PMI falls to five-month low in March as output and new orders decline

BLOMINVEST BANK

April 3, 2025

Contact Information

Mira Said

mira.said@blominvestbank.com

The BLOM Lebanon PMI dropped to 47.6 in March 2025 from 50.5 in February, indicating a contraction in the private sector. This follows two months of expansion, indicating a renewed deterioration in the private sector's health. Several factors contributed to this weakening. Firstly, geopolitical tensions rose sharply. Lebanon faced clashes along its border with Syria, and the conflict between Lebanon and Israel intensified. Domestically, optimism in local politics faded as new government appointments seemed focused on dividing power rather than broader reform. Additionally, Israel's attacks on Gaza reached their highest intensity since the January ceasefire, and the Israeli-US-Houthi conflict escalated. Amid these local and regional challenges, output and new orders, both domestically and for export, decreased in March. This was reinforced by reduced spending on non-essential goods, higher shipping costs due to the war, and a decline in tourism.

That said, Lebanon’s annual inflation rate decreased to 15.64% in February 2025, from 16.09% in January 2025 according to the Central Administration of Statistics (CAS). The average decrease in inflation in last year-and-a-half resulted from the increase of dollarization rates by businesses and to the stability of the exchange rate especially since August 2023. Moreover, the continued escalating political and military tensions in the Middle East and its effect on Red Sea sea-shipping traffic still threatens to disrupt supply chains, which could increase shipping costs, and consequently lead to an increase in inflation. On a monthly basis, Consumer Price Index increased between January 2025 and February 2025 by 0.66%. In details, it is worthwhile to note that Education (6.6% of CPI) increased by 30.78% YoY, Owner Occupied (13.6% of CPI) soared by 26.94% YoY, and Health (7.7% of CPI) rose by 21.32% YoY during the same period.

The data from the Orders of Engineers in Beirut and Tripoli indicates that the **total cumulative construction permits witnessed a cumulative YoY decrease of 16.76% to reach 9,086 permits by December 2024.** However, the Construction Area Authorized by Permits (CAP) increased by 8.08% YoY to record 4,904,148 square meters (sqm). This could be explained by the increased tendency for group projects rather than individual projects. Moreover, construction activity witnessed some fluctuation compared to last year. Some governorates witnessed an increase such as Beirut, North Lebanon, and Bekaa while other governorates' activity decreased like Mount Lebanon, South Lebanon, and Nabatiye.

According to the General Directorate of Land Registry and Cadastre (LRC), the number of real estate transactions reached 5,476, valued at $467.59M by January 2025. This valuation is calculated at the new official rate of USD/LBP 89,500, effective from February 1st, 2024. **The number of RE transactions increased by 98.41% YoY, and 26.58% month-over-month (MoM).** The value of transactions in January 2025 reached $467.59M. Beirut held the largest share of the total value at 23.71%, amounting to $110.87M. Baabda followed with 22.25% of the total value, equivalent to $104.02M.

The Association of Lebanese Banks (ABL) reported that **the total number of cleared checks in the Lebanese financial system decreased remarkably from 18,295 checks by February 2024 to 8,910 checks in February 2025. Similarly, the value of cleared checks in local currency decreased from LBP 4,706B in February 2024 to LBP 4,041B in February 2025. However, the value of cleared checks in foreign currency dropped from $127M in February 2024 to $93M in February 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 February 2025, the number of checks issued from fresh accounts reached 4,605, of which 3,467 checks were in USD currency amounting $48.05M and 1,138 checks were in LBP currency amounting LBP 2,239B.**

In addition, Lebanon's consolidated commercial banks' balance sheet showed that total assets declined by 1.54% YoY to stand at $103.03B in January 2025 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 77.11% of total assets; they dropped annually by 2.33% to settle at $ 79.45B in January 2025. Deposits with the central bank represented 99.90% of total reserves, and decreased by 2.32% YoY, to reach $79.37B in January 2025. Furthermore, vault cash in Lebanese pound declined by 14.89% on a yearly basis to stand at $77.47M by the same period. **On the liabilities side, resident customers' deposits were the main account, representing 65.05% of total liabilities; they dropped by 3.52% since January 2024 to reach $67.02B by the month of January 2025.** In more details, deposits in foreign currencies (being 98.84% of resident customers' deposits) declined by 3.90% YoY to reach $66.24B by January 2025, additionally deposits in LBP (1.16% of resident customers' deposits) increased by 44.90% YoY to stand at $780.56M by January 2025. This reveals that a slightly higher proportion of deposits are now held in LBP, as the dollarization ratio for private sector deposits decreased from 99.35% in January 2024 to 99.05% in January 2025. As for non-resident customers' deposits, grasping 20.27% of total liabilities, they recorded a drop of 0.44% and stood at $20.89B in January 2025. In details, the deposits in LBP fell by 2.51% to reach $30.86M and deposits in foreign currencies declined by 0.43% to reach $20.86B over the same period. In addition, non-resident financial sector liabilities representing 2.46% of total liabilities and decreased by 6.68% YoY to reach $2.53B in January 2025. Lastly, the capital accounts stood at $4.67B, higher by 33.71% than January 2024, noting that only about 10% of those are in LBP.

