Country Risk Overview

Spring 2012

coface

Contents

Growth forecasts

Coface	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011e	2012 f
World production	**2,1**	**2,7**	**4,0**	**3,7**	**4,3**	**4,2**	**1,9**	**-1,8**	**4,3**	**3,0**	**2,7**
Advanced countries	**1,4**	**1,8**	**2,9**	**2,4**	**2,8**	**2,4**	**0,0**	**-3,8**	**2,7**	**1,3**	**1,1**
United States	1,8	2,5	3,5	3,1	2,7	1,9	-0,3	-3,5	3,0	1,7	2,0
Japan	0,3	1,4	2,7	1,9	2,0	2,4	-1,2	-5,2	4,0	-0,9	1,8
Eurozone	**1,2**	**0,8**	**2,2**	**1,7**	**3,1**	**2,8**	**0,3**	**-4,1**	**1,8**	**1,5**	**-0,3**
Gemany	0	-0,2	1,2	0,8	3,4	2,7	1,0	-4,7	3,7	3,1	0,7
United Kingdom	2,1	2,8	3,0	2,2	2,8	2,7	0,1	-4,4	1,8	0,9	0,4
France	1,0	1,1	2,5	1,8	2,5	2,3	0,1	-2,7	1,4	1,7	0,3
Italy	0,5	0	1,7	0,9	2,2	1,7	-1,2	-5,2	1,4	0,4	-1,5
Spain	2,7	3,1	3,3	3,6	4,0	3,5	0,9	-3,7	-0,1	0,7	-1,2
Emerging countries	**4,4**	**5,6**	**7,4**	**6,8**	**7,6**	**7,9**	**5,5**	**2,0**	**7,0**	**5,6**	**5,0**
Emerging Asia	6,5	7,1	7,9	8,3	9,2	10,1	6,8	6,2	9,1	7,4	6,8
Latin America	0,6	2,0	5,9	4,5	5,6	5,6	4,2	-1,9	6,2	3,9	3,5
Emerging Europe	4,0	4,6	6,9	6,0	6,6	5,7	3,0	-4,0	4,4	4,8	1,6
Middle east	2,5	6,3	7,4	6,4	5,9	5,2	4,9	1,7	4,0	3,3	3,2
Africa	6,3	6,3	9,7	5,6	6,7	6,8	5,5	2,4	4,9	4,4	4,3
China	9,1	10,0	10,1	11,3	12,7	14,2	9,6	9,2	10,7	9,2	8,0
India	3,8	8,5	7,5	9,5	9,6	9,3	6,7	8,4	8,4	6,9	7,0
Brazil	2,7	1,2	5,7	3,0	4,0	5,7	5,2	-0,6	7,5	2,7	3,2
Russia	4,7	7,3	7,2	6,4	7,4	8,1	5,6	-7,9	4,0	3,7	3,5
World trade	**3,4**	**5,4**	**10,3**	**7,0**	**7,4**	**7,3**	**2,8**	**-10,7**	**14,5**	**5,8**	**4,0**

(e): estimate
(f): forecast

And if Greece were to quit the eurozone?

By Yves Zlotowski and Jean-Louis Daudier
Writing completed 30 March 2012

Greece quitting the eurozone would be disastrous. But this long unthinkable scenario cannot be discounted. Even though its likelihood remains below 50%, policymakers cannot afford to sweep it under the rug considering the severity of the Greek financial and economic crisis and the difficulty of implementing unavoidable reforms. This article draws lessons from the financial crises in Russia (1998) and Argentina (2001/2002) in exploring the likely advantages and disadvantages for Greece of withdrawing from the eurozone. What then would be the risk of propagation to the peripheral countries and the consequences for the eurozone as a whole?

As the year began, the eurozone crisis underwent a remarkable calm spell reflecting the narrowing of sovereign spreads. European institutions can be credited with two major successes. Above all, the ECB, via a massive injection of three-year liquidity made it possible to avert a bank crisis. But the central bank also carried out some "soft" financial repression effective in persuading European banks to become holders of sovereign debt again with LTROs (1) ensuring a return on their investments. Supplementing that measure of monetary policy artistry, PSI (private sector involvement) resulted in an agreement between Greece and private creditors finalised early March 2012. Although this agreement may not be enough since it still leaves Greece very deep in debt, it has in any event shown that concerted action on restructuring is possible within the eurozone. And this is not surprising given the structure of the eurozone debt market: Europeans are mainly in debt to Europeans and this interdependence is, at least in theory, conducive to cooperation. But success is not certain yet since just two years ago even the idea of a eurozone member-state restructuring its debt was considered taboo, even heresy. With private actors having reduced their exposure to Greek debt, it was possible to restructure market debt without causing a major shock.
There is nonetheless still an event that European institutions say they refuse to envisage at this stage: the withdrawal of Greece from the eurozone. Although such a move might produce a growth rebound (limited in all likelihood), an external devaluation would not resolve the immense structural problems facing Greece in terms of either its growth regime or fiscal sustainability. And even if it is considered potentially disastrous for the entire monetary union, a withdrawal by Greece is nonetheless a scenario worth considering.

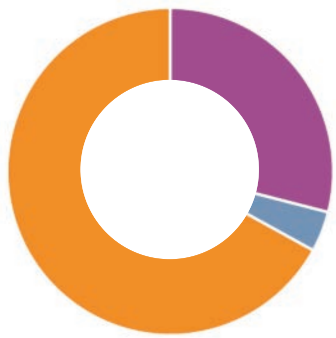
The economic and financial crisis gripping Greece is not over yet

Greece's economic outlook is decidedly gloomy. This will be its fifth consecutive year in recession. The Greek central bank has forecast a 4.5% economic contraction (with Coface expecting down 6%). According to the IMF scenario, the downward spiral will stop in 2013. Not only does that prediction seem unduly optimistic but also the stage is now being set for a very painful year in 2012: According to central bank forecasts, employment will contract 3% with unemployment likely to exceed 19%. And despite the success achieved with PSI, it will hardly suffice to ease sovereign risk down from its current very high levels as public sector debt will still represent 153% of GDP when the process is over end 2012. The external constraint continues to weigh heavily on the country: despite the sharp fall of domestic demand, the current account deficit has only been adjusting very slowly. It still represented over 9% of GDP in 2011 and is expected to remain at 7.5% this year with the country unable to reduce foreign debt below the 180%-of-GDP threshold through 2016 (again according to the main IMF scenario).

Bear in mind, moreover, that the question of reducing Greek indebtedness does not involve the sovereign borrower alone. With its foreign debt representing nearly 60% of GDP, the private sector is also highly indebted to non-residents. Even though European banks have reduced their exposure to overall Greek risk (2), Greek companies owed some $70 billion at end September 2011.

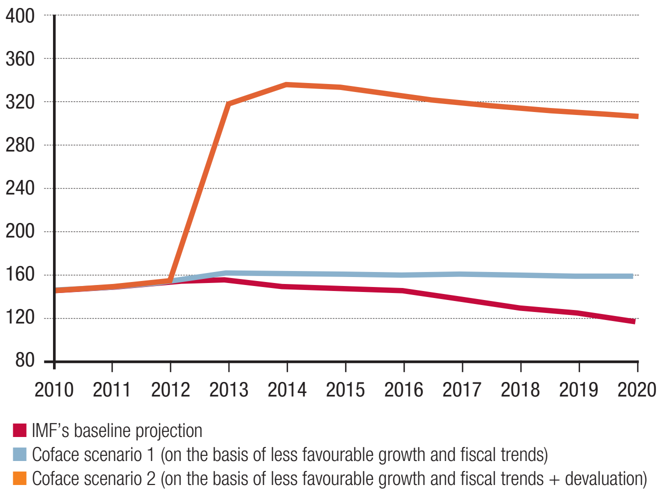
According to data compiled by the Credit Reform Unit (3) comparing insolvency trends in Europe, in 2011 the Greek private sector suffered the most by far from bankruptcies, up 27%, a far greater increase than those recorded in Spain, up 19%, or in Italy and Portugal (17%), the next three EU countries, after Greece, affected most on this score.

Exposure of European banks to Greek entity debt ($ bn)
(BRI data end of Sept. 2011)



In any case, Greek sovereign risk remains very high

General government debt
(% of GDP)



(1) Longer Term Refinancing Operations.
(2) The exposure was reduced by 18% in value terms between end 2010 and September 2011 according to the International Settlement Bank.
(3) Insolvencies in Europe, a survey by the Credit Reform Research Unit, 2011/12.

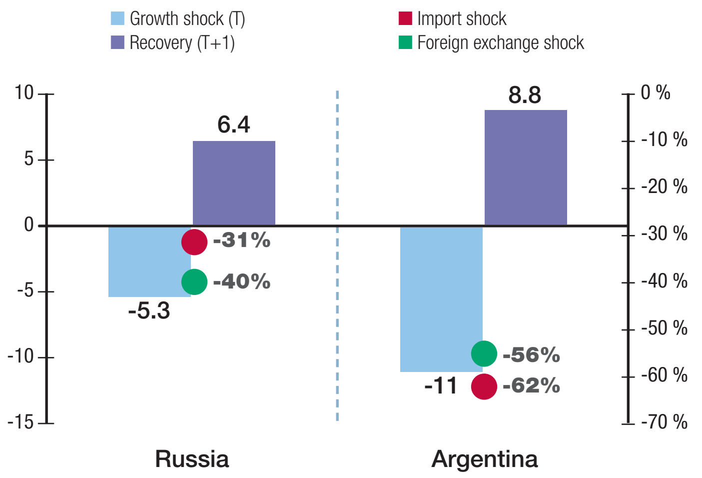
With public and private external debt still substantial, a decision by Greece to withdraw from the eurozone would result in default on sovereign debt and on debt held by private entities. According to our calculations, a 50%-devaluation coupled with a scenario of relatively speedy resumption of albeit modest economic growth, public sector debt would peak at 330% of GDP in 2014! However, in a scenario with no devaluation – that is, with Greece remaining in the monetary union – but with hypotheses somewhat more pessimistic than those advanced by the IMF [4], public debt would level off at 160% of GDP. This means that with no devaluation, and even supposing reasonable fiscal efforts and a limited economic recovery, the stock of Greek public debt would still be very high and remain in a range considered dangerous. The probability of default on sovereign debt is considered very high when the ratio of the debt to GDP exceeds 100%. In short, by remaining in the eurozone, there is some risk that a greater amount of debt would be wiped out than that achieved via PSI. Here again, two scenarios are possible: It can be agreed in concert with public creditors. Or if the creditors are slow to accept a second restructuring, the second "credit event" could then be based on a unilateral decision.

What relevant lessons can be drawn from the crises suffered by Argentina and Russia?

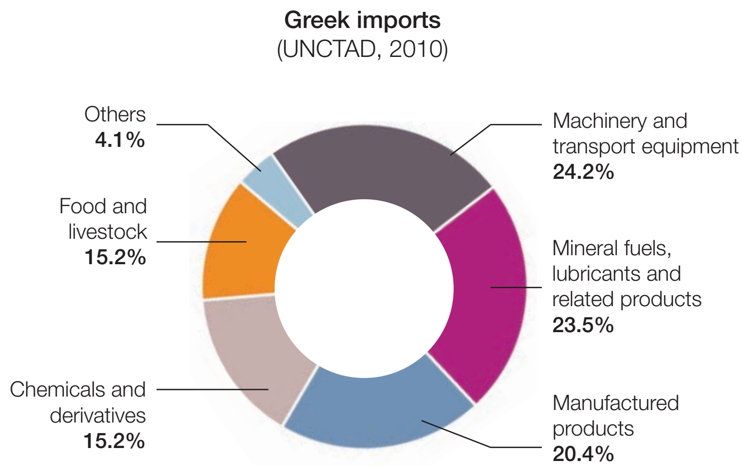
Consider for an instant the examples of the major emerging financial crises that marked the late 1990s. Two large countries combined sovereign defaults with devaluations, Russia in 1998 and Argentina late 2001 early 2002. Bear in mind that Russia's rouble peg and Argentina's currency board[5] had been considered major achievements by the two countries in terms of macroeconomic stabilisation (mainly by enabling a reduction of inflation). As a result, authorities have long considered even the possibility of devaluation as an aberration.

A key argument for maintaining the rouble peg before 1998 was that devaluation would not benefit Russia since it is above all an exporter of hydrocarbons. Demand for raw materials is inelastic in relation to exchange rates and prices are determined outside Russia in international markets. It was thus believed that devaluation would only have a marginal effect on exports [6]. This line of reasoning neglected the other component of the current account: imports.

The chart above shows some macro-financial data reflecting the shock of the financial crisis and the period immediately thereafter: the GDP recovery was substantial and it came a year after the shock: in 2003 for Argentina and 1999 for Russia. Along with devaluation of the peso and the rouble – respectively 40% and 60% – based for our purposes here on the real effective exchange rate over a period of one year for Argentina and two years for Russia [7], there was a marked decline in imports of goods and services, down 60% for Argentina and 30% for Russia in two years. Devaluation thus gave rise to a phenomenon of substitution of national production for imports with foreign products becoming less price-competitive. In Russia, the nominal rouble peg had caused a real appreciation of the Russian rouble resulting in an eviction effect that virtually wiped out the market for Russian consumer products (moreover not very competitive in quality terms). Consumer demand switched massively to imported goods. After August 1998, Russian food products reappeared in shops with their prices having become reasonable again. Argentina and Russia subsequently enjoyed strong growth that owed little to the effects of devaluation: the two countries benefited from the rise in prices – for oil in Russia's case and soybeans for Argentina – which made it possible to sustain the boost derived from devaluation. It is patently clear that devaluation can in no way resolve the problems of a more structural nature (low value-added sectors), which have limited Greece's economic potential. It would moreover ultimately have major negative consequences.



Source IIF



(4) GDP growth of 1% on average between 2013 and 2020 compared to 2.3% in the IMF scenario. And a primary fiscal surplus representing 2% of GDP compared to 4.1% according to the IMF. The sustainable debt scenario is presented in Greece: Request for Extended Arrangement Under the Extended Fund facility, 9 March 2012, IMF Country Report 12/57.

(5) A currency board (CB) is a system under which the exchange rate with a benchmark currency is a fixed parity and whose monetary base only varies in proportion to capital inflows and outflows. There are no other possibilities for money creation by the CB other than through mechanical interventions by the currency board in the foreign exchange market to defend the parity in reaction to capital inflows and outflows. Under such a system, the CB replaces the central bank.

(6) The same line of reasoning was adopted for Argentina whose exports are traditionally dominated by farm products (50% of sales abroad in 2000).

(7) From peak to trough, the peso depreciated 73% against the dollar from December 2001 to October 2002 and the rouble depreciated 74% against the dollar from August 1998 to August 1999.

Besides making it virtually impossible to settle foreign currency debt, a withdrawal from the eurozone would give rise to imported inflation, flight of bank deposits, and thus bank failures and discontinuation of financing from abroad.

Withdrawal from the eurozone: some near-term growth

Agriculture continues to play an appreciable role in the Greek economy. It represents 3% of GDP and employs between 12% and 14% of the working population. The main crops are tobacco (leading European producer) and cotton (world's fifth largest exporter). Greece also boasts a large sheep population and a fish industry. But since the country's admission to the EU, agri-food trade has been in deficit due mainly to the weakness of an animal production sector unable to compete with European products. Thanks to diversification, industry, representing about 20% of GDP, has replaced agriculture as Greece's second source of revenue after services. The main industrial sectors include electronics, transport equipment, clothing, and construction. Greece is the global shipping-industry leader. The tertiary sector represents nearly three-quarters of GDP and employs two-thirds of the working population. In short, besides tourism, the sectors that could benefit from devaluation include transport equipment, clothing, confection, electronics, and above all the agri-food. Thanks to the exchange-rate shock, Greek consumers would likely come back to local agri-food production that had once been competitive on prices. Bear in mind that in Argentina's case, devaluation also created opportunities: discontinuation of the currency board led to the flourishing of small family businesses in ready-to-wear (clothing, shoes, fine leather goods) even small light industries. Devaluation thus serves as a catalyst to new enterprises.

But devaluation is not a panacea and in any event cannot resolve the structural problems with which Greece must cope and which are moreover ultimately responsible for the financial crisis. Greece has in common with Russia of 1998 and Argentina of 2001, a major failure in the collection of taxes (8), which is moreover a priority of the current monitored conditionality in the agreement between Greece and the IMF. But devaluation does not necessarily mean completely giving up on reforms. In Russia's case, Vladimir Putin's administration undertook in 2001 tax reform that was mainly responsible for the establishment of effective tax collection. Bear in mind that the consolidation of Russian public sector finances accomplished between 2001 and 2008 cannot be attributed solely to the rise of oil prices. Far-reaching institutional reform – an overhaul of the Russian tax code and improvement in tax collection effectiveness via consolidation of the administrative system – underlies the spectacular improvement in Russian sovereign risk.
A withdrawal by Greece from the eurozone would, as stated above, trigger a massive default by residents holding euro-denominated debt. It would leave the country de facto debt-free. The tax collection question would remain posed as it is today. But resolving it would be crucial in establishing fiscal sustainability in the medium term. And that calls into question the very role of the government as an institution capable of imposing financial rules and discipline on economic agents. Devaluation only enables a speedier resumption of growth, but cannot alone determine the Greek government's commitment to reform.

The unilateral default/devaluation diptych — in a context of European institutions very preoccupied with fiscal discipline — is taken as a "free lunch" and could give rise to moral hazard: if the debt no longer needs to be repaid and the country no longer belongs to the eurozone, is it still necessary to endure painful fiscal discipline? In responding to this legitimate question it is necessary to underscore the tragic failure of eurozone institutions for many long years to impose discipline as regards indebtedness, not only on Greece but also on many other member countries. It can also be argued that debt restructuring and currency devaluation are not incompatible with painful structural reforms. By eliminating the debt repayment constraint and enabling the economy to achieve some growth, they facilitate implementing the reforms and somewhat reduce cost of doing so. That is precisely the logic underlying the HIPC and MDRI programmes reserved for poor highly indebted countries. The international community grants debt cancellation in the very framework of oversight conducted by the IMF, which remains strict on the goal of ensuring future fiscal sustainability.
In short, a withdrawal from the eurozone can in itself provide an opportunity for a positive "electro-shock" (by creating conditions ripe for undertaking vast structural reforms) or on the contrary it can be the way to escape from the constraint of reforms perceived as being imposed by the Troika. But there is, however, a risk that keeping Greece in the eurozone and imposing austerity rules would prove so costly in economic and social terms for the Greek society that a unilateral repudiation of the euro and the stringent conditions would result in a new disorderly shock.

Political risk, contagion risk: what scenario?

Following devaluation, a foreign currency debt becomes de facto unpayable by debtors with earnings in local currency (9). This debt will probably be converted into local currency for residents. The issue of currency non-transfer or control, that is the government decision to limit residents' ability to access and/or export foreign currency, arises. Will we see the Greek government, after withdrawing from the eurozone, imposing currency outflow controls? Russia in 1998 is an example of a foreign currency transfer prohibition. The Russian government, on announcing the devaluation of the rouble and that it was defaulting on its debts, issued a three-month moratorium on foreign exchange outflows. This decision was taken under pressure from the banks, which had massive dollar commitments in the form of futures (obliging them to deliver dollars to foreign creditors) and they used the moratorium to avoid settling their debts.

(8) In terms of net expected impact, the measures affecting fiscal revenues represent 80% of the reduction in the public sector deficit expected this year and ¾ of the new measures to be applied.

(9) In Argentina, the government proceeded with forced conversion of foreign exchange deposits into the peso according to the new exchange rate ($1=peso 1.4), whereas the currency board guaranteed the peso and dollar parity until then. This measure called "corralito" was one of a series of restrictive measures limiting residents' access to the dollar.

In 2012, a transfer prohibition would a-priori be fairly ineffective in a zone that is highly integrated financially and monetarily. A ban on foreign exchange outflows is hard to apply, insofar as those actors involved in transactions with non-residents certainly have access to the euro outside Greece. And, even the concept of foreign currency non-transfer is patently incompatible with the spirit of the European treaties, the principle of the treaties establishing the European Union being the free circulation of goods, persons and capital.
It is nonetheless worth noting that the letter of the treaties leaves some room for manoeuvre: articles 119 and 120 of the Treaty establishing the European Community stipulate that if a Member State has serious difficulties in balancing its payments, the Commission can recommend that the Council provide assistance. Now, if the Council does not provide this assistance or if the amount is insufficient, the Commission can authorise the Member State to take "safeguard measures". According to article 120, these measures can even be taken, if, in a sudden crisis, the Council does not take an immediate decision. The Council can subsequently decide at any time by qualified majority to suspend or cancel these measures. So in sum, temporary restrictions are, in theory, possible.
At this stage, there are two options for a withdrawal by Greece from the eurozone: it could be co-operative, namely be done with the help of the European institutions and Member States. In this case, transfer control seems unlikely. The euro's convertibility into the new Greek currency will very likely be assured by the ECB. But a "concerted" withdrawal of this kind is not very probable. The Member States and the European institutions have rejected the idea, not only because of the principle of the irreversibility of the integrity of the Monetary Union, but also because of the risk of contagion. Once Greece is out of the Euro, will Portugal, Spain and Italy be tempted to follow suit? The other option, which we think is more likely, is that the Greek government will decide to leave the euro unilaterally. Austerity will then be no longer legitimate, growth will fail to get going, and the social impact of the programmes will have become intolerable. The risk is then, that Greece will leave the eurozone unilaterally and, in this case, transfer risk is high.

Admittedly in the case of Russia and Argentina, despite the restrictions introduced, certain companies, keen not to break off links with suppliers essential to their business and, where they had access to foreign exchange, continued to pay their debts. Gazprom, the Russian gas giant, remains a famous example, to the extent that the rating agencies questioned the sovereign cap rule: it had become clear that some companies were able and willing to circumvent the transfer controls. One could therefore surmise that a transfer prohibition would not result in default by almost all entities with euro debts. Nonetheless, in the case of Greece, the private sector could "make use of" transfer prohibition to avoid repaying its debt, like the Russian banks in 1998. Companies can sometimes pay (they could, if they wanted to, have access to foreign currency) but with an official ban on settling their debts in foreign exchange they put themselves in default. A transfer prohibition is not necessarily effective in a context of very deep financial integration, but could be "useful" to companies and banks.
In this "political-fiction" scenario, whose probability, we believe, remains below 50% (10), the contagion question is the most difficult to analyse. A withdrawal of Greece from the euro could in the short term trigger a collapse of the euro and an increase in the sovereign spreads of all member countries. But considering the relatively limited size of the Greek economy, this shock will likely be of short duration. The crucial question posed is that of the integrity of the monetary union and the temptation of other economies like Portugal, Ireland, even Spain – hoping to enable their industries to benefit from the abovementioned "updraft" – to follow suit and quit the monetary union. But such a contagion phenomenon appears improbable, even unimaginable considering the associated financial risks. But just as the Greek debt-restructuring question was posed to all sovereign eurozone members, the monetary-union integrity question has to be put back on the table and dealt with. The institutions and member-states must prepare suitable institutional responses now in case a contagion actually develops: What institutions would be able to specify today according to what rules Greece would be a one-time-only exception in the monetary union? This question is so crucial for the future that it calls today for urgent responses from the European Union in sober recognition of the current fragility of its most impressive achievement: the single currency.

(10) The Intelligence Economist Unit experts estimate there is a 40 per cent probability

Towards a new oil shock?

By Marie-France Raynaud and Pierre Paganelli
Writing completed 30 March 2012

We foresee a $120 price per barrel of Brent in 2012. This reflects the severe constraints limiting the oil supply since the year began, the strong demand from emerging countries, and the heightened geopolitical uncertainties. In this article we consider several scenarios and analyse the effect on the world economy if prices surged beyond $120 per barrel. The global recession is likely to be triggered if prices soared above $200 a barrel but what would be the consequences if Brent prices surged to an intermediate $150 a barrel? And then, how would American, Japanese, European and emerging companies be affected?

Although our forecasts last December predicted a decline in oil prices in 2012 amid the slowdown expected in world growth, we have adjusted our opinions and now foresee a price per barrel of Brent in 2012 of $120 compared to the $110.80 average price recorded in 2011.
Our new main scenario reflects the severe constraints limiting the oil supply since the year began, the strong demand from emerging countries, and the increase in geopolitical uncertainties.

The extreme scenario comprising a regional upheaval in the Middle East which would push prices above $200 can moreover not be excluded. But the market currently evaluates that risk as very modest: of the $125 price per barrel of Brent recorded in March, it is estimated that only between five and ten dollars are linked to the Iranian risk premium. That is just the problem in evaluating extreme risks of a systemic nature: highly unlikely to occur but incalculable consequences when they do! We also propose an intermediate scenario, where the Brent price reaches $150 if there are further shocks on supply, notably associated with the emergence of an "Iranian spring".

The adjustment of oil prices in our main scenario has not prompted any significant change in our growth forecasts. An increase in oil prices to $150 would, however, have a differentiated effect on the United States, Japan, Europe, and emerging countries. And if prices were to soar beyond $200 per barrel of Brent, a global recession would be difficult to avoid.

What drives oil prices up?

Spot price per barrel of Brent
(in $)

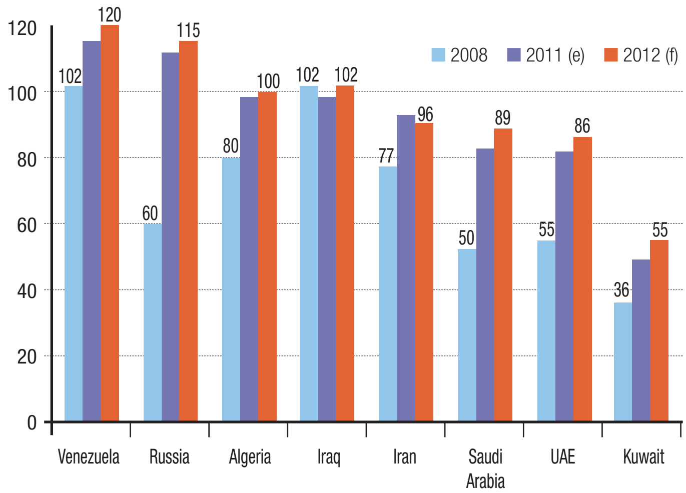
Source : Datastream, EIA

Two factors cause prices to trend up:

On the demand side, the dynamic growth of emerging countries, whose economies are more energy-intensive than those of advanced countries, explains why the demand for oil continues to rise even while global economic growth has been slowing down. Energy intensity [(1)] is 41% in the former Soviet Union republics and a markedly improved 19% in China compared to 16% for OECD countries.

On the supply side, oil producing countries have implicitly targeted a price per barrel of Brent of about $100, now taken as the price that could balance oil-country budgets. In the wake of the Arab springs, the Maghreb and Middle Eastern countries have significantly increased their spending to meet an increased demand for social protection. Budgetary spending in Saudi Arabia thus grew by 25% in 2011.

Price of oil enabling fiscal balance
(barrel of Brent, $)



Sources : IIF, IMF

Moreover, since the beginning of the year, several additional factors, mainly on the supply side, have contributed to the rise in oil prices. These exceeded $125 per barrel of Brent in March, making a rise of 15% compared with the beginning of the year.

- **Serious production disruptions in the non-OPEC countries have deprived the market of a million barrels a day since the beginning of the year.** Falls in production in Syria and Yemen, in Sudan as well as in Canada and the United Kingdom helped push prices to a peak of $128 a barrel in early March 2012. Even if normal production is sustainably restored in Canada and the United Kingdom, the market would still be deprived of 600,000 b/d because of persistent production disruptions in the three other countries.

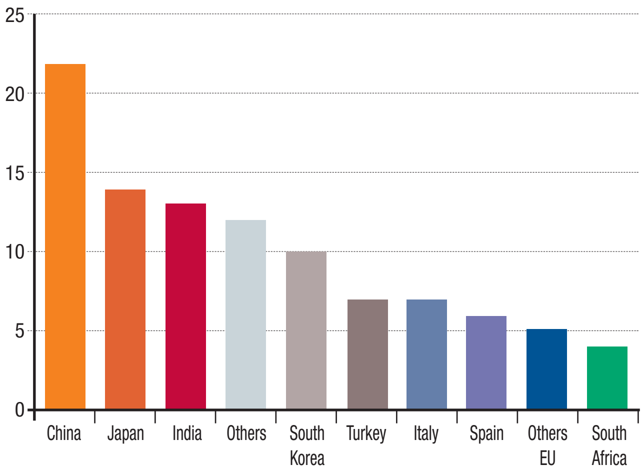
- **Moreover, the markets are anticipating the implementation from July of European sanctions against Iran as well as the impact of the American financial sanctions [(2)], which took effect on 17 March.** The market has already been deprived since March of 500,000 b/d, Iran having stopped its exports to France and the United Kingdom in response to impending European measures. The American financial sanctions are expected to drain the market of a further 500,000 b/d, making it very difficult for Iran to find new outlets for its oil exports. Even though the United States have announced special dispensations for their allies which depend on Iranian oil, Japan and South Korea are expected to gradually

(1) Energy consumption in relation to GDP.

