PMI Slips Back into Contraction Zone in October

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The BLOM Lebanon PMI dropped from 50.5 in September to 49.8 in October 2026, marking the first month of contraction of private sector business activities since May 2026. October witnessed a reduction in domestic orders in addition to a larger contraction in new export orders; these reductions led to a decrease in production. Domestic orders were reduced due to the decrease in citizens' purchasing power, economic and security uncertainty along with unfavorable economic conditions. As for new export orders, the instability in regional geo-politics increased the shrinkage in new orders from international client. These decreases in local and international orders led to a decline in business confidence over the next 12 months, in which survey respondents were wary of the negative economic consequences of the regional insecurity and uncertainty. Despite that, employment level remained stable in October. Additionally, private businesses chose for a more cautious stance regarding their inventory as stocks of purchases were cut for the first time since May 2026.

Moving to economic indicators, according to the Central Administration of Statistics, Lebanon's annual inflation rate rose to 17.53% in September 2026, up from 16.66% in August 2026. This slight acceleration in inflation reflects rising price pressures in key sectors alongside weaker consumer demand amid the economic uncertainty stemming from the renewed Israel-Hezbollah conflict. Inflation remains elevated as ongoing security concerns continue to weigh on economic activity. Notably, "Recreation, amusement and culture" which accounts for 2.4% of the Consumer Price Index (CPI) recorded a 43.61% Year-Over-Year (YOY) increase. Meanwhile, Water, Electricity, Gas and other Fuels (11.8% of CPI) rose by 38.91% YOY, while Education (6.6% of CPI) increased by 35.74% YOY over the same period. The "Transportation" category, which accounts for 13.1%

of the CPI, rose by 35.23% YOY, reflecting higher transportation costs amid fluctuations in fuel prices and rising operating expenses. On monthly basis, Consumer Price Index (Inflation) increased by 1.35% in September 2026 compared to August 2026, reflecting persisting price pressures across several expenditure categories despite subdued consumer demand and ongoing economic uncertainty.

And according to the Lebanese Customs Administration, Lebanon' s cumulative trade deficit increased by 7.91% year-over-year (YoY), to reach $11.47B by August 2026. This change was driven by a cumulative 4.78% YoY ($13,664 million) surge in imports by August 2026 and a 9.03% YoY ($2,196 million) fall in exports during the same period. The widening trade deficit reflects the lingering impact of the conflict on Lebanon' s productive and export capacity, particularly after months of disrupted agriculture, supply chains and transport activity. The easing of hostilities and renewed ceasefire in June supported a gradual recovery in domestic activity and the return of displaced households, strengthening local demand and businesses' need to replenish inventories. However, this recovery benefited imports more than exports, as external orders remained constrained by regional instability and elevated shipping costs through August, despite the reopening of the Saudi market to Lebanese exports in June.

Moreover, data published by the Associations of Banks of Lebanon (ABL), the total number of cleared checks in the Lebanese financial system decreased remarkably by 39.64% year over year (YoY) to 50,029 checks by September 2026. Cleared checks in both LBP and foreign currencies also dropped sharply in volume and value over the course of the month. Notably, the number of returned checks dropped significantly by 40.92% YoY to stand at 257 checks by September 2026. Moreover, the value of returned checks in local currency increased YoY by 13.5% to reach LBP 353B, while checks in foreign currency decreased remarkably YoY by 83.56% to record $14.70M by September 2026. **Also, by September 2026, the cumulative number of checks issued from fresh accounts reached 143,193, of which 104,229 checks were in USD currency, amounting to $1.31B; and 38,964 checks were in LBP currency amounting to LBP 57,554B**. On a monthly basis, the number of cleared fresh checks in September 2026 was 21,762 checks.

Moreover, the cumulative activity at Rafic Hariri International Airport declined by 21.65% year on year to 4,235,968 travelers by September 2026, reflecting the impact of the renewed conflict between Israel and Hezbollah, which disrupted travel demand and airline activity despite the ceasefire announced in mid-April. Total arrivals reached 2,108,634, down by 23.81% year-on-year; similarly, departures fell by 19.38% to 2,125,888. While, transit passengers increased by 46.77% year on year to 2,865 albeit from a low base Airport activity dropped in August 2026, with total passengers decreasing by 4.15% year-on-year to 654,107 travelers. Total arrivals and departures declined by 0.84%, and 6.74% respectively reaching 294,537, and 359,258 travelers. While transit increased by 61.66% to reach 312 travelers, albeit from a low base. Similarly, on a monthly basis, total passenger activity declined by 21.75% to 654,107 travelers in September 2026, compared to August. Arrivals and departures fell by 20.35% and 22.87%, respectively, while transit passengers increased by 8.71%. The decline largely reflected the end of the summer tourism season and the return of Lebanese expatriates abroad, alongside persistent regional security concerns that continue to weigh on travel demand and airline activity.

