Lebanon

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	B
Short-Term IDR	B

Local Currency

Long-Term IDR	B
Country Ceiling	B

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Lebanon

USDm	2012
GDP (USDbn)	41.83
GDP per head (USD 000)	9.6
Population (m)	4.3
International reserves	45.3
Net external debt (% GDP)	86.7
Central government total debt (% GDP)	139.5
CG foreign-currency debt (USDbn)	24.4
CG domestically issued debt (LBPtrn)	50.2

Related Research

Global Economic Outlook (June 2013)

Macro Prudential Risk Monitor (January 2013)

2013 Outlook: Middle East Sovereign Review (December 2012)

Analysts

Amelie Roux
+33 1 44 29 92 82
amelie.roux@fitchratings.com

Richard Fox
+44 20 3530 1444
richard.fox@fitchratings.com

Key Rating Drivers

Third Most Indebted Sovereign: At 139.5% of GDP at end-2012, Lebanon's public debt burden is the third-highest of sovereigns covered by Fitch Ratings after Japan and Greece. Debt sustainability is higher than peers thanks to a large and stable domestic banking system that intermediates its large deposit base into government financing; however, this public debt leaves limited fiscal space for capital investment or to absorb shocks while the country is heavily exposed to political and geopolitical risks.

Supportive Banking System: Banks, whose assets accounted for 3.6x GDP at end-2012, intermediate their deposit base, fuelled by the large Lebanese diaspora, into government financing. They held 54% of government debt, in Lebanese pounds (LBP) and US dollars, at end-2012, representing 21% of their balance sheets. The willingness and ability of banks to subscribe to government paper, and therefore the growth in deposits by the wealthy Lebanese diaspora, is the cornerstone of public-debt sustainability and a major rating driver.

Resilient Deposit Growth: Total deposits' growth remains resilient, rising by 8% in 2011 and 2012, despite strongly decelerating real GDP growth (2012 estimate: 1.5%). Although decelerating, this deposit growth, together with the stable dollarisation rate (64.8% at end-2012) shows the continued attractiveness of domestic deposit interest rates and the steady confidence of the diaspora in the domestic banking system.

Heightened Syria Spillover Risks: The disruption in Lebanon from Syria's civil war significantly increased in the last few months, with more than 500,000 refugees arriving in the country, sectarian tensions rising and military clashes becoming regular in some parts of the country. The conflict also indirectly caused the government's fall in March 2013 and the postponement of the elections until end-2014. Lebanon's fragile political equilibrium has persisted so far, but the risk of destabilisation has greatly intensified.

Mitigating Structural Strengths: High per capita income and a liberal business environment support the country's creditworthiness. The country has an unblemished track record of debt repayment. The credibility of the peg to the US dollar, supported by large foreign-currency reserves (USD45.3bn at end-2012, including gold), is crucial given the high dollarisation.

Rating Sensitivities

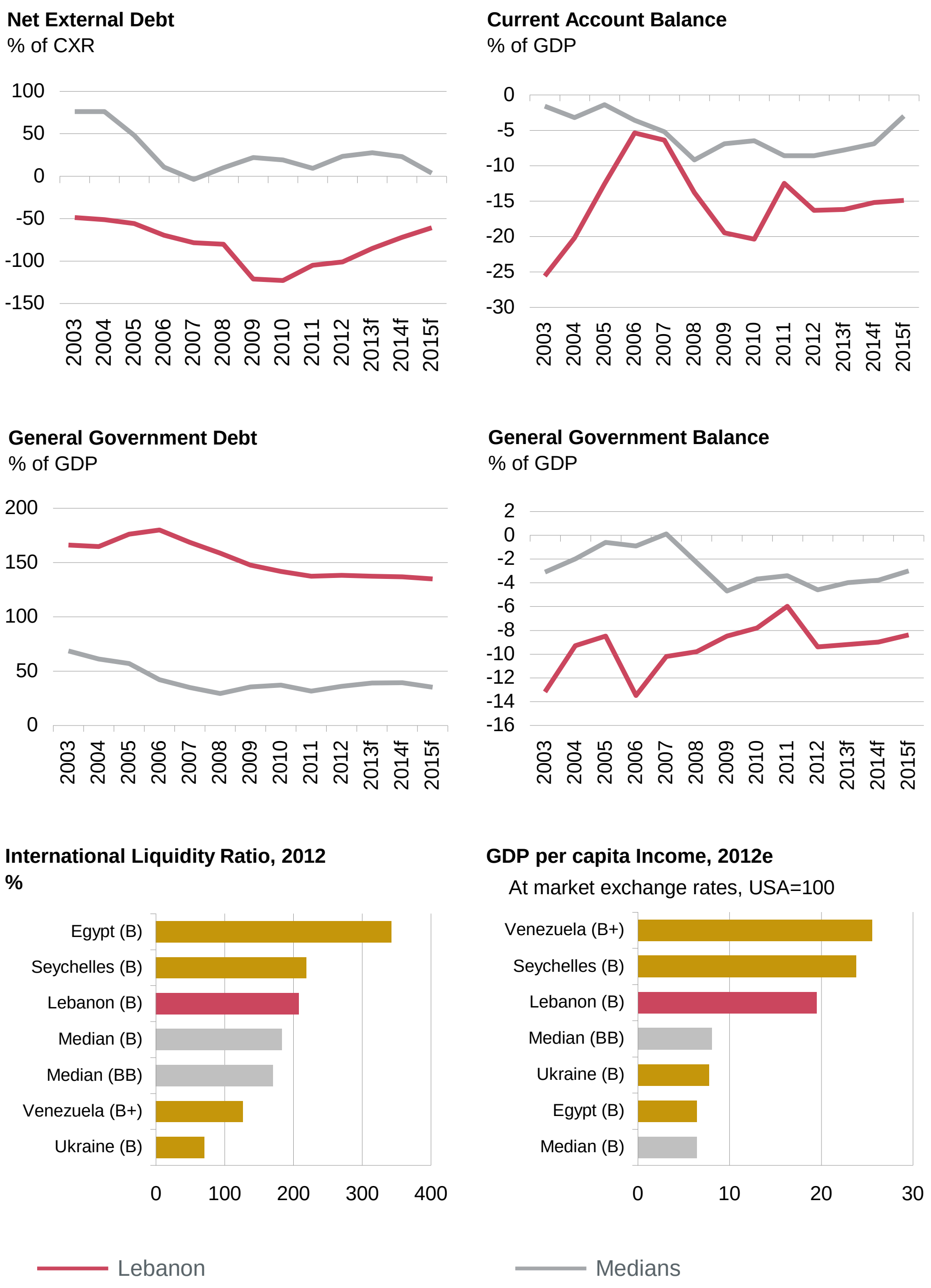
Political Risk: The materialisation of political and geopolitical risk into large-scale violence in the country would be ratings-negative.

Declining Deposits: A prolonged decline in the deposit base and/or a significant rise in the dollarisation rate of deposits would be detrimental to the ratings.

Public Debt Reduction: A sustained reduction in gross general government debt, related to stronger primary and overall budget balances, would improve the rating, while a sustained increase would exert downward pressure on the rating.

Public-Sector Reform: Structural reforms (action to cut transfers to the loss-making utility EDL) and tax increases would be credit positive; as would efforts to address the large infrastructure bottlenecks that currently hinder growth prospects.

