

## CREDIT ANALYSIS

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Lebanon, Government of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](http://www.moodys.com).

## Lebanon

### Summary Rating Rationale

#### Lebanon

	Foreign Currency	Local Currency
Government Bond Rating	B1 - Negative	B1 - Negative
Country Ceiling Bonds	Ba3	Ba1
Country Ceiling Bank Deposits	B1	Ba1

[Moody's sovereign rating list](#)

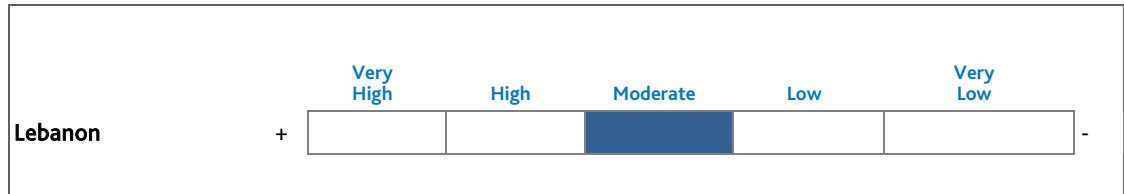
### Summary Rationale

On 14 May 2013 Moody's changed the outlook on Lebanon's B1 government bond rating to negative from stable. The outlook change reflects the impact on Lebanon's economy of Syria's ongoing civil war, which has contributed to lower growth, larger fiscal deficits and a reversal in public sector debt deleveraging. The B1 government bond rating reflects the country's very high debt burden, external deficits and challenging political environment.

After four consecutive years of high GDP growth between 2007 and 2010, growth has slowed to just 1%-2% annually, a rate that's low among its rating peers. This low growth rate is not enough to sustain public-sector deleveraging, which consequently came to a halt: in 2012 the public debt burden increased for the first time since 2006, and the fiscal deficit will average 9%-10% of GDP in 2013 and 2014, reflecting higher transfers to Electricite du Liban and public salaries. Sectarian divisions have long undermined the country's institutions, with sectors such as telecoms and energy suffering from the governments' inability to approve capital expenditures.

Having more than tripled to \$30 billion by year-end 2012 from their 2005 level, the central bank's foreign exchange reserves support Lebanon's rating as they bolster confidence in the exchange rate peg and the financial system despite weak public finances. A related credit strength is the large remittance and deposit inflows, which have supported the balance of payments and banking system. Lebanese commercial banks, the government's primary creditors, remain willing and able to purchase and roll over government debt given their significant deposit-funded resources. Bank deposits, including those from the extensive Lebanese diaspora, have displayed a remarkable resilience to political shocks over the years.

## Factor 1 - Economic Strength: Moderate



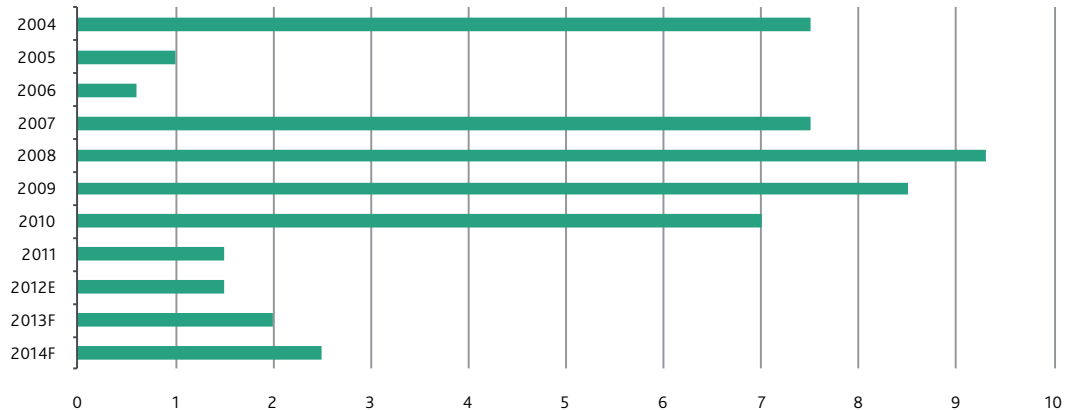
Lebanon's Moderate assessment for economic strength reflects the country's high per capita income and long-term growth prospects, despite its small size and vulnerability to external shocks.<sup>1</sup>

### High per capita income, but political uncertainty impairs growth prospects

Moody's assesses Lebanon's Economic Strength to be Moderate. Over the past five years (2008 to 2012), real GDP growth averaged 5.5%, considerably more than the rate growth among its regional Ba-rated peers such as Turkey (Baa3), Morocco (Ba1), Armenia (Ba2), Jordan (Ba2) and Georgia (Ba3). Lebanon's economy is relatively concentrated, with trade, construction and financial sectors together representing 76% of GDP. Over the same period, Lebanon's GDP per capita in purchasing power terms approximated \$14,800 according to the IMF, more than that of regional Ba-rated peers and similar to Turkey's. With its population of 4 million and nominal GDP of \$41 billion (2012), however, Lebanon's economy remains small, similar in size to Lithuania (Baa1) and Costa Rica (Baa3).

EXHIBIT 1

#### Real GDP Growth Is Volatile Due To Political Shocks



Source: Moody's

Although it is relatively open, with exports of services making up 48% of the country's GDP and its exports geographically diversified, Lebanon's economy has been deeply affected by the Syrian conflict and the collapse of Syria's economy. The transmission channels include a perceived increase in political risk and disruption of trade flows with and through Syria. Real GDP growth fell to an estimated 1.5% in 2011 and 2012 from an average 8% a year in 2007-2010, reflecting the burden of regional political developments. We expect growth to continue to be moderate this year and next.

<sup>1</sup> Moody's sovereign methodology is based on ranking all countries on four factors: Economic Strength, Institutional Strength, Government Financial Strength, and Susceptibility to Event Risk. The five-point scale for the first three factors goes from best (Very High) to worst (Very Low). The scale for the fourth, susceptibility to event risk, is also five points from best (Very Low) to worst (Very High). See [Sovereign Bond Ratings](#) (September 2008).

The initial sector to be affected was tourism: Lebanon has traditionally attracted visitors from the Gulf Cooperation Council (GCC) and from the Lebanese diaspora. However, the Syrian conflict has put a stop to the flow of tourists travelling by land from the GCC to Lebanon and put off visitors from the rest of the world. As a result, the number of tourists visiting Lebanon dropped by 24% in 2011 and another 17% in 2012. Partially linked to the tourism sector (it is driven by building hotels and residences for GCC nationals), the construction sector has witnessed a similar decline. The area of land approved for construction dropped by 6% in 2011 and 11% in 2012. Trade with and through Syria has also been disrupted. Syrian troops occupied Lebanon between 1976 and 2005 and the two economies maintain strong economic linkages. Customs receipts fell 20% in 2011 and recovered only slightly in 2012 (+3%).

