

PMI rises to six-month high to signal improving business conditions



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The BLOM Lebanon PMI for August 2025 rose slightly above the 50.0 no-change threshold to record a 50.3 compared to July's 48.9, ending five consecutive months of contraction, and signaling a marginal expansion in private sector business activity. This rebound signals a tentative improvement in investor sentiment and operational conditions, supported by relative exchange rate stability, easing inflation, and a seasonal boost from tourism inflows, but it comes against a backdrop of heightened political and security tensions. Most notable was the Lebanese Cabinet's long-delayed decision - under heavy U.S. and European pressure - to adopt a framework for Hezbollah's gradual disarmament, a move that deepened domestic divisions and triggered strong pushback from the group. Hezbollah's rejection and subsequent mobilization of supporters underscored the fragility of the state's authority, thus Israeli airstrikes targeting Hezbollah infrastructure in the South and Beqaa continued to disrupt trade and logistics, and the ongoing violence in Syria persisted to weigh on regional stability and business confidence. Ultimately, the August PMI highlights how fleeting gains remain overshadowed by entrenched instability and unresolved reforms, leaving Lebanon's private sector on uncertain ground.

A top macro indicator, Lebanon's annual inflation rate decreased to 14.27% in July 2025, from 15.00% in June 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 Iran-Israel war ended at the end of June; thus, the situation in the red sea calmed in July 2025. This resulted in marginal decrease in inflation. Inflation in Lebanon is still higher than that of emerging markets, and this might be related to snob effect. Snob effect is a microeconomic concept in which demand for a good increase due to its uniqueness or expensiveness. In details, it is worthwhile to note that Education (6.6% of CPI) increased by 30.60% YOY, Owner Occupied (13.6% of CPI) soared by 28.94% YOY, and Food and Non-alcoholic Beverages (20% of CPI) rose by 21.88% YOY during the same period. The "New Rent" increased yearly by 30.08% despite that the cease-fire agreement started on November 27th, 2024, as some displaced people who lost their houses are hesitant to return to their villages as Israel is still breaching the cease-fire agreement in addition to the fact that most of them have paid the rent for a year in advance. On a monthly basis, Consumer Price Index (Inflation) increased between June 2025 and July 2025 by 1.32%.

The cumulative activity at Rafic Hariri International Airport rose by 1.26% year-on-year (YoY) to 3,794,586 travelers. This increase was driven by a 5.96% cumulative YoY increase in arrivals, which totaled 2,074,416; that came against a 3.77% decrease in departures which reached 1,718,794. The passenger's increase was due to the onset of the summer travel season and a modest revival in tourism. Notably, this growth comes despite ongoing Israeli strikes on Lebanon, which now is mostly limited to specific areas like the South and Beqaa regions. On a monthly basis, airport passengers' activity significantly rose by 34.33% to 793,338. The arrivals sharp increase was triggered by the summer tourism season and the influx of Lebanese expatriates returning home for holidays, which typically peaks during July and August. It reached 474,628, increasing by 40.33% and 15.40% on a month-on-month and year-on-year basis.

In addition, according to Lebanon's consolidated commercial banks' balance sheet, total assets declined by 0.77% on year over year (YoY) basis to stand at \$103.51B by

