J.P Morgan on Lebanese Eurobonds: ‘We Think There is Value in the Curve’

BLOMINVEST BANK

September 17, 2025

Contact Information

Dr. Ali Bolbol

ali.bolbol@blominvestbank.com

J.P Morgan published a note on Lebanese Eurobonds in September 2025, *“We think there is value in the curve, move longer into Q4”*, in which it postulated an interesting debt restructuring scheme.

The note argues that authorities are in the process of implementing significant reforms across the security and financial spectrum, which should bring them closer to reaching an understanding with the IMF in the next few months, unlocking international support and restructuring the country’s defaulted external debt next year. Recoveries on Eurobonds will largely be constrained by the IMF Debt Sustainability Analysis (DSA), namely the government’s balance sheet and ability to repay.

The note indicates that the size of the banking sector losses has decreased over the last few years and now the relevant question for bonds is the extent of the potential government involvement in the banking sector restructuring vs the depositors’ bail-in. In this respect, it estimates the size of the banking sector losses at about $50-55bn, largely stemming from losses at the BdL and lower than the ~$75bn that’s often quoted; in addition, authorities are in the process of designing a key piece of legislation (“gap law”), a key IMF demand, which is considering a significant bail-in by depositors. Also, the IMF will want to minimize any fiscal bail-out but given negotiations dynamics, the note currently makes a defensive assumption that the government will share some of the residual burden after deposits are impaired.

As such, the note assumes a treatment of the "government loan" whereby the BdL receives a 50% HairCut (HC), the residual gets repaid to deposits as the government services it over 15 years, at another round of impairment to depositors to replenish BdL's equity over time. This scenario is illustrated in Table 1 below, where BdL's losses are shared between the depositors and the government after a first round of impairment in t0 if the restructuring.

Table 1:

Official BdL Balance sheet - July 2025 (Official FX, $bn)			
Total Assets	**94**	**Total liabilities**	**94**
Gold	30.5	Ccy in circulation	1
Foreign reserve assets	11.5	Banks' deposits	84
		o/w Fccy	79
Securities	6.2	Public sector deposits	8
o/w Eurobonds	5.1	Valuation adjustments	-
Bank loans	0.4	Other liabilities	1
Other assets	0	Capital	1
Fixed assets	0.0		
Public sector loans	*17*		
Valuation adjustment	*27*		
Deferred operations	*2*		

BdL Balance sheet in T0 of restructuring (Official FX, $bn)				
Total Assets	**54**	**Total liabilities**		**54**
Gold	30.5	Ccy in circulation		1
Foreign reserve assets	11.5	Banks' deposits		52
	-	o/w Fccy		47
Securities	2.9	Public sector depo		8
o/w Eurobonds	1.8	Valuation adjustme		-
Bank loans	0.4	Other liabilities		1
Other assets	0.3	Capital	-	8
Fixed assets	0.0			
Public sector loans	*8*			
Valuation adjustment	*-*			
Deferred operations	*-*			

Official BdL Balance sheet in T+n (Official FX, $bn)			
Total Assets	**46**	**Total liabilities**	**46**
Gold	30.5	Ccy in circulation	1
Foreign reserve asse	11.5	Banks' deposits	35
	-	o/w Fccy	30
Securities	2.9	Public sector deposits	8
o/w Eurobonds	1.8	Valuation adjustments	-
Bank loans	0.4	Other liabilities	1
Other assets	0.3	Capital	1
Fixed assets	0.0		
Public sector loans	-		
Valuation adjustment	-		
Deferred operations	-		

As important, the note thinks Lebanon's DSA should allow for a 65% HC on Eurobonds and cash-flows from year 1, given the better starting point and the likely IMF post-restructuring targets. It also thinks that authorities remain committed to reaching an agreement with the IMF and we currently expect an IMF SLA **during Q1 of 2026.** Moreover, the macro economy will be driven by a slow recovery in the $GDP back to pre-crisis level, though supported by reforms and reconstruction efforts while the main anchor will be a tight fiscal account. And the DSA should be compatible with a 65% HC on Eurobonds, resulting with very low Gross Financing Needs (GFN) of an average of 5% gdp until end-2030 while significantly slashing debt ratios[1].

As such, with restructuring terms of 65% HC on principal and PDI outstanding, 3 new coupon-bearing 2036, 2039, 2041 bonds stepping up from 3.5% to 7.75% over time and one new zero-coupon PDI bond maturing in 2036 and amortizing every year, bonds should recover around 27-28 at 14-15% exit yield (Table 2 below) under these terms or just above 30 given they'll likely trade tighter in the context of low cash prices. Given the upside/downside over the next few months, we think current valuations are attractive for a trade into Q4 and we can see bonds trading around 23-24 by the end of the year as positive catalysts unfold[2]. Note also, the corresponding Lebanese post-restructuring DSA, FX reserves, and GFN are given in Table 3 below.

[1] Gross Financing Needs or Gross External Financing usually refers to funds that are needed to cover the current account deficit and short-term foreign debt financing.

[2] Similar valuations were obtained using different assumptions, which indicate the robustness of the results. See: Said, M, "*Lebanese Eurobonds Valuations: Some Different but Meaningful Scenarios,*" BLOMINVEST Blog, August 2025.

Table 2:

A few LEBAN Benchmarks		NPVs under varying exit yields								
Bond	Current px	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	14.5%	15.0%
LEBAN 6.375 20	19.55	33.1	31.9	30.9	29.9	28.9	28.0	27.2	26.3	25.5
LEBAN 8.25 21	19.74	35.6	34.4	33.3	32.3	31.3	30.3	29.4	28.5	27.7
LEBAN 7 24	19.55	33.6	32.5	31.5	30.4	29.5	28.5	27.7	26.8	26.0
LEBAN 7 32	19.65	33.9	32.8	31.7	30.7	29.7	28.8	27.9	27.1	26.2
LEBAN 8.2 33	19.65	35.4	34.2	33.1	32.1	31.1	30.1	29.2	28.3	27.5
LEBAN 8.25 34	19.65	35.4	34.3	33.2	32.1	31.1	30.2	29.2	28.4	27.5
LEBAN 7.05 35	19.65	33.8	32.6	31.6	30.6	29.6	28.7	27.8	26.9	26.1
LEBAN 7.25 37	19.65	34.3	33.1	32.0	31.0	30.0	29.1	28.2	27.4	26.5
Average	**19.64**	**34.4**	**33.2**	**32.2**	**31.1**	**30.2**	**29.21**	**28.3**	**27.5**	**26.6**

Table 3:

	2025	2026	2027	2028	2029	2030	2031	2032	2033
GDP $ bn	32.3	36.8	40.3	42.4	43.8	44.6	45.7	46.8	47.8
GDP Growth%	4.7	6	4.5	3.5	3	2.5	2.5	2.5	2.5
Total Debt $bn	49.5	30	29.8	29	28.3	28.1	28	28.8	30
Debt/GDP %	153	82	75	70	66	64	62	63	64
Gross Ext. Fin. $bn	6.4	5.6	6.3	6	5	4.8	5.1	5.2	5.3
FX Res. $bn	11.3	11.4	11.4	11.5	11.7	12	12.6	12.7	12.9

Lastly, it is worth mentioning that the current market valuation of Lebanese Eurobonds (17 September, 2025) is at close to 24, so the market seems to be already discounting the foreign debt restructuring along the lines cited above and similar other ones.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department

Mina El Hosn, Zaytouna

BLOM Bank Building, Beirut

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Research Department

Tel: +961 1 983 225
research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.