Nevertheless, Lebanon continues to benefit from the buoyant growth in the GCC economies, which provide almost two-thirds of the remittances inflow (remittances accounted for 7% of GDP in 2011, the most recent data) and a large number of visitors. This reliance on transfers from GCC countries partially balances the effects of higher oil prices on Lebanon's current account. Finally, the impact of the slowdown in the euro area has been limited given that it absorbs only 8% of Lebanon's exports.

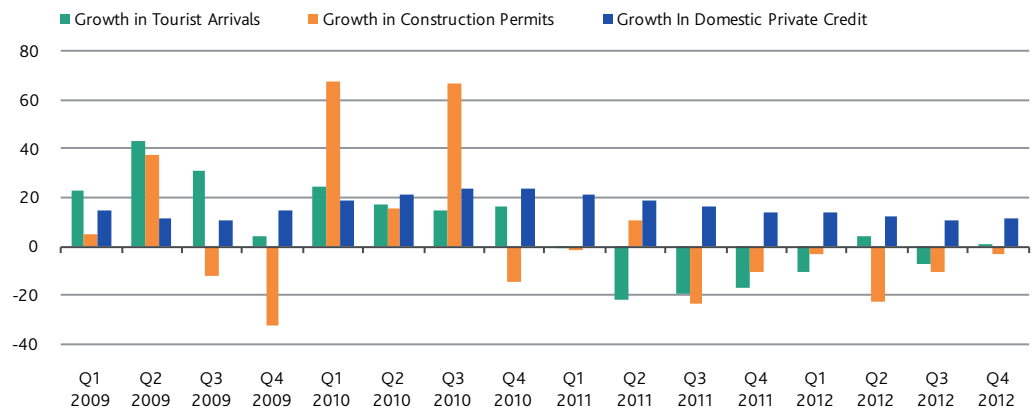
### **Insufficient public investment continues to hamper growth, but the dollar peg encourages private investment**

Lebanon's economy suffers from a number of structural weaknesses. These include a weak basic infrastructure (including roads, water, electricity and telecommunications), which has been damaged by conflicts over the years and suffers from under-investment and inefficient management. Accounting for less than four percent of GDP, the government's capital expenditure is very low as it has long been squeezed by the heavy cost of debt servicing, which consumed almost 39% of the government's revenues in 2012. The economy continues to suffer from heavy shortages of electricity because of the lack of long-term investment and an inefficient energy subsidy system. Hit by strikes, Electricite du Liban, Lebanon's public power producer, experienced a 12% drop in production in 2012. The over-reliance on the fuel necessary for individual power generation increases the import bill, resulting in a record current account deficit of 16% in 2012.

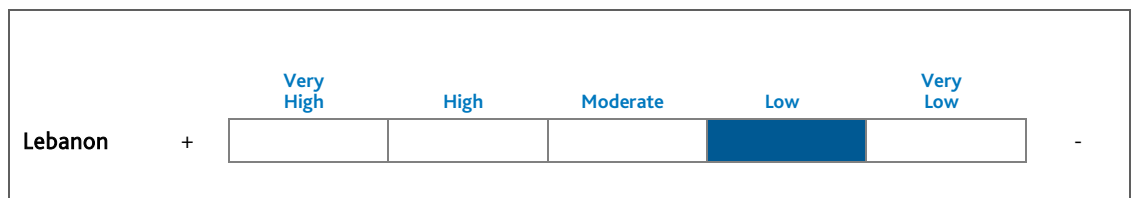
In the medium to long term, developing Lebanon's hydrocarbon resources could help reduce the country's energy crisis. Lebanon is believed to have significant offshore reserves, but it has fallen behind its neighbours in exploring the Levant Basin - for instance, Israel recently started production at the Tamar gas field. The lag in activity is a consequence of Lebanon's complex decision-making process and also Lebanon's political uncertainty, which is warding off foreign oil companies.

Lebanon maintains a currency peg to the US dollar, backed by considerable foreign-exchange reserves (\$30 billion in December 2012). Foreign-exchange reserves continue to be bolstered by substantial financial inflows, which more than offset the current account deficit. The IMF notes that the exchange rate is "slightly overvalued"; however, the peg's stability is a necessary condition for the government to service its foreign-currency denominated debt, equivalent to 45.1% of government debt. The dollarization of the economy has also helped keep inflation at the moderate level of 4% over the past decade.

EXHIBIT 2

**Selected leading indicators confirm the slowdown in economic activity**

Source: Banque du Liban, Haver Analytics

**Factor 2 - Institutional Strength: Low**

Moody's scores Lebanon's Institutional Strength at Low, balancing a complex and burdensome governance framework with a solid financial regulation and debt payment history.

**Lebanon's low institutional strength reflects the country's unstable political environment**

Over the past year, tensions in neighbouring Syria have gradually undermined the fragile equilibrium between the country's political factions, limiting the government's room for action. The recent resignation of Prime Minister Najib Mikati and dispute over the upcoming parliamentary elections have further paralysed policy making.

Lebanon's current parliamentary majority emerged in June 2011 from a fragile coalition known as the "March 8th coalition", which upholds the historic alliance with the Syrian government of Bashar al-Assad. This coalition builds upon the traditional split inherited from the Civil War, even though alliances have changed over time. The opposition, known as the "March 14th bloc" is generally opposed to Syrian influence in state affairs. A small group of MPs led by the Druze faction act as "king-maker" as the parliament is almost evenly split between the "March 8th" and "March 14th" blocs.

However, the Syrian civil war has aggravated the polarization between the country's two political blocs. Tensions have resurfaced over the control of the country's security apparatus since the assassination of the head of internal security intelligence branch, Wissam al-Hassan, in October 2012. More recently, in March 2013 Lebanon's Prime Minister Mikati resigned after the cabinet refused to prolong the term of the general director of the country's Internal Security Forces, Ashraf Rifi, and appoint a

commission to prepare parliamentary elections, initially scheduled for June. Although the parties have agreed to nominate Tammam Salam as his successor, the formation of a new cabinet may take several months. Meanwhile, the elections are likely to be delayed until the new electoral framework is adopted: during the May 29<sup>th</sup> 2013 session, the Parliament voted the extension of its tenure until October 2014.

It remains to be seen whether the existing agreements between factions will outlast the destabilizing effects of the Syrian crisis. Nevertheless, Lebanon's governance framework has proved resilient to recent political shocks. Since the assassination of former prime minister Rafic Hariri in 2005, Lebanon has gone through a devastating war between Israel and Hezbollah in 2006, a brief outbreak of civil conflict in May 2008 and a six-month political vacuum after Saad Hariri's resignation in January 2011. Violence spilling over from the Syrian conflict has so far been limited to outbursts in the northern city of Tripoli, home to an significant Alawite minority.

