

PMI signals further deterioration in private sector conditions but confidence improves



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The BLOM Lebanon PMI slightly declined to 48.9 in May 2025 from 49 in April 2025, signaling a continued weakening in the private sector performance. This marks the third consecutive month of contraction, reflecting a sustained deterioration in business conditions. Several factors contributed to this weakening. **First, political uncertainty remains elevated both domestically and regionally.** In Lebanon, the U.S. continues to push for accelerated disarmament of non-state armed groups, even as the government has begun disarming Palestinian refugee camps—a move some view as a tentative step toward addressing Hezbollah’s more complex and politically sensitive arsenal. Regionally, Israel has intensified its military strikes on Gaza to pressure Hamas during ongoing ceasefire negotiations in Qatar, though no agreement has been reached and a near-term resolution appears unlikely. **Second, the initial optimism following the election of President Aoun and Prime Minister Salam is beginning to fade.** While the new government has enacted some meaningful reforms—such as amending the banking secrecy law—key structural reforms remain stalled, particularly regarding the distribution of financial losses among the government, central bank, lenders, and depositors. As a result, Lebanon’s economic, financial, and social crises remains unresolved, with weak domestic demand, heightened regional instability, and rising shipping costs continuing to weigh heavily on output and suppress both local and foreign orders.

That said, Lebanon's annual inflation rate dropped to 13% in April 2025, down from 14.2% in March 2025, to record its lowest level since April 2020, according to the Central Administration of Statistics (CAS). This decline in inflation especially over the past two years is largely attributed to increased dollarization by businesses and greater exchange rate stability, particularly since August 2023. However, ongoing political and military tensions in the Middle East, especially their impact on Red Sea shipping routes, continue to pose risks to supply chains, potentially raising shipping costs and driving inflation back up. Notably, Education which accounts for 6.6% of the Consumer Price Index (CPI) increased by 30.74% Year-Over-Year (YoY). Owner Occupied Housing (13.6% of CPI) rose by 26.39% YoY, while Health (7.7% of CPI) saw a 21.68% YoY increase during the same period. The "New Rent" category rose by 25.92% YoY, despite the ceasefire agreement signed on November 27, 2024. In fact, many displaced individuals remain hesitant to return to their homes, as Israel continues to violate the ceasefire. On a monthly basis, the CPI increased between March 2025 and April 2025 by 0.67%.

The cumulative activity at Rafic Hariri International Airport by April 2025 increased by 3.67% YoY, with a 10.30% YoY increase in arrivals, while departures fell slightly by 2.54% YoY, similarly, cumulative transit passenger numbers also fell by 71.95% YoY. On a monthly basis, the airport saw a 47.75% increase in total passenger traffic compared to March 2025. Monthly arrivals increased by 20.76%, while transit passenger and total departure traffic rose considerably, respectively by 122.73% and 85.34% month-on-month. This increase is attributed to the perception of improved safety conditions in Lebanon. Clashes between Israel and Hezbollah, though ongoing, are now largely confined to specific areas in Southern Lebanon. This has eased widespread fears and led many to feel that the situation is more predictable and contained.

Consequently, according to the Ministry of Tourism's data, Lebanon welcomed a total of 238,009 visitors, marking a marginal annual increase of 0.16% in the first quarter of 2025. European tourists made up the largest share at 45.08%, with 107,301 visitors and a notable 19.7% YoY growth. Visitors from Arab countries followed, comprising 21.84% of the total, although their numbers declined sharply by 29.7% YoY. American tourists accounted for 16.86% of arrivals, showing a modest 5.13% YoY increase. Meanwhile, African and Asian visitors represented 7.03% and 5.67% respectively, with Africa seeing a strong 36.13% YoY rise and Asia experiencing a 16.53% YoY drop. Oceania contributed 3.52% of the total, while arrivals from other regions were negligible.

Also, Cumulative container activity at the Port of Beirut rose by 11.42% YoY to 251,437 TEU by April 2025. Cumulative container activity, referring to cargo loaded onto or unloaded from ships at the port; saw an increase of 22.72% YoY to 193,590 TEU. However, cumulative transshipment activity, which involves cargo transferred from one ship to another at an intermediate port, decreased by 14.83% YoY to 57,847 TEU. This decrease may be attributed to the persistence of the conflict between Israel and Hezbollah. **On a monthly basis the total activity increased by 53.33%.**

