

THE HANDBOOK OF COUNTRY RISK *2007-2008*

A Guide to International Business and Trade

- Unique trading risk analysis & rating for 152 countries
- Payment default probabilities
- Industry sector overviews
- Key economic indicators



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THE HANDBOOK OF
COUNTRY RISK
2007–2008

A Guide to International Business and Trade

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2007: More balanced growth

François David, *Chairman, Coface*

The year 2006 was marked by robust growth despite the slowdown observed in the second half. The spring jitters in the financial and money markets were rapidly forgotten; geopolitical tensions had little impact on the world economy. Interest rate increases and the slowdown in the US housing market have so far had only minor repercussions.

Companies have benefited from firm demand both in the United States and Europe, where the pick-up in German consumption was the highlight of the year. Demand from emerging countries, in particular China and some oil-exporting countries, has remained buoyant. Companies have, therefore, been able to pass raw material price hikes partially on to their retail prices without rekindling inflation. The most global among them yet again posted record profits by outsourcing production units to regions with low labour costs and maintaining a presence in the most dynamic markets. Their overall solvency has been good, as shown by the low level of payment incidents on the Coface index. This good performance, however, should not mask the specific difficulties faced by some sectors, such as the automotive industry in the United States and, to a lesser extent, Europe, as well as their suppliers.

In 2007, the global economy should grow at a more modest rate (3.6 per cent). World trade growth in 2007 is expected to remain strong at 7.7 per cent. The economic slowdown will be accompanied by converging growth rates in the industrialized countries. US growth is projected to slow. After years of boom, the decline in property prices should curb household borrowing capacity,

causing consumption to slow. On the other hand, interest rate stabilization, good employment numbers and lower inflation could limit the scale of this slowdown. In Europe, growth is expected to slow moderately. The decline in North American demand, coupled with the lagged effects of euro and sterling's appreciation, will make for less-favourable trading conditions. Domestic demand, however, will remain firm in Spain, the UK, the Netherlands, Scandinavia and, to a lesser degree, France. It is likely to be more moderate in Germany, where the increase in VAT will dampen household demand, and in Italy. In Asia, growth will slow in Japan but be buoyed by strong regional demand.

A resilient world economy does not mean that all sectors have similar profiles. In fact, there are significant microeconomic and sector risks. Against a background of more subdued growth, companies in the industrialized countries will be hit by slowing demand and competition from emerging countries. This could weaken the financial position of the most vulnerable European and North American players in sectors such as automotive, computer and telecommunications hardware and, to a lesser extent, construction, pharmaceuticals and mass retail.

On the macroeconomic and financial fronts, a more marked slowdown in growth cannot be ruled out. A steep slide in property prices in many countries would clearly impact jobs. Above all, it would have a recessionary effect on household demand. Continued imbalances in trade flows, illustrated by the sheer size of the US current account deficit and possible changes in the composition of Asian countries' foreign currency

reserves, could lead to sharp fluctuations in the dollar. Too steep a fall against the euro would affect the competitiveness of European products. Another threat to the moderate global slowdown scenario is the manageability of China's landing. Given China's growing importance in the world economy, this factor is a source of global risk. A deflationary crisis that punishes excess capacity due to unbridled investment would affect global demand. However, we expect China's economy to slow only slightly in 2007.

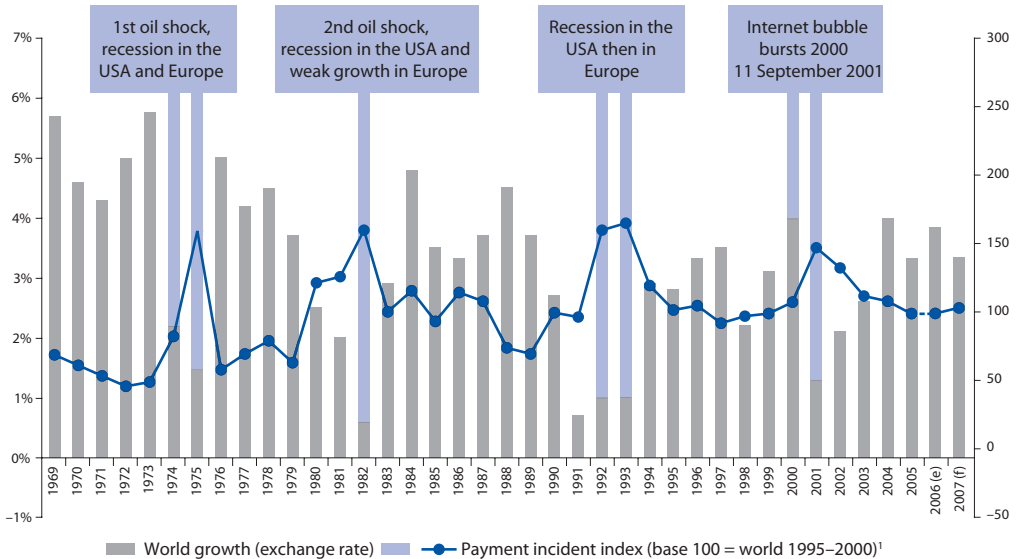
Emerging countries, on the whole, should continue to experience very strong growth. With the exception of the small open economies of Central America and Asia, a moderate slowdown in US demand will only have a marginal impact on most countries, where export diversification is usually the norm and domestic demand remains the main engine of growth. The financial consolidation taking place in many of these countries should help them weather any volatility in the global economic environment. Similarly, the projected stabilization of oil and other commodity prices will barely affect the financial standing of exporting countries. Many

of them, however, still experience severe geopolitical tensions. Moreover, chronic governance failures and the resultant lack of accounting transparency are a source of credit risk in some countries, despite favourable economic conditions. The instability of the regulatory environment for business also puts some companies under financial strain. Competition between emerging countries (singularly from China) is exerting intense pressure on margins, as reflected in corporate results, particularly in the Asian electronics industry.

Finally, it should be borne in mind that the spectacular reduction of debt service ratios in emerging countries has been accompanied in central Europe, Turkey, Russia and Asia by an increase in corporate foreign currency debt. An economic shock or loss of confidence on financial markets would, therefore, clearly undermine their solvency.

In conclusion, resilient and, in the case of emerging countries, vibrant economic growth does not imply the absence of risk for global economic players.

ECONOMIC GROWTH AND CREDIT RISK



¹ The payment incident index tracks the changes in incidents monitored in short-term commercial transactions.

The Outlook for 2007–2008

Jonathan Reuvid, *Senior Editor, GMB Publishing*

2006 was overshadowed by continuing conflict worldwide, particularly in the cauldron of the Middle East, and the geopolitical outlook for 2007 remains ominous. And yet, as the distinguished authors of the global economic reviews that follow have noted, 2006 has been a good year for the world economy overall with the expectation of modified but satisfactory growth for 2007 and beyond. The caveat to this favourable outlook is the potential effect of one or more of the political danger areas erupting into a serious incident that destabilizes global equilibrium and impacts economic prospects and general business confidence.

There are other threats of a more economic than political nature, notably the exploitation and control of the world's oil and gas, the ever-growing impact of the major Asian emerging economies and lack of progress in the Doha Round of WTO negotiations that are likely to generate changes in the patterns of trade and foreign investment significantly from 2007 onwards.

Introductions to previous editions of this book have taken the form of a *tour d'horizon* of the world's economies in the context of significant developments that accompany shifts in the tectonic plates of the world's political economy. This year it seems more relevant to review selectively the key economies in terms of favourable and unfavourable developments in 2006, before moving on to a more detailed assessment of the major political risks that will preoccupy G8 and other world leaders in 2007, and whose economic impact will probably be delayed until 2008 and beyond.

■ ECONOMIC ISSUES

The US economy

Starting with the US economy – as always a major influence on the economies of developed and developing countries alike – there is a consensus of informed opinion that after its long period of strong growth, the pace of growth will slacken. Although this may be uncomfortable for the American consumer, the impact of lower spending growth on EU and other exporters is expected to be relatively minor. The slowdown will probably extend into 2008 and will contribute to a soft landing unless US consumers decide to make a bigger correction to their household saving ratio than forecast in the OECD's latest *Economic Outlook*, which projects a shift from (–0.2 per cent in 2006 to 0.9 per cent in 2007). If household savings rose more rapidly resulting in at least two quarters of negative growth (the formal definition of a US recession), the rest of the world's economies would certainly be impacted unfavourably unless the Federal Reserve and other central banks responded swiftly. So far, the new chairman of the Federal Reserve, Mr Ben Bernanke, has shown an encouragingly measured sensitivity to economic indicators.

Of greater significance will be the contribution that this period will make to correcting the chronic imbalances of the US economy highlighted in previous editions of *The Handbook of Country Risk*: consumer overspending funded by personal debt and an unsustainable trade deficit. Already, inroads were being made into these imbalances as a result of the depreciating US dollar in the second half of 2006. We have been told that elimination of the trade

deficit could be achieved by a 40 per cent devaluation of the dollar against other major trading currencies. Therefore, the adjustment since February 2002 to December 2006 to date against trade weighted currencies of 23 per cent represents an important step in the right direction and further falls in 2007 are likely. US imports are at last growing at about the same rate as exports and the current account is consequently stabilizing, although the level remains high at 6.6 per cent of GDP.

The trade deficit with China, which reached US\$200 billion at the end of 2005 and US\$190 billion for the first 10 months of 2006, is of major concern to Congress; together with the Yuan/dollar exchange rate it was the main topic of a high-profile meeting in Beijing in mid-December 2006. At the meeting the US was represented by treasury secretary Hank Paulson, Federal Reserve chairman Ben Bernanke and other members of George Bush's cabinet, while the Chinese team were headed by deputy prime minister Mme Wu Yi who played a leading role in the later stages of negotiating China's entry to the WTO. Critics in the administration, as well as Congress, have accused China of continuing to keep the value of the yuan artificially low and the new composition of the Senate makes it more likely that a scheme to impose penalties on Chinese goods will be enacted if the yuan is not allowed to strengthen soon. Although the meeting was inconclusive, Mme Wu Yi insisted that change was coming as fast as possible and the US delegation avoided taking any hardline stance. Correction of the trade imbalance is a long-term project but the willingness of the two countries to engage in a regular twice-yearly dialogue is a more hopeful approach to the problem.

Of course, there are international constraints on how far the US dollar may fall. The adjustment of exchange rates between countries with floating exchange rates and those in the extended dollar area is inevitable if the US dollar falls further.

■ THE EU AND THE EURO AREA

Powered by a strong recovery of the German economy, 2006 was a much better year for the euro area with GDP growing at 2.7 per cent. However,

growth is expected to fall back to, perhaps, 2.0 per cent in 2007.

UK economic performance was more aligned to its major EU partners than recently with GDP growth of 2.6 per cent in 2006 expected to moderate to 2.3 per cent in 2007. However, the forward outlook for the UK is less favourable than for its partners in terms of other economic indicators. Unemployment is rising and the UK trade deficit is forecast to rise to 2.7 per cent of GDP in 2007, while in the euro area unemployment is declining and the overall current account deficit is forecast to reduce further in 2007 following a merchandise trade surplus for the second month in a row in October 2006.

After a long period in the economic doldrums, business confidence in Germany is at a 16-year high as 2006 closes. The authoritative Munich-based Ifo Institute identified that the rise in its business climate index was driven by businesses' assessments of current business conditions, a reflection of the painful structural changes introduced under former Chancellor Schroeder and sustained by Chancellor Angela Merkel's coalition government. However, the impact of Germany's value-added tax rise on 1 January may not have been factored into the current optimism. Within the enlarged community, although GDP growth of the three largest new members is significantly above that of the euro area, their current account balances remain negative.

The European Central Bank (ECB) has also enjoyed a successful year in which it has consolidated its authority. At the beginning of December 2006, the ECB raised its main interest rate by 25 basis points for the sixth time since December 2005 to 3.5 per cent. Interest rate movements are now broadly in step with the Bank of England, which last increased its main rate to 5 per cent in November 2006. Both central banks are indicating that further rises are possible in February 2007 having regard to inflationary risks.

The UK and Denmark are the only two EU members that have 'opt-outs' from the euro; all other members are legally obliged to join. The pace of enrolment anticipated on accession of the 10 new members on 1 May 2004 has slackened. The

current status of the potential new members of the euro area is mixed. Slovenia became the first of the EU 10 to join the euro on 1 January 2007. Four potential euro members (Estonia, Cyprus, Latvia and Sweden) meet the euro area's government borrowing criterion and four meet the inflation criterion (the Czech Republic, Cyprus, Poland and Sweden). Estonia is the only country that meets all euro area legal requirements, such as full independence of its central bank, although Cyprus and Malta are nearly there. Hungary is the only euro candidate that does not meet any euro requirement.

The euro itself is now firmly established as the second reserve currency after the US dollar and in 2006 countries with strong trade surpluses, such as China, have increased the proportion of their reserves held in euros.

Japan

Although fragile, Japan's welcome economic recovery was sustained in 2006 and the outlook for 2007 remains positive. In line with the other major developed economies, GDP growth is expected to decline from 2.0 per cent in 2006 to 1.7 per cent for 2007. More importantly, the decade of deflation appears to be coming to a close. Mr Toshihiko Fukui, governor of the Bank of Japan, has purged the mountain of non-performing loans from the banking system that came close to collapse when the private investment bubble burst in 1990 and, at the same time, restored the central bank's credibility. The next task is to narrow the gap between the Bank of Japan's exceptionally low main interest rate of 0.25 per cent and the equivalent ECB rate of 3.5 per cent, which has encouraged investors to borrow cheaply in yen to invest overseas in higher-yielding assets. Previous attempts to introduce interest rate rises of 25 basis points, most recently in July 2006, have proved premature but there is a clear intention to raise the main rate to 0.5 per cent as soon as practicable. With a fresh surge in corporate capital spending and commercial property prices rising strongly in large cities, the Bank is mindful of the perils of another investment boom.

Encouragingly, unemployment is now down to about 4 per cent, which should result in an upward movement in wages, thereby stimulating consumer demand. Meantime, bankruptcies and overdue debts are declining rapidly. In spite of all its economic woes, Japan has maintained its strong foreign trade surplus running at 3.7 per cent of GDP in 2006 and forecast at that level for 2007.

China

If the US is the major influence on the world economy, China is rapidly qualifying for second place. It already holds first place in its impact on the foreign trade of Southeast Asian economies both in terms of its imports of raw materials and low-cost components and in the export of its own manufactured products.

On balance, Coface predicts that the growth of the Chinese economy may be dampened in 2007 but that outcome is not certain. Neither a slackening in demand from the US for consumer products nor action by the European Commission to restrict quotas on the import of selected products, mainly in items of clothing, will greatly affect Chinese economic performance if the growth in domestic spending starts to take off as planned. The marvel of China's sustained economic development is the maintenance of its GDP growth at a compound rate of close to 10 per cent even though its economic base has expanded year by year. In the early years, following its adoption of a mixed economy and an open market policy, the engines of growth were foreign direct investment (FDI) and sustained domestic investment into China's creaking state-owned enterprises. With more than 75 per cent of GDP now generated by the private and semi-private sectors, including foreign-invested enterprises, China's economy is now on a stronger footing. The restructuring of the Chinese banking system with an impressive reduction in the overhang of non-performing loans, a marked relaxation in the restrictions on foreign investment in Chinese banks and increasing availability of consumer credit are creating the climate necessary to stimulate household spending as the new engine of growth.

China's success in adapting its financial services to an open market economy is reflected in the renaissance of the two domestic stock exchanges and the market capitalizations achieved by the IPOs of shares in its major state-owned banks on international stock exchanges. China's continued growth also depends on its ability to secure supply sources for its energy and other raw material requirements – further commentary on its efforts in that direction is offered below, alongside those of Russia.

Looking further ahead beyond 2008, the anticipated consumer boom is sure to exert an upward pressure on wages and salaries. In conjunction with a probably steady rise in the value of the yuan, the inevitable result will be a diminution of China's price competitiveness and a consequent adjustment to trade imbalances. Like the fully developed Western economies before it, Chinese industry will need to focus on productivity gains and innovation. In 2006 expenditure on R&D overtook that of Japan for the first time, placing China second only to the US – proof positive that China is already mindful of its future needs.

India

It is tempting to relate the economic prospects for India too closely to those of China. Both countries now have a host of dynamic local companies that offer effective international competition in steel, pharmaceuticals and textiles, IT outsourcing and other service sectors.

Like China the domestic market potential is being stimulated by a burgeoning middle class in the urban centres. However, the comparable rate of GDP growth may be misleading. Behind the headlines, GNP per head is only US\$3,460 compared with China's US\$6,600 and an average US\$5,540 for emerging countries. The growth of the Indian economy from a low base is impressive but there are doubts whether the present GDP growth rate can be maintained long term, given the deficiencies in the infrastructure and the lower proportion of the urban population in India. With a democratically elected government it will also be more difficult for the government of India to macromanage the economy than in China, where

autocratic government has proved an economic advantage.

For the moment, the boom in merger and acquisition (M&A) deals that India experienced in the first half of 2006 was maintained in the second half of the year. Foreign direct investment for 2006 is estimated to have doubled to more than US\$11 billion, but is tiny compared with an estimated US\$80 billion for China.

Russia

The current strong performance of the Russian economy is still dangerously dependent on its oil and gas industries with most of the remaining wealth and economic activity centred on Moscow and St Petersburg. Over the next decade the challenge is for Russia's provincial governments to repeat the successful regeneration of the two major cities in the provincial centres where urban populations exceed one million. Again, there is an analogy in China's booming cities on the eastern seaboard and hinterland.

Western concerns with President Putin's increasingly centralized government are focused on the strong-arm tactics that the Kremlin has used to regain state control of its oil and gas industries and to enforce major price increases on its neighbours. At one level, the implacable insistence on recovering majority state holdings in the key energy sector following the sell-off to oligarchs and foreign interests during the former President Yeltsin's occupation of the Kremlin, when Russia approached bankruptcy, is understandable. However, the ruthless tactics employed could rebound in terms of the impact on net inflows from foreign direct investment that are estimated to have been at a record US\$2.5 billion in 2006. The latest 'snatch and grab' of a controlling interest in the Sakhalin-2 gas field for Gazprom from Royal Dutch Shell and its Japanese partners, Mitsui and Mitsubishi, is particularly troubling since Russia could not have committed itself to the massive exploitation costs without foreign investment. BP's joint venture, TNK-BP at Kovykta, appears to be next in the firing line. It is bad news for all power fuel and power consumers too, if Russia insists on developing its oil and gas resources by itself.

During December 2006 there was an action replay of Russia's ultimatum to raise gas prices to Ukraine at the end of 2005. In that instance, the deadline expired and pipeline supplies through Ukraine, in particular to Germany and Poland, were disrupted briefly. This time the same threat to cut off supplies if arbitrary price increases were not agreed was levied at Belarus and Georgia with a 2006 year-end deadline. Although there was a counterthreat that if supplies were discontinued the trans-Belarus pipeline that serves Germany and Poland would be blocked, Belarus accepted a price hike of more than 100 per cent at the eleventh hour.

Mr Putin's treatment of the former members of its lost empire poses a serious threat to the security of EU energy supplies. With diminishing exploration opportunities in the Western world and the OPEC countries reluctant to increase output, Russia could produce more oil and would benefit from the additional revenue. One of the priority tasks that Chancellor Angela Merkel has set herself in taking over the EU presidency for the first half of 2007 is to seek *rapprochement* with Russia in the form of a strategic economic partnership. The issue of succession to Mr Putin, which will become more pressing as the next election date in March 2008 moves closer, casts additional uncertainty on relations with Russia.

Africa

By the end of 2006, 19 African countries eligible for the Multinational Debt Relief Initiative (MDRI) agreed at the 2005 Gleneagles Summit of the G8 to forgive all outstanding debt to the World Bank, the IMF and the African Development Bank had satisfied the pre-conditions of the HIPC and that burden has now been lifted. However, the fundamental economic problems for most African countries remain. The first problem is that the region has not diversified into labour-intensive manufacturing. Some African countries – particularly those that are not landlocked or states that have not failed such as Ghana, Kenya or Senegal – are potential bases for manufactured exports to global markets. Unfortunately, those markets were successfully penetrated by Asian city exporters in the 1980s and 1990s and the opportunity has

largely bypassed Africa. More development programmes are required from Europe and the US to stimulate entry into OECD markets by providing some advantage over Asian competition, possibly in the form of trade preferences. In this respect, the continuing failure to break the deadlock in the Doha Round of WTO negotiations means that the deprived agrarian economies of Africa are no closer to gaining access to North American and European markets.

Other unsolved African problems include poor governance and accountability in the management of savings and windfall gains that accrue from high growth rates in resource-rich countries. Overall, the biggest deterrent to foreign direct investment is the high risks to internal security from coups and insurrection.

Against the grain of the ethical lending policies of the world's development banks, China – which has invested billions of dollars in recent years and whose trade with Africa, mainly through the purchase of crude oil, has quadrupled over the past decade – is now undercutting the EU-backed European Investment Bank by not imposing social or human rights conditions. The showcase for China's successful investment diplomacy in Africa was the African summit of 48 countries in Beijing in November 2006. At the core of China's rapid insertion into African markets is its foreign policy of 'no political strings' coupled with its willingness to provide direct aid and cessionary loans for infrastructure projects in exchange for unexploited supplies of oils and mineral resources.

Latin America

The principal Latin American economies are prospering and more stable than a few years ago with GDP growth for Argentina and Peru currently running in excess of 8 and 7 per cent respectively.

Chile, in its post-revolutionary and dictator era, is the leader in making the successful transition to democracy in what the OECD deputy director, Javier Jantiso, has described as 'the political economy of the possible'. In terms of GDP per capita, at purchasing power parity relative to the US, Chile stands at 40 per cent, compared with

Argentina, which has recovered to 30 per cent, Mexico at about 25 per cent and Brazil at less than 20 per cent. By this measure, only Chile's per capita GDP relative to the US is higher than in 1950. In a recent study published by MIT Press, Chile is also rated as head and shoulders above all other Latin American states and the east Asia average in terms of political stability, government effectiveness, regulatory quality, rule of law and control of corruption.

Protectionism

As 2007 begins, the outlook for reviving the corpse of the WTO Doha Round is bleak. While the blame game continues among participants, the leading participants, including the US and Europe are retreating into protectionism with subsidies and quota impositions that are contrary to the spirit, if not the letter, of the WTO. For example, the Doha Round 'freeze' makes the prospect of long-awaited reform of US farm subsidies, when the generous 'farm bill' expires in 2008, more remote. The EU, for its part, will no doubt continue to use a mixture of quota and tariffs on selective goods to stem the flood of imported shoes and clothing from Asia at prices with which European manufacturers cannot compete.

The long-term threat to the continuing healthy expansion of world trade lies in a proliferation of new discriminatory bilateral and regional agreements among small groups of countries. Meantime, the 'least bad' outcome of the discussion among the ASEAN and APEC countries of Southeast Asia would be the launch of a free trade area of the Asia-Pacific region (FTAAP) based on the 21 APEC members with the possible addition of India, Australia and New Zealand. In this way a new Asian bloc would emerge to stand alongside the EU and the NAFTA. This tri-polar world would have to substitute for any breakthrough during a long period of Doha Round suspension. The WTO itself is already weakened, but there is a precedent in the last Uruguay Round which missed its initial deadline of 1990 and was suspended for three years before being kick-started by an APEC commitment in November 1993 to achieve free trade. The leverage of an FTAAP would be

considerably greater in 2007–2008 in breaking the present deadlock.

■ SECURITY FLASHPOINTS

The greatest risks to world security are now clearly in the Middle East and in acts of terrorism emanating from Islamic extremism there or from home-grown terrorists in Europe or the US, inspired and trained by the same al-Qaeda factions. It is also apparent that there has been a quantum leap in extremist violence and insurgency throughout the Middle East cauldron since President Bush and Prime Minister Blair triggered the campaign on international terrorism.

Iraq

The Baker-Hamilton Iraq Study group delivered its report on the US-led invasion of Iraq and subsequent events at the beginning of December 2006. Neither its opening statement that 'the situation in Iraq is grave and deteriorating' nor the damning account of the facts and mistakes made in the planning of the war and its aftermath have been disputed, but the recommendations, intended to provide President Bush with an escape route from the present quagmire, are more contentious. In the US' November mid-term elections, the Democrats gained control of both houses of the Congress, which resulted immediately in the president's pre-emptive dismissal of Defence Secretary Donald Rumsfeld, the focus of anti-Administration criticism. There was a brief hope that the White House neoconservatives had been routed and that the president would adopt the Baker-Hamilton proposal for constructive re-engagement with Iran and Syria to find support for a peaceful solution in both Iraq and the other two Middle East hotspots of Palestine and Lebanon in which they are back seat drivers of the extremist factions.

The proposal that dialogue with Iran might be fruitful seems optimistic against Mr Bush's denunciation of Iran as part of his 'axis evil' but at this stage any chance of halting the carnage in Iraq by consulting its neighbours with influence on the two religious sects whose extremists continue to wreak atrocities on each other is worth pursuing. However, setting down as a precondition the

demand that Iran should abandon its nuclear development plans seems naïve and risks precluding any discussion.

Another Baker-Hamilton suggestion that President Bush should supplement the US troops in Iraq in order to achieve security objectives until trained Iraqi security forces can take over the task is unpopular at home, but there is likely to be a public announcement by the president to that effect in the early part of 2007. Although the Democrats, through Congress, now control the domestic US political agenda, the president still retains control of foreign and defence policy with little constraint from, albeit accountability to, Congress. However, this may be a case of ‘too little, too late’. As the slide into civil war proceeds, no acceptable level of troop injection is likely to make a difference unless the nominally bi-partisan Iraqi government takes a firm grip in bringing the extremist elements of the Shiite and Sunni populations together in peaceful cooperation. To continue speaking in terms of ‘winning or losing’ in Iraq suggests that the president may be in denial.

Looking ahead, the US faces ultimate failure in Iraq with even greater loss of international prestige. A more likely solution than an integrated and united Iraq now seems to be partition. For the northwestern area of Iraq, partition is probably what the Kurdish population would prefer; however, an agreed separation between Shiite and Sunni-dominated sectors of the remainder along the lines of the former Yugoslavia presents almost insuperable problems, not least because of the geographical location of Iraq’s oil and mineral wealth.

Afghanistan

For a time, and until the military occupation in Iraq failed, it seemed that the UN-endorsed and NATO-supported incursion in Afghanistan had achieved success with the installation of a more or less democratically-elected government, the defeat of the Taliban and the outlawing of al Qaeda. However, the Iraq invasion diluted prematurely the US military effort in Afghanistan, while failure in Iraq has allowed the terrorist extremists to re-establish themselves there and encouraged the Taliban to return in strength. With NATO allies

reluctant to commit heavily in Afghanistan, the burden of military action has fallen on US and British troops, whose mission was originally to help in the reconstruction programme.

As in Iraq, civilian support of the allied troops is waning and the battle with the Taliban is no by no means won. Failure in Afghanistan will also bring the future of NATO as more than a parochial European defence organization into question.

Iran

Perhaps the biggest winner of 2006 on the world stage in terms of political influence has been President Mahmoud Ahmadi-Nejad. There was a welcome dent to his control of domestic politics in the local government elections of December 2006 when the former president, Rafsanjani, topped the poll for the assembly of experts, which elects 16 of the 86 national government seats. However, the inability of Israel to defeat Hizbollah in Lebanon gave a boost to President Ahmde-Nejad’s standing.

Notwithstanding any policy rethink at the head of government, if Iran is to be deflected from its declared long-term aim of obliterating Israel and re-engaged in attempting to find a regional solution, it will necessary for the West to accept the reality that Iran will not abandon its nuclear programme as long as it feels under threat from Israel.

Israel and its Arab neighbours

One crumb of comfort from the bloodshed in Iraq is that the likelihood of a US strike on Iran’s nuclear installations has now diminished to vanishing point, but there is the possibility of a pre-emptive strike by Israel if it feels sufficiently confident of tacit US support. However remote that possibility may be, it remains a serious threat for 2007 until some progress is made in defusing the confrontations between Israel and its enemies.

The Baker-Hamilton report and, to his credit, Prime Minister Blair recognize that achieving an accommodation between Israel and its immediate neighbours (Palestine and Lebanon) and with Syria and Iran is the key to lasting regional security. Mutual recognition along the lines of the agreements that Israel enjoys with Egypt and Jordan is the minimum required. Any progress

towards that goal in 2007 will be especially welcome. Unfortunately, neither President Bush nor Mr Blair retain the credibility to play any personal role in the reconciliation process, however much diplomatic tourism either is willing to undertake.

Korea

The potential nuclear threat from Korea abated during 2006, partly because the much-vaunted but impressive nuclear test suggested that its capability is probably less advanced than claimed, and partly because the six party negotiations with Korea have resumed in Beijing. China is making an important contribution to these discussions as both a still-friendly neighbour and intermediary, and this is one area in which the incoming Secretary of the United Nations may be able to may a useful intervention by reason of his past experience as South Korea's foreign minister.

■ VACUUM IN LEADERSHIP

France

Both 2007 and 2008 are years of political change. In Europe, the French presidential elections in May 2007 are likely to produce a new president from the right in Mr Nicolas Sarkozy or from the left in Mme Ségolène Royal. The outcome is of importance to France in its domestic economic policies and also to the outcome of fresh discussions on the aborted EU constitution that Ms Merkel will revive in her spell as EU president. Mr Sarkozy might feel able to push through a 'mini-treaty' without recourse to a national referendum; Mme Royal would probably not.

UK

Sometime in 2007 Prime Minister Blair's 10-year reign will come to a close when he abdicates, probably in favour of an unopposed chancellor, Gordon Brown. Although his resignation may be delayed beyond the early summer he is committed to step-down before his party's annual conference. There will certainly be a change of style under Mr

Brown but it is uncertain how much of Mr Blair's New Labour policies will survive under a former chancellor whose penchant for micromanagement has been fully evident in the past decade. Mr Brown would also have difficulty in bypassing the national referendum promised to the British electorate on any EU agreement of a constitutional nature. However, that issue is unlikely to arise before 2008.

Russia

The completion of President Vladimir Putin's second term of office in 2008 has already been mentioned. He cannot stand again as president under the present terms of the Russian constitution and has been firm in his assertion that he will not seek any change. However, it is hard to envisage any successor other than a protégé of Mr Putin and he has hinted that he may continue to play an undefined background role. (Within living memory, there is the precedent of China's paramount leader, Deng Xiao Ping.)

United States

The Bush presidency runs to the end of 2008 but presidential electioneering will be in full swing before the end of 2007. Mr Bush needs international success to gain any kind of legacy from his period of office. In foreign affairs, as already discussed, it is difficult to see what he can achieve since peace for America is probably out of reach other than in a dignified retreat from Iraq – which would seem out of character for this president.

Over the next two years the US will have to live with greatly diminished international prestige and less support from its reduced band of friends. It will need a new president, like the late President Ford who died in the closing days of 2006, to heal America's self-inflicted wounds.

None of these changes in political leadership are intrinsically threatening, but there are enough risks in the geopolitical arena to caution us that we should not be complacent in our forward expectations of calm seas for the world economy.

The @rating System

In 2000, Coface introduced the first worldwide insurable company rating scheme. The @rating system assesses the ability of a company to meet its business obligations vis-à-vis customers and suppliers. International businesses can access four rating systems by logging on to www.cofacerating.com or any of the national websites (eg www.cofacerating.fr).

@rating credit opinion sets out the recommended credit exposure for a company using a very simple assessment scale (1 @ = €20,000, 2 @ = €50,000, 3 @ = €100,000 etc). Credit exposure arising from B2B credit transactions is insurable by Coface. An @rating credit opinion is assigned to some 50 million companies worldwide, reflecting Coface's dual expertise in corporate information and credit insurance.

@rating score, launched in October 2002 by Coface and Coface Services, measures a company's default risk over one year. It comprehensively and accurately rates 4.5 million large, medium and small-sized French companies. The ratings are used not only by different sized companies but also by financial institutions looking for a rating system that complies with new banking regulations (McDonough ratio). Measuring credit risk among companies is an important exercise when addressing not only traditional needs (corporate loans, B2B credit, market credit) but also emerging needs created by new instruments such as loan securitizations and new capital adequacy rules (McDonough ratio). Companies and banks have an even greater need for reliable tools in today's climate of increasing credit risk and mounting scepticism over corporate accounting practices.

Country @rating – one of Coface's key skills – allows the various actors in international trade to enhance the security of their transactions. It continuously tracks a series of indicators for 154 countries, evaluating weaknesses in the geopolitical environment, governance issues, economic vulnerabilities, the risk of a foreign currency liquidity crisis, external over-indebtedness, government financial vulnerability and weakness in the banking system. An aggregate rating is assigned to each of the 154 countries, which are monitored on the basis of seven risk categories. The ratings, in ascending order of risk (A1, A2, A3, A4, B, C and D), follow a scale similar to that used by rating agencies.

Sector @ratings measure the average level of default risk posed by companies in individual sectors. A rating assesses the likely impact on short-term payment behaviour of the economic prospects and average corporate financial position in a particular sector. To establish a rating, Coface uses three evaluation criteria.

1. Economic vulnerability of the sector, which reflects how market prospects, price levels and production costs might influence company solvency.
2. Financial strength of companies in the sector, which reflects the ability of companies to cope with economic downturns. This rating is determined by reference to Coface's corporate ratings information bank.
3. Payment behaviour in short-term transactions is monitored through Coface's databases.

Country @rating Definitions

Economic liberalization has led to a boom in BtoB trade, with 70 per cent of accounts being settled by short-term instruments. It is therefore vital to assess the risk associated with such transactions. Country @rating addresses this need by evaluating the extent to which a firm's financial commitments in a given country are influenced by that country's economic, financial and political prospects. Log on to www.cofacerating.com to access country @rating, the supplement to company @rating.

- A1** The steady political and economic environment has positive effects on an already good payment record of companies. Very weak default probability.
- A2** Default probability is still weak even in the case when one country's political and economic environment or the payment record of companies is not as good as in A1-rated countries.

- A3** Adverse political or economic circumstances may lead to a worsening payment record that is already lower than the previous categories, although the probability of a payment default is still low.
- A4** An already patchy payment record could be further worsened by a deteriorating political and economic environment. Nevertheless, the probability of a default is still acceptable.
- B** An unsteady political and economic environment is likely to affect further an already poor payment record.
- C** A very unsteady political and economic environment could deteriorate an already bad payment record.
- D** The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.

Sectoral Overview

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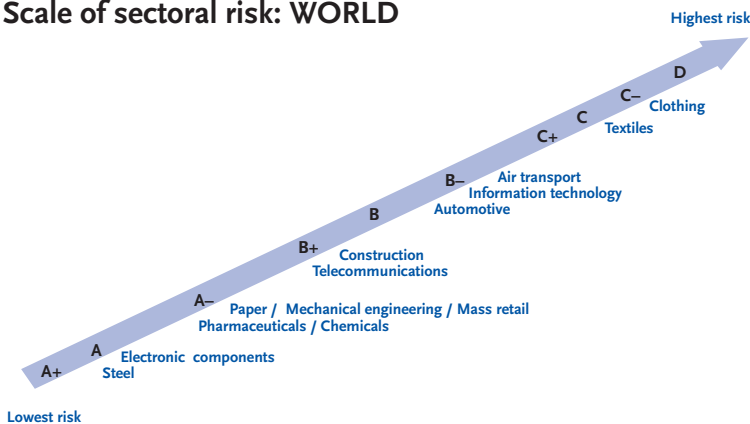
Sector @ratings measure the average level of non-payment risk associated with companies in individual sectors. A rating assesses the likely impact on short-term payment behaviour of the economic prospects and average corporate financial position in a particular sector. To establish a rating, Coface uses three evaluation criteria:

- the **economic vulnerability** of the sector, which reflects how market prospects, price levels and production costs might influence company solvency;

- the **financial strength** of companies in the sector, which reflects the ability of companies to cope with economic downturns;
- **payment behaviour** regarding transactions payable in the short-term, as reflected in Coface databases.

Ratings are awarded on a scale of 10, ranging from A+ for the lowest risk to D for the highest risk. Sector @ratings supplement @rating credit opinions on companies and country @ratings.

Scale of sectoral risk: WORLD



SECTOR RATINGS: WORLD

| | 2003 | 2004 | 2005 | 2006 | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|
| Steel | B | A | A | A | A |
| Electronics | B- | A+ | A | A | A |
| Pharmaceuticals | A+ | A+ | A | A | A- |
| Chemicals | A | A | B+ | A- | A- |
| Paper | B | A- | A- | A- | A- |
| Engineering | B | A- | A- | A- | A- |
| Mass retail | B+ | A- | A- | A- | A- |
| Telecommunications (equipment) | B- | B+ | A- | A- | B+ |
| Construction | A | A | A | A- | B+ |
| Automotive | B | B+ | B | B- | B- |
| IT | C+ | B- | B- | B | B- |
| Air transport | C+ | B- | C- | C+ | B- |
| Textiles | C+ | C+ | C | C | C |
| Clothing | C- | C | C- | C- | C- |

2007 will continue to see sustained economic growth, even though economic performance in the various sectors of activity will be affected by a moderate global slowdown, mainly due to a trend downshift in the US and, to lesser degree, in Europe.

Barring a major geopolitical incident, oil prices should stabilize, thus offsetting the slowdown. Similarly, raw material prices will rise less quickly and, in some cases, even fall. This trend reversal will curb rising production costs and benefit corporate profit margins in commodity-intensive sectors (steel, engineering, automotive etc), but it will only partly offset the negative impact of weaker demand.

On the other hand, emerging economies – particularly in Asia – will continue to enjoy vibrant domestic demand and substantial competitive advantages. Relocation operations will undoubtedly continue in a bid to take advantage of these growth markets as well as low production costs. This trend will benefit the financial position of local companies in these regions, although stiff price competition and excess capacity-related risks in some sectors, particularly in China, cannot be ruled out. Against this background, competitive pressures on companies in the industrialized countries will remain strong and possibly get even stronger for high added-value products.

Overall, the projected level of sector risk in 2007 will rise. Four out of 12 sectors have received downgrades and just one has been upgraded.

- After years of boom, demand in some economic sectors has slowed and will undoubtedly continue to slow in 2007. One such sector is **construction**, downgraded both globally (from A- to B+) and regionally (US from A- to B and Europe from A- to B+). Another is **automotive**, which has been downgraded in the US to C and in Europe from B to B-. The projected slowdown in US household consumption has also resulted in the less cyclical **retail** sector being downgraded from A to A-. However, this sector has been upgraded in Europe and Japan from B+ to A-.
- Fierce competition in many sectors might worsen as demand slows. Consequently, pressure on corporate margins will remain particularly strong. That is why the **electronics** rating has been downgraded in Asia from A+ to A, **IT** from B to B- and **telecommunications equipment manufacturers** from A- to B+. Similarly, **pharmaceuticals** have been downgraded from A to A- on concerns over health-insurance public-spending restrictions and competition from generic drugs.

- On the other hand, the **air transport** sector's global rating has been raised from C+ to B- due to sustained growth in passenger traffic, which, along with a spate of restructurings, has led to higher plane occupancy. Competition from low-cost carriers remains fierce, but improved balance sheets have enabled many airlines to emerge from Chapter 11 protection in the US. Accordingly, the sector's regional rating has

been raised from C to C+. Also, more stable oil prices in 2007 should help airlines to consolidate their financial position.

Sectors rated A+, A, A-: A favourable sectoral economic environment has a positive influence on the company financial situation. Payment experience is satisfactory with low average default probability.

STEEL (A)

| Steel | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America | Middle East | CIS |
|----------------|-------|---------------|-------|----------------|----------------|---------------|---------------|-------------|-----|
| 2007 forecasts | A | A | A | A | B+ | B | A | A | A |

The sector's global rating is stable. Only Central Europe has been upgraded to B+ due to productivity improvements on the back of numerous foreign investments.

Steel enjoyed a third boom year in 2006, although the top of the cycle has been reached. In 2007, demand will rise only 5 per cent and a slight decline in prices is, therefore, predicted. Even so, the continuing dynamism of emerging markets (India and China) and the boom in civil engineering projects and oil and gas production should stem this decline. Moreover, the wave of mergers under way should permit better production and price control and help remedy a situation of supply dispersion where the top 24 producers still account for less than half the world's output. The impact of less bullish demand on producer margins will be offset by the effect of steadier, even falling, energy, iron ore, recovered metal and freight prices. Company solvency, therefore, is not expected to deteriorate significantly.

In **North America**, several producers have decided to freeze production on less dynamic demand from the car industry and residential construction as well as high inventory levels at service centres. Regional prices for all steel products have crumbled, yet corporate profitability has remained satisfactory. Prices will continue to decline in the first half of 2007 before steadying under the

impact of temporary capacity closures. Demand is not expected to grow in the course of the year. Companies will maintain good solvency levels as declining prices are offset by lower input costs.

In **Western Europe**, as in North America, demand and prices seem to have peaked in 2006. But the year's highlights remain ongoing restructurings, such as the acquisition of Arcelor by Mittal, and the takeover battle for Corus between the Brazilian and Indian giants (CSN and Tata Steel respectively). In **Central and Eastern Europe**, demand will be driven by the good performance of construction, automotive and shipbuilding as well as by investment in oil and gas production and railway track construction in Russia. Output has seen a particularly sharp increase in Poland, Slovakia, the Czech Republic and Turkey, where ongoing modernization is being spearheaded by foreign steel producers.

In **Asia, Japanese** and **Korean** groups continue to form capital and industrial alliances (Nippon Steel and Posco, JTE Steel and Dongkuk Steel Mill). But it is mainly the dynamism of Chinese demand that is driving growth in the region. The projected slowdown in 2007 will only be slight. China, a net exporter of steel in 2006, will find it difficult to control output owing to a multitude of insufficiently profitable producers who depend upon provincial government – with uncertain restructuring prospects – offering low value-added

SECTORAL OVERVIEW

products alongside productive private companies. In **India**, growth will remain buoyant,

consolidating the power of international groups such as Tata Steel.

ELECTRONIC COMPONENTS (A)

| Electronic components | World | North America | Japan | Western Europe | Emerging Asia |
|-----------------------|-------|---------------|-------|----------------|---------------|
| 2007 forecasts | A | A | B+ | B+ | A |

The sector's rating for Asia has been lowered from A+ to A.

The components industry has ended its third year of strong growth and seems set for a fourth. Volume growth offset the decline in prices in **2006**.

Demand is expected to remain firm in **2007**, although the volume effect related to commissioning of new capacity will strengthen the downward trend in prices. The pressure on margins thus created is the reason why the sector has been downgraded in Asia.

CHEMICALS (A-)

| Chemicals | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America | Middle East | CIS |
|---------------|-------|---------------|-------|----------------|----------------|---------------|---------------|-------------|-----|
| November 2006 | A- | A- | A | A- | B+ | A | B+ | A+ | A- |

The sector's ratings remain unchanged.

The chemical sector's cycle peaked in 2006. Sector profitability was scarcely affected by soaring energy and commodity prices as the increases, especially in the case of commodities, could largely be passed on to sale prices due to strong demand. Moreover, chemical firms benefited from productivity gains and improved positions following the restructurings of the last few years.

The anticipated global economic slowdown in 2007 should result in lower sector growth, although this might be offset by the stabilization of commodity and oil prices. In that case, overall company solvency should remain good.

Every region contributed to the chemical sector's strong performance in 2006. Strong demand from client sectors such as manufacturing and construction was a great fillip. Each segment benefited, except for agrochemicals, which had to contend with difficult agricultural market conditions in some countries. Upstream activities

were able to pass the higher energy and commodity costs onto the sale price. Petrochemical companies had little difficulty passing the increases on to their customers – mainly chemical companies – due to extremely robust demand and saturated production capacities. However, all downstream activities did not benefit from this because of the fiercely competitive environment in which their client sectors operate. Overall, corporate profitability remains satisfactory, albeit weaker for downstream activities.

In 2007, growth is expected to slow somewhat in step with the global economy. Moreover, the commissioning of new petrochemical capacity in the Middle East, aimed at meeting the appetite of emerging Asia, will clearly make pricing less easy. However, declining prices for oil and gas used as energy or raw material will ease pressure on margins. Continued capital mergers should also contribute to maintaining satisfactory levels of sector profitability, although buy-ins by investment funds might carry considerable risk.

PHARMACEUTICALS (A-)

| Pharmaceuticals | World | North America | Japan | Western Europe | Emerging Asia |
|-----------------|-------|---------------|-------|----------------|---------------|
| 2007 forecasts | A- | A- | B+ | A- | A |

The sector’s rating has been cut from A to A- for the world and North America.

The pharmaceutical market continues to perform strongly (up an estimated 5 per cent in 2007), even if it no longer enjoys the double-digit growth of the last few years. Caps on health spending and competition from generics are squeezing sales in the industrialized countries. Laboratories have to find ways of adapting to a more competitive environment through more research and new markets and products. Faced with the implacable rise of generics, their strategy focuses on innovation, while not ruling out alliances with – and even buyouts of – generic manufacturers. Consequently, the sector should see numerous mergers and asset disposals. Against this background, sector margins will get tighter, with the most vulnerable players possibly facing solvency problems.

In **North America** – the key market with 54 per cent of global sales – sales rose 6 per cent in 2006 on the implementation of the Medicare Part D plan to offer better health cover to retired and disabled persons. In 2007, sales are expected to grow by just 4 per cent. In the longer term, the Democrats’ victory in the November 2006 elections could lead laboratories to lower prices. The large US laboratories are highly specialized in blockbusters, which are falling, or will eventually fall, into the public domain, exposing them to fierce competition. Still, they continue to achieve comfortable margins and so channel sizeable funds into R&D.

Europe accounts for 30 per cent of sector sales. Growth in the five key markets (Germany, Spain, France, Italy and the UK) is expected to slow to 3 per cent in 2007 from 4 per cent in 2006, mainly due to the reduction in healthcare expenditure. Numerous medium-sized laboratories operate alongside world leaders like Sanofi-Aventis, Novartis, Roche and GlaxoSmithKline, but as their sales are based on only one or two drugs they must grow if they are to remain competitive, hence the likelihood of more merger activity.

Japan accounts for 11 per cent of global drug sales. In 2006, sales grew by 2 per cent and in 2007 they are expected to grow by 5 per cent. The market, however, is riddled with government price restrictions aimed at cutting the additional expenditure created by an ageing population. It is dominated by medium-sized Japanese laboratories (the leader, Takeda, is ranked 14th in the world), although the major global laboratories (Pfizer, Roche, Merck) are now present. In the face of such competition, merger activity among Japanese players is likely to continue.

The **emerging countries** (China, India, Brazil, Turkey) represent smaller markets, but enjoy brisker growth as they assert themselves in the marketplace as highly competitive manufacturers of generic drugs. The leading Indian laboratories (Ranbaxy, Cipla, Dr Reddy’s) have become major international players. Ranbaxy, ranked ninth in the world, has not only grown domestically but also gradually snapped up a number of subsidiaries of French and German groups.

PAPER (A-)

| Paper | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America |
|----------------|-------|---------------|-------|----------------|----------------|---------------|---------------|
| 2007 forecasts | A-↗ | A-↗ | A | B+↗ | A- | A | A- |

The sector's ratings remain unchanged.

The paper industry enjoyed firm global demand in 2006 as a result of which it was able to pass the production cost increases on to sale prices. The reduction in North American and European production capacity has also helped push up northern bleached softwood kraft (NBSK) pulp prices by over 15 per cent. Trading conditions in the industry for 2007 should improve at a more modest pace. In fact, growth in global paper and cardboard demand will decelerate due to a fall in European and American industrial output. However, the likelihood of lower energy and transport costs and steadier raw material prices should strengthen corporate balance sheets, except for paper and cardboard processing firms, which will face price pressure from large retailers and competition from other materials.

In the US, demand for cardboard, wrapping paper and newsprint rose in 2006, while that for printing and writing paper stagnated. Corporate financial positions remained satisfactory, despite strong pressure on prices from large distributors of paper products. In 2007, the North American paper industry should be little affected by the slight economic slowdown that is expected. Pressure from Chinese imports will be contained by antidumping measures. The slowdown in residential construction, however, might have a moderate impact on balance sheets due to the potential significance of construction timber and chipboard in the operations of many groups.

In Western Europe, the sector will pursue its restructurings, particularly via capacity reductions, such as the closures made by several Scandinavian groups, led by Stora Enso. The only expansions will be in Portugal. This will not diminish the fairly significant risks faced by the processing industry. Packaging, for example, is losing market share as a result of rising European imports of consumer goods. Similarly, stationery is subject to intense pressure from mass retailers. The risks for the printing industry are exacerbated by the costs of technological innovation.

In Japan, demand and deliveries have stayed at the same level for several years. The revival of advertising, however, is starting to awaken demand. In what is a relatively closed market (90 per cent of local manufacturers' business is generated on the domestic market), profitability is still poor and restructurings unsuccessful, as demonstrated by the attempted takeover of Hokuetsu Paper Mills by Oji Paper.

Business is appreciably more buoyant in the emerging countries, some of which have established themselves as leading global manufacturers. Production capacity is up sharply in Brazil, where the abundance of raw materials ensures strong profitability, as well as in Chile and Uruguay and, of course, Indonesia and other Southeast Asian countries. In China – the world's second largest paper manufacturer – output is driven by rapidly rising domestic demand; the country lacks raw materials, however, and must therefore import recycled paper on a massive scale.

MASS RETAIL (A-)

| Retail | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America | Middle East | CIS |
|----------------|-------|---------------|-------|----------------|----------------|---------------|---------------|-------------|-----|
| 2007 forecasts | A- | A- | A- | A- | B+ | A | A | A | A |

The sector's global rating remains stable. On a regional level, North America has been downgraded from A to A-, whereas Western Europe and Japan have been upgraded from B+ to A-.

Growth in the mature markets is moderate. The anticipated slowdown in consumption in many industrialized countries should not change that trend in 2007. Competition is hotting up between the big brands as they diversify sales formats (hard discount, small supermarkets), launch speciality chain stores (apparel, sport, DIY, household appliances) and expand their service offering (travel, credit, telecommunications). The large groups are also trying their luck in emerging markets, but national consumer habits, strong competition and local legislation constitute a non-negligible risk, as Wal-Mart, Carrefour and others have found to their cost. In short, against a background of fierce competition and less buoyant demand, the financial position of some players is weaker, especially in the US.

In **Western Europe**, the retail industry greatly benefited from strong consumption in 2006. Despite monetary tightening, higher levels of household debt and a less-accommodating fiscal policy, particularly in Germany, trading conditions should remain favourable in 2007. However, wide disparities still exist between domestic markets. In **France**, the big brands are regaining lost ground from discounters – whose market share has levelled off – by diversifying sales formats and promoting low-priced product offerings and loyalty-card schemes. In **Spain**, the sector continues to be driven by strong consumer spending. The good profitability of key players is reflected in the results of groups like Carrefour, Dia, Mercadona and El Corté Inglés. In the **Netherlands**, an end to the bitter price war started by the local giant Ahold could signal a financial turnaround for Laurus (a subsidiary of Casino), which has sold two trade names to its rival. In the **UK**, the market remains extremely competitive under the impact of endless innovations by the leader, Tesco. In **Germany**, price pressure from discounters Aldi and Lidl (40

per cent of food sales) has forced Wal-Mart to sell its 89 hypermarkets to Metro and quit. As for Metro, its German hypermarket and department store operations are still in the red – in fact, only its Asian and Central and Eastern European outlets make a profit.

In the **US**, after a good 2006 on the whole, somewhat slower consumption in 2007 will affect the sector in various ways. Chain stores specializing in DIY and household equipment will be hardest hit due to a slowdown in the housing market. Food retailers continue to face fierce competition, generating profit squeeze, as in the case of Ahold. Neighbourhood stores have performed well, but have to increasingly contend with diversification from discounters (local grocery chains like Trader Joe's, a subsidiary of Aldi) and supermarkets offering small sales outlets. The imminent arrival of British retailer Tesco will add pressure. Wal-Mart is still reeling from its poor showing in textiles, mainly due to competition from Target, TJX and Dress Barn, while Gap is struggling to correct its course. 'Dollar stores' are being given something of a rough ride by discounters.

In **Japan**, the sector has returned to growth on the back of a pick-up in household consumption. Sector leader Seven & I Holdings has benefited from strong profitability at its Seven Eleven mini-supermarkets and the revival of its Seibu and Sogo department stores. However, its Ito Yokado supermarkets, like those of number two Aeon, have been hit by competition from cheap brands such as Fast Retailing and a plethora of players in the marketplace. The takeover battle for Daiei between Aeon and Seiyu (a subsidiary of Wal-Mart still in the red) illustrates the need for fewer players.

In **China**, since the scrapping of the joint venture requirement in 2005, foreign retailers are pouring in or ramping up their operations along the lines of Carrefour and Wal-Mart. On the whole, they have managed to generate profits in this high-growth market despite numerous administrative difficulties, stiff competition from local stores, poor supply and a somewhat untransparent business environment.

ENGINEERING (A-)

| Engineering | World | North America | Japan | Western Europe | Emerging Asia |
|----------------|-------|---------------|-------|----------------|---------------|
| 2007 forecasts | A- | A- | A | A- | A |

The sector ratings remain unchanged.

The expected global economic slowdown in 2007 will only have a moderate impact on engineering markets. In fact, investment in industrialized countries will continue to be driven by the financial strength of companies. The dynamic economies of emerging countries, led by China and India, will further boost already buoyant demand. After a favourable 2006, corporate solvency in 2007 should remain satisfactory as intermediate goods-related production-cost increases, in particular, cease. Consequently, the level of default risk will remain low.

In the **US**, sales of machine tools and engineering equipment for public works and mining will continue to be driven in 2007 by high-capacity utilization and sound corporate finances. Exports should be boosted by the competitive advantage secured from a weak dollar as well as strong demand from emerging countries.

In **Western Europe**, output growth should slow down in 2007 as the domestic market feels the effect of sluggish customer performance (automotive, aeronautics, construction), but the boom in exports to emerging regions will continue despite the euro's appreciation. With more than 19 per cent of the global market, **Germany** is the sector's key player; its export performance should remain excellent due to its focus on high-growth regions and its strong competitiveness based on significant productivity gains.

In **Japan**, following an extremely brisk 2006, sector output will be affected by slower domestic investment. Exports will continue to be buoyed by vibrant regional demand and a favourable exchange rate. In **China**, the sector remains

extremely dynamic on the back of demand, boosting construction programmes for roads, dams, ports and housing, railway track refurbishment and capital goods' investment by private companies. Projects linked to the 2008 Olympic Games and the 2010 World Expo in Shanghai will reinforce these trends.

Sectors rated B+, B, B-: In an essentially favourable economic environment nonetheless not safe from short-term deterioration with negative repercussions on the company financial situation, payment behaviour is generally correct and default probability acceptable.

■ INFORMATION AND TELECOMMUNICATIONS TECHNOLOGY (B+)

The global information and telecommunications technology market grew by around 6 per cent in 2006 on the back of soaring demand for the internet, mobile products, consumer electronics and services, as well as the pick-up in telephone network investment. Emerging market demand is soaring but focused on low-cost products.

In the face of increasing product standardization, the sector's key players have been outsourcing for several years, retaining only their research and high-tech activities. Competition between subcontractors is intensifying everywhere, including Asia. Some European and US production units recently acquired by Asian players carry a high level of risk as their buyers struggle to churn profits out of their investments and retain initial market share. Telecommunications and IT wholesalers and retailers, too, carry a significant level of risk.

TELECOMMUNICATIONS EQUIPMENT (B+)

| Telecommunications equipment | World | North America | Japan | Western Europe | Emerging Asia |
|------------------------------|-----------|---------------|-------|----------------|---------------|
| 2007 forecasts | B+ | B+ | B+ | B+ | B+ |

The rating of telecommunications equipment manufacturers has been cut from A- to B+ for the world and Western Europe and Asia due to strong pressure on mobile producers' margins.

Sales of handsets rose 25 per cent in 2006 to 960 million and are expected to grow to around one billion in 2007. Sales of these items, in fact, exploded in China, India, Brazil and Russia. The growth in increasingly sophisticated handsets for more affluent customers helped stem the decline in average prices.

Mobile manufacturers, however, must address the specific demand in emerging markets for cheap products not only among consumers but also among operators. This is making it difficult, if not impossible, for them to survive where labour costs are way too high and sales volumes simply not large enough to stamp their presence on the marketplace, or meet fresh technological challenges. Recent bankruptcies, such as BenQ in Germany and VK in Korea, are a case in point.

INFORMATION TECHNOLOGY (B-)

| Information technology | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America |
|------------------------|-------|---------------|-------|----------------|----------------|---------------|---------------|
| 2007 forecasts | B- | B- | B- | B- | B+ | B+ | B+ |

The sector's ratings have been cut on the weakening financial position of some equipment manufacturers and distributors due to fierce price competition.

Computer manufacturers (main- and subcontractors) and distributors are facing a downward trend in prices, barely offset by the growth in sales volumes. There is also stiff

competition for both delivery timescales and after-sales service. The growing importance of emerging markets and household-versus-business demand in mature markets is throwing up new challenges for players in the sector. Against this background, restructurings will continue apace, but will do little to eliminate the sector's financial problems.

CONSTRUCTION (B+)

| Construction | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America | Middle East | CIS |
|----------------|-----------|---------------|-------|----------------|----------------|---------------|---------------|-------------|-----|
| 2007 forecasts | B+ | B | B- | B+ | A- | A- | B | A | A- |

The sector's global rating has been cut from A- to B+ on less favourable prospects for residential real estate that could impact the solvency of the most vulnerable companies. Ratings for North America and Western Europe have been lowered from A- to B and from A- to B+ respectively.

The sector continues to be marked by strong regional specificities despite a noticeable

increase in property prices across several industrialized countries over the last few years.

In the US and several European countries, the slowdown in house prices and housing construction activity after several years of boom is expected to continue into 2007. SMEs operating in the sector might now face a lean period. On the other hand, Japan and Germany

are seeing a modest recovery after years of stagnation. Non-residential construction and civil engineering will continue to perform well in most industrialized countries, except for civil engineering in Japan. The sector continues to enjoy a boom in many emerging countries on the back of brisk domestic demand and, in the case of the oil-rich countries, massive investment in construction projects.

In the US, investment in residential construction fell by 6 per cent in 2006. Sales and construction start-ups dropped as the price increases for new housing levelled off. This trend is expected to continue into 2007. The years of strong growth have led household debt to high levels, raising fears that the sector might be in for a more severe downturn. The dynamism of non-residential real estate and public works will only partially offset deteriorating trading conditions in this sector.

In Western Europe, overall sector activity grew by 3.2 per cent in 2006 as the German market shrugged off the decline in activity by posting 2 per cent growth. Activity is expected to decelerate in 2007. House prices – which in the last 10 years have soared 300 per cent in Ireland, 200 per cent in the UK, 150 per cent in Spain and around 100 per cent in most countries, including France – should

stabilize as higher interest rates push up loan repayments for households with high variable-rate mortgages. The changed outlook could impact the financial position of the most vulnerable companies. A sharper downturn cannot be ruled out, although non-residential construction and civil engineering should keep performing well.

In Japan, after years of stagnation residential investment rose 1.8 per cent in 2006 and could expand by 4 per cent in 2007 in anticipation of a possible interest rate increase among housebuyers. Only public works continue to slide on out-of-kilter public finances. As a result, entrepreneurs in this segment, especially the SMEs operating out of the provinces, remain extremely vulnerable.

In the emerging regions, such as China (Hong Kong and Beijing), Singapore and Seoul as well as the Gulf countries, Russia and Algeria, non-residential construction and civil engineering are expanding at a strong pace. Performance is more uneven in residential real estate from one country to another. In China, for instance, soaring apartment prices in large towns are the cause of low occupancy in new housing, sparking fears of a speculative bubble. A government-inspired slowdown seems to be under way even though the country's rural exodus will ensure high activity levels.

AUTOMOTIVE (B–)

| Automotive | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America | Middle East | CIS |
|----------------|-------|---------------|-------|----------------|----------------|---------------|---------------|-------------|-----|
| 2007 forecasts | B– | C | A | B– | B+ | B+ | B+ | A | B |

The sector's rating for Western Europe has been cut from B to B–, while US carmakers continue to carry a significant level of risk.

The world market will experience moderate growth in 2007 caught between the dynamism of emerging markets and stagnant demand in the industrialized countries, which still remain the key outlets. Uninnovative models, more price-sensitive customers for petrol, rising interest rates and sluggish cyclical demand after years of high growth are behind the slowdown. Against this background, US and European automakers' operating margins will remain tight despite

steadier input prices. This being the case, the temptation to relocate is strong. Parts manufacturers, faced with customers who themselves are in difficulty, are the main victims. On the other hand, Asian (Japanese, Korean) automakers, led by Toyota, will continue to benefit from buoyant regional markets and their clear competitive edge, prospering even in the most mature markets.

In North America, sales shrank by 2.3 per cent in 2006 and will be down by an estimated 6 per cent in 2007. Domestic automakers' market share continues to erode (55 per cent) in favour of Asian

manufacturers such as Toyota. The solvency of the three leading US carmakers is affected by their failure to meet the rising demand for vehicles that consume less petrol, strong environmental constraints and costly employee benefit plans inherited from the past. Parts manufacturers have been hit hardest by the crisis in the sector, with firms like Dana, Delphi and Dura being forced to file for Chapter 11 protection.

In **Western Europe**, private car sales stagnated in 2006 and are unlikely to fare any better in 2007. Even so, the performance of European automakers varies from country to country, with German brands doing much better than French ones. Most face strong pressure on margins; relocations to Central Europe will continue in a bid to counter this trend. Parts manufacturers, too, are trying to buck the trend by following in the footsteps of their ordering customers. Many are in dire financial straits as they feel the fallout from sluggish customer performance.

In **Asia**, the competitiveness of Japanese manufacturers and buoyant regional demand continue to drive export growth, while sales on the **Japanese market** remain stable. Toyota is still way ahead of the field and could steal the world's number-

one spot from the US carmaker, General Motors. **China** remains the market with the strongest growth potential, but also one of the most competitive. All the major automakers are waging an unrelenting war that is pushing down prices and squeezing margins. The Chinese government, anxious to control excess capacity, is restricting the construction of new plants, while focusing on the development of local brands. Chinese carmakers (SAIC, Faw and Dongfeng) currently hold just 26 per cent of the market, but are fast expanding, especially in the low-priced car segment. **India** has adopted a similar strategy, with the country's major automakers looking to go global by capitalizing on their edge in the cost-efficient production of low-cost cars.

In **Latin America**, the two leading carmaking countries are doing well. In **Brazil**, domestic sales should continue to grow strongly, although the high level of the real will hamper exports. The **Mexican** subsidiaries of North American and European automakers continue to expand. Exports are likely to slow in 2007 on less favourable prospects for the North American market. However, the domestic market should remain buoyant.

AIR TRANSPORT (B-)

| Air transport | World | North America | Japan | Western Europe | Emerging Asia |
|----------------|-------|---------------|-------|----------------|---------------|
| 2007 forecasts | B- | C+ | B- | B | B- |

The sector's rating has been raised from C+ to B- due to an improvement in the financial position of North American airlines and continuing favourable prospects for 2007.

Airlines are benefiting from the growth of air traffic (up 6.5 per cent in 2006 and an estimated 5.8 per cent in 2007) and the resultant increase in plane occupancy as they continue to control and drastically cut costs and capacity. On the whole, operating margins improved and losses fell in 2006. The outlook for 2007 is generally favourable against a background of further sustained global growth. Oil prices should stabilize unless there is another major geopolitical shock. Competition from low-cost carriers will remain fierce. Attracted by the return to profitability of long-haul flights,

some low-cost players are planning to make inroads into this area. Restructurings will continue apace to the detriment of the weakest players who will continue to carry a high level of risk.

In **North America**, improved earnings have enabled several airlines to emerge from Chapter 11 protection. In 2006, they returned to operating profit on the back of sizeable cuts in operating costs and record levels of plane occupancy. However, restructuring costs for companies like Delta have not enabled the sector as a whole to get out of the red. Losses for 2006 have been revised downwards (US\$3.7 billion) and there is every likelihood that the books will be balanced in 2007.

In **Europe**, airlines have strengthened their positions through a spate of partnerships and

mergers, although some players, such as Alitalia, remain particularly weak.

In **Asia**, too, traffic is growing. Yet some companies continue to face difficulties exacerbated by rising competitive pressures.

Sectors ranked C+, C, C-: The sectoral environment is very uncertain and not able to improve the company financial situation. Payment behaviour is relatively poor compared with the previous categories with worrying default probability.