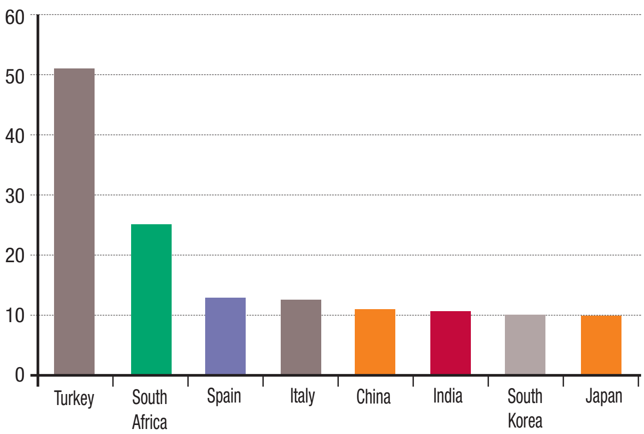
(2) Ban on all financial transactions with the central bank and with Iranian banks. Suspension of interbank transfers (SWIFT network)

give up their Iranian oil supply (totalling 200,000 b/d), which accounts for 10% of their total crude oil imports. Similarly, while India announced that it was not bound by the unilateral sanctions of the United States and Europe we observe that the refineries are reducing their dependence on Iranian crude. It seems that Iranian oil is not of sufficient quality to interest other emerging countries, which do not have appropriate refineries. In this context the development of Chinese demand, which already absorbs 22% of Iranian oil, is becoming a key element for Iranian production prospects, storage capacities not being infinite.

Destination of Iranian oil exports
(as % of total Iranian oil exports)



Share of oil imports from Iran
(as % of total oil imports)



Sources : IAE

These restrictions on supply push prices even higher as room for manoeuvre seems limited in the face of each new shock.

- **Stocks of OECD countries have fallen to a level not observed since 2007.** In January they stood at 2.61 billion barrels, remaining for the seventh consecutive month at below the average level of the last five years.

- **Further, the additional production margins of the OPEC countries [3], which are estimated to be available within a maximum of one month or even in a few days, are actually at historically low levels.** They fell again in February to 1.9 million barrels a day against an average 4.7 million barrels a day in 2011. Saudi Arabia alone holds 85% of these additional reserve margins. In this context the announcement at the beginning of March of the destruction of a pipeline in Saudi Arabia, quickly denied, increased market nervousness. Similarly the commitment made by Saudi Arabia to increase production by 25% from 10 to 12.5 million barrels a day was greeted with great caution by the markets since the country is already producing at a level never attained in the course of the last thirty years: on the one hand to take production to 12.5 million barrels a day would take more than three months, which is why the markets do not consider that the country has a production margin of 2.5 million barrels a day; on the other hand the quality of the additional crude is in question. Moreover, the more production is increased in response to the structural supply/demand imbalance, the more production margins dwindle in the event of a supply shock. **To bring down oil prices in a sustainable way, Saudi Arabia would have to be able to produce more to alleviate the current supply/ demand imbalance and at the same time increase its production margins in the context of high geopolitical risk.**

- **Use of strategic stocks, in particular in the United States and France to bring prices down in the pre-election period could prove counter-productive.** Barak Obama made use of them in the spring of 2011 to halt the rise in oil prices at the time of the Libyan crisis. The lull was temporary and the impact on prices was moderate. In the current context of a supply and demand imbalance, the use of strategic stocks could even lead to price rises: reducing stocks at a time of increasing geopolitical risk would be analysed by the markets as an element of upside risk.

How far can oil prices rise?

In this context of strong downward pressure on supply we can count on increased oil price volatility. In particular, any sharp supply shock could cause prices to climb above the 2008 peaks.

The greatest uncertainty concerns how the «Iranian crisis» will develop. This has intensified since November 2011 with the publication of the IAEA report. On the basis of "credible" information, this mentions "serious concerns" as to the military nature of the Iranian nuclear programme. For the Israelis this report provides international recognition of their fears and they are since threatening to attack Iran between now and October – before the stocks of enriched ura-

(3) The OPEC countries (Iraq, Kuwait, Saudi Arabia, UAE, Qatar, Venezuela, Ecuador, Libya, Algeria, Angola, Nigeria) have spare production capacity while production in non-OPEC countries is considered to be at full capacity

nium can be put out of reach. As for the Iranians, they are threatening to block the Strait of Hormuz, through which 20% of world oil production passes. The Americans and the Europeans, for their part, have increased their sanctions against Iran. **We estimate, however, that in the first quarter of 2012, the Iranian risk premium has been somewhat modest, between $5 and $10,** as the markets consider the hypothesis of a regional conflict as unlikely. Here we are faced with a classic risk analysis problem: to give a price to an extreme scenario, which is unlikely but which would have incalculable consequences.

The central scenario (55% probability) which underlies our current oil price predictions of $120 per barrel in 2012 is that of a way out through the negotiations conducted between the members of the UNO Security Council and Germany (P5+1) at the instigation of the European Union. A favourable outcome of these talks would allow prices to fall again around the second quarter. This scenario takes two elements into account. The Israelis and the Americans have strong incentives to seek a diplomatic way out of the conflict, considering the considerable uncertainties as to the consequences of a military intervention (a-priori strictly by air and sea), which could lead to a regional conflagration. Moreover, the Chief of Staff General Benny Gantz and the Israeli secret services do not seem convinced of the effectiveness of an intervention, considering the dispersal and the underground nature of the nuclear sites and the risks of a nuclear explosion. Furthermore, an Israeli-American intervention would seem hardly consistent with the strategy of regional disengagement begun by the United States. In addition, it seems that a diplomatic solution must be a preferred option for an Iran weakened by economic sanctions and which has agreed to return to the negotiating table. The European embargo and, even more, the American financial sanctions are having a very clear impact on the Iranian economy; the rial has lost 50% of its value against the dollar since the beginning of the year, inflation is accelerating and unemployment is at an all-time high. Against this background, westerners are in a strong position to obtain the transfer outside of Iran of the 20% enriched uranium capable of being used to make a nuclear weapon as well as the inspection of the Fordo military site in south west Teheran. Moreover, in addition to the lifting of economic sanctions some symbolic advantages could be conceded to Iran, such as the withdrawal of Iran from the list of terrorist countries established by the United States, which no longer includes North Korea, or the recognition of Iran's right to develop a civilian nuclear programme in accordance with its commitments under the non-proliferation treaty.

There are, of course, risks associated with this scenario: we cannot rule out a seize-up of the negotiations supposed to begin in mid-April and in particular a refusal by the Iranians to allow the resumption of inspections by the IAEA. The difficulties of the opposing parties even to agree on a place to recommence negotiations (Istanbul, Bagdad, Beijing) bear witness to the fragility of the process begun.

An intermediate scenario (30% probability) would see prices rising to $150 a barrel of Brent in the event of further supply crises. **On the one hand we cannot rule out new production disruptions** of an operational nature in Canada or the United Kingdom or linked to climatic shocks in the Gulf of Mexico (10% of world production) where the offshore sites are vulnerable to hurricanes and cyclones. **Moreover, we cannot completely exclude a further fall in Iranian production in the wake of an "Iranian spring".** As in the societies of the Maghreb, profound demographic and social changes are taking place throughout Iranian society. The fertility rate is 1.8 children per woman or below European rates and nearly a third of the population has studied at university and regularly uses the Internet. In this context, aspirations for the respect of individual rights and economic well-being are likely to generate tensions, particularly given the fact that inequalities are significant (with a Gini index [4] of 44.5) and that there is a lot of corruption and limited political freedom. Admittedly, the bloody repression of the demonstrations which followed the 2009 disputed elections has lastingly weakened opposition to the regime. The recent March 2012 legislative elections, which affirmed the parliamentary pre-eminence of the conservatives close to the Ayatollah Khomeini, consequently went off without any major unrest. Nevertheless, the sharp deterioration of the economic situation in Iran as a result of American financial sanctions could, as the Americans wish, constitute favourable ground for the resumption of protest movements.

The extreme scenario (15%) of an Israeli intervention, with the oil price exceeding $200 needs to be taken into account.

In spite of great uncertainty concerning the costs/benefits of an Israeli intervention, this cannot be ruled out. On the one hand, Israel has seen its diagnosis on Iran recognised by the international community. Even if an intervention were illegal in international law, Israel could legitimise the "preventive" nature of its action on the basis of the IAEA report. On the other hand, the prime minister, Netanyahu, and his defence minister, Ehud Barak, seem to consider that a "preventive" attack could have limited costs. The success of the allied forces' intervention in Libya has reinforced the legitimacy and the confidence in the effectiveness of targeted aerial strikes, which cost few human lives. Israel has, moreover, twice successfully intervened in the past, respectively in Iraq and Syria, to destroy the nuclear installations of those countries without these attacks resulting in a conflict. Furthermore, Israel may consider that means for direct reprisals against Israel are contained: Iran has only a very limited number of ballistic missiles which could reach Israel, the new Sajil-2 missile not yet being operational. So we cannot entirely rule out an Israeli intervention if, for example, Iran should refuse to accept the IAEA observation missions.

An escalation in this case could not be ruled out and could lead to a regional conflict. A blockade, even temporary, of the Strait of Hormuz, through which 20% of world production passes, could trigger oil prices to surge above $200. The Army of the Guardians of the Islamic Revolution's navy is particularly well equipped with very mobile small ships capable of attacking big cargo vessels. Even though nearly all Iranian exports pass through the Strait of Hormuz, we cannot exclude a last ditch stand by an Iran which would have nothing to lose. Iran could, moreover, depend on Hezbollah and Hamas to conduct repeated attacks on Israel. The country could also rely on Iraq's Shiite populations to carry out acts of sabotage. Besides blockading the Strait of Hormuz, Iran could target the desalination sites of the gulf countries or the oil production sites of Saudi Arabia, which are concentrated in the Shiite majority in the North-East, where Iran benefits from strong support from the population. The intervention of the United States would then be inevitable.

(4) Gini index is a synthetic indicator measuring the inequality among levels of income; it can range from 0 to 100: higher the number over 0, higher the inequality.

What impact on world growth?

Growth is generally less affected by the level of oil prices than by its evolution. The evolution of oil prices was +15% year on year in first quarter 2012, a rather modest level in comparison with the 35% leap in first quarter 2011 in the wake of the Libyan war, or the nearly 70% rise during the first three quarters of 2008. In this context our growth forecasts have been marginally revised downwards.

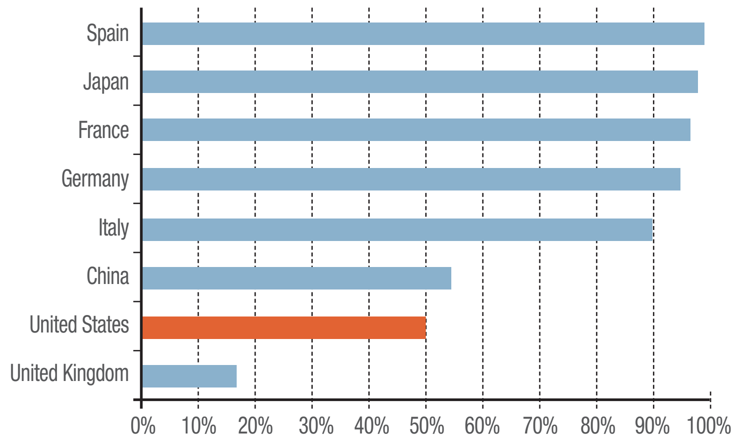
A bigger supply shock like that foreseen in our intermediate scenario would, however, have a more pronounced negative impact on activity. This impact would nevertheless be appreciably different according to the regions of the world. The United States, less dependent on oil imports than the Europeans, is likely to be less affected than the Europeans. Countries on the periphery of the eurozone would, for their part, be especially hard hit. The emerging countries would continue to benefit from low foodstuff prices, which constitute 2/3 of the prices basket as well as from the still important use of coal, which limits the impact of a surge in oil prices. Nevertheless countries that substantially subsidise petrol prices could suffer a deterioration of their public finances.

In the extreme hypothesis of a violent supply shock, the world economy could go into recession.

The United States: companies more resilient to an oil price upsurge

American companies are more resistant than American households to an oil price increase. On the one hand, American companies enjoy access to cheap energy in the form of natural gas and oil from shale, which represent nearly 40% of total energy consumption. On the other hand, they can count on the maintenance of low interest rates, which fosters investment. Even though American companies would not benefit from a significant increase in demand from oil-producing countries, (which accounts for only 5% of American exports), in the event of a sharp rise in oil prices, unlike German companies, the United States can count on a rise in purchases of American assets in which the oil-producing countries generally invest their trading surpluses. The fall in interest rates will have practically no effect on household consumption, with households engaged in deleveraging and reining in their spending. But transport is increasingly a burden on household budgets as energy prices verged on $4 a gallon at the end of March, a peak which had not been reached since the spring of 2008. Nevertheless, households could benefit from a positive wealth effect as asset prices rise. Finally, a 10% increase in oil prices would, according to Natixis [5], have little or no effect on growth.

Net imports as % of total cunsumption
(2010)



Source : UNCTAD

However, a recent study conducted by the Council of Foreign Relations [6], a think tank close to the Obama administration, shows that, besides the extent of the rise in prices, an important element is the **speed at which prices rise**. An oil price rise of 50% in six months could result in as much as a 4-point reduction in American growth. Spread over eighteen months this same price shock would mean a reduction of only 2 points over the second year. Over longer periods economic actors, especially households, have time to adjust their consumption behaviour.

Japan: company investment constrained

With only one of 54 existing nuclear reactors still operating, the growing cost of thermal energy production is affecting the margins of electricity companies. Deprived of cash flow, they have already reduced their investment. Tepco could raise the price of electricity by nearly 20% to guarantee its financial viability. All sectors of activity will then be affected by the increased input costs, particularly the iron and steel sector, which would have to limit its investment efforts.

Europe: heightened risk of recession

The eurozone is likely to be appreciably more affected than the United States by the increase in oil prices. Energy imports represent 4.5% of the eurozone's GDP against 3% of American GDP. Not all the eurozone countries are in the same position with regard to the upsurge of oil prices. Energy dependence is particularly marked in the countries on the periphery of the eurozone: in Spain, where net energy imports represent nearly 100% of energy consumption, the impact on growth could be marked. France, though, could suffer from its past industrial policy choices. The country, which encouraged the development of the

(5) Natixis, Flash Economie No 224, 23 March 2012

(6) Improving Energy Market Regulation : Domestic and International Issues, D.Ahn, Council of Foreign Relations, février 2012

diesel engine, in particular through tax advantages, is suffering today from the higher diesel costs: while the country is a net exporter of petrol, net imports of diesel represent 14% of the trade deficit. French growth could be affected by higher import costs and a fall in household consumption, hampered by the rise in transport costs. Meanwhile, German companies could benefit from the rebound in demand from oil-producing countries.
The ratio of energy imports relative to exports to the oil-producing countries is 1.3 in Germany against 2.4 in France and 4 in Spain.

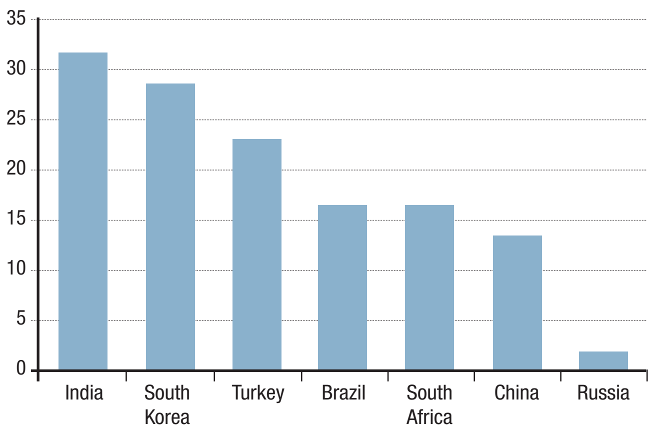
Moreover, in the context of a relatively weak euro against the dollar, the oil price peaks reached in euros are more acutely felt. Thus, in euros, the end of March peak was equivalent to that of 2008, except that the rise this time (+20% over the last six months) was much less rapid than in 2008 (+45% over six months).

There is finally a risk that the ECB, which remains strongly committed to combating inflation, will conduct a less accommodating monetary policy than planned and will put a brake on the eurozone recovery.

What impact on the emerging countries?

The emerging countries, which broadly again adopted accommodating policies in early 2012 to mitigate the slowdown in demand from advanced countries, could face increased inflationary pressures. And that despite the high proportion of coal use in energy production, particularly in China, and the relative stability of foodstuff prices that form the largest share of the consumption basket. Therefore, second-round effects of the rise in energy prices are likely, via the rise in fertilizer and foodstuff prices. In addition, the oil-importing countries, where there are big subsidies on energy prices, such as India, will have to contend with an increase in fiscal pressures. It is clear that in the event of a price surge above $200 and a global recession all the emerging countries would be affected by the trading channel.

Share of fuel imports in a few emerging countries
(as % of total imports)



Source : UNCTAD

In emerging Asia, the impact of an oil price rise will be differentiated

In China the impact will be mainly concentrated on the energy sector. Energy sector company margins are directly affected by a rise in oil prices, in a context of regulated prices which means input costs cannot be passed on to the selling price. India will be one of the countries most weakened by an oil price surge. The fiscal consolidation measures announced in the 2012-2013 budget to contain the rise in central government debt – which represents 52% of GDP against 37% for the majority of emerging countries – could come under pressure. The planned 50% reduction of subsidies on petrol and fertilizers, which accounted for 10% of public spending in 2011, could be difficult to implement given the inflationary and social risks.

In Latin America, Argentina, is the country most vulnerable to an oil price rise

According to unofficial sources, inflation is above 25% in Argentina. Although until now Argentinian household purchasing power has not been affected thanks to rising wages, the price/wage spiral could rapidly become unmanageable. In this context, the fiscal consolidation efforts aimed at containing a public debt higher than the average for emerging countries (46% of GDP against 37%) are in danger of being compromised: while the government is trying to get the trade unions to accept wage cuts, it will be difficult for it not to increase subsidies (which represent 4%of GDP).

Central Europe might not suffer too much in the short term from an oil price rise

Certainly energy intensity is twice as great there as in western and southern Europe. However, the countries of central Europe mostly obtain their oil from Russia under long- term contracts, which allows price fluctuation to be mitigated. Moreover, certain countries, particularly Poland, Hungary, Lithuania and Slovakia, are in a better position to meet the additional demand for Russian imports, a consequence of oil price rises. **Turkey is the most vulnerable in the region to an oil price rise.** The energy balance deficit represents 70% of the current account deficit and the macroeconomic context has worsened with inflation at nearly 10% since the beginning of the year – the highest level for five years. In this context the risk of a hard landing is increasing. The Turkish central bank has begun a cycle of tough monetary policy to anchor the inflation expectations of the economic actors, even though all the indicators are on amber: exports have been hit by the fall in European and Middle-Eastern demand and domestic demand is hampered by the slowdown in the supply of credit.

Country risk assessments

Modifications

Countries under watch list and assessments of major economies

Risk assessment Modifications

Countries	January 2012	Modifications April 2012 (in ascending order of risk)
Risk assessment either upgraded, or removed from negative watch list or placed under positive watch list		
Japan	A1↘	A1
United States	A2	A2↗
South Africa	A3↘	A3
Tunisia	A4↘	A4
Ghana	C↗	B
Sierra Leone	D↗	C
Venezuela	C↘	C
Risk assessment either downgraded, or removed from positive watch list or placed under negative watch list		
Australia	A1	A1↘
New Zealand	A1	A1↘
Slovenia	A2↘	A3
Iceland	A4↗	A4
Portugal	A4↘	B
Argentina	C↗	C
Mozambique	B↘	C
Mali	C	D
Ukraine	D↗	D

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

Japan: A1

A1 risk assessment removed from negative watch list (since March 2011)

- The Japanese economy is expected to grow 1.8% this year rebounding from a 0.9% recession in 2011
- New machinery orders, which tend to lead corporate investment, rose in January.
- Exports will likely accelerate after slumping in 2011.
- Public investment has bolstered corporate activity. The Diet voted a 4th budget supplement in February providing $30 billion for resettlement of earthquake-devastated regions. And the clean-up process may well accelerate sharply in the second half. Total public spending is exceeding a trillion dollars.
- Corporate bankruptcies declined in 2011, down 2.5%, and the payment incident index improved significantly.

United States: A2↗

Positive watch on the A2 risk assessment

- Economic growth has been revised upward from 1.6% to 2%.
- Job creation was strong in February (up 250,000) for the sixth consecutive month. Although this increase remains insufficient to bring about a rapid reduction in unemployment (8.3%), the creations involved a larger number of states than they have in recent months.
- Household consumption was strong overall in 2011, up 2%, and household confidence reached a twelve-month high in February (70.8), despite the increase in petrol prices at the pump.
- Corporate investment accelerated in 2011, up 7%, and the slowdown expected in 2012 is likely to be limited.
- Payment defaults continued to fall sharply, down 15% in 2011.
- The ISM manufacturing index sagged in February but the backlog of orders and the flow of new orders from abroad remain high.
- The Coface payment incident index has remained within reasonable limits.

South Africa: A3

A3 risk assessment removed from negative watch list (since June 2008)

- High commodity prices
- Reorientation of trade to China
- Accelerated investment in energy and transport
- Vigorous consumption

Tunisia: A4

A4 risk assessment removed from negative watch list (since March 2011)

- The political transition process is more advanced in Tunisia than in the other Arab countries that experienced uprisings in 2011, and it has also been relatively pacific.
- With the return of a more stable political situation, the economy will likely benefit from a rebound (albeit modest) this year, underpinned particularly by good harvests enabled by adequate precipitation (the agricultural sector accounting for about 12% of GDP and 20% of the workforce).
- The probability of payment defaults by companies is medium on average.

Ghana: B

Risk assessment upgraded from C↗ to B

- Vivid growth
- Reclassification of the business environment from C to B: weak corruption, availability and quality of commercial information
- Democratic political system
- Significant natural resources and development of the oil resource

Sierra Leone: C

Risk assessment upgraded from D↗ to C

- Strong growth (+50%)
- Important, diversified and increasing natural resources
- Democratic political system

Venezuela: C

C risk assessment removed from negative watch list (since June 2009)

- Economic growth (up 3.7% expected in 2012) has been spurred by high oil prices and by high public spending in the run-up to the presidential elections scheduled for October 2012.

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

Australia: A1↘

Negative watch on the A1 risk assessment

- The very strong growth expected in 2012 (about 2.8%) rests largely on mining sector performance. But this also tends to cloak the difficulties in manufacturing and tourism, more sensitive to price competition. Those two sectors have suffered not only from the appreciation of the Australian dollar but also from weaker domestic demand.
- Housing construction has sagged in a context of chronic shortage, which will likely put upward pressure on prices.
- The confidence of households – deep in debt – buckled late 2011 amid growing unemployment.
- Access to credit has remained difficult for companies outside the mining sector and payment times have tended to lengthen (according to a survey conducted by Coface Australia over half of the 553 companies participating reported that payment times granted to customers had increased by over 60 days).
- Corporate bankruptcies accelerated (up 17.3% in six months through February 2012), a trend consistent with the rise of the Coface payment incident index.

New Zealand: A1↘

Negative watch on the A1 risk assessment

- Despite strong growth (up 3.2% expected in 2012), the manufacturing and tourism sectors will likely suffer due to the strength of the New Zealand dollar and feel the effects of the difficulties experienced by their Australian trading partners.
- The reconstruction of Christchurch and its region has been delayed by repeated earthquakes.
- Bankruptcies surged a spectacular 109% in six months through February 2012.

Slovenia: A3

Risk assessment downgraded from A2↘ to A3

- Trade channel: The euro zone recession has already affected Slovenian exports with Germany alone the market for 25% of its sales abroad. And Slovenia's open economy tends to amplify the impact (exports represent 60% of GDP).
- Contraction of domestic demand
- Investment —corporate confidence sagging, downturn in the industrial production index
- Consumption — upsurge of unemployment (9%) in the second half last year
- Persistent weaknesses in the banking system
  The current ratio of bank loans-to-deposits — 160% — limits the availability of financing for companies and households. Implementation of Basle III will moreover tighten these constraints even further.
- Very high foreign debt: 110% of GDP.

Iceland: A4

A4 risk assessment removed from positive watch list (since September 2011)

- Economic growth revised down to 0.4% due to the depressing effect on exports of the demand slowdown abroad (Netherlands and United Kingdom), the stagnation aluminium production, and the quotas imposed on the fishing industry.
- Household consumption decelerated more than expected (tax increases, gradual withdrawal of measures in support of consumption).
- Corporate margins have been under pressure and bankruptcies surged 72.6% in the second half last year.

Portugal: B

Risk assessment downgraded from A4↘ (since September 2011) to B

- Explosion of defaults and marked increase in bankruptcies in 2011
- Foreseeable deepening of the recession in 2012 (down to a negative 4% from a negative 1.5% in 2011)

- Continuing austerity regime and expected slowdown of European demand (75% of sales abroad)
- Government solvency has been undermined
- Portugal has met the objectives of its rescue plan but additional aid, even renegotiation of the debt, may prove unavoidable if it is not successful in returning to the bond market in the second half of 2013

Argentina: C

C risk assessment removed from positive watch (since December 2010)
- Accumulation of foreign exchange and import control measures
- Payment delays attributable to the control measures
- Growing spread between the official and unofficial exchange rates
- Deterioration of public sector and external accounts
- Growing pressure on foreign investors

Mozambique: C

Risk assessment downgraded from B↘ to C
- Strong dependence on international assistance, aluminium and coal
- Widespread poverty: education and health deficiencies
- Failing infrastructures: energy, transport, water
- Low productive agriculture (sometimes bloody hunger riots)
- Poor businesses environment

Mali: D

Risk assessment downgraded from C to D
- Deteriorating security situation in Northern Mali linked to the Tuareg offensive launched in January 2012 and fuelled by the return of former mercenaries from Libya
- Coup of junior officers in Bamako, on 22 March 2012, criticising the lack of appropriate means for combating the Tuareg rebels and the AQMI terrorists
- Economic and financial disturbances caused by the coup (bank closures, shortages, suspension of multilateral assistance)

Ukraine: D

D risk assessment removed from positive watch (since June 2010)
- Severe growth slowdown expected in 2012
- The risk of currency devaluation is strengthening as no agreement is yet in view with the IMF.
- As most of the debt is denominated in foreign currencies, currency devaluation would strengthen the sovereign risk
- Banking sector is highly exposed to currency risk
- Conditions in the run-up to legislative elections have impeded implementation of structural reforms needed to consolidate public sector finances and ease the pressure on foreign commitments

As a reminder...