Moreover, BDL's latest monetary report indicated that **the BOP recorded a surplus of $2,208.3M in January 2025, significantly exceeding the deficit over the same period last year of $111M.** Net Foreign Assets (NFAs) of BDL rose by $1,925M while the NFAs of commercial banks increased by $283.4M in January 2025.

As per BDL's balance sheet, **the Central Bank's total assets increased by 0.18% annually, to reach $93.6B by mid-March 2025,** amid adopting the 89,500 LBP/USD official rate by BDL since February 1st 2024. Furthermore, the gold account, representing 29.5% of BDL's total assets, increased by 37.83% yearly to reach $27.61B by mid-March 2025. Regarding foreign assets item, recently BDL amended it and replaced it by foreign reserve assets item to include only non-resident and liquid foreign assets. Thus, other resident and / or illiquid assets were transferred to securities portfolio or loans to local financial sector. In more details, Lebanese Government Eurobonds with a market value of $4.85B were transferred to securities portfolio; whereas $298.8M was transferred to loans to financial sector. Therefore, and in order to calculate the YOY change of foreign reserve assets, we deducted the Lebanese Eurobonds from foreign assets as of March 15th, 2024 in addition to the loans to local financial sector. **As such, BDL foreign reserve assets, consisting of 11.48% 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 10.87% YOY and stood at $10.75B by mid-March 2025. Additionally, foreign reserve assets increased by $217.38M in the first two weeks of March 2025**. On the liabilities front, financial sector deposits, representing 90.9% of BDL's total liabilities, decreased by 2.26% annually and reached $85.08B by mid-March 2025 compared to last year, of which more than 90% are denominated in dollars. Moreover, public sector deposits, representing 6.93% of BDL's total liabilities, rose by 44.22% yearly and reached $6.5B by mid-March 2025. Lastly, currency in circulation outside of BDL, consisting of 1.03% of BDL's total liabilities, rose by 47.75% annually to reach $962.4M by mid-March 2025 amid adopting the 89,500 LBP/USD official rate by BDL.

Additionally, **Lebanese car market expanded by 48.69% YoY in January 2025, with a total of 849 cars sold during the month.** Lebanon's car sector expanded since 2021; however, sales of passenger vehicles were significantly lower than 2020 levels when cars were still being purchased through checks. Currently, the demand for new vehicles is restricted by the absence of financing options, exacerbated by the lower purchasing power of the people, though it has improved in the past couple of years.

Consequently, **the cumulative activity at Rafic Hariri International Airport decreased by 1.39% YoY, despite a 9.40% YoY increase in arrivals, as departures fell sharply by 10.85% 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 58.82%, driven by safety concerns that led travelers and airlines to avoid passing through Lebanon. **On a monthly basis, the airport saw a 2.46% decrease in total passenger traffic compared to January 2025, which is expected as seasonal travel winds down.** However, monthly arrivals increased by 1.92%, and transit passenger traffic rose by 45.32% month-on-month as Lebanon was perceived as safer and international airlines resumed transit operations following the November 27, 2024, ceasefire.

Furthermore, container activity at the Port of Beirut rose by 8.15% YoY to 64,633 TEU in January 2025. This increase reflects a recovery from the tough challenges of 2024's war. The Late-November ceasefire and signs of economic improvement, such as the election of a new president seen as pro-reform, contributed to this growth. Container activity, referring to cargo loaded onto or unloaded from ships at the port, saw an increase of 9.36% YoY to 45,668 TEU. Similarly, transshipment activity, which involves cargo transferred from one ship to another at an intermediate port, increased by 5.32% YoY to 18,965 TEU. This increase was driven by lower insurance costs and shipping premiums, combined with easing safety concerns, which attracted more cargo back to the Port of Beirut. **It is worth noting that total activity increased by 15.91% MoM to 64,633 TEU, mostly driven by transshipment activity from the Mediterranean Shipping Company (MSC).**