TEXTILES (C) AND CLOTHING (C-)

| 2007 forecasts | World | North America | Japan | Western Europe | Central Europe | Emerging Asia | Latin America | Maghreb/ Middle East |
|----------------|-------|---------------|-------|----------------|----------------|---------------|---------------|-------------------------|
| Textiles | C | C | B | C- | B | A | B- | B |
| Clothing | C- | C | C- | C- | B | A- | B- | B |

The sector ratings remain unchanged.

In 2006, the sector benefited from stronger demand in industrialized countries. A moderate slowdown in household consumption could dent sales growth in 2007. The more globalized groups successfully controlling the entire chain down to distribution have turned in a good performance. On the other hand, small-sized players, notably garment manufacturers, remain under intense competitive pressure from emerging countries, including in the high added-value product segment. A number of them continue to relocate in order to cope. The reintroduction of quotas on some Chinese goods will only offer them momentary respite. Companies in the emerging countries of Asia are the winners in this global redistribution of activities, yet market conquest is accompanied by stiff competition, intense pressure on margins and resultant sporadic difficulties.

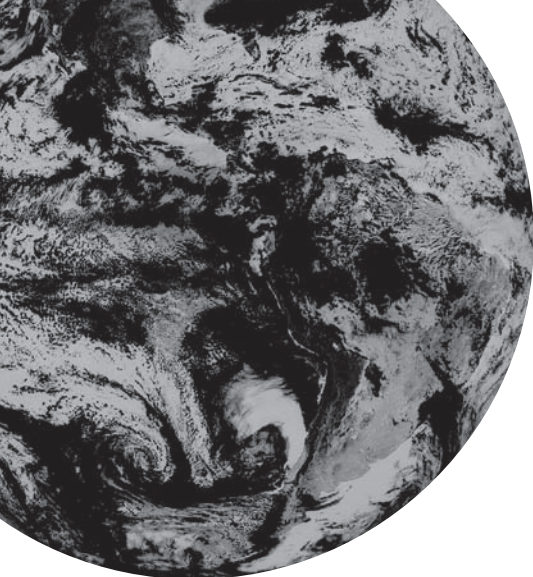
In **Europe** and the **US**, textiles and clothing (C and C-) still carry significant risks in the face of strong competition, mainly from Asian countries with low labour costs. Only companies specializing in high-end products and capable of outsourcing production or managing the design and marketing aspects of their business are exhibiting a good level of solvency.

The **emerging countries** are where the bulk of global garment production is now concentrated, but local firms themselves are up against fierce competition and, therefore, under severe price pressure. A growing number are in financial difficulty.

The redistribution of activities between the various players is not yet completed. **China** has confirmed its leadership position and its intention of producing higher-end goods. While the introduction of new quotas has clearly put a brake on its penetration of the US and European markets, Chinese companies have opened up new export channels mainly via Hong Kong, Vietnam and Indonesia. **India**, where production costs are higher, is very competitive in higher added-value goods, including apparel and household linen. **Bangladesh**, on the other hand, has low production costs and is highly competitive in mass production. As for **Pakistan**, it has greatly benefited from the opening up of the US and European markets.

The situation is more difficult for the **EuroMed** countries despite preferential trade agreements. **Turkey**, the world's third largest exporter, has been badly hit by Asian competition. Its sizeable loss of market share has affected the solvency of medium-sized companies. In **Morocco**, the sector has staged something of a recovery by capitalizing on its proximity to the European market, short delivery times and its ability to react quickly. In **Tunisia**, a three-year plan (2005-2008) has been implemented to modernize and energize the sector.

In **Latin America**, competitive pressure from China as well as some Caribbean countries has affected **Mexico's maquiladoras** to such an extent that almost a third have disappeared. In **Brazil**, the dynamism of the textiles sector contrasts with the problems faced by the garment industry.



Europe and the CIS 1

| | | | |
|---|----|-----------------|-----|
| Outlook for 2007: Europe and the CIS | 2 | Latvia | 72 |
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| Armenia | 10 | Luxembourg | 78 |
| Austria | 11 | Macedonia | 80 |
| Azerbaijan | 13 | Malta | 81 |
| Belarus | 14 | Moldova | 82 |
| Belgium | 15 | Montenegro | 83 |
| Bosnia and Herzegovina | 19 | The Netherlands | 84 |
| Bulgaria | 21 | Norway | 87 |
| Croatia | 24 | Poland | 89 |
| Cyprus | 28 | Portugal | 93 |
| Czech Republic | 29 | Romania | 96 |
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Europe and the CIS

Sylvia Greisman, Jean-Louis Daudier, Dominique Fruchter, Christine Altuzarra-Mothes and Olivier Oeschlin

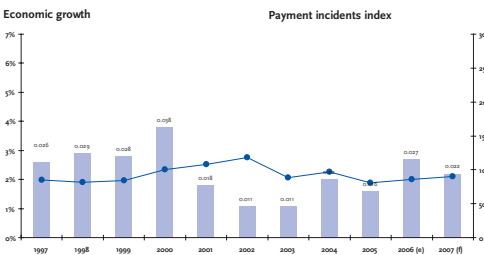
Country Risk and Economic Studies Department, Coface

WESTERN EUROPE

■ Slowdown is reinforcing risks in certain sectors

➤ Growth will slow moderately in 2007 with exports affected by less favourable exchange rates and less buoyant demand from the United States. Household spending will continue to grow at a good rate, however, thanks to an improving job market, lower taxes (except in Germany and, to a lesser extent, Italy) and a positive contribution from immigration in several countries. Continued monetary tightening should have little impact except on a weaker residential property market, affected by the high level of prices and household debt in many countries.

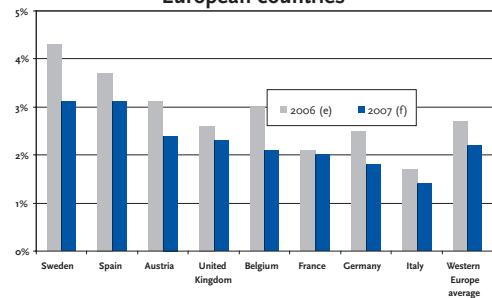
Economic growth and credit risk (Western Europe)



Companies will invest more in order to ease the pressure on production capacity, their good financial health making it easier to obtain bank financing where necessary. Public-sector investment, meanwhile, will remain limited by the need to restore or maintain public financial equilibrium, which will delay infrastructure projects and research programmes intended to increase productivity.

Beyond those general observations along with eurozone membership status, or lack thereof, economic growth will continue to vary by country. While remaining high in **Spain, Greece, Ireland** and **Scandinavia**, it will remain lacklustre in **Italy** and **Portugal** amid sluggish consumption and a lack of export competitiveness. Growth will be moderate in the other countries, including **France** and the **UK**, buoyed by robust domestic demand, except for **Germany** where exports will continue to drive the economy.

Economic growth in principal Western European countries



Overall, the economic slowdown will only moderately affect corporate payments and solvency in all countries rated A1 added to Italy, Portugal and Greece (rated A2).

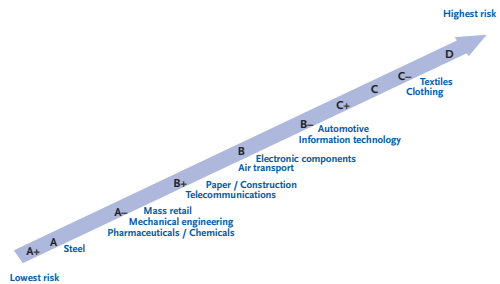
Some economic sectors will present significant levels of risk, with three sectors downgraded¹ and only one upgraded.

- The **textile** and **clothing** sectors (rated C-) are still suffering from fierce competition from low-cost labour countries, particularly those in Asia.

¹ = Coface accords sector ratings on a global and regional basis. Ratings mentioned here are for Western Europe.

- Innovative sectors, like the **IT industry (rated B-)**, **telecommunication equipment (rating downgraded to B+)**, **consumer electronics**, and **home appliances** have been contending with a downward price trend and short product life cycles. Production and, to an even greater extent, distribution present an increasing level of risk.
- The **car industry (rating downgraded to B-)** will continue to face stagnant demand with subcontractors affected by the difficulties experienced by several carmakers saddled with slow-selling models and looking for cost savings.
- **Construction (rating downgraded to B+)** should remain shaky due to the large number of recently created small- and medium-sized companies operating in the sector and to a loss of dynamism in several countries.
- **Paper (rated B+)** should continue the restructuring process currently underway, notably through capacity reductions, and consolidate the improvement in risk quality.
- **Air transport (rated B)** should consolidate its recovery thanks to the levelling of energy prices and to high load factors, which will not preclude further difficulties for some companies.
- At a lower level of risk, intermediate industries like **chemicals (rated A-)** and **steel (rated A)** should maintain a good risk profile with the levelling of energy and raw-material prices offsetting slightly weaker demand.
- In the same manner, **mechanical engineering (rated A-)** should continue to benefit from the good rate of investment, not only in emerging regions but also in the domestic market.
- **Mass distribution**, whether generalist or food-focused (**rating upgraded to A-**), will benefit from continued satisfactory consumption growth. The situation in **Germany** and the **Netherlands** should even improve further with the withdrawal of certain players.

Scale of sectoral risk: Western Europe

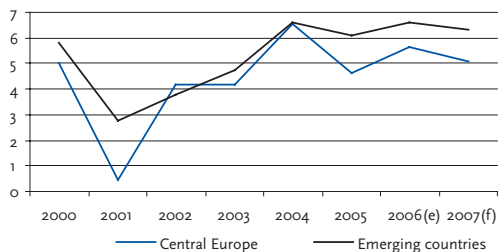


CENTRAL EUROPE AND TURKEY

■ **Growth will remain buoyant in 2007, except in Hungary**

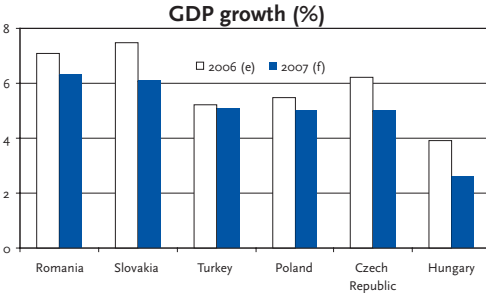
► Buoyed by robust domestic demand and good export performance, growth accelerated in many Central European countries in 2006, reaching 5.7 per cent on average – a rate three percentage points higher than the growth posted by the Europe-15. The financial turbulence that buffeted **Turkey** in spring 2006 caused only a moderate slowdown (5.2 per cent).

GDP growth close to emerging country average (%)



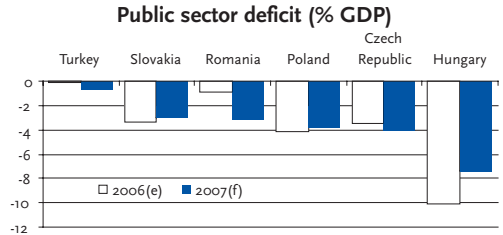
Regional growth should remain high in 2007, although a slight slowdown is likely with average growth easing to 5.1 per cent due to a loss of dynamism in the eurozone (the region’s main trading partner), rising domestic interest rates and, in the particular case of **Hungary**, implementation of an austerity budget plan. Consumption should generally continue to benefit from the growth of real wages, improvement in the job market and the expansion of credit. Investment growth, meanwhile, will remain underpinned by foreign direct investment and EU transfers. The productivity gains partially offsetting exchange rate appreciation will spur development of sales abroad. With the continued growth of imports, however, the foreign trade contribution to economic growth should remain low.

Estonia and **Latvia** will keep the trophy for dynamism (8 per cent), with **Slovakia** and **Romania** registering growth slightly above 6 per cent, while **Turkey**, **Poland** and the **Czech Republic** achieve 5 per cent. In **Hungary**, however, GDP growth should slip to 2.6 per cent.



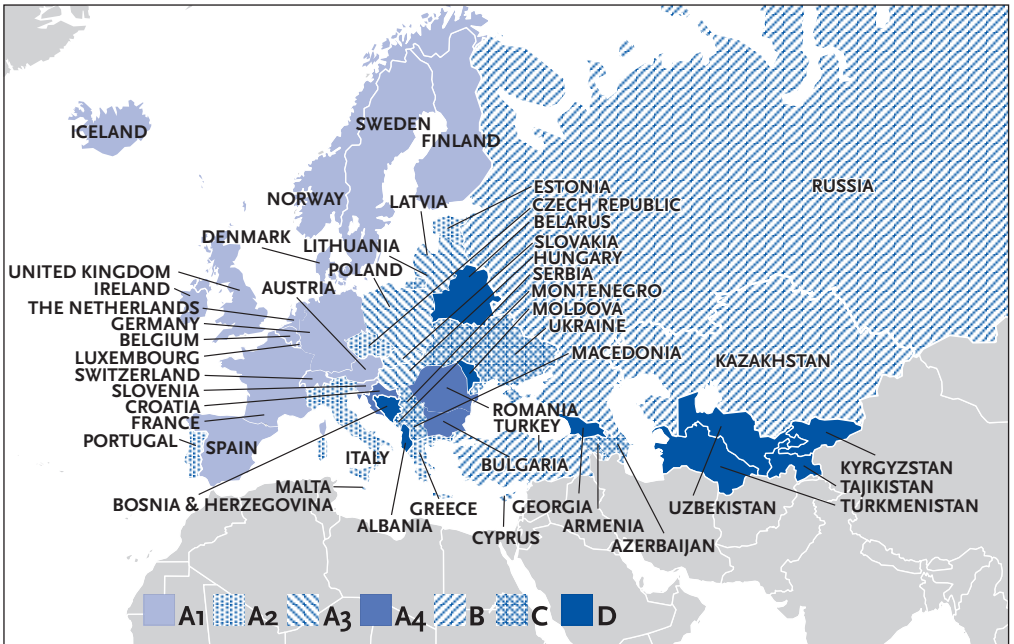
- **With shaky public finances, many new EU member countries have had to put off adopting the single currency**
 - Central European countries have been running a public-sector deficit representing, on average, about 3.5 per cent of GDP. With the exception of the **Baltic countries**, **Bulgaria** and **Turkey**, as well as **Slovenia** (scheduled to join the eurozone in January 2007), the deficits have been remained relatively

high. **Hungary** has suffered the most severe case of slippage with its fiscal imbalance reaching 10 per cent of GDP in 2006. Despite improvement expected in 2007, its public-sector debt will continue to grow (70 per cent of GDP). Among new EU members and the region's major countries, only **Slovakia** – already part of the EU's ERM2 exchange-rate mechanism – appears ready to adopt the euro in a reasonable timeframe (2009). That prospect recedes into the future for the region's other leading economies, particularly **Hungary**.



- **Compounding public financial difficulties and growing external deficits have increased the vulnerability to exchange rate crises**
 - Emerging Europe has notably been running large current account deficits attributable to domestic

COFACE MAP OF COUNTRY @RATINGS

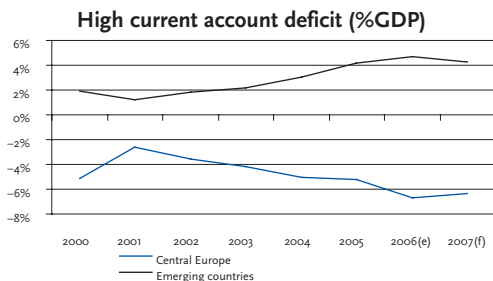


demand dynamism and low domestic saving rates. Its external financing needs are currently the highest of any emerging region, with **Turkey's** needs, estimated at around US\$60 billion, representing the lion's share. Emerging Europe has, thus, become the region most dependent on international financial markets. Although current account deficits have remained limited to under 3 per cent of GDP in **Poland** and the **Czech Republic**, they have reached high levels (between 6 per cent and 9 per cent) in **Slovakia**, **Turkey** and **Hungary**, peaking at levels between 9 per cent and 14 per cent in **Romania**, **Bulgaria** and the **Baltic States**.

average, nearly 40 per cent of the region's external financing needs. That statistic masks notable disparities, however, with the coverage rate high in the **Czech Republic** and **Bulgaria** and very low in the **Baltic States** and **Hungary**. Moreover, with privatization programmes drawing to a close, continuing development of greenfield investment will be necessary.

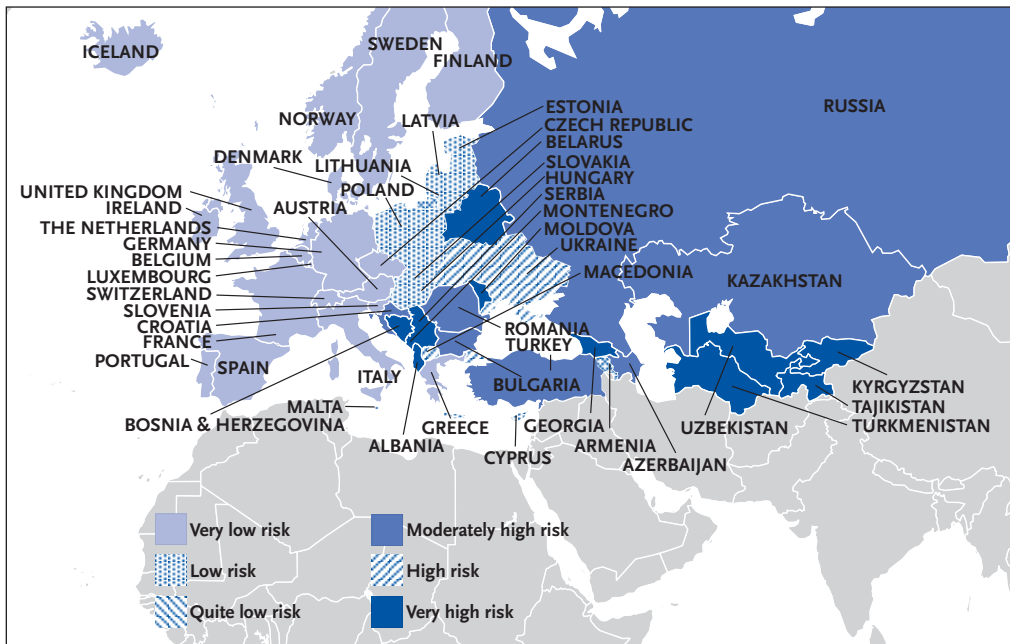
Those flows have not prevented foreign debt from growing, particularly privately held debt (banks and companies), while continued large public financing needs have also pushed government foreign debt higher in some countries. In that context, the debt burden in relation to GDP has reached high levels in **Hungary**, **Croatia** and the **Baltic countries**. The debt service ratio has remained high in **Turkey**.

Foreign exchange markets have recovered in **Turkey** and **Hungary**, the country most affected by the turbulence of May/June 2006, thanks to a pause in the monetary tightening cycle in the United States and increases in domestic key rates. However, the regional situation is still precarious, particularly in those two countries. The spectre of a currency crisis could, thus, resurface in case of failure to meet fiscal objectives or continued worsening of current account

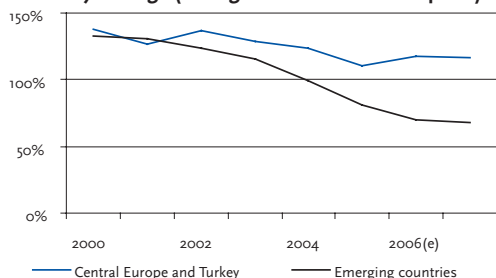


Risks linked to that deterioration often seem under control in the short term, thanks to a relatively high influx of foreign direct investment covering, on

COFACE MAP OF MEDIUM- AND LONG-TERM COUNTRY RISK



Future external debt ratios higher than emerging country average (% of goods and services exports)



deficits, especially if the political environment should deteriorate. With the now significant risk of government instability in **Hungary** and **Turkey**, heightened tensions could mark 2007 in the run-up to presidential and legislative elections.

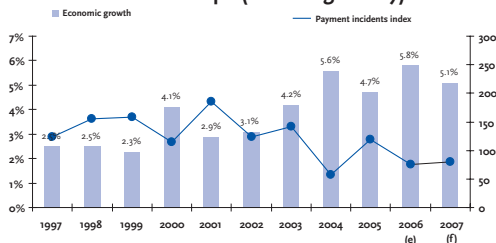
A major collapse would weaken part of the private sector, especially with an increasing proportion of bank loans denominated in foreign currencies.

■ **Moderate but relatively volatile payment incident frequency**

► The high growth has fostered improvement in the solvency of Central European companies. Their payment behaviour has also improved overall, although remaining more volatile over time than that of the generally more solid companies of Western Europe. Although the legal framework has improved concomitantly with the EU admission process, shortcomings have persisted, particularly in the **Balkans**.

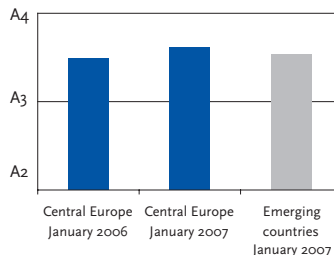
That favourable trend, nonetheless, does not exclude occasional isolated payment failures in weaker or highly competitive sectors in those economies. The electrical-electronic sector, the car industry and telecommunications seem solid. In Turkey, the domestic appliance and chemical sectors have, furthermore, been very dynamic. Conversely, the independent retail, food and textile sectors have

Central Europe (excluding Turkey)



been contending with a much-deteriorated environment.

■ **Regional @rating trend**



► The countries in the region generally represent good risks. The major economies, except **Turkey** (rated B), have earned ratings ranging from A2 to A4. The risk of the environment deteriorating in those countries and triggering large numbers of payment defaults has remained moderate. The situation of particular companies will depend more on their economic sector.

Greater vulnerability to currency risk has, however, prompted a downgrade of **Hungary's** rating to A3 and removal of **Turkey's** B rating from positive watchlist status. Elsewhere, the risks have generally stabilized after the improvement registered in recent years in the context of EU accession. That pause reflects the tense regional public financial situation and a loss of appetite for reforms on a background of growing populism and euroscepticism. The tendency towards populism has particularly affected **Poland** and **Slovakia**, with the conservatives of the Polish right-wing Law and Justice Party and the socialist Slovakian Smer Party concluding coalition agreements with nationalist and populist parties. Although those two political currents have no representation themselves in **Hungary** or the **Czech Republic**, right-wing parties in the government and parliament have acted as a conduit for their ideas in both countries. In the **Romanian** parliament, a large nationalist movement has been sitting on opposition benches.

With a rating upgrade to A1, **Slovenia**, unlike many other new member countries, has been able to proceed with adoption of the single currency without delay. The **Czech Republic**, benefiting from the highest influx of direct investment in the region and

limited foreign debt, has retained its A2 rating. More dependent on foreign debt, **Poland** and **Slovakia** are still rated A3. With **Bulgaria** pursuing tight economic policy and scheduled to join the EU in January 2007, its rating has been upgraded from B to A4. Also part

of the new enlargement wave, **Romania**, with a high current account deficit and notable governance deficiencies like Bulgaria, has retained the A4 rating it acquired last year.

RATINGS OF THE MAIN REGIONAL ECONOMIES

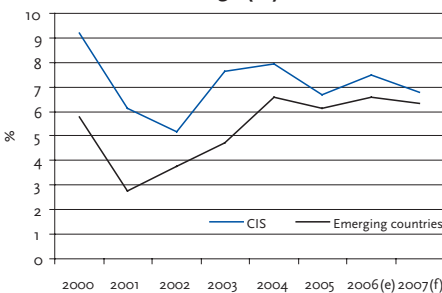
| | January 2001 | January 2002 | January 2003 | January 2004 | January 2005 | January 2006 | January 2007 |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Czech Republic | A3 | A3 | A3 | A2 | A2 | A2 | A2 |
| Hungary | A2 | A2 | A2 | A2 | A2 | A2↘ | A3 |
| Poland | A4↘ | A4↘ | A4↘ | A4 | A3 | A3 | A3 |
| Slovakia | B | B | A4 | A4 | A3 | A3 | A3 |
| Romania | C | B | B | B | B | A4 | A4 |
| Bulgaria | B | B | B | B | B↗ | B↗ | A4 |
| Turkey | B↘ | C | C | B | B↗ | B↗ | B |

COMMONWEALTH OF INDEPENDENT STATES (CIS)

■ **High growth ...**

► Spurred by Russian dynamism and robust demand for raw materials, CIS growth should continue at a high 6.8 per cent rate in 2007 against 7.5 per cent in 2006. The impending regional slowdown, linked to the expected levelling of oil prices, should notably be very limited in **Russia**.

GDP growth higher than emerging country average (%)

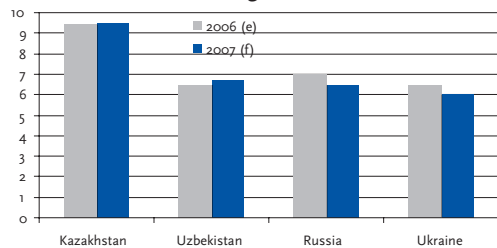


Despite buoyant market conditions, however, oil production has already slowed perceptibly in volume terms, which will ultimately leave exports vulnerable to a price downturn. Sectors not subject to foreign competition, like construction and commerce, have been driving the economy. The car industry, light industry and the very large manufacturing sector in general have, however, suffered from consumer and investor preference for

imported goods, more accessible with the real appreciation of the rouble.

Unlike Russia, **Kazakhstan's** growth should benefit from the robust expansion of oil extraction, underpinned notably by extensive reserves and foreign direct investment. **Uzbekistan**, meanwhile, has benefited from high gold prices. Growth recovered in **Ukraine** in 2006 should remain robust in 2007, buoyed by investment and consumption. Unlike the other major CIS countries, **Ukraine's** external accounts are now in deficit, and they should deteriorate further under the impact of the robust domestic demand and rising prices for imported gas.

GDP growth



■ **... but governance rife with problems**

► Regional companies appear profitable, and their payment behaviour has been good, in sharp contrast to the large number of payment defaults registered in the 1990s. But the buoyant growth rates that have contributed to improving corporate solvency belie

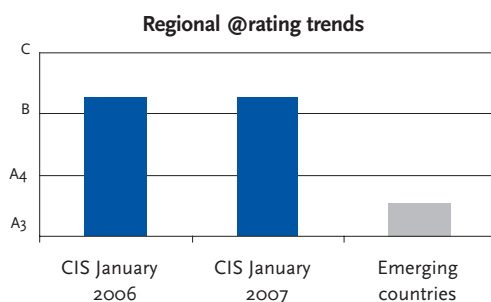
the governance problems still encountered throughout the region, which have kept credit risk at levels above the emerging-country average.

Companies have little transparency with their finances and ownership is often very opaque. The rule of law has been very weak in all CIS economies. According to World Bank ratings they have been lagging behind the major emerging countries on compliance with legislation. Even where the regulatory framework has benefited from a ‘formal’ amendment process, its application may be poor in many cases. Ineffective and corrupt legal systems have also undermined the rule of law.

Compounding the very poor governance, political risk has been very high in **Central Asian** and **Caucasus** countries with **Kazakhstan** distinguished by lower instability risk and a more hospitable legal environment for foreign investors. In **Ukraine**, a new, pro-Russian coalition is now in power, but with continuing strong antagonism between the two Orange Revolution camps, progress on reforms should come in measured steps. Governance has especially tended to deteriorate in **Russia** with the government notably tightening its grip on ownership not only in the oil sector but also in manufacturing. That trend could spawn inefficiency in companies again under the control of public entities. That recurrent instability of property rights will, moreover, not be conducive to investment by economic players – witness the low investment rate (below 20 per cent), a handicap affecting many economies in the region.

■ Regional @rating trend

➤ Governance shortcomings, thus, continue to strongly influence the risk associated with CIS companies, still significantly higher than in other emerging regions.



In **Russia**, still rated B, continued improvement in the country’s financial situation – particularly sovereign risk – and high growth contrast with a deteriorating business climate and little recent progress on structural reforms. Although the Coface payment experience on the country has been good, the many governance shortcomings and inadequate collection possibilities via the legal system have limited the visibility on companies. **Kazakhstan** has also retained its B rating with the country’s good financial health also offset by poor governance and difficulties in obtaining reliable information on companies. **Ukraine** is still rated C amid satisfactory financial ratios, a still shaky political and business environment and strong energy dependence. High political risk and a very uncertain legal framework underlie **Uzbekistan’s** continued D rating.

RATINGS OF THE MAIN REGIONAL ECONOMIES

| | January 2001 | January 2002 | January 2003 | January 2004 | January 2005 | January 2006 | January 2007 |
|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Russia | C | B | B | B | B | B | B |
| Kazakhstan | C | C↗ | C | B | B | B | B |
| Ukraine | D | D | D | C | C | C | C |
| Uzbekistan | D | D | D | D | D | D | D |

Albania

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 3.6 |
| GDP (US\$ million) | 8,379 |
| GDP per capita (US\$) | 2,352 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

Macroeconomic performance has improved sharply in recent years thanks to policies implemented by government authorities under IMF-backed programmes. Growth, underpinned by rapid credit expansion, has remained relatively dynamic despite persistent electricity supply problems. This dynamism and the substantial volume of expatriate worker remittances have made it possible to raise the standard of living and reduce poverty. Albania is, thus, emerging from the low-income country category.

Concurrently, the political situation has improved. The political changeover at the end of 2005 went smoothly and the country has strengthened its ties with the EU via the

Stabilisation and Association Agreement concluded in June 2006.

Despite those successes, progress in improving governance has been too slow. The business environment has remained very inhospitable, due notably to endemic corruption. Poor-quality institutions and infrastructure have been undermining growth potential. This has resulted in a low investment rate and limited export flows that underlie a structural external account deficit. Despite tighter fiscal policy, meanwhile, short-term domestic public debt has remained substantial. Moreover, the credit boom has given rise to concerns over future trends in the quality of bank portfolios.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 2.9 | 5.7 | 5.9 | 5.5 | 5.0 | 6.0 |
| Inflation (%) | 5.2 | 2.3 | 2.9 | 2.4 | 2.2 | 3.0 |
| Public sector balance (%GDP) | -6.6 | -4.5 | -5.1 | -3.6 | -4.1 | -3.9 |
| Exports | 330 | 447 | 603 | 656 | 753 | 900 |
| Imports | 1,485 | 1,783 | 2,195 | 2,478 | 2,879 | 3,238 |
| Trade balance | -1,155 | -1,336 | -1,592 | -1,821 | -2,126 | -2,338 |
| Current account balance (%GDP) | -9.9 | -8.1 | -5.5 | -7.8 | -8.1 | -7.1 |
| Foreign debt (%GDP) | 25.2 | 22.1 | 20.3 | 20.4 | 20.8 | 20.7 |
| Debt service (%Exports) | 3.7 | 2.9 | 2.5 | 2.7 | 3.7 | 4.1 |
| Foreign currency reserves (in months of imports) | 4.9 | 4.7 | 5.0 | 4.4 | 4.3 | 4.1 |

e = estimate, f = forecast

Armenia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 3.0 |
| GDP (US\$ million) | 4,903 |
| GDP per capita (US\$) | 1,625 |

Short-term: **C**

Medium-term:
High risk

Coface analysis



RISK ASSESSMENT

The economic situation has improved markedly since the decade began. Driven largely by the dynamism of construction, services, precious stone cutting and agriculture, annual growth has averaged 12 per cent since 2001, reaching 14 per cent in 2005. Demand has benefited from rising incomes and the influx of transfers from Armenians residing abroad. Inflation, meanwhile, has remained under control. Although a slight slowdown has been underway since 2006, growth should still remain very robust in the short term.

Tight fiscal policy has made it possible to bring both domestic and external debt ratios down to levels significantly below the average for emerging

countries. Armenia, nonetheless, remains a small country with little economic diversification and continues to be dependent on transfers from the diaspora. Precious stone cutting, largely responsible for exports in recent years, has been experiencing competitiveness problems.

Armenia's main weakness has been its geographic and political isolation, marked by closed borders with its two principal neighbours, Turkey and Azerbaijan. Renewed conflict with Azerbaijan over disputed Nagorno-Karabakh remains a possibility. The domestic political situation and business legal environment have, however, been relatively better than in other CIS countries.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 12.9 | 13.9 | 10.1 | 13.9 | 8.5 | 7.5 |
| Inflation (%) | 2.0 | 8.6 | 2.0 | -0.2 | 3.0 | 3.0 |
| Public sector balance (%GDP) | -0.4 | -1.1 | -1.8 | -2.6 | -2.8 | -2.9 |
| Exports | 514 | 696 | 738 | 976 | 998 | 1,150 |
| Imports | 883 | 1,130 | 1,196 | 1,571 | 1,776 | 1,935 |
| Trade balance | -369 | -434 | -458 | -595 | -778 | -785 |
| Current account balance (%GDP) | -6.3 | -6.8 | -4.5 | -3.3 | -5.7 | -6.0 |
| Foreign debt (%GDP) | 42.7 | 43.4 | 39.1 | 33.2 | 22.5 | 21.6 |
| Debt service (%Exports) | 10.5 | 11.6 | 6.5 | 6.5 | 6.5 | 6.5 |
| Foreign currency reserves (in months of imports) | 3.7 | 4.1 | 3.7 | 3.7 | 3.7 | 3.7 |

Austria

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 8.2 |
| GDP (US\$ million) | 304,527 |
| GDP per capita (US\$) | 37,086 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

Growth accelerated sharply in 2006, spurred by both exports and investment. Industrial exports benefited substantially from the recovery in Europe, particularly in Germany (a third of sales), as well as from a strong position in capital goods and Central and Eastern Europe. That robust foreign demand, in conjunction with high production capacity utilization rates, prompted industrial companies to considerably increase their investments. Conversely, household spending hardly increased, despite new tax reductions.

The economy will be less dynamic in 2007. Industrial exports will slow amid an expected downturn in the United States and tightening fiscal policy in Germany and Italy, offset, however, by favourable trends on service sales and tourism revenues. Although investment will also sag,

household spending on consumption and housing should accelerate. The upturn will be limited, however, with wages kept down by growth of the working population caused by the arrival of immigrants, the impact of pension reform on senior citizen employment, and tax incentives for hiring women and youth.

After deteriorating in 2005, the Coface payment incident index returned to a satisfactory level in 2006 with the improvement borne out by the downward bankruptcy trend since early 2006. The company financial situation should remain satisfactory in 2007 in view of the moderate character of the expected slowdown. The building industry, civil engineering, hotel-catering industry, wood processing, car-industry subcontracting and transport will continue to bear close watching.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 1.0 | 1.4 | 2.4 | 2.0 | 3.1 | 2.4 |
| Consumption (var.) | 0.4 | 1.4 | 0.8 | 1.7 | 2.0 | 2.2 |
| Investment (var.) | -4.3 | 6.4 | 2.9 | 0.2 | 7.7 | 5.0 |
| Inflation | 1.7 | 1.3 | 2.0 | 2.2 | 1.7 | 1.7 |
| Unemployment | 4.2 | 4.3 | 4.8 | 5.2 | 5.0 | 5.0 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -0.4 | -1.3 | -1.0 | -1.5 | -1.6 | -1.4 |
| Public sector debt (%GDP) | 71.9 | 69.7 | 68.0 | 64.0 | 63.0 | 62.0 |
| Exports (var.) | 3.3 | 2.8 | 9.0 | 6.4 | 5.0 | 6.0 |
| Imports (var.) | 1.3 | 4.8 | 6.2 | 5.2 | 3.0 | 5.3 |
| Current account balance (%GDP) | 0.4 | -0.4 | 0.3 | 1.2 | 1.3 | 1.2 |

e = estimate, f = forecast

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange and cheques are neither widely used nor recommended, as they are not always the most effective means of payment. To be valid, bills of exchange must meet relatively restrictive mandatory criteria. This deters business people from using them. Cheques need not be backed by funds at the date of issue, but must be covered at the date of presentation. Banks generally return bad cheques to their issuers, who may also stop payment on their own without fear of criminal proceedings for misuse of this facility. Bills of exchange and, to a lesser degree, cheques are more commonly used as a means of financing or payment guarantee. Conversely, SWIFT transfers are widely used for domestic and international transactions and offer a cost-effective, rapid and secure means of payment.

■ Debt collection

As a rule, the collection process begins with debtors being sent a demand for payment by registered mail, reminding them of their obligation to pay the outstanding sum, plus any default interest stipulated in the sales agreement or terms of sale. Where there is no interest rate clause in the agreement, the rate of interest applicable semi-annually from 1 August 2002 is the Bank of Austria's base rate, calculated by reference to the European Central Bank's refinancing rate, marked up by eight percentage points.

For claims that are certain, liquid and uncontested, creditors may seek a fast-track court injunction (*Mahnverfahren*) from the district court via a pre-printed form. The competent district court for this type of fast-track procedure expedites the requisite action for ordinary claims up to €30,000 (previously €10,000), based on an amendment to the civil procedure code (ZPO) that has been in effect since 1 January 2003.

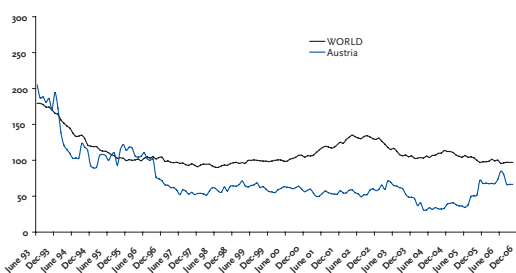
With this procedure, the judge will issue an injunction to pay the amount claimed plus the legal costs incurred. If the debtor does not appeal the injunction (*Einspruch*) within two weeks of service

of the ruling, the order is enforceable relatively quickly. A special procedure (*Wechselmandantverfahren*) exists for unpaid bills of exchange, under which the court immediately serves a writ ordering the debtor to settle within two weeks. Should the debtor contest the claim, however, the case will be tried through the normal channels of court proceedings. Where no settlement can be reached, or where a claim is contested, the last remaining alternative is to file an ordinary action (*Klage*) before the district court (*Bezirksgericht*) or the regional court (*Landesgericht*) depending on the claim amount or type of dispute. A separate commercial court (*Handelsgericht*) exists in the district of Vienna alone to hear commercial cases (commercial disputes, unfair competition suits, insolvency petitions, etc).

During the preliminary stage of proceedings the parties must make written submissions of evidence and file their respective claims. The court then decides on the facts of the case presented to it, but does not investigate cases on its own initiative. At the main hearing, the judge examines the evidence submitted and hears the parties' arguments as well as witnesses' testimonies. An enforcement order can usually be obtained in first instance within about 10 to 12 months.

The civil procedure code provides that the winning party on all points at issue of the lawsuit is entitled to receive full compensation from the losing party of all necessary legal fees previously incurred.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Azerbaijan

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 8.4 |
| GDP (US\$ million) | 12,561 |
| GDP per capita (US\$) | 1,497 |

Short-term: **C**

Medium-term:

Moderately high risk

Coface analysis



RISK ASSESSMENT

The tripling of oil production between 2005 and 2008 amid high hydrocarbon prices has resulted in GDP growth exceeding 20 per cent a year. Foreign direct investment and revenues from the BTC pipeline now linking Azerbaijan to Ceyhan in Turkey have made that spectacular production increase possible. Borrowing by oil companies – relatively substantial until 2005 – has decreased significantly with the completion of infrastructure construction. Debt ratios have, thus, been decreasing rapidly and are now at moderate levels; the country has, moreover, been generating substantial current account surplus. Inflation could again exceed 10 per cent, however, due to the high private consumption rate and sharp increase in wages.

The growing dependence on hydrocarbons will, nonetheless, be a long-term weakness. The influx of oil revenues has spurred a currency appreciation that, along with a poor business climate, has been impeding the necessary economic diversification.

The political environment and governance are, however, still Azerbaijan's main weaknesses. The very unequal distribution of income from oil exports has been a source of vulnerability. That ephemeral wealth could, moreover, be partly absorbed by the arms race with Armenia as underscored by the 100 per cent military budget increase in 2006.

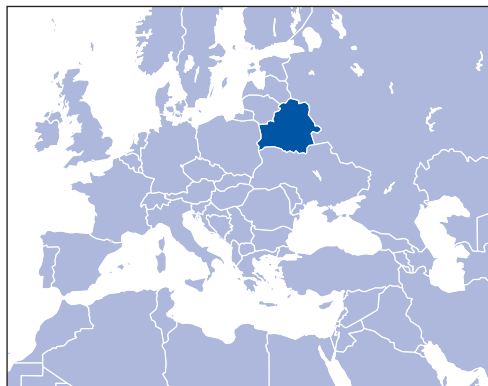
MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 8.1 | 10.4 | 10.2 | 26.4 | 33.0 | 17.5 |
| Inflation (period-end %) | 3.2 | 3.4 | 10.5 | 5.3 | 10.0 | 10.0 |
| Public sector balance (%GDP) | -0.5 | -1.2 | 0.8 | 0.6 | 1.1 | 1.0 |
| Exports | 2,305 | 2,625 | 3,743 | 7,649 | 12,510 | 18,949 |
| Imports | 1,823 | 2,723 | 3,581 | 4,350 | 5,176 | 6,108 |
| Trade balance | 482 | -98 | 162 | 3,299 | 7,334 | 12,841 |
| Current account balance (%GDP) | -12 | -28 | -30 | 1.0 | 14 | 25 |
| Foreign debt (%GDP) | 24.2 | 23.3 | 23.2 | 17.5 | 13.1 | 10.5 |
| Debt service (%Exports) | 5.8 | 6.5 | 5.5 | 3.5 | 2.4 | 1.8 |
| Foreign currency reserves (in months of imports) | 2.8 | 1.6 | 1.8 | 1.6 | 2.1 | 2.0 |

e = estimate, f = forecast

Belarus

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 9.8 |
| GDP (US\$ million) | 29,566 |
| GDP per capita (US\$) | 3,024 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

The privileged relationship with Russia, along with domestic demand stimulation policy, has been conducive to growth. Public and external accounts have been improving. The foreign debt burden has been limited. That good performance has, nonetheless, been obscuring major structural weaknesses. With the economy still managed centrally, a lack of reforms has been limiting medium-term growth potential. A mainly state-owned banking sector has only remained afloat thanks to large recapitalizations. The low level of

foreign currency reserves and the extent of short-term debt reflect the country's limited financial leeway. Extensive corruption continues to undermine the business environment.

Belarus has also remained too dependent on Russia, whose change in strategy on supplying energy to CIS countries could severely weaken the economy. Politically, in the midst of the regional 'colour revolutions', the regime has become increasingly authoritarian and isolated on the international scene.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 5.0 | 7.0 | 11.4 | 9.3 | 7.0 | 4.5 |
| Inflation (%) | 42.6 | 28.4 | 18.1 | 10.3 | 8.0 | 9.1 |
| Public sector balance (%GDP) | -1.8 | -1.4 | 0.0 | -0.7 | -0.1 | -1.2 |
| Exports | 7,965 | 10,073 | 13,942 | 16,095 | 17,854 | 19,066 |
| Imports | 8,879 | 11,329 | 16,126 | 16,623 | 18,882 | 20,781 |
| Trade balance | -914 | -1,256 | -2,184 | -527 | -1,028 | -1,715 |
| Current account balance (%GDP) | -2.1 | -2.4 | -5.2 | 1.6 | 0.2 | -1.1 |
| Foreign debt (%GDP) | 26.8 | 23.6 | 21.4 | 17.9 | 16.0 | 15.6 |
| Debt service (%Exports) | 6.9 | 5.1 | 3.7 | 3.3 | 3.0 | 3.3 |
| Foreign currency reserves (in months of imports) | 0.6 | 0.5 | 0.5 | 0.9 | 1.0 | 1.0 |

Belgium

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 10.5 |
| GDP (US\$ million) | 364,735 |
| GDP per capita (US\$) | 34,834 |



Coface analysis

Short-term: **A1**

STRENGTHS

- Multiculturalism and multilingualism, fostered by Belgium's geographic position and the presence of European institutions, have facilitated hosting foreign companies and trading.
- Located at the heart of Europe's major economic area, Belgium is at the crossroads of many communication channels whether road, rail or water transport.
- With the country's solid position in intermediate goods, its external accounts have been in surplus.
- The fiscal consolidation in progress for several years will foster gradual reduction of public-sector debt.

WEAKNESSES

- Regionalization, in limiting national prerogatives, has made the reduction of disparities between regions complicated.
- A sufficiently competitive product and service offer has been lacking in many economic sectors.
- The limited internationalization of service companies has not been conducive to innovation and the development of high value-added sectors.
- The shortcomings of vocational training have undermined youth employment, which has contributed to maintaining high structural unemployment.
- A shaky fiscal equilibrium has rested on isolated measures that appear insufficient in view of the ageing population.

RISK ASSESSMENT

Growth accelerated in 2006, driven by household consumption, which was itself underpinned by increased disposable income. Hampered by a loss of competitiveness by companies, exports only benefited moderately from the improved world economic conditions. In that context, corporate investment lacked dynamism. The fiscal-equilibrium objective was virtually reached despite robust public spending in the run-up to municipal elections.

Growth should slow in 2007 with domestic demand still the main economic engine. Household consumption will decline only moderately despite interest rate increases and likely wage moderation. A high production capacity utilization rate will

prompt companies to accelerate their investments. Exports will suffer, however, from the slowdown of European, and particularly German, demand, especially since their lack of competitiveness will prevent them from limiting erosion of their market share. Higher indirect taxes (tobacco, packaging), reduced debt service and an investment slowdown by local communities will only partially offset a decline in tax revenues.

Bankruptcies declined for the second consecutive year in 2006. That trend should continue in 2007, as evidenced by the stabilization at a low level of the Coface payment incident index. Continued buoyant economic conditions will consolidate the already satisfactory financial health

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|-------|------|------|------|---------------------|---------------------|
| Economic growth | 1.5 | 0.9 | 2.4 | 1.5 | 3.0 | 2.1 |
| Consumption (var.) | 0.8 | 1.0 | 1.6 | 0.8 | 2.4 | 2.0 |
| Investment (var.) | -4.0 | -3.0 | 8.8 | 2.2 | 2.0 | 4.3 |
| Inflation | 1.6 | 1.5 | 1.9 | 2.5 | 2.3 | 1.9 |
| Unemployment | 7.3 | 7.9 | 7.9 | 8.4 | 8.6 | 8.3 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | 0.0 | 0.2 | 0.0 | 0.1 | 0.0 | -0.4 |
| Public sector debt (%GDP) | 110.4 | 98.6 | 94.3 | 91.5 | 87.9 | 85.7 |
| Exports (var.) | 1.2 | 2.9 | 5.7 | 3.3 | 4.4 | 3.7 |
| Imports (var.) | 0.2 | 2.8 | 6.2 | 4.1 | 4.6 | 3.8 |
| Current account balance (%GDP) | 4.6 | 4.1 | 3.5 | 2.4 | 1.8 | 1.5 |

e = estimate, f = forecast

of companies. Risks will, nonetheless, persist in some sectors like textiles and clothing, retail

commerce, transport and the hotel food service industry.

MAIN ECONOMIC SECTORS

■ Textiles

The good economic conditions in Europe, which absorbs 90 per cent of Belgian textile exports, spurred improvement in business in 2006, particularly in high value-added products like house linen and floor covering. The slowdown expected in Europe will affect exports in 2007, especially with improved price-competitiveness – tied to labour costs in that highly competitive sector – more difficult to achieve.

■ Distribution

High payroll costs and the growth of electronic commerce have affected operator profitability with sales, nonetheless, remaining satisfactory in the sector. Fierce competition from Chinese imports in clothing and home appliances has been dragging prices down, thereby prompting distributors to adopt volume-based strategy. Food distribution has suffered from a change in the behaviour of households, which have been devoting a higher proportion of spending to clothing, home appliances and leisure.

■ Construction

The 2006 municipal elections prompted local communities to increase their investments, thereby benefiting sector business. Construction also benefited from anticipatory buying by households expecting interest rates to rise. A slowdown in spending linked to public-sector investment will affect public works in 2007. Housing sales and start-ups could suffer from the excessive level of property prices. Civil engineering business should also sag in 2007.

■ Car industry

With record sales, due partly to a successful Auto-Moto-Cycle trade fair, 2006 turned out to be a very good year. A lack of competitiveness has, nonetheless, hampered production, which contributed to Volkswagen's decision to transfer its Golf model assembly to Germany.

■ Chemicals

Production volume rose 4 per cent in 2006 and investment recovered after declining for three

straight years. Major projects linked to expanding production capacity and setting up new facilities have been announced for the 2006–2008 period,

particularly in the Antwerp chemicals area. Business should decline very slightly in 2007, in line with moderating demand in Europe.

PAYMENT AND COLLECTION PRACTICES

■ Payment

The bill of exchange is a common means of payment in Belgium. In the event of default, a protest may be drawn up through a bailiff within two days of the due date, whereby the bearer can also initiate proceedings against the bill's endorser. The National Bank of Belgium publishes a list of protests that can be consulted by the public at the office of the clerk of the commercial court and in some business and financial newspapers (*Journal des protêts*, *Echo de la Bourse*). Such publication is as an effective means of pressuring debtors to settle disputes because of the possibility that they might be refused credit by banks and suppliers.

Cheques are commonly used, but to a lesser extent than bills of exchange. Issuing uncovered cheques is a criminal offence. The Belgian public prosecutor's office is frequently willing to press criminal charges for claims of over €5,000. Uncovered cheques (like protested drafts) are equivalent to an acknowledgement of debt and, when needed, can be used to obtain an attachment order.

Although bank transfers are the fastest means of payment (all major Belgian banks use the SWIFT system), they do not offer a foolproof guarantee of payment as the transaction is very much dependent on the buyer's good faith. They should, therefore, be used where background financial information on the buyer is available to the seller.

■ Debt collection

Out-of-court collection begins with formal notice addressed to the debtor by recorded-delivery letter or served by a bailiff, requesting that the debtor pay within 10 days the outstanding principal, plus past-due interest or application of a penalty clause (*clause pénale*) stipulated in the terms and conditions of sale.

In the absence of a prior contractual agreement, interest on an unpaid invoice is automatically applicable from the day following the due date at a six-monthly rate set by the Ministry of Finance. This is based on the European Central Bank's refinancing rate plus seven percentage points (the Act on 'combating late payment in commercial transactions' having been in force since 7 August 2002).

Summary procedures resulting in an injunction to pay for claims under €1,860 fall within the sole jurisdiction of a justice of the peace. They must be supported by a document drawn up by the debtor pointing to the undisputed nature of the claim. Owing to their excessive formalism, however, summary proceedings are little used; in addition, they require a lawyer's signature.

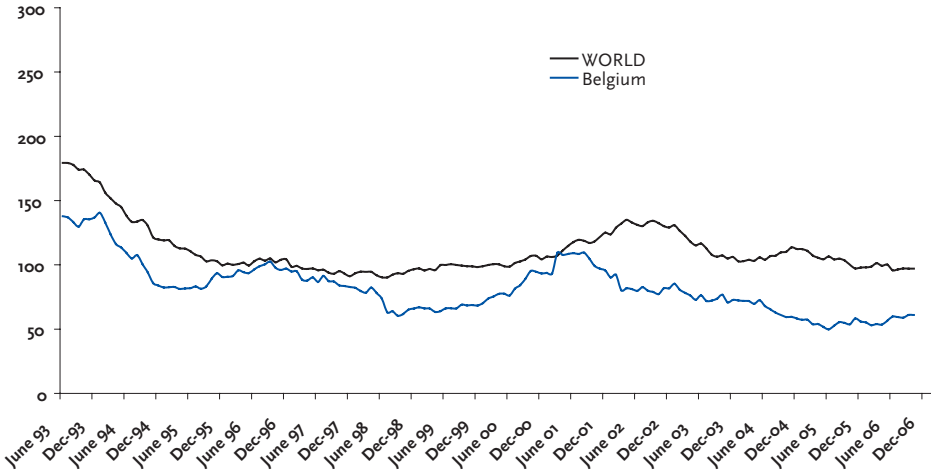
If a debtor refuses to settle amicably or fails to respond to a formal demand, the creditor can initiate ordinary proceedings against that debtor and summon him to appear before the court of first instance or, for overdue commercial payments, the competent commercial court. For undisputed claims, rulings are usually delivered either immediately from the bench (*sur les bancs*) or within a month of the final hearing. Proceedings can take longer for disputed claims sometimes up to two years (especially in the event of an appeal). However, under the Belgian code of civil procedure, the judge may set a deadline for the submission of arguments and evidence at the request of the parties.

The Bankruptcy Act of 8 August 1997 (amended by the law of 4 September 2002) and the Composition Act of 17 July 1997 – both of which came into force on 1 January 1998 – recognize retention of property rights in specific cases and circumstances. For instance, an action for recovery is only admissible if initiated before the registered list of admitted debts is drawn up (*procès-verbal de vérification de créances*).

Another safeguard benefiting creditors is the right granted to sellers of moveable property stipulated under article 20-5 of the 16 December 1851 mortgage law. That right concerns all durable goods employed directly in an industrial, commercial or craft activity and generally considered as 'real estate' by incorporation or

economic destination. A creditor may act on this right during a five-year period – a debtor's bankruptcy notwithstanding – provided he has registered certified true copies of invoices with the clerk's office of the commercial court in the debtor's district of residence, within 15 days of delivery of the goods.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Bosnia and Herzegovina

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 3.9 |
| GDP (US\$ million) | 9,369 |
| GDP per capita (US\$) | 2,398 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

Robust domestic demand and good export performance have been underpinning growth. The fixedness of the exchange rate, based on a currency board regime, has made it possible to keep inflation at low levels except for the price increases registered in 2006, attributable to the introduction of VAT. Financial intermediation has been developing. Foreign currency reserves have been growing. The tax system has been modernized, the public sector deficit reduced and government debt kept to moderate levels.

That progress, nonetheless, rests on shaky foundations. The current account deficit is still too large, reflecting the limited extent of domestic savings. This imbalance has tended to increase the country's external vulnerability in view of its appreciable debt burden. Exports have not been very diversified, with half comprising sales of metals, mineral products and wool and depending

on price trends for staple commodities. The lagging pace of reforms, intended to improve the business environment, has deterred private investment. Institutions are fragmented with administrative capacities remaining limited. The sharp credit expansion could undermine the financial sector. The future development of public spending will be uncertain due to a lack of adjustment measures and to the substantial arrears owed by the government for war damages. Bosnia-Herzegovina is still the region's least advanced country in the transition process.

In the political arena, the October 2006 general elections finalized the defeat of the traditional nationalist parties. However, the winning parties' divisive rhetoric hardly augurs a peaceful legislature. The consequences of renewed tensions would be to prolong the country's current international 'protectorate' status and delay its march toward the EU.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 5.0 | 4.1 | 5.8 | 5.0 | 5.5 | 6.0 |
| Inflation (%) | 0.3 | 0.6 | 0.2 | 2.8 | 6.5 | 2.5 |
| Public sector balance (%GDP)* | -10.5 | -8.4 | -5.9 | -3.9 | -3.6 | -5.7 |
| Exports | 1,110 | 1,478 | 2,087 | 2,591 | 3,041 | 3,686 |
| Imports | 4,449 | 5,637 | 6,656 | 7,581 | 7,973 | 9,389 |
| Trade balance | -3,340 | -4,159 | -4,570 | -4,989 | -4,932 | -5,703 |
| Current account balance (%GDP) | -19.3 | -21.0 | -19.3 | -21.3 | -17.0 | -17.5 |
| Foreign debt (%GDP) | 56.5 | 55.3 | 53.5 | 57.9 | 54.7 | 54.2 |
| Debt service (%Exports) | 3.4 | 3.3 | 2.7 | 2.5 | 2.7 | 2.5 |
| Foreign currency reserves (in months of imports) | 3.3 | 3.5 | 4.0 | 3.7 | 4.8 | 5.5 |

*ex grants

e = estimate, f = forecast

Bulgaria

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 7.7 |
| GDP (US\$ million) | 26,648 |
| GDP per capita (US\$) | 2,398 |

Short-term: **A4**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Bulgaria's upcoming integration into the EU in January 2007, as originally planned, has bolstered its economic stability.
- Reforms, fiscal discipline and active debt management have made it possible to markedly improve the country's economic situation and solvency.
- The banking sector has been consolidated.
- The labour force is skilled.
- The country has attracted substantial inflows of foreign direct investment and accumulated comfortable foreign currency reserves.

WEAKNESSES

- The current account imbalance has been excessive.
- The foreign debt burden has remained relatively high.
- The business environment still needs improvement.
- Maintaining both a steady inflow of foreign capital and the currency board foreign exchange rate regime will depend on continued efforts on reforms.
- The level of economic development is still limited.

RISK ASSESSMENT

Driven by private consumption and investment, economic growth has remained robust despite a credit tightening. That vigour has, however, been stoking inflationary pressures. The economy should remain dynamic, thanks to continuation of fiscal caution and the country's integration into the EU.

Those favourable economic conditions have had a positive effect on corporate solvency and payment behaviour. Legislative complexity, red tape and inadequate bankruptcy procedures continue, however, to undermine the business environment. Regarding implementation of judicial reform and

combating corruption, Bulgaria will be subject to close supervision by its European partners for a few years after its admission.

Although the current account deficit has reached very high levels, covering it has not been a major problem at this juncture due to the concurrent increase in capital inflows, particularly in the form of foreign direct investment. Private-sector foreign debt has, however, also been increasing rapidly.

In the political arena, Bulgaria has enjoyed relative stability even if tensions could resurface within the government coalition now that it has achieved its main objective – EU integration.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 4.9 | 4.5 | 5.7 | 5.5 | 5.8 | 6.0 |
| Inflation (%) | 5.8 | 2.3 | 6.1 | 5.0 | 7.6 | 6.8 |
| Public sector balance (%GDP) | -0.9 | -0.4 | 1.5 | 2.3 | 3.0 | 1.0 |
| Unemployment (%) | 17 | 13 | 12 | 10 | n/a | n/a |
| Exports | 5,692 | 7,541 | 9,848 | 11,740 | 14,830 | 16,910 |
| Imports | 7,287 | 10,059 | 13,491 | 17,139 | 21,610 | 24,900 |
| Trade balance | -1,595 | -2,519 | -3,643 | -5,399 | -6,780 | -7,990 |
| Current account balance | -401 | -1,220 | -1,416 | -3,133 | -4,073 | -4,898 |
| Current account balance (%GDP) | -2.6 | -6.1 | -5.8 | -11.8 | -13.4 | -13.3 |
| Foreign debt (%GDP) | 72.2 | 67.2 | 70.2 | 63.4 | 66.4 | 62.6 |
| Debt service (%Exports) | 11.6 | 11.3 | 11.7 | 20.8 | 12.2 | 12.8 |
| Foreign currency reserves (in months of imports) | 5.4 | 5.6 | 5.9 | 4.4 | 4.7 | 4.8 |

e = estimate, f = forecast

OPPORTUNITY SCOPE

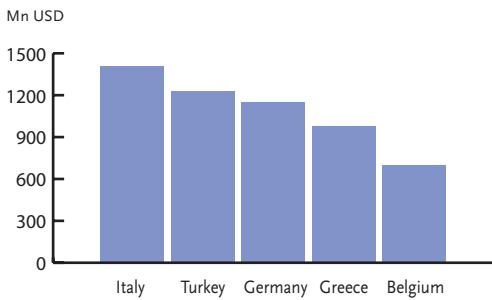
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 42 |
| Public spending | 12 |
| Investment | 12 |

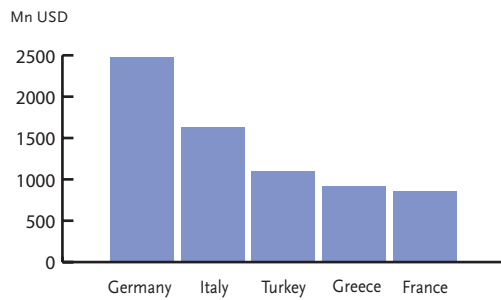
Exports: 61% of GDP

Imports: 77% of GDP

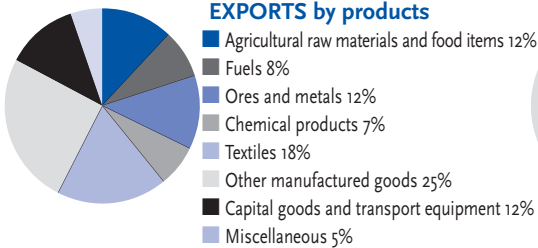
MAIN DESTINATIONS OF EXPORTS



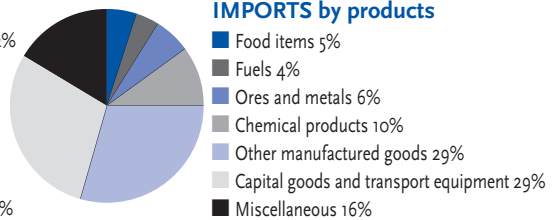
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Bulgaria | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 8,630 | 9,171 | 5,540 |
| GNP per capita (USD) | 3,450 | 4,834 | 2,117 |
| Human Development Index | 0.808 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 24 | 25 | 30 |
| Urban population percentage | 70 | 63 | 43 |
| Percentage under 15 years old | 14 | 20 | 29 |
| Number of computers per 1000 inhabitants | 59 | 95 | 48 |

Croatia

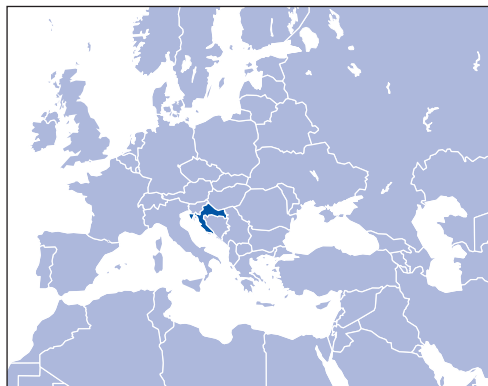
Population (million inhabitants) 4.5
GDP (US\$ million) 37,412

Short-term: **A4**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- With a higher level of development than most other Balkan countries, Croatia's economic convergence with Europe is already well advanced.
- Initiation of accession negotiations with the EU should spur the country's reform efforts and enhance its attractiveness.
- Croatia has great tourist potential.
- Major efforts are being made to consolidate public finances.
- The country's foreign currency reserves have been at comfortable levels.

WEAKNESSES

- The size of the current account deficit has been exacerbating relatively large financing needs and keeping the country dependent on foreign borrowing.
- That situation has resulted in a sharp increase in the foreign debt burden.
- Progress on negotiations with the EU will remain dependent on implementation of politically difficult reforms.

RISK ASSESSMENT

Economic growth has continued at a steady pace, buoyed by domestic demand in the context of a credit recovery. Relative exchange-rate stability has contributed to bringing inflation under control. Government authorities have, moreover, adopted fiscal adjustment policy, auguring stabilization of public-sector debt.

Risk factors have, nonetheless, persisted. A continuing large current account deficit has resulted in an expansion of foreign debt of banks and companies. Many of those companies still require restructuring with privatizations still pending. The public sector and agriculture still play large roles in

the economy. Work remains to be done on improving the judicial system, the business legal environment and administrative capacity.

Future accession to the EU, along with continued efforts on reforms, should enhance the country's attractiveness to investors while preserving favourable access to capital markets. The resulting increase in Croatia's growth potential will ultimately contribute to reducing the external imbalance.

The country's political stability does not appear in jeopardy. The government still has a narrow parliamentary majority. Politically difficult reforms still remain to be carried out, however, with legislative elections scheduled for the end of 2007.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 5.6 | 5.3 | 3.8 | 4.3 | 4.5 | 4.5 |
| Inflation (%) | 1.7 | 1.8 | 2.1 | 3.3 | 3.4 | 2.7 |
| Public sector balance (%GDP) | -5.0 | -6.1 | -4.8 | -4.1 | -3.9 | -3.9 |
| Unemployment (%) | 22.3 | 19.5 | 18.7 | 18.0 | n/a | n/a |
| Exports | 5,004 | 6,308 | 8,210 | 8,992 | 11,396 | 13,656 |
| Imports | 10,652 | 14,216 | 16,560 | 18,283 | 22,174 | 25,944 |
| Trade balance | -5,648 | -7,908 | -8,350 | -9,291 | -10,778 | -12,288 |
| Current account balance | -1,917 | -2,132 | -1,911 | -2,541 | -3,054 | -3,282 |
| Current account balance (%GDP) | -8.4 | -7.3 | -5.4 | -6.5 | -7.1 | -6.5 |
| Foreign debt (%GDP) | 69.4 | 85.2 | 88.0 | 76.8 | 85.3 | 81.1 |
| Debt service (%Exports) | 26.8 | 20.5 | 16.2 | 18.6 | 20.0 | 15.4 |
| Foreign currency reserves (in months of imports) | 5.0 | 5.2 | 4.8 | 4.5 | 4.8 | 4.4 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

In a country of 4.5 million inhabitants, the working population is 1.7 million. The official unemployment rate in July 2006 was 15.7 per cent (CROSTAT). The average net wage for the six months to July 2006 was 4550 kunas (€615) – up 5 per cent over the same period in 2005 – with inflation at 3.5 per cent.

