

# Lebanon Credit Positioning

May 2011

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# Reframing Lebanon's Credit Story

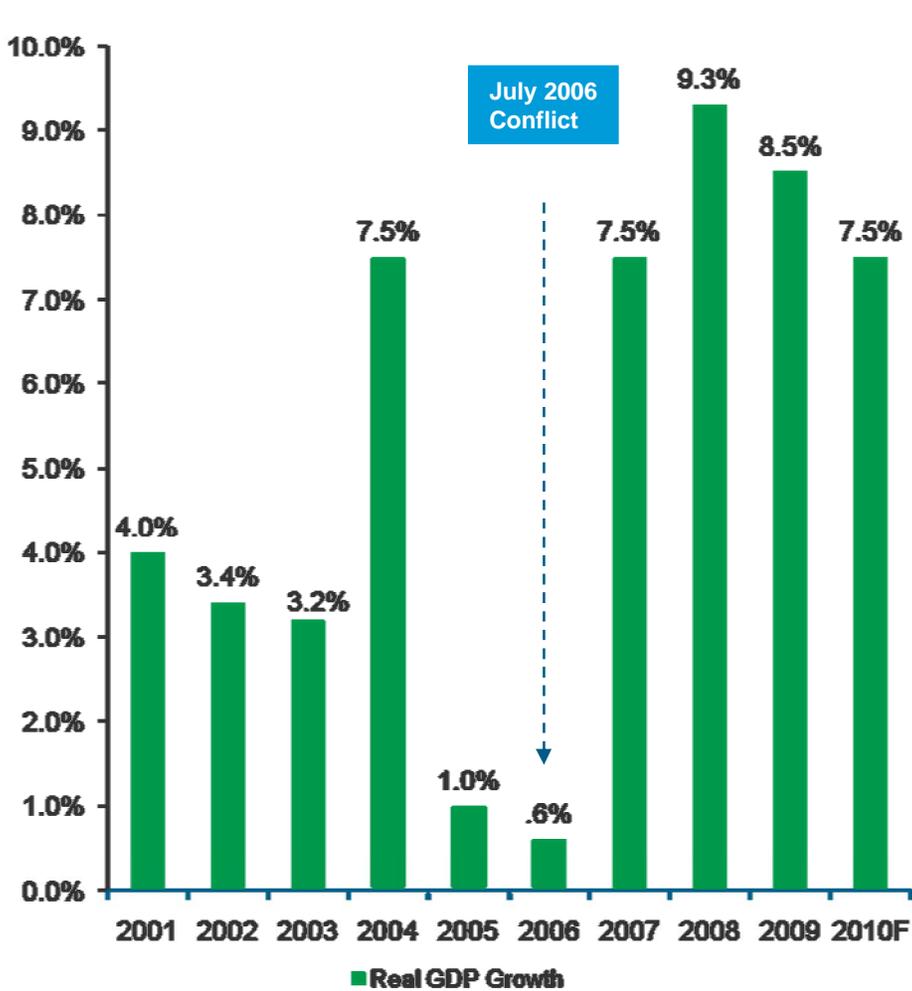
# Lebanon's Unique Economic Resilience is Under-appreciated