Peer Comparison



Related Criteria

Sovereign Rating Criteria (August 2012)

Peer Group

Rating	Country
B+	Cape Verde
	Ghana
	Kenya
	Mongolia
	Venezuela
	Vietnam
	Zambia
B	**Lebanon**
	Cameroon
	Dominican Republic
	Egypt
	Mozambique
	Rwanda
	Seychelles
	Uganda
	Ukraine
B−	Cyprus
	Ecuador
	Greece (Hellenic Republic)

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
Feb 1997	BB	BBB-
June 1998	BB−	BB+
June 1999	BB−	BB
Feb 2001	B+	B+
Sept 2001	B−	B−
Mar 2010	B	B

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Neutral	Weakness	Neutral	Weakness
Trend	Stable	Stable	Stable	Negative

Note: Relative to 'B' category/sovereigns rated 'B+', 'B' and 'B−'.
Source: Fitch

Strengths

- Development indicators, such as income per head and Human Development, are more in line with 'BBB' rated peers because of a skilled workforce and the commitment to free-market policies.
- The size, depth and sophistication of the domestic banking sector and capital markets enable better debt sustainability than peers.
- Lebanon has an unblemished debt-service track record, which is a rating strength compared with most other sovereigns rated 'B'.
- The public sector is a net external creditor, thanks to its substantial stock of foreign-exchange reserves and to substantial domestic bank holdings of public debt.

Weaknesses

- Political and geopolitical risks are higher than for peers; the World Bank's political stability indicator is among the lowest in the world. Given strong economic and political ties between Syria and Lebanon, disruption from the civil conflict in Syria raise tensions between the different religious factions and within the government.
- Lebanon is the third most indebted among sovereigns rated by Fitch (after Japan and Greece). Public debt accounted for 139.5% of GDP and 613.9% of fiscal revenues at end-2012. This renders Lebanon particularly vulnerable to growth and interest rate shocks. High geopolitical risks argue for lower public-debt ratios than peers to provide flexibility.
- The government's annual gross financing needs are considerably higher than peers due to high budget deficits and the low (though rising) maturity profile of debt denominated in Lebanese pounds. This renders the government dependent on domestic banks' willingness and ability to rollover debt and finance new borrowing, and the continuous flow of deposits (mostly from the large diaspora) into the domestic banking system.
- Apart from a spurt in 2007-2010, long-term growth has been weaker and more volatile than peers, reflecting the frequent interruptions from political instability. Future benefits from offshore oil drilling are not factored into the rating given they are uncertain and the long time-lag until production is expected to start.
- Interest service, although falling, consumed 38.5% of government revenue in 2012, due to the high levels of debt and the high (albeit falling) cost of funds in Lebanese pounds.
- The rate of dollarisation fell over the last decade to around 65%, reflecting the caution of the population and diaspora despite the longstanding peg to the US dollar. This obliges the government to fund a large proportion of its financing needs in US dollars.

Local Currency Rating

The Local-Currency IDR is the same as the Foreign-Currency IDR. With a peg to the US dollar, the central bank (BDL) may prioritise defending it over the solvency of the government in Lebanese pounds in a stress scenario.

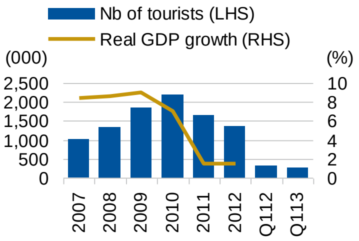
Country Ceiling

The Country Ceiling is the same as the Foreign-Currency IDR despite the lack of exchange controls. A sovereign debt default would affect the banks' ability to service FC liabilities.

Figure 1

Declining Tourism

2007-2012

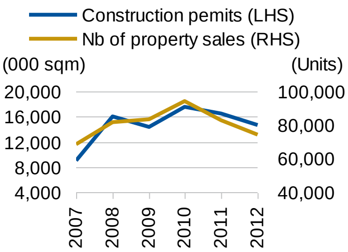


Source: Ministry of Tourism, Bank Audi, IMF

Figure 2

Cooling Down of Real Estate

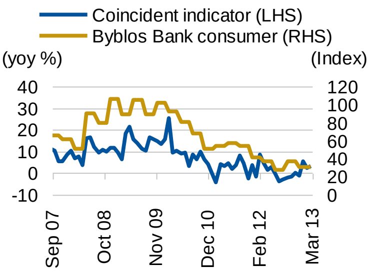
2007-2012



Source: BDL, Bank Audi

Figure 3

Dropping Confidence 2007-2013

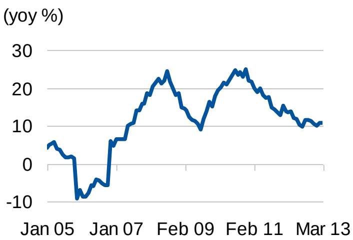


Source: BDL, Byblos Bank

Figure 4

Decelerating Private Credit Growth

2005-2013



Source: BDL

Outlook and Key Issues

Stalling Macroeconomic Performance

Poor Performance in 2012, Likely to Be Replicated in 2013

After a strong macroeconomic performance in 2007-2010 (8.3% average real GDP growth), the Lebanese economy significantly slowed from 2011. Real GDP growth is estimated to have declined to 1.5% both in 2011 and 2012. Tourism and real estate, two major growth engines, substantially decelerated in both years as a result of the upheavals from neighbouring Syria's civil conflict since the beginning of 2011 and of domestic political instability. Prospects for 2013 are weak, with real GDP growth not expected to exceed 1%, and risks are on the downside.

The estimated number of tourists has fallen by an additional 12.5% yoy in Q113 after 17.5% in 2012 and 23.7% in 2011. The drop is mostly related to some of the Gulf Cooperation Council (GCC) governments issuing an unprecedented travel warning for their citizens against Lebanon in 2012, and to the difficulty for GCC citizens of driving through Syria into Lebanon because of the civil war. Some GCC countries (Kuwait, UAE) renewed their travel warning in June 2013, which should accentuate the decline in tourists in the summer of 2013, usually the peak season.

The cooling down of real estate started mid-2010 after a housing boom in 2007-2010, during which it contributed one-fifth of GDP growth according to the IMF. Prices fell selectively in some sub-sectors of the market such as large apartments in Beirut (by an estimated 20%), but more importantly construction permits and sales dropped by 10.8% and 10.1% respectively in 2012. The collapse accelerated in Q113, with falls of respectively 21.8% and 18.9% in construction permits and sales. In Lebanon, it is generally volumes rather than prices, which adjust. The correction is related to overpricing compared with the rest of the region but also to foreigners hesitating to invest given the regional instability.

The Syrian conflict has a direct impact on overall consumer and investment sentiment. At end-2012, Byblos Bank's index of consumer confidence dropped to its lowest level since its creation in September 2007. The coincident indicator, a measure of aggregate economic activity compiled by BDL and strongly correlated to GDP, also points to declining activity throughout 2012. The significant deceleration in credit growth in 2011 and 2012 illustrates the fall in investment opportunities. Credit growth cooled to 10.7% in Q113, lower than levels observed in 2007-2010.

Growth in the coming years is likely to be driven by consumption, which will be fuelled by the large international transfers (including remittances) received from the large diaspora. This is mostly based in GCC countries, which structurally accounts for about 20% of GDP. Lebanon's diaspora is estimated at 12 million, against four million inhabitants in the country. The large inflows of Syrian refugees, which were estimated to exceed 500,000 by June 2013, could also fuel domestic consumption, but the risk of social destabilisation incurred by this inflow is most likely to exert pressure on overall confidence and investment.

Given the large infrastructure bottlenecks, and in the absence of structural reforms (eg, in the electricity sector, the labour market), the IMF estimates that growth potential does not exceed 4%. The Syrian conflict is likely to depress growth below this level as long as it lasts.

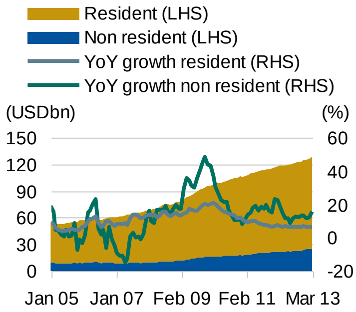
Medium-Term Prospects Potentially Improved by Oil and Gas Drilling

These prospects do not yet incorporate the potential benefits of future offshore oil and gas drilling. Significant gas reserves have been discovered in Lebanese territorial waters, whose total value could amount to an estimated USD120bn (3x GDP). The government voted a law in 2010, created and appointed the members of a Petroleum Administration Authority in 2012 and finished the prequalification stage for exploration recently. Production should not start before 2017 at the earliest but could provide significant benefits to the country in terms of growth and public debt reduction (a sovereign wealth fund may be created).