Imports, which have climbed steadily since the opening of borders, do not normally require prior approval, except for products regulated by international agreements (firearms, gold, works of art etc) or on ground of public health (foodstuffs etc). Accession talks with the EU began on 4 October 2005. Croatian laws are subject to a screening period, although most are already in line with EU integration criteria. Croatia hopes to join the EU in 2009. Customs duties have been reduced under WTO agreements as well as the free-trade agreement signed with the EU. Under the Stabilization Association Agreement (SAA), most industrial goods are duty-exempt. The maximum tariff is 5 per cent, although the average rate applied is around 2.9 per cent. Duty on foodstuffs under WTO arrangements varies between 2 and 45 per cent, while preferential rates apply to non-quota items in line with EU rules. Croatian agriculture is not yet sufficiently

competitive. The EU's screening report has highlighted the existence of government subsidies incompatible with Common Agricultural Policy (CAP) mechanisms.

All means of payment are used and accepted. For consumer purchases, credit cards are more widely used than cheques, which are not common. It is often possible to obtain a 10 per cent discount on cash payments. Utility services delivered to the home are usually settled by money order. For commercial settlements, the most widely used instruments are bank transfers, bank guarantees confirmed by a foreign bank and cheques drawn on a well-known local bank.

■ Attitude towards foreign investors

The principle of national treatment is extended to foreign investors who, like local investors, have to deal with a slow and cumbersome bureaucracy. The real estate register is under review, easing uncertainty about land and property ownership rights (it is already available on the internet, with the land register due to follow shortly).

The judicial system for commercial disputes is clogged with a backlog of 1.5 million cases. However, reforms are under way in the form of new labour, bankruptcy and competition legislation. Between 1993 and 2006 (Q1), foreign direct investment totalled €11.6 billion, including €257 million in the first half of 2006. For this 14-year period, the three

leading investors are Austria (28.7 per cent), Germany (16.3 per cent) and the United States (11.3 per cent), with France accounting for less than 2 per cent of foreign investment in volume terms.

■ Foreign exchange regulations

The national currency, the kuna, is not convertible outside the country. Foreign companies must open

a foreign currency account as well as a kuna account to do business in Croatia. The central bank (HNB) has adopted a slightly overvalued exchange rate, which it regulates by intervening on the currency market. The exchange rate on 29 September 2006 was 7.388 kunas to the euro.

OPPORTUNITY SCOPE

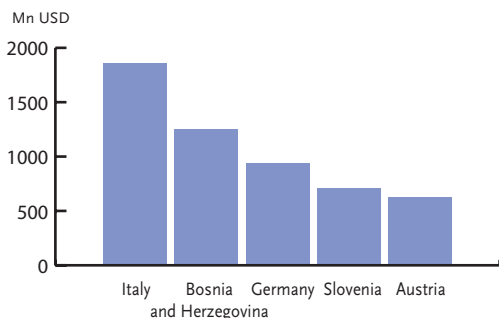
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 37 |
| Public consumption | 13 |
| Investment | 18 |

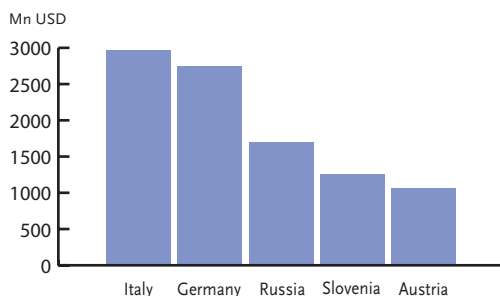
Exports: 52% of GDP

Imports: 57% of GDP

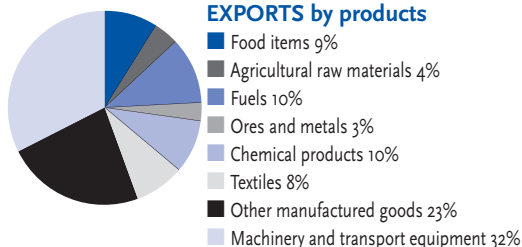
MAIN DESTINATIONS OF EXPORTS



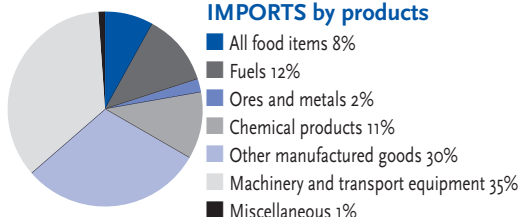
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Croatia | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 12,750 | 9,171 | 5,540 |
| GNP per capita (USD) | 8,060 | 4,834 | 2,117 |
| Human Development Index | 0.841 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 25 | 25 | 30 |
| Urban population percentage | 59 | 63 | 43 |
| Percentage under 15 years old | 16 | 20 | 29 |
| Number of computers per 1000 inhabitants | 190 | 95 | 48 |

Cyprus

| | |
|--------------------------|---------|
| Population (inhabitants) | 800,000 |
| GDP (US\$ million) | 16,678 |
| GDP per capita (US\$) | 19,966 |

Short-term: **A3**

Medium-term:
Low risk

Coface analysis



RISK ASSESSMENT

Growth remained robust in 2006, driven mainly by domestic demand. Consumption sagged slightly although benefiting from low interest rate levels, the expansion of credit and wage growth. Private investment increased as evidenced by the good performance of both the housing and capital goods sectors. With imports remaining dynamic amid a re-export business slowdown and limited rise of tourism revenues, however, foreign trade made a negative contribution to GDP growth. Rising household incomes, in conjunction with construction and higher investment in equipment, will continue to underpin domestic demand in 2007.

Although the current account deficit has remained high, covering it has not given cause for

concern, thanks to the country's favourable access to capital markets and appreciable foreign direct investment inflows. The foreign debt burden increased nonetheless. Conversely, the large government debt burden has been declining in relation to GDP, thanks to consolidation of public-sector accounts. In view of that improvement, Cyprus should join the eurozone in January 2008 provided, however, that inflationary pressures remain under control.

Prospects of reunifying the island are still remote. The approach of elections in Greece, Turkey and Cyprus, along with the chaotic development of the accession negotiations between Turkey and the EU, does not augur well for notable progress on this delicate issue.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 2.1 | 1.9 | 3.9 | 3.8 | 3.7 | 3.7 |
| Inflation (%) | 2.8 | 4.0 | 1.9 | 2.0 | 2.4 | 2.0 |
| Public sector balance (%GDP) | -4.4 | -6.3 | -4.1 | -2.3 | -1.9 | -1.7 |
| Exports ⁹⁷⁵ | 855 | 925 | 1,157 | 1,454 | 1,340 | 1,415 |
| Imports | 3,703 | 4,055 | 5,216 | 5,746 | 5,800 | 5,934 |
| Trade balance | -2,848 | -3,130 | -4,059 | -4,292 | -4,460 | -4,519 |
| Current account balance (%GDP) | -4.4 | -2.5 | -6.0 | -5.8 | -5.9 | -5.0 |
| Foreign debt (%GDP) | 53.0 | 57.7 | 63.8 | 63.1 | 71.4 | 72.7 |
| Debt service (%Exports) | 6.3 | 6.4 | 6.9 | 6.3 | 7.8 | 8.5 |
| Foreign currency reserves (in months of imports) | 5.7 | 5.4 | 5.1 | 5.2 | 5.9 | 6.3 |

Czech Republic

Population (million inhabitants) 10.2
GDP (US\$ million) 122,345



Short-term: **A2**

Medium-term:
Very low risk

Coface analysis

STRENGTHS

- Admission to the EU bolstered the country's economic stability.
- The inflow of foreign direct investment continues to be among the largest in Central Europe.
- With a high-potential productive apparatus, the country's labour productivity has markedly improved.
- Foreign and public-sector debt has remained under control.

WEAKNESSES

- Economic growth continues to depend on European demand.
- Reduced taxes and increased spending commitments have caused the public-sector deficit to grow.
- Profit repatriation by foreign companies has undermined the current account.
- The current political gridlock has delayed reforms needed to durably consolidate public-sector finances.

RISK ASSESSMENT

The economy remained buoyant in 2006. Fixed capital formation, underpinned by foreign direct investment, and consumption, fuelled by increasing household purchasing power and a credit expansion, should remain the two main growth drivers in 2007. The foreign-trade contribution to growth, meanwhile, should decrease amid high import growth. Productivity gains and improved production quality should partially offset the effects of the eurozone slowdown, the country's main export market. The strengthening exchange rate should have a similarly limited impact on competitiveness, with many exporters paying for inputs in euros. Although the good economic conditions have spurred corporate earnings, some sectors have remained weak, such as wholesale and retail commerce, food and textiles. The

car and electric/electronic industries seem, on the contrary, solid.

Despite good foreign trade performance, the current account is still in deficit, due notably to large profit and dividend payments to foreign investors. Direct investment has, nonetheless, covered nearly four-fifths of external financing needs, on average, making it possible to limit recourse to debt.

Loosening fiscal policy has, however, caused the public-sector deficit to grow. To break out of the political gridlock resulting from the June 2006 legislative elections, it would seem necessary to form a 'grand coalition' or hold new elections, which hardly augurs a fiscal adjustment any time soon. In that context, the country has officially dropped the objective of joining the eurozone in 2010.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 1.9 | 3.6 | 4.2 | 6.1 | 6.2 | 5.0 |
| Inflation (%) | 1.8 | 0.1 | 2.8 | 1.9 | 2.6 | 3.3 |
| Public sector balance (%GDP) | -6.8 | -6.6 | -2.9 | -3.6 | -3.5 | -4.0 |
| Unemployment (%) | 9.8 | 10.3 | 9.5 | 8.9 | 8.2 | 7.9 |
| Exports | 38.5 | 48.7 | 67.2 | 78.2 | 90.6 | 101.9 |
| Imports | 40.7 | 51.2 | 68.3 | 76.5 | 88.7 | 100.4 |
| Trade balance | -2.2 | -2.5 | -1.0 | 1.7 | 1.9 | 1.4 |
| Current account balance | -4.3 | -5.8 | -6.5 | -2.5 | -4.9 | -5.2 |
| Current account balance (%GDP) | -5.7 | -6.3 | -6.0 | -2.0 | -3.5 | -3.1 |
| Foreign debt (%GDP) | 35.8 | 38.2 | 41.8 | 36.8 | 37.2 | 33.3 |
| Debt service (%Exports) | 9.1 | 6.9 | 6.7 | 6.9 | 6.3 | 5.6 |
| Foreign currency reserves (in months of imports) | 5.4 | 4.9 | 3.9 | 3.6 | 3.3 | 3.1 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET
■ Means of entry

Since the Czech Republic's accession to the EU on 1 May 2004, there are no longer any tariff or non-tariff barriers to products imported from the EU. The country has made a tremendous effort to meet EU integration criteria and attract foreign investment. Its legislation complies with Community standards in such matters as harmonization of business legislation and regulations – especially as regards public procurement (recent adoption of two public tender laws implementing European Directive n.2004/18/EC) – competition rules, labour law (adoption of a new Labour Code that came into force on 1 January 2007) and taxation.

■ Attitude towards foreign investors

The country offers incentives to investors through various schemes spearheaded by the investment promotion agency, Czechinvest. There are two types of tax incentive. New companies formed in connection with an investment project may demand exemption from corporation tax for a maximum period of 10 years. For investments in plant modernization or capacity expansion of a Czech company, firms may ask for partial exemption from corporation tax for a maximum period of 10 years.

Tax exemption is suspended as soon as the firm reaches the ceiling for the authorized subsidy.

Companies investing in manufacturing and processing must have at least 50 per cent of the production line made up of machines officially designated by the government as 'high-tech'. They must invest a minimum of CZK200 million over three years. This threshold is reduced to CZK150 million or CZK100 million if their activity is based in a 'high-unemployment' region. Half the minimum investment must be made up of the investor's own funds. Industrial equipment must make up at least 40 per cent of the investment.

This scheme also offers discounts on building land and infrastructure acquired through municipalities. It grants job-creation, training and regrading subsidies based on the unemployment rate. Companies investing in the so-called 'strategic' services sector (call centres, shared services centres, software development, ICT, high-tech equipment repair) are eligible for extended government incentives, provided they invest a minimum of CZK30 million (€1 million) over three years. Firms investing in the so-called 'technology' zones are also eligible for government subsidies if they invest a minimum of CZK15 million (€500,000) over three years.

■ Foreign exchange regulations

The Czech crown is fully convertible. While it is difficult to forecast short-term variations, the Czech currency's long-term trend is bullish. For example, it took CZK35.61 to buy one euro in 2000, whereas in September 2006 it took just CZK28.38.

Business transactions are usually settled by bank transfer in euros or Czech crowns. The bulk of payments between French and Czech companies that do business together on a regular basis are made by SWIFT and pass smoothly. However, for initial business transactions or large orders, it is advisable to use documentary credit.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange and cheques are not widely used, as they must be issued in accordance with certain criteria to be valid. For unpaid and protested bills of exchange (*smenka cizí*), promissory notes (*smenka vlastní*) and cheques, creditors may access a fast-track procedure for ordering payment under which, if the judge admits the plaintiff's application, the debtor has only three days to contest the order against him/her.

Bank transfers are by far the most widely used means of payment. Leading Czech banks – after successive phases of privatization and concentration – are now linked to the SWIFT system, which provides an easier, quicker and cheaper method for handling domestic and international payments.

Inspired by EU regulations, a recent payment systems law, in force since 1 January 2003, sets the rules for transferring funds in the enlarged European area and empowers the Czech National Bank (*Ceská Národní Banka*) to oversee local use of electronic payment instruments.

■ Debt collection

It is advisable, as far as possible, not to initiate recovery proceedings locally because of the country's cumbersome legal system, the high cost of legal action and lengthy court procedures – it takes almost three years to obtain a writ of execution due to a lack of judges properly trained in the rules of the market economy and proper equipment.

Service of final demand for payment supported by proof of debt reminds the debtor of his/her payment obligations, increased by past-due interest payable from the day after the payment date stipulated in the commercial contract. Since

28 April 2005, the applicable rate, unless agreed otherwise by the parties, is the 'repo' rate applied by the Czech National Bank, in force on the first day of the reference half-year, increased by seven percentage points.

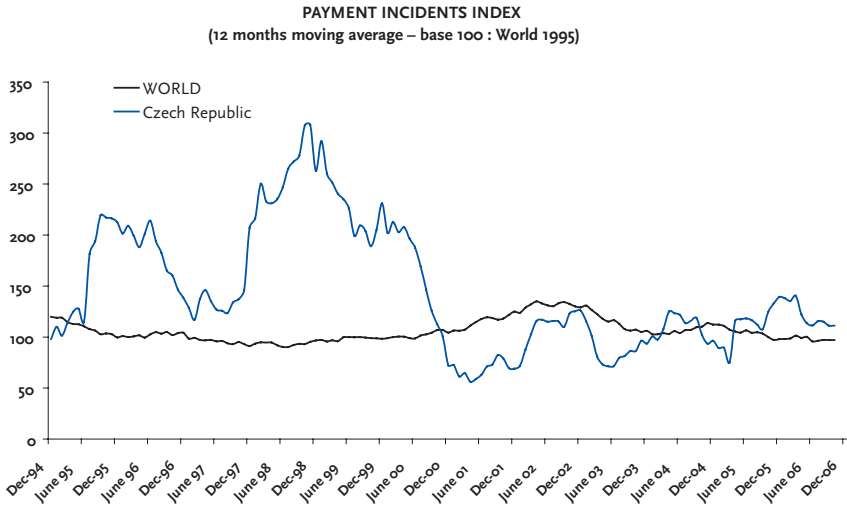
Should the debtor lack the funds needed for immediate payment, it is advisable to seek an out-of-court settlement based on a schedule of payment, preferably drawn up by a public notary, accompanied by an *enforcement clause* that allows them, in case of default by the debtor, to go directly to the enforcement stage, after the court admits the binding nature of that document. Where creditors have significant proof of claim (unpaid bills of exchange or cheques, acknowledgement of debt etc), they may obtain an injunction to pay (*platební rozkaz*) under a fast-track procedure, which may take from three months to a year depending on the workload of the courts, but which does not necessitate a hearing as long as the claim is sufficiently well founded. The advance on court fees, at the claimant's expense, amounts to 4 per cent of the total claim.

Where a debtor contests an injunction within 15 days of its service, an ordinary procedure will then apply with the parties subsequently summoned to one or more hearings to be heard and produce evidence. The judge will then decide whether to throw out the plaintiff's application or order the debtor to pay principal and costs. Ordinary proceedings are partly in writing, with the parties filing submissions accompanied by all supporting case documents (original or certified copies), and partly oral, with the litigants and their witnesses heard on the main hearing date. Any settlement reached between the parties during these proceedings and ratified by the court is tantamount

to a writ of execution, in case of subsequent non-compliance with the agreement obtained.

Commercial company law, commercial disputes and insolvency law fall under the competence of regional courts (*krajjsky soud*) or the Prague regional court known as the municipal court (*mestsky soud*). To speed up execution of the excessive number of pending judgments a new

body of bailiffs (*soudní exekutor*), established since May 2001 and invested with broad investigative powers to identify and locate a debtor's assets before proceeding with actual execution of the court order, is gradually eliminating processing delays. For that bailiff category, a different fee schedule applies, based on the amount concerned by the execution.



OPPORTUNITY SCOPE

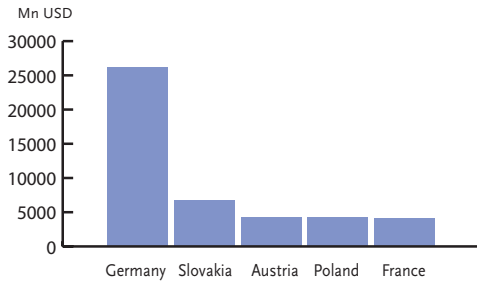
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 31 |
| Public consumption | 15 |
| Investment | 16 |

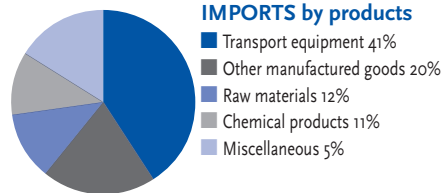
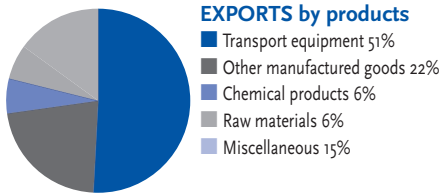
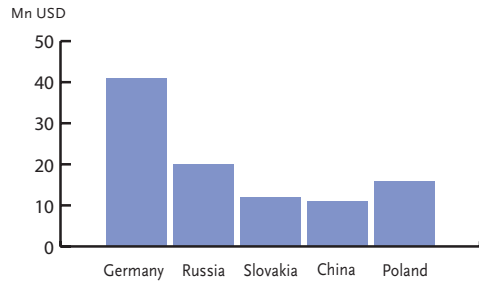
Exports: 71% of GDP

Imports: 72% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

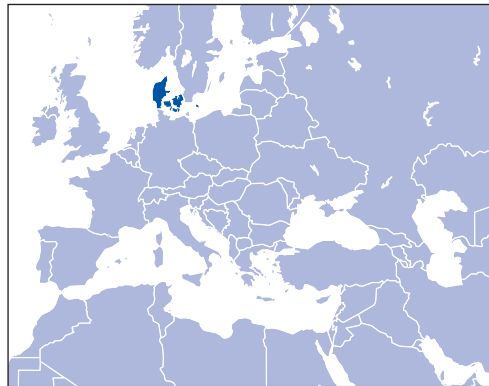


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Czech Republic | Regional average | DC average |
|--|----------------|------------------|------------|
| GNP per capita (PPP dollars) | 20,140 | 9,171 | 5,540 |
| GNP per capita (USD) | 10,710 | 4,834 | 2,117 |
| Human Development Index | 0.874 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 22 | 25 | 30 |
| Urban population percentage | 74 | 63 | 43 |
| Percentage under 15 years old | 15 | 20 | 29 |
| Number of computers per 1000 inhabitants | 240 | 95 | 48 |

Denmark

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 5.4 |
| GDP (US\$ million) | 254,401 |
| GDP per capita (US\$) | 46,831 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

Continued high growth marked 2006, buoyed by household consumption, itself underpinned by low interest rates, the decline of unemployment and the sharp rise of property prices. Companies continued to invest, spurred by high production capacity utilization rates. Good export performance – the traditional growth driver (as much as 48 per cent) – was overshadowed by the gradual rise of imports.

Economic growth will remain very robust in 2007. Higher interest rates, initial signs of a decline in property prices and pressure – albeit moderate – on wages will, however, affect household consumption. Facilities operating at near capacity notwithstanding, companies will cut back on investments. They will also have to contend with a shortage of skilled workers in a context of near full employment. Imports will continue to outstrip

exports resulting in a gradual decline of the current account surplus. Again this year, the government will take in surplus fiscal revenues attributable not only to the economic growth and high North Sea hydrocarbon prices but also to a decline in unemployment-related spending. It will, thus, be able to continue to reduce public debt.

In a buoyant economic context, the Coface payment incident index has remained substantially below the world average, reflecting the exceptional decline of company bankruptcies – down 20 per cent in 2006. Solvency has been good in the health, energy distribution, plastics and mineral sectors and has been recovering in furniture after a recent difficult period. In electronics, chemicals and printing paper, however, the financial health of some companies could deteriorate. Payment behaviour should, nonetheless, remain satisfactory in 2007.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 0.5 | 0.7 | 1.9 | 3.0 | 3.0 | 2.3 |
| Consumption (var.) | 1.5 | 1.6 | 3.4 | 3.8 | 3.7 | 2.2 |
| Investment (var.) | 0.6 | 0.2 | 1.3 | 8.4 | 9.7 | 5.8 |
| Inflation | 2.4 | 2.1 | 1.2 | 1.8 | 3.2 | 2.0 |
| Unemployment | 4.5 | 5.3 | 5.5 | 5.7 | 4.5 | 4.1 |
| Short-term interest | 3.5 | 2.4 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | 0.2 | -0.1 | 1.7 | 3.9 | 3.4 | 3.0 |
| Public sector debt (%GDP) | 46.8 | 44.4 | 42.6 | 35.9 | 28.5 | 25.0 |
| Exports (var.) | 4.1 | -1.2 | 2.7 | 8.0 | 8.9 | 6.2 |
| Imports (var.) | 7.5 | -1.7 | 6.4 | 10.9 | 11.5 | 7.0 |
| Current account balance (%GDP) | 2.5 | 3.2 | 2.3 | 2.9 | 1.7 | 1.1 |

PAYMENT AND COLLECTION PRACTICES

■ Payment

Like the cheque, the bill of exchange is not frequently used in Denmark. Both are an embodiment and, therefore, an acknowledgement of debt. Accepted but remaining unpaid bills and cheques are legally enforceable instruments that exempt creditors from obtaining a court judgement. In such cases, the ‘judge-bailiff’ (*Fogedret*) is appointed to oversee enforcing attachment. First, however, the debtor is summonsed to declare his/her financial situation for the purposes of determining his/her ability to repay the debt. It is a criminal offence to make a false statement of insolvency.

Bank transfers are the most commonly used means of payment. All major Danish banks use the SWIFT network – a rapid and efficient international funds transfer service.

■ Debt collection

Out-of-court collection begins with the creditor or his/her legal counsel sending the debtor a final demand for payment by registered or ordinary mail in which the latter is given 10 days to settle the principal amount, plus any interest penalties provided for in the agreement. Where there is no such clause agreed by the parties, the rate of interest applicable to commercial agreements contracted after 1 August 2002 is the Danish National Bank’s benchmark or lending rate (*udlånsrente*) in force on 1 January or 1 July of the year in question, plus seven percentage points. It should also be noted that, where the due date for payment is not complied with, any settlement or acknowledgement of debt negotiated at this stage of the recovery process is directly enforceable, on condition that an enforcement clause is duly included in the new settlement or agreement.

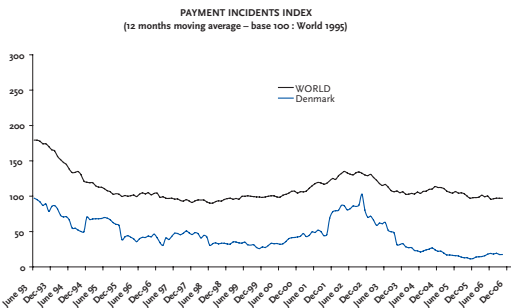
For claims that are not settled out of court, creditors usually engage a lawyer to defend their interests, even though Danish law allows plaintiffs and defendants direct representation in court.

Unlike other countries, Denmark has only one type of legal professional: lawyers (ie there are no notaries, barristers, bailiffs-at-law etc).

Where debtors fail to respond to a demand for payment or where the dispute is not serious, creditors may obtain – usually after three months of proceedings – a judgement following an adversarial hearing or a judgement by default ordering the debtor to pay, within 14 days, the principal amount plus interest and expenses, which include court fees and, where applicable, a contribution to the creditor’s legal costs.

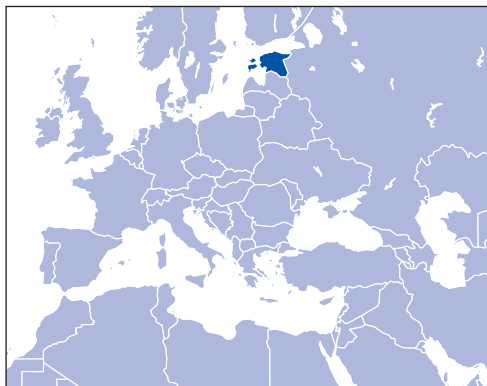
Complex or disputed claims of up to 1 million Danish krone are heard by the court of first instance (*Byret*). The proceedings at this level are predominantly oral, rather than written. Claims above this amount are heard by one of two regional courts: the *Vestre Landsret* in Viborg or the *Østre Landsret* in Copenhagen. The proceedings here involve a series of preliminary hearings, in which the parties present written submissions and proofs, and a plenary hearing, in which the court hears witness testimonies and the parties’ arguments.

Denmark does not have a system of commercial courts outside the Copenhagen area, which has a maritime and commercial court (*Sø-og Handelsretten*) presided by a panel of professional and non-professional judges competent to hear insolvency actions as well as commercial and maritime disputes.



Estonia

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 1.3 |
| GDP (US\$ million) | 13,107 |



Short-term: **A2**

Medium-term:
Low risk

Coface analysis

STRENGTHS

- Implementation of reforms and strict economic policies has allowed Estonia to rapidly measure up to EU standards.
- The country is known for the flexibility of its production apparatus and labour market as well as for its business climate.
- Estonia has rapidly modernized its industry, particularly with development of the electronics sector, and reoriented its trade toward the Scandinavian markets.
- Public finances have been solid with negligible government debt.

WEAKNESSES

- With the country very open to foreign trade, growth has been dependent on international economic conditions.
- The country's limited domestic savings in relation to its investment dynamism and the high import content of subcontracting industry exports has resulted in a substantial current account deficit.
- The foreign debt burden, notably of banks, has been high, with foreign exchange reserves relatively tight.
- The level of inflation has compromised Estonia's integration into the eurozone for the present.

RISK ASSESSMENT

Estonia's growth performance has been among Europe's best. In 2006, rising wages buoyed household consumption while investment benefited from rising final demand and good monetary conditions. Increasingly financed by resources transferred between Nordic banking groups and their local subsidiaries, the credit expansion has remained dynamic. That has notably continued to energize the property market. Exports and imports have increased rapidly resulting, however, in a negative contribution to GDP growth by the external sector.

Although the risk of economic overheating still exists, rising interest rates, the high level of private-

sector debt and a labour shortage should slow domestic demand in 2007. Inflation should ease amid a decline in oil prices, but that will not suffice, however, to meet Maastricht criteria in that regard, thus postponing adoption of the euro beyond 2008. Sagging foreign demand should impede export growth but, with imports also stalled, the current account deficit should stabilize in relation to GDP. That deficit is, nonetheless, still very high with foreign debt – essentially private – increasing rapidly despite appreciable direct investment inflows.

Politically, the legislative elections in March 2007 should result in the formation of another coalition grouping liberals and the centre-left, internal rivalries notwithstanding.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 8.0 | 7.1 | 8.1 | 10.5 | 10.0 | 8.4 |
| Inflation (%) | 3.6 | 1.3 | 3.0 | 4.1 | 4.7 | 4.1 |
| Public sector balance (%GDP) | 1.3 | 2.8 | 1.6 | 1.6 | 1.9 | 0.9 |
| Unemployment (%) | 10.3 | 10.0 | 9.7 | 7.9 | 6.3 | 6.3 |
| Exports | 3,508 | 4,597 | 5,983 | 7,783 | 9,514 | 11,600 |
| Imports | 4,626 | 6,164 | 8,002 | 9,628 | 11,998 | 14,401 |
| Trade balance | -1,118 | -1,567 | -2,019 | -1,845 | -2,484 | -2,801 |
| Current account balance | -779 | -1,115 | -1,458 | -1,445 | -1,986 | -2,402 |
| Current account balance (%GDP) | -10.7 | -11.6 | -12.5 | -10.5 | -12.5 | -12.3 |
| Foreign debt (%GDP) | 57.9 | 66.0 | 78.3 | 86.0 | 85.7 | 86.4 |
| Debt service (%Exports) | 9.3 | 10.6 | 11.7 | 12.1 | 11.6 | 11.9 |
| Foreign currency reserves (in months of imports) | 1.9 | 2.0 | 2.0 | 1.8 | 1.6 | 1.5 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

At purchasing power parity, per capita GDP in 2005 was €15,420 – the highest among the Baltic countries. The average wage in mid-2006 was €610, up 14.96 per cent on 2005.

■ Means of entry

Estonia's market economy is founded on liberal trade principles. Until 2000, there were no import duties. Since 1 July 2002, Estonia applies the EU's common external tariff to non-EU goods. Trade with EU countries is exempt from customs duties since EU-accession on 1 May 2004. Excise duties are levied on some products without any distinction between domestic and imported goods. Estonia administers a system of non-tariff barriers based on automatic licensing for some products (wines and spirits, lubricants, medicines). The same licensing rules apply to domestically produced goods. There are no market access restrictions. As expected, Estonia notably softened its stand vis-à-vis beef and pig imports from France after EU accession. Wine registration formalities, however, remain long-winded and complicated.

The country's standards legislation does not contain any restrictions of note that might serve to protect local industry. Although down payments are advisable for initial business transactions, 30- or 60-

day credit is the most widely used means of payment. Credit cover is advisable. The Estonian banking industry is perfectly sound. The two leading banks, which are owned by Swedish banks, account for 80 per cent of the country's banking assets.

■ Attitude towards foreign investors

Estonia's foreign investment law, in force since September 1991, provides for simple and non-discriminatory company registration procedures. A foreign company may hold a 100 per cent stake in a local company. There is no special incentive scheme and foreigners are accorded the same treatment as nationals in matters of direct taxation. There are no restrictions on the repatriation of profit after tax, dividends or proceeds from the sale or liquidation of an investment. Estonia has a reciprocal investment promotion and protection agreement as well as a dual taxation agreement with France, both of which are in force.

Personal income tax and corporation tax in 2006 were levied at a flat rate of 23 per cent. Plans are underway to gradually lower the rate to 20 per cent. Since 1 January 2000, retained earnings are tax-exempt. Estonian manpower is an asset for foreign investors as it is highly skilled and cheap. Social security contributions, borne entirely by employers, amount to 33 per cent of wages,

including 13 per cent for health insurance and 20 per cent for pensions. Unemployment contributions – 0.5 per cent of an employee’s wage borne by the employer and 1 per cent by the employee – were introduced on 1 January 2002. A pension fund, the second pillar of the country’s pension system, has been operating since 1 April 2002.

■ Foreign exchange regulations

With a parity of eight kroons to the deutschmark that has remained unchanged since its launch in

June 1992, the Estonian kroon is freely convertible and consequently enjoys *de facto* parity with the euro (€1:EEK15.64664). Exchange controls have been abolished and local banks accept accounts in both local and foreign currency. Estonia joined ERM II in June 2004, the last stage before the introduction of the euro. However, rising inflation in an overheating economy (11.85 per cent GDP growth in the first half of 2006, unemployment rate in free fall, average wages up 15 per cent per year) could delay entry into the eurozone until 1 January 2009 or beyond.

OPPORTUNITY SCOPE

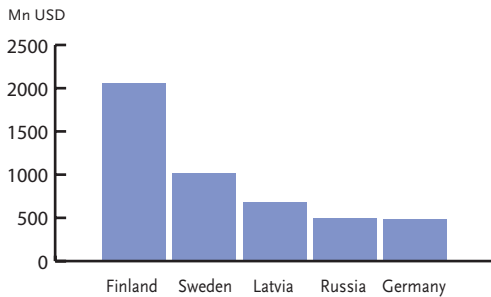
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 30 |
| Public consumption | 10 |
| Investment | 16 |

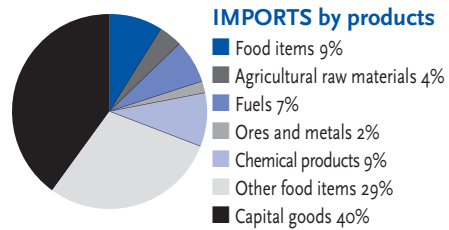
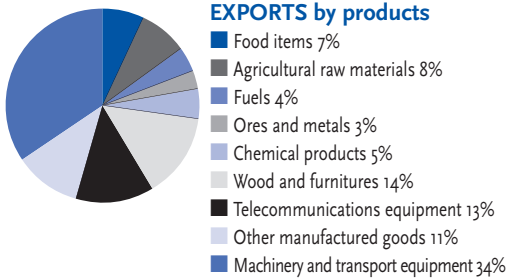
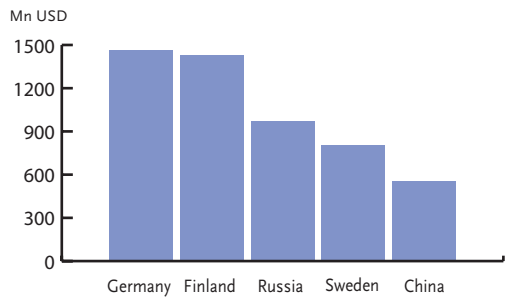
Exports: 78% of GDP

Imports: 86% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

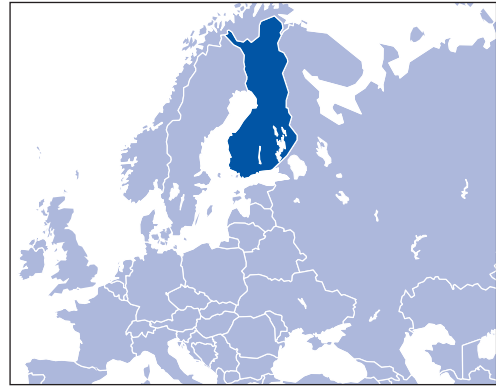


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Estonia | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 15,420 | 9,171 | 5,540 |
| GNP per capita (USD) | 9,100 | 4,834 | 2,117 |
| Human Development Index | 0.853 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 29 | 25 | 30 |
| Urban population percentage | 70 | 63 | 43 |
| Percentage under 15 years old | 15 | 20 | 29 |
| Number of computers per 1000 inhabitants | 921 | 95 | 48 |

Finland

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 5.2 |
| GDP (US\$ million) | 193,176 |
| GDP per capita (US\$) | 36,830 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

Strong foreign demand fuelled growth in 2006. A rebound effect in the timber-paper sector after the two-month production interruption in 2005 cannot, alone, account for the exceptional export recovery. That recovery is also attributable to sales dynamism in the metal-processing and electronics sectors. Company investments have surpassed expectations. Household consumption benefited from rising employment and a new income tax reduction that offset slower wage growth.

In 2007, growth will be less robust, affected by the world economic slowdown and especially by sagging household demand. The wage agreement in force until September 2007 will keep wage increases at moderate levels despite the shortage of skilled labour particularly in industry, services and

construction. In the absence of further tax reductions, household consumption will be less dynamic. Although investment will only increase moderately in the construction sector, it will remain dynamic in energy sectors, industry and services. Export growth, notwithstanding the dynamism of technological industries, will slow to 2004 levels. Revenues generated by social security and improvement in municipal finances will facilitate keeping the public-sector financial surplus at high levels.

Company bankruptcies, after declining these past three years, levelled off at a low level in 2006, with companies continuing to enjoy solid financial health reflected by the good level of the Coface payment incident index. They should, thus, be able to cope with the slowdown expected in 2007.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 2.1 | 2.4 | 3.5 | 2.9 | 5.4 | 3.2 |
| Consumption (var.) | 1.6 | 4.4 | 3.2 | 3.8 | 3.9 | 2.6 |
| Investment (var.) | -7.1 | -7.0 | 4.9 | 2.5 | 6.1 | 3.9 |
| Inflation | 2.0 | 1.3 | 0.7 | 0.4 | 1.3 | 1.6 |
| Unemployment | 9.1 | 9.1 | 8.9 | 8.4 | 7.8 | 7.5 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.1 | 3.8 |
| Public sector balance (%GDP) | 4.2 | 2.3 | 1.9 | 2.5 | 2.9 | 2.9 |
| Public sector debt (%GDP) | 41.3 | 44.3 | 44.3 | 40.5 | 38.0 | 37.0 |
| Exports (var.) | 5.0 | 1.5 | 7.5 | 7.3 | 12.0 | 7.3 |
| Imports (var.) | 2.1 | 2.6 | 7.4 | 12.3 | 9.2 | 7.7 |
| Current account balance (%GDP) | 10.0 | 5.9 | 7.6 | 5.0 | 5.3 | 5.1 |

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange are not commonly used in Finland because, as in Germany, they signal the supplier's distrust of the buyer. A bill of exchange primarily substantiates a claim and constitutes a valid acknowledgment of debt. Cheques, also little used in domestic and international transactions, only constitute acknowledgment of debt. However, cheques that are uncovered at the time of issue can result in the issuers being liable to criminal penalties. Moreover, as cheque collection takes particularly long in Finland (20 days for domestic cheques or cheques drawn in European and Mediterranean coastal countries, 70 days for cheques drawn outside Europe), that payment method is not recommended.

Conversely, SWIFT bank transfers are increasingly used to settle commercial transactions. Finns are familiar with this efficient method of payment. When using this instrument, sellers are advised to provide full and accurate bank details to facilitate timely payment, while it should not be forgotten that the transfer payment order will ultimately depend on the buyer's good faith.

■ Debt collection

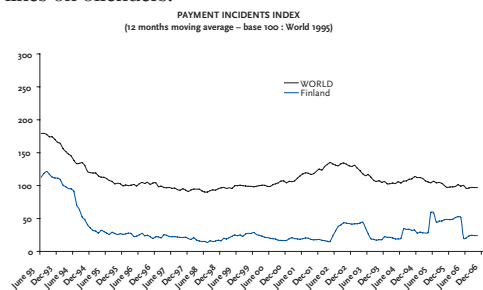
Out-of-court collection begins with the debtor being sent a final demand for payment by registered or ordinary mail, in which he/she is asked to pay the outstanding principal together with any contractually agreed interest. In the absence of an interest rate clause in the agreement, interest automatically accrues from the due date of the unpaid invoice at a rate equal to the Central Bank of Finland's (*Suomen Pankki*) six-monthly rate, calculated by reference to the European Central Bank's refinancing rate, plus seven percentage points (Interest Act Amendment, effective since 1 July 2002). The Interest Act (*Korkolaki*) of 20 August 1982 already requires debtors to pay up within contractually agreed timeframes or become liable to interest penalties. Moreover, according to contract law the ordinary term of limitation, previously 10 years, has been reduced to three years since 1 January 2004 and it applies retroactively to contracts already in force.

For certain documented and undisputed claims, creditors may resort to the fast-track procedure resulting in an injunction to pay (*suppea*

haastehakemus). This is a simple written procedure based on submission of whatever documents substantiate the claim (invoice, bill of exchange, acknowledgement of debt etc). The presence of a lawyer, although commonplace, is not required for this type of action. The reform of civil procedure, enacted on 1 December 1993, requires plaintiffs to submit all supporting documents and evidence substantiating a claim before the debtor is asked to provide, in response, a written statement explaining his/her position.

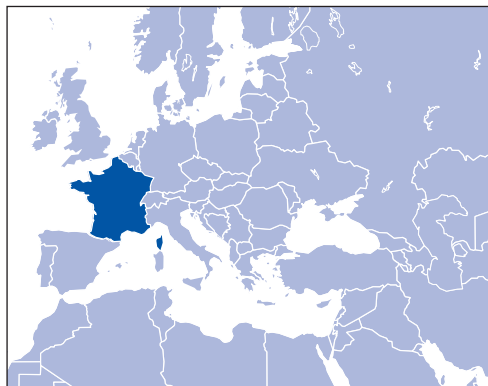
During the preliminary hearing, the court bases its deliberations on the parties' written submissions and supporting case documents. The court then convokes the litigants to hear their arguments and decide on the relevance of the evidence. It is possible for the dispute to be resolved during this preparatory phase of the proceedings. Where the dispute remains unresolved after this preliminary hearing, plenary proceedings are held before the court of first instance (*Käräjäoikeus*), comprising between one and three presiding judges depending on the case's complexity. During this hearing, the judge examines probative documentary evidence, hears the parties' witnesses, and the litigants state their final claims before the judge delivers the ruling very rapidly.

The average time required for obtaining a writ of execution is about 12 months. Commercial cases are generally heard by civil courts, although a Market Court (*Markkinaoikeus*) located in Helsinki, has been in operation as a single entity since the 1 March 2002 merger of the Competition Council and the former Market Court. This court is competent to examine fraudulent business practices, denounce unfair trading, investigate corporate mergers, deliver prohibition orders against such practices and slap fines on offenders.



France

| | |
|----------------------------------|-----------|
| Population (million inhabitants) | 61.7 |
| GDP (US\$ million) | 2,110,185 |
| GDP per capita (US\$) | 34,200 |



Coface analysis

Short-term: **A1**

STRENGTHS

- Robust demographics have substantially ensured generational renewal and spurred household spending.
- France has benefited from relative energy independence, thanks to its diversified sources of supply.
- The country has been a breeding ground for large internationalized and competitive groups in a range of sectors including energy, transport, pharmaceuticals, cosmetics, luxury, distribution and so on.
- A dynamic banking and financial sector has been active internationally.
- A skilled workforce and high hourly productivity have partly offset a short work year.
- Quality infrastructure has contributed to the country's attractiveness to tourists.

WEAKNESSES

- The public-sector debt and deficit levels will be difficult to sustain, with the prospect of increased health and pension spending.
- The concentration of decision authority in Paris and a multiplicity of local administrative levels have not been conducive to reducing geographic inequality.
- Deficient education and training do not facilitate matters for the young and less skilled in finding employment.
- The investment effort focused on research and development continues to be insufficient and hampered by limited public-private cooperation.
- Inadequate specialization and a limited presence in high-growth world regions have undermined foreign trade effectiveness.

RISK ASSESSMENT

Growth recovered in 2006, underpinned by dynamic consumption. Its performance has been erratic, however, with an exceptionally robust first half giving way to a sluggishish third quarter. Very buoyant spending by households is attributable mainly to their declining savings rate and greater recourse to debt. Appreciation of their wealth also made a positive contribution. Despite a marked acceleration of exports, however, the current account deficit increased due to an upsurge of imports, with the overall foreign trade contribution to GDP growth remaining negative.

Economic growth should remain moderate in 2007 with household consumption buoyed by rising real wages amid low inflation and by the continued (albeit slower) decline of unemployment, spurred by an increase in the negative tax called the *prime pour l'emploi*, or employment bonus. With the public-sector deficit now stable, tax pressure will ease via another income tax reduction. The property market slowdown should, ultimately, have little impact. Similarly, productive investment will remain at respectable levels amid high production capacity utilization rates. Public-sector investment should continue to suffer, however, from its role as

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 1.3 | 0.9 | 2.2 | 1.2 | 2.1 | 2.0 |
| Consumption (var.) | 2.4 | 1.7 | 2.2 | 2.2 | 2.7 | 2.3 |
| Investment (var.) | -3.0 | 0.8 | 3.0 | 3.7 | 3.8 | 3.4 |
| Inflation | 1.9 | 2.2 | 2.2 | 1.8 | 1.9 | 1.6 |
| Unemployment rate | 9.0 | 9.7 | 9.8 | 9.9 | 9.2 | 8.9 |
| Short-term interest rate | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -3.3 | -1.7 | -3.7 | -2.9 | -2.7 | -2.6 |
| Public sector debt (%GDP) | 58.2 | 62.4 | 64.4 | 66.6 | 64.7 | 63.9 |
| Exports (var.) | 1.7 | -1.7 | 2.1 | 3.2 | 7.0 | 5.0 |
| Imports (var.) | 1.5 | 1.3 | 6.1 | 6.4 | 8.8 | 6.1 |
| Current account balance (%GDP) | 1.0 | 0.4 | -0.4 | -1.6 | -2.0 | -1.8 |

e = estimate, f = forecast

an adjustment variable in the public financial consolidation process. The world economic slowdown, meanwhile, particularly in Germany, which provides a market for 28 per cent of French exports, along with the difficulties buffeting Airbus and car manufacturers, will impede export growth.

Company payment behaviour registered gradual and ultimately moderate deterioration in 2006. Companies closest to consumers benefited from the buoyant demand. Medium and large industrial companies, however, that are more

sensitive to the heightened competitive environment and increases in energy and raw material prices, experienced difficulties. Car industry subcontractors have suffered from the weakened condition of manufacturers. Other sectors like paper and cardboard processing, furniture, textiles and the wholesale trade also showed signs of weakness. The economic slowdown expected in 2007 does not augur well for marked improvement.

MAIN ECONOMIC SECTORS

■ Steel

Business rose 2 per cent in 2006, thanks to a consumption upturn and stock replenishment. Despite the car industry slowdown, demand improved amid excellent economic conditions in the first half and increased investment in the building, energy and mechanical construction sectors. Export market share gains, notably in Spain, coupled with the decline of imports from Turkey and Germany, allowed the sector to maintain a positive trade balance. Prices continued to increase to offset rising raw material costs. Steel should post moderate growth in 2007 in phase with the consolidation of a sector already strengthened by the Arcelor-Mittal merger.

■ Building and public works

Business increased 5 per cent in 2006, thanks to the dynamism of both housing and a non-residential segment that benefited from increased demand in industry and services (administrative and office buildings). The public works segment rose 5 per cent, buoyed by increased orders from local communities in the run-up to municipal elections in 2008 and an upsurge of investment by network companies. The healthy order books of companies should allow the sector to post 3 per cent growth in 2007, despite faltering demand for houses and apartment blocks.

■ Textiles and clothing

Despite increased consumption, textile and clothing production fell by 7 and 12 per cent respectively in 2006 – a decline attributable to fierce competition from Asian products. Only the synthetic and technical textiles used in agriculture, the car industry and building sector were unaffected. In clothing, except for luxury articles and work clothes, companies continue to experience financial difficulties that could lead to massive layoffs and a continued production decline in 2007.

■ Paper-cardboard

Although graphics paper suffered from weak demand, overall production nonetheless improved in 2006. That improvement is mainly attributable to the dynamism of paper and cardboard for packaging, buoyed by good economic conditions. Industrial and special paper production was also satisfactory, although remaining a small fraction of total sector volume. Despite price increases intended to cover rising raw-material and production costs, company margins are still too small. The upturn registered in 2006 should continue in 2007, however, with growth estimated at 2 per cent.

■ Mechanical engineering

Benefiting not only from increased domestic demand but especially from good export performance, the mechanical engineering sector grew 2 per cent in 2006. Equipment intended for metalworking – forging, structures, packaging – as well as machine tools rose 3 per cent. The 2 per cent growth posted by precision mechanics was the result of increased demand for medical apparatus. Despite full order books, sector growth should sag in 2007.

■ Car industry

For national carmakers 2006 was a year of decline in a stagnant European market with their production and sales both down by about 3 per cent. The trade surplus evaporated amid declining exports to Germany and Italy and rising imports, mainly from Asia. Squeezed between rising production costs attributable to soaring raw-material prices and the need to offer competitive vehicles, carmakers endured a gloomy year marked by the mediocre success of their new models. The repercussions of those difficulties spread to vehicle parts manufacturers. Business should continue to decline in 2007 with new orders steadily decreasing. Companies should give greater emphasis to their strategy of externalizing production to reduce labour costs.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Among methods of payment, the bank card is now the instrument used most in France, dethroning cheques, which are nonetheless still widely used. In 2005, bank cards represented 37 per cent of the payment operations cleared through the interbank system against nearly 29 per cent for cheques.*

For cheques remaining unpaid for over 30 days from the date they were first presented for payment, the beneficiary may immediately obtain an enforcement order (without need of further procedural act or cost). This is based on a certificate of non-payment provided by his/her banker after a second unsuccessful presentation of the cheque for

payment and where the debtor has not provided proof of payment within 15 days of formal notice to pay, served by a bailiff (article L 131-73 of the monetary and financial code).

Bills of exchange, a much less frequently used mode of payment than cheques, have been in virtually constant decline in terms of number of operations with volume remaining essentially steady in value terms. They are attractive for companies insofar as they may be discounted or transferred, thus providing a valuable source of short-term financing. Moreover, they allow creditors to bring legal recourse in respect of ‘exchange law’ (*droit cambiaire*) and are particularly suitable for instalment payments.

Still lagging behind cheques, the use of transfers was stable in 2005 representing about 15 per cent of total interbank operations. In value terms, however, cheques and transfers still represent most of script payment volume with 39 per cent and 35 per cent respectively of the total amount processed.* Bank transfers can be made within France or internationally via the SWIFT electronic network used in French banking circles, which offers a reliable platform for timely payment subject to mutual trust and confidence between suppliers and their customers.

■ Debt collection

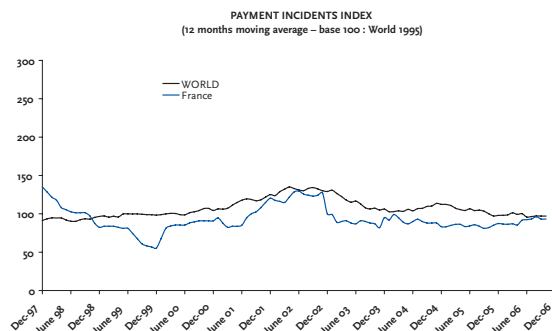
Since the new economic regulations law of 15 May 2001, commercial debts automatically bear interest from the day after the payment due date shown on the invoice or specified in the commercial contract. Unless the terms and conditions of sale stipulate interest rates and conditions of application, the applicable rate will be the interest rate applied by the European Central Bank's in its most recent refinancing operations, increased by seven percentage points.

Serving the debtor with formal notice to pay the principal claim and interest due, nonetheless remains a precondition for any legal action taken by creditors. Where a debt claim results from a contractual undertaking and is both liquid and indisputable, creditors may use the injunction-to-pay procedure (*injonction de payer*), a flexible system based on the use of pre-printed forms not requiring applicants to argue their case before the magistrates' court (*tribunal d'instance*) or competent commercial court – the court having jurisdiction in the district where the debtor's

registered offices are located. Via that procedure, creditors can rapidly obtain a court order to be subsequently served by a bailiff.

A fast track procedure (*référé-provision*) provides creditors with a rapid means of debt collection, even in routine cases lacking any real urgency, provided the claims are not subject to substantive dispute. In such cases, the judge can grant a provisional payment in favour of the applicant that can represent up to 100 per cent of the claim. However, the summary procedure requires the presence of an attorney to represent the creditor in court. If a claim proves to be litigious, the judge competent to rule on special urgency (*juge des référés*) evaluates whether the claim is well founded. As appropriate, the judge may then declare him/herself incompetent and, based on his/her assessment of the apparent validity of the case, invite the plaintiff to seek a ruling on the substance of the case through the formal court process.

Formal procedures of this kind permit having the validity of a claim recognized by the court, a relatively lengthy process lasting about a year or more owing to the emphasis placed on the *adversarial nature* of proceedings and the numerous phases involved in the French procedural system: submission of supporting case documents, written submissions by the litigants, examination of the types of evidence, various recesses for deliberations, and so on. If justified by a claim's size and the uncertain solvency of the debtor, legal action may include a petition to obtain an attachment order on available assets, thereby protecting the plaintiff's interests pending completion of the proceedings and enforcement of the court's final verdict.



* Source: French Banking Federation and GSIT

Georgia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 4.5 |
| GDP (US\$ million) | 6,395 |
| GDP per capita (US\$) | 1,429 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

More than three years since the Rose Revolution economic growth is still robust, exceeding 7 per cent again in 2006, driven mainly by the financial-services, communications, food, metals (mainly copper) and construction industries. Buoyant domestic demand and rising energy costs have, however, generated a significant inflationary spike and a large external account deficit. An initial doubling of the price of Russian gas was partly responsible for the upsurge of imports in 2006, a trend that should get even worse in 2007 with Gazprom imposing another 100 per cent price increase.

Public-sector finances have, however, improved markedly with the significant debt reduction achieved partly because of a restructuring of Paris Club debt. As for the business environment,

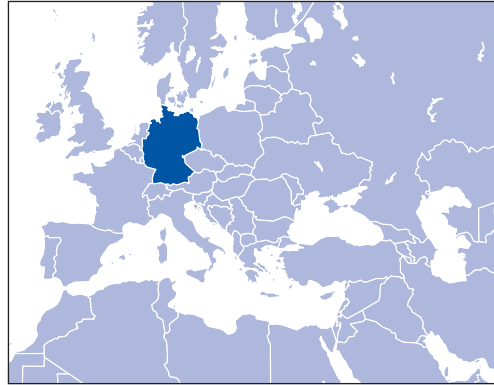
Georgia registered the most improvement among CIS countries, according to the World Bank, even if corruption is still extensive. That undeniable improvement in the economic environment has, however, been upstaged by repeated clashes with the separatist Abkhazia and South Ossetia republics and, especially, by the troubling deterioration of relations with Russia. After four Russian officers accused of spying were detained briefly for questioning in Tbilisi at the end of September, Moscow suspended all transport and postal links with Georgia. The country is, nonetheless, still very dependent on its powerful neighbour not only for its energy supply but also as an export outlet and for the transfer of expatriate earnings.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|-------|-------|-------|---------------------|---------------------|
| Economic growth | 5.5 | 11.1 | 5.9 | 9.3 | 7.5 | 6.5 |
| Inflation (%) | 5.6 | 4.8 | 5.7 | 8.3 | 9.6 | 6.0 |
| Public sector balance (%GDP) | -2.0 | -2.5 | -0.2 | -2.4 | -2.5 | -2.1 |
| Exports | 553 | 730 | 1,272 | 1,589 | 1,912 | 2,175 |
| Imports | 992 | 1,328 | 1,991 | 2,521 | 3,324 | 3,851 |
| Trade balance | -439 | -598 | -719 | -932 | -1,412 | -1,676 |
| Current account balance (%GDP) | -6.0 | -7.4 | -8.4 | -5.4 | -9.9 | -11.5 |
| Foreign debt (%GDP) | 52.4 | 46.4 | 36.2 | 27.1 | 23.0 | 20.2 |
| Debt service (%Exports) | 13.9 | 8.0 | 8.3 | 6.3 | 6.8 | 5.4 |
| Foreign currency reserves (in months of imports) | 1.6 | 1.2 | 1.7 | 1.7 | 3.1 | 2.9 |

Germany

| | |
|----------------------------------|-----------|
| Population (million inhabitants) | 82.5 |
| GDP (US\$ million) | 2,781,900 |
| GDP per capita (US\$) | 33,726 |



Coface analysis

Short-term: **A1**

STRENGTHS

- Good geographic and sectoral specialization, allied with high competitiveness, has generated a comfortable and growing trade surplus.
- SMEs (*Mittelstand*) have played a central economic role as regards employment, innovation and competitiveness.
- ‘Codetermination’ of joint-stock companies, mandatory for those with over 500 employees, has fostered consensus on strategic decisions, particularly involving restructuring.
- Implementation of the Hartz reforms has increased labour market flexibility and contributed to improving the equilibrium of social security accounts.
- The presence of Central and Eastern European countries in the EU and their geographic proximity has provided companies with sales and production opportunities.

WEAKNESSES

- Marked regional growth disparities have compounded the plight of the persistently lagging economies of eastern federal states (*Länder*).
- The family nature of *Mittelstand* companies has complicated matters for them in obtaining financing from banks due to Basle II transparency requirements.
- Despite recent constitutional reform, the division of responsibilities and the financial relations between the federal government (*Bund*) and *Länder* are still complex and hinder the decision process.
- Inadequate facilities for small children have contributed to the low birth rate and the aging of the population, which, in turn, have affected consumption.
- The inadequate general education of many youths has resulted in less involvement by companies in the apprenticeship programmes that concern two-thirds of a given age group, as well as in a lack of engineers.

RISK ASSESSMENT

An economic boom marked 2006. Exports continued to grow, spurred by improved economic conditions in Europe. With foreign orders straining production capacity, companies increased their equipment purchases. Meanwhile, public spending on transport and research infrastructure increased. Consumption recovered tentatively, buoyed by job growth. Some anticipatory buying linked to a VAT

increase in 2007 had a favourable effect in the fourth quarter.

The economy will be less dynamic in 2007. Exports, still the main growth driver, will grow at a slower pace due to the slowdown in both the US economy and world investment. The three-point VAT increase on 1 January, coupled with the 0.4 per cent increase in pension contributions, will squeeze household spending. But the impact

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 0.0 | -0.2 | 0.8 | 1.1 | 2.6 | 1.9 |
| Consumption (var.) | -0.8 | -0.1 | -0.3 | 0.3 | 1.0 | 0.7 |
| Investment (var.) | -7.0 | 0.0 | 0.7 | 4.2 | 8.5 | 6.5 |
| Inflation | 1.4 | 1.0 | 1.8 | 1.9 | 1.7 | 2.0 |
| Unemployment | 7.6 | 8.7 | 9.2 | 9.1 | 8.0 | 7.6 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -3.5 | -4.0 | -3.7 | -3.2 | -2.3 | -1.4 |
| Public sector debt (%GDP) | 62.8 | 65.3 | 65.0 | 66.0 | 68.0 | 68 |
| Exports (var.) | 4.1 | 2.3 | 8.8 | 7.1 | 10.5 | 6.5 |
| Imports (var.) | -1.6 | 5.0 | 6.2 | 6.7 | 10.0 | 5.7 |
| Current account balance (%GDP) | 2.1 | 1.9 | 3.7 | 4.2 | 4.1 | 4.6 |

e = estimate, f = forecast

should be limited and of short duration with jobs and wages continuing to grow. The surplus revenues generated by the growth and the decline in the number of jobless receiving unemployment benefits will contribute to reducing public-sector deficits. They will also make it possible to reduce unemployment and health-insurance contributions and increase funds intended to finance free healthcare for children and housing benefits for the unemployed. Companies may, ultimately, absorb part of the VAT increase considering both their good financial health and the competition between distribution channels. Although spending on housing will level off, corporate investment and the amounts devoted to infrastructure and research will continue to grow comfortably.

Amid steady economic growth, company solvency has remained very satisfactory, as evidenced by the good level of the Coface payment incident index and continued decline of bankruptcies. Margins have benefited from high competitiveness, underpinned by productivity gains and continued rationalization of production tools. Easier conditions for obtaining bank credit have also had a favourable impact. Several sectors have, however, been experiencing difficulties including the manufacturing and distribution of computer and telecommunications-related products, wood processing, textiles and car-industry subcontracting.

MAIN ECONOMIC SECTORS

■ **Construction**

The recession that has gripped this sector for several years is now finally over. Although 20,000 more jobs were still lost in 2006, turnover rose 2 per cent with bankruptcies down by 28 per cent. With order books relatively full, business should gain another 1 per cent in 2007, despite persistent uncertainties associated with the VAT increase and the government’s decision to reduce its investments by €400 million. The number of payment failures should continue to decline, although the East–West

disparity will persist. Eastern Germany will have to contend with competition from Polish companies, but they now pay wages comparable to those of their German counterparts.

■ **Steel**

Faced with the world concentration process, German steel companies will have to join forces or make acquisitions abroad to respond more effectively to demand from a globalizing car industry that is constantly seeking more

sophisticated steels. Cooperation with Chinese or Russian companies is also possible. Despite imports of Chinese steel, prices should not decline much in Germany in 2007, with the industry buoyed by a still-growing mechanical engineering sector.

■ Mechanical engineering

The mechanical engineering sector benefited fully from the German economic rebound in 2006, with 5 per cent production growth in value terms, thanks particularly to machinery for the paper, wood and energy sectors. The sector also benefited from the revival of investment in the other European countries and from the continuing dynamism of exports to China, Russia, India and the Americas. Equipment intended for raw material extraction, construction, transport and energy generation and use were the main beneficiaries. Demand should remain buoyant in 2007 amid easing raw material prices. The unfavourable euro/dollar parity trend should only affect manufacturers of standard equipment.

■ Paper industry

The European leader and fourth in the world after the United States, China and Japan, the German paper industry, with 45,000 employees at 200 industrial sites, generated a turnover of €13 billion in 2006. It mainly produces paper and cardboard from collected material that is recycled very efficiently on site. Thanks notably to exports to Eastern Europe, 2006 was a good year, up 5 per cent. Increased demand made it possible to substantially pass rising input costs on prices. Stabilization of costs in 2007 should offset the impact of less dynamic demand.

■ Food production and distribution

Despite persistent excess capacity and price fluctuations, as well as scandals and diseases

undermining consumer confidence, the slaughtering and meat-processing segment benefited from the development of exports, particularly to European countries. The milk, sugar and beverage industries also increased their sales abroad.

Distribution turnover has been flat for several years, with the industry concentration process continuing. Several multinationals (ITM-Intermarché, Wal-Mart) have sold off subsidiaries and definitively abandoned the German market. Even discount has stalled. With the VAT increase not concerning food products, 2007 should be just like 2006.

■ Furniture industry

Although furniture production was up 5 per cent in value terms in 2006, that result is partly attributable to increasing raw material costs (wood, metal and so on). Average companies have experienced difficulties, however, passing on those additional costs in sales prices, especially in the domestic market. Export sales rose 14 per cent with kitchen furniture shipments to Asia, the United States and Europe particularly dynamic. Due to the VAT increase, business in 2007 should be less bright in the domestic market. Exports will still benefit from their upmarket character.

■ Toy industry

The toy sector turnover shed 4 per cent in 2006 amid not only rising raw material prices but also competition from Chinese products copying the best-known brands. The VAT increase, in conjunction with raw material price swings, will make 2007 a difficult year for an industry that is focused primarily on the European market and high-quality, high-priced products in order to emancipate itself to the extent possible from exchange rate fluctuations and competition from low labour-cost countries.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Standard payment instruments such as bills of exchange and cheques are not used very widely in Germany. For Germans, a bill of exchange implies a precarious financial position or distrust on the part of the supplier. Cheques are not considered a payment as such but a ‘payment attempt’. As German law ignores the principle of covered cheques, the issuer can cancel payment at any time and on any ground; bounced cheques are, therefore, fairly common. Bills of exchange and cheques clearly do not seem to be effective payment instruments even though they entitle creditors to access a fast-track procedure for debt collection.

Bank transfers (*Überweisung*), by contrast, remain the prevalent means of payment. Leading German banks are connected to the SWIFT network, which enables them to provide a quick and efficient funds transfer service.

■ Debt collection

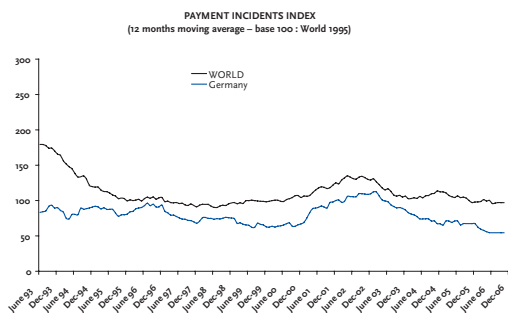
The collection process begins with the debtor being sent a final demand for payment, via ordinary or registered mail, reminding him/her of his/her contractual obligations. The law on ‘speedier matured debts’, in force since 1 May 2000, states that where the due date is not specified in the conditions of sale, the customer is deemed to be in default if he/she does not pay up within 30 days of receipt of the invoice or a demand for payment, and is liable to interest penalties thereafter. From 1 January 2002, the benchmark default interest rate is the Bundesbank’s six-monthly base rate, calculated by reference to the European Central Bank’s refinancing rate, plus eight percentage points for retailers or commercial companies and five percentage points for consumers (non-commercial).