Moreover, **Lebanon's trade deficit fell by 2.3% YoY to $14.2 billion in 2024, according to the Customs Administration. Total imported goods dropped by 3.55% YoY to $16.9 billion, while total exports decreased by 9.6% YoY to $2.7 billion in 2024.** The decline in imports and exports in Lebanon is primarily due to the Israeli-Hezbollah war and disruptions in the red-sea. Interestingly, import levels remained high despite the troubled 2024 year, mostly because it is widely recognized that Lebanese GDP is underestimated. To that effect, new, higher GDP estimates are now being put out by international institutions.

On a different note, **BDL’s liquid NFA increased from 7.2 billion USD at the end of August 2023 to an estimate of 8.2 billion USD by the end of February 2025**. This calculation is based on BDL’s liquid foreign currency balance sheet published in August 2023 and considers several factors: BDL widened USD monthly payments by incorporating new Circular 166 (paid fully by BDL at $150) alongside the existing Circular 158 (paid half-in-half between BDL and commercial banks at $300-400); public wages increased from 10-fold to 13-fold the basic salaries, with BDL continuing to secure USD payments for these wages; and BDL used public deposits on its balance sheet (in both USD and LBP) as an operating instrument in its FX open market transactions.

During the period of March 10-13, 2025, an IMF mission visited Beirut to assess the economic situation and discuss potential reforms with key officials. The IMF emphasized the need for comprehensive economic reforms, focusing on fiscal and debt sustainability, financial sector restructuring, governance reforms, and improved transparency in data reporting. They also highlighted Lebanon's significant humanitarian and reconstruction needs, requiring coordinated international support. Lebanon has faced severe challenges since the 2019 economic collapse, leading to widespread unemployment, extreme poverty, and the near collapse of the banking sector, further exacerbated by political instability and humanitarian issues.

In addition, the Issam Fares Institute report, **"Towards a Productive 'New' Lebanon," outlines a vision for Lebanon's economic recovery, advocating a shift from a debt-driven model to a productive, export-oriented economy.** It identifies key constraints, including corruption, inadequate infrastructure, and political instability, and proposes a dual strategy: addressing immediate crises through debt restructuring, financial sector reform, and macroeconomic stabilization, while implementing long-term structural reforms focused on good governance, environmental sustainability, social equity, and a competitive economy. The report also highlights the importance of a fair tax system, strategic industry protection, and investment in infrastructure. Political reforms are essential to overcome the current system's resistance to change, with "good enough policies" fostering gradual progress. Improved governance, citizen collaboration, and leveraging Lebanon's assets are key to achieving a productive and equitable economy.

Similarly, the World Bank (WB) published a report titled Rapid Damage and Needs Assessment (RDNA) in collaboration with the National Council for Scientific Research - Lebanon (CNRS-L). The report was conducted at the request of the Lebanese Government, and covers data from October 8, 2023, to December 20, 2024 (inclusive). **The RDNA estimates $6.8 billion in damage across ten sectors.** Housing accounts for over 67%, Infrastructure (Energy; Municipal and Public Services; Transport; and Water, Wastewater and Irrigation) 10%, and Commerce, Industry, and Tourism 9%. **Economic losses from the conflict total $7.2 billion**, led by Commerce, Industry, and Tourism at 48%. **The total recovery needs are estimated at $11 billion**, with $8.4 billion required in the immediate and short term (2025–27) and $2.6 billion in the medium term (2028–30). **Geographically, Nabatiyeh and South governorates are the most affected**, with Nabatiyeh suffering 47% of damage, 28% of losses, and 43% of needs. The South accounts for around 23% of each. **The World Bank revised its estimate for Lebanon's 2024 GDP, projecting a 7.1% contraction**, compared to a 5.7% contraction in the previous estimate. Without the conflict, the economy was expected to grow by 0.9%.

In conclusion, the BLOM Lebanon PMI for March 2025 fell to a five-month low, amid escalating geopolitical tensions and fading domestic political optimism, slipping back into contraction territory. While growth expectations for the next 12 months have declined significantly compared to the past 3 months, they remain among the most optimistic historically. This suggests that despite current challenges, there is still hope for Lebanon's recovery in the coming year. Perhaps, with the right measures and a bit of resilience, the country can navigate through these tough times and work towards a brighter future.

For your Queries:
BLOMINVEST BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Mira Said

mira.said@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

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