

Lebanon's Bonds Rise to Highest Level Since Default on Reform Hopes



September 5, 2025

Contact Information

Mira Said

Senior Research Analyst

mira.said@blominvestbank.com

	04/09/2025	28/08/2025	Change	Year to Date
BLOM Bond Index (BBI)	22.63	20.22	11.92%	70.29%
Weighted Yield	96.20%	104.13%	-7.62%	-7.11%
Weighted Spread	9,231.64	10,013.47	-7.81%	-7.01%

The **BLOM Bond Index (BBI)**, which tracks Lebanese government Eurobonds (excluding coupon payments), **surged by 12% in the week ending September 4, 2025, to 22.63 points**—its highest level since Lebanon's Eurobond default announcement in March 2020—driven by political and economic reforms. While the rally is notable, its sustainability remains uncertain and contingent on further reforms.

One of the key drivers behind this week's rally is the Lebanese government's decision to formally discuss an army-led plan to disarm Hezbollah by the end of this year—following mounting regional and international pressure and amid concerns that Israeli strikes may escalate. While the proposal has drawn firm opposition from Hezbollah and could provoke reactions such as protests and governmental resignations, it remains crucial to unlocking international financial support. Gulf states—particularly Saudi Arabia, the UAE, and Kuwait—have consistently tied economic engagement and investment flows to Lebanon's ability to assert sovereign control over its security. In recent years, Hezbollah's growing influence has strained ties with these countries, leading to travel and trade restrictions that have weighed heavily on Lebanon's recovery. Although some progress has been made—such as the UAE easing its travel ban—broader re-engagement still hinges on concrete reforms. From an economic perspective, restoring political and security stability is critical to rebuilding investor confidence and securing the external funding needed to reverse Lebanon's prolonged downturn.

Progress on IMF prerequisites has also played a notable role in driving the BBI's recent gains. Two out of three key reforms—the Banking Secrecy Law and the Bank Restructuring Law—have been passed, leaving only the Financial Gap Law pending. This final measure is essential, as it would formally acknowledge and allocate the estimated \$80 billion gap between what banks owe depositors and what they can realistically repay, largely due to Banque du Liban's (BDL) default on its obligations to commercial banks. In a recent interview with Al Hadath, Finance Minister Yassine Jaber proposed issuing interest-bearing bonds against “lollar” deposits exceeding \$100,000. If adopted, these bonds—tradable on the Beirut Stock Exchange and therefore liquid before maturity—could offer partial relief to depositors, contribute to fixing the banking sector's crisis and begin restoring trust in Lebanon's financial system, and put Lebanon's economy on the right track to recovering. As for bond holders, passing the Financial Gap Law would be a critical step toward securing an IMF deal and initiating Lebanon's public debt restructuring. It would pave the way for a formal recovery framework, allowing bondholders to “realistically” recover their bond investments—after accounting for haircuts, rescheduling terms, and other restructuring parameters.

On the macroeconomic front, signs of stabilization are emerging. [The preliminary 2026 budget targets a zero deficit](#), continuing the fiscal discipline seen in 2024 and expected in 2025. For bondholders, this signals a government commitment to balancing revenues and expenditures—helping having a primary surplus as an essential condition for debt sustainability. A zero-deficit budget reduces the need for new borrowing, lowers fiscal risk, and supports long-term investor confidence.

Meanwhile, the [BLOM Lebanon PMI rose to 50.3 in August](#), crossing into expansion territory for the first time in six months. Gains were driven by stronger output, new orders, and purchasing activity—reflecting early signs of recovery supported by recent economic, financial, and political reforms.

Additionally, [BDL's mid-August balance sheet shows a \\$206 million increase in foreign reserves](#), largely due to summer inflows from expatriates. This seasonal boost strengthens the lira and provides short-term support to the economy.

However, while these indicators are encouraging, they remain fragile and contingent on continued reform momentum.

In addition, despite the rally, Eurobond valuations suggest limited upside. As per our latest valuation (see: [Lebanese Eurobond Valuations: Some Different but Meaningful Scenarios](#))—including a 65% haircut on principal and past-due interest, 14% discount, and a 10-year rescheduling starting in 2027—the present value of Lebanese Eurobonds stands at \$28.55. This implies that much of the recent price increase may already be pricing in optimistic scenarios.

Moreover, low trading volumes mean that even modest buying activity can disproportionately impact prices.

When bond prices go up, yields go down. Consequently, the yield on 5-year bonds fell by 675 basis points to 91.2%, and the yield on 10-year bonds decreased by 440 basis points to 60.2% this week.

	04/09/2025	28/08/2025	Change
JP Morgan EMBI	974.92	972.14	0.29%
5Y LEB	91.20%	97.95%	-675
10Y LEB	60.20%	64.60%	-440
5Y US	3.65%	3.69%	-4
10Y US	4.17%	4.22%	-5
5Y SPREAD	8,755	9,426	-671
10Y SPREAD	5,603	6,038	-435

Similarly, in the U.S., Treasury yields declined this week, with the 5-year and 10-year notes falling by 4 and 5 basis points to 3.65% and 4.17%, respectively.

This decline in yields is driven by increased expectations that the Fed will cut rates in its upcoming meeting amid signs of the labor market's weakening.

U.S. private-sector hiring rose by 54,000 in August, less the consensus forecast of 75,000 from economists polled by Dow Jones, and well below the revised gain of 106,000 seen in July.

Jobless claims also increased by 8,000 to a seasonally adjusted 237,000 for the week ended August 30, above the consensus of Economists polled by Reuters of 230,000.

These developments have led some analysts to reconsider the likelihood and timeline of rate cuts. According to the CME Group's FedWatch tool, traders are now assigning a 99.4% probability that the Federal Reserve will cut rates by 0.25% at its September meeting—up from 86.4% a week earlier. In contrast, the odds of maintaining current rates dropped to 0.6%.

Target Rate (bps)	Probability(%)			
	Now *	1 Day 04-Sep-25	1 Week 29-Aug-25	1 Month 05-Aug-25
400-425	99.40%	96.40%	86.40%	92.90%
425-450 (Current)	0.60%	3.60%	13.60%	7.10%
* Data as of 5 Sep 2025 04:55:32 CT				

5Y Credit Default Swaps (CDS)		
	04/09/2025	28/08/2025
KSA	62.19	61.01
Dubai	54.37	54.21
Brazil	137.08	136.80
Turkey	233.69	227.35
Source: Bloomberg		

Maturity	Coupon in %	Prices		Weekly Change	Yields		Weekly Change bps
		04/09/2025	28/08/2025		04/09/2025	28/08/2025	
28/11/2026	6.6	21.908	19.521	12.23%	189.10%	204.96%	(1,586.27)
23/03/2027	6.85	21.732	19.495	11.47%	147.31%	158.62%	(1,130.66)
29/11/2027	6.75	21.908	19.521	12.23%	99.58%	107.79%	(820.14)
03/11/2028	6.65	21.746	19.495	11.55%	72.84%	78.46%	(561.95)
26/02/2030	6.65	21.858	19.547	11.82%	55.36%	59.87%	(450.93)
22/04/2031	7	21.925	19.513	12.36%	48.25%	52.41%	(416.88)
23/03/2032	7	21.827	19.508	11.89%	44.39%	48.16%	(377.31)
02/11/2035	7.05	21.857	19.511	12.02%	36.59%	40.09%	(349.76)
23/03/2037	7.25	21.822	19.512	11.84%	36.04%	39.61%	(356.58)

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

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Mira Said

mira.said@blominvestbank.com

Research Department

Tel: +961 1 991 784

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.