The fragility of successive governments has prevented much-needed structural reforms, limiting improvements in institutional strength. It is notable that not a single budget has been passed since 2005. Major structural reforms such as buttressing Electricite du Liban, privatizing the mobile telephone companies, and increasing the rate of VAT have been on the drawing board for years. In 2010, for example, rivalry between coalition parties prevented the payment of non-tax revenues from the mobile-phone networks to the Treasury. Similarly, in 2012, opposition within the government delayed the implementation of a two-point increase in the value-added tax rate. In March 2013, the cabinet approved a salary scale adjustment in public salaries amid strikes, which together with the cost of living increase granted in September 2012, will add an estimated \$1.2 billion to public expenditures.

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### However, the financial regulatory framework stands out

An important factor that supports our assessment of Lebanon's Institutional Strength is the government's proven willingness to repay. The government of Lebanon has never failed to service its debt in a timely manner despite the country suffering many serious political and economic shocks, including a civil war that lasted between 1975 and 1990. Throughout these crises the government has continued to collect tax revenue and refinance its debt. A strong consensus to deleverage has driven down the country's debt burden since the debt peaked at 172% of GDP in 2006.

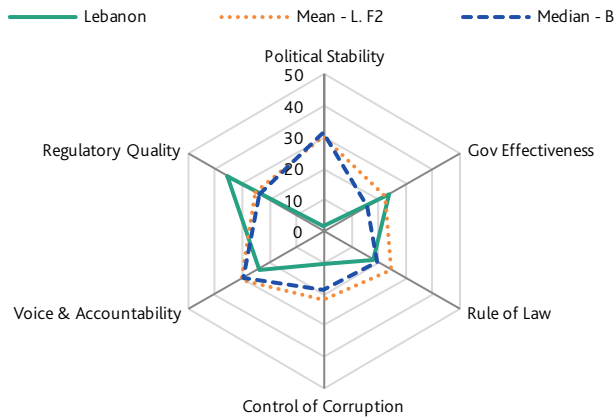
We also recognize the quality of the country's financial sector management and regulation, which is overseen by Banque du Liban. The central bank's personnel are more stable and less politicized than those of other institutions. For example, the current governor of the central bank has been in place since 1993 despite numerous changes of government. He was reappointed in July 2011 for another six-year term.

The latest version of the World Bank's governance indicators (for 2011) scores Lebanon at 24.1 for Government Effectiveness and 18.1 for Rule of Law, on a scale of 0 to 100 with 100 being the strongest.<sup>2</sup> Lebanon's scores show a moderate deterioration in Government Effectiveness, Rule of Law and Political Stability over the past decade. We also take into account Transparency International's Corruption Perceptions Index, which ranks Lebanon at 128 out of 176 countries (with 1 being the least corrupt). Countries such as Albania (B1) and Armenia (Ba2) recorded broadly similar scores and also scored Low for institutional strength.

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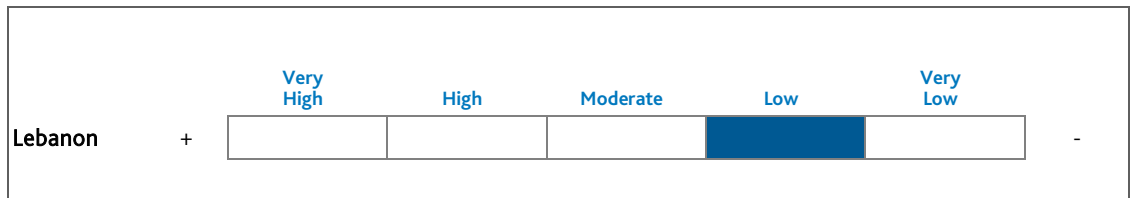
<sup>2</sup> We rebase the scoring according to Moody's Sovereign rating universe

EXHIBIT 3  
World Bank's 2011 Governance Indicators



Source: World Bank

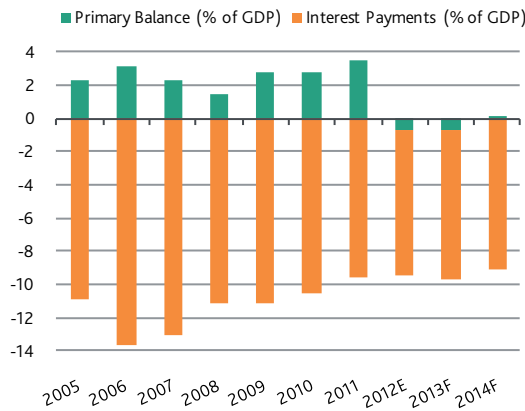
### Factor 3 - Government Financial Strength: Low



Moody's ranks Lebanon's government financial strength as Low relative to other rated sovereigns, balancing a very high debt burden and large fiscal deficits with a favourable creditor base that poses limited rollover risk.

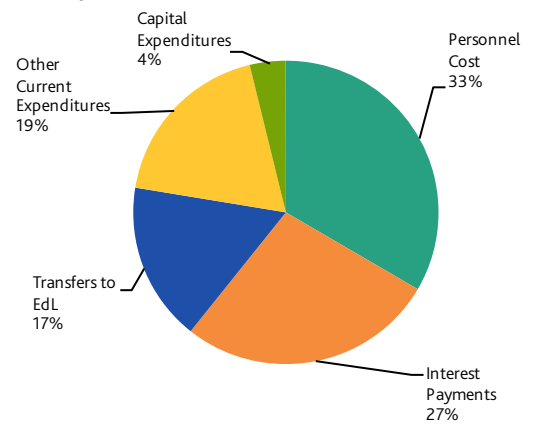
Lebanon's headline public finance metrics remain very weak. Despite an improvement during 2007-11, the fiscal trajectory reversed in 2012, with the fiscal deficit climbing to 9.5% from 6.1% of GDP in 2011. Historically, the cost of servicing the debt has been the primary allocation of public resources. Although down from much higher levels with interest rates on government securities at historic lows, interest payments consumed around 39% of the government's total revenues last year, crowding out more productive forms of public expenditure. Although it has achieved primary surpluses over the past ten years, Lebanon turned in its first primary deficit in 2012, at 0.7% of GDP. The fiscal deficit is likely to remain high, at 9.7% in 2013, due to stalled growth and large transfers to Electricite du Liban. The increase in the cost of living adjustment may only impact government finances in 2014 considering the delay in its parliamentary approval. These indicators reflect a very low level of debt affordability compared to peers, but they are offset to some extent by other factors.

