

ISSUER IN-DEPTH

8 June 2016

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RATINGS

Lebanon

	Foreign Currency	Local Currency
Gov. Bond Rating	B2/NEG	B2/NEG
Country Ceiling	Ba3	Ba2
Bank Deposit Ceiling	B2	Ba2

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Government of Lebanon – B2 Negative

Annual Credit Analysis

OVERVIEW AND OUTLOOK

In June 2016, we affirmed Lebanon's government bond rating at B2 and maintained a negative outlook. The rating affirmation reflects the country's demonstrated fiscal resilience and strong liquidity position. In particular, the central bank has maintained high reserve levels, while the debt structure has improved over time. The negative outlook recognizes the downside risks associated with the delay in policy action to reduce the fiscal deficit. In the absence of policy action, the deterioration in the government's fiscal deficit and debt burden will accelerate, while risks to the country's financing capacity will increase as a result of a slowdown in deposit growth, a larger current account deficit and the elevated political instability.

After four consecutive years of high GDP growth between 2007 and 2010, growth has slowed to 1%-2% annually. Government debt has risen to a very high level of 126.4% of GDP in 2015. We estimate that the fiscal deficit will average 8.1% of GDP in 2016 and 2017, reflecting lower transfers to Electricité du Liban (EdL) but higher outlays on current spending and debt servicing. Political polarization has considerably weakened policy effectiveness, and consensus on fiscal reforms often remains elusive.

The central bank's foreign exchange reserves have been broadly stable at a high level and support Lebanon's rating by bolstering confidence in the exchange rate peg and the financial system despite weak public finances. Lebanese commercial banks remain willing and able to purchase and roll over government debt, although the growth rate of deposits is slowing, having fallen to 4.8% as of March 2016 from 6.0% at the end of 2014. Lebanon's stable and reliable creditor base supports its B2 rating, which is at the top of the rating range indicated by our sovereign methodology based scorecard

This Credit Analysis elaborates on Lebanon's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytical factors in Moody's Sovereign Bond Rating Methodology.

This Credit Analysis provides an in-depth discussion of credit rating(s) for the government of Lebanon and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our Sovereign Bond Rating Methodology.

Factor 1 Overall Score

Scale: + | VH+ | VH | VH- | H+ | H | H- | M+ | M | M- | L+ | L | L- | VL+ | VL | VL- | -

Factor 1 Sub-Scores

Lebanon **Low (+)**

Score for Lebanon: ● Median of countries with B2 rating: —

Sub-Score	Weight	Indicator
1. Avg. Real GDP (% change)	10%	VERY HIGH
2. Volatility in Real GDP growth (ppts)	40%	HIGH
3. Global Competitiveness Index, percentile [1]	10%	VERY LOW
4. Nominal GDP (US\$ Bn)	15%	VERY LOW
5. GDP per Capita (PPP, US\$)	25%	MODERATE

Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'credit boom' adjustment factor can only lower the overall score of economic strength.

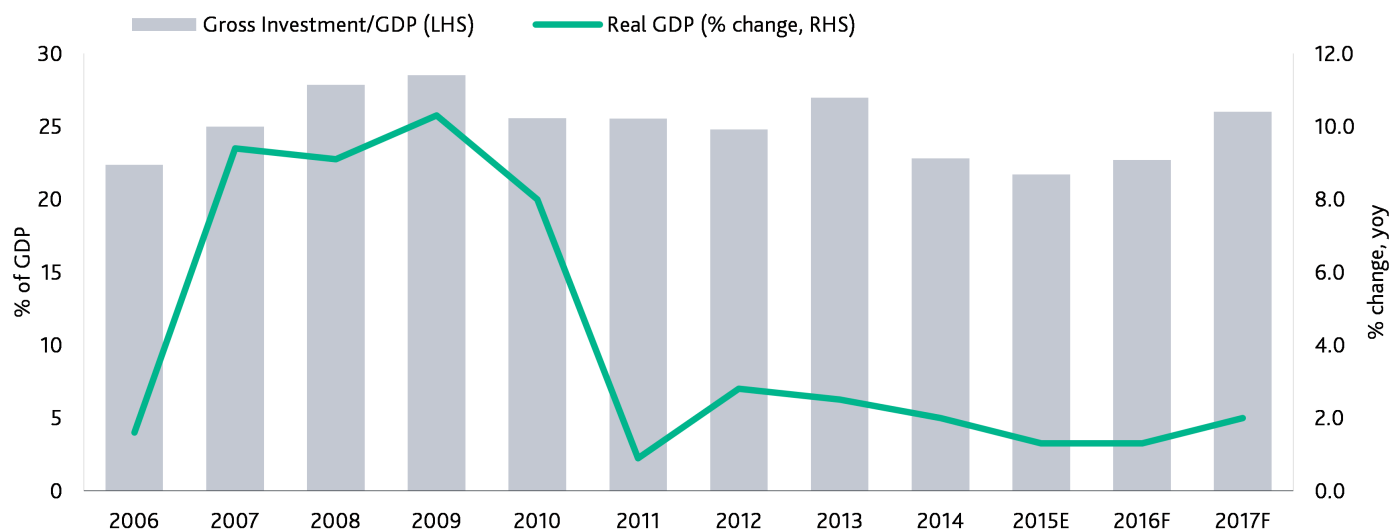
Lebanon's Low (+) Economic Strength score incorporates the country's moderate per capita income levels but also its subdued growth prospects, its small size and vulnerability to external shocks. Lebanon's growth trend has been deeply affected by the deterioration in the regional economic and political environment. In addition, since 2011, the lack of investment in infrastructure and the absence of economic reforms have weakened the country's competitiveness, and would likely prevent Lebanon from returning to previously high real GDP growth, even if political risks were to abate. Other countries ranked Low (+) for Economic Strength include Tunisia (Ba3 stable) and Uganda (B1 negative).

Lebanon's economy is small and volatile but has continued to grow despite external shocks

Lebanon's economy is relatively small and open, with exports of services making up one third of GDP and its exports geographically diversified. With a population of 4.6 million and a nominal GDP of \$51 billion, Lebanon's economy is similar in size to Tunisia, Croatia (Ba2 negative) and Kenya (B1 stable).

Lebanon's growth track record is volatile. During 2006-10, real GDP growth averaged 7.7% – considerably higher than that of regional peers – before falling to 1.9% in 2011-15 as a result of geopolitical developments (see Exhibit 2). Lebanon's economy is relatively diversified, with four sectors – trade, manufacturing, construction and finance – representing around half of the economy.

Exhibit 2

Volatile real GDP growth due to political shocks and slowing investment

Source: IMF, Moody's

Despite volatile political and geopolitical conditions, Lebanon's growth has proved relatively resilient. According to the IMF, growth has been continuously positive since 1999. Episodes of violence have translated into low growth but were followed by a surge in economic activity.

Lebanon is a middle-income country, relatively richer than regional and rating peers. As of 2015, Lebanon's GDP per capita in purchasing power terms was \$18,240 according to the International Monetary Fund (IMF), above the B median of \$7,900 and similar to Bulgaria (Baa2 stable), Turkey (Baa3 negative) and Gabon (B1 negative).

Domestic political deadlock and geopolitical developments continue to weigh on growth

Real GDP growth has slowed down since the start of the Syrian conflict and the collapse of Syria's economy. The transmission channels include a perceived increase in political risk, disruption of trade and tourism flows, and increased fiscal pressures as a result of security costs and refugee-related expenditures. Although violence has been limited in Beirut itself, the perceived security challenges have increased, contaminating consumer and investor sentiment.

Key economic sectors have proved volatile, starting with tourism. Lebanon has traditionally attracted visitors from the Gulf Cooperation Council (GCC) and from the Lebanese diaspora, but the Syrian conflict has limited 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 has dropped 30% since 2010. However, the number of passengers at Beirut international airport increased 27%, reflecting recurring visits of Lebanese expatriates to their home country.

Partially linked to the tourism sector, and driven by building hotels and residences for Lebanese expatriates, the construction sector has witnessed a more gradual decline. The area of land approved for construction has dropped by 30% in the years since 2010 and by 9% in 2015 alone compared to the previous year. The real estate sector has also suffered from weaker sentiment, with real estate transaction values falling almost 11% in 2015.

Trade has slowed as Lebanon lost access to its heartlands across the Levant region: exports of goods fell 31% between 2010 and 2015, with the decrease attributed to the closure of borders with Syria and a drop in gold prices – also reflected in imports, which overall have been stable since 2010.

Tensions between the GCC and Lebanon could have a negative impact on long-term growth prospects. They have spiked in recent months when the Lebanese foreign minister did not condemn an attack on the Saudi embassy in Iran in January, resulting in GCC countries withdrawing military aid and advising its citizens against travel to Lebanon. The short-term impact is limited given that

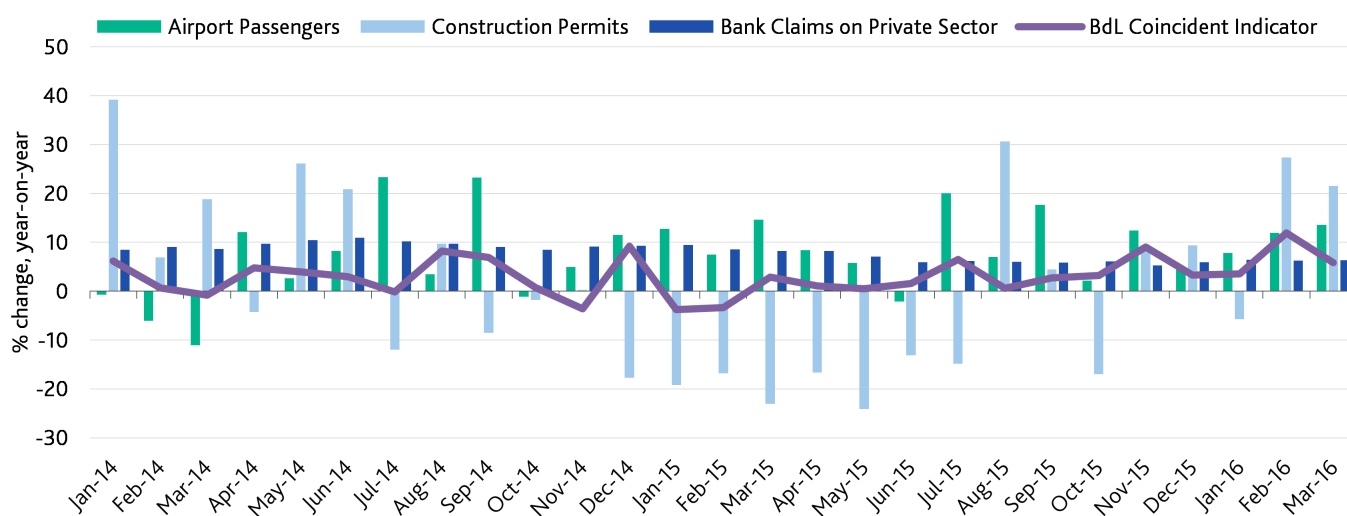
the number of GCC visitors had already fallen to very low levels. However, further tensions could affect remittances from Lebanese expatriates in the GCC, which account for a quarter of remittances to Lebanon. It could have some limited effects on Lebanon's external position if GCC countries were to withdraw their deposits from Banque du Liban, estimated at \$860 million – or 2.2% of gross foreign-exchange reserves – or if trade barriers were imposed (the GCC absorbs 54% of Lebanon's exports), although this is unlikely considering the strategic importance of Lebanon in the region.

