

Coface country @ratings for the 3rd quarter of 2006

Paris - Coface is lifting the negative watch under which Italian companies (A2) had been placed. It has upgraded Slovenia's rating from A2 to A1, and Morocco's and Tunisia's (A4) are now placed on positive watchlist.

Coface has also announced a slight improvement in its world country risk index.

Country @rating trends

(see appendix II "Country @ratings methodology")

ITALY: A slightly brighter period for the economy, improving company solvency levels.
Rating A2.

The second half of 2006 should confirm the moderate recovery seen in the first half, in view of the good economic environment, an increasing diversification of the economy and a satisfactory business climate. Exports in particular are being boosted by the more buoyant European economy, despite the fact that they are still hampered by the competition offered by emerging countries and their lack of price competitiveness. Household consumption has shown timid growth, but the expected return of confidence linked to the more open political horizon, together with the generous salary agreements now in place, should speed things up more.

Reinforced by this slightly brighter economic situation, the Coface payment incident index has returned to the levels seen before the steep decline of 2004. The frequency of payment incidents, however, is still well above the world average. The weakest sectors are leather, textiles, electronics (manufacturing, assembly and distribution), household electrical appliances, and the manufacture of metal parts and tubes.

Growth could see a slight fall-off in 2007. Despite a drop in unemployment, household spending will slow a little, in view of the budget squeeze required to offset the major deterioration in the public accounts. Exports should yet see moderate growth, thanks to enhanced competitiveness.

SLOVENIA: Good management of the economy and a solid financial situation are now bearing fruit

Rating upgraded from A2 to A1

Slovenia is enjoying regular economic growth of around 4% per year and domestic demand is dynamic. Household consumption in particular is being stimulated by the increase in both actual salaries and credit. Exports of goods and services remain relatively buoyant (cars, transport, tourism) and are helping to contain the imbalances in external accounts.

The country has been authorised to adopt the Euro as of 1 January 2007, thanks to good control of its inflation and cautious management of its public finances. It has a high level of development, which essentially reflects the solid links forged over many years between local

firms and companies in Western Europe. The exchange of merchandise and the transfer of technology have made numerous Slovene companies very competitive on an international scale. In this context, company solvency remains fair overall and the Coface payment incident index is still significantly below the world average.

Compared with the strengths of this economy, the weak points are relatively few and far between:

- strong dependence on the international economic situation,
- relative weakness of direct foreign investments net flows, thereby boosting the level of foreign debt,
- the privatisation scheme is lagging behind schedule, job market flexibility is progressing too slowly and public expenditure is still not properly allocated

MOROCCO: Favourable growth and diversification seen in its economic activities

Rating A4, on positive watchlist.

Growth should reach 3% in 2006, mainly due to agriculture, services and public works. The textile sector is recovering and the tourist industry is performing well. The regular production of non-agricultural GDP highlights the increasing independence of the GDP in relation to rainfall levels. This economic environment is reflected in the Coface payment incident index, which, having shown a decline, has stabilised at a level close to the world average. The vigorous growth in public and private investments, aimed at diversifying the economic fabric and attracting activities with strong added value, should bolster trading volumes in 2007 and beyond. This favourable economic climate should facilitate a recovery in the public finances. In spite of the shocks suffered in 2005 to the trade balance, the country's current account showed a surplus of 1.9% of the GDP, reflecting the positive balance generated by expatriate remittances and the tourist industry. This surplus should be maintained in 2006 and 2007, and will help moderate foreign financing requirements and therefore further reduce the weight of the foreign debt (the servicing of which will absorb less than 10% of currency revenues in 2006).

TUNISIA: Sustained growth in 2006 and an improvement in company payment behaviour

A4 rating, on positive watchlist.

Underpinned by the services and agricultural sectors, growth should be over 5% in 2006. It could be maintained at this level in 2007, thanks to domestic demand, which will remain dynamic. Private consumption and investment are in fact being boosted by the efforts made in the public sector to develop infrastructures, together with those made by companies to modernise their production plant.

The buoyant economic environment is facilitating management of the public finances, whose deficit should remain below 3% of the GDP, thereby reducing the weight of the public debt. Moreover, in 2005, the reduction of the trade deficit, brought about by the increase in exports and the healthy invisibles balance, brought the current account deficit down to 0.6% of the GDP. Maintaining the deficit at this level in 2006 and 2007 should help reduce foreign financing requirements, and bring the servicing of the debt down to 9% of exports.

As the economic slowdown seen in 2005 did not impact company solvency levels, the Coface payment incident index has gradually returned to the world average level. The financial situation of companies has in fact improved, despite the fierce competition faced by the textile sector.