## Lebanon should focus investor attention to its core credit strengths

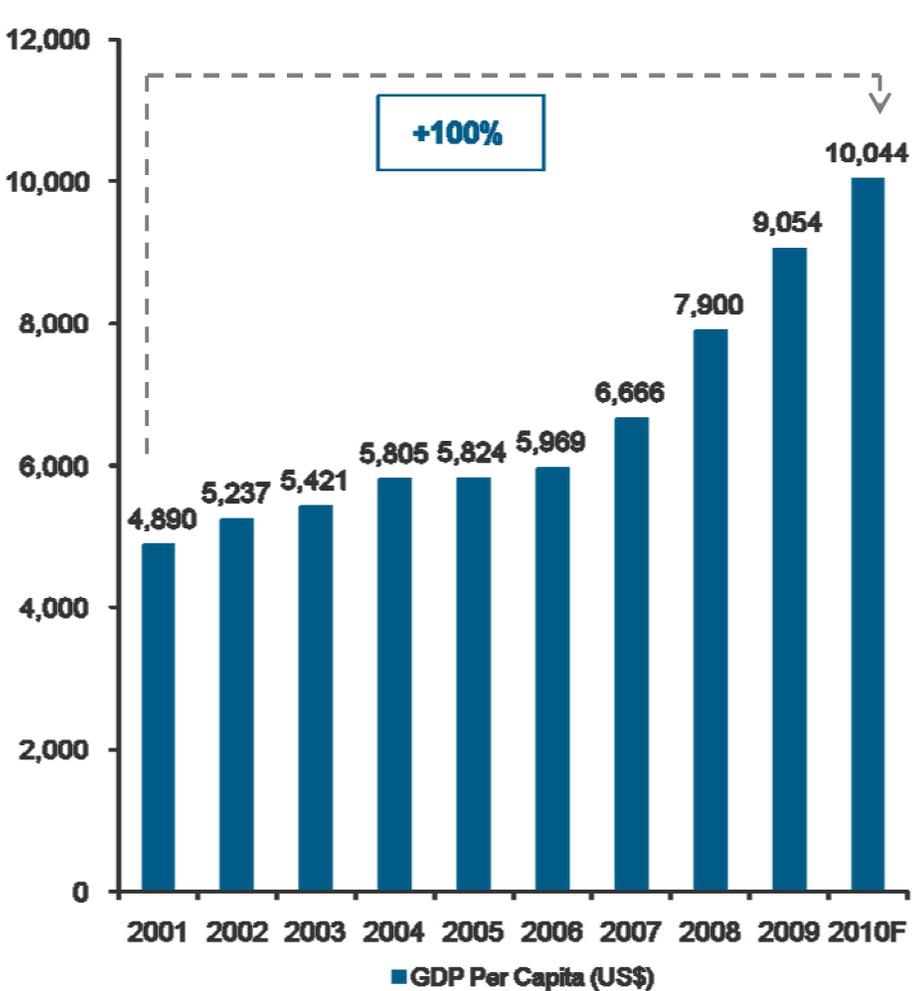
- § Lebanon's fundamental credit strengths are highlighted by its consistent economic performance. These include:
  - Strong economic growth averaging more than 5% over the last decade, despite a range of political and economic shocks
  - A near doubling of per capita GDP in the last decade
  - A highly resilient Balance of Payments position with reserve accumulation remarkably averaging over one year of import cover
- § Lebanon's economic resilience is underpinned by a stable banking sector, a supportive diaspora and donor community, and skilful management of public finances and debt
  - Lebanon's policy strengths are highlighted by its outperformance on its IMF program
- § Remittances are one of Lebanon's greatest credit strengths and are often overlooked by investors and rating agencies alike
  - Lebanon's large remittance flows underpin domestic demand, provide a ready source of foreign exchange, and have on average grown faster than GDP in recent years
- § The pages that follow contain a brief sample of the analytical arguments we would use to position Lebanon's credit with local and international investors

