Country risk and business climate assessments

Country risk assessment modifications

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

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

Slovaquia	A3↘	A3
Indonesia	B	B↗
Nicaragua	D	C
Ivory Coast	D	D↗

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

Czech Republic	A2↘	A3
India	A3	A3↘
Spain	A4	A4↘
Italy	A4	A4↘
Cyprus	B	C
Guatemala	B	C

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

SLOVAKIA: A3

A3 country risk assessment removed from negative watch list (since December 2011)

- The country posted 3.2% year-on-year (YoY) growth in the first quarter 2012. The increase compared to the 4th quarter 2011 is 0.75%. Coface has revised its 2012 growth forecast upwards: 1.9% from 1.1%.
- Despite the European economic climate, the country's net exports are the main growth engine. They rose in the 1st quarter 2012 by 2.6% and the level of industrial production increased by 9.2% (YoY) in the 1st quarter 2012 compared to 3.1% in the 1st quarter 2011.
- Domestic demand fell slightly in the first quarter (-0.7%, YoY) and will not be a growth engine in 2012.
- Nevertheless, the government has room for manoeuvre to buoy domestic demand given the low level of national debt (45% of GDP). It should relax the budget adjustment effort, which has been very significant over the past few years, with the public deficit falling from 8% in 2009/2010 to 4.6% in 2012.

INDONESIA: B↗

B country risk assessment placed under positive watch list

- Dynamic growth driven by solid domestic demand and exports of commodities particularly to China.
- Ability to withstand the sovereign debt crisis in the eurozone: moderate degree of openness, economic agents not very dependent on external lines of credit and low exposure to foreign exchange risk.
- Favourable demographic development: 4th largest population in the world, young, inexpensive, with consumption increasingly similar to that of the West (the middle class is expanding at a rate of 7 million people a year in the manufacturing and services sector).
- Continuous improvement in sovereign risk: public debt has fallen from 98% of GDP to 24% of GDP in 10 years (which explains the upgrade to 'investment grade' by Moody's and Fitch ratings).
- Solid external accounts: slight current account deficit covered by dynamic foreign direct investments, low foreign debt (25% of GDP compared to 86% in 2000), high foreign exchange reserves (5 months of imports), contained exchange rate risk despite the volatility of portfolio capital flows.
- Restructured and recapitalised banking system, under increased supervision. However, leveraging remains under used as shown by low banking intermediation (Credit/GDP ratio of 26%).

NICARAGUA: C

Country risk assessment upgraded from D to C

- Significant progress achieved in economic policy presently marked by caution and stability.
- Strong growth.
- Foreign companies have been welcomed, including Americans, despite a discourse which continues to have socialist leanings.
- Sharp rise in foreign investments.
- Political stability and ability of the government to prevent the spread of drug trafficking and related crime.
- International support.

IVORY COAST: D↗

D country risk assessment placed under positive watch list

- Gradual normalisation of the political situation with the parliamentary elections held in December 2011 and marked improvement in the security situation in Abidjan.
- Rapid business recovery after the end of the post-electoral crisis (April 2011), helped by international aid; the recession was limited to 4.7% in 2011; expected growth of around 6% in 2012, driven by investment in transport infrastructures and the telecommunications sector.
- Progress made in better management of public finances, improving the business climate and reforming the cocoa sector.
- Completion point of the HIPC initiative reached at the end of June 2012 paving the way for additional debt cancellation.

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

CZECH REPUBLIC: A3

Country risk assessment downgraded from A2↘ to A3

- GDP shrank by 1% (YoY) in the 1st quarter 2012. It is the third consecutive quarter that GDP has fallen compared to the previous quarter. The economy is in recession. Coface 2012 growth forecast: -0.3%.
- The recession in the eurozone has affected Czech exports. Growth in exports remains high (+6.9% YoY) but is the lowest growth rate since the 4th quarter 2009. Imports have also slowed (+1.4%), in the wake of a slowdown in domestic consumption. Retail sales fell (-3% in April, YoY), in line with consumer confidence deterioration.
- Domestic demand has fallen due to:
  - A rise in unemployment in the 1st quarter (9.1% of the working population unemployed in Q1 compared to 8.2 in Q4 2011);
  - A rise in VAT (from 10% to 14% for the lowest rate). Furthermore, the highest rate will increase by 1% in January 2013 (21%);
  - A rise in inflation (+3.5%).
- Investment is affected by the credit channel. Loans to the private sector have slowed down in 2012 after having stagnated in the 4th quarter 2011. Here it is more of a demand rather than supply problem, with the Czech banking system being well-capitalised, efficient, and local creditor subsidiaries with regard to their European parent companies.

INDIA: A3↘

A3 country risk assessment placed under negative watch list

- Our growth forecast for 2012/13 (6.5%) has been revised downwards after GDP deceleration in 2011/12 due to weak external demand and tightening of monetary policy (13 interest rate hikes).
- The lowest quarterly growth for nine years in the 4th quarter 2011/12 (5.3% between January and March), and contraction in manufacturing output.
- Despite the drop in the repo rate and the bank reserves requirement ratio, no expansionist policy mix is forecast due to inflation fears, the fall in the rupee and high public debt.
- The rupee will remain under pressure: it already lost 23% in June 2012 YoY due to the growing aversion to risk in the wake of the eurozone crisis, the deepening current account deficit and slowdown in FDI. Despite measures taken by the Central Bank (sale of dollars on the currency), the downward pressure will remain significant due to continuing external imbalances.
- Sovereign risk remains high: substantial budget deficit, public debt representing 67% of GDP and heavy servicing of the debt penalising public capital investments.
- Slow progress in structural reforms in the context of a weakened Congress Party after the local elections in March 2012.

SPAIN: A4↘

A4 country risk assessment placed under negative watch list

- Entry into recession in the 1st quarter 2012 (0.3% drop in GDP after an identical fall in the 4th quarter 2011); 24% unemployment barrier passed last March; plummeting housing price index in the 1st quarter 2012 (-12.6% year-on-year); plummeting industry (-4.5% year-on-year) and services (-8.3%) turnover in April; 2% contraction in GDP expected for the whole of 2012.
- Sharp increase in late payments and bankruptcies.
- Worsening of the bank crisis and use of European aid to cover recapitalisation needs.
- Public deficit difficult to reduce due to weak growth.
- Persistently volatile secondary debt market.

ITALY: A4↘

A4 country risk assessment placed under negative watch list

- Worsening of the recession in the 1st quarter 2012 (third consecutive quarter of contraction in activity: -0.8%, after -0.7% and -0.2%); 10.2% record unemployment rate in April 2012; plummeting industry turnover in April (-4.1% YoY); continuation of the downwards trend of production in construction in April (-15.1% YoY), probable 1.8% fall in GDP for the entire year.
- Notable rise in payment incidents and increase in bankruptcies.
- Ongoing investors' concerns over public debt (120% of GDP).
- Reform fatigue and drop in the popularity of the Italian Prime Minister Mario Monti, whose term of office ends in April 2013.

CYPRUS: C

Country risk assessment downgraded from B to C

- The economy is in recession: GDP shrank by 1.5% (YoY) in the 1st quarter 2012. The country also registered a fourth consecutive quarter of contraction compared to the previous quarter. Coface 2012 growth forecast: -1.3%.
- State solvency is deteriorating: Public debt should reach 75% of GDP by the end of 2012 compared to 58% in 2009.
- The banking system is very exposed to Greek risk (160% of GDP); bank assets represent 835% of GDP; with very high intermediation (280% of GDP).

- Banking sector recapitalisation is inevitable.
- The burden of private debt is the highest in Europe. In 2011, it represented 311% of GDP, including 135% of GDP for households, and 186% of GDP for businesses.
- Cyprus is the fifth eurozone country seeking monetary union rescue.

GUATEMALA: C

Country risk assessment downgraded from B to C

- Disappointing growth.
- Weakness of the State, government revenue, public investment and security forces.
- Social instability due to violence generated by gangs and drug trafficking, as well as corruption.
- Major inequalities, amongst others, regarding property ownership and education.

Business climate modifications

Countries	April 2012	July 2012 modifications (in ascending order of risk)
Business climate assessment either upgraded, or removed from negative watch list or placed under positive watch list		
Indonesia	C	C↗
Business climate assessment either downgraded, or removed from positive watch list or placed under negative watch list		
India	A4	A4↘
Argentina	B	C
Syria	C	D

Business climate assessment either upgraded, or removed from negative watch list or placed under positive watch list

INDONESIA: C↗

C business climate assessment placed under positive watch list

- The Indonesian business climate has improved over the past few years. The country is now situated in the World Bank, Doing Business and Transparency International rankings, above countries ranked B. In fact, Indonesia is, for example, ranked higher by the World Bank than Russia, Kazakhstan, the Philippines or Argentina.
- In terms of government effectiveness, Indonesia (ranked 110 out of 210) is at the same level as Peru (111th) ranked B in terms of business climate. For regulatory quality, Indonesia (127th/210) is ranked at the same level as Russia (130th; B). In terms of rule of law, Indonesia (146th/212) is at the same level as Kazakhstan (145th) ranked B. In terms of control of corruption, Indonesia (153rd/210) is above the Philippines (163rd), Kazakhstan (178th) and Russia (183rd); all three ranked B.
- The setting up of a very active Anti-Corruption Commission (KPK) is a significant recent advance. The Corruption Eradication Commission, which has wide powers of investigation concerning judges, members of the government, businessmen, has strong public support. Its work has led to the conviction of several high-placed individuals over the past few years, such as the former governor of the Central Bank, Burhanuddin Abdullah or the ex-treasurer of the Democratic Party in power Muhammed Nazaruddin in August 2011.
- The dynamism of the long-term reforms instigated under IMF guidance should also be noted: improvement in the legal framework governing bankruptcies, privatisations (telecommunications, steel, tin and coal mines, motorways) and the gradual relaxation of legislation on foreign investors.

Business climate assessment either downgraded, or removed from positive watch list or placed under negative watch list

INDIA: A4↘

A4 business climate assessment placed under negative watch list

- Deterioration of the business climate linked to recurring impasses in the Indian decision-making process generating successive delays in structural reforms
- According to the World Bank ranking concerning regulatory quality, India (128th/210) is situated at a lower level than a number of countries ranked B (Kazakhstan 122nd, Philippines 118th, Russia 130th) or C (Indonesia 127th). Furthermore, foreign investors are concerned about the deterioration in regulatory quality (delay in legal reforms on the acquisition of land, increase in FDI upper limits in retail and insurance, retroactive introduction of a tax on offshore transactions of Indian assets, delay in privatisations).
- Corruption is still very present in India and materializes through scandals, involving politicians and industrialists (granting of telephone licences, organisation of the Commonwealth Games in Delhi). According to Standard & Poor's report (Will India Be the First Fallen Angel) it is particularly present in regulated sectors (mines, telecommunications, oil and gas, etc.). According to the World Bank, India is ranked 135th/210 and situated behind Argentina, 127th (C), Tanzania, 132nd (C) or Bolivia, 130th.
- Lastly, in terms of infrastructure quality, India is situated behind Indonesia (however, ranked C in terms of business climate) and at the same level as Peru (B) and Russia (B).

ARGENTINA: B
Business climate downgraded from B to C

- Regulatory instability.
- Increased difficulty for companies, both exporters and importers, to obtain currencies due to the tightening of foreign exchange controls:
  - Slowness of payments;
  - Negative impact on production;
  - Market exploration hindered.
- Growing government interventionism on prices.

SYRIA: D
Business climate downgraded from C to D

- Intensification of the conflict undermines the institutional environment (weakening of the rule of law, commercial courts functioning more slowly, reduced capacity of the State to provide public services).
- Deterioration in the security situation hinders the circulation of goods and persons.
- Companies are on the brink of ceasing trading: they are facing soaring input prices and are struggling to pay their employees; in general, the security of goods and persons is no longer assured.

As a reminder...

Countries under watch list

Ranging by ascending risk and alphabetical order

Under positive watch

Country	Assessment	Under positive watch since…
United States	A2	April 2012
Indonesia*	**B**	**July 2012**
Ivory Coast*	**D**	**July 2012**

Under negative watch

Country	Assessment	Under negative watch since…
Australia	A1	April 2012
New Zealand	A1	April 2012
India*	**A3**	**July 2012**
Spain*	**A4**	**July 2012**
Italy*	**A4**	**July 2012**

Country risk assessment of major economies

Ranging by ascending risk and alphabetical order

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

*Country risk assessments changed in July 2012

ALGERIA

Coface Assessments

Country risk **A4**

Business climate **B↘**

Medium term

RATHER LOW RISK

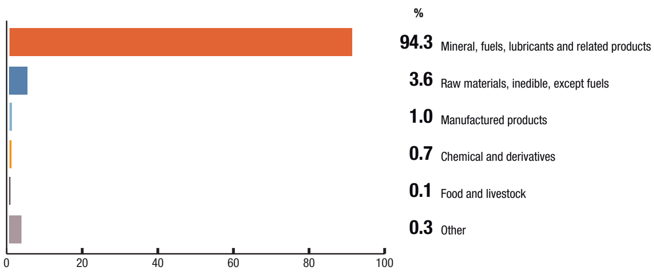
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	2.4	3.3	2.5	3.1
Inflation (yearly average) (%)	5.7	3.9	4.5	5.1
Budget balance (% GDP)	- 6.4	-2.0	-2.8	-3.5
Current account balance (% GDP)	0.2	7.5	9.5	7.0
Public debt (% GDP)	10.4	11.1	10.0	9.4

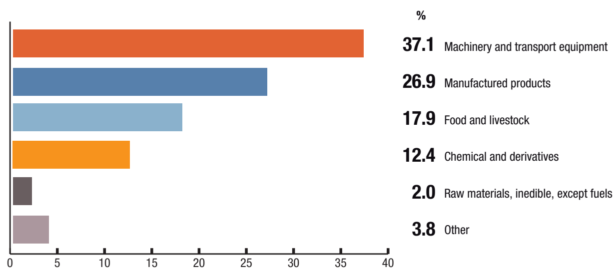
(e): estimate (f): forecast

Trade exchanges

Exportations **40 %** du PIB



Importations **36 %** du PIB



Risk assessment

Moderate growth, driven by the hydrocarbon sector and public spending

Oil production rose only marginally in 2011, while natural gas production suffered from slower investment and technical problems. Excluding hydrocarbons, economic progress continued at a steady pace thanks to a good harvest and the sectors led by public investment. These sectors, however, represent a relatively limited portion of GDP, so make a modest contribution to growth, which has slowed overall.

In 2012, growth is likely to pick up slightly due to a moderate increase in oil and gas production and high public spending, mainly driven by the implementation of a far-reaching public investment programme (house building, road and rail construction). Meanwhile, rising public sector salaries, as well as subsidies for basic necessities will help sustain private consumption. As for private sector investment, any growth here is likely to be hindered in particular by a lack of access to finance.

Low public debt and solid external financial position

The budget deficit increased slightly in 2011, despite the growth in oil sector revenues, and should increase further in 2012, because of higher wages for civil servants, the extension of the socio-economic measures adopted in 2011 and the continuing modernisation of the country's infrastructures. Hydrocarbon revenues set aside in the Hydrocarbon Stabilisation Fund (Fonds de Régulation des Recettes) are, however, available to finance this deficit, especially as the country enjoys low public debt.

With the export of hydrocarbons, at prices which are likely to remain high, the trade and current account balances will still be in surplus in 2012. These exports will be sustained thanks to the start of operations in 2011 at the Medgaz gas pipeline between Algeria and Spain, as well as by the new liquefied natural gas units coming onstream in 2012.

Algeria is, however, dependent on Europe for its foreign trade and the gloomy outlook in Europe could cause Algerian sales to languish. Moreover, the steps taken by the government since 2009 mean imports will continue to be limited, despite substantial purchases of wheat, of which Algeria is one of the largest importers in the world.

Massive foreign exchange reserves (equivalent to nearly three years of imports) are shoring up an already sound external financial position. In addition, an active policy of foreign debt reduction through early repayment of the rescheduled debt and the prohibition for companies to borrow abroad has brought the debt/GDP ratio down to a very low level (3%).

Challenges in the political, social, security spheres and business climate

In an attempt to avoid the political and social upheavals occurring in other Arab countries in 2011, the authorities implemented a number of measures aimed at strengthening political representation and the role of the media, boosting employment among young people and increasing the availability of social housing.

The parliamentary elections held in May 2012, marked by a high rate of abstention, did not lead to a rebalancing of political forces in favour of 'moderate' Islamist parties, with the 'nationalist' coalition in power, mainly composed of the FLN and RND, having retained the majority. Given the extent of the President's prerogatives, the key date will be the presidential election in April 2014, when A. Bouteflika is unlikely to run for a fourth term, both because of his age and health. The coming period should therefore be marked by the preparation of his succession, notably complicated by a plan to change the Constitution.

Although the security situation has improved, sporadic actions by the radical Islamist group Al-Qaeda in the Islamic Maghreb remain possible, even if their destabilising effect on economic activity is limited.

Furthermore, restrictions on imports and foreign investments – intended to protect the country's economic interests and promote national industries – were adopted under the supplementary budget law of 2009 and enacted in full in 2010 and 2011, despite some easing on paying for imports using documentary credits. These measures, along with the weakness of bank intermediation, hardly seem conducive to improving the business climate and developing the private sector.

Strengths ↗

- Extent of oil and gas reserves
- Solid external financial position (very low external debt and huge foreign exchange reserves)
- Public investment policy focused on economic diversification

Weaknesses ↘

- High dependence on hydrocarbon sector
- Excessive economic weight of the public sector
- Poor business environment offering little incentive for foreign companies
- High unemployment, particularly among young people

AZERBAIDJAN

Coface Assessments

Country risk **C**

Business climate **C**

Medium term

RATHER HIGH RISK

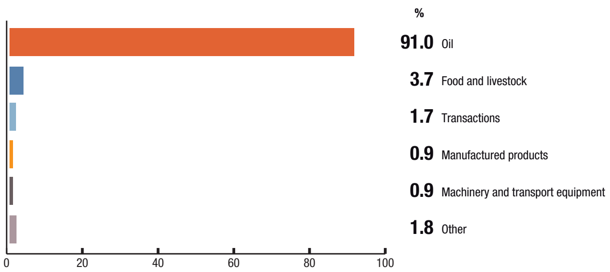
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	9.3	5.0	0.1	3.1
Inflation (yearly average) (%)	8,4	7.5	7.9	5.6
Budget balance (% GDP)*	6.8	14.3	13.3	10.9
Current account balance (% GDP)	23.6	29.1	26.3	21.8
Public debt (% GDP)	12.1	11.4	12.0	12.6

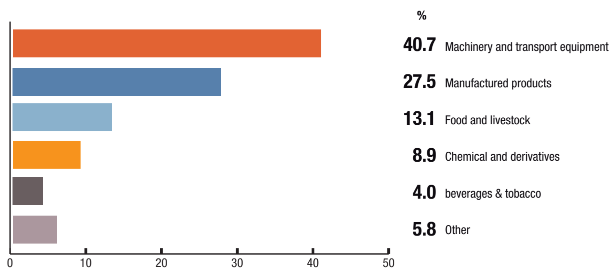
*(e): estimate (f): forecast * Including SOFAZ sovereign fund transfers*

Trade exchanges

Exportations 52 % du PIB



Importations 25 % du PIB



Risk assessment

End of the oil boom weighing down on growth

2011 was marked by a sharp deceleration in activity, under the effect of the contraction in oil production (-9.3% compared to 2010). This drop (the result of maintenance work on the three Azeri-Chiraz-Guneshli oil platforms) has been offset by sustained growth in non-oil GDP, thus avoiding a contraction in activity.

The economy is expected to pick up again in 2012, but growth will remain well below performances registered during the oil boom (an average of +20% annual growth between 2003 and 2008). In the first quarter, activity has stagnated, due to a further contraction in oil production, while waiting for the work to finish on the Caspian Sea platforms. Over the year, production should only recover slightly, with the government having announced a voluntary reduction in production in order to preserve the country's reserves. From then on, industrial production should register modest growth. Nonetheless, hydrocarbon exports will rise sharply in value, driven by high prices of crude. Foreign trade will therefore remain the chief contributor to GDP growth. Using export income, the government will continue to support the growth of non-oil GDP. Public spending will therefore drive public demand, particularly investment expenditure. Household consumption will continue to be the second biggest contributor to GDP growth, benefiting from the stabilisation in the employment market, a further rise in the nominal wage and exceptionally low inflation (+2.9% in March year-on-year). In total, inflation will remain high in 2012, but at a slower pace than in 2011, under the effect of the central bank's tightening of monetary policy implemented in 2011 and favourable base effects on food prices.

A comfortable financial situation due to oil income

Azerbaijan's financial situation will remain very comfortable due to the considerable assets accumulated by the SOFAZ Oil Fund since 2001, currently valued at over 50% of GDP. The fiscal balance will remain comfortably in surplus in 2012 and the public debt ratios contained. However, the growing dependence of the public finances on transfers from SOFAZ, in a context of a continuous fall in non-oil tax revenue since 2008, constitutes a growing risk for public finances. Currently the banking sector seems to be stabilising, although state banks remain poorly capitalised, like the International Bank of Azerbaijan (35% of the total assets), which should be recapitalised during 2012. However, external accounts are strong and the current account surplus, although slightly lower, will make it possible to avoid turning to external debt to finance investment projects.

A more difficult social and political context

The Azeri regime is characterised by strong concentration of power in the hands of the president, Ilham Aliyev, in power since 2003. Although the government has until now maintained a certain social and political stability, the widening gap between the new middle classes in Baku stemming from the oil boom and the rural population has caused growing discontent among a proportion of the people that does not benefit from the redistribution of the income. Furthermore, the uprisings in certain Arab countries in 2011 have also triggered more open opposition to the regime, which was evident before and during the Eurovision Song Contest, held in Baku in May 2012. Although at the moment the opposition remains weak, divided and the protests moderate, the increasing repression in a context of economic slowdown and rise in inequalities could lead to an increase in socio-political tensions. Furthermore, the risk of regional political instability remains high, due notably to persistent tensions with Armenia. Talks concerning the status of Nagorno-Karabakh remain at an impasse and the risk of a new armed conflict between the two countries is still high.