Figure 5

Continuous Deposit Growth

2005-2013

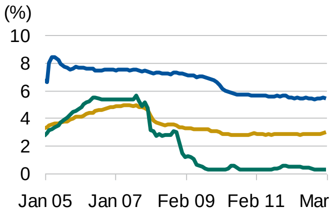


Source: BDL

Figure 6

Persistent Spreads on Rates

2005-2013

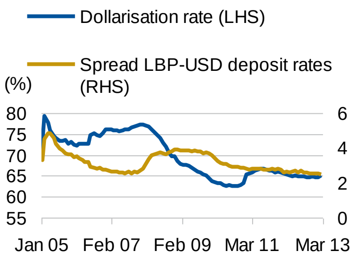


Source: BDL

Figure 7

Stabilising Deposit Dollarisation

2005-2013

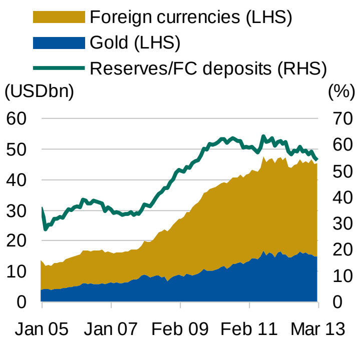


Source: BDL

Figure 8

Stabilising FX Reserves

2005-2013



Source: BDL

However, given the uncertainties about the exact potential of the fields, of the date of production, and of the use of the funds, these prospects are not factored into the rating.

Deposit Growth Continues More Slowly Given Syrian Risk

Growth in deposits is mostly from non-residents even though residents hold by far the largest proportion of deposits. This and the developments in dollarisation are two key indicators of the confidence of the diaspora in Lebanon, and of the ability of domestic banks to intermediate those deposits into government financing.

Slowing Deposit Growth

Deposit growth continues, but it has slowed down since 2011, with total deposits rising by around 8% in 2011 and 2012 (after 15% growth on average in 2007-2010). The deceleration mainly came from resident deposits, as non-resident deposits grew by 15% and 13.3% in 2011 and 2012 respectively. Figures at April 2013 suggest that deposit growth is slightly decelerating. Fitch estimates that a 7% rise in M3 (and therefore in deposits) in 2013 is necessary to keep the ratio of public debt/M3 stable.

Non-resident deposits are particularly sensitive to political developments. In January 2011, when the previous government collapsed, for instance, they dropped by 4.2% from December 2010, but then bounced back in the following months when a government was formed in June 2011. In previous episodes of major political tension, such as the assassination of former PM Rafik Hariri in 2005 and the war with Israel in 2006, deposits dropped temporarily, only to be more than recouped within six to nine months.

Another driver of deposit growth is the yield offered on deposits. BDL monitors the spread between US dollar deposit rates in Lebanese banks and the main US dollar rates (such as three-month Libor) to ensure the domestic banking sector remains attractive. This spread has slightly but regularly increased from 2.3pp in January 2012 to 2.7pp in March 2013. In the current uncertain geopolitical and political environment (conflict in Syria and fall of the government in March 2013), this attractive spread is the main driver of the current deposit growth.

Stable Dollarisation Rate of Deposits

After a prolonged period between 2005 and 2008 when deposit dollarisation levels were above 70%, they fell to the low 60s in 2010 and then stabilised (65.1% at April 2013). The decline was related to a combination of the high spread between the yield on US dollar deposits and on Lebanese pound deposits together with relative political and regional stability and increased confidence in the peg (thanks to the build-up of high FX reserves by the BDL).

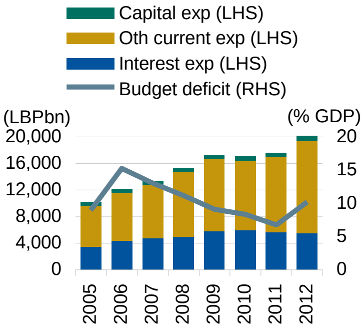
The dollarisation rate could increase in coming months; geopolitical risks are rising (see below) and FX reserves generation has slowed down. Based on IMF's and Fitch's estimates, the current account deficit widened in 2012 because of high energy prices while FDI fell; foreign-currency reserves declined slightly in 2012 for the first time since 2007; at end-2012, overall international reserves only increased because of the rise in international gold prices.

Foreign-currency reserves have slightly increased since the start of 2013, but Fitch expects international gold prices to decline during the year; international reserves could therefore decline in 2013. With rising political and geopolitical tensions, this could put pressure on the dollarisation rate and on the peg. Fitch believes however that the BDL can deal with a moderate increase in dollarisation. It regularly resorts to issuances of certificates of deposit, both in Lebanese pounds and US dollar; in case of a rise in dollarisation, additional certificates in US dollars could be issued to absorb extra foreign-currency liquidity and inflate gross foreign-currency reserves.

Figure 9

Current Expenditure

2005-2012

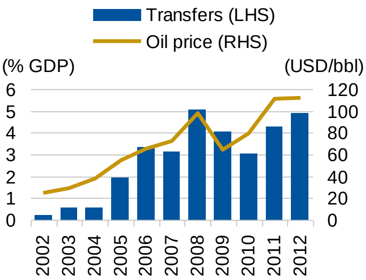


Source: MoF

Figure 10

Budget Transfers to EDL

2002-2012

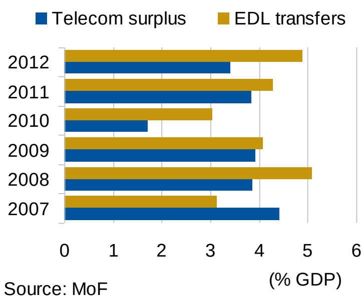


Source: MoF, Fitch

Figure 11

Telecoms & Electricity

2006-2012

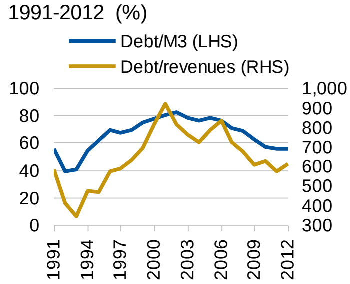


Source: MoF

Figure 12

Improvement in Debt Trend

1991-2012 (%)



Source: BDL, MoF

Government Financing Mainly Provided by Domestic Banks

First Primary Deficit in Six Years in 2012

After five consecutive years of primary surplus and narrowing budget deficits in 2006-2011 when growth was rapid, the fiscal deficit widened to 9.5% of GDP in 2012 (2011: 6%) and the government recorded a primary deficit for the first time since 2006 (negative 0.3% of GDP).

Revenues declined by 1.2% of GDP because of lower tax receipts from corporate profits, lower telecom transfers and lower VAT receipts. Spending rose by about 2% of GDP, mainly attributable to the rise in transfers to the loss-making utility EDL (up 30% yoy and accounting for 5.5% of GDP), and a rise in public sector wages (up 21.5% yoy).

Transfers to EDL are the third largest spending item, after interest payments and wages. EDL has structurally made losses because of inadequate pricing policies and large inefficiencies in the production and distribution of electricity. Transfers are highly correlated to international oil prices and should remain high in coming years in the absence of significant reform and high oil prices. Although offset by a persistent surplus from telecoms, they have exceeded this surplus since 2008.

Capital spending was marginal at 1.9% of GDP in 2012. The absence of an approved budget[1] since 2005 has had the perverse effect of limiting spending by containing public investment, as it can only be decided by parliament through ad hoc laws. Despite the positive impact on budget performance, this has prevented investment in water, road and telecommunication sectors, leading to severe infrastructure shortages that hinder growth. Donors have withheld budget support in the form of grants since 2010 because of the failure to make progress on reform. They have though funded projects, which are the much greater part of aid.