Growth continues to be supported by remittances, the availability of credit and lower oil prices

Economic activity has picked up to a certain extent in 2016. The Banque du Liban's coincident indicator¹ shows an improvement in economic activity in the seven months to March 2016 (see Exhibit 3). As of March, passenger arrivals had grown by 11.1% and construction permits increased by 21.6% year-on-year, albeit from a low base. The first two months of 2016 also saw an increase in the value of real estate transactions of close to 40%.

Exhibit 3

Selected leading indicators remain mixed



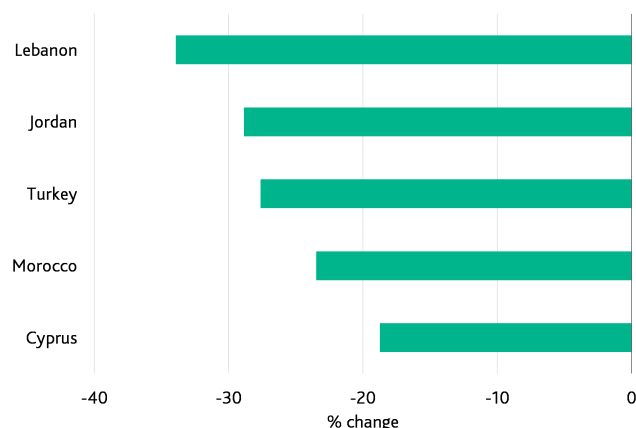
Source: Banque du Liban, Haver Analytics

We expect growth to remain positive at 1.7% this year from an estimated 1.3% last year. Growth will likely be driven by low oil prices and continued but slower private sector credit growth. Similar to the past two years, we expect that the economy will continue to be supported by the Banque du Liban's quasi-fiscal packages, with reserves used to direct cheap credit at specific sectors. Along with the \$1 billion stimulus package planned for 2016, the Central Bank announced in May that it would provide additional stimulus targeted at the knowledge industry. The stimulus package has been enabled by the steady growth in deposits and foreign-exchange reserves, but it remains difficult to quantify its impact because the private sector is not cash-starved. Credit to the private sector grew 6.5% in 2015, compared to 7.4% in 2014 and 9.0% in 2013.

The Lebanese economy is supported by transfers from the Lebanese diaspora, through two channels: remittances and non-resident deposits. Net remittances reached \$3.6 billion in 2015, accounting for approximately 7% of GDP, according to Banque du Liban. Remittance flows from the GCC accounted for almost 25% of remittances according to the World Bank,² but overall remittances are more diversified than in other remittance-dependent countries. The reliance on GCC countries for remittances and trade mitigates the growth benefit from lower oil prices to the extent that GCC countries' growth and fiscal accounts are affected by lower oil prices. Based on historical trends, the IMF estimates that a 1 percentage-point decline in real non-oil GDP in the GCC is estimated to reduce remittance outflows by 0.5–0.75% annually.³ Remittances support domestic private consumption, which represents almost 90% of Lebanon's GDP.

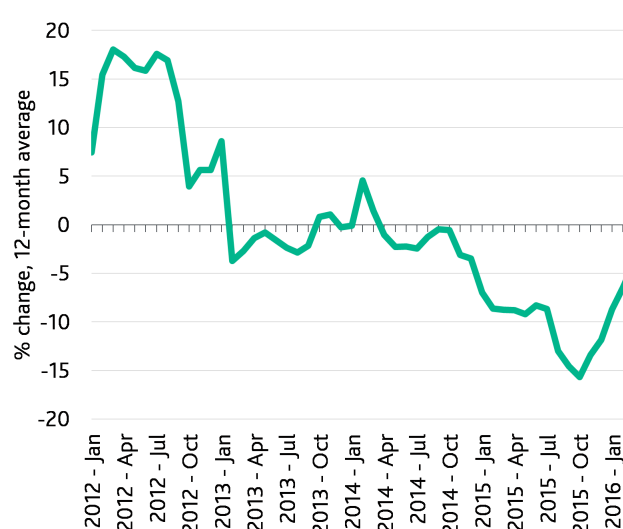
The Lebanese economy benefits from the recent drop in oil prices. Oil prices dropped from almost \$100/barrel in 2014 to \$52.3 in 2015 and an average of \$36.3 as of May 2016. This boosted disposable income because Lebanon's energy sector is largely dependent on fuel for transport and electricity production. The pass-through rate of global oil prices is among the highest in the region, in the absence of price distortions, with gasoline prices dropping by 34% between September 2014 and May 2016 (see Exhibit 4). This has also resulted in falling imports: the year-on-year drop in imported goods reached a peak at 16% in October 2015 and was at 4% as of March, representing savings of around \$750 million or 1.5% of GDP (see Exhibit 5).

Exhibit 4

Change in gasoline price between September 2014 and May 2016

Source: Globalpetrolprices.com

Exhibit 5

Imports of goods, 12-month average

Source: Banque du Liban

Although a political agreement to restore and reinforce institutions would likely lead to a surge in tourism and investment, in the absence of structural reforms trend growth is unlikely to return to pre-2011 levels. Our growth forecasts would be subject to further downside risks if violence were to escalate in the country or geopolitical tensions worsen, negatively impacting tourism and investment.

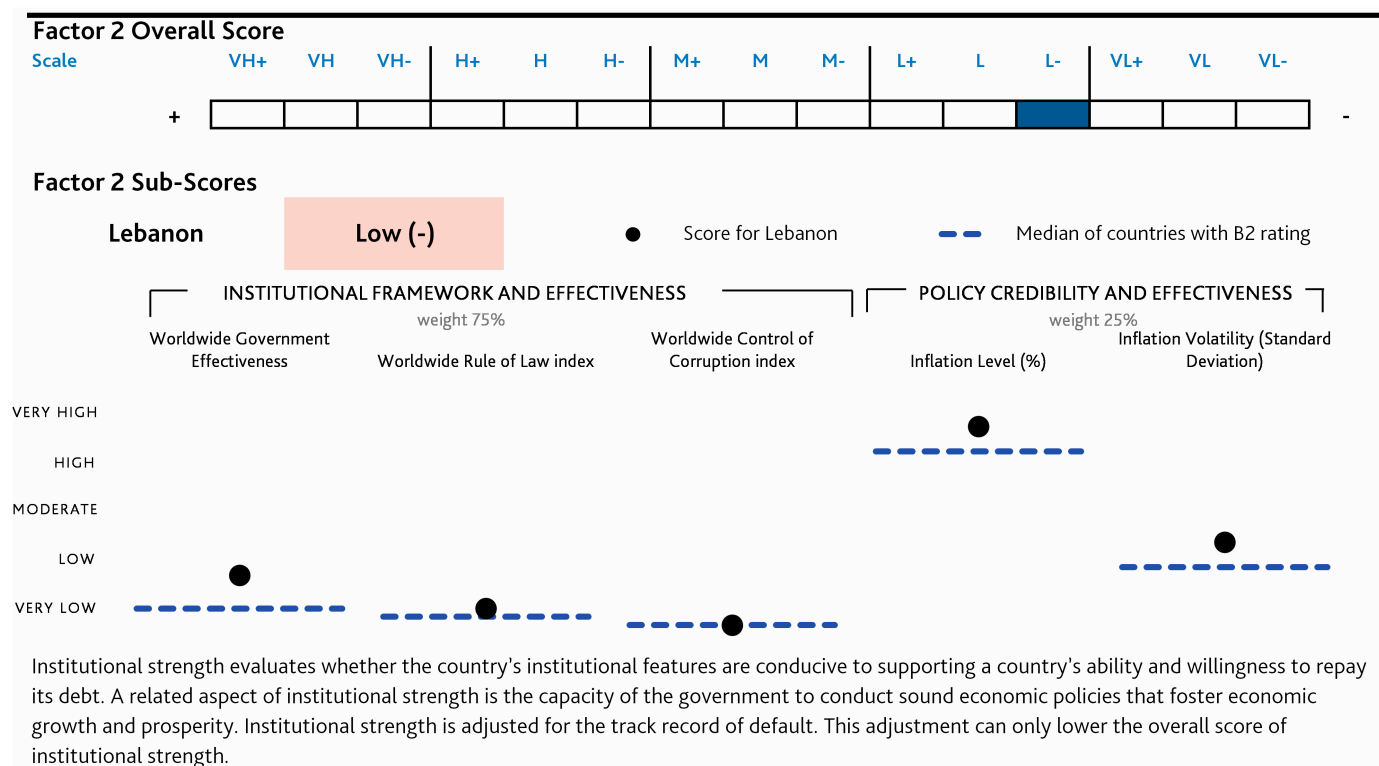
Insufficient public investment and low competitiveness continue to hamper growth

Lebanon's economy suffers from a number of structural weaknesses, including weak basic infrastructure (e.g., roads, water, electricity and telecommunications). Conflicts over the years have damaged infrastructure, which suffers from underinvestment and inefficient management. Accounting for less than 2% of GDP, the government's capital expenditure is very low because it is crowded out by large and rising debt-servicing and wage expenditures. The economy continues to face heavy shortages of electricity because of the lack of investment in new capacity and an inefficient energy subsidy system. The paralysis of decision-making bodies resulted in the build-up of waste in the capital city of Beirut in 2015.

The lack of investment in infrastructure has eroded the country's competitiveness. The World Economic Forum ranks Lebanon 101st from among 144 countries in its Competitiveness Ranking, down from 89th from among 142 countries in 2011, though higher than the rank of 113th in 2014.

In the medium to long term, developing Lebanon's hydrocarbon resources could help meet the country's energy needs. Lebanon is believed to have significant offshore reserves, but it has fallen behind its neighbours in exploring the Levantine basin. The lag in activity is a consequence of a combination of complex decision-making process and political uncertainty, which is warding off foreign oil companies. The recent oil price drop is likely to prolong that delay.

Institutional Strength: Low (-)



Lebanon's Low (-) assessment for Institutional Strength reflects the country's weak government effectiveness, which is partly offset by monetary policy credibility. Other countries ranked at the same level include Cote d'Ivoire (Ba3 stable) and Bosnia (B3 stable).

Lebanon's governance framework is impaired by political deadlock

Sectarian divisions have long undermined the country's institutions. Since the assassination of former prime minister Rafic Hariri in 2005, Lebanese political parties have remained divided between those favourable towards or opposed to Syrian influence in the country. Lebanon's current parliamentary majority emerged in June 2011 from what is known as the "March 8th coalition", which upholds the historic alliance with the Syrian government. Lebanon went through a devastating war between Israel and Hezbollah in 2006 and a subsequent brief outbreak of civil conflict in May 2008.

High and growing polarization among political factions has prevented the formulation and implementation of policies. Not a single budget has been passed since 2005, with current expenditures gradually crowding out capital expenditures. Following Saad Hariri's resignation in January 2011, the country was without a cabinet for six months. Major structural reforms, such as buttressing the state-owned electricity company and privatizing state-owned companies have been repeatedly delayed. A disagreement between the Ministry of Telecoms and other cabinet members resulted in telecoms revenue being withheld between 2010 and 2013.

Over the past three years, tensions in neighbouring Syria have undermined the fragile equilibrium between the country's political factions, limiting the government's room for action. With the political scene growing even more polarized, the government has struggled to assert its authority. The post of President has been vacant since May 2014. Parliamentary elections have been postponed until at least 2017 after members of parliament were unable to agree on a new electoral law.

