PANORAMA COUNTRY RISK

The Coface economic publications

Fall 2012

Contents

The global economic slowdown is confirmed this fall, in line with the recession in the eurozone and the emerging market deceleration. Activity in the United States in on a steady path (around 2%), but the improvement in American businesses' credit risk is flagging in the wake of growing concerns looming over the fiscal policy that will be implemented. Therefore the positive watch placed on the A2 assessment of the United States six months ago is being removed. In Europe, the crisis, still very sharp in the south of the eurozone, now hits the core countries. Because growth is sluggish and payment incidents trending up notably, Coface places the country assessments of Belgium, France and the Netherlands under a negative watch list. The assessments on Australia and New Zealand have been downgraded considering the tangible problems the industry and service sectors are confronted to, even though growth is still underpinned by the mining sector performance. As a reminder, Coface country risk assessment evaluates to which extent economic, financial and political trends influence the credit risk of local companies in a given country.

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Growth forecasts

Coface	2004	2005	2006	2007	2008	2009	2010	2011(e)	2012 (f)
World production	**3.9**	**3.6**	**4.3**	**4.3**	**1.9**	**-1.8**	**4.3**	**3.1**	**2.6**
Advanced countries	**2.8**	**2.4**	**2.8**	**2.5**	**-0.1**	**-3.7**	**2.5**	**1.3**	**1.2**
United States	3.5	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8	2.0
Japan	2.3	1.3	1.7	2.2	-1.1	-5.5	4.6	-0.7	2.3
Eurozone	**2.1**	**1.9**	**3.5**	**3.1**	**0.5**	**-4.2**	**2.0**	**1.7**	**-0.3**
Germany	0.7	0.8	3.9	3.4	0.8	-5.1	3.6	3.1	0.9
United Kingdom	2.9	2.8	2.6	3.6	-1.0	-4.0	1.8	0.8	-0.5
France	2.3	1.9	2.6	2.3	-0.2	-3.1	1.6	1.7	0.1
Italy	1.6	1.1	2.3	1.6	-1.2	-5.5	1.8	0.5	-2.3
Spain	3.3	3.6	4.1	3.5	0.9	-3.7	-0.3	0.4	-1.6
Emerging countries	**7.0**	**6.7**	**7.7**	**7.9**	**5.5**	**1.9**	**7.2**	**5.8**	**4.7**
Emerging Asia	7.7	8.1	8.9	9.8	6.9	5.7	9.0	7.4	6.1
Latin America	5.9	4.6	5.7	5.7	4.2	-1.5	6.2	4.2	3.1
Emerging Europe	6.7	6.1	6.5	5.7	3.0	-4.0	4.5	4.8	1.7
North Africa / Middle East	6.6	5.3	7.4	5.7	4.9	2.0	5.3	3.1	3.3
Subsaharan Africa	5.6	6.5	6.3	7.4	5.6	2.6	5.0	4.4	4.6
China	10.1	11.3	12.7	14.2	9.6	9.2	10.5	9.2	7.7
India	7.2	9.2	9.6	9.7	8.1	6.4	8.9	7.5	5.5
Brazil	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7	2.2
Russia	7.2	6.4	8.2	8.5	5.3	-7.8	4.3	4.3	3.8

(e): estimate
(f): forecast

Country risk assessments

Country risk assessment modifications

Countries	July 2012	October 2012 modifications (in ascending order of risk)

Country risk assessment either downgraded, or removed from positive watch list or placed under negative watch list

Australia	A1↘	A2
New zealand	A1↘	A2
United states	A2↗	A2
Belgium	A2	A2 ↘
France	A2	A2 ↘
The Netherland	A2	A2 ↘

NEW ZEALAND: A2
Assessment downgraded from A1↘ to A2.

Growth is sustained (2% expected in 2012) but the country is enduring a slowdown in domestic and external demand.

- Households remain cautious, deleveraging and rebuilding savings. New home ownership has been limited by rising housing prices (+6% this summer compared to the pre-crisis peak).
- The unemployment rate is high (6.8%) compared to the usual national standards. Labour demand for reconstruction in Christchurch and Canterbury could help drive the rate lower, but employment has not improved in this region during Q1.
- Exports are handicapped by the strength of the New Zealand dollar and by the slowdown in external demand from emerging Asia and Australia.
- Bankruptcies progressed 57% over three months (February-April 2012 y/y) and by 95% over six months.

AUSTRALIA: A2
Assessment downgraded from A1↘ to A2.

Growth is dynamic (+2.7% expected in 2012) but signs of a slowdown are in sight:

- Exporting industries (excluding mining sectors) and services are still affected by the strength of the Australian dollar (+10% since June vs. the US dollar).
- The slowdown in raw material demand from abroad and in commodity prices leads to the postponement of some mining project investment, traditional engine of growth.
- Households are heavily indebted and are increasing savings, this reflects a loss of confidence in economic outlook.
- The government is tightening its fiscal policy.
- Bankruptcies continue to rise: +14% in Q1 (y/y), which is reflected in by the increase in Coface payment incident index.

UNITED STATES: A2
A2 assessment removed from positive watch list (since March 2012)

Despite a 2012 growth forecast of 2%, household and business anticipations are limited by the political uncertainties.

- The application of the fiscal adjustment *(fiscal cliff)* as provided for by the 2013 finance bill would trigger a significant recession during the first half of next year.
- The job creations figure is still not enough to jump-start the economy by significant degree.
- Housing prices continue to recover (+1.6% in July) but remain 30% lower than the peak recorded in July 2006 (S&P/Case Schiller).
- Household savings rate is acting as an adjustment value in order to sustain consumption.
- Business investment and exports are eroding.
- The number of bankruptcies has diminished, although remaining higher than pre-crisis levels.

BELGIUM: A2↘

A2 assessment placed under negative watch list

Amid a sluggish European context faced with restrictive budgetary measures, the Belgian economy has been hit by:

- GDP contraction: -0.5% (Q2/Q1) and -0.3% (over one year in Q2), which was more severe in industry than in other sectors and stagnation in Q3.
- A fall in industrial production capacity utilisation: 78% compared to 84% before the crisis, having picked up slightly in the interim (81% in 2010).
- Household and corporate confidence is low, as illustrated by a fall in consumer spending and lacklustre investment.

Consequently, companies have also been impacted.

- Over 8 months to August 2012, payment incidents recorded by Coface increased more in volume than in number, which indicates that unit claims have been higher in value.
- During the same period of time, the number of bankruptcies recorded by Statbel rose by 4.4%. The deterioration started in 2011. Although lower than the 10% increase recorded in 2008-09, it is nonetheless significant. The sharpest increase occurred in construction and the Flemish industrial sector.

FRANCE : A2↘

A2 assessment placed under negative watch list.

- Household consumer spending started to slow down in Q2 2012; likely GDP contraction in Q3, following three consecutive quarters of stagnation, amid a deteriorating business climate and rising unemployment; 2012 growth forecast revised down to 0.1%.
- Corporate margins and cash-flow rates are weak.
- An increase in payment defaults over the first eight months of 2012.
- A slight decrease in the number of corporate bankruptcies over the same period (-1.8%) but the cost to suppliers rose sharply (+16.8%) on account of the increasing size of companies filing for bankruptcy. There is a risk of the number bankruptcies increasing this autumn.

THE NETHERLANDS: A2↘

A2 assessment placed under negative watch list

- The economy is highly dependent on external trade, which is currently the only driver of business activity.
- Domestic demand continues to fall (lower household spending in July 2012 for the 12th month in a row). GDP forecast to contract by around 0.6% this year.
- One of the highest levels of household debt in the euro zone (126% of GDP), a record fall in property prices in July-August 2012 (-8% over one year), doubtful loans surged during H1 2012.
- Corporate bankruptcies increased sharply (+25%) with a steep rise in the Coface payment incident index over the first eight months of 2012.

As a reminder...

Countries under watch list

Ranging by ascending risk and alphabetical order

Under positive watch

Country	Assessment	Under positive watch since...
Indonesia	B	July 2012
Ivory Coast	D	July 2012

Under negative watch

Country	Assessment	Under negative watch since...
Belgium*	**A2**	**October 2012**
France*	**A2**	**October 2012**
The Netherlands*	**A2**	**October 2012**
India	A3	July 2012
Italy	A4	July 2012
Spain	A4	July 2012

Country risk assessment of major economies

Ranging by ascending risk and alphabetical order

Countries	Assessments
Canada	A1
Japan	A1
Australia	A2
Germany	A2
Korea	A2
United States*	**A2**
France*	**A2↘**
Brazil	A3
China	A3
Poland	A3
South Africa	A3
United Kingdom	A3
India	A3↘
Mexico	A4
Saudi Arabia	A4
Turkey	A4
Italy	A4↘
Spain	A4↘

*Country risk assessments changed in October 2012

ANGOLA

Coface Assessments

Country risk **C**

Business climate **D**

Medium term

HIGH RISK

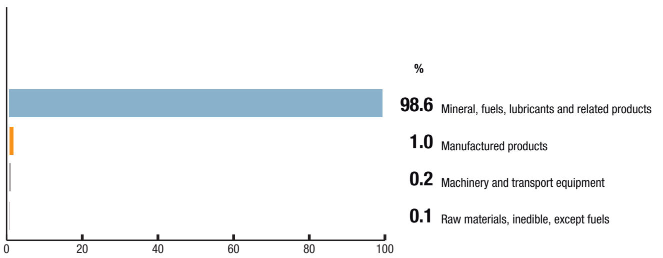
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	2.4	3.4	3.9	6.8
Inflation (yearly average) (%)	13.7	14.5	13.5	10.8
Budget balance (% GDP)	-7.4	5.5	10.2	6.1
Current account balance (% GDP)	-9.9	9.1	9.9	7.0
Public debt (% GDP)*	36.4	37.6	31.5	28.5

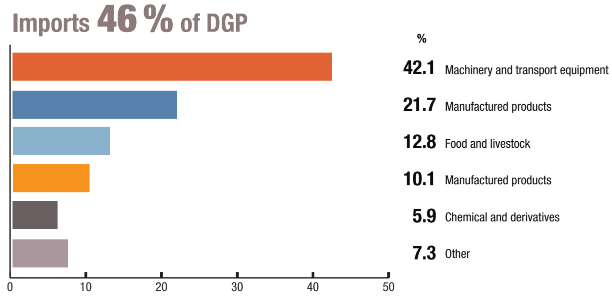
** Including the IMF financial support* *(e): estimate* *(f): forecast*

Trade exchanges

Exports **52 %** of DGP



Imports **46 %** of DGP



Risk assessment

Upturn in 2012 activity supported by the oil price and the launch of liquefied natural gas production

The increase in oil production in conjunction with the rise in the oil price per barrel in 2012 enabled strong growth, which should reach 6.8% for the full year, versus 3.9% in 2011. The country is also benefiting from the positive effect of the launch of liquefied natural gas production. On the other hand, agricultural production (around 10% of GDP) has been affected by a severe drought. Excluding oil, GDP is driven by diamond production, construction and civil engineering and transport, with the latter sectors being supported by public investment as part of the government's economic diversification programme.

Budget and current account surpluses remain dependent on oil income

The comfortable budget surplus in 2012 has been guaranteed by the rise in the crude oil price and should consolidate at around 6% by the end of the year. However, whilst management of oil resources ought to improve with the implementation of the reforms included in the IMF Stand-By Arrangement, it is still suffering from a lack of rules and transparency.

As for the current account surplus, it also remains dependent on oil exports and prices remaining high. Indeed, oil dominates exports, representing 98% of the total, and enables major import requirements of goods and services necessary for oil exploitation to be covered.

A financial system marked by the lack of supervision and Angolan banks' vulnerability to the situation in the eurozone

The banking sector is marked by the lack of supervision and of recognition for the true level of doubtful loans. Moreover, banks suffer from the low vitality of the non-rentier sector, which explains why several of them are held by non-residents. Some banks and large corporations (mainly the sovereign fund, Sonangol) have also acquired major shares in large Portuguese banking groups. The intertwining of the banks of these two countries increases dependency on the economic and financial situation in the eurozone.

Social demands and shortcomings in the business environment

Elections in August 2012 marked a new victory for President José Eduardo Dos Santos at the head of the MPLA with 72% of the vote (versus 82% in the previous elections in 2008), giving him a new five-year mandate on top of the 33 years at the head of the country. Recent promises regarding social spending reflect the President's desire to appease social demands marking the electoral campaign, particularly as regards housing. Indeed, the cost of housing, especially in the capital Luanda, is very high, in a country marked by significant social inequality. The Gini coefficient reached 0.55, higher than that of Nigeria, which stands at 0.48. Social tension may increase if the government does not improve the situation. However the authorities' grip on the media and press and the population's desire for stability after a civil war lasting 27 years ending in 2002, should curb the development of a more widespread, organized movement. This tension combines with those appearing within the ruling elite concerning the succession of the President Dos Santos. Finally, the business environment remains marked by a lack of transparency, recurring legal instability and substantial corruption. The latter is a real weakness, with the country classed 168th out of 182 according to the Corruption Perceptions Index of Transparency International.

Strengths

- Large and growing oil production, thanks to offshore development
- Launch of liquefied natural gas production
- Considerable economic potential: gas, copper, iron, manganese, gold, agriculture, fishing, hydraulic resources
- Strong regional influence, both financial and military
- International backing

Weaknesses

- Vulnerability to oil price downturns
- Instability of the Cabinda enclave, source of one third of the oil
- Largely poor and unskilled population, benefitting little from the oil
- Concentration of wealth in Luanda, especially to the detriment of the interior
- Dilapidated infrastructures
- Political and economic control exercised by tightly-knit elite

ARGENTINA

Coface Assessments

Country risk	C
Business climate	C
Medium term	VERY HIGH RISK

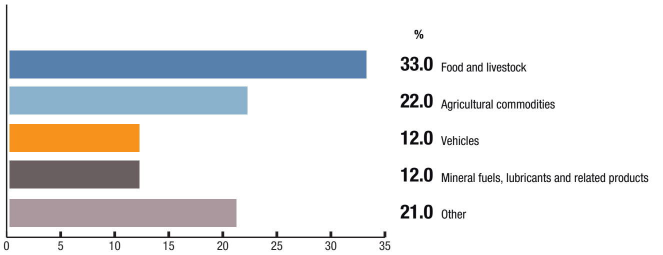
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	0.9	9.2	8.9	1.0
Inflation (yearly average) (%)	16.3	21.9	22.0	26.7
Budget balance (% GDP)	-0.6	0.2	-1.7	-2.9
Current account balance (% GDP)	3.6	0.8	0.0	0.0
Public debt (% GDP)	58.7	49.1	44.2	43.2

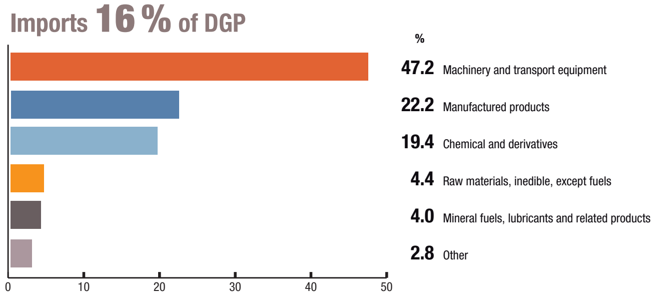
(e): estimate (f): forecast

Trade exchanges

Exports **21 %** of DGP



Imports **16 %** of DGP



Risk assessment

Significant slowdown in 2012 in a context of less buoyant international and domestic growth

The slowdown in growth intensified during 2012. Activity is very sensitive to the global economic environment. The slowdown experienced by the country's principal trade partners, primarily Brazil, had a negative impact on exports, with the textile sector and the automotive sector suffering particularly badly. However the recent rise in global agricultural commodity prices linked to the droughts in the United States, will lead to a rise in export values. Agricultural products represent 10% of GDP and 20% of exports. Although households are used to high inflation and protected by indexed salaries, their consumption is threatened by increasing inflation figures. Business investment, in industry as well as in the energy and the transport sector, could be further discouraged by controls on movements of capital, restrictions on imports and foreign exchange controls. Expropriation of oil company YPF, a subsidiary of Repsol and, respectively, number one and two in oil production (35%) and gas production (25%), is unlikely to encourage foreign investment.

Erosion of budget and current account surpluses

In 2012, the budget deficit will increase to reach 2.9%. Budget revenues are threatened by many exemptions and are very dependent on customs duties. The import restrictions imposed by the government therefore have a negative effect on the budget balance. As for expenses, they are increasing rapidly because subsidies are following the rise in commodity prices while employee-related expenses are indexed to inflation.

The current account surplus has suffered gradual erosion for several years now. In 2012, the current account balance will only break even before sinking into the red during 2013. The reduction in the trade surplus and the increase in the services and revenues deficits are in question. In 2012, imports have increased more rapidly than exports, despite the controls imposed by the authorities. The competitiveness of exports has been eroded by the real appreciation of the peso, with the rise in prices exceeding the depreciation of the currency.

Increased foreign exchange controls

The Argentine government, in default to the creditor countries of the Paris Club with respect to its bilateral public debt, may not in fact access the financial markets, unless at very high interest rates. Since the trade surplus, which is consequently the only source of dollars, no longer covers withdrawals of private capital and the requirements of the State, the authorities have taken several restrictive steps that aim to safeguard the central bank's foreign currency reserves. Imports are discouraged. In July 2011, the government increased the number of products (600) subject to import licences. Obtaining a licence is dependent upon an undertaking by the importer or a local partner to export for an equivalent amount. In December, importers were obliged to alert their banks of their requirements in foreign currency at least 10 days in advance; then were forced to apply for authorisation to import from the tax authorities as from 1 February 2012. These authorisations are granted very sparingly. Imports have been effectively reduced. However, the drop in imports, which are 80% composed of intermediate products and capital goods, threatens production capacity and is hindering exports.

Individuals are just as much affected as businesses. The property market, on which transactions are traditionally made in dollars, has slowed down considerably. Foreign exchange controls make access to US dollars extremely difficult.

The gap between the official exchange rate and the black market rate may reach more than 37% (at the end of August). This amply demonstrates the Argentines' belief that the peso is overvalued and that a significant devaluation could take place. The memory of the forced "pesoisation" of 2001 has not disappeared.

Increasing isolation on the international front and social tensions at a domestic level

Argentina's foreign policy is increasing its isolation on the international front. No agreement has been concluded with the public creditors of the Paris Club with regard to the payment of arrears. In addition, the expropriation of Argentine oil company YPF, a subsidiary of Spanish group Repsol, put the relationship between the two countries under a great deal of strain. Furthermore, import restrictions put in place by the Argentine government are increasing tensions with its trade partners (Mercosur and the United States in particular).

At the domestic level, the popularity of President Cristina Fernandez de Kirchner, re-elected for a second term in 2011, has declined sharply. Social tensions are running high due to significant poverty, inequality and strong inflation. Although the centre-left, Peron-inspired government follows a socially oriented policy, wage claims and strikes are very common. Against this background, it is highly likely that the government will lose its parliamentary majority in the mid-term elections to be held in 2013.

Strengths

- Abundant resources: agricultural (cereals, oleaginous plants, meat, fruit), energy (natural gas, oil, hydroelectricity), and mineral (gold, silver, copper)
- Tourist attractions
- Education and human development indicators above the regional average
- Skilled labour
- Democratic political system

Weaknesses

- Unpredictable business environment
- Non-standard relationships with creditor countries that are members of the Paris Club
- Dependence on raw materials
- Inadequate investment in energy and transport
- Very high inflation
- Budgetary policy lacking in rigour
- Great inequality and social tensions

ARMENIA

Coface Assessments

Country risk: **C**

Business climate: **C**

Medium term: **HIGH RISK**

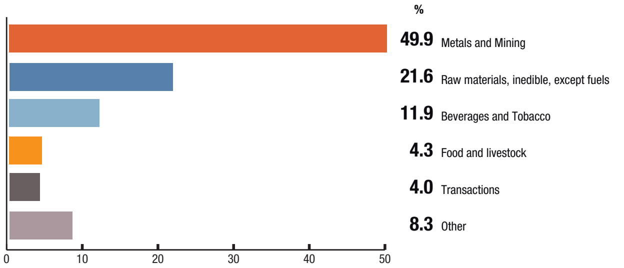
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-14.2	2.6	4.6	3.5
Inflation (yearly average) (%)	3.5	7.3	7.8	3.9
Budget balance (% GDP)	-7.8	-5.7	-3.8	-3.1
Current account balance (% GDP)	-15.8	-14.7	-11.1	-12.0
Public debt (% GDP)	40.2	39.2	42.0	42.3

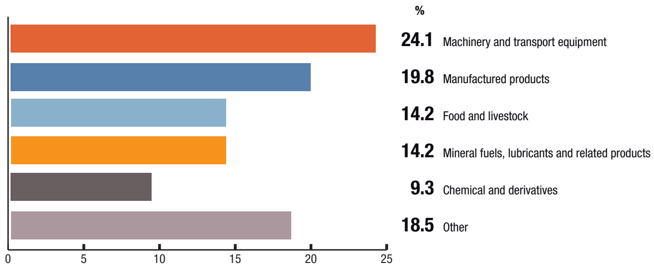
(e): estimate (f): forecast

Trade exchanges

Exports 12 % of DGP



Imports 36 % of DGP



Risk assessment

Stabilisation of growth

After the upturn in economic activity in 2011, the economy slightly slowed in 2012, curbed by less favourable external conditions. Very dependent on the Russian economy, which is holding up quite well, the Armenian economy should however be relatively spared by the recession which is affecting Western Europe. Private consumption, buoyed by budget measures and investment remain the main contributors to growth. Mining and manufacturing output as well as the service sector remain buoyant, whereas agriculture is hampered by structural weaknesses (obsolescence of equipment, poor access to credit). The contribution of foreign trade remains negative. Exports of metals and minerals are buoyed by high prices. However, the slowdown in economic activity in Germany and Bulgaria – the main outlets after Russia – impedes the export sector. The rise in food prices, accentuated by the summer drought which affected Russia, the country's main supplier of cereals, as well as that of the cost of energy contribute to increasing inflationary pressures. The Central Bank has kept its inflation rate target (4% ±1.5%) but should not modify its monetary policy, maintaining the same refinancing rate since September 2011.