Likely Stabilisation of Budget Deficit in 2013

The 2013 budget was initially presented in August 2012 to the Council of Ministers then revised in February 2013 but has not yet been validated. As in previous years, Fitch does not expect it to be approved; budget approval can only take place after the previous year's accounts are closed, which requires the approval of all successive budgets since 2006 and the auditing of accounts since 1993. Due to rising political polarisation in the country, this is unlikely to take place in 2013.

In March 2013, the government approved a revised public wage scale, which, if adopted, would result in rise in spending of maximum 1% of GDP, according to MoF estimates. Revenue-enhancing measures have been prepared to balance this out. However, the project has stalled following the government's fall. Fitch's base case is that it will not be approved by parliament in 2013.

Therefore, Fitch expects a stabilisation in overall deficit in 2013: even if tax revenues are expected to stagnate, spending should moderate because of restrictions on public spending induced by the lack of budget approvals, moderating interest rates on public debt (see below) and the expected small decline in transfers to EDL related to lower oil prices.

Stabilising Public Debt Burden

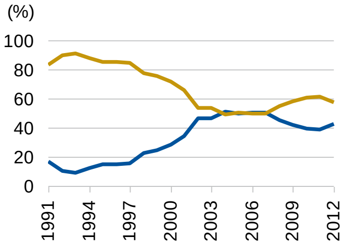
After several years of declining public debt to 137.4% of GDP in 2011 from 182% in 2006, in line with budget primary surpluses and sustained growth, public debt was 139.5% of GDP at end-2012. Given the heavy reliance of the government on domestic banks, a complementary measure of indebtedness is the ratio of public debt/M3, which was 55.2% at end-2012, and which has also declined since 2005.

[1] No budget has been approved by parliament since 2005 due to rising political divisions. Since then, government cannot spend more than allowed in the 2005 budget. Extra spending has to be approved by parliament or made by Treasury advances.

Figure 13

Debt: Currency Composition

1991-2012



Source: MoF

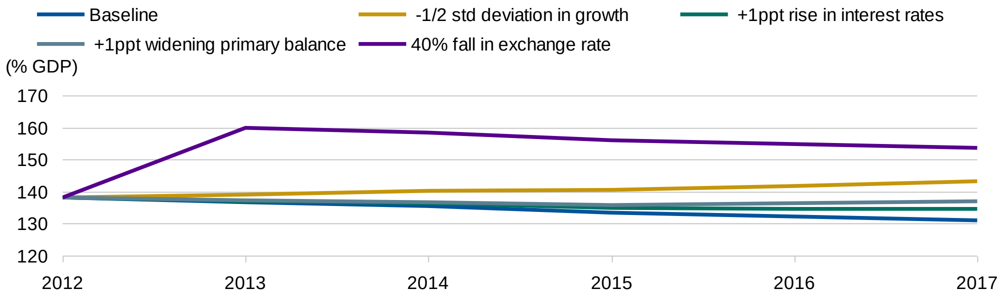
This hints at improved debt sustainability in Lebanon. However, the country's public debt remains among the highest in the world and annual financing needs are structurally particularly large (estimated at 38% of GDP in 2012). Public debt sustainability is also constrained by the high geopolitical risk in the region (high public indebtedness leaves limited leeway in case of a major shock for the economy) and by the significant foreign-currency share of public debt, at 42.3% at end-2012.

Fitch expects public debt to decline slowly in coming years towards 130% but given the shift in the growth trend and the expected lack of structural reforms, substantial improvement in public debt is unlikely. Fitch's internal debt sustainability analysis hints at a high sensitivity of public debt to exchange-rate fluctuations, and a moderate vulnerability to interest-rate shocks.

Figure 14

Sensitivity Analysis

Gross general government debt

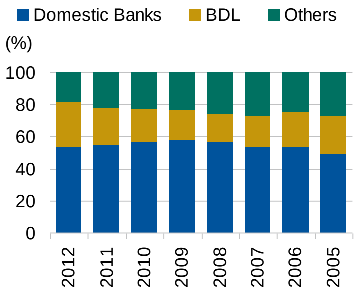


Source: Fitch estimates, national sources, IMF

Figure 15

Holders of Public Debt (FC&LBP)

2005-2012



Source: MoF

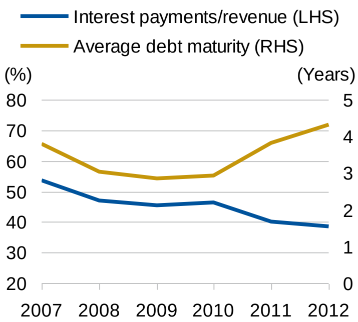
Astute Debt Management Improves Debt Sustainability

At end-2012, 54% of public debt, both in Lebanese pounds and in foreign currency, was held by domestic banks. This share has fallen slightly since 2009 while the share taken by BDL has increased. The government has more flexibility to finance itself in Lebanese pounds as net debt issuance in foreign currency (as opposed to rolling over outstanding issuance) is subject to available ceilings under envelopes ratified by parliament. However, given that domestic banks are not allowed to have open FX positions, the government has to adapt its debt issuances to banks' balance sheets currency structure: a rise in deposit dollarisation, as in H111, reduces banks' appetite for Lebanese pound funding. In H111, the BDL picked up the slack until the government agreed to increase rates on Lebanese pound debt issuance, inducing banks to resume buying Lebanese pound T-bills.

Figure 16

Astute Debt Management

2007-2012



Source: MoF, Fitch

The government has materially improved overall debt maturities since 2010. At end-2012, Lebanese pound debt and FX debt (only considering Eurobonds) had average maturities of 3.1 years and 6.1 years respectively (2008: 1.7 and 4.7 years respectively). On Lebanese pound debt, this has mostly been made possible by a rise in maturities at issuance, reflecting the domestic banks' search for yield and improved confidence in public debt sustainability: in 2012, the government issued 8-year and 10-year Lebanese pound bonds for the first time. On FX debt, the government regularly resorts to voluntary debt exchanges of Eurobonds for longer maturities.

In parallel, interest rates paid, although high in absolute terms and compared with peers, have declined in recent years. Interest expenditure absorbed 38.5% of fiscal revenues in 2012 against 60% in 2006. The government has taken advantage of overall low interest rates when rolling over debt or setting voluntary debt exchanges.

Main Risk of Destabilisation Stems From Syria

Fall of Government in March 2013

Prime Minister Mikati's government fell in March 2013 after 21 months in power because of rising domestic tensions provoked by the Syrian civil war. The March 8 coalition (sympathetic to

President Assad and dominated by Hezbollah), which was part of the government, refused to prolong the term of the director-general of the internal security forces, allegedly more sympathetic to the March 14 opposition coalition.

A new prime minister, Tammam Salam, was quickly designated in early April, revealing the keenness of both sides to avoid a political vacuum. However, he has been unable to form a government because of the growing polarisation between the pro-Assad March 8 coalition and the anti-Assad March 14 coalition. The previous government has remained in place as a caretaker government, in charge of elaborating a new electoral law and preparing the elections. The formation of a new government is likely to take several more months.

Parliamentary elections were supposed to take place in June 2013 but the fall of the government and political disagreements over the revision of the electoral law have postponed them. Parliament voted in May to extend the elections until November 2014, for the first time since the civil war in 1975-1990. In practice, the outcome of the Syrian conflict is one of the main keys to the ballot; depending on its outcome, one or the other coalition parties will be weakened and this will influence the electoral law and the outcome of the elections.

Increasing Hezbollah Involvement in Syria Threatens Fragile Domestic Status Quo

The Lebanese government had adopted an officially neutral stance (so-called 'dissociation policy') on the Syrian conflict since its beginning. However, Hezbollah became increasingly involved by supporting Assad's army throughout 2012 and it made its support official in May 2013; in parallel Sunni Lebanese combatants are reported to be participating in the conflict with the rebels.

Syrian civil conflict therefore is progressively spilling over into Lebanon, primarily in the Tripoli region and in the Beqaa Valley. Rocket attacks and killings have increased since March 2013 and have become regular, though localised. Tensions are intensifying domestically between Shia and Sunni communities and the conflict is increasingly imported into the country with combatants occasionally fighting directly on Lebanese soil.