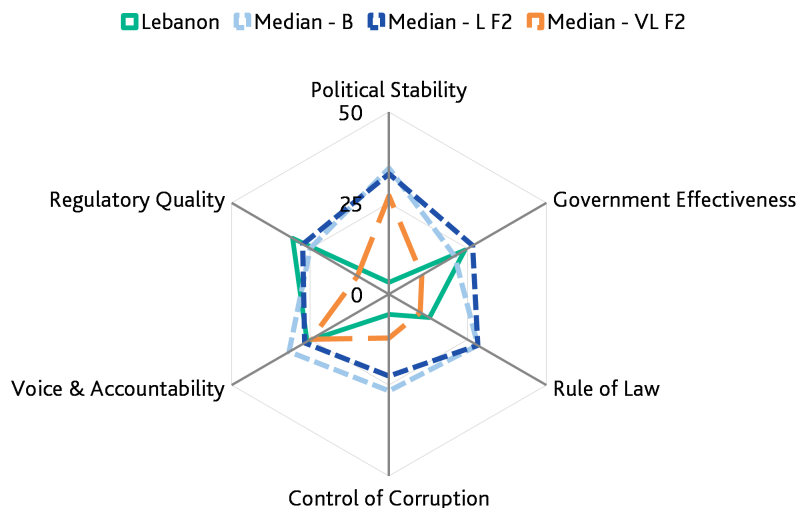
Nonetheless, institutions are not completely blocked. In November 2015, parliament convened after a one-year lapse to pass key pending pieces of legislation such as further Eurobond issues and banking laws. In May, Lebanon held its first municipal elections since 2010. There are signs that negotiations are continuing among political parties over the appointment of a new president, as highlighted by the recent détente between two previously opposed political leaders, Michel Aoun and Samir Geagea.

Lebanon scores poorly on Worldwide Governance Indicators. We monitor three indicators: Government Effectiveness, Rule of Law, and Control of Corruption. Lebanon ranked at the 24th percentile from among Moody's rated universe in 2014 for Government Effectiveness and 13th for Rule of Law. Lebanon's scores show a moderate deterioration in Government Effectiveness, Rule of Law and Control of Corruption, and a marked decrease in Political Stability over the past decade, which is now ranked at the 3rd percentile. Transparency International's 2015 Corruption Perceptions Index ranks Lebanon at 123rd out of 177 countries (up from 136th in 2014), with 1 being the least corrupt. Countries such as Kenya and Moldova (B3 negative) recorded similar governance scores as Lebanon.

Exhibit 7

Worldwide Governance Indicators for Lebanon are weaker than similarly rated peers

Percentile rank based on Moody's universe of rated sovereigns

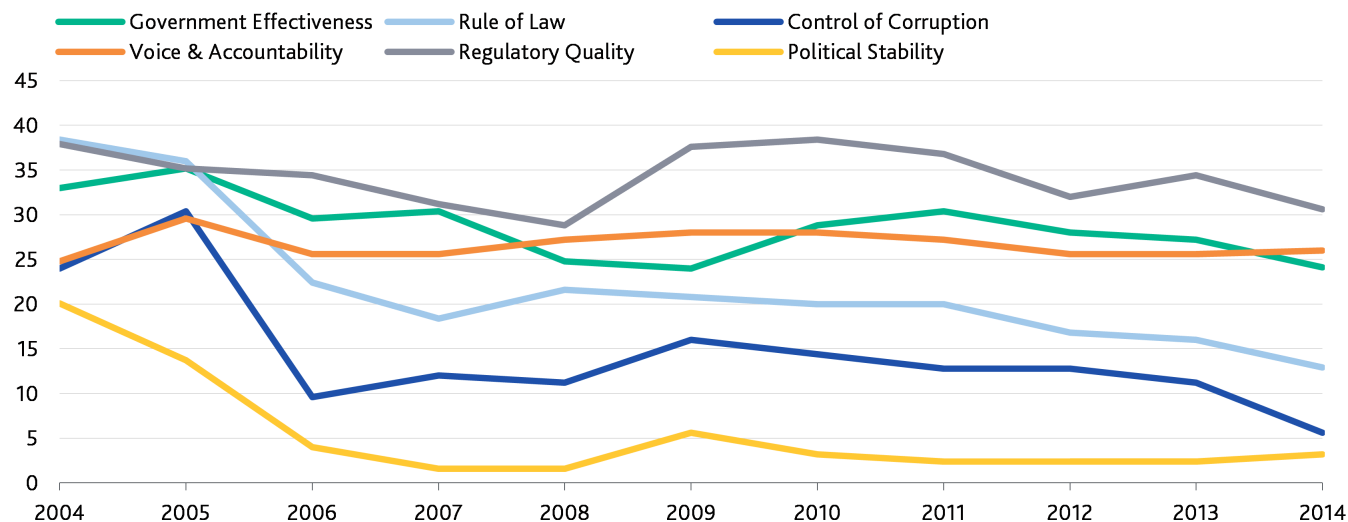


Source: Worldwide Governance Indicators

Exhibit 8

Lebanon's scores for most governance indicators have dipped since 2009

Percentile rank based on Moody's universe of rated sovereigns



Source: Worldwide Governance Indicators

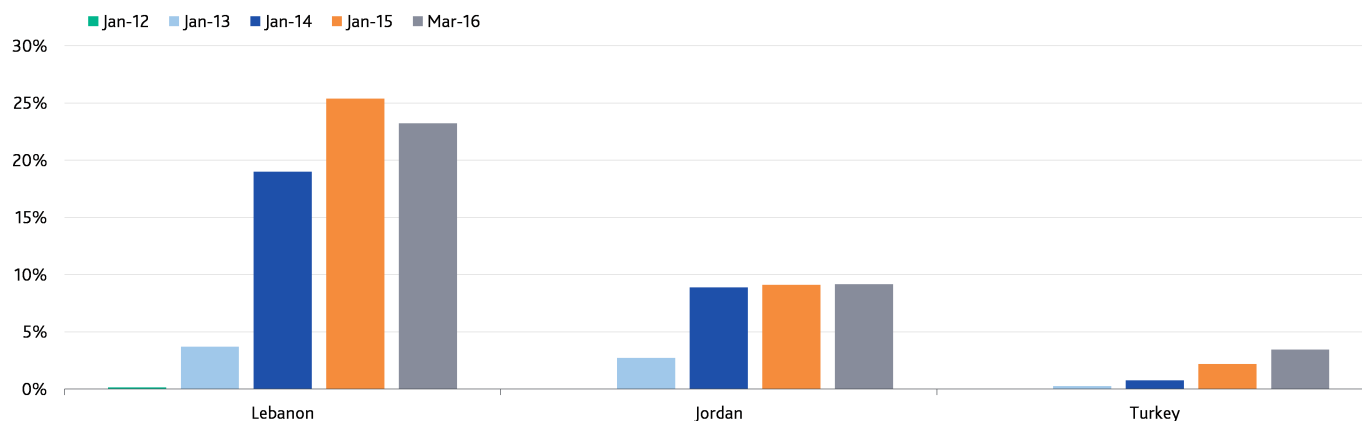
The Syrian crisis is having a political impact

The spillover from the Syrian crisis has affected Lebanon's politics. The large number of Syrian refugees (1.05 million as of March 2016), represents almost 25% of the total population, and impacts the political balance. In late 2014 measures were implemented to regulate the flow of Syrian nationals in Lebanon, slowing the inflow of refugees somewhat.

Exhibit 9

Large inflows of Syrian refugees relative to population will likely affect the political landscape in Lebanon

Syrian Refugees, as % of total population per country



Source: UNHCR, IMF, Moody's Investors Service

Lebanon's effective financial regulations and monetary policy are institutional strengths

An important factor that supports our assessment of Lebanon's Institutional Strength is the government's proven willingness to prioritize debt payments. Lebanon's government 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 from 1975 to 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 its most recent peak at 175% of GDP in 2006.

We also recognize the quality of the country's financial sector management and regulation, which Banque du Liban (BdL) oversees. The central bank's personnel are more stable and less politicized than those of the ministries. The current central bank governor has held the post since 1993 despite numerous changes of government. He was reappointed in July 2011 for an additional six-year term.

In November 2015, the parliament passed an anti-money-laundering law and the exchange of tax information law. In February, the Financial Action Task Force (FATF) announced that Lebanon met the required conditions to combat money laundering and terrorist financing. This is positive for maintaining customer confidence in the banking system, particularly for the Lebanese expatriate community. However, Lebanon faces further pressure from the US to enforce new US legislation passed in December 2015 – previous instances of non-compliance have been dealt with rapidly by the regulator.

Policy effectiveness, as measured by a government's ability to manage inflation, also weighs on our assessment of Lebanon's Institutional Strength. The central bank has been successful on this front – although its target is to maintain a stable exchange rate, limiting policy options – bringing inflation down to around 1.9% in 2014 and -3.7% in 2015 from a high of about 10.8% in 2008. Price moderation has been supported by the sterilization of foreign-currency inflows. We expect that inflation will remain slightly negative in 2016 at -0.7%, before rising to around 2% in 2017 as oil prices pick up. Inflation will be supported by the Banque du Liban's use of its reserves to stimulate credit growth. Historically, the volatility in prices is similar to other countries with a US Dollar peg, such as Oman (Baa1 stable) and Jordan (B1 stable).

be a source of uncertainty for the government's fiscal accounts because of ageing infrastructure, unpaid consumption and low tariffs. Political blockages have stymied efforts to reform EdL for years. However, the government has recently made some progress in setting up public private partnerships as part of the electricity reform plan approved in 2010. Adding production capacity through imports of liquefied natural gas is reportedly being considered, which could lower production costs. We estimate that transfers to EdL will stay low in 2016 – reflecting lower oil prices – but we expect that this will be offset by other expenditure increases. Any future increases in oil prices will also continue to be reflected in public expenditures.

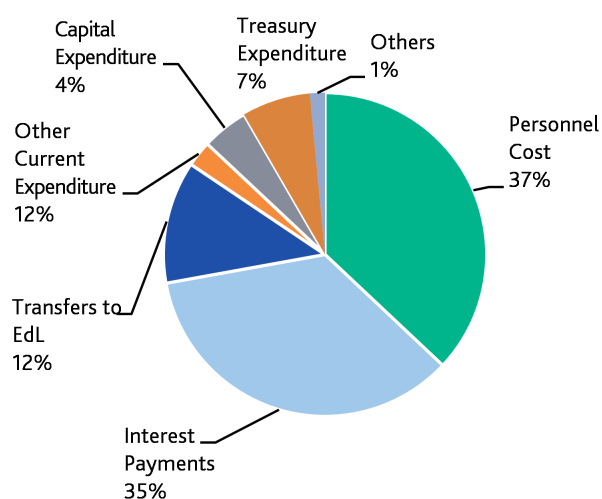
Nonetheless, other expenditures continue to rise. The 46% drop in EdL transfers in 2015 was offset by rising wages, interest payments and other current expenditures. Personnel costs increased by 5.2% in 2015 compared to 2014. The salary-scale adjustment, which was proposed over three years ago, would add pressure to expenditures, although it has not yet been implemented and would be accompanied by offsetting revenue measures. Military personnel represented two thirds of the total wage bill – and as the security situation has deteriorated at the borders, the government has hired additional military personnel.

Historically, public resources have primarily been deployed towards servicing the cost of debt. Although down from much higher levels, interest payments consumed around 47% of the government's total revenues in 2015, higher than the 41% recorded on average in 2010-14 and its highest level since 2007, and crowded out more productive forms of public expenditures. Capital expenditures, for instance, accounted for just 4% of total expenditures in 2015. Underinvestment in infrastructure along with a rising population weighs on the economy's competitiveness, and the inefficient energy system increases the current account deficit. Despite stable interest rates on government debt, interest payments increased 6.5% in 2015, reflecting a higher overall debt stock and increased maturity of debt – which increased to 4.5 years from 3.0 years in 2010 (to 6.1 years from 4.8 years for foreign currency debt). The lengthened maturity considerably lowers the gross borrowing requirements and shields the government from a sudden hike in bond yields. The nominal interest rate on local-currency debt is stable at 5.1% (one-year) as of the end of February, but the real interest rate has recently increased.