EXHIBIT 4  
The Primary Balance Has Deteriorated



Source: Ministry of Finance

EXHIBIT 5  
Interest Payments And Transfers To EdL Crowd Out CapEx

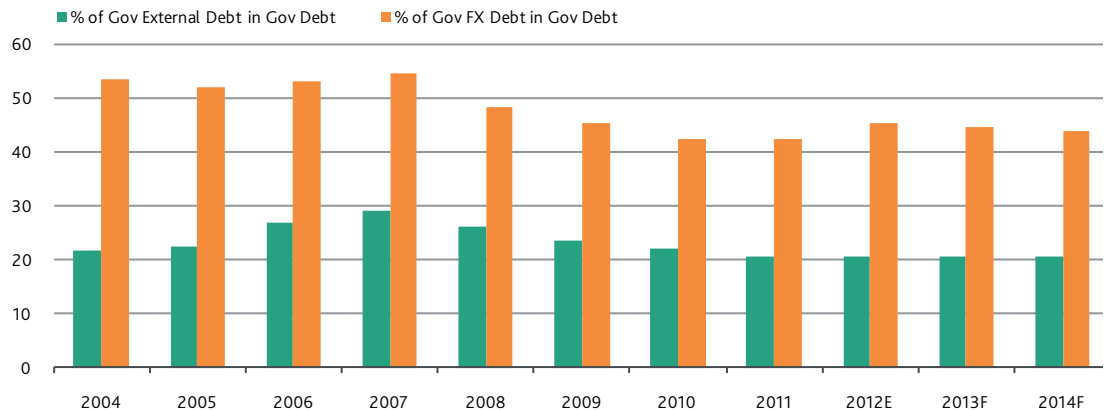


Source: Ministry of Finance

Lebanon accumulated the bulk of its public debt in the 1990s as a means of financing reconstruction following the long civil war. General government debt peaked at 170% of GDP in 2006, before receding to 126% in 2011. This episode of deleveraging demonstrates that under more benign political conditions, a relatively high level of government debt is sustainable. The government has proven its capacity and willingness to support a high debt burden. Nevertheless, the debt trajectory has recently reversed, with general government debt at 129% of GDP in 2012. We estimate that it will reach 133% of GDP in 2013.

Another drain on the government's resources is the poor financial condition of the state-owned electricity company, Electricité Du Liban (EdL). Because of an ageing infrastructure, unpaid consumption and low tariffs, EdL required a subsidy of around 5.4% of GDP last year (accounting for 24% government's primary expenditure), an increase of 30% from 2011 and 2012. Political blockages have stymied efforts to reform EdL for years, as it has other elements of the government's promised reform programme. In addition, the government's personnel costs increased 22% in 2012, owing to payment of the cost of living adjustment effective Feb 2012.

EXHIBIT 6  
Vulnerabilities in The Composition Of Gov Debt Have Eased from Their Peak



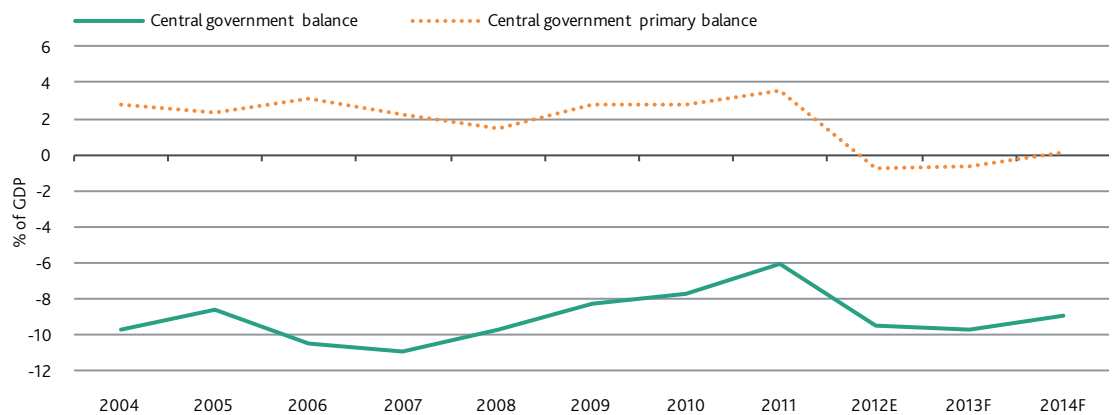
Source: Banque du Liban, Moody's



Despite its wide deficit, large debt overhang, and poor track record of fiscal reform, the government finds a deep and reliable source of financing in the domestic banking sector. The large domestic banking system acts as the government's primary creditor (it absorbs 54% of the government's gross debt). Throughout the crises of the past decade, it has remained willing and able to purchase and roll over sovereign securities. Lebanon's commercial bank assets exceed 3.5 times our forecast for the 2012 GDP, with claims on the public sector accounting for around 42% of assets as of March 2013. The banks' level of sovereign exposure, estimated at around five times rated banks' Tier 1 capital, links the banking system's health directly to the B1-rated sovereign credit risk.

In addition, the large Lebanese banks have material exposures to countries undergoing political unrest. Although rated banks have been reducing their operations in Syria, on aggregate their lending operations in Jordan, Egypt and Syria account for around 18% of their loan books or 61% of shareholders' equity and continue to represent a source of heightened credit risk. Our outlook on the banking system remains negative, reflecting this riskier operating environment. Nevertheless, the banking system retains strong liquidity, with the regulator maintaining high reserve requirements (set at 25% for local-currency sight deposits and 15% on all other deposits).

EXHIBIT 7

**2012 Has Seen A Sudden Deterioration In Fiscal Metrics**

Source: IMF, Ministry of Finance, Moody's

Ultimately, the ability of Lebanon's banks to continue financing the government rests on the steady growth of their deposit base, fueled by remittances and transfers from the Lebanese diaspora. We continue to monitor the level of bank deposits carefully given their importance for budgetary financing. In the twelve months to March 2013, bank deposits rose by 6.8%<sup>3</sup>. The increase is similar to the trend in remittances inflows, as these deposits are mainly sourced from Lebanon's wide and loyal diaspora. The rate of deposit growth has slowed, however, from a year-on-year rate of around 20% in early 2010.

