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Lebanon's public sector external debt has been a topic of significant concern in recent years. The country's economic challenges, coupled with political instability and regional tensions, have contributed to a mounting debt burden. In more details, Lebanon's public sector external debt refers to the debt obligations incurred by the government, including government agencies, central bank, and other public entities, to foreign creditors. Over the years, Lebanon has heavily relied on external borrowing to finance its budget deficits, infrastructure projects, and public expenditure.

This review aims to analyse Lebanon's public sector external debt, focusing on its composition by currency type. By examining the distribution of debt across various currencies, we can gain insights into the country's economic vulnerabilities and potential risks. We will begin with domestic debt and then analyse in more details external or foreign debt.

Table 1: Composition of Domestic Debt

LBP Billion	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Total Domestic Debt	77,852	87,279	89,762	93,247	91,169
Long term Bonds	74,879	85,922	88,229	91,246	86,431
15 Year	1,417	1,417	1,417	1,417	1,417
12 Year	3,076	3,076	3,076	3,076	3,076
10 Year	21,138	30,312	33,372	34,622	34,565
8 Year	1,832	1,832	67	-	-
7 Year	11,311	15,555	18,741	20,839	19,046
60 months	17,778	20,086	21,631	21,841	17,310
54 months	-	-	-	-	-
48 months	-	-	-	-	-
36 months	10,308	9,086	6,714	5,600	5,571
30 months	-	-	-	-	-
24 months	6,966	3,299	1,910	2,493	4,169
Accrued interest	1,053	1,259	1,301	1,358	1,277
Short term bills	2,697	1,013	1,195	1,701	4,480
12 months	2,147	916	1,022	1,269	3,869
6 months	321	71	136	281	407
3 months	229	26	37	151	204
Accrued interest	70	35	37	43	88
Other Domestic Debt	276	344	338	300	258

Over the period from 2018 to 2022, Lebanon experienced a notable increase in its domestic debt. The significant reliance on LBP-denominated debt signifies the government's dependence on local borrowing, which can strain the domestic financial system. It also highlights the challenges of sustaining fiscal stability, given the country's limited economic growth and rising inflation. Indeed, starting at LBP 77,852 billion in 2018, the total domestic debt rose to LBP 91,169 billion in 2022, reflecting a significant expansion. This analysis delves into the composition of domestic debt, specifically focusing on long-term bonds and short-term bills.

On one hand, the amount of long-term bonds within Lebanon's domestic debt portfolio witnessed substantial growth during the mentioned period.

In 2018, long-term bonds accounted for LBP 74,879 billion, constituting a significant portion of the total domestic debt. However, by 2022, the figure rose to LBP 86,431 billion, signifying a notable increase in the issuance and accumulation of long-term bonds. It is worth noting that long-term bonds serve as a mean for the government to finance large-scale infrastructure projects, public expenditure, and budgetary needs.

On the other hand, short-term bills also experienced an upward trend in Lebanon's domestic debt composition from 2018 to 2022. Starting at LBP 2,697 billion in 2018, the value of short-term bills increased to LBP 4,480 billion in 2022. Short-term bills are primarily used for financing immediate budgetary requirements and managing liquidity. Their growth suggests that the government increasingly relied on short-term financing options to bridge temporary funding gaps and meet its short-term obligations.

Table 2: Composition of Foreign Debt

LBP Billion	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Foreign currency Debt	50,486	50,871	54,345	58,062	62,315
1- Eurobonds	47,225	47,776	51,204	55,057	59,166
<i>% Eurobonds of Foreign Currency Debt</i>	<i>94%</i>	<i>94%</i>	<i>94%</i>	<i>95%</i>	<i>95%</i>
of which Paris II at preferential rates	-	-	-	-	-
of which Paris III at preferential rates	-	-	-	-	-
of which Market issued Eurobonds	46,678	47,206	43,437	40,283	37,208
of which accrued interest on Eurobonds	547	570	587	534	510
of which, Arrears	-	-	7,180	14,240	21,448
Loans	3,255	3,092	3,141	3,005	3,149
% Loan of Foreign Currency Debt	6%	6%	6%	5%	5%
Paris II Loans	-	-	-	-	-
Paris III Loans	344	261	151	46	18
Bilateral Loans (non Paris II and III)	817	727	751	705	669
Multilateral Loans (non Paris II and 3)	2,011	2,036	2,180	2,207	2,421
Foreign Private sector Loans	83	68	59	47	41
Other Debt	6	3	-	-	-
Special Tbs in Foreign currency	6	3	-	-	-

From 2018 to 2022, Lebanon's foreign debt composition exhibited certain trends and changes. This analysis focuses on the composition of foreign debt, particularly foreign currency debt, Eurobonds and loans, during this period.