Nevertheless, the government maintained a small primary surplus in 2015 of an estimated 1% of GDP, compared to primary deficits in 2012 and 2013, but lower than the 2.4% of GDP primary surplus recorded in 2014. We expect the government's primary balance to remain in surplus in 2016 and 2017.

Exhibit 11

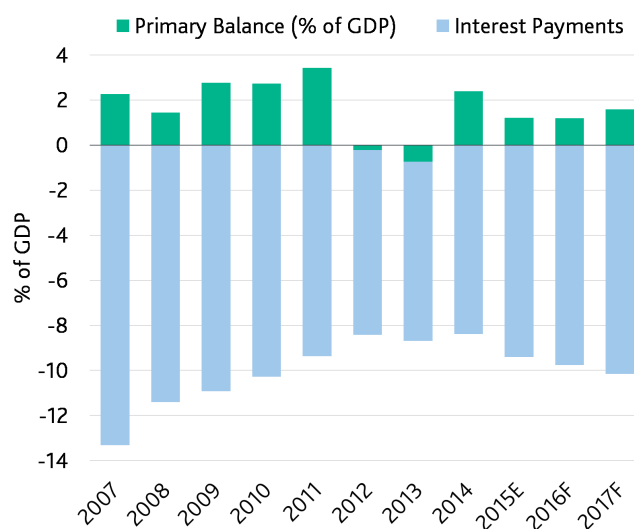
Current expenditures crowd out capital expenditures 2015



Source: Ministry of Finance

Exhibit 12

The primary balance will likely remain in surplus



Source: Ministry of Finance, Moody's Investor Services

We expect the fiscal deficit to increase in 2016 and 2017 to approximately 7.8% and 8.4% of GDP, respectively, reflecting the transfers of arrears from the telecoms ministry to municipalities in 2016, higher wages and interest outlays and the absence of fiscal reforms. As a result, the fiscal deficit will continue to remain considerably higher than the median for B-rated countries of 4.0% of GDP.

A very high debt burden, but a demonstrated capacity to withstand even higher debt levels

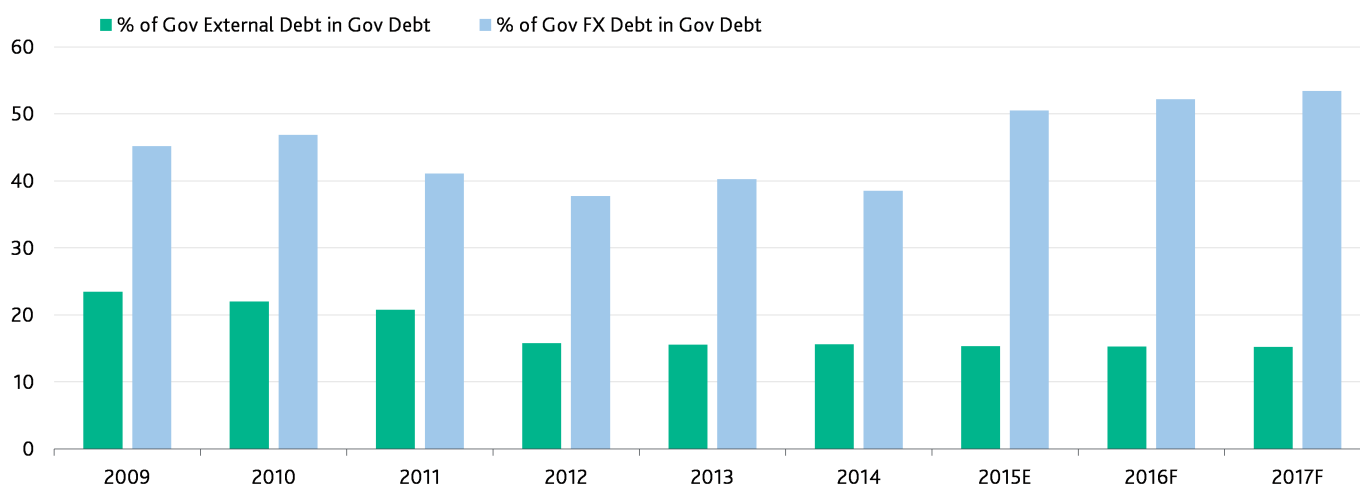
The rise in the general government debt level is accelerating. An exception was recorded in 2014 when, after two years of increases, the debt burden dropped to 123.1% of GDP from 123.5% in 2013. However, it resumed its upward trend in 2015 as a result of a higher fiscal deficit, reaching 126.4% of GDP. We expect government debt to reach 135.6% of GDP, the fifth-highest level in our rated sovereign universe.

Debt affordability metrics (as measured by interest payments to revenues) increased from 38.5% in 2014 to 46.6% in 2015, far above that of B2-rated median. However, this weakness is balanced by the government's proven capacity and willingness to support a high debt burden. Lebanon accumulated the bulk of its public debt in the 1990s as a means of financing reconstruction following the 15-year civil war. General government debt peaked at 175% of GDP in 2006, before receding to 123% in 2014. This episode of deleveraging demonstrates that, even under stressed political conditions, a relatively high level of government debt can be sustainable.

Despite its wide deficit, large debt overhang, and a poor track record of fiscal reform, the government finds a deep and reliable source of financing in domestic banks. Lebanon's large banking system acts as the government's primary creditor, absorbing 85% 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.

Exhibit 13

Vulnerabilities in the composition of government debt have eased

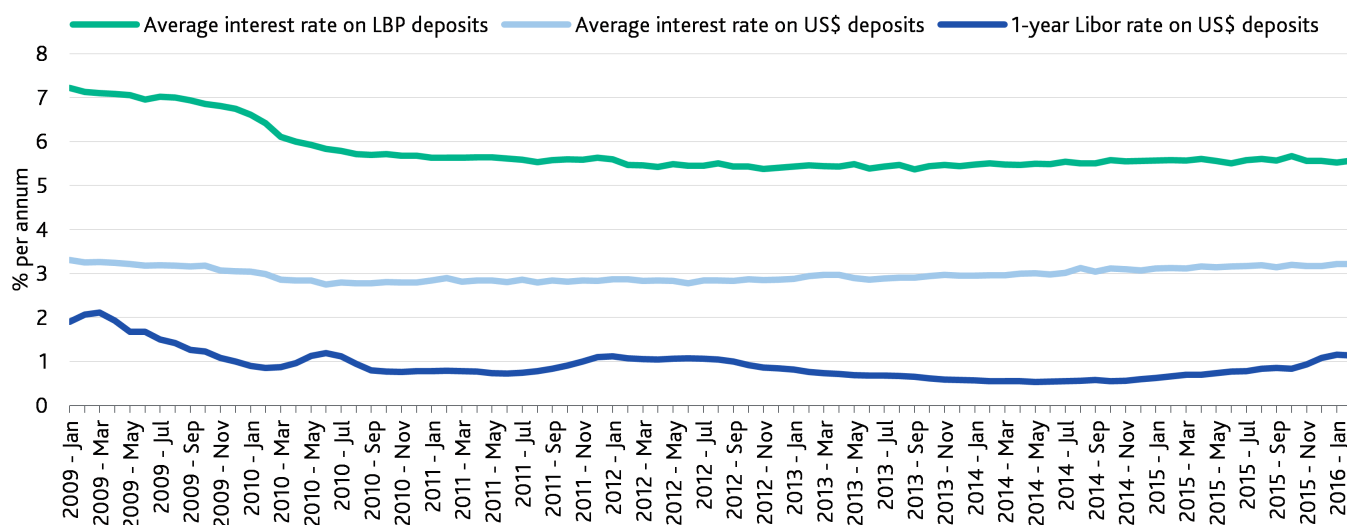


Source: Banque du Liban, Moody's

Ultimately, the ability of Lebanon's banks to continue financing the government rests on the steady growth of their deposit base, fuelled by remittances and transfers from the Lebanese diaspora. We continue to carefully monitor the level of bank deposits given their importance for budgetary financing. Bank deposits rose by 4.8% year-on-year in March, down from 6.5% in March 2015. Lebanese banks collected \$7.2 billion in new deposits in 2015, compared to \$8.2 billion in 2014. This compares with a fiscal deficit of \$4.0 billion.

Remittances come from Lebanon's wide, wealthy and loyal diaspora. However, the rate of deposit growth has slowed from a year-on-year rate of around 20% in early 2010. Currently, the flow of deposits is largely based on a wide gap between USD-denominated deposit rates abroad and in Lebanon (see Exhibit 14). Although Lebanon did not follow the US Fed interest rate hike in December 2015 given the existing gap, further increases in Fed rates would likely have a negative impact on deposit inflows as it would reduce the gap in interest rates.

Exhibit 14

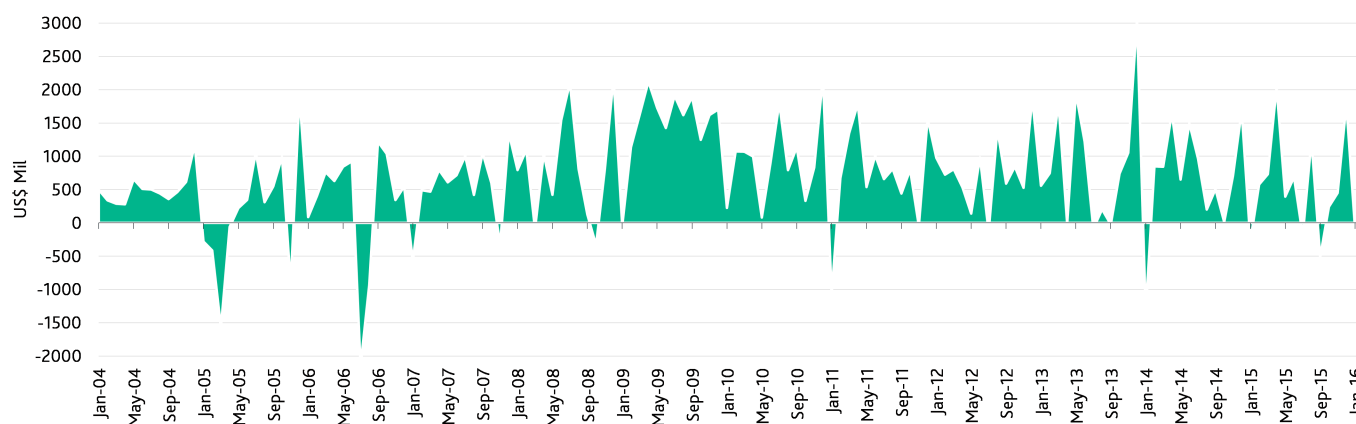
Lebanese banks pay high interest on dollar deposits

Source: Banque du Liban, Haver Analytics

A loyal depositor base and donor support underpin debt sustainability

Looking at the recent history of deposit flows to Lebanese banks, depositors have demonstrated little aversion to political shocks, although a tipping point was reached in 2005 with the assassination of Prime Minister Rafiq Hariri and again in 2006 with the 33-day conflict between Israel and Hezbollah (see Exhibit 15). A smaller episode of deposit outflows occurred in early 2011 when the government of Saad Hariri collapsed. A sudden and severe deterioration in the domestic and regional environment would only lead to a prolonged outflow in the absence of an immediate reaction by the central bank or international donors.

