

Private Sector Confidence Shaken by Lebanon's Political Developments and Economic Pessimism



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The BLOM Lebanon PMI for the month of July 2025 recorded 48.9, witnessing a decrease from 49.2 in June 2025. This slight decrease reveals the deterioration in private sector business activity for the fifth consecutive month, reflecting heightened political uncertainty and escalating regional tensions; it is interesting to note that the PMI recorded the same results as the month of May 2025. The downturn coincided with a series of high-stakes diplomatic developments and security threats that weighed heavily on investor confidence and economic momentum. Most significant among these was the visit of U.S. representative Thomas Barrack, whose push for a binding Lebanese Cabinet decision to disarm Hezbollah intensified domestic political divisions and placed the government under significant international pressure. While Lebanon formally responded to the U.S. – supported reform roadmap, Hezbollah's public rejection of disarmament exacerbated internal paralysis and deepened institutional fragility. Simultaneously, a renewed wave of Israeli airstrikes across southern Lebanon and the Beqaa Valley, targeting Hezbollah infrastructure and operatives, fueled fears of a broader conflict and directly disrupted commercial and logistical operations, as well as the renewed wave of violence in Syria which hurt further the investment climate. Against this volatile backdrop, the private sector grew increasingly risk-averse, stalling business activity and amplifying Lebanon's ongoing macroeconomic vulnerabilities.

A top macro indicator, Lebanon's annual inflation rate increased to 15.00% in June 2025, from 14.44% in May 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 disrupted regional stability and significantly increased transportation costs both by air and on ground. This surge in logistics and fuel expenses directly impacted the prices of imported goods and essential commodities, amplifying overall price pressures in Lebanon's already fragile economy. Notably, Education accounts for 6.6% of the Consumer Price Index (CPI) increased by 30.60% Year-Over-Year (YoY). Owner Occupied Housing (13.6% of CPI) soared by 29.93% YOY, and Health (7.7% of CPI) rose by 21.70% YOY during the same period. The "New Rent" increased yearly by 30.08% despite the ceasefire agreement signed on November 27th, 2024, given that some displaced people who lost their houses are hesitant to return to their villages as Israel is still breaching the ceasefire agreement in addition to the fact that most of them have paid the rent for a year in advance. On a monthly basis, CPI increased between May 2025 and June 2025 by 0.76%.

The cumulative activity at Rafic Hariri International Airport by June 2025 rose by 0.16% YoY, driven by a 3.45% in arrivals, while departures fell by 3.22% YoY; similarly, cumulative transit passenger numbers also fell by 67.43% YoY. Notably, this growth comes despite ongoing Israeli strikes on Lebanon, which now is mostly limited to specific areas. On a monthly basis, airport passengers' activity rose by 5.38%. The arrivals rise comes as summer begins and the academic year ends in many countries abroad - boosting travel as families visit, expatriates return home, and holiday plans pick up with the warmer weather and school breaks.

In addition, according to the Lebanese Customs Administration, **Lebanon's trade deficit widened by 12.95% year-over-year (YoY) to \$7.87 billion in the first half (H1) of 2025.** The shift was primarily driven by a 14.65% YoY surge in imports, which reached \$9.611 billion, offsetting a 22.97% YoY rise in exports to \$1.745 billion over the same period. Imports rose as consumer behavior readjusted amid easing geopolitical tensions, with individuals spending more freely rather than limiting their consumption to stockpiling essentials. The top three import destinations in H1 2025 were China, Greece, and United