# Steady Growth Becomes Distinguishing Factor

Continued positive growth despite regional political volatility



Per Capita GDP has doubled over the last decade

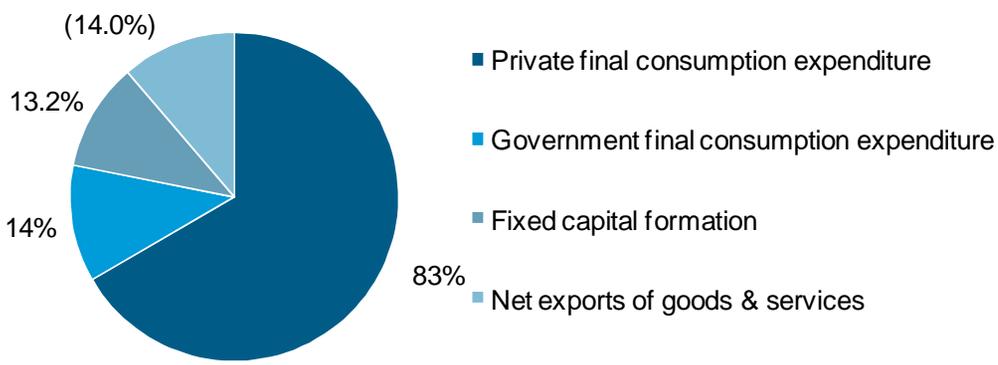


Source: IMF World Economic Outlook, April 2011

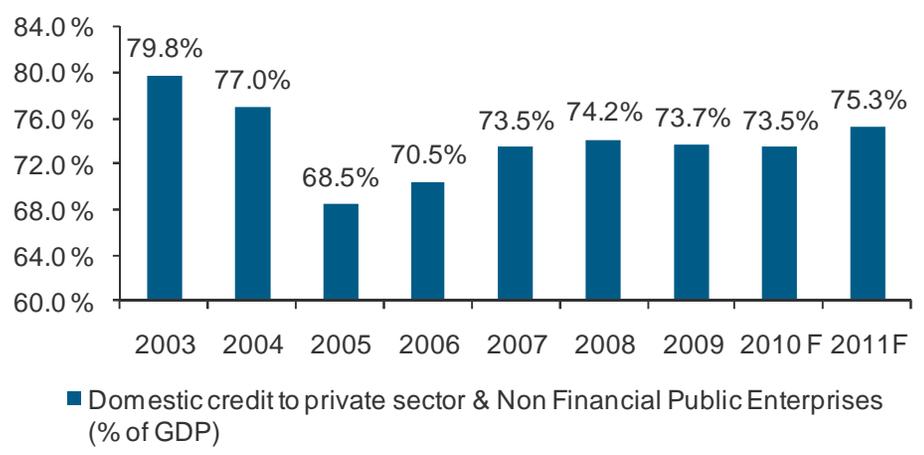
# Private Consumption: Primary Driver of Lebanon's Economy

- § Rating agencies have under-appreciated the intrinsic credit strengths of having an economy driven primarily by consumption
- § Consumption is a more stable driver of growth than investment-
  - it is less susceptible to both endogenous and exogenous shocks
  - as a result, EM economies with considerable contribution from domestic driven consumption should be credited substantially
- § Lebanon's consumption is "real income" driven
  - credit growth is stable and banking assets are sound
- § This fosters sustainability and shields both the banking system and the household sector

## Private consumption accounts for over 80% of the economy



## Modest credit growth is proof of real income driven demand

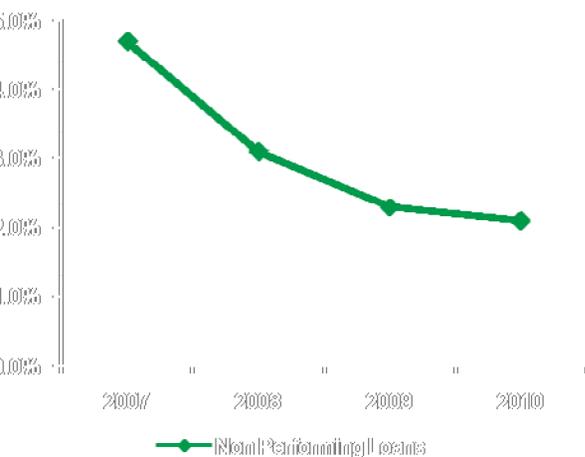


Source: IMF Article IV, October 2010; S&P Report on Lebanon dated Dec 2010; Business Monitor International, 2008

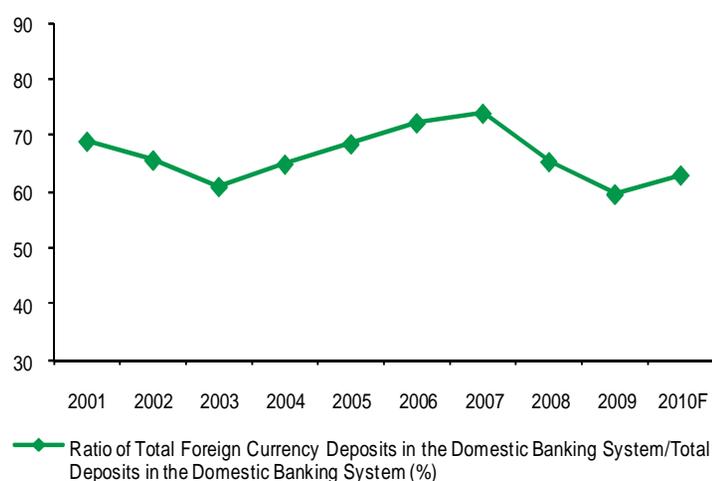
# Lebanon's Banks have Weathered the Global Crisis remarkably Well

- § Supported by the resilient economy, the banking system remains profitable, well-capitalized, highly liquid, and exhibits low and still falling NPL ratios
- § Lebanon has a wealthy pool of available funding, largely non-resident deposits in Lebanese banks, which has traditionally provided full coverage of the external gap
- § Non-resident deposits help give Lebanese banks an aggregate balance sheet second only to Luxembourg and Hong Kong relative to GDP
- § Rising deposits, which have grown by 20% y-o-y in 2010 by not only output growth but also Balance of Payments
- § The level of bank deposits has also proven remarkably resilient to Lebanon's various shocks in recent years and continues to grow strongly
- § Non-performing loans (NPLs) are modest, which is impressive in light of the global financial crisis

