

War in the Middle East Weighs Sharply on Lebanon's Economy in March



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Contact Information

Jana Boumatar

jana.boumatar@blominvestbank.com

The BLOM Lebanon PMI for March 2026 fell sharply to 47.4 from 51.2 in February, dropping below the 50.0 threshold for the first time in eight months and marking a 17-month low, as private sector conditions in Lebanon deteriorated amid the escalation of the conflict between Hezbollah and Israel. The decline was primarily driven by a pronounced contraction in output and new orders, with both domestic and external demand weakening significantly as the conflict disrupted economic activity, leading to order cancellations, postponed spending, and a sharp drop in export demand. At the same time, supply-side pressures intensified, with delivery times lengthening to their greatest extent in three years due to logistical disruptions, while firms responded by cutting purchasing activity and reducing inventories to manage costs. Although employment remained broadly stable, it edged slightly lower in line with declining workloads, as rising input costs – driven by higher energy, transportation, and import prices – added further strain on businesses. Overall, the March reading reflects a clear reversal from the recent period of expansion, underscoring the vulnerability of Lebanon's private sector to heightened geopolitical uncertainty and its impact on demand, confidence, and overall economic activity.

A top macro indicator, Lebanon's annual inflation rate increased by 12.27% in February 2026, up from 10.91% in January 2026, according to the Central Administration of Statistics (CAS), while remaining lower than 15.64% in February 2025, reflecting relatively more stable price conditions supported by a steady exchange rate and easing import and transportation costs. Weak consumer demand, amid prolonged economic stagnation, low purchasing power, and rising geopolitical tensions related to a potential Iran conflict, continued to restrain price increases. Education, Recreation, and Owner-occupied housing recorded the highest yearly increases, driven mainly by rising tuition fees and operational costs, while on a monthly basis, inflation rose by 1.9% between January and February 2026.

Meanwhile, the cumulative activity at Rafic Hariri International Airport rose by 25.90% year-on-year to 543,028 passengers in January 2026, according to Rafic Hariri International Airport, driven by stronger arrivals which increased by 7.10% to 235,497 passengers and a sharp rise in departures by 45.53% to 307,531 passengers, while transit passengers reached 1,240. This improvement reflects a more stable security backdrop compared to January 2025, when traffic was constrained by continued Israeli breaches following the November 2024 ceasefire, weighing on passenger movement. On a monthly basis, activity declined by 8.61% due to a seasonal slowdown after the holiday period, with arrivals dropping by 30.26% while departures increased by 20.00%, highlighting a normalization in travel patterns.

Subsequently, Lebanon's cumulative car market decreased by 27.92% year-on-year by February 2026, recording 1,141 cars, according to market sources, reflecting subdued demand conditions amid ongoing economic and geopolitical pressures. Toyota, Kia, and Jetour remained the leading sellers in February alone with 210, 116, and 98 vehicles sold respectively, while non-gasoline and SUV vehicles including hybrid, plug-in hybrid, and fully electric cars reached 302 units. The decline in car registrations is largely attributed to limited financing options and weakened purchasing power, further exacerbated by the escalation of the Hezbollah-Israel conflict, which dampened consumer confidence and discouraged high-value purchases. Despite a slight recovery in recent months, sales remain significantly below pre-crisis levels, highlighting the persistent challenges facing Lebanon's automotive market.

Moreover, Lebanon's cumulative trade deficit increased by 23.06% year-on-year to reach \$1.36B by January 2026, according to the Lebanese Customs Administration, driven by a sharp drop in exports by 47.83% alongside a rise in imports by 6.87%. The widening deficit reflects persistent regional tensions and domestic economic challenges, as ongoing disruptions along the southern border, political uncertainty, and the absence of structural reforms continued to weigh on export competitiveness, further constrained by limited production capacity, high energy and transportation costs, and restricted access to financing. Meanwhile, imports remained supported by consumer demand largely financed through remittances, with Switzerland, China, and the United Arab Emirates leading import sources, while exports were mainly directed toward the United Arab Emirates, Turkey, and Syria, highlighting the continued imbalance in Lebanon's trade dynamics.

Similarly, Lebanon's cumulative real estate transactions reached 8,388 deals valued at \$862.4M by February 2026, according to the General Directorate of Land Registry and Cadastre, calculated at the official rate of USD/LBP 89,500. In February alone, transactions totaled 3,755 deals worth \$385.95M, marking a decline of 24.79% year-on-year and 18.95% month-on-month, with Beirut capturing 23.86% of total value at \$92.1M, followed by Metn at 23.25% with \$89.72M. The decline reflects cautious investor sentiment and a seasonal slowdown, as market participants delayed transactions amid growing uncertainty ahead of regional escalations.