June 2025. On the assets side, currency and deposits with Central Bank represented a high figure of 76.48% of total assets; they dropped annually by 3.17% to settle at \$79.2B in June 2025. Deposits with the central bank (BDL) represented 99.89% of total reserves, and decreased by 3.16% YoY, to reach \$79.1B in June 2025. Furthermore, vault cash in Lebanese pound declined by 13.00% on a yearly basis to stand at \$87.62M by the same period. Claims on resident customers, constituting 4.31% of total assets, shrank by 22.19% to stand at \$4.46B in June 2025. Moreover, resident securities portfolio, representing 5.62% of total assets, increased by 24.28% in June 2025 to stand at \$5.82B. More specifically, the Eurobond holding recorded a decrease of 0.43% since June 2024, to reach \$2.25B (net of provisions) in June 2025. Additionally, claims on non-resident financial sector rose by 20.88% YoY to stand at \$5.33B by June 2025. On the liabilities side, resident customers' deposits were the main account, representing 64.50% of total liabilities; they dropped by 3.19% since June 2024 to reach \$66.8B by the month of June 2025. In more details, deposits in foreign currencies (being 98.82% of resident customers' deposits) declined by 3.44% YoY to reach \$65.98B by June 2025, additionally deposits in LBP (1.18% of resident customers' deposits) increased by 23.36% YoY to stand at \$788.74M by June 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 99.23% in June 2024 to 99.02% in June 2025. As for non-resident customers' deposits, grasping 20.63% of total liabilities, they recorded a rise of 1.63% and stood at \$21.35B in June 2025. In details, the deposits in LBP rose by 40.89% to reach \$45.07M and deposits in foreign currencies increased by 1.57% to reach \$21.31B over the same period. In addition, non-resident financial sector liabilities representing 2.39% of total liabilities and decreased by 6.70% YoY to reach \$2.5B in June 2025. Lastly, the capital accounts stood at \$5.23B, higher by 74.69% than June 2024, noting that only about 10% of those are in LBP.

Furthermore, according to BDL's latest monetary report, the Balance of Payment (BOP) recorded a cumulative surplus of \$8,495.5M up to June 2025, far above than the surplus over the same n period last year of \$2,704.1M. 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 Net Foreign Assets (NFAs) of BDL rose by \$7,355.8M while the cumulative NFAs of commercial banks increased by \$1,139.7M by June 2025.** On a monthly basis, NFAs of BDL rose by \$102.1M while the NFAs of commercial banks increased by \$250.1M in June 2025. For a more meaningful analysis, we examine the NFAs of commercial banks for the month of June 2025. On the liabilities side, "Non-resident financial sector liabilities" decreased by \$68.57M to reach \$2.5B; in addition, "Non-resident customers' deposits" rose by \$143.09M to reach \$21.35B. Meanwhile, on the asset side, "claims on non-resident financial sector" increased by \$118.1M to reach \$5.33B for the same period, similarly "other foreign assets" increased by \$196.56M to stand at \$2.7B while "Non-resident securities portfolio" rose by \$49.1M recording \$1.21B.

Also, as per BDL's balance sheet, the Central Bank's total assets decreased by 0.1% Year-on-Year (YoY), reaching \$94.4B by mid-August 2025. Furthermore, the gold account, representing 32.81% of BDL's total assets, increased by 35.88% yearly to reach \$30.97B by mid-August 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 August 15th, 2024 in addition to the loans to local financial sector. **As such, BDL foreign reserve assets, consisting of 12.38% 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 12.14% YoY and stood at \$11.69B by mid-August 2025. Additionally, foreign reserve assets increased by \$206.35M in the first two weeks of August 2025.** On the liabilities front, financial sector deposits, representing 89.52% of BDL's total liabilities, decreased by 2.91% annually and reached \$84.5B by mid-August 2025 compared to last year,

of which more than 90% are denominated in dollars. Moreover, public sector deposits, representing 8.3% of BDL's total liabilities, rose by 46.64% yearly and reached \$7.84B by mid-August 2025. Lastly, currency in circulation outside of BDL, consisting of 0.88% of BDL's total liabilities, rose by 24.78% annually to reach \$831.4M by mid-August 2025.

More so, cumulative container activity at the Port of Beirut rose by 7.94% year-over-year (YoY) to 401,485 TEU by June 2025. Cumulative container activity, referring to cargo loaded onto or unloaded from ships at the port; saw an increase of 21.33% YoY to 317,526 TEU. However, cumulative transshipment activity, which involves cargo transferred from one ship to another at an intermediate port, decreased by 20.10% YoY to 88,103 TEU. This decrease may be attributed to the persistence of the conflict between Israel and Hezbollah. **On a monthly basis the total activity decreased by 1.84%, a downturn that may be associated to the Iran- Israel war during this period, which weighed heavily on overall performance.**