Fiscal consolidation efforts

The government is continuing its programme of overhauling public finances. Public spending, re-directed towards social programmes and increasing pensions to the detriment of equipment expenditure, remains contained due to the freeze on wages. The tax reforms, aiming to reduce tax evasion and improve VAT collection, will enable the public deficit to be maintained around 3% of GDP at the end of 2012. This budget consolidation effort is necessary to stabilise public debt, which has more than doubled since 2008 (from 16% to 42% of GDP) and 80% of which is denominated in foreign currencies. The current deficit has slightly increased, under the effect of the slowdown in foreign demand (metals, minerals), while imports have been buoyed by the increase in domestic demand. The increase in remittances from expatriate workers (the majority in Russia) is not sufficient to offset the trade deficit. FDI has fallen and portfolio capital is negative. The recourse to debt is therefore inevitable to cover the economy's financing needs. Foreign debt, mainly held with multilateral lenders and Russia, has increased sharply since 2008, now around 70% of GDP (30% in 2008). The dram remained stable at the start of the year and slightly depreciated after the parliamentary elections. The interventions of the Central Bank to limit its volatility has reduced the country's reserves. The banking sector seems to have stabilised, with non-performing loans distinctly down and new prudential regulations reinforcing capitalisation requirements.

A risky geopolitical environment

President Serzh Sargsyan's Republican Party of Armenia (RPA) won an absolute majority of the seats at the National Assembly during parliamentary elections in May 2012. Despite several protest movements organised by the opposition party the Armenian National Congress (ANC), the violence that marked the presidential election in 2008 was not reproduced. Therefore, the domestic political situation seems to have stabilised while waiting for the presidential elections in February 2013.

As far as external relations are concerned, negotiations with Azerbaijan on the status of the Nagorno-Karabakh region remain at an impasse. Relations have further deteriorated since September after the decision of the Azerbaijan authorities to pardon and promote an officer sentenced for the murder of an Armenian soldier. The risk of armed conflict remains high, while the two countries military budgets have been rising steeply since 2010. Furthermore, Turkey, historically an Azerbaijan ally, has made the normalisation of its relations with Armenia conditional on the resolution of the Nagorno-Karabakh situation. So no major advance is expected in the coming months in Turkish-Armenian relations. There has been some progress on governance, particularly regarding the protection of property rights and regulatory clarity. However, corruption and the close ties between the political and economic elite ensure Armenia features among the lowest ranked countries (129th out of 182) according to Transparency International.

Strengths ↗

- Financial support from the international community
- On-going overhaul of public finances
- Improvement in the business environment

Weaknesses ↘

- Structurally high current-account deficits
- Geographic isolation
- Heavy dependence on Russia (FDI, remittances and exports)
- Risk of armed conflict with Azerbaijan

AUSTRALIA

Coface Assessments

Country risk	A2
Business climate	A1

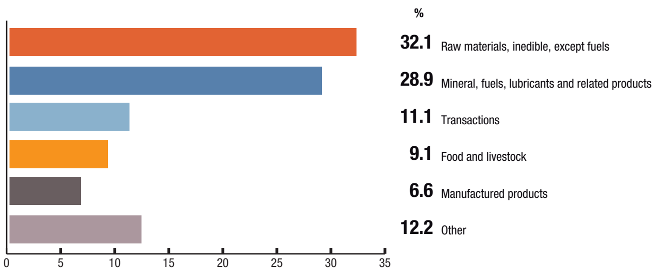
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	1.4	2.7	2	2.7
Inflation (yearly average) (%)	1.8	2.8	3.4	2.9
Budget balance (% GDP)	-4.1	-4.8	-3.3	-1.5
Current account balance (% GDP)	-4.5	-2.6	-1.6	-1.9
Public debt (% GDP)	22.6	28.8	30.3	29.4

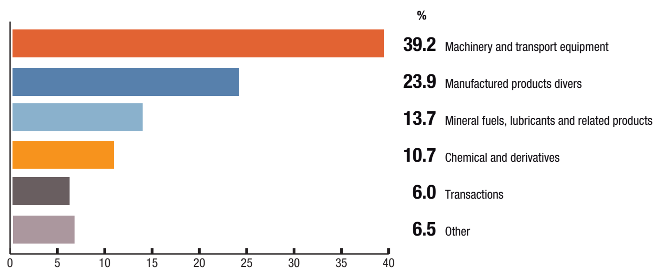
(e): estimate (f): forecast

Trade exchanges

Exports 20 % of DGP



Imports 22 % of DGP



Risk assessment

Growth continues to be sustained, but some concerns are in sight

After the impact of the floods on economic activity in 2011, growth should reach 2.7% in 2012. It is a good performance but signs of a slowdown point to a slightly less buoyant year-end. In fact, businesses in the mining (coal and iron ore) and energy (coal gas and natural gas) sectors should see their exports slow down under the effect of reduced demand from China, the main commercial partner, but also the rest of Asia, which is suffering from the recession in the eurozone. The fall in commodity prices is also putting pressure on the profits of mining groups. In reaction, the latter could therefore postpone several large projects (extension of the Olympic Dam uranium and copper mines, construction of a terminal for exports to Port Hedland, etc.). Investment in the mining sector, one of the traditional growth engines, will nevertheless significantly increase, particularly in the liquefied natural gas sector. For their part, the manufacturing and services sectors (tourism, education) continue to suffer from a competitiveness-price disadvantage due to the high parity of the Australian dollar. Capital flows continue to focus on assets that appear to be the least risky, such as the Australian currency. But both the lowering of the Reserve Bank of Australia (RBA)'s key rate by 25 base points to 3.25% and of the slowdown in the mining sector could limit the appreciation of the local currency.

Household confidence on a weakening path

Household consumption continues to be the driving force behind growth but in 2012 it will remain below pre-crisis levels. The trend in the household confidence index is less positive despite the last December cut in the RBA's key rate to 4.25%. This decision will alleviate the mortgage debt of households, most of which have taken out variable-rate loans. Discretionary spending, especially that linked with leisure, is being cut back as households prefer to pay down debts (150% of their disposable income –DI-) and to continue to put money into precautionary savings (9.2% of disposable income against 3.1% in 2007). Investment in housing is likely to stagnate or slow slightly, despite the chronic shortage of housing in most major Australian cities. Prices which are already high should therefore be pushed up further.
In this context, tax revenues decelerate, jeopardizing the government's objective to return to a budget surplus in 2013. The reduction in public expenditure would actually further affect growth. Public debt remains at a satisfactory level (30%) despite it has doubled since 2007.

Company insolvencies have risen sharply

Since 2002-2003 the Australian economy has been fuelled by the exceptional boom in the mining sector. The latter represents around 9% of the country's GDP and 2% of the workforce. But the slowdown observed since the summer should affect other business sectors that are directly linked to it: construction of factories and extraction sites, the manufacturing industry of specialised mechanical engineering, research and development, exploration, transport, port and railway infrastructures, scientific, financial and insurance services. Other activities benefit from the mining boom, such as distribution. The west region is the most concerned by the deceleration in the sector, but remains at the same time the most dynamic area. Globally, in a context where credit remains depressed, payment delays tend to lengthen. Bankruptcies accelerated in the first quarter of this year (+14% versus the same period of 2011) as reflected in Coface's payment incidents index, which stands above the world average.

Strengths

- Geographic proximity to emerging Asia
- Mineral resources
- Moderate national debt
- Solid banking system
- Dynamic demographics
- Geographic characteristics that favour tourism

Weaknesses

- Vulnerability to the commodities cycle
- High foreign debt (nearly 100% of GDP)
- High household debt level (over 150% of disposable income)
- Shortage of skilled labour
- High exposure to natural hazards

BELARUS

Coface Assessments

Country risk: **D**

Business climate: **D**

Medium term: **VERY HIGH RISK**

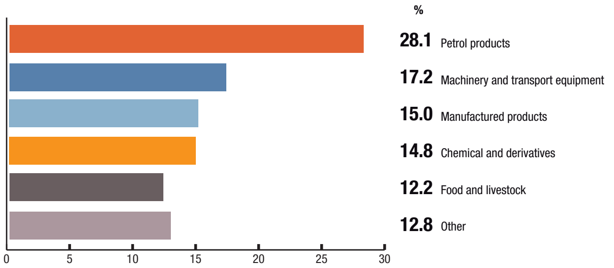
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	0.2	7.6	5.3	3.0
Inflation (yearly average) (%)	13.0	7.7	53.2	66.0
Budget balance (% GDP)	-0.7	-1.8	3.1	-1.0
Current account balance (% GDP)	-12.6	-15.0	-10.4	-6.1
Public debt (% GDP)	34.9	41.0	50.6	37.7

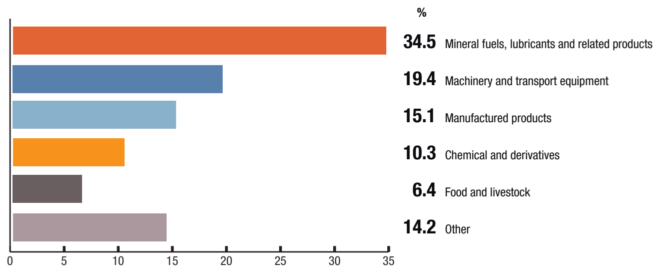
(e): estimate (f): forecast

Trade exchanges

Exports 51 % of DGP



Imports 62 % of DGP



Risk assessment

Growth hampered by macro-economic adjustment

After 2011 marked by a balance of payments crisis and devaluation, Belarus is continuing its macro-economic adjustment in 2012. Growth has slowed down sharply but remains positive and should reach 3% over the year. Private consumption, buoyed by wage rises, offsets the fall in investment. Agricultural and industrial production (cereals, milk) is progressing. But inflationary tensions remain strong, with the authorities easing restrictive monetary policy implemented in 2011 and boosting demand through budget measures. The export sector's price competitiveness is directly affected by it and the contribution of net exports to growth will remain negative over the year. Sales of ores and metals, which represent 40% of exports, benefit from high prices but the slowdown in economic activity in Russia, the leading partner of the country, as well as within the European Union may lessen this effect by reducing volumes exported.

A still fragile financial situation

The government has tried to maintain the policy of controlling current expenditure without halting the rise in wages. The fall in revenue, linked to the slowdown in activity should however result in a slight deficit in 2012. The State's financing needs remain very high and are not fully covered by the $3 billion loan granted by the Eurasian Economic Community (EURASEC). The country has sought further aid from the IMF but negotiations have not ended successfully due to a lack of sufficient commitment from the Government on structural reforms. Public debt, which has almost doubled since the devaluation, should slightly fall in 2012. However, the proportion of debt denominated in foreign currencies will rise sharply, strengthening the risk of default if the rouble should suddenly depreciate.

Despite a slight improvement in the trade balance observed at the start of the year, following the effect of the devaluation in May 2011 and the fall in the price of imported gas due to the agreement concluded with Russia, the current balance will remain in deficit. The country is depending on privatisations to attract foreign investors but net FDI will remain weak with regard to financing needs. Belarus remains dependent on portfolio flows and bank credit in a context of increased risk aversion.

Revenue from the Gazprom purchase of 50% of the Beltransgaz capital ($2.5 billion) and the disbursement of a EURASEC credit tranche have enabled several reserves to be reconstituted. But their level remains extremely low (1 month's imports) and Belarus is therefore exposed to a significant liquidity risk. Due to the adoption of a floating exchange system, the authorities should be able to stabilise the rouble.

The banking sector has been weakened by the devaluation and financial crisis. It remains very vulnerable to a deterioration in the economic situation, which would increase bad debts and affect the solvency of the banks.

Growing influence of Russia and risk of social instability

Internationally, Belarus seems increasingly isolated and dependent on Russia. The economic sanctions imposed by the European Union and the United States are likely to be maintained as long as Alexander Loukachenko shows no signs of political openness. The recent appointment of Mr Makei as the Foreign Affairs Minister featuring on the list of Belarusians banned from entering the EU should not facilitate closer ties with western countries. In fact, the country is very dependent on Russia particularly for gas purchases and financial assistance but also through the stakes of Russian companies in the economy. Gazprom is now the sole shareholder in Beltransgaz and the loan granted via EURASEC comes with conditions imposing the privatisation of public assets until 2013, which will mainly benefit Russian companies. Although President Loukachenko is fiercely attached to the country's sovereignty with regard to Russia, economic integration between the two countries and the influence of Russia has increased significantly. Internally, the economic sanctions and rapidly deteriorating standards of living for Belarusians will put pressure on political stability. The opposition did not win any seats in the legislative elections at the end of September, confirming the grip of A. Loukachenko on the country, in power for eighteen years. Furthermore, the hardening of the regime since the start of the crisis in 2011 is fuelling the growing popular discontent which could lead to demonstrations, raising fears of a violent repression.

Strengths ↗

- Strategic geographic position between Europe and Russia
- Skilled labour force and quality infrastructure
- Lowest poverty rate among CIS countries

Weaknesses ↘

- Highly regulated economy and very slow progress with reforms
- Structurally high current account deficits
- Risk of liquidity crisis
- Heavily dependent on Russia (30% of exports, 60% of imports)

BELGIUM

Coface Assessments

Country risk **A2** ↘

Business climate **A1**

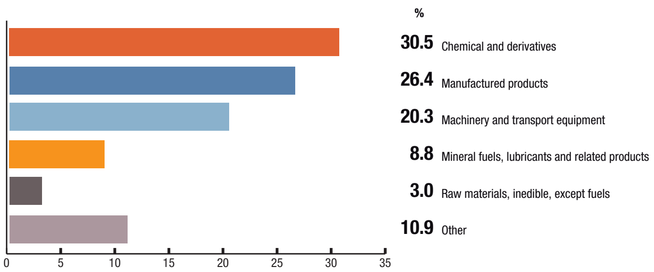
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-2.7	2.4	1,8	-0.1
Inflation (yearly average) (%)	0.0	2.2	3.5	2.9
Budget balance (% GDP)	-5.9	-4.2	-3.7	-2.8
Current account balance (% GDP)	-1.7	1.4	-1.0	-1.1
Public debt (% GDP)	95.0	96.0	99.0	98.0

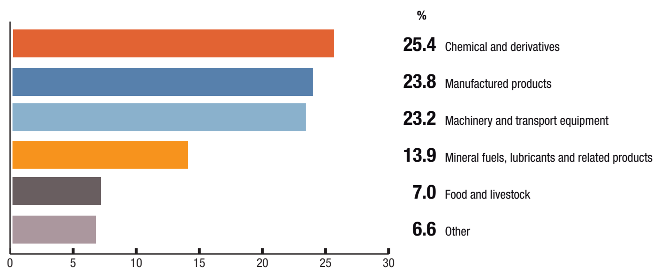
(e): estimate (f): forecast

Trade exchanges

Exports 73 % of DGP



Imports 70 % of DGP



Risk assessment

Sluggish activity that should start to recover slowly after the end of 2012

After posting a net drop during 2Q 2012, activity could fall further in the third quarter, before levelling off and beginning a slow and gradual recovery thereafter. This slow improvement is likely to continue throughout 2013. Expected growth for next year will still be lower than 1%, however.
Exports have dropped slightly due to the slump experienced by the country's main partners (Germany 19% of exports, France 17%, the Netherlands 12% and the United Kingdom 7%). However, because at the same time imports have followed the same trend, the contribution made by foreign trade to growth is not negative, but null. In 2013, a marginal rise in exports is possible if the eurozone posts a slight recovery.
Domestic demand is not flourishing; this is particularly due to budgetary restrictions. Despite the indexation of salaries to the high inflation seen in 2011, households' disposable income is expected to drop further in 2012. Faced with the freeze in job creations and budgetary tightening, individuals are being cautious in terms of their spending. Prudence is also the watchword for businesses, where investment is stagnating. The utilisation rate of production capacities rose to its previous average of 83% at the beginning of 2011, then fell back to 77%, although it must be said that it had fallen to 70% in 2009. However, looking at the results of the latest confidence survey conducted by the National Bank of Belgium with consumers and businesses, the phase of decline seems to have passed, which offers some hope of stabilisation followed by a degree of recovery in domestic demand after the end of 2012 and continuing into 2013.

The new government committed to the overhaul of the public accounts

After a year and a half of the out-going government in charge of current business since the June 2010 elections, a new team led by the socialist Elio de Rupo was sworn in at the beginning of December 2011. The new coalition is made up of six parties – socialists, liberals and Christian democrats, both Flemish and francophone - to the exclusion of the big winner of the elections in Flanders, the separatist N-VA party led by Bart de Wever, who has already promised tough opposition to the new prime minister. Already, in October 2011, an agreement was made on the devolution of additional powers to the federal entities, in particular in relation to social issues, transferring a quarter of tax revenues to the regions, splitting off the Brussels-Hal-Vilvorde electoral district, with the addition of a judicial agreement and another on the financing of Brussels by the suburbs. With the aim of bringing the fiscal deficit below the barrier of 3% of GDP from 2012 and to return to a balanced budget in 2015, the coalition government voted a large number of austerity measures in November 2011 and March 2012.

High public debt but net external creditor position

These fiscal measures are likely to eventually enable a reduction in public sector debt (essentially federal), which could exceed 100% of GDP at the end of 2012 as a result of rescuing Dexia and Belgian participation in the European Financial Stability Fund, as well as in the future European Stability Mechanism. The objective is expected to be achieved. Between 1996 and 2007 the debt had already fallen from 130% to 80% of GDP. Even with conservative assumptions of growth and interest rates, a primary fiscal surplus (i.e. excluding interest on debt) making it possible to reduce this debt will be achieved from 2015. Moreover, the country's situation is strengthened by a net external creditor position; however, this is being eroded somewhat due to the appearance of a slight current account deficit. The surplus on trade in services and the revenue surplus are no longer able to offset the trade deficit that is increasing under the influence of rising oil prices and poor exports. Finally, net household savings far outweigh the total net debt of businesses and the State, which could potentially supplement foreign capital.

Moderate decline in payment behaviour

As in 2008-2009, the deterioration in the macroeconomic environment observed since autumn 2011 has resulted in a decline in payment behaviour. This is reflected in a higher number of one-off defaults than usual. The decline is, however, limited by the satisfactory profitability and levels of self-financing that many companies enjoy. The relatively limited nature of the economic problems has also mitigated the damage. A slight increase in the number of bankruptcies has also been observed, particularly in Flanders, in the construction and industry sectors as well as in the hotels and restaurants sector. Some businesses, badly shaken in 2009 and only partially re-established now, are vulnerable to a downturn in the economic environment. The fact that Belgium's industry overlaps with that of Northern France, which itself is experiencing difficulties, only adds to the fragility. The recovery, even though lacklustre, should bring a degree of stabilisation to payment behaviour in 2013.

Strengths ↗

- Presence of European institutions, international bodies and global groups
- Infrastructures: The ports of Antwerp (2nd largest in Europe) and Zeebrugge and its canals and motorways make it a key access point for the eurozone's markets
- High savings rate and low household debt
- External account in credit
- Skilled labour force thanks to vocational education

Weaknesses ↘

- Division of jurisdiction between regions, linguistic communities and federal state
- Marked regional disparities accompanied by political and financial tensions
- Exports based chiefly on intermediate products and Europe (3/4 of sales)
- Loss of industrial competitiveness the cause of extinction of the current account surplus
- Weakness of the banking system

CHINA

Coface Assessments

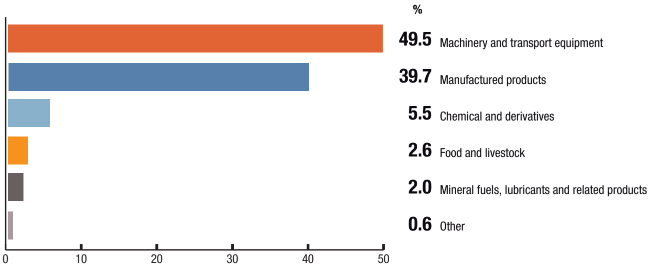
Country risk	A3
Business climate	B

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	9,2	10,4	9,3	7,7
Inflation (yearly average) (%)	-0,7	3,3	5,4	2,5
Budget balance (% GDP)	-2,2	-1,7	-1,1	-1,6
Current account balance (% GDP)	5,1	5,3	2,8	2,2
Public debt (% GDP)	17,7	33,5	25,8	22,0

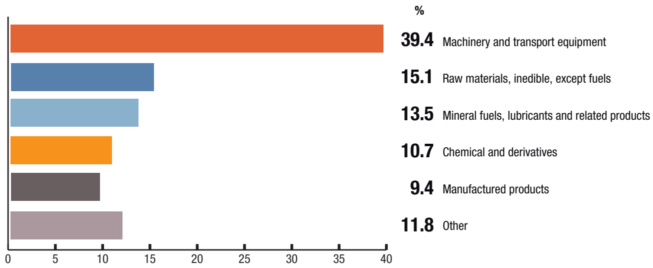
(e): estimate (f): forecast

Trade exchanges

Exports 27 % of DGP



Imports 22 % of DGP



Risk assessment

Slowdown in growth contained in 2012 thanks to targeted stimulus

The slowdown in activity continued in H1 2012. Foreign sales, particularly to the eurozone, which captures 15% of total exports, shrunk (-11% in April 2012 YoY). Moreover, domestic demand is stagnating because of the tightening of economic policies focusing mainly on controlling investment and reducing the supply of credit (reintroduction of quotas on loans that banks can grant each year). The contraction in real estate transactions and the price drop in some first tier cities are also exerting downward pressure on the economy, the property sector representing 10% of GDP.

These property sector difficulties could affect the construction sector, particularly the metal and cement industries.

In this context, targeted budget stimulus measures have been announced: construction of 36 million social housing units, support for SMEs in Wenzhou, scrapping bonus in the automotive sector, subsidies for purchasing household electrical appliances and for first-time home buyers; announcement of investment plans by several local governments representing at least 4 points of GDP between now and 2012. Moreover, given the difficulties in the export sectors, the appreciation of the yuan has slowed and should reach 3% in 2012 compared to 5% in 2011. On the other hand, an opening of the credit floodgates in the same way as observed in 2009 (credit then increased by +33%) has not, at this stage, been announced because of the risk of misallocation of resources, deterioration in the quality of bank assets and emergence of new bubbles. Despite the cut in bank reserve requirement ratio and interest rate, credit growth should remain under control (around +16%). However, if the crisis in the eurozone worsens, the authorities could choose to provide greater support to the economy.