Country risk assessments under watch list

Ranging by ascending risk and alphabetical order

Country risk assessment under positive watch

Country	Assessment	Under positive watch since…
United States*	**A2**	**April 2012**

Country risk assessments under negative watch

Countries	Assessments	Under positive watch since…
Australia*	**A1**	**April 2012**
New Zealand*	**A1**	**April 2012**
Czech Republic	A2	January 2012
Slovakia	A3	January 2012

Country rissk assessments of major economies

Ranging by ascending risk and alphabetical order

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

* Country risk assessments changed in April 2012

Coface country risk book

Update

Spring 2012

Argentina

Coface Assessments

Country risk **C**

Business climate **B**

Medium term

VERY HIGH RISK

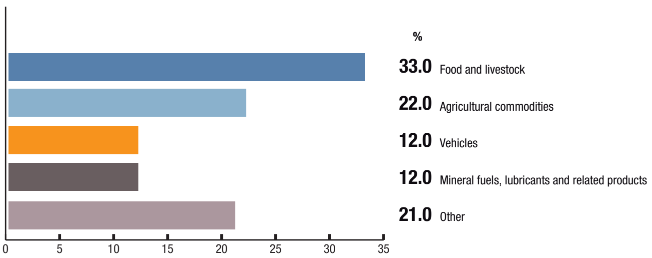
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-1.0	9.2	8.5	3.8
Inflation (yearly average) (%)	16.3	22.0	23.0	25.0
Budget balance (% GDP)	-0.6	0.2	-1.2	-1.4
Current account balance (% GDP)	3.6	0.8	0.1	0.0
Public debt (% GDP)	56.0	44.0	46.0	45.0

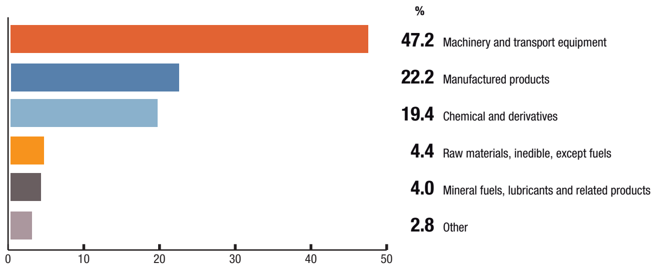
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 21 % of GDP



Imports 16 % of GDP



Risk assessment

Clear slowdown in 2012 in a less buoyant external and domestic context

The economic slowdown will intensify in 2012. Economic activity is very sensitive to the global economic situation. The slowdown among the main trading partners, Brazil in particular, will adversely affect exports, which will have a knock-on effect on the textile and motor industries. The same applies to agriculture (10% of GDP, 20% of exports) due to less supportive world prices and the impact of drought on production. Moreover, the authorities seem to be beginning to tighten fiscal policy in order to cool domestic demand and curb the flow of imports. The abolition of subsidies (4% of GDP) on public services charges for wealthier businesses and households began in November 2011 and will be probably extended. Although the economic players, at least those in the formal economy, are used to high inflation and protect themselves against it largely thanks to indexation of wages and prices, there is a risk that consumption will suffer from higher inflation. Company investment in industries like energy and transport could be further discouraged by state intervention on sales prices as well on external exchanges of goods and capital. The nationalisation of the oil company YPF, a subsidiary of Repsol, number 1 and 2 in local oil (35%) and gas (25%) production is not going to encourage foreign investors.

Disappearance of fiscal and current account surpluses

The fiscal surplus disappeared in 2009 and the current account surplus will do the same in 2012. Even though debt represents only 45% of GDP and its external component 15%, of which only a quarter is in foreign exchange, this new situation is disturbing. Fiscal revenues are both burdened by the many exemptions and very dependent on customs duties. And spending is rising rapidly because subsidies rise in line with raw materials prices while spending on employees is indexed to inflation. Since the Argentine state, in default on its bilateral public debt to Paris Club creditor countries, cannot de facto have access to the financial markets except by paying very high interest rates, it finances its deficit by unorthodox means, for example by drawing on the reserves of the Central Bank or of the Social Security Guarantee Fund.

The disappearance of the current account surplus, caused by the reduction of the trade surplus, is also problematic. Imports are growing more rapidly than exports. Electricity, gas and petrol price controls lead, despite subsidies, to under-pricing, which hardly encourages investment, and despite significant proven reserves, hydrocarbon production is flagging and the country's energy balance is in deficit. Moreover, the competitiveness of manufactured goods export has been eroded by the real appreciation of the peso, with price rises exceeding the peso's depreciation. The trade surplus is no longer enough to cover the flight of private capital, which reached 21.5 billion dollars in 2011 and could continue in 2012 with the economic uncertainties.

The authorities have taken certain restrictive measures aimed at safeguarding their foreign exchange resources, taxing the main agricultural exports and discouraging imports. In July 2011 the authorities increased the number of products (600) subject to import licences, contingent on the commitment made by the importer or his local partner to export an equivalent amount. In December, they compelled importers to notify their bank of their foreign exchange needs at least 10 days in advance, and from February 1st, 2012, to get an authorization from fiscal Administration prior to import. They also are obliging exporters to repatriate their sales proceeds. Finally they have agreed with foreign car manufacturers that they should reinvest a larger share of their profits locally. These measures cause payment delays.

Social tensions in a stable political context

Social tensions remain strong as a result of the high poverty level and inequality. The poverty is due to the sharp increase in food and housing costs in the big towns. Though workers who are trade union members are protected from inflation by wage increases obtained by the powerful unions, those in the informal sector (40%) are unprotected. Although the centre-left Peronist government led by Cristina Fernandez de Kirchner, who was re-elected president in October 2011, is implementing "socially inspired" policies, union claims and strikes are an important factor. 60% of collective agreements are to be renegotiated. Given tight labour market and ongoing high inflation, confrontation between government and unions will be tough.

Strengths ↗

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

Weaknesses ↘

- Unpredictable business environment
- Dependence on raw materials
- Inadequate investment in energy and transport
- Budgetary policy lacking in rigour
- Very high inflation
- Unpredictable business environment
- Great inequality and social tensions
- Weak regional - and even less world - influence despite membership of the G20

Australia

Coface Assessments

Country risk **A1↘**

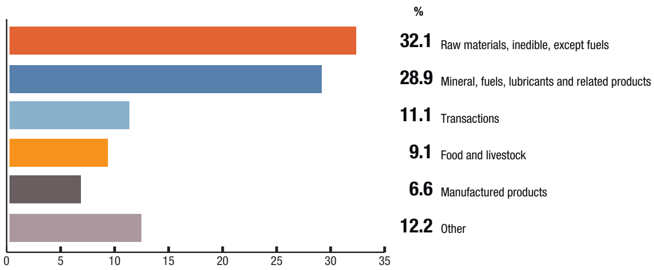
Business climate **A1**

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	1.4	2.7	2.0	2.7
Inflation (yearly average) (%)	1.8	2.8	3.4	2.9
Budget balance (% GDP)	-4.1	-4.8	-3.3	-1.5
Current account balance (% GDP)	-4.5	-2.6	-1.6	-1.9
Public debt (% GDP)	22.6	28.8	30.3	29.4

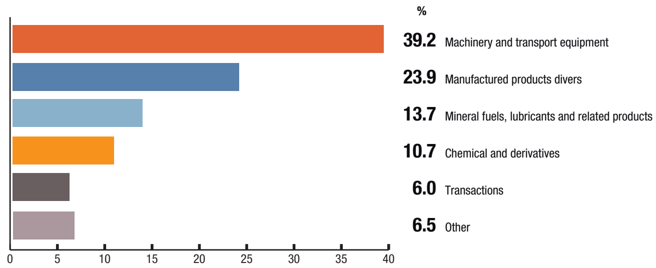
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 20 % du PIB



Importations 22 % du PIB



Risk assessment

Sustained growth but weaker performances from the non-mining sectors

After the slowdown in activity in 2011 (1.8%) following the devastating floods in late 2010 and early 2011, growth is expected to accelerate (2.7%) benefitting from a base effect and above all from the rebound of investment. Businesses in the mining (coal and iron ore), and energy (coal gas and natural gas) sectors are actually expected to speed up the realisation of big projects in the north of the country, estimated at 451 billion American dollars. Despite the expected slowdown in growth in Asian countries, mining and energy exports will continue to grow strongly. These performances nonetheless hide the difficulties being experienced by the manufacturing and tourism sectors because of the price-competitiveness disadvantages due to the appreciation of the Australian dollar. Downward pressures on the currency which have been observed since the second half of the year as a result of investors turning to the currencies of countries less dependent on raw materials were short-lived. Since the beginning of the year, the local currency has appreciated again. But unless the eurozone crisis intensifies, the dollar is expected to remain at a high level, which, in a context of sustained investment, will favour imports. Foreign trade will therefore continue to contribute negatively to growth and the current account balance will remain in deficit.

Household confidence weakens

Household consumption continues to be the driving force behind growth but in 2012 it will remain below pre-crisis levels. The trend in the household confidence index is less positive despite the last December cut in the Royal Bank of Australia's key rate to 4.25%. This decision will alleviate the mortgage debt of households, most of which have taken out variable-rate loans. Discretionary spending, especially that linked with leisure, is being cut back as households prefer to pay down debts (150% of their disposable income –IDI-) and to continue to put money into precautionary savings (9.2% of disposable income against 3.1% in 2007). Investment in housing is likely to stagnate or slow slightly, despite the chronic shortage of housing in most major Australian cities. In this context, the prices which are already high should be pushed up further.

Despite the healthy state of the economy, tax receipts are growing only slightly. But the fiscal deficit will fall (-1.5%) because of the slowdown in spending, while the level of public debt will be very satisfactory (30%).

Company insolvencies have risen sharply

The Australian economy is divided between a very efficient mining sector and manufacturing, agricultural and tourism sectors more sensitive to price-competitiveness. The dynamism and strength of the mining sector attract skilled labour and push wages up to the detriment of other economic sectors which have difficulty in recruiting workers and in maintaining the same level of pay – factors which weaken these businesses and depress their margins. The slowdown in construction could slightly affect civil engineering companies, which will greatly benefit from investments in mining and in port and railway infrastructures. With difficult access to credit, payment delays tend to become longer. Bankruptcies accelerated up 17.3% in six months through February 2012, as reflected in Coface's payment incidents index, which stands above the world average.

Strengths ↗

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

Weaknesses ↘

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

Brazil

Coface Assessments

Country risk **A3**

Business climate **A4**

Medium term

RATHER LOW RISK

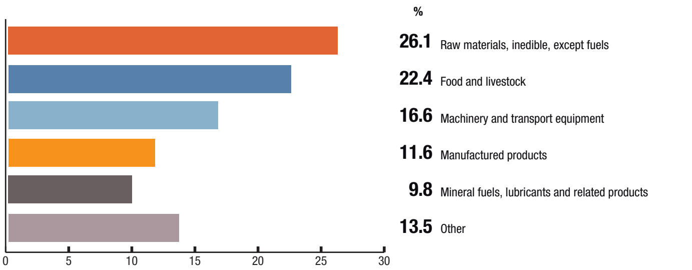
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-0.6	7.5	2.7	3.4
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

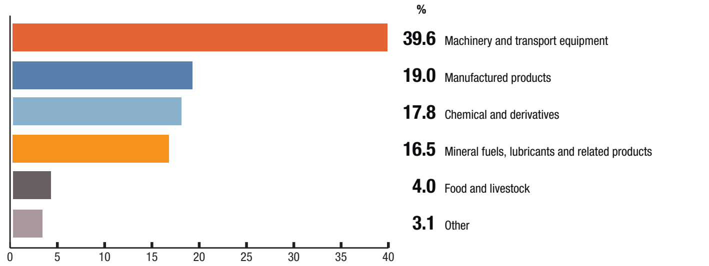
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 11 % of GDP



Imports 11 % of GDP



Risk assessment

Moderate upturn in 2012

Activity should improve slightly in 2012. Even if the international economy remains depressed, domestic demand will be a driving force. This will be supported by lower interest rates, credit expansion and tax reductions.

Inflation remains at the top end of the Central Bank's target range (4.5% ±2), as a result of high raw material prices, the strength of domestic demand and the low rate of unemployment. On top of this, on 1 January each year, the minimum wage and pensions, received by a quarter of the population, are indexed against the recorded rate of inflation for the year N-1. Despite these inflationary pressures, and with the aim of boosting activity, the BCB is continuing with its cuts to interest rates begun at the end of August 2011. Reduced to 8.75% in April 2012, it could be cut further.

The supply of credit for households and companies will be further boosted by interest subsidies and the provision of credit lines by the public sector banks, notably BNDES. Excluding the subsidy, interest rates can be as high as 45% for households and 25% for companies. Taxes on domestic appliances and housing have been reduced. Payroll taxes will be reduced in the sectors most exposed to imports.

The country should also benefit from a sustained level of investment, in particular relating to its infrastructure requirements as host of the 2014 World Cup and the 2016 Olympic Games.

Financial situation under control

The country is running a primary surplus of around 2% of GDP. However, including the interest on the national debt, the overall current balance is in the red. This should remain under control in 2012. Any measures taken in support of household consumption and investment will be more limited in scope than those adopted in 2009 and 2010.

However, the current account deficit is expected to worsen in 2012 as imports grow faster than exports which will considerably reduce the trade surplus. Imports of refined products will again exceed exports of crude oil because of a lack of refining capacities. There is little incentive for Petrobras, a majority state-owned company and leader in the sector, to develop these as fuel prices are set by the authorities and force the company to sell at a loss.

A number of measures intended to boost domestic production are being applied. There is a surtax (of up to 30%) on sales of automobiles that have a local content of less than 65%. A local content of 65% has also been imposed on oil sector services and equipment, which risks delaying the delivery or increasing the cost of the vital equipment needed for the new deep-water fields. Petrobras, again a leader in this sector, is reporting delays in its investment programme.

With the aim of limiting the appreciation of the Real, caused by an influx of foreign capital looking to maximize returns, and deemed to be at the origin of the loss of industrial competitiveness, Brazil reintroduced a 6% tax on foreign investments in bonds, as well as foreign credit agreements of less than 5 years. Credit agreements of less than 360 days contracted by importers are exempt, as are intra-company credits, so as not to hinder foreign trade and investments. In effect, the recurring deficit in the balance of services, revenues and remittances (large numbers of immigrant workers) is covered by the foreign capital flows.

Delayed reforms

President Dilma Roussef is pursuing a policy of macroeconomic stability allied to social development in continuation of the policies of her predecessor. However, she has more difficulty in managing the multi-party coalition of the government. The fight against corruption, very popular among the public, has resulted in the removal of several Ministers to the considerable discontent of the many parties on which the government is dependent for support in parliament. This could slow the introduction of reforms such as the simplification of the tax and educational systems.

The payment behaviour of companies could worsen

The risks in 2012 are above all related to the cost and availability of finance for companies. Some companies, looking for lower interest rates, have increased their foreign currency debts. This not only exposes them to exchange rate fluctuations, but also to the scarcity and increased cost of credit associated with the on-going problems facing banks in the advanced economies. Companies which get into debt on the domestic market could also be affected if the local banks reflected these financing cost increases in their loans. The authorities have said they are ready to make lines of credit available to overcome the reluctance on the part of banks.

Strengths

- Scale and potential of the domestic market
- Abundant natural resources
- Significant manufacturing industry
- Primary budget surplus
- Significant margins for contra-cyclical policies
- Net external creditor
- Considerable currency reserves (12 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**

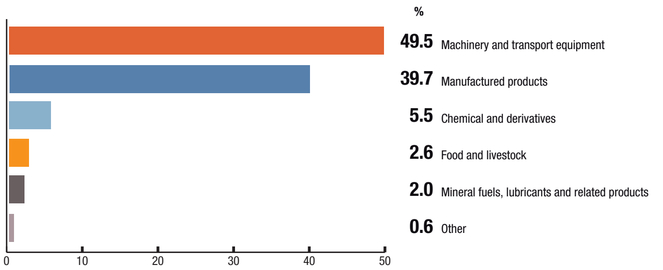
Main Economic Indicators

	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	3.6
Budget balance (% GDP)	-3.1	-2.3	-1.6	-0.8
Current account balance (% GDP)	5.1	5.2	2.8	2.4
Public debt (% GDP)	17.7	33.8	26.9	22.2

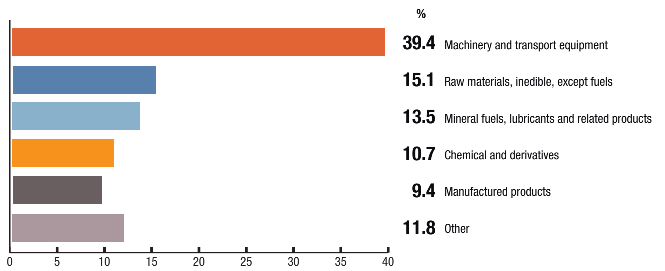
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 27 % du PIB



Importations 22 % du PIB



Risk assessment

Slowdown in growth contained in 2012 thanks to targeted stimulus

The economy will decelerate in 2012 because of the slowdown in domestic and external demand. Sales abroad, especially to the eurozone which account for 15% of total exports, are slackening. Moreover, domestic demand is stagnating because of the tightening of economic policies focusing mainly on controlling investment and reducing the supply of credit (interest rate hikes; reintroduction of quotas on loans). 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 of slowing domestic and external demand, contra-cyclical measures are likely to be introduced. The slowdown in growth should thus be contained. Fiscal policy will be an important instrument. This is evidenced by the launching of a programme for the construction of 36 million social housing units and measures for supporting the Wenzhou SMEs. Moreover, the decrease in the banks' reserve requirement rate is expected to continue while quotas on lending could be relaxed. Finally the appreciation of the yuan is expected to slow slightly and reach +3-4% in 2012 against +5-6% in 2011. This stimulus package is intended to enable the manufacturing sector to achieve stable performance. Nevertheless, it calls into question the reforms carried out since 2010 aiming at rebalancing growth by giving more power to the Chinese wage-earning consumer. Though wage rises are expected to continue and support consumption, investment - already over-represented in GDP - will grow more rapidly perpetuating the structural imbalances of the Chinese growth model.

Persistent weaknesses in SMEs, banks and local authorities

Chinese SMEs bear watching because they are contending with several shocks: substantial wage pressures, appreciation of the yuan 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.

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, despite recent progress in regulation, major governance shortcomings persist.

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 ↘

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

Egypt

Coface Assessments

Country risk **C**

Business climate **B**

Medium term

RATHER HIGH RISK

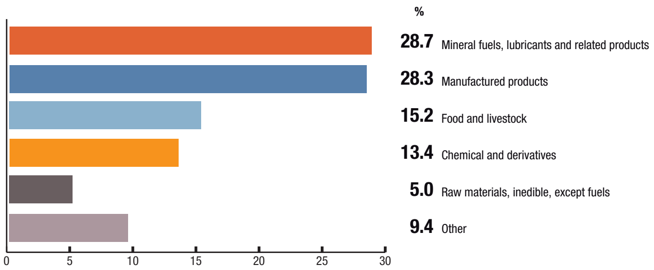
Main Economic Indicators

	2008/09	2009/10	2010/11 (e)	2011/12 (f)
GDP growth (%)	4.7	5.1	1.6	1.4
Inflation (yearly average) (%)	16.2	11.7	11.5	8.5
Budget balance * (% GDP)	-7.0	-8.1	-10.0	-11.5
Current account balance * (% GDP)	-2.3	-2.0	-1.8	-2.0
Public debt (% GDP)	77.0	78.0	80.0	83.0

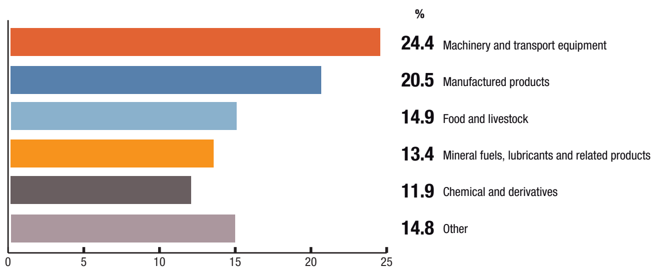
(e) : estimate *(f) : forecast* ** grants excluded*

Trade exchanges

Exports 25 % of GDP



Imports 32 % of GDP



Risk assessment

Difficult political transition

Following the resignation of President Mubarak in February 2011 under popular pressure, the Supreme Council of the Armed Forces (SCAF) has led an interim government pending the completion of legislative and presidential elections in the first half of 2012. But the SCAF has drawn protests for its handling of a political transition normally intended to result in revision of the Constitution and establishment of a civil regime. The legislative elections held late 2011 and early this year for the two houses of parliament were marked by the strong showing of the Islamists — the FJP (Freedom and Justice Party affiliated with the Muslim Brotherhood) and the fundamentalist Salafist Al Nour Party. While their economic programmes have a liberal orientation, they focus on a better redistribution of the benefits of growth. And the FJP, with nearly half the seats in the lower house, is expected to be pragmatic.

But the political and economic situation is highly unlikely to stabilize before the outcome of the presidential election is known late June and the transfer of power to a civilian government — in all likelihood a coalition — is carried out.

Slowdown of GDP growth

Industry remains affected by the social unrest, the winter high tourist season has begun catastrophically (whereas tourism is a key sector, 16% of GDP in the broad sense), and Canal traffic will suffer from the deterioration of the global economic environment. Performance has nonetheless been relatively good in the telecommunications, fertilizer and construction sectors. Overall, economic growth could slow further in the 2011-2012 fiscal year. In this uncertain environment upwards pressure on prices will remain high.

Slippage of public finances

The events will give rise to a higher than forecast fiscal deficit due to the decline in growth and, therefore, of revenues, and due to increased spending. Income from sales taxes and customs duties will fall sharply. At the same time, increases in public sector wages, social assistance payments and subsidies (27.5% of total spending and 8.5% 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 quarter 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, whereas Egypt is planning an initial issue of Islamic bonds.

Pressure on the external accounts and on the pound

Exports of goods are expected to increase moderately, notably because of robust hydrocarbon prices, but revenues from the Suez Canal and transfers from expatriate workers are likely to be affected. Moreover, the expected steep drop in tourism revenues will contribute to maintaining a current account deficit, only 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. Moreover, there has been flight of capital and some non-residents have repatriated funds by selling Treasury Bills. However, external debt as a ratio of GDP is expected to remain at a moderate level (16%).

In the current context, maintaining the pound's informal peg to the dollar is a major challenge. In the first quarter 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 only three months of imports, particularly low for a country that covers a high proportion of its food needs through purchases abroad. Compounding this situation is the loss of about $8 billion suffered by the commercial banks.

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, will be 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**

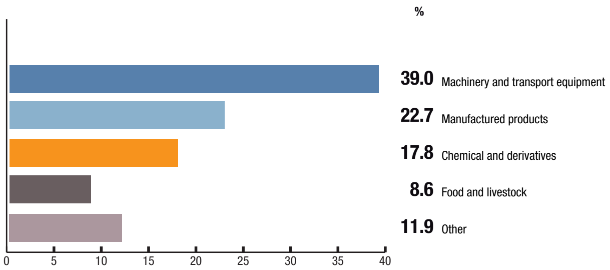
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-2.7	1.4	1.7	0.3
Inflation (yearly average) (%)	0.1	1.7	2.3	2.2
Budget balance (% GDP)	-7.5	-7.1	-5.2	-4.7
Current account balance (% GDP)	-1.5	-1.7	-2.4	-2.0
Public debt (% GDP)	79.0	82.3	85.8	90.0

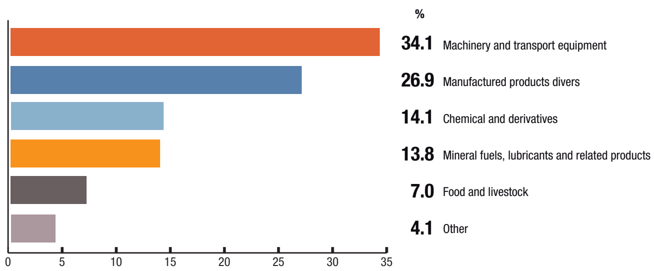
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations **23 %** du PIB



Importations **25 %** du PIB



Risk assessment

Slowdown in growth expected in 2012

Unlike most other eurozone countries, France's economic activity did not shrink in Q4 2011. This result can be attributed to a rebound in corporate investment (replacement of vehicle fleets) and the healthy state of aeronautical exports. Household consumption, nevertheless, remained weak.

However, activity is expected to stagnate in the first half of 2012. Faced with a worsening job market, increased fiscal austerity and stagnating purchasing power, households will maintain high savings levels (about 17% of their disposable income) and will curb their consumption. Company investment, which has been the main driver of the recovery, is expected to decline appreciably in the face of sluggish domestic demand, the worsening economic situation in the eurozone and the tightening of conditions for granting credit. Inflation is unlikely to lessen due to rising energy prices and higher VAT.

Weak financial position of companies and loss of export market share

Companies have not restored their financial health or their self-financing capacity (the rate of which does not exceed 70%) to pre-Autumn 2008 crisis levels. While they remain weak, the tensions over the financing of public debt in the eurozone have spread to the banking system, which is strongly exposed to the debt of the peripheral countries and, in turn, could harden its lending policy. At a more structural level, French companies, of inadequate size, are still not very innovative and do not export enough. With still only limited presence in emerging markets, they, therefore, fail to benefit fully from the dynamism of these markets. Despite tighter profit margins, French industry continues to lose market share.

Payment behaviour has deteriorated again and bankruptcies are still at a relatively high level

Payment incidents recorded by Coface were up again in 2011, particularly in the construction sector. The number of company insolvencies was nearly stagnant, remaining above the pre-crisis level. Moreover, the cost of these for suppliers began to rise again at the end of the year due to the failure of several large firms. Bankruptcies diminished in the pharmacy, agricultural and fishery sectors and in the capital goods sector, while they increased in financial services, which had been little affected in 2010. At the same time, business creation declined as a result of the smaller number of individual business start-ups, self-employed status having become less attractive from a fiscal and regulatory standpoint.

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
- Substantial private savings

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**

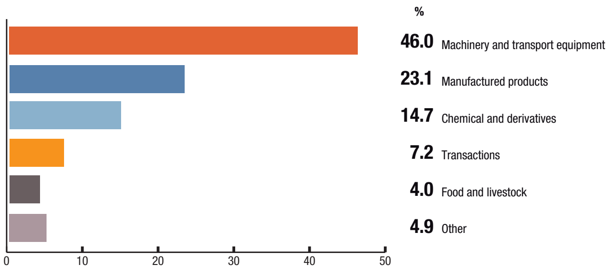
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-5.1	3.7	3.1	0.7
Inflation (yearly average) (%)	0.4	1.1	2.2	2.3
Budget balance (% GDP)	-3.2	-4.3	-1.0	-0.8
Current account balance (% GDP)	5.6	5.7	5.4	4.9
Public debt (% GDP)	74.2	83.0	81.0	82.0

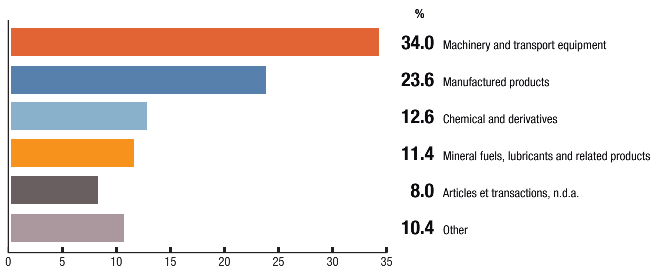
(e) : estimate *(f) : forecast*

Trade exchanges

Exports **41 %** of GDP



Imports **36 %** of GDP



Risk assessment

Sharp economic slowdown linked to decline of the external environment, followed by a progressive recovery

In the wake of the European debt crisis and the global economic slowdown, the economy declined slightly in the last months of 2011. At best, it is expected to stagnate in early 2012 before gradually returning to growth in the spring. Growth will be weak throughout 2012.

Despite continued strong demand from emerging markets, exports (50% of GDP) will slow sharply as a result of the adverse economic situation in Western Europe (55% of export sales). Since, at the same time, imports will slow less, the contributions of foreign trade to growth will be slightly negative in 2012. Moreover, the uncertainties have lead companies to postpone investments until the second half of 2012. 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.

Support for household spending

The strength of household consumption and investment will underpin the economy. Households are expected to maintain consumption. Despite the expected slowdown in job creation, unemployment will fall again because fewer people will arrive on the job market. Companies, keen to retain an increasingly rare skilled workforce, will make use of *Kurzarbeit* ("short work") which allows companies to cut workers' hours with unemployment insurance making up lost wages. Disposable household income will significantly increase because of wage rises resulting from a stretched labour market as well as the indexation of 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 likely to worsen again

In 2011 corporate profitability almost returned to its comfortable pre-crisis level. However, agreed wage rises and higher raw materials prices slowed the process down. But on the other hand, deleveraging enabled by improved company cash flow reduced debt-servicing charges.

The distinct slowdown in growth that is expected for 2012 could however lead to a relapse. If there is any deterioration in the banking sector, where a number of banks still remain fragile, access to bank credit would become restrictive and expensive. This could pose serious difficulties for those businesses, particularly Sees, reliant on bank loans. However, the small scale of the economic downturn is expected to limit any deterioration.