In addition, as per the Lebanese Customs Administration, **Lebanon's cumulative trade deficit increased by 12.95% YoY, reaching \$5.06 billion by April 2025.** This change was driven by a cumulative 18.13% YoY surge in exports by April 2025, which outpaced the cumulative 13.88% YoY rise in imports during the same period. The rise in exports likely signals a rebound in business activity across multiple regions following the November 27, 2024, ceasefire with Israel; in addition to the freeing of trade routes through Syria. While Israel has continued to breach the agreement, these disruptions have remained localized, allowing broader commercial operations to resume and drive export growth. The top three import destinations in 2025 up till April were China, Greece, and Egypt, accounting for 10.56%, 9.49%, and 7.99% of the total value of imports, respectively. The top imported products were mineral products (26.32%) at \$1.64 million, pearls, precious stones, and metals (16.80%) at \$1.04 million, and products of the chemical or allied industries (8.20%) at \$ 510 million. On the exports side, the top three destinations in 2025 up till April were Switzerland, United Arab Emirates (UAE) and Syrian Arab Republic capturing respective shares of 24.48%, 16.81% and 4.05% of the total value of exports. The top exported products were pearls, precious stones, and metals (38.97%) at \$452 million, base metals and articles of base metal (15.60%) at \$181 million, and prepared foodstuffs, beverages, and tobacco (11.72%) at \$136 million.

Besides that, the Association of Lebanese Banks (ABL) reported that **the total number of cleared checks in the Lebanese financial system decreased remarkably by 49.84% YoY to 37,764 checks by April 2025. Similarly, the cumulative value of cleared checks in local currency decreased by 17.07% YoY to LBP 19,592B by April 2025. Likewise, the cumulative value of cleared checks in foreign currency dropped by 48.88% YoY to reach \$297M by April 2025.** Moreover, the volumes of cleared checks in Lebanese Pounds and foreign currencies witnessed substantial yearly drop of 46.53% and 76.40% respectively to settle at 35,794 and 1,970 checks, in April 2025. Accordingly, the dollarization rate of checks in terms of volume fell from 11.09% in April 2024 to 5.22% in April 2025. Notably, the number of returned checks dropped substantially by 47.18% YoY to stand at 225 checks in April 2025. Moreover, the value of returned checks in local currency decreased by 37.21% YoY to record LBP 108B, however, the value of returned checks in foreign currency increased significantly by 227.32% YoY to record \$67M in April 2025. 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 April 2025, the cumulative number of checks issued from fresh accounts reached 20,398, of which 15,449 checks are in USD currency amounting \$213.08M and 4,949 checks are in LBP currency amounting LBP 9,508B. On a monthly basis, the number of cleared checks in April 2025 was 5,648 checks.**

Alongside that, according to Lebanon's consolidated commercial banks' balance sheet, total assets declined by 1.10% on YoY basis to stand at \$102.66B in March 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 77.30% of total assets; they dropped annually by 2.30% to settle at \$79.36B in March 2025. Deposits with the BDL represented 99.88% of total reserves, and decreased by 2.30% YoY, to reach \$79.26B in March 2025. Furthermore, vault cash in Lebanese pound declined by 1.64% on a yearly basis to stand at \$97.01M by the same period. The drop is attributed to the calculation based on the new official exchange rate of LBP 89,500 per USD. Claims on resident customers, constituting 4.53% of total assets, shrank by 21.87% to stand at \$4.65B in March 2025. Moreover, resident securities portfolio, representing 5.53% of total assets, increased by 18.35% in March 2025 to stand at \$5.68B. More specifically, the Eurobond holding recorded an increase of 4.18% since March 2024, to reach \$2.31B (net of provisions) in March 2025. Additionally, claims on non-resident financial sector rose by 15.01% YoY to stand at \$5.07B by March 2025. **On the liabilities side, resident customers' deposits remained the largest component, accounting for 65.31% of total liabilities, and declined by 2.80% since March 2024 to reach \$67.05 billion in March 2025.** In more details, deposits in foreign currencies (being 98.79% of resident customers' deposits) declined by 3.20% YoY to reach \$66.24B by March 2025, additionally deposits in LBP (1.21% of resident customers' deposits) increased by 46.75% YoY to stand at \$811.74M by March 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 99.33% in March 2024 to 99.02% in March 2025. As for non-resident customers' deposits, grasping 20.46% of total liabilities, they recorded a rise of 0.31% and stood at \$21.0B in March 2025. In details, the deposits in LBP rose by 1.15% to reach \$ 31.41M and deposits in foreign currencies increased by 0.31% to reach \$20.97B over the same period. In addition, non-resident financial sector liabilities representing 2.51% of total liabilities and decreased by 6.15% YoY to reach \$2.58B in March 2025. Lastly, the capital accounts stood at \$4.54B, higher by 54.36% than March 2024, noting that only about 10% of those are in LBP.