Additionally, Lebanon's cumulative construction permits rose by 2.82% year-on-year to reach 1,349 permits by February 2026, according to the Orders of Engineers in Beirut and Tripoli, reflecting relatively improved activity supported by a more stable security environment despite ongoing strikes in certain regions. Construction activity increased across most governorates except for North Lebanon and Bekaa, while the cumulative construction area authorized by permits rose by 6.81% to 1,410,498 square meters, with only North Lebanon recording a decline, highlighting a modest recovery in construction activity.

Furthermore, according to the Association of Lebanese Banks, the total number of cleared checks declined from 8,910 in February 2025 to 6,591 in February 2026, while the value of cleared checks in Lebanese pounds dropped from LBP 9,543B to LBP 6,170B and in foreign currency from \$171M to \$18M, reflecting a significant contraction in financial

activity. Volumes of cleared checks fell sharply by 64.80% in Lebanese pounds and 77.59% in foreign currency to 6,331 and 260 checks respectively, with the dollarization rate declining to 3.94%. Meanwhile, returned checks decreased by 62.38% to 38 checks, alongside notable declines in their value, while fresh USD checks gained traction following BDL Circular 165, with cumulative checks reaching 26,261 including 19,549 USD checks valued at \$260.25M, highlighting a gradual shift toward fresh account transactions.

In parallel, according to Banque du Liban's balance sheet, the Central Bank's total assets decreased by 0.53% year-on-year to reach \$93.11B by end of March 2026, while foreign reserve assets rose by 7.52% year-on-year to \$11.53B following a reclassification that excluded Eurobonds and illiquid assets, despite declining by \$130.86M in the last two weeks of March and by around \$343M since the beginning of the war. Meanwhile, the gold account increased by 48.62% annually to \$42.12B but dropped by \$4.8B over the same recent period, while on the liabilities side, financial sector deposits fell by 4.1% to \$81.57B, public sector deposits rose by 41.73% to \$9.22B, and currency in circulation declined by 23.66% to \$740.13M, reflecting ongoing adjustments in Lebanon's monetary conditions.

Notably, the war between Israel and Hezbollah, which resumed in March 2026, is expected to have a significant negative impact on Lebanon's economic activity, with estimates based on World Bank data suggesting a potential loss of around \$1.35B in GDP for March alone under the assumption of similar intensity to the 2024 conflict. While nominal GDP was projected to reach \$31.25B by end of March 2026 in the absence of conflict, the war is expected to result in a contraction of 3.5% in nominal terms, equivalent to around \$45M per day, reflecting declines in real output alongside forgone growth. Should the conflict persist over a longer period, losses could accumulate substantially, potentially reaching \$16B over a year, highlighting the severe economic cost of ongoing geopolitical instability on Lebanon's fragile economy.

Finally, Lebanon has secured around \$1.7B in new public financing over the past two years, including \$1.3B from the World Bank and \$430M from Qatar, according to Lebanon Opportunities Issue 285 Winter 2026, aimed at supporting infrastructure, electricity, agriculture, and water sectors. While these funds are essential for restoring services and stimulating economic activity, they add to the country's public debt burden, with long

repayment horizons and interest components of around 5% under World Bank financing, despite relatively concessional terms. Disbursements remain conditional and phased, tied to project implementation and governance standards, which may slow execution, while Qatari financing offers slightly more favorable terms including partial grants and lower interest rates. Overall, this financing framework reflects a trade-off between supporting short-term recovery and increasing long-term fiscal pressures, reinforcing Lebanon's reliance on external borrowing.

In conclusion, the BLOM Lebanon PMI fell back into contractionary territory in March, signaling a clear deterioration in private sector conditions following a period of modest expansion. While earlier improvements pointed to some resilience in activity, recent economic indicators suggest that this momentum has weakened, reflecting softer demand and growing pressure on businesses. At the same time, **business expectations have deteriorated significantly**, falling to low levels as firms grow increasingly concerned about the continuation of the conflict between Hezbollah and Israel and its impact on future activity. Politically and on the security front, this escalation has reinforced an already fragile environment, further weighing on sentiment and limiting firms' willingness to commit to investment. Moreover, ongoing cost pressures and structural challenges continue to constrain operations and reduce visibility over future conditions. As a result, the positive developments in 2025, though notable, remain vulnerable, with security risks, weak demand, weakened expectations, and delayed reforms continuing to cloud the outlook and prevent the current conditions from translating into a sustained and broad-based recovery.

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

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Jana Boumatar

jana.boumatar@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

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