According to market sources, cumulative Lebanese car market surged by 20.72% year-over-year (YoY) by September 2026, reaching 11,404 cars. On a monthly basis, car sales decreased marginally by 0.13% to 1,519 vehicles in September 2026 compared to August 2026, likely reflecting a slight decline in consumer demand most probably due to the persistent geo-political tensions that is affecting Lebanon. In such circumstances, people might be reluctant to spend on durable goods. The leading sellers of vehicles in Lebanon were Toyota, Nissan, and MG with number of vehicles sold in September 2026 alone totaled 231, 89, and 80 respectively. It is interesting to note that in September 2026, the share of non-gasoline cars and SUV (Hybrid, Plug-in Hybrid and Fully Electric cars) recorded a total of 538 automobiles (35.42% of total cars sold).

Additionally, as per the General Directorate of Land Registry and Cadastre (LRC), the cumulative number of real estate (RE) transactions reached 40,672, valued at $4,507.33M by September 2026. Real estate transactions reached 6,589 deals in September 2026, with a total value of $804.4M. This marks a 3.44% annual increase, similarly, recording a 28.07% increase on a monthly

basis. Beirut captured the largest share of transaction value at 24.05% ($193.45M), followed by Metn with 22.43% ($180.43M), then Baabda with 17.22% ($138.5M). The slight monthly increase in real estate transactions in September 2026 suggests modest improvement in market conditions, reflecting a gradual recovery in activity as uncertainty eased. However, the increase remains limited, indicating that real estate demand continues to be constrained by the renewed Israel-Hezbollah conflict.

On the monetary front, according to Banque du Liban' s (BDL) balance sheet, the Central Bank' s total assets decreased by 1.78% Year-on-Year (YoY), reaching $92.9B by mid-October 2026. Furthermore, the gold account, representing 41.29% of BDL' s total assets, decreased by 0.99% yearly to reach $38.4B by mid-October 2026. In addition, BDL foreign reserve assets, consisting of 12.32% of total assets fell by 2.86% YoY and stood at $11.45B by mid-October 2026. Moreover, foreign reserve assets increased by $49.4M in the first two weeks of October 2026. On the liabilities front, financial sector deposits, representing 85.48% of BDL' s total liabilities, decreased by 5.74% annually and reached $79.41B by mid-October 2026 compared to last year, of which more than 90% are denominated in dollars. Moreover, public sector deposits, representing 11.40% of BDL' s total liabilities, increased by 29.37% yearly and reached $10.6B by mid-October 2026. Lastly, currency in circulation outside of BDL, consisting of 0.67% of BDL' s total liabilities, fell by 25.49% annually to reach $619.72M by mid-October 2026.

In addition, according to Lebanon' s consolidated commercial banks' balance sheet, total assets declined by 1.81% on year over year (YoY) basis to stand at $100.5B in August 2026. Currency and deposits with Central Bank represented a high figure of 74.82% of total assets; they dropped annually by 4.74% to settle at $75.20B in August 2026. Deposits with the central bank (BDL) represented 99.92% of total reserves, and decreased by 4.73% YoY, to reach $75.14B in August 2026. Additionally, claims on resident customers, constituting 4.03% of total assets, shrank by 7.83% YoY to stand at $4.05B in August 2026.

On a separate note, in his September 2026 editorial titled "Will 550,000 Bank Accounts Worth $29 Billion Be Sent into Liquidation?" Dr. Fadi Khalaf, Secretary General of the Association of Banks in Lebanon (ABL), studied the