Strengths ↗

- Solid industrial base (1/4 of GDP)
- High cost/product competitiveness and weak sensitivity to exchange rates
- Strong foothold in emerging markets (1/3 of exports)
- Central role of export-oriented SMEs (Mittelstand)
- Research & Development
- 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

Ghana

Coface Assessments

Country risk **B**

Business climate **B**

Medium term

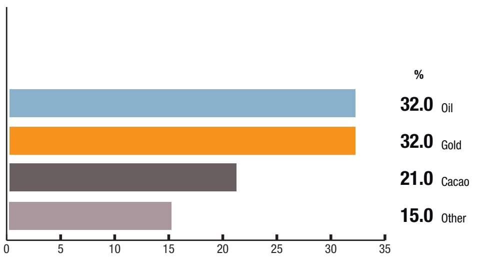
RATHER HIGH RISK

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.0	7.7	13.5	8.5
Inflation (yearly average) (%)	19.0	10.7	8.7	8.7
Budget balance * (% GDP)	-8.8	-10.1	-7.3	-6.9
Current account balance * (% GDP)	-7.3	-9.0	-7.4	-7.8
Public debt (% GDP)	34.4	37.4	38.0	37.0

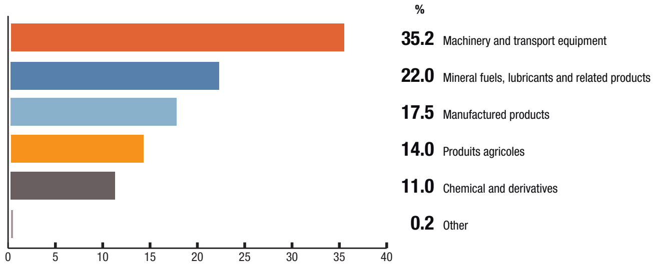
*(e) : estimate (f) : forecast * grants excluded*

Trade exchanges

Exportations 31 % du PIB



Importations 41 % du PIB



Risk assessment

Vigorous growth

After a surge linked to the beginning of operations in the Jubilee oilfield, growth, though slowing, will remain vigorous in 2012. Oil production will increase and gold mining will expand, while production of food and cash crops will rise and the services sector will also expand. Finally, investment in infrastructures, in the mining sector and in the exploration of new oil fields will continue.

Narrowing current account deficit thanks to exports

Thanks to the increase in oil and gold production, exports will again grow appreciably. This will largely offset the negative impact of the decline in the cocoa price linked both to the excellent harvest, the fall in world demand and the Ivory Coast's return to the market. A significant fall in the price of gold, unlikely in the short term, would, however, be likely to affect this forecast. Against this, imports of equipment needed for the development of infrastructures and the oil industry will also grow, while imports of foodstuffs will cost less because of lower world prices. As a whole, the trade deficit will continue to reduce to only 2% of GDP.
However, the exploitation of natural resources and the construction of installations by foreign companies are offset by charges for services and the payment of dividends abroad, which maintain the current account deficit. Big remittances from Ghanaians who have emigrated, essentially to the United Kingdom and the USA, and, to a lesser extent international development aid, are insufficient to cover the deficit. The balance is fortunately very largely funded by private indirect foreign investments and by loans from foreign partners (countries or multilateral organisations) on still favourable conditions, even though the country emerged from the category of low-income countries in 2010 to join the ranks of those with middle per capita income.

Public finances in need of improvement

Despite growing oil revenues, the public deficit is declining slowly. During their first years, oil companies amortise their investments, which reduces the profits on which their taxes are calculated. Moreover, at least 30% of the revenues derived from oil are paid into the Heritage Fund meant for future generations and into the Stabilisation Fund aimed at reducing the impact of cyclical troughs. Moreover, mining, which, accounts for only 5% of GDP contributes relatively little to the state budget. What is needed therefore is to increase the tax on profits from 25% to 30% and introduce a 10% tax on the mining companies' windfall profits, compared with the 30% usual in Australia. What is also needed is to review exemptions from customs duty on imports of equipment and services intended for the mines as well as from taxes on capital gains. The financial contribution of mining will be a major issue in the next elections.
With the prospect of very tight elections at the end of 2012 with the same protagonists, the current President, John Atta Mills and his main opponent, Nana Akufo Addo, contesting them as in 2008, the authorities are showing no eagerness to hasten fiscal consolidation. The strong increase in gross domestic product provides significant support. Current spending has grown greatly with the increase in fuel subsidies triggered by higher oil prices as well as by the adoption of a single wage scale for all government jobs.
Budget management is, however, expected to improve. This will enable settlement of accumulated domestic arrears (the process being due to end in 2013) and prevent the appearance of new ones. It will contribute to the reduction of public debt (40% of GDP) in which the public energy sector plays a significant role.

Strengths

- Political and institutional stability
- Civil liberties and security generally assured
- Considerable agricultural (cocoa) and mineral (oil, gold) resources
- Support of financial backers (United Kingdom, USA, China) and the IMF
- Low corruption, available and reliable business information

Weaknesses

- Proximity to weak Ivory Coast
- Government finances inadequately controlled
- Dependence on cocoa, gold and, now, oil
- Inadequate transport and energy infrastructures
- Public companies weakened by underpricing and debt

Greece

Coface Assessments

Country risk **C**

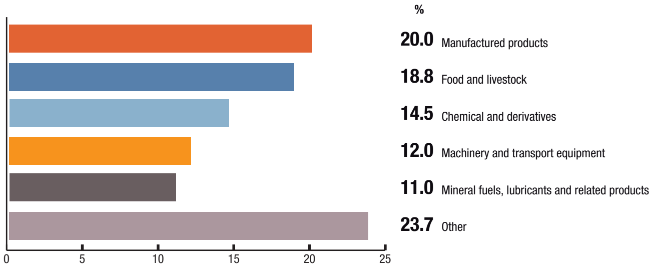
Business climate **A3**

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.3	-3.5	-6.9	-6.0
Inflation (yearly average) (%)	1.2	4.7	3.3	-0.1
Budget balance (% GDP)	-15.7	-10.6	-9.3	-7.5
Current account balance (% GDP)	-11.1	-10.1	-9.8	-6.0
Public debt (% GDP)	129.0	144.5	165.3	165.0

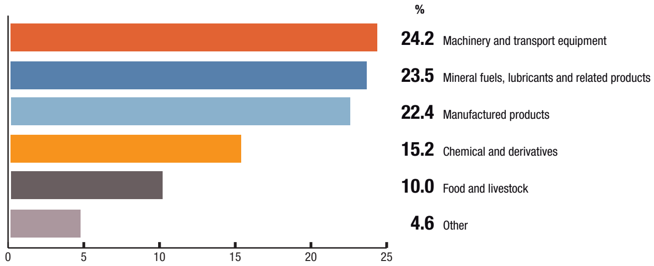
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 19 % of GDP



Imports 29 % of GDP



Risk assessment

A fifth successive year of recession in 2012

The fall in domestic demand accelerated in 2011. Consumption declined noticeably as a result of the drop in real incomes, tax increases and a worsening job market (unemployment rising to 20.4% in Q4). Investment continued to fall still more strongly because of the contraction of demand, the increased tax burden and the tightening of credit policy by the banks, themselves having to contend with a lack of liquidity, withdrawal of deposits and deteriorating portfolios. In contrast, exports continued to grow, becoming slightly more competitive. With help from a reduction in non-oil imports, foreign trade contributed positively to the economy. The recession is expected to continue for the fifth consecutive year in 2012 due to fiscal austerity and higher unemployment. The adjustment of the external accounts is set to continue, even if foreign demand weakens, thanks to a further reduction of purchases abroad and a reduction in interest payments following the debt reduction operation finalised at the beginning of March 2012.

Bailout package and debt reduction made inevitable

Investors' doubts concerning the Greek government's ability to pay necessitated the introduction of a first bailout package of €110 billion in May 2010, providing for drastic budget measures and reforms (pension scheme, job market, overhaul of taxation intended to improve tax collection and reduce the size of the grey economy). This plan did not go far enough, as Greece was not able to return to the markets in 2012 as planned.

The worsening of the economic, financial and social situation pushed long bond yields to record levels, as creditors became increasingly sceptical while European leaders dragged their feet over implementing the measures announced at the July 2011 European summit, among which was a new bailout plan for Greece. Relations between Greece and international donors, who reproached the country for taking too long to implement budget measures and privatisations, became dangerously strained, resulting in the postponement of the release of one of the loan tranches agreed in 2010. Without this drawdown the country would have defaulted. In October 2010, the European Council set up the new bailout plan combining €130 billion of additional funding and participation by private creditors involving a 50% haircut on their holdings of Greek bonds (against the 21% originally planned). On 21 February 2012, the private creditors will finally agree to 53.5% reduction in the face value of their claims (the actual loss is in fact slightly more than 70% given the prolongation of the repayment period and the agreed interest rate cut). This will make it possible to ratify the second bailout plan. However, despite this unprecedented restructuring, the Greek government remains highly indebted. According to the IMF, public debt is expected to reach a peak of 167% of GDP in 2013 because of the recession, before falling very gradually thereafter. Moreover, the current account deficit is coming down only 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 start again and if the social impact of the adjustment becomes intolerable, new restructuring, or even a unilateral exit of Greece from the eurozone, cannot be totally ruled out.

Companies facing a difficult environment

Companies are facing a greatly worsened economic and financial context, a drop in public sector procurements and higher taxes. Their solvency is bound to be affected. Retail sector turnover continued to fall in 2011 and manufacturing activity continued 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-building projects. Bankruptcies have increased more quickly in Greece than in the other peripheral eurozone countries and payment failures recorded by Coface have increased again.

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

Hungary

Coface Assessments

Country risk **B**

Business climate **A2**

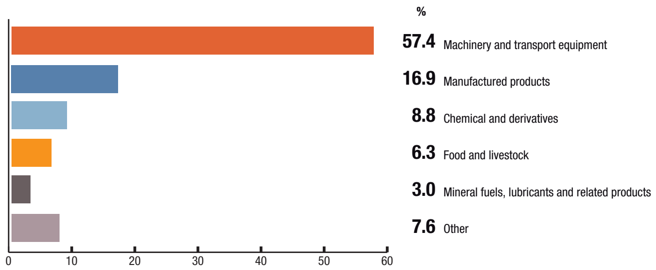
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-6.7	1.2	1.6	-0.9
Inflation (yearly average) (%)	4.0	4.7	3.9	4.9
Budget balance (% GDP)	-4.5	-4.2	1.2	-4.8
Current account balance (% GDP)	0.4	2.3	1.5	1.1
Public debt (% GDP)	78.4	80.2	83.0	84.5

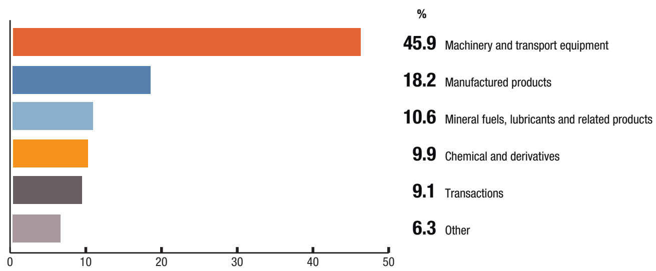
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 81 % du PIB



Importations 80 % du PIB



Risk assessment

A weak economy dependent the development of the eurozone debt crisis

After a modest recovery in 2011, driven by demand from European partners and, in particular, from Germany, activity is expected to contract in 2012 because of sluggish domestic demand and the weakening of foreign demand burdened by the worsening of the eurozone sovereign debt crisis. How this crisis develops will impact both the trading channel and the financial channel, Hungarian banks being dependent on financing from their parent companies. In this context, export and investment forecasts could be revised downward in line with German demand and domestic credit supply. Household consumption will continue to be held down by loan repayments, the austerity policy and high unemployment. The rising trend in 2011 in payment failures by Hungarian businesses recorded by Coface is expected to continue in 2012. Difficulties will persist in particular in the construction, metallurgy and retail sectors. Moreover, bank profitability is expected to be further affected by new regulations adopted at the end of 2012, which authorise households with foreign currency debt (particularly in Swiss francs) to repay the balance of their loans in local currency at a capped exchange rate level. As far as inflation is concerned, it is expected to rise in 2012 because of the increases in VAT and other taxes on consumption.

Need to request further aid from the IMF

Hungarian public debt remains high because of inadequate fiscal adjustments. The 2011 fiscal surplus, linked to the nationalisation of the pensions system, will not last forever. Moreover, the implementation of the Szell Kalman plan, mainly centred on a reduction of spending, is expected to meet strong resistance in 2012. The European Community has decided to put pressure on Hungary to reduce its national deficit to 3% of GDP. The Finance Ministers of the European Union voted on Tuesday 13 March 2012 to freeze the 495 million euros of Cohesion Funds intended for Hungary. This block will however be removed if Hungary submits corrective measures by 22 June 2012. This amount is just under a third of the 1.7 billion euros which the country would be able to claim in 2013 from the Cohesion Fund, which supplies aid for disadvantaged regions within the European Union. The current account surplus is expected to fall in 2012. But despite the effort of adjustment since 2009, the need for external financing is still great. In a context of increased investor aversion, the sources of finance are expected to dry up whether these are FDIs, investment portfolios or bank credits granted by parent companies (60% of Hungarian bank assets are held by eurozone banks). It is for this reason that the government has begun discussions with the IMF for a loan of 20bn dollars over 3 years. The IMF will continue its discussions when the Hungarian Central Bank is granted increased independence. In this context, we can count on a marked volatility of the Forint, at least until the agreement with the IMF is signed. The Forint indeed saw the most marked depreciation in Central and Eastern Europe in the second half of 2011 (-20%), investor wariness being fed both by the eurozone crisis and the unpredictability of macro-economic policies. Non financial-companies debt in foreign currencies remains large, with a high proportion in Swiss francs. The Coface payment record could be affected.

An extremely controversial political environment

The new government which took office in May 2010 and which is led by Viktor Orban of the nationalist centre-right party (Fidesz) was elected in reaction to the adjustment measures applied by the previous government as part of the first IMF agreement. Viktor Orban put in place an unconventional macro-economic adjustment policy based on lower consumption taxes, the imposition of new taxes on non-tradable activities (banks, telecommunications, energy), nationalisations. Recourse to the IMF at the end of 2011 signalled the failure of this strategy. The reorientation of macro-economic policy as part of the new IMF program nevertheless remains uncertain. Political tensions are still possible given that the government has announced that it will not accept any further austerity measures and that we are witnessing an increased centralisation of power.

Strengths

- Efficient infrastructure and regulatory framework
- Continued progress in prudential supervision of the banks
- Diversified economy
- Skilled labour force
- Stock of large direct foreign investments

Weaknesses

- Large national debt
- Great need for foreign financing and insufficient foreign exchange reserves
- Exchange rate volatility
- Great exposure of investors to exchange rate risk
- Government seen to be slipping into authoritarianism

Iceland

Coface Assessments

Country risk	A4
Business climate	A1

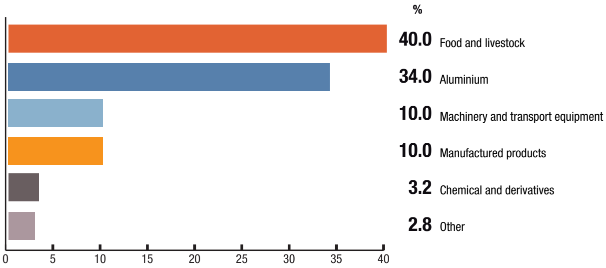
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-6.8	-3.5	2.3	0.4
Inflation (yearly average) (%)	12	5.4	4.5	4.5
Budget balance (% GDP)	-10	-10.1	-5.7	-4.4
Current account balance (% GDP)	-11.8	-10.8	-10	-9.3
Public debt (% GDP)	87.9	92.9	92.4	90.2

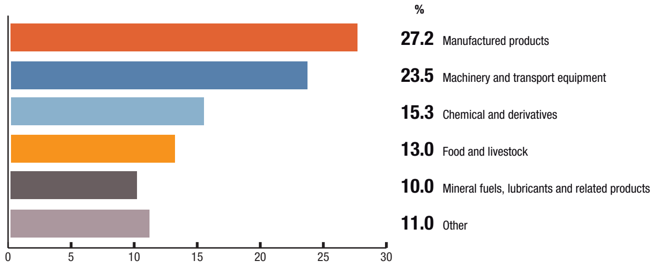
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 44 % of GDP



Imports 47 % of GDP



Risk assessment

Continuation of positive growth in 2012

After a growth shock of over 10% between 2007 and 2010, the economy grew 2.3% last year but is expected to decelerate significantly in 2012 (up 0.4%) with several factors likely to prompt households to limit spending: high unemployment (between 7 and 8%) by Icelandic standards, resurgent inflation, income tax hikes budgeted for 2012; and gradual withdrawal of measures in support of consumption, like the restructuring, even cancelling of part of the debt of some borrowers. Although many beneficiaries of those measures will nonetheless remain burdened by heavy debt, wage increases negotiated in the framework of a three-year plan in May 2011 and the growth of asset values, especially housing prices, mitigate such negative effects. GDP growth will moreover derive support from corporate investment, particularly by smaller companies that have also benefited from debt restructuring. While very ambitious projects may be postponed this year, the start-up of work on the enlargement of the Staumsvik aluminium factory should enable investment to maintain a good growth rate, up about 9%. Exports have already suffered from several factors: the slowdown in demand from the main trading partners including the Netherlands (31% of sales abroad), United Kingdom (13%), and Germany (11%), the constraints of quotas imposed on the fishing industry, and the stagnation of aluminium production.

Public and external accounts will continue to improve

In 2008, after the credit bubble burst and the property market collapsed, Iceland became the first advanced country to solicit aid from the IMF. The agreement ultimately signed with the Fund expired 31 August 2011. It was an acknowledged success: the objective of consolidating public finances was met with the public deficit reduced by five points in three years albeit still remaining substantial. Although public sector debt remains high, it should begin to decline significantly this year. External debt was cut in half since 2008, down to a still massive 250% of GDP last year. Thanks to capital controls, the Icelandic krona exchange rate has been stabilised. But on the flip side, the controls have impeded the inflows of foreign capital that might otherwise have contributed to financing economic development. They are moreover unlikely to be lifted in 2012. The growth of inflation fuelled by the rise of prices for imported raw materials is expected to be held to 4.5%. After raising its key rate twice in four months (in August and then November 2011), up to 4.75%, the Central Bank should tighten monetary policy further in 2012, albeit moderately so as to avoid unduly increasing the household debt service burden.

Companies still very vulnerable

The three main banks – *Glitnir, Kaupthing*, and *Landsbanki* – have been restructured and recapitalised: the first two, renamed Islandsbanki and Arion, are owned by their creditors, while the third is 80% state-owned. Meanwhile, the litigation over the digital bank Icesave (*Landsbanki* subsidiary) has been resolved with the reimbursement of the deposits of Dutch and British nationals handled by the parent company without calling on public finances. The banking sector remains nonetheless vulnerable and the extension of credit to companies and household will remain flat. And that contributes to further undermining the position of Icelandic companies while bankruptcies have soared again with a spectacular surge of nearly 73% in the second half of 2011. The sectors affected mainly include those focusing on the domestic market: wholesalers and retailers, garages, and construction. In view of the moderation expected in foreign demand, it would be advisable to give particular attention to export sectors.

Strengths

- Abundant thermal and hydroelectric energy
- High tourist potential
- Proportion of youth in the total population above average for Western Europe
- High level of education
- Cleaned-up banking system
- Restructured household debt
- Successful IMF agreement

Weaknesses

- Small economy
- Concentration of production and exports (aluminium and seafood)
- Foreign debt and current account deficit still large despite improvement
- Erosion of investment (13% of GDP)

India

Coface Assessments

Country risk **A3**

Business climate **A4**

Medium term

RATHER LOW RISK

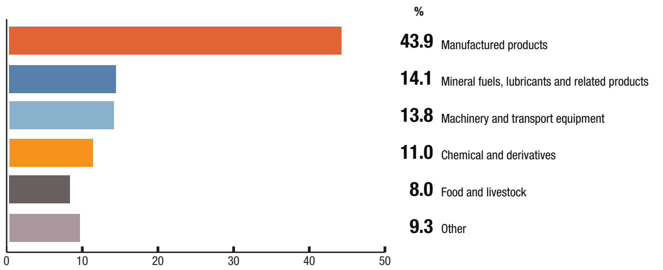
Main Economic Indicators

	2009/10	2010/11	2011/12 (e)	2012/13 (f)
GDP growth (%)	8.4	8.4	6.8	7.0
Inflation (yearly average) (%)	3.8	9.6	8.7	7.2
Budget balance (% GDP)	-9.9	-8.8	-8.1	-7.7
Current account balance (% GDP)	-2.8	-2.7	-2.8	-3.0
Public debt (% GDP)	71.3	66.7	66.2	65.7

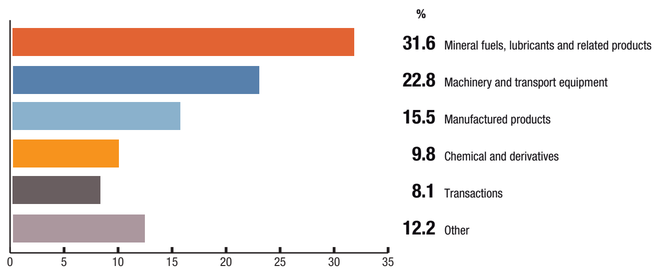
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 20 % du PIB



Importations 24 % du PIB



Risk assessment

Activity slowdown in 2012/2013 and persistent overheating

The Indian economy slowed in 2011 due to a sluggish manufacturing sector and to monetary policy tightening in a context of high inflation. Industrial production slowed because of the thirteen interest rate hikes, which helped to moderate credit expansion. The automotive and property sectors - in which assets are mainly bought on credit - fell sharply in Autumn 2011.

Activity is expected to slow again in 2012, despite the expected easing of monetary policy in a context of falling inflation. The balanced model (between investment and consumption; between industry and services), which has explained the country's successes, is beginning to run out of steam because of persistent bottlenecks (infrastructure, distribution networks, lack of skilled labour), which curb investment, and persistent shortcomings in the business environment, which discourage FDIs. Thus, manufacturing and mining industry performances will decrease substantially. Against this, the services (tourism, transport, communications, finance, information technology) will remain very dynamic. Moreover, the retail trade will be sustained by household consumption, the main driver of growth.

Meanwhile, inflation, though slowing, will remain high in 2012 because of consistently high raw materials prices and reduced subsidies on the price of petrol, diesel, kerosene and gas. Furthermore, these high raw materials prices will quickly carry over into core inflation (energy and food prices excluded) via wage rises, in turn leading to higher end prices. High inflation combined with a widening current account deficit is evidence of persistent overheating in the Indian economy. The rapid growth of domestic demand cannot be satisfied by domestic supply and the economy is growing more quickly than its potential allows.

Persistent twin deficits

The fiscal deficit fell slightly in 2011 with the gradual withdrawal of the stimulus plan. This trend is expected to be confirmed in 2012. The deficit will, nevertheless, remain substantial, adding to an already high public debt. Moreover, the heavy debt-servicing burden is expected to continue to curb public sector investment in capital goods (particularly in infrastructures), which are, however, crucial for accelerating growth. Furthermore, the country's external financial situation is deteriorating. The current account deficit will remain stable in 2012 due to continuing strong domestic demand, which draws in imports. Nevertheless, it will be only partially covered by FDIs. These will slow in a context of international economic and financial turbulence and persistent domestic obstacles (restrictions on land purchases, complexity of the environmental authorisations to be obtained and slowness in liberating certain sectors such as those of retail sales and insurance). In this context, India is increasingly dependent on the financial markets. The winter of 2011 was marked by sudden portfolio outflows that put downward pressures on the rupee. The Central Bank then intervened to support the currency. Temporary capital controls could be introduced. However, foreign exchange reserves remain at a satisfactory level putting the country in a good position to withstand sudden capital flight.

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

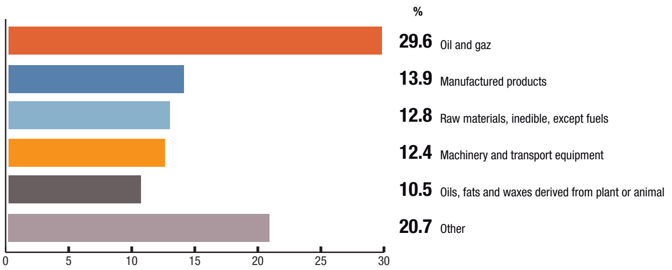
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.6	6.2	6.5	6.3
Inflation (yearly average) (%)	4.8	5.1	5.4	4.8
Budget balance (% GDP)	-1.6	-0.6	-1.1	-1.5
Current account balance (% GDP)	2.0	0.7	0.2	-0.2
Public debt (% GDP)	28.4	26.1	24.3	23.8

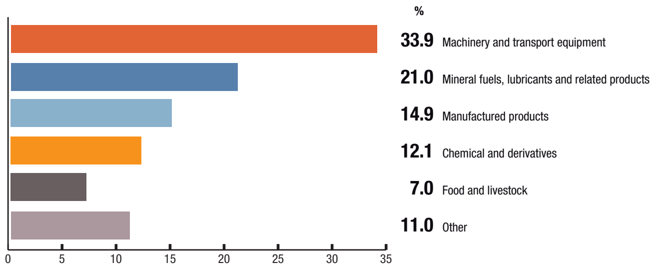
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 24 % of GDP



Imports 21 % of GDP



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, ore, palm oil, and wax representing a steady 38% 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. But the question of the abolition of energy price subsidies burdening public sector finances has been put on hold.

Foreign debt will likely remain under control even if the current account will be slightly in deficit in 2012 due to the very rapid growth of imports amid the recovery of domestic demand. Besides, this slight deficit will be entirely covered by FDI with Indonesia thus independent of financial markets. In the face of risks associated with massive inflows of volatile capital (rupiah appreciation undermining export competitiveness, rapid growth of the money supply), in June 2010 the authorities implemented capital controls (notably establishing the minimum time central bank certificates must be held), which are expected to slow the destabilizing 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

Iran

Coface Assessments

Country risk **D**

Business climate **C**

Medium term

VERY HIGH RISK

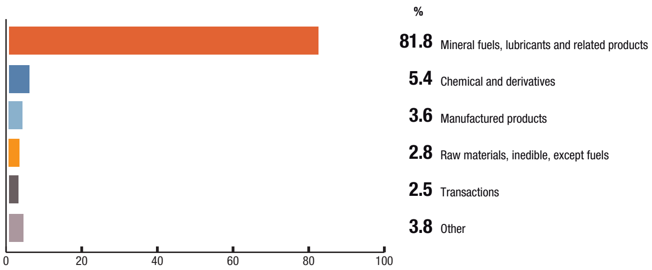
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	3.5	1.5	1.5	-1.0
Inflation (yearly average) (%)	15.5	16.5	18.5	20.0
Budget balance (% GDP)	0.9	2.1	1.0	-1.0
Current account balance (% GDP)	2.5	4.9	2.5	0.5
Public debt (% GDP)	16.4	12.8	13.2	15.2

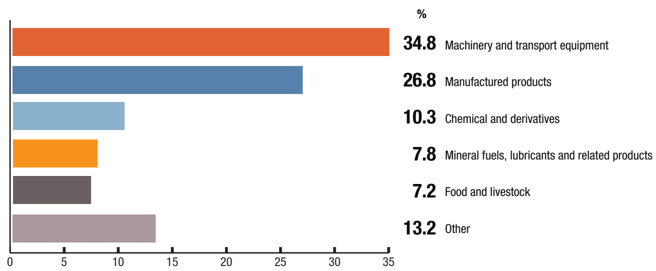
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 32 % du PIB



Importations 22 % du PIB



Risk assessment

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

The rise in oil prices in 2011 enabled moderate growth to be maintained, as did the expansion of natural gas production thanks to new sites coming on stream in the South Pars field. In the non-hydrocarbons sector, activity did not recover.

Growth was expected to be lacklustre in 2012, but with the tightening of international sanctions the economy is going to enter into recession. Industrial and retail activity is hampered by the tougher international sanctions and by the country's limited ability to boost its own oil production, while household consumption (the leading component of GDP) is hit by the cuts in subsidies, growing unemployment (already 15% of the workforce and especially severe among the young) and strong inflationary pressures.

These price pressures will remain high mainly because of the gradual removal, begun at the end of 2010, of subsidies on some basic products and the collapse of the rial.