Moreover, **BDL's latest monetary report indicated that the Balance of Payments (BOP) recorded a cumulative surplus of \$5,368.3M up to March 2025, significantly exceeding the deficit over the same period last year of \$1,608.5M. Net Foreign Assets (NFAs) of BDL rose by \$1,925M while the NFAs of commercial banks increased by \$283.4M in January 2025.** Based on the BDL Central Council's Decision Number 37/20/24 dated 13/09/2024, BDL's foreign assets starting January 2024 include the Monetary Gold, the Non-Resident Foreign Securities held by BDL, and the Foreign Currencies & Deposits with Correspondent Banks & International Organization; while excluding the Lebanese Government's Sovereign Bonds and the BDL loans in FX to Resident Banks and Financial Institutions. **The significant increase in the change of BDL NFA is mainly explained by the increase in the value of the Monetary Gold. Accordingly, cumulative NFAs of BDL rose by \$4,828.1M while the cumulative NFAs of commercial banks increased by \$540.3M by March 2025. On a monthly basis, NFAs of BDL rose by \$2,150M while the NFAs of commercial banks increased by \$90.9M in March 2025.** For a more meaningful analysis, we examine the NFAs of commercial banks for the month of March 2025. On the liabilities side, "Non-resident financial sector liabilities" increased by \$43.96M to reach \$2.58B; in addition, "Non-resident customers' deposits" rose by \$62.83M to reach \$21B. Meanwhile, on the asset side, "claims on non-resident financial sector" increased by \$30.7M to reach \$5.07B for the same period, while "other foreign assets" decreased by \$39.01M to stand at \$2.42B and "Non-resident securities portfolio" rose by \$220.1M recording \$1.12B.

Furthermore, as per BDL's balance sheet, **the Central Bank's total assets increased by 0.28% annually, to reach \$93.94B by mid-May 2025**, amid adopting the 89,500 LBP/USD official rate by BDL since February 1st 2024. Furthermore, the gold account, representing 31.19% of BDL's total assets, increased by 33.95% yearly to reach \$29.3B by mid-May 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 nominal 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 11.89% 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 13.78% YoY and stood at \$11.17B by mid-May 2025. Additionally, foreign reserve assets increased by \$114.03M in the first two weeks of May 2025.** On the liabilities front, financial sector deposits, representing 90.39% of BDL's total liabilities, decreased by 2.52% annually and reached \$84.91B by mid-May 2025 compared to last year, of which more than 90% are denominated in dollars. Moreover, public sector deposits, representing 7.48% of BDL's total liabilities, rose by 52.98% yearly and reached \$7.03B by mid-May 2025. Lastly, currency in circulation outside of BDL, consisting of 0.93% of BDL's total liabilities, rose by 27.49% annually to reach \$869.03M by end-May 2025 amid adopting the 89,500 LBP/USD official rate by BDL.

On a different note, the international rating agency **Moody's reaffirmed Lebanon's "C" credit rating in its May 2025 review**, citing ongoing economic, financial, and social turmoil, with bondholder losses still expected to exceed 65% since the 2020 default. Despite some reform progress under the new government of Prime Minister Salam—such as amendments to the banking secrecy law and a draft banking sector restructuring law—key reforms remain stalled due to unresolved disputes over distributing over \$70 billion in financial losses. Moody's noted that access to IMF and donor funding hinges on further restructuring of public and banking sector debt. While Lebanon's economy is projected to grow modestly by 2.5% in 2025 and 3.5% in 2026, a rating upgrade is unlikely without comprehensive debt restructuring and sustained fiscal and institutional reforms. The country's ESG Credit Impact Score remains low due to governance weaknesses, declining wealth, fiscal fragility, and vulnerability to environmental and social shocks.

In conclusion, the BLOM Lebanon PMI for May 2025 contracted for the third month in a row. This downturn reflects rising local and regional political tensions, along with fading optimism after the initial boost from the formation of the new government. However, there are some positive signs. Business sentiment has improved in May, supported by hopes for political stability and a possible rebound in tourism—especially from the Gulf region, following the UAE's decision to lift its travel ban. Other GCC countries may follow suit, further boosting tourism prospects. Additionally, increased diplomatic engagement by President Aoun and Prime Minister Salam, including visits to fellow Arab nations, has raised expectations of renewed Arab investments in Lebanon. While challenges remain, these developments offer a glimmer of hope that Lebanon could still be on the path to recovery and economic improvement.

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