If payment or an out-of-court settlement is not forthcoming despite this approach, the creditor must initiate court proceedings. Provided a claim is payable and uncontested, the creditor can seek an injunction to pay (*Mahnbescheid*) through a simplified and inexpensive procedure involving the use of pre-printed forms and resulting in a writ of

execution fairly quickly. This procedure has been standardized and automated in most *Länder*. Foreign creditors must file their claim with the Schöneberg Court in Berlin, which, after examining the claim, may deliver an injunction to pay. The debtor is given two weeks to pay up or challenge the injunction (*Widerspruch*).

Ordinary legal proceedings tend to be oral, with the judge reaching a decision on the arguments presented by both parties present in court. If the case is contested, the judge hears the litigants or their lawyers and asks them to submit any evidence deemed relevant by him/her, which he/she alone is then authorized to assess. Each litigant is also requested to submit a pleading memorandum outlining his or her expectations, within the specified time limit. Once the claim has been properly examined, a public hearing is held at which the court hands down a well-founded judgement.

The reform of civil procedure, enacted on 1 January 2002, is designed to provide all German citizens with more transparent, timely and effective application of the law. The new measures encourage parties to attempt conciliation before resorting to legal action and give the district courts (*Amtsgerichte*) greater powers. They also require the majority of cases to be settled in the first instance, either through an out-of-court settlement or through a court decision. An appeal will, thus, only entail verifying whether a case involves a question of principle or necessitates revision of the law in order to ensure ‘consistent jurisprudence’.



Greece

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 11.1 |
| GDP (US\$ million) | 213,698 |
| GDP per capita (US\$) | 19,271 |



Coface analysis

Short-term: **A2**

RISK ASSESSMENT

Robust growth continued in 2006. Household consumption benefited from a rapid credit expansion spurred by low real interest rates amid persistent high inflation. Investment recovered after the correction in 2005, especially in equipment and construction, thanks to the reduction of corporate income tax. Tourism revenues increased. High oil prices and strong domestic demand sparked an upsurge of imports, however, resulting in a large current account deficit. Despite hiring in the public sector, fiscal austerity remained on track thereby sharply reducing the public debt and deficit.

The growth rate should remain steady in 2007. Job and wage growth along with an income tax overhaul will buoy consumption despite rising interest rates. Company investment will remain high amid a reduction of red tape and the implementation of major infrastructure and transport projects financed by European structural aid. Trade with south-eastern Europe will more than offset the effects of the eurozone slowdown on exports. Ship

purchases intended to renew the fleet will prevent any reduction in the large current account deficit. Wage costs and farm subsidies will impede any fiscal adjustment, pushing the deficit to the 3 per cent limit imposed by the European Stability Pact.

After deteriorating sharply in the second half of 2005, the Coface payment incident index returned to a satisfactory level in 2006, although still slightly above the world average – a favourable trend borne out by the steady decline of bankruptcies. Restructuring and privatization have contributed to a picture of improving earnings. Weaknesses have persisted in clothing, however it is a sector exposed to increased competition from Asia and still undergoing consolidation. Weaknesses have also persisted in both home electronics and home appliance distribution. A lack of competitiveness resulting from unit labour costs higher than those encountered elsewhere in the eurozone has, moreover, affected a high proportion of the country's industrial fabric.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 3.8 | 4.6 | 4.7 | 3.7 | 3.7 | 3.6 |
| Consumption (var.) | 3.3 | 4.5 | 4.4 | 3.7 | 3.4 | 3.2 |
| Investment (var.) | 7.6 | 16.2 | 6.8 | -1.4 | 6.0 | 5.2 |
| Inflation | 3.7 | 3.4 | 2.9 | 3.5 | 3.3 | 3.1 |
| Unemployment | 10.9 | 10.4 | 11.0 | 10.4 | 9.6 | 8.9 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -5.0 | -5.8 | -6.6 | -4.7 | -2.7 | -3.0 |
| Public sector debt (%GDP) | 112 | 109 | 111 | 108 | 104 | 101 |
| Exports (var.) | -7.7 | 1.0 | 11.5 | 2.9 | 6.6 | 7.0 |
| Imports (var.) | -2.9 | 4.8 | 9.3 | -1.2 | 6.1 | 5.4 |
| Current account balance (%GDP) | -7.5 | -7.2 | -6.5 | -8.6 | -7.8 | -7.4 |

e = estimate, f = forecast

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange are widely used by Greek companies in domestic and international transactions and, along with promissory notes, have not been subject to stamp duty since 1 January 2002. In the event of payment default, a protest certifying the dishonoured bill must be drawn up by a public notary within two working days of the due date.

Cheques, on the other hand, are less widely used in international transactions. For domestic transactions, the practice is to use cheques as a credit rather than payment instrument. Post-dated cheques endorsed by several creditors are fairly common. Furthermore, issuers of dishonoured cheques may be liable to prosecution provided a complaint is lodged.

Promissory letters (*hyposhetiki epistoli*) are another means of payment widely used by Greek companies in international transactions. They are a written acknowledgement of an obligation to pay, issued to the creditor by the customer's bank, committing the maker to pay the creditor at a contractually fixed date. Although promissory letters are a sufficiently effective instrument in that they constitute a clear acknowledgement of debt on the part of the buyer, they are not deemed a bill of exchange and so fall outside the scope of the 'exchange law' (*droit cambiare*).

SWIFT bank transfers, well established in Greek banking circles, are used to settle a growing

proportion of transactions and offer a quick and secure method of payment.

■ Debt collection

The recovery process commences with the debtor being sent a final demand for payment by registered mail reminding him/her of his/her payment obligations, including any interest penalties as may have been contractually agreed or, failing this, those accruing at the legal rate of interest. Under a presidential decree passed on 5 June 2003, interest is due from the day following the date of payment stipulated in the invoice or commercial agreement at a rate – unless the parties agree otherwise – equal to the European Central Bank's refinancing rate, plus seven percentage points.

Creditors may seek an injunction to pay (*diataghi pliromis*) from the court via a lawyer under a fast-track procedure that generally takes one month from the date of lodging of the petition. To engage such a procedure, the creditor must possess a written document substantiating the claim underlying his/her lawsuit, such as an accepted and protested bill, an unpaid promissory letter or promissory note, an acknowledgement of debt established by private deed, or an original invoice summarizing the goods sold and bearing the buyer's signature certifying receipt of delivery. The ruling issued by the judge allows immediate execution, subject to the right granted to

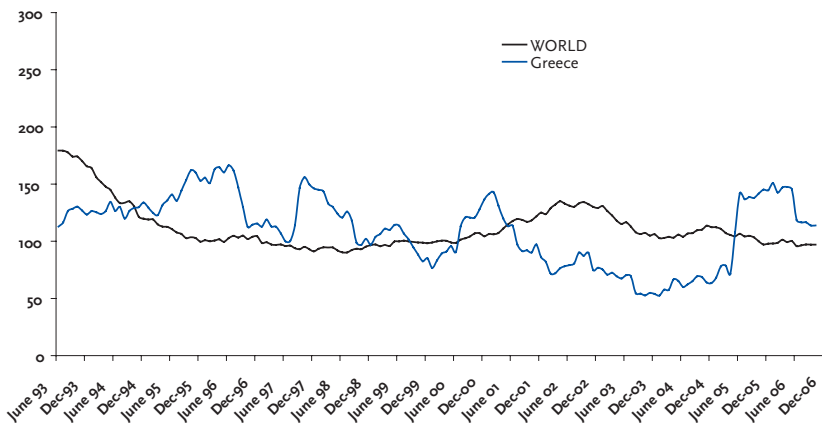
the defendant to lodge an appeal within 15 days. An appeal will generally not have suspensive effect. To obtain suspension of execution, the debtor must petition the court accordingly.

Based on competence thresholds in effect since 1 October 2003, a justice of the peace (*Eirinodikeio*) hears claims up to €12,000. Above that amount, a court of first instance presided by a single judge (*Monomeles Protodikeio*) hears claims not exceeding €80,000 and set up with a panel of three judges (*Polymeles Protodikeio*) to hear larger claims. Regarding the latter court with a collegial composition, conforming to the provisions of the civil procedure code, a prior attempt by the parties to settle

out of court under the aegis of the claimant's lawyer is mandatory, subject to inadmissibility of the claimant's writ.

Where creditors do not have written and clear acknowledgement of non-payment from the debtor, or where the claim is disputed, the only remaining alternative is to obtain a summons under ordinary proceedings. Such litigation can take over a year, even two years, depending on the backlog of cases in each jurisdiction, the complexity of the action, and whether it requires extensive evidence – such as examination of all the documents related to a commercial transaction – and obligatory witness testimonies.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Hungary

Population (million inhabitants) 10.1
GDP (US\$ million) 109,154

Short-term: **A3**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Hungary is one of Central Europe's most advanced countries on reforms.
- Its infrastructure, workforce and regulatory framework are of good quality.
- Its banking system is among the most developed in the region.
- Integration into the EU has enhanced growth prospects.
- Short-term debt has remained limited.

WEAKNESSES

- The public and external financial situation has deteriorated sharply amid high government and foreign debt.
- Private sector foreign currency debt has weakened the banking sector.
- Foreign currency reserves have been relatively low with external financing needs insufficiently covered by foreign direct investment.
- The country's open economy has made it dependent on the economic fortunes of its EU trading partners.
- The deteriorating political situation has made it difficult to implement reforms.

RISK ASSESSMENT

Growth remained relatively high in 2006 even though private consumption began to sag in the second half as a result of fiscal austerity measures announced in June. Investment and exports remain dynamic. Tightening fiscal and monetary policy should, however, cause a marked domestic demand slowdown in 2007. The foreign trade contribution should remain positive with the slowdown of demand for imported goods offsetting reduced dynamism in Europe. Concurrently, inflationary pressures should remain high amid raised VAT and administered prices. Sectors focusing on the domestic market, like commerce and housing could suffer from the contraction of domestic demand, with the financial situation in the food and textile sectors, in particular, already under strain from competitive pressures. The car, electric/electronic

and pharmaceuticals industries have, however, remained buoyant.

Deterioration of public finances has been the economy's main weakness. Although the austerity plan should facilitate reducing the fiscal deficit, government debt will continue to grow with that situation compounded by a large and persistent current account deficit, sharp growth of foreign debt and the rapid expansion of foreign currency debt that has been weakening the private sector and banks.

The forint depreciation in the first half of 2006 was the penalty imposed by the market for that slippage. The currency recovered subsequently due to a pause in the cycle of economic policy tightening in the United States and the raising of Hungary's key rates. The spectre of a currency crisis could, nonetheless, resurface in case of further fiscal

slippage. The political context has been relatively poor with the prime minister's ability to implement

essential structural reforms substantially weakened since the September 2006 anti-government riots.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|------|------|------|------|---------------------|---------------------|
| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
| Economic growth (%) | 4.3 | 4.1 | 4.9 | 4.2 | 3.9 | 2.6 |
| Inflation (%) | 5.3 | 4.7 | 6.8 | 3.6 | 3.7 | 5.9 |
| Public sector balance (%GDP) | -9.1 | -7.2 | -6.5 | -7.8 | -10.1 | -7.4 |
| Unemployment (%) | 5.8 | 5.9 | 6.1 | 7.2 | 7.3 | 7.7 |
| Exports | 34.8 | 43.5 | 56.1 | 61.8 | 67.7 | 75.1 |
| Imports | 36.9 | 46.8 | 59.1 | 63.8 | 69.5 | 76.7 |
| Trade Balance | -2.1 | -3.3 | -3.0 | -2.0 | -1.8 | -1.7 |
| Current account balance | -4.7 | -7.2 | -8.6 | -8.1 | -8.4 | -8.8 |
| Current account balance (%GDP) | -7.2 | -8.7 | -8.6 | -7.4 | -7.8 | -7.0 |
| Foreign debt (%GDP) | 61.6 | 69.9 | 74.6 | 71.6 | 86.4 | 82.8 |
| Debt service (%Exports) | 13.2 | 13.7 | 14.8 | 14.6 | 13.9 | 14.3 |
| Foreign currency reserves (in months of imports) | 2.6 | 2.5 | 2.5 | 2.6 | 2.7 | 2.5 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Following EU membership on 1 May 2004 and the initial difficulties of harmonization with Community regulations, there are no obstacles to trade with Hungary. However, exporters should note the existence of a fairly expensive and lengthy registration procedure for cosmetics. Moreover, vehicle registration tax for used cars purchased in another member state can be fairly high depending on the vehicle's age and pollution rate. Finally, while public procurement legislation complies with Community law, its application is not entirely satisfactory and tendering procedures at times still lack transparency.

■ Attitude towards foreign investors

Mindful of the importance of foreign direct investment in the country's modernization and in the financing of its external trade deficits, Hungary has been quick to develop a foreign investor-friendly legal and economic system. This environment has provided an essential backdrop for the privatizations carried out in the 1990s, while facilitating massive capital inflows into the Hungarian economy (around €50 billion over 15 years).

With the privatization programme almost completed (1570 out of 1700 companies have been privatized), the Hungarian government has nonetheless pursued a proactive policy of maintaining foreign direct investment inflows for the last two years. Its strategy consists in making Hungary a high added-value investment hub and an export-led production base in the region. To this end, the bulk of investment assistance is granted for technology modernization, regional service centres and support services development. Tailored grants encourage investments considered 'strategic' or of 'national importance'. The threshold for grants is €50 million for manufacturing and €10 million for services. Subsidies apart, the cost of labour and taxation should be factored in.

The average monthly wage is €620. Corporation tax stands at 16 per cent and employer social security contributions at 33.5 per cent, which is competitive for this part of Central Europe. Investment in Hungary is unrestricted, regardless of the source of funds or the size of foreign shareholdings. The only restrictions relate to the acquisition of farmland and forests – in respect of which Hungary has obtained a transition period until May 2011 – and the purchase of secondary

residences, for which there is a derogation until May 2009.

■ Foreign exchange regulations

Since the widening of the forint's fluctuation band to +/- 15 per cent in May 2001 (*vis-à-vis* a benchmark of 282 forints to the euro), the Hungarian currency has been subject to a fair degree of fluctuation. It has, however, remained within the top half of its fluctuation band, reaching its ceiling of 240 forints to the euro in April 2005.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange and cheques are not commonly used as their validity depends on compliance with several formal issuing requirements. For dishonoured and duly protested bills and cheques, creditors have recourse to a summary procedure to obtain an injunction to pay.

The promissory note *in blanco* (*üres átruházás*), which involves an incomplete payment deed when issued – with only the term promissory note and the issuer's signature appearing on it – and a complement of missing elements upon collection, is much less common than in Poland.

Bank transfers are by far the most common payment method. After successive phases of privatization and concentration, the main Hungarian banks are now connected to the SWIFT network, which provides low-cost, flexible and speedy processing of domestic and international payments.

■ Debt collection

It is advisable, where possible, to avoid taking legal action locally due to the formalism and high cost of legal procedures and lengthy court proceedings: it takes almost two years to obtain a writ of execution due to the lack of judges with adequate training in market economy practices and proper equipment.

Service of a demand for payment accompanied by proof of debt reminds the debtor of his/her obligation to pay the outstanding sum plus any accrued interest. As of 1 May 2004, interest is due from the day after the payment date stipulated in the commercial contract and, unless otherwise agreed

It has since fallen back somewhat and in September 2006 was trading at 273 forints to the euro, mainly due to a higher than expected budget deficit.

Key interest rates remain high in Hungary. The central bank steadily raised its prime rate during the year to 7.75 per cent in September 2006 from 6 per cent in September 2005. Further increases are possible because of the inflationary pressures created by the austerity plan and the government's declared goal of keeping inflation below 3 per cent.

by the parties, the applicable rate will be the base rate of the National Bank of Hungary (Magyar Nemzeti Bank) in force on the last day preceding the reference half-year, plus seven percentage points.

It is advisable to seek an amicable settlement based on a payment schedule drawn up by a public notary, which includes an enforcement clause that allows creditors, in case of default by the debtor, to go directly to the enforcement stage, subject to acknowledgement by the court of that document's binding nature. With positive proof of debt (acknowledgement of debt, unpaid bill of exchange, dishonoured cheque and so on), creditors may obtain an injunction to pay (*fizetési meghagyás*) via a less-costly summary procedure. This action allows the judge – if he/she considers the petition justified – to grant an injunction without hearing the defendant, enjoining him/her to pay the principal and legal costs within 15 days of service of the ruling (or within three days for an unpaid bill of exchange). The advance on court fees, at the claimant's expense, amounts to 3 per cent of the total claim.

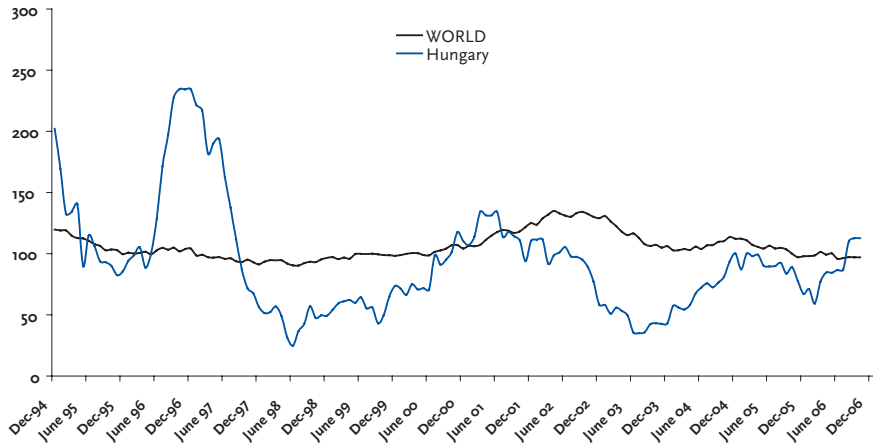
In case of objection by the debtor, the case is treated as a dispute and transferred to ordinary proceedings. The parties will then be summonsed to one or more hearings to plead their respective cases. Ordinary proceedings are partly in writing, with the parties or their attorneys filing submissions accompanied by all supporting case documents (original or certified copies), and partly oral, with the litigants and their witnesses heard on the main hearing date. At any stage of such proceedings and

where possible, the judge may attempt conciliation between the parties.

It is relatively common practice to issue a winding up petition against the debtor immediately to prompt a speedier reaction or payment.

Commercial disputes are heard by the commercial chambers in either the local courts (*Helyi Bíróság*), or the regional courts (*Megyei Bíróság*), depending on the size of the claim.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

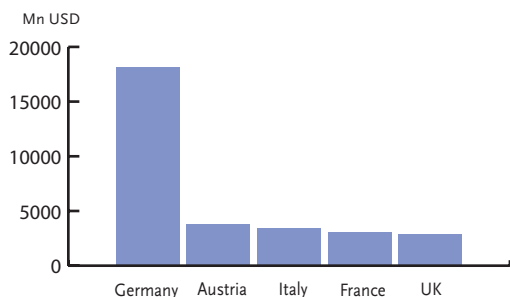
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 32 |
| Public consumption | 15 |
| Investment | 13 |

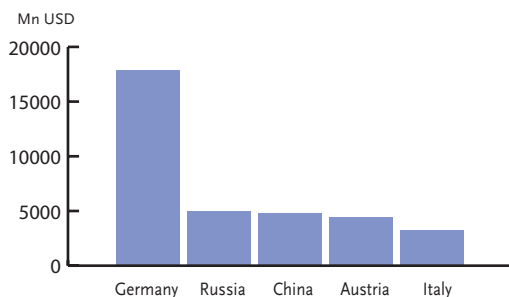
Exports: 68% of GDP

Imports: 69% of GDP

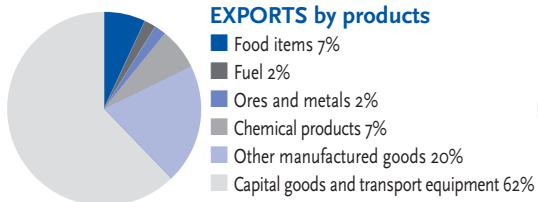
MAIN DESTINATIONS OF EXPORTS



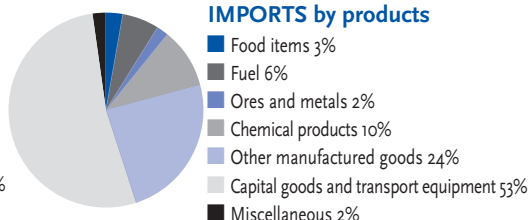
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

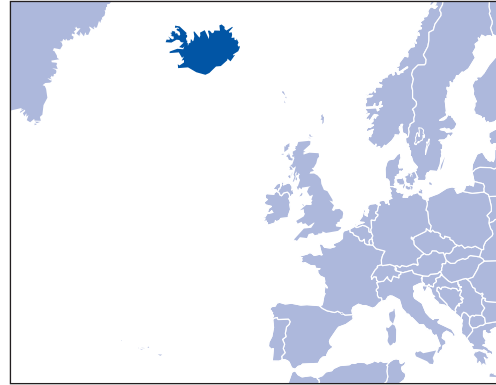


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Hungary | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 16,940 | 9,171 | 5,540 |
| GNP per capita (USD) | 10,030 | 4,834 | 2,117 |
| Human Development Index | 0.862 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 22 | 25 | 30 |
| Urban population percentage | 65 | 63 | 43 |
| Percentage under 15 years old | 16 | 20 | 29 |
| Number of computers per 1000 inhabitants | 146 | 95 | 48 |

Iceland

| | |
|--------------------------|---------|
| Population (inhabitants) | 300,000 |
| GDP (US\$ million) | 15,036 |
| GDP per capita (US\$) | 50,673 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

In 2006, an overheated economy gave way to a marked growth slowdown. Household consumption lost much of its dynamism with tightening monetary policy increasing the cost of credit. The increasing cost of imports linked to the weakening of the krona that accompanied the sudden loss of confidence by foreign creditors in the first quarter and the sharp downturn of property prices also contributed to that unfavourable trend. Stabilization of investment in hydroelectricity and aluminium was responsible for the marked investment slowdown. The current account deficit widened, reaching 20 per cent of GDP under the effect of declining volumes of fish captured and exported (a quarter of total exports).

Economic growth should be flat in 2007. Sagging domestic demand will be primarily a consequence of an investment decline, attributable to completion of aluminium and hydroelectricity infrastructure projects and a residential construction downturn. Despite a reduction of indirect tax

facilitated by a public-sector surplus, household consumption will suffer from the loss of purchasing power, caused by the sharp increase in real interest rates, and by a less favourable wage trend, affected by pressure from immigration. Conversely, the explosion of aluminium exports with the new production capacity put into service will largely offset the decline of fish product sales while the domestic demand slowdown will lead to a reduction of imports.

Corporate profits rose sharply again in 2006 enhancing already satisfactory profitability. The marked economic downturn in 2007 will not affect large companies that have taken measures to diversify their exposure or those operating in the north-east and benefiting from the effects of the new aluminium plants. However, the performance of small and medium companies – above all those specialized in construction and located in the south-west, particularly in the capital area – could suffer.

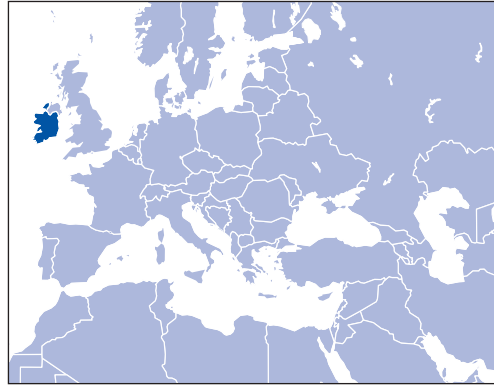
MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|-------|------|------|------|---------------------|---------------------|
| Economic growth | -1.2 | 3.3 | 8.1 | 7.5 | 4.0 | 0.6 |
| Consumption (var) | -1.8 | 5.8 | 7.1 | 12.0 | 5.5 | -1.0 |
| Investment (var) | -25.0 | 26.0 | 34.0 | 60.0 | 8.0 | -35.0 |
| Inflation | 5.2 | 2.1 | 3.2 | 4.0 | 7.0 | 4.6 |
| Unemployment | 3.3 | 3.4 | 3.1 | 1.9 | 1.5 | 2.1 |
| Short-term interest | 8.0 | 5.0 | 6.1 | 9.4 | 12.4 | 13.5 |
| Public sector balance (%GDP) | -0.8 | -2.1 | 0.2 | 5.5 | 6.0 | 2.0 |
| Public sector debt (%GDP) | 43.0 | 41.0 | 35.0 | 28.0 | 20.0 | 18.0 |
| Exports (var) | 3.6 | 1.4 | 8.3 | 7.0 | -3.0 | 12.0 |
| Imports (var) | -2.5 | 10.0 | 14.3 | 29.0 | 5.0 | -11.0 |
| Current account balance (%GDP) | 1.4 | -5.0 | -9 | -16 | -20 | -12.0 |

e = estimate, f = forecast

Ireland

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 4.2 |
| GDP (US\$ million) | 196,388 |
| GDP per capita (US\$) | 47,316 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

The economy remained dynamic in 2006, underpinned by domestic demand. Wage growth, even eroded by significant inflation, and job growth spurred household consumption. Despite a slowdown, investment by companies in equipment that was intended to increase productivity and foster innovation remained robust. Good performance by service exports (40 per cent of total export), particularly in insurance and information technology, was not enough to keep the current account deficit from widening amid the dynamism of imports.

Growth will be just as dynamic in 2007 thanks to still exceptionally buoyant household consumption fuelled by favourable demographics and a massive influx of immigrants from new EU member countries and the United States. Easing inflation and the maturity of subsidized savings accounts will offset weaker job growth. Dynamic public infrastructure spending, fostered by surplus tax revenues derived from property, in conjunction with the dynamism of

civil engineering and industrial and commercial construction, will offset the housing sector slowdown, where soaring prices have been accompanied by increasing household debt. Despite the erosion of competitiveness caused by rising production costs, exports should continue to grow moderately, barring a pronounced slowdown in the US economy, which absorbs half of exports outside the EU, or a collapse of the dollar.

Spurred by undeniable economic dynamism, GDP growth has benefited companies, particularly subsidiaries of foreign high-technology multinationals attracted by the low levels of obligatory social contributions and corporate taxes. The Coface payment incident index, already far below the world average, has thus continued to decline as have bankruptcies, which were down 6 per cent in 2006. Bankruptcies persist nonetheless, particularly in retail and among small recently created players, which have represented one bankruptcy in three.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Although the use of bills of exchange is uncommon in domestic commercial transactions between Irish companies, they are sometimes used in international trade. The cheque, defined as 'a bill of exchange drawn on a bank and payable on demand', is more widely used for commercial transactions but does not provide a foolproof guarantee as issuing an unfunded cheque is not a

criminal offence. On the other hand, SWIFT bank transfers, well established in Irish banking circles, are widely used as they are quick and efficient. Payment orders issued via the website of the client's bank are a rapidly growing instrument.

■ Debt collection

The collection process usually begins with the debtor being sent a final demand, or 'seven-day'

| MAIN ECONOMIC INDICATORS | | | | | | |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
| Economic growth | 6.1 | 4.4 | 4.5 | 5.5 | 5.6 | 5.4 |
| Consumption (var.) | 5.8 | 3.8 | 3.3 | 6.4 | 6.5 | 6.7 |
| Investment (var.) | 2.0 | 2.1 | 8.9 | 12.8 | 6.9 | 5.1 |
| Inflation | 4.7 | 4.0 | 2.3 | 2.3 | 3.1 | 2.7 |
| Unemployment | 4.4 | 4.6 | 4.4 | 4.3 | 4.3 | 4.4 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -0.2 | 0.2 | 1.4 | 1.0 | 1.0 | 0.8 |
| Public sector debt (%GDP) | 32.2 | 31.1 | 29.6 | 27.4 | 25.9 | 25.0 |
| Exports (var.) | 4.1 | 0.7 | 7.0 | 3.9 | 5.8 | 5.4 |
| Imports (var.) | 1.9 | -2.3 | 7.5 | 6.5 | 6.4 | 5.7 |
| Current account balance (%GDP) | -1.0 | 0.0 | -0.8 | -3.0 | -3.7 | -4.2 |

e = estimate, f = forecast

letter, by registered mail asking him/her to pay the principal along with any contractually agreed default interest. Where there is no specific interest clause, the rate applicable to commercial contracts concluded after 7 August 2002 (Regulation number 388, 2002) is the benchmark rate, ie the European Central Bank's refinancing rate, in force before 1 January or 1 July of each year, marked up by seven percentage points and calculated on a daily percentage.

For claims exceeding €1,270, creditors may threaten debtors with a statutory demand for the winding-up of their business if they fail to make payment or come to terms within three weeks after a final demand for payment is sent to them (a '21-day notice'). Thereafter the debtor is regarded as insolvent (Companies Act 1963, amended in 1990, section 214).

Irish law and the Irish legal system are mainly founded on British common law, inherited from the past, although separate national legislation has subsequently been developed.

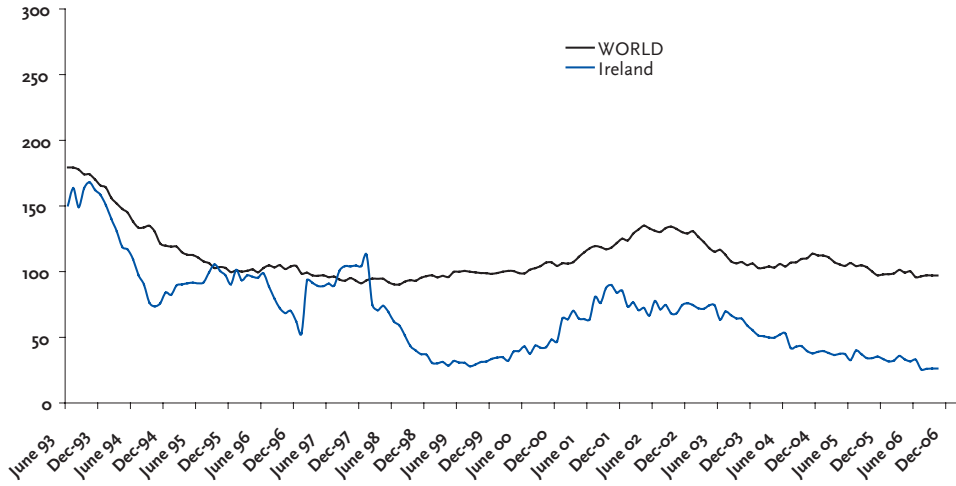
In ordinary proceedings, creditors who hold material evidence of their claim (contractual documents, acknowledgement of debt, unpaid bills of exchange) may seek a summary judgement from the court where their claim is not contested. This allows them to obtain a writ of enforcement more quickly. If a debtor fails to respond to a civil summons before the District Court or a civil bill before the Circuit Court, the creditor may obtain a

judgement by default based on the submission of an affidavit of debt without a court hearing. An affidavit of debt is a sworn statement that substantiates the outstanding amount and cause of the claim. It bears a signature attested by a notary or an Irish consular office. The claim amount at stake will determine the competent court: the District Court, the Circuit Court or, for claims exceeding €38,092.14, the High Court in Dublin, which has unlimited jurisdiction to hear civil and criminal cases and to assess in the first instance the constitutionality of laws enacted by parliament (Oireachtas).

The creation on 12 January 2004 of a commercial court – as a special High Court division – competent to hear commercial disputes exceeding €1 million, included in a commercial list or cases concerning intellectual property, is intended to provide suitable and rapid examination of the cases submitted. When a defendant answers a summons, asserts his/her rights and refuses to make payment, relatively formal plenary proceedings are instituted wherein the court gives equal importance to the case documents submitted by the parties – with possible use of the disclosure system in the submission of evidence – barrister arguments and oral evidence presented at the main hearing.

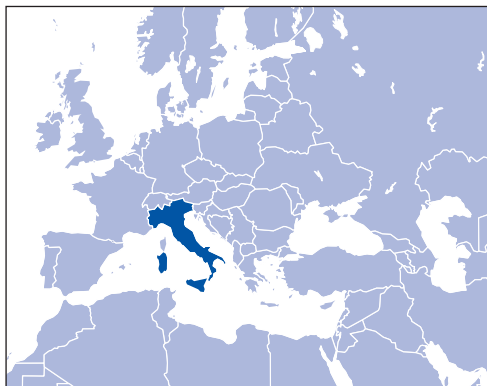
For claims brought before the District Courts (with under €6,348.69 at stake), there is a simplified written procedure, but the accent is mainly on hearing respective litigants' witnesses.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Italy

| | |
|----------------------------------|-----------|
| Population (million inhabitants) | 57.5 |
| GDP (US\$ million) | 1,723,044 |
| GDP per capita (US\$) | 29,981 |



Coface analysis

Short-term: **A2**

STRENGTHS

- The renown of some sectors has partially offset high production costs.
- The SMEs comprising some 200 industrial districts have been a major source of sectoral synergy.
- Italy's exceptional tourist potential has allowed it to withstand competition from new European destinations.
- Labour market reform has contributed to creating jobs and reducing unemployment, even if the employment rate is still low for women and seniors.

WEAKNESSES

- The large proportion of exports with low or medium technology content and with developed countries as markets (75 per cent) has exposed them to exchange rate fluctuation and stiff competition.
- The insufficient means devoted to research and the inadequate penetration of high technology in companies has been largely responsible for insufficient productivity gains.
- Tax evasion and the underground economy have not only impeded public sector financial recovery and covering the debt but have also increased the fiscal burden on taxpayers.
- Administrative and legal procedures are notoriously slow.
- Massive subsidies have not sufficed to close the gap between the south and the rest of the country.

RISK ASSESSMENT

After four years of virtual stagnation, the economy recovered moderately in 2006. Consumption benefited from job and wage growth and the housing sector from a decline in the savings rate. Exports benefited from the improved economic conditions in Europe and an improved product and service offer in both competitiveness and technology content terms. The export recovery, in turn, generated an industrial investment rebound.

A slight slowdown will develop in 2007. Exports should sag due to the economic slowdown in the

United States and Germany (8 and 13 per cent of sales respectively) and from the strengthening of the euro. Capital goods sales (30 per cent of exports) should, nonetheless, continue to enjoy strong demand from emerging countries. Household spending should hold up well, with continued job growth largely offsetting higher interest rates and a moderate increase in taxes. Investment should remain dynamic in view of the accumulated backlog and the need to increase productivity. Public spending, notably on infrastructure, will not be lagging either, particularly in view of railway

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth | 0.3 | 0.1 | 0.9 | 0.1 | 1.7 | 1.4 |
| Consumption (var.) | 0.5 | 1.0 | 0.5 | 0.1 | 2.0 | 1.7 |
| Investment (var.) | -0.1 | -2.3 | 1.7 | -2.0 | 3.7 | 4.6 |
| Inflation | 2.6 | 2.8 | 2.3 | 2.1 | 2.2 | 2.0 |
| Unemployment | 8.7 | 8.6 | 8.1 | 7.7 | 7.1 | 6.8 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -2.9 | -3.5 | -3.5 | -4.2 | -4.7 | -3.3 |
| Public sector debt (%GDP) | 123.5 | 121.4 | 123.0 | 126.0 | 127.0 | 127.0 |
| Exports (var.) | -3.4 | -2.2 | 2.5 | 0.7 | 5.7 | 4.0 |
| Imports (var.) | -0.2 | 1.0 | 1.9 | 1.8 | 4.1 | 3.7 |
| Current account balance (%GDP) | -0.8 | -1.2 | -0.8 | -1.6 | -2.2 | -1.9 |

e = estimate, f = forecast

company recapitalization and high speed line financing. Public sector deficit reduction will, thus, result essentially from increased tax revenues linked to the campaign against tax evasion; increased income tax on high earners; higher employer contributions; and the transfer of retirement savings, managed until now by companies, to the Istituto Nazionale della Previdenza Sociale.

Buoyed by the improved economic conditions, the Coface payment incident index returned to the

level it reached before the sharp deterioration of 2004. Payment incident frequency is, nonetheless, still far above the world average. Domestic, European and extra-European competition has undermined many sectors, including not only traditional sectors like leather and textiles but also the computer industry, consumer electronics (television sets), home appliances and electric cabling, manufacturing, installation and distribution.

MAIN ECONOMIC SECTORS

■ Food industry

The trend has been stable with domestic sales growing, thanks to the improved household financial situation and exports benefiting from the good international economic conditions. Problems linked especially to the relatively small size of companies have persisted, however, undermining their export competitiveness.

■ Car industry

The FIAT group posted an appreciable increase in volume sales in 2006, both in Italy and in Europe, in a not-very-dynamic market. The industrial and commercial vehicle segment also did well. That positive performance, which contributed to debt reduction, along with the strategic alliances set up with partners in emerging countries (India, Russia, China) have made it possible to approach 2007 with confidence in a highly competitive context.

■ Electronics and electrical engineering

Although the sector gave some tentative signs of revival, performance varied substantially by product type. Electric machinery and components along with precision instruments and apparatus posted the most encouraging results with other sectors still experiencing difficulties. The sector still has to contend, however, with rising costs and structural competitiveness problems.

■ Mass distribution

Gradual improvement in the financial situation of households allowed the sector to grow moderately. Discount and megastore chains particularly benefited. Major groups have been banking on the announced liberalization of some sectors (along the lines of pharmaceuticals) to extend their product offer following the lead of European mass

distribution. That strategy and continued good economic conditions will enhance the sector's good prospects in 2007 even though continued high energy prices have had a negative effect on production and logistics costs and, thus, on margins.

■ Textiles, clothing, leather

The economic recovery helped stabilize the situation after the steady decline of production and sales in recent years. That does not yet qualify, however, as a trend reversal. Despite some improvement, exports still lack dynamism. And the domestic market could be better: clothing has great hopes for implementation of country-of-origin

labelling and the shoe segment is counting on adoption of antidumping measures by the EU. However, those measures will not spare companies from future restructuring.

■ Mechanical engineering

Despite rising costs, this sector has maintained a positive trend. Mechanical engineering achieved a significant recovery thanks to the good performance of industrial equipment, spurred by the investment recovery in Italy. Export performance was even better, particularly sales to emerging countries. The favourable trend should continue in 2007.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Trade notes (*cambiali*) are available in the form of bills of exchange or promissory notes. Cambiali must be duly accepted by the drawee and stamped locally at 12/1000 of their value or at 6/1000 if stamped beforehand abroad. In case of default, they constitute *de facto* enforcement orders as the courts automatically admit them as a writ of execution (*esecuzione forzata*) against the debtor. Signed bills of exchange are a fairly secure means of payment but are rarely used on account of the high stamp duty, the somewhat lengthy cashing period and the drawee's fear of damage to his/her reputation caused by the recording and publication of protested unpaid bills at the Chambers of Commerce.

Cheques too are in widespread use since the legislation on cheque amounts was relaxed in April 1990. However, to be cashed abroad, they must bear the wording *non-trasferibile* and include the date and place of issue.

Bank vouchers (*ricevuta bancaria*) are not a means of payment, but merely a notice of bank domicile drawn up by the creditor and submitted by him/her to his/her own bank for presentation to the debtor's bank for the purposes of payment (the vouchers are also available in electronic form, in which case they are known as *R.I.B.A elettronica*). Courts may accept bank vouchers, if signed by the buyer, as acknowledgement of debt. However, they do not have the force of a writ of execution.

Bank transfers are widely used (90 per cent of payments from Italy are made by bank transfer), and in particular SWIFT transfers, as they are considerably faster than ordinary ones. The bank transfer is a cheap and secure means of payment once the contracting parties have established mutual trust.

■ Debt collection

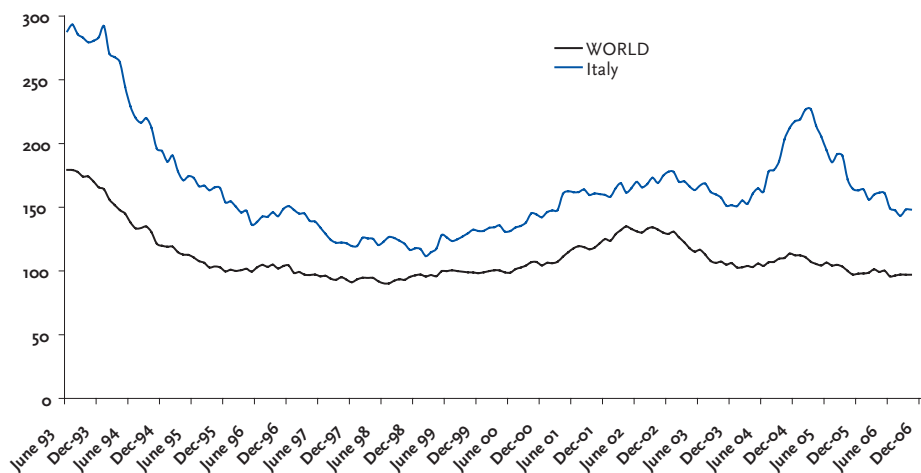
As elsewhere, an out-of-court settlement is always preferable to legal action. Demands and telephone dunning are quite effective, as are onsite visits that provide an opportunity to restore dialogue between supplier and customer, and so to conclude a settlement. Settlement negotiations focus on payment of the principal, plus any contractual default interest as may be provided for in writing and accepted by the buyer. Where there is no such agreement, the rate applicable to commercial agreements concluded after 8 August 2002 (Decree Law of 9 October 2002) is the six-monthly rate set by the Ministry of Economic Affairs and Finance by reference to the European Central Bank's refinancing rate, increased by 7 percentage points.

Failing an out-of-court settlement with the customer, the type of legal action taken will depend on the type of documents justifying the claim. Based on *cambiali notes* – bills of exchange, promissory notes – or cheques, creditors may proceed directly with forced execution beginning

with a demand for payment (*atto di precetto*) served by a bailiff preliminary to attachment of the debtor's moveable and immoveable property, barring receipt of actual payment within the allotted time. The resulting auction proceeds will be used to discharge outstanding claims. Creditors can obtain an injunction to pay (*decreto ingiuntivo*) via a fast-track procedure if they can produce, besides invoice copies, written proof of the claim's existence. The injunction issued by the court will also specify the amount of legal costs, according to an established schedule, payable by the debtor.

Lacking the requisite supporting documents, a creditor must take ordinary legal action to establish his/her right to payment, a process still considered slow despite the civil procedure reform adopted in May 1995. Such proceedings can take up to two years, although the applicant may obtain, during that period, a provisional payment order equivalent to a writ of execution. A recent amendment to the civil code, effective since March 2006, is intended, however, to speed up the pace of proceedings by imposing strict time limits on the parties for submitting evidence and making their case.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Kazakhstan

Population (million inhabitants) 15.2
GDP (US\$ million) 56,088

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- The country boasts the world's eighth-ranked oil reserves and a wealth of other natural resources like gas and metals.
- New pipeline construction and infrastructure investment should make it possible to significantly increase crude exports.
- Among Central Asian countries, Kazakhstan has attracted the most foreign direct investment.
- Public sector finances have been healthy.
- Good relations with Russia, China and the United States together with balanced policy on ethnic minorities may foreshadow a degree of geopolitical stability.

WEAKNESSES

- Economic conditions, public sector finances and the balance of payments will, ultimately, be vulnerable to hydrocarbon prices.
- The focus on raw materials has impeded industrial development.
- Kazakh banks have been borrowing abroad and the volume of non-performing loans has been very high.
- The succession to President Nazarbaev may, ultimately, constitute a source of instability and deter foreign investment.
- The institutional and legal framework still presents large gaps, considering the extent of corruption, the centralized civil service and Kazakhstan's strained relations with foreign investors.

RISK ASSESSMENT

Economic growth has remained very high (over 9 per cent), driven by an expanding oil sector. Foreign direct investment has contributed substantially to the steady increase in oil-production and export capacity and the development of transport infrastructure. The growth has been spreading throughout the economy, thanks to a relatively balanced distribution of oil export revenues. Public sector finances have been healthy with government debt declining steadily.

The very rapid increase in foreign debt contracted by banks and private companies could, however, prove to be a major source of risk in case of a sudden economic downturn precipitated, for

example, by a possible collapse of property or oil prices. The banking sector has been shaky with non-performing loans already at high levels. The economy is, above all, still too dependent on raw materials.

Extensive corruption and a deficient institutional framework have undermined the business environment. Politically the 'colour revolutions' in the CIS have, undeniably, prompted a hardening of the regime of a nonetheless still very popular President Nazarbaev, who was re-elected in December 2005. The unavoidable question of his succession has been an element of uncertainty even though current economic policies will probably remain unchanged whoever becomes the next president.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 9.8 | 9.3 | 9.4 | 9.7 | 9.4 | 9.5 |
| Inflation (%) | 6.6 | 6.8 | 6.7 | 7.5 | 8.8 | 8.9 |
| Public sector balance (%GDP) | 0.2 | -0.9 | -0.2 | 0.6 | 0.5 | 0.3 |
| Exports | 10.0 | 13.2 | 20.6 | 28.3 | 35.5 | 39.1 |
| Imports | 8.0 | 9.6 | 13.8 | 18.0 | 22.0 | 25.5 |
| Trade balance | 2.0 | 3.6 | 6.8 | 10.3 | 13.5 | 13.6 |
| Current account balance | -1.0 | -0.3 | 0.5 | -0.5 | 0.2 | -0.2 |
| Current account balance (%GDP) | -4.9 | -1.2 | 1.7 | -1.2 | 0.4 | -0.3 |
| Foreign debt (%GDP) | 70.3 | 74.0 | 74.8 | 77.1 | 82.8 | 81.3 |
| Debt service (%Exports) | 33.1 | 33.8 | 36.5 | 40.7 | 27.9 | 27.9 |
| Foreign currency reserves (in months of imports) | 2.9 | 3.8 | 4.9 | 4.3 | 4.2 | 4.2 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Kazakhstan is going ahead at its own pace, with reforms designed to haul it, in the words of its head of state, 'among the world's top 50 economies by 2030'. A candidate for WTO accession, the country is still riddled with corruption, bureaucracy, inefficient taxation and social cleavages exacerbated by its economic dynamism. Privatization of state-owned enterprises, albeit rushed from the very outset and incomplete, adoption of liberal legislation and soaring foreign direct investment (almost US\$43 billion at end-2005) reflect the sheer scale of progress achieved.

■ Means of access

Designated a market economy by the EU in 2000 (and the United States in 2002) and characterized by mildly protectionist policies, landlocked Kazakhstan is first and foremost a market for seasoned exporters. With a view to WTO accession, customs duties in the non-farm sector average around 8.2 per cent. Tariff peaks persist in sensitive sectors such as steel (15.2 per cent), toys (15.3 per cent) and furniture (10.2 per cent). Customs clearance is still subject to discretionary practices. A number of products also require certification. The fact that certificates from

non-CIS countries are not valid in Kazakhstan significantly slows down import formalities. The government has undertaken to eradicate illegal practices, but much remains to be done in an economy focused on practically unrestrained enrichment.

■ Attitude towards foreign investors

Kazakhstan still has the biggest volume of foreign direct investment in the CIS, after Russia. Foreign investor interest is driven by the country's oil and gas reserves and undeniable political stability. A new law passed in January 2003 strengthens the government's interventionist powers during a downturn. Higher oil taxes introduced in early 2004 were slightly eased in 2005. In early 2005, retroactive legislation was passed granting the state a preemptive right to mine ore. Due to the sustained improvement in the country's economic situation and soaring commodity prices, relations between the government and foreign investors may be 'rebalanced' in favour of domestic interests, whether public or quasi-public. The private sector, in particular retail, is flourishing on the back of more than five years of sustained economic growth. However, experience shows that investors would do well to take every legal precaution before entering into a joint-venture agreement with local partners.

OPPORTUNITY SCOPE

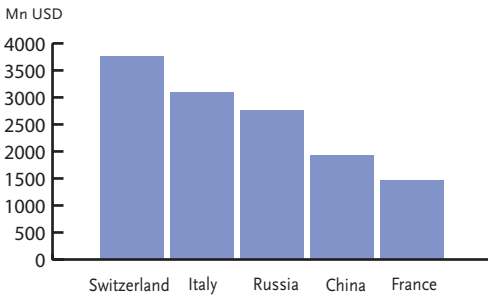
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 44 |
| Public consumption | 8 |
| Investment | 16 |

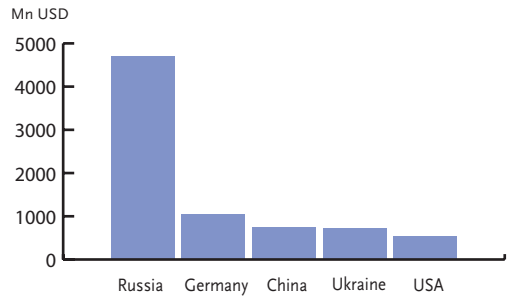
Exports: 55% of GDP

Imports: 45% of GDP

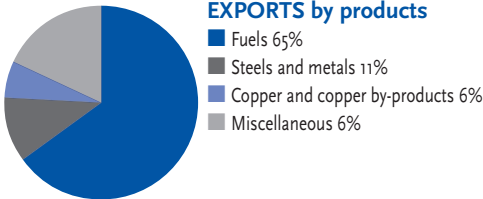
MAIN DESTINATIONS OF EXPORTS



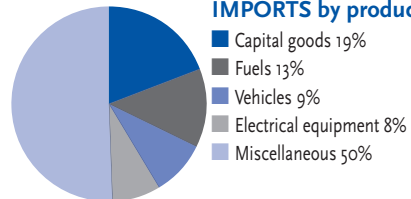
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Kazakhstan | Regional average | DC average |
|--|------------|------------------|------------|
| GNP per capita (PPP dollars) | 7,730 | 9,171 | 5,540 |
| GNP per capita (USD) | 2,930 | 4,834 | 2,117 |
| Human Development Index | 0.774 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 24 | 25 | 30 |
| Urban population percentage | 56 | 63 | 43 |
| Percentage under 15 years old | 23 | 20 | 29 |
| Number of computers per 1000 inhabitants | n/a | 95 | 48 |

Kyrgyzstan

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 5.1 |
| GDP (US\$ million) | 1,909 |
| GDP per capita (US\$) | 374 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

After an economic contraction in 2005, due mainly to political turmoil, positive growth – up 4 per cent – resumed in 2006. The expansion would have been greater (approximately 7 per cent) had it not been for the serious Kumtor gold mine incident in July 2006. Higher growth is expected in 2007 thanks to increased mineral extraction, with GDP growth mainly underpinned by high gold prices (the country's leading export) and robust demand from Russia and Kazakhstan. Transfers of earnings from expatriate workers in those two countries have also buoyed the economy. That has not prevented a substantial increase in external account deficits, attributable to rising energy costs.

The economic situation is still very precarious. Despite tighter fiscal policy and debt restructuring

granted by the Paris Club, foreign debt is still too high. Except for the gold mines, the formal sector is not very developed.

Nearly two years after the Tulip Revolution, the political situation has remained very disquieting. In November 2006, under pressure from the opposition, President Kourmanbek Bakiev had to sign a new constitution making Kyrgyzstan a presidential and parliamentary republic. The political compromise has, however, seemed shaky. The opposition has accused the head of state of nepotism and corruption, and tensions have also been running high within the government itself between the president and his prime minister, Felix Koulov. Their rivalry reflects a profound north-south geographic cleavage.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 ^(f) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 0 | 7.0 | 7.0 | -0.6 | 4.0 | 5.5 |
| Inflation (%) | 2.0 | 3.0 | 4.0 | 4.0 | 6.0 | 5.0 |
| Public sector balance (%GDP) | -5.6 | -4.9 | -4.5 | -3.9 | -3.2 | -3.1 |
| Exports | 498 | 590 | 733 | 687 | 753 | 901 |
| Imports | 552 | 724 | 904 | 1,106 | 1,425 | 1,624 |
| Trade balance | -54 | -134 | -171 | -419 | -672 | -723 |
| Current account balance (%GDP) | -2.6 | -2.8 | -3.2 | -6.0 | -4.4 | -4.4 |
| Foreign debt (%GDP) | 98.8 | 95.1 | 88.2 | 78.6 | 71.7 | 66.3 |
| Debt service (%Exports) | 10.0 | 8.0 | 6.4 | 7.4 | 5.6 | 5.9 |
| Foreign currency reserves (in months of imports) | 4.8 | 4.6 | 5.3 | 4.9 | 4.7 | 4.6 |

f = forecast

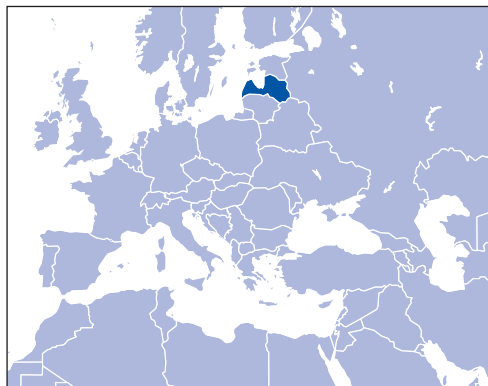
Latvia

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 2.3 |
| GDP (US\$ million) | 15,771 |

Short-term: **A3**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Sweeping reforms and strict policies have been responsible for high growth, with per capita income increasing at a rate among the highest for new EU members.
- Commercial and financial services (particularly transport and telecommunications) have benefited from the country's pivotal geographic position in East-West trade.
- The workforce is skilled.
- Public debt has remained limited.

WEAKNESSES

- Merchandise exports continue to be too concentrated on low added-value products like wood, metals and food products.
- A large current account deficit, attributable in particular to a low domestic saving rate, has led to the sharp growth of foreign debt.
- Persistently high inflation has delayed Latvia's integration into the eurozone.
- Labour shortages have been developing with the resulting wage increases undermining competitiveness.

RISK ASSESSMENT

The growth rate has been very high, buoyed by dynamic domestic demand, which was particularly underpinned by strong real wage growth, a rapid credit expansion and rising European subsidies. Raising interest rates should, however, slow the economy slightly in 2007. On the supply side, the construction and distribution sectors have been particularly dynamic. Economic overheating is a plausible scenario and inflation could remain high. Although Latvia quickly gained admission to the European exchange rate mechanism in May 2005, its adoption of the euro – initially scheduled for 2008 – could be postponed until 2010. The country has, however, complied with Maastricht fiscal criteria, slightly more accommodating policy notwithstanding.

Buoyant domestic demand, coupled with deteriorating terms of trade and a loss of competitiveness by exporting companies, has been exacerbating a troublesome current account deficit. Foreign direct investment, although growing, is still insufficient, covering only 20 per cent of financing needs, on average. The balance is mainly covered by foreign currency borrowing of local banks from their parent banks, which has increased foreign debt and could weaken the banking sector.

The centre-right coalition government's reelection in the October 2006 parliamentary elections – the first since independence – strengthened the country's political stability.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 6.5 | 7.2 | 8.6 | 10.3 | 10.8 | 8.0 |
| Inflation (%) | 1.8 | 2.9 | 6.2 | 6.7 | 6.5 | 5.6 |
| Public sector balance (%GDP) | -2.3 | -1.2 | -0.9 | 0.1 | -1.0 | -1.2 |
| Unemployment (%) | 12.0 | 10.6 | 10.5 | 8.7 | 7.4 | 7.2 |
| Exports | 2,545 | 3,171 | 4,221 | 5,306 | 6,677 | 8,313 |
| Imports | 4,024 | 5,174 | 7,002 | 8,272 | 10,203 | 11,968 |
| Trade balance | -1,479 | -2,003 | -2,781 | -2,966 | -3,526 | -3,655 |
| Current account balance | -624 | -910 | -1,766 | -1,959 | -2,714 | -2,951 |
| Current account balance (%GDP) | -6.7 | -8.1 | -12.9 | -12.4 | -14.5 | -12.7 |
| Foreign debt (%GDP) | 72.7 | 79.1 | 92.7 | 100.7 | 103.2 | 106.2 |
| Debt service (%Exports) | 13.4 | 15.0 | 17.0 | 16.1 | 16.4 | 16.6 |
| Foreign currency reserves (in months of imports) | 3.0 | 2.7 | 2.6 | 2.5 | 2.6 | 2.8 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

With a population of 2.3 million, Latvia remained the poorest country of the enlarged EU in 2006. Per capita GDP is some 55 per cent lower than the European average and, at €417, the average wage is the lowest among the Balkan countries. However, the country's economy is growing steadily and quickly, albeit accompanied by strong inflation.

■ Means of entry

The Latvian market is open and highly competitive and there are no special protectionist measures in place. A WTO member since February 1999, Latvia is one of 10 new members that joined the EU on 1 May 2004 and so applies the common external tariff. Such import prohibitions as exist are common to all member countries. The country's intellectual property laws remain a trifle unsatisfactory.

■ Attitude towards foreign investors

The country is open to foreign investors, with foreign direct investment covering 33 per cent of the current deficit. Since 2004, Latvia has had one

of the lowest rates of corporation tax in the enlarged EU (15 per cent compared with 19 per cent in 2003, 22 per cent in 2002 and 25 per cent in 2001). The new Labour Code, adopted in 2002, is in line with European directives. Social security contributions in general amount to 33.09 per cent of wages, with 24.09 per cent borne by the employer and 9 per cent by the employee. A bilateral double taxation treaty has been in force since 1 May 2001.

■ Foreign exchange regulations

Following the pegging of the lat to the euro on 1 January 2005 and entry into ERM II on 29 April 2005, the central rate of LVL0.72804 to the euro remains unchanged. The Latvian central bank has decided to narrow the lat's fluctuation band against the euro from 15 per cent down to 1 per cent of the central rate. Henceforth, the currency's exchange rate should fluctuate between LVL0.695776 and LVL0.709832 to the euro. EMU entry, originally scheduled for 1 January 2008, has been pushed back to 2010 at the earliest, due to excessively high inflation – the only criterion hampering Latvia's access to the eurozone.

OPPORTUNITY SCOPE

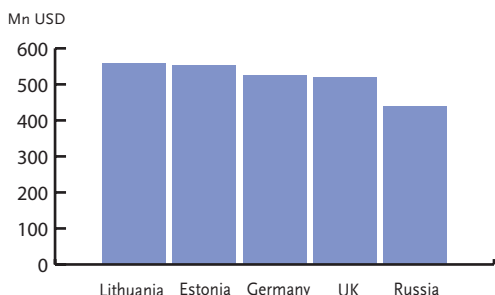
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 41 |
| Public consumption | 14 |
| Investment | 16 |

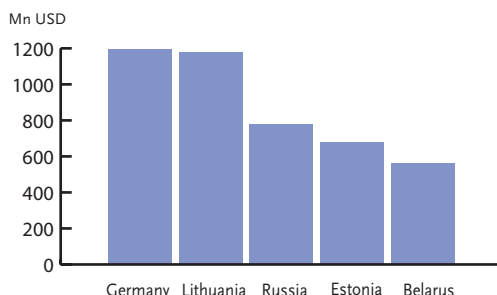
Exports: 35% of GDP

Imports: 43% of GDP

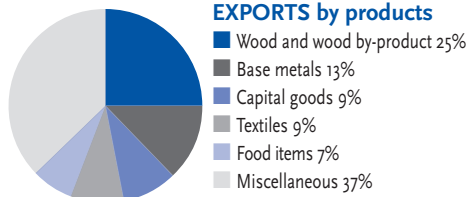
MAIN DESTINATIONS OF EXPORTS



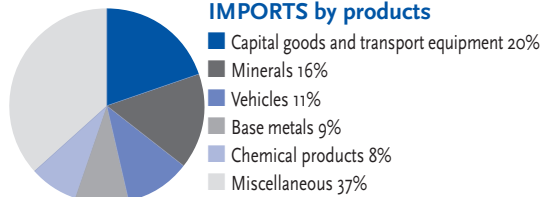
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Latvia | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 13,480 | 9,171 | 5,540 |
| GNP per capita (USD) | 6,760 | 4,834 | 2,117 |
| Human Development Index | 0.836 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 26 | 25 | 30 |
| Urban population percentage | 66 | 63 | 43 |
| Percentage under 15 years old | 15 | 20 | 29 |
| Number of computers per 1000 inhabitants | 217 | 95 | 48 |

Lithuania

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 3.6 |
| GDP (US\$ million) | 25,495 |



Short-term: **A3**

Medium-term:
Low risk

Coface analysis

STRENGTHS

- Lithuania has rapidly modernized its economy and proven capable of meeting the challenges posed by EU integration.
- The country boasts a skilled workforce, constantly improving institutional environment and favourable geographic situation.
- The pursuit of a tight fiscal policy has made it possible to keep public-sector debt at low levels.
- Although increasing, Lithuania's foreign debt has remained smaller than that of most other new European members.

WEAKNESSES

- The growing current account deficit needs watching.
- An ageing population and a substantial flow of emigration will pose a risk for public sector finances and the growth outlook.
- A dynamic credit market and the growth of foreign currency debt, particularly short-term, has somewhat increased banking risk.
- Increasing inflation continues to delay adoption of the euro.

RISK ASSESSMENT

Robust domestic demand continues to drive economic growth, with consumption buoyed by increasing real wages, tax reductions and a credit expansion. An increase in European funds, meanwhile, has spurred investment, notably benefiting the construction sector. A slight downturn will be likely in 2007 amid rising interest rates and a property market slowdown. Rising energy costs, which should continue in 2007 with the raising of prices for imported Russian gas, has contributed to the upsurge in inflation. Adoption of the euro, initially scheduled in January 2007, will therefore be unlikely to take place before 2010. Despite a more expansionary fiscal policy, however, the country has complied with the other Maastricht criteria.

As well as a worsening trade deficit, the slowdown of service exports (tourism and transport) has

contributed to widening the current account deficit. With the privatization programme just drawing to a close, foreign direct investment has been covering an insufficient portion of external financing needs. Foreign debt has covered the balance of those needs, which has entailed a growing proportion of short-term debt in the form of commercial loans and borrowing by local banks from their foreign parent banks.

Brought to power in July 2006 after accusations of corruption prompted the labour government's resignation, the current coalition has a minority in parliament and will be unlikely to survive until the next legislative elections, which are due in October 2008.

Internationally, relations with Russia have been strained due to the agreement to sell the Mazeikiu Nafta refinery to a Polish company and interruption of Russian oil deliveries to that refinery.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 6.9 | 10.3 | 7.3 | 7.6 | 7.3 | 6.5 |
| Inflation (%) | 0.3 | -1.2 | 1.2 | 2.7 | 3.7 | 4.4 |
| Public sector balance (%GDP) | -1.5 | -1.3 | -1.5 | -0.5 | -1.0 | -1.2 |
| Unemployment | 13.8 | 12.4 | 11.3 | 8.3 | 6.2 | 5.5 |
| Exports | 6,028 | 7,658 | 9,306 | 11,776 | 14,100 | 16,990 |
| Imports | 7,343 | 9,362 | 11,689 | 14,712 | 17,920 | 21,220 |
| Trade balance | -1,315 | -1,704 | -2,383 | -2,936 | -3,820 | -4,230 |
| Current account balance | -721 | -1,278 | -1,725 | -1,851 | -2,825 | -3,315 |
| Current account balance (%GDP) | -5.1 | -6.9 | -7.7 | -7.2 | -9.9 | -9.5 |
| Foreign debt (%GDP) | 43.9 | 44.9 | 46.5 | 48.9 | 55.7 | 53.8 |
| Debt service (%Exports) | 14.1 | 15.8 | 13.9 | 15.4 | 15.3 | 14.7 |
| Foreign currency reserves (in months of imports) | 3.3 | 3.6 | 3.0 | 2.5 | 2.6 | 2.7 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The country continues to post strong economic growth, make headway in convergence and strengthen purchasing power. The average gross monthly wage in spring 2006 was approximately €440. Domestic consumption is the main driver of growth on the back of soaring investment.

■ Means of entry

Since EU accession on 1 May 2004, Lithuania has been a member of the European single market – a very open and competitive market in its own right. Excise duties and levies apply to a mere handful of products, including alcoholic beverages and oil. Certain products may be imported only by licence holders. It is no longer difficult to obtain a licence, particularly for alcoholic beverages.

A new EU-compliant public procurement law has been in force since 2003. Competition law, too, is in line with EU criteria. Henceforth, their enforcement will have to be monitored. For settlements, bank transfers and short-term credit are increasingly used and have all but replaced pre-payment and documentary credit.

■ Attitude towards foreign investors

The principle of national treatment is applied to foreign investors and there are no cases of discrimination to report. Lithuania remains attractive to foreign investors largely because of its 15 per cent corporation tax. Those who have met their tax obligations are free to repatriate profits, income and dividends derived from their activities.

The workforce is highly skilled and wage costs, although low, are rising rapidly. The service sector offers the highest wages. Employer and employee social security contributions – payable to the country's social security agency, Sodra – are 31 and 3 per cent of gross wages respectively. Foreign investors, as a whole, appreciate the overall business climate in Lithuania. A combination of factors makes the country attractive, including proper regulatory framework, low taxation, good infrastructure and skilled labour.