Emergence of a fiscal deficit and sharp drop in current account surplus

The budget, following the reduction in its surplus in 2011, would have just been balanced in 2012 thanks to hydrocarbon revenues, which account for two-thirds of tax receipts, and a policy of gradually phasing out costly subsidies (10% of GDP). This process has been spread over several years with the aim of preventing a precipitous surge in prices and social tensions. A fiscal deficit is nevertheless expected to emerge in 2012, as a result of the decline in economic activity and the negative impact of international sanctions on hydrocarbon exports. However, for the time being, the level of public debt will probably remain sustainable. Moreover, the country has a Reserve Fund for future generations.

The external accounts surplus is likely to shrink, despite high world oil prices, as oil sales will decline with the fall in production – a result of lacking investment in modern technologies – and international sanctions, which will also curtail non-oil exports. At the same time, despite the need to import one-third of its consumption of refined fuel, the imports bill should remain stable, a result of the international sanctions that will complicate the financing of foreign trade.

Nevertheless, Iran's external financial position should remain relatively comfortable, reflecting the very low level of external debt (3% of GDP) and the relatively high level of foreign exchange reserves (equal to 12 months of imports), although the very sharp, sanctions-related, depreciation of the rial, and the possibility of capital flight linked to the political uncertainties, are all significant elements of weakness.

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

The parliamentary elections in March 2012 were won by the ultra-conservative elements supporting the supreme leader Ayatollah Ali Khamenei, the ultimate religious and political authority. Following these elections and in the run up to the presidential election in June 2013 – end of the second and final term in office for president Ahmadinejad – the tensions between the regime's rival conservative factions have increased, in particular between the supreme leader and president Ahmadinejad, whose faction won only one-third of the parliamentary seats, and who is trying to avoid an impeachment procedure based on accusations of corruption and economic mismanagement.

In addition, the international sanctions were tightened even further at the end of 2011, following a report from the International Atomic Energy Agency on the Iranian nuclear programme. Western governments also strengthened their sanctions notably with a prohibition on most financial transactions with Iran and by instituting an oil embargo.

However, considering that Iran is in an electoral period, even the most stringent sanctions seem unlikely to result in any fundamental changes in the country's nuclear policy. Nevertheless, the new sanctions will have an even greater impact on the various economic sectors and on a business environment that is already suffering from the deterioration in the political climate and from institutional shortcomings. This context could also strengthen the tendency towards economic self-sufficiency and lead to increased pressures on local banks to provide funding for the economy.

Following the suspension of the business activities of Western firms, Iran is developing its trade with China, India and Turkey. These countries are interested in Iranian hydrocarbons supplies and may contribute to the investments needed in the energy and petrochemical sectors. However, Iran's trading partners seem to be trying to take advantage of the sanctions by increasing the pressure on their Iranian suppliers in order to obtain better terms. Furthermore, the sanctions are also leading to increasing payment defaults, most notably relating to imports of agricultural products.

Strengths ↗

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

Weaknesses ↘

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

Italy

Coface Assessments

Country risk	A4
Business climate	A2

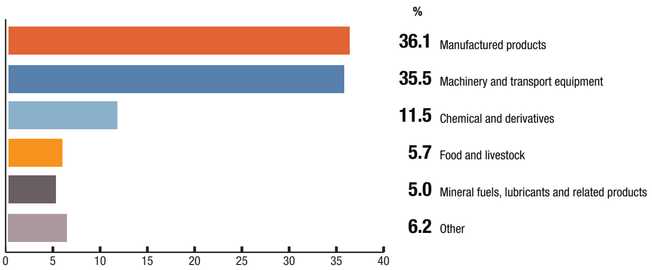
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-5.1	1.4	0.4	-1.5
Inflation (yearly average) (%)	0.8	1.6	2.9	2.8
Budget balance (% GDP)	-5.4	-4.6	-3.9	-2.2
Current account balance (% GDP)	-1.9	-3.5	-3.2	-2.7
Public debt (% GDP)	115.5	118.4	119.9	120.2

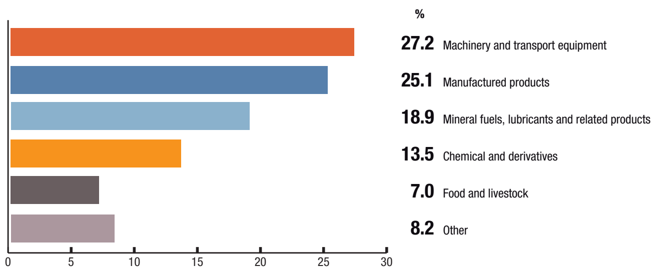
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 24 % of GDP



Imports 24 % of GDP



Risk assessment

The inevitable return of recession

Italy went into recession again in the second half of 2011 as a result of fiscal tightening, a fall in confidence and a slowdown in external demand. Despite the sluggishness of domestic demand, the external account deficit scarcely diminished, showing the economy's loss of competitiveness. Tighter fiscal austerity (a draconian plan of 30 billion euros put forward by the new government in December 2011), as well as deteriorating financing conditions and the fall in European demand (58% of sales) lead one to fear a sharpening of the recession in 2012. Private consumption will be affected by the fall in household disposable income caused by worsening job market and inflation – fed by rising oil prices and tax increases – higher than the rise in wages. Private investment will be restrained by excess capacity and hardening access to credit. Only the contraction of imports, caused by that of domestic demand, is likely to make any slight positive contribution to growth from foreign trade.

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 118% of GDP at the end of 2010 – the highest level in the eurozone after that of Greece and the biggest of all in absolute value. Despite a rather prudent fiscal policy in recent years, the consolidation effort had to be intensified under pressure from the markets and the ECB. The size of the government's financial needs, the economy's weak long-term growth potential and doubts concerning the country's capacity to conduct the necessary reforms have eroded market confidence. The country found itself at the centre of the eurozone's debt crisis in late 2011, dependent on the purchase of Italian debt by the ECB in order to contain the rise in the interest rates on its borrowings. The record level of these rates between November 2011 and January 2012 (over 7% for 10-year sovereign bonds) and the worrying growth prospects hardly augured well for a stabilisation of the debt ratio. However, Mr Monti's government has begun reforms. After liberalisation of certain sectors of the economy, the relaxation of some of the rules regarding the sacking of employees is expected to provide the basis for sustainable growth. Moreover, the ECB's massive three-year loans allocated to banks have enabled these to be provided with liquidity and brought back some calm to the government bond market. The country is nevertheless expected to remain for some time under the close watch of international investors whose sentiment could at any time do an about turn if the reform effort weakens or if growth fails to materialise.

Companies weak in the face of recession

Italy is going through a difficult phase and the financial situation of businesses reflects this. Bankruptcies continued to increase in 2011 and payment failures recorded by Coface climbed sharply. Among the reasons for this situation are the structural weaknesses of SMEs, which represent the essential fabric of Italian industry, as well as the growing difficulties linked to access to bank lines of credit. Among the sectors most affected are construction and electrical equipment, which could be hit even harder in the future by new government measures (reintroduction of the property tax, abolished in 2008, and a brake on large-scale public works projects), as well as textiles, which have always been structurally weak. On the other hand, the luxury goods sector, driven by demand from emerging countries, is doing well. The particularly severe austerity measures adopted by the new government risk leading to sharp contraction of consumption, with the consequences that this implies on all sectors of the economy, in particular mass distribution (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 (below 60% of GDP) and strong saving capacity (18% of GDP)
- National debt nearly 60% 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 national sovereign debt
- Backwardness of the south

Japan

Coface Assessments

Country risk **A1**

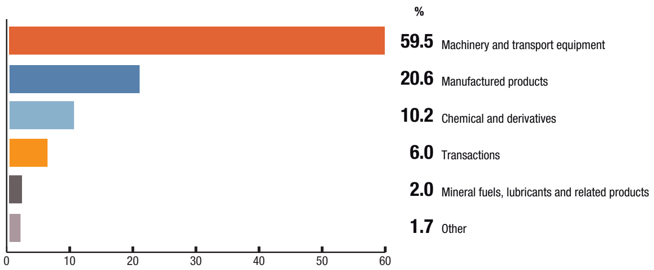
Business climate **A1**

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-5.2	4.0	-0.9	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	208.5	214.3

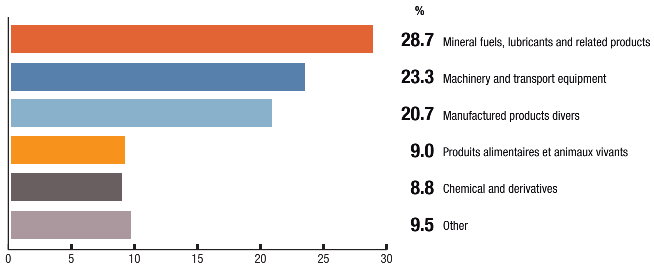
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 13 % du PIB



Importations 12 % du PIB



Risk assessment

A modest recovery in 2012 driven by domestic demand

Thanks to a favourable base effect, moderate growth is expected in 2012, driven by household consumption and investment. Despite a recovery in exports, foreign trade should make a negative contribution to the overall level of activity because of higher imports of fuels to substitute for nuclear power.

The disasters of March 2011, as well as the standstill in incomes and the fear of increased taxation, continue to be factors holding household confidence down. As a result households are cutting back on spending whilst building up their savings. However, the upturn in output in the second quarter could lead to improvements in the job market and some upward movement in consumption. Given the continued scale of overcapacity, company investments, excluding for repairs to production facilities destroyed by the earthquake, are restricted to the cost of replacing equipment, while government investment will remain dependent on the implementation of reconstruction projects. Supplementary allocations to fund these projects were voted at the end of 2011 and in February 2012 for over 260 billion dollars. These are, in the first instance, for the cleaning up of the devastated areas. The deadlines for completing the reconstruction remain to be defined. But, in the best case scenario, the projects are not expected to start until the second half of the year. This will need bigger budget allocations on top of the planned $180 billion of support to companies (countering the strong yen and aid to the agricultural sector), or the issue of specific government bonds. In this context, the fiscal deficit is expected to widen slightly and debt to continue to grow (more than 214% 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.

Exports increase due to the upturn in activity in the United States and dynamic demand in emerging Asia

Exports are beginning to feel the benefits of the gradual purging of the negative impacts on the supply chain of the Thai floods. They have also been boosted by the upturn in activity in the United States and the dynamism of the emerging Asian economies (60% of sales). Nevertheless, the yen unfavourable rate of exchange, combined with the slowdown in European demand and the repercussion in terms of orders for intermediate products from China, hampers any significant upturn in exports. In this context, big groups are therefore expected to continue the process of relocating their manufacturing units to countries whose currencies enjoy favourable exchange rates and to reorient their sources of supply outside the archipelago. Increasing electricity prices resulting from the complete shutdown of the Fukushima nuclear power plant but also more generally throughout the whole territory by the definitive or temporary shut-down of numerous nuclear reactors are likely to further add to this situation.

A decrease in bankruptcies

The decrease in bankruptcies (-2.5% in 2011) is reflected by the downtrend observed in the Coface's index of payment incidents. Despite the erosion of their profits, large groups will continue to have big cash reserves allowing them to continue making strategic acquisitions. By contrast, subcontractors, already hardly profitable, are expected to suffer from the strategic reorientation of a number of their customers. Only the relocation of their operations can make up for the loss of outlets on the domestic market.

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 five 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

Kazakhstan

Coface Assessments

Country risk **B**

Business climate **B**

Medium term

RATHER HIGH RISK

Main Economic Indicators

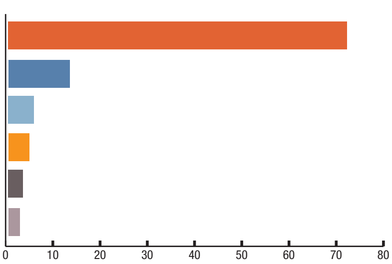
	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	1.2	7.3	6.8	5.6
Inflation (yearly average) (%)	7.4	7.4	8.5	6.3
Budget balance (% GDP)	-6.1*	0.8*	1.5	2.6
Current account balance (% GDP)	-3.2	3.1	7.4	5.9
Public debt (% GDP)	10.4	11.3	12.4	13.0

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

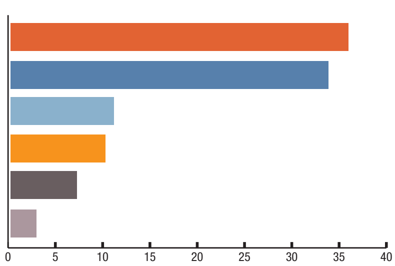
** Including Samruk-Kazyna anti-crisis expenditures*

Trade exchanges

Exports 42 % of GDP



Imports 34 % of GDP



Risk assessment

Growth sustained by household consumption and high oil prices

Growth in 2012 will remain strong despite weaker domestic demand than in 2011. The outbreak of social tensions in Zhanaozen and Chetpe in December 2011, together with the elections in January 2012, resulted in a further increase in the government's social expenditure. In a context of reduced inflationary pressures and a strong job market, household consumption should reflect a further rise in real incomes and remain the key driving force for growth. The services, light industry and construction sectors will be the main beneficiaries. The figures are expected to be good for retail and vehicle sales. Private investment, after slowing at the end of 2011, should pick up under the combined effect of slower inflation and reduced social conflicts in the oil-gas sector. These favourable conditions will lead to a boost in industrial output and especially in the mining sector where strong growth is expected with the start of production from the Kashagan field during the year. In terms of foreign trade, the fall in European demand - 53% of Kazakh exports – should be offset by the higher cost of crude oil, with a barrel price that could be above 115 dollars in 2012. Led by hydrocarbon exports (72% of sales), foreign trade should thus contribute over a point to growth during 2012.

Significant weaknesses in the banking system

Fuelled by high commodity prices, the national and current accounts are solidly in surplus. The short-term capital outflows seen in the last three quarters of 2011 should slow as peace is restored to the social conflict in the oil-gas sector. The increase in public expenditure included in the 2012 budget will not impact the sustainability of the public debt, which stands at 13% of GDP. The banking system will remain the main weak point in the Kazakh economy. As was demonstrated with the latest default by the BTA bank (the second in three years) in January 2012 on a 160 million dollar Eurobond coupon, the solvency of some banks will remain an issue in 2012. The banks will specifically be subject to credit risk as a result of a further deterioration in the quality of their loan portfolios which contain a high proportion (around 30%) of non-performing loans. The poor quality of assets could weigh on credit recovery and new defaults cannot be excluded, especially in the non-extractive sectors where some companies are highly indebted.

Towards increased social tensions?

The confrontations in Zhanaozen and Chetpe in December 2011 between the workers of the state-owned oil and gas sector operator, KazMunaiGaz, and the police forces were very unusual for Kazakhstan. The social conflict in the energy sector, from May to December 2011, with its key claim for higher wages, did not spread to Astana or Almaty. However, these events could be a sign of rising social tensions Noursultan Nazarbaïev's regime. Whilst the legitimacy of the President was officially reaffirmed by the victory of his Nur Otan party in the early legislative elections called in January 2012, the restrictions on civil liberties and a flawed business environment could all be factors that contribute to creating wider dissatisfaction with the regime. Examples of this could be the post-election demonstration in Almaty by 1,000 opponents in February and the unexpected increase in terrorist attacks by Islamic groups since May 2011. Noursultan Nazarbaïev, whose term in office ends in 2016, is also suffering worsening health. Whilst it is likely that the power elites will come together to defend their interests in the event of an early succession decision, thereby reducing the risk of political instability, the emergence of social conflict on the margins of any untimely transition of power cannot be excluded. Nevertheless, whoever succeeds is unlikely to deviate from the policy of attracting FDIs, the inflow of which is likely to continue despite a difficult business climate.

Strengths ↗

- Abundant and varied natural resources (oil, gas, uranium and iron ore)
- Forecast growth in oil exports as the Kashagan reserves come onlin
- Ample FDI
- Strategic location between Asia and Europe

Weaknesses ↘

- Fragile banking system
- Debt-laden private sector
- Persistent judicial and institutional shortcomings

Mali

Coface Assessments

Country risk	D
Business climate	C

Medium term

HIGH RISK

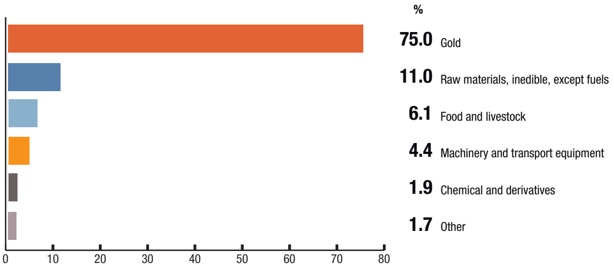
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	4.5	5.8	5.4	3.5
Inflation (yearly average) (%)	2.2	1.1	2.9	4.0
Budget balance (% GDP)	-8.8	-5.5	-7.7	-6.0
Current account balance (% GDP)	-7.3	-7.5	-7.5	-7.0
Public debt (% GDP)	24.7	28.7	26.6	29.0

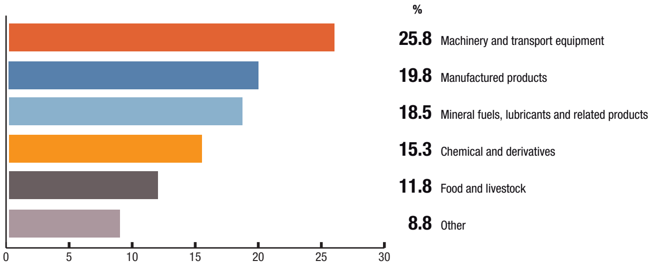
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations **26 %** du PIB



Importations **36 %** du PIB



Risk assessment

Weaker growth expected against a backdrop of political tensions

Growth remained relatively firm in 2011 despite the impact of crises in the Ivory Coast and Libya. Despite the stagnation of gold production (three-quarters of exports), economic activity remained dynamic due to the big increase in cotton production. Meanwhile, agriculture (1/3 of GDP) benefited from favourable rainfall, which made it possible to partly contain inflationary pressures. In 2012 economic prospects seemed fairly favourable thanks to the expected growth of the agricultural and gold sectors. Gold production is expected, in principle, to grow with the opening of new deposits. The economy was also likely to benefit from the sustained activity in the textile industry and the rise in banking services. However, the economic and financial disruptions following the coup of 22 March 2012 (bank closures, shortages, suspension of international aid) could weaken, at least temporarily, economic activity and increase inflation pressures.

Persistent imbalances

The macroeconomic results remain too dependent on agricultural production and world prices. Growth is restricted by inadequate investment linked to governance problems and geographic isolation. The country, one of the world's poorest, still faces major development challenges. The continuation of structural reforms, the diversification of the economy and the creation of conditions for strengthening private investment therefore remain the main priorities.

Despite the increase in gold exports, the current account deficit remains high, highlighting the country's dependence on aid and foreign debt relief. The country benefited from the HIPC and multilateral debt relief initiatives in 2003 and 2006 but its debt level still remains substantial because of the volatility of exports and the lack of diversification.

Moreover, though fiscal policy has up to now remained generally on the right track, tax receipts have increased little, subsidies in the energy sector have remained high and the government has continued to accumulate arrears of VAT refunds.

Worsening security and political situation

A military coup overthrew President Amadou Toumani Touré on 22 March 2012. This putsch, by junior officers, resulted from the exasperation of a part of the army which considered itself powerless against the Tuareg rebellion, stoked by the return from Libya of ex-mercenaries who had fought under Colonel Gadhafi, and against the AQIM terrorists. The north of the country, essentially desert, is now under rebel control following the Tuareg offensives launched last January and March. The mutineers, who were isolated and whose complaints seemed fairly vague, finally ceded the power to an acting president (12 April). They appear however to remain active on the ground. This will not facilitate the task of transitional authorities who have to both obtain the lifting of bilateral and multilateral sanctions, restore the democratic process (holding of a presidential election) and enter into negotiations with the MNLA Tuareg rebels, who proclaimed independence of their territory and are themselves outflanked by jihadist armed groups.

Strengths

- Gold and agricultural resources
- Debt cancellations under the HIPC and MDRI initiatives
- Pursuit of prudent macroeconomic policies

Weaknesses

- Heavy dependence on gold (8% of GDP, 20% of public revenues, over 70% of exports)
- Economy vulnerable to energy and food shocks
- Geographic isolation
- High demographic growth and rural poverty
- Worsening security and political situation (destabilisation of the north of the country by the Tuareg rebellion and AQIM terrorists, putsch of 22 march 2012)

Mexico

Coface Assessments

Country risk **A4**

Business climate **A4**

Medium term

RATHER LOW RISK

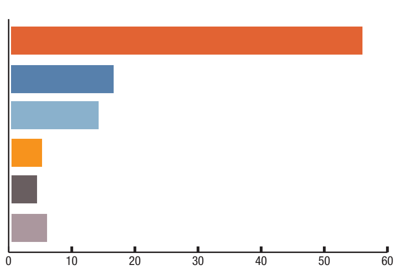
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-6.2	5.4	3.9	3.6
Inflation (yearly average) (%)	5.3	4.2	3.8	3.6
Budget balance (% GDP)	-2.3	-2.9	-2.5	-2.4
Current account balance (% GDP)	-0.6	-0.5	-0.9	-0.9
Public debt (% GDP)	44.9	42.9	42.8	43.6

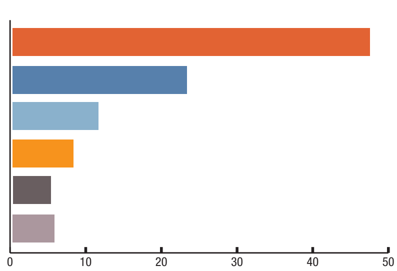
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 28 % of GDP



Imports 29 % of GDP



Risk assessment

Continued growth

With an economy closely linked to that of the USA (this country absorbs nearly 80% of Mexican exports), Mexico's growth should continue through 2012 thanks to rising US demand leading to benefits for manufacturing industry and tourism. Transfers from expatriate workers (13 million Mexicans live in the US) should continue to increase. Domestic demand will continue to drive growth, drawing strength from the pre-electoral measures, implemented by the government ahead of July's elections, to bolster household consumption, private investment, credit and job creation.

Relatively sound financial situation

Increased revenues, particularly from oil and the moderation of spending enabled a reduction in the public deficit in 2011. The government is expected to continue its prudent fiscal policy and the central government deficit is accordingly expected to decline further. However, this prudence will be mitigated by expenditure aimed at encouraging job creation and the large-scale investments being made by the state-owned company Petroleos de Mexico (Pemex) amounting to 2% of GDP. Closed to FDIs, the sector relies completely on government finance for its investment projects. Moreover, maintaining Pemex's productive capacity is strategic since the revenues it generates represent over a third of government revenue.

Despite the increase (in value) of oil exports, the current account deficit grew in 2011 as a result of much higher imports, drawn in by buoyant domestic demand. In 2012, the additional imports should be offset by the increase in emigrant worker remittances and tourist revenues. The decline in oil production will be offset by higher prices. Financing needs will be met by foreign capital inflows but FDI will remain below the level reached in 2007. The country is, not likely to have a financing problem as its foreign exchange reserves are rising and it enjoys a precautionary Flexible Credit Line granted by the IMF until January 2013. Amounting to $73 billion, this will strengthen investor confidence and increase the country's ability to withstand a liquidity crisis.

The payment experience remains close to the world average

In 2011 payment delays recorded by Coface remained above the global average. SMEs are still handicapped by the banks' restrictive lending policy, which favours the government and large firms. Moreover, despite the strength of the banking sector, if the eurozone crisis deteriorates, the country could be negatively affected through the subsidiaries of Spanish banks which enjoy a large market share. Despite the boost from the US economy, no changes in payment behaviour are expected.

Lagging pace of reforms and persistent insecurity

Given the unpopularity of President Felipe Calderon's government, his party, the PAN (Partido Accion Nacional) is unlikely to succeed in getting its candidate Josefina Vasquez Mota elected to the presidency in July 2012. The most probable result will be a return of the PRI (Partido Revolucionario Institucional), after 12 years out of power, with Peña Nieto, the former governor of the State of Mexico. Between now and the next elections, key structural reforms like those of the labour market, education and health are unlikely to be implemented, coming up against strong political and social resistance. Unless one of the parties holds a large majority in Congress, which is unlikely given the voting system, the progress of the reforms is likely to be impeded even after the elections. Moreover, the deteriorating climate of insecurity and violence, resulting particularly from the war conducted by the authorities against organised crime linked to the drug trafficking, represents a growing challenge to the authority of the state and has a negative impact on the business environment.

Strengths ↗

- Manufacturing sector sustained by the North American Free Trade Agreement
- Moderate foreign debt
- Relatively healthy banking sector
- Favourable demographics

Weaknesses ↘

- Dependence on the USA for exports, investments and transfers from emigrant workers
- Vulnerability of public finances to the decline of oil reserves
- Socio-political obstacles to structural reforms (energy, telecoms, education, labour, legal system)
- Business environment undermined by bureaucracy, inadequate infrastructures and insecurity

Mozambique

Coface Assessments

Country risk	C
Business climate	C

Medium term

HIGH RISK

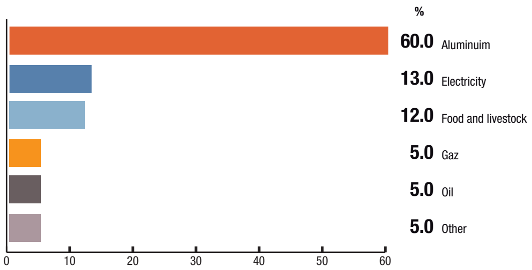
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	6.4	7.2	7.3	8.0
Inflation (yearly average) (%)	3.0	13.0	11.0	6.0
Budget balance (% GDP)	-14.8	-15.0	-14.0	-13.0
Current account balance (% GDP)	-19.0	-16.0	-17.0	-16.0
Public debt (% GDP)	40.0	38.0	39.0	43.0

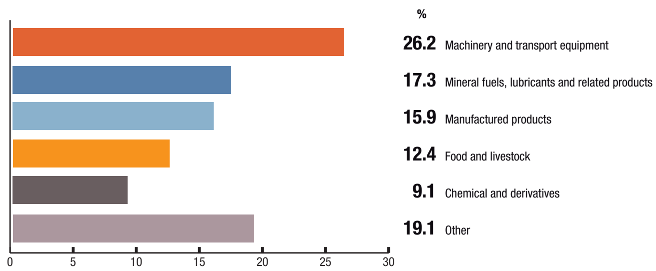
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 25 % du PIB



Importations 44 % du PIB



Risk assessment

Strong growth fuelled by foreign investment

Economic activity will remain dynamic in 2012. Thanks to the continuation of massive foreign investments in the mining sector and transport infrastructures, it will benefit from the boom in coal production and exports from the Moatize and Benga sites. Aluminium deliveries from the Mozal factory will also increase. The higher volumes will largely compensate for the fall in prices, which will remain historically high. With the participation of China, Japan and Brazil, agricultural modernisation is expected to progress and enable volume growth in products and trading. The hotel and restaurant sectors will benefit from the growth in tourism resulting from South African, Portuguese and American investments.

Despite economic expansion, deficiencies remain

Agricultural and mining potential remain largely under-exploited because of the inadequacy of electrical and water supply, road and rail communication and storage and port facilities. There is also a shortage of skilled labour.
Agricultural production is completely subject to capricious climatic influences. A good part of harvests is lost because of the lack of storage and of inter-regional transport. Deficiencies of supply force some regions to import. Finally, rice and wheat production does not meet the country's needs.
Rehabilitation of the existing lines of communication, not to mention the creation of new ones, is arduous and subject to considerable delays although the extension of the electricity network financed by the World Bank and the European Union has made some progress. Against this, the construction of two new hydroelectric dams in the Zambezi Valley near that of Cahora Bassa, supplying South Africa, Zimbabwe and Electricidade de Moçambique, is behind schedule, limiting the production of coal. The same goes for the construction of thermal power stations.
The exploitation of large recently discovered reserves of oil and natural gas on the north coast depends on investment by foreign oil companies. At present, deliveries of hydrocarbons come from the south and are carried by pipelines to South Africa.

International aid remains essential

Despite growing exports, there is still a large current account deficit. Its size is essentially explained by the purchase of equipment and services necessary for the development of the country's resources and related infrastructures. Foreign investments cover most of the deficit. The rest is covered by international aid and by recourse to borrowing with a ceiling set by the IMF as part of the Economic Policy Support Instrument (EPSI) in order to contain public foreign debt. International aid thus provides 40% of budgetary resources and shares in the financing of the 2010-2015 «Programa Quinquenal do Goberno» which aims to combat poverty through education and healthcare and to develop agriculture, fishing, tourism and transport with the goal of diversifying the economy.