Strengths

- Abundance of oil and natural gas resources
- Development of new energy transit lines

Weaknesses

- Lack of economic diversification
- Risk of armed conflict with Armenia
- Governance problems and high level of corruption

BRAZIL

Coface Assessments

Country risk	A3
Business climate	A4

Medium term
RATHER LOW RISK

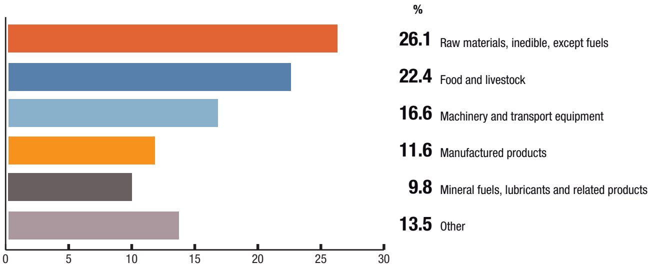
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-0.6	7.5	2.7	2.2
Inflation (yearly average) (%)	4.9	5.0	6.5	5.9
Budget balance (% GDP)	-3.1	-2.5	-2.4	-2.1
Current account balance (% GDP)	-1.5	-2.3	-2.3	-2.9
Public debt (% GDP)	62.0	54.7	54.2	54.0

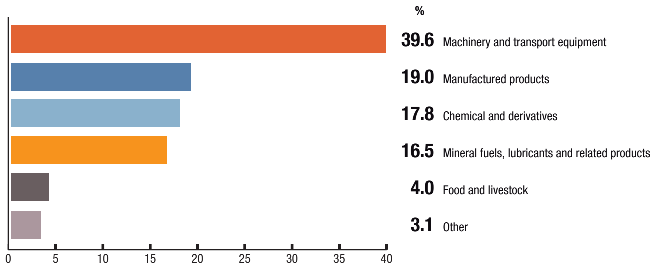
(e): estimate (f): forecast

Trade exchanges

Exportations 11 % du PIB



Importations 11 % du PIB



Risk assessment

Further slowdown in 2012

In 2012, economic activity is expected to decelerate again. The lack of growth in Europe and the economic slowdown in China, Brazil's two major trading partners, will affect exports. Domestic consumption, buoyed by a very accommodative economic policy, will continue to play the role of growth engine.

Household consumption and public administrations will be the main source of growth. At the start of each year, the minimum wage and pensions received by a quarter of the population benefit from at least the inflation indexing for the year N-1. This time around, the minimum wage was increased by 14%. Falling unemployment, less than 6%, has also contributed to rising incomes. Moreover, the government puts a lot of pressure on state banks so that they pass on the cut in the key rate now fixed at 8.5%. This rate could be lowered to 8 or 7.5% by the end of the year, i.e. a real rate of 2%. Banks are reluctant because household lending as well as non-performing loans have grown significantly in recent years. However, household lending still has room for improvement given the reduced share of mortgages in outstanding debt, comprised primarily of short-term consumer loans. Lastly, fiscal policy also favours households. Taxes on purchases of home appliances, housing and certain types of vehicles have been lowered. Several social programmes targeting the poorest are continuing.

Lack of industrial competitiveness

This dynamic consumption will be of particular benefit to services, but, once again, insufficient for industry. For several years, the market share of local companies on the domestic market has shrunk in favour of imports due to a lack of industrial competitiveness, resulting in deindustrialisation and the increasing weight of primary products (oil, soya, etc.) in the economy. The authorities see it as the lagged effects of restrictive monetary policy in the 2000s, which promoted the appreciation of the Brazilian real. In fact, the real effective exchange rate has appreciated by only 5% in 5 years. It seems, also, to be the consequence of a lack of productivity due to insufficient skilled labour, together with high wages, lack of infrastructure, red tape and high and complex taxes. This context does not encourage manufacturers to invest. On the other hand, public investment should be more resilient with Growth Acceleration Plan no. 2 (2012-2017) intended to finance the energy sector, housing construction, transport infrastructure and water supplies for the 2014 football World Cup and 2016 Olympic Games.

Industry support measures

Several protectionist measures, aimed at promoting Brazilian industry, have been adopted. Given the increase in car imports, the government decided to increase by 30% a tax on vehicle sales with a local content below 65%. Moreover, Brazil has challenged the free trade agreement with Mexico on automobiles and imposed quotas. A minimum local content of 65% is also imposed on oil services and equipment, at the risk of delaying delivery or increasing the cost of equipment required to exploit new deepwater oilfields. In addition, the Brazilian government has adopted tax exemptions for industries that are the most affected by competition from imports, such as the textile industry. The minimum rate of exports in total sales determining access to certain tax exemptions has fallen from 65 to 50%.

Financial situation under control

The budget shows a primary surplus of 2% of GDP, but an overall deficit close to 3%. Current expenditure (wages, pensions) increased greatly because of its indexing, as well as stimulus measures for households and industry (*Maior programme*). Gross public debt remains relatively high (65% of GDP), but stable. Its external portion is only 5% of GDP.

Trade is in surplus (1% of GDP), but given the deficit of services, repatriation of dividends by foreign investors and remittances of many immigrant workers present in Brazil, a current account deficit close to 3% has been posted. The change in the balance is very closely tied to that of prices and demand for commodities, favourable at the moment. For this reason, the authorities want to improve the competitiveness of the manufacturing industry. The current account deficit is financed easily by foreign capital flows. In total, the external situation is comfortable with gross debt representing 12% of GDP and 125% covered by foreign currency reserves, and a net credit position.

Strengths

- Scale and potential of the domestic market
- Abundant mineral and agricultural resources
- Significant manufacturing industry
- Primary budget surplus
- Significant margins for contra-cyclical policies
- Net external creditor
- Considerable currency reserves (11 months of imports)

Weaknesses

- Dependence on raw materials and foreign capital
- Global general government deficit linked to debt service
- Deficient infrastructures (energy, transport)
- Lack of skilled labour
- Shortfall in household savings rate and high cost of credit
- High taxes primarily devoted to operating expenditures
- Corruption and crime flourishing on inequalities

CHINA

Coface Assessments

Country risk **A3**

Business climate **B**

Medium term

LOW RISK

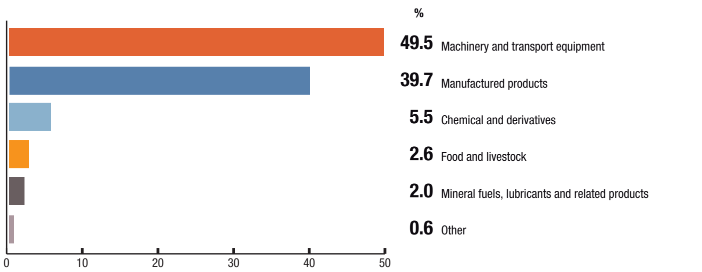
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	9.2	10.4	9.2	8.0
Inflation (yearly average) (%)	-0.7	3.3	5.4	3.3
Budget balance (% GDP)	-3.1	-2.3	-1.2	-1.3
Current account balance (% GDP)	5.2	5.1	2.8	2.3
Public debt (% GDP)	17.7	33.5	25.8	22.0

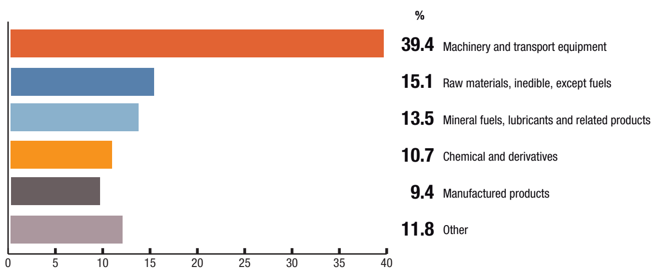
(e): estimate (f): forecast

Trade exchanges

Exportations 27 % du PIB



Importations 22 % du PIB



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, and subsidies for purchasing household electrical appliances. 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 +15%). 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

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

CYPRUS

Coface Assessments

Country risk	C
Business climate	A3

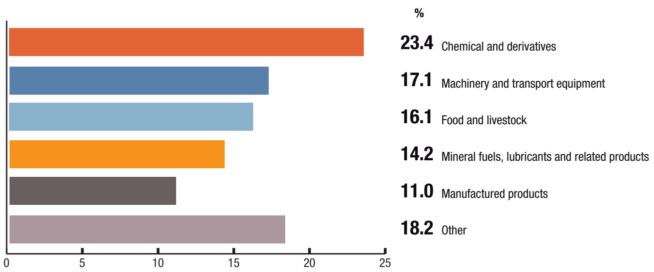
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-1.9	1.1	0.5	-1.3
Inflation (yearly average) (%)	0.2	2.6	3.5	3.7
Budget balance (% GDP)	-6.1	-5.3	-6.3	-4.3
Current account balance (% GDP)	-8.8	-12.2	-10.1	-8.8
Public debt (% GDP)	58.5	61.5	71.6	79.9

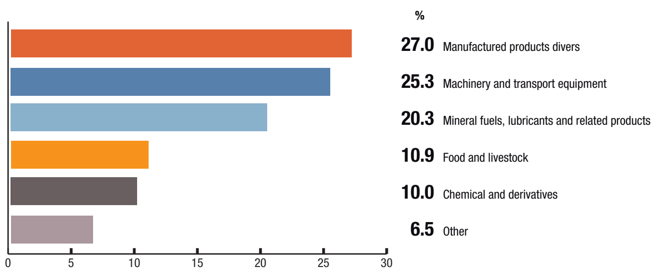
(e): estimate (f): forecast

Trade exchanges

Exportations 47 % du PIB



Importations 59 % du PIB



Risk assessment

Domestic demand remains limited by private sector debt reduction

The 2011 recovery was cut short by the explosion at the main electricity power plant supplying half of the island's electricity needs. In 2012, power cuts are set to continue and drag output down in the chemical and pharmaceutical products sectors. Household consumption will remain depressed overall in line with pay restrictions, notably in the public sector. The unemployment rate remains high, with a continuing lack of activity in the construction sector following the bursting of the property bubble. In addition, households, with debts at a level of 110% of disposable income and suffering under the burden of negative equity as a result of falling real estate prices, will continue to pay off debt. Similarly, investments will be held back by the level of indebtedness of companies and the reduction in the credit supply because of the destabilisation of the banking sector. Direct foreign investments from Russia however should pick up. Public investments should drive the growth, in particular because of the reconstruction work, following the explosion at the Vassilikos power station. In addition, the tourist sector could continue to feel the benefits of ongoing disturbances in the countries of the Maghreb and Middle-East, with Cyprus as a safe destination, together with the increasing attraction for the country among citizens of the countries of the CIS. The performance of the tourist sector should compensate for the fall in exports to Greece (25% of all exports) and enable the economy to return to growth in the second half of 2012.

Public finances exposed to the banking sector recapitalisation requirements

The banking sector, highly exposed to the Greek risk (40% of the loan portfolio), is a systemic risk because of its size, with a balance sheet equal to seven times GDP and a high intermediation raising the level of credit up to 280% of GDP. At the beginning of 2012, the portfolio of loans to Greek households and companies amounted to 120% of GDP. In addition, the agreement for the restructuring of Greek public debt involving the private sector meant significant losses for Cypriot banks. The government will have to recapitalise the banking sector and in particular the second largest Cypriot bank, Marfin Popular Bank (MPB), the one most exposed to the Greek crisis. Following a loan of 2.5 billion euros granted by Russia in 2011, the government has requested the financial support of the European Union for an amount of 2 to 10 billion euros, depending on whether the European aid is only for the banking sector or for the economy as a whole.

The State has to continue its efforts to adjust the budget, with measures such as the increase of VAT from 15 to 17% in March 2012 and the replacement of only one in four retiring public sector employees. However, with the decline in fiscal receipts associated with the economic slowdown and the country's financial contribution to the EFSF, the government will not achieve compliance with the Maastricht criteria regarding the threshold of 3 % of the public deficit for 2012. In addition, it is unlikely that the government will impose an increase in the taxes on companies (10%, the lowest rate in the European Union) which could endanger the country's position as a business service regional platform. Eventually, in the absence of any reorientation of the growth model based on low tax rates, public sector debt is set to increase, even though the financial sector constitutes a significant implicit in line with the weakening in domestic demand. However, the significant current account balance deficit will remain, worsened by electricity imports. This is being mostly financed by short-term capital flows, largely coming from Russia and the Gulf States, which should however remain stable.

A very long slow process of negotiation for reunification

Negotiations, underway since 2008, for the reunification of the island, are making little progress. Despite the work undertaken so far by the Greek and Turkish Presidents, there is a long way to go to settle the differences (power sharing, settlement of the issue of appropriated property). On top of this, the victory of Dervish Eroglu, leader of the Nationalist Party in the Cypriot Turkish Presidential election in April 2010, put a brake on the discussions. Even though President Christofias expects to take advantage of Cyprus's taking over the presidency of the EU in the second half of 2012 to give a boost to negotiations, it is unlikely that the reunification process will succeed in the short term.

Strengths ↗

- High GDP per capita
- Limited exchange rate risk thanks to eurozone membership
- Developed infrastructure, substantial tourism potential
- Regional business services hub, attractive business environment

Weaknesses ↘

- Large trade deficit, weakened public sector finances
- Very high private debt
- Financial sector highly exposed to the Greek crisis
- Uncertain outlook for reunification of the island

CZECH REPUBLIC

Coface Assessments

Country risk	A3
Business climate	A2

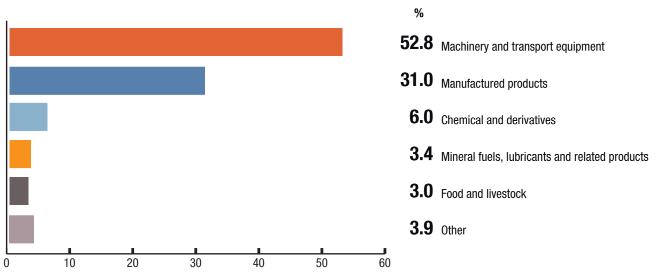
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4.1	2.3	1.7	-0.3
Inflation (yearly average) (%)	0.6	1.2	1.9	3.3
Budget balance (% GDP)	-6.0	-4.7	-3.1	-3.3
Current account balance (% GDP)	-2.5	-3.1	-2.9	-2.1
Public debt (% GDP)	35.6	38.9	41.2	43.9

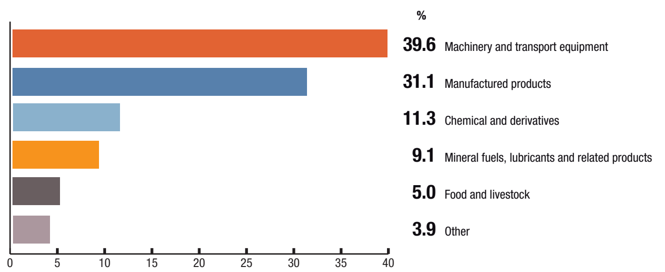
(e): estimate (f): forecast

Trade exchanges

Exportations **70 %** du PIB



Importations **64 %** du PIB



Risk assessment

Increasing dependence on European demand

In 2011, the recovery of the Czech economy was driven by exports, with sales of vehicles, machines and equipment in pole position. Growth in the first quarter 2012 contracted by 1% year on year and quarterly basis, which made it the third consecutive quarter in which GDP contracted. The country was able to benefit from the strength of demand in Germany, which accounts for 32% of Czech exports. The majority of Czech exports are in fact intermediate goods for integration into the German export manufacturing process. Germany's foreign trade will slow in the second half of the year. The Czech current account will however not be overly impacted given that its imports will slow because its exports are input intensive, and domestic demand will remain weak. Direct inward investment, which played a key role in the dynamism of the Czech economy prior to the crisis, will remain low. Household consumption, which will feel the benefits of a reduction in the unemployment rate (although around 9%), will be held in check by more severe budgetary austerity measures. Households will have to pay more for health and education services, as well as the 4 point rise in reduced rate VAT. Inflation should thus be in excess of 3% in 2012. The Czech banking system however, largely owned by eurozone banks, could be a source of concern. However, unlike in most Eastern European countries, the subsidiaries are largely funded by domestic deposits and tend to be conservative in terms of prudential practices.

Reforms have improved public finances

The government, after notice at the end of 2009 from the European Commission, reduced, as of 2011, the current deficit to around 3% of GDP. Following discussions within the coalition, the government approved a series of budgetary reforms (health, pensions and fiscal system) in order to reduce the deficit and limit the increase in public sector debt. The most important reforms are for reduced fiscal allowances for mortgage savings and for the application of stricter conditions of entitlement to unemployment benefit. In addition, the application of a single rate of VAT in 2013 will help boost tax receipts. These measures led to large scale demonstrations in April 2012 against austerity at any price. The public sector debt, up by more than ten points of GDP compared with 2007, remains at a sustainable level of 44% of GDP. The current account deficit will remain contained, only suffering from the contraction in European demand.

Reforms in a difficult social context

The 2010 legislative elections resulted in a clear majority for the centre-right parties. However, the coalition that emerged - Civic Democratic (ODS), TOP 09 and Public Affairs (VV) Parties – was dissolved in April 2012, following the split in the VV party, the popular demonstrations against the austerity plans and the media coverage of corruption. These events highlight the increasing nature of social risk in the context of an austerity policy.

Strengths

- Well integrated into international production chain
- Leading destination for foreign direct investment in Central Europe
- Current account deficit, foreign debt and credit expansion under control

Weaknesses

- Heavy dependence on European demand with exports representing 84% of GDP, of which 67% are destined for the EU
- Ageing population and shortage of skills

EGYPT

Coface Assessments

Country risk	C
Business climate	B

Medium term
RATHER HIGH RISK

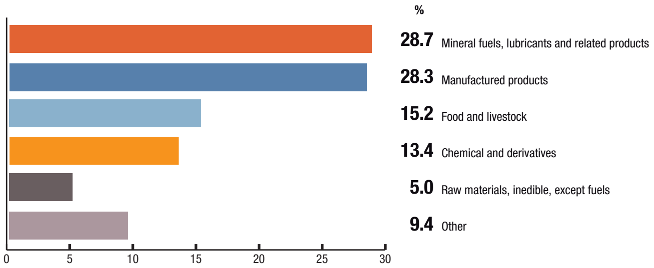
Main Economic Indicators

	2008/09	2009/10	2010-11 (e)	2011-12 (f)	2012/13(f)
GDP growth (%)	4.7	5.1	1.8	1.3	1.8
Inflation (yearly 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	-1.8	-2.8	-2.1
Public debt (% GDP)	77.0	78.0	80.0	83.0	83.5

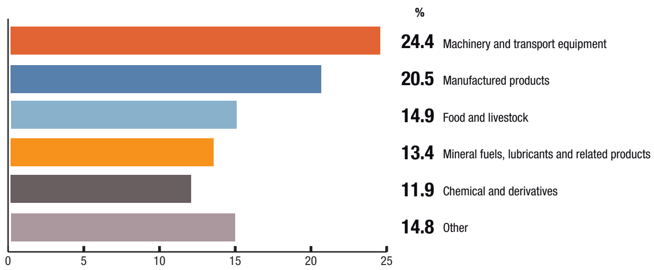
*(e): estimate (f): forecast * grants excluded*

Trade exchanges

Exportations **25 %** du PIB



Importations **32 %** du PIB



Risk assessment

Difficult political transition

Following the resignation of President Mubarak in February 2011, under popular pressure, the Supreme Council of the Armed Forces 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. In mid-June 2012, the parliament that had been formed after the legislative elections at the start of 2012 – dominated by Islamists from the Freedom and Justice Party (affiliated to the Muslim Brotherhood) and the fundamentalist Salafist Al Nour Party – was dissolved.

Against this backdrop, a new constitution has not been established, which will weaken the new president and be a source of tension between the different political forces, as well as with the army. Therefore, a clarification of the political situation, and an ensuing stabilisation of the economic situation is unlikely before the adoption of a constitution and new elections, by the end of 2012 at the earliest. The direction of the future economic policy is uncertain, even if the economic programme of the Muslim Brotherhood Islamist movement is based on a liberal model, although seeming to focus on a better redistribution of growth.

Sluggish economic growth

Industry remains affected by the social movements, and tourism activity, a key sector for the country, has fallen – the winter high tourist season was very mediocre – and the Suez Canal traffic has suffered from the deterioration in the international economic environment. In total, growth has further slowed down during the 2011-2012 fiscal year. The economy should slightly recover in 2012-2013, 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 the slowdown in growth, and therefore income, and higher expenditure. Income from sales taxes and customs duties has fallen sharply. At the same time, increases in public sector wages, social assistance payments and subsidies (28% of total spending and 9% of GDP) will make for higher spending.

Traditionally, the budget deficit is primarily financed by the domestic market but that has become more difficult and costly, with bond yields now running very high and credit default swaps reaching record levels in the first half of this year.

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 aid the G8 planned to provide via that institution, citing public opposition and a desire to avoid excessive increase of the country's already very high public debt. If it is finalised, the $3.2 billion IMF loan could spur new aid packages from the World Bank 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. However, the shortfall in tourism revenue will contribute to maintaining the current account deficit, which could, nonetheless, 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 this year, 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.

Weakened 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 (15%) 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

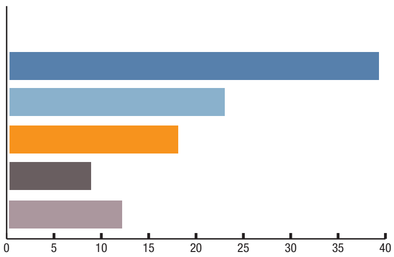
Country risk	A2
Business climate	A1

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.1	1.7	1.7	0.3
Inflation (yearly average) (%)	0.1	1.7	2.3	2.2
Budget balance (% GDP)	-7.5	-7.1	-5.2	-4.6
Current account balance (% GDP)	-1.5	-1.7	-2.2	-2.0
Public debt (% GDP)	79.2	82.3	85.8	90.0

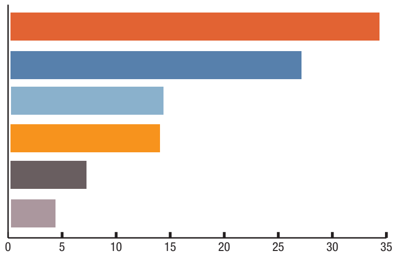
(e): estimate (f): forecast

Trade exchanges

Exportations 23 % du PIB



Importations 25 % du PIB



Risk assessment

Sharp slowdown in growth in 2012

Unlike most other eurozone countries, France's economic activity did not shrink in the fourth quarter of 2011. This result can be attributed to an upturn in corporate investment (replacement of vehicle fleets) and the healthy state of aeronautic exports. However, household consumption remained weak.