Exhibit 15

Deposits have continued to grow regularly, despite a volatile political environment Monthly changes in private sector deposits and non-resident deposits

Source: Banque du Liban

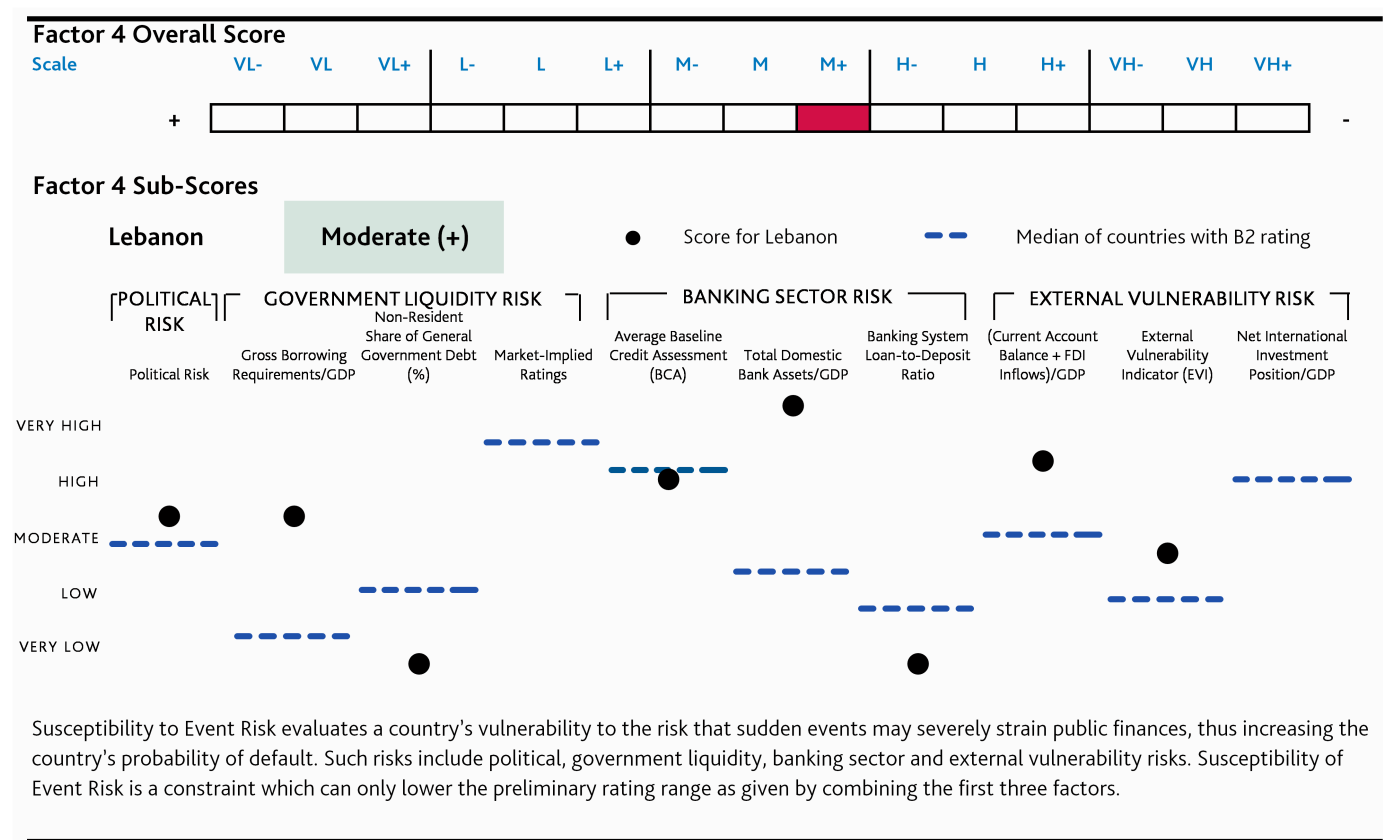
The willingness of Lebanese banks to finance the government is largely a result of the fact that over half of the banks' assets are invested with the sovereign (the government and the central bank). The circularity that this level of investment in the sovereign creates is a concern, but does sustain the government as long as the level of bank deposits continues to increase. Yet, as the government extends the maturity of government debt, the maturity mismatch increases on the commercial banks' balance sheet.

An additional potential source of financing for the government is external official donors. The most recent evidence 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 bilateral support 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 have strained. For instance, recent tensions with Saudi Arabia resulted in the cancellation of \$3 billion in bilateral military aid.

Nonetheless, multilateral donor support is sustained. In November, the country's parliament ratified a \$474 million World Bank project finance loan for the construction of the Bisri dam, to address water shortages in Beirut and Mount Lebanon. In the absence of parliamentary approval by the end of 2015, the country would have forfeited the financing. In March 2016, the UN committed \$470 million funding for education and infrastructure projects. The UN, World Bank and the Islamic Development Bank (Aaa stable) have established the 'New Financing Initiative to Support the MENA Region', with the aim of raising \$1 billion in grants from donors over the next five years, which will be leveraged to provide between \$3 billion to \$4 billion in concessional loans for Lebanon and Jordan. However, implementation risks are high, particularly as existing donor funding has been held up by the lack of parliamentary approvals.

Foreign aid is insufficient to meet the cost of hosting refugees. The large number of Syrian refugees have placed concomitant pressures on spending on health services, food, water, energy, education and rental space. According to the Lebanon Crisis Response Plan (LCRP), funding requirements for humanitarian assistance and for the reinforcement of Lebanon's economic, environmental and institutional stability amount to \$2.5 billion in 2016 (equivalent to 4.7% of GDP). This compares to a funding requirement of around \$2 billion in 2015, of which only around 50% was mobilized by international donors.

Susceptibility to Event Risk: Moderate (+)



Lebanon has endured multiple political and external shocks in its recent history. Although the impact of these shocks on government finances has varied, with economic and bank deposit growth showing particular resilience, political polarization has increased the risk of a sudden deterioration in the country's security situation and on the large banking sector. Therefore, we position Lebanon's Susceptibility to Event Risk at 'Moderate (+)', a score shared by Azerbaijan (Ba1 negative), Tunisia and Armenia (B1 stable).

Political Risk: Moderate (+)

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

Event risks reflect the country's factious domestic politics and precarious geopolitical location, which have frequently prompted the interference of outside powers.

The intensifying conflict in Syria has sharpened the divide between those parties in Lebanon that are favourable and those that are opposed to the Syrian regime. The conflict in Syria, which started in March 2011, has dragged on with no clear victor and has consequently further polarized Lebanon's two main coalitions. Consequently, greater involvement in the Syrian civil war would be controversial and could have negative implications. Lebanon's Shia militant groups are actively supporting the Syrian military's efforts, leading to reprisal attacks by Syrian rebel groups on their positions in Lebanon. In the northern city of Tripoli, Lebanon's second-largest city, clashes between Shia and Sunni factions have periodically occurred. Lebanon is home to a significant Alawite community, the main power base for Bashar al-Assad in Syria, while the inflow of predominantly Sunni refugees changes the sectarian arrangement.

Moreover, the Lebanese government strikes an increasingly delicate balance between support from GCC and European countries, which have called for a change in the regime in Syria and the coalition parties' traditional alliance with Syria. Similar to the Syrian crisis, the recent military intervention by Saudi Arabia in Yemen has caused tensions between Lebanon's Sunni and Shia factions. Saudi Arabia has accused Iran of supporting Shia movements in Yemen, Iraq and Lebanon. In February 2016, tensions between Saudi Arabia and Iran

resulted in the withdrawal of funding for the Lebanese security forces. A further escalation in tensions between the two regional powers would have negative repercussions on Lebanese political stability along with its external position and economic growth.

The country's recent history is marked by an inability to designate and empower decision makers. Former Prime Minister Mikati's resignation in March 2013 effectively left the country without a government for almost one year, until a new cabinet formed under Prime Minister Tammam Salam in February 2014. Since May 2014, the country's parliament has not been able to designate a new president who traditionally facilitates cross-party negotiations. In the absence of a president, all legislation requires unanimous cabinet approval to pass, which gives each of the main rival factions a veto over cabinet decisions and hinders the decision-making process. Although there has been growing momentum and signs of a potential agreement between the parties to elect a president, who is allied to the pro-Syrian March 8th bloc, sectarian political dynamics and deadlock over the electoral law continue to be obstacles to a political resolution.

Political risks are partly offset by a strong consensus among factions to prevent violent spillovers from Syria. The Lebanese military, perceived as relatively neutral, has been reinforced in the past year and deployed to protect the border with Syria. The US, UK and France have also pledged additional military support and aid for refugees to partially offset waning military aid from Saudi Arabia.

The country's growth rate and deposit dollarization have tended to react rapidly to political events. Real growth plummeted while dollarization soared in 2005 in the aftermath of Rafic 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. It has been stable since 2013.

Government Liquidity Risk: Moderate

Liquidity risks are expected to increase but are limited by a favourable debt structure

Although still sufficient to maintain fiscal and external buffers, capital inflows have been slowing. At the same time, the rising fiscal deficit exerts increasing pressure on the domestic banking system. While banking liquidity is still ample, it could deteriorate in the next few years and impact the government's ability to finance its deficits.

A series of liability management operations have recently improved the structure of government debt. Based on its Medium Term Debt Strategy, the Ministry of Finance continues to lengthen the average maturity of debt in order to reduce refinancing risks and vulnerability to interest rate shocks. In April, the Ministry of Finance issued a \$1 billion Eurobond to replace maturing Eurobonds in April and May. Most of the issuance (almost 90%) was purchased by the local banking system, a breakdown similar to the overall stock of government debt. This followed two other issuances in November and February 2015 of \$1.6 billion and \$2.2 billion, respectively. The average maturity of traded Eurobonds remains long relative to that of other Middle Eastern oil-importing countries, at 6.09 years as of the end of December 2015, up from 5.35 years at the end of 2014.

At the same time, the portion of foreign-denominated government debt decreased to 42% at the end of 2015 from 55% in 2007. Meanwhile, the dollarization of deposits remains stable, at 65%. According to the Ministry of Finance, \$2.6 billion in foreign-currency debt principal falls due in 2016 and \$3.0 billion will become due in 2017. The central bank's foreign exchange reserves easily cover these sums, given that these reserves totaled \$38.3 billion as of March. The central bank also has additional gold reserves worth \$11.4 billion.

Banking Sector Risk: Moderate (+)

Lebanon's dependence on deposit growth is a key vulnerability

Event risks stem primarily from the large banking system. Lebanon's commercial bank assets are 3.6 times 2015 GDP, with deposits accounting for 82% of the balance sheet and claims on the public sector accounting for around 20% of assets as of December 2015. Moody's outlook on the banking system is negative, similar to the sovereign. High and growing exposure to government securities leaves the banks' modest capital buffers susceptible to sovereign event risk, with sovereign exposure estimated at five times Tier 1 capital. Subdued economic growth has created asset-quality pressures, while high provisioning needs and limited new business generation could dampen profitability.

In order to be profitable, Lebanese banks must offer competitive interest rates to non-resident depositors, which they achieve 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 drawdowns on deposits, or if weaker asset quality impaired the banks' ability to absorb additional public debt.

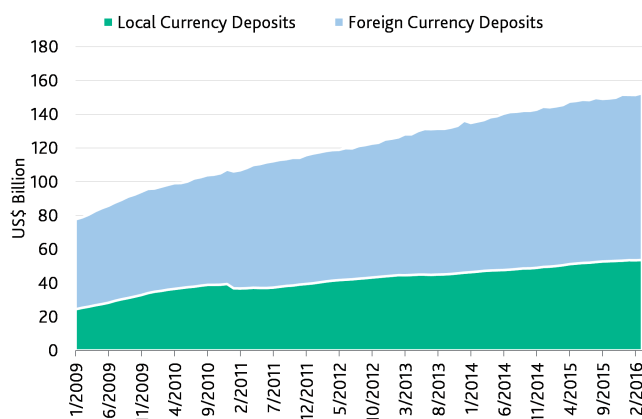
The financial sector has retained a steady increase in deposits and strong liquidity. Deposit growth has proven remarkably resilient to political shocks, but the importance of non-resident deposits (21% of total deposits) indicates that deposit flows could reverse rapidly. The share of foreign-currency private-sector deposits, a good indicator of risk aversion in the economy, has stabilized at around 65%. The banking system retains strong liquidity, with the regulator maintaining high reserve requirements (set at 25% for local-currency sight deposits and 15% for all other deposits).