Arab Emirates (UAE), accounting for 11%, 9%, and 8% of the total value of imports, respectively. While the top imported products were mineral products (24%) at \$2,311 million, pearls, precious stones, and metals (17%) at \$1,628 million, and products of the chemical or allied industries (8%) at \$796 million. On the export side, the increase likely signals a rebound in business activity across multiple regions following the November 2024 ceasefire with Israel. While Israel has continued to breach the agreement, these disruptions have remained localized, allowing broader commercial operations to resume and drive export growth. That is in addition to the freer trade routes through Syria, especially since the fall of the previous regime. The top three export destinations in H1 2025 were Switzerland, UAE and United States capturing respective shares of 21%, 18%, and 4% of the total value of exports. While the top exported products were pearls, precious stones, and metals (36%) at \$631 million, base metals and articles of base metal (15%) at \$268 million, and prepared foodstuffs, beverages, and tobacco (12%) at \$211 million. On a monthly basis, both exports and imports declined as rising tensions surrounding the Iran-Israel conflict and potential U.S. involvement raised trade costs. Insurance premiums surged, and disruptions via air and sea intensified due to flight suspensions to Lebanon and port delays linked to regional security concerns and airport closures in Iraq and Jordan.

Moreover, according to Lebanon's consolidated commercial banks' balance sheet, total assets declined by 2.04% on year over year (YoY) basis to stand at \$102.2B in May 2025. On the assets side, currency and deposits with Central Bank represented a high figure of 77.43% of total assets; they dropped annually by 3.20% to settle at \$79.1B in May 2025. Deposits with the central bank (BDL) represented 99.91% of total reserves, and decreased by 3.19% YoY, to reach \$79.03B in May 2025. Furthermore, vault cash in Lebanese pound declined by 13.55% on a yearly basis to stand at \$74.74M by the same period. Claims on resident customers, constituting 4.39% of total assets, shrank by 22.63% to stand at \$4.5B in May 2025. Moreover, resident securities portfolio, representing 5.08% of total assets, increased by 10.25% in May 2025 to stand at \$5.2B. More specifically, the Eurobond holding recorded an increase of 0.87% since May 2024, to reach \$2.24B (net of provisions) in May 2025. Additionally, claims on non-resident financial sector rose by 17.81% YoY to stand at \$5.21B by May 2025. On the liabilities side, resident customers' deposits were the main account, representing 65.32% of total liabilities; they dropped by 3.42% since May 2024 to reach \$66.73B by the month of May 2025. In more details, deposits in foreign currencies

(being 98.89% of resident customers' deposits) declined by 3.69% YoY to reach \$65.99B by May 2025, additionally deposits in LBP (1.11% of resident customers' deposits) increased by 28.46% YoY to stand at \$742.80M by May 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 99.30% in May 2024 to 99.07% in May 2025. As for non-resident customers' deposits, grasping 20.76% of total liabilities, they recorded a rise of 0.78% and stood at \$21.21B in May 2025. In details, the deposits in LBP rose by 45.82% to reach \$45.63M and deposits in foreign currencies increased by 0.71% to reach \$21.16B over the same period. In addition, non-resident financial sector liabilities representing 2.49% of total liabilities and decreased by 4.87% YoY to reach \$2.54B in May 2025. Lastly, the capital accounts stood at \$4.06B, higher by 40.54% than May 2024, noting that only about 10% of those are in LBP.

Furthermore, BDL's latest monetary report indicated that the Balance of Payment (BOP) recorded a cumulative surplus of \$8,143.3M up to May 2025, far above than the surplus over the same period last year of \$3,240.1M. NFAs of BDL rose by \$217.8M while the NFAs of commercial banks increased by \$83M in May 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. Cumulative Net Foreign Assets (NFAs) of BDL rose by \$7,253.7M while the cumulative NFAs of commercial banks increased by \$889.6M by May 2025.** For a more meaningful analysis, we examine the NFAs of commercial banks for the month of May 2025. On the liabilities side, "Non-resident financial sector liabilities" decreased by \$34.64M to reach \$2.55B; in addition, "Non-resident customers' deposits" rose by \$20.91M to reach \$21.21B. Meanwhile, on the asset side, "claims on non-resident financial sector" increased by \$32M to reach \$5.21B for the same period, similarly "other foreign assets" increased by \$5.37M to stand at \$2.49B while "Non-resident securities portfolio" rose by \$81.2M recording \$1.16B.