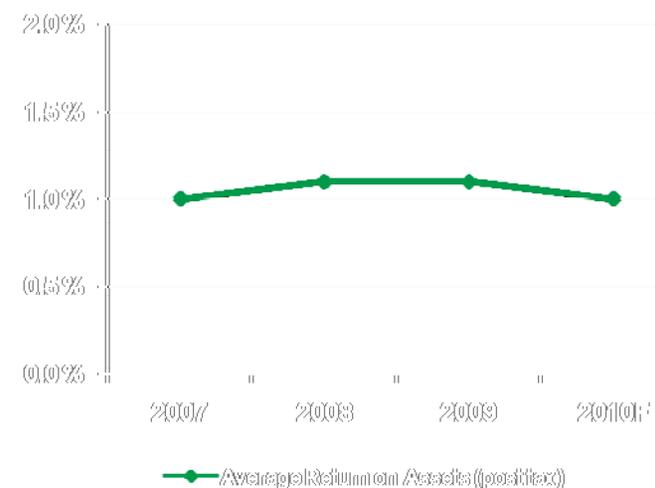
**Consistently declining Non Performing Loans**



**High foreign currency deposits in the Banking Sector**



**Banking Sector's Positive ROA despite the financial crisis**



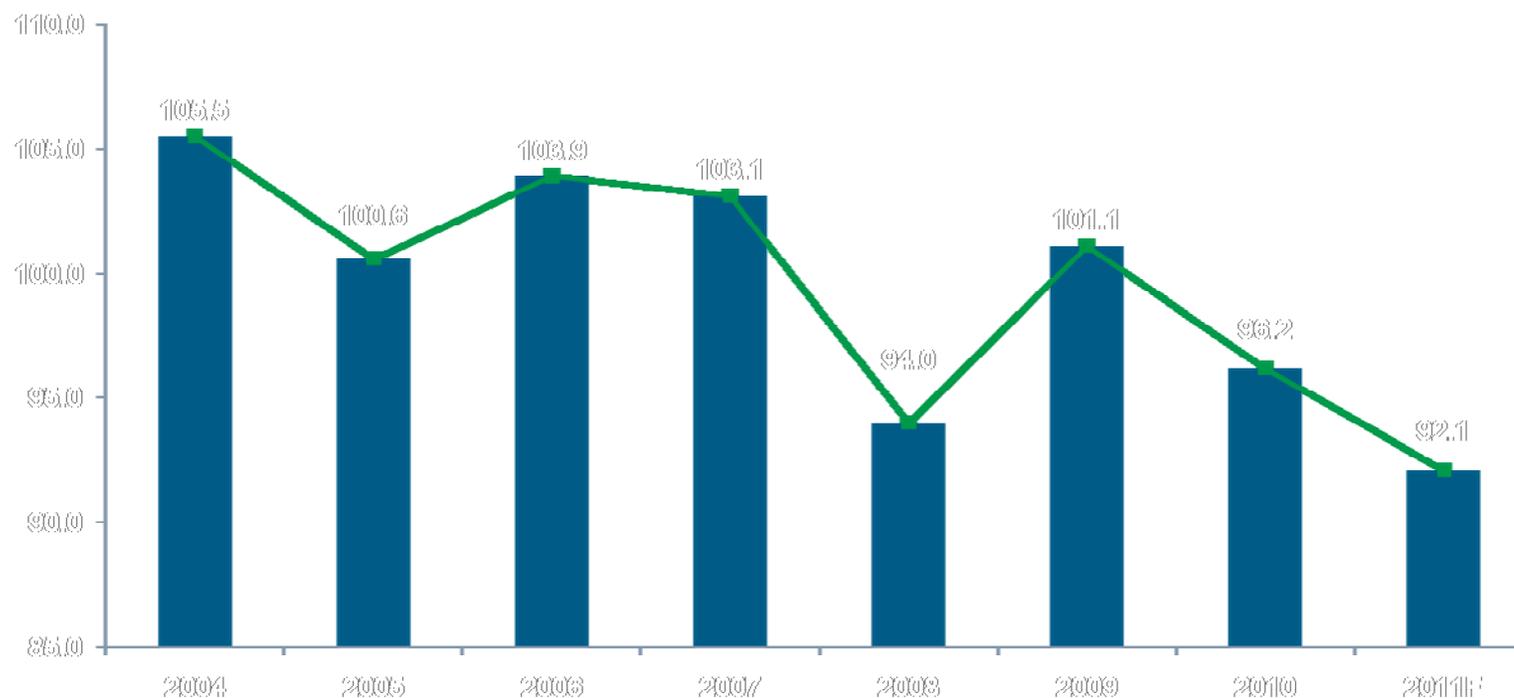
Source: Moody's report on Lebanon dated April 2010; IMF Article IV, October 2010

