salaries and wages in addition to domestic obligations such as National Social Security Fund (NSSF) and Electricité Du Liban (EDL).

Moreover, on February 6th, **the Central Bank issued two intermediate circulars, 724 (decision 13694) and 725 (decision 13695), which amended previous basic circulars 85 and 18 respectively. Intermediate circular 724 added a subsection to basic circular 85 concerning statistics data**, requiring all banks to submit an Excel sheet to the Central Bank's Statistics and Economic Research department.

This sheet must contain information on the partial or complete settlement of foreign currency loans after October 31st, 2019, with a deadline of February 19th, 2025, for submission. **Intermediate circular 725 amended basic circular 18 related to average interest and interbank loan volumes**, mandating that banks and financial institutions provide a daily report to the Central Bank's Statistics and Economic Research department by 4 pm. This report should detail data on interbank loans in LBP, USD, and Euro, including the type of credit operation, currency, duration, nominal value, average interest rate, other party, and whether it was executed directly or indirectly through another financial intermediary. Both circulars were published in the official gazette, with Circular 724 becoming effective upon publication, and Circular 725 becoming effective one week after issuance.

Furthermore, earlier this month, J.P. Morgan issued a report titled "Lebanon: Politics and Stability Before Economics," valuing Lebanese Eurobonds in the context of a ceasefire deal with Israel and recent political elections. **J.P. Morgan's report suggests that markets are already pricing in close to a 70% haircut and a 10-year maturity extension with some coupon relief, although a Debt Sustainability Analysis (DSA) is necessary for a more comprehensive evaluation**. More specifically, the report arrives at this estimate by analyzing current bond pricing and a hypothetical structure for market relief. It assumes a package of bonds with a 10-year maturity extension, meaning the bonds would mature between 2030 and 2047. In terms of coupon payments, it assumes token 1% coupons during the initial years (until 2027), stepping up to 2% in 2027 and to 7% from 2028. Using a higher exit yield of 16%, given the risks despite the higher haircut, the report estimates that markets are pricing close to a 70% notional haircut on bonds, given the current levels of 17 points (now higher at more than 19 points).

In light of these events, **the Institute of International Finance's (IIF) published a Research Note on Lebanon**, titled 'New Era: The Urgency for Deep Reforms' (February 16, 2025). The report anticipated two equally probable outcomes for Lebanon: a limited reform scenario and a deep reform scenario.

In the limited reform scenario, the IIF predicted that the newly elected governmental leaders will encounter various obstacles, such as the delicate relationship with Hezbollah, making it harder to abide by the ceasefire agreement and UN Security Council Resolution 1701. **The economy is projected to grow at an average rate of 3% between 2025 and 2029**. **Under the deep reform scenario**, Lebanon is projected to receive $12.5 billion in financial assistance from multilateral institutions and official donors, and secure $10 billion in foreign direct investment from the GCC between 2025 and 2029, classified as non-debt creating capital flows. As a result, **the economy is expected to grow by an average of 6.2% between 2025 and 2029**, driven by FDI, public investment, and tourism revenues.

In conclusion, February PMI's continuous growth for the 2nd month in a row indicates ongoing improvement in the Lebanese private sector. Recent political developments and plans to negotiate with the IMF have improved economic prospects. However, ongoing breaches of the ceasefire agreement by Israel, coupled with political and sectarian divisions and widespread corruption, pose significant risks that could limit or even reverse the expansion of the Lebanese economy. These challenges underscore the need for comprehensive reforms and sustained political stability to ensure long-term economic growth.

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