General overview of the Country risk and Coface's forecasts

The world country risk* index has shown a slight improvement (+1.2%), thanks to a reduction in the risks in the European Union (-5.5%). More sustained growth and better company solvency levels have brought about the changes to the ratings described above.

Positive points

The first nine months of the year have once again been marked by strong pressure on company margins, notably as a result of high prices raw materials prices (in spite of the recent fall in oil prices), the rise in interest rates and the persistently fierce competition. There has nevertheless not been any significant deterioration in payments or in company solvency levels, owing to two factors.

⇒ A favourable macro-economic environment due to world demand, which has remained sustained.

⇒ Micro-economic adjustments made by companies over the last few years. The gains in productivity, sometimes resulting from major restructuring operations (such as in Japan or in Germany), have enabled high production costs to be offset.

Causes for concern

The financial turbulence seen in the spring served as a reminder that imbalances in world growth persist and can provoke brutal adjustments likely to impact company payment behaviour. These adjustments could be all the more significant as the recent period has been marked by exuberance in the stock and property markets combined with a strong partiality for emerging country risks.

⇒ In addition to the risks linked to America's current account deficit, the property price trend is a major cause for concern. Significant falls in the United States, the United Kingdom or Spain would provoke a reduction in household consumption, which is the main growth engine in industrialised countries.

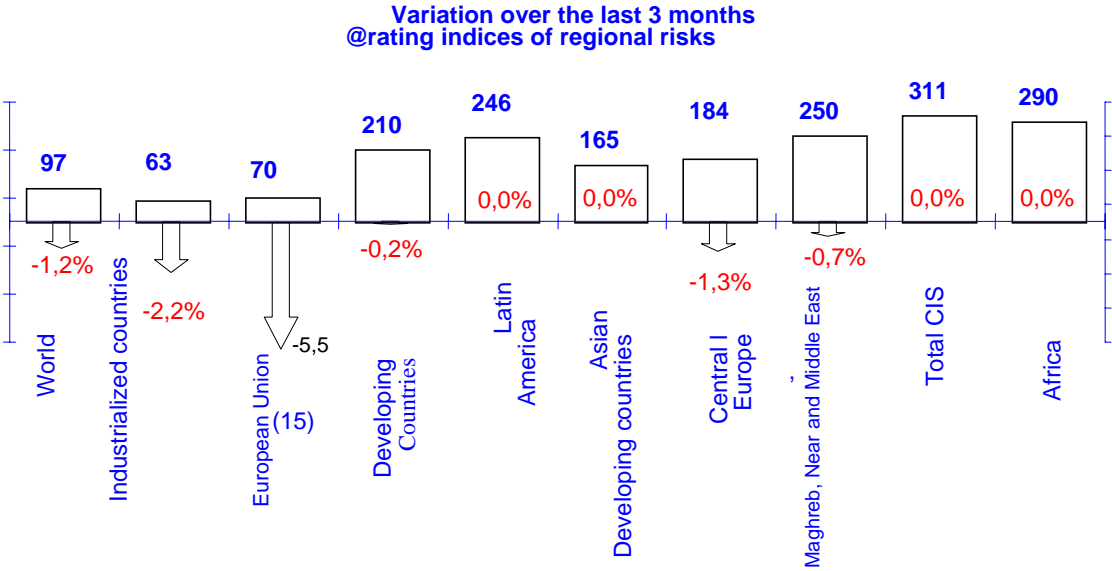
⇒ This sort of slowdown in demand would in turn provoke a significant fall in raw material prices, thereby impacting the solvency levels of the emerging countries dependent on these raw materials.

⇒ A loss of confidence in emerging country risks could provoke a rise in 'spreads' and have a significant negative impact on the currencies most exposed to the currency risk (i.e. the Hungarian forint, the Turkish lira and the South African rand etc). The uncertain political climates (protests in Hungary and a coup d'Etat in Thailand, etc....) serve as a reminder of how fragile these countries are.

⇒ Over-investment and an overheating of the economy in China could also generate a brutal slowdown, which would undoubtedly cause a chain of bankruptcies, as margins are very tight.

* The world country risk index is an average of the country @ratings weighted by the contribution made by each country to world production. The index benchmark is the average world risk level in 2000.