However, after very sluggish growth at the end of 2011, economic activity stagnated in the first quarter of 2012, curbed by a drop in corporate investment and a slowdown in exports. In the short term, growth prospects are hardly encouraging. Faced with a falling employment market (unemployment at 9.6% in the first quarter of 2012 and likely to increase), the tightening of budget policy and a likely erosion in their purchasing power, households will continue to curb their consumption, even though they begin to draw down their savings (16.2% of their disposal income). Non-residential investment, which was the main growth driver in 2011, should continue to fall in the face of lacklustre domestic demand and deteriorating economic conditions in the eurozone. Residential investment should also stall, with the property market having already begun to fall as a result of a reduction in state aid, a tightening of credit conditions and the prospect of less favourable earnings. Moreover, in 2012, inflationary pressures should remain contained because of lower energy prices and weak growth. However, this weakness may complicate reaching the budget target this year, although the results were better than expected in 2011.

Weaker financial position of companies and loss of export market share

Companies' capacity to recover has been increasingly eroded. Therefore, in 2011, corporate profit margins fell to their lowest level since 1986 (28.6%) and are the weakest in Europe. Their self-financing capacity has also fallen sharply (67.2%). Furthermore, tensions over the financing of public debt in the eurozone have spread to the banking system, which is highly exposed to the debt of neighbouring countries and, in turn, could harden its lending policy. At a more structural level, French companies, of inadequate size, still lack innovation and do not export enough. With still only limited presence in emerging markets, they fail to benefit fully from the dynamism of these markets. Despite tighter profit margins, French industry continues to lose export market share.

Payment behaviour has further deteriorated and bankruptcies are still at a relatively high level with increased cost

Payment incidents recorded by Coface have risen since 2011, particularly in the construction sector. The number of company bankruptcies fell very slightly at the start of 2012. However, it remains well above pre-crisis levels and the costs of bankruptcies for suppliers increased significantly due to the collapse of several large companies. The construction and services sectors, including private sectors, are most affected and the risk of default is increasing in the automotive, transport, textiles and food-processing sectors. However, the metals, 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

GERMANY

Coface Assessments

Country risk **A2**

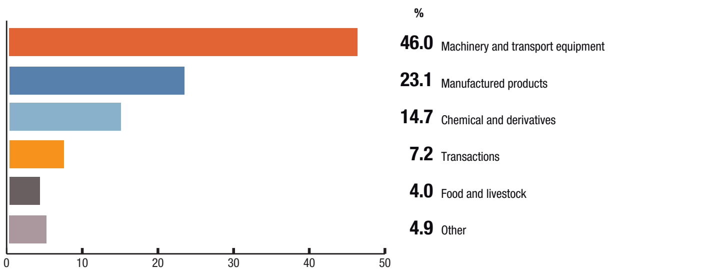
Business climate **A1**

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	2.0
Budget balance (% GDP)	-3.2	-4.3	-1.0	-0.3
Current account balance (% GDP)	5.6	5.7	5.4	4.9
Public debt (% GDP)	74.2	83.0	81.0	82.0

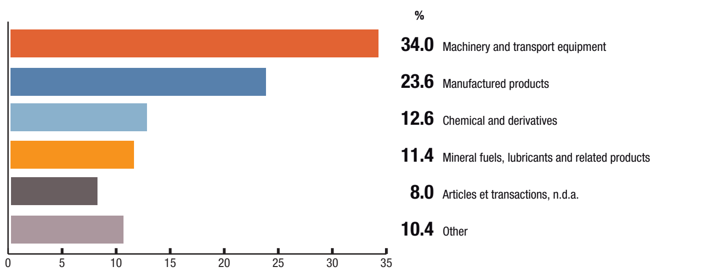
(e): estimate (f): forecast

Trade exchanges

Exportations **41 %** du PIB



Importations **36 %** du PIB



Risk assessment

Sharp economic slowdown linked to decline of the external environment

After an excellent but atypical first quarter, the remainder of 2012 will be less favourable due to the deleterious effects of the European debt crisis on the regional economic climate as well as the slowdown in emerging countries and the United States.

Despite continued strong demand from emerging markets, exports (50% of GDP) will slow sharply as a result of the very unfavourable economic climate in Western Europe (55% of export sales, including 40% for the eurozone). However, the contribution of foreign trade to growth will be slightly positive because, at the same time, imports will further slowdown in line with investment. In fact, uncertainties are causing companies to postpone their investments. It seems, however, that a decline can be ruled out because of the fairly high production capacity utilisation rate and the partial making up of the ground lost during the 2009 crisis. Public investment will decline with the ending of the projects contained in the second 2009 stimulus plan. Larger investments in renewable energy (wind, solar and geothermal), the modernisation of thermal power stations and the construction of natural gas power stations in readiness for the end of nuclear power generation in 2022, will take place at best only from the end of the year.

Household consumption and investment will underpin the economy

Support for economic activity will come mainly from the resilience of consumption and household investment. On the one hand, employment will stagnate, but on the other, household disposable income will increase significantly (2%). 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. Housing construction and renovation will increase, chiefly because of households' distrust of financial investments and very low interest rates.

Satisfactory public and external accounts

As growth slows and budgetary policy is relaxed, the movement towards a balancing of the national accounts is going to slow down. The deficit is still expected to fall below the threshold of 1% of GDP. Nevertheless, debt will remain high (over 80% of GDP) but will continue to recede. 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.

Thanks to the considerable trade surplus, there is a sizeable current account surplus, a situation unaffected by the fall-off in global demand.

Companies' financial situation could worsen again

Despite the wage increases granted and rising commodity prices, in general companies have regained good profitability and considerable cash flow. A high product range quality level, buoyed by their substantial expenditure on research and development, allows companies both to control their prices, withstand import competition, both in their own market and abroad, and thus take advantage of a resurgence in domestic demand. However, the marked deceleration of growth may result in a relapse. Since the start of 2012, payment incidents are already slightly up, with some sectors particularly exposed such as wind power, refining or consumer electronics. If the bank situation deteriorates, some of which are still fragile, access to bank loans will become difficult. This could pose difficulties for businesses, particularly the SMEs that use them.

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 and Bremerhaven

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

GREECE

Coface Assessments

Country risk	C
Business climate	A3

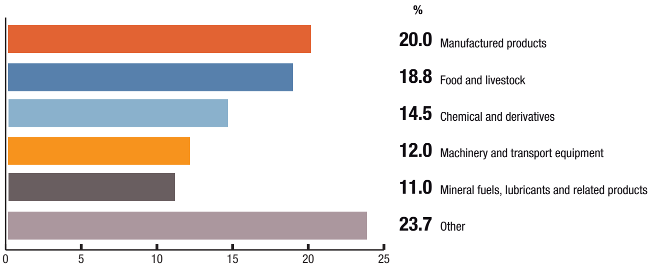
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.3	-3.5	-6.9	-6.0
Inflation (yearly average) (%)	1.4	4.7	3.1	0.6
Budget balance (% GDP)	-15.6	-10.5	-9.2	-7.6
Current account balance (% GDP)	-11.1	-10.1	-9.8	-7.3
Public debt (% GDP)	129.4	145.0	165.3	163.0

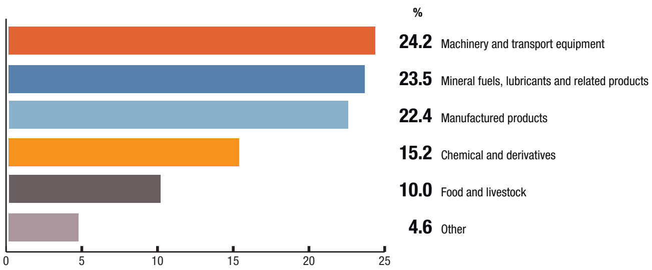
(e): estimate (f): forecast

Trade exchanges

Exportations 19 % du PIB



Importations 29 % du PIB



Risk assessment

A fifth consecutive year of recession in 2012

Economic activity continued to contract sharply in the first quarter of 2012. This is the thirteenth fall in GDP registered in the last fourteen quarters. All sectors of domestic demand remained in the red, with investment still showing the highest rate of contraction (-21.3% over one year, compared to -8.5% for household consumption). However, the contribution of foreign trade to growth remained positive due to a marked contraction in imports and a slight increase in exports.

For the fifth consecutive year, the Greek economy will experience a severe recession in 2012 due to continued fiscal austerity, lower real income, a record level of unemployment (22.6% in the first quarter of 2012) and a tightening of credit provided by banks, themselves facing a lack of liquidity, deposit withdrawals and deterioration in their portfolios. External accounts will continue to adjust, due to a sharp drop in imports and a reduction in interest payments due to the debt reduction operation finalised in early March 2012. Exports will benefit from improved competitiveness related to internal devaluation measures (lower unit costs of labour) but the drop in foreign demand will limit their growth. In any case, the current account deficit will remain very high.

Bailout package and debt reduction made inevitable

Investors' doubts concerning the Greek government's ability to pay needed the introduction of a first bailout package of €110 billion in May 2010. This plan was insufficient, with the country not being able to return to the markets as planned in 2012. Relations between the country and international lenders have been strained because of delays in the implementation of budget measures and privatisations.

Faced with the worsening economic, financial and social situation, which pushed long-term bond rates to record levels, and unable to refinance itself, the country was forced to resort to a new bailout plan including additional funding of €130 billion and participation of private creditors providing for a significant haircut on the Greek bonds they hold. In February 2012, creditors agreed to waive 53.5% of the face value of their claims (the actual loss in fact exceeds 70% given the extension of the repayment period and the agreed interest rate cut). After the success of this operation, finance ministers from the eurozone endorsed, in March 2012, the second bailout package to Greece. However, despite this restructuring, and particularly due to the fall in national wealth, the burden of government debt remains very high. Moreover, the current account deficit is only improving very slowly and total external debt is not expected to fall below 180% of GDP between now and 2016. The crisis is therefore far from over. If growth does not restart and if deficits persist, a new write-off of debts cannot be ruled out.

Formation of a government favourable to reforms

The victory of the New Democracy party in the parliamentary elections in June 2012 and parliamentary support from the PASOK socialist party and the DIMAR moderate left-wing party, all three pro-reform, somewhat reassured Europe and investors, reducing the dire possibility of a hasty exit from the eurozone. However, divisions within the ruling coalition are likely to arise in the partial renegotiation of the Memorandum with the Troika (EC/ECB/IMF). Moreover, even slightly softened, austerity measures will continue to affect the standard of living of the population. Part of the latter, however, concurred with the Syriza radical left-wing party and social unrest is likely to continue.

Companies facing a very difficult environment

Companies are facing a greatly deteriorated economic and financial context, a drop in public sector procurements and higher taxes. Their solvency is bound to be affected. Retail sector sales continue to fall and manufacturing activity continues to decline, particularly in the durable consumer goods segment. Construction is also still under pressure, as evidenced by the sharp fall in building permits and the suspension of most motorway projects.

Strengths ↗

- Supported by the international financial community
- World's leading shipowner
- Attractive tourist destination

Weaknesses ↘

- Until eruption of the crisis, growth based on swollen public and private sector debt
- Structural weaknesses regarding tax collection
- Low technology component of exports (foodstuffs and chemicals)
- Business environment hampered by red tape
- Social tensions caused by fiscal austerity

GUATEMALA

Coface Assessments

Country risk: **C**

Business climate: **C**

Medium term

RATHER HIGH RISK

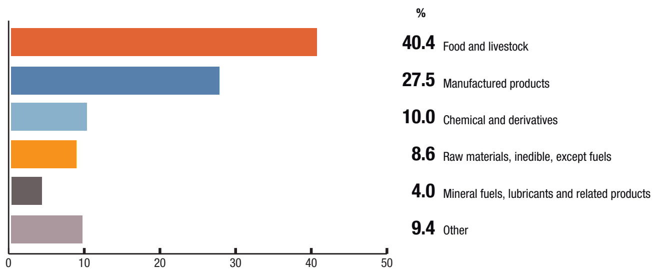
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	0.5	2.9	3.9	3.1
Inflation (yearly average) (%)	-0.3	5.4	6.2	5.0
Budget balance (% GDP)	-2.8	-2.8	-2.4	-2.0
Current account balance (% GDP)	0.0	-1.5	-3.1	-3.5
Public debt (% GDP)	22.9	24.1	24.1	25.0

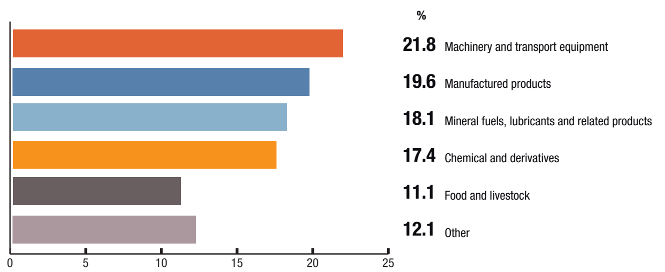
(e): estimate (f): forecast

Trade exchanges

Exportations 23 % du PIB



Importations 32 % du PIB



Risk assessment

Weak external context will affect growth

Economic activity is expected to slow in 2012. The less buoyant global context will affect exports and remittances from Guatemalan migrant workers for the most part in the United States, the largest trading partner. This will result in a loss of momentum in domestic demand, which will continue to be driven by spending on reconstruction following the massive damage caused by the 2011 hurricane season.

Low effectiveness of government action

Despite the progress expected in 2012, but especially in 2013, following the adoption of a tax reform, government revenue will be very limited (11% of GDP). This level is well below that achieved by countries with comparable wealth. Public investment accounts for only 4% of GDP. Added to private sector action, the percentage is below 20%. Private sector credit should continue to grow, but it remains expensive, which curbs investment.

Significant shortcomings in infrastructure, education and combating poverty, which affects half the population, are not ready to be tackled. In addition, the high agricultural potential is largely untapped due to lack of support for the rural population. Finally, due to the weakness of the security forces and corruption violent gangs that thrive on drug trafficking act with impunity.

In addition to the low level of resources, public finances suffer from poor management resulting in a poor allocation of expenses and consequent payment arrears to local suppliers.

Balanced external accounts due to workers' remittances, foreign investment and borrowing

The current account deficit, which originates primarily from the large trade deficit, is expected to fall slightly in 2012 due to lower prices for oil imports and an increase in textile, agricultural and mineral exports, mainly to the United States, El Salvador, Honduras, Mexico and Nicaragua. The services balance deficit remains low, in line with lower freight costs in a context of a weakening of international trade. Remittances from migrant workers in the US remain significant and largely offset the trade deficit. Foreign direct investment and the issuance of bonds on the international market should again cover residual financing needs and maintain the level of foreign currency reserves. The continuation of these foreign capital inflows assumes that the political and social situation does not deteriorate too much and that the government consolidates its public finances.

Conservatives in power

In November 2011, Otto Pérez Molina of the right-wing Patriot Party was recognised as the President of Guatemala by the Supreme Electoral Tribunal. He won 54% of votes compared to 46% for Manuel Baldizon, also from the right (Renewed Democratic Party - LIDER). The electorate in urban areas and within the business community supported the candidacy of Otto Pérez, who was more committed to fighting criminality and drugs trafficking. He is the first military officer to have been democratically elected in a country that has been through numerous coups d'état. The new president will face, as the outgoing president Alvaro Colom did, political divisions and the misgivings of the ruling class, which will slow the adoption and implementation of reforms.

Strengths

- Support from the United States
- Prudent economic policies
- Trade relations strengthened by the Central American free-trade agreement with the United States (DR/CAFTA)
- High tourist potential

Weaknesses

- Weakness in long-term growth
- Vulnerability to exogenous shocks (natural disasters, extreme dependence on the United States and on prices for exported farm and mineral products – sugar, bananas, coffee, and gold, silver)
- Weakness of the State
- Lack of infrastructure
- High level of drug-related crime
- Social tensions (poverty, low school attendance, under-employment, ethnic divisions)

INDIA

Coface Assessments

Country risk A3 ↘

Business climate A4 ↘

Medium term

RATHER LOW RISK

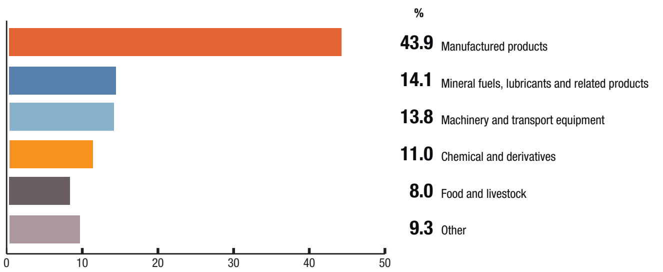
Main Economic Indicators

	2009/10	2010/11	2011/12 (e)	2012/13 (f)
GDP growth (%)	8.4	8.4	6.5	6.5
Inflation (yearly average) (%)	3.8	9.6	8.8	6.9
Budget balance (% GDP)	-9.9	-9.2	-8.0	-7.8
Current account balance (% GDP)	-2.8	-2.7	-3.9	-3.3
Public debt (% GDP)	71.8	68.1	67.5	66.0

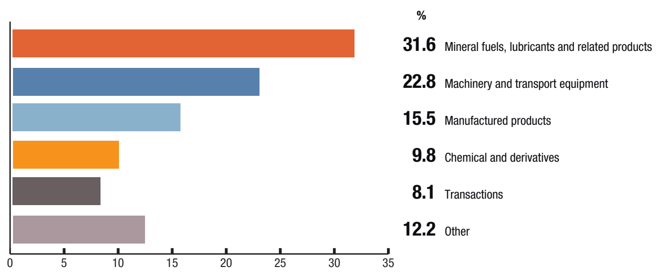
(e): estimate (f): forecast april/march

Trade exchanges

Exportations 20 % du PIB



Importations 24 % du PIB



Risk assessment

Slowdown of activity in 2012/2013

The Indian economy slowed in 2011/12 due to weak external demand and the cyclical downturn on the domestic front after a long period of monetary policy tightening in a context of high inflation (13 interest rate hikes between March 2010 and October 2011). Between January and March 2012, growth was only 5.3%, its lowest level in nine years due to the contraction in manufacturing output (-0.3%). The automotive and property sectors – in which assets are mainly bought on credit – have fallen sharply.

In 2012/13, growth will remain stable at a level far below its potential. The relaxing of monetary policy implemented in early 2012 may not be significant due to concerns about the fall in the rupee and inflation. In addition, the government cannot introduce an expansionary fiscal policy because of the high level of public debt. The balanced model (between investment and consumption; industry and services) which has explained the country's successes, is starting to stall because of persistent bottlenecks (infrastructure, distribution networks, lack of skilled labour) which constrain investment and persistent shortcomings in terms of business climate that impede 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.

Besides, inflation will remain high in 2012/13 due to the increase 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

INDONESIA

Coface Assessments

Country risk **B↗**

Business climate **C↗**

Medium term

MODERATE RISK

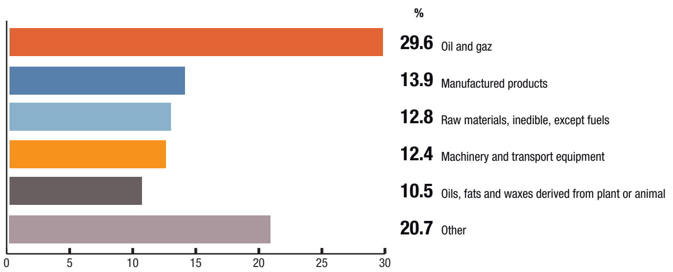
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.6	6.2	6.5	6.1
Inflation (yearly average) (%)	4.8	5.1	5.4	6.1
Budget balance (% GDP)	-1.7	-1.2	-1.5	-1.0
Current account balance (% GDP)	2.5	0.8	0.3	-0.4
Public debt (% GDP)	28.6	27.4	25.0	23.2

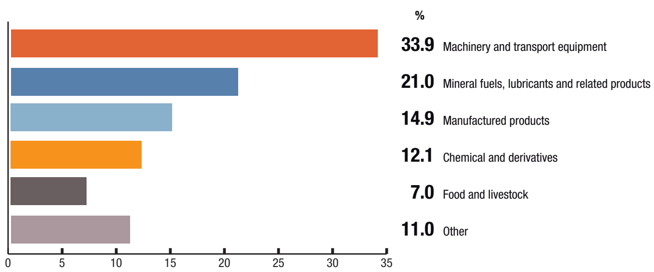
(e): estimate (f): forecast

Trade exchanges

Exportations 24 % du PIB



Importations 21 % du PIB



Risk assessment

Strong growth driven by firm domestic demand

The economic recovery continued in 2011 benefiting from the firmness of both domestic demand and exports. Investment has been very dynamic spurred by high capacity utilisation rates and by the easing of monetary policy initiated in the 2011 fourth quarter. Despite supply breakdowns in the car sector after the earthquake in Japan, manufacturing (textiles, iron, steel, and capital goods) and services have been growth engines.

GDP growth will continue to trend up in 2012. Private consumption will remain strong underpinned by the labour market's good performance. Private investment will trend up driven by several favourable trends: strong demand for Indonesian raw materials (agricultural, energy, and mining), the growing appetite of a middle class expanding at a rate of 7 million people a year, good credit terms, and tax exemptions in several high priority sectors. On the supply side, manufacturing and particularly capital goods are expected to outperform while services — especially retail and wholesale, transport, and communications — will benefit from strong domestic demand. The raw materials sector, meanwhile, will continue to grow strongly with exports of oil, gas, metals, coal, rubber, palm oil, and wax representing 65% of sales abroad. However, in the medium term, economic activity will remain limited by the lack of infrastructure and the slow pace of structural reforms. In this context, the Coface payment monitoring records will likely remain stable in 2012. But weaknesses persist in terms of corporate transparency. The accounts are rarely available and when they are their reliability is questionable. Moreover, problems with corruption persist, and the legal system remains slow and costly.

Sound financial situation

The improvement in sovereign risk has stayed on track as evidenced by the decline in the public debt ratio and the fiscal deficit. And the proportion of the debt denominated in foreign currency has also been trending down. However, the question of removing energy price subsidies burdening public sector finances is on hold after an initial delay in applying the measure in April 2012.