Liquidity remains ample and central bank reserves provide another buffer to absorb deposit outflows. The ratio of loan to deposits remains relatively low compared with those of regional peers, at 36% as of 2015. Private-sector credit growth slowed to 6.5% in 2015 from 7.4% in 2014, and is significantly below the 24% average annual credit growth during 2007-10. The banks' capital adequacy ratio is close to 12%, but the regulatory zero risk-weighting applied to local-currency-denominated government securities understates risk-weighted assets. Nonetheless, credit quality is gradually deteriorating. 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 9% of their loan books and continue to represent a material source of credit risk.

Exhibit 17

Bank deposits continue to increase...

Deposits in commercial banks

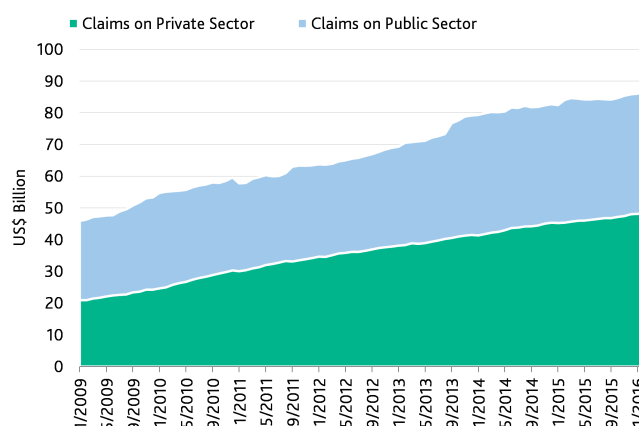


Source: Banque du Liban, Haver Analytics

Exhibit 18

...Financing domestic credit growth

Claims of commercial banks



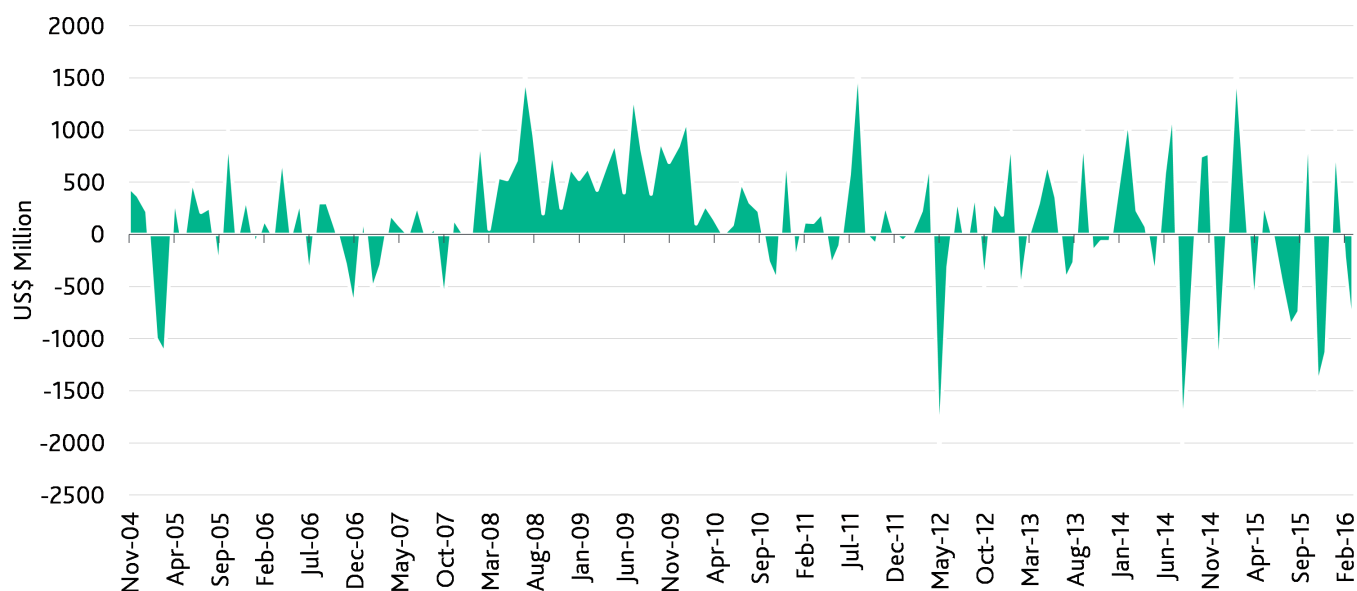
Source: Banque du Liban, Haver Analytics

External Vulnerability Risk: Moderate (+)**Abundant foreign-exchange reserves limit economic and balance-of-payment risks**

Lebanon maintains a currency peg to the US dollar, backed by considerable foreign-exchange reserves. Including gold reserves, reserves were close to \$50 billion, or 94% of GDP. Substantial financial inflows – in particular deposit inflows which continue to supply foreign exchange deposits of commercial banks held with Banque du Liban – more than offset the current account deficit and continue to bolster foreign-exchange reserves. Despite large remittances and exports of services, the current account deficit is very large – the second largest in our rating universe after St Vincent & the Grenadines (B3 stable). It reached 25% of GDP in 2015, with the benefits of lower oil prices balanced by depressed exports. Large debt-creating flows mean that the country's net international investor position is likely to be highly negative, although no data is currently available. Lebanon's External Vulnerability Indicator (which compares the sum of short-term and currently maturing long-term external debt to available foreign exchange reserves) is moderate at 103%. However, if we add non-resident deposits to the nominator, the External Vulnerability Indicator reaches 202%.

Confidence in the Lebanese pound has remained strong because conservative bank regulation has enabled BDL to accumulate a large cushion of foreign exchange reserves, which acts as a beacon for non-resident deposits. However, deposit dollarization remains high and the interest rate gap between deposits in Lebanese pounds and in USD is wide and stable. Similar to deposits, reserves have proved volatile in response to political shocks (see Exhibit 13). The IMF notes that the exchange rate is “moderately overvalued”; however, the peg's stability is a necessary condition for the government to service and refinance its large foreigncurrency-denominated debt.

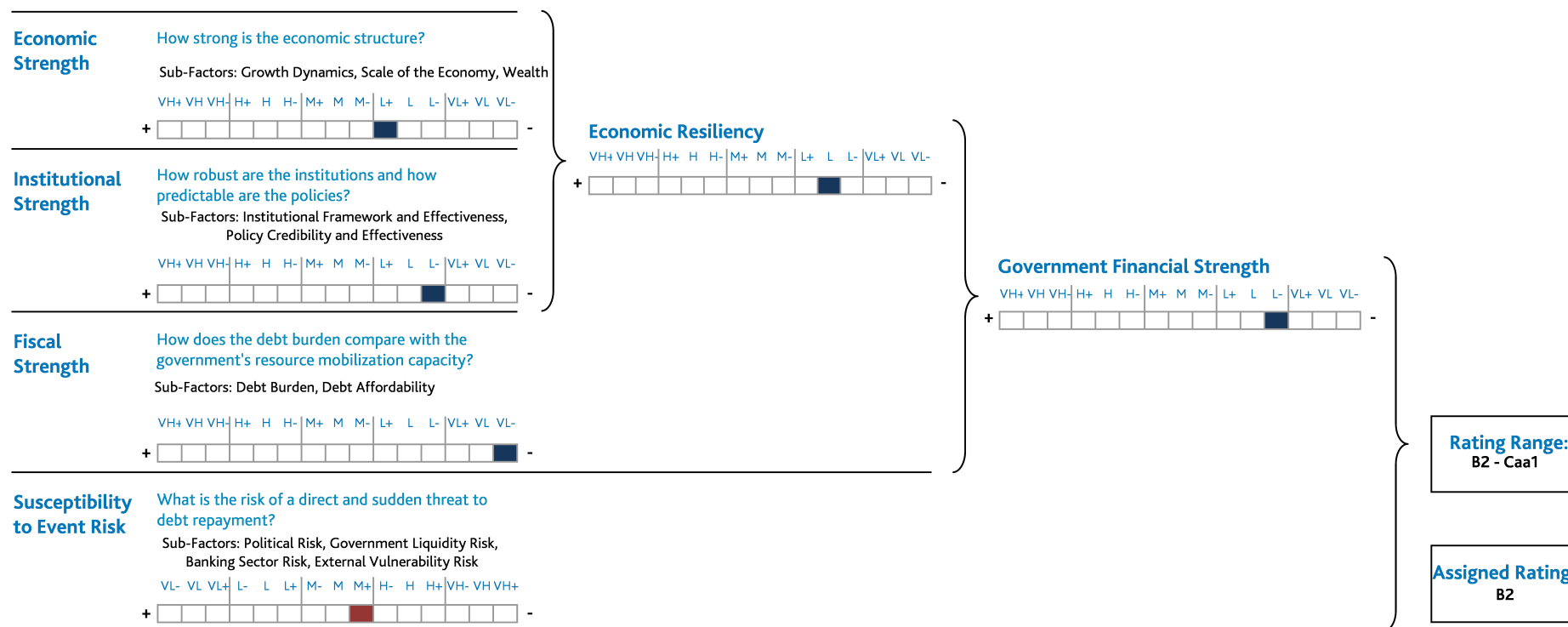
Exhibit 19

Monthly change in foreign exchange reserves

Source: Banque du Liban

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information, please refer to our Sovereign Bond Rating Methodology.

Sovereign Rating Metrics: Lebanon



Source: Moody's Investor Services

Comparatives

This section compares credit relevant information regarding Lebanon with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Despite stronger per capita income and growth prospects, Lebanon's economic fundamentals are close to those of Serbia and Bosnia. Based on the Worldwide Governance indicators, Lebanon's institutional quality is in line with those of Bosnia and Cote d'Ivoire. Its high debt burden and weak debt affordability ratio make it similar to Barbados, although it shares an element of political risk with Middle Eastern and Balkan peers.