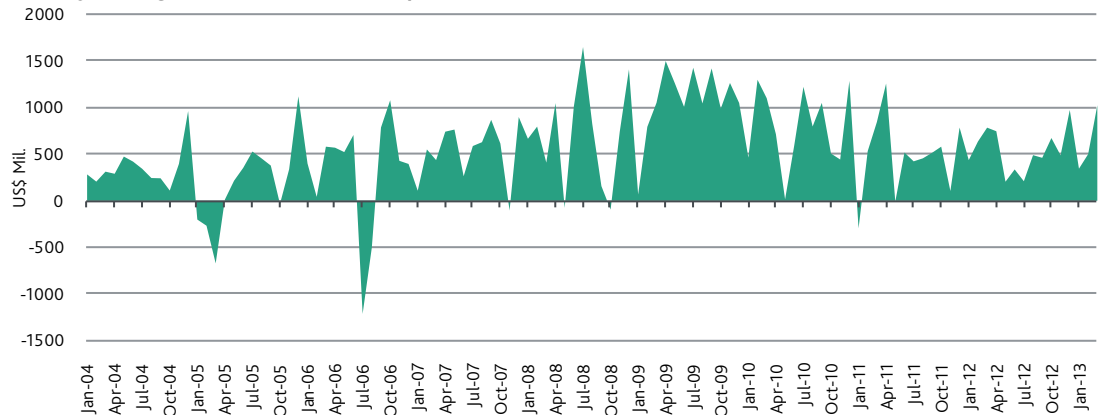
Looking at the history of deposit flows to Lebanese banks, we see depositors have demonstrated little aversion to political shocks in recent years - although a tipping point was reached in 2005 with the assassination of Prime Minister Rafiq Hariri and again in 2006 with the 33 days war with Israel (see Exhibit 8). A smaller episode of deposit outflows occurred in early 2011 when the government of Saad Hariri collapsed. We believe that a sudden and severe deterioration in the domestic and regional environment would likely increase the volatility of deposit flows.

<sup>3</sup> Private sector deposits



The willingness of Lebanon's banks to finance the government is to a large degree explained by the fact that over half of banks' assets are invested with the sovereign (the government and the central bank). The circularity that this level of investment in the sovereign creates is a concern but does nevertheless sustain the government as long as the level of bank deposits continues to increase.

EXHIBIT 8  
**Monthly Change In Private Sector Deposits**

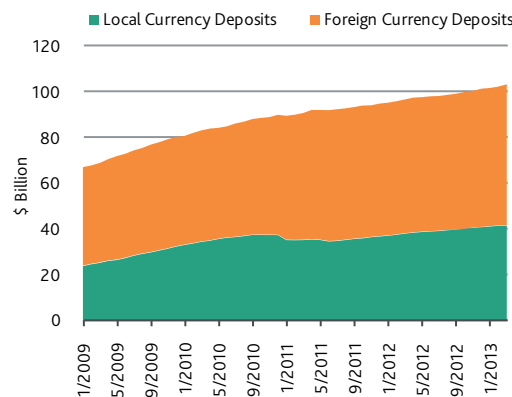


Source: Banque du Liban

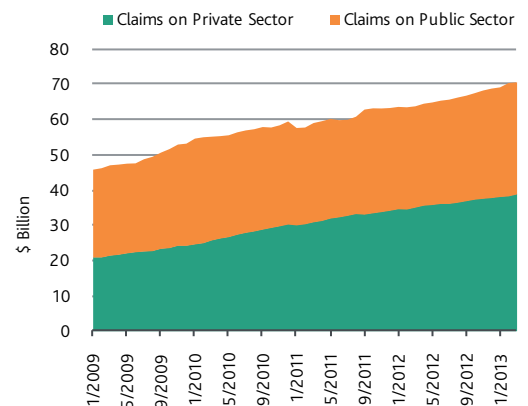
The recent decrease in interest expenses (-3.5%, when government debt increased 9.5%) shows that the domestic banking sector is ready to absorb even more government debt. For instance, the nominal yield on 12-month treasury bills is 5.35% as of the end of 2012, down from 7.53% on average in 2008 and less than the country's inflation rate. In order to broaden its creditor base and finance the widening fiscal deficit, the government has recently issued longer-term bonds denominated in Lebanese pounds (inaugural issues of 8 years T-bonds in October 2012 and 10 years T-bonds in September 2012). They show the government's willingness to lengthen the average maturity of government debt in order to reduce refinancing risks and vulnerability to interest rate shocks.

EXHIBIT 9  
**The Increase In Deposits Is More Than Enough To Finance The Deficit And Private Sector Growth**

Private Sector Bank Deposits Continue To Increase...



...Fueling Domestic Credit



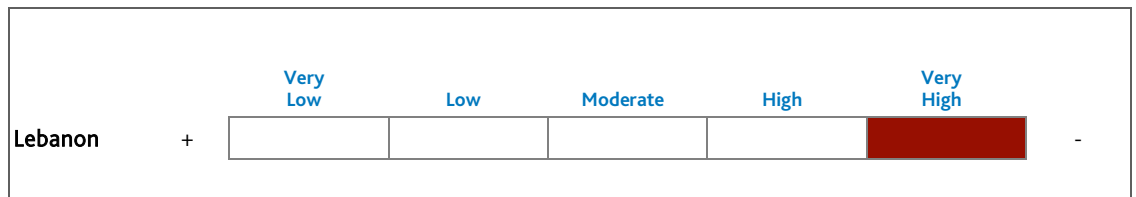
Source: Banque du Liban

In addition, a series of liability management operations has improved the structure of government debt in recent years. The portion of the general government debt denominated in foreign currencies has been falling, to 42% at end-2011 from 55% in 2007. The average maturity of traded foreign currency bonds remains long relative to that for other Middle East oil-importing countries, at 6.05 years (as of December 2012). Nevertheless, the dollarization of government debt has recently increased (to 46% as of end-2012), while the dollarization of deposits<sup>4</sup> continued to decrease, falling below the 60% threshold in August.

According to the Ministry of Finance's debt bulletin, \$1.6 billion in foreign-currency debt principal falls due in 2013 and \$2.3 billion falls due in 2014. The central bank's foreign exchange reserves easily cover these sums, given that these reserves approximated \$30 billion in December 2012 (-2.7% year-on-year). The central bank had additional gold reserves worth \$15.3 billion as of end-2012. However, the commercial banks have a reduced capacity to finance the government in foreign currency considering that their net foreign asset position turned negative in 2011.

An additional potential source of financing for the government is external official donors. The most recent episode of substantial donor support was the Paris III conference in January 2007, which resulted in pledges of \$7.6 billion in financial assistance for Lebanon. However, the provision of external support very much depends on the relationship between Lebanon's current government and those of potential foreign donors, which the government's close ties to the Syrian regime could strain. Besides, multilateral aid is conditioned by economic reforms, which can pose implementation risks.

#### Factor 4 - Susceptibility to Event Risk: Very High



Lebanon has endured multiple political and external shocks in its recent history. Although their impact on government finances has varied, with economic and bank deposit growth particularly resilient to them, political polarization has increased the risk of a sudden deterioration in the country's security situation. Therefore, we position Lebanon's Susceptibility to Event Risk at Very High, the weakest score for this factor, and a score shared with Egypt (Caa1) and Bosnia (B3).