# Improved Debt Structure on the back of Successful Liability Management

§ Lebanon's debt levels continue to remain high, however, successful liability management operations have helped improve the structure of the government debt:

- portion of the general government debt denominated in foreign currencies has fallen, accounting for 42% of the total stock of debt
- it is worth noting that the government has always serviced its debt in a timely manner; this ability comes on the back of large stock of foreign currency reserves accumulated over time, sound financial health and liquidity of commercial banks and proven support and commitment of external donors

External Debt / GDP (%)

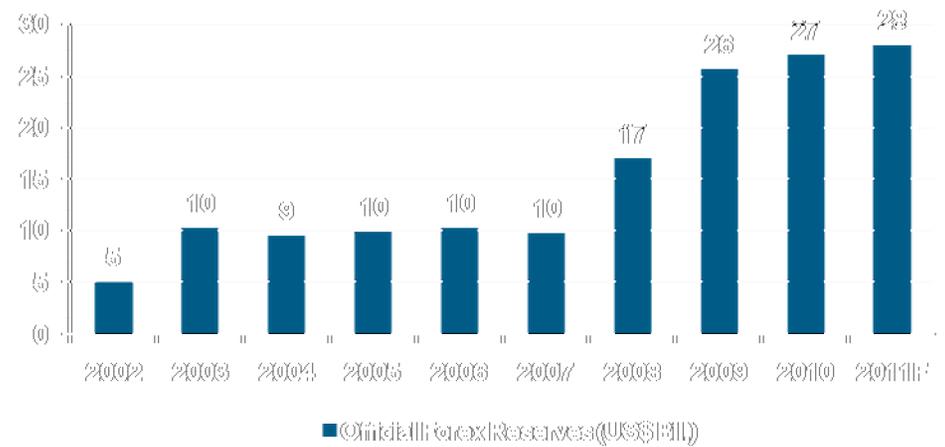


Source: Moody's report on Lebanon dated April 2010; IMF Article IV, October 2010

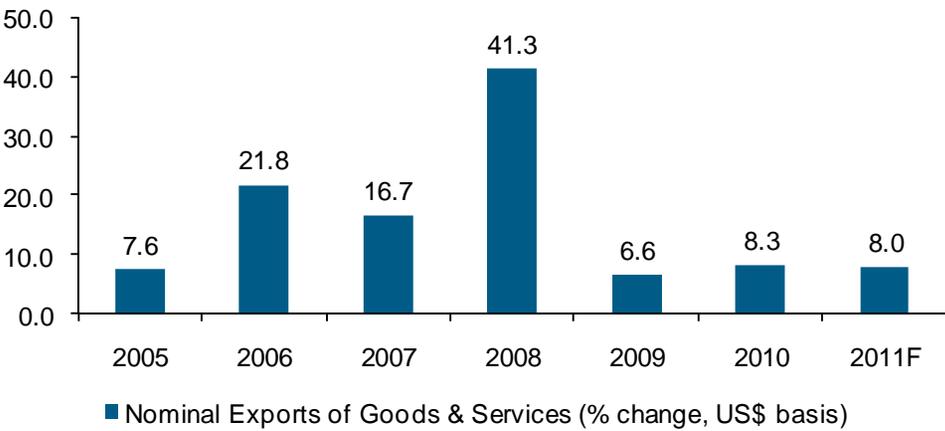
# Balance of Payments Remains Supported

- § Despite a persistent current account deficit, Lebanon's Balance of Payments remains supported by consistent inflows of foreign direct investment
- § In addition, the strength of Lebanon's banking sector and reserves equivalent to over a year of imports diminishes the risk of a balance of payments' crisis
- § Lebanon's strong export performance suggests that the country does not face major competitiveness problems:
  - both goods and services export volumes are estimated to have grown by 6% on average over the last twenty years despite a major appreciation of the U.S. dollar

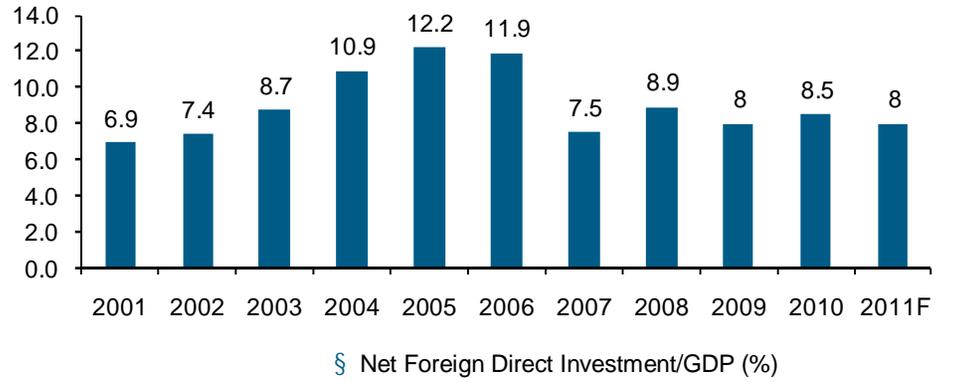
Lebanon's reserves have grown over 5x since 2002



