



NEWS RELEASE

Jul 29, 2010

R&I Affirms B+, Changes Outlook Positive: Lebanon

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Republic of Lebanon
Foreign Currency Issuer Rating

R&I RATING: B+ (Affirmed)
RATING OUTLOOK: Positive (Changed from Stable)

Foreign Currency Short-term Debts

R&I RATING: b (Affirmed)

RATIONALE:

The inauguration of a "national unity government" in November 2009 has so far put an end to the period of political turmoil that plagued the Republic of Lebanon since 2005. The Lebanese economy has been growing solidly, thanks to the expansion of construction investments and the tourism and trade boom. The International Monetary Fund (IMF) expects real GDP growth to continue to exceed 9% in 2010, following 9.3% and 9.0% growth in 2008 and 2009, respectively. Driven by the GDP growth and tax policies adopted by the Government, such as uncapping gasoline taxes and the introduction of fuel taxes, tax revenue has been increasing, diminishing concerns about fiscal deterioration.

In spite of the favorable situation, R&I has affirmed the Foreign Currency Issuer Rating at B+, taking the view that the "national unity government" has yet to show convincingly its political footing is solid. Since this administration needs to accommodate interests of all political parties including Hezbollah, a Shiite Muslim political party and an armed resistance movement, it has taken a long time to build consensus. It is no easy thing to overcome persistent social tensions shown until recently among various ethnic and religious groups. Therefore, R&I needs to watch carefully whether this administration will be able to manage effectively so as to manifest itself of being cohesive enough and true to the name of the "national unity government".

R&I also positively evaluates the fact that Lebanon's deposit-rich banking sector enables the government to smoothly refinance the government debt, which has reached 148% of GDP at the end of 2009. However, this kind of financing structure is not presumed to be solid enough since it relies heavily on non-resident deposits whose stickiness are generally assumed to be inferior to resident deposits. This suggests that there always remains the risk of deposit outflow, but sustained political stability can serve as a key factor to minimize such risk.

R&I has changed the Rating Outlook to Positive, reflecting its view that this administration has started to function and take steps towards fiscal consolidation on the back of the favorable political and economic situation. At the end of June, the Council of the Ministers endorsed a budget plan for the current fiscal year, which is expected to be ratified by the Parliament for the first time in five years. Among tax increase measures, while a proposal to raise the value-added tax rates has been

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

Credit ratings are statements of R&I's opinions regarding an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.

©Rating and Investment Information, Inc.



NEWS RELEASE

postponed, tax increases on deposit interest income and real estate registration fees are approved. The budget plan also contains a plan for sizable expansion of electric-generating capacity and improvement in electricity transmission and distribution efficiency through the use of private capital.

At a little over 10% of GDP, the projected fiscal deficit for 2010 remains large, and the Government has yet to show a path toward reduction of structural fiscal deficit in face of problems such as a narrow taxation base, a heavy interest payment burden and massive transfers of subsidies to the state-run electric power company. A rating upgrade may come into sight, if the political and economic situation continues to remain stable, rendering possible the government to execute the budget plan on time and make progress in fiscal consolidation.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER: Republic of Lebanon

FOREIGN CURRENCY ISSUER RATING: B+ (Affirmed)

RATING OUTLOOK: Positive (Changed from Stable)

FOREIGN CURRENCY SHORT-TERM DEBTS: b (Affirmed)

An Issuer Rating is R&I's opinion on an issuer's general capacity to fulfill its financial obligations and is, in principle, assigned to all issuers. The credit rating of an individual obligation reflects the terms and recoverability of the obligation and may be lower or higher than the Issuer Rating.

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

Credit ratings are statements of R&I's opinions regarding an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.

©Rating and Investment Information, Inc.