Foreign debt will likely remain under control even if the current account balance will be slightly in deficit in 2012 due to the very rapid growth in imports amid the upturn in domestic demand. This slight deficit will be fully covered by FDI with the country thus independent of financial markets. Nevertheless, in the face of risks associated with the volatility of portfolio capital (rupiah depreciation), the authorities introduced capital controls in June 2010 (notably establishing the minimum time central bank certificates must be held), which are expected to slow these destabilising inflows. In 2012, meanwhile, foreign exchanges reserves will remain at satisfactory levels (six months of imports) with the country consequently left with very limited exposure to a sudden flight of portfolio capital. And the Indonesian banking system has been outperforming with high capitalisation and profitability ratios and an improved rate of non-performing loans. Bank intermediation remains nonetheless underdeveloped compared to the rest of Asia, in a country where the informal sector is very developed.

Persistent shortcomings in the business environment

Dissension within the coalition government formed in the wake of the 2009 elections has impeded decision-making. President Yudhoyono's popularity has moreover suffered from corruption scandals within his own party. The president's second term has thus proven less successful than his first, putting the Democratic Party in a shakier position in the run-up to legislative and presidential elections in 2014. In this context, the pace of structural reforms and the anti-corruption campaign has slowed considerably with the business environment thus continuing to suffer from major shortcomings.

Strengths ↗

- Strengthened banking sector
- Diversity of natural resources (agricultural, energy, mining)
- Good competitiveness thanks to low labour costs
- Consolidation of political stability
- Dynamic tourism

Weaknesses ↘

- Low investment rate
- Weak bank intermediation
- Lack of infrastructure
- Persistent corruption and lack of transparency
- Interethnic tensions exacerbated by high rates of unemployment and poverty

ISRAEL

Coface Assessments

Country risk	A3
Business climate	A2

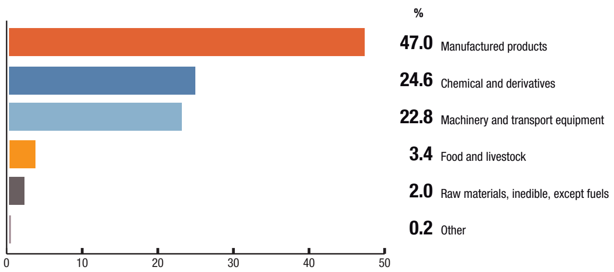
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	0.8	4.8	4.7	2.5
Inflation (yearly average) (%)	3.3	2.7	3.4	2.0
Budget balance (% GDP)	-6.0	-4.5	-4.0	-3.5
Current account balance (% GDP)	3.6	2.9	-0.6	-1.0
Public debt (% GDP)	78.0	74.5	73.0	74.5

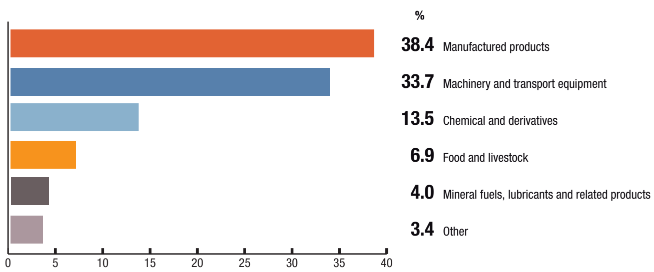
(e): estimate (f): forecast

Trade exchanges

Exportations 35 % du PIB



Importations 32 % du PIB



Risk assessment

Growth slowdown in 2012

The past year resulted in continued strong growth, driven by private consumption and investment and strong demand from abroad.

2012 should result in a sharp GDP growth contraction, due to the slowdown of demand from Israel's main trading partners, the European Union and the United States, and, to a lesser degree, Asia. Domestically, household consumption will notably be spurred by welfare measures taken by the authorities on behalf of the neediest population segments, while investment will be particularly strong in the gas exploitation sector.

Moderation of corporate growth

Business activity, albeit satisfactory in most sectors in 2011, will likely undergo a slowdown or even a downturn in some areas in 2012. A growth slowdown is expected in manufacturing because of weaker sales growth both abroad and in the domestic market. Retailing will likely remain dynamic despite a less buoyant context overall. Sales of services to companies are expected to be more moderate both in Israel and abroad, despite good competitiveness. A slowdown is expected in the hotel sector (after the high occupancy rate recorded in 2011) and similarly in the transport and communications sectors. And the expansions that have benefited the construction and infrastructure sectors will likely decelerate due particularly to constraints on financing.

Satisfactory corporate financial positions

Israeli companies have generally coped relatively well amid highly unpredictable economic conditions and possible shortages of credit. With the economic recovery that followed the 2008-2009 global financial crisis, their financial positions improved, a trend duly reflected in the payment tracking records maintained by Coface on Israeli companies. In a context that has become difficult again, the payment behaviour of Israeli companies is expected to remain satisfactory and better than the world average thanks to the foresight they demonstrated in building up reserves.

Tax implications of social measures and solid external financial position

Late 2010, the authorities adopted a biennial fiscal budget procedure justified by a commitment to limiting parliamentary debate attributable to the existence of government coalitions. Although the coalition government led by Benyamin Netanyahu (from the right-wing Likud party) – transformed into a national unity government in May 2012 – is a strong advocate of economic liberalism — that notably calls for reductions in taxes and public spending, and for privatisations of public companies, as for the Port of Eilat (launched in April 2011) or for the Israel Electric Corporation (being planned) — large demonstrations in 2011, motivated by the rise of the cost of living and substantial social inequality, forced it to make concessions. The government had to take measures intended to ease the impact on households of price increases for staple commodities and to collect a higher proportion of fiscal revenues via direct taxes considered more socially equitable than indirect taxation. The public deficit is consequently expected to widen slightly in 2012 with public spending continuing to be focused mainly on debt service, defence, and education. The ratio of public sector debt to GDP, meanwhile, will doubtless remain high.

The trade deficit widened sharply in 2011 and a further deterioration is expected in 2012. Exports of goods should, fall, with those to Europe and the US (30% each of the total) dropping, while sales to Asia (20% of the total) will only increase moderately. And the growth of exports of services to companies — mainly software and related high technology products — along with tourism will moreover be modest. Consequently, the current account deficit will remain, but the country has a sound external financial situation due to easily manageable external debt and a substantial level of foreign exchange reserves (approximately 9 months of imports).

Strengths

- Open, diversified economy strengthened by the country's admission to the OECD in 2010
- Industry dominated by high technology products
- Highly skilled workforce
- Political and financial backing of the United States and the diaspora
- Large offshore reserves of natural gas discovered in 2010 with production to start in 2014

Weaknesses

- Political fragmentation resulting in shaky government coalitions
- Bogged-down peace negotiations between Israel and the Palestinians
- Insecurity undermining Israel's economic potential
- Relatively high public debt

ITALY

Coface Assessments

Country risk A4↘

Business climate A2

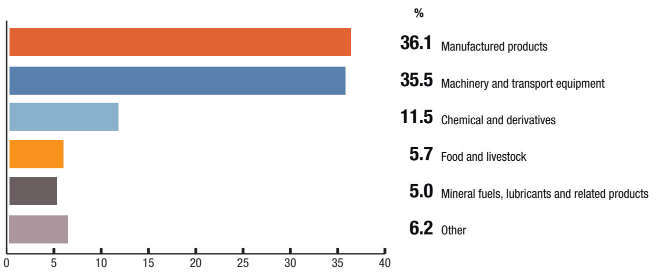
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-5.5	1.8	0.5	-1.8
Inflation (yearly average) (%)	0.8	1.6	2.9	3.0
Budget balance (% GDP)	-5.4	-4.6	-3.9	-2.3
Current account balance (% GDP)	-1.9	-3.5	-3.3	-2.3
Public debt (% GDP)	116.0	118.6	120.1	123.6

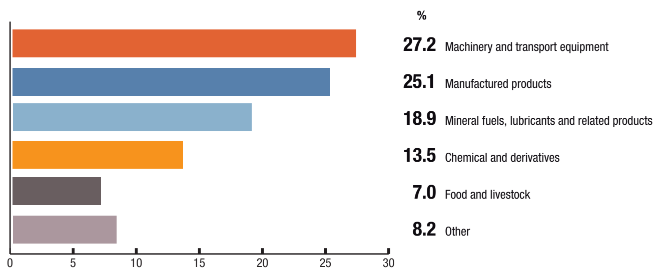
(e): estimate (f): forecast

Trade exchanges

Exportations 24 % du PIB



Importations 24 % du PIB



Risk assessment

Italy plunged into recession

Italy went into recession in the second half of 2011, and has sunk deeper into it in the first quarter of 2012 as a result of the drop in household consumption, investment and exports. This drop reflects both rising unemployment (which affects 10% of the workforce), the tightening of access to credit, weak foreign demand and the collapse of confidence among economic agents. However, the more pronounced fall in imports than in exports is responsible for a positive contribution from foreign trade to growth. Except for agriculture, all the sectors experienced a fall, starting with construction. The deficit reduction plan for 2012 has not yet had an effect at the start of this year and the decline in industrial production does not yet take account of the two earthquakes that struck in May in the north of the country. This would suggest a further deterioration in the second quarter and a recession of about 1.8% for the entire year. However, the weakening of economic activity should help reduce the current account deficit. Furthermore, fuelled earlier this year by the rise in commodity prices, inflation should ease as a result of weak domestic demand and lower prices of staple products.

Massive public debt

Investors are today coming to terms with the scale of public debt, in large part inherited from the large deficits recorded until the middle of the nineties. This debt reached 120% of GDP at the end of 2011, the highest level in the eurozone after that of Greece and the biggest of all in absolute value. Despite a fairly prudent fiscal policy in recent years, the consolidation effort had to be intensified under pressure from the markets and the ECB. The size of government's financial needs and the economy's weak growth potential, in the current context of increasing uncertainties within the eurozone, have further eroded market confidence. Long-term interest rates are again hovering around 6%. Doubts about the ability of the country to pursue reforms are even about to resurface in view of the fall in popularity of the Italian Prime Minister.
Moreover, in the context of the crisis of confidence on the interbank market, ECB loans have provided banks with liquidity and, until recent months, no sign of deposit outflows has been recorded. But banks are undermined on the stock market due to the tension in the Italian ten-year rates.

Companies weakened by the recession

Italy is going through a difficult phase and the financial situation of businesses reflects this. Bankruptcies continued to increase in 2011 as well as payment failures recorded by Coface. Among the reasons for this situation are the structural weakness of SMEs, which represent the bulk of the Italian industrial fabric, as well as the growing difficulties linked to access to bank lines of credit and the lengthening of payment periods in the public sector. Among the sectors most affected are construction and electrical equipment, as well as the textile sector, which has always been structurally weak. On the other hand, the luxury goods sector, driven by demand from emerging countries, is doing rather well. The austerity measures adopted by the government have led to a sharp contraction in consumption, affecting all sectors of the economy, in particular large retailers (except for food discounters) and automobiles.

Strengths ↗

- Strong tourism potential
- Still important role of industry
- Improved product range and highly profitable niches (luxury clothing, household appliances, foodstuffs, machinery)
- Low household debt and strong saving capacity
- Government debt predominantly held by residents

Weaknesses ↘

- High national debt, tax evasion
- Loss of export market share
- Low productivity
- Inadequacy of research and higher education
- Government inefficiency, large number of civil servants
- Banking sector weakened by exposure to Italy's sovereign debt
- Backwardness of the south

IVORY COAST

Coface Assessments

Country risk: D ↗

Business climate: C

Medium term: VERY HIGH RISK

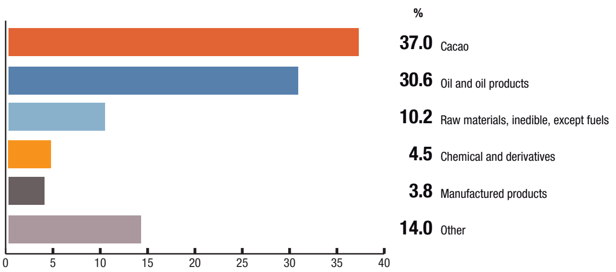
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	3.8	2.4	-4.7	6.0
Inflation (yearly average) (%)	1.0	1.4	4.9	2.0
Budget balance (% GDP)*	-1.6	-2.3	-5.7	-4.4
Current account balance (% GDP)	7.0	1.1	6.7	-2.8
Public debt (% GDP)	66.5	66.4	69.3	40.5

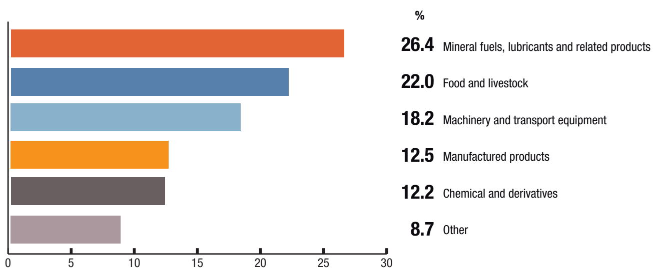
*(e): estimate (f): forecast * grants included*

Trade exchanges

Exportations 42 % du PIB



Importations 34 % du PIB



Risk assessment

Rapid recovery in economic activity after the political crisis

The economy has rapidly recovered after the post-electoral crisis (April 2011) as the security situation returns to normal and thanks to the upturn in exports and international aid. The recession was therefore limited to 4.7% in 2011. Growth should be sustained in 2012, even if it does not reach the 8% forecast by the IMF. Activity will be driven by investment in transport infrastructure (third Abidjan bridge, second containers port, Abidjan-Grand Bassam motorway) and by the telecommunications sector (awarding of third generation licences). On the other hand, the agricultural sector should suffer from low prices (resulting particularly from the rise in the supply from Brazil) and the production of cocoa. The economy, originally focused on the production of foodstuffs (cocoa, coffee, palm oil) should continue to diversify due to the growth in oil production (nine operating licences granted in February 2012) and the opening of a gold mine. The reopening of the markets and improvement in supply conditions should help to reduce inflationary pressures. Nevertheless, a current account deficit is foreseeable due to the sharp increase in imports of capital goods related to the implementation of infrastructure projects.

Weakened fiscal position but hopes of additional debt cancellation

The fiscal deficit widened in 2011, in line with the increase in spending and the fall in tax collection linked to the collapse in exports and activity. However, the results have been better than forecast thanks to the rapid recovery in the economy and progress made in tax collection, which in 2012 is expected to improve but spending will remain high. In July 2011, the IMF approved the disbursement of $129 million under the Rapid Credit Facility. In November of the same year, the country was granted a $616 million Triennial Extended Credit Facility and interim debt relief. Lastly, in June 2012, the Ivory Coast reached the completion point of the Highly Indebted Poor Countries (HIPC) initiative entitling it to a cancellation of additional debt. In fact, the authorities have broadly met the demands of the programme negotiated with the IMF. Progress has been registered with regard to managing public finances, improving the business climate and reforming the cocoa network. On the other hand, progress in the energy and finance sectors is below expectations.

The political situation is gradually returning to normal

Since the end of the post-electoral crisis, the political and security situation is gradually returning to normal. In December 2011 legislative elections were held, the first for over a decade. President Ouattara's party, the Rally of the Republicans (RDR) increased its mandate, obtaining close to 88% of the seats in the National Assembly. The government was reshuffled in March 2012, with the appointment of one of the leaders of the Democratic Party of the Ivory Coast (PDCI), an RDR ally during the crisis, to the post of prime minister. The former prime minister, Guillaume Soro was appointed head of the National Assembly. The Ivorian Popular Front (FPI), the former party in power, boycotted the elections and refuses to take part in the dialogue initiated by the government. Currently, it is trying to re-build after the arrest of its leader, the former president, Laurent Gbagbo, and his transfer to the International Criminal Court in The Hague. The national reconciliation process is proving to be difficult insofar as only members of the Gbagbo camp, involved in human rights violations during the conflict, have been judged. But other challenges remain. Shortcomings in terms of governance and corruption are significant obstacles to development. Moreover, although the security situation has clearly improved since the start of the conflict, the disarmament of militias on both sides has not yet been achieved. There has been violence in the West of the country since July 2011, involving Liberian mercenaries and Ivorian militia operating from neighbouring Liberia. Nevertheless, this violence seems to be more criminal than political and does not suggest a resumption of the civil war.

Strengths ↗

- Agricultural wealth, especially cocoa (leading producer with 35% of the global market)
- Diversification into hydrocarbons and ore
- Processing industry, port and road infrastructure

Weaknesses ↘

- Weak political and security context
- External accounts dependent on price trends for cocoa and oil
- Low rate of investment (10% of GDP)

JAPAN

Coface Assessments

Country risk	A1
Business climate	A1

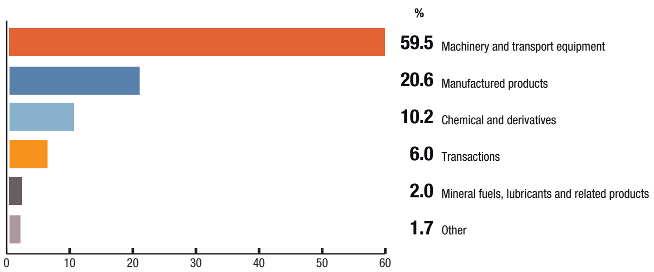
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-5.2	4.0	-0.7	1.8
Inflation (yearly average) (%)	-1.3	-0.7	-0.2	-0.1
Budget balance (% GDP)	-8.7	-7.8	-8.9	-9.0
Current account balance (% GDP)	2.8	3.6	2.2	2.2
Public debt (% GDP)	194.1	198.2	212.0	219.5

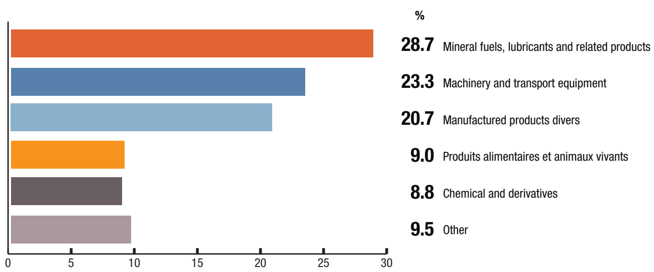
(e): estimate (f): forecast

Trade exchanges

Exportations 13 % du PIB



Importations 12 % du PIB



Risk assessment

Growth underpinned by fiscal measures

Growth of 1.2% (q/q) in the first quarter of 2012 and 2.8% (YoY) was buoyed by domestic demand, while net exports of goods and services contracted slightly. Activity throughout the year should therefore be modest, also benefiting from a favourable base effect.

The consumer confidence index has continued to improve since the end of last year, in line with the subsidy introduced by the government, intended to promote purchases of energy efficient vehicles. Nevertheless this fiscal envelope should run dry around the summer and, unless it is extended, spending by the Japanese should fall significantly in the second half of the year. The uncertainties surrounding the decision to raise the consumption tax associated with low disposable income is further pushing households to save more, with savings rising from 2.2% (DI) in 2008 to 6% in early 2012.

The existence of substantial excess capacity and the high level of real interest due to deflation are affecting investment in production, which remains moderate. However, corporate activity is driven by public investment, which continues to grow through supplementary budgets of over $260 billion. These amounts have firstly been used to clean up the devastated areas. Since then, orders for public works have increased sharply. But the time periods within which the reconstruction itself will be carried out are still to be defined, with some economic and social redeployment projects coming up against the resistance of the populations concerned.

In this context, the fiscal deficit is expected to widen slightly and debt to continue to grow (220% of GDP). To limit the long-term effect of these measures on public finances, the Prime Minister, Yoshiko Noda has stated that high taxes could be imposed, particularly a doubling of VAT to 10%, an issue which still divides the political leaders in the government party and those in the opposition.

Strong exports stemming from US demand

Since the start of 2012 exports to the United States (15% of total exports) have risen significantly due to the disappearance of negative effects on the supply chain from the floods in Thailand, which allowed automotive deliveries to start again, while the yen lost strength. In contrast, exports of intermediate industrial products to China (20% of total sales) contracted over the same period. This is an indirect effect of the deceleration in European demand for Chinese end-products that incorporate Japanese intermediate equipment. But the European slowdown also directly affects Japanese export companies, which have seen a drop in sales to the Old World (12% of outlets) since early 2011. Unless the crisis in the eurozone escalates, or there is an unexpectedly sharp slowdown in activity in China, Japanese exports should still grow, but this may not offset the rise in imports. Electricity companies are in fact forced to buy energy outside the country as a replacement of nuclear energy, which represented, before the cataclysms of March 2011, 30% of the total electricity supply in the country. Therefore, the contribution of trade to growth is expected to remain neutral at best this year, especially as Japanese companies continue to be hampered by the parity of the yen vis-à-vis the dollar and the euro compared to pre-crisis levels (+55% against the dollar and +67% against the euro).

Fall in the number of bankruptcies

The use of imported energy resources increases production costs in the Archipelago, while the price of electricity is high by international standards. The decision to authorise the increase in electricity prices by 10% on average from July 2012 is a weakening factor for businesses and households. But the restart, also in July, of two reactors at the Oi site in the Fukui Prefecture, even if it does not diminish the prospects of rising prices, should nevertheless partly overcome fears of a failure in energy supply to this industrial region. Company operating profits, after three consecutive quarters of contraction in 2011, have started to rise since the first quarter 2012. This is related to the performance of the services sector while the manufacturing sector continues to show a drop in profitability. The increase in bankruptcies remains low and the Coface payment incident index has shifted very significantly downwards over the 12 months to May 2012.

