

Rating Action: Lebanon

Moody's changes Lebanon's ratings outlook to stable

DIFC, March 25, 2008 -- Moody's Investors Service has today changed the outlook on Lebanon's ratings to stable from negative. The change of outlook applies to the government's B3 local and foreign currency bond ratings, the B3 country ceiling for foreign currency bank deposits and the B2 country ceiling for foreign currency bonds.

"The change of outlook is justified by the impressive resilience of Lebanon's public finances in the face of numerous political shocks since Moody's assignment of a negative rating outlook in November 2006. In fact, the health of the country's public finances has improved modestly during this period and the government's short-term funding needs are manageable," explains Tristan Cooper, Vice President -- Senior Analyst in Moody's Sovereign Risk Unit. Hence, despite the possibility of further adverse political events, Moody's believes that Lebanon's sovereign ratings can withstand severe political volatility at their current low level.

In November 2006, Moody's changed the sovereign ratings outlook to negative from stable because it seemed that the marked deterioration in the domestic political environment could worsen further and have a material impact on the government's repayment capacity, possibly leading to a default given the extraordinarily large public debt overhang. However, Moody's observes that the turbulent domestic political events of the past 18 months, as well as the ongoing impasse over a replacement for the vacant presidency, have not had a significant impact on the government's repayment ability, which has in fact improved moderately during this time.

"Indeed, the Lebanese government's large debt burden has eased somewhat, the wide fiscal deficit has narrowed and, most importantly, local banks have remained willing and able to provide financing as their committed deposit base has continued to grow," says Mr Cooper. Hence, the government does not face significant difficulties in rolling over maturing debt in either local or foreign currency.

In addition, external official donors have underlined their commitment to Lebanon by pledging \$7.6 billion in assistance at the "Paris III" conference in January 2007, of which approximately \$1.8 billion has so far been received. Most recently, in February 2008, Saudi Arabia gave indications that it plans to deposit a further \$1 billion in Lebanon's central bank. A further reassurance is that the central bank continues to hold a large stock of foreign exchange reserves, which amounted to around \$9.8 billion or 40% of GDP at the end of January 2008. The central bank also has gold reserves worth around \$8.5 billion, although Moody's notes that it cannot liquidate them without parliamentary approval which would be difficult to obtain.

"Given the resilience of the government's finances and the manageability of short-term funding pressures, it seems that all but the most extreme of political shocks would be unlikely to trigger a default," says Mr Cooper. Moody's is well aware of the fragility of the country's political and economic environment and the deep structural fiscal weaknesses. However, the rating agency believes that these risks are captured by its already low ratings for Lebanon. Other governments rated B3 include Argentina, Bolivia and Ecuador - all of which have a history of default. Moody's usually reserves ratings below B3 for governments that are very close to or are already in default.

Press releases regarding other affected issuers will follow separately.

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