Additionally, according to market sources; cumulative Lebanese car market expanded by 60.95% year over year (YoY) by April 2025 to 2,926 cars. On a monthly basis, 601 cars were sold in April 2025. Furthermore, the leading sellers of vehicles in Lebanon were Toyota, Kia, and Jetour (Chinese brand) with number of vehicles sold in April 2025 alone totaled 129, 68, and 63 respectively. It is interesting to note that in April 2025, the share of non-gasoline cars and SUV (Hybrid, Plug-in Hybrid and Fully Electric cars) recorded a total of 135 automobiles. Lebanon's car market has faced significant fluctuations in recent years. Sales of new cars are much lower now compared to 2019, when cars were still being purchased through checks. Currently, the demand for new vehicles is restricted by the limited financing options, exacerbated by the lower purchasing power of the people. **However, there has been some improvement in the past year, and recent numbers up to April 2025 show more car registrations (2,926).** Despite this increase, the number of cars sold is still much lower than the sales figures from 2019. This shows that while the market is indeed recovering, it still faces big challenges and is far from returning to its pre-crisis levels.

Apart from that, based on the data published by the Association of Lebanese Banks' (ABL), the total number of cleared checks in the Lebanese financial system decreased remarkably by 47.99% year over year (YoY) to 55,575 checks by June 2025. Similarly, the cumulative value of cleared checks in local currency decreased by 27.74% YoY to LBP 28.02B by June 2025. Likewise, the cumulative value of cleared checks in foreign currency dropped by 50.90% year-over-year (YoY) to reach \$383M by June 2025. Moreover, the volumes of cleared checks in Lebanese Pounds and foreign currencies witnessed substantial yearly drop of 45.16% and 73.95% respectively to settle at 52,837 and 2,738 checks, by June 2025. Accordingly, the dollarization rate of checks in terms of volume fell from 9.84% in June 2024 to 4.93% in June 2025. Notably, the number of returned checks was dropped substantially by 48.03% YoY to stand at 303 checks in June 2025. Moreover, the value of returned checks in local currency decreased by 20.86% YOY to record LBP 148B, however, the value of returned checks in foreign currency increased significantly by 194.90% YOY to record \$ 69.21M in June 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 June 2025, the cumulative number of checks issued from fresh accounts reached 34,650, of which 26,164 checks are in USD currency amounting \$353.69M and 8,486 checks are in LBP currency amounting LBP 15,376B. On a monthly basis, the number of cleared checks in June 2025 was 7,163 checks.

On a separate note, the new Bank Restructuring Law, passed in July 2025, establishes the Higher Banking Commission (constituted of two rooms: room 1 imposes sanctions as per article 209 of the Code of Money and Credit Law, and room 2 decides restructuring or liquidation of banks) within the Central Bank. This law took into consideration the remarks of the Central Bank on the draft law prepared by the Council of Ministers. It sets strict independence rules for members, outlines a creditor loss-absorption hierarchy, and mandates transparency through official publications. However, the IMF criticized the law for

weak independence, allowing banks to object to valuations, lacking clear objectives, and creating legal uncertainty. Importantly, the law will only be implemented after the upcoming Financial Resolution and Deposit Recovery Law defines which banks survive or are liquidated.

On August 14th, 2025, the Central Bank issued intermediate circular 739 (Decision 13741) to amend the first two paragraphs of Article 3 in basic decision 13262 (basic circular 154) concerning exceptional measures to reactivate banks' operations. The circular states that banks should accumulate an account abroad free from any liability at a correspondent bank, with a minimum outstanding balance at any time, not less than 3% of total foreign currency deposits as of June 30th, 2025. The banks have a deadline till June 30th, 2026, to settle their situation and accumulate the required 3%. The circular is effective upon issuance and to be published in the official gazette.

Moreover, Lebanon Opportunities (LO) estimated Lebanon's 2024 GDP at \$40.3B, significantly higher than the WB (\$26B), IMF (\$28.3B), and IIF (\$32.8B), using the expenditure approach with direct consumption estimates, investment from capital goods and cement, and net exports reconciled from trade data. While LO's effort is highly commended, it however could have some flaws: lack of exchange rate adjustments, no yearly estimates from 2019–2023, outdated consumption weights, questionable assumptions on education and public consumption, and unclear investment methodology. These gaps risk overstating GDP, affecting debt restructuring by lowering the apparent debt-to-GDP ratio, though the exercise remains valuable given Lebanon's weak economic data environment.