Persistent weaknesses in SMEs, banks and local authorities

Chinese SMEs bear watching because they are contending with several shocks: substantial wage pressures (+20% in 2011 and +13% expected in 2012) and problems of access to finance. Bank credits being mainly allocated to state enterprises, SMEs are increasingly resorting to the informal system which charges usurious rates up to four times higher than those charged in the official banking sector. In a context of slowing demand from abroad, these SMEs - which account for 68% of exports, 60% of national wealth and 66% of patent licences - could soon find themselves in difficulty. A string of defaults is the main risk. In fact, since April 2012, company margins have contracted by 2%.

Moreover, in spite of the encouraging results of stress tests conducted by the Chinese authorities on the 17 biggest commercial banks, the banking sector could be affected by the growing difficulties of the property sector. Though households post low debt ratio, this is, however, not the case with real estate developers who are facing financial pressure because of the growing illiquidity of the market and are sometimes forced to sell with big discounts.

Additionally, the banks could suffer from the growing difficulties of local authorities. Not being permitted to get into debt on their own account, sub-sovereign governments have borrowed via local financing platforms (LFPs) with opaque modes of operation. The banks have lent massively to the LFPs while these are weakly capitalised. According to official estimates local government debt amounts to 27% of GDP. In 2012, the risk of a string of default should be avoided thanks to intervention by the state, which has a low level of public debt and has defined the conditions for the refinancing of this debt. The banks are being encouraged to extend the maturity of their loans and local governments have now been authorized to issue bonds. This, however, does not exclude occasional defaults by local authorities or second tier banks since, according to official estimates, 23% of loans granted to local authorities could become non-performing. The state, wishing to avoid the risk of moral hazard, could be tempted to make a few isolated examples.

Business environment shortcomings creditor position

In political terms, social tensions are likely to remain high, notably as a result of the frequent confiscation of agricultural land for the benefit of property developers. The mobilization of the villagers of Wukan, which resulted in the organization of municipal elections in March 2012, was a significant example of such social movements. Moreover, there are still substantial inequalities between rural and urban areas. Finally, major shortcomings in governance persist particularly in terms of access to corporate balance sheets. Indeed, the recent tightening of conditions for obtaining financial information on companies is a central concern, since it could significantly affect credit sales.

Strengths ↗

- External accounts benefitting from competitiveness and industrial diversification
- Risk of foreign over-indebtedness limited thanks to the high level of foreign exchange reserves and to the current account surplus
- Sovereign risk contained: public debt mostly domestic and denominated in local currency
- Gradual move up-market
- Infrastructure development spurred by the stimulus package
- Very high corporate savings rate that funds most investments

Weaknesses ↘

- Growing social tensions linked to mounting inequalities
- Aging of the population and gradual drying up of the pool of abundant cheap labour
- Overcapacity in industry and trade
- Weakness of Chinese banks due to credit dynamism and uncertainty as to the level of non-performing loans
- Environmental problems

EGYPT

Coface Assessments

Country risk: **C**

Business climate: **B**

Medium term: **RATHER HIGH RISK**

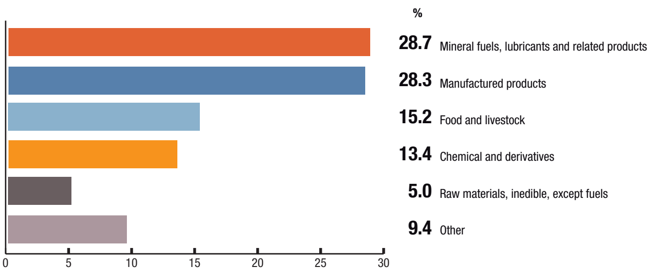
Main Economic Indicators

Fiscal year beginning July 1st	2008/09	2009/10	2010/11 (e)	2011/12 (e)	2012/13 (f)
GDP growth (%)	4.7	5.1	1.8	2.2	3.0
Inflation (yealry average) (%)	16.2	11.7	11.5	9.5	9.0
Budget balance (% GDP)*	-7,.0	-8.2	-10.0	-10.8	-10.6
Current account balance (% GDP)*	-2.3	-2.0	-2.6	-3.2	-3.0
Public debt (% GDP)	77.0	78.0	80.0	83.0	83.5

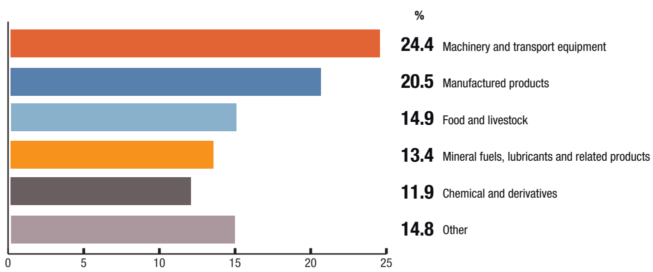
** grants excluded* *(e): estimate (f): forecast*

Trade exchanges

Exports 25 % of DGP



Imports 32 % of DGP



Risk assessment

A still uncertain political transition

Following the resignation of President Mubarak in February 2011, under popular pressure, the Supreme Council of the Armed Forces (SCAF) ran the country until the presidential election at the end of June 2012 won by Mohamed Morsi, a candidate from the Muslim Brotherhood Islamist movement.

After the surprising eviction of senior military officers of the SCAF by the president Morsi in mid-August 2012, political uncertainty will remain until the division of powers between the president, the government, the legislature, the judiciary and possibly the army is clearly defined. The next major steps will be approval in a referendum of the new constitution, currently being drafted by the Islamist-dominated Constituent Assembly, and then new legislative elections, after the ones held at the start of 2012 and won by Islamists from the Freedom and Justice Party (affiliated to the Muslim Brotherhood) and the fundamentalist salafist Al Nour Party. After this long and uncertain political transition process, civilian institutions and the new constitution are likely to facilitate a clarification of the political situation from 2013, with an ensuing stabilisation of the economic situation.

In this context, the direction of the economic policy is somewhat uncertain, even if the economic programme of the government led by Islamists is based on a liberal model, although seeming to focus on a better redistribution of growth and small and medium-sized enterprises.

Slight economic recovery

The economy should slightly recover, during the 2012-2013 fiscal year subject, however, to a marked improvement in the political situation and the restoring of investor confidence. GDP growth should be buoyed by the probable increase in public spending and by its knock-on effect on household consumption, via subsidies and wage rises in the public sector.

In this uncertain climate, price tensions, intensified by the depreciation of the Egyptian pound, will remain high.

Slippage of public finances

The events have resulted in a significant budget deficit, due to both the slowdown in growth, and therefore income, and higher expenditure, as increases in public sector wages, social assistance payments and subsidies (about 25% of total spending and 9% of GDP).

Traditionally, the budget deficit is primarily financed by the domestic market but that has become more difficult and costly, with bond yields having reached record levels in the first half of 2012.

Besides benefiting from grants and loans from Saudi Arabia, Qatar, and the Arab monetary fund, Egyptian authorities also turned again to the IMF early this year even though, late last June, they had refused G8 aid, citing notably a desire to avoid excessive increase of the country's already very high (domestic) public debt. If it is finalised, negotiations having resumed in September 2012, the $4.8 billion IMF loan could spur new aid packages from the World Bank and other international financial institutions, and moreover contribute to restoring operator confidence.

Pressure on the external accounts and on the pound

Exports of goods are expected to increase moderately due to robust hydrocarbon prices, while revenue from the Suez Canal and workers' remittances are likely to be resilient. Therefore, despite the shortfall in tourism revenue, the current account deficit could decrease slightly in 2012-2013. In any case, this deficit would only be partly covered by financial aid from the Gulf countries and from multilateral institutions.

Foreign direct investments flows have been adversely affected by the events with the exception of those towards the hydrocarbon sector. However, external debt as a ratio of GDP is expected to remain at a moderate level (16%).

In this context, maintaining the pound's informal peg to the dollar is a major challenge. In the first half of 2012, the Egyptian currency was at its lowest in eight years, despite interventions by the Central bank, whose foreign exchange reserves plummeted to levels representing less than three months of imports, a particularly low level for a country that covers a high proportion of its food needs through purchases abroad.

Fragile banking sector

The banking sector, dominated by State-owned banks, is fairly liquid but remains poorly capitalised, inefficient, weakened by a high proportion of non-performing loans (11%) and not very profitable. Moreover, the banks, forced to participate in financing the fiscal deficit, are overexposed to Egyptian sovereign risk.

Strengths

- Diversified sources of foreign currency (Suez Canal, natural gas, tourism, transfers)
- Moderate foreign debt
- Political and financial support of the Gulf monarchies and Western countries

Weaknesses

- Poverty (40% of the population) and social unrest
- Strong demographic growth and high unemployment
- Deteriorating public finances
- Weak banking system
- Unstable geopolitical situation

FRANCE

Coface Assessments

Country risk **A2↘**

Business climate **A1**

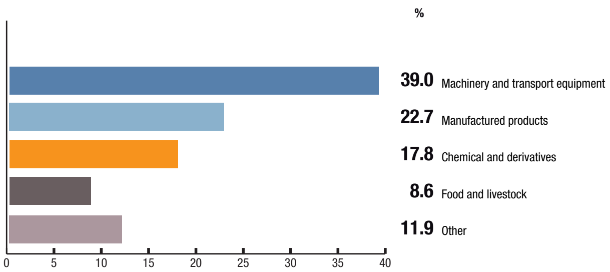
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.1	1.7	1.7	0.1
Inflation (yearly average) (%)	0.1	1.7	2.3	2.2
Budget balance (% GDP)	-7.5	-7.1	-5.2	-4.5
Current account balance (% GDP)	-1.3	-1.6	-1.9	-2.3
Public debt (% GDP)	79.2	82.3	86.0	89.5

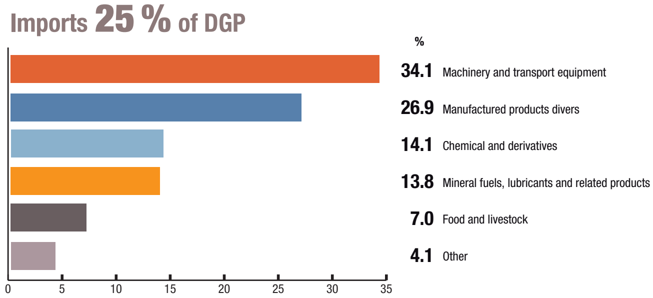
(e): estimate (f): forecast

Trade exchanges

Exports 23 % of DGP



Imports 25 % of DGP



Risk assessment

Sharp slowdown in growth in 2012

Economic activity stagnated in the first part of 2012, as it did during the two previous quarters. Admittedly, the country has not dipped into recession but the situation is very fragile. In particular, household consumer expenditure seems to have started to fall (notably, textiles and food consumption) and exports are still sluggish. Manufacturing activity has further fallen. The only positive point is the good investment performance (purchases of transport equipment, public works). However, the economy may slightly contract in the second half of the year. The latest business and consumer surveys (September 2012) show a continuation of the decline in the business climate and household confidence. In fact, the context is hardly favourable. The symbolic bar of 3 million unemployed was reached in August in mainland France and households, despite a slight increase in disposable income, have again increased their savings (16.4% rate in the 2nd quarter). Moreover, the weak profitability of companies and the existence of production overcapacities are not of a kind to sustain investment in the long term. Lastly, the global environment is less favourable than expected, just when a significant fiscal shock is brewing (€37 billion effort to be made in 2013 with a view to reducing the public deficit to 3% of GDP).

Weaker financial position of companies and loss of export market share

Companies, for which profit margins have fallen to their lowest level since 1985 (28%) and their self-financing rate remains weak (67%), have seen their capacity to recover increasingly reduced. Furthermore, lending conditions have hardened. At a more structural level, French companies, of inadequate size, still lack innovation and do not export enough. With only limited presence in emerging markets, they fail to benefit fully from the dynamism of these markets. Despite tighter profit margins, French industry, which has become less competitive, continues to lose export market share.

Payment behaviour has further deteriorated and bankruptcies have seen their cost increase

Payment incidents recorded by Coface have continued to rise over the first eight months of 2012. Furthermore, over the same period, the number of bankruptcies fell slightly (-1.8% compared to the same period in 2011). However, it remains above pre-crisis levels and the associated cost for suppliers continues to increase (+16.8%) due to the growing size of companies that have collapsed. The most affected sectors are construction, services (including catering), distribution and the automotive and transport sector. Risks are increasing in chemicals and in the clothing-textile sector. On the other hand, the food-processing, paper-wood, metals and electronics and computer-telecom sectors are relatively spared.

Strengths ↗

- The world's first tourist destination and second agricultural power
- Competitive international groups (energy, aeronautics and space, environment, pharmaceuticals, luxury goods, food products, distribution)
- Quality of infrastructures and public services
- Dynamic demographics, skilled labour and high productivity
- High level of savings and contained household indebtedness

Weaknesses ↘

- Insufficient export corporate turnover, loss of market share
- Weakness of SMEs
- Insufficient effort to innovate
- Low youth and senior employment, high youth unemployment
- Banks' high exposure to the sovereign debt of the weakest eurozone countries
- High level of public debt

GEORGIA

Coface Assessments

Country risk	C
Business climate	C
Medium term	HIGH RISK

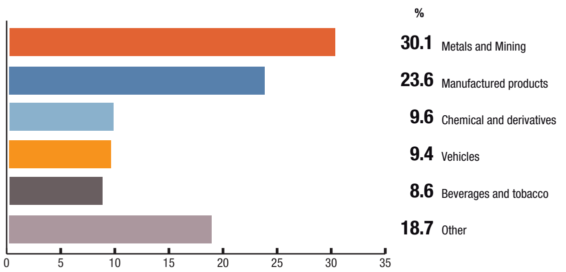
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.8	6.2	7.0	6.5
Inflation (yearly average) (%)	1.7	7.1	8.5	0.2
Budget balance (% GDP)	-9.2	-6.6	-3.6	-3.8
Current account balance (% GDP)	-11.3	-11.5	-11.8	-12.6
Public debt (% GDP)	37.3	39.2	33.9	33.8

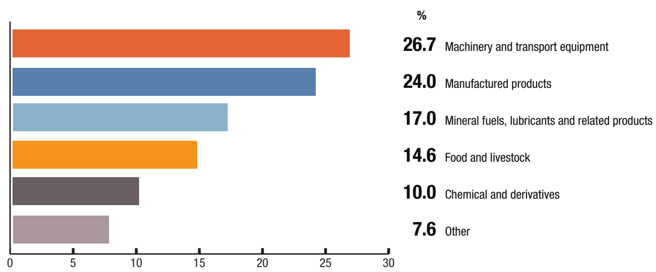
(e): estimate (f): forecast

Trade exchanges

Exports 30 % of DGP



Imports 49 % of DGP



Risk assessment

Growth very dependent on external conditions

In 2013, a still weak external environment will affect economic activity. In particular, the sluggish European growth will continue to affect foreign trade, for which the contribution to growth will remain mostly negative. Nevertheless, the country has become more attractive after the adoption of the Economic Liberty Act, in July 2011, simplifying, amongst other things, company taxation. Private consumption will remain the main growth engine, driven by remittances from expatriate workers in Russia and renewed credit expansion. The financial sector, construction, and the manufacturing industry will register good results continuing the 2012 trend. The fall in prices of raw materials and food, following the lifting of Russian and Ukrainian embargos on wheat in July 2011, has contributed to the sharp drop in inflation, which totalled -0.1% year on year in September 2012. The central bank then eased its monetary policy, which should buoy domestic demand and therefore contribute to avoid deflation.

The financial situation remains fragile

Weak exports have led to a significant trade deficit and a current account deficit that FDI can only partially cover. Consequently, international financial aid is essential to meet the economy's financing needs. The IMF renewed its Stand-By Agreement in March 2012, for 2 years, while the first repayments of the previous agreement has begun this year. In terms of public finances, the primary balance is in surplus, a sign that public finances are under control. Therefore, public debt is expected to peak at around 33.8% of GDP in 2012 before decreasing gradually. The banking sector is suffering from a still high level of non-performing loans and high exposure to exchange rate risk with dollarization of loans and deposits at around 70%.

A still risky geopolitical environment

Up to the parliamentary elections of October 2012, the Georgian regime was marked by high concentration of power in the hands of President Mikheil Saakashvili. Brought to the leadership of the country following the "Rose Revolution" in 2003, the current president was re-elected for a second term in 2008. The parliamentary elections have seen a change in power with the victory of the opposition coalition, the "Georgian Dream", headed by the influential businessman Bidzina Ivanishvili. As a result he has been named as Prime Minister. These elections take on particular importance due to the amendment of the Constitution, which will enter into force during the presidential elections in October 2013, increasing the powers of the parliament. Nevertheless, the new majority should form a disparate coalition, grouping together all of the opponents to the president's regime, in order to avoid any political impasse. The formation of this patchwork alliance has in fact only been possible by preparing a conciliatory programme. The distribution of power will remain uncertain until the presidential elections, with Mr Ivanishvili having called for Mr Saakashvili to resign. The latter will not seek a third term in accordance with the Constitution. Externally, Georgia finally withdrew its veto on Russia's membership to the WTO in November 2011 following the adoption of an agreement for the intervention of a neutral private company controlling the trade borders between the separatist regions of South Ossetia and Abkhazia. However, the risk of renewed confrontation between the two countries remains high, insofar as Mr Ivanishvili want to join NATO, which may infuriate Russia.

Strengths

- Support of international financial aid
- Strategic geographical position (crossing point for oil and gas from the Caspian sea)
- Favourable policy towards foreign investors

Weaknesses

- Weak economic diversification
- Structural current-account deficit
- Substantial poverty with very high unemployment rate in urban areas
- Persistent tensions with Russia
- Domestic political uncertainties

GERMANY

Coface Assessments

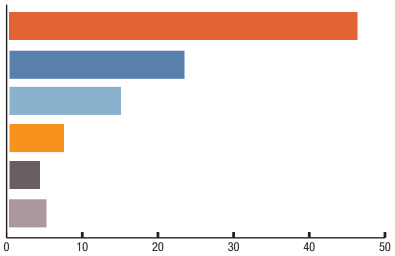
Country risk	A2
Business climate	A1

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-5.1	3.7	3,1	0.9
Inflation (yearly average) (%)	0.4	1.1	2.3	2.1
Budget balance (% GDP)	-3.2	-4.3	-1.0	-0.1
Current account balance (% GDP)	5.6	5.7	5.4	5.9
Public debt (% GDP)	74.2	83.0	81.0	82.0

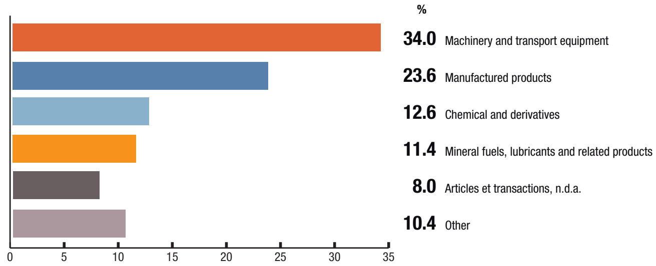
(e): estimate (f): forecast

Trade exchanges

Exports 41 % of DGP



Imports 36 % of DGP



Risk assessment

Slowdown in activity linked to the deterioration in the international economic climate

Having held up well for the first half of 2012, activity is now slowing down. The real economy has aligned itself with the drop in confidence observed among businesses and households, based on opinion surveys conducted since autumn 2011.

Exports (50% of GDP) have been affected by the damaging effects of the debt crisis and budgetary restrictions on the European economic environment, as well as by the slowdown observed in the rest of the world. The dynamism of demand among the country's major trade partners in the emerging markets such as China, Poland or Brazil, or that in the United States, is fading away somewhat and can no longer compensate for the slump in sales in Western Europe in the eurozone (55% of export sales, including 38% for the eurozone). Exports are suffering in particular from poor investment levels in many countries, because of the significant weighting of capital goods in sales.

However, the contribution made by foreign trade to growth will still be slightly positive in 2012 because, at the same time, imports are also slowing down as a result of the slump in purchases of equipment and materials by companies. Uncertainties around the development of the debt crisis and European economic policy are leading businesses to postpone some investments. A decline in investments is unlikely, however, due to the relatively high (83% in September 2012) utilisation rate of production capacities and the still partial recovery of ground lost as a result of the crisis of 2009. Public sector investment has fallen, with projects included in the second stimulus plan of 2009 coming to an end, and with the tense financial position of local authorities, which are largely responsible for this type of expenditure. The increase in investment in renewable energies (wind, solar, geothermal), the modernisation of existing thermal power stations and the construction of gas power stations in light of the abandonment of nuclear power by 2022 will not take full effect until after the end of the year.

Support for economic activity will come mainly from the resilience of consumption and household investment. On the one hand, job creations are slowing down, but on the other, households' real net disposable income has increased significantly (1.3% in 2012). In a tight labour market, industry agreements concerning a third of employees have been concluded with significant wage increases (3 to 4%). Retirees will benefit from the indexation of their pensions to wages. The major part of the increase in government revenues expected in 2012, as a result of the resilience of consumption and the increase in incomes will be redistributed in the form of end-of-year bonuses to civil servants, increases in housing and child allowances as well as student bursaries. Construction and renovation of housing has advanced significantly, due in particular to households' lack of confidence in financial investments and to very low interest rates. Property prices have also made excellent progress in several major cities (Berlin, Hamburg, Dusseldorf, Cologne, Munich).

Satisfactory public accounts

The deficit is still expected to fall below the threshold of 1% of GDP as early as this year. Nevertheless, debt will remain high (over 80% of GDP). The brake on debt included in the Basic Law, which provides for the Federal Republic's structural deficit to be reduced to 0.35% between now and 2016, and the structural balance for the Länder between now and 2020 will not be sufficiently strict. The country's structural deficit should effectively reach 1% of GDP.

Payment behaviour satisfactory overall, despite several significant defaults

Overall, the payment behaviour of businesses remains satisfactory, thanks in particular to good profitability and extensive self-financing. However, there have been several significant defaults since the beginning of 2012. In many cases, this is a question of companies experiencing difficulties over a long period, brought about by the slowdown in activity and strong competition. This is particularly the case in e-commerce, with competition from new players in internet sales, and in renewable energies, with competition from China added to the reduction in tax benefits. Unless the European crisis persists or worsens, payment behaviour is unlikely to deteriorate significantly over the coming months.

