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Moody’s keeps banks’ outlook stable

Moody’s Investors Service Friday maintained its stable outlook for Lebanese banks due to expected flows of customer deposits and economic growth, but warned that negative political developments were a key risk. “The outlook for Lebanon’s banking system is stable thanks to expectations of deposit inflows and slightly increased economic growth,” Moody’s said.“The new government, formed in January, provides some respite from months of investor and depositor uncertainty,” said Alexios Philippides, AVP analyst at Moody’s.“We believe that despite a recent slowdown in deposit growth, inflows will be sufficient to allow banks to finance the government and the economy, provided that the new government implements reforms to bolster confidence.”Marwan Barakat, the head of economic research at Bank Audi, said Lebanese banks in general recorded positive growth in the first five weeks following the formation of the government.“We had a contraction in deposit growth in January 2019 but in February and March deposit growth has been positive. These results are based on resident deposits,” Barakat said. He added that resident deposits represented 80 percent of total deposits, giving an indication of growth.Barakat said he did not expect an improvement in investments for the time being although there were strong indications that the consumption indicator would rise.“We expect a good tourism season this summer after the Saudi government lifted the travel advisory ban to Lebanon,” Barakat said.Moody’s said that the next 12 to 18 months would be a transition period when operating conditions for banks would remain challenging and dependent on the government’s ability to implement highly anticipated fiscal and economic reforms.“Failure to implement reforms will further compound recent pressures, and wide fiscal and current account deficits will be key structural issues in the interim,” the report said.It added that the banks’ profitability would be under pressure because of higher funding costs, subdued new business and higher provisioning charges, from low levels.“They will seek to mitigate these challenges through cost control and growth abroad. Political developments affecting the pace of economic reform and depositor confidence are a key risk for Lebanese banks. The banks’ large sovereign exposure remains their main source of financial risk,” Moody’s said.It stressed that deposit inflows to fund the country’s twin deficits depended on confidence.“We expect annual deposit inflows to pick up to around $6.5 billion in 2019, from $5.6 billion in 2018, provided the new government is able to implement reforms to shore up confidence.“Capital flight remains a key risk for banks and the sovereign.“Lebanon’s financial system maintains substantial foreign liquidity against this risk, which has been centralized at the Central Bank,” Moody’s said.“We expect continued pressure on banks’ loan quality, driven by several years of subpar economic growth, high interest rates and a struggling real-estate sector,” the report added.It said that in view of challenging conditions and high sovereign exposure, capital would remain modest.“We expect banking sector equity-to-total assets to remain at 8 percent for 2019.“We have raised our risk weights to reflect the recent sovereign downgrade to Caa1, which will lower our adjusted risk-weighted capital ratios,” the report said.Moody’s expected that Lebanese banks’ profitability would be under pressure. “Higher funding costs, subdued new business and higher provisions (from low levels) will challenge profits. Large banks will seek to mitigate these factors through cost control supported by digitalization, and growth abroad,” Moody’s said.