The Daily Star 30-8-2019

BDL expected to receive $1 billion soon: sources

Osama Habib|

BEIRUT: The Central Bank is expected to receive around $1 billion in the form of either a deposits or subscription to Lebanese sovereign Eurobonds soon, sources revealed Thursday.

“Banque du Liban will receive around $1 billion in the near future, which would increase confidence in Lebanon’s financial system and give a boost to the government’s efforts to cut the budget deficit,” a banking source told The Daily Star on condition of anonymity.

They did not reveal the sources of the money or when exactly Banque du Liban would receive the cash injection.

The Daily Star was not able to obtain comment from the Central Bank on the report.

Senior Lebanese officials have visited Saudi Arabia and other Gulf countries in the past few months to seek assistance.

Riyadh and Kuwait have pledged to further help the Lebanese government to enable the country withstand financial pressures.

“If the reports are accurate then it will be very likely that Saudi Arabia and Kuwait will either deposit money in the Central Bank or buy Eurobonds. This is usually the only way these countries help Lebanon,” another banker said.

They added that any cash flow into Lebanon in these days would surely improve the business climate and probably encourage investors to hold onto their Eurobonds and even buy new ones.

“Of course this will also improve the prices of Eurobonds, which slightly fell in recent days after Fitch rating agency downgraded Lebanon’s Long-Term Foreign-Currency Issuer Default Rating to CCC from B-,” the banker said.

Salim Sfeir, president of the Association of Banks in Lebanon, said he had no information about any possible cash injection into the country.

He added that the Eurobond market had been relatively quiet in the past two days.

The insurance cost on Lebanese Eurobonds increased Wednesday over fears that a war may break out between Israel and Hezbollah.

The county’s five-year credit default swaps rose by 21 basis points from Tuesday’s close to 1229 basis points, data from IHS Markit showed. “This means that the cost of insuring Lebanon’s sovereign debt against default jumped to a fresh record high and the country’s dollar-denominated bonds came under pressure again after mounting tensions with Israel,” according to Reuters.

The market increased the yields on Lebanese sovereign Eurobonds as the spreads widened slightly. The average yield on Lebanese Eurobonds is 14.1 percent.

Bankers say this is one of the reasons Lebanese and foreign investors keep holding onto these bonds, thanks to their attractive return.

Bankers say that so far foreign investors, who hold $9 billion in Lebanese Eurobonds, have not dumped the bonds, although some have tried to sell but have been unable to find buyers.

But some bankers fear that any possible military showdown could gravely affect the prices of Eurobonds and even discourage people from buying them in the future.

However, these bankers insisted that Lebanon had passed through more difficult political and security conditions and was able to overcome these difficulties.