To date, however, political organisations in Lebanon seem to be carefully maintaining the country's insulation from the conflict. Despite the growing religious divisions, a fragile equilibrium has prevailed; the postponement of the elections reflects this will not to arouse political tensions. In this context, destabilisation could come from incidents on the ground, related to uncontrolled use of weapons, or to the growing presence of Syrian refugees. Fitch's base case incorporates sporadic violent upsurges and clashes, but excludes at this stage a radicalisation of the situation in Lebanon and a collapse into widespread civil conflict.

Forecast Summary

	2008	2009	2010	2011	2012	2013f	2014f
Macroeconomic indicators and policy							
Real GDP growth (%)	8.6	9.0	7.0	1.5	1.5	1.0	2.5
Unemployment (%)	-	-	-	-	-	-	-
Consumer prices (annual average % change)	10.8	1.2	4.5	5.0	6.4	6.7	5.0
Short-term interest rate (%)[a]	5.2	4.9	4.1	3.9	4.4	4.5	4.5
General government balance (% of GDP)	-9.8	-8.5	-7.8	-6.0	-9.5	-9.3	-9.1
General government debt (% of GDP)	158.5	147.6	141.7	137.4	139.5	138.8	138.1
LBP per USD (annual average)	1,507.5	1,507.5	1,507.5	1,507.5	1,507.5	1,508.0	1,508.0
Real effective exchange rate (2000 = 100)	74.8	77.2	79.2	78.5	82.5	83.4	83.4
External finance							
Current account balance (USDm)	-4,102.6	-6,740.9	-7,587.6	-4,865.6	-6,810.0	-7,280.0	-7,380.0
Current account balance (% of GDP)	-13.8	-19.5	-20.4	-12.5	-16.5	-16.3	-15.4
Current account balance plus net FDI (% of GDP)	-2.5	-8.8	-10.2	-5.5	-8.9	-9.0	-8.3
Net external debt (USDm)	-24,791.5	-36,140.5	-37,855.5	-36,908.9	-35,845.8	-30,876.2	-27,353.2
Net external debt (% of GDP)	-83.5	-104.3	-102.0	-94.5	-86.7	-69.3	-57.1
Net external debt (% of CXR)	-80.3	-121.4	-123.2	-105.2	-101.1	-85.3	-72.1
Official international reserves including gold (USDm)	25,013.2	35,767.3	41,671.1	45,335.7	45,303.2	44,204.5	44,552.5
Official international reserves (months of CXP cover)	8.6	11.8	13.1	13.6	12.9	12.2	11.8
External interest service (% of CXR)	3.0	1.6	2.0	1.6	1.7	1.8	1.9
Gross external financing requirement (% int. reserves)	41.7	41.3	31.0	19.5	23.4	21.5	24.1
Memo: Global forecast summary							
Real GDP growth (%)							
US	-0.3	-3.1	2.4	1.8	2.2	1.9	2.8
Japan	-1.0	-5.5	4.7	-0.6	2.0	1.8	1.5
Euro area	0.3	-4.2	1.8	1.5	-0.5	-0.5	1.0
World	1.6	-2.2	4.0	2.7	2.0	2.2	2.8
Commodities							
Oil (USD/barrel)	97.7	61.9	79.6	111.0	112.0	105.0	100.0

[a] Three month T-bills (annual average)
Source: Fitch

Comparative Analysis: Macroeconomic Performance and Policies

Lebanon

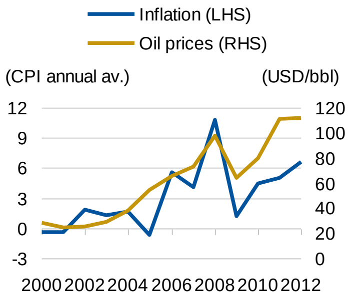
	2012						
	Venezuela B+	Egypt B	Lebanon B	Seychelles B	Ukraine B	B median	BB median
Real GDP (5yr average % change)	2.1	4.2	5.5	2.3	0.2	4.7	3.6
Volatility of GDP (10yr rolling SD)	7.7	1.9	3.5	5.7	7.4	2.6	2.3
Consumer prices (5yr average)	27.5	11.7	5.6	15.2	11.9	9.7	5.4
Volatility of CPI (10yr rolling SD)	6.4	4.0	3.3	13.7	6.7	4.3	2.8
Years since double-digit inflation	0.0	1.0	4.0	2.0	3.0	n.a.	n.a.
Unemployment rate	7.8	12.7	-	2.0	7.5	8.0	15.0
Type of exchange rate regime	USD Peg	Managed float	USD Peg	Free float	Managed float	n.a.	n.a.
Dollarisation ratio	0.0	17.0	64.8	36.7	43.3	26.1	43.9
REER volatility (10yr rolling SD)	18.1	10.3	5.0	5.7	7.8	6.0	6.0

Source: Fitch

Figure 17

Inflation

2000-2012 (%)



Source: Central Administration of Statistics, Fitch

Strengths

- Lebanon's track record of inflation has been better than peers, both in terms of average level and volatility, since the exchange rate to the US dollar was stabilised in 1999. Inflation remains subject to oil price variations given Lebanon's heavy dependence on oil imports; it peaked in 2008 at 10.8% but has since remained below or close to the BDL's preferred 5% level (6.4% in 2012).
- BDL has successfully defended the US dollar peg through several episodes of extreme stress, including war (eg, 2006) or political instability (eg, Hariri's assassination in 2005). The credibility of the peg, coupled with Lebanon's moderate inflation record, has kept real effective exchange rate volatility below peers.

Weaknesses

- Dollarisation has always been higher than for peers since the late 1980s, when confidence in the Lebanese pound eroded. It has however declined from mid-70% before 2008 to mid-60% at April 2013, due to improved political stability and attractive Lebanese pound interest rates; rising reserves also bolstered confidence in the peg. Stability in the dollarisation rate of deposits will be a crucial test for the credibility of the peg in the current geopolitical environment.
- Despite a strong economic performance in 2007-2010, marked deceleration of growth rates from 2011 coupled with higher volatility than peers and limited short-term prospects now weigh on the rating. Without structural reforms, the IMF estimated the potential real GDP growth rate at 4%. The potential benefits of offshore gas and oil production could however improve growth prospects from 2017 but not before.
- Unemployment statistics are not available, but unemployment is widespread. A World Bank survey published in 2010 estimated it at 11%. Young people and the educated population are particularly affected.

Commentary

The inflation figure for 2012 (6.4%) is likely to be overestimated. The Central Administration for Statistics incorporated a significant rise in rents in one shot in 2012 in the index, while it represented a cumulative rise over the previous three years. The CAS subsequently suspended the publication of CPI data in January 2013. An alternative, widely used source is the CRI index, published on a monthly basis, and computed by commercial banks based on price monitoring in Beirut.

Fitch sees a limited increase in inflation in coming years because of declines in international commodity prices and the downward pressure on nominal wages induced by the rising number of Syrian refugees in Lebanon.