Strengths ↗

- Advantageous geographic position in a dynamic region
- Specialisation in export trade
- Very high national savings level
- Public debt held mainly by domestic investors
- Mergers and acquisitions abroad favoured by the yen's high exchange rate

Weaknesses ↘

- Government instability (six prime ministers in ten years)
- Decline in the active population and growing proportion of workers without job security
- Low productivity of SMEs
- Lasting consequences of the nuclear disaster on production
- The yen's high exchange rate has become a crucial political problem
- Development of the industrial relocation movement

JORDAN

Coface Assessments

Country risk **B**

Business climate **A4**

Medium term

RATHER HIGH RISK

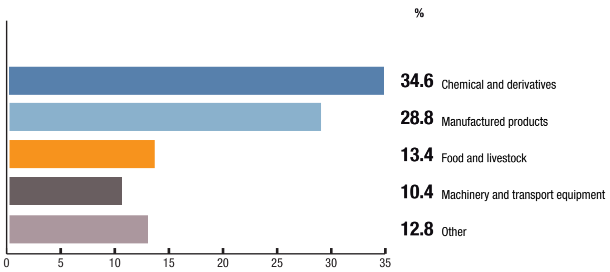
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	2.3	2.5	2.6	2.8
Inflation (yearly average) (%)	-0.7	5.0	4.4	5.6
Budget balance (% GDP)*	-11.0	-7.7	-12.0	-12.0
Current account balance (% GDP)	-5.5	-9.0	-16.5	-13.0
Public debt (% GDP)	66.0	67.0	70.0	71.0

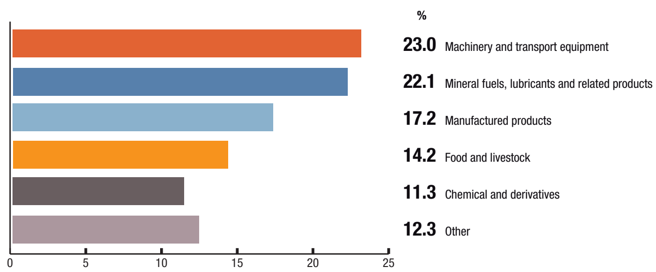
*(e): estimate (f): forecast * grants excluded*

Trade exchanges

Exportations 43 % du PIB



Importations 65 % du PIB



Risk assessment

Moderate growth

Local and regional political uncertainties, particularly in Syria, compounded by a sombre global economic environment will affect Jordan's economy in 2012. On the demand side, public and household consumption — the latter despite high unemployment (13% in 2011) — is expected to underpin GDP growth. On the supply side, services (two-thirds of GDP) will likely benefit moderately from performance in the transport and retail segments. In the secondary sector, growth will be driven more by the chemical industry, telecommunications, and construction than by traditional segments like mining (potash and phosphate). The authorities have moreover been giving priority to agricultural development and improvement in food safety. In any case, local companies remain to a considerable extent subject to economic trends in countries belonging to the Gulf Cooperation Council, which Jordan hopes to join and thereby benefit from the economic aid available to members.

Persistence of large public and external deficits

The social measures taken in the aftermath of the demonstrations in 2011 undermined the authorities' resolve to reduce a large fiscal deficit, which grew sharply in 2011. But this deficit could nonetheless level off in 2012 thanks to better targeting of investment spending and subsidies, and to $1.6 billion in aid from Saudi Arabia. Although the accumulation of fiscal deficits has in turn increased the public debt, the impact on sovereign risk is mitigated since debt is partly financed by local banks and mostly owed to domestic creditors. But the fiscal consolidation process and the reduction of Jordan's dependence on foreign grants remain daunting challenges nonetheless.

Goods exports are expected to rise slightly in 2012 with sales in Asia and re-exports to Iraq offsetting weak demand from Europe and the United States. They will remain exposed, however, to variations in world prices for potash and phosphate. Tourism and transfers have been affected by the climate of uncertainty. Moreover, the volume of hydrocarbon imports (a quarter of the total) is burdening the external accounts, although Jordan receives Iraqi crude oil and Egyptian gas at reduced prices. The current account deficit could be reduced, however, due to slightly lower global prices of agricultural products and hydrocarbons, and be partly covered by inflows of foreign direct investment, mainly from Gulf countries.

Although the repayment of rescheduled debt in 2008 significantly reduced Jordan's external debt ratios, the high proportion of short term commitments still constitutes a potential source of exchange rate risk. Currency reserves are nonetheless expected to remain at rather comfortable levels (six months of imports) buttressing the country's resilience and the Jordanian dinar's peg to the dollar.

Domestic political stability shaken by the regional turmoil

The November 2010 legislative elections returned a majority giving priority to rural areas to the detriment of the political aspirations of the urban majority of the population. However, in 2011, following a series of demonstrations against rising unemployment and corruption, particularly in the wake of the uprisings in Tunisia and Egypt, King Abdullah II changed twice the Prime minister, in February and October. In April 2012, again, he appointed a former prime minister, regarded as conservative, and stated that parliamentary elections could be held at the end of the year. However, the new government's room for manoeuvre will remain limited by the contradictory demands of the loyalists and tribe on one side and the opposition on the other, particularly the Islamic Action Front, Jordan's equivalent to Egypt's Muslim Brotherhood, which advocates a kind of Moroccan-style constitutional monarchy. But despite making a start on reforms in the context of the "Arab Spring", King Abdullah — who still enjoys broad public support and the backing of the armed forces —intends to keep a grip on the main levers of power.

Strengths

- Political and financial support of the international community
- Implementation of strategies to foster major infrastructure projects
- Tourism and expatriate workers, crucial sources of foreign exchange earnings
- Good business environment at the regional level

Weaknesses

- Virtually no natural energy resources and limited productive base
- Vulnerability to economic conditions in the Middle East
- Dependence on foreign aid and capital, reflecting the imbalances in public and external accounts
- High short-term debt
- Exposure to regional political instability

MOROCCO

Coface Assessments

Country risk **A4**

Business climate **A4**

Medium term

RATHER LOW RISK

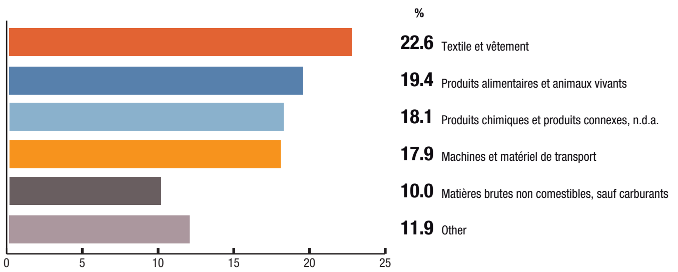
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.9	3.8	4.5	3.2
Inflation (yearly average) (%)	1.1	0.8	0.9	1.0
Budget balance (% GDP)	-2.6	-4.5	-5.5	-5.6
Current account balance (% GDP)	-5.9	-4.7	-5.5	-5.0
Public debt (% GDP)	48.4	49.7	52.6	53.0

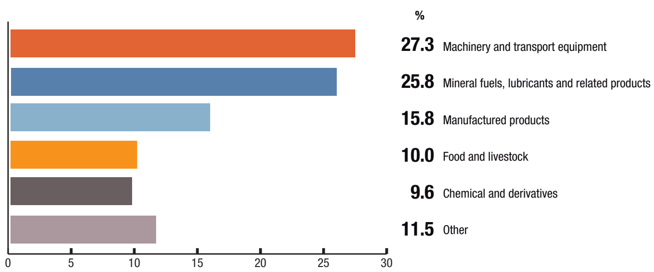
(e): estimate (f): forecast

Trade exchanges

Exportations **29 %** du PIB



Importations **39 %** du PIB



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 should, however, continue to support 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

The recent consolidation of public finances has resulted in manageable, essentially domestic, public debt. In the wake of the «Arab Spring», budgetary extras intended to ease social tension – wage increases and subsidies – result in a larger budget deficit and higher public debt. Nonetheless, most of the external debt, essentially public and affordable, is repayable on concessional, therefore advantageous terms.

Exports are expected to receive a boost, particularly from sales of phosphates, although the weak EU demand and high international energy prices will have a negative effect on the trade balance. Despite resilient tourism revenues and expatriate remittances, this will result in 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, a managed exchange rate regime and a rather comfortable level of reserves (about 5 months of imports). Moreover, its banking system, which is the best developed of all African countries (apart from South Africa), is still well capitalised and profitable, while the authorities remain vigilant faced with the rapid development of housing loans, against a background of ongoing improvement of prudential regulations.

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

MYANMAR

Coface Assessments

Country risk	D
Business climate	D
Medium term	VERY HIGH RISK

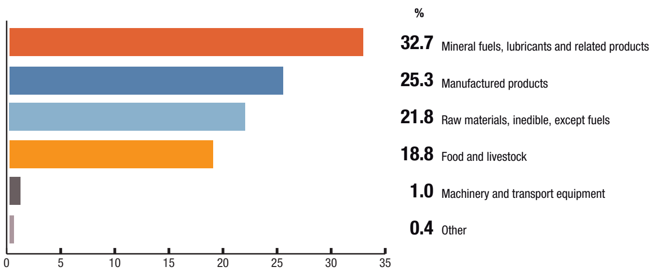
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	5.1	5.3	5.5	6.0
Inflation (yearly average) (%)	8.2	8.2	4.2	5.8
Budget balance (% GDP)	-4.8	-6	-5.5	-4.6
Current account balance (% GDP)*	-2.7	-0.8	-2.7	-4.4
Public debt (% GDP)	48.3	47.6	48.7	49.5

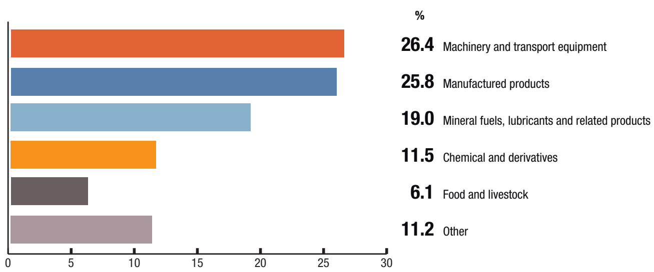
(e): estimate (f): forecast *grants excluded

Trade exchanges

Exportations **31 %** du PIB



Importations **27 %** du PIB



Risk assessment

Economic growth below potential

Growth should reach 6% in 2012/13, driven by FDI in the energy, oil prospecting and infrastructure sectors. They will benefit from the lifting of economic and political sanctions on Myanmar by Western countries. Furthermore, they will be buoyed by the unification of the exchange rate by the authorities. The country – which had two exchange rates – changed to a single exchange rate in April 2012 (crawling peg), with a central rate of 820 kyats for 1 USD and a fluctuation band of +/- 2%. The unification of the exchange rate will remove market distortions, thus favouring the entry of FDI. Investment in the agricultural sector should also increase due to the doubling of credit allocated by the Myanmar Agricultural Bank.

On the other hand, consumption should remain stable (around 4%) and won't contribute significantly to growth, because of a large proportion of the population living below the poverty threshold and a relatively high level of inflation. In fact, inflation will reach 5.8% in 2012/13, mainly due to the inability of the central bank to contain monetary growth. In addition, foreign trade will not be a growth engine. The trade balance deficit as a percentage of GDP is expected to deteriorate in 2012/13 (-3.3%) while the services balance will also be in deficit.

Substantial arrears on foreign debt

Public sector finances are undermined by the size of the defence budget, which represents over a fifth of government spending and large-scale monetization of deficits. However, this practice has been on the wane since 2009 and bonds and treasury bills are issued increasingly frequently on the domestic market, thus reducing inflationary pressures. Moreover, efforts have been made by the government to reduce the budget deficit. Therefore, this fell from 5.5% in 2011/2012 to 4.6% in 2012/13. This trend is set to continue in the coming years. The unification of the exchange rate by the authorities in April 2012 should accelerate this process. The depreciation in the exchange rate, following the adoption of a crawling peg, should improve the country's price competitiveness, increase export revenue from public companies and in doing so government revenue.

Furthermore, Myanmar's foreign debt, which is entirely public, is characterised by significant arrears with regard to bilateral and multilateral private creditors. However, FDI inflows cover nearly all of the economy's external financing needs and have enabled the central bank to top up its foreign exchange reserves, which are maintained at a satisfactory level in relation to imports. In fact, they will represent 9.7 months of imports in 2012/13.

Towards political openness?

On the political level, the country is experiencing an unprecedented liberalisation process. The parliamentary elections of November 2010, which ended the exercise of power by the military junta and the arrival of President Thein Sein, paved the way for a reform process in summer 2011. A relaxation of censorship was announced by the government and a law allowing the right to strike and to unionise freely was promulgated. Talks with the historical opponent of the ruling junta, Aung San Suu Kyi were also opened, leading to the lifting of her house arrest. In April 2012, partial legislative elections were held, the first in which the opposition as a whole participated since 1990. The National League for Democracy (NLD) won 43 of the 45 contested seats, enabling Aung San Su Kyi, the NLD leader, to become an MP. However, the junta continues to dominate political life (94% of seats in the assembly) and could, if fearing defeat at the next general election in 2015, stop the democratic process.

The recent positive developments have re-engaged discussions with Western countries and resulted in the organisation of Aung San Suu Kyi's diplomatic trip to Europe. At the start of 2012, the European Union and the United States also decided to partially lift sanctions imposed on the country: suspend the visa ban on Myanmar's rulers and lift restrictions on financial aid. Western countries, however, believe that further progress must be made for the complete lifting of sanctions, particularly with regard to human rights and resolution of conflicts with ethnic minorities. As such, inter-ethnic violence between the Buddhist and Muslim communities in the Rakhine State since the beginning of June 2012 represents a challenge for the ruling government.

Strengths

- Abundant raw materials (rice, teak, minerals, natural gas, oil)
- Considerable hydroelectric potential
- Proximity of dynamic economies (India, China, Thailand)
- High tourism potential

Weaknesses

- High risk of ethnic tensions
- Maintenance of economic sanctions
- Self-sufficient and poorly diversified economy
- Lack of structural reforms (investment in infrastructures, health and education)

NETHERLANDS

Coface Assessments

Country risk	A2
Business climate	A1

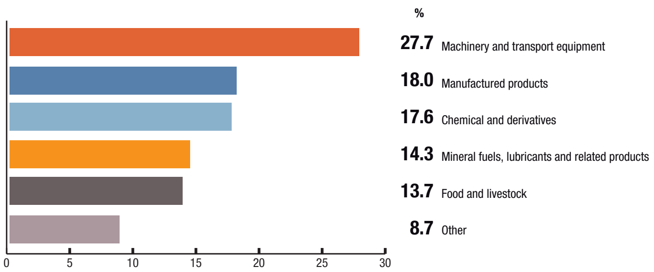
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.5	1.6	1.3	-0.9
Inflation (yearly average) (%)	1.0	0.9	2.5	2.5
Budget balance (% GDP)	-5.6	-5.1	-4.7	-4.4
Current account balance (% GDP)	4.1	7.1	9.1	9.5
Public debt (% GDP)	60.8	62.9	65.2	70.1

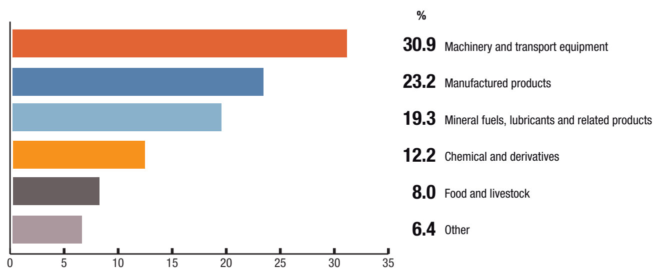
(e): estimate (f): forecast

Trade exchanges

Exportations 69 % du PIB



Importations 62 % du PIB



Risk assessment

A contraction in economic activity observed from the third quarter of 2011

The economy contracted for the third consecutive quarter at the end of March 2012. In 2011, the contraction was mainly due to the sluggishness in private consumption. The latter continued to fall at the start of 2012 (cars, furniture), still hampered by the decrease in real income, a negative wealth effect associated with falling property prices, deteriorating labour market, pension cuts (to restore the solvency of pension funds) and job cuts in the public sector. Furthermore, investment (mainly in the construction sector) has also fallen. Manufacturing output fell slightly and gas development has stalled. In contrast, exports, which slowed during 2011, rose again at the start of this year, due to the relative strength of re-exports. They represent nearly half of total exports, with this high proportion stemming from Port of Rotterdam's prominent place in European trade. Over the full year 2012, only foreign trade should limit the extent of the downturn in activity. However, an upturn is expected in the second half of the year, but it may be constrained by uncertainty surrounding property market trends and the continuation of the fiscal consolidation plan. Moreover, disagreement over the austerity policy brought down the coalition government in April 2012. Even if a budget deal was concluded for 2013 between the interim government and the opposition, some of its provisions could be challenged after the parliamentary elections of 12 September 2012.

Financial and commercial openness and excess household debt 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 heavy financial and commercial exposure abroad. Burdened by the cost of the American mortgage market crisis, several banks had to be rescued by the State through nationalisation, recapitalisations and the granting of loans and loan guarantees. Since then, a large proportion of this money has been repaid, loan guarantee programmes have ended and mergers have been implemented. 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 (sales of goods and services abroad 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. The property market remains vulnerable. Further falls in the price of housing could have a negative impact on the banking sector and household consumption. Moreover, Dutch households have one of the highest debt levels in the eurozone (126% of GDP). In addition, the ageing population and falling share prices threaten the solvency of pension funds. Lastly, although companies have entered the crisis on a rather strong financial footing, their profits have vanished and bankruptcies rose sharply in the first quarter of 2012.

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

NICARAGUA

Coface Assessments

Country risk	C
Business climate	C

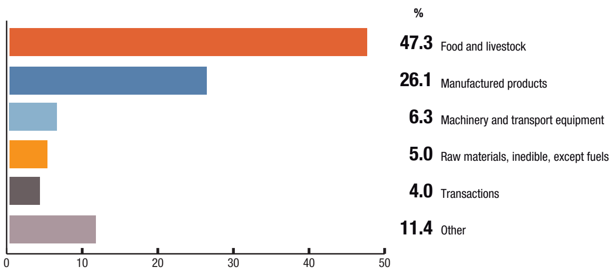
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-1.5	4.5	4.7	3.7
Inflation (yearly average) (%)	3.7	5.5	8.1	7.0
Budget balance (% GDP)*	-5.2	-3.5	-3.0	-2.7
Current account balance (% GDP)*	-13.5	-14.9	-18.0	-17.0
Public debt (% GDP)	80.1	80.0	72.0	69.0

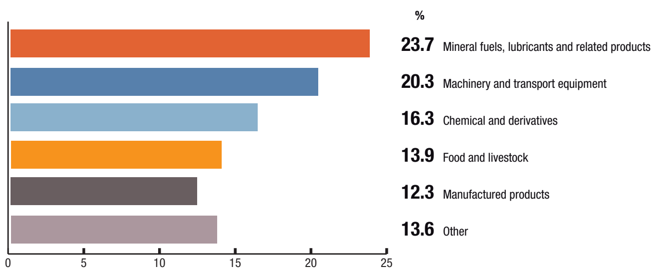
*(e): estimate (f): forecast *grants excluded*

Trade exchanges

Exportations **35 %** du PIB



Importations **61 %** du PIB



Risk assessment

Economic slowdown in a context of weak growth in the United States

Economic slowdown is expected in 2012 in a context of weak growth world-wide, particularly in the United States. The United States is the largest export destination. Nevertheless, domestic demand will continue as the main driver of the economy because of large on-going investment projects, particularly in the energy and manufacturing sectors. Household consumption will retain its vitality, as always supported by remittances from migrant workers in the United States and Costa Rica. The 12% increase in the minimum wage will also be a positive, but will keep inflation high which the slight decrease in the price of oil and food products will not mitigate.

Gradual consolidation of public finances

Under the Extended Credit Facility (ECF) initially concluded for three years with the IMF in 2007 and extended until December 2011, the authorities conducted a programme for broadening the tax base and improved tax collection and for streamlining public sector spending, which has helped reduce the deficit and public debt. In 2012, as part of the talks with the IMF to renew the ECF for a further three years, the government must continue to consolidate public finances. The unpopularity of certain measures such as a reduction in subsidies, combating undeclared work, targeting aid to the poorest, wage moderation, pension reform and the reduction in exemptions makes negotiations difficult.

Balanced public and external accounts due to foreign aid

Financial aid from Venezuela ($600 million in 2011) helps to balance the public accounts and to reduce the state debt burden. It includes funding for social programmes and subsidies for transport and energy. The trade deficit represents 24% of GDP due to the burden of oil imports, even purchased on preferential terms from Venezuela under the Petro-Caribe agreement. Almost all of the electricity production depends on it, as diversification into other local sources such as hydroelectric power is slow because of the reluctance of investors faced with state intervention on prices. Exports are relatively undiversified, dependent on the US economy and international prices. However, with tourism revenue, but particularly migrant workers remittances, the current deficit represents only 18% of GDP.

The balance of payments and maintaining foreign exchange reserves at a satisfactory level are achieved through international aid, primarily multilateral (Inter-American Development Bank), and foreign direct investment from Canada, USA, Spain and Venezuela which has increased sharply in the energy, telecoms and manufacturing sectors (assembly units -*maquilas*- in the clothing industry in free trade areas).

The support of donor countries is therefore essential, particularly the US whose further direct or indirect aid is dependent on progress in electoral and institutional matters as well as the continuation of compensation for expropriated foreigners during the Sandinista revolution of 1979. However, their influence on President Daniel Ortega, elected in November 2011 and his majority party *Frente Sandinista de Liberación Nacional* (FSLN), in power since 1979, is reduced by the financial contribution from Venezuela.