Strengths

- Solid industrial base (1/4 of GDP)
- High product range quality level and diversity of production contribute to competitiveness and profitability
- Innovation, Research & Development
- Strong foothold in emerging markets (1/3 of exports)
- Central role of export-oriented SMEs (Mittelstand) with a strong regional base
- Central and Eastern Europe integrated in production process
- Importance of the ports of Hamburg, Bremerhaven and Kiel

Weaknesses

- Demographic decline
- Lack of engineers
- Low female employment rate
- Highly dependent on world markets
- Predominance of the production and export of motor vehicles
- Persistent backwardness of eastern Länder
- Weakened banking sector

INDIA

Coface Assessments

Country risk **A3↘**

Business climate **A4↘**

Medium term

RATHER LOW RISK

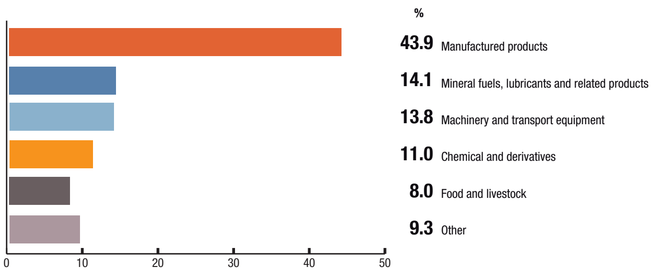
Main Economic Indicators

	2009/10	2010/11	2011/12 (e)	2012/13 (f)
GDP growth (%)	8.4	8.4	6.5	5.5
Inflation (yearly average) (%)	3.8	9.6	8.9	7.6
Budget balance (% GDP)	-9.9	-9.2	-8.0	-7.8
Current account balance (% GDP)	-2.8	-2.7	-4.2	-3.0
Public debt (% GDP)	71.8	68.1	67.5	66.0

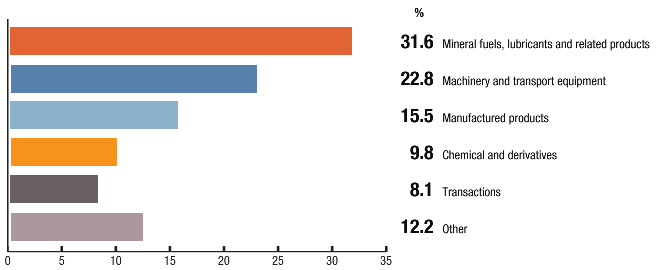
april/march *(e): estimate* *(f): forecast*

Trade exchanges

Exports 20 % of DGP



Imports 24 % of DGP



Risk assessment

Slowdown of activity in 2012/2013

The Indian economy slowed down in 2011/12 due to the weakness of external demand and the reversal of the cycle on the domestic front, after a long period of tightening of monetary policy against a background of high inflation (13 increases in interest rates between March 2010 and October 2011). Despite the easing of monetary policy (decrease of 50 basis points in the repo rate in April 2012 and reduction of reserve requirements ratio in several stages between January and September 2012), growth continued to decelerate in 2012, reaching 5.3% between January and March and 5.5% between April and June, its lowest level for 9 years due to the decline in manufacturing production. The automotive and property sectors – in which assets are mainly bought on credit – have fallen sharply.

For the rest of the financial year 2012/13, growth will remain at a level that is well below its potential. The easing of monetary policy cannot be significant due to the fears linked to the fall of the rupee and to inflation. Besides, the government cannot embark upon an expansionist fiscal policy due to the high levels of public debt. The balanced model (between investment and consumption; industry and services) that was the basis of the country's success is starting to stall because of persistent bottlenecks (infrastructure, distribution networks, lack of skilled labour), which constrain investment, and persistent shortcomings in a business environment that impedes FDI. Thus, the manufacturing sector will post a sharp decline in performance. On the other hand, the services sector (tourism, transport, communications, IT) will continue to be dynamic. Moreover, even though inflation is slowing down (7.6% in September 2012 vs. nearly 10% for the previous year), it will remain high throughout the financial year 2012/13 due to the rise in administered fuel prices. Furthermore, with the emergence of the middle classes, the demand for food products once reserved for a minority (milk, meat, eggs) has increased while agricultural productivity progresses very slowly and the food distribution system is inefficient. The result is food price inflation that spreads to manufactured goods and services through secondary effects related to wage increases.

The rupee under pressure due to deterioration in external accounts

The country's external financial position is deteriorating. The current account deficit will remain substantial in 2012, due to strong domestic demand and massive fuel imports. This current account deficit will only be partially covered by FDIs, which are slowing down in the context of turbulence in international markets and persistent domestic constraints (restrictions on land purchases, complexity of environmental authorisations and slow liberalisation of sectors such as retail sales and insurance). In this context, India is increasingly dependent on financial markets. However, the 2011/12 fiscal year was marked by sudden portfolio outflows that weakened the rupee (-23% between July 2011 and June 2012).

In order to address these risks, the Reserve Bank of India (RBI) has sought to limit the depreciation pressures by selling dollars on the foreign exchange market, using its international reserves, which remain however at a satisfactory level (5 months of imports). Simultaneously, it has taken regulatory initiatives through measures to attract deposits from Indians residing abroad (increase in the remuneration of deposits in US dollars) or by requiring Indian exporters to convert half of their foreign currency earnings into rupees. But pressures on the rupee are fuelling a rise in prices of imported goods, which could further exacerbate the current account deficit over the medium term and affect the currency that will not experience a sustainable turnaround.

In 2012, the budget deficit will remain substantial, fuelling an already high public debt. Furthermore, the continued depreciation of the rupee will increase the amount of subsidies that the State pays to stabilise the domestic fuel price. Moreover, the heavy debt servicing should continue to penalise public investment in capital (notably in infrastructure).

Persistent shortcomings in the business environment

The regional elections in five states, including the largest state of Uttar Pradesh, weakened the coalition led by the Congress Party in March 2012, which could also slow the pace of the structural reforms (education, infrastructures, tax system) until the next elections in 2014. Moreover, there are still governance shortcomings, especially as regards corruption. Several scandals hit the headlines in 2011 notably about the organisation of the Commonwealth Games and the granting of mobile telephone licences. Moreover, the lack of transparency in the financial results of medium sized businesses and the absence of group consolidated accounts are still worth noting.

Strengths ↗

- Diversified drivers of growth
- Solid fundamentals: high savings and investment rates
- Competitive private sector in industry and services
- Moderate foreign debt and satisfactory foreign exchange reserve

Weaknesses ↘

- Lack of infrastructures and deficient educational system
- Skilled labour wage rise threatening to erode competitive advantage
- Increasing private corporate debt
- Weak public finances
- Persistent uncertainties over the Kashmir question

IRAN

Coface Assessments

Country risk	D
Business climate	C
Medium term	VERY HIGH RISK

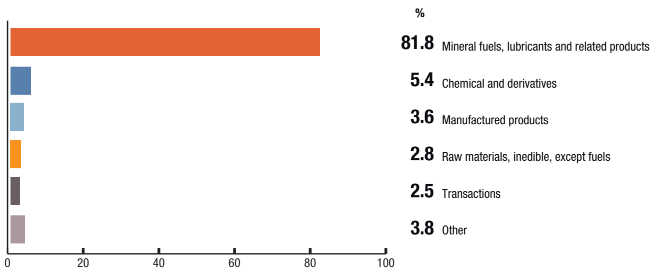
Main Economic Indicators

Fiscal year running from March 21st	2009/10	2010/11	2011/12 (e)	2012/13 (f)
GDP growth (%)	3.5	1.5	1.5	-1.5
Inflation (yearly average) (%)	15.5	16.5	18.5	18.0
Budget balance (% GDP)*	0.9	2.1	-1.0	-5.0
Current account balance (% GDP)	2.5	4.9	0.5	-1.8
Public debt (% GDP)	19.0	17.0	18.2	18.8

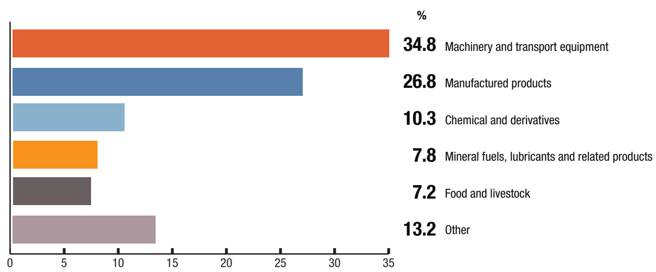
(e): estimate (f): forecast

Trade exchanges

Exports 32 % of DGP



Imports 22 % of DGP



Risk assessment

Recession caused by the tightening of international sanctions, with persistent high rate of inflation

Growth was expected to be lacklustre in 2012, but with the tightening of international sanctions the economy is entering into recession. Oil production, along with industrial and retail activity, are hampered by the tougher international sanctions, while household consumption (the leading component of GDP) is hit by the cuts in subsidies, growing unemployment (especially among the young) and strong inflationary pressures.
These price pressures will remain high mainly because of the gradual removal, begun at the end of 2010, of subsidies on some basic products and the collapse of the rial.

Widening of fiscal and current account deficits

The budget would have just been balanced in fiscal year 2011/12 thanks to hydrocarbon revenues, which account for two-thirds of tax receipts, and a policy of gradually phasing out costly subsidies (10% of GDP). A budget deficit nevertheless emerged and is expected to widen sharply in 2012/13, as a result of the decline in economic activity and the negative impact of international sanctions. However, for the time being, the level of public debt will probably remain sustainable. Moreover, the country has a Reserve Fund for future generations.
After a shrinking current account surplus in 2011/12, despite high world oil prices, the external accounts are likely to be in deficit in 2012/13, as oil sales will decline with the fall in production – a result of lacking investment in modern technologies – and international sanctions, which will also curtail non-oil exports. At the same time, despite the need to import one-third of Iran's refined fuel, the imports bill should decrease, a result of the international sanctions that will complicate the financing of foreign trade.
Nevertheless, Iran's external financial position should remain relatively comfortable, reflecting the very low level of external debt (around 3% of GDP) and the relatively high level of foreign exchange reserves (equal to 12 months of imports), although the very sharp, sanctions-related, depreciation of the rial, and the possibility of capital flight linked to the political uncertainties, are all significant elements of weakness.

Internal political tensions and further tightening of international sanctions, affecting the business environment

The parliamentary elections in March 2012 were won by the ultra-conservative elements supporting the supreme leader Ayatollah Ali Khamenei, the ultimate religious and political authority. Following these elections and in the run up to the presidential election in June 2013 – end of the second and final term in office for president Ahmadinejad – the tensions between the regime's rival conservative factions have increased, as the president's faction won only one-third of the parliamentary seats. That situation will further reduce the President's room for maneuver, whereas he is blamed for economic mismanagement and increasing diplomatic isolation.
In addition, the international sanctions were tightened even further at the end of 2011, following a report from the International Atomic Energy Agency on the Iranian nuclear programme. Western governments also strengthened their sanctions notably with a prohibition on most financial transactions with Iran and by instituting an oil embargo from July 2012. However, with Iran in an electoral period, even the most stringent sanctions seem unlikely to result in any fundamental changes in the country's nuclear policy. As a matter of fact, the negotiations between Iran and the five permanent members of the UN Security Council and Germany, which have resumed in June 2012, have been unsuccessful at this stage, with an increasing risk of Israel's attack on Iran's nuclear facilities.
The new sanctions will have an even greater impact on the various economic sectors and on a business environment that is already suffering from the deterioration in the political climate and from institutional shortcomings.
Following the suspension of the business activities of Western firms, Iran is developing its trade with China, India and Turkey. These countries are interested in Iranian hydrocarbon supplies and may contribute to the investments needed in the energy and petrochemical sectors. However, Iran's trading partners seem to be trying to take advantage of the sanctions by increasing the pressure on their Iranian suppliers in order to obtain better terms. Furthermore, the sanctions are also leading to increasing payment defaults, most notably relating to imports of agricultural products.

Strengths

- Second largest OPEC oil producer
- Large natural gas reserves (ranked second after Russia)
- Very low foreign debt

Weaknesses

- Nuclear programme the cause of UN sanctions, toughened by USA and EU
- Economic and financial situation still dependent on hydrocarbon revenues
- Political and social tensions
- Unfavourable business climate and insufficient investment

IRAQ

Coface Assessments

Country risk	D
Business climate	D
Medium term	VERY HIGH RISK

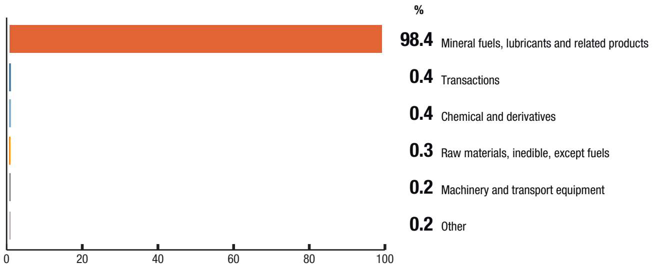
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.5	1.0	9.9	11.0
Inflation (yearly average) (%)	-2.2	2.5	6.0	7.0
Budget balance (% GDP)	-22.0	-9.0	7.5	4.0
Current account balance (% GDP)	-14.0	-2.0	7.5	9.0
Public debt (% GDP)	143.0	107.0	40.5	35.5

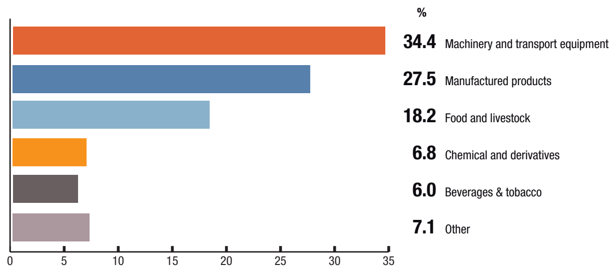
(e): estimate (f): forecast

Trade exchanges

Exports **61 %** of DGP



Imports **64 %** of DGP



Risk assessment

Economic conditions still dependent on the security situation and conditions in the hydrocarbon sector

Insecurity and political instability remain the primary impediments to economic development. Almost completely dependent on hydrocarbon exports — crucial source of fiscal revenues and foreign currency — the economy remains very exposed to fluctuations in production and oil prices. GDP growth will be stronger in 2012, with oil prices remaining high and production continuing to rise thanks to service contracts with foreign oil companies for oil field remediation and development.
Marked regional disparities will persist, however, reflecting the relative degree of ethnic and religious homogeneity. In regions less troubled by political and religious unrest, like Kurdistan and the southern and western provinces, strong economic growth is expected, whereas some central and eastern regions will remain hobbled by slower growth.

Significant improvements under way in public finances and external accounts

The rise of hydrocarbon export earnings in conjunction with a reduction in public spending commitments will pave the way for Iraq to run a fiscal surplus in 2012, as in 2011. To strengthen its financial position, Iraq signed a new stabilisation agreement with the IMF in February 2010. Moreover, the cancellation of 80% of Iraq's stock of debt in 2004 and the rescheduling of the balance from 2011 granted by Paris Club public creditors will make it possible to reduce public debt ratios to easily sustainable levels.
The rise in oil exports will enable Iraq to increase its current account surplus despite growing demand for imported capital equipment and consumer goods. Although Iraq will thus not have external financing needs, it may nonetheless resort to some long term loans. Iraq benefits further from large foreign exchange reserves, representing about eleven months of imports, and its currency is unofficially pegged to the US dollar.

A country still in critical condition in security, political and business environment terms

Despite the relative improvement in the security climate since 2007, a resurgence of violence has been observed in the wake of the withdrawal of American combat troops late 2011.
Iraq's rival political factions and various communities – the Shiite majority, the Sunni minority and the Kurds – are represented in the government of national unity led by the Shiite prime minister, Nouri al-Maliki, since the end of 2010. However, the threat of a collapse of the coalition remains, as observed after the arrest warrant issued in December 2011 against a former vice-president, the Sunni Tariq al-Hashemi. Nevertheless, prime minister al-Maliki relative success in confronting Sunni and Kurdish opponents has somewhat strengthened the federal government. Ultimate normalisation of the political situation will, in any case, largely depend on successful resolution of key issues involving the hydrocarbon law, the status of Kirkuk, the sharing of wealth and amending the Constitution. But the most likely outcome will be continuation of the status quo with power shared by the communities in the framework of a weakened State.
In this context, the business environment will remain negatively impacted by institutional weaknesses, corruption and ineffectiveness of an administration permeable to political, religious, and regional power struggles, all these factors being likely to affect payments and debt collection.

Strengths

- Abundant natural resources, particularly oil and gas
- Debt cancellation and a moratorium enabling an economic take-off on a more sustainable basis
- International aid in support of economic reconstruction and development efforts

Weaknesses

- Economy highly dependent on hydrocarbon revenues
- Ethnic and religious cleavages impeding establishment of the rule of law and stoking the risk of civil war
- Infrastructure in need of remediation after twenty years of war followed by seven years of political chaos
- Insecurity and institutional weaknesses delaying reconstruction and investments

KUWAIT

Coface Assessments

Country risk	A2
Business climate	A3

Medium term

LOW RISK

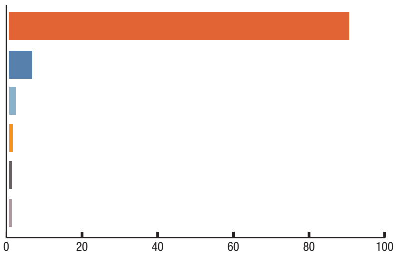
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-7.8	6.0	8.3	5.2
Inflation (yearly average) (%)	4.0	4.1	4.6	4.5
Budget balance (% GDP)	28.5	22.5	30.5	31.0
Current account balance (% GDP)	26.5	30.8	41.5	43.0
Public debt (% GDP)	8.0	7.5	5.0	4.5

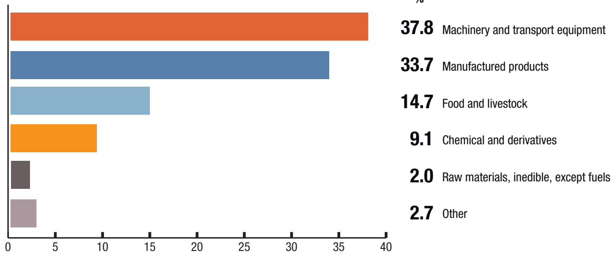
(e): estimate (f): forecast

Trade exchanges

Exports 66 % of DGP



Imports 26 % of DGP



Risk assessment

Sustained GDP growth

Increased oil production in 2011 drove growth at a high level. Although OPEC did not relax quota restrictions, Kuwait produced more oil to make up for the gap left by the fall in Libyan production.

Oil production will continue to rise in 2012 thanks to new oil fields coming on stream. Private consumption is remaining sustained by high wages in the public sector and a generous regime of subsidies and social benefits, reinforced in 2011 following the socio-political unrest in a number of Arab countries and social tensions in Kuwait, in particular public sector strikes. In this context, bolstered by continued elevated international oil prices, GDP growth is remaining robust, although the economy appears vulnerable to internal and regional tensions.

Meanwhile, lending to the private sector is likely to remain modest, due to the banks' risk aversion resulting from the mediocre quality of a section of their assets. One cause is the banks' exposure to convalescing sectors like construction and property and to two local investment companies, still undergoing restructuring. Some segments are, however, more dynamic, namely industry and consumer credit.

Strengthening of very solid financial position

The oil wealth will enable Kuwait to continue to achieve imposing external and public accounts surpluses. Hydrocarbon sales represent the overwhelming proportion of export earnings. In 2012, with increased oil production, sales will far exceed the rise in imports, resulting again in a substantial current account surplus.

Oil income makes up nearly 90% of fiscal revenues. Higher social spending and investment – the latter under a $105-billion five-year development plan (2010-2014) – will not dent the very large public accounts surplus. The plan aims to diversify the economy and make Kuwait a regional commercial and financial centre by 2014.

In this context, Kuwait will continue to benefit from a very comfortable financial position. In addition to its foreign exchange reserves, the country boasts considerable financial assets managed by the Kuwaiti Investment Authority (KIA), expected to amount to some $350 billion end 2012.

Slow pace of economic reforms

Some reforms have been adopted in recent years: opening of the stock market to foreigners and creation of an independent regulator (in January 2010), admission of foreign operators in the petro-chemical and banking sectors, a more favourable framework for foreign investment in free trade zones. Moreover, the first phase of the long-awaited privatisation of Kuwait Airways was launched at the end of July 2011. However, the implementation of the privatisation bill, adopted in May 2010, has been delayed by political squabbles and bureaucracy, and this is not going to improve after the constitutional crisis that erupted in mid-2012. Moreover, the law does not apply to the energy, health and education sectors and the government intends to retain powers of veto in privatised companies.

Recurring political tensions

With Sheikh Sabah al-Ahmad al-Sabah at its head, the Emirate boasts the most powerful National Assembly among the Gulf monarchies, and the most advanced, with women members since 2009. In this context, relations between the executive power and the Parliament are traditionally tense, with repeated political crises affecting the country.

At the end of 2011, these tensions culminated in the resignation of the government over problems of corruption and freedom of expression. Under pressure from the parliamentary opposition, the Emir had to dissolve the National Assembly and elections in February 2012 were won by the Islamist opposition parties.

In June 2012, however, the Constitutional Court dissolved the parliament and restored the assembly elected in 2009, although, in October, the Emir had to dissolve it under pressure from the opposition, paving the way for early elections before the end of the year. Kuwait is therefore facing a new constitutional and political crisis. However, despite the weakening leadership of the ageing Emir, this critical situation seems unlikely to undermine the stability of the regime, were it only because the parliamentary opposition is deeply divided.