Also, as per BDL's balance sheet, **the Central Bank's total assets decreased by 0.16% Year-on-Year (YoY), reaching \$94.2B by mid-July 2025.** Furthermore, the gold account, representing 32.93% of BDL's total assets, increased by 39.60% yearly to reach \$31.01B by mid-July 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 June 15th, 2024, in addition to the loans to local financial sector. **As such, BDL foreign reserve assets, consisting of 12.18% 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 11.17% YoY and stood at \$11.5B by mid-July 2025. Additionally, foreign reserve assets increased by \$149.1M in the first two weeks of July 2025.** On the liabilities front, financial sector deposits, representing 89.93% of BDL's total liabilities, decreased by 2.76% annually and reached \$84.7B by mid-July 2025 compared to last year, of which more than 90% are denominated in dollars. Moreover, public sector deposits, representing 7.91% of BDL's total liabilities, rose by 44.44% yearly and reached \$7.45B by mid-July 2025. Lastly, currency in circulation outside of BDL, consisting of 0.91% of BDL's total liabilities, rose by 22.10% annually to reach \$852.44M by mid-July 2025.

According to the data from the Orders of Engineers in Beirut and Tripoli, the total construction permits witnessed a year-on-year (YoY) decrease of 27.20% to record 3,046 permits by June 2025. However, the cumulative Construction Area Authorized by Permits (CAP) increased by 18.86% to record 3,716,649 square meters (sqm) by June 2025. This could be explained by the increased tendency for group projects rather than individual projects. Moreover, construction activity showed mixed trends compared to the previous year. While North Lebanon experienced growth, all other governorates saw a decline. Israel's war on Lebanon had been largely contained to specific areas during the first half of 2024 and 2025. However, with the first half of 2025 following a period of escalation, uncertainty appears to have had a greater impact this time. Despite the ceasefire limiting the conflict to

certain regions, the war remains unresolved, leaving many hesitant to initiate new construction.

More so, Cumulative container activity at the Port of Beirut rose by 10.49% year-over-year (YoY) to 325,950 TEU by May 2025. Cumulative container activity, referring to cargo loaded onto or unloaded from ships at the port; saw an increase of 24.97% YoY to 260,331 TEU. However, cumulative transshipment activity, which involves cargo transferred from one ship to another at an intermediate port, decreased by 19.52% YoY to 69,763 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 7.45%.**

Additionally, as stated by the General Directorate of Land Registry and Cadastre (LRC), the cumulative number of real estate (RE) transactions reached 6,469, valued at \$498.6M by May 2025. Moreover, the number of RE transactions increased by 80.25% on an annual basis, and by 34.21% on a month-on-month basis. The value of real estate transactions by May 2025 reached \$498.6M. Beirut held the largest share of the total value at 26.49%, amounting to \$132.1M. Metn followed with 23.3% of the total value, equivalent to \$116.2M.

Apart from that, on June 23rd, 2025, Ministers of Finance Yassine Jaber and Justice Adel Nassar issued a decision based on Law #240 dated 16/07/2021, particularly its fourth item, which mandates external forensic audits for all who benefited from foreign currency subsidies. The decision outlines seven articles: the Ministries of Finance and Justice will draft terms and conditions to contract accounting and forensic auditors; the Central Bank will submit a detailed list of traders who received subsidies for foodstuff imports in USD, along with specified amounts; once received, the Ministry of Finance will provide tax schedules and customs documents related to these imports. **A mechanism will be set up to collect data from the Central Bank,** and task orders will be issued to study income and VAT operations of listed traders. Cases with suspected tax evasion will be submitted to specialized courts. Forensic auditors will provide original reports to the Ministries, and the Ministry of Justice will forward them to legal authorities when needed. The Ministry of Finance will audit these reports and may, post grace period, amend and impose taxes on traders found to have made excessive profits from subsidies. According to Annahar (July 9th, 2025), USD 10 billion were spent on subsidies. Beneficiary companies fall under four categories: two supervised by

the Ministry of Economy and Trade (importing wheat and food baskets), one under the Ministry of Public Health (medicine at LBP 1,500/USD), and one under the Ministry of Energy and Water (fuel and gas imports).