Strengths

- Mineral (gold, silver, copper) and agricultural (coffee, sugar, bananas, cotton) resources
- Member of the Central America –USA and EU free trade zones
- Prudent economic policy established in relation to and with the support of the IMF
- Stability of the financial system
- International financial support

Weaknesses

- Vulnerability to natural disasters (cyclones, seismicity)
- Inadequacies in health and education (both primary and secondary), persistent poverty
- Infrastructure deficiencies (energy, transport)
- High public debt and current account deficit
- Dependence on international aid and remittances of migrant workers
- Institutional shortcomings: concentration of power within the executive and Sandinista Party

NIGERIA

Coface Assessments

Country risk	D
Business climate	D
Medium term	RATHER HIGH RISK

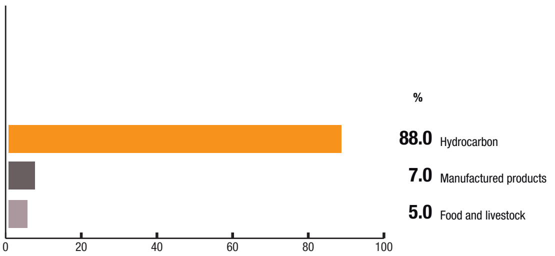
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	7.0	8.0	7.2	7.1
Inflation (yearly average) (%)	12.5	13.7	10.8	11.2
Budget balance (% GDP)	-5.3	-3.7	-3.3	-3.0
Current account balance (% GDP)	7.8	1.3	6.2	7.3
Public debt (% GDP)	15.3	17.8	17.9	18.8

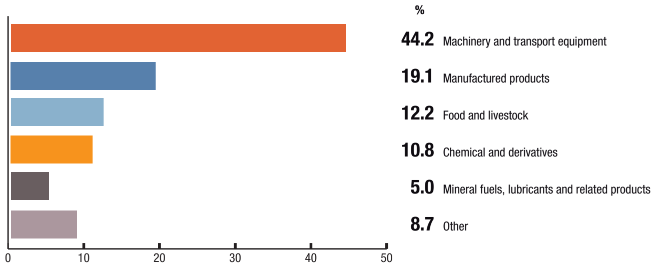
(e): estimate (f): forecast

Trade exchanges

Exportations 36 % du PIB



Importations 27 % du PIB



Risk assessment

Sustained growth maintained

The economy will continue to grow in 2012 due to the oil sector, which is still vital for the country: the volume of exports should increase following the start up of a new oilfield (Usan) and Nigeria should also benefit from the high level of oil prices. But economic activity is also driven by non-oil sectors (agriculture, trade, telecommunications, construction and public works). Private consumption (54% of GDP) should continue to be dynamic. However, growth in the country may be affected by the deterioration in security conditions.

The drop in subsidies on oil prices and the expected rise in electricity prices as part of the privatisation of the sector, will continue to push prices upwards (+11.2%).

Solid financial situation characterised by low debt and stable banking system

The President has initiated a fiscal control policy resulting in a reduction of operating expenses in the 2012 budget. Additional savings should be realised through the reduction of subsidies on petrol prices, but the general strikes triggered in January by the announcement of their removal should halt the process. Privatisation revenues (electricity sector) will increase revenue if the programme is launched as planned before the end of the year. The introduction of a new fund using a portion of oil revenue, could also improve the management of public finances, with the previous fund having been almost completely drained under political pressure. Public debt remains low (18% of GDP).

The current account surplus will continue in 2012. Foreign exchange reserves, which are one of the main tools for ensuring the stability of the naira exchange rate will remain stable, but modest (4 months of imports).

The risk of overindebtedness is low in Nigeria, with total outstanding debt representing 22% of GDP and external debt only 3% of GDP.

The banking sector reform initiated in 2009 is nearing completion. Eight banks declared bankrupt were recapitalised. Their non-performing loans were taken over by a structure (Asset Management Company) and three of them were nationalised. However, credit distribution is still insufficient to support investment and the development of non-oil production, particularly in the agricultural sector which accounts for 40% of GDP, two thirds of the workforce, but receives only 2% of the credit.

Investment prospects hampered by the deterioration in the business climate

Due to its enormous potential in hydrocarbons, arable land and size of its domestic market, the country is of great interest to investors from western countries, particularly the United States, its leading customer, but also the Chinese who actively invest in the non-oil sector (telecoms, transport, construction and public works).

The government, which wants to continue to attract investors, has initiated reforms aimed at developing the private sector. The privatisation of the electricity sector is therefore expected in October. Regarding the oil sector, the latest version of the reform programme (Petroleum Industry Bill), announced many times and which has been the subject of different versions for five years, should be presented to the parliament in June. It aims to enable the State to receive a substantial share of oil revenue without discouraging foreign investors, which the country needs, particularly to ensure infrastructure development in this sector.

However, investments are hampered by administrative inefficiency, the sharp deterioration in security conditions but also corruption.

In the Niger Delta, an oil production area, it is the supporters of the Movement for the Emancipation of the Niger Delta (MEND) who are attacking the staff and facilities of oil companies claiming a better distribution of oil revenue. In general, massive unemployment (24% nationally) and poverty lead to increased violence. Moreover, the security environment in the north has deteriorated sharply since the intensification of the attacks in May 2011 by the radical Islamist movement Boko Haram.

Corruption is widespread. Goodluck Jonathan, the head of state since the April 2011 elections, has shown his determination to tackle the problem by prosecuting several high-ranking officials involved. But despite often publicised efforts, corruption remains a real weakness for Nigeria which is classified, according to the 2011 Corruption Perceptions Index of Transparency International in 143rd position (out of 182).

Strengths

- Substantial hydrocarbon resources
- Large agricultural potential
- Largest population in Africa (162 million).
- Dominant political role both regionally and on the continent as a whole
- Little foreign debt
- Banking sector mostly stabilised due to the reform launched in 2009.

Weaknesses

- Very dependent on oil revenue: 90% of exports, 20% of GDP and 80% of tax revenue
- Greatly reduced refining capacity resulting in burdensome imports because of subsidies (1/4 of the federal budget)
- Diversification of production limited by inadequate infrastructure
- Ethnic and religious tensions
- Corruption
- Unemployment, poverty, inadequate health and education system

POLAND

Coface Assessments

Country risk	A3
Business climate	A2

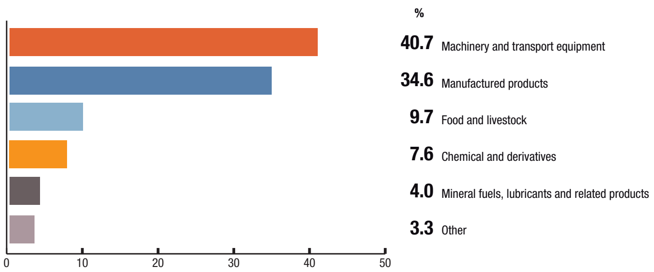
Main Economic Indicators

	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	-5.1	-4.0
Current account balance (% GDP)	-3.9	-4.6	-4.2	-3.8
Public debt (% GDP)	50.9	55.0	56.4	55.5

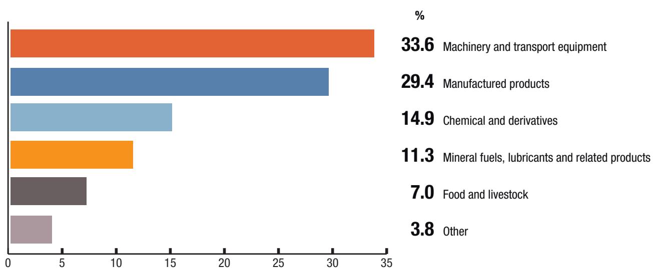
(e): estimate (f): forecast

Trade exchanges

Exportations 39 % du PIB



Importations 39 % du PIB



Risk assessment

Slower growth in 2012

Despite a slowing in growth in the final quarter, activity in 2011 was sustained. The slowdown is likely to continue in 2012. Exports grew in the first quarter 2012 (+4.8% YoY), in particular to Russia and Ukraine thanks to the joint organisation of the European football Championship. But, apart from this period, exports has been decelerating since the third quarter 2011, when a 8.6% growth (YoY) was recorded. Imports also slowed (+3.2%, YoY) helping improve the current account balance in the first quarter 2012. However, external demand is likely to further shrink in the second half of the year, especially in Germany and Ukraine, limiting the contribution of foreign trade to GDP. However, because of the lower level of trade exposure (exports account for 40% of GDP compared with an average of 65% in other European Union member countries), the impact of falling external demand will be more limited. Household consumption will remain weak, reflecting the decline in household confidence, inflation at 3.6% at the end of May 2012, the freeze on public employee pay and the worsening of the job market (12.5% unemployment). Lower household demand undermines the private construction sector: the number of houses being built dropped by 5.9% in the first quarter 2012 (YoY). But the construction sector had been boosted, over several months, by the organization of the European football Championship in June 2012 (stadia, hotels, roads, etc.), underpinned by public investment. Credit supply to companies remained vivid in the first quarter, particularly in zloty, but investment will slow significantly over the coming months.

Public finances on the road to improvement

The *public finance development and consolidation Plan* drawn up by the government in order to comply with the Maastricht criteria as of 2013 will continue to be implemented. The public deficit, which reached almost 8% of GDP in 2010, should drop back to below 4% in 2012, thanks to higher taxes on oil products and increased social contributions. In consequence, the public debt should stabilise below 60% of GDP. Nevertheless, a large part of the debt is held by non-residents, which makes the country vulnerable to any risk aversion on the part of investors. In addition, the flow of foreign direct investments will wither in 2012 in the wake of the European recession, making the current account financing stable capital flows an issue, except for European structural funds. The Polish banking system seems to be relatively solid with capitalisation ratios above those of the Basle III required minimums. Nevertheless the subsidiaries of foreign banks, with many parent companies located in the eurozone, account for two-thirds of the banking sector, which makes it dependent on foreign capital. Finally, the banks are still heavily exposed to exchange rate risks, household loans in foreign currencies amount to 14% of GDP. The zloty lost 8% of its value against the euro between March and May 2012. In dealing with this depreciation and to reduce the expected inflation, the Central Bank increased its key rate in May 2012 by 25 bp to 4.75%.

A fairly stable political context

The presidential election in August 2010 brought Bronislaw Komorowski to power as the head of a coalition between his centre-right party (PO), in power since October 2007, and the Polish Peasants' Party (PSA). The general elections on 9 October 2011 confirmed this coalition. The Prime Minister Donald Tusk has made the reduction of the budget deficit his priority with the stated aim of entering the euro, without however setting a date for this. Nevertheless, the last opinion polls reveal a growing level of discontent among the population concerning the austerity measures being implemented.

Strengths

- The only EU country to have escaped recession in 2009
- Attractiveness for FDIs strengthened by the size of the domestic market
- Diversified economy
- Rate of absorption of European structural funds the highest in emerging Europe

Weaknesses

- Inadequate rate of investment
- Foreign exchange risk
- Big regional disparity
- Households' high level of debt in foreign exchange

RUSSIA

Coface Assessments

Country risk: **B**

Business climate: **B**

Medium term: **RATHER LOW RISK**

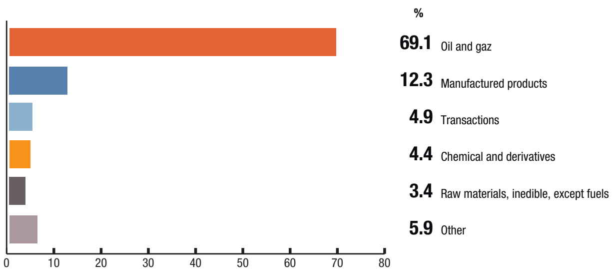
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-7.8	4.3	4.3	3.5
Inflation (yearly average) (%)	8.4	6.9	8.4	4.6
Budget balance (% GDP)	-5.9	-3.9	0.8	-1.0
Current account balance (% GDP)	4.0	4.7	5.3	4.8
Public debt (% GDP)	7.3	8.0	10.8	10.9

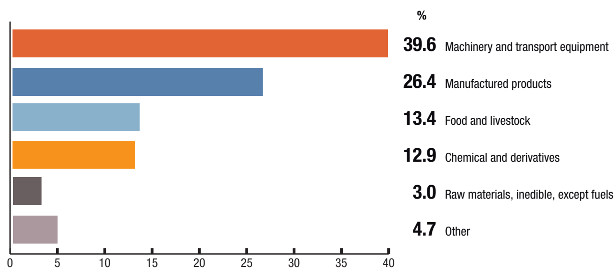
(e): estimate (f): forecast

Trade exchanges

Exportations 28 % du PIB



Importations 20 % du PIB



Risk assessment

Stabilisation of growth

Growth should lose some steam over the whole of 2012. Economic activity is on the right track for the first half of the year. Social tensions following the elections in December and March have led to higher social expenditure by the government. This increase in disposable household income, combined with exceptionally low levels of inflation and a buoyant labour market, contribute to the momentum gained by private consumption. Therefore, local industry, and particularly automotive, construction and food processing, all highly focused on the domestic market should perform well. Bank credit posted strong growth, driven by the interventions of the Central Bank in the interbank market. Investment also benefits from these favourable conditions, aided by increased confidence resulting from the election of Vladimir Putin. Finally, crude oil production and foreign trade have benefited from high oil barrel prices and tensions on the global supply of oil. However, domestic demand is likely to weaken in the second half of the year. Increases in state controlled energy prices, held back until July, will contribute to rising inflation. The government, which has spent a considerable chunk of the budget in the first quarter, should conduct a more restrictive fiscal policy in the second half of the year. Moreover, capital outflows will remain high and could lead to increased tensions on bank liquidity. Consequently, more moderate growth in credit should affect household consumption, investment and growth.

However, the momentum in economic activity for the second half of the year will depend mainly on changes in crude oil prices. If a barrel at $115 for the full year remains the most likely scenario, then a drop in oil prices in the second half of the year – a scenario that cannot be excluded – would significantly affect growth.

Increasing dependence on oil prices

The Russian economy is increasingly dependent on crude oil prices. Close to 60 dollars in 2008, the equilibrium price for public finances now exceeds $120, a consequence of inflation from electoral expenditure during the winter of 2011-2012. With a barrel estimated by Coface at $115 this year, the budget balance should show a slight deficit in 2012. Against this backdrop, the government will continue its policy of further indebtedness with the population to fund a proportion of the expenditure. Public debt will remain very contained, around 11% of GDP, leaving the government some leeway, at least in the short term. Moreover, the current account surplus should be reduced slightly as a result of the contraction of European demand, but still benefit from a price effect on oil exports. Finally, capital outflows remain high and could rise again if structural reforms promised by Vladimir Putin are not implemented.

The political context remains tense

Although the political transition happened as the Kremlin expected it from the outset of the first round of the March 2012 election, 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 ongoing shortcomings in the business climate. Although the discontent did not extend to rural areas, the demonstrations marked a breakpoint in the tacit social contract between the Russian people and the regime dating back to the early 2000s. They marked the emergence of a new opposition, focused around a number of movements initially mobilised for local issues, away from the traditional figures of the "institutionalised" opposition. In response to this growing social and political demand, the new government, appointed last May, should not engage in radical reforms. Marked by the pre-eminence of those close to Vladimir Putin and the continuation of most of the individuals already in place, it confirms the scenario of an economic and socio-political status quo, coupled with a hardening of the regime faced with protests. In this context, the protest movements will continue, particularly if the socio-economic situation were to deteriorate.

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. While the payment experience as recorded by Coface is stable since the return to growth at the end of 2009, 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.

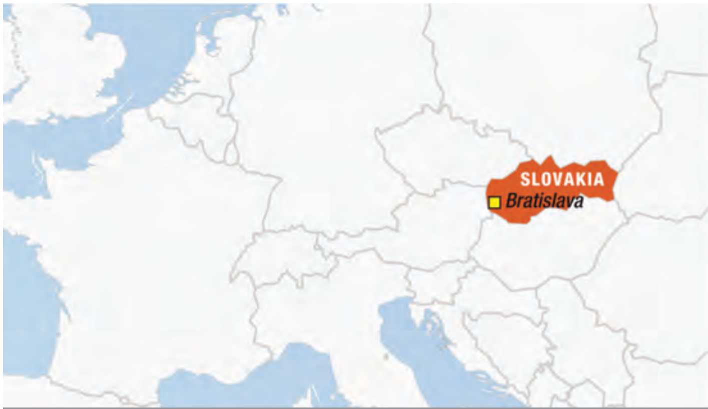
Strengths

- 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

SLOVAKIA



Coface Assessments

Country risk	A3
Business climate	A2

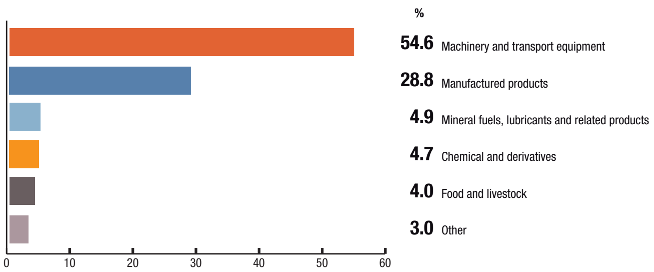
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4.8	4.0	3.3	1.9
Inflation (yearly average) (%)	0.9	0.7	3.9	3.2
Budget balance (% GDP)	-8.0	-7.7	-5.8	-4.6
Current account balance (% GDP)	-3.6	-3.6	0.1	-0.5
Public debt (% GDP)	35.5	41.0	44.3	47.1

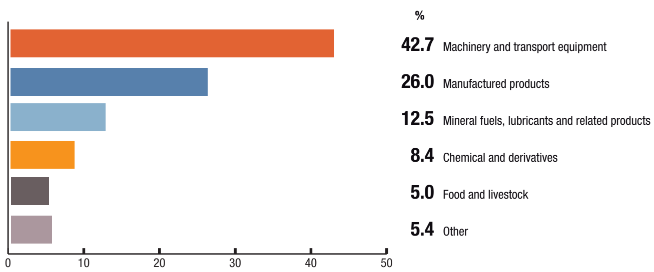
(e): estimate (f): forecast

Trade exchanges

Exportations 99 % du PIB



Importations 104 % du PIB



Risk assessment

Activity will hold up in 2012 despite the openness of the economy

The Slovakian economy is highly integrated into the European production chain and over one-third of Slovakian exports head to Germany, mainly in the form of intermediate goods, intended for the German export sector. In this context the slowdown in German foreign trade in the second half of 2012 will result in a slowdown in Slovakian exports, in particular in the automobile, electronics, chemicals and mechanical engineering sectors. In addition household consumption will remain flat, in a situation of high unemployment (13%) and budgetary austerity (a wage freeze in the public sector, with the exception of teachers, increased VAT and taxes on tobacco in 2012). Slovakian companies, however, have one of the highest rates of profitability in the EU, which should ensure that they do not have to cut back their levels of investment too sharply. In addition, unlike the situation within the Czech Republic, the flow of FDI, which picked up in 2011, should continue in 2012. The opening of new production lines, in particular by Volkswagen, boosted investment in 2011 and the car-maker is looking to double its production capacity in 2012.

An economy that is subject to greater financial weakness

Public finances under control and contained inflation helped Slovakia integrate into the eurozone in 2009. However, its public debt has increased significantly since then and is expected to reach almost 50% of GDP in 2012, which is still a reasonable level in terms of the average for the eurozone. The new centre-left government is however committed to reducing the budget deficit to below the 3% threshold by 2013, by increasing taxes on higher incomes and on company profits. The country's external debt, mainly in the banking sector, is also high, and represents 70% of GDP.

Whilst the Slovakian banks have solid capitalisation and liquidity ratios, the sector is highly concentrated and dominated by West European banks. Given the liquidity crisis in Europe, credit availability for the Slovakian private sector could decline seriously. Any such occurrence would impact on the refinancing of company debts.

More settled political environment

The legislative elections of March 2011 led to the pro-European social-democrats of the former Prime Minister, Robert Fico, winning an absolute majority in parliament (83 out of 150 seats). This, which was a first since the country's independence in 1993, should make it possible for the government to complete its budgetary adjustment reforms, without the risk of a political impasse.

Strengths

- EU membership has fast-tracked implementation of reforms
- Eurozone membership
- Platform for re-export of European motor vehicles
- Attractive business environment

Weaknesses

- Vulnerability to exogenous shocks
- High external debt burden
- High unemployment

SOUTH AFRICA

Coface Assessments

Country risk **A3**

Business climate **A2**

Medium term

RATHER LOW RISK

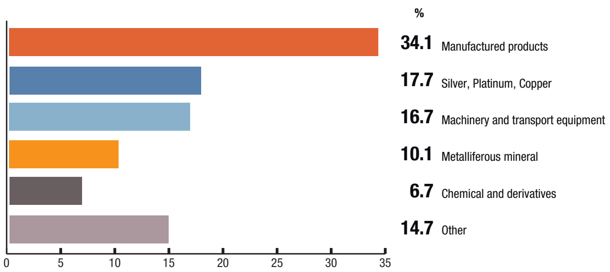
Main Economic Indicators

	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	-4.8
Current account balance (% GDP)	-4.1	-2.8	-3.3	-4.5
Public debt (% GDP)	31.5	35.3	38.8	40.0

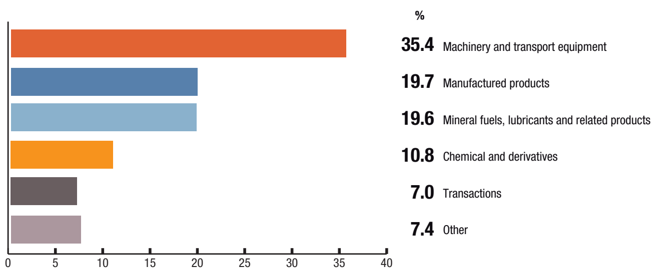
(e): estimate (f): forecast

Trade exchanges

Exportations **27 %** du PIB



Importations **28 %** du PIB



Risk assessment

Slowdown in growth in 2012

South African growth will continue to be modest in 2012. Driven by domestic consumption buoyed by low interest rates, GDP growth is constrained by high unemployment (25%), slower growth in wages and household debt (76% of disposable income). Investment by private companies, whose financial position remains strong, has slowed down due to spare production capacity and uncertainty about the change in demand. However, investment by public companies in the transport and electricity sectors is increasing. The weak demand from the EU, the leading partner of South Africa (22% of exports, one third of those of manufactured goods) is affecting manufacturing output. Mining production is hampered by the lack of investment and strikes. Prices of food and energy and production and distribution costs will exert upward pressure on prices. The trend towards depreciation of the rand will increase these pressures. However, inflation should not exceed the upper limit of the Central Bank's target area (3-6%), with Eskom agreement to limit the rise in electricity prices to 16% (instead of 26%). The Central Bank, focusing on growth, should maintain its refinancing rate (5.5% since November 2010).

Stabilisation of the budget deficit and deterioration of the current account balance

The budget deficit should stabilise in 2012/13. Countercyclical measures to support growth and employment will be maintained, as well as capital expenditure (infrastructure, combating insecurity and inequality). Public debt rose slightly in 2012 but remains manageable (40% of GDP) due to prudent management of public finances over the last two decades. Only 10% of the debt is denominated in foreign currencies. The trade balance will turn slightly red. Imports of manufactured goods will increase while exports will suffer from contraction in demand (EU) and erosion of commodity prices. The invisibles balance will remain in deficit, tourism revenues will not offset the payment of services to foreign companies (mining) and retrocession of customs duties to Member States of the Customs Union (SACU). The current account deficit is expected to increase to 4.5% of GDP. 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 depreciation of the rand observed in early 2012 is expected to continue but remain moderate and volatility in prices will increase. Capitalisation of banks is satisfactory and asset quality is improving. The banking system is not very vulnerable to foreign exchange risk.