Exports have grown at an average rate of 19% over the last 5 years



Capital flows have shown remarkable resilience to political shocks



Source: Moody's Report on Lebanon April 2010

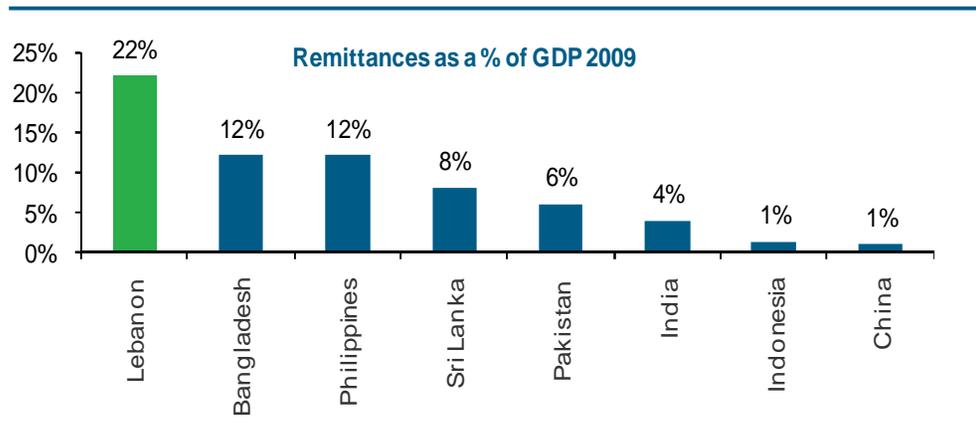
# Remittances Have Significant Effect on Debt Sustainability

- § Lebanon's remittances represent over 25% of GDP and on average have grown faster than the GDP
- § Remittances have no associated capital outflow and go directly to households thereby underpinning domestic demand and providing a large and under-appreciated social safety net

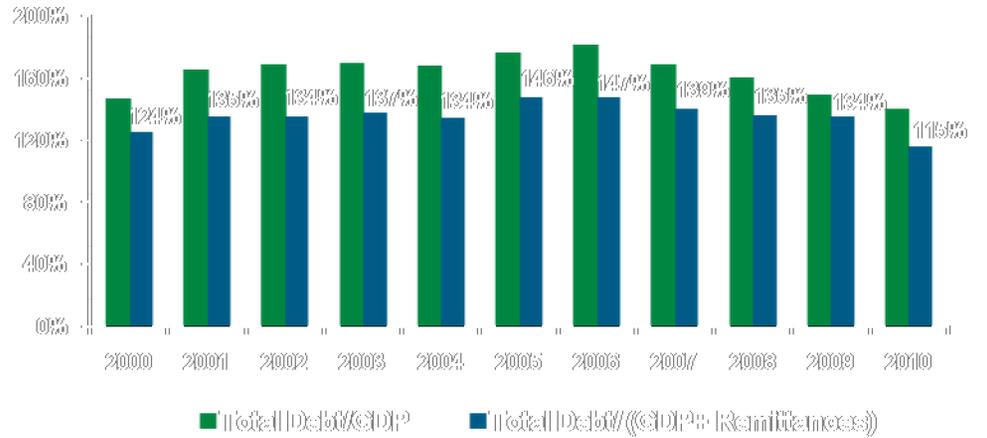
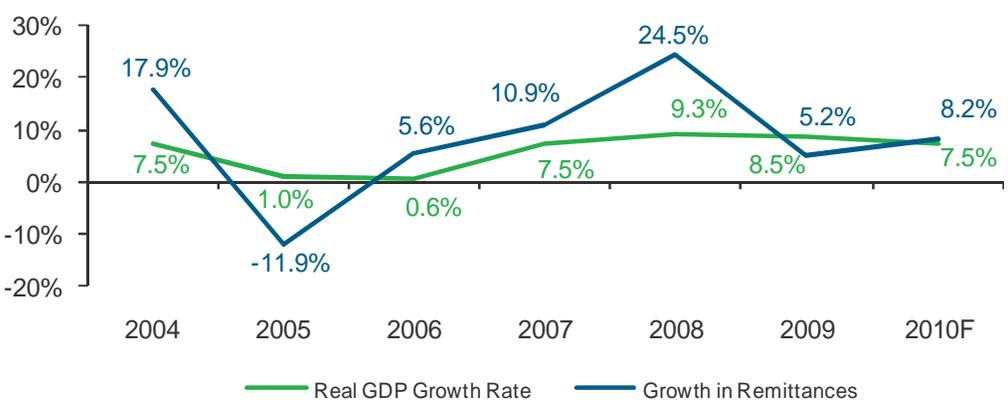
## Little-Known Impact of Remittances