Correspondingly, the Central Bank of Lebanon (BDL) issued on July 14th, 2025, Basic Circular 170 (Decision 13735), introducing cautionary measures to protect Lebanon's financial and economic sectors from dealings with unregistered entities and those under external sanctions. The circular addresses issues flagged by the Financial Action Task Force (FATF), aiming to reduce money laundering and terrorism financing. It prohibits banks, financial companies, intermediaries, investment funds, and BDL-licensed institutions from engaging - directly or indirectly - with unlicensed or sanctioned entities, including exchange offices, money transfer companies, and associations. Restricted activities include providing financial services, conducting transfers or credit operations, and facilitating currency-related transactions. Non-compliance may result in penalties such as license suspension or withdrawal, account freezes, or referral to the special investigation committee. **The circular is effective upon publication in the official gazette.** Separately, BDL announced an agreement with U.S.-based "K2 Integrity," a firm specializing in risk management and financial investigations, to combat the cash economy and illegal financial activity. This partnership is part of a broader strategy to exit the FATF Grey List, with K2 Integrity providing technical support and consultation. The company brings global experience across central banks, governments, commercial banks, and FinTech firms in over 100 countries.

In an elaboration on Lebanese exchange rates, note that the nominal exchange rate reflects the price of one currency in terms of another - e.g., 89,500 LBP per USD in Lebanon - but it doesn't capture purchasing power. The real exchange rate (RER), calculated as $RER = P/eP^*$, accounts for what can be bought with a currency. Using the Big Mac Index, with a Lebanese Big Mac at 480,000 LBP and a U.S. price of \$6, the RER is 0.9, suggesting the LBP is 10% undervalued. If the exchange rate appreciated to 80,000 LBP/USD, RER would be 1, aligning with purchasing power parity. Arbitrage would theoretically push nominal exchange rates toward RER equilibrium. However, **World Bank evidence shows Lebanon's RER is overvalued by 30% since 2010 and 50% since May 2023.** This is explained by: (1) McDonald's varied pricing strategies - Lebanon likely uses a low-margin model due to competition; (2) market distortions like transport costs and non-tradable goods,

which make up over 75% of Lebanon's economy; and (3) use of the real effective exchange rate (REER), which averages trade-weighted RERs with partners using various currencies. Overvalued REERs, along with fiscal mismanagement and corruption, contributed to Lebanon's crisis. Going forward, especially after Hezbollah disarmament, Lebanon must prioritize economic reforms, particularly exchange rate regime choice. **In small open economies, exchange rates are critical for stability, competitiveness, and foreign reserves.** Achieving equilibrium REER is difficult due to sticky prices and volatile nominal rates. REER deviations don't always mean misalignment, but misjudgments have caused past policy errors. Avoiding those mistakes is essential - and Lebanon will need all the luck it can get.

Similarly, in its Spring 2025 issue, "Turning the Tide?", the World Bank's Lebanon Economic Monitor analyzed REER dynamics, a key issue given Lebanon's trade deficit and concerns that an overvalued REER undermines competitiveness. REER, a trade-weighted average of RERs, improves competitiveness when it falls and weakens it when it rises. From 2010 to 2019, Lebanon's REER appreciated by 107.4%, boosting imports and hurting exports. During the 2019-2020 crises, REER fell by 78%, but exports also declined, as collapsing demand - not competitiveness - narrowed the deficit. Post-July 2020, REER rose again with subsidy removal and dollarization, and by late 2023, its appreciation resumed widening the trade gap. Lebanon's exports defied theory: rising during REER appreciation and falling during depreciation. The World Bank attributes this to factors like Saudi trade bans, Syrian route closures, COVID-era demand weakness, and high domestic costs. Dollarization, sticky prices, and market structure further limited REER impact, especially in services. With GDP down from \$55B in 2018 to \$26B in 2024, export-led recovery is crucial. While signs like Emirati tourist return and potential Saudi market re-entry are promising, Lebanon must pursue deep reforms. As Towards a Productive "New" Lebanon argues, exports must triple from \$10B to \$30B to restore GDP and balance. Sustainable recovery depends on structural reform and regional diplomacy.