Comparative Analysis: Structural Features

Lebanon

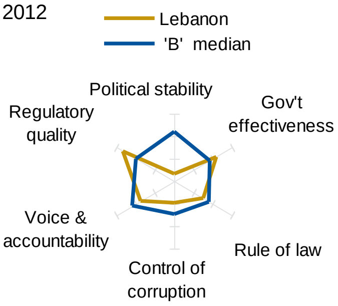
	2012						
	Venezuela B+	Egypt B	Lebanon B	Seychelles B	Ukraine B	B median	BB median
GNI per capita PPP (USD, latest)	12,620	6,160	14,000	25,320	7,080	5,260	6,140
GDP per capita (USD, mkt exchange rates)	12,749	3,217	9,630	11,891	3,880	3,532	3,801
Human Development Index (percentile, latest)	62.3	40.3	60.2	75.8	58.0	41.1	44.0
Ease of Doing Business (percentile, latest)	2.8	41.4	38.1	60.4	26.1	39.8	50.0
Trade openness (CXR and CXP % GDP)	25.2	25.8	94.0	117.5	60.9	43.9	53.4
Gross domestic savings (% GDP)	28.8	9.1	-4.3	21.4	9.9	13.2	14.1
Gross national savings (% GNP)	28.8	15.3	14.3	36.5	10.4	12.9	17.4
Gross domestic investment (% GDP)	26.0	16.7	32.0	54.2	18.6	23.9	21.5
Private credit (% GDP)	25.1	28.0	91.5	21.8	53.5	24.7	40.2
BSR indicators	b/2	b/1	b/2	- /1	b/1	n.a.	n.a.
Bank system CAR	14.3	15.3	-	27.6	18.1	15.8	16.0
Foreign bank ownership (% assets)	17.2	30.0	-	66.0	31.9	34.7	34.9
Public bank ownership (% assets)	34.3	45.0	-	34.0	18.3	30.2	21.4
Default record (year cured)	1999	-	-	2010	2000	n.a.	n.a.

Source: Fitch and World Bank

Figure 18

Governance Indicators

2012

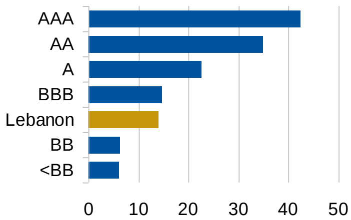


Source: World Bank

Figure 19

High Income per Head

GNI/capita



Source: Fitch

Strengths

- Lebanon's HDI and GDP per capita, both at market exchange rates and in purchasing power parity terms, are significantly higher than rating peers, and more in line with 'BBB' rated sovereigns. This reflects a long-standing espousal of market-oriented policies and a highly skilled labour force, which have fostered a vigorous private sector (85% of aggregate demand) and a service-based economy (75% of GDP).
- With assets amounting to 3.6x GDP, Lebanon's large, liquid and well-regulated domestic banking system is a strong support to the rating. The intermediation of deposits by the wealthy Lebanese diaspora into public debt financing is crucial to public debt sustainability.

Weaknesses

- Political instability is a structural drag on the rating. The World Bank's indicator of political stability is among the lowest among Fitch-rated sovereigns. Additionally, the geopolitics of the Middle East, primarily the Syrian civil war, has added uncertainty about Lebanon's stability, in the context of rising religious tensions.
- Macroeconomic performance is hindered by large infrastructure bottlenecks, primarily in electricity production. Despite pressure from international donors at Paris II and III conferences, there has been no significant resolution of the electricity production deficit (estimated at one-third of electricity consumption in 2008 by the World Bank).
- The gross domestic savings rate is particularly low owing to high levels of public and private consumption sustained by diaspora inflows. Gross national savings are higher.

Commentary

Fitch's indicator of macro-prudential risk in Lebanon was lowered to '2' (moderate) in January 2013, after a rise to '3' (high) in June 2011. The cut reflected a technical revision by the IMF of its real exchange-rate data, but credit growth has also slowed. The lower risk assessment is in line with the cooling of the real estate market.

Lebanese banks are highly liquid, with a ratio of domestic private sector loans to deposits of 28.5% at March-2013. US dollar deposits are subject to a minimum 15% reserve requirement, which in practice is substantially exceeded. NPLs are low (3.8% of gross loans at end-2012), profitability is stable and the banking sector is conservatively regulated by the BDL. Their main weakness stems from their exposure to the sovereign (including BDL); more than 50% of bank assets are exposed to the public sector. Their exposure to Syria is moderate.

Comparative Analysis: External Finances

Lebanon

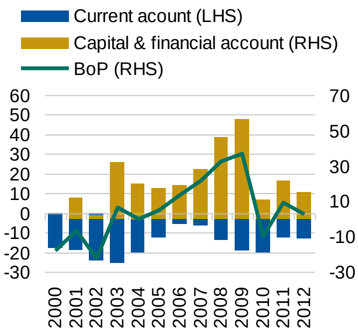
	2012					Last 10 years	
	Venezuela B+	Egypt B	Lebanon B	Seychelles B	Ukraine B	B median	BB median
GXD (% CXR)	117.0	66.2	125.2	60.1	134.6	92.6	105.0
GXD (% GDP)	31.2	16.5	107.3	64.9	76.4	43.2	41.0
NXD (% CXR)	-155.6	-1.0	-101.1	-7.7	1.8	18.2	7.3
NXD (% GDP)	-41.5	-0.2	-86.7	-8.3	1.0	8.5	2.5
GSXD (% GXD)	42.6	73.9	22.2	68.2	23.7	63.6	49.3
NSXD (% CXR)	20.9	25.8	-100.0	13.5	7.4	13.0	3.5
NSXD (% GDP)	5.6	6.4	-85.7	14.6	4.2	6.5	1.9
SNFA (USDm)	-17,275.0	-17,398.0	35,447.6	-152.0	-7,448.1	-554.7	-134.7
SNFA (% GDP)	-4.5	-6.4	85.7	-14.6	-4.2	-6.4	-1.7
Ext. debt service ratio (% CXR)	13.9	6.4	12.4	2.5	29.4	9.4	13.1
Ext. interest service ratio (% CXR)	6.1	0.8	1.7	1.6	6.2	2.1	3.6
Liquidity ratio (latest)	126.6	343.0	207.8	218.9	70.3	198.4	176.2
Current account balance (% GDP)	2.9	-1.7	-16.5	-19.2	-8.4	-5.9	-2.7
CAB plus net FDI (% GDP)	3.1	-0.7	-8.9	-3.8	-4.6	-1.8	1.3
Commodity dependence (% CXR, latest)	30.5	25.5	5.8	43.1	24.2	36.7	24.2
Sovereign net FX debt (% GDP)	7.0	6.4	-50.6	14.6	4.1	11.2	0.3

Source: Fitch

Figure 20

Balance of Payments

2000-2012 (USDm)



Source: BDL, IMF, Fitch estimates

Strengths

- The Lebanese public sector is a significant net external creditor because of both the large domestic holdings of public debt and the steady accumulation of international reserves, which stabilised at USD45.3bn at end-2012. Reserves could stagnate in coming years due to lower gold prices given the persistently high current account deficits.
- Foreign-currency interest service is lower than peers. External liabilities, other than Eurobonds, chiefly comprise concessional loans and Paris II and III debt, which have low interest payments and extended maturities. Coupled with large foreign-currency receipts, Lebanon's liquidity ratio is above that of peers.
- Exports are reasonably diversified in terms of products and destinations and are not dependent on oil exports. But tourism receipts are heavily reliant on GCC tourists, while GCC countries have enacted tourism warnings against Lebanon.

Weaknesses

- The current account deficit is persistently wide (estimated at 16.3% at end-2012) and highly vulnerable to oil prices (oil imports account for 25% to 30% of total imports) and the euro/dollar exchange rate (more than 30% of exports come from the EU). However, remittances and FDI account for respectively around 20% and 10% of GDP. The overall balance of payments was in surplus for most of the last decade and is a better guide to Lebanon's external accounts, given the large deposit inflows in the financial account and substantial errors and omissions.
- Total gross external indebtedness is significantly above that of peers, both as a share of GDP and CXR. Non-resident deposits are higher than official statistics imply, as anyone with a Lebanese address is classified as resident, even if they live overseas. BDL imposes a requirement on banks to hold 15% of their FC deposits in reserves at BDL.

Commentary

Balance of payment data is weak, particularly on private flows. Private sector external assets and liabilities are derived from Bank of International Settlement data.

Trade links with the EU are moderate (less than 10% of exports), limiting Lebanon's exposure to the eurozone's crisis.