#### Political risks reflect unresolved sectarian tensions, stirred up by regional conflicts

The country's very high event risk mostly stems from its fractious domestic politics and precarious geopolitical location, which has frequently prompted the interference of outside powers. For example, Lebanon has often been used as a proxy battle ground for regional and international foes, including its immediate neighbours Israel and Syria. Recent disruptive events include the assassination of the former prime minister, Rafiq Hariri, in February 2005, which was followed by a series of assassinations of other political figures; a destructive war between Israel and Hezbollah in mid-2006; and an internal political crisis which began in November 2006 and culminated in a brief outbreak of civil unrest in May 2008. Relative political calm was only restored by the signature of the Doha agreement later that month. Domestic political tensions rose again in 2011 over the country's cooperation with the Special

<sup>4</sup> Private sector deposits

Tribunal for Lebanon (STL). Lebanon's opposing political factions disagree on the appropriate response to the UN tribunal that is investigating the 2005 assassination of Rafiq Hariri. This disagreement caused the collapse of the previous government in January 2011 and tensions with Western powers and potential aid donors.

More recently, the intensifying conflict in Syria has sharpened the divide between those parties in Lebanon that are more and less favourable to the Syrian regime. The conflict in Syria, which started in March 2011, has dragged on with no clear victor, similar to the Lebanese civil war. In its indirect support of Syria, the Lebanese government is in a collision course with countries of the Gulf Cooperation Council (GCC) and the EU, which have repeatedly called for a regime change - without intervening openly. Lebanon is also home to a significant Alawite community, considered the main power base for Bashar al-Assad in Syria, which has led to a surge of violence in the northern city of Tripoli.

Suspicion has grown recently over the control of the military. The assassination of intelligence officer Wissam al-Hassan in October 2012 was followed in March 2013 by the cabinet's refusal to prolong the term of the general director of the country's Internal Security Forces, Ashraf Rifi, leading to the resignation of prime minister Najib Mikati. This comes as Hezbollah has stepped up its activities in Syria, prompting Israel to bomb a cache of missiles supplied by Iran and raising the risk of a sequel to the July 2006 Israeli intervention in Lebanon.

Against this background, the prospect of parliamentary elections has seen tensions rise between political factions. The March 8th coalition aims at consolidating its position by amending the electoral law, but the opposition March 14th political bloc opposes changes, which could paralyse the government for several months (the appointment of Najib Mikati's cabinet followed six months of negotiations). The most likely scenario is an extension of the current parliament's tenure.

### **Abundant foreign exchange reserves limit economic and balance of payments risks...**

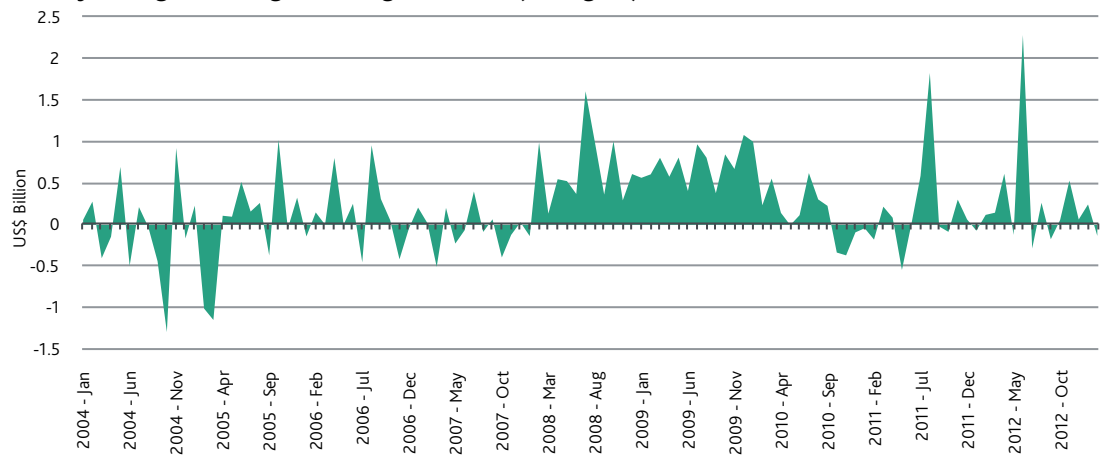
Economic and financial event risks derive from these political developments. The country's real growth rate and the level of deposit dollarization have tended to react rapidly to such political events. Real growth plummeted while dollarization soared in 2005 in the aftermath of Hariri's assassination and in 2011 following Saad Hariri's resignation. Although economic growth recovered quickly following the end of hostilities in 2006, the level of deposit dollarization only began to ease significantly following the signing of the Doha agreement in May 2008. The level of dollarization<sup>5</sup> has already risen to 60% in March 2013 from a low of 52% in December 2010, but is still a long way below its recent peak of 74% in 2008.

Lebanon's external position has been bolstered by capital inflows exceeding the widening current account deficit (16% of GDP in 2012, according to the IMF). Confidence in the Lebanese Pound has remained relatively strong, as conservative bank regulation enabled Banque du Liban to accumulate a large cushion of foreign exchange reserves (\$52 billion as of February 2013, including gold). The reserves act as a beacon for non-resident deposits. However, reserves have proved equally volatile in response to political shocks.

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<sup>5</sup> Private sector deposits

EXHIBIT 10

**Monthly Change In Foreign Exchange Reserves (excl. gold)**

Source: Banque du Liban

It would take a considerable political shock to disrupt tax collection, which has proved resilient throughout recent crises. Nevertheless, a prolonged civil conflict would increase the capital expenditures required to rebuild energy and transport infrastructure.