S&P upgraded Lebanon's long-term local currency rating to 'CCC' from 'CC' with a stable outlook, citing budget surpluses, reform momentum, and progress toward an IMF deal, while warning default risks remain due to fiscal pressures, weak growth, and governance gaps. Local currency debt now represents less than \$1B (2% of GDP), with payments to BDL resuming in 2024, but the pending Financial Gap Law and other reforms

still pose risks. **Foreign currency ratings remain at ‘SD/SD’ (selective default)**, and future upgrades depend on debt restructuring and sustained reform-driven recovery.

Similarly, Lebanon’s economy is described as mostly cash-based, with January 2025 data showing USD deposits dominating M3 at 97.5% but largely locked, leaving LBP currency and deposits and USD cash driving circulation. Moreover, between Jan 2024 and Jan 2025, LBP currency and deposits rose by 27.8 trillion LBP each; while USD deposits fell by \$2.7B due to BDL circulars and war-related withdrawals, much of which shifted to cash. This cash circulation supported GDP growth but remains too small for investment, highlighting the urgent need for banking sector reforms, restored confidence, and a leaner, more efficient system.

Correspondingly, Lebanese banks face a 17% tax on provisions set aside for defaulted Eurobonds, treating mandated loss-absorbing provisions as taxable profits, sparking sector-wide concern. Critics, led by ABL’s Dr. Fadi Khalaf, argue provisions are not profits and taxing them undermines confidence, incentivizes banks to sell Eurobonds cheaply to foreign investors. The dispute also centers on exchange rate assumptions, with tax liability estimates ranging from over \$1B in Lollars to \$20M using outdated rates. Khalaf called for delaying payments until debt restructuring is clarified under the forthcoming Financial Gap Law and IMF deal.

After being placed on FATF’s Grey List, the EU added Lebanon to the Euro “Restricted” List on August 5, 2025, increasing burdens on citizens through stricter audits on Euro accounts, higher import costs, and possible price rises, as 25–30% of imports come from Eurozone countries. Officials noted this was expected, but experts warned of negative impacts on the financial sector, FDI, and Euro remittances, which could drop 10–15%. While reforms have started, deeper and faster measures are needed to restore foreign confidence in Lebanon.

To add, Lebanese Eurobonds surged to a five-year high near 20% as investors welcomed reduced Hezbollah influence, political breakthroughs, and reform progress, though key measures like the Financial Gap Law remain pending. Lebanon Opportunities (LO) valued Eurobonds under three restructuring scenarios, excluding past due interest (PDI) and assuming 70–75% haircuts, but BLOMINVEST revised assumptions by including \$17.2B in PDI, applying a 65% haircut, and an 8% interest rate, valuing bonds at \$28.55 under a 14% discount rate. Despite rising prices, valuations remain highly sensitive to political developments rather than fundamentals.

Lastly, the ministry of Finance issued Decision 715/1 on August 1, 2025, applying Law 330/2024 on banks' revaluation of fixed assets and inventory, including treatment of gains/losses from the Lebanese pound's devaluation. It outlines conditions for reappraising assets acquired against doubtful or bad debts, sets rules for valuing real estate and inventory in foreign currency, and specifies how reappraisal differences are recorded. Banks may adopt 2024 as the first year of revaluation, and exchange rates are fixed by period, with future rates determined by the Central Bank.

In conclusion, the BLOM Lebanon PMI rose to 50.3 in August, crossing back into expansionary territory and marking a six-month high, supported by stronger output, new orders, and expat inflows that boosted BDL's foreign assets. While the rebound was largely seasonal and temporary, it was also underpinned by government steps such as the formal decision on Hezbollah's disarmament - a move signaling intent to restore state authority and attract investment, even if it has stirred short-term polarization. Still, unresolved political paralysis, security risks, and unfinished reforms weigh heavily on sentiment, with fiscal space exhausted, banking intermediation absent, and private investment frozen. Although the Future Output Index posted its strongest rise since May, it stayed below the 50.0 threshold, showing that the August uptick is more a reflection of temporary factors than a reliable sign of sustainable recovery. Yet if recent reforms and stabilization measures continue to gain traction, they could provide the foundation for a more durable rebound in the months ahead.

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