Governance still difficult

President Armando Guebuza and his Frelimo party, (Frente de Libertação de Moçambique) which was re-elected in October 2009 to lead the country, exercise well-established power. However, as the President is not eligible for re-election in 2014, his succession must be decided before that date. The traditional opposition party, Resistência Nacional de Moçambique, has rather lost momentum to the newcomer, the Movimento Democràtico. The country's performance in terms of corruption, administration, justice, public services and regulation is mediocre. However, the progress achieved, especially in education and health, has persuaded donor countries to maintain the flow of financial aid.

Strengths

- Mineral wealth: bauxite, coal, natural gas, oil
- Important hydroelectric potential
- Vast areas of arable land
- Favourable geographic situation: long coastline, proximity to the South African market
- Support of donor countries

Weaknesses

- Low productivity of the farming sector: 80% of the population but 20% of GDP
- Heavy dependence on aluminium and international aid
- Poverty, malnutrition, low level of education
- Inadequate transport, telecommunications and energy supply infrastructures
- Regional disparities: the north and the centre disadvantaged compared to the south

New Zealand

Coface Assessments

Country risk **A1↘**

Business climate **A1**

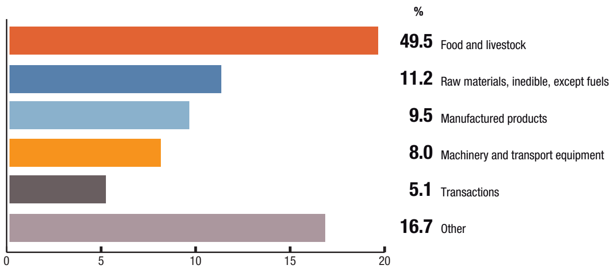
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-1.6	2.0	1.4	2.8
Inflation (yearly average) (%)	2.1	2.3	4.0	2.8
Budget balance (% GDP)	-2.6	-4.7	-9.2	-6.4
Current account balance (% GDP)	-2.6	-3.4	-3.9	-5.0
Public debt (% GDP)	23.3	27.4	33.8	38.6

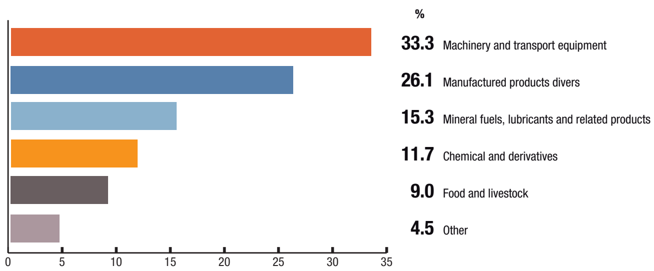
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 28 % of GDP



Imports 27 % of GDP



Risk assessment

Public and private investment the main contributor to growth in 2012

The two earthquakes that occurred in the Canterbury region in September 2010 and in February 2011 destroyed 10% of the country's wealth. Therefore growth has decelerated in 2011. Despite the expected acceleration in growth this year, driven by household consumption but above all by private and public sector investment, the situation of the manufacturing industry and its export performance remain fragile. As a result the foreign trade balance will continue to make a negative contribution.

Household consumption benefits from the increase, though moderate, in real wages and by a healthier job market in line with the rebound of investment. The unemployment rate is expected to stabilise at around 6% of the active population. However, spending is limited by the process of debt consolidation, begun in 2008, which has resulted in a 10-point reduction in debt down to 147% of disposable income. Spending is also be constrained by the return to saving - negative before the crisis, and now above 5% of disposable income. Investment in housing is sustained by an increase in the number of first-time buyers, attracted by the maintenance of low mortgage interest rates (6.5% against 9.5% before the crisis) and by the price slowdown since Autumn 2011. It should also be spurred in the second part of the year, at the best, by the reconstruction of homes destroyed in Canterbury. This prospect, however, depends on the cessation of aftershocks which were still observed at the end of 2011 and the settlement of insurance claims. The damage is estimated at more than 25 billion US dollars over five years (commercial structures and infrastructures included). In this context, the government has included more than 9 billion in the 2011 budget, doubling the deficit. The spending options open to the government over the coming years will be severely limited in the context of cutting back on public expenditure, making it impossible for the government to support projects other than the reconstruction of Christchurch and its region. The reduction of the fiscal deficit is expected to start this year but public sector debt is expected to grow rapidly at the same time, although remaining contained.

Mining sector drives exports

Imports have, over two years, made up for the ground lost during the year of recession, with companies taking advantage of the appreciation of the New Zealand dollar to increase purchases. These are expected to slow to around 6% in 2012, as the rebuilding of stocks of intermediate goods and consumer goods slows. Exports for their part suffered little in 2009, supported by lively demand from Australia, the country's main trading partner (13%) and from emerging Asia (32%). They should however grow in 2012 thanks to the dynamism of the mining sector, whilst the manufacturing and tourism sectors continue to suffer from the high exchange rate for the New Zealand dollar. This unfavourable level of exchange rate is notably generated by the conversion of revenues from exports of raw materials and the attraction of the currency for foreign investors. Raw materials prices (milk, wool, livestock and timber) are expected to remain high or even rise in the case of milk and meat in line with the sustained demand from emerging countries and low stock levels. But in an uncertain context, exports suffer from a more marked slowdown than expected in emerging Asia and China in particular (10% of exports), especially as then Australia's economy would also be affected and, indirectly, that of New Zealand.

Spectacular increase in bankruptcies

The reconstruction of the Christchurch region, when it will start, should boost activity in the building and public works sector and associated branches such as architects' offices, construction materials, timber… Exporters of manufactured goods and the tourism service sector are suffering from the high exchange rates and, for the former, from the rising cost of inputs which not even the strength of the currency can totally offset. In the event of sustained volatility of the New Zealand dollar, small firms will be weakened, as they generally lack the expertise to cover themselves against the risk. After the enthusiasm aroused by the world rugby cup, the sectors orientated to the domestic market bear watching. There was a spectacular 109% surge in company bankruptcies in six months through February 2012, as reflected by the slight increase in Coface payment incident index, which, nevertheless is still below than the global average.

Strengths ↗

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

Weaknesses ↘

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

Poland

Coface Assessments

Country risk **A3**

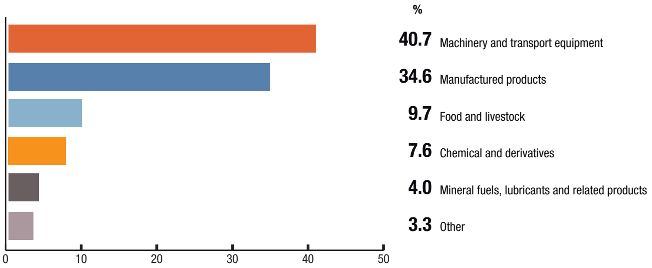
Business climate **A2**

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	3.5
Budget balance (% GDP)	-7.3	-7.8	-5.6	-3.8
Current account balance (% GDP)	-3.9	-4.6	-4.2	-3.8
Public debt (% GDP)	50.9	55.0	54,.9	52.9

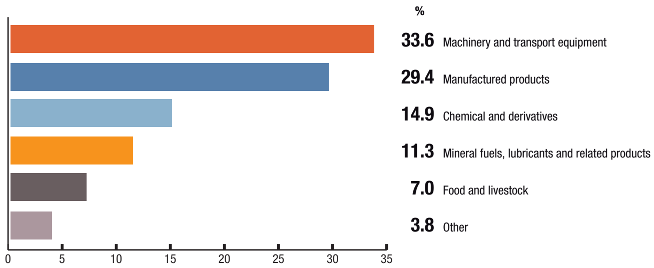
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 39 % du PIB



Importations 39 % du PIB



Risk assessment

Growth is expected to lose steam in 2012

Despite the growth slowdown during the last quarter, activity continued at a sustained level in 2011. This deceleration is expected to continue in 2012. Private consumption will remain weak due to a drop in household confidence, the freeze on wages in the public sector and the deterioration in the jobs market. Furthermore, households will experience a decline in their purchasing power caused by the persistent inflationary pressures. However, spending on investment is expected to remain strong. Direct foreign investment and the greater supply of bank credit will encourage an increase in companies' production capacity. Public investment will also continue to be pick up momentum in terms of significant infrastructure projects, particularly relating to the 2012 European football championships. Foreign trade, moreover, will remain one of the main drivers for growth. Export companies will continue to benefit from a return to competitiveness thanks to the weakness of the zloty, and the slowdown in private consumption will curb the rise in imports. Finally, the impact of the decline in foreign demand will be more limited than in the emerging European countries due to lower levels of foreign trade (exports represent 40% of GDP vs. 65% on average for the other member states of the European Union).

Public finances on the road to improvement

The Plan for the *Development and Consolidation of Public Finances*, drawn up by the government in order to comply with the Maastricht criteria, will continue. The government deficit, which reached nearly 8% of GDP in 2010, is expected to fall below 4% in 2012, thanks to the rise in taxes on oil products and the increase in social security contributions. Consequently, the national debt should stabilise below 60% of GDP. The current account deficit, which is expected to remain at a substantial level, will be largely financed by the European structural funds and by the rise in direct foreign investment. The Polish banking system seems relatively solid with capitalisation ratios that are higher than the minimum required by Basel III. Nevertheless, the subsidiaries of foreign banks, most of which are established in the eurozone, represent two thirds of the banking sector, which makes it dependent upon foreign capital. Finally, the banks remain significantly exposed to foreign exchange risk, with household loans denominated in foreign currencies amounting to 14% of GDP.

A fairly stable political environment

The presidential election of August 2010 brought Bronislaw Komorowski to 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 of October 2011 confirmed this coalition. Prime Minister Donald Tusk has made it his priority to reduce the budget deficit and entry into the euro a stated goal; however, no date for this has yet been fixed.

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

Portugal

Coface Assessments

Country risk	B
Business climate	A2

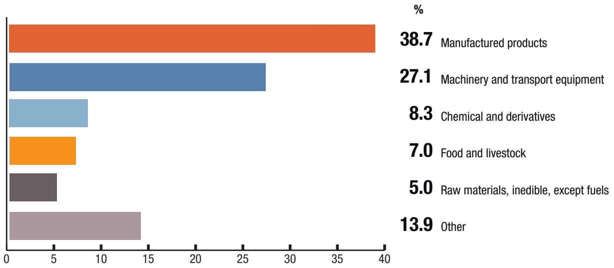
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-2.9	1.4	-1.6	-4.0
Inflation (yearly average) (%)	-0.9	1.4	3.6	2.7
Budget balance (% GDP)	-10.1	-9.8	-4.0	-5.5
Current account balance (% GDP)	-10.9	-10.0	-6.7	-4.2
Public debt (% GDP)	83.1	93.4	112.8	120.0

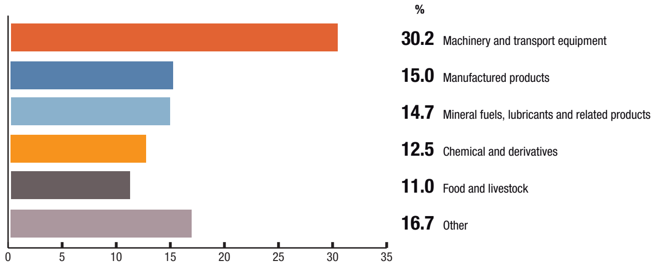
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 28 % of GDP



Imports 36 % of GDP



Risk assessment

A recession which is expected to worsen as a result of austerity and slowing European demand

The economy plunged back into recession in 2011 because of the fall in domestic demand, itself largely caused by the hardening of fiscal austerity measures. The contraction in imports and the continued growth of exports, however, made it possible to limit the decline in GDP.

The recession is expected to deepen in 2012. Consumption is expected to contract further due to the higher tax burden and further spending cuts, in a context already marked by high household debt and high unemployment (14% of the labour force). Flagging demand, sluggish credit, low profitability and companies' poor cash flow raise fears of a further fall in investment. Moreover, demand from the European Union (75% of exports) is expected to shrink appreciably, which will adversely affect sales abroad. Nevertheless, with imports continuing to decline, the contribution of foreign trade to growth, though falling, will remain positive. The current account deficit is thus likely to have declined sharply in 2012.

Large imbalances which have forced the country to seek international aid

During the decade before the crisis, the loss of competitiveness and the allocation of resources at the expense of the tradable sector led to a growing imbalance in the external accounts. Public debt increased appreciably as a result of an expansionary fiscal policy. Low interest rates and easy access to finance led to a sharp rise in private sector debt (260% of GDP). Despite the rapid introduction of the initial fiscal consolidation measures and the absence of a property bubble, such as to inflict heavy losses on the banking sector, pressure on the debt market escalated sharply and Portuguese bond yields reached record levels. After Greece and Ireland in 2010, Portugal was forced to resort to aid from the EU and the IMF in May 2011 (€78 billion). The country is sticking to the objectives of its rescue plan but further aid, even a restructuring of its debt, cannot be totally ruled out. The lack of growth feeds concerns about the viability of the public debt and the lack of investor confidence, if it continues, could compromise the country's return to the bond market within the time foreseen, before an important repayment date (September 2013).

Meanwhile, there is need for improvement on many fronts, among them the implementation of reforms aimed at getting rid of rigidities and bottlenecks responsible for sluggish growth. What is needed in particular is to counter rigidities in the job market (reforms already ongoing), excessive red tape, insufficient competition and a lack of skilled labour, which explain the low productivity. Moreover, after the outbreak of the sovereign debt crisis, the banking sector saw its domestic sources of finance dry up and it became very dependent on cash injections from the ECB. The sector is also greatly exposed to sovereign debt, mainly Portuguese, having, for this reason, significant capital needs.

Businesses having a tough time

Payment failures recorded by Coface shot up in 2011. At the same time, company insolvencies increased sharply. The sectors most affected were those of manufacturing, construction and services including wholesale and retail trade. Turnover growth in the manufacturing industry gradually declined and the contribution of the domestic segment even became negative. The best performing export sectors were the subsectors of base metals, chemicals, automotives, foodstuffs and textiles. Mining exports grew. Construction and services declined with the exception of hotels, air transport and logistics, whose growth was spurred by foreign demand.

Strengths

- Good logistics and communications infrastructure
- Attractive tourist destination
- Beginning of sectoral and geographic diversification
- Absence of a property bubble

Weaknesses

- Specialisation in low value-added sectors, highly exposed to international competition
- Productivity and competitiveness eroded
- Heavily dependent on European economic conditions
- High level of public and private debt

Russia

Coface Assessments

Country risk **B**

Business climate **B**

Medium term

RATHER LOW RISK

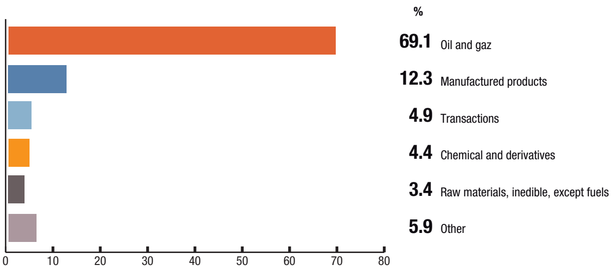
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-7.8	4.0	4.3	3.5
Inflation (yearly average) (%)	11.7	6.9	6.1	7.2
Budget balance (% GDP)	-5.9	-3.9	0.8	-2.1
Current account balance (% GDP)	4.0	5.0	5.7	2.6
Public debt (% GDP)	11.0	11.7	11.7	12.5

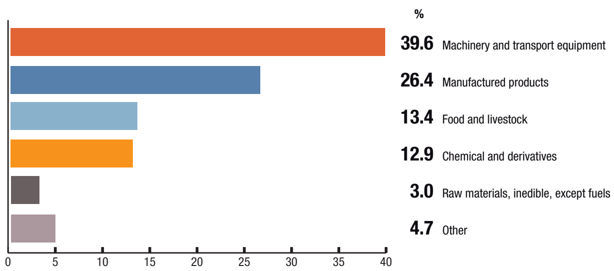
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations **28 %** du PIB



Importations **20 %** du PIB



Risk assessment

Stabilisation in growth rate

After performing better than expected in 2011, growth should slow slightly for 2012 as a whole and remain below the average for emerging economies. The level of activity will be positive in the first half of the year. The electoral context and the social tensions following the elections in December and March have led to higher social expenditure by the government. This increase in disposable household income, together with an exceptionally low inflation rate at the beginning of the year and the excellent performance of the job market, will bolster private consumption. Local industry, and notably car makers, construction and food processing, all highly focussed on the domestic market, should thus perform well. The reduction in banking liquidity concerns in Europe will also help increase credit supply. With these favourable conditions the level of investment, boosted by increased confidence following the election of Vladimir Putin, should also increase. Finally, crude oil output and foreign trade will benefit from higher oil prices and global supply tensions, thus maintaining the good results achieved at the end of 2011. However, domestic demand is likely to weaken in the second half. Increases in state controlled energy prices and utility tariffs, held back from June for electoral reasons, will contribute to renewed inflationary pressures. The lack of serious reforms to the business environment could also lead to capital outflows and a re-emergence of bank liquidity problems. A subsequent slowing in credit growth will slow household consumption, investment and economic expansion.

The resilience of economic activity in the second half will nonetheless be dependent on movements in oil prices. A scenario – increasingly likely – in which oil stands at 120 dollars a barrel for 2012 as a whole would stimulate household consumption and investment, provided that the government redistributes the surplus income resulting from the high oil prices. If that were to be the case, growth could equal that seen in 2011.

Increasing dependence on oil prices

The Russian economy is increasingly dependent on the price of oil. The equilibrium price for the national account is now nearly 120 dollars, against 60 in 2008. This means that combined with the additional expenditure related to the elections there is likely to be a public deficit in 2012, reflecting that of the first two months of the year. However, the level of the debt will be very limited, at around 12% of GDP, which allows, at least in the short term, some room for manoeuvre for the government. The current account surplus should decline in line with the contraction in European demand, but it will also feel the benefits of a price-effect on the oil exports. Finally, the level of private capital outflows remains high and could even increase if the structural reforms promised by Vladimir Putin are not implemented. This trend reflects the reluctance among Russia's leading economic players to invest in their country, as a result both of growth at a lower rate than seen in the previous decade and a business climate in which there have been very few improvements.

A more delicate political context

Although the political transition happened as planned by the Kremlin as of the first round of the March 4th Presidential election, the 2011 and 2012 polls also provoked a level of popular discontent not seen since the 1990s. Both young people and the middle class vented their dissatisfaction in the face of increasing inequality and the on-going shortcomings in the business environment. Although the discontent did not extend to rural areas, which remained strongly loyal to Vladimir Putin, the demonstrations of the winter of 2011-2012 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 mobilized for local issues, away from the traditional "institutionalized" opposition. Thus whilst Vladimir Putin was able to easily secure his place as of the first round, despite reported irregularities, the erosion in the level of his popular support was obvious, and there could be further protest movements, especially if the socio-economic situation worsens and the government further delays implementing the structural reforms promised by Vladimir Putin.

On top of this, corporate governance remains an on-going weakness in the country: the structures are relatively opaque and it can be difficult to find out who exactly owns a company. Whilst the payment experience as recorded by Coface has improved significantly since the recovery 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, gas and metals)
- Skilled labour force
- Low public debt and sizeable currency reserves
- Confirmed regional and energy power

Weaknesses

- Accentuation of the rentier nature of the economy
- Poor competitiveness of the industrial sector
- Fragile private banking sector
- Poor infrastructure base
- Population decline
- Continuing shortcomings in the business climate

Saudi Arabia

Coface Assessments

Country risk **A4**

Business climate **B**

Medium term

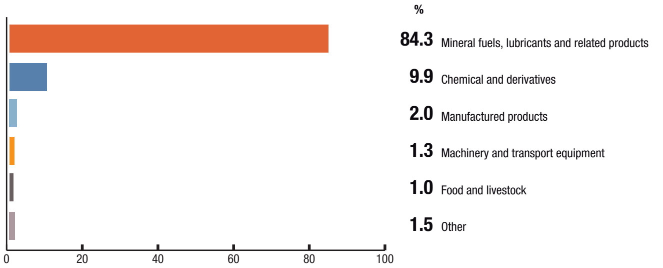
LOW RISK

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	0.3	3.8	6.5	4.1
Inflation (yearly average) (%)	5.1	5.3	5.1	5.6
Budget balance (% GDP)	-5.8	5.6	11.0	3.5
Current account balance (% GDP)	5.8	15.4	24.0	18.0
Public debt (% GDP)	22.8	16.2	13.0	12.5

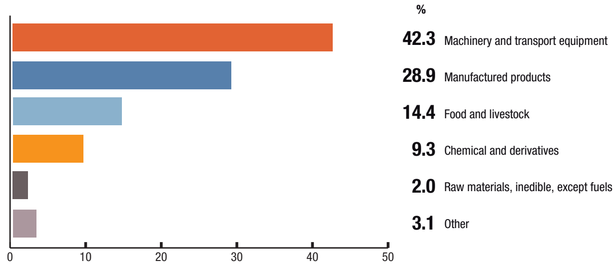
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 54 % of GDP



Imports 43 % of GDP



Risk assessment

Growth supported by hydrocarbons and public spending

After a fairly exceptional year in 2011, growth in 2012 is likely to be sustained by a slight increase in oil production and the continuation of high hydrocarbon prices. Moreover, activity will be driven by the ongoing five-year $386-billion public investment programme (2010-2014), as well as by the package of measures introduced in early 2011 totalling $130 billion aimed at defusing social tensions. Over time, the social measures initiated in 2011 will continue to boost household consumption. Furthermore, despite a grim global economic environment, private and foreign investment is expected to be boosted by ongoing or planned projects: refineries, petrochemical plants, new offshore gas fields.

Inflation is likely to rise in 2012, mainly because of the impact of higher public and private sector salaries in 2011. Nonetheless, planned construction of a social housing scheme comprising 500 000 homes will slow the rise in rents, that account for a high proportion of the consumer price basket.

Sustained large twin surpluses and solid financial position

Public finances remain dependent on oil revenues (which generate 90% of fiscal revenues). Despite the high level of spending on social housing and hospitals, and the creation of 60,000 public-sector jobs, the fiscal surplus is likely to persist in 2012, thanks to the modest scheduled increase in oil production and the continuation of high oil prices.

As a result, the revenues derived from exports of hydrocarbons and petrochemicals will remain high and the trade balance solidly in surplus, despite the rise in imports on the back of vigorous domestic demand. This will largely offset the persistent deficits in services and transfers, resulting in a substantial current account surplus.

In this context, the Saudi Arabia Monetary Agency will continue to accumulate extensive financial assets abroad, estimated to reach $580 billion at the end of 2012, equivalent to the country's GDP or more than two years' imports. This makes the Saudi State a net external creditor, despite steady increases in the breakeven oil barrel price, on which the fiscal equilibrium is based.

Political weaknesses

Saudi Arabia is exposed to weaknesses even though it is a key beacon of stability in the region and for the safety of the world's energy supply. It looks as if the country will be spared by the political and social events affecting several Arab countries since 2011, as oil income can be used to defuse the social tensions linked to huge inequalities, high youth unemployment and corruption. Moreover, King Abdullah is cautiously modernising the kingdom, although the question of his succession is becoming critical on account of his age and precarious state of health. The reform process could be thrown into doubt by the accession of a conservative king, at a time when the population seems to be hoping for someone younger to take over.

Business environment has room for improvement

The growth of the private sector in 2012 is expected to be comparable to that of the overall economy, The financial health of companies is likely to continue to improve, even if payment defaults cannot be ruled out due to problems with access to bank credit. The highly concentrated Saudi banking system, the most important in the Middle East, is well capitalised, liquid and profitable.

Moreover, despite progress on improving the business climate, the legal system does not offer all the safeguards necessary to enable creditors to assert their rights effectively. Corporate accounts, too, are often opaque, which complicates risk assessments. The payment behaviour of private companies is nonetheless expected to remain slightly better than the world average as observed by Coface.

Strengths

- Leading OPEC producer with one quarter of global oil reserves
- Leading regional economic and political role
- More diversified and open economy since joining the WTO in late 2005
- Solid financial position

Weaknesses

- Strongly dependent on the hydrocarbon sector
- Unsuitable education system resulting in high unemployment, particularly among young people
- Business climate undermined by governance weaknesses and conservatism
- Unstable geopolitical environment

Sierra Leone

Coface Assessments

Country risk: **C**

Business climate: **C**

Medium term: **VERY HIGH RISK**

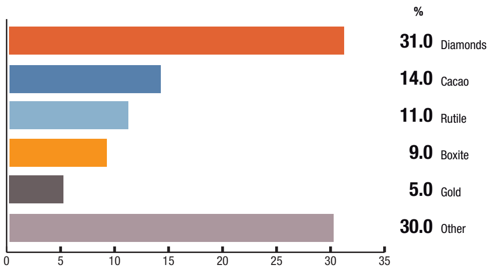
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	3.2	5.0	5.5	50.0
Inflation (yearly average) (%)	9.3	18.0	18.0	10.0
Budget balance * (% GDP)	-11.0	-14.0	-12.0	-7.0
Current account balance * (% GDP)	-13.0	-31.0	-58.0	-11.0
Public debt (% GDP)	61.0	65.0	61.0	33.0

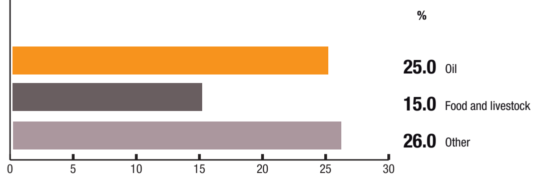
*(e) : estimate (f) : forecast * grant excluded*

Trade exchanges

Exportations **16 %** du PIB



Importations **29 %** du PIB



Risk assessment

Rapid growth driven by raw materials but with little benefit for public finances

Growth will explode (+50%) in 2012 when production begins at two major iron ore deposits. The economy will also be sustained by the development of road, rail and port infrastructure, and the building of power stations, measures which are needed if the country is to exploit its mineral resources.

However, this dynamism will not adequately benefit public finances, which will continue to run at a high deficit. The fees paid by the mining companies are low, as are the customs duties on the large amounts of imported capital goods. In all, the fiscal resources from mining represent only 2% of GDP. The operating conditions will probably be reviewed in the light of new legislation governing the sector. Traditional fiscal resources (12% of GDP) are also insufficient. The subsidies which mean that not all of the rise in oil prices can be passed on in fuel prices are a drain on spending. Over a third of fiscal resources come from international donors, the majority of the aid being spent on development or infrastructure projects. The European Union is also backing civil service reform programme.

Iron ore exports will greatly improve external accounts

Until 2011, imports were two to three times greater than exports, generating a huge trade deficit. From 2012, new exports of iron ore, added to the traditional sales of cocoa and other minerals, will totally change the situation, turning a deficit into a surplus. However, imports of machinery and transport equipment needed for the mining industry and infrastructure construction projects will remain high, as will purchases of oil products. Also, because it is underdeveloped, the country's agriculture only meets 40% of demand (mostly with rice, manioc, sweet potatoes and peanuts). This means that food has to be bought externally. Finally, both imports and exports are highly dependent on fluctuations in world prices.

Despite the trade surplus, the current account deficit, although much reduced, will continue due to the growing volume of services charged for by foreign mining companies and dividend repatriations by the same. 30% of the deficit will be financed by international aid, 20% by remittances from emigrants, most of whom are based in the United Kingdom, with the remainder covered by foreign investments.

Although the country's debt to multilateral and bilateral creditors was completely cancelled in 2006, foreign debt still represents 40% of GDP. The trading debt is likewise expected to be cancelled in 2012, which will reduce the debt to 20%.

Inadequate improvement in governance

There has been a changeover of power since the end of the Civil War (1991-2002). General elections will be held in 2012, when President Ernest Koroma and his party, the All People's Congress, will take on Julius Maada Bio, the leader of the opposition and the candidate of the People's Party. The ruling party's strongholds are in the North and West of the country, where the Temne are the dominant ethnic group, whereas the opposition is strongest in the South and East where the Mende ethnic group is based. To play down the ethnic divide, Presidential candidates have aligned themselves with Vice-Presidential candidates from the other ethnic group. The key issues are governance, transparency and management of the country's resources. The party in power can boast of its fight against corruption and poverty and especially the introduction of free healthcare for pregnant women and young children. Results have been mixed, especially amongst the farming community where poverty is greatest. The geographical distribution of the country's wealth is also an issue as most of the mines are in the North. This situation will be balanced out by offshore oil fields.