Comparative Analysis: Public Finances

Lebanon

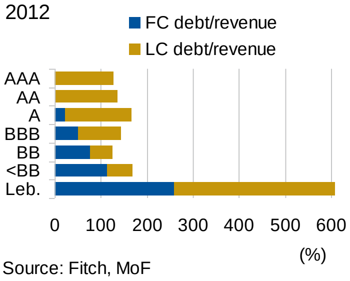
	2012					Last 10 years	
	Venezuela B+	Egypt B	Lebanon B	Seychelles B	Ukraine B	B median	BB median
Budget balance (% GDP)	-4.8	-10.7	-9.5	2.1	-5.5	-2.7	-2.1
Primary balance (% GDP)	-2.2	-4.7	-0.3	5.9	-2.0	-0.1	0.0
Revenues and grants (% GDP)	23.4	22.6	22.7	42.7	44.2	25.6	26.1
Volatility of revenues/GDP ratio	18.6	8.6	3.8	4.2	5.4	9.7	6.8
Interest payments (% revenue)	11.4	30.8	38.5	8.9	4.0	6.0	9.2
Debt (% revenue)	117.2	356.6	613.9	162.1	64.0	156.3	161.9
Debt (% GDP)	27.5	80.7	139.5	69.2	28.3	39.3	39.8
Net debt (% GDP)	19.7	65.9	118.8	56.5	27.6	30.8	33.4
FC debt (% total debt)	53.5	15.1	42.3	63.9	63.8	69.0	60.4
CG debt maturities (% GDP)	2.7	25.5	28.7	19.9	4.6	3.9	5.2
Average duration of CG debt (years)	-	2.0	4.3	-	3.8	4.3	3.7

[a] GG if not otherwise specified
Source: Fitch

Figure 21

Share of FC Public Debt

2012

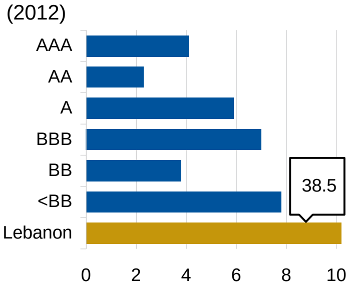


Source: Fitch, MoF

Figure 22

High Cost of Debt

GG interest payments/revenue (2012)



Source: Fitch, MoF

Strengths

- At 42.3% of public debt, foreign-currency public debt is lower than for peers. The large domestic banking system remains willing to fund the government because of its large size, the lack of alternative local investments, and the attractive yields on Lebanese pound government bills and bonds.
- Lebanon has never defaulted on its domestic or external debt. Proactive debt management includes voluntary debt exchanges with market participants and BDL into longer maturities. The government has managed to extend maturities recently.
- Volatility of revenues is lower than peers. VAT receipts are the largest source of revenues and have proved stable in a consumer-based economy.

Weaknesses

- The revenue ratio is below that of peers partly because income taxes have been kept low to retain the business community in a region where tax competition is high. The introduction of or increase in some taxes is contentious, such as capital gains tax, global income tax, the rise in VAT rate and the revision in energy prices (excise rates on gasoline).
- Public debt is one of the highest among Fitch's rated sovereigns, both as a share of GDP (139.5% at end-2012) or fiscal revenues (613.9%), due to structurally large budget deficits, much higher than peers. After a few years of marked decline because of strong growth, Fitch expects the ratio to stabilise in coming years at around 135% of GDP due to less favourable macroeconomic performance. Debt sustainability is improved by deep domestic financial markets and is better captured by the debt/M3 ratio (55.2% at end-2012), which has declined over the past decade.
- Interest payments are particularly high: they consumed 38.5% of revenues and 27.2% of spending in 2012. The cost of debt has declined since the global financial crisis because of falling local-currency and foreign-currency borrowing costs.
- At 38.1% of GDP at end-2012, annual gross financing need is large due to the high budget deficit and rollover rate of Lebanese pound bills and bonds, which mostly comprise three-year and five-year bonds.

Commentary

Budget transfers to EDL (5% of GDP) absorb the bulk of subsidies. The government also directly or indirectly subsidises agricultural production (on tobacco and wheat) and a few consumption items, such as bread. Those subsidies are moderate, bringing the overall cost of subsidies (including EDL) to around 6% of GDP.

Figure 23
Fiscal Accounts Summary

(% of GDP)	2009	2010	2011	2012	2013f	2014f
General government						
Revenue	**24.3**	**22.7**	**23.9**	**22.7**	**22.5**	**22.2**
Expenditure	**32.9**	**30.5**	**29.9**	**32.2**	**31.8**	**31.4**
O/w interest payments	11.1	10.5	9.6	8.8	9.1	9.1
Primary balance	2.5	2.7	3.6	-0.3	-0.2	0.0
Overall balance	**-8.5**	**-7.8**	**-6.0**	**-9.5**	**-9.3**	**-9.1**
General government debt	**147.6**	**141.7**	**137.4**	**139.5**	**138.8**	**138.1**
% of general government revenue	606.9	625.1	574.8	613.9	616.2	620.6
General government deposits	20.1	20.4	18.7	20.7	19.2	17.9
Net general government debt	127.5	121.3	118.8	118.8	119.5	120.2
Central government						
Revenue	**24.3**	**22.7**	**23.9**	**22.7**	**22.5**	**22.2**
O/w grants	0.3	0.1	0.0	0.1	0.0	0.0
Expenditure and net lending	**32.9**	**30.5**	**29.9**	**32.2**	**31.8**	**31.4**
O/w current expenditure and transfers	31.2	28.6	28.1	30.5	30.5	30.0
- Interest	11.1	10.5	9.6	8.8	9.1	9.1
O/w capital expenditure	1.6	1.8	1.8	1.7	1.8	1.8
Current balance	-6.9	-6.0	-4.2	-7.8	-7.9	-7.7
Primary balance	2.5	2.7	3.6	-0.7	-0.2	0.0
Overall balance	**-8.5**	**-7.8**	**-6.0**	**-9.5**	**-9.3**	**-9.1**
				22.7	**22.5**	**22.2**
Central government debt	147.6	141.7	137.4	0.1	0.0	0.0
% of central government revenues	606.9	625.1	574.8	**32.2**	**31.8**	**31.4**
Central government debt (LBPbn)	**77,112**	**79,298**	**80,887**	**86,959**		
By residency of holder						
Domestic	65,868	68,424	70,095	82,305		
Foreign	11,244	10,874	10,774	4,654		
By place of issue						
Domestic	44,973	48,255	49,340	50,198		
Foreign	32,139	31,043	31,547	36,761		
By currency denomination						
Local currency	44,973	48,255	49,340	50,198		
Foreign currency	32,139	31,043	31,547	36,761		
In USD equivalent (eop exchange rate)	21,3	20,6	20,9	24,4		
By maturity						
Less than 12 months (residual maturity)	18,405	24,948	16,871	13,006		
Average maturity (years)	2.9	2.9	3.8	4.3		
Average duration (years)	0.0	0.0	0.0	0.0		
Memo						
Non-financial public-sector balance (% GDP)	-8.5	-7.8	-6.0	-9.5	-9.3	-9.1
Net non-financial public-sector debt (% GDP)	127.5	121.3	118.8	118.8	119.5	120.2
Nominal GDP (LBPbn)	52,235	55,965	58,851	62,324	67,165	72,286