■ Foreign exchange regulations

The Lithuanian currency, the litas, has been tied to the euro at a fixed rate (€1:LTL3.4528) since 1 February 2002. Numerous Lithuanian firms hold euro-denominated accounts. Lithuania entered ERM II in June 2004, however, its entry into the eurozone – initially scheduled for early 2007 – will now not take place before 2010 at the earliest, due to the difficulties it is having in keeping a lid on rising prices.

OPPORTUNITY SCOPE

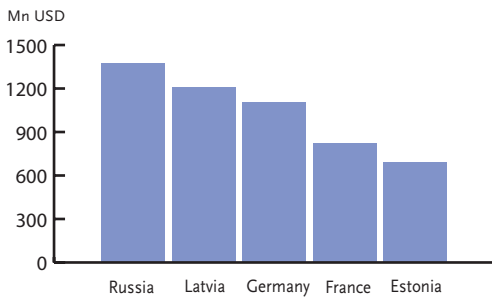
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 41 |
| Public consumption | 12 |
| Investment | 14 |

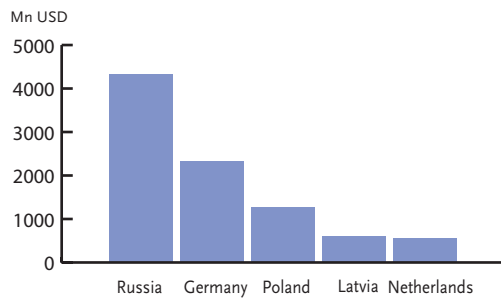
Exports: 53% of GDP

Imports: 58% of GDP

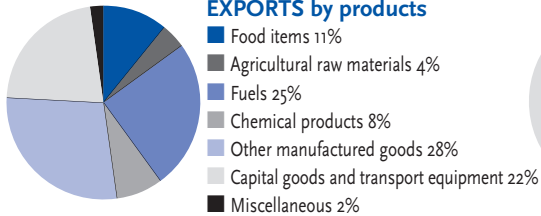
MAIN DESTINATIONS OF EXPORTS



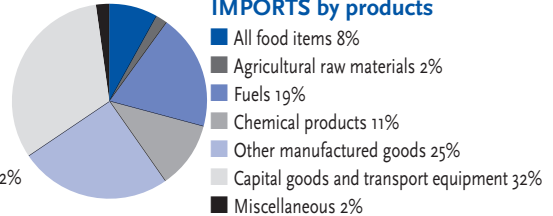
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Lithuania | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 14,220 | 9,171 | 5,540 |
| GNP per capita (USD) | 7,050 | 4,834 | 2,117 |
| Human Development Index | 0.852 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 25 | 25 | 30 |
| Urban population percentage | 67 | 63 | 43 |
| Percentage under 15 years old | 17 | 20 | 29 |
| Number of computers per 1000 inhabitants | 155 | 95 | 48 |

Luxembourg

| | |
|--------------------------|---------|
| Population (inhabitants) | 500,000 |
| GDP (US\$ million) | 33,779 |
| GDP per capita (US\$) | 67,558 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

A financial sector representing 30 per cent of value added in the country contributed substantially to the improvement in economic conditions in 2006. Exports benefited not only from the strong performance of financial services but also from the recovery of steel-product deliveries, which habitually generate a third of sales abroad. Household consumption was steady, buoyed by an improved employment picture across all sectors, except industry, and by an exceptional 7.5 per cent wage growth. Corporate investment registered a satisfactory increase.

Growth will slow in 2007, affected by sagging consumption by households whose purchasing power will decline. The adjustment measures planned by the government include a reduction of social benefits, along with increased VAT for some services. Moreover, the public sector's wage moderation policy could spread to other economic sectors, and the many layoffs and restructuring programmes announced by several companies have compounded the negative impact on household confidence. Although unemployment will stabilize, job creation, although slowing somewhat, will continue to mainly benefit the third of the workforce living in border areas.

Although less robust, foreign demand will remain dynamic. Exports will then stall, reflecting the less buoyant economic conditions in the United States and the eurozone. Investment growth will slow. The adjustment measures taken by the government will make it possible to substantially reduce the public sector deficit.

Bearing out a good Coface payment incident index, bankruptcies declined again in 2006 after a brief interruption of their downward trend in 2005. The financial-services, construction, transport and communication sectors have, in general, registered good solvency contrary to the weaker sectors that provide services to companies and private individuals. Performance in industrial sectors, except steel, has been sagging particularly in those focusing on consumer goods production. As regards construction and public works, meanwhile, civil engineering continues to struggle through a difficult period, whereas residential construction has remained dynamic with non-residential improving slightly. Wholesale and retail trade has been growing except, however, for food specialists that continue to drag down sector performance.

MAIN ECONOMIC INDICATORS

| % | 2001 | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 3.6 | 2.0 | 4.2 | 4.0 | 5.5 | 4.0 |
| Consumption (var.) | 6.1 | 2.1 | 2.8 | 3.4 | 3.4 | 2.5 |
| Investment (var.) | 0.4 | 2.3 | 1.5 | 2.2 | 4.2 | 3.1 |
| Inflation | 2.5 | 2.2 | 2.4 | 3.6 | 2.7 | 2.1 |
| Unemployment | 2.9 | 3.7 | 4.2 | 4.2 | 4.5 | 4.5 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | 2.1 | 0.2 | -1.1 | 1.0 | -1.7 | -0.9 |
| Public sector debt (%GDP) | 6.5 | 6.3 | 6.6 | 6.1 | 7.6 | 7.3 |
| Exports (var.) | 2.8 | 3.5 | 10.1 | 8.9 | 15.0 | 9.1 |
| Imports (var.) | 1.8 | 4.9 | 9.8 | 9.4 | 12.7 | 9.4 |
| Current account balance (%GDP) | 11.6 | 7.5 | 11.8 | 11.8 | 10.8 | 12.8 |

e = estimate, f = forecast

Macedonia

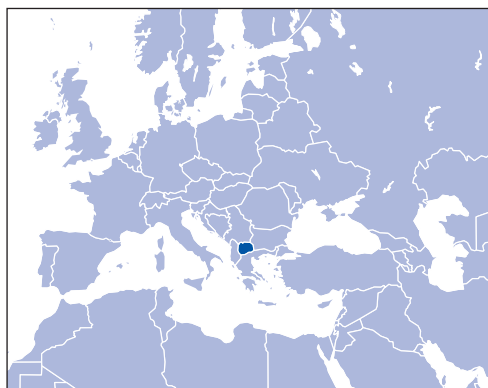
| | |
|----------------------------------|-------|
| Population (million inhabitants) | 2.0 |
| GDP (US\$ million) | 5,762 |
| GDP per capita (US\$) | 2,833 |

Short-term: **C**

Medium-term:

High risk

Coface analysis



RISK ASSESSMENT

Despite a slowdown in manufacturing and construction, the economy was dynamic in 2006, driven particularly by the transport and retail sectors. Economic conditions should remain buoyant in 2007 amid robust consumption and strengthening investment, which should benefit from the low interest rate levels, renewed confidence of economic players, rising real incomes, expatriate worker remittances, tax reductions and reforms undertaken by the government. The robust domestic demand and sagging exports should result in a widening current account deficit that capital inflows, notably foreign direct investment, will cover without difficulty.

Adoption of prudent policies has made it possible to improve the macroeconomic situation

even if there are still many structural weaknesses, such as insufficient diversification of exports (still centred on metals and clothing), a relatively inflexible labour market, inelastic public spending and a weak legal system.

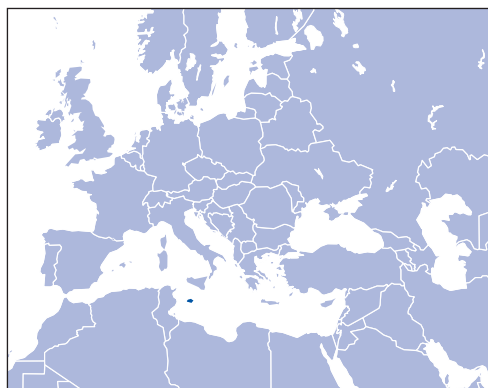
The political situation has rapidly stabilized since the signing of the Ohrid Framework Agreement in 2001, which put an end to interethnic confrontations. The coalition government formed after the July 2006 elections no longer includes the country's main Albanian party, which could rekindle tensions. Renewed armed conflict appears unlikely, however, at this juncture. The EU accession process, meanwhile, could prove long, particularly in view of the conditions set by the EU for starting negotiations.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 0.9 | 2.8 | 4.1 | 4.0 | 3.8 | 4.5 |
| Inflation (%) | 2.3 | 1.1 | 1.1 | 0.0 | 3.3 | 2.9 |
| Public sector balance (%GDP) | -5.6 | -0.1 | 0.4 | 0.3 | -0.6 | -1.2 |
| Exports | 1,112 | 1,363 | 1,672 | 2,039 | 2,301 | 2,604 |
| Imports | 1,917 | 2,211 | 2,785 | 3,096 | 3,575 | 4,088 |
| Trade balance | -804 | -848 | -1,112 | -1,056 | -1,273 | -1,483 |
| Current account balance (%GDP) | -9.4 | -3.2 | -7.7 | -1.4 | -3.1 | -3.9 |
| Foreign debt (%GDP) | 39.4 | 37.7 | 40.2 | 47.1 | 45.7 | 46.3 |
| Debt service (%Exports) | 19.5 | 16.4 | 10.3 | 8.9 | 17.6 | 13.8 |
| Foreign currency reserves (in months of imports) | 3.8 | 4.1 | 3.2 | 3.9 | 5.4 | 5.3 |

Malta

| | |
|--------------------------|---------|
| Population (inhabitants) | 400,000 |
| GDP (US\$ million) | 5,570 |
| GDP per capita (US\$) | 13,783 |



Short-term: **A3**

Medium-term:
Low risk

Coface analysis

RISK ASSESSMENT

Growth was stable in 2006, spurred by rising domestic demand, which rose at the same pace as consumption that was itself driven by job creation and a consumer credit expansion. Investment remained dynamic thanks to construction of a hospital and implementation of other projects financed by European funds. The foreign trade contribution remained negative however. Goods and services only managed a moderate recovery, due notably to the mixed performance of tourism, with imports spurred by domestic demand, the increasing cost of oil and special operations like ship purchases and construction of transport infrastructure.

Boosted by real wage growth, consumption should continue to drive the economy in 2007. Moreover, exports should continue to improve with the good performance of the semi-conductor sector and pharmaceutical industry. On the other hand, completion of the hospital construction should result in an investment slowdown.

Small and very open, the Maltese economy continues to be vulnerable to exogenous shocks. The external account imbalance should persist at a high level with capital flows from the European budget only financing a limited portion. The country will have to continue its efforts on fiscal matters – public debt still represents nearly 70 per cent of GDP – if it wishes to qualify for the eurozone by 2008.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|--------|---------------------|---------------------|
| Economic growth (%) | 1.5 | -2.4 | 0.0 | 2.2 | 2.3 | 2.1 |
| Inflation (%) | 2.6 | 1.9 | 2.7 | 2.5 | 3.0 | 2.6 |
| Public sector balance (%GDP) | -5.5 | -10.0 | -5.0 | -3.2 | -2.9 | -2.7 |
| Exports | 2,311 | 2,503 | 2,672 | 2,458 | 2,546 | 2,676 |
| Imports | 2,668 | 3,189 | 3,624 | 3,662 | 3,878 | 4,088 |
| Trade balance | -357 | -686 | -952 | -1,204 | -1,332 | -1,412 |
| Current account balance (%GDP) | 1.3 | -4.6 | -7.7 | -10.9 | -10.9 | -10.9 |
| Foreign debt (%GDP) | 44.7 | 42.4 | 52.7 | 55.2 | 54.6 | 55.9 |
| Debt service (%Exports) | 3.6 | 2.9 | 3.2 | 4.4 | 4.6 | 4.4 |
| Foreign currency reserves (in months of imports) | 6.2 | 6.6 | 6.1 | 5.4 | 5.8 | 5.6 |

e = estimate, f = forecast

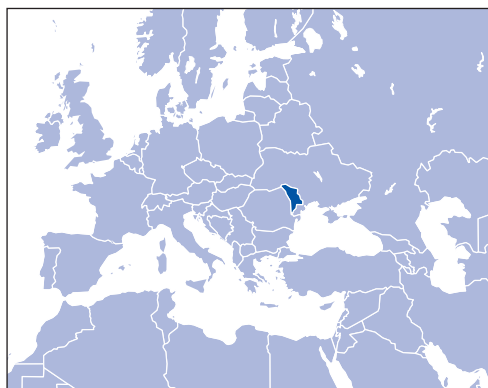
Moldova

Population (million inhabitants) 4.2
GDP (US\$ million) 2,906

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

The higher prices for imported gas and the trade restrictions imposed by Russia, notably on the sale of wine, were a major cause of a growth slowdown, deterioration of external accounts and an upsurge of inflation. The sizeable trade deficit is also attributable to robust demand for imported consumer products. Those shocks could affect government solvency. In May 2006, however, the country reached agreement with the Paris Club on restructuring its foreign debt. Moreover, a new agreement concluded with the IMF should guarantee an increase in international financial aid.

The Moldovan economy has remained insufficiently diversified (with agriculture still generating nearly 20 per cent of GDP) and excessively

dependent on both expatriate worker remittances and Russia in both trade and energy terms.

The political climate has appeared calmer than it has been in the past as a result of the partnership forged between the Communist and Popular Christian Democratic parties in the wake of the March 2005 legislative elections. Although compliance with the Action Plan agreed with the EU has remained a priority objective for the government, the country's limited administrative capacity and weak appetite for reform – particularly as regards modernizing the legal system and combating corruption – could hamper its implementation. Meanwhile, Moldova has to contend with the cooling of its relations with Russia and the dissidence of the Transnistria region.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|--------|---------------------|---------------------|
| Economic growth (%) | 7.8 | 6.6 | 7.4 | 7.1 | 4.0 | 5.0 |
| Inflation (%) | 5.3 | 11.7 | 12.5 | 11.9 | 12.8 | 10.0 |
| Public sector balance (%GDP) | -1.4 | 0.2 | 0.8 | 1.7 | -0.8 | -1.5 |
| Exports | 660 | 805 | 994 | 1,104 | 1,180 | 1,331 |
| Imports | 1,038 | 1,428 | 1,748 | 2,295 | 2,743 | 3,085 |
| Trade balance | -378 | -623 | -754 | -1,191 | -1,563 | -1,753 |
| Current account balance (%GDP) | -4.5 | -7.1 | -2.0 | -10.5 | -13.4 | -13.3 |
| Foreign debt (%GDP) | 101.3 | 89.2 | 64.6 | 54.7 | 51.3 | 49.7 |
| Debt service (%Exports) | 18.2 | 12.3 | 12.9 | 11.9 | 8.5 | 7.6 |
| Foreign currency reserves (in months of imports) | 2.3 | 2.0 | 2.5 | 2.5 | 2.2 | 2.5 |

Montenegro

| | |
|-----------------------|---------|
| Population | 650,000 |
| GDP (US\$ million) | 2,046 |
| GDP per capita (US\$) | 3,148 |

Short-term: **C**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

Montenegro declared its independence in June 2006 after deciding by referendum to separate from Serbia. That referendum, and then the parliamentary elections three months later, strengthened the Democratic Party of Socialists leading the government coalition. Cooperation with the IMF and the start of negotiations with the EU on a stabilization and association agreement should bolster government reform efforts.

Growth accelerated in 2006, spurred by the dynamic construction, transport and tourism sectors. The strong domestic demand underpinning the economy is attributable to the robust expansion of a previously little-developed credit market. Those good economic conditions should continue in 2007, buoyed by structural reforms that have, notably, led to the restructuring of a banking sector now largely

owned by foreign capital. The switch from the Yugoslavian dinar to the German mark as legal tender and then, in January 2002, to the euro has allowed the country to stabilize inflation at a low level. The fiscal reforms undertaken and the prudence exercised by government authorities have allowed them to increase and secure public revenues and stabilize spending that has, nonetheless, remained largely inelastic. Public debt has been declining.

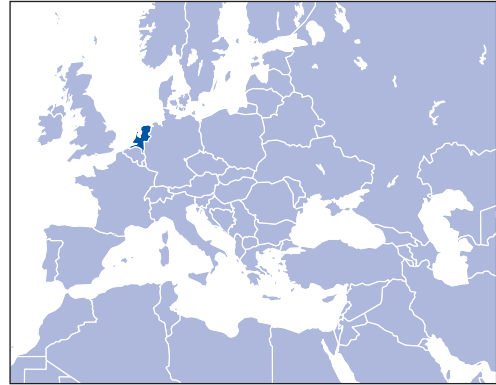
Despite rising tourism revenues, however, external accounts deteriorated again in 2006 with imports rising sharply, particularly services. Although goods exports – with aluminium sales representing half the total – have been growing rapidly, they still only represent 45 per cent of merchandise imports. Capital inflows, particularly in the form of foreign direct investment, have covered the country's financing needs. Foreign debt remains limited however.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 1.7 | 2.4 | 3.7 | 4.1 | 5.5 | 5.9 |
| Inflation (%) | 17.8 | 7.9 | 3.3 | 3.4 | 2.4 | 2.9 |
| Public sector balance (%GDP) | n/a | -5.4 | -2.7 | -1.6 | -0.2 | -0.3 |
| Exports | 305 | 306 | 562 | 517 | 651 | 696 |
| Imports | 706 | 712 | 1,080 | 1,216 | 1,471 | 1,667 |
| Trade balance | -401 | -406 | -518 | -699 | -820 | -971 |
| Current account balance (%GDP) | -12.3 | -7.1 | -7.8 | -12.2 | -12.6 | -13.5 |
| Foreign debt (%GDP) | 69.4 | 35.6 | 39.2 | 41.6 | 43.7 | 45.0 |
| Debt service (%Exports) | n/a | n/a | n/a | n/a | n/a | n/a |
| Foreign currency reserves (in months of imports) | n/a | 0.8 | 0.7 | 1.8 | 1.6 | 1.6 |

The Netherlands

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 16.4 |
| GDP (US\$ million) | 594,755 |
| GDP per capita (US\$) | 36,249 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

Accelerating domestic demand and very dynamic exports fuelled the economic recovery in 2006. Several factors spurred household consumption including income tax reductions, a wealth effect produced by rising property prices, and buoyant job growth. Exports and re-exports benefited greatly from the good economic conditions in Europe, particularly in Germany (the Netherlands' main trading partner), markedly improving the current account surplus.

With all economic growth components still trending up only a moderate slowdown should develop in 2007. Further income-tax reductions, along with wage and job growth, will prompt households to continue spending. Moreover, the

likely abolition in the more or less long term of the rule making property loan interest totally deductible should benefit the new residential housing market, despite the current high level of indebtedness. In a tight job market, companies will continue to contend with a shortage of skilled labour. To improve productivity they will continue to invest, although at a moderate pace, underpinned by their good earnings performance and advantageous tax breaks. The marked geographic specialization of exports toward the EU at the expense of emerging countries will tend to limit their growth. Royalties from natural-gas exploitation, indirect taxes, corporate income tax and the spending ceilings written into the budget will facilitate keeping the public-sector deficit stable.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 0.1 | -0.1 | 1.7 | 1.5 | 2.9 | 2.6 |
| Consumption (var.) | 0.9 | -0.7 | 0.0 | 0.7 | -0.9* | 2.5 |
| Investment (var.) | -7.6 | -4.0 | 4.2 | 3.6 | 4.5 | 4.7 |
| Inflation | 3.9 | 2.2 | 1.3 | 1.6 | 1.4 | 1.8 |
| Unemployment | 2.9 | 4.0 | 4.9 | 5.4 | 4.8 | 4.0 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -2.0 | -3.2 | -2.1 | -0.3 | -0.3 | -0.1 |
| Public sector debt (%GDP) | 50.5 | 51.9 | 52.6 | 52.6 | 50.5 | 47.9 |
| Exports (var.) | 0.9 | 2.0 | 8.5 | 5.5 | 8.1 | 6.8 |
| Imports (var.) | 0.3 | 2.0 | 7.8 | 5.1 | 8.0 | 7.0 |
| Current account balance (%GDP) | 2.9 | 2.8 | 3.3 | 7.1 | 7.5 | 7.7 |

* health spending in national accounts as public rather than private consumption caused a mechanical decline in household consumption of about three percentage points (1 January 2006 health insurance reform)

e = estimate, f = forecast

The decline of company bankruptcies that began in the second half of 2005 continued in 2006 (down 10 per cent), with companies benefiting from the improved economic conditions and renewed domestic consumption. Bearing out that trend, the Coface payment incident index declined during the

period while remaining below the world average. Companies will continue to enjoy good financial health in 2007, particularly in chemicals, construction and high technology. Consumer electronics, computer equipment and software, and textiles will remain weak.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange are rarely used in the Netherlands because it is not standard business practice to do so. As in Germany, they signal mistrust on the part of the supplier and so are incompatible with the climate of trust needed to maintain a stable business relationship. Cheques, too, are little used. They are an unreliable means of payment as they can be cashed only if covered. Consequently, issuing an uncovered cheque is not a criminal offence and those on the receiving end of a bounced cheque incur rather high bank charges.

Under Dutch law, bills of exchange and cheques serve mainly to substantiate the existence of a debt.

By contrast, bank transfers (*Bankgiro*) are by far the most common means of payment. All leading Dutch banks are linked to the SWIFT electronic network, which provides low-cost, flexible and speedy processing of international payments.

Centralizing accounts, based on a centralized local cashing system and simplified management of fund repatriation, are also widely used.

■ Debt collection

The collection process begins with the debtor being served with a formal demand for the payment of principal plus accrued interest. This is followed, where necessary, by the service of a summons to pay by bailiff or solicitor. Where the sales agreement makes no mention of the interest rate, from 1 December 2002 the rate of interest applicable is the European Central Bank's refinancing rate, marked up by seven percentage points. The rate in force before the first day of the six-monthly period concerned applies throughout that period.

In the absence of payment or an agreement, creditors may engage a local lawyer to initiate legal proceedings. The Dutch legal system allows

lawyers to act as both barristers and solicitors: as solicitors they practise within the jurisdiction of their registration; as barristers they may plead cases before any court in the country.

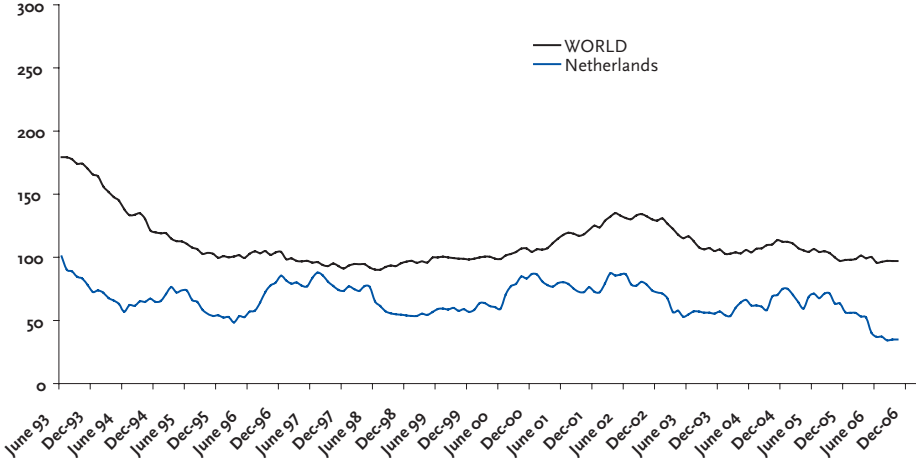
Before initiating legal proceedings, effective pressure can be brought to bear on a debtor by means of a winding-up petition. Such petition can succeed without much difficulty provided two conditions are met: the applicant has submitted evidence of payment default on an undisputed debt claim to the civil court – there are no commercial courts – and a second claim of any kind (commercial, alimony, tax debt and so on) exists. Another procedure, also reserved for undisputed claims, involves recourse to a simplified fast-track procedure (*kort geding*) that is in relatively widespread use, especially for civil claims. With that procedure, the parties often accept the provisional award granted by the judge as final, thereby putting an end to the dispute. The summary ruling thus obtained results in provisional execution even if the debtor lodges an appeal.

Ordinary proceedings in which both parties are heard are, for the most part, based on written submissions, with a simplified procedure before a district court (*Kantongerecht*) for claims under €5,000. Larger claims are heard by a court of first instance (*Rechtbank*), whereby both parties argue their case via written submissions. Unless the parties expressly request the right to make an oral submission, which is rarely the case, the judge bases his/her ruling on the principal case documents provided by the parties after they have appeared in court (notably to seek an amicable settlement). For complex cases requiring special examination, the judge will follow a more formal procedure based on the examination of each litigant's brief and counter-briefs. In such matters, the judge will carefully

assess the parties' compliance with the general terms and conditions of sale appearing on invoices and purchase orders, as they form the legal framework of the commercial contract and, thus, play a crucial role in the proceedings.

Finally, recourse to arbitration is common in the Netherlands. Most arbitration bodies work in specific fields and arbitrators are often selected from among specialist lawyers. Arbitral awards tend to be based on equity, rather than on legal, considerations.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Norway

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 4.6 |
| GDP (US\$ million) | 283,920 |
| GDP per capita (US\$) | 61,475 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

In a country where a quarter of national production and half of industrial production are directly or indirectly linked to hydrocarbon exploitation (third largest world exporter), it is no surprise that 2006 was another year of robust growth. Household consumption and housing investment benefited substantially from wage increases, rising property values and low interest rates. Traditional exports benefited from buoyant world demand and a weakening krone. In that context, corporate investment rose strongly amid high-capacity utilization rates.

A moderate slowdown in 2007 will not prevent the economy from continuing to grow at a good pace, nearer to its potential. Traditional exports will suffer somewhat from the world slowdown while investment

should level off, including in the residential and hydrocarbon sectors. Private consumption will remain dynamic with the tight monetary policy already initiated by the Central Bank offset by further increases in incomes, spurred by a shortage of available manpower. Fiscal policy will, furthermore, remain slightly accommodating, bolstered by the annual tapping of the pension fund (that may reach 4 per cent of that fund), itself fed by oil receipts and whose balance currently exceeds €200 billion.

Company profitability has been good including in the sector exposed to international competition, with the entire economy benefiting from the excellent oil-sector performance. This was reflected by a further decline in bankruptcies, down 25 per cent in 2006, and a very good Coface payment incident index. Vehicle distribution has, however, shown some weakness.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth * | 1.5 | 1.4 | 3.8 | 3.7 | 3.5 | 2.7 |
| Consumption (var.) | 3.0 | 2.9 | 4.7 | 3.4 | 3.7 | 3.3 |
| Investment (var.) | 4.6 | -4.9 | 6.1 | 9.7 | 10.0 | 3.4 |
| Inflation | 1.3 | 2.5 | 0.5 | 1.5 | 2.2 | 1.9 |
| Unemployment | 3.9 | 4.5 | 4.5 | 4.6 | 4.0 | 3.8 |
| Short-term interest | 6.9 | 4.1 | 2.0 | 2.3 | 3.3 | 3.9 |
| Public sector balance (%GDP) | 9.2 | 7.6 | 11.4 | 16.0 | 17.1 | 17.0 |
| Public sector debt (%GDP) | 40.0 | 50.0 | 52 | 54 | 53 | 49.0 |
| Exports (var.) | 0.4 | 5.1 | 3.0 | 5.7 | 6.0 | 4.0 |
| Imports (var.) | 3.4 | 4.3 | 11.0 | 8.3 | 7.0 | 5.0 |
| Current account balance (%GDP) | 12.9 | 12.9 | 13.8 | 16.7 | 18.0 | 17.0 |

* continent

e = estimate, f = forecast

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange and cheques are neither widely used nor recommended, as they must meet a number of formal requirements in order to be valid. In addition, creditors frequently refuse to accept cheques as a means of payment. As a rule, both instruments serve mainly to substantiate the existence of a debt.

Conversely, promissory notes (*gjeldsbrev*) are much more common in commercial transactions and offer superior guarantees when associated with an unequivocal acknowledgement of the sum due that will, in case of subsequent default, allow the beneficiary to obtain a writ of execution from the competent court (*Namrett*).

Bank transfers are by far the most widely used means of payment. All leading Norwegian banks use the SWIFT electronic network, which offers a cheap, flexible and quick international funds transfer service.

Centralizing accounts, based on a centralized local cashing system and simplified management of fund transfers, also constitute a relatively common practice.

Electronic payments, involving the execution of payment orders via the website of the client's bank, are rapidly gaining popularity.

■ Debt collection

The collection process commences with the debtor being sent a demand for the payment of the principal amount, plus any contractually agreed interest penalties, within 14 days. Where an agreement contains no specific penalty clause, interest starts to accrue 30 days after the creditor serves a demand for payment and, since 1 January 2004, is calculated at the Central Bank of Norway's (Norges Bank) base rate, in effect on 1 January and 1 July of the relevant year, increased by seven percentage points. In the absence of payment or an agreement, creditors may go before the Conciliation Board (*Forliksrådet*), a quasi administrative body, located in each municipality, comprising three elected, non-professional judges sitting collectively,

to obtain a speedy ruling at low cost. To benefit from this procedure, creditors must submit documents authenticating their claim, which should be denominated in Norwegian kroner (NOK).

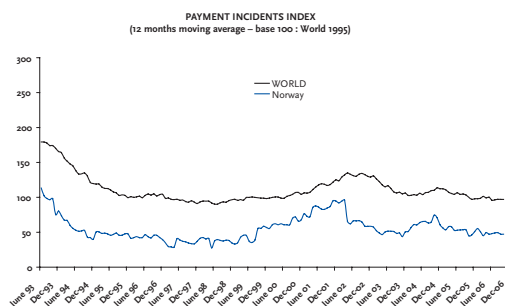
The Conciliation Board then summons the debtor at short notice to acknowledge or dispute the claim before hearing the parties, either in person or through their official representatives (*stevnevitne*). At this stage of proceedings, lawyers are not systematically required. The agreement thus reached will be binding, as would be a judgement.

If a settlement is not forthcoming, the case is referred to the court of first instance for examination. However, for claims found to be valid, the Conciliation Board has the power to hand down a decision, which has the force of a court judgement. Where a defendant fails to respond to the arbitrator's summons or appear at the hearing, the Board passes a ruling in default, which also has the force of a court judgement.

More complex or disputed claims are heard by the court of first instance (*Byret*). The plenary proceedings of this court are based on oral evidence and written submissions. The court examines the arguments and hears the parties' witnesses before delivering a verdict.

Norway does not have a system of commercial courts, but the probate court (*Skifteret*) is competent to hear disposals of capital assets, estate successions, as well as insolvency proceedings.

Arbitration (*voldgift*) is mainly used for commercial disputes with international ramifications.



Poland

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 38.2 |
| GDP (US\$ million) | 299,151 |



Short-term: **A3**

Medium-term:
Low risk

Coface analysis

STRENGTHS

- Poland's integration into the EU has enhanced its medium-term growth prospects.
- Exports are diversified and have benefited from increasing productivity gains that have partly offset the past zloty appreciation.
- A controlled current account deficit and appreciable foreign direct investment inflows have reduced the country's vulnerability to a crisis of confidence.
- External debt ratios have remained at sustainable levels.

WEAKNESSES

- A continuing high public-sector deficit has delayed Poland's integration into the eurozone.
- The country continues to rely mainly on foreign debt to cover its external financing needs.
- The investment rate is still among the lowest in the region.
- The government coalition's weakness has delayed implementation of new reforms.

RISK ASSESSMENT

Economic growth accelerated in 2006, with dynamic industrial production spurring both domestic demand and exports. The economy should slow slightly in 2007 amid tighter monetary policy and less-dynamic foreign demand. Real wage growth and an improving job market will continue to drive private consumption while improved corporate financial performance together with EU transfers will buoy investment. With the growth of imports, the foreign trade contribution to economic growth should, however, remain slightly negative. Despite the wage growth, inflationary pressures should remain under control. In that context, company payment behaviour has been generally satisfactory with several sectors particularly noteworthy: telecommunications, electrical engineering and the car industry. Conversely,

sectors like independent retail and textiles are still weak. Growing corporate foreign debt constitutes a risk that bears watching, particularly in companies without foreign currency earnings.

Although increasing, the current account deficit has remained limited in relation to GDP; Poland's export dynamism has allowed it to stabilize its foreign debt ratios. However, the present public deficit level and the country's difficulties in controlling social spending augur a delayed entry into the eurozone with no target date set by officials at this juncture.

The political environment has remained unstable. The governing coalition's re-formation in October 2006, less than a month after it broke up, increased the influence of its populist component. The ultraconservative government will, ultimately, have difficulty avoiding early elections.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|-------|------|---------------------|---------------------|
| Economic growth (%) | 1.4 | 3.8 | 5.3 | 3.5 | 5.5 | 5.0 |
| Inflation (%) | 1.9 | 0.8 | 3.5 | 2.1 | 1.2 | 2.5 |
| Public sector balance (%GDP) | -5.0 | -6.3 | -5.7 | -4.3 | -4.1 | -3.8 |
| Unemployment (%) | 20.0 | 20.0 | 19.1 | 17.6 | 15.5 | 14.6 |
| Exports | 46.7 | 61.0 | 81.9 | 96.4 | 114.9 | 134.3 |
| Imports | 54.0 | 66.7 | 87.5 | 99.2 | 119.0 | 140.9 |
| Trade Balance | -7.2 | -5.7 | -5.6 | -2.8 | -4.1 | -6.5 |
| Current account balance | -5.0 | -4.6 | -10.7 | -5.1 | -6.7 | -10.4 |
| Current account balance (%GDP) | -2.5 | -2.1 | -4.2 | -1.7 | -2.0 | -2.6 |
| Foreign debt (%GDP) | 42.9 | 49.4 | 50.9 | 43.2 | 44.2 | 43.6 |
| Debt service (%Exports) | 17.6 | 20.2 | 18.8 | 17.2 | 12.9 | 9.6 |
| Foreign currency reserves (in months of imports) | 5.1 | 4.7 | 3.7 | 3.9 | 3.7 | 3.4 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Since 1 January 2006 the gross minimum wage has been 899.1 zlotys (€226). The average wage at end-September 2006 was 2611.2 zlotys (about €653). From 1 January 2007, the minimum wage will be raised to 936 zlotys (€234).

■ Means of entry

Sweeping reform of the laws and regulations governing market access has brought Poland into line with EU standards. Since EU accession on 1 May 2004, there are no longer any customs barriers between Poland and the member states of the EU. Transitional measures, however, remain in force for the pharmaceutical industry (licences) and for medical equipment and instruments.

■ Attitude towards foreign investors

Drawing on the country's clear competitive advantages, the Polish government had attracted US\$75.7 billion in foreign direct investment by end-2005, according to Polish central bank (NBP) figures. Foreign direct investment inflows – which, in 2005, amounted to €7.7 billion – focused mainly on

manufacturing and support-service outsourcing, and globalization. The Polish government expects FDI inflows for 2006 to be close to €9–10 billion. Of this total, privatization-related FDI is tiny because of the almost-complete suspension of privatizations since the arrival in power of the PiS (conservative right). Safeguards for foreign investors have been strengthened and there are now no restrictions on the repatriation of dividends. However, the administrative apparatus is still far from perfect. Administrative procedures remain lengthy and complex, despite the commitment by successive governments headed by Messrs Marcinkiewicz and Kaczynski to simplifying them.

■ Foreign exchange regulations

The zloty's exchange rate is freely determined by the market, with a central peg set daily by the National Bank of Poland. The zloty has been fully convertible since 1 October 2002. Poland's prospects of joining the euro before 2012–13 are remote. The country's president has declared several times that he would like a referendum to be held on this question in 2010. Poland has not set a timetable for the adoption of the single currency.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange and cheques are not widely used, as they must meet a number of formal issuing requirements in order to be valid. Nevertheless, for dishonoured and protested bills and cheques, creditors may resort to a fast-track procedure resulting in an injunction to pay.

Until now, cash payments were commonly used in Poland by individuals and firms alike, but under the Freedom of Business Activity Act (*Ustawa o swobodzie dzialalnosci gospodarczej*), of 2 July 2004, which came into force on 21 August 2004, companies are required to make settlements via a bank account for transactions exceeding the equivalent in zlotys of €15,000. This measure aims to counter fraudulent money laundering.

One highly original instrument is the *weksel in blanco*, an incomplete promissory note bearing only the term '*weksel*' and the issuer's signature at the time of issue. The signature constitutes an irrevocable promise to pay and this undertaking is enforceable upon completion of the promissory note (amount, place and date of payment) in accordance with a prior agreement between issuer and beneficiary. *Weksels in blanco* are widely used, as they also constitute a guarantee of payment in commercial agreements and the rescheduling of payments.

Bank transfers are, by far, the most widely used means of payment. Leading Polish banks – after an initial phase of privatization and a second phase of concentration – use the SWIFT network, which offers a cheap, flexible and quick domestic and international funds transfer service.

■ Debt collection

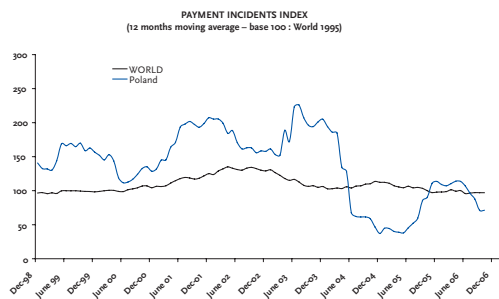
It is advisable, as far as possible, not to initiate recovery proceedings locally due, not only to the cumbersome formalities and the high cost of legal action, but also to the country's lengthy court procedures: it takes almost two years to obtain a writ of execution due to the lack of judges adequately trained in the rules of the market economy and proper equipment. Serving a demand for payment, properly accompanied by proof of

debt, reminds the debtor of his/her obligation to pay the outstanding sum, plus any accrued interest. The term of limitation for receivables arising from a merchandise sales contract and the ensuing past-due interest is only two years.

From 1 January 2004, interest may be claimed as of the 31st day following delivery of the product or service, even where the parties have agreed to a longer payment time. The legal interest rate will apply from the 31st day until the contractual payment date. Thereafter, in case of late payment, the tax penalty rate will apply and it will very often be higher than the legal interest rate, unless the contracting parties have agreed on a higher interest rate.

It is advisable to seek an amicable settlement based on a payment schedule drawn up by a public notary, which includes an enforcement clause that allows creditors, in the event of default by the debtor, to go directly to the enforcement stage, subject to acknowledgement by the court of the binding nature of this document. Creditors may seek an injunction to pay (*nakaz zaplaty*) via a fast-track and less-expensive procedure, provided they produce positive proof of debt (such as bills of exchange, cheques or unpaid *weksels in blanco*, or else acknowledgements of debt). If the judge is not convinced of the substance of the claim – a decision he/she alone is empowered to make – he/she may refer the case to full trial.

Ordinary proceedings are partly in writing, with the parties filing submissions accompanied by all supporting case documents (original or certified copies), and partly oral, with the litigants, their lawyers and their witnesses heard on the main hearing date. At such legal proceedings, the judge is



EUROPE AND THE CIS

required, as far as possible, to attempt conciliation between the parties.

Commercial disputes are generally heard by the commercial courts (*sad gospodarczy*), falling

under the jurisdiction of either district courts or regional courts (*Voivodies courts*) depending on the size of the claim.

OPPORTUNITY SCOPE

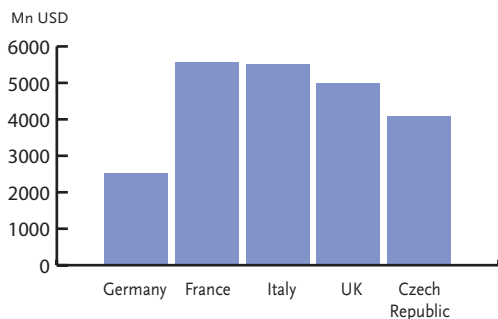
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 47 |
| Public consumption | 13 |
| Investment | 13 |

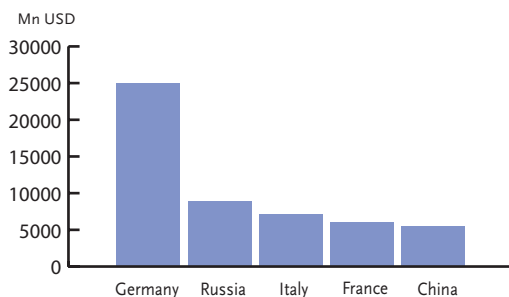
Exports: 37% of GDP

Imports: 37% of GDP

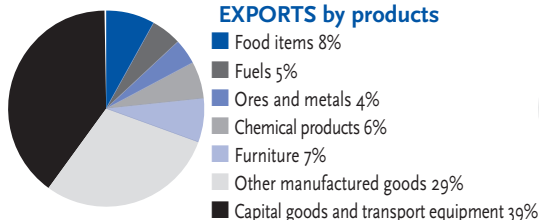
MAIN DESTINATIONS OF EXPORTS



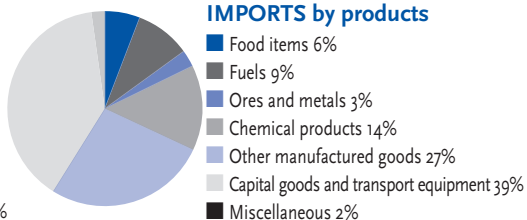
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Poland | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 13,490 | 9,171 | 5,540 |
| GNP per capita (USD) | 7,110 | 4,834 | 2,117 |
| Human Development Index | 0.858 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 27 | 25 | 30 |
| Urban population percentage | 62 | 63 | 43 |
| Percentage under 15 years old | 16 | 20 | 29 |
| Number of computers per 1000 inhabitants | 193 | 95 | 48 |

Portugal

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 10.6 |
| GDP (US\$ million) | 173,085 |
| GDP per capita (US\$) | 16,381 |



Coface analysis

Short-term: **A2**

RISK ASSESSMENT

Growth recovered moderately in 2006, buoyed mainly by exports benefiting from improved economic conditions in Europe (80 per cent of sales) and from dynamic sales elsewhere. Conversely, all domestic demand components have remained sluggish. The pace of economic growth in 2007 should be comparable to that of 2006.

After several years of decline, investment could make a more positive contribution to growth, thanks particularly to large projects in the energy and chemicals sectors. Although exports will grow at a more moderate pace, they will benefit from continued strong demand outside Europe. Several factors will continue to affect household consumption, however, including weak job growth, a high debt rate, increased tax

pressure and a decline in civil-service incomes. In the face of large deficits, tight fiscal policy will, of course, be a drag on the economy. Reform implementation, with the benefit of a consensus in support of the government, should, however, ultimately facilitate reducing the deficit substantially and, by 2008, partially financing new infrastructure projects subsidised by European funds (high speed north-south train and second Lisbon airport).

After sharply deteriorating, company payment-incident frequency declined in 2006. With the weakest textile-clothing operators unable to withstand competition from low-labour-cost countries, the consolidation process has continued in the sector. Much of the industrial fabric has suffered from a lack of competitiveness linked to the

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|-------|------|------|---------------------|---------------------|
| Economic growth | 0.8 | -1.1 | 1.2 | 0.4 | 1.4 | 1.5 |
| Consumption (var.) | 1.3 | 0.1 | 2.4 | 2.0 | 1.0 | 1.2 |
| Investment (var.) | -3.5 | -10.0 | -0.9 | -2.7 | -1.0 | 1.0 |
| Inflation | 3.7 | 3.3 | 2.5 | 2.1 | 3.1 | 2.2 |
| Unemployment | 5.0 | 6.3 | 6.7 | 7.7 | 7.5 | 7.4 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -2.8 | -2.8 | -3.1 | -6.0 | -4.6 | -3.7 |
| Public sector debt (%GDP) | 61 | 62 | 63.9 | 64.0 | 67.2 | 67.4 |
| Exports (var.) | 1.5 | 4.0 | 4.6 | 0.9 | 8.5 | 5.0 |
| Imports (var.) | -0.7 | -0.4 | 6.8 | 1.8 | 3.2 | 3.7 |
| Current account balance (%GDP) | -7.8 | -5.9 | -7.3 | -9.3 | -8.0 | -9.2 |

e = estimate, f = forecast

too-limited technology content of the product offer. Sluggish domestic demand has, moreover, undermined companies focusing on the domestic market (computer and electronics distribution,

smaller construction companies). Although companies tied to foreign multinationals have fared better, they could be vulnerable to possible reorganization programmes.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange are widely used for commercial transactions in Portugal. In order to be valid, however, they are subject to stamp duty, the rate of which is set each year in the country's budget. The current rate of stamp duty is 0.5 per cent of the amount of the bill, or a minimum of €1. A bill of exchange is generally deemed independent of the contract to which it relates. While creditors, in the event of payment default, are not required to issue a protest notice before bringing an action to court, such a notice can be used to publicize payment default and pressure the debtor to honour his/her obligations, albeit belatedly.

Cheques, too, are widely used. They are payable on presentation and subject to the minimum stamp duty that is borne by the bank. It is no longer an offence to issue uncovered cheques as a guarantee for staggered payments. In the event of default, cheques, bills of exchange and promissory notes offer effective guarantees to creditors as they are enforceable instruments in law and entitle holders to initiate *executory proceedings*. Under this process, creditors may petition the court to issue a writ of execution and notify the debtor of such an order. Where the debtor still fails to pay up, creditors may request the court to issue an attachment order against debtor's property.

Flexible and efficient bank transfers via the SWIFT electronic network, for which large Portuguese banks are equipped, are also used for a growing proportion of payments.

■ Debt collection

Out-of-court collection starts with the debtor being sent a final demand for the payment of the principal amount, plus any default interest that may have been agreed between the parties, within eight days. Except when stipulated otherwise in

the commercial agreement, the rate of interest applicable is the European Central Bank's refinancing rate marked up by seven percentage points. As of 1 October 2004, the interest rate set henceforth by decree of the Treasury Department is published in the *Diário da República* during the first fortnight of January and July each year and is applicable for the six coming months.

Since 19 March 2003, the fast-track procedure (injunction to pay, *injunção*) applicable to commercial claims considered uncontested – and, since 19 March 2003, whatever the amount involved – must be heard by the court in whose jurisdiction the obligation is enforceable. As of September 2005, the injunction may be served as an electronic file. For disputed claims, creditors may initiate formal and costly declarative proceedings (*acção declarativa*), lasting a year or more, to obtain a ruling establishing their right to payment. They must then initiate enforcement proceedings (*acção executiva*) to enforce the court's ruling.

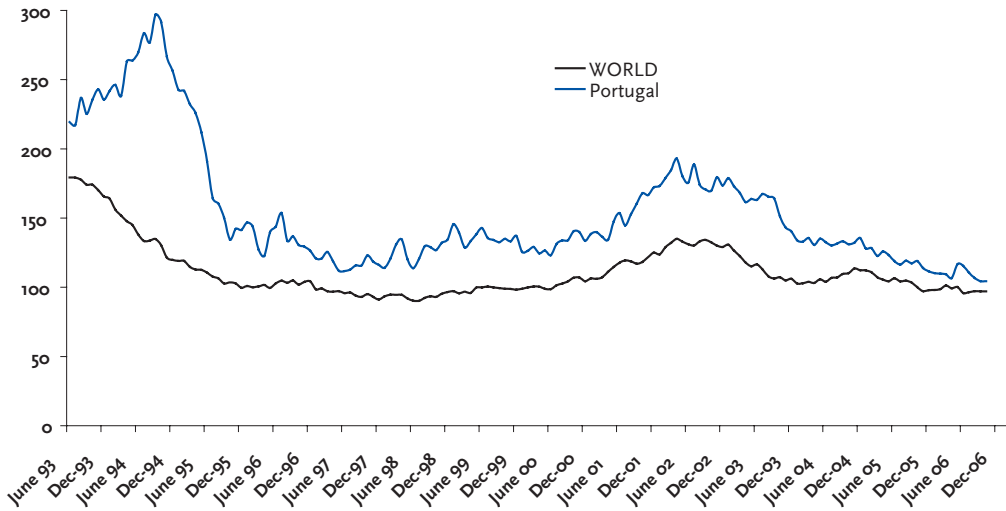
Under the revised Code of Civil Procedure introduced in January 1996, any original deed established by private seal (ie, any written document issued to a supplier) in which the buyer unequivocally acknowledges his/her debt is henceforth deemed an instrument enforceable by law. This provision aims to encourage buyers to comply with contractual undertakings and offers creditors a safeguard against protracted legal action.

Legal recourse in civil matters was revised in October 2006 to allow the judge to adapt the procedure to the needs of each case and accelerate the pace of the proceedings. As Portugal does not have commercial courts – other than those in Lisbon and Vila Nova de Gaia (Porto), which deal with actions to void partner resolutions, insolvency proceedings, dissolution of companies

and protection of industrial property – courts of first instance (*tribunal de comarca*) have generic competence in that regard. The *Varas Cíveis*, civil

courts with a three-judge panel presiding, hear large commercial claims exceeding €30,000.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Romania

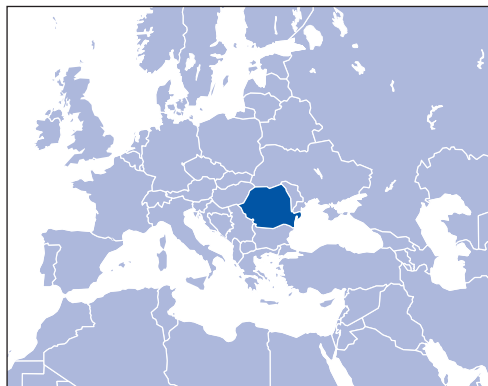
| | |
|----------------------------------|--------|
| Population (million inhabitants) | 21.6 |
| GDP (US\$ million) | 98,559 |

Short-term: **A4**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Admission to the EU has improved the country's economic prospects.
- Romania boasts a relatively large domestic market.
- Its workforce is skilled and low cost.
- Foreign direct investment and currency reserves have grown substantially.
- Government debt has been limited with foreign debt remaining at sustainable levels.

WEAKNESSES

- The marked increase in the current account deficit has heightened Romania's dependence on foreign capital.
- Insufficient energy price hikes have increased the losses suffered by state-owned sector companies.
- The strong expansion of credit could ultimately affect the quality of bank loan portfolios.
- Tensions affecting the government have impeded reforms and it will be essential to continue efforts to improve governance.

RISK ASSESSMENT

The dynamism of domestic demand drove the recovery in 2006, with consumption buoyed by higher wages and welfare benefits as well as a credit expansion. Foreign direct investment helped meet fixed capital needs. The year-end loosening of fiscal policy also had a positive impact. Although the loosening process should continue in 2007, economic growth could decelerate somewhat amid slower real wage growth, restrictive monetary policy and sagging foreign demand.

Although the buoyant economic conditions have allowed Romanian companies to improve their solvency, they nonetheless have to contend with rising payroll costs and the leu appreciation. Companies appear solid in the car industry, telecommunications and information technologies but financially weaker in textiles, retail commerce, wood-furniture and agriculture.

The economic dynamism has, however, contributed to the deterioration of external accounts with the resulting risks under control in the near term, thanks to the positive impact on market confidence of Romania's admission to the EU and to the influx of foreign direct investment. Short-term debt and portfolio investments are still limited. The situation could become uncomfortable in the medium term, however, with increasing exchange-rate risk if the public sector and current account deficits continue to grow while revenues from privatizations decline.

Politically, dissension within the centrist government coalition could lead to early elections in 2007. The pace of reforms should remain slow despite close supervision by the European Commission.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 5.1 | 5.2 | 8.4 | 4.1 | 7.1 | 6.3 |
| Inflation (%) | 22.5 | 15.3 | 11.9 | 9.0 | 6.5 | 5.3 |
| Public sector balance (%GDP) | -2.5 | -2.2 | -1.1 | -0.8 | -0.9 | -3.1 |
| Unemployment (%) | 8.1 | 7.2 | 6.3 | 5.9 | 6.1 | 6.3 |
| Exports | 13.9 | 17.6 | 23.5 | 27.7 | 36.6 | 40.8 |
| Imports | 16.5 | 22.2 | 30.2 | 37.3 | 52.0 | 60.0 |
| Trade balance | -2.6 | -4.5 | -6.7 | -9.6 | -15.4 | -19.1 |
| Current account balance | -1.4 | -3.1 | -5.7 | -7.8 | -13.8 | -18.2 |
| Current account balance (%GDP) | -3.1 | -5.2 | -7.6 | -7.9 | -11.6 | -12.7 |
| Foreign debt (%GDP) | 39.9 | 39.6 | 41.0 | 37.4 | 48.1 | 54.2 |
| Debt service (%Exports) | 16.4 | 14.1 | 13.5 | 11.5 | 12.4 | 15.8 |
| Foreign currency reserves (in months of imports) | 3.7 | 3.7 | 4.2 | 4.8 | 5.3 | 5.8 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

Romania joined the EU on 1 January 2007. Membership gives the European Commission powers to act, where necessary, in three key areas: administration of justice and home affairs (reform of the judicial system and the fight against corruption) where it has set up a cooperation and verification mechanism to ensure the irreversibility of reforms in progress; Community aid where it can make financial adjustments in the event of 'isolated or systematic irregularities' – even with the Romanian Ministry of Finance in charge of structural fund payments – and cut direct farm subsidies in the absence of an adequate integrated administration and control system for direct subsidies; and, finally, implementation of food safety standards where it can take sectoral measures on the domestic market (as in the case of persistent swine fever).

The prospect of accession has helped step up foreign direct investment (US\$6 billion excluding privatizations in 2005) and foreign trade, 70 per cent of which is carried out with the EU. Continued legal reforms, development of transport and environmental infrastructure, investment in R&D to attract high added value FDI, and retraining of a sizeable proportion of the rural population (35 per cent of the

working population) are the major challenges facing the Romanian economy.

■ Means of entry

On 1 January 2007, Romania adopted, in full, the common external tariff of the EU, including its preferential provisions (Community's generalized system of preferences and free trade agreements) in respect of third countries. Systematic customs inspections involving the submission of a Single Administrative Document (SAD) now only apply to trade with third, non-EU countries. All remaining tariff restrictions (customs duties and/or quotas) on intra-Community trade in the agricultural sector have been lifted.

Companies looking to trade with Romania must complete a traded goods declaration (DEB) form. This declaration serves a dual purpose: that of monitoring compliance with VAT tax rules and of compiling trade statistics. Non-resident firms applying for VAT refunds in Romania must appoint a tax representative responsible for obtaining an identification number from the tax authorities. The standard rate of VAT is 19 per cent.

Traditional payment means (bank transfers, documentary credit, documents against payment, promissory notes, bills of exchange) are becoming widespread, with SWIFT transfers the favourite

import settlement instrument. In the retail sector, bank cards and various types of credit card are more widely used. As banking sector privatization nears completion, the financial product offering has become wider.

■ Attitude towards foreign investors

From the outset of its economic transition, Romania has been fundamentally open to foreign investment. Since 1 January 2005 it has applied a flat-rate corporation tax of 16 per cent (against 25 per cent previously). The law of July 2001 defines the legal framework for foreign investment and reaffirms equal treatment for all investments. Accordingly, the Romanian government has put in place a system of state incentives for direct investments having a significant impact on the economy, particularly if they exceed €1 million. Until 31 December 2006, these included exemption from customs duties for newly imported goods required in connection with the investment, a 20 per cent tax rebate on the value of the investment, and accelerated depreciation of investments other than buildings. In addition, local authorities grant specific assistance to big regional investment schemes via land releases, employment support and simplified administrative formalities. This law is due to be amended shortly in line with Community competition law on state subsidies.

The relationship between companies and government departments, however, remains

difficult. While the overall business environment has unquestionably improved, it is still tributary to incoherent administrative and judicial procedures. Consultation with the private sector is all too often a pure formality. A culture of exchange and dialogue is needed to modernize the economic environment in any meaningful way. There is still some way to go towards complete reform of the Romanian administrative apparatus and the establishment of a genuine, professional and neutral civil service. Application of, and harmonization with, Community criteria remains formal. Widespread corruption, especially in the administrative service, remains a serious problem.

■ Foreign exchange regulations

The ron is a floating currency with an inflation target. It rose sharply against both the euro and the dollar in 2004–05 on the back of massive capital inflows triggered by the liberalization of capital accounts in April 2005, before edging back in 2006. Romanian importers can obtain foreign currency from their banks. Businesspersons and individuals can open foreign currency accounts with, and obtain foreign currency loans from, approved Romanian and foreign banks. Both locals and foreigners registered and doing business in Romania may hold, and freely dispose of, all their foreign currency funds. Non-residents can now open and operate ron accounts.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange and promissory notes, in particular, are the payment methods most commonly used for domestic, and sometimes international, transactions.

In case of non-payment, once the court recognizes a promissory note's validity, it constitutes an enforcement order permitting the beneficiary to proceed with immediate forced execution (*executie silita*) against the debtor.

The use of cheques is also relatively commonplace, especially locally. Cheques allow creditors to exert substantial pressure on debtors as

an unpaid cheque not only gives access to forced execution, but also constitutes a criminal offence, with the offender liable to a proportional fine, or even a prison sentence of six months to a year. That is why articles of associate often stipulate that only company managers have the authority to write cheques.

Finally, bank transfers are becoming the most common payment method, with the main Romanian banks – after an initial privatization phase and a subsequent concentration phase – now linked to the SWIFT electronic network, which provides low-cost, flexible and rapid processing of domestic and international payments.

■ Debt collection

It is advisable, where possible, to avoid taking legal action locally due, not only to the formalism and high cost of legal procedures, but also to the slow pace of court proceedings: it takes almost three years to obtain an enforcement order because of a lack of judges with adequate training in market economy practices and proper equipment.

Formal notice to pay served on the debtor, accompanied by documents supporting the claim, remind him/her of his/her payment obligations, increased by past-due interest. Since January 2000, in international trade relationships the annual past-due interest rate is set at 6 per cent, unless agreed otherwise by the parties and provided Romanian law applies to the contract.

As stipulated in the civil procedure code, any legal action based on a cash commercial claim must be preceded by an attempt at conciliation between the parties within 30 days of the creditor's summons. In that regard, it is always wise to give preference to an out-of-court-settlement, based on a rescheduling plan for the arrears prepared by the creditor's legal counsel or established in preference as a notarial deed, which will make it possible to obtain an enforcement order against the debtor more quickly in case of failure to comply with the agreement.

Possessing clear proof of debt that is due for payment and undisputed (acknowledgement of debt, promissory note, unpaid cheque, for example), the creditor can have recourse, as of mid-August 2001, to an injunction to pay (*somatie de platà*), a summary procedure that allows the judge – if he/she considers the demand substantiated – to issue a writ ordering the debtor to pay the principal and legal costs within 30 days of notification of the ruling. Conversely, if the creditor's petition is dismissed by the court, the judge's decision is irrevocable and the only remaining recourse would then be to initiate an ordinary procedure. Similarly, in case of objection (*cererea în anulare*) filed by the defendant within 10 days, the case is treated as a dispute subject to an ordinary procedure.

Ordinary proceedings are partly in writing, with the parties or their lawyers, filing submissions accompanied necessarily by all supporting case documents (original or certified copies), and partly oral, with the litigants and their witnesses heard on the main hearing date. Courts fees are set annually by government order.

Commercial disputes are heard by either local courts (*judecatoria*) or regional courts (*tribunalul*), acting as a commercial section, depending on the size of the claim.

OPPORTUNITY SCOPE

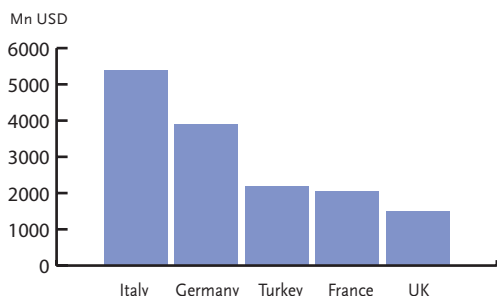
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 47 |
| Public consumption | 11 |
| Investment | 15 |

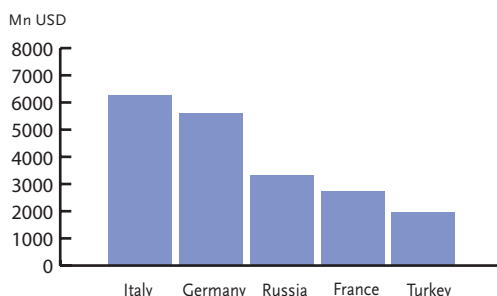
Exports: 37% of GDP

Imports: 47% of GDP

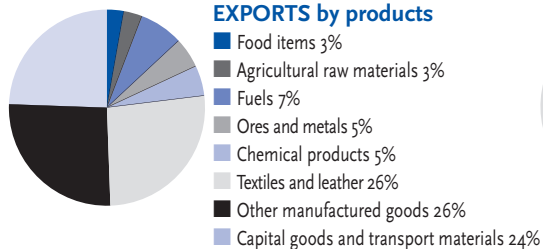
MAIN DESTINATIONS OF EXPORTS



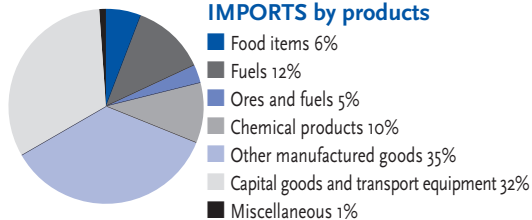
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Romania | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 8,940 | 9,171 | 5,540 |
| GNP per capita (USD) | 3,830 | 4,834 | 2,117 |
| Human Development Index | 0.792 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 26 | 25 | 30 |
| Urban population percentage | 55 | 63 | 43 |
| Percentage under 15 years old | 15 | 20 | 29 |
| Number of computers per 1000 inhabitants | 113 | 95 | 48 |

Russia

Population (million inhabitants) 143.2
 GDP (US\$ million) 763,720

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Russia boasts vast natural resources and a skilled workforce.
- The recovery of public-sector finances has brought the government to a new level of financial comfort.
- The legal framework has improved in some respects.
- The country's notable political stability has enhanced its status as a regional and energy power.

WEAKNESSES

- A stagnating investment rate has been among the lowest registered by large emerging countries.
- The industrial sector has not been very competitive, due notably to pressures exerted by the real exchange rate and to its ageing capital.
- Government takeovers in the energy sector could undermine management effectiveness, which in turn could hinder the sector's development.
- Reforms adopted are often not applied or are diverted from their original purpose to serve special interests.

RISK ASSESSMENT

Growth has remained high thanks to export revenues that have been driving the continued rise of real household incomes, but weaknesses have persisted. In manufacturing, the real exchange rate appreciation has hampered activities exposed to international competition. Machine tools and the car industry have been struggling to compete with imported goods. Sectors less exposed to foreign competition, like construction and retail, have been posting robust growth. The government, meanwhile, either directly or via state-owned companies, has strengthened its presence not only in the energy sector, where it has become the country's leading oil producer, but also in manufacturing. This 'state capitalism' could spawn inefficiency, in many ways exemplified by the current alarming slowdown in oil production growth in volume terms.

The Coface payment experience on Russian companies has been good. Domestic payment arrears now represent less than 10 per cent of GDP, down from 50 per cent in 1998, according to official statistics. Financial and ownership transparency is, nonetheless, still very unsatisfactory. Governance has been deteriorating with the business climate still marked by a limited application of the law and by massive corruption. Corporate debt denominated in foreign currency has, however, been increasing very rapidly. Credit risk in the context of an unstable relationship between the government and the private sector could be readily underestimated.

The country's financial situation appears very solid with the reduction of government debt being a particularly remarkable achievement. A high level of risk has persisted in the banking sector, however, despite undeniable improvement. In the political

arena, there has been notable stability. The forthcoming elections – legislative in December

2007 and presidential in March 2008 – will be held under the Kremlin's control.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|-------|-------|-------|-------|---------------------|---------------------|
| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
| Economic growth (%) | 4.7 | 7.3 | 7.2 | 6.4 | 7.0 | 6.5 |
| Inflation (%) | 15.1 | 12.0 | 12.0 | 10.9 | 9.0 | 8.0 |
| Public sector balance (%GDP) | 1.9 | 1.7 | 4.4 | 7.7 | 5.6 | 5.0 |
| Exports | 107.3 | 135.9 | 183.5 | 243.6 | 319.2 | 347.5 |
| Imports | 61.0 | 76.0 | 97.4 | 125.0 | 159.0 | 185.1 |
| Trade balance | 46.3 | 59.8 | 86.1 | 118.3 | 160.7 | 162.4 |
| Current account balance | 29.1 | 35.4 | 58.6 | 83.6 | 120.1 | 124.4 |
| Current account balance (%GDP) | 8.4 | 8.2 | 9.9 | 11.0 | 12.3 | 10.7 |
| Foreign debt (%GDP) | 44.1 | 43.2 | 36.4 | 33.9 | 28.6 | 28.3 |
| Debt service (%Exports) | 17.9 | 13.4 | 22.7 | 22.6 | 17.2 | 12.1 |
| Foreign currency reserves (in months of imports) | 6.9 | 8.7 | 11.6 | 11.3 | 15.1 | 17.3 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Some of the reforms undertaken during President Putin's first term (customs reorganization, taxation, land ownership and streamlining of administrative procedures) have helped bring Russia into line with international standards and practices. Customs reforms carried out since January 2001 have unified customs duties and lowered the average rate of duty from 16 per cent to 11 per cent. A new customs code introduced on 1 January 2004 seeks to establish international (notably European) standards, improve legal transparency and cut customs clearance times. Article 152 of this code requires customs officers to clear imported goods within three days of a declaration's acceptance; in practice, however, the simplified procedures are not followed and the interpretation of rules varies from place to place. Corruption, highlighted by the government on a number of occasions, is rife in the customs service. There is also a desire on the part of the government to strengthen state control of so-called strategic sectors (especially oil and gas).