Strengths

- Extensive oil reserves
- Accumulation of large external account surpluses
- Management of large fiscal surpluses entrusted to the Kuwaiti Investment Authority (KIA)

Weaknesses

- Relatively undiversified economy heavily dependent on oil income
- Political obstacles to structural reforms
- Very tense regional context

LEBANON

Coface Assessments

Country risk	C
Business climate	C
Medium term	VERY HIGH RISK

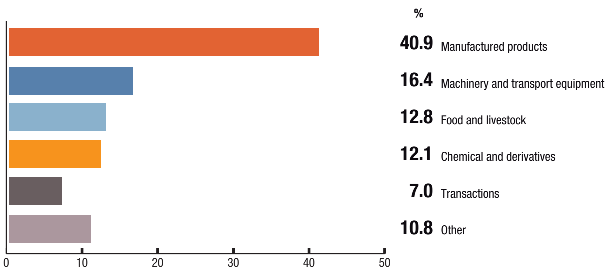
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	8.5	7.0	1.5	1.2
Inflation (yearly average) (%)	3.1	4.5	5.1	5.5
Budget balance (% GDP)*	-8.0	-7.5	-8.5	-8.9
Current account balance (% GDP)	-19.3	-20.1	-25.5	-25.1
Public debt (% GDP)	146.0	137.0	134.0	132.0

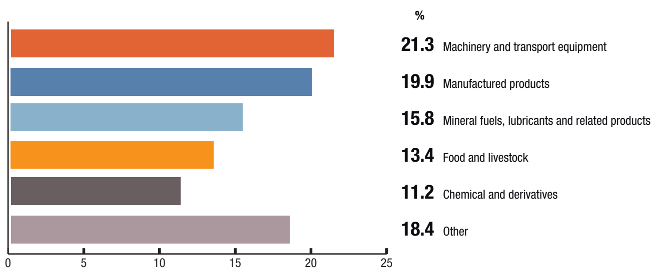
* excluding grants (e): estimate (f): forecast

Trade exchanges

Exports 22 % of DGP



Imports 47 % of DGP



Risk assessment

Economic situation still highly dependent on local and regional political climate

Economic activity slowed markedly in 2011, due mainly to the slowness of the Sunni Najib Mikati in forming a coalition government dominated by the Shiite pro-Syrian Hezbollah, six months after the fall in January of the government led by Saad Hariri. Most sectors of the Lebanese economy have suffered, more particularly from the fallout from the uprisings in neighbouring Syria.

In 2012, GDP growth will be even weaker, which is reflecting not only the effect of domestic political unrest on private consumption and investment but also increasing instability in Syria. Moreover, if the geopolitical tensions in the region rise further, there is a risk of greater contraction of economic activity, as Lebanon's service-oriented economy is highly sensitive to political events and regional performance, with Arab states the principal consumers of the country's services.

Continuing high twin deficits, excessive public debt and large foreign debt

Competing interests within a weak coalition government complicate the setting of economic policies. It is, therefore, unlikely that the reforms needed to consolidate public finances – with interest payments absorbing almost 50% of fiscal revenues and at the origin of large budget deficits - will be implemented before end 2012, in particular those aimed at increasing VAT and broadening its base and restructuring the state-owned energy company Electricité du Liban. The chronic problems inherent in a bloated and heavily subsidised public sector are compounded by the cost of post-civil war reconstruction and explain the barely sustainable level of public debt, which is nonetheless mitigated by the preponderance of domestic debt in local currency.

The economy is still relatively independent of goods exports, as attested by the structural trade deficit, also explained by oil imports. Nonetheless, the invisibles surplus is expected to help contain partially the large current account deficit in 2012, and the constant inflows of capital from the diaspora and Arab countries are likely to cover these deficits. Nevertheless, foreign debt levels remain high (around 85% of GDP) and, moreover, mainly short-term (around 83% of total debt). Should serious political unrest occur, capital flight would cause financing problems, although if such a situation did arise, Lebanon would probably receive support from so called friendly nations.

Banking system, though robust, exposed to sovereign risk and partially dollarized

Lebanese banks remain well capitalised, very liquid and profitable with non-performing loans in decline. Deposits are expected to continue to rise, thanks to attractive rates of return and the confidence that the banking system and the pegging of the Lebanese pound to the dollar inspires in depositors (local residents, the diaspora and non-residents from the Gulf). However, the banks prefer to cover a significant portion of the State's financing needs rather than lend to the private sector, which makes them overexposed to sovereign risk and also vulnerable due to highly dollarized deposits.

However, Lebanese companies are traditionally strongly resilient to major political shocks and to date have always endeavoured to settle payments, even in critical situations.

Strengths

- Strong capacity for recovery
- Financial support from international community and Lebanese diaspora
- Robust banking sector
- Resilient corporate payment behaviour

Weaknesses

- Political divisions on faith lines maintain latent risk of civil war
- Political uncertainties impede reforms needed to consolidate public finances
- Very high public debt
- Exposure to regional geopolitical tensions

LIBYA

Coface Assessments

Country risk: **D**

Business climate: **D**

Medium term: **VERY HIGH RISK**

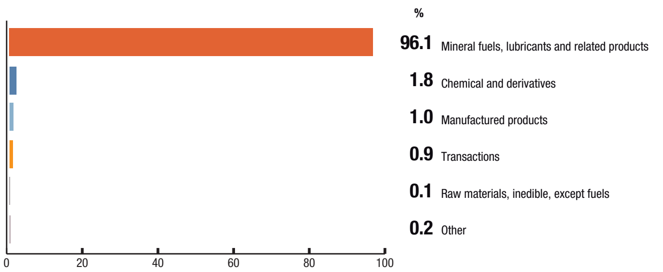
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-0.7	3.5	-35.0	76.0
Inflation (yearly average) (%)	2.5	2.5	9.0	6.5
Budget balance (% GDP)	4.6	9.0	-14.0	0.5
Current account balance (% GDP)	13.5	20.0	-12.5	4.5
Public debt (% GDP)	3.0	2.5	4.0	2.5

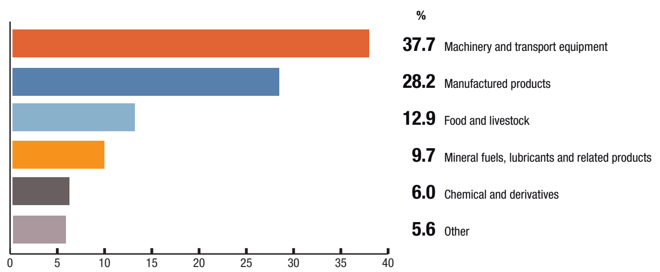
(e): estimate (f): forecast

Trade exchanges

Exports 67 % of DGP



Imports 27 % of DGP



Risk assessment

Uncertain political transition and security situation

Following the fall of Colonel Gaddafi's regime at the end of August 2011, in power since 1969, the National Transitional Council (NTC) issued a provisional Constitution setting out the road-map for political transition. The election to the General National Congress (the interim parliament) was held in July 2012, with 120 out of 200 seats attributed to individual candidates, and in the contest among parties, the broadly secular National Forces Alliance, led by Mahmoud Jibril, prevailed over the Islamist Party of Justice and Construction, from the Muslim Brotherhood. These two blocks could, however, form a unity government after ousting in October 2012 the technocrat Abu Chagour appointed Prime Minister by the Congress in September. Meanwhile, the NTC announced that a constituent assembly will be elected, with 60 seats allocated equally between three regions, Tripolitania in the west, Cyrenaica in the east and Fezzan in the south. The whole process is expected to last until a full parliamentary election will be held in mid-2013.

Its success will depend on how well opposing factions are integrated, with some factional friction relating to tribal or regional allegiances, and others to Islamism or Western-style liberal politics. Moreover, the authorities will have to build a new unified army out of the numerous militias created in different regions of Libya during the uprising against the former regime. Another key challenge will be the authorities' ability to quickly restore the State's basic services. Setting up credible new national institutions will, however, be difficult in a country prone to insecurity and without democratic experience. After the death of the US ambassador to Libya on Sept 11 2012, following an attack against the American consulate in Benghazi attributed to radical Islamists, tackling insecurity is a major challenge that the government will face.

Huge rebound in GDP growth in 2012

GDP growth is going to rally spectacularly in 2012, as Libya has managed to bring oil production to near pre- civil war levels much faster than expected (mid-2013 was generally set as the point at which the pre-conflict level would be reached). However, while foreign companies manage a very large proportion of the hydrocarbon production, more foreign capital and staff are needed to increase production, and it depends in part on the political and security situation. Excluding hydrocarbons, the reconstruction also boosts GDP growth.

Ongoing restoration of public and external accounts surpluses

The country usually records ample public and external account surpluses, thanks to the exploitation of its hydrocarbon resources (around 90 % of fiscal revenues and 95 % of exports).

In 2011, however, the public finances and foreign trade were heavily hit by the loss of hydrocarbon production and exports because of the civil war.

Thanks to a relative normalisation of the political and security situation in 2012, hydrocarbon production and exports are almost back on line, resulting in the reappearance of very large fiscal and current account surpluses, despite the country's reconstruction costs and authorities' focus on increasing public investment and promoting job creation and development, in order to meet popular expectations. Furthermore, after the lifting of international sanctions and with the release of frozen foreign assets of the sovereign wealth fund Libyan Investment Authority (LIA), Libya's total foreign assets in 2012 are expected to rise to an amount equivalent to six years of import and more than twice the GDP. This improvement will strongly shore up Libya's external financial position, although the issue of access to parts of LIA's funds remains, as many are illiquid or could prove difficult to track and recover.

Expected improvement in the catastrophic business environment

The institutional and governance problems have weighed on the economy during the former regime and hampered sectoral diversification. In addition, the business environment has been very difficult due to regulatory uncertainty and administrative inefficiency. During the current political transition, transparency and accountability problems are exacerbated further.

Libya has, however, a significant advantage over other post-conflict economies, despite still ongoing security problems, as the country is not dependent on external financial assistance.

In this context, the new government is expected to make progress in establishing the rule of law and introduce reforms enabling the private sector to operate more effectively, even if it has not formally set out its future policy in this area.

Before all these problems are solved, long payment delays and debt collection difficulties can be expected.

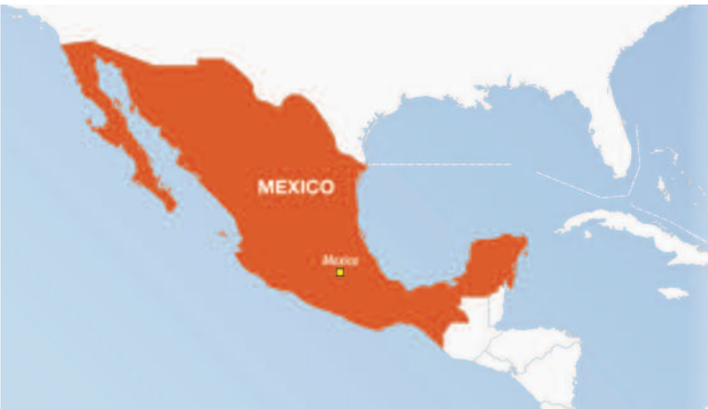
Strengths

- Extensive reserves of oil and gas
- Solid external finances
- Tourist potential associated with archaeological heritage

Weaknesses

- Relatively undiversified, oil-dependent economy and infrastructure in need of reconstruction
- Inadequate levels of education and training, hence dependence on foreign workforce
- Uncertain political transition and security problems
- Difficult business environment
- Insufficient structural reforms (modernisation of the economy and of the banking system)

MEXICO



Coface Assessments

Country risk **A4**

Business climate **A4**

Medium term

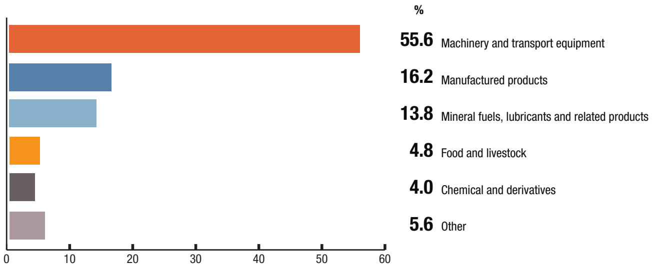
RATHER LOW RISK

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-6.1	5.5	3.9	3.8
Inflation (yearly average) (%)	5.3	4.2	3.4	4.1
Budget balance (% GDP)	-2.3	-2.8	-2.5	-2.4
Current account balance (% GDP)	-0.6	-0.3	-1.0	-0.6
Public debt (% GDP)	44.9	42.9	43.0	44.0

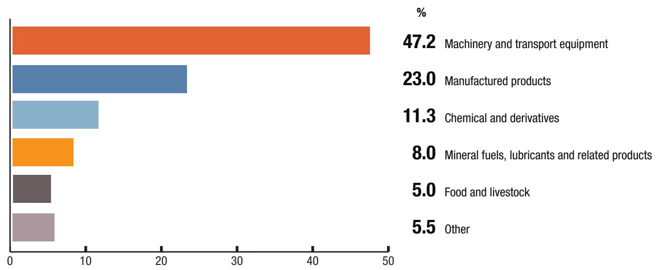
(e): estimate (f): forecast

Trade exchanges

Exports 28 % of DGP



Imports 29 % of DGP



Risk assessment

Maintenance of a comfortable growth rate in 2012

The Mexican economy, being very closely linked to the United States (with the US absorbing nearly 80% of exports from Mexico), benefited again in 2012 from increasing US demand, to the advantage of both the manufacturing industry and the tourism industry. Mexico's share in US imports increased (12%) at the expense of its main competitor, China. The drop in the effective real exchange rate as well as the integration of Mexico in the industrial process of many US, European and Asian companies can explain this. The remittances of expatriate workers (13 million living in the United States) and people of Mexican descent but naturalised American citizens (20 million) continue to increase (+5% in the first seven months of 2012). However, the contribution made by foreign trade to growth remains slightly negative, due to a more rapid increase in imports. Household consumption and business investment, sustained by expatriate remittances; measures implemented by the government in the light of the elections last July; and exports, are still effectively the drivers for growth.

Relatively sound financial position

The increase in tax revenues, particularly in the oil sector, will maintain the public deficit at a low level in 2012 despite the increase in social expenditure and investment prior to the elections. The government is expected to continue with its prudent budgetary policy, the central government deficit should decrease further and its debt should stabilise. The authorities have a significant margin to increase taxes, given the numerous exemptions. An increase would mean less of a draw on the profits of Petróleos Mexicanos (Pemex), which is responsible for a third of budget revenues and, thus, provide better for the development of its production capacities which have dropped in recent years.
Imports generated by the dynamism of domestic demand and the transport costs associated with foreign trade are advancing more rapidly than exports, tourism revenues and inward transfers from emigrants. The current account deficit will therefore increase further in 2012, although it will remain very modest. It is covered by inflows of foreign capital, essentially in the form of loans, as DFI is still well below pre-crisis levels. The country is unlikely to have any problems in terms of financing, as it benefits from comfortable foreign exchange reserves and a precautionary credit line from the IMF worth 72 billion dollars until January 2013.

A slightly better payment experience than the global average

In 2012, late payments registered by Coface were below the global average, on the strength of the relative improvement in the US economic climate. SMEs are still handicapped by the banks' restrictive lending policy, which favours the government and large firms. Moreover, despite the strength of the banking sector, if the eurozone crisis deteriorates, the country could be negatively affected through the subsidiaries of Spanish banks which enjoy a large market share.

The return of the PRI to power guarantees neither an acceleration of reforms nor a reduction in violence

The elections of July 2012 returned the PRI (Partido Revolucionario Institucional) to power after a twelve-year absence, in the person of Enrique Peña Nieto, previously governor of the State of Mexico. He will succeed Felipe Calderón of the PAN (Partido Acción Nacional) on 1 December. However, the PRI did not win an absolute majority in Congress and will need to seek the support of the PAN in the Senate to pass laws. The adoption of essential structural reforms, such as those relating to the labour market, taxation, education and health, will continue to be a laborious process given the opposition of the trade unions, which are firmly implanted within the PRI. Moreover, the new President will be faced with the insecurity, violence and corruption resulting from drug trafficking.

Strengths

- Manufacturing sector benefits from the North American Free Trade Agreement (NAFTA)
- Geographical and human proximity to the US market
- Low foreign debt
- Very profitable banking sector
- Favourable demographics

Weaknesses

- Dependence on the USA for exports, investments and transfers from emigrant workers
- Public finances vulnerable to oil revenues
- Low increase in credit
- Bureaucracy, corruption, lack of competition and insecurity
- Massive casual labour sector (30% of the workforce), cut off from training and social welfare
- Insufficient education and research

MOROCCO

Coface Assessments

Country risk	A4
Business climate	A4

Medium term
RATHER LOW RISK

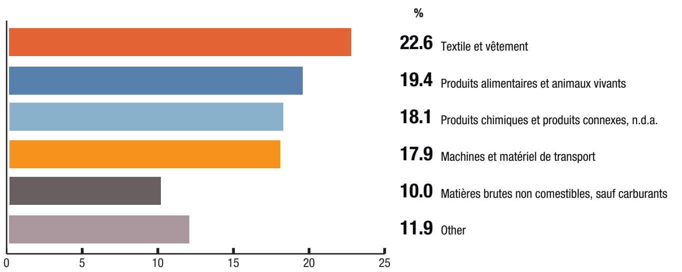
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.9	3.8	5.0	2.3
Inflation (yearly average) (%)	1.1	0.8	0.9	1.0
Budget balance (% GDP)	-2.2	-4.8	-6.9	-6.1
Current account balance (% GDP)	-5.9	-4.6	-8.4	-8.0
Public debt (% GDP)	48.0	51.3	54.3	56.9

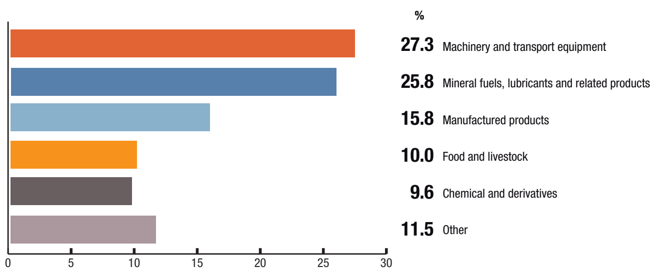
(e): estimate (f): forecast

Trade exchanges

Exports 29 % of DGP



Imports 39 % of DGP



Risk assessment

Activity still largely dependent on agricultural sector performance and market conditions in the European Union

Growth was steady in 2011, thanks to a good cereal harvest and a slight increase in tourism revenues, with the unrest in various Arab countries having only a limited direct and indirect effect on the economy.

For 2012, the outlook is somewhat less favourable, mainly because of forecasts of smaller harvests and sharp economic slowdown in the EU, Morocco's major economic and trading partner. Moreover, GDP growth continues to be dependent on international prices fluctuations of phosphates (of which Morocco is the leading producer and exporter) and imported hydrocarbons.

Domestic demand, however, continues to support economic activity, with relatively buoyant private consumption and construction sectors - led by social housing development - and the automotive sector, following the start of production of the Renault/Dacia plant in Tangiers.

Public and current account deficits maintained, but manageable external debt

In 2011, in the wake of the "Arab Spring", budgetary extras intended to ease social tension – wage increases and subsidies – resulted in a larger public deficit. The decrease in 2012 of subsidies on oil products could enable this deficit to be slightly reduced. However, the recent accumulation of these deficits has led to a rise in public debt, which is mainly domestic. Nonetheless, most of the external debt, essentially public and affordable, is repayable on concessional, therefore advantageous terms.

Furthermore, exports are driven by sales of phosphates, and, to a lesser degree, cars (Dacia), but low demand from the EU and the high level of international prices of energy are having a negative effect on the trade balance. Furthermore, with less resilient tourism revenues and expatriate remittances, this will result in the continuation of a significant external accounts deficit.

This is likely to be covered only very partially by foreign direct investment flows, mainly from the EU and the Middle East, which are often made within the framework of public-private partnerships related to road, rail, port or tourist infrastructures.

In a situation of global financial turmoil, the country has a certain ability to withstand sudden capital flight, thanks to low volatility financing and a managed exchange rate regime, although the level of foreign exchange reserves has fallen to less than 4 months of imports.

Due to this the IMF granted Morocco, in August 2012, a "Precautionary Liquidity Line" of $6.2 billion, a new facility for countries with healthy fundamentals and economic policies but showing certain vulnerabilities. It is a kind of insurance against external shocks, but Morocco does not seem likely to draw on this line of credit in the near future.

Moreover, its banking system, which is the best developed of all African countries (apart from South Africa), is still well capitalised and profitable, while an improvement in prudential regulations continues, but the soaring credit, particularly housing loans, must be monitored.

Constitutional reforms in the wake of the upheavals in the Arab world

In response to growing political and social dissatisfaction, in the wake of the upheavals in the Arab world, constitutional reform, initiated by King Mohammed VI, was approved by referendum in July 2011. This reform aims to rebalance the monarchy by reinforcing the powers of the Prime Minister and of Parliament, giving greater independence to the judicial system and increasing regionalisation. It does not, however, change the essential powers of a monarch, who remains popular even if a section of the population complains of corruption, patronage and poor governance; in this respect protest movements challenge some members of the king's inner circle (the "Makhzen"). After early parliamentary elections late November 2011, which resulted in a relative majority for the (Islamist) Justice and Development Party, the nomination of its leader Abdelilah Benkirane as Prime Minister and the formation of a coalition government in January 2012 with three secular parties Istiqlal, Mouvement populaire and PPS, much now depends on the implementation of the new Constitution, but also on progress towards greater social justice through the reduction of poverty, inequalities and unemployment.

