

**Rating Action: Lebanon**

**Moody's changes Lebanon's rating outlook to negative**

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London, 21 November 2006 -- Moody's Investors Service has today changed the outlook on Lebanon's B3 foreign currency government bond rating to negative from stable. The action reflects the ongoing deterioration in the country's domestic political environment following the resignations of six opposition ministers from the cabinet on 11 and 13 November and the assassination of the minister of industry on 21 November.

Moody's believes that the resignations by the ministers, most of whom were Shiite, has undermined the government's standing, further calling into question its ability to maintain political stability or implement much-needed economic reforms. The assassination of the Christian minister of industry has emphasised the fragility of the current political situation.

"Our B3 foreign currency government bond rating for Lebanon already reflects a high degree of political and economic risk," says Tristan Cooper, Moody's VP-Senior Analyst. "However, it rests on a number of assumptions that could be weakened by the escalation in political tensions."

Moody's has maintained a stable outlook on Lebanon's B3 foreign currency government bond rating since March 2005 and throughout this summer's devastating conflict between Hezbollah and Israel based on the assumptions that: (i) Lebanon's current government has a proven strong willingness to service its massive debt burden; (ii) depositors in Lebanese banks (mostly Lebanese expatriates or wealthy Gulf Arabs) will maintain their confidence and that the base of bank deposits will continue to grow over time, enabling local banks to finance the large fiscal deficit; and (iii) Lebanon will continue to receive external financial support in times of crisis. This rationale has previously been described in detail in a Special Comment issued on 28 July 2006 and in the most recent Credit Opinion for Lebanon, published on 5 September 2006.

"Moody's considers that recent events have increased the probability that the current government could fall or its composition be significantly altered, which may in turn compromise the government's willingness to service the large public debt. Default is sometimes considered as a policy option in times of extreme fiscal pressure," says Mr Cooper.

"In addition, the confidence of bank depositors could be undermined by disruptive political developments or, potentially, the adoption of less market-friendly policies, although we note that depositors have proven remarkably resilient during previous political crises," says Mr Cooper.

"Finally, a change of leadership or a retreat from economic reform would reduce the likelihood of additional financial assistance from Western or Gulf Arab donors, who have previously supported Lebanon in times of difficulty, including during the recent conflict with Israel. These considerations have led us to change our rating outlook to negative."

Moody's has also changed the outlook on Lebanon's B2 country ceiling for foreign currency bonds and B3 country ceiling for foreign currency bank deposits to negative from stable. The country ceilings for local currency bonds and local currency bank deposits are unchanged at Ba1. The outlook on the B3 local currency government bond rating remains negative.

Press releases regarding other affected issuers will follow separately.

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