Furthermore, between 2017 and 2024, Lebanon's social protection system faced a tumultuous phase marked by macroeconomic instability, currency collapse, and rising poverty. According to the Institut des Finances Basil Fuleihan (July 2025), government spending revealed deep structural inefficiencies. While LBP allocations rose from LBP 9,171

billion to LBP 113,033 billion, real USD value collapsed from USD 6.1 billion to USD 1.3 billion. The budget share for social protection increased to 42% by 2024 (up from 27% in 2017), mainly due to health spending, while social assistance remained underfunded. Actual spending as a share of GDP declined sharply: from 8-10% in 2017-2019 to 1% in 2023 (excluding health); and health protection dropped from 3% to near zero. Execution rates also fell from 111% in 2018 to 52% in 2023. Spending skewed toward contributory schemes like pensions (60% in 2023), with minimal support for family, disability, and maternity. In 2024, 57% of allocations went to civil servants and armed forces, leaving little for poor populations. Pension spending rose in LBP terms but fell in USD value. Financing shifted as the state budget share rose to 80%, but the total pool shrank to 9% of pre-crisis levels. NSSF and COOP contributions dropped to 3-8%, while donor funding and Treasury Advances proved unsustainable. **Though allocations rose after 2021, they were nominal and poorly executed.** The report concludes Lebanon's social protection is neither inclusive nor sustainable. Reform must include a costed National Strategy, expansion of non-contributory programs, formal employment growth, and better financing through taxation and expenditure efficiency. Institutional reforms and public consensus, especially around pensions and taxes, are also essential.

On a separate note, in its Spring 2025 issue, the World Bank's Lebanon Economic Monitor analyzed Lebanon's inflation post its global peak in August 2021. Before 2019, inflation tracked global trends (0.47 correlation with G7 CPI, stronger with the U.S.), with a 1% global rise causing a 0.57-0.63% domestic increase - higher than regional peers. Post-crisis, inflation tracked exchange rate movements more closely, with over two-thirds of monthly variation explained by FX changes. Lebanon's high pass-through (10% depreciation = 5.74% inflation) reflects its import dependence, though 26.6% of inflation stems from domestic dynamics. After stabilization around LBP 89,500/USD in August 2023, FX-inflation correlation weakened, but inflation surged due to education sector dollarization. In 2024 and H1 2025, inflation was driven by housing, food, education, and health. The average CPI in H1 2025 was 14.73%, the lowest since 2019. Lebanon's inflation is expected to remain above historical norms, driven mostly (75%) by domestic factors like weak competition and regulatory gaps. External shocks contribute less. Despite some reforms, political fragility, Israeli strikes, and economic volatility pose risks. Sustainable inflation control will require structural reform, investment confidence, and stability.

In conclusion, the July 2025 BLOM Lebanon PMI dropped to 48.9. This result was not unexpected as the economy lacked any meaningful demand stimulus: the government does not have money to spend and the private sector is not able and willing to spend. That leaves the external sector, but that was also badly hit by a poor tourist season and a lackluster export performance, both due to an unstable security situation made worse by Hezbollah's intransigence on relinquishing its arms and by the recent violent events in Syria. The only good news is that the resulting economic implications could have been worse, which indicates a glimmer of hope regarding the economy's flexibility and potential. However, a 45% of Lebanon's private companies remain pessimistic about the country's outlook, citing persistent instability, weak governance, and limited progress on reform. This widespread uncertainty has translated into cautious investment behavior and delayed expansion plans across key sectors. Nevertheless, Lebanon has weathered countless crises before - and its private sector has long shown resilience in the face of adversity. With the right political will, a unified national vision, and commitment to structural reform, Lebanon still holds the potential to turn the page on its prolonged crisis and pave the way toward a more stable and prosperous future.

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