■ Attitude towards foreign investors

Tax reform has helped create a more favourable environment for foreign investors. Taxation has been eased via reductions in corporation tax (capped at 24 per cent), personal income tax (13 per cent flat rate), VAT (18 per cent from 20 per cent) and in the marginal rate of unified welfare tax (26 per cent from 35.6 per cent). Changes to the tax code introduced in July 2006 further limit the powers of the tax authorities. Audit procedures are now required to be more transparent and, consequently, less random.

Administrative reforms designed to reduce the state's economic role have made legislative progress (simplification of company registration and licence award procedures). A number of activities in Russia are subject to licensing (construction, banking, medical care and pharmaceuticals, alcohol production and distribution, metalworking, gem-cutting, transport, gaming, telecommunications, aeronautics etc). Some activities are licensed by the federal government; others are subject to regional licensing, such as that applicable in the Moscow region. Federal Law No 128 on the award of licences for different types of activity lists 105 activities subject to a federal licence.

Intellectual property has seen legislative improvements, such as amendments to the July 2004 copyright and related rights law, and is the focus of a study on ways to combat infringement, especially of drug patents. However, the draft fourth section of the civil code on securing more consistent legislation in this field, adopted by the Douma at its first reading in September 2006, contains enough inaccuracies, ambiguities and omissions to make the bill incompatible with international standards. Foreign owners of sole rights (copyright, related rights and geographical indications) could see their rights infringed under the bill by Russian sole right holders. The articles dealing with the internet do not offer adequate protection against piracy.

The law of 22 July 2005 providing for the creation of special economic zones grants duty exemptions and tax incentives, including 10-year

exemption from property and land taxes, a 4 per cent cut in corporation tax and 14 per cent unified welfare tax for technology innovation zones. The law has established three zones: manufacturing, technology development and tourism. The delegation of certain administrative powers to a single federal agency responsible for these zones should help reduce administrative obstacles for companies. In practice, however, it is not uncommon for investors to encounter difficulties arising from ineffective law enforcement and excessive red tape.

■ Foreign exchange regulations

A law passed in June 2004 provides for the gradual lifting of exchange controls by 2007. This event was brought forward to 1 July 2006, from which date special accounts and compulsory capital reserves for Russians and foreigners were abolished.

OPPORTUNITY SCOPE

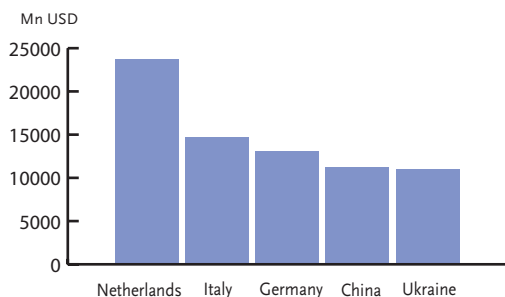
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 40 |
| Public consumption | 14 |
| Investment | 15 |

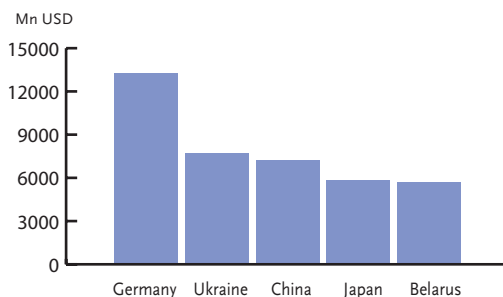
Exports: 35% of GDP

Imports: 21% of GDP

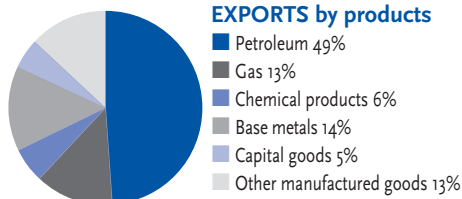
MAIN DESTINATIONS OF EXPORTS



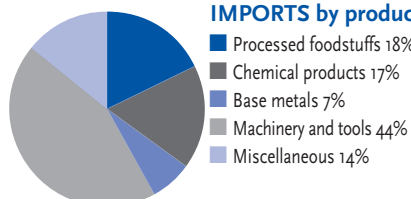
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Russia | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 10,640 | 9,171 | 5,540 |
| GNP per capita (USD) | 4,460 | 4,834 | 2,117 |
| Human Development Index | 0.795 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 24 | 25 | 30 |
| Urban population percentage | 73 | 63 | 43 |
| Percentage under 15 years old | 15 | 20 | 29 |
| Number of computers per 1000 inhabitants | 132 | 95 | 48 |

Serbia

Population (million inhabitants) 7.4
GDP (US\$ million) 24,172

Short-term: C

Medium-term:
Very high risk

Coface analysis



STRENGTHS

- With the political normalization and reforms accomplished from 2000, the country has won international financial community support and consolidated its economic and financial situation.
- The banking sector has been restructured and a favourable investment framework established.
- Sovereign risk has eased considerably, thanks to the consolidation efforts undertaken and the restructuring of foreign debt.
- The country benefits from a skilled, low-cost labour force.

WEAKNESSES

- Many major projects need to be implemented or continued, including restructuring state-owned companies, intensifying the campaign against corruption, and reforming the legal system.
- An upsurge of domestic demand not met domestically has generated a substantial increase in the trade deficit.
- The political situation has remained precarious amid the holding of early elections, difficult negotiations on Kosovo's final status, and the ever-present risk of a nationalist backlash.

RISK ASSESSMENT

Driven in 2006 by the manufacturing sector recovery and the continued expansion of the financial, retail, transport and telecommunications sectors, economic growth should remain relatively dynamic in 2007, buoyed by investments made in newly privatized companies, consumption and continuation of the expansionary fiscal policy that was initiated in 2006.

The dynamism of domestic demand, by driving imports up, has kept the current account deficit at high levels. That dynamism has also spurred the growth of private foreign debt, thereby reducing the beneficial impact of the debt restructuring granted by foreign creditors. The country has, however, had little difficulty in financing those deficits. The influx of capital, enhanced by revenues from

privatizations, has generated a sharp increase in foreign currency reserves.

Political uncertainties have remained high. Negotiations on concluding a Stabilization and Association Agreement with the EU have been suspended due to a lack of cooperation by government authorities with the International Criminal Tribunal for the former Yugoslavia. That prompted the Liberal Party to withdraw from the government coalition. Early legislative elections were held in January 2007, with the risk of the far right making further inroads. Meanwhile, the new Serbian constitution stipulating that Kosovo constitutes an inalienable part of the country has complicated matters for the international community, which should endow the province with its final status after the forthcoming elections.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 4.5 | 2.4 | 9.3 | 6.8 | 6.3 | 5.5 |
| Inflation (%) | 11.8 | 8.1 | 13.1 | 17.1 | 10.0 | 8.5 |
| Public sector balance (%GDP) | -4.5 | -3.2 | 0.0 | 0.8 | -0.6 | -3.8 |
| Unemployment (%) | 13.3 | 14.6 | 18.5 | 20.8 | n/a | n/a |
| Exports | 2,412 | 2,477 | 3,897 | 4,647 | 5,800 | 6,500 |
| Imports | 6,320 | 7,324 | 10,944 | 10,210 | 12,500 | 13,700 |
| Trade balance | -3,908 | -4,847 | -7,047 | -5,563 | -6,701 | -7,201 |
| Current account balance | -1,731 | -1,928 | -2,922 | -2,088 | -2,836 | -2,971 |
| Current account balance (%GDP) | -12.1 | -10.1 | -13.1 | -8.6 | -10.0 | -8.8 |
| Foreign debt (%GDP) | 82.7 | 71.2 | 63.2 | 64.0 | 66.8 | 61.5 |
| Debt service (%Exports) | 3.2 | 6.4 | 9.6 | 10.9 | 17.3 | 22.1 |
| Foreign currency reserves (in months of imports) | 3.7 | 4.9 | 3.9 | 5.4 | 7.9 | 7.7 |

e = estimate, f = forecast

■ Market overview

Serbia – separated since the referendum of May 2006 from Montenegro with whom it formed a union – had a good year in 2006 against a set of macroeconomic indicators: 6–7 per cent year-on-year GDP growth; estimated per capita GDP of US\$3,300 (almost equal to that of Bulgaria and Romania); record levels of foreign direct investment (over US\$4 billion) on the back of large-scale privatizations in the banking and telecommunications sectors; early repayment of a proportion of foreign debt, despite its partial cancellation or rescheduling; slowdown in inflation; and rising monthly wages (€260).

Multi- and bilateral financing for the country's reconstruction makes building and public works, transport, energy, water and the environment particularly attractive sectors. Restructurings of large state-owned enterprises and the gathering pace of privatization create much-needed outlets for machinery. The year-end and early 2007 should see the privatization of the country's oil and gas giant, NIS, and its second-largest insurer, DDOR, as well as the launch of the concession award process in roadbuilding, waste treatment and water management. Unfortunately, the restructurings are socially painful and, unlike greenfield investments, do not create much-needed jobs.

■ Means of entry

Measures adopted by the Serbian government to open up foreign trade have resulted in the number of tariffs applicable to imports being cut from 36 to six, with 8 per cent of goods subject to a 30 per cent ceiling against 40 per cent previously. Some 73 per cent of goods are liable to 1–10 per cent duty, while 50 per cent are liable to 1–5 per cent duty. Be that as it may, the signing of a stabilization and association agreement with EU is conditional upon Serbia's willingness to cooperate with the International Court of Justice at the Hague – an issue over which it has been dragging its feet. The country is also engaged in WTO-accession talks in Geneva.

Public procurement legislation passed by the Serbian parliament in August 2002, 90 per cent of which is EU-inspired, is still in force. Open tendering is well established throughout Serbia and should, in theory, lead to greater transparency.

■ Attitude towards foreign investors

The 2001 privatization act, the 2002 foreign investment act establishing equal rights between foreign and local investors and simplifying start-up formalities, banking sector restructuring, tax incentives (at 10 per cent, corporation tax is one of the lowest in the region) and cheap skilled labour make Serbia one of the most tax-friendly countries of the region.

Over and above the free trade agreement between Serbia and some countries of south-east Europe, the trade agreement with the Russian Federation opens up a potential market of 150 million consumers to Serbian companies alone. However, a number of basic laws are still to be passed (bankruptcy, commercial courts, accounting standards). Property law remains opaque and court decisions are lengthy. As there is no real financial market as yet, sell-offs by auction lack the

transparency of the privatization tenders and so attract few foreign companies.

■ Foreign exchange regulations

Serbia has kept the dinar (CSD) as the national currency. Since 2002, the dinar has been convertible and foreign currency for foreign payments is freely available to individuals and companies. In early 2006, the dinar traded at CSD86 to the euro, but has since strengthened to CSD81.

OPPORTUNITY SCOPE

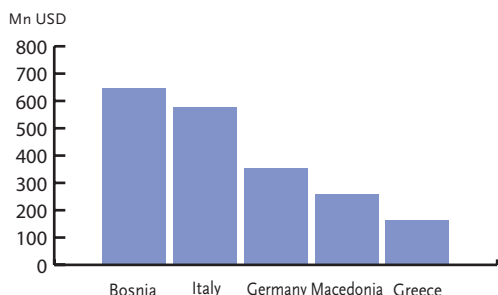
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 56 |
| Public consumption | 23 |
| Investment | 11 |

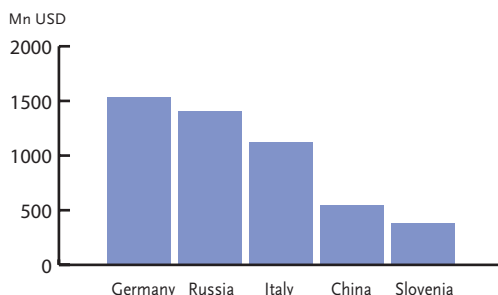
Exports: 28% of GDP

Imports: 50% of GDP

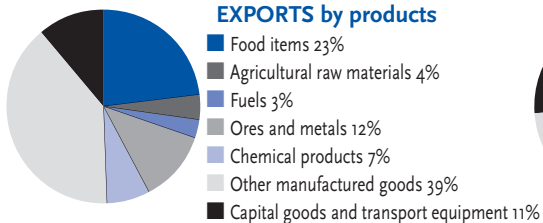
MAIN DESTINATIONS OF EXPORTS



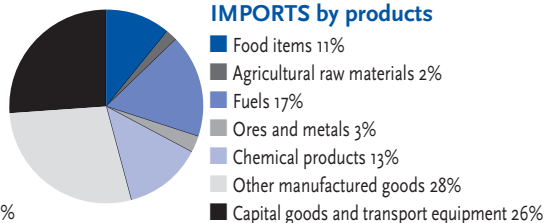
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Serbia | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 6,540 | 9,171 | 5,540 |
| GNP per capita (USD) | 3,250 | 4,834 | 2,117 |
| Human Development Index | n/a | 0.766 | 0.660 |
| Wealthiest 10% share of national income | n/a | 25 | 30 |
| Urban population percentage | 52 | 63 | 43 |
| Percentage under 15 years old | 18 | 20 | 29 |
| Number of computers per 1000 inhabitants | 48 | 95 | 48 |

Slovakia

Population (million inhabitants) 5.4
GDP (US\$ million) 46,412

Short-term: **A3**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Far-reaching reforms have allowed Slovakia to enhance its attractiveness to foreign investors as well as its growth potential.
- Integration into the EU has consolidated the economic situation.
- Public-sector debt has been under control.
- Slovakia should be the region's first large country to join the eurozone.

WEAKNESSES

- The economy has become very dependent on the car industry.
- Import growth and increased profit repatriation by foreign companies have exacerbated the current account deficit.
- Although foreign direct investment inflows have remained relatively high, foreign debt, particularly short term, has also been growing.
- The participation of populist parties in the ruling coalition hardly augurs well for progress on reforms.

RISK ASSESSMENT

Growth accelerated in 2006, underpinned by increases in consumption, investment and exports. It should remain strong in 2007, despite slightly less dynamic consumption affected by tightening monetary policy. The production start-up of new car factories should spur growth and exports and, thus, contribute to reducing the current account deficit. Although corporate solvency is still generally good in the car industry and the electrical and electronic capital goods sectors, the buoyant economic conditions have not precluded occasional payment failures by weaker companies in the food industry, construction and textiles.

With the economic expansion facilitating matters, the fiscal deficit should remain under control. If the growth of health spending remains limited and inflation declines as forecasted, the country should be able to comply with all Maastricht criteria and join the eurozone in 2009.

The presence within the governing coalition, led by the left-wing Smer party, of the populist parties responsible for the country's international isolation in the 1990s has tended to undermine the confidence of Slovakia's European partners. However, a radical calling into question of the reforms adopted by the previous majority appears very unlikely.

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The job situation in the country remains alarming with high unemployment and wide regional

disparities. Despite substantial wage increases in the past few years, the average monthly wage is only about €460 and the minimum wage €200. The new socialist government has suspended the privatization programme for the duration of its four-

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 4.1 | 4.2 | 5.4 | 6.0 | 7.5 | 6.1 |
| Inflation (%) | 3.3 | 8.6 | 7.5 | 2.7 | 4.3 | 2.8 |
| Public sector balance (%GDP) | -7.7 | -3.7 | -3.0 | -3.1 | -3.4 | -3.0 |
| Unemployment (%) | 18.6 | 17.5 | 18.1 | 16.4 | 15.5 | n/a |
| Exports | 14,385 | 21,862 | 27,752 | 32,030 | 41,300 | 49,240 |
| Imports | 16,502 | 22,500 | 29,208 | 34,480 | 43,600 | 51,460 |
| Trade Balance | -2,117 | -638 | -1,456 | -2,450 | -2,300 | -2,220 |
| Current account balance | -1,924 | -277 | -1,428 | -4,066 | -3,700 | -3,802 |
| Current account balance (%GDP) | -7.8 | -0.8 | -3.4 | -8.6 | -6.7 | -5.8 |
| Foreign debt (%GDP) | 53.8 | 54.9 | 56.6 | 57.0 | 56.9 | 52.7 |
| Debt service (%Exports) | 12.4 | 14.2 | 10.6 | 12.2 | 7.9 | 6.6 |
| Foreign currency reserves (in months of imports) | 5.4 | 5.3 | 5.1 | 4.2 | 3.3 | 3.4 |

e = estimate, f = forecast

year term. Consequently, the railways, rail freight management and district heating administered by local authorities are to remain the property of the Slovak state. While the expanding consumer goods market provides many business opportunities, capital goods supply and industrial cooperation projects clearly offer the best growth prospects. The latter can take the form of subcontracting, manufacture under licence or locally-based joint ventures.

■ Means of entry

Duty-free entry for industrial products is now the norm and the exceptional arrangements in respect of agricultural products have been abolished. The Slovak customs code has adopted in full the European harmonized code, the common external tariff applicable to non-EU countries, and the procedures (declaration of traded goods) in respect of intra-EU trade. The most widely used means of payment are SWIFT transfers and documentary credits. Disputes and litigation are relatively rare.

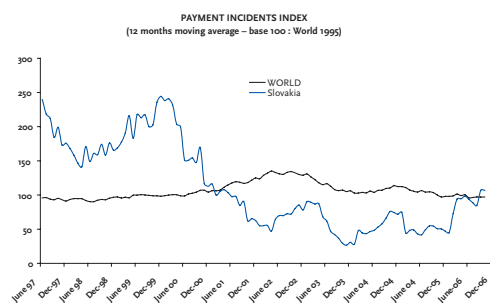
■ Attitude towards foreign investors

Slovakia's resolutely liberal legislation permits investors to wholly own a local company, with a 34 per cent stake constituting a blocking minority. The law establishes equality of treatment between Slovak and foreign investors. The Slovak

investment and trade development Agency, SARIO, is more proactive than before with regard to the development of the country's industrial areas. The new government has just lifted restrictions on foreign shareholdings in the so-called strategic sectors (energy etc), which will help boost foreign direct investment in the country.

■ Foreign exchange regulations

Since the abolition of exchange controls and the introduction of a new banking law, the trend is towards greater simplification of foreign commercial transactions. On 28 November 2005, Slovakia joined the second phase of EMU. The Slovak crown's parity vis-à-vis the euro is currently SKK37.5:€1, with a fluctuation margin of ±15 per cent. In actual fact, divergence has never exceeded 2 per cent despite the change of government.

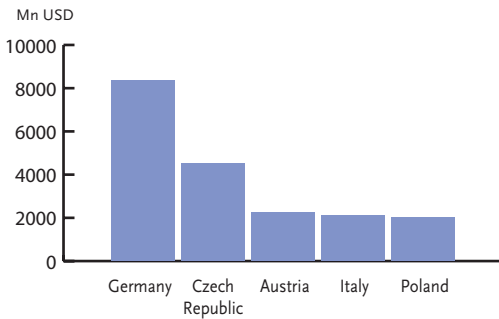
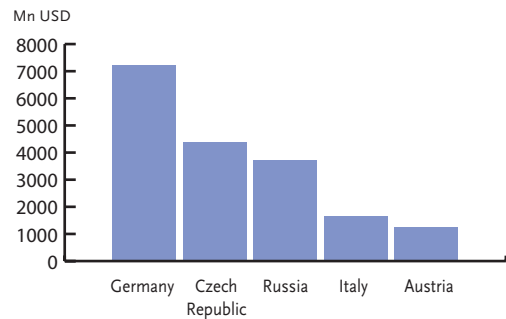
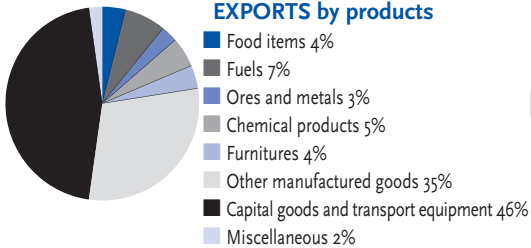
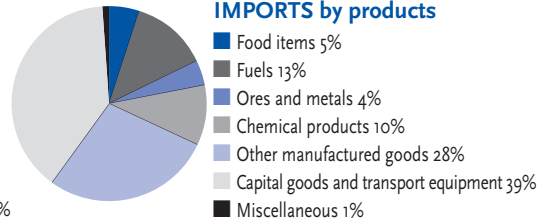


OPPORTUNITY SCOPE**Breakdown of domestic demand (%GDP + imports)**

| | |
|-----------------------|----|
| ■ Private consumption | 31 |
| ■ Public consumption | 11 |
| ■ Investment | 14 |

Exports: 79% of GDP

Imports: 83% of GDP

MAIN DESTINATIONS OF EXPORTS**MAIN ORIGINS OF IMPORTS****EXPORTS by products****IMPORTS by products****STANDARD OF LIVING / PURCHASING POWER**

| Indicators | Slovakia | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 15,770 | 9,171 | 5,540 |
| GNP per capita (USD) | 7,950 | 4,834 | 2,117 |
| Human Development Index | 0.849 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 21 | 25 | 30 |
| Urban population percentage | 58 | 63 | 43 |
| Percentage under 15 years old | 17 | 20 | 29 |
| Number of computers per 1000 inhabitants | 296 | 95 | 48 |

Slovenia

Population (million inhabitants) 2.0
GDP (US\$ million) 34,030

Coface analysis

Short-term: **A1**

Medium-term:
Very low risk



STRENGTHS

- The country has enjoyed steady growth, further strengthened by admission to the EU in 2004.
- Meeting all Maastricht criteria, Slovenia was the first of the 10 new EU members to adopt the euro.
- Ties established with Western companies in both trade and technology transfer terms have been an asset.
- By virtue of its geographic position, Slovenia has played an intermediary role between western and south-eastern Europe.

RISK ASSESSMENT

Growth accelerated slightly in 2006, spurred by investment dynamism, particularly in the capital goods sector. Private consumption continues to trend up, buoyed by the expansion of credit. The economic recovery registered by its main trading partners also made a slightly positive contribution to the external sector. In 2007, domestic demand should slow somewhat, with households adjusting their consumption following the introduction of the euro.

Although down slightly, investment should benefit from construction sector dynamism. In that context, company solvency will remain good overall with the Coface payment incident index remaining substantially below the world average. The textile sector is still shaky, however, as evidenced by major

WEAKNESSES

- An ageing population has put already-rigid public sector finances potentially at risk.
- Privatizations along with reforms intended to make the labour market more flexible have been lagging.
- Slovenia has been losing ground in productivity terms in relation to the other new EU members.
- Small in size and very open, the economy has been dependent on world economic conditions.

bankruptcies, and debt collection procedures have remained long.

Marking its good control over inflation and sound public-sector financial management, Slovenia was allowed to join the eurozone in January 2007. External accounts continue to show a very moderate deficit with dynamic exports of cars and services (transport and tourism) partially offsetting import dynamism. The low level of net foreign direct investment has, however, led to increased foreign debt.

In the political arena, the centre-right government coalition fared well in the autumn 2006 municipal elections two years after the political changeover, despite the liberal slant that the prime minister has been trying to impose on the country.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 3.5 | 2.7 | 4.4 | 4.0 | 4.5 | 4.0 |
| Inflation (%) | 7.5 | 5.7 | 3.7 | 2.5 | 2.5 | 2.3 |
| Public sector balance (%GDP) | -2.5 | -2.8 | -2.3 | -1.4 | -1.6 | -1.6 |
| Unemployment (%) | 6.4 | 6.7 | 6.3 | 6.6 | 6.6 | 6.7 |
| Exports | 10,471 | 12,916 | 16,065 | 18,043 | 22,241 | 26,227 |
| Imports | 10,719 | 13,539 | 17,322 | 19,313 | 23,907 | 28,104 |
| Trade balance | -248 | -622 | -1,258 | -1,270 | -1,666 | -1,877 |
| Current account balance | 335 | -85 | -670 | -362 | -800 | -837 |
| Current account balance (%GDP) | 1.5 | -0.3 | -2.1 | -1.1 | -2.2 | -2.0 |
| Foreign debt (%GDP) | 48.5 | 53.3 | 58.4 | 71.4 | 76.8 | 82.5 |
| Debt service (%Exports) | 12.5 | 14.2 | 14.9 | 16.8 | 16.1 | 17.1 |
| Foreign currency reserves (in months of imports) | 6.4 | 6.2 | 5.0 | 4.2 | 3.4 | 3.3 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

Means of entry

Tariff barriers have been removed since 1 May 2004 when Slovenia entered the EU. However, various non-tariff barriers remain in force. It is still necessary to translate all product instruction notices and leaflets into Slovenian, even though the majority of the population speaks English. With respect to public procurement, the cartellization of some sectors (especially, construction and public works) restricts market access for foreign players with the tacit support of local firms.

SWIFT transfers are widely used as a means of payment. Settlements are usually made in cash, although many Slovenian companies settle their invoices through deferred payment arrangements, thanks to their creditworthiness and good credit rating. Debt collection firms are efficient, but the courts, which specialize in neither commercial nor administrative law, are very slow to examine cases.

Attitude towards foreign investors

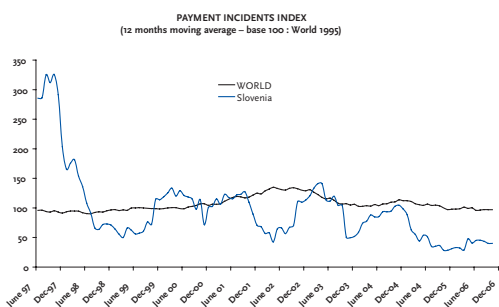
Attitudes to foreign investment differ among decision makers, with public opinion generally sceptical – and sometimes downright hostile – to the acquisition of Slovenian firms by foreigners. Slovenian firms that are partly or wholly-owned by foreigners are treated like local companies upon being registered in the

country. The basic principle of law on company acquisitions requires that a takeover bid for a company must be filed if the acquirer seeks to buy more than 25 per cent of the company's voting rights. Foreign investors face no impediments to market access, except in the armaments sector.

For greenfield investments, investors receive government help via the recently reformed public agency, Japti. The centre-right government, formed after the October 2004 elections, intends to undertake structural reforms and speed up the privatization process, but so far it has only come up with a tax reform and an IPO for Telekom Slovenije.

Foreign exchange regulations

The tolar is pegged to the euro at a fixed rate of SIT239.640 to the euro, pending entry into the eurozone in 2007.



OPPORTUNITY SCOPE

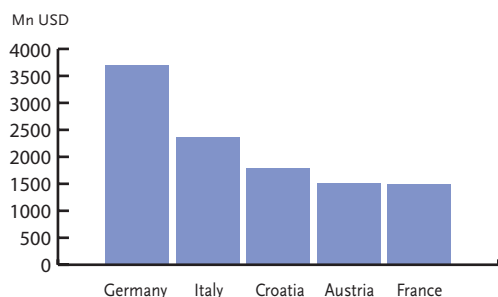
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 34 |
| Public consumption | 13 |
| Investment | 15 |

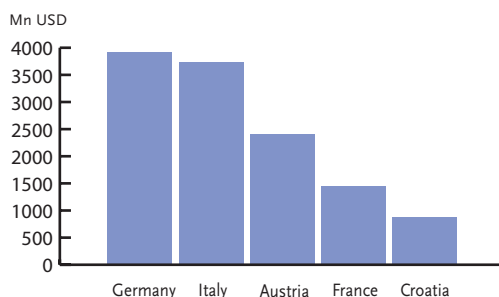
Exports: 65% of GDP

Imports: 65% of GDP

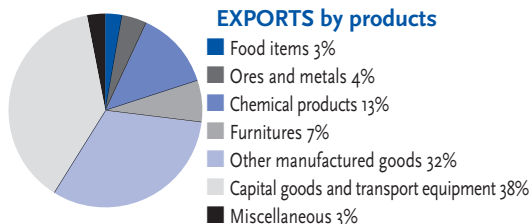
MAIN DESTINATIONS OF EXPORTS



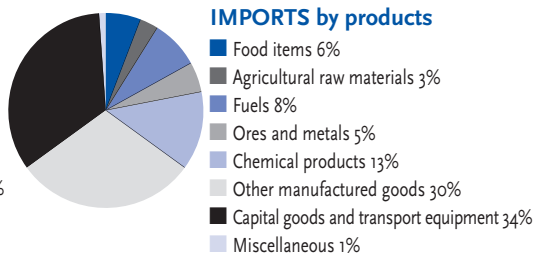
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Slovenia | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 22,160 | 9,171 | 5,540 |
| GNP per capita (USD) | 17,350 | 4,834 | 2,117 |
| Human Development Index | 0.901 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 21 | 25 | 30 |
| Urban population percentage | 51 | 63 | 43 |
| Percentage under 15 years old | 14 | 20 | 29 |
| Number of computers per 1000 inhabitants | 353 | 95 | 48 |

Spain

| | |
|----------------------------------|-----------|
| Population (million inhabitants) | 43.4 |
| GDP (US\$ million) | 1,123,691 |
| GDP per capita (US\$) | 25,898 |



Coface analysis

Short-term: **A1**

STRENGTHS

- The economy has benefited from a growing working population, attributable to the increasing proportion of working women and to immigration.
- Public-sector infrastructure investment financed by European aid has continued, allowing the country to upgrade its out-of-date communications networks.
- The public sector has been running a financial surplus facilitated by the economic growth and the social security system's own financial surplus resulting from job growth.
- Continued development of regional autonomy has made local actors responsible and brought decisionmakers closer to the people.
- Close ties and a common language with much of the Americas hold great promise.

WEAKNESSES

- Soaring housing prices and the household debt burden will constitute a risk in case of a downturn.
- The education system's shortcomings, the limited training given the vast reserves of temporary workers and a lack of research and development have tended to limit productivity gains.
- Low productivity, inflationary pressures and positioning on low value-added products in the face of Asian and European competition have undermined the competitiveness of Spanish production.
- The future of many industrial sectors will depend on decisions made by foreign multinationals, increasingly attracted by more competitive locations.
- Water management continues to pose problems with its immoderate use in agriculture and its unequal distribution by region.

RISK ASSESSMENT

Growth remained dynamic but also unbalanced in 2006, underpinned mainly by robust domestic demand with the foreign trade contribution remaining negative. Increased imports of consumer and capital goods offset the export rebound spurred by the economic upturn in Europe.

A slight slowdown should develop in 2007 with household consumption likely to lose some of its dynamism. Higher debt service – on debt representing 125 per cent of disposable income –

linked to the effect of rising interest rates on the 80 per cent of loans taken out on a variable-rate basis will offset the reduction of income tax and the continued decline of unemployment. While the construction market should continue its orderly slowdown, capital goods spending by companies will remain robust, thanks to reduced profits tax and continued good financial performance. Exports will continue to suffer from an inflation differential in relation to their main markets not offset by weak productivity gains. The additional public spending

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 2.7 | 3.0 | 3.2 | 3.5 | 3.7 | 3.1 |
| Consumption (var.) | 2.8 | 2.8 | 4.2 | 4.2 | 3.5 | 3.0 |
| Investment (var.) | -3.0 | 2.5 | 3.6 | 9.0 | 8.0 | 7.0 |
| Inflation | 3.6 | 3.1 | 3.1 | 3.4 | 3.6 | 2.8 |
| Unemployment | 11.0 | 11.0 | 10.5 | 9.2 | 8.5 | 8.1 |
| Short-term interest | 3.3 | 2.3 | 2.1 | 2.2 | 3.2 | 3.9 |
| Public sector balance (%GDP) | -0.2 | 0.0 | -0.2 | 1.1 | 1.3 | 0.7 |
| Public sector debt (%GDP) | 60.0 | 55.0 | 53.0 | 50.0 | 47.0 | 45.0 |
| Exports (var.) | 2.0 | 3.6 | 4.0 | 1.5 | 6.5 | 4.6 |
| Imports (var.) | 3.8 | 6.1 | 9.5 | 7.0 | 8.8 | 6.0 |
| Current account balance (%GDP) | -3.3 | -3.5 | -5.3 | -7.4 | -8.6 | -8.0 |

e = estimate, f = forecast

on education and research and development will only provide a remedy further out.

Despite deterioration in 2006, the Coface payment incident index is still slightly below the world average. Sectors like textiles, leather, small

electrical equipment and computer assembly have been particularly exposed to Asian competition, however, while the car industry, furniture and printing have been contending with delocalizations to Eastern Europe.

MAIN ECONOMIC SECTORS

■ Construction

Amid rising interest rates, high prices and wage moderation, housing demand has been slowing since 2006. That downturn could last until 2008. Meanwhile, the economic catch-up achieved by Spain will lead to reduction, from 2007, of European subsidies for national and regional development. Increased public spending will only partially offset that reduction. With that on the horizon, major actors have been speeding up efforts on concentration, diversification (particularly in energy), and internationalization (particularly in France). Smaller players, meanwhile, will merit particular attention, especially with illegal construction programmes sprouting in various places.

■ Car industry

To preserve its significant role in the economy, the car industry will have to make adjustments. The sluggishness of European markets and an aging product line have resulted in a production decline. That decline, which has also affected subcontractors, is attributable to the attractiveness to major carmakers

of the low production costs available in Eastern Europe and emerging Asia. Meanwhile, the end of the PREVER vehicle replacement programme in 2007, announced by the government, will moderate automobile sales. The sector will thus pose major risks that bear watching, particularly in subcontracting where, alongside large component manufacturers, there are thousands of smaller companies already affected by plant closings carried out by carmakers as well as by the production decline. An increase in payment failures and bankruptcy proceedings therefore appears likely.

■ Textiles and clothing

This sector represents 4 per cent of the country's industrial production. After several years of decline, business seems to have levelled off with exports rising 9 per cent in 2006 after shedding 2 per cent in 2005. Asian competition will nonetheless continue to exert pressure on manufacturers. Companies focusing exclusively on production will be the most vulnerable, whereas those with brand names and sales networks will fare better. The €870

million support programme for textiles and clothing scheduled for 2008 could slow the negative trend.

■ Food mass distribution

This sector will continue to enjoy the dynamism of household food spending and the good financial health in 2007. The supermarket format has been the most dynamic thanks to the Mercadona chain's irresistible development. The other nationwide networks, whether foreign or national, have been reorganizing to recover profitability and market share eroded by poorly integrated acquisitions and inconsistent economic models. Regional chains, meanwhile, have seized the opportunity to acquire stores and consolidate their positions. This concentration process should continue throughout the year.

■ Home appliance distribution

With market turnover of €11,400 million, or about 1 per cent of GDP, this sector has been very dependent on private consumption and residential construction. Amid a demand slowdown, particularly in the standard range, a concentration

process has been underway to cope with the development of new competitors, often-large international groups. Media Markt could thus expand its presence, as could Urende, Miró and independents like El Corte Ingles and Carrefour, for example. Dixons could enter the market. Diversification toward new technologies appears likely. Production has not been idle, meanwhile, with continued delocalizations to Eastern Europe and Asia.

■ Computer distribution

Dominated by large manufacturers (Epson, Intel, HP) and assembler-wholesalers (Diode, Actebis and so on.), the sector has derived its dynamism from laptops, increasingly present in companies and homes. Specialized distribution has been losing market share since the arrival of home appliance and supermarket chains; many small and medium-sized retailers have, thus, been contending with strong pressure on margins. Demand should nonetheless remain dynamic, particularly with Spanish companies lagging in new information technologies.

PAYMENT AND COLLECTION PRACTICES

■ Payment

The bill of exchange is frequently used for commercial transactions in Spain. In the event of default, it offers creditors certain safeguards, including access to the new exchange procedure (*juzicio cambiario*) introduced by the recent civil procedure rules under which, based on an appraisal of the documents submitted, a judge of first instance (*juzgado de primera instancia*) may order a debtor to pay within 10 days and have his/her property attached. Where a claim is contested, a court hearing is held to examine both parties' arguments and a judgement handed down within 10 additional days of said hearing.

Widely accepted, although somewhat difficult to obtain, the bill of exchange guaranteed by a bank limits the risk of payment default by offering creditors additional recourse to the endorser of the bill. The cheque, which is less widely used than the bill of exchange, offers similar legal safeguards under the exchange procedure

(*procédure cambiaire*) in the event of default. The same is true of the promissory note (*pagaré*), which, like the bill of exchange, is an instrument enforceable by law. However, defaults on this instrument are not recorded in the RAI (*Registro de Aceptaciones Impagadas*). An outgrowth of the Centre for Interbank Cooperation, the RAI is the most important registry at the national level, where the payment defaults of commercial companies are recorded and where banks and other deposit institutions can check a company's payment record before extending credit.

The RAI was sanctioned by the *Tribunal de Defensa de la Competencia* in February 2005 for undermining competition as regards free access to its files by interested third parties. Electronic transfers via the SWIFT network, widely used by Spanish banks, are quick, fairly reliable and cheap instruments, provided the purchaser, in good faith, orders payment. If the buyer fails to order a transfer, the legal remedy consists in instituting

ordinary proceedings, or a summary procedure based simply on an unpaid invoice.

■ **Debt collection**

Collection begins with formal notice served by recorded delivery letter inviting the debtor to pay, within 10 days, the principal increased by any past-due interest set by the parties. Barring special clauses included in the commercial contract, the applicable rate since 31 December 2004, is the interest rate applied by the European Central Bank in its most recent refinancing operation performed prior to the first calendar day of the half-year concerned, increased by seven percentage points. Semi-annually, the finance minister publishes the rate, thus determined in the *Boletín Oficial del Estado*.

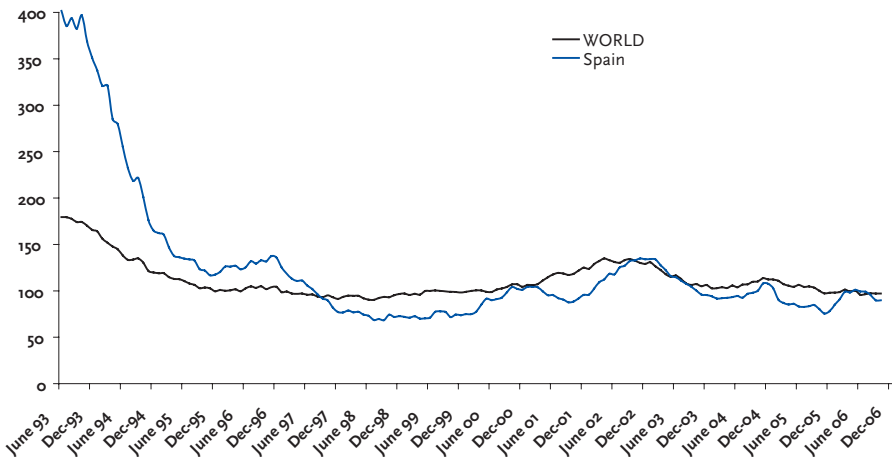
To speed up court procedures and modernize the obsolete code of civil procedure dating back to February 1881, new rules of civil procedure (*ley de Enjuiciamiento civil*) were introduced on 8 January 2001. The rules cut the time taken up by litigation significantly and give oral arguments priority over written submissions – the cornerstone of the

previous system – even though the authentication of large numbers of documents remains a requirement.

Besides the exchange procedure, a seller unable to settle with a buyer out of court, may enforce their right to payment through the new civil procedure (*juicio declarativo*), divided into ordinary proceedings (*juicio ordinario*) for claims over €3,000 and oral proceedings (*juicio verbal*) for smaller claims. The aim of the new procedure is to speed up delivery of enforcement orders by reducing and simplifying the stages of the old procedure.

For monetary claims for an overdue and payable amount under €30,000, creditors now benefit from a more flexible special procedure (*juicio monitorio*) initiated with a pre-printed form addressed to the judge of first instance who may, after reviewing supporting documents, order the debtor to pay within 20 days. That innovative law, with the notable establishment of a summary procedure, has been progressively gaining acceptance and breaking with the tradition of formalism cultivated by the Spanish judiciary for many decades.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Sweden

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 9.0 |
| GDP (US\$ million) | 354,115 |
| GDP per capita (US\$) | 39,241 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

Economic activity was very dynamic in 2006, driven by domestic demand and exports with household spending benefiting from tax reductions, job growth and the wealth effect caused by rising property and financial markets. Credit has surged and remained inexpensive despite several successive interest rate hikes. Very high production capacity utilization rates (exceeding 90 per cent) have spurred business investment. Exports, representing half of national production, have benefited greatly meanwhile from the European recovery (65 per cent of sales).

Growth should slow in 2007, bringing it closer to its true potential. Exports will decelerate due to the krona's weakness, which will not be enough to offset the slowdowns expected in the United States

and Europe. The downturn will be steeper for business investment amid sagging activity in manufacturing. Despite more restrictive monetary conditions, however, the slowdown of household spending will only be moderate with renegotiation of labour agreements expected to push wages higher, while the budget adopted by the new centre-right government will be more accommodating with taxes declining further. The job market should remain dynamic, thanks to tax deductions granted to households employing domestic help.

In that favourable context, the Coface payment incident index has remained below the world average with bankruptcies declining (down 12 per cent in 2006 from 2005 including in traditionally sensitive sectors like distribution, tourism,

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 2.0 | 1.8 | 3.3 | 2.7 | 4.3 | 3.1 |
| Consumption (var.) | 1.5 | 1.8 | 1.8 | 2.4 | 3.2 | 2.9 |
| Investment (var.) | -6.9 | -3.0 | 4.9 | 8.6 | 7.0 | 4.0 |
| Inflation | 2.2 | 1.9 | 0.4 | 0.5 | 1.4 | 2.0 |
| Unemployment | 4.0 | 4.9 | 5.5 | 5.8 | 4.9 | 4.3 |
| Short-term interest | 4.1 | 3.0 | 2.1 | 1.8 | 2.6 | 3.8 |
| Public sector balance (%GDP) | -0.4 | -0.2 | 1.6 | 2.9 | 2.8 | 2.5 |
| Public sector debt (%GDP) | 62.1 | 61.9 | 62.5 | 59.0 | 55.0 | 51.0 |
| Exports (var.) | 1.0 | 4.9 | 10.5 | 6.5 | 7.4 | 4.0 |
| Imports (var.) | -1.9 | 5.0 | 7.0 | 7.0 | 8.8 | 6.0 |
| Current account balance (%GDP) | 4.1 | 7.5 | 6.9 | 6.5 | 6.8 | 6.0 |

e = estimate, f = forecast

business-to-business services and construction. Vigilance is still called for, however, not only in the wood industry, publishing and metallurgy, but also

in the car industry due to possible repercussions of the difficulties experienced by foreign carmakers.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Bills of exchange and promissory notes are neither widely used nor recommended as they must meet a number of formal requirements in order to be valid.

Just as the rules for issuing cheques have become more flexible, so the sanctions for issuers of uncovered cheques have been relaxed over the years. Moreover, the use of cheques has been gradually declining in favour of bank cards.

Conversely, use of the SWIFT electronic network by Swedish banks provides a secure, efficient and fairly cheap domestic and international funds-transfer service. However, as payment is dependent on the buyer's good faith, sellers are advised to take great care to ensure that their bank account details are correct if they wish to receive timely payment.

■ Debt collection

As a rule, the collection process begins with the debtor being sent a final demand by registered mail asking him/her to pay, within 10 days, the principal amount together with any contractually agreed interest penalties. Where there is no specific interest clause in the contract, the rate of interest applicable from 1 July 2002 is the Bank of Sweden's (Sveriges Riksbank) six-monthly benchmark rate (*reporäntan*), plus eight percentage points. Under the Swedish Interest Act (*räntelag*, 1975, last amended in 2002), interest starts to accrue 30 days after the invoice date or after a demand for payment is sent to the debtor by registered mail.

Where claims meet certain requirements – denominated in Swedish krona, certain, liquid and indisputable – creditors can obtain an injunction to pay (*Betalningsföreläggande*) within more or less four months from the Enforcement Service, set up since 1 January 1992. This Enforcement Service (*Kronofogde-myndigheten*) may order a debtor to settle the claim or justify late payment within two weeks. If the debtor fails to respond within four weeks, the Enforcement Service issues a writ of execution at the

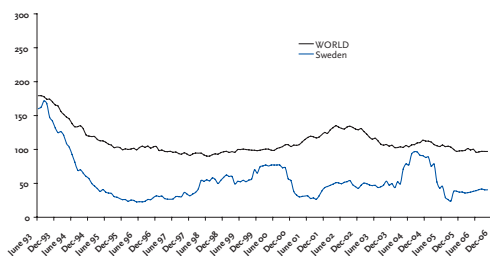
creditor's request. While formal, this system offers a relatively straightforward and quick remedy in respect of undisputed claims and has greatly freed up the courts. Creditors are not required to engage a lawyer but, in some circumstances, would be well advised to do so.

Lacking a settlement agreement or where claims are disputed, the Enforcement Service, if contacted previously, will no longer have jurisdiction over the dispute. Creditors must obtain legal remedy through the ordinary court process by bringing their claims before a court of first instance (*Tingsrätt*). It should be noted that civil courts have also jurisdiction to hear commercial disputes.

Proceedings involve a preliminary hearing in which the judge attempts to reconcile the parties after examining their case documents, evidence and arguments. If the dispute remains unresolved, the proceedings continue with written submissions and oral arguments until the main hearing, where the accent is on counsels' pleadings (defence and prosecution) and examination of witnesses' testimonies. In accordance with the immediacy-of-judgement principle, the court bases its decision exclusively on the evidence presented at the trial. The law generally provides that the losing party shall bear all legal costs as well as the winning party's attorney fees, above a specified claim threshold.

It takes about 12 months on average to obtain a writ of execution in first instance, bearing in mind that there is a widespread tendency in Sweden to appeal against judgements.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100: World 1995)



Switzerland

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 7.5 |
| GDP (US\$ million) | 365,937 |
| GDP per capita (US\$) | 48,861 |



Coface analysis

Short-term: **A1**

STRENGTHS

- Quality financial services, moderate taxes, institutional transparency, and political and social stability have attracted investors.
- Low unemployment attributable to labour market flexibility and a highly skilled workforce has been an asset.
- Internationalization of large industrial and financial groups has made it possible to offset the narrow domestic market and the moderation of economic growth.
- Reform of the social safety net should facilitate supporting an ageing population.
- The partnership between universities and companies has benefited research.

WEAKNESSES

- Non-member status outside the EU, even tempered by bilateral agreements, has hampered product and services trade (customs, transport restrictions, standards).
- There is still not enough competition, notwithstanding the adoption of legislation intended to remove cantonal and community barriers and establish better control over cartels.
- Frequent recourse to referenda by referendum, together with the search for consensus between the four parties participating in the federal government, has slowed the pace of reforms.
- The financial and administrative reform of relations between the confederation and the cantons is only just getting started.

RISK ASSESSMENT

Buoyed by the good financial health of companies and high production capacity utilization, an investment rebound in industrial and commercial plant and infrastructure spurred a robust recovery in 2006. Consumption benefited from declining unemployment and exports from the improved economic conditions in Europe and a weakening Swiss franc.

Although a slowdown will develop in 2007, central Switzerland (Zurich and Aargau), the Basel region and the Lemman basin will remain the most dynamic. The likely Swiss franc recovery and the expected economic slowdown in neighbouring

countries will affect exports, including tourism. The commissions and premiums earned as a result of the financial sector's unflagging dynamism will, however, ensure a continuing, comfortable current account surplus. Favourable job and wage trends will continue to buoy household consumption. Corporate investment will falter amid less dynamic foreign demand and an increase in available production capacity. Efforts to restore fiscal equilibrium will further undermine public spending.

Companies enjoyed good financial results overall in 2006. Bankruptcies declined 6 per cent with the Coface payment incident index far below the world average. Textiles/clothing and printing

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 0.3 | -0.4 | 2.1 | 1.9 | 2.9 | 2.0 |
| Consumption (var.) | 0.0 | 0.8 | 1.4 | 1.3 | 1.9 | 1.8 |
| Investment (var.) | 2.2 | -3.8 | 3.4 | 2.9 | 8.6 | 3.8 |
| Inflation | 0.6 | 0.6 | 0.8 | 1.2 | 1.1 | 1.1 |
| Unemployment | 3.1 | 4.0 | 4.4 | 3.8 | 3.3 | 3.0 |
| Short-term interest | 1.1 | 0.3 | 0.7 | 0.9 | 1.6 | 2.1 |
| Public sector balance (%GDP) | 0.1 | -1.5 | -1.1 | -1.4 | -1.0 | -0.8 |
| Public sector debt (%GDP) | 54.5 | 55.5 | 55.6 | 55.0 | 55.0 | 53.0 |
| Exports (var.) | -0.7 | -0.5 | 9.0 | 6.4 | 8.2 | 3.9 |
| Imports (var.) | -2.8 | 1.4 | 7.4 | 5.3 | 8.0 | 4.1 |
| Current account balance (%GDP) | 8.4 | 13.2 | 14.6 | 13.8 | 13.5 | 13.0 |

e = estimate, f = forecast

will continue, however, to merit particular attention. Meanwhile, retail commerce (with Migros and Coop generating a third of turnover), construction, hotels, agriculture and the food industry could suffer from deregulation, paving the way for the

penetration by foreign players (like Aldi in commerce or international chains in the hotel industry) or by very competitive products in the domestic market.

MAIN ECONOMIC SECTORS

■ Watchmaking

This sector should continue to ride the craze for high-end products in its various markets: Asia (33 per cent), United States (17 per cent), and Western Europe (30 per cent). Robust demand and intensive production capacity utilization have facilitated raising already-high prices, generating comfortable profits.

■ Chemicals/pharmaceuticals

Whether in basic chemicals, specialties or pharmaceuticals, this sector benefited in 2006 from both increased sales volume and the Swiss franc's decline. The moderate economic slowdown expected in 2007 in its primary market, Western Europe (64 per cent), and a possible Swiss franc appreciation against the euro should not particularly affect business or profits.

■ Electrotechnical, measurement and control instruments, machinery

The capital goods sector benefited amply from rising foreign and domestic demand in 2006. Sales prices and profits benefited from an upward trend. Considering how full order books have been, the outlook for 2007 is bright.

■ Tourism

Summer 2006 was good for the sector especially in large cities. Stays by Americans, Russians, the Chinese, Japanese and Spanish increased markedly while visits by Germans and British (by far the highest) rose moderately due to the Swiss franc decline. The 2006–2007 winter season should also be good, even if a slight slowdown should develop. A marked decline should, however, affect the 2007 summer season due to the strengthening Swiss franc's impact and the world economic slowdown.

■ Civil engineering

Despite the start of a slowdown in the second half, all segments benefited from the high economic growth in 2006. Sales and profits rose, particularly in wood processing and metallurgy. Increased construction of commercial premises should offset a slight decline of investment in housing and public works in 2007, with business activity stabilizing in consequence. Pressure on margins linked to price competition will resurface however.

■ Paper, printing, graphic arts

Although the entire sector capitalized on the excellent domestic economic conditions to stabilize its situation, paper continued to outperform the other two segments. The paper industry has practically completed its restructuring with printing and graphic arts continuing to face technological challenges.

PAYMENT AND COLLECTION PRACTICES

■ Payments

Bills of exchange and cheques are not commonly used owing to prohibitive banking and tax charges; the stamp duty on bills of exchange is 0.75 per cent of the principal amount for domestic bills, and 1.5 per cent for international bills. Similarly, commercial operators are particularly demanding as regards the formal validity of cheques and bills of exchange as payment instruments.

Domestic and international payments are commonly made by bank transfer, especially via the SWIFT electronic network to which the major Swiss banks are connected and which provides speedy and efficient processing of payments at low cost.

■ Debt collection

The Swiss legal system presents technical specificities, as follows:

- The existence of an administrative authority (eg Office des Poursuites et des Faillites, or *Betreibungs und Konkursamt*) in each canton, which is responsible for executing court orders and whose functioning is regulated by federal law. Interested parties may consult or obtain extracts of the Office's records.
- Specific rules for legal procedure prevail in each canton (there are 26 different codes of civil procedure), which sometimes vary greatly depending on the legal doctrine that has inspired them. As such, before instigating actions, plaintiffs should ensure that their counsel is familiar with the law of the concerned jurisdiction as well as the language to be used before the court (French, German or Italian).

With those constraints impeding the justice system's speed and effectiveness, a commission of experts has developed a proposal for unifying the various procedures that will be submitted to parliament in the future.

The debt collection process commences with the issuing of notice to pay by ordinary mail or registered letter (thus enabling interest penalties to be charged). This gives the debtor two weeks in which to pay the principal amount, plus – unless otherwise agreed by the parties – interest penalties equivalent to the bank rate applicable in the place of payment.

In the absence of payment, the creditor will submit a duly completed and signed petition form (*réquisition de poursuite*) to the Enforcement and Bankruptcy Office (Office des poursuites et des faillites), which then serves the debtor with a final order to pay within 20 days. While very easy to use by creditors, that procedure nonetheless permits debtors to oppose the order within 10 days of being served, without having to provide grounds. In such case, the only alternative for creditors is to seek redress through the courts.

Conversely, where a seller holds unconditional proof of debt signed by the buyer (any original document in which the buyer recognizes his/her debt, bill of exchange, cheque etc), he/she may request the temporary lifting of the debtor's opposition (*main levée de l'opposition*) without having to appear before the court. This is a summary procedure, quick and relatively easy to obtain, in which the court's decision is based upon the documents submitted by the seller. Once this lifting order has been granted, the debtor has 20

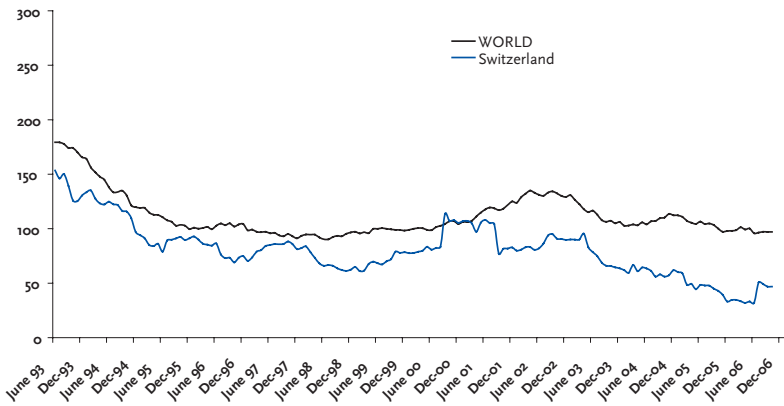
days in which to refer the case before the judge to obtain the debt's release (*libération de dette*) and, in turn, obtain an executory order. That entails initiating a formal procedure – with a written phase and an oral examination of witnesses during court hearings – lasting from one to three years depending on the canton. Legal costs vary widely depending on the rates charged by the various cantons.

Once the court hands down a final ruling, the Enforcement and Bankruptcy Office delivers an execution order or, in the case of traders, a winding-up petition (*commination*). In all cases, the law decides which measure – execution order or winding-up petition – is applied.

Either a court of first instance or a district court hears legal procedures. Commercial courts, presided by a panel of professional and non-professional judges, exist in four Germanic cantons: Aargau, Berne, Saint-Gall and Zurich.

Once an appeal has been lodged with the cantonal court, as a last resort for claims exceeding CHF30,000, cases are heard by the main federal judicial institution, the Swiss Federal Court (*Tribunal fédéral Suisse* or *Schweizerisches Bundesgericht*), in Lausanne – the other judicial institutions are the Federal Criminal Court located in Bellinzona, which was set up in April 2004 and the Federal Administrative Court scheduled to begin operations in January 2007 in Saint-Gall.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Tajikistan

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 6.8 |
| GDP (US\$ million) | 2,326 |
| GDP per capita (US\$) | 341 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

The economy continues to grow at a high rate (8 per cent in 2006 and 6 per cent expected in 2007), driven by cotton and aluminium production. Amid rising inflation, public finances have been relatively healthy. Foreign debt has been moderate thanks notably to various debt relief measures. Tajikistan benefits from extensive hydroelectric resources.

Despite robust catch-up growth after the 1992–1997 civil war, Tajikistan's per capita income is still the lowest in the CIS with the country remaining among the world's poorest. The substantial proportion of revenues derived from exports of cotton and especially aluminium (60 per cent of sales) has made the economy vulnerable to

market prices. The country has not succeeded in diversifying its economy with expatriate remittances still its main resource (20 per cent of GDP).

Although the turmoil in neighbouring Afghanistan, the opium transiting from that country, tensions with Uzbekistan, a 62 per cent poverty rate and substantial inequality could generate instability, memories of the civil war just a decade ago should deter recourse to violence. In power since 1992, President Emomali Rahmonov was re-elected in November 2006 for a third consecutive seven-year term in office. Although international observers severely criticized the elections, the president – credited with ending the civil war – remains popular.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 9.1 | 10.2 | 10.6 | 7.5 | 8.0 | 6.0 |
| Inflation (%) | 14.5 | 13.7 | 5.6 | 7.0 | 7.8 | 5.0 |
| Public sector balance (%GDP) | -0.1 | 0.9 | 0.7 | 0.1 | -0.5 | -0.5 |
| Exports | 699 | 900 | 1,088 | 1,124 | 1,188 | 1,243 |
| Imports | 823 | 1,003 | 1,239 | 1,403 | 1,539 | 1,637 |
| Trade balance | -124 | -103 | -151 | -279 | -351 | -394 |
| Current account balance (%GDP) | -2.7 | -1.3 | -4.0 | -3.6 | -4.5 | -4.3 |
| Foreign debt (%GDP) | 82.3 | 63.7 | 39.5 | 36.6 | 36 | 37.6 |
| Debt service (%Exports) | 11.1 | 8.2 | 3.5 | 5.7 | 5.7 | 5.5 |
| Foreign currency reserves (in months of imports) | 1.8 | 1.9 | 1.8 | 1.9 | 1.8 | 1.8 |

e = estimate, f = forecast

Turkey

Population (million inhabitants) 72.6
 GDP (US\$ million) 363,300

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Public finances have improved markedly in recent years with Turkey's primary surplus the largest among the major emerging countries.
- The banking sector restructuring accomplished since 2001 has resulted in sustainable consolidation.
- A diversified, competitive and dynamic private sector, except in textiles, has demonstrated its ability to adapt to an unstable environment.
- The prospect of ultimately joining the EU has been a powerful engine of reform.

WEAKNESSES

- With the largest external financing needs of all emerging countries, Turkey has been very vulnerable to market sentiment.
- Its energy dependence has exacerbated the current account deficit and remained a major source of imbalance.
- The upsurge of nationalist fervour and the heightened tensions between Islamists and secularists could be factors of political instability in the run-up to legislative and presidential elections in 2007.

RISK ASSESSMENT

Despite the financial turbulence in spring 2006, the economy only suffered a relatively moderate slowdown in the second half with the dynamism of the car industry, kitchen appliances and chemicals offsetting the sluggishness of textiles. The interest rate increases by the Central Bank averted a sharp inflationary spike while apparently not significantly affecting demand. In that context, company payment behaviour has remained generally satisfactory and above the world average. As a counterpoint to the steadiness of the economy, the continued worsening of external imbalances poses a growing risk.

A new currency crisis continues to be the main risk. With its very large financing needs, some of the important stock of volatile short-term capital could flow out of the country again, as it did in May 2006. Heightened political tensions could mark

2007 amid presidential and legislative elections, difficult negotiations with the EU and the ongoing Kurdish problem.

Although an exchange rate decline sharper than the one in May last year will be possible, it will not be accompanied, as in 1994 and 2001, by a crisis in the public and banking sectors, with public finances and the banks having undergone a marked consolidation. Part of the private sector, however, especially those companies with debt denominated in foreign currency and their income in Turkish lira, will suffer more. Possible short-term shocks notwithstanding, according to the Turkish company payment-behaviour record, debt collection probability continues to be good especially with the industrial fabric benefiting from an undeniable comparative advantage rooted in the country's quality workforce and proximity to the European market.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 7.8 | 5.8 | 8.9 | 7.4 | 5.2 | 5.1 |
| Inflation (%) | 29.8 | 18.4 | 9.3 | 7.7 | 10.3 | 7.2 |
| Public sector deficit (%GDP) | -17.2 | -11.7 | -4.7 | -0.2 | -0.1 | -0.7 |
| Exports | 39.8 | 51.2 | 67.0 | 76.9 | 88.4 | 101.6 |
| Import | 48.2 | 65.2 | 90.9 | 109.7 | 131.5 | 142.9 |
| Trade balance | -8.4 | -14.0 | -23.9 | -32.8 | -43.1 | -41.3 |
| Current account balance | -1.5 | -7.9 | -15.5 | -23.1 | -33.8 | -31.1 |
| Current account balance (%GDP) | -0.8 | -3.3 | -5.1 | -6.4 | -8.7 | -7.3 |
| Foreign debt (%GDP) | 69.1 | 59.6 | 53.4 | 48.7 | 51.8 | 52.0 |
| Debt service (%Exports) | 56.5 | 42.9 | 32.5 | 35.1 | 32.7 | 24.2 |
| Foreign currency reserves (in months of imports) | 5.2 | 5.0 | 3.9 | 4.6 | 4.5 | 4.6 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

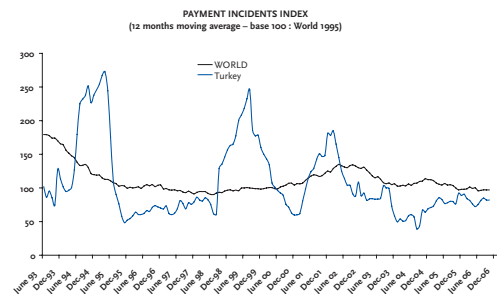
The Turkish market is open to foreign goods and services. The customs union with the EU covers all sectors of the economy except unprocessed agricultural products and services. Turkish companies are particularly keen to enter into partnerships and joint ventures. All means of payment are used and accepted. Documentary credit is strongly recommended for initial transactions and during periods of economic instability. It should preferably be opened with a foreign bank, although Turkish companies generally prefer their own banks. Documentary acceptance credit is the most widely used instrument. However, because it is costly, cash against documents or payment against goods are often preferred by Turkish importers. Several inspection companies of international standing have offices in Turkey.

Attitude towards foreign investors

On 5 June 2003, Turkey's Grand National Assembly passed a law regulating foreign direct investment in the country. The law limits the number of administrative restrictions and permits and protects the rights of foreign investors. Article 1

of the law aims to encourage FDI, protect the rights of foreign investors, harmonize the definitions of investment and investor with international standards, and replace the system of prior authorizations and approvals with a new information system. The minimum investment threshold for foreign investors of US\$50,000 has been abolished, as has the obligation to obtain prior approval from the Directorate General for Foreign Investment (DGIE) at the office of the Under-Secretary of State for the Treasury. Investors now are only required to inform the competent authorities. However, the opening of a representative office remains subject to DGIE approval.

Following their inevitable decline on the back of the financial crisis in 2001, FDI inflows have picked up since 2003, rising substantially in 2004 and even



EUROPE AND THE CIS

more sharply in 2005 and 2006. Despite these encouraging trends, FDI accounts for only 2.5–3

per cent of GDP, making Turkey less attractive to foreign investors than other emerging economies.