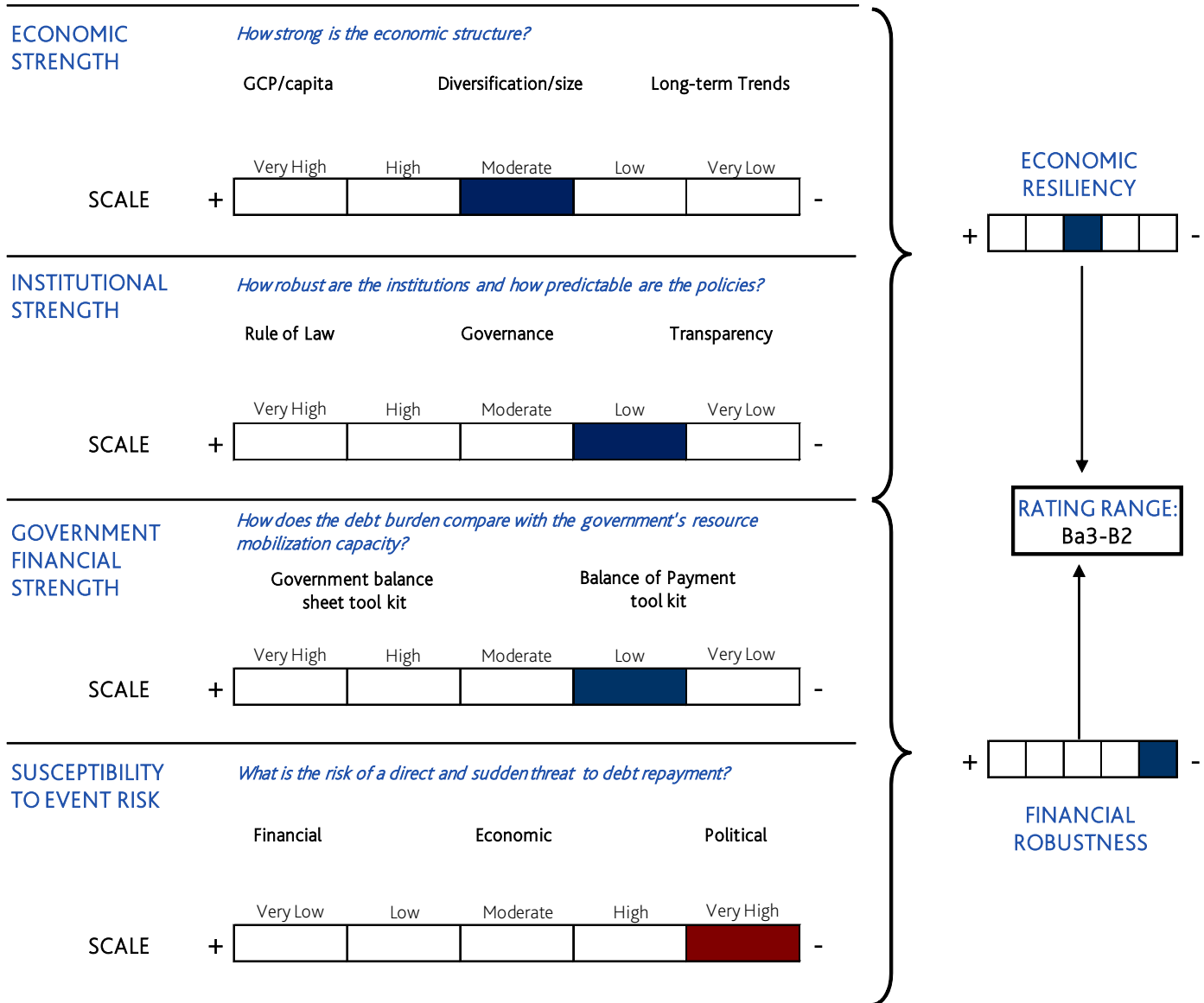
### ...But Lebanon's dependence on deposit growth is a key vulnerability

Lebanon's banking system must offer competitive interest rates to non-resident depositors, which it achieves by investing in government securities, among other allocations. The fiscal deficit is financed by absorbing some of the additional deposits in government securities, which creates a strong correlation between the domestic banks and the government's financial standing. Therefore, we would likely downgrade Lebanon's rating by multiple notches if a deep and sudden deterioration of the domestic situation were to result in large draw-downs on deposits and reserves.

Lebanon's large financial sector (with assets equivalent to 364% of GDP at end-2012) has remained relatively insulated, with a steady increase in deposits (6.8% year on year as of March 2013). The share of foreign-currency private sector deposits, a good indicator of risk aversion in the economy, has stabilized at around 60%. Private sector credit growth slowed to 10.7% year-on-year in March 2013, down from almost 25% in 2010. Weaknesses include the Lebanese banks' capital buffers, which remain fragile given their high exposure to Lebanese sovereign credit risk. The banks' capital adequacy ratio stood at 11.1% in December 2012. The reported capital adequacy ratios are inflated, however, as the regulatory zero risk weight applied to local-currency-denominated securities understates risk-weighted assets. Credit quality is also deteriorating, and we expect NPLs to rise above 6.5% in the coming 12 months.<sup>6</sup> Nevertheless, the ratio of loan to deposits remains relatively low compared with those of regional peers, at 33% as of 2012. Deposit growth has proven remarkably resilient to political shocks, but the importance of non-resident deposits (22% of total deposits) indicates that deposit flows could reverse rapidly.

<sup>6</sup> [Lebanon Banking System Outlook](#), March 2013

### Sovereign Ratings Mechanics<sup>7</sup>: Lebanon



<sup>7</sup> [Link to our Sovereign Bond Rating Methodology](#)

## Rating History

	Foreign Currency Ceilings				Government Bonds		Outlook	Date
	Bonds & Notes		Bank Deposit		Foreign Currency	Local Currency		
	Long-Term	Short-Term	Long-Term	Short-Term				
Outlook Changed	--	--	--	--	B1	B1	Negative	May-13
Rating Raised	Ba3	--	B1	--	B1	B1	Stable	April-10
Outlook Changed	B1	--	B2	--	B2	B2	Positive	December-09
Rating Raised	B1	--	B2	--	B2	B2	Stable	April-09
Outlook Changed	B2	--	B3	--	B3	B3	Positive	December-08
Outlook Changed	B2	--	B3	--	B3	B3	Stable	March-08
Outlook Changed	B2	--	B3	--	B3	B3	Negative	November-06
Rating Raised	B2	--	--	--	--	--	--	May-06
Rating Lowered	B3	--	B3	--	B3	--	Stable	March-05
Rating Lowered	B2	--	--	--	B2	B3	Negative	July-01
Review for Downgrade	--	--	--	--	--	B1	--	September-00
Outlook Changed	--	--	--	--	--	--	Negative	September-00
Rating Assigned	--	--	--	--	--	B1	--	August-99
Rating Assigned	--	--	B2	NP	--	--	--	May-97
Outlook Assigned	--	--	--	--	--	--	Stable	March-97
Rating Assigned	B1	NP	--	--	B1	--	--	February-97