- § **Higher tax base:** Even if they are not taxed directly, remittance flows may indirectly increase the revenue that the government receives from consumption- and trade-based taxation since they contribute to higher consumption of domestic and imported goods
- § **Higher private savings:** Remittances may lead to increased deposits in the banking system, and private saving
- § **Debt Sustainability:** Remittance-dependent countries may need to view stability through using both debt-to-GDP and debt-to-GDP plus remittances when evaluating the appropriate stance of fiscal policy

## Lebanon is one of the largest recipients of remittances as a % of GDP



## Average Growth in Remittances higher than real GDP, underpinning greater debt sustainability



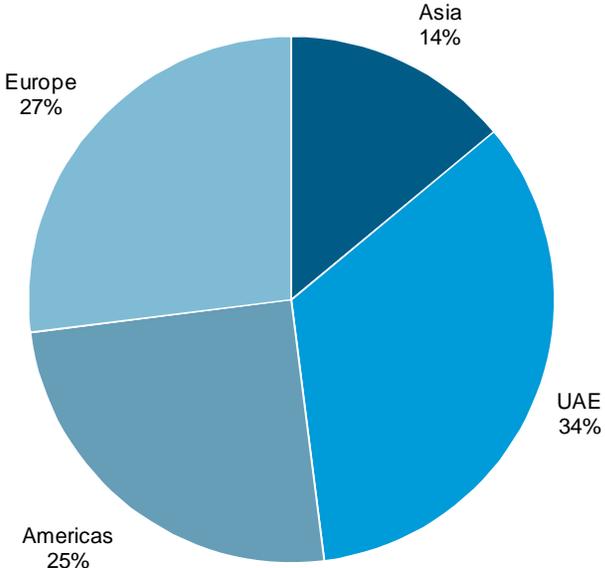
Source: IMF World Economic Outlook, April 2011, World Bank Migration Remittances Handbook 2011, IMF Article IV

# Growing Tourism Sector- A Source of External Finances

## Rapid expansion of the tourism industry generates more jobs and shores up external finances

- § Lebanon is a popular tourist destination where the tourism industry has been growing at a very high rate
- § Tourism contributes the equivalent of US\$3.77billion to GDP (accounting for 9.4% of total 2011E GDP) and supports about 122,000 jobs, representing 9.1% of total employment in the country
- § In 2010, Lebanon has attracted over 2 million tourists exhibiting a growth rate of more than 39% y-o-y, the highest growth recorded by any country in the tourism industry
- § Over the next 10 years, Lebanon’s travel and tourism industry is expected to achieve an annualized growth rate of 4.3% and add over 390,000 jobs
- § Increasing foreign tourist arrivals provide additional support for Lebanon’s external finances while the rise in domestic tourism represents the increasing purchasing power of domestic households

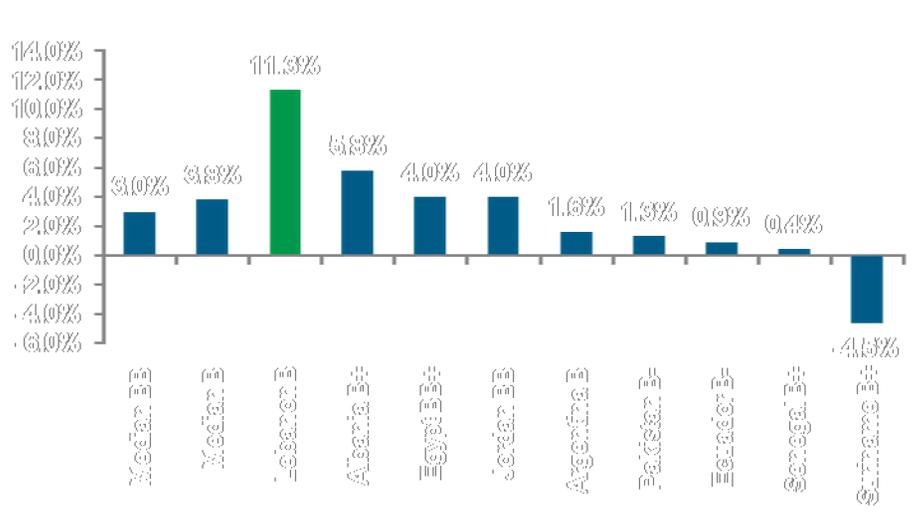
### Lebanon attracts tourists from very diverse locations indicating stability in tourism flows