Exhibit 21

Lebanon Key Peers

	Year	Lebanon	Honduras	Serbia	Barbados	Bosnia and Herzegovina	Cote d'Ivoire	B2 Median	Middle East & North Africa Median
Rating/Outlook		B2/NEG	B3/POS	B1/POS	Caa1/STA	B3/STA	Ba3/STA	B2	A3
Rating Range		B2 - Caa1	B1 - B3	Ba2 - B1	B3 - Caa2	B3 - Caa2	Ba2 - B1	B2 - Caa1	A2 - Baa1
Factor 1		L+	L+	L	L-	L-	L	L	H-
Nominal GDP (US\$ Bn)	2014	49.9	19.5	44.2	4.4	18.5	34.3	13.5	136.8
GDP per Capita (PPP, US\$)	2014	18,052	4,746	13,436	16,371	10,084	3,101	4,790	42,230
Avg. Real GDP (% change)	2010-2019	2.6	3.5	1.4	0.9	2.1	6.8	5.0	3.5
Volatility in Real GDP growth (ppts)	2005-2014	3.8	2.6	3.3	2.7	3.1	4.5	3.5	3.5
Global Competitiveness Index, percentile [1]	2015	15.9	25.6	20.3	--	8.8	23.0	15.2	69.0
Factor 2		L-	VL+	M-	M+	L-	L-	VL	H-
Government Effectiveness, percentile [1]	2014	24.0	6.2	44.9	79.8	18.6	6.9	11.6	51.5
Rule of Law, percentile [1]	2014	13.1	6.2	39.5	77.5	37.9	17.8	9.3	59.7
Control of Corruption, percentile [1]	2014	6.2	16.2	44.9	75.9	41.0	32.5	6.2	57.7
Avg. Inflation (% change)	2010-2019	3.1	5.2	5.2	3.2	1.6	2.3	5.3	2.5
Volatility in Inflation (ppts)	2005-2014	3.2	2.1	3.6	2.5	2.7	1.8	4.5	3.2
Factor 3		VL-	L	L-	VL-	M+	M	M-	H-
Gen. Gov. Debt/GDP	2014	123.1	45.0	69.6	99.7	44.0	38.1	33.9	40.2
Gen. Gov. Debt/Revenues	2014	565.0	240.0	167.8	346.5	98.0	185.5	147.5	154.7
Gen. Gov. Interest Payments/Revenue	2014	38.5	13.3	7.1	26.4	1.9	6.7	3.8	4.1
Gen. Gov. Interest Payments/GDP	2014	8.4	2.5	2.9	7.6	0.9	1.4	0.9	0.8
Gen. Gov. Financial Balance/GDP	2014	-6.0	-4.4	-6.6	-6.9	-2.9	-2.3	-3.7	-2.4
Factor 4		M+	M	M-	H	H+	M-	M	M
Current Account Balance/GDP	2014	-24.4	-7.4	-6.0	-8.8	-7.5	-0.6	-9.9	3.7
Gen. Gov. External Debt/Gen. Gov. Debt	2014	15.6	63.3	60.7	55.1	68.4	51.2	74.8	27.7
External Vulnerability Indicator	2016F	113.9	47.4	33.5	48.1	61.1	4.0	53.7	91.0
Net International Investment Position/GDP	2014	--	-65.5	-90.8	-45.9	-52.7	5.4	-97.7	21.2

Notes: [1] Moody's Calculations. Percentiles based on our rated universe.

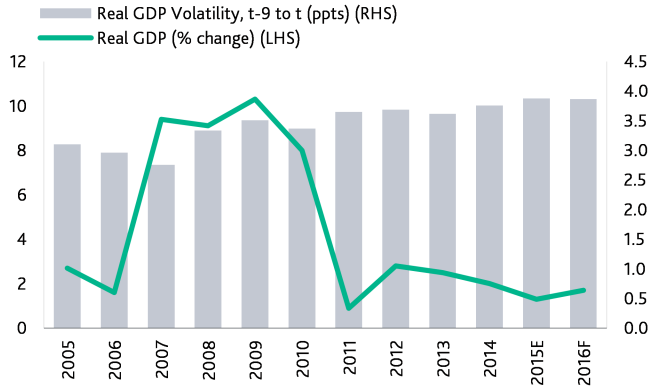
Source: Moody's, National Authorities, IMF WEO, Worldwide Governance Indicators

Chart Pack

Lebanon

Exhibit 22

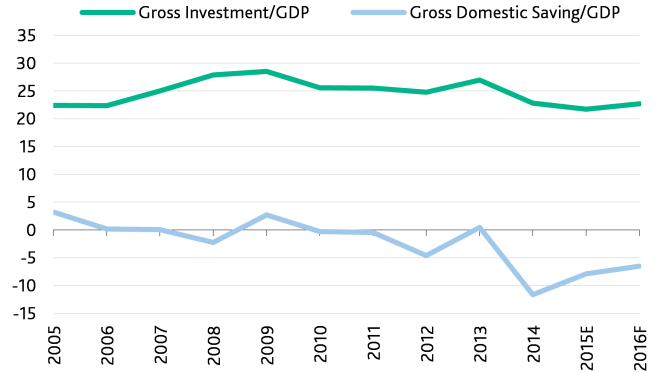
Economic Growth



Source: Moody's, IMF

Exhibit 23

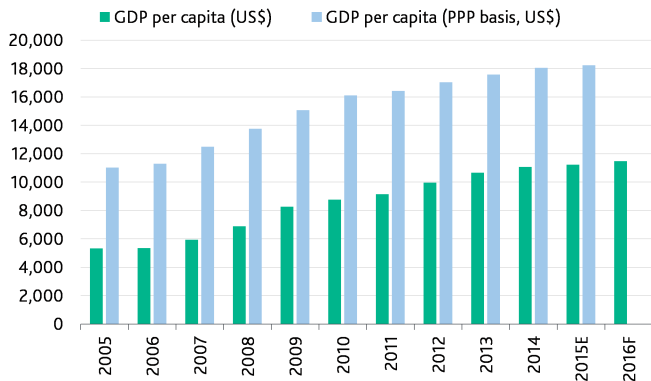
Investment and Saving



Source: Moody's, IMF

Exhibit 24

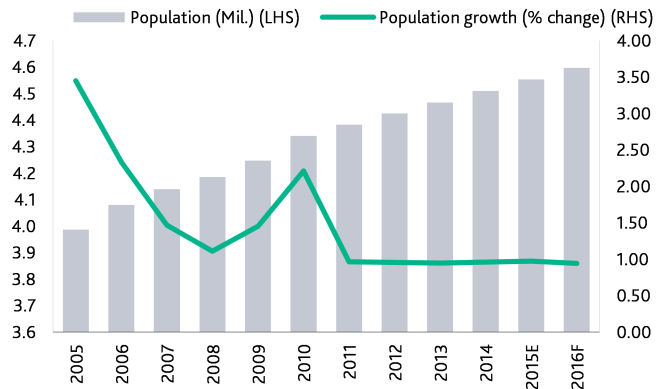
National Income



Source: Moody's, IMF

Exhibit 25

Population

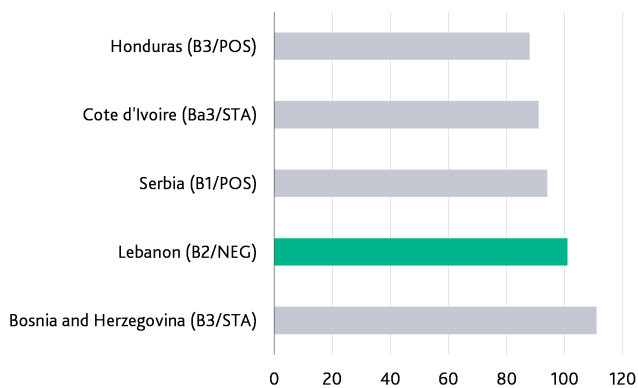


Source: Moody's, IMF

Exhibit 26

Global Competitiveness Index

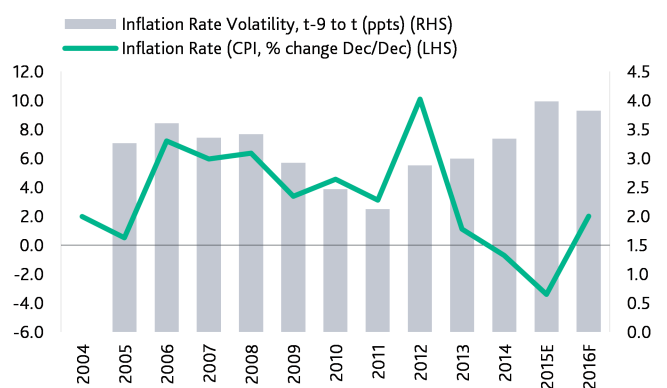
Rank 101 out of 144 countries



Source: World Economic Forum

Exhibit 27

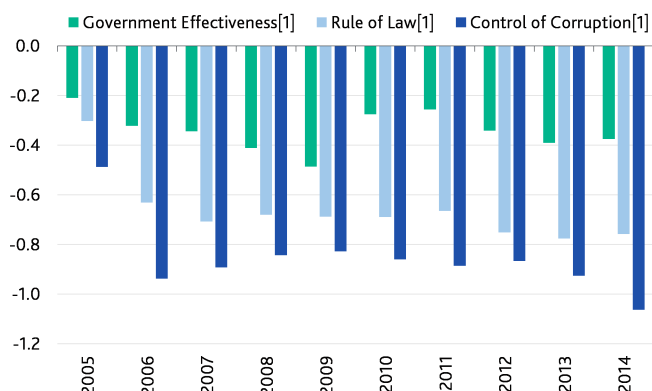
Inflation and Inflation Volatility



Source: Moody's, IMF

Exhibit 28

Institutional Framework and Effectiveness

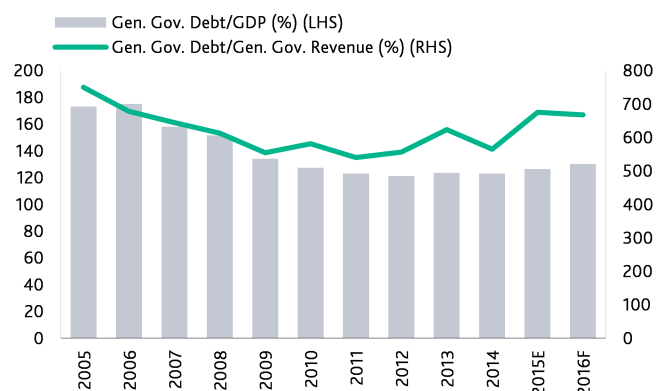


[1] Composite index with values from about -2.50 to 2.50: Higher values correspond to better governance