If these risks do not materialise, the most probable hypothesis would be a soft landing in the growth currently enjoyed by the industrialised countries, including the United States, where overall company profitability remains fairly high. Moreover, the emerging countries, whose financial situation has improved, today seem to be in a better position to resist the shocks caused by growth. On this point, see appendix I: “Principal growth forecasts”.



base 100: world@rating risk in 2000

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Founded in 1946, Coface, rated AA by Fitch, AA- by Standard & Poor’s and Aa3 by Moody’s, is a subsidiary of Natexis Banques Populaires and Groupe Banque Populaire whose share capital (Tier 1) was 14.63 billion euros at end 2005. Coface’s mission is to facilitate global business-to-business trade by offering its clients four product lines to fully or partly outsource trade relationship management and to finance and protect their receivables: credit insurance, company information and ratings, receivables management and factoring. Coface also offers three other business lines: guarantee insurance, receivables management training, and, in France, management of government export guarantees. Coface operates a quality local service for its 85,000 clients thanks to its 4,850 staff in 60 countries where Coface has a direct presence. This local service also covers in 93 countries via partners in the CreditAlliance worldwide network, organised around an integrated credit risk management tool, the Common Risk System.

APPENDIX I

PRINCIPAL GROWTH FORECASTS

COFACE	2002	2003	2004	2005	2006	2007
World production	2.0	2.8	4.1	3.6	4.0	3.7
Industrialised countries	1.3	1.9	3.1	2.5	2.9	2.3
United States	1.9	3	4.4	3.5	3.4	2.7
Japan	-0.3	1.4	2.6	2.7	2.5	2.2
European Union 15	1.1	0.9	2.1	1.5	2.5	2.0
Germany	0.1	-0.1	1	1.1	2.1	1.2
United Kingdom	1.8	2.2	3.1	1.9	2.7	2.5
France	1.1	0.5	2.2	1.2	2.2	1.9
Italy	0.4	0.4	1.1	0.1	1.6	1.3
Emerging countries	4.3	5.5	7.0	6.3	6.5	6.3
Emerging Asia	6.4	7.0	7.8	7.5	7.7	7.4
Latin America	0.3	1.8	5.7	4.2	4.6	4.0
Central Europe	3.0	4.1	5.5	4.5	5.5	5.1
CIS	5.2	7.6	7.9	6.6	6.7	6.5
Middle East (including Turkey)	3.6	6.1	7.1	6.1	5.6	6.0
Middle East (without Turkey)	2.8	6.4	5.6	5.7	5.6	5.8
Subsaharan Africa	3.5	4.2	5.1	6.0	5.	7,5
World trade	3.4	5.4	10.6	7.4	8.9	7.6

APPENDIX II

Country @rating methodology

Coface Country @ratings for 154 countries are available and updated regularly via www.cofacerating.com under the country-rating heading. They can be consulted freely.

A Country @rating assigned by Coface reflects the average level of **short-term** non-payment risk associated with companies in a particular country. It reflects the extent to which a country's economic, financial, and political outlook influences financial commitments of local companies. However, those involved in international trade know that sound companies can operate in risky countries and unsound companies in less-risky countries and that overall risk will depend not only on a company's qualities but also on those of the country in which it operates. In assessing overall risk associated with a particular operation, Country @ratings are thus complementary to @rating Credit Opinions on companies.

How ratings are assigned

Ratings are based on twofold expertise developed by Coface:

- ⇒ macroeconomic expertise in assessing country risk based on a battery of macroeconomic indicators
- ⇒ microeconomic expertise that draws on Coface databases covering 44 million companies worldwide and 60 years' experience with payment incidents in trade flows it guarantees.

Country @ratings thus allow continuous monitoring of 151 countries via a battery of indicators. Coface groups the indicators in seven families and rates each one individually.

The seven risk families are:

- Growth vulnerability
- Foreign currency liquidity crisis
- External over indebtedness
- Sovereign financial vulnerability
- Banking sector fragilities
- Political and institutional instability
- Companies' payment behaviour.

Coface determines an overall rating for each of the 154 countries monitored. Like rating agencies, Coface ranks country ratings on seven risk levels:

A1: The steady political and economic environment has positive effects on an already good payment record of companies. Very weak default probability

A2: Default probability is still weak even in the case when one country's political and economic environment or the payment record of companies is not as good as in A1-rated countries.

A3: Adverse political or economic circumstances may lead to a worsening payment record that is already lower than the previous categories, although the probability of a payment default is still low.

A4: An already patchy payment record could be further worsened by a deteriorating political and economic environment. Nevertheless, the probability of a default is still acceptable.

B: An unsteady political and economic environment is likely to affect further an already poor payment record.

C: A very unsteady political and economic environment could deteriorate an already bad payment record.

D: The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.