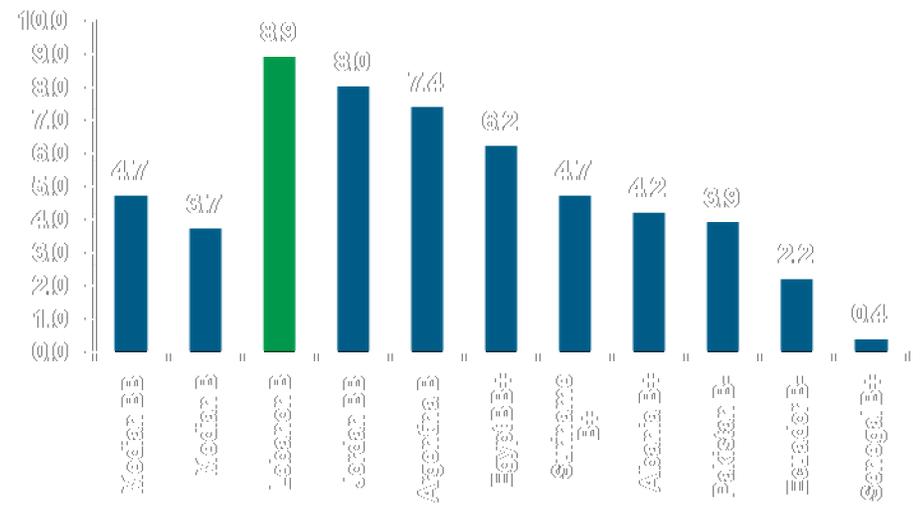
Source: Fitch, World Travel & Tourism Council Lebanon Report 2011

# Lebanon Compares Favorably to Peers on Key Macro Indicators

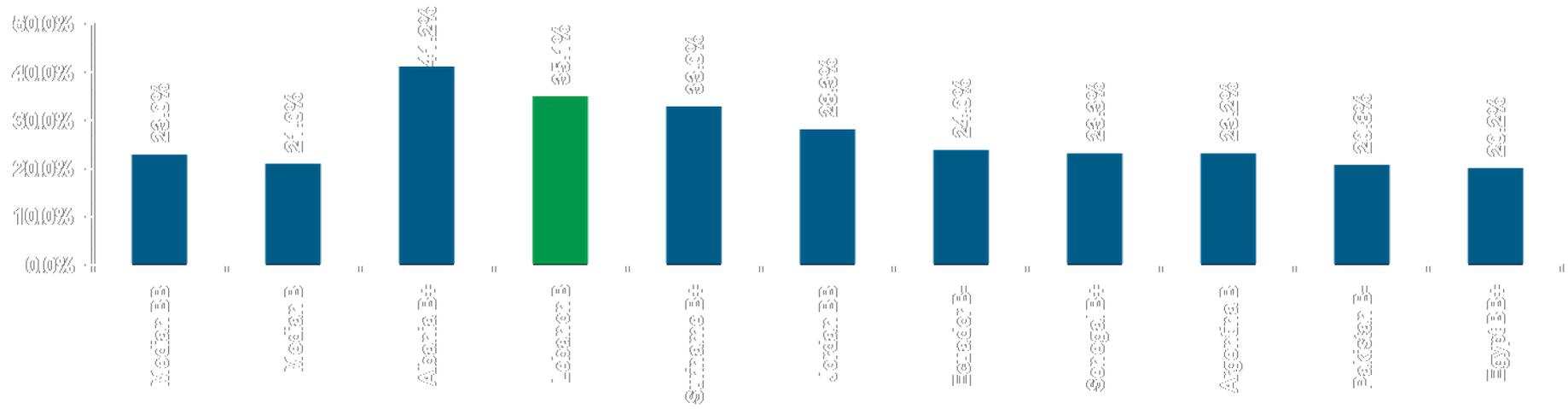
Net FDI (% of GDP)



Reserves/Current Account Payments (months)



Investment as a percentage of GDP



Source: S&P Sovereign Indicators, Dec 2010