Foreign currency debt in Lebanon experienced growth between 2018 and 2022. Starting at LBP 50,486 billion in 2018, it rose to LBP 62,315 billion in 2022, reflecting an increase in the country's borrowing in foreign currencies. The rise in foreign currency debt signifies Lebanon's reliance on external borrowing denominated in foreign currencies, such as the U.S. dollar and euro.

Eurobonds, a debt security issued in a currency other than the issuer's domestic currency, constituted a significant portion of Lebanon's foreign debt during the period under review. In fact, Eurobonds constituted around 94% and 95% of total foreign currency debt between 2018 and 2022. Moreover, in 2018, the value of Eurobonds stood at LBP 47,225 billion, while by 2022, it increased to LBP 59,166 billion. But the increase in Eurobonds indicates largely the increase in arrears from LBP 7,180 billion in 2020 to LBP 21,448 billion in 2022 because of the foreign default.

In contrast to the growth in Eurobonds, loans witnessed a slight decline in Lebanon's foreign debt composition. Loans decreased from LBP 3,255 billion in 2018 to LBP 3,149 billion in 2022. The decrease in loans suggests a shift in the government's borrowing strategy, potentially reducing its reliance on external loans during this period. It is interesting to add that by end 2022, the \$31.7 billion in Eurobonds that were defaulted on in 2020, were held by BDL (\$5 billion), Lebanese commercial banks (\$4 billion), and foreign investors (\$22.7 billion).

Table 3: Composition of Foreign Debt by currency

	2018		2019		2020		2021		2022	
	USD million	%	USD million	%	USD million	%	USD million	%	USD million	%
Swiss Francs	0	0	0	0	0	0	0	0	0	0
Chinese Yuan	7	0.02	7	0.02	8	0.02	8	0.02	7	0.02
Euro	426	1.29	330	0.99	321	1.04	252	0.76	212	0.63
Pound Sterling	0	0	0	0	0	0	0	0	0	0
Islamic Dinars	124	0.37	99	0.3	134	0.43	106	0.32	171	0.51
Japanese Yen	22	0.07	16	0.05	10	0.03	3	0.01	0	0
Kuwaiti Dinars	667	2.01	691	2.07	707	2.29	709	2.13	676	2.03
Saudi Arabian Riyals	73	0.22	67	0.2	61	0.2	54	0.16	53	0.16
Special Drawing Rights	27	0.08	27	0.08	88	0.28	92	0.28	88	0.26
UAE Dirhams	8	0.02	6	0.02	3	0.01	2	0	1	0
US Dollar	21773	95.91	32125	96.28	29567	95.69	32081	96.32	32195	96.38
Total	33128	100	33367	100	30898	100	33307	100	33403	100

The composition of public sector external debt by currency type in Lebanon provides insights into the country's borrowing practices and exposure to different currencies. In 2022, the majority of Lebanon's public sector external debt was denominated in U.S. dollars, accounting for 96.38% of the total. The overwhelming dominance of the U.S. dollar in Lebanon's public sector external debt indicates the country's heavy reliance on borrowing in this currency. Historically, Lebanon has utilized the U.S. dollar as a preferred currency for external borrowing due to its pegged exchange rate regime, which fixes the Lebanese pound to the dollar. However, the heavy reliance on U.S. dollar-denominated debt makes Lebanon vulnerable to fluctuations in the exchange rate. Any devaluation or depreciation of the Lebanese pound could significantly increase the burden of dollar-denominated debt, leading to fiscal pressures and potential default risks. And that is exactly what happened in 2020.

Furthermore, Kuwaiti dinars and euros constituted smaller proportions, at 2.03% and 0.63%, respectively. The presence of Kuwaiti dinars reflects Lebanon's borrowing relationship with Kuwait as a source of external financing. The utilization of Kuwaiti dinars in public sector external debt signifies diversification efforts, aiming to reduce dependency on a single currency and expand borrowing relationships with different countries or entities. Similarly, the inclusion of euros in the public sector external debt composition indicates Lebanon's engagement with European creditors. Borrowing in euros provides some hedging against exchange rate fluctuations, particularly those related to the U.S. dollar.

In Conclusion, Lebanon's public sector external debt composition in 2022 reveals the dominance of U.S. dollar-denominated debt, followed by smaller proportions of Kuwaiti dinars and euros. While the reliance on the U.S. dollar has provided stability in the past, it also exposes Lebanon to exchange rate risks. The crisis of late 2019 and the default of early 2020 have validated all that. Addressing the resulting challenges associated with public sector external debt requires, above all, a restructuring agreement with foreign creditors, comprehensive economic reforms, fiscal discipline, and a stable political environment to restore confidence and reduce vulnerabilities. Also, in terms of government policy and main concern, the onus will be on foreign debt as by end 2022 the USD value of domestic debt had fallen to only \$2.2 billion! (at the market exchange rate of LBP 42,450).

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