Strengths

- Financial backing from the international community
- Mineral resources including diamonds, rutile, bauxite, ilmenite, iron, gold
- Agricultural resources including cocoa, rice, coffee, manioc
- Newly discovered oil fields and iron deposits
- Tourism potential
- Democratic system with political changeover

Weaknesses

- Highly dependent on fluctuations in raw material prices
- Inadequate transport, health, education, energy, and water purification and supply systems
- Agriculture dominates (2/3 of the population and 50% of GDP) but is underdeveloped
- High unemployment and shortage of skilled workers
- Political instability in neighbouring Guinea

Slovakia

Coface Assessments

Country risk **A3↘**

Business climate **A2**

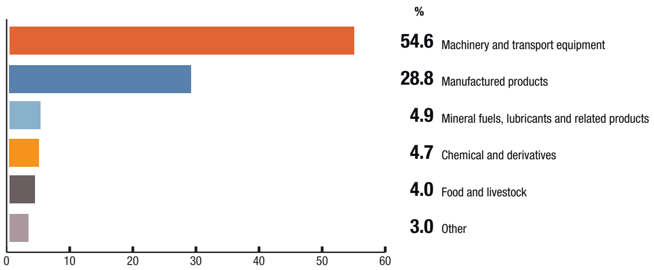
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4,8	4.0	3.0	1,1
Inflation (yearly average) (%)	0,9	0,7	3,7	1,8
Budget balance (% GDP)	-8.0	-7.7	-5.8	-4.5
Current account balance (% GDP)	-3.6	-3.6	-0.7	-2.0
Public debt (% GDP)	35.5	41.0	44.5	47.5

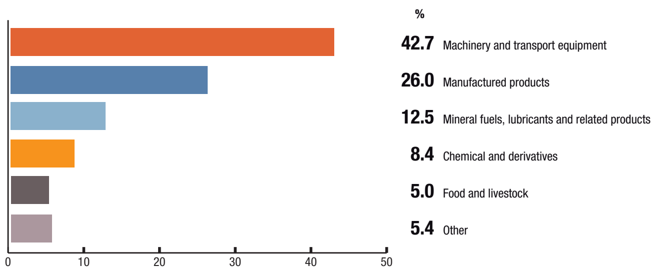
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 99 % of GDP



Imports 104 % of GDP



Risk assessment

Shock originating in Europe will hit activity

The slowdown expected in 2012 will be noticeable, considering the openness of the country, with exports representing 90% of GDP. These are destined mainly for the eurozone, 23% for Germany alone. There is high specialisation in durable consumer goods, like automobiles (16% of sales) and consumer electronics devices (13%). The decline in western European consumption will affect company investment, although Slovakian companies have the highest profitability levels in the EU, allowing them to maintain spending levels. Inflows of FDIs, which recovered in 2011, are also expected to slow. The unemployment rate will remain above 13%, so consumption by Slovakian households, worried by a turbulent regional context, will remain sluggish.

A financially weaker economy

Public finances under control and contained inflation meant Slovakia was able to join the eurozone in 2009. Since then, however, public debt has increased significantly and is likely to reach almost 50% of GDP in 2012, a level which is still reasonable when compared with eurozone norms. The new centre-left government has nevertheless agreed to implement the stability and growth pact (3% of GDP) by increasing taxes on higher incomes and on company profits. Companies are indebted in the short term, chiefly to local banks. External debt is also high, representing 70% of GDP. Bank lending, did admittedly, start again in 2011, with lending to companies growing 9% year-on-year after having practically ceased in late 2010. Although Slovakian banks have solid capitalisation and liquidity ratios, the sector is highly concentrated and dominated by west European players. In the context of the liquidity crisis in Europe, credit for the Slovakian private sector could contract sharply. Such a trend reversal would affect the refinancing of private debt.

A change in the majority

The centre-right government of Mrs Radicova resigned following the first no vote in Parliament on the issue of the extension of the EFSF in the autumn of 2011. The legislative elections of March 2011 resulted in an absolute parliamentary majority for the pro-European Social Democrats of former Prime Minister Robert Fico. This was a first since the country's independence in 1993.

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

Slovenia

Coface Assessments

Country risk **A3**

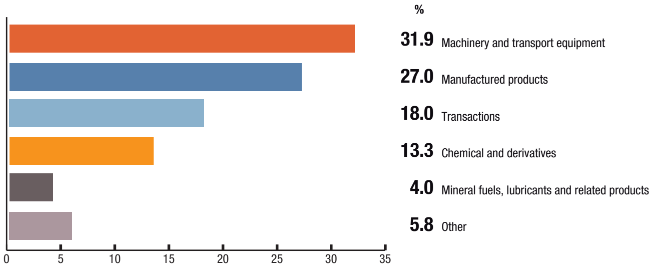
Business climate **A2**

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-8.0	1.4	1.2	0.2
Inflation (yearly average) (%)	0.9	2.1	2.1	1.9
Budget balance (% GDP)	-6	-5.6	-5.3	-4.4
Current account balance (% GDP)	-1.3	-0.8	-0.5	-0.4
Public debt (% GDP)	35.4	38.0	43.1	43.9

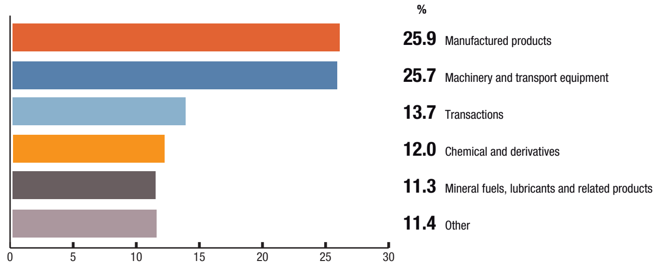
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 59 % du PIB



Importations 57 % du PIB



Risk assessment

Declining growth supported by domestic investment

After a moderate rebound in 2010 and 2011, driven by exports of automotives, domestic electric appliances and pharmaceutical products, the economy is expected to flag in 2012. Exports, which account for 60% of GDP, will struggle because of reduced demand in Germany (25% of exports). At the same time household consumption will remain weak, despite lower inflation, mainly because of precautionary savings and a slight increase in unemployment (9%). However, investment will rebound. The construction sector, which represents over 4% of GDP against 9% in 2009 and which has seen its three biggest players fail, is expected to begin a recovery, particularly in the residential sector. Public investment, moreover, will continue in railway infrastructures thanks to co-financing by European structural funds. Finally, tourism (10% of GDP) will remain dynamic. Although the contraction of credit in recent years was largely due to a decline in household and business demand, the tightening of conditions for access to credit could limit the vigour of the investment rebound. Slovenian banks, which just managed to pass the European banking authority's stress tests in 2011, still have significant capitalisation needs. In a context where it is difficult to raise capital on the market and where the State has no more scope to support the banking sector, the banks will be compelled to reduce credit.

Consolidation of the fiscal deficit will be very gradual

Slovenia's fiscal position has worsened considerably since 2008 and consolidation efforts have come up against a lack of political consensus on the reform of the pension system and the job market. Accordingly, public sector debt rose from 23% of GDP in 2008 to 43% in 2011, particularly because of the partial recapitalisation of the banking system. It is expected to stabilise towards 2014 at less than 50% of GDP. The State, which plays a larger role in the economy than in most central European countries (20% of GDP), is expected to disengage only very gradually thus slowing the privatisation process.

The current account balance has improved appreciably thanks to the increased competitiveness of exports resulting from the fall in wages and a reduction in imports, the corollary of flagging domestic demand. However financing needs remain high because of the burden of paying off the debt. Foreign direct investment flows (0.9% of GDP) remain flat and will cover only a limited proportion of financing needs. In this context, external debt, most of it private, will remain high and will exceed 110% of GDP. The country's refinancing capacity, even in the absence of exchange rate risks, could be restricted by a decline in foreign investors' confidence in a context of a worsening eurozone sovereign debt crisis.

A highly unstable political context

The territorial dispute between Slovenia and Croatia, which mainly concerns the extension of Slovenia's access to the sea, subsided after the Slovenian people decided by a referendum in June 2010 to entrust the issue to an international arbitration tribunal. This is, however, not expected to give its decision before 2014 and other issues could tarnish relations between Slovenia and Croatia, such as the question of how to manage radioactive waste from their common nuclear power plant. The national party, moreover, wants to put pressure on Croatia by slowing down the process of ratification by the Slovenian parliament of the treaty admitting Croatia to European Union membership, planned for January 2013.

Recognised traditionally for its stability, the political environment deteriorated in the wake of eurozone crisis. Early elections were held in December 2010 for the first time since independence in 1991, following a parliamentary vote of no confidence on the retirement and employment reforms. The new coalition in power will be just as unstable in a context in which the trade unions, which play a key role, will continue to oppose any changes to the welfare state.

Strengths ↗

- Highest GDP per capita in Central Europe
- Diversified economic sectors (automotives, domestic appliances, pharmaceuticals, tourism, financial services)
- Germany is the country's main trading partner (25% of Slovenian exports)
- Member of the eurozone since 2007

Weaknesses ↘

- Economy dependent on world trade, vulnerable to economic conditions in the eurozone
- Public sector finances weakened by an aging population
- Increased unemployment since the crisis

South Africa

Coface Assessments

Country risk **A3**

Business climate **A3**

Medium term

RATHER LOW RISK

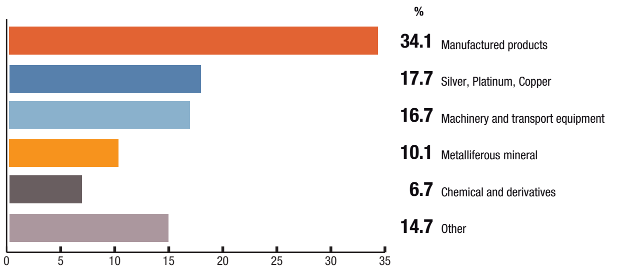
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-1.7	2.8	3.1	2.3
Inflation (yearly average) (%)	7.2	4.1	5.1	6.0
Budget balance (% GDP)	-6.0	-3.9	-5.5	-5.2
Current account balance (% GDP)	-4.0	-2.8	-4.1	-4.7
Public debt (% GDP)	31.5	35.1	36.6	37.5

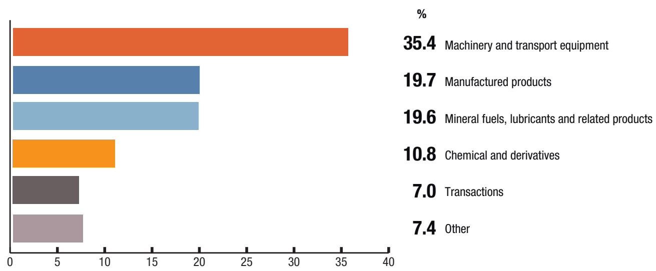
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 27 % of GDP



Imports 28 % of GDP



Risk assessment

Slowdown in growth in 2012

Growth is expected to slow in 2012. Household consumer spending (80% of GDP) will remain relatively robust, buoyed by weak interest rates, pay increases and improved credit supply. Nonetheless, their rise will be limited by the household debt levels (78% of disposable income), a lastingly high unemployment rate (23%) and renewed electricity price hikes (+25%). Investment by private companies, whose financial position is generally solid, is expected to continue its slow recovery, although the recovery will remain timid due to the extent of unused production capacity, uncertainties surrounding both the future trend of domestic and external demand and the mine exploitation regime where the authorities are more interventionist. Investment will be directed more to modernisation than to increasing capacity. State owned companies will continue to invest steadily. Exports, mostly destined for advanced economies (50%) will be hit by the slowdown in external demand which will put pressure on manufacturing production.

Ongoing expansionary policies

In 2012, expansionary fiscal and monetary policies will continue. The fiscal deficit will remain substantial at around 5% of GDP, with counter-cyclical fiscal measures likely to last. Meanwhile, public spending will attempt to counter the structural weaknesses characterising the South African economy, like infrastructure shortcomings, with the usual electricity cuts, lack of skilled labour, growing insecurity and persistent inequalities. In this context, social spending on education and health will remain high.

Inflation pushed higher by the rising costs of energy and food

With the rising world energy and foodstuff prices inflation is likely to reach 6%, the upper limit of the bracket defined by the Central Bank. A further increase in electricity prices and higher production and distribution costs, associated with increases in wages above the rate of productivity improvements, as well as with deteriorating national infrastructures, will also feed through as inflationary pressures. Any depreciation in the Rand, always a possibility if precious metal prices slip, would further increase these pressures. Nevertheless, interest rates are unlikely to increase as the Central Bank takes the view that the risk of a slowdown is higher than that of inflation.

Widening current account deficit and vulnerability of external financing

Imports will grow faster than exports. Contraction in external demand (Europe) will continue to put pressure on the export of manufactured products (vehicles, textiles), while ore and metal exports will suffer from the stagnation or erosion of their prices. Imports of machinery, vehicles and consumer goods will rise, leading to a slight trade deficit. The invisibles balance will remain in deficit. Tourism revenues are insufficient to offset payments for services to foreign mining companies, especially with increased grant backs on customs duties in favour of neighbouring SACU member countries. As a result, the current account deficit is expected to widen further to settle at 4.7% of GDP. As in the past this is expected to be covered by portfolio investments attracted by relatively high returns, which, given their inherent volatility, is likely to cause financing difficulties.

Erosion of ANC's popularity

President Jacob Zuma's popularity has declined against a background of high unemployment, inequalities and corruption. And progress on security and public health is cumbersome, which is likely to exacerbate popular discontent. The policy of positive discrimination, especially within the civil service and state-owned companies has enabled the emergence of a black middle class, known as the black diamonds. However the Black Economic Empowerment policy has sparked some resented among of the population who feel that the BEE policy mainly benefits an elite with close links to power. President Zuma will need to reconcile his pro-business right-wing allies, with his left-wing allies in favour of nationalising natural resources to increase their contribution to development.

Strengths

- Economic and political heavyweight on the continent
- Extensive mining resources (gold, platinum, diamonds, coal, etc.)
- Diversified industry and powerful financial services
- Public sector finances and debt under control
- Good foreign debt profile; essentially medium-long term and denominated in rand
- Satisfactory business environment

Weaknesses

- Outlying geographic location
- Sensitivity to raw materials prices
- Sensitivity to European and US economic conditions and to Asian competition
- Transport and energy infrastructure shortcomings
- Dependence on foreign capital flows, by nature volatile
- High unemployment and shortage of skilled labour
- Strong inequalities

Spain

Coface Assessments

Country risk **A4**

Business climate **A1**

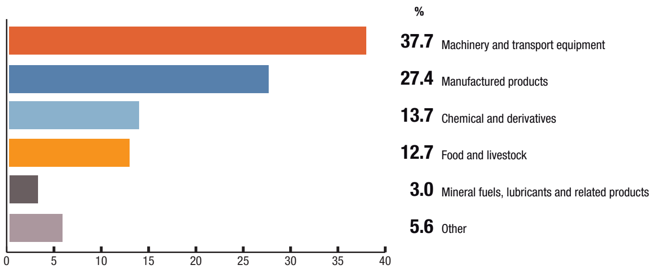
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.7	-0.1	0.7	-1.2
Inflation (yearly average) (%)	-0.2	2.0	3.1	2.1
Budget balance (% GDP)	-11.2	-9.3	-8.5	-6.0
Current account balance (% GDP)	-5.2	-4.6	-3.3	-3.3
Public debt (% GDP)	53.8	61.1	69.0	73.0

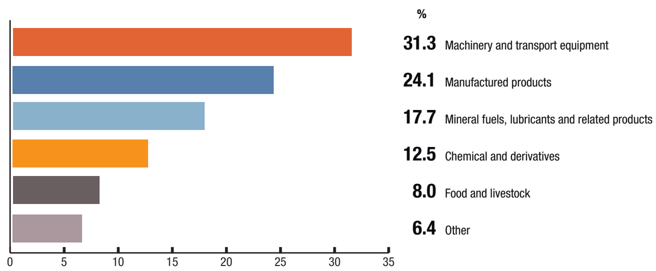
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 23 % du PIB



Importations 26 % du PIB



Risk assessment

The country is expected to plunge into recession again in 2012 as a result of weak domestic demand and the European slowdown

Economic activity slowed gradually in 2011 because of the contraction of public spending and the continuing decline of investment in housing. GDP even fell in the 4th quarter, with household consumption and investment in capital goods in turn recording negative figures. Foreign trade remained the main driver of the economy and contributed further to growth. The decline in production observed in late 2011 is expected to continue over most of 2012 before giving way to stabilisation at the end of the year, if the need for fiscal overhaul is met and the difficulties of the housing sector are resolved. Between now and then, consumption will continue to be hampered by the near freezing of credit, household deleveraging, the loss of purchasing power linked to inflation and the fall in the value of personal assets, and by the record level of unemployment (22.9% of the labour force at the end of 2011). Investment will be affected by over-supply in the property sector, the high level of corporate debt, worsened financing conditions and cuts in public spending. In addition, foreign trade prospects are becoming gloomier because of weakening demand from the eurozone (57% of exports).

The effects of the global crisis have been made worse by pre-existing imbalancesl

First among the imbalances is the over-expansion of domestic demand observed until 2007, linked to a high level of productive investment and investment in property, which itself has led to an increase in private sector debt (120% of disposable income for households; 120% of GDP for businesses). The resulting current account deficit has, however, fallen appreciably since 2009, largely because of the fall in imports.

On the fiscal front, Spain was, until the crisis, one of the only eurozone countries to observe the Stability and Growth Pact. The public accounts have deteriorated, however, as a result of the recession and the stimulus policy. The burden of public debt, until now modest, has increased sharply, even though it still compares favourably with that of the other eurozone countries (66% of GDP at the end of September 2011, against 87.4% for the eurozone). In the context of market distrust, the authorities have no option but to continue their efforts to promote recovery. These are, however, thwarted by the return of recession and difficulty of adjusting the accounts of the autonomous communities. The government has had to revise downward its fiscal objectives for 2012 after last year's poor performances, and has been forced to release a significant sum so that local authorities can honour the invoices of their suppliers.

Against a background of tighter bank financing and bond market tensions, Spain has so far managed to avoid a serious liquidity shortage thanks to the adjustment of its current accounts and to the interventions of the European Central Bank. In spite of the breathing space afforded by the restructuring of Greek debt and the longer-term refinancing operations of the ECB, prudence remains the order of the day. New political jolts in Greece or difficulties to honour fiscal commitments could bring about a further fall in investor confidence.

Regional savings banks, damaged by the bursting of the property bubble, have embarked on fundamental reform. A number of them have merged, have turned themselves into commercial banks and are in course of finalising their recapitalisation. In conformity with new recently adopted measures, the whole banking sector has to put aside new provisions before the end of 2012, to cover its doubtful property assets, and to inject new capital.

Companies again affected by the economic situation

Payment incidents recorded by Coface increased appreciably again in 2011. The most weakened sectors are construction, mechanical engineering, and distribution. Moreover, the recovery of unpaid debts is becoming more difficult, chiefly because of the rise in company insolvencies. The number of these, recorded by the National Statistics Institute, rose by 17% in 2011. Construction and property accounted for a third of bankruptcies and the greatest rise was recorded for the trade sector. The autonomous communities of Catalonia, Valencia, Madrid and Andalusia accounted for 61% of total bankruptcies.

Strengths

- Large groups with an international presence
- Close links with Latin America
- Modernised transport infrastructure
- Development of wind and solar energy
- High tourism potential
- Low initial level of public debt and political consensus about the adjustment

Weaknesses

- Bloated construction sector
- Loss of productivity and competitiveness
- Majority of exports low or medium tech (food products, basic 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

Syria

Coface Assessments

Country risk **D**

Business climate **C**

Medium term

VERY HIGH RISK

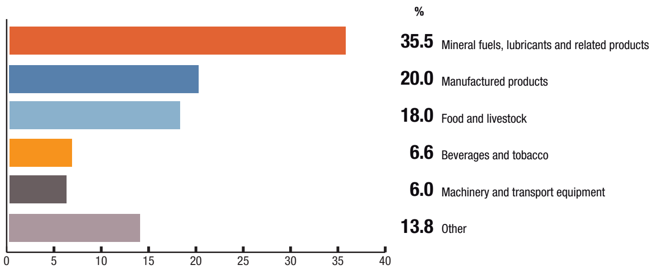
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	3.7	3.2	-3.5	-5.0
Inflation (yearly average) (%)	2.5	4.5	5.0	14.5
Budget balance (% GDP)	-4.0	-4.5	-11.5	-18.0
Current account balance (% GDP)	-2.5	-1.5	-13.5	-20.0
Public debt (% GDP)	31.5	28.5	35.0	45.0

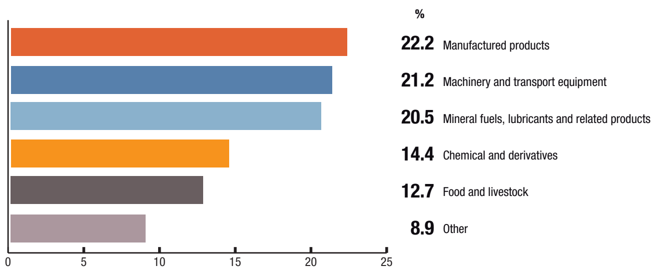
(e) : estimate *(f) : forecast*

Trade exchanges

Exports **34 %** of GDP



Imports **36 %** of GDP



Risk assessment

Latent civil war

President Bachar al-Assad, who began his second seven-year term in 2007, has been facing continued protests against his regime since March 2011, which he is trying to contain through repression and the promise of reforms.
However, the approval in February 2012 of a referendum on a new constitution, opening the way for parliamentary elections to be held in May or June, constitutes too small and too late a concession. The hard core of the regime is limited to the Alawite minority (12% of the population), with the crucial support of the Sunni business community apparently weakening, reflecting the worsening of the economic situation.
Meanwhile, Syria's international isolation is intensifying. The United States and the European Union imposed a boycott on Syrian oil exports in August 2011. The Arab League suspended the country's membership at the end of 2011 and Turkey has broken off the free trade agreement between the two countries. Moreover, Saudi Arabia and Qatar led the Arab League in demanding the resignation of President Assad. However, China and Russia have vetoed all UN Security Council resolutions condemning the Syrian regime, which did however accept at the end of March 2012 a peace plan previously approved by the Security Council, including in particular an end to combat operations and a possibility for the delivery of humanitarian aid.
A latent civil war could however continue, despite the lack of cohesion within the opposition and the rebel forces, and the regime could in the end succumb to a combination of political protest, social unrest, linked with the worsening economic crisis, and external pressures, or to a coup instigated by elements within the armed forces.

Recession triggered by political troubles

Due to the troubles and especially their extremely negative impact on private consumption, GDP plummeted in 2011 with only public spending (in particular on social measures) and the hydrocarbon helping mitigate the recession.
Looking at 2012, the economy is being seriously damaged by the on-going conflict and Western sanctions, and a further contraction in activity is therefore forecast. On the demand side, household consumption will again be hard hit and the situation made worse as a result of the additional restrictions on imports. On the supply side, in the services sector which now accounts for 45% of GDP, the retail and tourism segments in particular are going to suffer from the slump. The country is, however, relatively economically self-sufficient and the fact that its borders with Lebanon, and to a lesser extent with other neighbouring countries, remain open is helping soften the negative impact of the sanctions.

Serious worsening of the fiscal and current account deficits

Regarding public finances, the authorities wanted to diversify their revenue sources, but because of growing political and social troubles, the gradual implementation, from 2011, of a value-added tax has been postponed, alongside a reduction in subsidies. A very severe worsening of the fiscal deficit is thus expected in 2012, following on that already recorded in 2011. The decline in economic activity and the Western sanctions on the oil sector are in effect depriving the State of one of its main sources of income. As a result, public debt as a proportion of GDP will increase sharply, whereas the cancellation of the bilateral debt with Russia in 2005 had enabled a substantial reduction.
As for external accounts, oil exports are falling because of the European and US sanctions, with however the impact to some extent limited thanks to replacement sales to Asia. As a result of the sanctions, imports are also decreasing, despite the scale of refined fuel imports compared with crude oil exports. Overall, with a collapse in tourism income and a decline in expatriate remittances, the current account deficit is going to widen sharply.
However, the country has a moderate external debt level, although, if the political crisis is not resolved fairly quickly, capital flight could accelerate and the currency would depreciate further, with an increasing strain on the banking system. This situation could result in a depletion of foreign exchange reserves, which currently remain relatively comfortable (equivalent to 8 months of imports).
Nevertheless, the financial assistance being provided by Iran could enable the current regime to avoid, in the immediate future, a financing crisis and thus delay its collapse.

Very poor business climate

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

Strengths

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

Weaknesses

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

Tunisia

Coface Assessments

Country risk **A4**

Business climate **A4**

Medium term

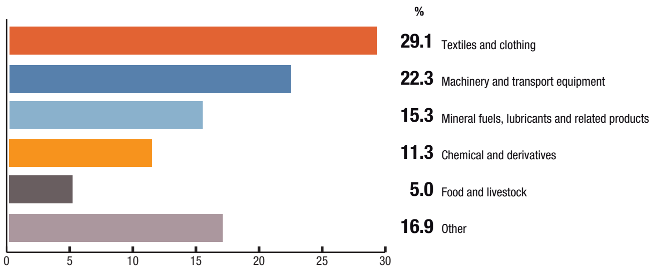
RATHER LOW RISK

Main Economic Indicators	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	3.1	3.0	-0.5	2.8
Inflation (yearly average) (%)	3.5	4.4	3.5	4.4
Budget balance (% GDP)	-2.7	-1.3	-4.5	-5.5
Current account balance (% GDP)	-2.8	-4.7	-6.1	-6.3
Public debt (% GDP)	42.8	46.0	43.5	52.3

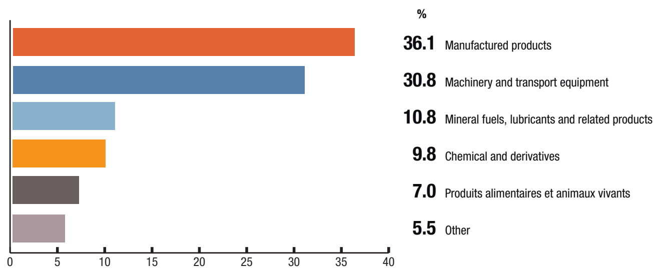
(e) : estimate *(f) : forecast*

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. Legislative and presidential elections will be held at the end of 2012, if the drafting of the new constitution is finished. Indeed, fault lines cut across society, divided between Islamism and secularism, or tradition and modernity.

In this context, the new government, despite its desire to implement a liberal economic programme, is finding it difficult to create a new economic policy framework. It is facing a large number of social and economic challenges, not least popular demand for progress in this regard. The major issues remain job creation and a better social and geographical distribution of the fruits of growth. Furthermore, there are also plans for a regional development scheme to provide assistance to the interior of the country, historically neglected relative to the coastal regions.

Slight upturn in growth expected for 2012

There was a significant slowdown in activity in 2011 subsequent to the political events, with the worst impact being felt on tourism (17% of GDP as a whole), followed by mining output.

With the return to a more stable political situation a moderate economic upturn is expected in 2012, with a recovery in household consumption and investment, stimulated by a flexible budgetary policy. The country is 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%).

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

Following a serious worsening of the budget deficit in 2011, a result both of the decline in economic activity and increased expenditure, 2012 should see a continuation of a substantial deficit. The focus of the budget is on social justice, job creation, regional development and the boosting of public investment. Public debt, as a proportion of GDP, is slightly higher than the average for comparable emerging countries, but the majority of it has been contracted with multilateral institutions at favourable concessional terms.

The pressure on the external balances will continue in 2012. Export growth will be weak as a result of the economic deterioration in the country's leading trading partner, the EU, whilst imports will suffer again from the rising cost of energy (representing 15% of the total). Whilst expatriate remittances are likely to be maintained, tourism is only going to improve slightly, following the sharp decline in 2011 and, overall, the current account deficit will remain high.