## Annual Statistics

<b>Lebanon</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>
<b>Economic Structure and Performance</b>										
Nominal GDP (US\$ Bil.)	21.4	22.2	25.0	29.7	34.7	37.1	39.0	41.3	43.8	46.7
Population (Mil.)	3.8	3.8	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.1
GDP per capita (US\$)	5,823	5,903	6,640	7,795	8,984	9,499	9,857	10,310	10,793	11,347
GDP per capita (PPP basis, US\$)	10,170.1	10,631.0	11,858.3	12,994.9	14,104.5	15,097.2	15,449.5	--	--	--
Nominal GDP (% change, local currency)	0.0	3.5	12.5	18.9	16.7	7.1	5.1	6.0	6.0	6.5
Real GDP (% change, local currency)	0.7	1.4	8.4	8.6	9.0	7.0	1.5	1.5	2.0	2.5
Inflation Rate (CPI, % change, ave)	-0.7	5.6	4.1	10.8	1.2	4.5	5.0	6.6	6.7	2.4
Nominal Exports of G & S (% change, US\$ basis)	9.7	2.0	20.9	27.4	-2.8	15.2	20.9	4.5	10.6	7.2
Nominal Imports of G & S (% change, US\$ basis)	3.0	1.5	27.7	33.2	4.2	11.2	5.8	9.5	9.1	5.2
Openness of the Economy (%) [1]	137.6	145.3	151.4	172.1	145.8	138.4	147.4	149.3	154.5	153.8
<b>Government Finance</b>										
Gen. Gov. Revenue/GDP (%)	22.9	25.4	24.1	24.0	24.5	22.9	23.5	22.7	23.3	23.8
Gen. Gov. Expenditures/GDP (%)	31.5	35.9	35.0	33.7	32.8	30.6	29.6	32.2	33.0	32.8
Gen. Gov. Financial Balance/GDP (%)	-8.6	-10.5	-10.9	-9.7	-8.3	-7.7	-6.1	-9.5	-9.7	-8.9
Gen. Gov. Direct Debt (US\$ Bil.)	2.3	3.1	2.2	1.4	2.8	2.8	3.5	-0.7	-0.7	0.1
Gen. Gov. Primary Balance/GDP (%)	36.8	38.2	38.9	43.7	47.1	48.4	49.3	53.4	58.2	62.4
Gen. Gov. Direct Debt/GDP (%)	171.8	172.0	155.7	147.2	136.0	130.5	126.4	129.1	132.9	133.7
Gen. Gov. Direct Debt/Cen. Gov. Revenue (%)	750.0	678.1	645.0	613.3	554.8	570.5	537.0	568.2	569.3	561.1
Gen. Gov. Int. Pymt/Cen. Gov. Revenue (%)	47.7	53.7	54.3	46.2	45.2	46.0	40.8	38.5	38.6	38.0
Gen. Gov. FC & FC-indexed Debt/Gen. Gov. Debt (%)	51.9	53.3	54.6	48.5	45.2	42.5	42.4	45.7	45.0	44.7



Lebanon	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F
<b>External Payments and Debt</b>										
Current Account Balance (US\$ Bil.)	-2.9	-1.2	-1.7	-2.8	-3.4	-3.6	-4.9	-6.6	-7.0	-6.8
Current Account Balance/GDP (%)	-13.6	-5.3	-6.8	-9.3	-9.8	-9.6	-12.5	-16.1	-16.1	-14.6
External Debt (US\$ Bil.)	23.0	25.6	28.8	30.2	35.6	37.3	40.5	44.6	47.5	50.4
External Debt/GDP (%)	105.1	115.6	115.3	101.7	102.7	100.4	103.9	107.9	108.3	108.0
External Debt/CA Receipts (%) [2]	118.7	116.7	116.7	97.8	119.5	121.3	115.5	154.7	150.1	149.5
Net Foreign Direct Investment/GDP (%)	8.7	8.1	10.1	11.3	10.6	10.2	8.6	7.7	6.8	8.6
Official Forex Reserves (US\$ Bil.)	11.8	13.3	12.8	20.2	28.7	31.2	33.4	36.8	37.0	37.5
Nominal Exchange Rate (local currency/US\$; end-year)	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5
Short-term External Debt/Total External Debt (%)	47.1	44.3	44.5	46.7	52.3	54.2	57.4	57.6	57.3	57.2
Interest Paid on External Debt (US\$ Bil.)	1.1	1.5	1.7	1.2	0.7	0.6	0.6	0.6	1.0	1.2
Amortization Paid on External Debt (US\$ Bil.)	2.4	2.9	3.2	3.2	3.4	3.4	3.5	3.8	4.0	4.3
Net Foreign Assets of Domestic Banks (US\$ Bil.)	1.6	4.2	7.1	3.3	2.5	2.7	-1.6	-3.8	--	--
<b>Monetary, Vulnerability and Liquidity Indicators</b>										
Domestic Credit (% change, dec/dec)	-0.3	10.6	6.6	11.2	12.6	12.5	8.6	8.8	--	--
Domestic Credit/GDP (%)	180.0	192.5	182.4	170.5	164.4	172.7	178.5	183.2	--	--
M2/Official Forex Reserves (X)	4.2	4.0	4.7	3.4	2.9	3.0	2.9	2.8	--	--
Debt Service Ratio (%) [3]	18.2	19.9	19.9	14.3	13.7	12.9	11.5	15.3	16.0	16.4
External Vulnerability Indicator (%) [4]	98.1	91.4	85.4	99.8	69.8	64.8	64.8	69.8	69.8	73.6
Liquidity Ratio (%) [5]	11.9	11.0	13.2	9.3	7.4	8.2	8.1	9.6	--	--
"Dollarization" Ratio (%) [6]	68.5	72.3	74.0	65.3	59.5	58.3	61.1	59.6	--	--
"Dollarization" Vulnerability Indicator (%) [7]	131.9	126.5	129.1	111.5	91.4	92.5	98.7	96.2	--	--

<b>Lebanon</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>
M2 (% change, dec/dec)	4.4	7.8	12.4	14.8	19.5	12.3	5.5	7.0	--	--
Short-Term Nominal Interest Rate (% , dec)	8.7	8.7	8.7	8.4	6.4	5.4	5.4	5.9	--	--
Total External Debt/Forex Reserves (%)	194.2	192.7	224.1	149.6	123.8	119.6	121.4	121.1	128.3	134.5
Total Liabilities due BIS Banks/Total Assets Held in BIS Banks (%)	16.9	14.6	18.3	18.5	21.1	17.3	19.8	22.8	--	--

## Notes:

[1] Sum of Exports and Imports of Goods and Services/GDP (%)

[2] Current Account Receipts

[3] (Interest + Current-Year Repayment of Principal)/Current Account Receipts (%)

[4] (Short-Term External Debt + Currently Maturing Long-Term External Debt)/Official Foreign Exchange Reserves (%)

[5] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks (%)

[6] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System (%)

[7] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchanges Reserves + Foreign Assets of Domestic Banks) (%)

## Moody's Related Research

### Rating Action:

- » [Moody's changes outlook on Lebanon's government bond rating to negative from stable, May 2013](#)

### Issuer Comment:

- » [Prime Minister's Resignation Deepens Political Crisis, a Credit Negative, March 2013 \(151852\)](#)

### Outlook:

- » [MENA Sovereigns - 2013 Outlook: Growing Divergence Between GCC and other MENA Economies Since Global Crisis and Arab Spring, March 2013 \(151334\)](#)

### Banking System Outlook:

- » [Banking System Outlook: Lebanon, April 2013 \(150128\)](#)

### Rating Methodology:

- » [Sovereign Bond Ratings, September 2008 \(109490\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

» contacts continued from page 1

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