Source: Ministry of Finance and Fitch estimates and forecasts

Figure 24

External Debt and Assets

(USDm)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Gross external debt	**22,723.5**	**25,009.5**	**25,489.8**	**28,684.7**	**31,366.3**	**34,360.8**	**37,687.9**	**38,884.3**	**42,934.5**	**44,365.5**
% of GDP	113.1	114.8	116.6	127.8	125.7	115.8	108.8	104.7	110.0	107.3
% of CXR	134.2	135.3	131.7	130.5	127.2	111.3	126.6	126.6	122.3	125.2
By maturity										
Medium- and long-term	9,790.7	11,331.6	11,206.1	10,936.8	12,558.4	13,700.1	13,632.2	13,254.9	13,250.5	11,947.4
Short -term	12,932.8	13,677.9	14,283.7	17,747.9	18,807.9	20,660.7	24,055.7	25,629.4	29,684.0	32,418.1
% of total debt	56.9	54.7	56.0	61.9	60.0	60.1	63.8	65.9	69.1	73.1
By debtor										
Monetary authorities	**1,922.5**	**1,410.3**	**2,762.7**	**6,269.1**	**6,349.1**	**6,429.2**	**4,487.5**	**4,289.6**	**4,289.6**	**3,992.9**
General government	**10,092.8**	**9,362.2**	**10,843.4**	**13,483.1**	**13,930.3**	**14,639.3**	**11,946.3**	**11,502.7**	**11,448.6**	**9,855.6**
O/w central government	8,170.4	7,951.9	8,080.7	7,214.0	7,581.2	8,210.1	7,458.8	7,213.0	7,158.9	5,862.7
Banks	**9,327.6**	**12,096.3**	**11,633.4**	**12,181.6**	**13,640.0**	**15,810.5**	**21,173.5**	**22,985.7**	**26,947.9**	**29,988.9**
Other sectors	**3,303.0**	**3,551.0**	**3,013.0**	**3,020.0**	**3,796.0**	**3,911.0**	**4,568.0**	**4,396.0**	**4,538.1**	**4,521.0**
Gross external assets (non-equity)	**30,968.2**	**34,523.0**	**36,322.6**	**43,998.6**	**50,691.6**	**59,152.3**	**73,828.3**	**76,739.8**	**79,843.4**	**80,211.3**
International reserves, incl. gold	14,044.9	13,535.2	14,571.7	16,058.4	17,489.0	25,013.2	35,767.3	41,671.1	45,335.7	45,303.2
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	9,908.3	13,552.8	13,261.9	16,415.3	20,709.7	19,127.1	23,680.0	25,727.7	25,496.7	26,167.1
Other sector foreign assets	16,923.3	20,987.8	21,750.9	27,940.3	33,202.7	34,139.1	38,061.0	35,068.7	34,507.7	34,908.1
Net external debt	**-8,244.7**	**-9,513.5**	**-10,832.8**	**-15,313.9**	**-19,325.4**	**-24,791.5**	**-36,140.5**	**-37,855.5**	**-36,908.9**	**-35,845.8**
% of GDP	-41.1	-43.7	-49.6	-68.2	-77.4	-83.5	-104.3	-102.0	-94.5	-86.7
% of CXR	-48.7	-51.5	-56.0	-69.7	-78.4	-80.3	-121.4	-123.2	-105.2	-101.1
Net sovereign external debt	-3,952.0	-4,173.0	-3,728.4	-2,575.3	-3,558.7	-10,373.9	-23,821.0	-30,168.5	-33,887.1	-35,447.6
% of GDP	-19.7	-19.2	-17.1	-11.5	-14.3	-34.9	-68.7	-81.3	-86.8	-85.7
Net bank external debt	-580.7	-1,456.5	-1,628.5	-4,233.6	-7,069.7	-3,316.6	-2,506.5	-2,742.0	1451.2	3,821.8
Net other external debt	-8,244.7	-9,513.5	-10,832.8	-15,313.9	-19,325.4	-24,791.5	-36,140.5	-37,855.5	-36,908.9	-35,845.8
Net international investment position	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sovereign net foreign assets	**3,952.0**	**4,173.0**	**3,728.4**	**2,575.3**	**3,558.7**	**10,373.9**	**23,821.0**	**30,168.5**	**33,899.1**	**35,447.6**
% of GDP	19.7	19.2	17.1	11.5	14.3	34.9	68.7	81.3	86.8	85.7
Debt service (principal & interest)	**1,998.9**	**3,993.8**	**3,817.3**	**4,578.6**	**3,502.7**	**4,112.3**	**4,075.3**	**4,124.8**	**3,835.0**	**4,396.9**
Debt service (% of CXR)	11.8	21.6	19.7	20.8	14.2	13.3	13.7	13.4	10.9	12.4
Interest (% of CXR)	3.8	3.6	6.2	5.4	5.3	3.0	1.6	2.0	1.6	1.7
Liquidity ratio (%)	132.1	141.5	154.8	147.6	152.8	166.7	178.4	211.0	228.7	207.8
Net sovereign FX debt (% of GDP)	7.5	22.2	20.9	19.0	14.9	-13.0	-41.7	-56.8	-62.5	-50.6
Memo										
Nominal GDP	20,084.2	21,789.7	21,860.7	22,438.5	24,958.5	29,683.6	34,650.1	37,124.4	39,038.8	41,342.6
Gross sovereign external debt	10,092.8	9,362.2	10,843.4	13,483.1	13,930.3	14,639.3	11,946.3	11,502.7	11,436.6	9,855.6
Inter-company loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: NBP, IMF, World Bank and Fitch estimates and forecasts

Figure 25

Debt Service Schedule on Medium- and Long-Term Debt at Date

(USDm)	2012	2013	2014	2015	2016	2017+
Sovereign						
Official bilateral & multilateral	466	753	737	680	614	686
O/w IMF	0	0	0	0	0	0
Other	0	0	0	0	0	0
Bonds placed in foreign markets	679	824	1,558	1,250	1,650	16,469
Non-resident holdings of domestic debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest	1,519	1,472	1,354	1,240	1,097	
Total sovereign debt service	**3,233**	**3,048**	**3,649**	**3,170**	**3,361**	
Private sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Amortisation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total private debt service						
Memo						
Non-sovereign public sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Ministry of Finance, Central Bank and Fitch

Figure 26

Balance of Payments

(USDm)	2009	2010	2011	2012	2013f	2014f
Current account balance	**-6,740.9**	**-7,587.6**	**-4,865.6**	**-6,810.0**	**-7,280.0**	**-7,380.0**
% of GDP	-19.5	-20.4	-12.5	-16.5	-16.3	-15.4
% of CXR	-22.6	-24.7	-13.9	-19.2	-20.1	-19.5
Trade balance	**-11,207.2**	**-12,499.1**	**-13,918.9**	**-16,797.0**	**-14,900.0**	**-15,110.0**
Exports, fob	4,187.1	4,688.7	5,385.5	4,483.0	5,350.0	5,640.0
Imports, fob	15,394.3	17,187.8	19,304.4	21,280.0	20,250.0	20,750.0
Services, net	**2,867.2**	**2,819.7**	**6,802.5**	**7,597.0**	**5,200.0**	**5,510.0**
Services, credit	16,909.9	16,158.3	19,808.2	20,717.0	20,550.0	21,960.0
Services, debit	14,042.7	13,338.6	13,005.7	13,120.0	15,350.0	16,450.0
Income, net	**-228.1**	**-508.9**	**-178.1**	**-130.0**	**-130.0**	**-140.0**
Income, credit	2,040.2	1,448.1	1,620.9	1,720.0	1,750.0	1,770.0
Income, debit	2,268.3	1,957.0	1,798.9	1,850.0	1,880.0	1,910.0
O/w: Interest payments	482.3	627.4	564.5	596.7	666.3	722.3
Current transfers, net	**1,827.2**	**2,600.7**	**2,428.8**	**2,520.0**	**2,550.0**	**2,360.0**
Memo						
Non-debt-creating inflows (net)	3,899.9	4,291.9	1,902.6	3,030.0	3,175.0	3,320.0
O/w equity FDI	3,677.8	3,793.2	2,731.4	3,120.0	3,255.0	3,390.0
O/w portfolio equity	222.1	498.7	-828.8	-90.0	-80.0	-70.0
O/w other	808.0	247.9	165.0	130.0	134.0	137.0
Change in reserves (-=increase)	-10,754	-5,904	-3,664	32.5	1098	-348
Gross external financing requirement	10,333.9	11,085.0	8,136.2	10,610.1	9,718.8	10,637.7
Stock of international reserves, incl. gold	35,767.3	41,671.1	45,335.7	45,303.2	44,204.5	44,552.5

Source: IMF and Fitch estimates and forecasts

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.