Moody's Maintains Lebanon's 'C' Rating Amid Deepening Crisis and Stalled Reforms

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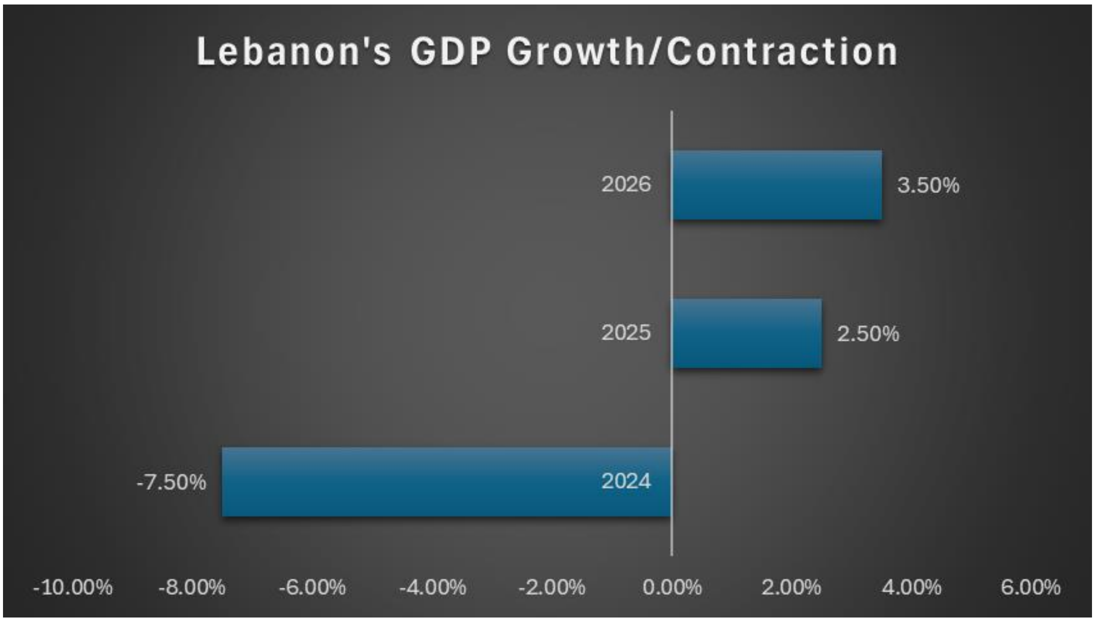
In its May 21, 2025, review, the international rating agency **Moody's kept Lebanon's "C" rating**, underscoring that **bondholders' losses** since the March 2020 default are still projected to **exceed 65%**.

Moody's highlighted Lebanon's **deepening economic, financial, and social crisis**, which the new government under Prime Minister Nawaf Salam, in office since February 2025, **has started to tackle**. The currency's major devaluation and inflation surge post-default **led to de facto dollarization** in daily transactions, supported by dollar inflows from tourism and remittances, as public services and fiscal operations collapsed.

Access to IMF and international donor funding **hinges on Lebanon implementing key reforms**, particularly the restructuring of government, central bank, and commercial banking sector debt. Moody's acknowledged recent reform progress, notably Parliament's April 24, 2025, approval of banking secrecy law amendments **granting regulators access to ten years of banking records**. The Cabinet's April 12 approval of a draft banking sector restructuring law—aimed at protecting small depositors—is also seen as a **crucial step toward unlocking external financial support**. However, **reform efforts have repeatedly stalled** due to unresolved disputes over how to distribute **over $70 billion in losses** among the government, central bank, lenders, and depositors.

Lebanon’s economic trajectory remains fragile. After a steep 25% real GDP decline in 2020, Lebanon's economy briefly stabilized but shrank again by 7.5% in 2024 due to regional hostilities. Given the uncertain security outlook, Moody’s anticipates a **modest recovery**, with **GDP growth reaching 2.5% in 2025 and 3.5% in 2026**. **Accelerated reforms could unlock stronger economic performance** than currently projected.



Note: The figure for 2024 is an estimate, while the figures for 2025 and 2026 are forecasts

The agency's rating framework **rests on four core factors**: *economic strength, institutional and governance strength, fiscal strength, and susceptibility to event risk*.

Core Factor	Rating	Explanation
Economic Strength	caa2	Highlights deep economic downturn and the collapse of the previous growth model based on inflows.
Institutional and Governance Strength	ca	Indicates historically weak institutions and ineffective policymaking, despite recent reform efforts.
Fiscal Strength	ca	Captures the government's excessive debt burden, reinforcing Moody's expectations of substantial losses for creditors post-restructuring.
Susceptibility to Event Risk	ca	Reflects significant vulnerabilities across political stability, government liquidity, banking sector risks, and external risks, which Moody’s expects to ease only post-restructuring.

A **rating upgrade is unlikely before debt restructuring is finalized**. Future improvements will depend on the pace of fiscal and institutional reforms, the government's ability to generate revenue, and the economy's transition to a more sustainable growth model. A higher rating would also require key debt indicators—such as economic growth, interest rates, liabilities from loss-making public enterprises, and the capacity to sustain large fiscal surpluses—to evolve in a way that **ensures debt sustainability and minimizes the likelihood of another default.**

Finally, Lebanon's **ESG Credit Impact Score (CIS-5) reflects a significantly lower rating due to ESG-related risks**. Governance weaknesses, declining wealth, and a depleted fiscal position **severely constrain the country's resilience** to environmental and social related shocks.

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