OPPORTUNITY SCOPE

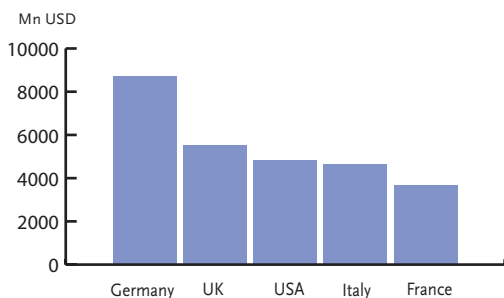
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|----|
| ■ Private consumption | 51 |
| ■ Public consumption | 10 |
| ■ Investment | 12 |

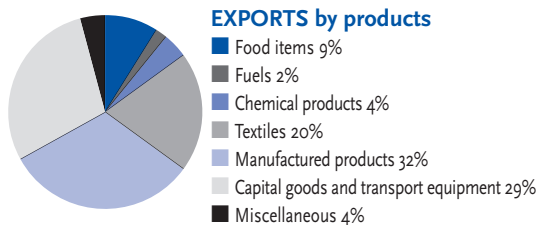
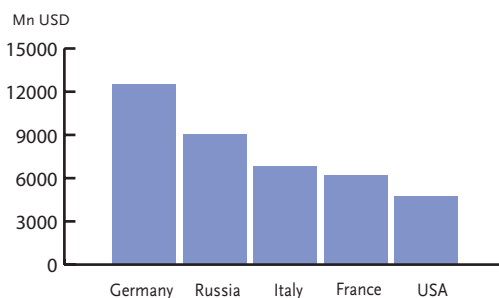
Exports: 27% of GDP

Imports: 34% of GDP

MAIN DESTINATIONS OF EXPORTS

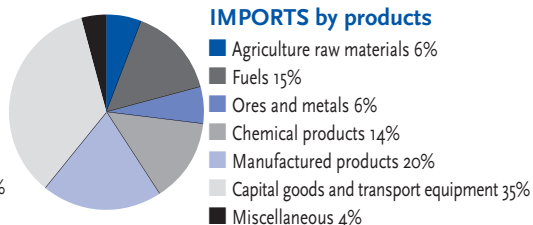


MAIN ORIGINS OF IMPORTS



EXPORTS by products

| | |
|---|-----|
| ■ Food items | 9% |
| ■ Fuels | 2% |
| ■ Chemical products | 4% |
| ■ Textiles | 20% |
| ■ Manufactured products | 32% |
| ■ Capital goods and transport equipment | 29% |
| ■ Miscellaneous | 4% |



IMPORTS by products

| | |
|---|-----|
| ■ Agriculture raw materials | 6% |
| ■ Fuels | 15% |
| ■ Ores and metals | 6% |
| ■ Chemical products | 14% |
| ■ Manufactured products | 20% |
| ■ Capital goods and transport equipment | 35% |
| ■ Miscellaneous | 4% |

STANDARD OF LIVING / PURCHASING POWER

| Indicators | Turkey | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 8,420 | 9,171 | 5,540 |
| GNP per capita (USD) | 4,710 | 4,147 | 2,117 |
| Human Development Index | 0.750 | 0.771 | 0.660 |
| Wealthiest 10% share of national income | 31 | 25 | 30 |
| Urban population percentage | 66 | 63 | 43 |
| Percentage under 15 years old | 29 | 20 | 29 |
| Number of computers per 1000 inhabitants | 52 | 95 | 48 |

Turkmenistan

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 5.0 |
| GDP (US\$ million) | 6,774 |
| GDP per capita (US\$) | 1,368 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

In 2006, the hydrocarbon and construction sectors fuelled GDP growth, estimated at 9 per cent in 2006. Gas exports should continue to increase significantly in 2007 and 2008 thanks to contracts concluded with Russia and Iran and the extent of reserves. The growth of oil extraction should, however, be more moderate. In the agriculture sector half of irrigated land is used to grow cotton, making Turkmenistan the tenth largest world producer but at the cost of serious environmental damage.

Turkmenistan's political and economic isolation has been the main obstacle to exploiting the great development potential afforded by its large gas reserves, with the country dependent on

Gazprom to sell the gas. The economy has remained highly centralized and the resulting arbitrariness of decisions has not been conducive to investment.

The country's isolation from the international community was especially due to the complete concentration of political power in the country around the head of state, President Saparmurat Niyazov, who died suddenly from a heart attack on 21 December. Prospects for a softening of the regime and gradual opening of the economy are still very uncertain. The increasingly frequent replacement of government officials decided by the head of state before his death was, however, doubtless indicative of growing anxiety over the various colour revolutions in the region.

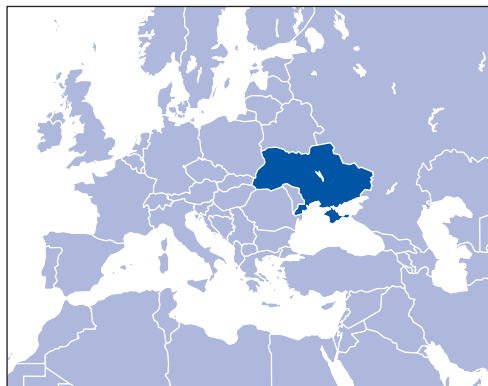
MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 14.9 | 13 | 8.0 | 11.0 | 9.0 | 8.0 |
| Inflation (%) | 7.8 | 2.7 | 4.0 | 1.0 | 10.5 | 11.0 |
| Public sector balance (%GDP) | 0.2 | -1.3 | 1.1 | n/a | n/a | n/a |
| Exports | 2.9 | 3.5 | 3.9 | 4.6 | 4.7 | 4.9 |
| Imports | 2.1 | 2.5 | 3.1 | 3.5 | 3.9 | 4.0 |
| Trade balance | 0.7 | 1.0 | 0.7 | 1.1 | 0.9 | 0.9 |
| Current account balance (%GDP) | 3.7 | 1.8 | 1.4 | 6.8 | 3.8 | 3.1 |
| Foreign debt (%GDP) | 38.6 | 29.2 | 20.9 | 14.0 | 10.7 | 7.5 |
| Debt service (%Exports) | 35.0 | 37.0 | 36.0 | 36.0 | 36.0 | 36.0 |
| Foreign currency reserves (in months of imports) | 13.0 | 10.0 | 7.4 | 8.3 | 8.9 | 9.4 |

f = forecast

Ukraine

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 47.1 |
| GDP (US\$ million) | 81,664 |
| GDP per capita (US\$) | 1,733 |



Short-term: **C**

Medium-term:

High risk

Coface analysis

STRENGTHS

- The success of the democratic process constitutes the 'orange revolution's' main achievement.
- Ukraine has benefited from the revenues generated by transit duties on Russian gas exports to Europe.
- Bordering the EU, the country is strategically positioned.
- It boasts a skilled, relatively low-cost labour force.
- Public-sector debt has been under control.

WEAKNESSES

- Productive sector restructuring has been lagging and exports are still not very diversified (metallurgical products).
- Ukraine remains dependent on Russia for its energy inputs and for a substantial portion of its metal exports.
- Ideological, geographical and linguistic divisions have tended to limit the government's capacity to carry out reforms.

RISK ASSESSMENT

The economy recovered in 2006 and should remain relatively dynamic in 2007, driven mainly by investment and consumption. Major structural weaknesses have persisted, however, including substantial energy dependency and limited export diversification. Delays in restructuring the productive sector along with notable governance shortcomings have been undermining the business environment.

Inflation should rise amid increasing gas prices, the raising of administered prices, and more accommodating fiscal policy. The current account deficit should continue to widen, moreover, under the effect of domestic demand and deteriorating terms of trade (rising imported gas prices and possible decline of exported steel prices) with,

however, the invisibles surplus partially offsetting the trade deficit.

After months of gridlock following the inconclusive legislative election outcome in March 2006, a new government coalition dominated by the pro-Russian party was installed. Although it should pursue policies essentially favourable to business, reform efforts will be likely to continue in measured steps. The pro-Western party led by President Victor Yushchenko has announced that it will combat the government from the ranks of the opposition, thereby reviving risks of confrontation between the 'orange revolution's' two camps. The president has already disputed the validity of the agreement the prime minister signed with Moscow in October 2006 on new gas prices for 2007, although they are still below world prices.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 5.2 | 9.6 | 12.1 | 2.6 | 6.5 | 6.0 |
| Inflation (%) | -0.5 | 8.3 | 12.3 | 10.3 | 9.5 | 10.0 |
| Public sector balance (%GDP) | 0.7 | -0.2 | -2.9 | -1.8 | -2.3 | -2.6 |
| Exports | 18.7 | 23.7 | 33.4 | 35.0 | 39.1 | 42.4 |
| Imports | 18.0 | 23.2 | 29.7 | 36.2 | 44.8 | 52.6 |
| Trade balance | 0.7 | 0.5 | 3.7 | -1.1 | -5.7 | -10.3 |
| Current account balance | 3.2 | 2.9 | 6.9 | 2.5 | -1.9 | -5.6 |
| Current account balance (%GDP) | 7.5 | 5.8 | 10.6 | 3.1 | -2.0 | -5.4 |
| Foreign debt (%GDP) | 46.7 | 47.5 | 47.2 | 45.5 | 45.1 | 46.1 |
| Debt service (%Exports) | 11.7 | 11.8 | 9.5 | 12.0 | 7.1 | 6.6 |
| Foreign currency reserves (in months of imports) | 2.3 | 2.8 | 3.0 | 5.0 | 4.1 | 3.7 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

Consumption continues to drive growth and private investment has picked up since late 2005. However, the country has a chronic trade deficit. Inflation should remain below 10 per cent in 2006, but the figures, reflecting spending by a largely rural and poor population, do not take into account high product and housing inflation in towns. The US dollar-pegged national currency has been stable since the beginning of the year at UAH5.05 to the dollar.

Steel prices have been firm, machine production has made a strong turnaround and sales of foodstuffs and cars are booming. Ukraine's WTO accession will depend on how quickly it adopts the 21 laws still in abeyance.

■ Means of entry

Following marked progress by the Tymochenko government towards opening up access to the Ukrainian market with a view to WTO accession, the pace of structural reforms has slowed down somewhat. Despite the enactment of a new customs code in January 2004 and mass dismissals of senior customs officers in January 2005, customs clearance formalities are often tedious in a country with an estimated 40–50 per cent grey economy. Product

certification procedures worsen import restrictions. ISO certification is deemed inadequate. Locally based foreign companies are often subjected to untimely inspections by the tax authorities and red tape. VAT refunds are irregular despite the commitments made by successive governments. There has been little movement towards the establishment of a judicial framework for bankruptcies. Finally, the government has shelved plans to cut VAT and corporation tax, which remain at their 2005 levels of 20 and 25 per cent respectively. Ukraine has stepped up intellectual property protection, but its efforts in this regard are deemed inadequate by the international community.

■ Attitude towards foreign investors

Apart from the reprivatization of Kryvorijstal, foreign investment in Ukraine declined in 2005 despite the combined efforts of President Louchtchenko and the former prime minister, Loulia Tymochenko, to attract investors. There is a genuine desire on the part of the new government to improve the business climate and promote foreign investment, but its efforts in this regard have been foiled by the impact of the reprivatizations announcement as well as the abolition of the special economic zones (SEZs), whose relaunch in line with WTO rules is under review.

EUROPE AND THE CIS

The freeze on reprivatizations, imposed by the Yekhanourov government, has led to a slight improvement in the business climate, with foreign investment picking up in 2006. All sectors of the economy are on the lookout for foreign partners, in particular banking where a number of acquisitions

have been carried out since 2005 (Agió, Aval and UkrSibbank by BNP Paribas; Indexbank by Crédit Agricole) or are expected to follow suit. There is growing interest in Ukraine among European investors, including those from the new EU member states.

OPPORTUNITY SCOPE

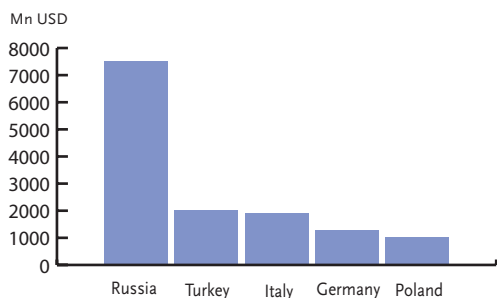
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|----|
| ■ Private consumption | 35 |
| ■ Public consumption | 12 |
| ■ Investment | 13 |

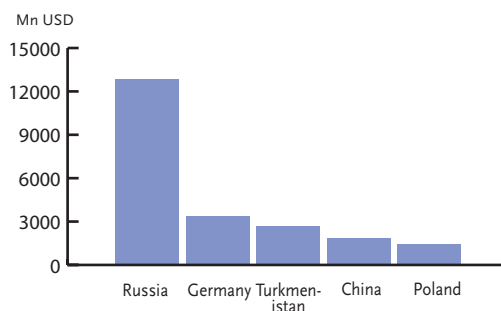
Exports: 61% of GDP

Imports: 54% of GDP

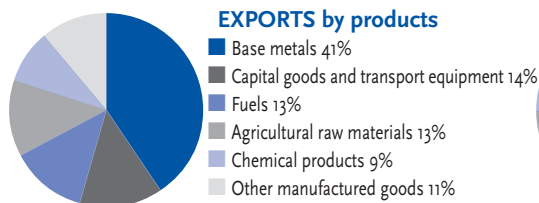
MAIN DESTINATIONS OF EXPORTS



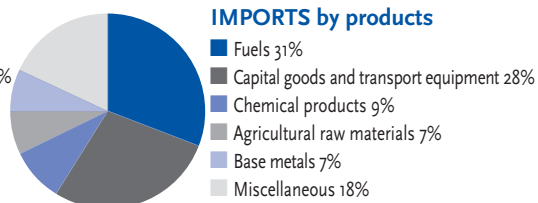
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

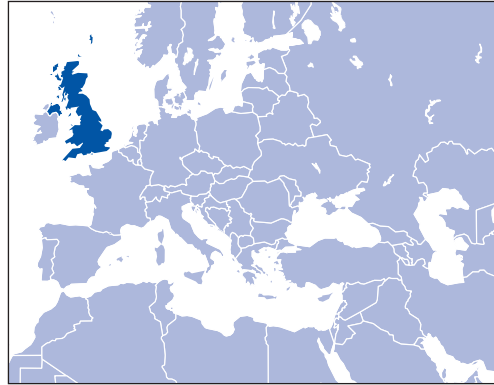


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Ukraine | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 6,720 | 9,171 | 5,540 |
| GNP per capita (USD) | 1,520 | 4,834 | 2,117 |
| Human Development Index | 0.766 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 23 | 25 | 30 |
| Urban population percentage | 67 | 63 | 43 |
| Percentage under 15 years old | 15 | 20 | 29 |
| Number of computers per 1000 inhabitants | 28 | 95 | 48 |

United Kingdom

| | |
|----------------------------------|-----------|
| Population (million inhabitants) | 60.4 |
| GDP (US\$ million) | 2,192,553 |
| GDP per capita (US\$) | 36,276 |



Coface analysis

Short-term: **A1**

STRENGTHS

- The presence of many financial institutions has contributed to the City's influence as Europe's leading financial centre.
- Strong growth potential, moderate taxes, procedural simplicity and access to the Anglo-Saxon world have attracted foreign capital.
- High value-added sectors like pharmaceuticals, biotechnology and electronics have benefited from good international positioning.
- Despite workforce growth fuelled by immigration, labour market flexibility and employment agency effectiveness have stemmed unemployment.
- With national hydrocarbon production covering three-quarters of its energy needs, the country has been able to avoid further growth of its trade deficit.

WEAKNESSES

- Inadequate public sector investment in education, research and transport has undermined productivity.
- Deterioration of public finances will not facilitate resolving those deficiencies.
- Risks of the property bubble bursting have persisted.
- Northern England, Wales and Scotland have not succeeded in reducing the gap with the Greater London region.
- Differences in the level of activity prevailing in financial services, high technologies and property, in comparison with traditional industries, has complicated matters in adjusting economic policy.

RISK ASSESSMENT

The economy recovered its dynamism in 2006 amid an upturn in manufacturing and good performance by financial services and business consulting – with the tertiary sector generating 75 per cent of GDP. A housing market recovery again spurred household consumption, little affected by inflationary pressures and tightening monetary policy. The pace of investment increased to improve productivity, ease production capacity problems and reduce the energy bill. A spectacular export revival spurred by the recovery in Europe did not

suffice, however, to keep the current account deficit from growing.

The economy should weaken slightly in 2007 despite an initial easing of monetary policy. Export growth should become more moderate as a result of the foreign demand slowdown and past pound sterling appreciation; productive investment will be dragged down in its wake. Household spending should hold up better, however, buoyed by the higher incomes expected to result from wage negotiations early in the year. Slower employment growth in services and the cap on hiring and wages

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 2.0 | 2.5 | 3.2 | 1.9 | 2.6 | 2.3 |
| Consumption (var.) | 3.4 | 2.6 | 3.6 | 1.3 | 2.3 | 2.2 |
| Investment (var.) | 0.3 | -2.2 | 3.3 | 3.0 | 5.0 | 3.0 |
| Inflation | 1.3 | 1.4 | 1.3 | 2.1 | 2.3 | 2.1 |
| Unemployment | 5.2 | 5.0 | 4.7 | 4.8 | 5.5 | 5.8 |
| Short-term interest | 4.0 | 3.7 | 4.6 | 4.7 | 5.1 | 4.3 |
| Public sector balance (%GDP) | -1.5 | -3.3 | -3.3 | -3.3 | -3.2 | -3.0 |
| Public sector debt (%GDP) | 41.5 | 42.0 | 44.0 | 47.0 | 50.0 | 53.0 |
| Exports (var.) | 0.1 | 1.2 | 3.9 | 6.5 | 12.0 | 5.0 |
| Imports (var.) | 4.5 | 1.8 | 5.9 | 5.9 | 11.0 | 6.0 |
| Current account balance (%GDP) | -1.8 | -1.5 | -2.2 | -2.2 | -2.5 | -2.5 |

e = estimate, f = forecast

in the public sector will have a limited impact as will the increased unemployment due primarily to working population growth fuelled by immigration and later retirement ages. With tax revenues levelling off and spending on education and research rising, the fiscal deficit should remain at its current level and public-sector debt should increase.

In a buoyant economic context, the Coface payment incident index has remained below the world average. That is consistent with the fall in company bankruptcies observed since the second quarter of 2006, which breaks four consecutive

quarters of increase in payment failures. Considering the limited nature of the slowdown expected in 2007, this favourable trend should continue. Several sectors will, however, remain subject to payment failures including: textiles; car parts manufacturers and vehicle distribution; paper processing; printing; home electronics; and computer equipment, games and software. Textiles and metallurgy will remain weakened by Asian competition. Conversely, services will continue to generate satisfactory profitability and substantial financial surpluses.

MAIN ECONOMIC SECTORS

■ Car industry

With production and sales declining sharply, 2006 was a gloomy year and the downward trend should continue in 2007. Some carmakers – foreign as well as national – had to resort to plant closings and layoffs. That unfavourable climate, albeit mitigated somewhat by the Nissan and BMW announcements of plans to increase their investment programmes in the country, has had a negative effect on parts manufacturers already struggling to pass on increasing costs in sales prices. The fact that American carmakers and parts manufacturers have put themselves under Chapter 11 bankruptcy protection has increased the financial difficulties of

their British subsidiaries. The financial health of companies in this sector should, thus, remain weak in 2007.

■ Construction

The sector strengthened in 2006 with reserves accumulated amid rising property prices, facilitating the financing of strategic acquisitions. That dynamism will carry over to 2007. The inadequacy of public programmes in reducing the housing deficit, notably in public housing, should buoy the activity of the private property market. Preliminary work on the 2012 Olympics should also boost the building industry.

■ Telecommunications

Sales rose 3 per cent in the sector in 2006, spurred especially by mobile telephony. Broadband, along with the internet protocols for voice and television, have ensured satisfactory use of cable and fixed-line networks, offsetting the decline of fixed telephony. The launch of 3G has not, however, contributed to growth. The profit erosion caused by convergence in conjunction with bundled services has given rise to restructuring that will continue in 2007, especially with business expected to slow and competition to intensify.

■ Retail

Despite fierce competition and initial signs of consumption weakening, retail sales remained at a satisfactory level in 2006. There was a disquieting increase in company failures, however, with some CD, DVD, software and video-game distributors unable to clear excess stock and cope with the price war gripping the sector. Online sales registered a marked increase with Ebay and Amazon among the leaders of that trend. Market conditions should not improve much in 2007.

■ Wood/furniture

In 2006, wood trading recovered its dynamism of two decades ago, a development essentially due to

the growth of soft wood prices. The trend was less favourable, however, for process industries. Furniture production, thus, fell sharply during the year due to a change in purchasing policy with distributors giving preference to inexpensive imports from Eastern Europe over national production. The economic slowdown, increased competition from Eastern European countries and the high prices expected for wood should keep the pressure on margins in 2007.

■ Agriculture

Avian flu and swine fever crises in 2006 bore out the sector's vulnerability, exacerbated by poor weather conditions. The government, cooperatives and mutual associations thus set up a compensation scheme in case of a new catastrophe apt to jeopardize sector viability. To remain competitive in dealing with clients and suppliers, farms (often under pressure from supermarkets) and their buying groups increased their size through acquisitions. In a sector marked by lengthening payment times for direct aid and rising electricity, water and fuel prices, the financial situation of players in this sector will remain difficult.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Although cheques are widely used as a method of payment, they do not provide real security as non-payment of cheques is not a criminal offence (cheques do not have to be covered when issued). The drawer of a cheque may stop payment at any time. Cheques can be presented for cashing a second time under the RDPR option (Refer to Drawer Please Represent).

The bill of exchange, while rare in commercial transactions, is used in special cases.

If a foreign bill remains unpaid at maturity, it must be protested. The open account system, which makes it possible to reduce costs, especially in case of phased sales, can only work effectively after the co-contracting party establish mutual trust

and confidence. Centralized accounting helps reduce costs and cashing times.

Bank transfers are regularly used for domestic and international payments, especially via the SWIFT electronic network used extensively by major British banks for speedy and secure processing. Leading British companies also use two other highly automated interbank transfer systems – BACS (Bankers' Automated Clearing Services) and CHAPS (Clearing House Automated Payment Systems).

■ Debt collection

Debt collection agencies or solicitors handle the recovery of overdue payments, which begins with the service of formal notice reminding the debtor of

his contractual obligations, increased by past-due interest. Under the ‘Late Payment of Commercial Debts (Interest) Act 1998’, small companies are entitled – since 1 November 1998 – to demand default interest from large companies, both public and private. This law, introduced in successive stages with the last stage coming into effect on 7 August 2002, now permits all commercial companies to bill interest in cases of late payment. Save as otherwise provided between the parties, the applicable rate of interest is the Bank of England’s base rate (dealing rate) plus eight percentage points.

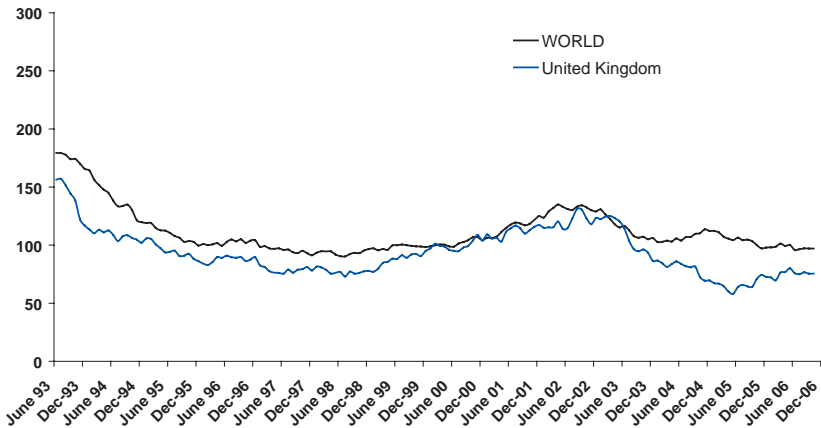
A creditor initiates the legal collection process by lodging a claim form with the competent legal authority, accompanied by the supporting documents. Summary judgements, speedier rulings obtained during ordinary proceedings, are more difficult to obtain by the claimant on claims contested by the defendant. The reform of the judicial process (or the Lord Woolf reform), which saw the introduction of new Civil Procedure Rules with effect from 26 April 1999, is considered by lawyers to be a major breakthrough in dealing with disputed claims. The new rules of procedure have gradually cut litigation time, while parties can seek

ways of coming to a settlement either directly or through mediation according to the alternative method for settling disputes (ADR: Alternative Dispute Resolution).

Devices for speeding up proceedings include the creation of three separate legal tracks – small claims track, fast track, and multitrack – according to the claim amount at stake, the streamlining of the supporting document-submission and evidence-disclosure system, and establishment of a hearing schedule by the court at the outset of proceedings. Judgements are enforced either through conventional methods (service of a writ of execution by bailiff, attachment of debtor assets with subsequent auction) or, more directly, for claims exceeding £750 formally serving a statutory demand for payment by the creditor. Then, after expiry of a 21-day period and in the absence of payment, transaction or provision of a payment guarantee, the creditor may file a winding-up petition with the court.

To elicit a speedier reaction or payment by debtors, the statutory demand procedure may be used in some cases to collect uncontested claims directly, without obtaining a prior ruling.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Uzbekistan

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 26.9 |
| GDP (US\$ million) | 13,667 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



STRENGTHS

- Uzbekistan is endowed with extensive mining resources, especially hydrocarbons and gold, allowing it to rake in substantial foreign currency earnings and attract foreign investment.
- The region's most populous country, it offers substantial market potential capable of attracting foreign investors.
- Public and external debt ratios have been moderate.

WEAKNESSES

- The lack of economic diversification will compromise growth in the long term, while making the economy excessively vulnerable to raw-material price fluctuations.
- A clientelistic power structure and extensive corruption have fostered poor governance.
- The hardening of the regime since the May 2005 riots could heighten tensions in a context of social discontent.
- The discontent could foster the rise of Islamic fundamentalism.

RISK ASSESSMENT

High raw material prices and increased cotton production remained – as in 2005 – the primary causes of the high growth posted in 2006. Although that trend should continue in 2007, the inflationary spike that developed after the loosening of fiscal policy in the run-up to presidential elections in December 2007 has been disquieting.

The country's external financial situation has undeniably benefited from the high prices of the raw materials constituting the focus of its export specialization (gold and hydrocarbons). That has allowed it to generate a very substantial current account surplus and significantly reduce foreign debt ratios.

The sociopolitical framework and business environment have been the main cause for concern. The business environment, in particular, will hardly be very conducive to sustainable growth. Excessive government intervention in commercial transactions and the banking system has hampered the development of companies. Financial intermediation is still very insufficient. Beyond the December 2007 presidential election, there is complete uncertainty over the succession of Islam Karimov. New waves of violence comparable to the Andijan riots in spring 2005 will remain possible in a context of exacerbated social frustration and the rise of the Islamic religion.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 3.1 | 1.5 | 7.4 | 7.0 | 6.5 | 6.7 |
| Inflation (%) | 21.6 | 3.8 | 3.7 | 7.8 | 8.5 | 9.8 |
| Public sector balance (%GDP) | -0.8 | -0.4 | -0.4 | 0.1 | 0.3 | -0.3 |
| Exports | 2,510 | 3,240 | 4,290 | 4,930 | 5,180 | 5,780 |
| Imports | 2,186 | 2,405 | 3,060 | 3,460 | 4,140 | 4,600 |
| Trade Balance | 324 | 835 | 1,230 | 1,470 | 1,040 | 1,180 |
| Current account balance | 97 | 863 | 1,112 | 1,288 | 785 | 985 |
| Current account balance (%GDP) | 1.0 | 8.5 | 9.3 | 10.3 | 6.0 | 6.7 |
| Foreign debt (%GDP) | 49.4 | 49.5 | 41.9 | 38.3 | 39.3 | 37.5 |
| Debt service (%Exports) | 24.4 | 19.7 | 17.1 | 17.6 | 16.9 | 15.7 |
| Foreign currency reserves (in months of imports) | 4.8 | 6.1 | 6.7 | 7.6 | 6.6 | 6.6 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

Uzbekistan signed Article 8 of the IMF charter on 15 October 2003, while declaring free convertibility of its currency. It has since made slow and steady changes to its trade legislation, but has fallen short of full market liberalization. To ensure regular debt service repayments, the Uzbek government is restricting large-scale projects. On the other hand, the volume of ordinary trade, is rising steadily.

Due to the decision-making process and the government's cautious attitude towards any increase in the country's debt, access to the Uzbek market remains difficult, especially for small and medium-sized firms. Companies bidding for contracts must be able to absorb the costs associated with the lengthy timescales for mounting a project. Moreover, slow decision-making often results in price reviews based on exchange rate movements. This makes it all but impossible to do without a currency hedge. Large companies can, however, find business opportunities if they arrange appropriate project finance. To rein in debt, the government has decided to act on the advice of international financial institutions and limit the sovereign guarantee facility to genuine priority areas. The country's debt service capacity is, in fact,

checked by volatile export revenues derived mainly from cotton and gold.

International organizations like the EBRD, ADB and IBD are ready to assist with projects that help open market access and develop the private sector. The Uzbek Chamber of Commerce, set up in 2004, is actively involved in facilitating relations between Uzbek and foreign firms. Its task is that of limiting all-too-frequent state intervention, but progress so far has been slow.

■ Means of entry

Market access is the focus of regulatory and legislative reforms in line with the opening of the foreign exchange market to the national currency. Currently all sectors are open except those considered strategic. There are no special restrictions on imported consumer and capital goods.

The recommended means of payment remains the irrevocable and confirmed letter of credit. Payments in hard currency are no longer restricted by the currency's lack of convertibility but by the shortage of foreign exchange at customers' banks.

■ Attitude towards foreign investors

Uzbek legislation offers investors safeguards against discrimination, nationalization and expropriation,

while authorizing free repatriation of profits and capital. The only constraint is the availability of foreign exchange. Red tape remains the biggest obstacle, but legislation on this matter is under review. Uzbekistan is privatizing its enterprises and has prepared a list of companies up for sale. However, the majority of them have either filed for insolvency or exist only on paper. For takeovers, the rule is to get foreign investors to renew the production apparatus, although they are not required to retain existing staff. In strategic sectors (such as cotton and its derivatives, gold, energy and aeronautics), foreign shareholdings are subject to a 40 per cent ceiling, with the Uzbek government retaining a majority stake.

Uzbekistan is a member of the Islamic Development Bank and receives assistance from major multilateral financial institutions (IBRD, ADB, World Bank).

■ Foreign exchange regulations

The currency has been fully and freely convertible since 15 October 2003. However, the government manages its currency flows with a great deal of caution. The exchange rate seems to have steadied. The main problem facing firms doing business or making an investment is the shortage of foreign exchange; it takes, on average, less than a month to obtain foreign exchange. Nevertheless, the country is facing liquidity problems.

OPPORTUNITY SCOPE

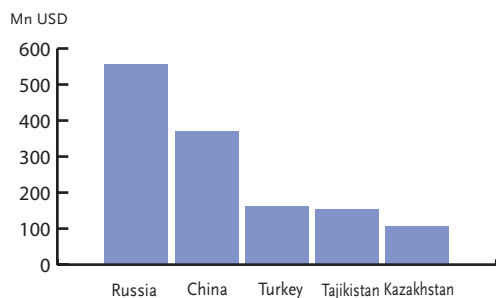
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 44 |
| Public consumption | 15 |
| Investment | 13 |

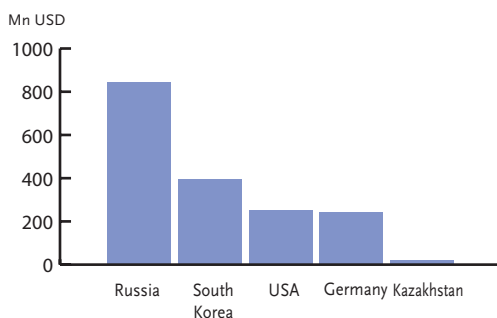
Exports: 40% of GDP

Imports: 32% of GDP

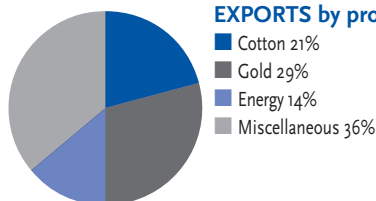
MAIN DESTINATIONS OF EXPORTS



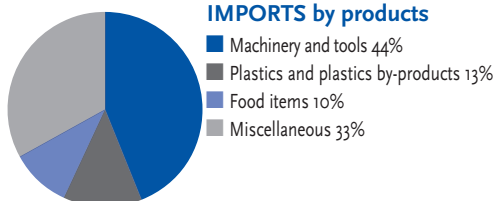
MAIN ORIGINS OF IMPORTS



EXPORTS by products

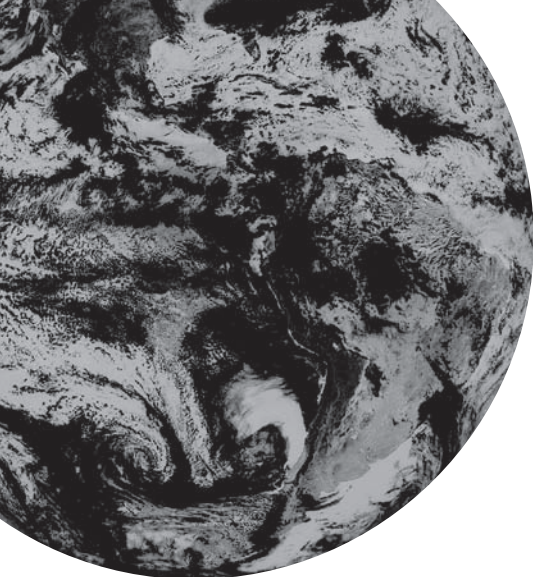


IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Uzbekistan | Regional average | DC average |
|--|------------|------------------|------------|
| GNP per capita (PPP dollars) | 2,020 | 9,171 | 5,540 |
| GNP per capita (USD) | 510 | 4,834 | 2,117 |
| Human Development Index | 0.694 | 0.766 | 0.660 |
| Wealthiest 10% share of national income | 22 | 25 | 30 |
| Urban population percentage | 37 | 63 | 43 |
| Percentage under 15 years old | 35 | 20 | 29 |
| Number of computers per 1000 inhabitants | n/a | 95 | 48 |



The Americas

2

| | |
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| Outlook for 2007: The Americas | 142 |
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The Americas

Sylvia Greisman and Pierre Paganelli

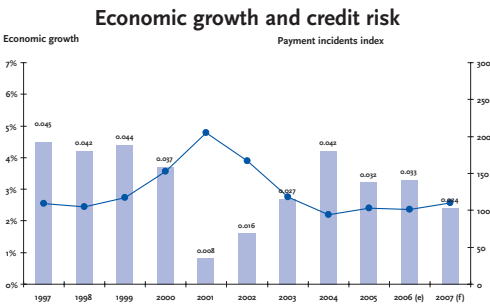
Country Risk and Economic Studies Department, Coface

NORTH AMERICA

■ **A gentle slowdown, but with some sectors appearing very vulnerable**

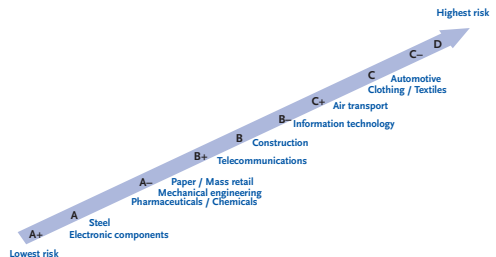
► In the **United States** (rated A1), the high economic growth in 2006 resulted in generally good corporate solvency that the second half slowdown failed to jeopardize.

The slowdown should continue in 2007. A real-estate decline and slower household consumption growth will constitute a less favourable environment for companies that the likely halt in the monetary tightening process and levelling off of raw material prices will not offset entirely. Barring a more severe growth shock, companies should be able to cope with this less buoyant context having raked in record profits for several years. Although only moderate deterioration of their solvency and payment behaviour appears likely, it will primarily affect certain sectors.



contend with serious financial difficulties and present a high level of risk that the sluggish sales expected in 2007 should hardly improve. **Construction** (rated B) and the business sectors depending on it should suffer from the property market slowdown, despite the steadiness of the non-residential and public works segments. At a lower level of risk, **mass distribution** (rated A-) will suffer from less dynamic consumption, with Wal-Mart's performance already disappointing in 2006. **Pharmaceuticals** (rated A-) will have to contend with increasing competition from generics, with many patented drugs falling into the public domain. The Democratic Party's victory in November 2006 should ultimately lead to renegotiation of lower drug prices in the Medicare programme framework. **Chemicals** (rated A-), **mechanical engineering** (rated A-) and even **air transport** (rated C+) will suffer less from the demand slowdown and/or, as in the case of **steel** (rated A), will benefit from a levelling off of their input prices.

Scale of sectoral risk: North America



American carmakers and most of their subcontractors (rated C)¹ will continue to

¹ = Coface accords sector ratings on a global and regional basis. Ratings mentioned here are for North America.

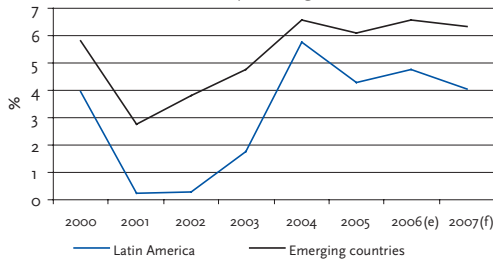
LATIN AMERICA

■ In a slightly less buoyant international environment, domestic demand will be crucial...

► In Latin America, growth should slow slightly in 2007 to about 4.2 per cent, down from 4.8 per cent in 2006, in a somewhat less buoyant international environment, marked by the growth slowdown in the United States and the likely decline of raw material prices. That rate will remain slightly below the average – slightly above 6 per cent – for all emerging countries. Overall, domestic demand will be Latin America’s main economic engine.

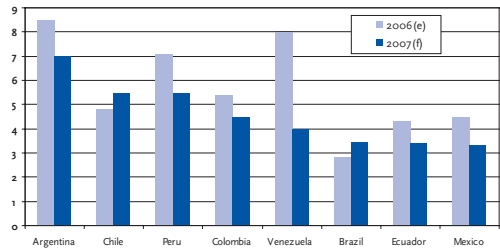
Household consumption should represent two-thirds of growth, spurred by the expansion of public spending and credit in most large economies and, notably in the case of **Mexico** and Central American and Caribbean countries, by expatriate transfers. Investment should make a greater contribution, particularly in **Brazil** and **Mexico**. World demand for raw materials should sag, however, and affect the economic expansion of a region heavily dependent on commodity exports.

GDP growth remains below the emerging country average



The main Latin American economies will break down into two distinct groups. The expansion will remain dynamic in **Argentina** (up 7 per cent), due notably to the domestic demand support policy pursued by the government, **Chile** (up 5.5 per cent), with public and private consumption the main economic drivers, and **Peru** (up 5.5 per cent), spurred by strong internal and external demand. Growth will be lower, however, in **Mexico** (up 3.3 per cent), amid the North American economic slowdown, **Brazil** (up 3.4 per cent), due to structural impediments, and **Venezuela** (up 4 per cent), with a public spending slowdown following the presidential election late 2006.

Economic growth trends in principal Latin American countries

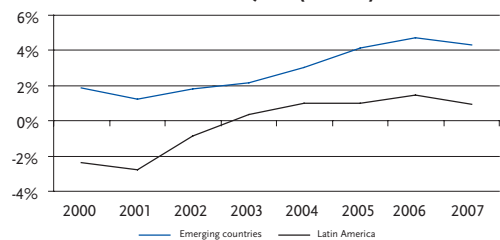


Despite the progress made – with an albeit still-high poverty rate down to 40 per cent in 2005 – many obstacles continue to undermine growth potential: continued unequal income distribution, poor-quality education, an excessive level of informal employment, a public-sector debt burden restricting financing for modernization spending, institutional deficiencies and governance problems. Those fundamental structural weaknesses are notably reflected by an insufficient investment contribution to GDP – about 20 per cent for the entire region – that is too low in absolute terms and in comparison to the other emerging regions.

■ Marked improvement in the external financial situation

► Latin America should run a current account surplus (up 0.8 per cent on average) for the fourth straight year, however it will be down from 2006, with exports by the main Latin American countries expected to increase only 5 per cent in value terms in 2007 against 17.5 per cent in 2006. The volume of expatriate remittances, particularly in Central American countries, will enable this slower expansion to be offset.

Current account surplus for the fourth consecutive year (%GDP)



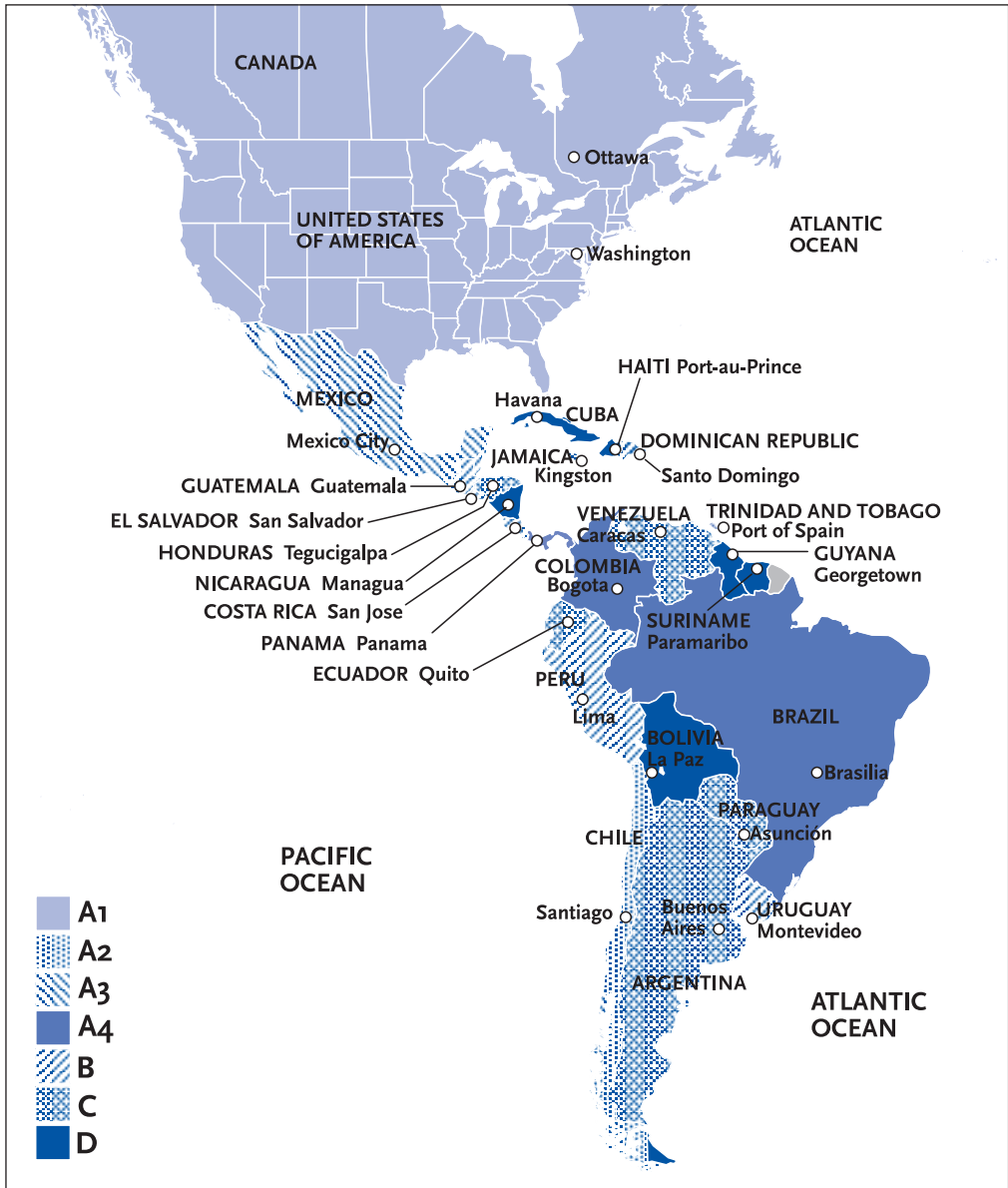
The effect of the probable slowdown of demand and world prices for commodities, except oil, along with

THE AMERICAS

a lack of competitiveness in manufactured goods in comparison, essentially, with Asia reflect the shaky underpinnings of the region's economic performance. Export growth will, thus, be very moderate in the significant mineral-producing countries like **Chile** (copper) or **Peru** (gold, copper, zinc). The region's main oil-producing countries (**Colombia**, **Ecuador**, **Mexico** and **Venezuela**)

should continue to benefit from continued relatively high prices. **Argentina** (benefiting from an undervalued peso) and **Brazil** have more diversified exports and will, thus, be less vulnerable. Traditional industrial sectors, like textiles and clothing, are still struggling to meet competition from Asia. That also applies to certain export subcontracting industries (*maquiladoras*) in **Mexico** and Central America.

COFACE MAP OF COUNTRY @RATINGS



The accumulation of current account surpluses in recent years has facilitated a sharp build-up of foreign currency reserves, which reached the record level of US\$300 billion end-2006 and should continue to grow in 2007, although more moderately. Those extensive reserves would constitute a significant safety net in case of exogenous shocks. In that context, the foreign debt-

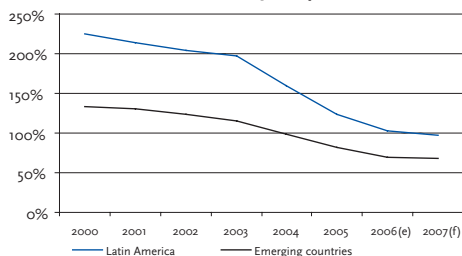
reduction process has continued in most Latin American countries, which in 2006 have taken advantage of still-favourable international market conditions to improve their debt profiles. In relation to GDP, the average debt ratio in the region should come to 26 per cent in 2007, the same as the average for all emerging countries. **Mexico** and **Brazil** will have ratios of about 18 per cent. Among large

COFACE MAP OF MEDIUM- AND LONG-TERM COUNTRY RISK



countries in the region, only **Argentina** will continue to have a high debt-to-GDP ratio (56 per cent), despite a sharp reduction in the amount of foreign debt as a result of the restructuring carried out in June 2005.

External debt ratios falling sharply compared with exports, but remaining high (% of goods and services exports)



The percentage ratio of debt to goods and services exports has also registered notable improvement, with a regional average of about 100 per cent expected in 2007. **Argentina**'s performance will again be conspicuous, with a ratio of 226 per cent while at the other extreme **Mexico** and **Venezuela** will sport ratios of about 50 per cent. **Brazil** will succeed in positioning itself in the middle range. The average ratio will, nonetheless, remain substantially above an estimated 67 per cent emerging country average. An excessive level of debt in relation to exports continues to be a regional weakness.

The benefits of generally more finely-tuned monetary and fiscal policies...

The enhanced credibility enjoyed by the central banks has led to adoption of more effective monetary policies and contributed to the steadiness of local currencies, which should facilitate maintaining inflation of around 5 per cent, on average, in 2007 with two notable exceptions. In **Argentina**, despite price controls, inflationary pressures should persist (up 10 per cent), due especially to near-capacity production rates; in **Venezuela**, the expected upsurge of inflation (11.3 per cent) is attributable to accommodating monetary and fiscal policies.

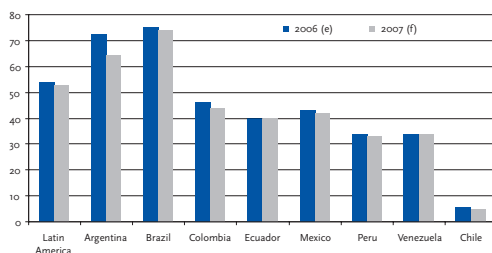
Continued fiscal discipline will make it possible to stabilize the regional average fiscal deficit level at slightly above 1 per cent of GDP in 2007, despite

somewhat less-favourable economic conditions and, thus, slower fiscal revenue growth. Some countries will even continue to run surpluses. Chile should generate a 4.5 per cent surplus in relation to GDP by pursuing strict policy. **Ecuador**'s continued surplus (2.8 per cent of GDP) will be attributable to the oil windfall, while **Argentina**'s surplus (1 per cent) will result from continued high growth. Among large regional countries, **Brazil** will continue to be the exception with a still relatively high fiscal deficit representing a negative 3.5 per cent of GDP, despite tight policy and a significant primary surplus. Public spending rigidity, with a high proportion of mandatory and earmarked spending (80 per cent), will remain a handicap.

...but continued high public sector debt ratios, despite a decline

After declining significantly from 2004 to 2006, the average public-sector debt ratio for Latin America should stabilize at a still-high 53 per cent of GDP, compared with the 43 per cent ratio expected on average for all emerging countries. Except **Chile**, most Latin American countries will remain handicapped by their public-debt burdens. In **Brazil**, with a gross ratio estimated at 74 per cent of GDP for 2007, although public-sector debt has remained vulnerable to domestic interest rate variations and its average maturity is still too short, local currency bonds have replaced the portion denominated in foreign currency. In **Argentina**, despite a decline, the debt level will remain high in 2007, at an estimated 65 per cent of GDP, with the improvement registered in public finances resulting more from favourable economic conditions than structural adjustments.

Public debt/GDP ratios still high, notably in Argentina and Brazil, with the exception of Chile (%)



A general improvement in the structure of public-sector debt is, however, underway in Latin America, with most countries practising more active management to reduce the proportion of short-term, variable-rate and foreign currency debt, while giving greater emphasis to domestic sources of financing, facilitated by improved macroeconomic fundamentals.

To enhance macroeconomic stability and reduce a level of poverty that has provided fertile ground for spawning social protest, public finances will require major structural reforms in order to broaden the fiscal revenue base, reduce public spending rigidity and develop social programmes based on conditional assistance (like **Chile's** *Solidario*, **Brazil's** *Bolsa Familia*, or **Mexico's** *Oportunidades*).

■ **A more democratic framework, marked by growing social demands in a still perfectible institutional and business environment**

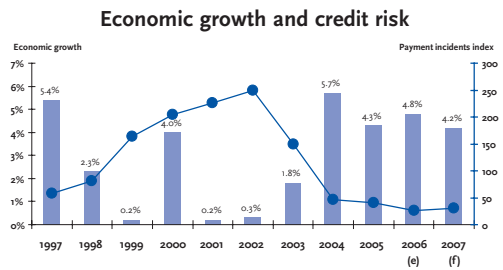
► The democratic process has strengthened in recent years in Latin America, and there have been notable advances, particularly as regards the effectiveness of universal suffrage and the military's reduced role in politics. However, problems have persisted, due notably to institutional deficiencies and, in particular, to continued high levels of poverty and inequality. Those social factors and greater transparency were responsible for the victories of left-wing candidates in several countries, except **Colombia** and **Mexico**, in the many presidential elections held in 2006. In practice, however, that trend has taken very different forms in the various countries – pragmatic in some cases, such as **Brazil**, **Chile**, **Peru** and **Uruguay** in particular – with the presidents concerned obliged to come to terms with coalition governments and populist and socialist-leaning (as in **Bolivia**, **Ecuador**, **Venezuela** or even **Argentina**). Elections held in certain Andean countries (**Bolivia**, **Ecuador** and **Peru**) have, meanwhile, spurred the emergence of growing demands on control of natural resources and wealth distribution that could trigger new tensions and deter investment.

► There is still much room for improvement as regards the institutional and business environment,

with the growth potential of many Latin American countries undermined by the poor quality of civil and public services, a weak legal system and extensive corruption and insecurity. Those weaknesses are reflected by the poor governance ratings of almost all Latin American countries – with the notable exception of Chile and, to a lesser extent, Costa Rica and Uruguay – based on the World Bank's classification system.

■ **Corporate solvency has improved overall**

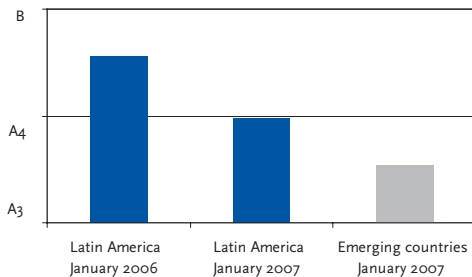
► In this more favourable context, despite moderate regional growth, corporate solvency has improved overall, as has payment behaviour, even if specific difficulties may be affecting certain sectors such as textiles, which is suffering from Asian competition and agriculture, exposed to changes in weather conditions.



In **Chile**, economic conditions have notably benefited the construction sector, mining industry, food industry and distribution, with the payment experience on companies remaining generally very satisfactory. In **Mexico**, cost reduction and restructuring efforts have allowed companies to maintain their positions in the North American market, as with the car industry, or even to take market share like some high-technology subcontracting companies. Traditional sectors still have to contend with competitiveness problems. In **Brazil**, companies have been enjoying strengthened cash positions, particularly in the most buoyant sectors: the sugar and paper industries, construction, steel, electrical equipment and aviation. Conversely, the clothing and shoe industries, as well as wheat and soybean producers, have suffered from international competition and the appreciation of the real, with the car industry in an intermediate position. In **Colombia**, construction has been the most dynamic

sector, followed by retail, mineral extraction, telecommunications and services, and corporate solvency should remain satisfactory. In **Argentina**, although business-to-business credit has been gradually resuming, with the financial health of companies improving, notably in the car industry, construction, transport, communications and tourism, uncertainties linked to the legal and judicial framework have affected the business climate. In **Venezuela**, private companies are still contending with government interventionism, which has affected investment.

■ **Regional @rating trend**



► Although declining on average, the level of risk in the region continues to vary widely by country. **Chile**'s A2 rating has remained unchanged, with the country benefiting from tight macroeconomic management and remarkable political stability. **Peru**

is still rated B, with the country still vulnerable to exogenous shocks and lacking economic diversification despite a markedly improved economic and financial situation. **Argentina** continues to be rated C, with the current good economic conditions not sufficing to mask its uncertain outlook. **Venezuela** has also kept a C rating due to the profligate use of its oil wealth, a lack of economic diversification and an unstable legal and business framework.

► The overall improvement is largely attributable to the upgrading of several major regional economies. Mexico's A4 rating improved to A3 in 2006, due to its solid economic and financial fundamentals in conjunction with improved corporate solvency. Brazil's positive-watchlisted B rating has been upgraded to A4, with its greater economic and financial stability and continuing policy of maintaining fundamental macroeconomic equilibrium constituting a more favourable environment for companies and generally benefiting their solvency. Colombia's B rating has been upgraded to A4, with improved economic and financial conditions and the pursuit of prudent economic policy fostering strong growth while corporate payment behaviour should remain satisfactory.

RATINGS OF THE MAIN REGIONAL ECONOMIES

| | January 2001 | January 2002 | January 2003 | January 2004 | January 2005 | January 2006 | January 2007 |
|-----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Chile | A3↗ | A3 | A3 | A3↗ | A2 | A2 | A2 |
| Mexico | A4 | A4↘ | A4 | A4 | A4 | A4 | A3 |
| Brazil | B | B↘ | C | B | B↗ | B↗ | A4 |
| Colombia | B | B | B | B | B | B | A4 |
| Peru | B↘ | B | B | B | B | B | B |
| Uruguay | A4 | A4 | C | D | C | B | B |
| Argentina | B↘ | D | D | D↗ | D↗ | C | C |
| Ecuador | D | D | D | D | C | C | C |
| Venezuela | A4 | A4↘ | D | D | C | C | C |
| Bolivia | B | B | D | D | D | D | D |

Argentina

Population (million inhabitants) 39.5
GDP (US\$ million) 183,309

Short-term: **C**

Medium-term:
Very high risk

Coface analysis



STRENGTHS

- Boasting abundant energy, mineral and agricultural resources, Argentina has been benefiting from the robust world demand and high prices for raw materials.
- The undervalued peso has been a boon to local production in meeting foreign competition and has made exports more competitive.
- The labour force is skilled.
- The education level and human development indicators have remained substantially above the Latin American average.

WEAKNESSES

- The economy continues to depend on raw materials and suffer from insufficient investment, particularly in the energy sector.
- Despite restructuring of its bond debt on terms favourable to Argentina in June 2005 and early repayment to the IMF in January 2006, foreign debt is still high.
- Durable improvement of public-sector finances will depend on adoption of truly disciplined fiscal policy.
- The banking sector is still shaky and too exposed to sovereign risk despite modest consolidation.
- Social tensions have remained high.

RISK ASSESSMENT

After four years of robust economic expansion, the growth rate should remain high in 2007 due, notably, to the domestic demand-stimulation policy pursued by government authorities. Foreign trade dynamism, buoyed by robust world demand for commodities and processed products as well as by policy of exchange rate undervaluation, has fostered continuing large current account surpluses. The restructuring of bond debt in default in June 2005, moreover, allowed the country to replenish its foreign exchange reserves and fully repay the IMF ahead of schedule in early 2006. In that more favourable general context, business-to-business credit has been gradually resuming and the financial health of companies has improved overall. That has

notably been the case in the car, construction, transport, communications and tourism industries.

Many weaknesses have, nonetheless, persisted. The economy has been in an overheating phase amid limited reserve production capacity, pro-cyclical fiscal policy and – despite price controls – persistent inflationary tensions. The outlook for public finances has remained uncertain while the unstructured-debt problem has been blocking Argentina's access to international financial markets, with its foreign debt ratios remaining high. The banking sector is still shaky and too exposed to sovereign risk. However, neither the interventionist economic policy currently pursued nor the run-up to the presidential election in October 2007 will be

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|------|---------------------|---------------------|
| Economic growth (%) | -10.9 | 8.8 | 9.0 | 9.2 | 8.5 | 7.0 |
| Inflation (period end%) | 41.0 | 3.7 | 6.1 | 12.3 | 10.0 | 10.0 |
| Public sector balance (%GDP) | -1.8 | 1.1 | 3.7 | 2.4 | 1.6 | 1.0 |
| Exports | 25.7 | 29.9 | 34.6 | 40.1 | 44.0 | 47.1 |
| Imports | 8.5 | 13.1 | 21.3 | 27.3 | 32.2 | 36.1 |
| Trade balance | 17.2 | 16.8 | 13.2 | 12.8 | 11.8 | 11.0 |
| Current account balance | 8.6 | 8.1 | 3.3 | 5.7 | 5.7 | 6.0 |
| Current account balance (%GDP) | 8.5 | 6.3 | 2.2 | 3.1 | 2.8 | 2.5 |
| Foreign debt (%GDP) | 158.8 | 130.1 | 114.1 | 75.2 | 63.6 | 56.0 |
| Debt service (%Exports) | 81.2 | 68.7 | 44.1 | 25.7 | 35.4 | 15.5 |
| Foreign currency reserves (in months of imports) | 5.3 | 5.8 | 5.8 | 7.5 | 7.2 | 7.7 |

e = estimate, f = forecast

conducive to implementing reforms and raising prices for privatized public services, which has been deterring investment, particularly in the energy sector. Price freezes and the regulation of prices for some food products have, moreover,

been undermining the profitability and solvency of the companies concerned. Finally, uncertainties surrounding the legal and judicial framework have been affecting the business climate.

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Between 1998 and 2002, Argentina suffered a severe economic crisis which resulted, at the end of 2001, in the country defaulting on its debt, withdrawing from the currency board, devaluing the peso by a massive 70 per cent and plunging its banking sector into a liquidity crisis. Since 2003, Argentina has staged a strong recovery marked by high growth. However, medium-term growth is expected to slow, mainly due to lack of investment in energy production.

Exchange controls introduced in late 2001 have been relaxed. Exporters are required to convert their foreign exchange earnings from exports on the Argentine currency market within a period of 60–360 days and hold the converted funds with local banks. The central bank has relaxed import regulations. In July 2005, it introduced advance payment in foreign exchange for some goods. The market has huge distortions created by multiple government interventions (price agreements, decrees to raise export taxes etc). Since 2002, all exports are subject to levies ranging from 5 per cent

to 25 per cent. This is a huge source of tax revenue, much greater than customs duties on imports.

■ Means of entry

Argentina has been a member of the WTO since 1 January 1995 as well as one of Mercosur, which comprises the four founding countries and, since December 2005, Venezuela. The 1991 founding treaty enshrines the principle of free movement of goods within the Mercosur area. In 1995, a customs union was set up with a common tariff currently averaging 11 per cent. However, it is riddled with imperfections on account of the numerous exceptions. The trade and financial imbalance between the two small members (Uruguay, Paraguay) and the two large ones (Argentina, Brazil) has exacerbated tensions within Mercosur. Goods from non-Mercosur countries are subject to the common external tariff, which ranges from 0 per cent to 28 per cent (average 13 per cent), with some tariff peaks reaching 35 per cent.

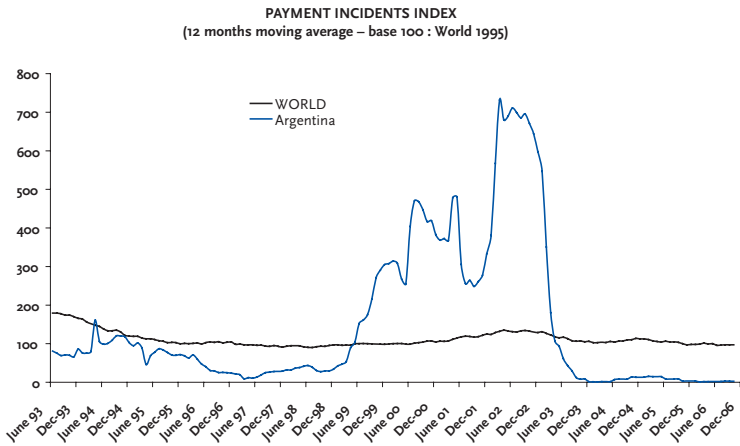
Imports are liable to 21 per cent tax (CIF + customs duties), which varies according to the

product and service. There are ad hoc indirect duties on certain goods (cigarettes, wines and spirits, luxury goods, vehicles) as well as a financial transactions tax. Products such as shoes, textiles and toys are subject to regulatory restrictions (import licences).

■ **Attitude towards foreign investors**

The legal framework governing foreign investment in Argentina appears to be very liberal. Decree 1853/93 defines the investment framework and lays down the principle of equal treatment of domestic and foreign investors as well as free repatriation of

capital and profits. Foreigners may invest – on the same terms as local investors – in virtually every branch of the economy without seeking prior approval. However, legal insecurity discourages investment. The government has repeatedly renewed economic emergency legislation giving it sweeping powers in the country’s economic management (cancellation of service concession agreements, freeze on public prices etc). Poor governance (increased state intervention, unpredictable decisions) means foreign investors must approach the Argentine market with extreme caution.



OPPORTUNITY SCOPE

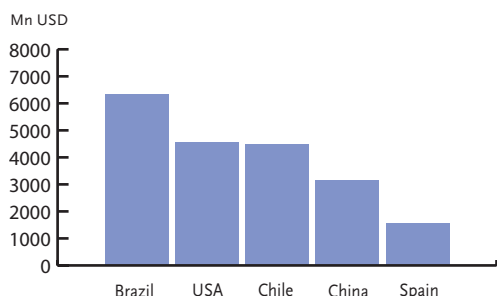
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 55 |
| Public consumption | 10 |
| Investment | 13 |

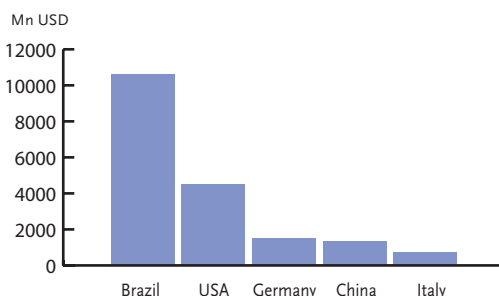
Exports: 25% of GDP

Imports: 18% of GDP

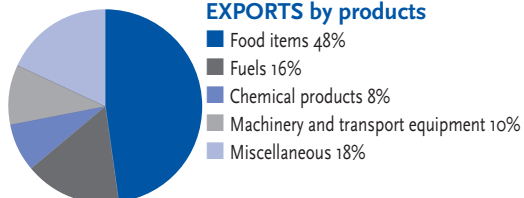
MAIN DESTINATIONS OF EXPORTS



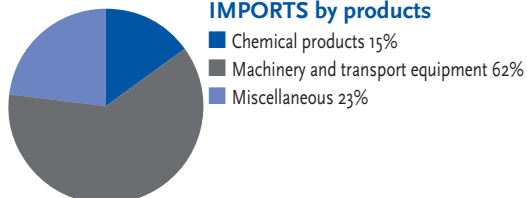
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Argentina | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 13,920 | 8,226 | 5,540 |
| GNP per capita (USD) | 4,470 | 3,978 | 2,117 |
| Human Development Index | 0.863 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 39 | 42 | 30 |
| Urban population percentage | 90 | 77 | 43 |
| Percentage under 15 years old | 27 | 30 | 29 |
| Number of computers per 1000 inhabitants | - | - | - |

Bolivia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 9.2 |
| GDP (US\$ million) | 9,334 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



STRENGTHS

- Bolivia boasts abundant hydrocarbon resources with the largest gas reserves on the continent after Venezuela, as well as extensive mineral wealth.
- An ACN member, the country has capitalized on its association with Mercosur to develop exports to two large neighbours, Brazil and Argentina, and has sought to normalize relations with another neighbour, Chile.
- Bolivia has benefited from concessional treatment of its debt by public-sector creditors and debt relief granted by multilateral financial institutions.