In May 2011, Tunisia received 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

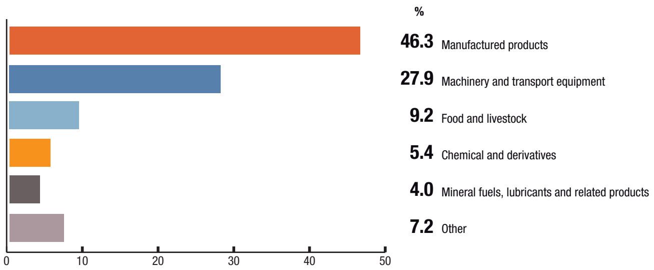
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4.7	8.9	8.0	3.0
Inflation (yearly average) (%)	6.5	6.4	6.2	7.8
Budget balance (% GDP)	-5.5	-3.6	-1.8	-2.0
Current account balance (% GDP)	-2.3	-6.5	-9.8	-6.7
Public debt (% GDP)	46.4	43.0	41.4	39.0

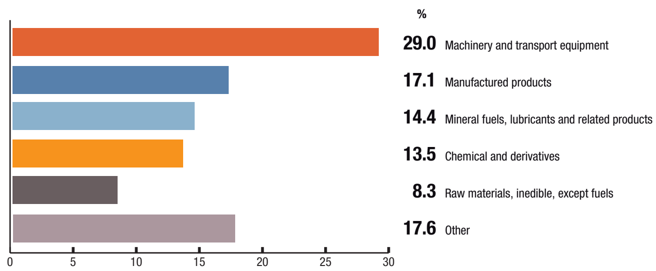
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 23 % of GDP



Imports 24 % of GDP



Risk assessment

A soft landing is expected after the overheating

Unlike most emerging countries, Turkey continued to grow above potential in 2011 because of very strong domestic demand, boosted by still abundant credit. Activity is expected to slow markedly in 2012. The Central Bank will strive to contain inflationary tendencies by controlling the growth of credit. It will, however pursue an unorthodox monetary policy based on maintaining low key interest rates offset by the widening gap between deposit and overnight refinancing rates as well as by raising the reserve requirement ratio. Slower credit growth will have a significant impact on company investment and household consumption, although household consumption will remain buoyant, driven by rising wages and the lowest unemployment rate since 2005. Moreover, foreign direct investments will continue to grow, particularly in the automotive and pharmaceutical sectors because of the potential of the domestic market. Exports will suffer from the recession in the eurozone, which accounts for 32% of sales; they will nevertheless continue to grow thanks to the depreciation of the Turkish lira and the buoyancy of the Middle East, which now accounts for 20% of exports. Finally, the protected sectors (finance and construction) will remain more dynamic than export-oriented sectors (industry). However, the Central Bank will be prepared to ease its monetary policy if exogenous shocks turn out to be more serious than foreseen. Inflation will remain high in 2012, reflecting the persistent bottlenecks and the high price of imported fuel.

The volatility of external financing bears close watching

The Turkish economy is weakened by the size of the current account deficit. The deficit is financed chiefly by portfolio investments and short-term debt, making the economy vulnerable to exchange rate risk. The Turkish lira depreciated by 15% in 2011 in the wake of the worsening sovereign debt crisis in the eurozone, one of the biggest depreciations among emerging countries. The currency is expected to remain very volatile in 2012. However, payment behaviour recorded by Coface is expected to remain favourable, the recovery rate remaining good despite payment extensions for companies with foreign currency debt. Regarding public sector finances, the government is expected to continue its budget adjustment policy, with the maintenance of a primary surplus, even though the adoption of a fiscal rule is likely to be rejected. Public debt, down to a sustainable level, below 40% of GDP, is a source of weakness since 37% of it is at variable rates and 29% in foreign currencies, making it vulnerable respectively to interest and exchange rate risks. However, it will remain easily financed via the purchase of treasury bonds by the Turkish banking sector, which has been thoroughly overhauled since the 2001 domestic crisis. Despite profitability affected by the increase in obligatory reserves and stricter prudential measures, the banks remain well capitalised and have a low level of non-performing loans.

Turkey a regional power

Turkey is asserting itself as a regional power, economically, politically and diplomatically. After having for decades favoured its relations with the European Union and the USA, Turkey, through the efforts of its Minister of Foreign affairs, has renewed its links with its partners in the Middle East. In particular, it has strengthened its commercial and financial exchanges through bilateral agreements and facilitated the movement of people from neighbouring countries. Turkey has thus become the biggest foreign investor in Iraq. The country has been able to profit overall from the Arab spring. Turkey has been taken as model of economic and political development by the Arab peoples who, in Tunisia and Egypt, have brought to power parties that take their inspiration from the AKP. However, this new role is not without risk and can mask certain weaknesses. It involves a hardening of relations with Israel, with which the country used to be engaged in strategic cooperation. Moreover, domestically, no political party has managed to emerge as a credible alternative to the AKP. In addition, Turkey has not yet normalised its relations with Armenia and the Kurdish question remains a source of recurrent tension despite the consensus politics initiated by Recep Erdogan. Finally, though membership of the European Union seems less urgent than before, it nonetheless remains an objective even though negotiations are stalled over the normalisation of trading relations with Cyprus. In this context, episodes of political tension, such as that with France, could lead to difficulties for the companies concerned.

Moreover, Prime Minister Recep Erdogan has been diagnosed with serious cancer and this has stirred a number of potential successors to declare their hands. This situation could lead to increased internal political tensions and weaken the AKP.

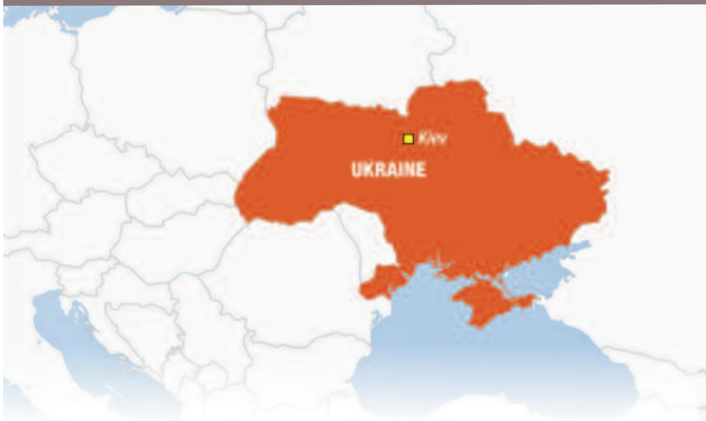
Strengths

- 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

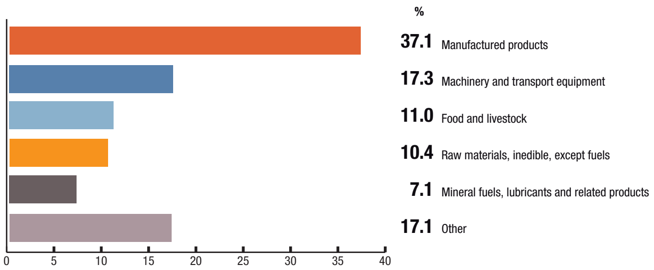
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-14.8	4.2	5.2	1.5
Inflation (yearly average) (%)	15.9	9.3	8.0	9.6
Budget balance (% GDP)	-6.2	-6.6	-2.7	-3.5
Current account balance (% GDP)	-1.5	-2.2	-5.8	-1.8
Public debt (% GDP)	35.3	42.1	39.4	42.5

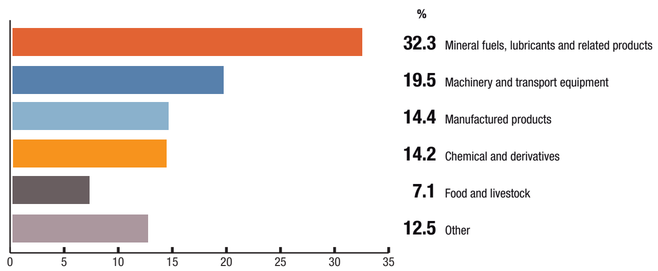
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 46 % du PIB



Importations 48 % du PIB



Risk assessment

Serious slowdown in growth in 2012

Following a good level of growth in 2011, activity is likely to slow significantly in 2012. Domestic demand will struggle following the budgetary austerity measures that will be implemented by the government to renew its cooperation with the IMF. The contraction in expenditure and the removal of controls on gas prices will seriously hurt household purchasing power. On top of this, private consumption will be hit by the combined effect of higher hydrocarbons prices and the contraction in credit supply, a consequence of the scarcity of external fundings. Investment is also expected to suffer under the impact of these adverse conditions, although supported to some extent at the beginning of the year by the expenditure associated with the construction projects for Euro 2012. The manufacturing and agri-food sectors, which are very export focussed, will suffer as a result of the expected recession in the Euro Zone and the decline in their price-competitiveness in 2011. Despite the slowdown in activity, inflationary pressures are likely to increase due to the removal of the subsidies on gas prices and to the rising oil prices. The scenario likelihood depends nonetheless on the signing of a new agreement with the IMF and a new contract 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 and national accounts could result in a severe shock to the current account balance with serious consequences in terms of economic activity, as was the case in 2009.

A very fragile financial situation

The external accounts and the public finances are subject to the same level of fragility as before the 2009 crisis struck. The slowdown in exports, flourishing domestic demand and soaring imported gas prices, all contributed to the increase of the current account deficit in 2011. At the same time delays in implementing the crucial but socially unpopular structural reforms, such as the removal of the gas subsidies, has slowed the reduction of the large public finance deficit inherited following 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 and the increased concerns over banking sector liquidities in the Euro Zone) has seriously undermined the balance of payments. As a result of pressure on the Hryvnia, the Central Bank has had to draw hugely from its reserves (representing only three months of imports) in order to maintain its peg against the dollar. The situation in 2012 will be even more critical as 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 is now the most likely scenario and 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. If no agreement is reached with the IMF a further devaluation of the Hryvnia would 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, whilst the banking sector, which holds massive non-resident dollar debts, is particularly exposed to currency risk.

Policies of President Yanoukovitch in doubt

In political terms, the short term risk therefore lies in the ability of the government to implement the structural reforms, upon which the return of the IMF is conditional, before October when the legislative elections are scheduled to be held - while Viktor Lanoukovitch's Party of Regions suffers a serious loss of popularity since the beginning of the year. The continued detention of Yulia Timoshenko 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. Whilst the most likely scenario remains that of reforms to the subsidies ahead of the legislative elections, the victory of the PoR in October 2012 is by no means assured. If there is a change in the majority in the Lower House, the re-emergence of an impasse between the President and the government could result in a return to political instability, which was essentially the reason hampering the much needed structural reforms for the financial recovery of the country in the aftermath of the 2009 crisis.

Strengths

- Strategic location between Russia and the European Union.
- Significant agricultural potential.
- Skilled and relatively inexpensive workforce.

Weaknesses

- Little economic diversification and dependence on metal prices and cost of imported gas
- Over-indebted private sector
- Political instability making it difficult to apply a consistent economic policy
- Fragile banking sector
- On-going shortcomings in the business climate

United Kingdom

Coface Assessments

Country risk **A3**

Business climate **A1**

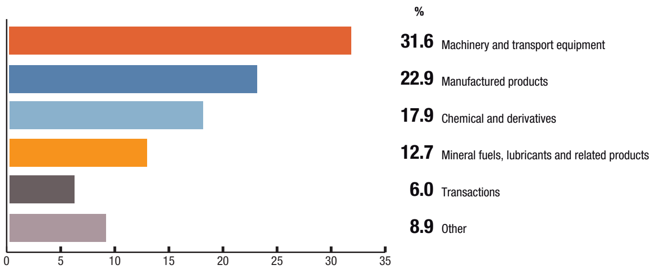
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-4.4	1.8	0.9	0.4
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	-3.2	-0.9	-1.0
Public debt (% GDP)	69.6	79.9	84.0	88.8

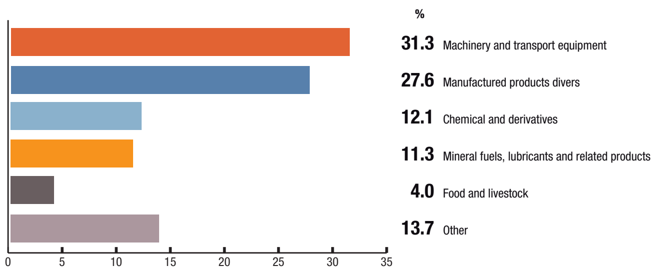
(e) : estimate *(f) : forecast*

Trade exchanges

Exports 28 % of GDP



Imports 30 % of GDP



Risk assessment

The level of household consumption could hold growth back in 2012

The level of activity is likely to slow in 2012 with UK household consumption making only a feeble contribution, while weak company investments will continue to weigh on the level of activity. The balance of trade, which played the key role in driving growth in 2011, should, at best, be neutral. Inflation, which accelerated in 2011 due to temporary factors, played a large part in restraining household spending, already depressed by accelerating unemployment and shrinking wages and disposable income. Consumer confidence weakened from May 2011. But the inflationary pressures, after peaking at 5.2% in September, began to dissipate at the end of last year and this trend has continued since the beginning of 2012, with inflation back down to 3%, although still above the Bank of England's (BoE) target level. The Bank is nevertheless expected to continue with its expansionary monetary policy particularly to prevent household bankruptcies (60% of mortgages are at a variable rate). In this context, household consumption (64% of GDP) might not fall further and may even rise slightly, in the wake of the Summer Olympic Games. It will though remain well below its pre-crisis trend with several factors continuing to feed the general gloom: shrinking wages, worsening unemployment (8.7%), reduction in public transfers, heavy debt burden (more than 137% of real disposable income), reduction of net wealth, maintenance of the savings level around 7% of disposable income, rise of euro-scepticism. Household investment in the residential sector will continue to be depressed, as reflected in the likely slowdown in mortgage loans and house prices. As a knock-on effect house-building projects will not take off, resulting in the risk of a housing shortage. The warning issued by the Office for Budget Responsibility last November on the high risk of a further recession was supported by the 0.2% contraction in the economy recorded for the fourth quarter of 2011. The coalition government has taken further measures to reduce spending (abolition of subsidies and of civil service posts, pay freeze…), but also support, particularly for SMEs. Anxious to keep the credibility it had gained with the financial markets regarding the consolidation of public accounts, the government announced that the period of adjustment would be extended until 2016.

Company investment supported by government programmes

Business performances on foreign markets were disappointing in 2011 despite the depreciation of the pound engendered by the Bank of England's quantitative easing policy (19% of GDP), intended to enable the opening up of new markets. The foreign trade contribution was, nevertheless, positive as a result of the decline in imports resulting from the fall in household consumption.
This economic engine remained stuck in the first quarter of 2012 reflecting the mediocre outlook for export orders for the third consecutive quarter as economic activity in the euro zone (42% of exports) slowed. Its contribution to the foreign trade balance should therefore, in the best case, be neutral this year, with imports slackening more slowly than exports. Companies, faced with a sluggish home market and regional uncertainties, remain cautious and are not increasing investment. The level of investment actually decreased in January for the eleventh month in a row, despite the support programmes set up by the government.

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 sharp fall in house prices, accelerating unemployment, rising interest rates and the resulting defaults constitute a significant risk. The banks' efforts to reduce their debt led to substantial restrictions on the supply of credit, particularly to SMEs. Large companies are less affected as they have a high self-financing rate (160%) and access to the bond markets. Company bankruptcies have posted a 8% acceleration in the second half of 2011. They particularly affect small businesses in construction, furnishing, car component manufacturing and distribution. The Coface payment incident index trend remained stable but above the world average and, in this context, 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↗**

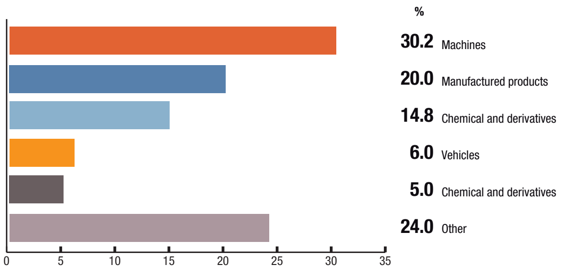
Business climate **A1**

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	105.6

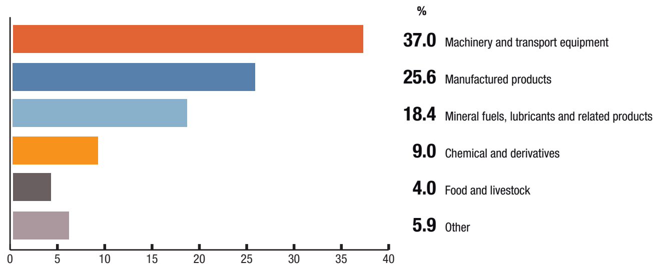
(e) : estimate *(f) : forecast*

Trade exchanges

Exportations 11 % du PIB



Importations 14 % du PIB



Risk assessment

Household consumption moving in the right direction

There were slender, but positive, signs that gave grounds for hope at the end of 2011 that the economy was at last set to improve. The trend at the beginning of 2012 however remained negative but the good news has been confirmed and boosted the level of household consumption, the main driving force in the economy (71% of GDP). The upcoming elections ensured that the leaders of the Democratic and Republican parties reached an agreement in February to maintain both the cuts to the wages bill and the extension of the unemployment entitlement period from 54 to 99 weeks until the end of 2012. The upwards trend in job creation, for the sixth month in a row, is now being reported across more States. However, the rate of job creation is still below the level needed to significantly reduce the numbers of unemployed and to absorb new arrivals. The unemployment rate therefore remains high (at around 8.3%). Nevertheless, as of mid-2011 the number of Americans in precarious employment has decreased. The inclusion of this segment of the active population takes the unemployment rate to 15%. In this context the household confidence index remains at a high level, despite the rising cost of petrol at the pump and the standstill in disposable incomes. The household savings rate continues to slowly decline (4.5% in the fourth quarter against 5% in the first) and the level of indebtedness, whilst remaining high (146% of disposable income) is decreasing (168% in 2007). However, the uncertainties concerning the measures that could be implemented after the presidential election to improve the public finances, and the increasing rate of inflation, could make consumers even more cautious as regards their spending decisions. The Federal public deficit should narrow this year, but the public debt is to continue to swell.

The Federal Reserve's accommodating policy will probably continue in 2012. After two bouts of *quantitative easing* which ended last June, operation Twist of 400 billion dollars, which will run until June 2012, is expected to keep mortgage rates attractive, favouring investment in housing, which will stop shrinking (up 3.5%). However, this recovery will be modest, excess supply continuing to hold down demand.

Exports decelerate in the wake of the weakening European demand

Productive investment (equipment and software) will again contribute positively to growth with, however, a slight slowdown (up 7%), and businesses also showing prudence in view of the economic and political uncertainties. Exports, which were an essential driver of activity in 2011, will not achieve the same performances. Despite the likely slight depreciation of the green back, they are expected to slow down in line with the slowing of external demand. The expected recession in the eurozone will affect American exports (15% of the total) directly but also indirectly via American companies operating in Asia. The negative effects will also come from Japan (5% of foreign sales), where the recovery will be 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, similar to the increase in taxes on the import of American vehicles decided by China in December 2011 and which thwarts the desire of the American authorities to promote the development of the American economic model with regard to the export of manufactured products.

Confirmed bankruptcy deceleration

The banking sector is on the whole stronger than in 2008: better capitalisation, improvement in the quality of loans thanks to the decline in defaults by households and businesses, which have returned to pre-crisis levels. But there are still weaknesses in particular because of the sector's exposure to private and public counterparties in the eurozone ($750 billion as of June 2011). Moreover, the involvement of some regional banks in the property sector continues to make access to credit difficult for smaller companies, which generate nearly 85% of American jobs and, unlike big businesses, which have a very high self-financing level (118%), depend on bank credit for their activity. But, as whole, businesses are not highly indebted, which is an advantage in an uncertain macroeconomic context. Bankruptcies have significantly fallen back (-15%).

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 ↘

- 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

Venezuela

Coface Assessments

Country risk **C**

Business climate **C**

Medium term

VERY HIGH RISK

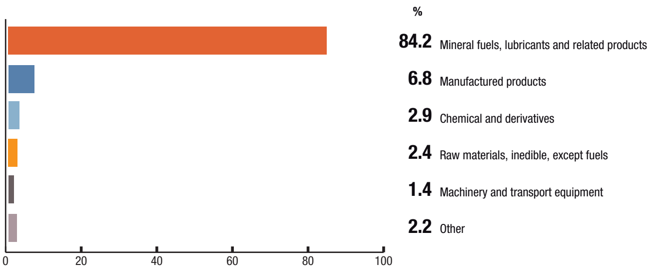
Main Economic Indicators

	2009	2010	2011 (e)	2012 (f)
GDP growth (%)	-3.3	-1.4	3.3	3.7
Inflation (yearly average) (%)	26.8	28.3	26.1	28.1
Budget balance (% GDP)	-5.1	-3.5	-2.5	-3.5
Current account balance (% GDP)	2.6	5.9	10.3	8.0
Public debt (% GDP)	18.4	24.9	33.0	40.0

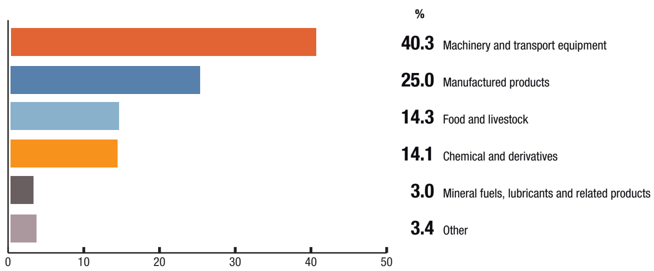
(e) : estimate *(f) : forecast*

Trade exchanges

Exports **18 %** of GDP



Imports **20 %** of GDP



Risk assessment

Continued weak growth and on-going strong inflationary pressures

After two years of recession, the country returned in 2011 to a positive growth rate. In a context of even higher oil price and with the prospect of a presidential election in October, economic activity will remain driven in 2012 by public spending, which will significantly boost consumption. However, private investment will remain low in a dissuasive business environment, with the significant inflationary pressures generated by the unorthodox policies of the Chavez administration. The unreliability of energy supply and the chronic investment deficit depress productive capacity, particularly in the oil sector. Despite its huge reserves the way in which the oil revenues are being managed is putting future production at risk. The national oil company, PDVSA, which must have a 60% holding in all new projects, lacks both technical and human resources and is not investing enough. A large portion of its income is siphoned off to fund expenditure for a variety of social and political causes. The increasing interventionism of the government, with regular nationalizations, is hampering the diversification of the economy and undermining productivity.

Despite high oil prices, there could be a worsening in the state of public finances

Despite the continuing high prices of oil and the attendant boost to public revenue, the budget deficit is likely to further increase in 2012 because of the even faster growth in expenditure. The national debt will continue to grow. The opacity of public accounts, unorthodox management of oil revenues and President Chavez's unpredictability lead to watch the State's and other sovereign entities payment behaviour carefully. Moreover, extra-budgetary spending carried out via the publicly owned petrol company, PDVSA, or the National Development Fund (FONDEN) is evidence of the unproductively public spending, current spending being much higher than productive investments.

The risk of blocked transfers is lower with higher oil prices

Despite the strict exchange controls the outflow of private capital continues resulting in a financing need covered by foreign debt issuance. PDVSA, as well as FONDEN, have large debts with foreign private and public creditors, notably Chinese, including pledges against future oil shipments. Although the level of external debt remains moderate, the movement of oil prices remains a crucial variable for the country's solvency. Any increase in doubts surrounding the country's economy and the Bolivar could bring about a foreign exchange crisis , especially as its official currency reserves are fairly low and the national currency continues to be overvalued as a result of inflation.
The foreign exchange reserves are managed by the *Comision de Administracion de Divisas* (CADIVI) in order to control the Bolívar fluctuations. The selectivity operated by the CADIVI in the allocation of foreign exchange hampers the ability of some private businesses to repatriate their profits and honour their external commitments, leading to significant delays in transfers and thus in payments. Higher, and a continuation of higher, oil prices should help to ease the situation.

An extremely uncertain political climate

Doubts remain on the outcome of the October 2012 presidential election. The incumbent President, Hugo Chavez, will be a candidate if his unpredictable state of health so allows. With his considerable popularity among a large part of the population, to a large extent explicable thanks to the significant social spending financed by oil revenues, the polls give him a 10 point lead over the centre-left opposition candidate, Henrique Capriles. One-third of voters however say they have not yet made up their minds. If Chavez does not stand, victory will probably go to the opposition. Between now and the election, a continuation of the same unorthodox economic policies can be expected.
The interventionism of the Chavez administration and its mistrust of the private sector weigh heavily on governance and the business environment. His arbitrary decisions (nationalization, etc.), price controls and hostility towards private capital fuel continued reluctance of domestic and foreign investors.
The crime rate is high and corruption rampant within governmental organizations and state-owned companies.

Strengths

- Major oil gas and mining resources
- Considerable oil reserves in the Orinoco river belt
- Oil income a means for extending the country's regional political influence
- The USA is the main market for Venezuelan oil, despite political disputes

Weaknesses

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

Country risk 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.

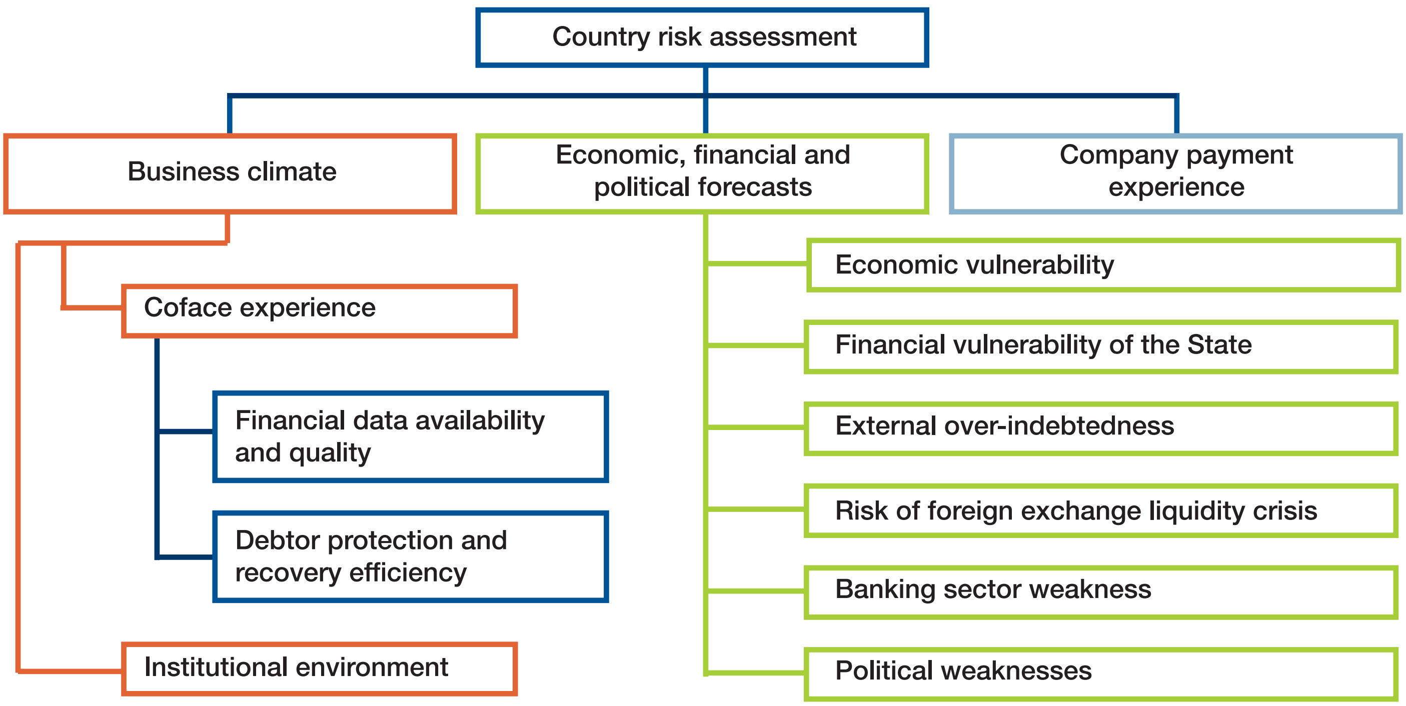
The country risk assessment assigned by Coface reflects the average level of short-term non-payment risk associated with companies in a particular country. It evaluates the extent to which economic, financial, and political trends, as well as the business climate, influence financial commitments of local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



Definition of country risk assessment

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.**

Definition of business climate assessment

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)*