Strengths ↗

- Natural and agricultural resources, vast tourist potential
- Favourable geographic position, close to the European market
- Strategy of moving upmarket and diversifying production, prioritising automotives, aeronautics, electronics, chemicals, textiles/leather and agro-foods
- Authorities pursuing policy of macroeconomic stability
- Political reforms introduced by the Sherifian Kingdom

Weaknesses ↘

- Economy still very dependent on agriculture
- Inadequate productivity and competitiveness
- Poverty and unemployment (particularly among the young), sources of social tension
- Tourism vulnerable to possible terrorist attacks
- Lack of progress in business environment

NEW ZEALAND

Coface Assessments

Country risk	A2
Business climate	A1

Medium term
RATHER LOW RISK

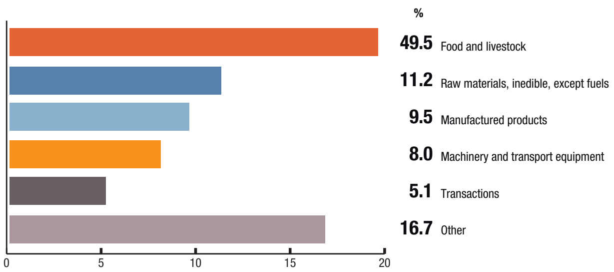
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	- 0.2	0.9	0.5	2.1
Inflation (yearly average) (%)	2.1	2.3	4.2	2.8
Budget balance (% GDP)	-2.6	-4.4	-8.5	-6.4
Current account balance (% GDP)	-2.6	-3.4	-3.9	-5.0
Public debt (% GDP)	23.3	27.4	36	41.5

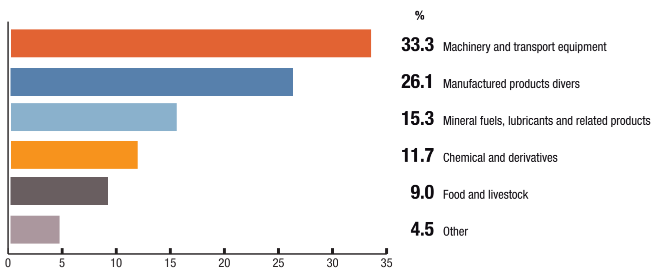
(e): estimate (f): forecast

Trade exchanges

Exports 28 % of DGP



Imports 27 % of DGP



Risk assessment

The reconstruction of the Canterbury region could begin before the end of 2012

The two earthquakes that occurred in the Canterbury region in September 2010 and in February 2011 destroyed 10% of the country's wealth. Economic activity has therefore slowed in 2011. Despite the rapid growth expected this year, driven by household consumption, but also by private and public investment, vulnerabilities have appeared in manufacturing industries and their export performance. In this context, the trade balance continues to make a negative contribution.

Household consumption remains underpinned by the increase in disposable income but the confidence index has deteriorated with the rise in the unemployment rate of the working population to 6.8%. Spending is limited by the process of debt consolidation undertaken since 2008, which has resulted in a reduction of debt down to 141% of disposable income. It is also constrained by the increase in savings, negative at the onset of the crisis, and now turning positive again (over 1% of disposable income). Residential investment is hampered by the low level of stocks, particularly in the first-priced segment. This causes an increase in housing prices: the average price is five times higher than household income, leading some to borrow beyond their means, others to turn towards renting or emigrating to Australia in particular. Growth should, however, be underpinned at the end of 2012 by the rebuilding of homes destroyed in the Canterbury region. The implementation of this programme depended actually on the complete halt in earth tremors and the settlement of insurance claims. Two options that seem to be currently lifted. Damages have been assessed in the government budget at NZD11 billion over five years (including infrastructure and commercial structures), which burdens the budget deficit and undermines the objective of reducing public debt which nevertheless remains contained.

Exports are suffering from a less buoyant demand from Asia and Australia

Imports have, over two years, made up for the ground lost during the year of recession, with companies taking advantage of the appreciation of the New Zealand dollar to increase purchases. Imports are expected to slow to around 6% in 2012, as the rebuilding of stocks of intermediate goods and consumer goods slows. Exports for their part suffered little in 2009, buoyed by dynamic demand from Australia, the country's main trading partner (23%) and from emerging Asia (32%). However this year, reduced demand from Asia should limit their growth, especially as economic activity in Australia is already suffering from the slowdown in orders from China, particularly in the mining sector. Manufacturing and tourism remain handicapped by the high parity of the New Zealand dollar. The exchange rate has been continuously following an upward trend during these past three years, but the volatility observed since mid-2011 affects the agricultural raw materials when US$ earnings from exports are converted into appreciated NZ$. The price of milk and livestock is expected to remain high, benefiting from the increase in world population, the growth of middle classes in emerging countries and the low level of stocks due to drought in the United States. But the volatility of wool prices is a handicap for the implementation of long-term strategies amongst farmers.

Increase in bankruptcies

The reconstruction of the Christchurch region which should start by year-end will boost activity in the building and public works sector and associated branches such as architects' practices, construction materials, timber, etc. This compensates for the reduced activity observed in works from local authorities. Intense competition between suppliers should push prices downwards and reduce margins. Exporters of manufactured goods and the tourism service sector are suffering from the high exchange rates and, for the former, from the rising cost of inputs which not even the strength of the currency can fully offset. In the event of sustained volatility of the New Zealand dollar, small firms will be weakened, as they generally lack the expertise to cover themselves against this risk. Household caution should also weaken sectors dedicated to the domestic market as well as construction. Company bankruptcies increased by 57% between February and April 2012, compared to the same period in 2011.

Strengths

- Geographic proximity to emerging Asia and Australia
- Important tourist attraction and agricultural sector
- Contained public sector debt
- Solid banking system
- Dynamic demographics

Weaknesses

- Small economy and dependence on foreign investment
- Significant household and corporate debt
- Fiscal policy constrained by financing the reconstruction of the Christchurch region
- Shortage of skilled labour

POLAND

Coface Assessments

Country risk	A3
Business climate	A3

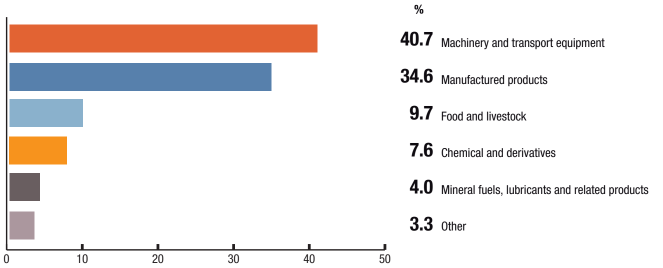
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	1.7	3.9	4.3	2.5
Inflation (yearly average) (%)	4.0	2.7	3.9	3.6
Budget balance (% GDP)	-7.3	-7.8	-5.2	-3.2
Current account balance (% GDP)	-4.0	-4.7	-4.3	-3.8
Public debt (% GDP)	50.9	54.9	55.4	55.7

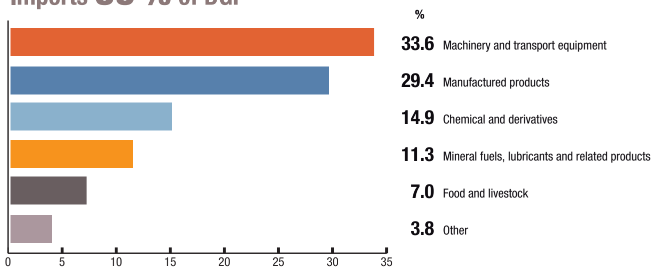
(e): estimate (f): forecast

Trade exchanges

Exports 39 % of DGP



Imports 39 % of DGP



Risk assessment

Decelerating growth in 2012

Economic activity remained sustained in 2011, despite a slowdown in growth during the last quarter. Growth has continued to decelerate in 2012. Household spending, which represents 60% of GDP, effectively remains low due to a decline in consumer confidence, in conjunction with an annual inflation rate of 3.8% in August 2012, a public-sector wage freeze and a deterioration in the employment market (13.3% unemployment). The Polish trade deficit shrank in 2012 following a contraction in domestic demand in Q2 VS. Q1 (-3.1%) and slowing exports (+0.8%). Although exports were impacted by a slowdown in Western Europe, exports towards Russia and Ukraine progressed by more than 20%. The heavy deficit in the income balance wiped out most of the positive effect from the trade improvement. The impact of external trade on GDP was nonetheless limited on account of the low level of trade openness compared to other Central European countries. An expected reduction in inflation should enable the Polish central bank to modify monetary policy. The governor has committed to cutting rates in the event of an economic slowdown. Despite the decline foreign investment flows will cover the current account deficit. At the end of July 2012 net investment flows covered the deficit, i.e. EUR 8 billion. The private construction sector was weighed down by a fall in household demand. The construction production index published monthly by Eurostat fell 8% over the first 7 months of 2012 compared to 2011. Furthermore, the construction sector was boosted, during several months, by the organisation of the European football championships in June 2012 (stadiums, hotels, road networks …) with support from public investment. Corporate credit remained dynamic during Q1, particularly in zloty terms, but investment will decelerate sharply over coming months.

Improving public finances

The Public finances development and consolidation plan implemented by the government in order to respect Maastricht criteria from 2013 onwards will be pursued. The public deficit, which reached almost 8% of GDP in 2010, is expected to fall below 4% in 2012, through higher taxes on oil products and an increase in social contributions. As a result, public debt should stabilise at around 55% of GDP. However, as a large proportion of the debt is held by non-residents, it is vulnerable to risk aversion among investors. Furthermore, the European recession has weighed on foreign direct investment flows in 2012 which has meant that the only stable capital flows financing the current account deficit have come from European structural funds. The Polish banking system seems relatively robust, with capitalisation ratios in excess of Basel III minimum requirements. However, subsidiaries of foreign banks, which are mostly implanted in the euro zone, represent two-thirds of the banking sector, which is therefore dependant on foreign capital. Banks remain highly exposed to currency risk, as household loans denominated in foreign currency account for 14% of GDP. Furthermore, the zloty depreciated by 8% of its value against the euro between January and September 2012.

A comparatively stable political context

The 2010 presidential election resulted in Bronislaw Komorowski leading a coalition between his centre-right party (PO), which had been in power since October 2007, and the Polish people's party (PSA). The general elections held on 9 October 2011 confirmed the coalition's position. The Prime Minister, Donald Tusk has made budget deficit reduction a priority. However, the latest opinion polls highlight growing popular discontent with current fiscal austerity. Furthermore, the adoption of the euro has been postponed due to the single currency's current lack of appeal according to the Prime Minister.

Strengths ↗

- The only EU country to have avoided recession in 2009
- FDI appeal is reinforced by the size of the domestic market
- Diversified economy
- The highest absorption rate of European structural funds in emerging Europe

Weaknesses ↘

- Insufficient investment rate
- Major regional disparities
- Heavy household debt in foreign currency

ROMANIA

Coface Assessments

Country risk	B
Business climate	A4
Medium term	MODERATE RISK

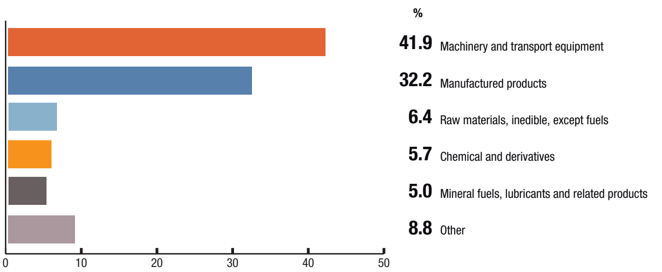
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-5.8	-1.9	2.1	1.1
Inflation (yearly average) (%)	5.6	6.1	5.8	2.7
Budget balance (% GDP)	-7.3	-6.4	-4.1	-1.9
Current account balance (% GDP)	-4.2	-4.4	-4.5	-3.5
Public debt (% GDP)	23.8	31.2	33.0	34.2

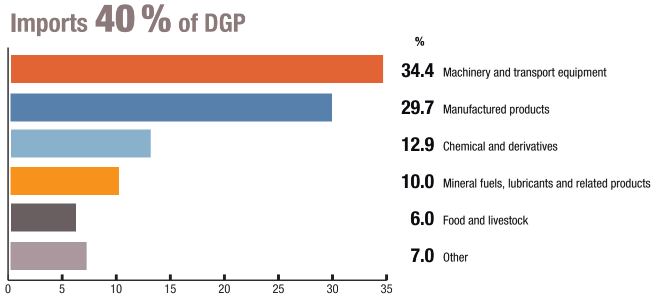
(e): estimate (f): forecast

Trade exchanges

Exports 33 % of DGP



Imports 40 % of DGP



Risk assessment

A fragile recovery driven by public investment

Following a modest export-driven recovery in 2011, economic activity has slowed down in 2012. Exports, 55% of which are towards the euro zone which is in recession, are in decline. This is weighing on the pharmaceutical and chemical sectors. Private investment remains sluggish as access to credit becomes more difficult and on account of uncertainty ahead of the legislative elections in December 2012. Foreign direct investment flows, of which more than 80% come from the euro zone, have slowed down sharply since the beginning of the year. Household spending was nonetheless supported during H1 2012 by a recovery in disposable income, driven by the unemployment rate falling to 7%, which is below the EU average, and as public sector wages were revalued to 2010 levels, i.e. an increase in 8%. Consumer spending has lost momentum during H2 however as of the Leu depreciation against the euro and rising agricultural commodity prices. The construction sector has been impacted by this slowdown and retail trade is also expected to dip at the end of the year. Public investment has become the main growth driver as transport infrastructure requirements remain very high. In this context, co-financing by European structural funds plays a key role, as the absorption rate remains the lowest in the EU.

Financial adjustments underway

After having benefited from EUR 20 billion of multilateral financing between 2009 and 2011, the country signed a twenty-four month precautionary standby agreement with the IMF in March 2011 covering a more modest amount (EUR 3.5 billion). The agreement aims to improve investor confidence in the country's capacity to implement budgetary streamlining measures. Significant adjustments have been made via VAT increases which are continuing in 2012. The difficulty in redressing public corporate balance-sheets in energy and transport remains a stumbling block however, as these sectors continue to record arrears. The fixed-rate taxation system may be modified with the introduction of a sliding-scale, although its impact will depend on the tax ceiling being revalued compared to the fixed rate. If this is not the case, this development will generate lower fiscal income. Furthermore, wealth leakage into the informal economy, evaluated at 25% of GDP, continues to weigh on public receipts. External financing requirements remain high at 20% of GDP in 2012, due to a persistent current account deficit and the weight of external debt amortization, as total outstandings exceed 70% of GDP. Direct investments and bank funding are expected to dry up, as markets demand higher yields in the wake of the deepening euro zone crisis. In addition, even though Romania regained access to the market in 2010-11, continued multilateral financial support and European structural funds remain essential for the country's financial stability. In this context, Leu volatility must be monitored.

The banking system is weighed down by a high level of non-performing loans (17%). Furthermore, euro zone banks, weakened by the sovereign debt crisis, own 72% of Romanian bank assets. These banks could be forced to significantly reduce their exposure to central European countries given the new liquidity requirements under Basel III. Romanian banks are dependent on parent-company loans due to the insufficient level of deposits (the loans-to-deposits ratio stands at 120%). Refinancing risk is particularly high regarding Greek parent companies, which have been considerably weakened, as outstanding loans represent 17% of Romanian GDP. In this context, the credit supply has become heavily constrained.

Reforms jeopardised ahead of the elections

Political instability represents the major risk in Romania. There were three successive governments in 2012 and further legislative elections will be organised in December 2012. The coalition including the current Prime Minister, Victor Ponta, appears set to win the vote in December. This relative stability, stemming from the electoral strength of the coalition which encompasses the centre-left and the centre-right, could nevertheless prove highly fragile in the event of the Romanian President, Mr Basescu standing down or being ousted. The pre-election context represents a further hindrance for reforms, particularly in the energy and transport sectors, and also hampers the reforms requested by the European Commission concerning an improvement in governance.

Strengths ↗

- Foreign investor appeal due to the country's large domestic market
- Low public debt

Weaknesses ↘

- Heavy exposure to the euro zone
- Private sector exposure to currency risk
- Political instability weighing on the country's capacity to implement policies recommended by the IMF
- Persistently high current account deficit
- The lowest absorption rate of European structural funds in the EU, reflecting major institutional and administrative shortfalls

THE NETHERLANDS

Coface Assessments

Country risk **A2↘**

Business climate **A1**

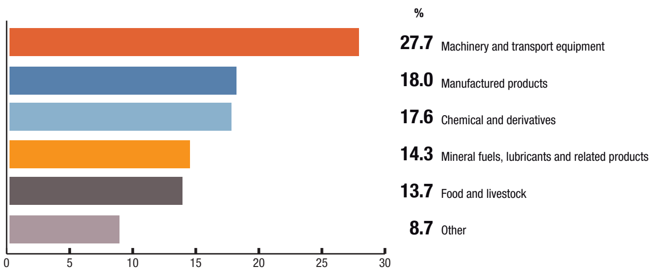
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.7	1.6	1.0	-0.6
Inflation (yearly average) (%)	1.0	0.9	2.5	2.5
Budget balance (% GDP)	-5.6	-5.1	-4.7	-4.8
Current account balance (% GDP)	4.1	7.0	8.5	10.0
Public debt (% GDP)	60.8	62.9	65.2	69.7

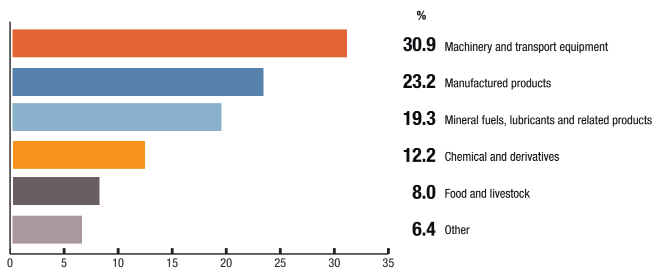
(e): estimate (f): forecast

Trade exchanges

Exports 69 % of DGP



Imports 62 % of DGP



Risk assessment

Negative growth in 2012

Growth will very probably be negative over the full year 2012. Only foreign trade – due in large part to buoyant re-exports – has boosted activity in the first part of the year. Private consumption (clothing sectors, automotive and furniture in particular) and investment (principally the construction sector) have continued to fall. The indicators available in the 3rd quarter do not bode well for an improvement. Household expenditure continued to fall in July (for the 12th month in a row) and the prospects in the matter are hardly encouraging due to the deepening of the fall in property prices in July-August and the deterioration in the labour market. Furthermore, exports slowed sharply in July. After four months of near stabilisation, producer confidence (CBS survey) was again eroded in September. Lastly, the austerity policy will continue. The pro-European parties (Liberals and Labour) having topped the early parliamentary elections on 12 September 2012 should form a government coalition and finalise a programme for reducing public expenditure for the next four years.

Financial and commercial openness, excessive household debt and surge in bad debts are weaknesses

Despite solid fundamentals (external accounts in surplus, contained public debt), the economy was strongly shaken by the financial crisis in 2009 in view of its financial and commercial openness. Burdened by the cost of the American mortgage market crisis, several banks had to be rescued by the State. Since then, a large proportion of this money has been repaid but the sector has seen its profits fall in the 1st half of 2012 and is confronted by a surge in bad debts, which is proof of the deterioration in the economic situation. As regards trade, the country is showing a satisfactory level of competitiveness and has gained market share in Europe (although it should be noted that this gain results in large part from re-exports). However, the country remains highly exposed to the uncertainties of the economic climate in advanced countries, due to the economy's high degree of openness (exports of goods and services represent over 70% of GDP) and the high geographic concentration of exports (two-thirds of the country's trading is with the European Union). Other weaknesses should also be noted, such as the vulnerability of the property market, the very high level of household debt (126% of GDP) and the ageing population which, combined with falling share prices, threatens the solvency of pension funds and forces them to reduce their benefits. Lastly, although companies have entered the crisis on a fairly strong financial footing, their profits have vanished. Over the first eight months of 2012, bankruptcies rose 25% compared to the same period in 2011 and payment incidents recorded by Coface rose sharply.

Strengths ↗

- Port activity (Rotterdam, leading European port)
- Diversified exports (refined oil, natural gas, automotives, electrical equipment, IT equipment)
- External accounts in surplus
- Relatively low unemployment rate
- Contained public debt

Weaknesses ↘

- Very open economy, dependent on European economic conditions
- Banking sector shaken by the crisis
- Substantial household debt
- Ageing of the population

RUSSIA

Coface Assessments

Country risk	B
Business climate	B
Medium term	RATHER LOW RISK

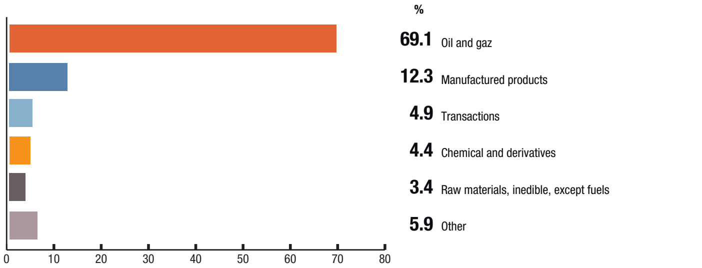
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-7.8	4.3	4.3	3.8
Inflation (yearly average) (%)	11.7	6.9	8.4	6.0
Budget balance (% GDP)	-6.3	-3.5	1.6	-1.0
Current account balance (% GDP)	4.0	4.7	5.3	3.1
Public debt (% GDP)	11.0	11.7	9.6	8.4

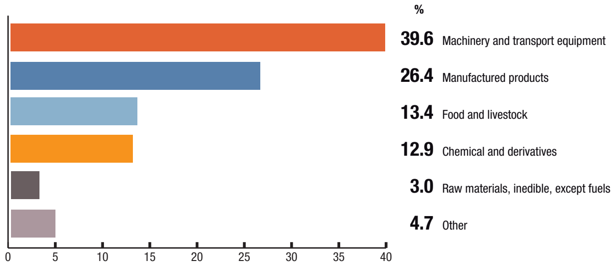
(e): estimate (f): forecast

Trade exchanges

Exports 28 % of DGP



Imports 20 % of DGP



Risk assessment

Slowdown in growth

Growth has slowed down in Q2. This trend should be confirmed over the whole of 2012, with the Russian economy however holding up in a very depressed international economic context. Oil production reached a record level in the middle of the year. On the other hand, industrial production has suffered from a fall in demand from the main partners of Russia (European Union and China). Investment has been curbed by a rise in production costs reducing company profits. Private consumption, the main driver of the Russian economy, was buoyed in HY1 by the rise in wages and social spending, growth in banking credit as well as the good state of the employment market. However, the rise in inflation is now affecting the increase in real wages and therefore domestic demand. Inflationary pressure has increased since June, under the effect of the rise in the price of food (increased by the effects of the summer drought) and public services (energy). The Central Bank raised its refinancing rate in mid-September (from 8% to 8.25%) to try to contain the rise in prices within the limit of its 6% "target".

In HY2 the dynamism in economic activity will depend mainly on movements in crude oil prices. A fall in the prices by the end of 2012 – a scenario that cannot be excluded – would significantly affect growth, but also budget and current balances.

Budget and current balances are very dependent on oil prices

The 2012 budget was amended in June to take account of an expected rise in oil prices (from \$100 to \$115 a barrel), which increases fiscal revenue and allows expenditure to be maintained. Oil revenue accounts for half of State revenue and the price of oil ensuring equilibrium in public finances has doubled since 2008. Taking into account the recent change in the price of a barrel, revenue should be below that expected while expenditure will not be revised downwards. Consequently, the balance should be slightly in deficit at the end of the year. However, Russian public finances remain solid with public debt below 10% of GDP, leaving the government some room for manoeuvre, at least in the short term.

