



Tagging Info

Fitch Revises Lebanon's Outlook to Negative; Affirms IDR at 'B' Ratings

Endorsement Policy
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Link to Fitch Ratings' Report: Lebanon - Rating Action Report

Fitch Ratings-Paris/London-19 December 2013: Fitch Ratings has revised Lebanon's Outlook to Negative from Stable. Its Long-term foreign and local currency Issuer Default Ratings (IDRs) have been affirmed at 'B'.

The issue ratings on Lebanon's senior unsecured foreign and local currency bonds are also affirmed at 'B'. The Country Ceiling is affirmed at 'B' and the Short-term foreign currency IDR at 'B'.

KEY RATING DRIVERS

The revision of Outlook of Lebanon's IDRs reflects the following key rating drivers and their relative weights:-

High

-Heightened Political Risk

The involvement of Hezbollah and Sunni groups in the neighbouring Syrian conflict has increased sectarian tensions domestically. Violence in Lebanon, though still sporadic, has intensified in recent months. The ever-rising number of refugees also adds to tensions and strains, especially on infrastructure and public institutions. In the absence of agreement on the composition of a new government, political life has been paralysed since March 2013, and presidential elections in 2014 add to political uncertainty.

Medium

Deteriorated Public Debt Dynamics

After several years of decline, the public debt-to-GDP ratio, which ranks among the highest of all Fitch-rated sovereigns, is rising again. Fitch expects it to rise to 138% of GDP at end-2013 (2012: 134.2%) and above 140% by end-2015. Given the role of domestic banks in deficit financing, through the intermediation of their substantial deposit base, public debt sustainability remains reliant on the continuous rise in the banks' deposit base. Although resilient so far, deposit growth has slowed since the start of the Syrian conflict and worsening security in Lebanon exposes the banking sector to a heightened risk of sudden deposit outflows.

Weak Growth Prospects

Loss in confidence induced by spill-overs from the Syrian conflict has taken a heavy toll on economic performance. With all macroeconomic indicators pointing to weakening activity, Fitch expects real GDP growth of around 1.5% in 2013. No major improvement is to be expected until the Syrian conflict is resolved.

Lebanon's 'B' IDRs also reflect the following key rating drivers:-

Supportive Banking Sector

Deposit growth, fuelled by the large Lebanese diaspora, has so far remained resilient: the overall deposit base rose 7.8% yoy in October 2013. Domestic banks have remained willing to intermediate them into government financing: at end-October 2013, they held 58.6% of total public debt (2012: 54%). Deposit dollarisation, an

indicator of depositor confidence in the country, rose only slightly to 65.7% in October 2013 (2012: 64.8%).

High Development Indicators

GDP per capita and the UN's human development index are well above 'B' medians, and more in line with 'BBB' medians. The World Bank's 'Ease of Doing Business' survey and most governance indicators are broadly in line with 'B' medians.

Net External Creditor Position

Both the country and the sovereign are net external creditors due to steady accumulation of international reserves (USD44.1bn at end-October 2013). Reserves are a crucial support to the Lebanese pound's peg to the US dollar, given the high dollarisation of the economy.

RATING SENSITIVITIES

The Negative Outlook reflects the following risk factors that may, individually or collectively, result in a downgrade of the ratings:

- A major destabilisation of Lebanon induced by more intense sectarian tensions or spill-overs from the Syrian conflict
- A significant decline in the overall deposit base
- A continued deterioration in public debt dynamics

KEY ASSUMPTIONS

The ratings and Outlooks are sensitive to a number of assumptions:

- Fitch assumes that security in Lebanon will deteriorate further in coming months, but that violence will fall short of escalating into a full-scale civil conflict
- Fitch assumes that international oil prices will on average be lower in 2014 and 2015 than in 2012 and 2013, therefore limiting deterioration of the current account deficit and budget transfers to the state electricity company EDL

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Applicable criteria, 'Sovereign Rating Criteria' dated 13 August 2012 and 'Country Ceilings' dated 09 August 2013, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Sovereign Rating Criteria
Country Ceilings

Additional Disclosure

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