Risk of a rise in social tensions but satisfactory business climate

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 has led to disappointment and resentment. The application of BEE (Black Economic Empowerment) favouring the inclusion of the black population in the economy should be better controlled, following an amendment to the law. However, if the effects are slow, social unrest (demonstrations, strikes) is likely to intensify. Cohesion within the ANC and the coalition is critical to the continuation of structural reforms. The recent expulsion of J. Malema, an emblematic left-wing figure in the party, should bring some serenity to the ANC for which Jacob Zuma should retain the presidency in December, during the party's five-yearly Conference. The prospects of alternation in presidential elections (2014) are reduced while the ANC has ruled the country since 1994. However, the main opposition party, the Democratic Alliance (DA) was credited with 24% in municipal elections (May 2011). The appointment of a young black MP at the head of its parliamentary group should enable it to increase its popularity. South Africa has a well-developed legal system. But the inefficient government, under-qualified workforce, crime and corruption «pollute» 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

SPAIN

Coface Assessments

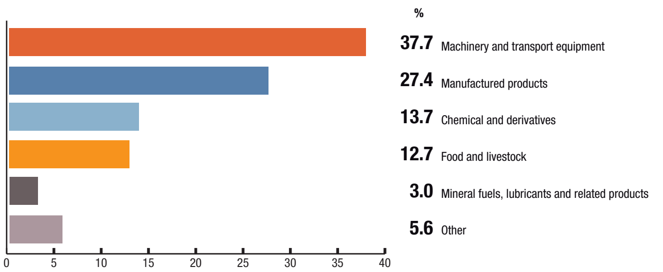
Country risk	A4↘
Business climate	A1

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.7	-0.1	0.7	-2.0
Inflation (yearly average) (%)	-0.2	2.0	3.1	1.7
Budget balance (% GDP)	-11.2	-9.3	-8.5	-6.4
Current account balance (% GDP)	-4.8	-4.5	-3.5	-2.0
Public debt (% GDP)	53.9	61.2	68.5	80.0

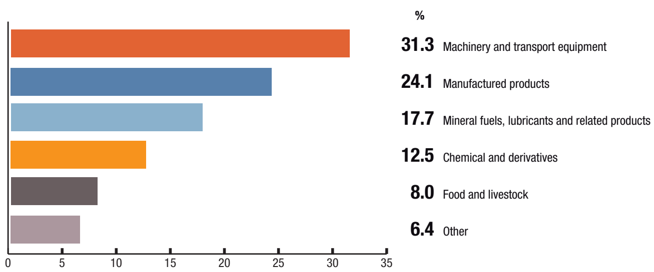
(e): estimate (f): forecast

Trade exchanges

Exportations 23 % du PIB



Importations 26 % du PIB



Risk assessment

The country again slipped into recession

Economic activity gradually slowed in 2011 due to the contraction in public spending and the continuing decline of housing investment. GDP started to decrease in the 4th quarter, with household consumption and investment in capital goods in turn recording negative figures. This fall continued in the 1st quarter 2012 under the effect of a further contraction in investment and a deceleration in exports of goods and services. On the supply front, the construction and manufacturing industry sectors have experienced the sharpest drop in their added value. The recession should deepen in the coming months. Consumption will continue to be penalised by increasingly limited access to credit, the continuation of the deleveraging of households, the reduction in the value of their assets and the record level of unemployment (24% threshold exceeded in March 2012). Investment will continue to suffer from the effect of an excess of supply in the property sector, the high level of corporate debt, increasingly poor financing conditions and the drop in public spending. Furthermore, forecasts are gloomy on the foreign trade level due to the weakening of demand from the eurozone (57% of outlets). However, the contribution from the external sector to growth should remain positive due to the sharp contraction in imports.

Imbalances accumulated during the boom years, the banking sector is at the core of the crisis

The country is now bearing the brunt of the excessive expansion in domestic demand observed until 2007, linked to a high level of productive investment and investment in property, with the latter leading to a private sector debt overhang (household and corporate debts represented 82% and 134% respectively of GDP at the end of 2011). The current account deficit resulting from this excess demand reached 10% of GDP. However, it decreased sharply in 2009 due to the fall in imports, then in 2010 and 2011 due to strong exports, which increased in competitiveness.
On the fiscal front, Spain was, until the crisis, one of the only eurozone countries to comply with the Stability and Growth Pact. However, public accounts have deteriorated as a result of the stimulus policy and the recession. The burden of public debt, until now modest, has increased sharply, even though it still compares favourably to that of the other eurozone countries (68.5% of GDP compared to 87.2% for the eurozone at the end of 2011). The current recovery effort is thwarted by the sluggishness of economic conditions and by the difficulty of adjusting the accounts of autonomous communities. The government has had to revise its fiscal objectives for 2012 downward after last year's overspending, two thirds of which the regions are responsible for. It has been forced to release funds so that local authorities can pay the invoices of their suppliers and it exercises a tighter control on their expenses.
The State's financing conditions have once again been strained over the past few months despite exceptional cash injections by the ECB. The cause of it is the increase in the banks' capital needs following the upward review of losses related to their exposure to property developers. Considering the size of this recapitalisation, the government has decided to call on the financial assistance of the eurozone. This aid, which mainly concerns the regional savings banks (financial institutions the most affected by the bursting of the property bubble), will be directly provided to the banking sector by the European Stability Mechanism. However, the reform of the sector will have to be pursued including, in particular, the transfer of impaired assets to a bad bank.

Companies affected again by the economic situation

Facing a highly degraded domestic climate while their ability to resist shocks is depleted due to their debt burden, companies are in a particularly difficult situation. Payment incidents recorded by Coface and the number of bankruptcies rose sharply in 2011 and in the start of 2012. Whereas small companies were the hardest hit during the first phase of the crisis (2009), it is currently larger companies that are affected. As in the case of bankruptcies, a significant proportion of the unpaid sums is concentrated in the construction sector, but other branches are weakened, including food processing, electrical equipment, chemicals and non-specialised trade.

Strengths ↗

- Large groups with an international presence
- Close links with Latin America
- Modernised transport infrastructure
- Development of wind and solar energy
- High tourism potential
- Initial low level of public debt

Weaknesses ↘

- Bloated construction sector
- Loss of productivity and competitiveness
- Energy intensive exports, mainly with low to moderate technological content (food products, base chemicals, metal articles, clothes, machines, transport equipment)
- Heavy private debt burden
- Regional savings banks weakened by the property crisis
- Deteriorating public finances
- Very high unemployment, especially among the young

TUNISIA

Coface Assessments

Country risk	A4
Business climate	A4
Medium term	RATHER LOW RISK

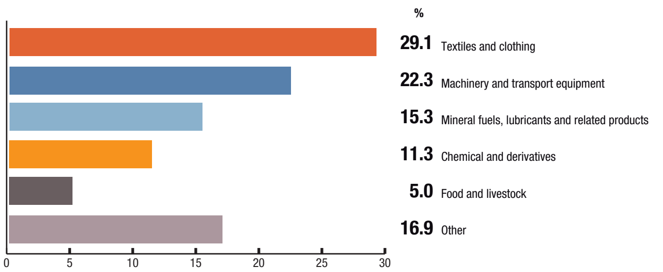
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	3.1	3.5	-2.0	2.5
Inflation (yearly average) (%)	3.5	4.4	3.5	4.5
Budget balance (% GDP)	-2.7	-2.9	-5.0	-6.5
Current account balance (% GDP)	-2.8	-4.7	-6.5	-7.5
Public debt (% GDP)	42.8	43.0	43.5	49.0

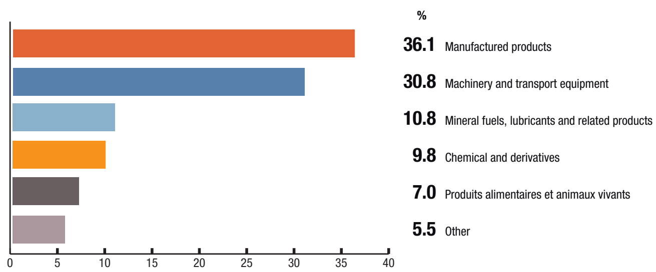
(e): estimate (f): forecast

Trade exchanges

Exportations 52 % du PIB



Importations 55 % du PIB



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. Parliamentary and presidential elections should take place between March and June 2013, if the drafting of the new constitution is completed by the end of 2012. However, there is not yet a clear consensus on the political system to be derived from this constitution. Indeed, fault lines cut across society, divided between Islamism and secularism, or tradition and modernity.

Against this backdrop, the new government has difficulties in several areas, particularly in establishing a new economic policy framework, even if it displays a liberal economic programme. 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, with plans for a regional development scheme favouring the interior of the country, historically disadvantaged compared to 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 also, thanks to plentiful rainfall, expected to report good harvests, with the agricultural sector representing around 12% of GDP and 20% of the active population.

This upturn could however 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%).

Marked deterioration of twin deficits, offset by international financial aid

Following a serious worsening of the budget deficit in 2011, a result both of the decline in economic activity and increased expenditure, things could deteriorate even further in 2012. 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 high cost of energy (representing 15% of the total). If expatriate remittances are likely to be resilient, tourism should recover only moderately, after a sharp decline in 2011 and, overall, the already high current deficit should increase.

In May 2011, Tunisia received promises 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 use too 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
- Gradual upgrading of infrastructures, industry and financial sector

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

TURKEY

Coface Assessments

Country risk **A4**

Business climate **A4**

Medium term

MODERATE RISK

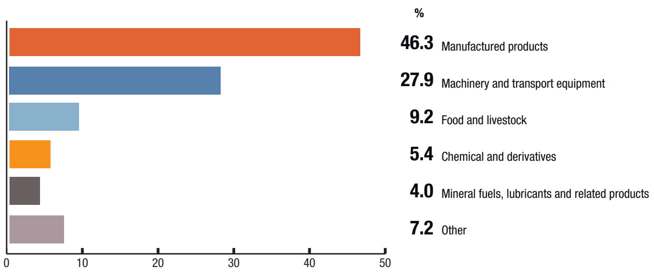
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4.7	8.9	8.5	3.0
Inflation (yearly average) (%)	6.5	6.4	6.5	9.5
Budget balance (% GDP)	-5.5	-3.6	-1.3	-2.0
Current account balance (% GDP)	-2.3	-6.5	-10.0	-8.2
Public debt (% GDP)	46.4	43.0	39.5	37.3

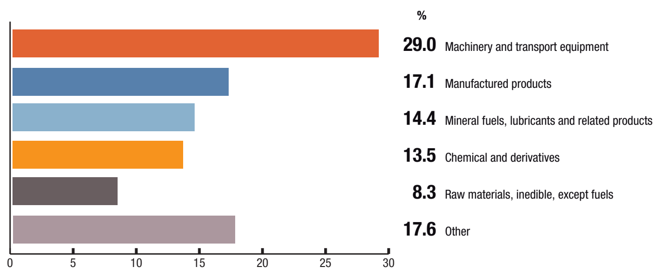
(e): estimate (f): forecast

Trade exchanges

Exportations **23 %** du PIB



Importations **24 %** du PIB



Risk assessment

Controlled slowdown expected, after period of overheating

Unlike most emerging economies, in 2011 Turkey continued to experience growth above its potential because of very dynamic domestic demand, boosted by abundant credit. Activity in 2012 should slow significantly. The recession in the eurozone, Turkey's leading export market (32% of exports), partially explains this trend. In addition the policy of the Central Bank aimed at controlling the supply of credit in order to curb inflation, will have a significant impact on corporate investment and household consumption. The balance of trade will remain heavily in deficit in 2012, despite the weakening of domestic demand, mainly because of higher energy prices. Inflation will remain high, well above the official target (5%), reflecting the depreciation of the currency in 2011, the persistence of bottlenecks and rising food and energy prices at the beginning of 2012.

The volatility in external financing must be monitored

The scale of the current account deficit is a source of weakness for the Turkish economy. Its funding is mainly provided by portfolio investments and short-term debt, making the economy vulnerable to exchange rate risks. The Turkish lira was down 15% in 2011 in the wake of the worsening eurozone sovereign debt crisis, one of the biggest depreciations of all emerging economies. The currency is likely to remain highly volatile in 2012. However, Coface payment experience should remain favourable, with the recovery rate remaining good despite the lengthening of the payment period for companies with foreign currency debts. Regarding public finances, the budget deficit was reduced to less than 2% in 2011, thanks to higher budgetary receipts and moderate rises in expenditure. The government should pursue its policy of fiscal adjustment in 2012, even if the adoption of a fiscal rule is likely to be postponed. Public sector debt has been reduced to a sustainable level of less than 40% of GDP. But it is vulnerable to interest rate and currency rate shocks as 37% of it is at variable rates and 29% in foreign currencies. It is however likely to be easily financed, with the purchase of Treasury bonds by the Turkish banking sector, significantly strengthened since the 2001 domestic financial crisis. The profitability of the banking sector has been affected by higher levels of mandatory reserves and stricter prudential practices. But banks remain well capitalised and post low levels of non performing loans.

Key regional asserting power

Turkey has asserted its status as a key regional power, in economic, political and diplomatic terms. In this regard, the country was able to capitalise on the Arab Spring and is becoming a model for development among the various populations which have brought to power political parties looking to the AKP for inspiration in Tunisia and in Egypt. However, regional policy is not risk-free as it implies a hardening of its relations with Israel, with which the country was maintaining a strategic cooperation. Moreover, the Syrian crisis could threaten the country's position in the region. Ankara has, in effect, firmly condemned the repression in Syria, thereby opposing its main regional rival, Iran, which supports the regime of Bachar Al-Assad. Moreover, Turkey has still not normalised its relationship with Armenia and the Kurdish issue continues to be an element of recurrent tension despite Recep Erdogan's opening up policy. Finally, whilst the European Union membership appears less urgent, it remains nevertheless an objective whereas the discussions over the trade relation issue with Cyprus are stalling. The Cypriot Presidency of the European Union, as of July 2012, is unlikely to ease the resumption of the talks. In domestic terms, no other political party has succeeded in offering a credible alternative to the AKP, and the Prime Minister, Recep Erdogan, is playing an increasing role in the decision making process. He is in fact promoting a change in the constitution in favour of a presidential rather than a parliamentary regime and is striving for running in the 2014 presidential elections.

Strengths ↗

- Dynamic private sector and highly skilled labour force
- The country's pivotal regional position, which reinforces the attractiveness of the Turkish market
- Demographic vitality
- Public finances under control
- Strong and healthy banking system

Weaknesses ↘

- Inadequate domestic savings
- Strong dependence on foreign capital
- Rising corporate foreign debt increases companies' exposure to exchange rate risk
- The Kurdish issue remains a source of social and political instability
- Poor prospects of progress in negotiations with the EU because of the Cyprus question

UKRAINE

Coface Assessments

Country risk	D
Business climate	C
Medium term	VERY HIGH RISK

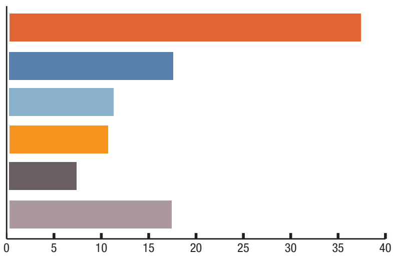
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-14.8	4.1	5.2	1.5
Inflation (yearly average) (%)	15.9	9.4	8.0	4.5
Budget balance (% GDP)	-6.2	-6.6	-2.7	-3.5
Current account balance (% GDP)	-1.5	-2.2	-5.6	-5.9
Public debt (% GDP)	35.3	42.1	39.4	42.5

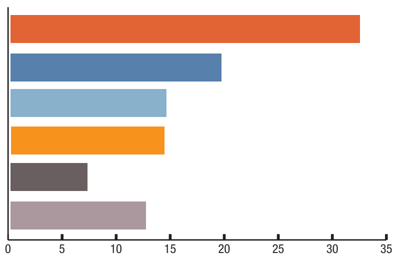
(e): estimate (f): forecast

Trade exchanges

Exportations 46 % du PIB



Importations 48 % du PIB



Risk assessment

Sharp slowdown in growth

Economic activity fell sharply in the first quarter. Exports are affected by the economic downturn in the eurozone, Ukraine's leading trading partner. Private consumption remains a driver of activity, buoyed by exceptionally low inflation without benefiting local industry, which has seen its production stagnate. If the ripple effect of the Euro 2012 should generate a slight growth spurt in the short term, the fact remains that the slowdown will be apparent throughout the year. Foreign trade, and particularly the very export-oriented manufacturing and food-processing sectors will continue to be affected by the recession forecast in the eurozone. Despite the expected increase in social spending before the legislative elections in October 2012, domestic demand will suffer from the government's fiscal consolidation measures. Therefore, the contraction in overall expenditure, coupled with the inevitable adjustment in gas prices after the elections, will affect the purchasing power of households. In addition, the easing of monetary policy earlier this year will not suffice to revive bank lending, still affected by European banks scaling back operations in Ukraine.

The likelihood of this scenario depends nonetheless on the signing of a new agreement with the IMF and a new agreement with Russia covering a reduction in the price of imported gas. If these conditions were not to be fulfilled, the impact of these risks on the balance of payments could result in a severe shock to the current account balance with serious consequences in terms of economic activity.

A very fragile financial situation

The external accounts and public finances are subject to the same weaknesses as those experienced before the 2009 crisis. The slowdown in exports, flourishing domestic demand and soaring imported gas prices, all contributed to the widening of the current account deficit in 2011. At the same time, delays in implementing structural reforms, such as the removal of gas price subsidies, has slowed the reduction of the large public deficit inherited from the 2009 crisis. As the financing of these twin deficits is being obtained mainly from non-residents, the increased scarcity of foreign capital inflows, following the withdrawal of the IMF in November 2011, has seriously undermined the balance of payments. As a result of pressure on the hryvnia, the Central Bank has had to draw hugely on its reserves (representing only four months of imports) in order to maintain its peg against the dollar. In 2012, the situation will be even more critical as the Ukraine is facing significant maturities on its private and public debts. In a context of limited access to the financial markets, easing pressure on the external accounts will be through a new agreement with the IMF, which will result in the implementation by the government of the changes in the gas subsidies which the IMF deems to be a prerequisite to any renewed cooperation. However, the advent of such a scenario seems unlikely before the October elections, which increases the risk of devaluation in the short term. This would then have major repercussions in terms of sovereign and banking risks. Half of the public debt, which grew further in value in 2011, is denominated in foreign currencies, while the banking sector, which holds massive non-resident dollar debts, is particularly exposed to currency risk.

The ability of the government to reform is in question

In political terms, the short-term risk lies in the ability of the government to implement structural reforms, upon which the return of the IMF is conditional, while Viktor Yanukovych's Party of Regions has suffered a serious fall in popularity. The continued detention of Yulia Tymoshenko and the desire on the part of the President to strengthen the country's ties with Russia is leading to growing discontent in the western half of the country, where the majority supports closer links with the European Union. In this context, the most likely scenario remains that of reforms to the subsidies after the legislative elections. Nevertheless, the victory of the PoR in October 2012 is by no means assured by this delay. If there is a change in the majority in the lower house, the re-emergence of an institutional impasse between the president and the government could result in a return to political instability, which was essentially the reason hampering the required structural reforms in the aftermath of the 2009 crisis.

Moreover, the business climate remains a recurrent weakness: the regulatory framework is very unstable and companies are opaque. Furthermore, the vulnerability of the latter to shocks is also considerable, maintaining the credit risk is at a high level.

Strengths

- Strategic position between Russia and the European Union
- Substantial agricultural potential
- Low-cost skilled labour

Weaknesses

- Poor economic diversification and dependence on the prices of metal and imported gas
- Over-indebtedness of the private sector
- Political instability making it difficult to apply a consistent economic policy
- Banking sector still weak
- Persistent shortcomings in the business environment

UNITED KINGDOM

Coface Assessments

Country risk	A3
Business climate	A1

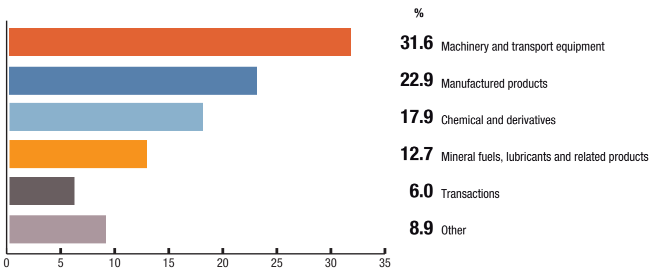
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4.4	1.8	0.9	0.2
Inflation (yearly average) (%)	2.2	3.3	4.5	3.0
Budget balance (% GDP)	-11.7	-9.5	-8.6	-7.8
Current account balance (% GDP)	-1.7	-3.3	-1.9	-1.7
Public debt (% GDP)	69.6	79.6	85.5	90.5

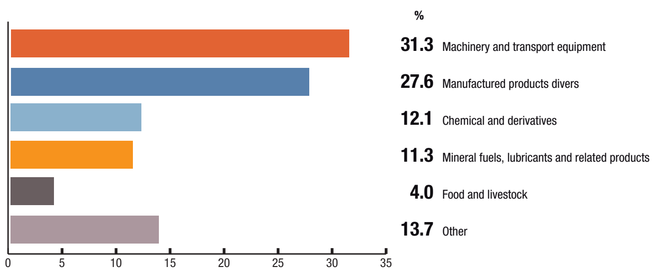
(e): estimate (f): forecast

Trade exchanges

Exportations 28 % du PIB



Importations 30 % du PIB



Risk assessment

Weak contribution of household consumption to growth in 2012

Economic activity contracted again in the first quarter of 2012 (-0.3% q/q), leading the country into a technical recession: the increase in household consumption, business investment and government spending did not offset the negative contributions from the external balance and stocks. The second quarter growth could shrink again, particularly due to the public holidays granted for the Queen's Diamond Jubilee but rise slightly in the third quarter as a result of the Olympic Games. For the full year, growth has been revised downward from 0.4% to 0.2%. British household confidence has failed to recover with several factors continuing to feed the general gloom: shrinking wages, worsening unemployment (8.2% in April), reduction in public transfers, heavy debt burden (161% of real disposable income-DI-), reduction of net wealth, credit conditions still deteriorating, maintenance of the savings level around 7% of DI, intensification of the eurozone crisis. But inflationary pressures, after reaching a peak of 5.2% in September 2011, have dissipated with a rate of 3.2% on average since January. This should mitigate the contraction in household spending (64% of GDP) this year, particularly since the Bank of England (BoE) is continuing its expansionary monetary policy (maintaining a low key interest rate and probably extending –in July- the 325 billion pounds quantitative easing which ended in May). The property sector has temporarily recovered due to the Right to Buy programme targeting first-time buyers. But it should remain depressed throughout the year, with housing projects not taking off. The country could even find itself in a housing shortage situation. Eager to overcome these difficulties, the coalition government could guarantee certain loans to finance the construction of new housing and infrastructure. This recession and the lower tax revenues derived from it may make fiscal consolidation more problematic and strengthen austerity measures.