possible concerns of Lebanon' s proposed Financial Regularization and Deposit Recovery Law. He agreed the need to reimburse depositors, the principal challenge lies in identifying who will bear the financial burden, how repayments will be financed, and whether sufficient liquidity exists to fulfill these obligations within the proposed timeframes. The editorial raises concern that implementing a deposit recovery framework without clearly defined funding sources and practical mechanisms could deepen Lebanon' s financial crisis rather than resolve it**. A central concern highlighted by Khalaf is the possibility that the proposed legislation could lead to the liquidation of a significant number of Lebanese banks. He added that according to technical studies prepared by international advisers, applying the government' s draft law submitted to Parliament without substantial adjustments to the distribution of financial burdens and funding sources could result in the liquidation of banks holding approximately 550,000 accounts and more than $29 billion in deposits. Such an outcome would raise serious questions about the protection and repayment of depositors' funds, particularly in the absence of an institution capable of assuming the financial obligations of liquidated banks**. Another major issue concerns he added is the credibility of the proposed repayment schedules. Khalaf stressed that establishing repayment deadlines through legislation does not necessarily mean that banks and public institutions will possess the liquidity required to honor them. Khalaf also argued that repayment commitments must be supported by a comprehensive assessment of the actual liquidity available to the Lebanese state, Banque du Liban (BDL), and commercial banks. Otherwise, ambitious repayment schedules risk creating expectations that cannot be fulfilled, potentially triggering another financial default instead of restoring confidence.

In a related development, BDL announced its legal responsibility to protect its funds and assets and to reclaim its rights. Thus, it will continue its necessary legal proceedings before the competent authorities, both in Lebanon and abroad to recover funds that have been embezzled, transferred, used illicitly, or otherwise misappropriated" . **BDL added that to formalize the commitment, BDL has opened a dedicated, independent account—the 'Deposit Recovery Account'—into which all funds recovered for the benefit of the Bank shall be exclusively deposited**, whether through judicial rulings, legal settlements, or other

mechanisms, both domestically and internationally. A corresponding special account has also been established with correspondent banks.

More broadly, International Monetary Fund' s (IMF) Fall 2026 meetings concerning MENA region, and stressed on the substantial economic challenges facing the Middle East and North Africa (MENA) as the regional conflict continues to disrupt economic activity. IMF projected the growth in the broader Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region will fall from 3.3% in 2025 to -1.3% in 2026, nearly 3 percentage points below its April projection, before rebounding to 6.6% in 2027. **For MENA specifically, the accompanying growth points to a deeper contraction of 2.0% in 2026 followed by a 7.0% expansion in 2027, compared with growth of 3.3% in 2025.** These changes are due to the fact that the sectors that are most affected by these escalations such as energy production, shipping, trade, and tourism, which unfortunately, are the sectors that represent the main part of this region' s countries' GDP.

In another note, Ms. Silvana Tenreyro, Economic Counsellor and Director of the Research Department at the International Monetary Fund (IMF) commented on the October 2026 World Economic Outlook (WEO). She talked about how the global economy has faced an extraordinary sequence of shocks since 2020, yet economic activity has remained reasonably robust. She listed the events that happened since 2020 such as the COVID-19 pandemic, Russia–Ukraine war and escalating conflicts and geopolitical tensions in the Middle East to finally the shifts in trade barriers and international trading relationships. **She added that the global economy has continued to expand, even though its capacity to resist additional major shocks is becoming increasingly constrained and global activity is estimated to grow at 3.1% in 2026 and 3.4% in 2027**. She also mentioned that the two key forces have helped sustain economic activity: adjustments in energy markets and the boom in artificial intelligence (AI)-related investment.

In addition, a report published in the Economists Intelligence Unit (EIU) stated that Lebanon' s financial risk remains extremely high reflecting continued vulnerabilities in its monetary and banking systems and the unsustainable state of its public finances. It adds that despite the efforts to restore financial

stability, the country continues to face significant challenges associated with currency stability, banking-sector recovery, and fiscal sustainability. These risks are closely interconnected, as weaknesses in public finances and the banking system continue to constrain the country' s capacity to achieve a financial recovery.

In conclusion, October' s PMI revealed that private sector businesses' conditions worsened as the geo-political tensions are still escalated. In addition, these persistent tensions kept fuel oil above $100/barrel since the beginning of the month, thus increasing shipping costs and imported goods. These high costs rose prices of output, thus reducing the power purchase of Lebanese citizens and negatively affecting the local new orders. **Looking forward, Lebanese private sector businesses were more pessimistic towards the upcoming 12-month outlook in which fears of intensification of the conflict dampened sentiment**. **Moreover, given the likely resumption of the conflict between the US and Iran, all concerned Lebanese political parties must agree to separate Lebanon from regional geo-political tensions and allow the State to be the decisive decision maker related to war and peace.**

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