Equally, Russian exports are largely dominated by oil and gas (2/3 of export revenue) and enable the country to post a comfortable current account surplus. However, the balance should be reduced over 2012 due to the impact of the European debt crisis in the countries of this zone.

Capital outflows were still very high in HY1 taking into account the political uncertainties linked to the electoral context, which are set to continue but at a less rapid rate. After a marked depreciation at the start of the year, the rouble has stabilised following the slowdown in capital flows. A fall in the price of oil will again affect the price of the rouble.

The political context will remain tense

The political transition happened as planned by the Kremlin, but the 2011-2012 polls also provoked a level of popular discontent not seen since the 1990s. Both young people and the middle classes vented their dissatisfaction in the face of increasing inequality and the on-going shortcomings in the business climate. The demonstrations, which have remained around the cities without spreading to rural areas, have been marked by the emergence of a new opposition, focused around a number of movements initially mobilised for local issues. The local and regional elections of mid-October could be an opportunity to measure the dissatisfaction of the population. However, the laws recently voted in aiming to limit the demonstrations (suppressed by fines) and placing under supervision certain NGOs (particularly USAID) may limit the possibilities for the opposition to be heard. Marked by the pre-eminence of those close to Vladimir Putin, it confirms the scenario of an economic and socio-political status quo, coupled with a hardening of the regime faced with protests.

Moreover, corporate governance remains a recurring weakness in the country: the structures are relatively opaque and it can be difficult to find out who exactly owns a company. To this end, the accession of Russia to the WTO in August, for which the impact on trade remains uncertain and will in any case not be immediate, could contribute to improving the business climate. While the payment experience as recorded by Coface is stable, there is still a significant level of vulnerability to economic shocks among companies, which means that the credit risk level remains higher than in the three other BRIC countries.

Strengths

- Abundant natural resources (oil, natural gas, metals…)
- Skilled labour
- Low public debt and comfortable foreign exchange reserves
- Regional power and assured energy supply

Weaknesses

- The rentier nature of the economy is becoming more pronounced
- Industrial sector's lack of competitiveness
- Weak private banking sector
- Weak infrastructures
- Demographic decline
- Persistent business environment shortcomings

RWANDA

Coface Assessments

Country risk: D

Business climate: D

Medium term: VERY HIGH RISK

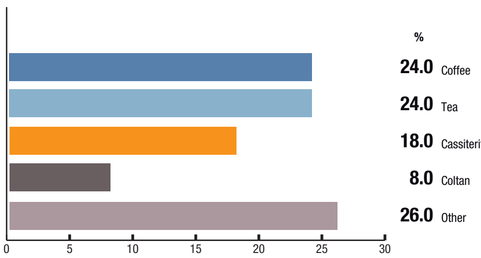
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.1	7.2	8.6	7.7
Inflation (yearly average) (%)	10.3	2.3	5.7	7.9
Budget balance (% GDP)*	-11.5	-13.3	-14.2	-13.2
Current account balance (% GDP)*	-7.3	-5.9	-7.3	-10.0
Public debt (% GDP)	14.5	14.6	18.0	18.7

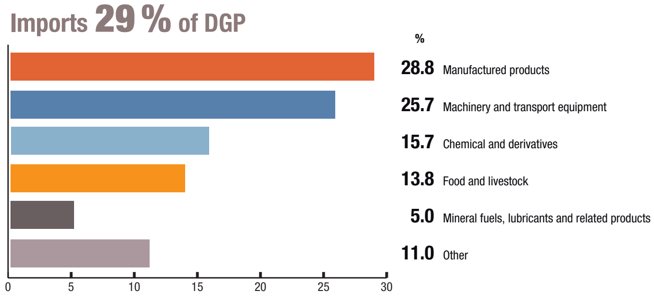
** grants excluded* *(e): estimate (f): forecast*

Trade exchanges

Exports **12 %** of DGP



Imports **29 %** of DGP



Risk assessment

Dynamic growth

Growth in Rwanda, mostly spared by the crisis, will remain buoyant in 2012 and 2013. Domestic demand is the fundamental driver of the economy. The services sector (trade, financial services, tourism) contributes to half of GDP. Agriculture (34% of GDP) remains the main source of employment (80%). Its low productivity could improve due to investments in the infrastructure and inputs (fertilizers, seeds). But development in the farming sector remains restricted by the strong demographic pressure, with food production restricting export production capacities. The industrial sector (15% of GDP) is dominated by construction, with the manufacturing industry being held back by an infrastructure deficit. The government has launched an investment programme in the energy (production and distribution) and transport sectors. Furthermore, private investment is encouraged by the development of microfinance via savings and credit cooperatives (SACCO). Unemployment remains a major challenge, particularly affecting young people due to a lack of qualifications tailored to the needs of the economy.

Budget and current balances in deficit, but the risk of overindebtedness limited by prudent debt management

The budget deficit will remain very high in 2013. Indeed, the measures introduced to combat tax evasion and widen the tax base will increase revenue and the privatisation programme (telecommunications, banks) launched by the Government should be a source of additional revenue. However, the decision of several countries (particularly the US, UK and the Netherlands) to suspend their aid to Rwanda, suspected of supporting M23 rebels in DR Congo, deprives the country of significant resources. In effect, donations represent 45% to 50% of the budgetary revenue, making the country very dependant on external aid. Consequently, revenue will not be sufficient to offset the increase in expenditure, oriented towards production capacities, healthcare, but also the reassessment of public sector wages (frozen since 2006). The budget deficit should therefore not be reduced, with, however, better management limiting its deterioration.

Concerning external accounts, exports are still mainly food products (coffee, tea) and raw materials (tin, tungsten), despite diversification efforts. This specialisation makes the country very vulnerable to global prices. Imports of manufactured goods and energy are increasing faster than exports, increasing the trade deficit. The revenue from migrant worker remittances, tourism and public donations does not make up this deficit, which results in a negative current balance. The slowdown in the economy in Europe and in the US poses a risk of reducing expatriate remittances, revenue from tourism as well as FDI. It results in downward pressure on the Rwandan franc, which remained stable against the dollar in 2011 and in HY1 2012, but has depreciated by nearly 4% in Q3.

Public debt has increased but remains sustainable (19% of GDP). Foreign debt (62% of public debt) is over 80% and held by multilateral creditors. Rwanda's risk of overindebtedness remains moderate due to prudent debt management from sizeable debt relief, which has benefited the country and access to favourable borrowing conditions.

Marked progress in matters of governance, which improves the business environment in a political context that is still difficult

Rwanda is a landlocked country, bordered notably by DR Congo with which relations are strained by the accusations of support for the M23 rebels by the Rwandan government. Paul Kugamé, the president re-elected in August 2010 for a second term, has been criticized for the authoritarian excesses of his presidency.

Rwanda has introduced major reforms, which has strengthened the legislative and regulatory framework since 2001. The protection of property is guaranteed by the Constitution (2003) and the Investment Code (2005) authorises foreign investment in all sectors as well as the free and full repatriation of capital and profits. Furthermore, the country has made major efforts to combat corruption. Disparities persist between the legal framework and its actual implementation and there is still progress to be made (civil liberties, protection of contractual rights). But the actual improvement in the business environment now means that Rwanda is now ranked 45 in the World Bank's Doing Business (3rd Sub-Saharan African country behind South Africa and Mauritius).

Strengths ↗

- Geological potential: cassiterite (tin), tungsten, gold
- Low debt
- Significant progress in matters of governance

Weaknesses ↘

- High dependence on foreign aid and on raw materials prices
- Landlocked country
- Subject to the political and social tensions of neighbouring countries (DRC)
- Strong demographic pressure and the highest population density in Africa

SOUTH AFRICA

Coface Assessments

Country risk **A3**

Business climate **A3**

Medium term

RATHER LOW RISK

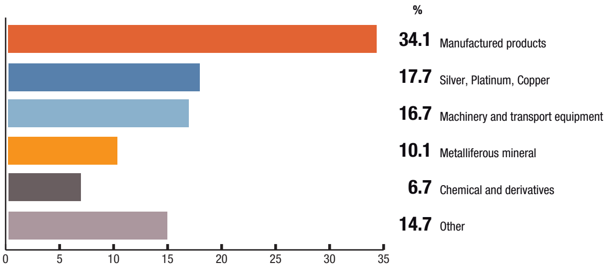
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-1.5	2.9	3.1	2.6
Inflation (yearly average) (%)	7.1	4.3	5.0	6.0
Budget balance (% GDP)	-5.3	-4.8	-4.6	-5.3
Current account balance (% GDP)	-4.1	-2.8	-3.3	-5.5
Public debt (% GDP)	31.5	35.3	38.8	40.0

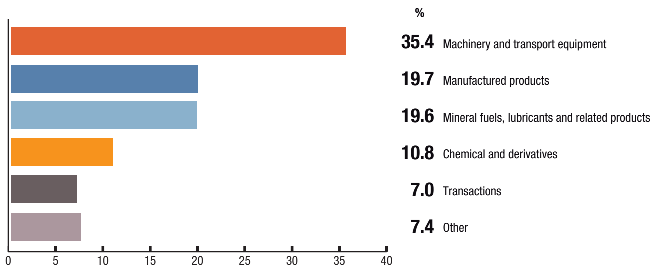
(e): estimate (f): forecast

Trade exchanges

Exports 27 % of DGP



Imports 28 % of DGP



Risk assessment

Confirmed slowdown in growth in 2012

South African growth will remain modest for the whole of 2012. After growth of 3.2% in Q2, the prospects for HY2 are sluggish. Consumption, the main growth engine, remains constrained by high unemployment (25%), household debt (76% of disposable income) and the erosion of disposable income under the combined effect of the slowdown in the increase in wages and the acceleration of inflation. Investment by public companies in the transport and electricity sectors continues. But investment by private companies is suffering from production overcapacities and uncertainty in the change in demand. The recession in Western Europe, the leading partner of South Africa (22% of exports, 1/3 of those manufactured goods) is affecting manufacturing output. The mining sector has greatly contributed to the increase in GDP in Q2 due to the recovery in production after the strikes in the previous months. But production, already hampered by the lack of investment, will be further affected by the Marikana events. The rise in prices of food products (accentuated by the summer drought) as well as energy tariffs and services are exerting upward pressure on prices. The trend towards depreciation of the rand is increasing these inflationary pressures. The central bank reduced its key rate in July by ½ point (to 5%), for the first time since November 2010. Since the rate of inflation is close to its high "target" (6%), monetary policy should remain unchanged by the end of 2012.

Worsening of the budget deficit and deterioration in the current account balance

Fiscal revenue is lower than expected due to the economic slowdown, whereas the growth stimulus measures, as well as capital expenditure (infrastructure, combating insecurity and inequality) have been maintained. Consequently, the budget deficit will widen in 2012/13. Public debt remains manageable (40% of GDP), but is continuing to grow. The trade balance is deteriorating. Imports of manufactured goods are increasing while exports are suffering from contraction in European demand and the fall in commodity prices. Furthermore, tourism revenue does not offset the payment of services to foreign companies (mining) and retrocession of customs duties to Member States of the Customs Union (SACU). Direct investment is low in relation to GDP, but portfolio investments are attracted by the rate differential with advanced countries (carry trade), making these flows very volatile. The rand depreciated by nearly 10% between February and August 2012. The uncertainties relating to the social (recent events in the mines, very high unemployment, etc.) and political (elections in December of the leader of the ANC) situation, as well as the international economic context, continue to exert downward pressure. However, the maintenance of high prices of commodities (gold) limits the risk of a too sharp depreciation. On the other hand, the volatility of the rand exchange rate has increased. Capitalisation of banks is satisfactory and asset quality is improving. The banking system is not very vulnerable to foreign exchange risk.

Rise in social tensions

The election of J. Zuma in 2009 and the promises of the ruling coalition (ANC, Communist Party and trade unions) have raised hopes. The persistence of high unemployment and inequality, the mixed results of the BEE (Black Economic Empowerment) intended to favour the integration of the black population in the economy, has led to disappointment and resentment. Social problems are increasing. Following the Marikana mine dispute, which in summer set the striking miners claiming wage increases against the police and led to the death of nearly fifty persons, the strikes spread to other mines and other sectors (transports). These events have also weakened the ANC, with the return onto the scene of J. Malema, an emblematic left-wing figure excluded in April from the ANC, and the COSATU, union confederation member of the coalition in power for which the main component is the National Union of Miners (NUM) greatly contested by the Marikana miners. Tensions risk intensifying as the elections approach for the presidency of the ANC in December. Maintaining Jacob Zuma at the head of the party, considered as certain a few months ago, now seems more uncertain. South Africa has a well-developed legal system, but the inefficient government, social instability, under-qualified workforce, criminality and corruption are handicaps for the business climate.

Strengths ↗

- Economic and political influence in Africa and at the international level
- Rich in natural resources (gold, platinum, coal, chromium, etc)
- Well developed services sector (particularly financial)
- Control over public sector expenditure and external debt
- Protective legislative environment for investors

Weaknesses ↘

- Poverty, inequalities are sources of social risk (crime, demonstrations)
- High unemployment and shortage of qualified workforce
- Production hampered by a lack of investment, deficiencies in transport and energy infrastructures
- Vulnerability to commodity prices
- Sensitivity to the European economic climate, as well as competition from Asia
- Dependence on volatile foreign capital inflows
- Corruption

SYRIA

Coface Assessments

Country risk	D
Business climate	C
Medium term	VERY HIGH RISK

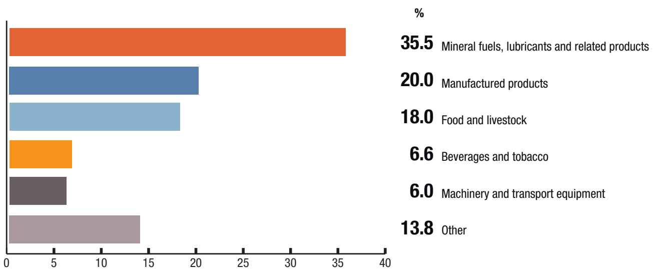
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.0	3.2	-5.0	-12.0
Inflation (yearly average) (%)	2.5	4.5	5.0	20.0
Budget balance (% GDP)	-4.0	-4.5	-11.0	-14.0
Current account balance (% GDP)	-2.2	-2.7	-10.0	-12.0
Public debt (% GDP)	31.5	29.5	35.5	45.5

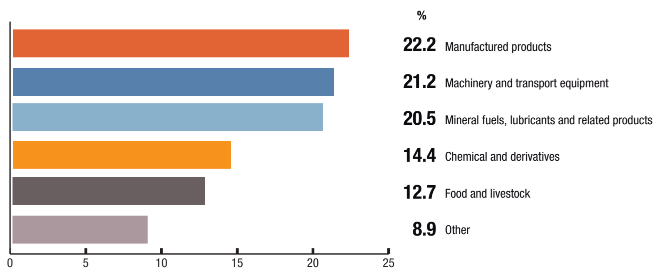
(e): estimate (f): forecast

Trade exchanges

Exports 34 % of DGP



Imports 36 % of DGP



Risk assessment

A likely protracted civil war

President Bashar al-Assad, who began his second seven-year term in 2007, has been facing continued violent protests against his regime since March 2011, converted into armed rebellion he is trying to contain through military repression.

In this context, Syria's international isolation is intensifying. The United States and the European Union imposed a boycott on Syrian oil exports in August 2011. The Arab League suspended the country's membership at the end of 2011 and Turkey has broken off the free trade agreement between the two countries. Moreover, Saudi Arabia and Qatar led the Arab League in demanding the resignation of President Assad.

However, the Syrian regime is likely to continue to rely on China and Russia to veto any UN Security Council resolution authorising force or international sanctions against it. After Kofi Annan's resignation in August 2012, a new UN and Arab League mediator, Lakhdar Brahimi, has been appointed with the task of finding a peaceful end to the civil war in Syria, in spite of the unwillingness of the Syrian parties to negotiate a truce and the disagreements of the international community.

Meanwhile, the hard core of the current regime is limited to the Alawite minority (about 12% of the population), particularly after recent high level defections of Sunnis. However, despite the expanding control of some areas in the country by opposition and rebel forces of the Free Syrian Army, these forces seem too fragmented to overthrow the regime in the near future. Besides, the opposition has so far failed to convince the urban middle classes that it might offer a valid and credible alternative to the regime, although the support of the Sunni business community, crucial for Assad, is weakening. Therefore, the most likely prospect is for a protracted civil war and the current regime could in the end succumb to a combination of escalation of fighting, political protest, social unrest and external pressures, or to a coup instigated by elements within the armed forces.

Deep recession triggered by the on-going conflict

The economy is more severely affected by the on-going conflict and Western sanctions than in 2011, and, therefore, a further drop in activity is underway in 2012. On the demand side, household consumption has again been hard hit and the situation made worse as a result of the additional restrictions on imports. On the supply side, in the services sector which now accounts for 45% of GDP, the retail and tourism segments in particular are suffering from the slump.

Serious worsening of the fiscal and current account deficits

A very severe worsening of the fiscal deficit is underway in 2012, following on that already recorded in 2011. The decline in economic activity and the Western sanctions on the oil sector are in effect depriving the State of one of its main sources of income. As a result, public debt as a proportion of GDP will increase sharply, whereas the cancellation of the bilateral debt with Russia in 2005 had enabled a substantial reduction.

As for external accounts, oil exports are falling because of the European and US sanctions. As a result of the sanctions, imports are also decreasing, despite the scale of refined fuel imports. Overall, with a collapse in tourism income and a decline in expatriate remittances, the current account deficit is going to widen sharply.

Moreover, the country's moderate external debt level is deteriorating, because of the contraction in economic activity, capital flight will accelerate and the currency is expected to depreciate further, with an increasing strain on the banking system. This situation will result in a depletion of foreign exchange reserves, which are forecast to decline to a level estimated to be equivalent to four months of imports at end-2012.

Nevertheless, the financial assistance being provided by Iran particularly could enable the current regime to avoid, in the immediate future, a financing crisis and thus delay its collapse.

Very poor business environment

Considerable obstacles to change and the gradual liberalisation of the economy remained, even if the authorities had begun to reform the commercial and banking sectors and were planning a law on public-private partnerships. The business environment was already suffering from major weaknesses, poor company transparency, red tape, nepotism, corruption, lack of skilled labour, and an absence of a consistent framework for foreign direct investments. All these factors, combined with the very marked deterioration in the political and economic situation, result in an increase in arrears and difficulties in debt collection.

Strengths

- Relatively diversified productive capacity
- Strong tourism potential
- Moderate foreign debt

Weaknesses

- Growing political protests against the current regime, in a multi-confessional country
- Declining oil production,source of over a quarter of fiscal revenues
- Obsolete public-sector industry
- Uncompetitive agricultural sector
- Very flawed business environment

TUNISIA

Coface Assessments

Country risk	A4
Business climate	A4
Medium term	RATHER LOW RISK

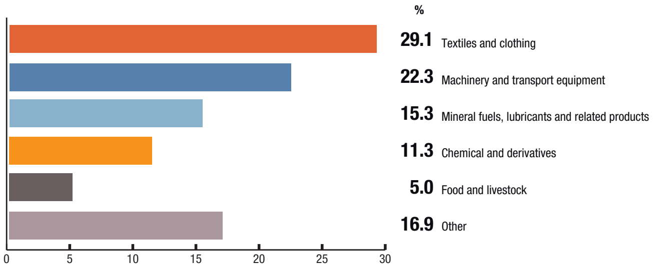
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	3.1	3.5	-1.5	2.0
Inflation (yearly average) (%)	3.5	4.4	3.5	4.8
Budget balance (% GDP)	-2.7	-2.9	-3.5	-7.0
Current account balance (% GDP)	-2.8	-4.7	-7.3	-8.0
Public debt (% GDP)	42.9	43.5	49.0	52.0

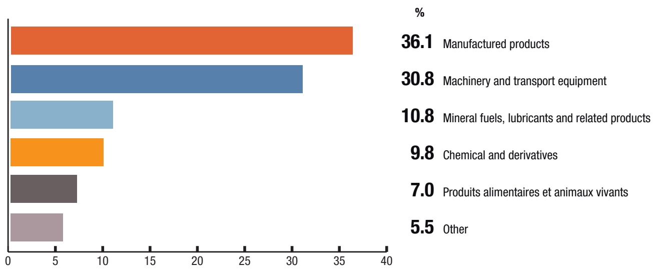
(e): estimate (f): forecast

Trade exchanges

Exports 52 % of DGP



Imports 55 % of DGP



Risk assessment

The coalition government faces many social and economic challenges

The October 2011 elections to the Constituent Assembly have led to a relative majority in favour of the Islamist Ennahda party. A coalition was formed with two secular parties and a power sharing agreement was passed at the end of 2011. The Presidency of the Republic fell to Moncef Marzouki of the Congress for the Republic and that of the Assembly to Mustapha ben Jafaar of Ettakatol, while the post of Prime Minister went to Hamadi Jebali, General Secretary of Ennahda, whose party holds the majority of the portfolios and sovereign ministries. Legislative and presidential elections will be held at the end of June 2013, as the drafting of the new constitution should be finished. Since a compromise has been reached on a half presidential, half parliamentary regime. Fault lines will, however, continue to cut across society, divided between Islamism and secularism, or tradition and modernity.
In this context, the new government, despite its desire to implement a liberal economic programme, is finding it difficult to create a new economic policy framework. It is facing a large number of social and economic challenges, not least popular demand for progress in this regard. The major issues remain job creation and a better social and geographical distribution of the fruits of growth. Furthermore, there are also plans for a regional development scheme to provide assistance to the interior of the country, historically neglected relative to the coastal regions.

Slight upturn in growth expected for 2012

There was a significant slowdown in activity in 2011 subsequent to the political events, with the worst impact being felt on tourism (17% of GDP as a whole), followed by mining output.
With the return to a more stable political situation a moderate economic upturn is expected in 2012, with a recovery in household consumption and investment, stimulated by a flexible budgetary policy. The country is however expected to report less good harvests, where as the agricultural sector is representing around 12% of GDP and 20% of the active population.
This upturn could be held back by the level of social tension until the completion of the political transition process, as well as by a problematic world economic context, and especially that involving its main European trading partners (France, 32% of sales in 2011; Italy, 22%).