Company investment continues to slowdown

The sluggishness of their domestic market and regional uncertainties are reflected in the manufacturing sector's confidence index, significantly down since April. Companies continue to be cautious, which should cause them to slow their production (-0.6% to April over three months YoY) and investment. The latter should therefore contract in 2012 and contribute negatively to growth. Exports of goods are affected by the slowdown in demand from the EU, the main trading partner (54% of the total), despite the favourable sterling exchange rate, which in June was 20% below its mid-2007 level. This deterioration is not offset by sales to countries outside the European Union, where the UK has nonetheless slightly improved its position. Imports should also be affected by the caution of households and businesses, thus limiting the widening of the trade deficit. Foreign trade is expected to affect growth or, at best, make a neutral contribution.

Bank lending depressed and bankruptcies rising

The British banking sector is weakened on the one hand by its considerable exposure ($1000 billion) to euro zone public and private counterparties and, on the other, by its commitments to the property sector. The banks' efforts to reduce their debt led to substantial restrictions on the supply of credit, particularly to SMEs with bank lending to companies dropping by 20% compared to the peak in October 2008. This factor is a downside risk for activity in the coming months. That is why the BoE plans, with the UK Treasury, to introduce a programme of long-term loans (80 billion pounds) to banks at preferential rates subject to the commitment of the latter to offer financing at a lower cost to the real economy. Large companies are less affected as they have a high self-financing rate (160%) and access to the bond markets. Company bankruptcies have increased by 7% during the twelve months to April. Bankruptcies are particularly affecting small businesses in the construction, furniture, automotive suppliers and distributors industries, with the latter being vulnerable when rent is due on their premises at the start of the quarter (*Rent quarter day*). In this context, the Coface payment incident index trend could start to rise again.

Strengths ↗

- Bank of England's flexible monetary policy
- Hydrocarbon production meeting three quarters of energy needs
- Rebalancing of the economic model in favour of industry
- 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↗**

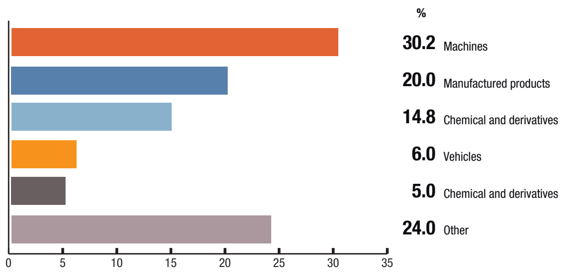
Business climate **A1**

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	3.2	1.9
Budget balance (% GDP)	-10.2	-8.9	-8.7	-7.8
Current account balance (% GDP)	-2.7	-3.2	-3.2	-3.2
Public debt (% GDP)	85.8	95.2	101.0	105.6

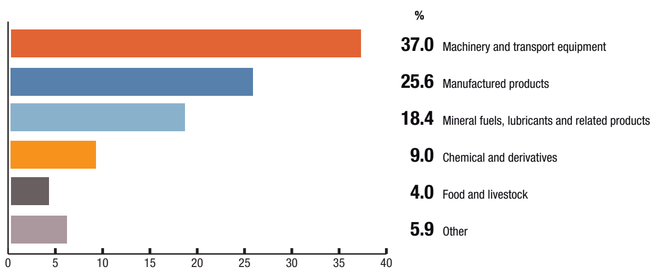
(e): estimate (f): forecast

Trade exchanges

Exportations **11 %** du PIB



Importations **14 %** du PIB



Risk assessment

Households adopt a cautious approach in the face of economic and political uncertainties

After a particularly strong fourth quarter in 2011 growth in the first quarter of 2012 rose slightly by 0.5% (q/q), driven by household consumption and corporate investment. Data available for the second quarter suggest a slowdown in the economy, particularly a deceleration in household spending. Several factors contribute to this trend. Firstly, job creations, which had regained some strength since autumn 2011, have significantly dipped. A 165,000 new job average per month were created over the five months to May 2011, while 100,000 per month are needed just to absorb new arrivals on the market. Unemployment remains high, at around 8.2% (15% taking into account employees in insecure employment). Secondly, the net wealth of Americans is still below the pre-crisis level, while disposable income has not risen significantly. Lastly, while credit remains low, household continue to deleverage (118% of disposable income in the third quarter of 2011 compared to 137% in 2007) and to maintain the level of savings at around 3%. However, other factors should provide breathing space for consumption, such as the fall in petrol prices and inflation or slowdown in falling property prices. Activity in the property sector remains sluggish, but housing stocks are trending downwards. Households are therefore reverting to cautious behaviour, particularly since uncertainties remain on the renewal, beyond December 2012, of the payroll cost reduction and of the unemployment benefits duration prolongation. The adjustment of public finances after the November presidential election is an additional concern that is already affecting consumer confidence.

Against this backdrop, the Federal Reserve is continuing its accommodative policy: the unconventional Operation Twist measure of $400 billion launched in September 2011 was increased by $267 billion. This should encourage borrowing by maintaining attractive mortgage rates.

Slowdown in corporate investment and exports

Companies, whose confidence is crumbling, are also cautious and have slowed down their productive investment (equipment and software) since December 2011. Nevertheless, with an increase of about 6% expected in 2012, corporate investment will contribute positively to growth. Exports which were an essential driver of activity in 2011do not achieve the same performances. They are expected to slow down in line with, on one hand, the deceleration of external demand and, on the other hand, the appreciation of the green back. The expected recession in the eurozone affects American exports (15% of the total) directly but also indirectly via American companies operating in Asia. The negative effects also come from Japan (5% of foreign sales) where the recovery is weak. 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.

SMEs have better access to credit

The FDIC (Federal Deposit Insurance Corp.) declared 157 banks bankrupt in 2010, 92 in 2011 and 31 in June 2012. Gradually, the banking sector's financial strength has returned: better capitalisation, improved quality of loans. However, vulnerabilities remain among regional banks when they hold more than 10% of property assets in their portfolio. Moreover, with direct exposure to public and private counterparties in the eurozone for $720 billion in December 2011, and indirectly through its exposure to British debt ($577 billion), the sector is likely to be affected by the sovereign debt crisis intensification in the monetary union. For their part, SMEs, which do not use, as large companies do, the bond market, have benefited from competition between banks to obtain loans. These loans, when under $100,000, have risen sharply over twelve months to April 2012, with falling interest rates compared to those practised after the crisis. Overall, companies have little debt and are posting record rates of profit (over 10% of GDP), which are strengths in a weak macroeconomic context. Bankruptcies continued to fall in the first quarter of 2012 (-12% compared to the same period of 2011), but their number remains higher than that of 2007. Coface payment incident index is satisfactory.

Strengths ↗

- Flexible employment market
- Full employment, Federal Reserve objective
- Predominant role of the dollar in the global economy
- Nearly 70% of national debt held by residents
- Cheap energy supplies (shale gas and investment in energy infrastructures)

Weaknesses ↘

- Weaknesses
- High proportion of structural unemployment
- Households have little geographic flexibility
- High household debt (146% of disposable income)
- Budgetary support handicapped by political tensions
- Dilapidated state of much infrastructure

UZBEKISTAN

Coface Assessments

Country risk **D**

Business climate **D**

Medium term

HIGH RISK

Main Economic Indicators

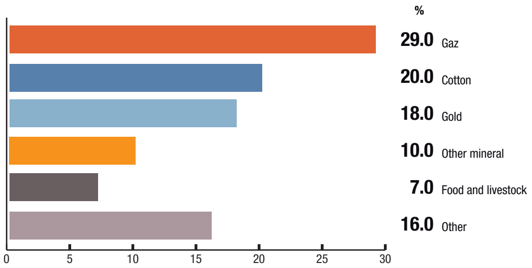
	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	8.1	8.5	8.3	7.0
Inflation (yearly average) (%)	14.0	12.1	13.1	12.8
Budget balance (% GDP)*	2.8	4.9	5.4	4.8
Current account balance (% GDP)	2.2	6.7	6.1	5.1
Public debt (% GDP)	11.0	9.9	9.1	8.7

** Including General Government budget and the Reconstruction and Development Fund*

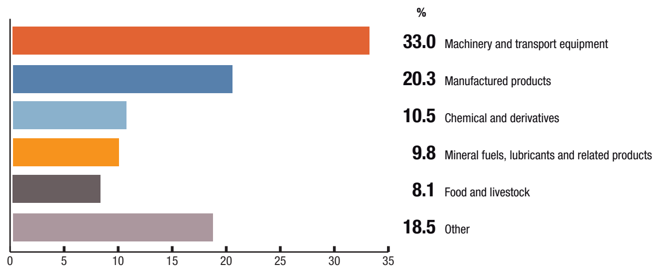
(e): estimate (f): forecast

Trade exchanges

Exportations 36 % du PIB



Importations 36 % du PIB



Risk assessment

Strong growth buoyed by the State

Uzbekistan has shown robust growth in 2011, exceeding the average of the CIS economies, under the combined effect of high prices for commodities and strong domestic demand. In 2012, growth should decelerate slightly. Economic activity will continue to be driven by external demand, notably Russian, Kazakh and Chinese (55% of Uzbek exports), and high gas and gold prices (47% of sales). Consequently, industrial production, particularly mining, is expected to post robust results. With the revenue from foreign trade, the government will pursue a very expansionary fiscal policy. The increase in public sector wages and social spending, combined with continued transfers of expatriate workers to Russia and Kazakhstan, will contribute to the momentum of household consumption. Retail, services, transport and telecommunications sales should therefore continue to perform well. The Central Bank (CBU) will pursue a very accommodative monetary policy, contributing to strong growth in bank lending (over 30% at an annual rate), which will, however, remain essentially targeted towards major state companies, which will contribute to the bulk of investment expenditure. Although no asset or property bubble is apparent at the moment, this rapid credit growth is keeping inflation high, reinforced by higher electricity prices following a reduction in subsidies. The high inflation that prevents any anchoring of expectations, discourages private investment, particularly foreign.

Persistence of foreign exchange restrictions

The State will continue its prudent management of public finances and the sovereign risk will remain contained. The State's consolidated budget- including the Reconstruction and Development Fund (RDF) – will be in surplus in 2012. Moreover, RDF assets – to which export revenues have been allocated since 2006 – represent over 16% of GDP and now exceed the stock of public debt. Uzbekistan also holds substantial foreign exchange reserves accumulated due to current account surpluses, providing the country with comfortable room for manoeuvre regarding liquidity. The soum will depreciate again in 2012 under the effect of the Central Bank's foreign exchange interventions as part of a monetary policy aiming to guarantee the competitiveness of the export sector. However, with the economy remaining strongly dollarized due to exchange restrictions, inflationary pressures forecast for 2012 are likely to strengthen aversion to the national currency in favour of the dollar. The proportion of loans and bank debts in foreign currencies will therefore potentially continue to grow in 2012. This trend, associated with the sharp rise in credit, could result in new risks within the banking system, already weakened by high levels of non-performing loans (despite the very low official figures).

An unstable geopolitical environment

The Uzbek regime is characterised by a high concentration of power around president Islam Karimov, leader of the country since 1989 and re-elected in 2007 for a third seven-year term. Little progress is likely within the regime, unless the health of the 73-year old president deteriorates. The lack of a clear succession strategy is potentially destabilising politically: the government already had to contend with a wave of protests in 2005 so the disappearance of Islam Karimov could engender a new popular uprising in the context of a weakening of power. Furthermore, on the president's request, in 2007, the parliament voted to reduce the presidential term of office from seven to five years. So, a presidential election could take place at the end of the year, although it seems Islam Karimov prefers to wait for the end of his current term of office in 2014 to put the reform into practice. However, if voting should take place, new disturbances in connection with the vote cannot be ruled out. For all these reasons, the scenario of a popular uprising cannot be excluded, as long as poverty, unemployment and restrictions on freedom provide a fertile ground for discontent. Regionally, highly exposed to mafia networks and the ascendancy of radical Islamic movements, mean the country's relations with its neighbours are tense. Persistent interethnic tensions in Kyrgyzstan could destabilise the Fergana Valley, while the construction of a huge dam in Tajikistan is fuelling tensions between Tashkent and Douchanbe. Lastly, the business climate has many shortcomings: regulatory compliance by the administrative authorities is low and corruption is high.

Strengths

- Abundant and diversified natural resources (natural gas, gold, cotton and oil)
- Current account surpluses and substantial foreign exchange reserves
- Ambitious public and private investment programmes

Weaknesses

- Poor economic diversification and dependence on raw materials prices
- High inflation
- Under-developed banking sector
- State interventionism and difficult business environment

VIETNAM

Coface Assessments

Country risk	C
Business climate	C

Medium term
RATHER HIGH RISK

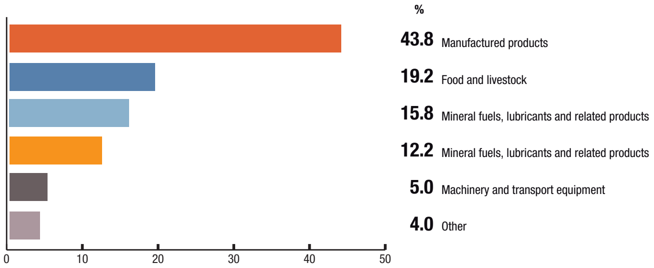
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	5.3	6.8	5.9	5.6
Inflation (yearly average) (%)	6.7	9.2	18.7	12.6
Budget balance (% GDP)	-7.2	-5.2	-2.7	-3.7
Current account balance (% GDP)	-6,8	-4,0	0,2	-1.5
Public debt (% GDP)	51.2	54.23	48.3	48.2

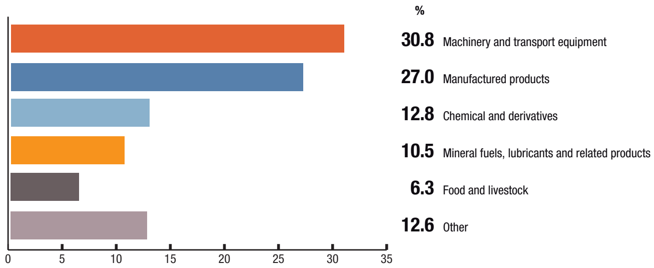
(e): estimate (f): forecast

Trade exchanges

Exportations 68 % du PIB



Importations 70 % du PIB



Risk assessment

Slowdown in growth in 2012

Growth slowed down in 2011 due to deceleration in domestic demand linked to the implementation of Resolution 11, a set of measures aiming to re-establish macroeconomic stability and slowdown credit growth. The impact of these measures was also substantial at the start of 2012: slowdown in activity in Q1 2012 (4%), fall in inflation (8.4% in May 2012 after peaking at 23% in August 2011), and a credit contraction. Industrial production and particularly the construction, mining and retail sales sectors have slowed. Furthermore, the number of bankruptcies rose by 6% in Q1 2012. In this context, the authorities have implemented a rapid easing of monetary policy. Therefore, between March and June 2012, the refinancing rate was cut four times, by 400 basis points in total. Furthermore, budget stimulus measures under Resolution 13 have been announced.

Due to this expansionist policy mix buoying domestic demand, the slowdown in growth should be contained. Private consumption will benefit from the fall in inflation. The FDI influx is expected to progress in line with the trend inducing Asian companies to relocate production units to Vietnam. The export sectors (textiles, shoes, electronics, tourism) are expected to perform well due to the dynamism of emerging Asia (which captures 21% of Vietnam's exports) while the primary sector – which accounts for 74% of rural employment – is expected to make a strong recovery due to the expected better climatic conditions. Nevertheless, risks will remain, not only in the event of a worsening of the eurozone crisis but also on the domestic front. In fact, a continuation of the aggressive easing of monetary policy could affect the confidence of economic agents and destabilise the anchoring of expectations. An inflationary cycle and mistrust with regard to the dong could then affect the country again.

High public debt and lack of transparency

With regard to public finances, the budget deficit could widen in 2012 due to the introduction of stimulus measures. The process of reducing public debt could slow down. Therefore, sovereign risk will remain high. Besides the lack of transparency in public accounts, public debt remains highly vulnerable to exchange rate risk because over 60% is denominated in foreign currencies. Furthermore, the sustainability of public debt could suffer from implicit commitments to big businesses and public banks if defaults by these multiply.

Stabilisation of the dong after successive devaluations

In 2011, despite the modest current account surplus, downward pressures on the dong remained significant due to substantial capital flights ($3.6 billion). Residents converted their portfolios into gold or dollars. On the informal market the dong was exchanged against the dollar at a considerable discount, forcing the authorities to devalue the dong six times, the last devaluation by 8.5% in February 2011 being the most significant.

In 2012, the current account deficit could widen due to the upturn in imports but will be mostly covered by FDI, which should exceed $7 billion. Moreover, capital flights should fall (1.4 billion in 2012 compared to 20.6 billion between 2009 and 2011) due to capital controls aiming to limit the possibility of speculative attacks, restrictions on gold imports and continuation of the carry trade due to the significant interest rate differential. The difference between the official exchange rate and the exchange rate on the black market should therefore be greatly reduced. However, the level of reserves will remain extremely low, less than two months' imports, giving the country little resistance to sudden capital flight.

Banking system weak because poorly capitalised and highly dollarised

The banks are very vulnerable to exchange rate risk because of their high dollarisation. Credit has grown strongly from 48% of GDP in 2003 to 125% in 2011. Furthermore, risk exposure remains high due to weak capitalisation, the rise of non-performing loans and lack of transparency and supervision. Finally, the high exposure of public banks to state-owned companies with little transparency is an additional weakness factor.

Persistent business environment shortcomings

The Communist Party continues to exercise total control over political, economic and social life in Vietnam. Nevertheless, problems of governance and especially corruption remain the country's Achilles' heel and stoke credit risk on companies, as witnessed by the partial default of the state-owned Vinashin shipyard group.

Strengths ↗

- Skilled, low-cost workforce
- Strong agricultural and natural resources potential
- Development strategy based on economic openness and diversification

Weaknesses ↘

- Country's specialisation too concentrated on competitiveness of low value-added products
- Persistent business environment shortcomings
- Lack of infrastructure
- Unfinished public sector reform
- Widening inequalities
- Weak banking system

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?

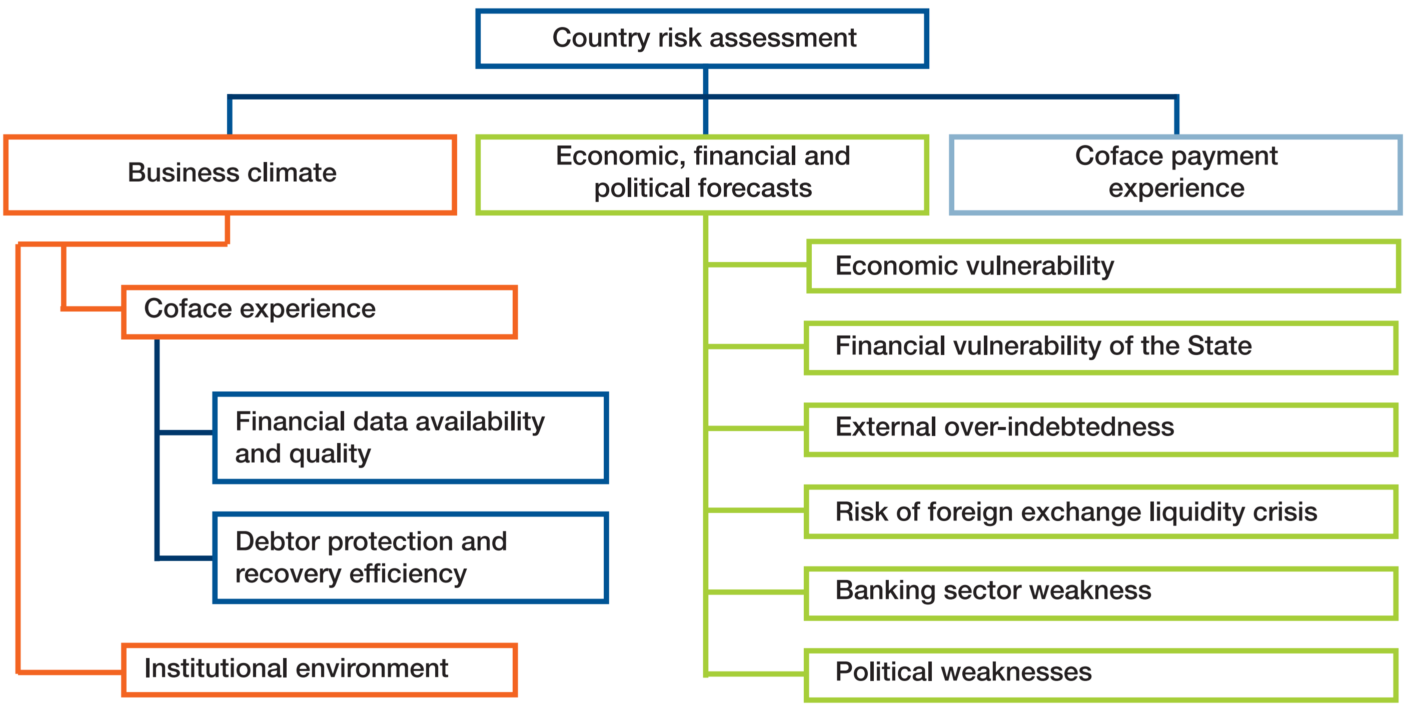
Assessments are based on threefold expertise developed by Coface:

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 Online services/country risks and economic surveys)*