Source: Worldwide Governance Indicators

Exhibit 29

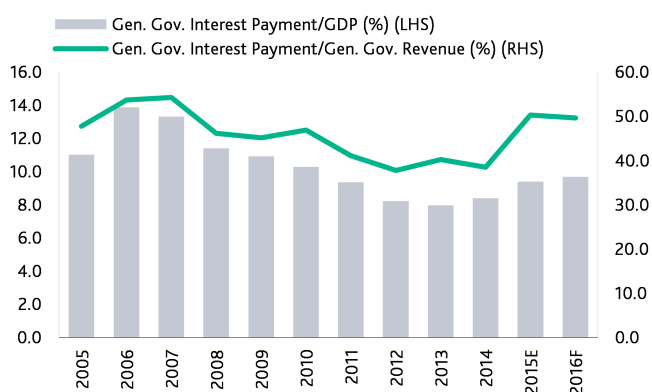
Debt Burden



Source: Moody's, National authorities

Exhibit 30

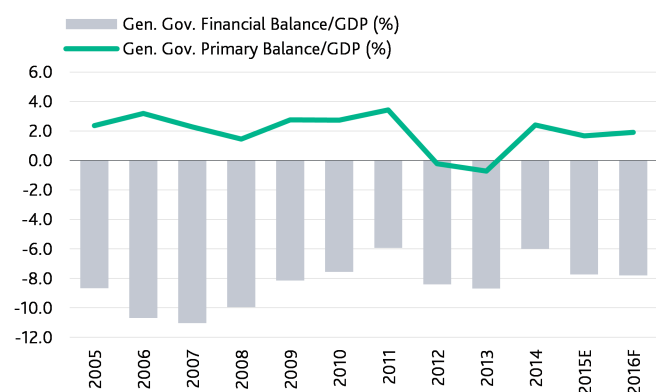
Debt Affordability



Source: Moody's, National authorities

Exhibit 31

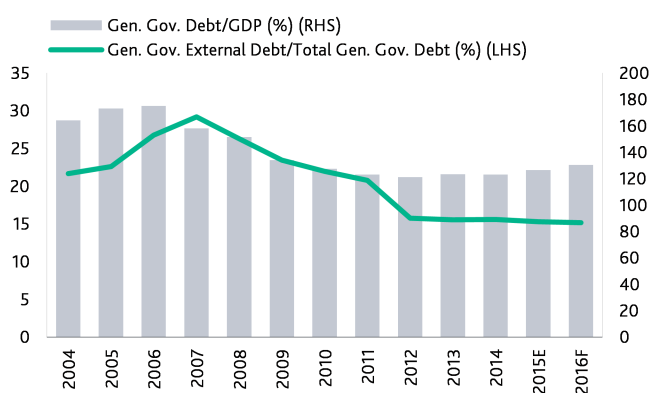
Financial Balance



Source: Moody's, National authorities, IMF

Exhibit 32

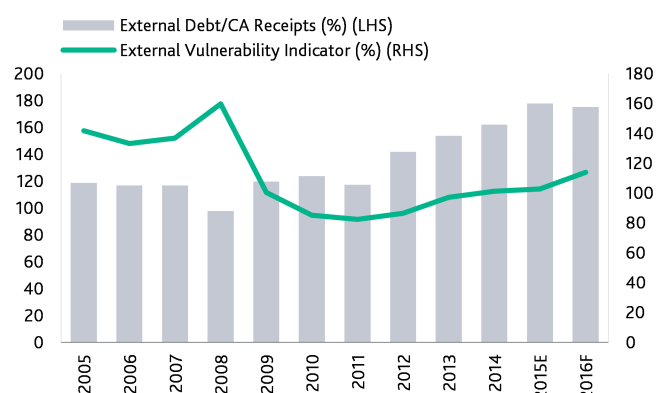
Government Liquidity Risk



Source: Moody's, National authorities

Exhibit 33

External Vulnerability Risk



Source: Moody's, National authorities

Rating History

Exhibit 34

Lebanon

Lebanon

	Government Bonds			Foreign Currency Ceilings				Date
	Foreign Currency	Local Currency	Outlook	Bonds & Notes		Bank Deposit		
				Long-term	Short-term	Long-term	Short-term	
Rating Affirmed	B2	B2	Negative	--	--	--	--	Jun-16
Rating Lowered	B2	B2	Negative	--	--	B2	--	Dec-14
Outlook Changed	--	--	Negative	--	--	--	--	May-13
Rating Raised	B1	B1	Stable	Ba3	--	B1	--	Apr-10
Outlook Changed	--	--	Positive	--	--	--	--	Dec-09
Rating Raised	B2	B2	Stable	B1	--	B2	--	Apr-09
Outlook Changed	--	--	Positive	--	--	--	--	Dec-08
Outlook Changed	--	--	Stable	--	--	--	--	Mar-08
Outlook Changed	--	--	Negative	--	--	--	--	Aug-06
Rating Raised	--	--	--	B2	--	--	--	May-06
Rating Lowered	B3	--	Stable	B3	--	B3	--	Mar-05
Rating Lowered	B2	B3	Negative	B2	--	--	--	Jul-01
Review for Downgrade	--	B1	RUR-	--	--	--	--	Sep-01
Outlook Changed	--	--	Negative	--	--	--	--	Sep-01
Rating Assigned	--	B1	--	--	--	--	--	Aug-99
Rating Assigned	--	--	--	--	--	B2	NP	May-97
Outlook Assigned	--	--	Stable	--	--	--	--	Mar-97
Rating Assigned	B1	--	--	B1	NP	--	--	Feb-97

Source: Moody's Investor Services

Annual Statistics

Exhibit 35

Lebanon

	2008	2009	2010	2011	2012	2013	2014	2015E	2016F	2017F
Economic Structure and Performance										
Nominal GDP (US\$ Bil.)	28.8	35.1	38.0	40.1	44.1	47.6	49.9	51.2	52.8	54.1
Population (Mil.)	4.2	4.2	4.3	4.4	4.4	4.5	4.5	4.6	4.6	4.6
GDP per capita (US\$)	6,888	8,274	8,756	9,143	9,966	10,656	11,074	11,236	11,485	11,646
GDP per capita (PPP basis, US\$)	13,748	15,061	16,107	16,430	17,037	17,579	18,052	--	--	--
Nominal GDP (% change, local currency)	17.3	21.9	8.2	5.4	10.0	7.9	4.9	2.5	3.2	2.4
Real GDP (% change)	9.1	10.3	8.0	0.9	2.8	2.5	2.0	1.3	1.3	2.0
Inflation (CPI, % change Dec/Dec)	6.4	3.4	4.6	3.1	10.1	1.1	-0.7	-3.4	2.0	2.0
Gross Investment/GDP	27.9	28.5	25.6	25.5	24.8	27.0	22.8	21.7	22.7	26.0
Gross Domestic Saving/GDP	-2.2	2.7	-0.3	-0.5	-4.6	0.5	-11.6	-7.9	-6.5	-2.8
Nominal Exports of G & S (% change, US\$ basis)	21.7	0.2	12.5	8.8	5.1	-12.2	-15.8	-10.9	3.2	2.4
Nominal Imports of G & S (% change, US\$ basis)	36.6	0.7	10.6	12.2	5.6	-0.2	-3.5	-11.8	2.2	1.4
Openness of the Economy[1]	68.1	56.2	57.6	61.0	58.4	52.9	47.7	41.1	40.7	40.4
Government Effectiveness[2]	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.4	--	--	--
Government Finance										
Gen. Gov. Revenue/GDP[3]	24.7	24.2	21.9	22.8	21.8	19.8	21.8	18.7	19.5	19.5
Gen. Gov. Expenditures/GDP[3]	34.7	32.3	29.5	28.7	30.2	28.5	27.8	26.4	27.3	27.9
Gen. Gov. Financial Balance/GDP[3]	-10.0	-8.2	-7.6	-5.9	-8.4	-8.7	-6.0	-7.7	-7.8	-8.3
Gen. Gov. Primary Balance/GDP[3]	1.5	2.8	2.7	3.4	-0.2	-0.7	2.4	1.0	1.2	1.0
Gen. Gov. Debt (US\$ Bil.)[4]	43.7	47.1	48.4	49.3	53.4	58.8	61.5	64.7	68.8	73.3
Gen. Gov. Debt/GDP[4]	151.6	134.1	127.5	123.1	121.1	123.5	123.1	126.4	130.3	135.6
Gen. Gov. Debt/Gen. Gov. Revenue[4]	613.3	554.9	581.1	540.0	556.5	623.9	565.0	675.7	667.4	694.4
Gen. Gov. Int. Pymt/Gen. Gov. Revenue[3]	46.2	45.2	46.9	41.1	37.7	40.2	38.5	46.6	46.0	47.9
Gen. Gov. FC & FC-indexed Debt/GG Debt	48.5	45.2	42.5	42.4	45.7	44.5	41.7	41.8	41.5	41.2
External Payments and Debt										
Nominal Exchange Rate (local currency per US\$, Dec)	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5	1507.5
Real Eff. Exchange Rate (% change)	--	--	--	--	--	--	--	--	--	--
Current Account Balance (US\$ Bil.)	-4.1	-6.7	-7.6	-4.9	-10.0	-11.7	-12.2	-12.8	-13.2	-12.4
Current Account Balance/GDP	-14.2	-19.2	-19.9	-12.1	-22.8	-24.6	-24.4	-25.0	-24.9	-22.9
External Debt (US\$ Bil.)	30.2	35.6	37.3	40.5	41.8	46.4	48.1	50.3	53.3	56.9
Public External Debt/Total External Debt	38.1	31.0	28.6	25.3	20.1	19.7	19.9	19.7	18.8	17.8
Short-term External Debt/Total External Debt	46.7	52.3	54.2	57.4	61.4	61.8	61.8	62.0	61.5	60.5
External Debt/GDP	104.7	101.3	98.0	101.2	94.8	97.5	96.3	98.4	101.0	105.2
External Debt/CA Receipts[5]	97.8	119.5	123.7	117.4	141.8	153.8	162.1	177.8	175.2	209.9
Interest Paid on External Debt (US\$ Bil.)	1.2	1.0	1.0	1.1	1.1	1.2	1.3	1.6	1.8	1.9
Amortization Paid on External Debt (US\$ Bil.)	2.8	3.0	3.2	3.3	3.3	3.4	3.5	3.6	3.7	3.9
Net Foreign Direct Investment/GDP	11.6	10.5	10.0	6.8	4.9	1.9	2.4	5.9	6.3	6.8
Net International Investment Position/GDP	--	--	--	--	--	--	--	--	--	--
Official Forex Reserves (US\$ Bil.)	17.1	25.7	28.6	30.8	30.0	31.7	32.4	30.6	31.6	32.8
Net Foreign Assets of Domestic Banks (US\$ Bil.)	3.3	2.5	2.7	-1.6	-3.8	-6.9	-12.3	--	--	--
Monetary, External Vulnerability and Liquidity Indicators										
M2 (% change Dec/Dec)	14.8	19.5	12.3	5.5	7.0	6.9	5.9	--	--	--
Monetary Policy Rate (% per annum, Dec 31)	8.4	6.4	5.4	5.4	5.9	5.9	5.9	--	--	--
Domestic Credit (% change Dec/Dec)	11.2	12.6	12.5	8.6	8.8	9.8	7.1	--	--	--
Domestic Credit/GDP	175.5	162.1	168.7	173.8	171.8	174.8	178.5	--	--	--
M2/Official Forex Reserves (X)	4.0	3.2	3.2	3.2	3.5	3.5	3.6	--	--	--
Total External Debt/Official Forex Reserves	177.0	138.7	130.3	131.6	139.5	146.3	148.4	164.3	169.0	173.3
Debt Service Ratio[6]	12.9	13.5	14.0	12.8	15.2	15.3	16.1	18.3	18.0	21.6
External Vulnerability Indicator[7]	159.7	100.3	85.1	82.3	86.4	97.1	101.3	102.8	113.9	116.3
Liquidity Ratio[8]	9.3	7.4	8.2	8.1	9.6	10.6	9.8	--	--	--
Total Liabilities due BIS Banks/Total Assets Held in BIS Banks	18.5	21.1	17.3	19.8	22.7	18.8	22.1	--	--	--
"Dollarization" Ratio[9]	65.3	59.5	58.3	61.1	59.6	60.1	59.8	--	--	--
"Dollarization" Vulnerability Indicator[10]	121.2	97.1	96.8	103.2	108.0	112.0	125.0	--	--	--

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

[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

[3] Central government

[4] Excludes Debt Held By Public Entities

[5] Current Account Receipts

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

[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/ Official Foreign Exchange Reserves

[8] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks

[9] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System

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

Source: National Sources, Moody's Investor Services

Moody's Related Research

- » **Credit Opinion:** [Government of Lebanon](#), 05 January 2016
- » **Rating Action:** [Moody's affirms Lebanon's B2 government credit rating, maintains negative outlook](#), 2 June 2016
- » **Issuer Comment:** [Escalation of tensions with GCC could impact external position](#), 03 March 2016
- » **Country Statistics:** [Lebanon, Government of](#), 27 May 2016
- » **Outlook:** [Sovereigns – Levant & North Africa: Regional conflicts and persistent social challenges limit benefits of low oil prices](#), 22 March 2016
- » **Outlook:** [Sovereigns - Global: Stable Outlook Despite Low Growth, Jittery Markets and Uneven Reforms](#), 4 November 2015
- » **Rating Methodology:** [Sovereign Bond Ratings](#), 18 December 2015

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.

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Related Websites and Information Sources

- » Banque du Liban: www.bdl.gov.lb
- » Ministry of Finance: www.finance.gov.lb
- » Central Administration of Statistics: www.cas.gov.lb

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Endnotes

- [1](#) A composite indicator aggregating eight economic variables: M3, trade flows, passenger arrivals, cement deliveries, cleared checks, electricity production and petroleum deliveries.
- [2](#) [Migration and Remittances Data, World Bank, April 2016](#)
- [3](#) [How the Oil Price Decline Might Affect Remittances from GCC, IMF, December 2015.](#)

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REPORT NUMBER 1028108

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