On-going large twin deficits, although somewhat alleviated by international financial assistance

Following a serious worsening of the budget deficit in 2011, a result both of the decline in economic activity and increased expenditure, 2012 should see a continuation of a substantial deficit. The focus of the budget is on social justice, job creation, regional development and the boosting of public investment. Public debt, as a proportion of GDP, is slightly higher than the average for comparable emerging countries, but the majority of it has been contracted with multilateral institutions at favourable concessional terms.
The pressure on the external balances will continue in 2012. Export growth will be weak as a result of the economic deterioration in the country's leading trading partner, the EU, whilst imports will suffer again from the rising cost of energy (representing 15% of the total). Whilst expatriate remittances are likely to be maintained, tourism is only going to improve slightly, following the sharp decline in 2011 and, overall, the current account deficit will remain high.
In May 2011, Tunisia received pledges of financial support from the G8 to cover its public and external deficits. For this purpose, loans from the World Bank and the African Development Bank were put in place, plus those scheduled by the EIB and the AFD (French Development Agency). The new government wants, however, to make also use of Islamic donors and banks.

Strengths

- Natural resources (gas, phosphates), agriculture, tourism
- Relatively diversified economy and fairly skilled labour force
- Proximity of the European market and association agreement with the EU

Weaknesses

- Considerable social and geographical inequality
- High unemployment, mainly among the young and especially among university graduates
- Economic preponderance of agriculture
- Tourism sector facing increased competition and political uncertainties
- Size of the informal economy (50% of GDP) and need for improvement in the business environment

UNITED KINGDOM

Coface Assessments

Country risk	A3
Business climate	A1

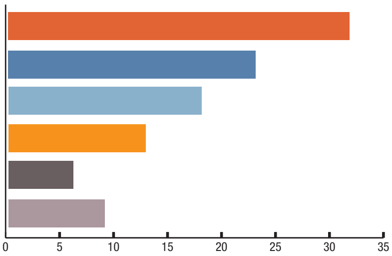
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4.4	1.8	0.9	-0.5
Inflation (yearly average) (%)	2.2	3.3	4.5	3.0
Budget balance (% GDP)	-11.7	-9.4	-8.4	-8.1
Current account balance (% GDP)	-1.7	-3.2	-0.9	-2.6
Public debt (% GDP)	71.1	76.5	84.4	89.8

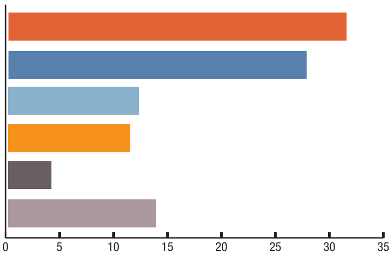
(e): estimate (f): forecast

Trade exchanges

Exports 28 % of DGP



Imports 30 % of DGP



Risk assessment

Growth turned positive in the 3rd quarter 2012

After three consecutive quarters of negative growth, activity turned positive in the 3rd quarter 2012 (+1% q/q), thanks to the Olympic Games. Despite this, confidence levels for households and business leaders remained weak in September, suggesting mediocre growth for the full year. Growth has been downgraded from an increase of 0.2% to a decline of 0.5%.

Several factors continue to fuel the sluggish environment. The unemployment rate remains high at 8.1% in July and could rise by the end of the year as temporary employment created by the Olympic Games disappears and the New Enterprise Allowance promoting self-employment expires. Additional factors are deleveraging (debt represents 149% of disposable household income versus 170% in 2008), still weakened credit conditions, the desire to keep the savings level at around 7% of disposable income and uncertainties linked to the eurozone crisis. However, inflationary pressure has dissipated, and after a peak of 5.2% in September 2011 the average for 2012 should be around 2.7%. This should help to ease contraction in household expenditure (64% of GDP) this year. All the more so as the Bank of England (BoE) is continuing with its expansionary monetary policy (key rate held at a low level and a likely increase in November in the £375 billion of quantitative easing). The construction sector continued to contract in the second quarter (end of infrastructure contracts linked to preparations for the Olympic Games). This continued during the summer and the sector is likely to remain depressed throughout the year.

This recession has reduced tax receipts in relation to corporation tax. However this should not lead to a revival of austerity measures as the government downgraded its forecast reduction in the public deficit in November 2011.

Exports likely to contract in 2012

The latest survey in the manufacturing sector highlights a rise in production costs and acceleration in the decline in export orders. Strong rises in inventory levels should be followed by a decline in manufacturing production. Activity in the services sector has only improved slightly. Companies are therefore experiencing margin pressure which will also lead them to curb investment. Exports are suffering from the slowdown in demand from the European Union, in particular from the eurozone, the main trading partner (54% of the total). Imports should slow in the second half of the year, in line with household and corporate caution, but will remain livelier than exports for the full year. External trade will therefore make a negative contribution to growth in 2012.

Bank lending depressed and bankruptcies rising

The British banking sector is weakened on the one hand by its considerable exposure ($1200 billion) to euro zone public and private counterparties and, on the other, by a slower progression in its profits. The banks' efforts to reduce their debt led to substantial restrictions on the supply of credit, particularly to SMEs. Faced with this negative trend, the BoE and HM Treasury have implemented a Funding for Lending Programme (£20 billion), which anticipates granting long-term loans to banks at preferential rates subject to these banks' commitment to provide low-cost financing to the real economy, in particular to SMEs. It is too early to assess the impact of this measure on credit to companies and households, but the allocated amount already appears limited versus requirements. Large companies are less affected as they have a high self-financing rate (160%) and access to the bond markets. Company bankruptcies increased by nearly 5% over the twelve months to June 2012. This is reflected by the increase in the Coface payment incident index.

Strengths

- Bank of England's flexible monetary policy
- Hydrocarbon production meeting three quarters of energy needs
- Government determination to adjust public finances

Weaknesses

- Economy heavily dependent on financial services
- Instability of the coalition government over the European question
- High level of public debt and deficit
- Record level of private debt
- Weakness of the banking system
- Growing proportion of the young in the unemployment figures a source of social tension

UNITED STATES

Coface Assessments

Country risk	A2
Business climate	A1

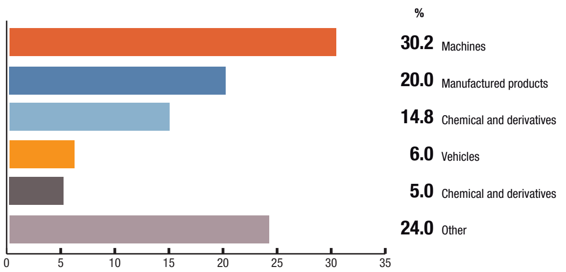
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.5	3.0	1.7	2.0
Inflation (yearly average) (%)	-0.3	1.6	3.1	2.0
Budget balance (% GDP)	-10.2	-10.5	-9.6	-8.2
Current account balance (% GDP)	-2.7	-3.0	-3.1	-3.1
Public debt (% GDP)	85.8	98.4	102.8	106.7

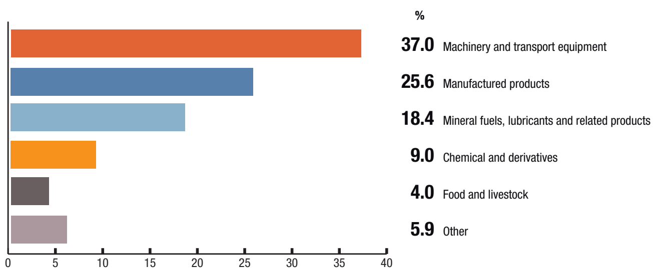
(e): estimate (f): forecast

Trade exchanges

Exports 11 % of DGP



Imports 14 % of DGP



Risk assessment

Household consumption is on the right track, but this trend is still flimsy

During the first months of 2012, household consumption, which represents more than 70% of GDP, drove growth forward, with contributions nevertheless being erratic, in line with the rising and falling savings rate. Households have therefore been taking a cautious approach, alternating purchases of consumer durables such as cars and electronics, while continuing to clear their debts (103% of DI in the second quarter 2012), with the savings rate acting as an adjustment value: it was 4% at the end of the second quarter and fell to 3.7% at the end of September. Nevertheless, despite a spectacular drop in the unemployment rate in September from 8.1% to 7.8%, several factors continue to weigh on business activity. The number of part-time jobs for economic reasons is still trending up and the number of long-term job seekers, out of work for more than 27 weeks, remains high (40% of the total number of job seekers). The job creations figure of 157,000 per month on average since the beginning of the year is still not enough to jump-start the economy by significant degree. In addition, following a progression in the first half-year, households' disposable income has decreased and house prices, despite some slight upward movements over the summer, remain lower than the peak reached in 2006. This contributes to a negative wealth effect; however, this is mitigated by the rise in the value of financial assets, which also helps underpin consumption. But the uncertainties around the fiscal adjustment (the fiscal cliff) are most likely to affect household confidence: according to the Congress Budget Office, its application as provided for by the 2013 finance bill would trigger a significant recession during the first half of next year. The elected President will therefore have to demonstrate his desire to reduce the budget deficit without compromising growth in business activity.

Companies also lack visibility

The lack of visibility on decisions that will be taken in Washington during the lame duck session and in the weeks after Congress and the elected President take office is also affecting companies. Their confidence tends to crumble and they remain cautious. Investment in capital goods and software has slowed down since December 2011 and its contribution to growth in the third quarter was neutral. Exports do not achieve the same performances than in 2011 (+5% over the first eight months of the year YoY). They are expected to decelerate in line with the slowdown in external demand. The recession in the eurozone (15% of American exports) will affect sales abroad American exports directly but also indirectly via American companies operating in Asia. The negative effects come from Japan too (5% of foreign sales), where the recovery is weakening. China (7%) is also vulnerable to a slowdown in demand from the eurozone, one of its main partners. Moreover, we cannot rule out the intensified use of protectionist measures, on one side or the other of the Pacific.

The number of company bankruptcies is still higher than pre-crisis levels

The Federal Deposit Insurance Corporation identified 157 failed regional banks in 2010, then 92 en 2011 and 32 in June 2012. If the banking sector is on the whole stronger than in 2008, there are still weaknesses in regional banks, some of them showing more than 10% of property sector nonperforming loans in their portfolio. This situation continues to make access to credit difficult for SMEs: credit fell by 13% during these two last years. Taken as a whole, businesses are not highly indebted and show a record high level of profits (10% of GDP). But that does not reflect the experience of SMEs' whose profits are still declining. Bankruptcies fell during the first half of 2012 (-14% compared to the same period in 2011) but the figure is still above that observed in 2007.

Strengths

- Flexible employment market
- Full employment is Federal Reserve objective too
- Predominant role of the dollar in the global economy
- Nearly 70% of national debt held by residents

Weaknesses

- High proportion of structural unemployment
- Households have little geographic flexibility
- High household debt (103% of disposable income)
- Polarisation of the political sphere
- Dilapidated state of much infrastructure

VENEZUELA

Coface Assessments

Country risk **C**

Business climate **C**

Medium term

VERY HIGH RISK

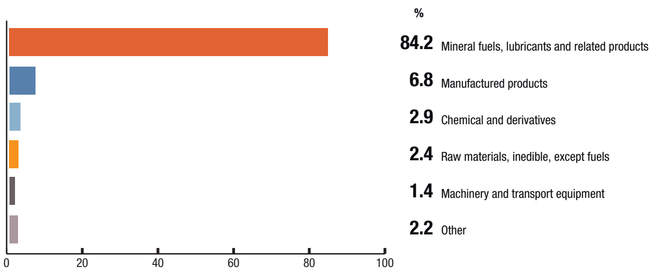
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.2	-1.5	4.2	4.4
Inflation (yearly average) (%)	27.1	28.3	27.1	25.0
Budget balance (% GDP)	-8.2	-6.8	-4.0	-4.5
Current account balance (% GDP)	1.9	3.1	9.0	6.5
Public debt (% GDP)	18.4	28.2	33.0	40.0

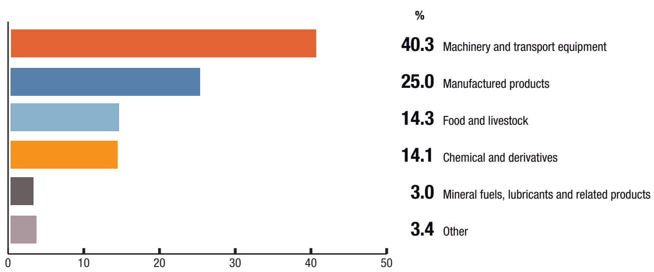
(e): estimate (f): forecast

Trade exchanges

Exports 18 % of DGP



Imports 20 % of DGP



Risk assessment

Activity is still doing well as a result of the significant increase in public expenditure surrounding the Presidential election in October 2012. But with the electoral euphoria fading, it should slow down

In a context of high oil prices and increasing public expenditure during the pre-election period (subsidies for basic food products, social aid for the most underprivileged, construction of housing), household consumption is dynamic. Conversely, investment is still depressed in the face of a discouraging business environment (price and foreign exchange controls, risk of dispossession, etc.). The unreliability of energy supply and the chronic investment deficit depress productive capacity, particularly in the oil sector. Despite its huge reserves the way in which the oil revenues are being managed is putting future production at risk. The national oil company, PDVSA, which must have a 60% holding in all new projects, lacks both technical and human resources and is not investing enough. A large portion of its income is siphoned off to fund expenditure for a variety of social and political causes. The increasing interventionism of the government, with regular nationalizations, is hampering the diversification of the economy and undermining productivity.

Public finances have deteriorated and are dependent on changes in the price of hydrocarbons

Despite high oil prices, public finances have deteriorated. The increase in public revenues generated by oil is offset by the more rapid rise in expenditure. It has to finance the subsidies. Despite a lower deficit in 2013, the national debt will continue to grow. The opacity of public accounts, with extra-budgetary spending carried out via the publicly owned petrol company, PDVSA, or the National Development Fund (FONDEN), unorthodox management of oil revenues and President Chavez's unpredictability lead to watch the State's and other sovereign entities payment behaviour carefully. In the event of a substantial drop in oil prices, the situation would become very delicate.

The fact that oil prices are holding up well has enabled Venezuela to post a comfortable current account surplus

Thanks to the high price of oil and the significant increase in exports of hydrocarbons, the current account balance remains largely in the black. Conversely, the services account, due to a lack of technical skills in oil exploitation, is structurally in deficit. Moreover, despite strict foreign exchange controls exercised by the Comision de Administracion de Divisas (CADIVI), the outflow of private capital continues, leading to a requirement for financing covered by foreign debt. PDVSA, like the FONDEN (the public fund dedicated to social development) are in debt to both private and public foreign creditors, particularly Chinese, potentially involving future deliveries of oil.
Although the level of external debt remains moderate, the movement of oil prices remains a crucial variable for the country's solvency. Any increase in doubts surrounding the country's economy and the Bolivar could bring about a foreign exchange crisis, especially as its official currency reserves are fairly low and the national currency continues to be overvalued.

A entrenched political and economic environment

With his considerable popularity among a large part of the population, to a large extent explicable thanks to the significant social spending financed by oil revenues, Chavez was re-elected president in October 2012 with more than 55% of the vote against Henrique Capriles. The political and economic status quo is very likely. He has appointed Nicolas Maduro, his faithful minister of Foreign Affairs, as Vice-President, making him his likely successor in case he is unable to pursue its mandate.

Strengths

- Major oil gas and mining resources
- Considerable oil reserves in the Orinoco river belt
- Oil income a means for extending the country's regional political influence
- The USA is the main market for Venezuelan oil, despite political disputes
- Membership of Mercosur after the expulsion of Paraguay, which had opposed Venezuela's entry

Weaknesses

- Economy too dependent on hydrocarbons
- Opaque and discretionary management of oil revenues
- Production capacity of the public oil company PDVSA restricted by lack of investment
- State interventionism and corruption adversely affect the business environment
- Precarious rights of foreign investors
- Criminality and corruption

Country risk and business climate assessment methodology

Coface risk assessments for 157 countries are available and updated regularly on coface.com
Both county risk and business climate assessments can be accessed freely for consultation purposes.

The country risk assessment assigned by Coface reflects the average level of short-term non-payment risk associated with companies in a particular country. It evaluates the extent to which economic, financial, and political trends, as well as the business climate, influence financial commitments of local companies in a given country.

How are assessments assigned?

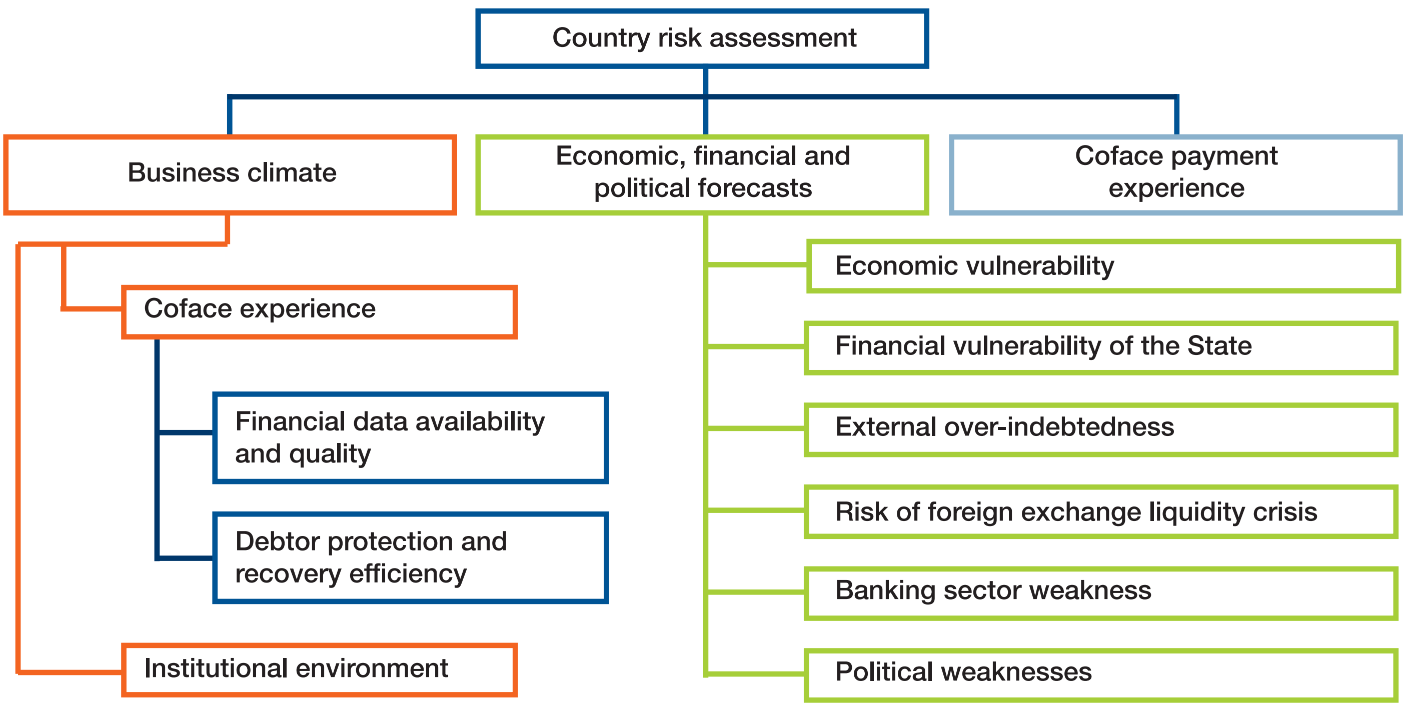
Assessments are based on threefold expertise developed by Coface:

1. **An expertise in macroeconomic analysis** via economic, financial and political indicators.

2. **An expertise in microeconomy analysis** relying notably on Coface databases.

3. **An expertise in business climate evaluation** through internal and external sources.

Country risk and business climate assessments are ranged on a seven grade scale: A1, A2, A3, A4, B,C,D, in ascending order of risk (see next page for definitions).



Country risk assessment definition

A1	The macroeconomic, financial, political, and social outlook is very good. The business environment is excellent. Corporate default probability is accordingly **very low.**
A2	The macroeconomic and financial outlook is good amid a generally stable political and social climate. The business environment is good overall. Corporate default probability is accordingly **low.**
A3	The macroeconomic and financial outlook may not be very growth-oriented. The political and social climate may be somewhat affected by tensions. The business environment may have shortcomings. Corporate default probability is accordingly **not very high.**
A4	The macroeconomic and financial outlook may be marked by a few weaknesses. The political and social climate may be affected by tensions. The business environment may have appreciable shortcomings. In such conditions, the probability of corporate default is **average.**
B	The macroeconomic and financial outlook is uncertain. The political and social climate may be affected by strong tensions. The business environment may be unstable and not very effective. In such conditions, the probability of corporate default is **relatively high.**
C	The macroeconomic, financial, political, and social outlook is very uncertain. The business environment is difficult. In such conditions, the probability of corporate default is **high.**
D	The macroeconomic, financial, political, and social outlook is subject to very high risk. The business environment is very difficult. In such conditions, the probability of corporate default is **very high.**

Business climate assessment definition

A1	Corporate financial statements are generally available and reliable. Claim collection is efficient. Institutional performance is very good. The business climate is thus **excellent.**
A2	When available, corporate financial statements are reliable. Claim collection is generally efficient. Institutional performance is relatively effective. The business environment is thus **good overall.**
A3	Corporate financial statements are not always available but when available they are relatively reliable. Debt collection is not always efficient. The institutional framework fails to meet particular needs. The business climate thus has **a few shortcomings.**
A4	Corporate financial statements are not always available and reliable. Claim collection can prove difficult. The institutional framework is deficient. The business climate thus has **substantial shortcomings.**
B	The reliability and the availability of corporate financial statements vary widely. Debt collection is not very efficient. Institutions present some weaknesses. The business climate is thus **unstable and not very effective.**
C	Corporate financial statements are often unavailable and when available they are not very reliable. Debt collection is erratic. Institutions are handicapped by major shortcomings. The business climateis thus **difficult.**
D	Corporate financial statements are rarely available and when available they are not very reliable. A deficient legal system makes debt collection a very haphazard process. Institutions are handicapped by major shortcomings. The business climate is thus **very difficult.**

Assessments available on www.coface.com *(go to Country Risk and Economic Research)*