WEAKNESSES

- The country has suffered from its landlocked condition and ethnic and regional cleavages while its human development indicators have been among the lowest in Latin America.
- Exports have rested on a limited number of staple commodities – natural gas, oil, zinc, soybeans – with coca cultivation remaining a problem.
- Debt ratios have remained high despite the debt relief granted to a country considered poor and heavily indebted in the HIPC initiative framework.
- The banking sector's extensive dollarization continues to be a source of weakness.
- The political, social and business climates have been very uncertain with the current president's programme unlikely to ease tensions.

RISK ASSESSMENT

In accordance with the programme of the indigenist socialist President Evo Morales, in office since February 2006, the government nationalized the hydrocarbon sector end-October 2006. As the country lacks the capacity to manage the resources without foreign support, however, authorities had to make concessions to foreign operating companies, mainly Petrobras, Repsol, Total and BP.

Although the new government inherited an improved economic situation thanks to a more favourable international environment, the nationalization programme, expected to extend to the mining sector, could deter investment by foreign firms. The fiscal deficit will grow despite the

increased revenues generated by hydrocarbons, due essentially to a sharp increase in investment and redistribution spending. Although continuing to enjoy a significant external account surplus and, thus, comfortable foreign exchange reserves, the country has remained financially shaky with high foreign debt. In view of the government's policy options, furthermore, it will have to deal with the question of the Andean Trade Promotion and Drug Eradication Act's extension after its expiration at the end of 2006. Relations with creditors and international financial institutions could become strained with capital flight also a possibility.

The constituent assembly set up in August 2006 will have to provide better representation for

natives. To achieve that goal, a new constitution is expected by July 2007. The opposition has, however, disputed the absolute power exercised by a presidential majority that does not hold two-thirds of the seats in the assembly. Meanwhile, the referendum held in July 2006 on development of

regional autonomy reflected the schism between the western provinces on the high plateaux and the 'half-moon' formed by the eastern plains of Santa Cruz, Tarija, Beni and Pando, where the gas reserves are located, with continuing significant risk of separatism in that region.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.4 | 2.8 | 3.9 | 4.1 | 3.8 | 3.5 |
| Inflation (%) | 2.4 | 3.3 | 4.4 | 5.4 | 4.2 | 4.1 |
| Public sector balance (%GDP) | -8.8 | -7.9 | -5.6 | -2.3 | -1.5 | -3.6 |
| Exports | 1.3 | 1.6 | 2.1 | 2.7 | 3.7 | 3.7 |
| Imports | 1.8 | 1.6 | 1.8 | 2.3 | 2.9 | 3.2 |
| Trade balance | -0.5 | 0.0 | 0.3 | 0.4 | 0.7 | 0.5 |
| Current account balance | -0.3 | 0.1 | 0.3 | 0.5 | 0.7 | 0.6 |
| Current account balance (%GDP) | -4.1 | 1.0 | 3.9 | 5.3 | 6.6 | 5.0 |
| Foreign debt (%GDP) | 63.2 | 70.0 | 69.7 | 68.5 | 62.8 | 59.2 |
| Debt service (%Exports) | 22.4 | 24.8 | 17.8 | 14.5 | 12.7 | 12.4 |
| Foreign currency reserves (in months of imports) | 3.8 | 4.8 | 5.0 | 5.9 | 6.1 | 6.0 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

A small landlocked state surrounded by powerful neighbours, Bolivia attached great importance in the 1990s to an open-border policy and trade integration with the other countries of the region. Since 1995, it has applied the five-tier common external tariff of the Andean Community of Nations (0, 5, 10, 15 and 20 per cent). The other ACN members allow it to levy *de facto* 10 per cent flat-rate *ad valorem* customs duty on all imports from non-ACN countries, excluding some capital goods, which are liable to a reduced rate of duty.

Foreign direct investment has fallen since 2000, due partly to the completion of the investment programme involving capitalized companies and partly to the resurgence of social and political conflict. Unskilled Bolivian labour is plentiful and cheap. Wages can be fairly high for positions of responsibility. Employment of foreign staff is, in principle, limited to 15 per cent of a company's workforce.

■ Means of entry

Foodstuffs, crop and animal products require health certificates complying with the standards laid down by the ACN and approved by Bolivia. The national agency, Senasag, is responsible for administering all health standards in respect of imports, which are subject to random inspections by Bolivian customs. The growth in parallel markets is a cause for concern to legal traders.

Documentary credit is the most widely used means of payment for both cash and deferred settlements. Delivery against payment is also used, but is far less widespread. Where business relations are well established, payments are usually made by bank transfer. Corporate defaults have surged since 2000. Against this background, irrevocable and confirmed documentary credit is strongly recommended if there is any doubt whatsoever about the buyer's creditworthiness.

■ Attitude towards foreign investors

While foreign investment before October 2003 was granted the same terms as investment as that of

Bolivian nationals, in actual fact there has been an increase in the number of complaints against the latter. After years of social turmoil that weakened the country's institutions and created a climate of political instability, the election in late 2005 of President Evo Morales has resulted in the oil and gas nationalization decree of 1 May and in the announcement of agrarian reform and land redistribution. This has served as a deterrent to foreign investment.

■ Foreign exchange regulations

Bolivia is a highly dollarized country, with 85.5 per cent of bank deposits denominated in dollars at end-2004. There are no restrictions on the purchase, sale and transfer of foreign exchange. To reduce the budget deficit, in July 2004 the government introduced a 0.15 per cent tax on bank transfers of foreign currency in excess of US\$2,000. Intended as a temporary measure for a two-year period, it was extended for three years in July 2006.

OPPORTUNITY SCOPE

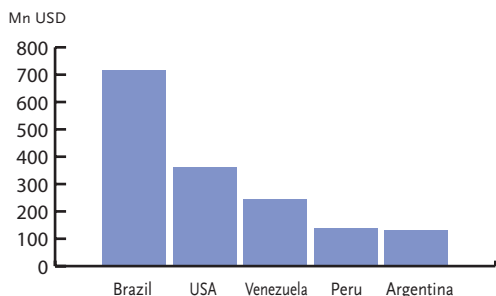
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 59 |
| Public consumption | 13 |
| Investment | 11 |

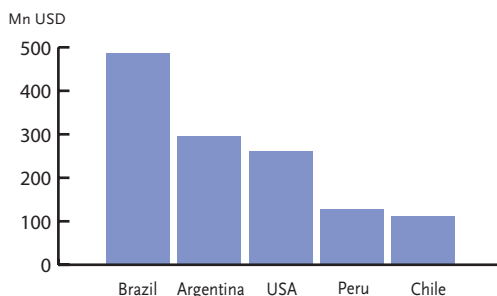
Exports: 31% of GDP

Imports: 27% of GDP

MAIN DESTINATIONS OF EXPORTS



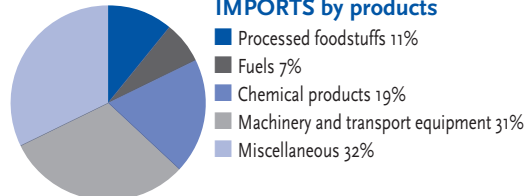
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Bolivia | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 2,740 | 8,226 | 5,540 |
| GNP per capita (USD) | 1,010 | 3,978 | 2,117 |
| Human Development Index | 0.692 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 32 | 42 | 30 |
| Urban population percentage | 63 | 77 | 43 |
| Percentage under 15 years old | 39 | 30 | 29 |
| Number of computers per 1000 inhabitants | 36 | 89 | 48 |

Brazil

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 186.4 |
| GDP (US\$ million) | 794,098 |

Short-term: **A4**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Brazil enjoys varied and abundant natural resources with a diversified economy.
- Manufactured products represent a growing proportion of production and exports.
- The country has improved its economic and financial stability and capacity to resist international financial market volatility.
- The policy of maintaining fundamental macroeconomic equilibrium should continue.
- The domestic market's potential and favourable labour costs have enhanced Brazil's attractiveness to foreign investors.

WEAKNESSES

- Public-sector debt has remained high and exposed to domestic interest rate trends, with its maturity still too short.
- Achieving sustainable growth will necessitate a range of structural reforms notably on taxes, social security, the labour market and the regulatory framework.
- A lack of investment has resulted in deficiencies in the energy sector and in rail, road and port infrastructure, with public/private partnerships still not really effective.
- Brazil has remained vulnerable to a downturn of raw material prices.
- President Lula still has little room for manoeuvre having to come to terms with a parliamentary coalition, while taking public aspirations and economic constraints into consideration.

RISK ASSESSMENT

The modest recovery of 2006 should continue in 2007 with private consumption becoming the main economic driver again. Slowing inflation meanwhile will facilitate continued easing of monetary policy. The dynamism of some export sectors, the high exchange rate notwithstanding, will ensure substantial trade and current account surpluses with a resulting sharp decline in external financing needs, very amply covered by foreign direct investment. Brazil's external vulnerability has declined, furthermore, thanks to a sharp reduction of external debt ratios after complete early

repayment to the IMF in 2005 and Paris Club creditors in 2006, along with redemption of all Brady bonds that same year.

Despite improved management, however, public-sector debt is still too high at 75 per cent of GDP in gross terms and 50 per cent net, which has hampered essential spending on modernizing infrastructure and the energy sector. The structural reforms needed to achieve more sustainable growth will be a central challenge of President Lula da Silva's second term in office after his re-election late October 2006. Progress could be slow on that score, however, with the

president obliged to compromise with a parliamentary coalition.

In that more favourable context, company solvency has improved overall amid, albeit moderate, growth, even if some sectors may be facing particular difficulties. Companies have strengthened their cash positions, especially in the more buoyant sectors: the sugar and paper industries, as well as construction, steel, electrical

equipment and the aviation industry. Clothing and shoes, however, as well as wheat and soybean producers, have suffered from foreign competition exacerbated by the appreciation of the real, which could undermine their payment behaviour. The car industry has been in an intermediate position benefiting from a dynamic domestic market, but with its exports facing greater competition.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|-------|---------------------|---------------------|
| Economic growth (%) | 1.9 | 0.5 | 4.9 | 2.3 | 2.8 | 3.4 |
| Inflation (%) | 14.7 | 10.4 | 6.1 | 5.1 | 3.0 | 4.2 |
| Public sector balance (%GDP) | -4.6 | -5.1 | -2.7 | -3.3 | -3.6 | -3.5 |
| Exports | 60.4 | 73.1 | 96.5 | 118.3 | 135.2 | 141.5 |
| Imports | 47.2 | 48.3 | 62.8 | 73.6 | 90.4 | 103.6 |
| Trade Balance | 13.1 | 24.8 | 33.6 | 44.7 | 44.8 | 37.8 |
| Current account balance | -7.7 | 4.2 | 11.7 | 14.2 | 12.2 | 5.6 |
| Current account balance (%GDP) | -1.7 | 0.8 | 1.9 | 1.8 | 1.3 | 0.6 |
| Foreign debt (%GDP) | 49.6 | 46.6 | 36.5 | 23.6 | 18.7 | 17.5 |
| Debt service (%Exports) | 67.0 | 68.1 | 47.8 | 38.8 | 25.0 | 20.7 |
| Foreign currency reserves (in months of imports) | 5.4 | 6.9 | 6.1 | 5.1 | 5.9 | 6.7 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The current minimum monthly wage is BRL300 (about €110). Employer social security and compulsory benefit contributions amount to about 50 per cent of gross wages. Pension and tax reforms could result in lower contributions, mainly for the export sectors.

■ Means of entry

The average rate of customs duty is approximately 10.7 per cent and the top rate 35 per cent. The country is bound by Mercosur's common external tariff and its manifold exceptions. Brazil maintains a number of non-tariff barriers to imports, including import licences, customs valuations and inspections, and prior product registration. The most widely used means of payment are down-payments, pre-payments, cash against documents, acceptance bills

and irrevocable letters of credit confirmed by a Brazilian or foreign bank. There are restrictions on the employment of foreigners. There are two types of work permit – permanent and temporary – both of which are awarded on a fairly restricted basis. People applying for a permanent visa must be prepared to invest US\$50,000.

■ Attitude towards foreign investors

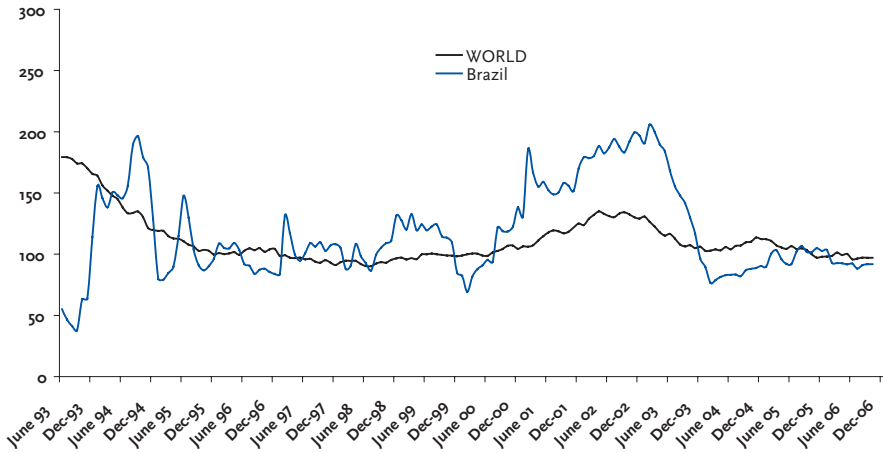
Foreign investors have to register with the central bank and declare the amount, origin and purpose of the investment. All companies and individuals not domiciled in Brazil who hold, or wish to acquire, property in the country must register with CNPJ (companies' register) or CPF (natural persons' register). Foreign investment is banned in certain sectors. Shareholdings in financial institutions are subject to government approval. Foreigners may set up a wholly-owned subsidiary free from legal restrictions of any kind. They must hold a permanent

visa to be appointed director of a subsidiary in the country and must be represented by a lawyer if investing. Overseas transfers (capital repatriation, reinvestment, profit and dividend repatriation) are authorized provided the capital is registered. Apart from requiring central bank permission, such transfers have to be handled by financial institutions trading on the currency market. Profit and dividend transfers are not taxed.

■ Foreign exchange regulations

The government formed after the October 2002 elections has honoured its pledge to maintain the flexible exchange rate system of 1999. The central bank intervenes only occasionally when required to ensure liquidity in the market, but not to shift rates. Its sole aim is to control inflation in a manner that does not undermine growth.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

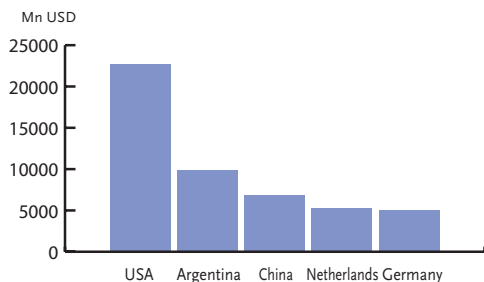
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 50 |
| Public consumption | 18 |
| Investment | 16 |

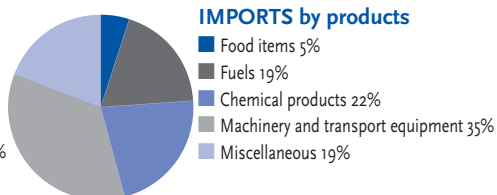
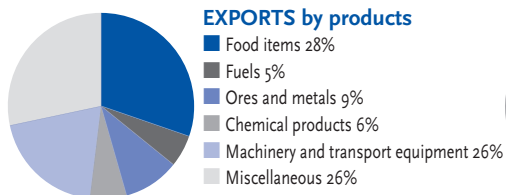
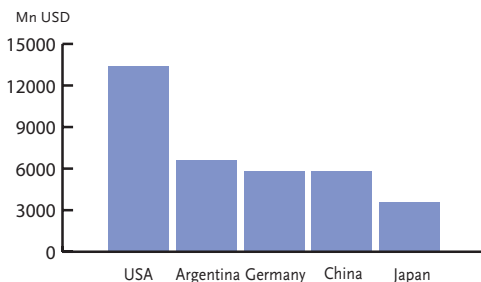
Exports: 23% of GDP

Imports: 15% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

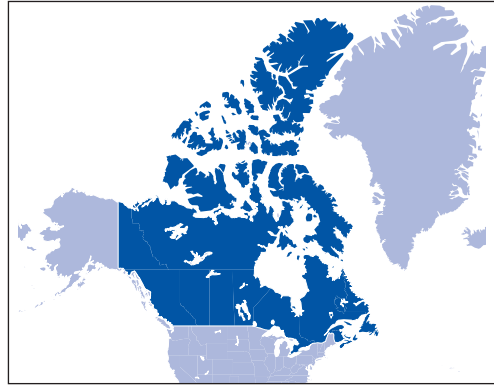


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Brazil | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 8,230 | 8,226 | 5,540 |
| GNP per capita (USD) | 4,320 | 3,978 | 2,117 |
| Human Development Index | 0.792 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 47 | 42 | 30 |
| Urban population percentage | 83 | 77 | 43 |
| Percentage under 15 years old | 28 | 30 | 29 |
| Number of computers per 1000 inhabitants | 105 | 89 | 48 |

Canada

| | |
|----------------------------------|-----------|
| Population (million inhabitants) | 32.8 |
| GDP (US\$ million) | 1,115,192 |
| GDP per capita (US\$) | 33,995 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

Growth remained high in 2006, underpinned by robust domestic demand, with households benefiting from increased employment and disposable income amid expansionary fiscal policy made possible by a public-sector financial surplus. Good financial health and a decline in prices for imported equipment caused by the Canadian dollar appreciation prompted companies to invest. Conversely, that appreciation's unfavourable impact on traditional exports resulted in deterioration of the foreign trade contribution to GDP growth.

Growth should sag slightly in 2007 but with a continuing disparity between the western provinces riding the raw materials boom and the central provinces, where traditional industries continue to suffer from the unfavourable exchange rates. After two years of marked growth, households will cut back somewhat on consumption spending, car purchases and housing investments. Companies will continue, however, to increase their investments, spurred, in Alberta, by persistent capacity shortages in the hydrocarbon sector and, in Quebec and Ontario, by the need to increase productivity and stay competitive. Despite an

economic slowdown in the United States (80 per cent of exports), traditional exports should benefit from a moderate Canadian dollar decline against the US dollar, which would offset the decline of revenues attributable to the decline of average prices for staple commodities.

Even if earnings growth has been slowing down, company financial health is still generally good, as evidenced by the continued decline in bankruptcies (down 11 per cent in 2006) and a Coface payment incident index far below the world average. Several sectors will continue to post an excellent performance including capital goods (computers, telecommunications, machinery, railroad equipment), raw materials (despite price declines), regional aircraft and retail. Car industry subcontractors will, however, continue to face the production decline affecting the three large American carmakers, while clothing will continue to contend with Asian competition and tourism with the new passport requirement for tourists from the United States. The building industry, construction materials, wood and furniture will suffer, meanwhile, from the residential construction slowdown.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 3.1 | 2.0 | 2.9 | 2.9 | 2.8 | 2.6 |
| Consumption (var.) | 3.7 | 3.1 | 3.4 | 3.9 | 3.9 | 3.0 |
| Investment (var.) | -4.9 | 6.1 | 6.1 | 7.1 | 7.6 | 6.5 |
| Inflation | 2.2 | 2.8 | 1.8 | 2.2 | 2.1 | 1.9 |
| Unemployment | 7.6 | 7.6 | 7.2 | 6.8 | 6.4 | 6.4 |
| Short-term interest | 2.6 | 3.0 | 2.3 | 3.0 | 4.2 | 4.3 |
| Public sector balance (%GDP) | -0.1 | 0.0 | 0.7 | 1.5 | 0.9 | 0.6 |
| Public sector debt (%GDP) | 77.8 | 73.3 | 71.0 | 69.0 | 63.0 | 58.0 |
| Exports (var.) | 1.1 | -2.4 | 5.0 | 2.1 | 1.7 | 4.5 |
| Imports (var.) | 1.4 | 3.8 | 8.1 | 7.1 | 5.8 | 5.6 |
| Current account balance (%GDP) | 2.0 | 1.5 | 2.2 | 2.3 | 1.4 | 1.1 |

e = estimate, f = forecast

PAYMENT AND COLLECTION PRACTICES

A heritage of Canada's colonial past, its dual legal system comprises that used by nine of the ten provinces making up the federal state, which is inspired by British 'common law' and that used by Quebec, whose legal traditions are based on the codified principles of the Napoleonic code. Lower Canada's civil code, dating from 1 January 1866, was completely revised and implemented on 1 January 1994 as the Quebec Civil Code. Under the British North America Act of 29 March 1867, Canada was the first British colony to exercise executive and legislative powers as a federal state. The Confederation of Canada came into effect as a dominion on 1 July 1867.

■ Payment

A single law governs bills of exchange, promissory notes and cheques throughout Canada, however this is frequently interpreted according to common law precedents in the nine provinces or according to the civil code in Quebec. As such, sellers are well advised to accept such payment methods unless where long-term commercial relations, based on mutual trust, have been established with buyers. Centralized accounts, which greatly simplify the settlement process by centralizing settlement procedures between locally based buyers and sellers, are also used within Canada.

SWIFT bank transfers are the most commonly used payment method for international transactions. The majority of Canadian banks are connected to the SWIFT network, offering a rapid, reliable and cost-effective means of payment, notwithstanding the fact that payment is dependent upon the client being in good faith insofar as only the issuer takes the decision to order payment.

A real-time electronic funds transfer system in operation since February 1999 – the Large Value Transfer System, or LVTS – facilitates electronic transfers of Canadian dollars countrywide and can also handle the Canadian portion of international operations.

The letter of credit (L/C) is also frequently used.

■ Debt collection

Canada's Constitution Act of 1867, last amended in 1982, divides judicial authority between the federal and provincial governments. Thus, each province is responsible for administering justice, organizing provincial courts and enacting the rules of civil proceedings in its territory. Although the names of courts vary between provinces, the same legal system applies throughout the country, bar Quebec.

Within each province, provincial courts hear most disputes of all kinds concerning small claims,

and superior courts hear large claims – for example, the Quebec superior court hears civil and commercial disputes exceeding CA\$70,000 and jury trials of criminal cases. Canadian superior courts comprise two distinct divisions: a court of first instance and a court of appeal.

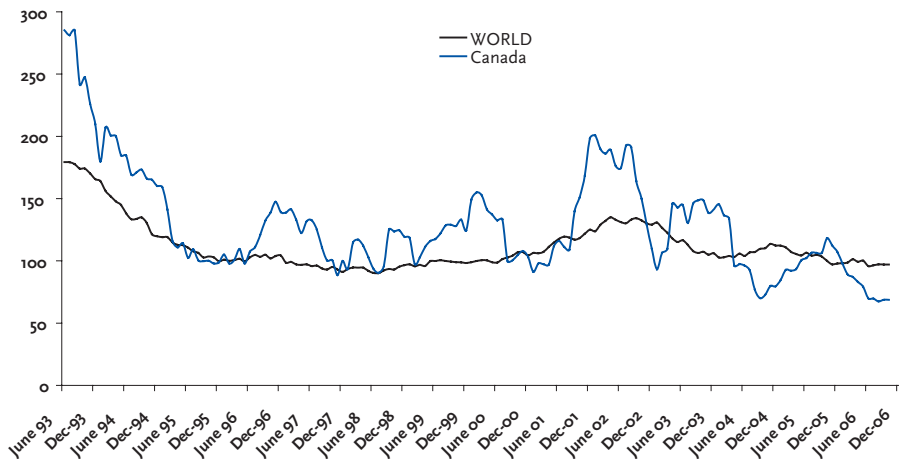
At federal level, the Supreme Court of Canada, in Ottawa, and only with leave of the Court itself (leave is granted if the case raises an important question of law), hears appeals against decisions handed down by the provincial appeal courts, or by the Canadian Federal Court (stating in appeal division), which has special jurisdiction in matters concerning maritime law, immigration, customs and excise, intellectual property, disputes between provinces and so on. The right of final recourse before the Privy Council, in London, was abolished in 1949. The collection process begins with the issuance of a final notice, or seven-day letter, reminding the debtor of his/her obligation to pay, together with any contractually agreed interest penalties.

Ordinary legal action – even if the vocabulary used to describe it may vary within the country – proceeds in three phases: first, the writ of summons,

whereby the plaintiff files his/her claim against the defendant with the court; second, the examination for discovery, which outlines the claim against the defendant and takes into account the evidence to be submitted by each party to the court; and, finally, the trial proper, during which the judge hears the adverse parties and their respective witnesses, who are subject to examination and cross-examination by their respective legal counsels, to clarify the facts of the case before making a ruling.

The Quebec civil code reform, in effect since 1 January 2003, is intended to speed up and foster, by devolving a broader role on the court, smoother court proceedings. The reform is centred upon instituting a standard originating petition (*requête introductive d'instance*), introducing a 180-day time limit by which the proceedings must be scheduled for investigation and hearings (*pour enquête et audition*), and delivering a judgement on the content within a timeframe of six months after the case was heard and encouraging the parties to submit to a conciliation stage during legal proceedings, with the judge presiding over an amicable settlement conference (*conférence de règlement à l'amiable*).

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Chile

Population (million inhabitants) 16.3
 GDP (US\$ million) 115,250

Short-term: **A2**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Chile boasts abundant natural wealth including mineral (copper), agricultural, piscicultural and forestry resources as well as comparative advantages in those production areas.
- The economy has benefited from reforms implemented over the past 20 years, with a consensus on the prudent economic policy pursued.
- The many free trade agreements in force have helped make Chile one of the most open countries in the region and have spurred geographic and sectoral diversification of exports.
- Political stability and tight macroeconomic management, as well as the quality of the infrastructure and financial system, have fostered foreign investment in the country and its development as a regional platform.

WEAKNESSES

- The economy is still too dependent on copper exports – 45 per cent of total foreign sales in 2005 – and low value-added sectors.
- The country is heavily dependent on imports, particularly gas from Argentina, to cover its energy needs.
- The financial flows resulting from the extensive presence of foreign investors have affected external accounts.
- Income inequalities have remained substantial, due notably to disparities in the education system.

RISK ASSESSMENT

An economic rebound should mark 2007 after less dynamic growth in 2006. Public and private consumption will be the main growth drivers with an improved job picture spurring private spending. An investment recovery and robust staple commodity exports will also contribute to the upturn. That context will particularly benefit the construction, mineral, food and distribution sectors. Payment experience on companies has been very satisfactory and their solvability should remain good except for weaknesses in some sectors, like the dairy, leather/shoe and wood/furniture industries.

Application in recent years of a strict rule on fiscal surpluses has made it possible to reduce public-sector debt to only some 5 per cent of GDP with the new fiscal responsibility law of September 2006 intended to improve the management of the surpluses generated. Copper sales, meanwhile, with prices and production capacity rising, continue to dominate foreign trade while the many free trade agreements concluded – particularly the most recent one with China – should make it possible to diversify exports geographically. External accounts will, thus, remain in surplus despite increased imports and profit repatriation by foreign companies.

Foreign direct investment should more than cover Chile's reasonable financing needs while its debt ratios, determined mainly by private borrowing, have been declining. Moreover, the country's currency has been solid and its financial system very robust.

Coming from the centre-left coalition in power since 1990, President Michelle Bachelet, in office

since March 2006, has to contend with many political and social challenges. The parliamentary majority she commands, however, has already allowed her to win adoption of a pension system and capital market reform. Other reforms on improvements to the education and health system, the job market, the civil service and infrastructure are pending.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.2 | 3.3 | 6.2 | 6.3 | 4.8 | 5.5 |
| Inflation (period-end%) | 2.8 | 1.1 | 2.4 | 3.7 | 3.8 | 3.5 |
| Public sector balance (%GDP) | -1.2 | -0.4 | 2.1 | 4.7 | 7.0 | 4.5 |
| Exports | 18.2 | 21.7 | 32.2 | 40.6 | 58.2 | 60.4 |
| Imports | 15.8 | 18.0 | 23.0 | 30.4 | 35.4 | 38.1 |
| Trade balance | 2.4 | 3.7 | 9.2 | 10.2 | 22.8 | 22.3 |
| Current account balance | -0.6 | -1.0 | 1.6 | 0.7 | 5.1 | 3.0 |
| Current account balance (%GDP) | -0.9 | -1.3 | 1.7 | 0.6 | 3.5 | 2.0 |
| Foreign debt (%GDP) | 60.7 | 59.1 | 46.1 | 39.0 | 31.7 | 30.1 |
| Debt service (%Exports) | 17.0 | 17.1 | 9.0 | 11.4 | 13.9 | 8.6 |
| Foreign currency reserves (in months of imports) | 7.4 | 6.5 | 4.9 | 4.0 | 3.3 | 3.2 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The Chilean market is secure and stable. The country's sound political and economic situation, good infrastructure and stable legislative and regulatory framework create an attractive business environment, especially for small and medium-sized companies. Chile has limited tariff protection and pursues unilateral measures to cut import duties, backed by bilateral and regional trade agreements. Since 1 January 2003, standard customs duty on all products is 6 per cent. Moreover, following ratification by Chile's parliament of the free trade agreement with the EU, in force since 1 February 2003, duties on 99.8 per cent of industrial goods have been lowered to 0 per cent.

■ Means of entry

There are few non-tariff barriers. For foodstuffs a number of health and plant health regulations, similar at times to non-tariff barriers, are in place

(type approval and sampling procedures). Compared with other countries of the region, Chile offers adequate intellectual property rights protection. A new industrial property act (No 19.996) was published in March 2005. It supplements the 1991 act, enabling Chile to bring its domestic legislation into line with WTO TRIPS arrangements (business-related intellectual property rights). Accompanied by enforcement legislation since 1 December 2005, this groundbreaking law will provide better intellectual and industrial property protection, although there is room for improvement in pharmaceuticals.

■ Attitude towards foreign investors

There is equality of treatment between foreign and local investors. Foreigners are not required to tie up with a local partner. Foreign investment status within the meaning of Decree-Law 600 applies to deals in excess of US\$5 million. Capital inflows below this figure, but above US\$10,000, must be declared to the Central Bank, although the

regulations have been relaxed. The one-year lock-in period for capital having entered the country after 2000 has been abolished and the compulsory reserve requirement (*Encaje*) scrapped. The utilities' privatization and concession programme continues to offer foreign investors start-up opportunities, even though most of the lucrative concessions have already been awarded.

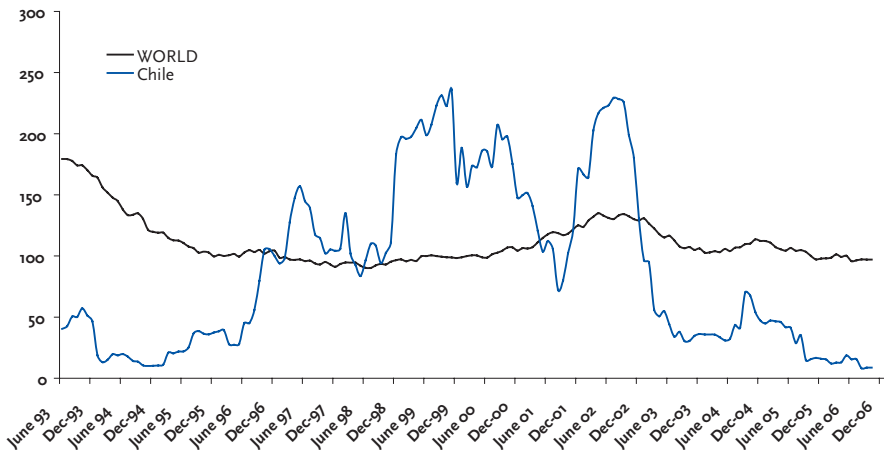
Corporation tax is 17 per cent, but there is a 20 per cent surtax on profits repatriated abroad (up to 35 per cent for some services). Moreover, some regions benefit from investment incentives (VAT exemption etc) under regional development aid programmes. Labour legislation is not burdensome in terms of social security contributions, despite the introduction of unemployment benefits in 2002 and the increase in severance pay under the recently revised labour code. Employer social security contributions are extremely low and limited to industrial accident protection.

Since 2002, the government has been looking to provide incentives for foreign start-ups in the country. One such initiative is the investment hub act, adopted in 2002, which aims to turn Chile into a regional investment hub. Provided they meet a number of strict criteria, foreign companies investing from Chile in neighbouring countries are exempt from tax on profits generated outside. Since 1994, French investment has been covered by the Franco-Chilean reciprocal investment protection agreement. A double taxation agreement was also signed between the two countries on 7 June 2004 and will enter into force on 1 January 2007.

■ Foreign exchange regulations

The central bank abandoned the peso's crawling peg in September 1999. The exchange rate is now determined by the market alone, with the monetary authorities intervening only on an exceptional basis. All customary means of payment are used.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

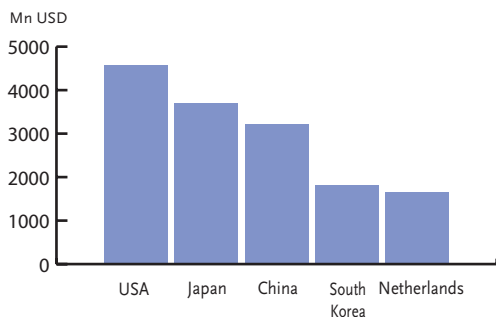
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 46 |
| Public consumption | 9 |
| Investment | 16 |

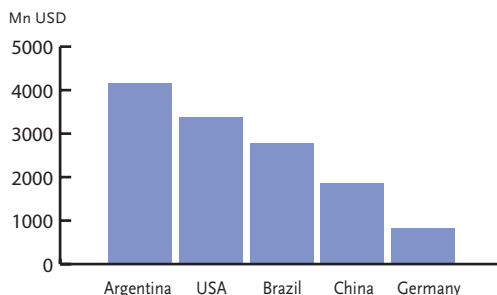
Exports: 42% of GDP

Imports: 34% of GDP

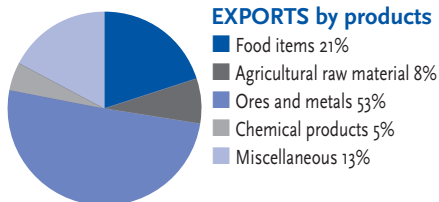
MAIN DESTINATIONS OF EXPORTS



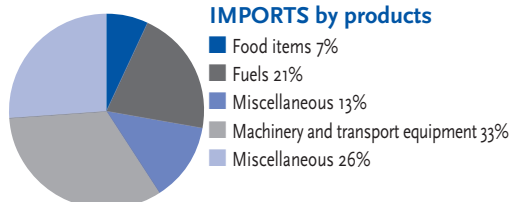
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Chile | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 11,470 | 8,226 | 5,540 |
| GNP per capita (USD) | 7,200 | 3,978 | 2,117 |
| Human Development Index | 0.859 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 47 | 42 | 30 |
| Urban population percentage | 87 | 77 | 43 |
| Percentage under 15 years old | 26 | 30 | 29 |
| Number of computers per 1000 inhabitants | 133 | 89 | 48 |

Colombia

Population (million inhabitants) 45.6
GDP (US\$ million) 122,309



Short-term: **A4**

Medium-term:

Moderately high risk

Coface analysis

STRENGTHS

- Colombia is endowed with abundant natural resources (agriculture, oil, minerals).
- The country has diversified its exports in the Andean Trade Preference and Drugs Eradication Act (ATPDEA) framework to become the leading Andean Community manufacturing power.
- Economic policy continuity on public-sector financial consolidation, gradual disinflation and strengthening the financial sector has been assured.
- Colombia has benefited from substantial American aid to combat the guerrilla movement and eradicate drug production and smuggling.

WEAKNESSES

- The security situation is still a problem due to the presence of Latin America's largest guerrilla movement, the FARC, and the climate of violence linked to drug smuggling.
- The poverty afflicting half the population, the severe income inequality and the wide gulf between urban and rural areas have undermined the country's cohesiveness.
- The continued high level of public-sector debt has been a major constraint and has reduced the government's room for manoeuvre.
- The banking sector has remained weakened by its exposure to sovereign risk.

RISK ASSESSMENT

Growth should remain robust, underpinned mainly by household consumption, itself spurred by the expansion of credit as well as by private investment. Continued tightening of monetary policy, meanwhile, will allow inflation to continue its decline. In that context, construction will be the most dynamic sector, followed by retail, mineral extraction, telecommunications and services. Companies should continue to enjoy satisfactory solvency and meet payment obligations on time.

With the improved economic conditions, the IMF agreement that expired end-2006 was not renewed. Despite greater fiscal discipline intended to reduce the budget deficit, reforms will be necessary to consolidate public finances and reduce still-high public debt (nearly 50 per cent of GDP)

whose profile has tended to improve. Although external accounts will deteriorate slightly, exports have been diversifying and increased coal production should partially offset the downward oil production trend. Meanwhile, a free trade agreement with the United States should pick up the slack by 2008 for ATPDEA, which expired end-2006. In any case, due particularly to substantial foreign direct investment inflows, Colombia will have little difficulty covering its financing needs. External debt ratios have improved markedly, furthermore, although remaining high in relation to exports, with the country remaining somewhat dependent on international financial markets.

The conservative President Uribe's re-election end-May 2006 augurs continuation of orthodox economic policy and the possibility of progress on

reforms, notably tax reform, since he now commands a parliamentary majority. The political situation has, nonetheless, remained precarious due

particularly to persistently severe insecurity, despite the weakening of the FARC and partial demobilization of paramilitary groups.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 1.9 | 3.9 | 4.9 | 5.2 | 5.4 | 4.5 |
| Inflation (%) | 7.0 | 6.5 | 5.5 | 4.9 | 4.4 | 3.6 |
| Public sector balance (%GDP) | -4.2 | -3.2 | -1.3 | 0.0 | -1.5 | -1.7 |
| Exports | 12.3 | 13.8 | 17.2 | 21.7 | 24.8 | 26.9 |
| Imports | 12.1 | 13.3 | 15.9 | 20.1 | 24.4 | 27.8 |
| Trade balance | 0.2 | 0.6 | 1.3 | 1.6 | 0.4 | -0.9 |
| Current account balance | -1.4 | -1.0 | -0.9 | -1.9 | -2.6 | -3.2 |
| Current account balance (%GDP) | -1.7 | -1.2 | -1.0 | -1.6 | -2.0 | -2.2 |
| Foreign debt (%GDP) | 46.0 | 47.9 | 40.6 | 31.4 | 31.1 | 30.3 |
| Debt service (%Exports) | 44.5 | 41.5 | 25.0 | 25.2 | 16.1 | 15.2 |
| Foreign currency reserves (in months of imports) | 6.8 | 6.3 | 6.5 | 5.7 | 5.6 | 5.4 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The president's second term should be marked by revitalized investment and much-needed infrastructure projects. The signing of a trade agreement with the United States will lead to increased trade with Colombia's main trading partner, but will weaken many sectors of the Colombian economy as they bear the brunt of fierce US competition. Conscious of this challenge, the Colombian government is seeking to diversify its economic alliances, especially with Europe and its Latin American neighbours.

■ Means of entry

The few barriers to trade that remain arise mainly from the legal uncertainty created by frequent parliamentary changes, as well as the plethora of government bodies and players involved. This is especially true of taxation, where a new reform, the third in as many years, is under congressional review. The reform aims to simplify VAT and

income tax by widening the tax base and reducing the number of tax brackets.

To improve visibility for companies in a changing legal environment, Congress has voted a law offering a stable legal environment for both foreign and domestic investment. Under the new law, an investor who has entered into a legal stability agreement with the Colombian government containing an all important stability clause will be entitled to compensation if that clause is amended. The constitutional court has, however, decided that as the new tax provisions apply to investments under contract, compensation claims by companies can be settled through arbitration or the courts.

As well as tax reform, sweeping reforms of public finances in line with Colombia's IMF commitments are to be passed during President Uribe's second term. The reforms will cover the budget, pensions and local authority spending.

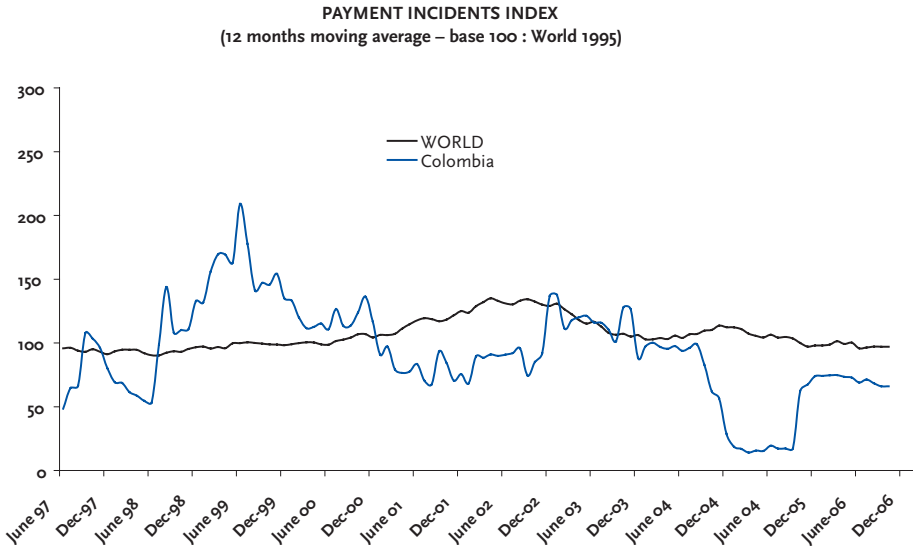
■ Attitude towards foreign investors

All sectors of the economy are open to foreign investment, except for defence and the processing

of toxic, hazardous or radioactive waste not produced in the country. Investment in financial services, oil, gas and mining is subject to prior government approval.

■ **Foreign exchange regulations**

The country has had a floating exchange rate since 1999.



OPPORTUNITY SCOPE

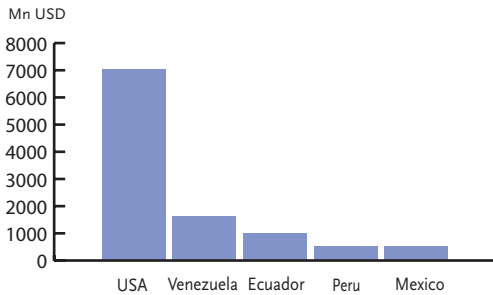
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 52 |
| Public consumption | 17 |
| Investment | 14 |

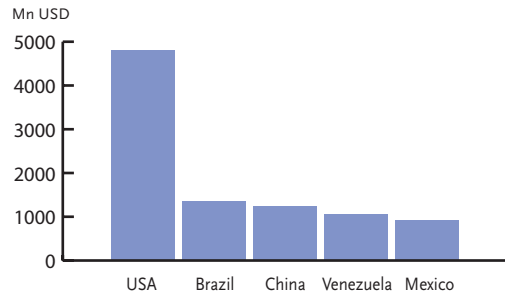
Exports: 21% of GDP

Imports: 21% of GDP

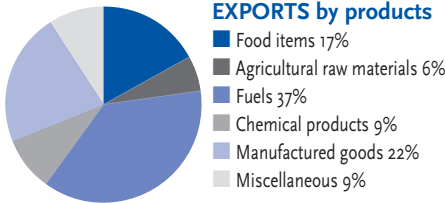
MAIN DESTINATIONS OF EXPORTS



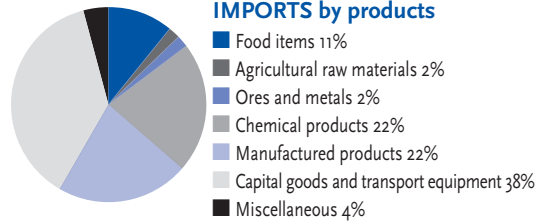
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Colombia | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 7,420 | 8,226 | 5,540 |
| GNP per capita (USD) | 2,290 | 3,978 | 2,117 |
| Human Development Index | 0.790 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 47 | 42 | 30 |
| Urban population percentage | 76 | 77 | 43 |
| Percentage under 15 years old | 32 | 30 | 29 |
| Number of computers per 1000 inhabitants | 67 | 89 | 48 |

Costa Rica

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 4.3 |
| GDP (US\$ million) | 19,432 |
| GDP per capita (US\$) | 4,491 |

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



RISK ASSESSMENT

Economic growth should remain robust amid dynamic household consumption and private investment as well as increasing foreign demand. Inflation will remain high, however, due particularly to high oil prices and the accommodating stance of monetary and fiscal policy.

A narrow tax base and spending rigidities have given rise to a significant and persistent fiscal deficit while the still-pending tax reform could contribute to reducing the relatively large public-sector debt burden (about 50 per cent of GDP in 2006, with half denominated in foreign currency). The external account deficit should remain substantial, with the good performance of high technology product exports and tourism revenues not sufficing to offset the high levels of prices paid for hydrocarbon imports and profit repatriations by multinationals. Meanwhile, several factors have been undermining

the banking system including substantial exposure to sovereign risk, extensive dollarization and inadequate supervision of offshore operations.

Foreign direct investment should, amply cover external financing needs with foreign debt ratios remaining at moderate levels and foreign currency reserves continuing to grow. The move to an exchange rate system with a crawling band should, moreover, allow the Central Bank to exercise greater control over the severe inflationary pressures.

President Oscar Arias, of the centre-right *Partido de Liberacion Nacional* who took office in May 2006, does not enjoy a parliamentary majority. This situation has not facilitated either a speed-up of reforms or ratification of the free trade agreement between the Central American countries and the United States (DR/CAFTA), which notably entails liberalizing the electricity, telecommunications and insurance sectors.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.9 | 6.4 | 4.1 | 5.9 | 6.5 | 5.0 |
| Inflation (average annual rate) | 9.2 | 9.4 | 12.3 | 13.8 | 11.8 | 10.2 |
| Public sector balance (%GDP) | -5.5 | -5.1 | -4.2 | -3.0 | -3.4 | -2.6 |
| Exports | 5.3 | 6.2 | 6.4 | 7.1 | 8.2 | 9.0 |
| Imports | 6.5 | 7.3 | 7.8 | 9.2 | 10.5 | 11.5 |
| Trade balance | -1.3 | -1.1 | -1.4 | -2.1 | -2.2 | -2.5 |
| Current account balance (%GDP) | -5.1 | -5.0 | -4.3 | -4.8 | -4.8 | -4.9 |
| Foreign debt (%GDP) | 31.6 | 32.0 | 30.4 | 33.1 | 32.7 | 32.2 |
| Debt service (%Exports) | 9.0 | 7.1 | 8.5 | 5.0 | 5.3 | 5.2 |
| Foreign currency reserves (in months of imports) | 2.1 | 2.3 | 2.4 | 2.5 | 2.7 | 2.7 |

e = estimate, f = forecast

Cuba

Population (million inhabitants) 11.3
 GDP (US\$ million) 36,200

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



STRENGTHS

- Cuba boasts great natural wealth including minerals (mainly nickel and cobalt), agriculture (sugar, tobacco) and fishing (rock lobster).
- Its developed tourist sector has been a major source of foreign currency.
- The country has a well-trained workforce and enviable social indicators for the region.

WEAKNESSES

- The country has been vulnerable to exogenous shocks particularly with its dependency, not only, on raw material exports – sugar, nickel – subject to price volatility, but also, on tourism and oil imports.
- The recentralization of the economy that accompanied dedollarization end-2004 has not eliminated distortions and has, moreover, deterred initiative-taking.
- Access to international financing has been limited due to the onerous cost and arrears on outstanding debt.
- The succession to Fidel Castro and developments concerning the embargo imposed by the United States will remain major factors of uncertainty.

RISK ASSESSMENT

Although growth should remain robust, fuelled mainly by surging nickel and services sales and by tourism sector dynamism, the fortunes of an economy based on a state-controlled model will continue to depend on political developments.

Despite expansionary fiscal policy, focusing mainly on investment, rising fiscal revenues will contribute to a modest deficit reduction. Foreign trade, meanwhile, has been reoriented toward Venezuela, China, and Canada. The trade balance has, nonetheless, remained structurally in deficit due to the high volume of imports of capital goods, food and, especially, oil, which still represents a quarter of that volume despite the preferential

agreements with Venezuela. The dynamism of nickel exports and the substantial revenues derived from services, tourism and transfers from the diaspora have made it possible, however, to greatly mitigate the external account imbalance. External debt ratios (excluding Russian debt) should decline slightly and Cuba has succeeded in obtaining short-term financing from abroad, albeit at high cost.

The dedollarization of the economy, initiated end-2004, resulted in the creation of two currencies, the peso and the convertible peso, which should gradually converge. That dual foreign exchange system exemplifies the distortions within the economy. The major role concomitantly assigned to the central bank has notably restricted

the freedom of action of large state-owned companies, while tighter state control and the

anticorruption campaigns could throttle economic dynamism even more.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 1.5 | 2.9 | 4.3 | 9.5 | 7.5 | 5.4 |
| Inflation (%) | 7.0 | -1.0 | 2.9 | 3.8 | 4.3 | 4.7 |
| Public sector balance (%GDP) | -3.2 | -3.3 | -4.2 | -5.2 | -2.9 | -2.6 |
| Exports | 1.4 | 1.7 | 2.2 | 2.1 | 3.0 | 3.0 |
| Imports | 4.1 | 4.6 | 5.6 | 7.5 | 8.9 | 9.3 |
| Trade balance | -2.7 | -2.9 | -3.4 | -5.4 | -5.9 | -6.3 |
| Current account balance | -0.7 | -0.3 | -0.3 | -0.3 | -0.5 | -0.6 |
| Current account balance (%GDP) | -2.3 | -1.1 | -1.0 | -0.8 | -1.3 | -1.3 |
| Foreign debt* (%GDP) | 38.4 | 37.8 | 43.0 | 40.1 | 37.8 | 36.0 |
| Debt service (%Exports) | 15.9 | 37.1 | 32.5 | 27.8 | 25.4 | 25.4 |
| Foreign currency reserves (in months of imports) | 1.2 | 1.3 | 3.6 | 3.2 | 3.0 | 3.0 |

*ex Russian debt

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Cuba is one of the founding members of the WTO. It maintains trade relations with every country in the world, except the United States, which has had a trade embargo against it for 40 years. The extraterritorial provisions of the Helms-Burton Act create legal uncertainty, although Title III of the act was suspended by the US government in 1996. Since late 2001, the US has allowed sales of foodstuffs and pharmaceuticals and is now the island's biggest food supplier. The country's import regulations are very restrictive, with the government exercising tight controls (licences, import boards by product and sector etc) and determining priority sectors. Customs duties on the whole are quite favourable. The country has huge payment problems, but these vary from one creditor to another.

As Cuba is not eligible for funding from international institutions such as the World Bank and the IMF on account of the US veto and has run up debt arrears with some of its partners, it is forced to seek expensive short-term loans (12–24 months) against real securities or find new partners for long-term loans. Such partners remain cautious due to the country's selective default policy. The preferred

means of payment for foreign trade is the irrevocable documentary credit confirmed by a leading bank. Exchange controls in force since July 2003 require Cuban firms and agencies to seek central bank approval for foreign trade payments. This measure was tightened in January 2005 through the introduction of a single foreign currency account held with the Cuban central bank, where all income in convertible currency earned by Cuban undertakings is deposited. All import applications are now vetted by an approvals committee, chaired by the Cuban central bank.

■ Attitude towards foreign investors

Cuba has encouraged foreign investment for only the last 12 years, concluding bilateral investment promotion and protection agreements with 53 countries, including France. Unlike Spain and Portugal, France does not have a double taxation agreement with Cuba. Sectors that have attracted foreign direct investment include tourism, basic industry, energy, telecommunications, foodstuffs and banking. In general, education, healthcare and services are closed to foreigners.

Foreign investment is regulated by strict procedures and must comply with specific technology transfer, capital contribution and export

development criteria. The volume of FDI in Cuba is fairly small and barely amounts to US\$5.5 billion since the country opened market access. There has been a recent surge of interest from Canada, China (nickel, oil) and Venezuela. The government reserves the right to grant, renew or refuse licences to foreign entities (representations, branches, mixed enterprises, economic associations etc).

The tax system does not discriminate against foreign investors and offers a number of incentives. Activity in the free zones has declined sharply. Labour, provided by the government after complex formalities, is, on the whole, skilled. Employees get only a fraction of the amount invoiced from the government and lack motivation if they are not given additional remuneration directly.

■ Foreign exchange regulations

2004 marked an end to the circulation of the dollar in the Cuban economy for all cash payments. There are two currencies in Cuba: the CUC (Cuban peso,

convertible only in Cuba, worth US\$1.08) and the CUP (domestic peso with a value of CUP24 to the CUC). Food staples, essential goods and public services (urban transport, water, gas, electricity, telephone) are denominated in CUPs. All other available goods are payable in CUCs.

A 10 per cent surcharge is levied by banks on exchange transactions involving the US dollar. This charge is not applied to the other freely convertible currencies recognized by the Cuban government (euro, Swiss franc, sterling, Canadian dollar). Exchange rates for the other currencies are calculated by reference to their movements against the US dollar. The government is planning several revaluations of the CUP against the CUC, with a view to unifying the two currencies in the long run. However, this is inconceivable for at least the next two to three years. In summary, CUC1 is worth US\$1.08 and CUP24. The rate for the euro is calculated as follows: €1= US\$/€ daily rate × 0.9259 (CUC/US\$).

OPPORTUNITY SCOPE

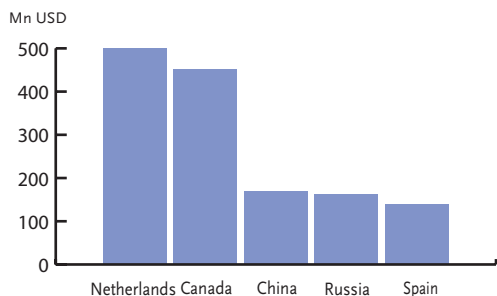
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 56 |
| Public consumption | 23 |
| Investment | 8 |

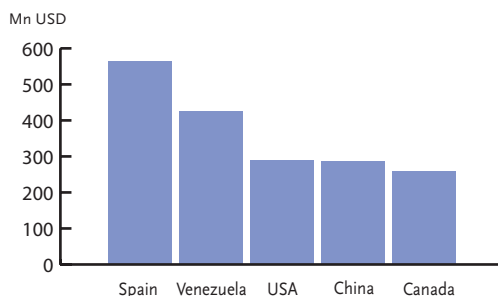
Exports: 20% of GDP

Imports: 23% of GDP

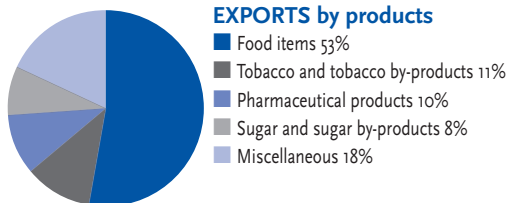
MAIN DESTINATIONS OF EXPORTS



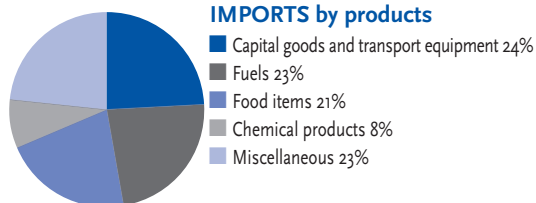
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Cuba | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 8,850 | 8,226 | 5,540 |
| GNP per capita (USD) | 3,295 | 3,978 | 2,117 |
| Human Development Index | 0.826 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | n/a | 42 | 30 |
| Urban population percentage | 76 | 77 | 43 |
| Percentage under 15 years old | 20 | 30 | 29 |
| Number of computers per 1000 inhabitants | 27 | 89 | 48 |

Dominican Republic

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 8.9 |
| GDP (US\$ million) | 28,303 |
| GDP per capita (US\$) | 3,182 |

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



RISK ASSESSMENT

After the exceptional catch-up rates of 2005 and 2006 following the banking crisis and recession of 2003, growth should be a bit less dynamic in 2007, still mainly driven by domestic demand. Inflation, although continuing to be fuelled by high oil prices, will ease slightly.

The Dominican Republic has benefited from large inflows of tourism revenues and expatriate remittances and should gain from the coming into force of the free trade agreement with Central America and the United States in 2007, which could also spur foreign investment. Meanwhile, there has been a significant, albeit shaky, improvement in public finances with public debt remaining high (46 per cent of GDP in 2006), due particularly to the cost of restructuring the banking sector. External debt ratios have improved thanks to the robust growth and the rescheduling granted by Paris Club creditors following an agreement with the IMF early-2005, as well as to the restructuring of trade debt in the London Club framework.

Liquidity problems have eased amid the modest replenishment of foreign currency reserves, and the peso should remain generally stable, with financial system consolidation underway.

The country is, nonetheless, still very dependent on hydrocarbon imports, which have undermined external accounts despite the preferential agreements concluded with Venezuela. Textile exports from free trade zones have been particularly suffering from Chinese competition. Corruption and red tape, meanwhile, have been notably responsible for public sector inefficiency and difficulties with electric power distribution. In that context, most of the population has not been benefiting from the fruits of the current economic expansion, which has been stoking social tensions and a degree of insecurity. Thus, progress on reforms, tax reform in particular, will be essential. The parliamentary majority held by President Leonel Fernandez's centre-left party, the PLD, since the May 2006 legislative elections, could facilitate reform efforts.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 4.3 | -1.9 | 2.0 | 9.3 | 8.5 | 4.5 |
| Inflation (average annual rate) | 5.2 | 27.5 | 51.4 | 4.2 | 8.5 | 7.0 |
| Consolidated public sector balance (%GDP) | -2.3 | -8.7 | -7.6 | -3.3 | -2.8 | -2.3 |
| Exports | 5.2 | 5.4 | 5.9 | 6.1 | 6.4 | 6.5 |
| Imports | 8.8 | 7.6 | 7.9 | 9.6 | 11.4 | 12.3 |
| Trade balance | -3.7 | -2.2 | -2.0 | -3.5 | -5.1 | -5.7 |
| Current account balance (%GDP) | -3.2 | 5.3 | 5.3 | -0.4 | -3.5 | -4.0 |
| Foreign debt (%GDP) | 25.4 | 36.0 | 38.2 | 25.7 | 26.5 | 26.9 |
| Debt service (%Exports) | 6.1 | 12.0 | 11.2 | 10.4 | 10.7 | 11.4 |
| Foreign currency reserves (in months of imports) | 0.6 | 0.3 | 1.0 | 2.0 | 2.0 | 2.0 |

e = estimate, f = forecast

Ecuador

Population (million inhabitants) 13.4
GDP (US\$ million) 30,326

Short-term: **C**

Medium-term:
High risk

Coface analysis



STRENGTHS

- Ecuador boasts extensive mineral, gas and, especially, oil resources, with completion of the Transandean pipeline allowing it to increase production and exports.
- The world-leading exporter of bananas and shrimp, the country is also endowed with rich fishing areas, especially for tuna.
- Inflation and capital flight have been limited, thanks notably to dollarization.
- Rising wages and better access to credit have bolstered household consumption.

WEAKNESSES

- An insufficiently diversified economy has been vulnerable to raw material price fluctuations, particularly for oil.
- Chronic political instability has not facilitated economic or financial adjustments and has impeded reforms.
- A shortage of skilled labour, an inadequate infrastructure and a weak institutional and legal environment have deterred local and foreign investors.
- Dollarization has undermined the competitiveness of portions of the agriculture sector and industry.
- Geographic disparities, marked inequality and social tensions have affected this multiethnic country's cohesiveness.

RISK ASSESSMENT

The new President, Rafael Correa (left-wing populist), took office in January 2007 for a four-year term and, against the majority opposition's wishes in the unicameral congress, would like to set up a constituent assembly. Although that tense political situation could undermine the confidence of households and companies, the economy should be driven by private consumption, benefiting notably from expatriate remittances and the expansion of credit, and by public spending, spurred by increased oil revenues.

The sharing of oil resources with international companies underwent revision in April 2006 and that could happen again, while state-owned Petroecuador

took over the assets of the North American company Occidental, Ecuador's leading oil producer, in May 2006, after a long dispute. The new president would, moreover, like his country to join OPEC. The oil windfall should allow him to increase social spending while maintaining, at least for now, a fiscal surplus; this could, however, entail renegotiating foreign debt. Meanwhile, the breaking off of the talks on a free trade agreement with the United States, Ecuador's first trading partner, will affect exports, with the trade and current account surpluses likely to contract.

In that context, the improvement in public sector finances, external accounts and external debt ratios achieved in recent years could be in jeopardy from 2008. That possibility could shake financial market

confidence, with Ecuador continuing to face a chronic shortage of foreign currency reserves. The

new government's economic options could, moreover, deter investment.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|------|------|------|------|---------------------|---------------------|
| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
| Economic growth (%) | 4.2 | 3.6 | 7.9 | 4.7 | 4.3 | 3.4 |
| Inflation (period-end %) | 9.5 | 6.1 | 1.9 | 3.1 | 3.5 | 3.8 |
| Public sector balance (%GDP) | 0.8 | 1.1 | 2.1 | 0.7 | 2.8 | 2.8 |
| Exports | 5.4 | 6.4 | 8.1 | 10.4 | 12.6 | 13.3 |
| Imports | 6.2 | 6.5 | 7.8 | 9.8 | 10.9 | 12.4 |
| Trade Balance | -0.8 | 0.0 | 0.3 | 0.6 | 1.7 | 0.9 |
| Current account balance | -1.2 | -0.5 | -0.6 | -0.1 | 0.7 | 0.1 |
| Current account balance (%GDP) | -5.0 | -1.6 | -1.7 | -0.2 | 1.8 | 0.2 |
| Foreign debt (%GDP) | 65.4 | 68.3 | 51.5 | 47.7 | 43.5 | 41.5 |
| Debt service (%Exports) | 23.6 | 23.7 | 18.0 | 14.7 | 17.3 | 11.6 |
| Foreign currency reserves (in months of imports) | 0.9 | 1.0 | 1.1 | 1.8 | 2.3 | 2.2 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Ecuador is a founding member of the Andean Community of Nations (ACN) and, in principle, has followed WTO rules since accession in 1996. While trade between Ecuador and its three 'main' ACN partners – Colombia, Bolivia and Venezuela – has been fully exempt from customs duties since 1994, it continues to be hampered by a host of ad hoc tariff and non-tariff barriers.

The customs nomenclature used by Ecuador is that initially set out in decision 381 of the Cartagena agreement (*Junta del Acuerdo de Cartagena*) known as NANDINA (Common Nomenclature of the Member Countries of the Cartagena Agreement), replaced in December 2003 by decision 570 of the ACN, and published in the official journal as Executive Decree 693 of 9 December 2005. This nomenclature simplifies the identification and classification of goods, foreign trade statistics and other ACN trade policy measures concerning the import and export of goods.

Ecuador's tariff levels are based on technical criteria such as degree of transformation. Duties for agricultural products are 15 and 20 per cent, those for semi-final finished products 10 per cent, and factors

of production and capital goods are charged at 5 and 0 per cent. For vehicles, the level of duty is 35 per cent on cars, 10 per cent on trucks and 3 per cent on complete knock down (CKD) vehicle kits. The ACN countries (Venezuela, Colombia, Ecuador, Peru and Bolivia) have had a common external tariff (*AEC or Arancel Externo Común*) in place since February 1995. Under this arrangement, the duties for factors of production and commodities are 3 and 5 per cent, for semi-finished products 10 per cent, for finished goods 20 per cent and for vehicles 35 per cent. Although the 15 per cent-tier was abolished on 1 January 2004, Ecuador has submitted to the ACN commission a list of 195 finished goods it wishes to keep in this tier.

Since December 2003, a foreign trade information system (SICE) has been in operation. This system enables import documents and customs declarations to be submitted electronically. However, import procedures remain lengthy. Ecuador runs a somewhat complex system of controls, prohibitions, authorizations and permits. Moreover, frequent changes in legislation create a high degree of legal uncertainty. Ecuador has adopted, via the foreign trade and investment board (COMEXI), resolutions 182 and 183 on banned products and prior licencing respectively.

THE AMERICAS

■ Attitude towards foreign investors

In theory, non-discrimination between domestic and foreign investors is more or less the norm, except in so-called strategic sectors (ban on property ownership along the borders). In practice, however, this liberalism is negated by a highly complex legal and judicial system that breeds

uncertainty. The concentration of political, economic and financial power can also distort application of the law.

■ Foreign exchange regulations

The widespread use of the dollar provides a certain degree of monetary stability.

OPPORTUNITY SCOPE

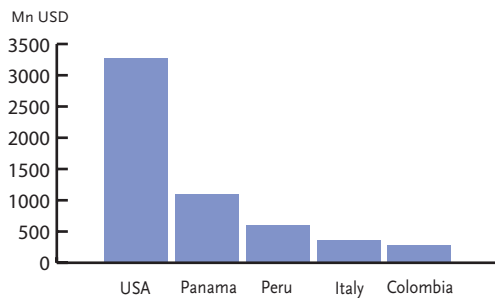
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|----|
| ■ Private consumption | 53 |
| ■ Public consumption | 7 |
| ■ Investment | 18 |

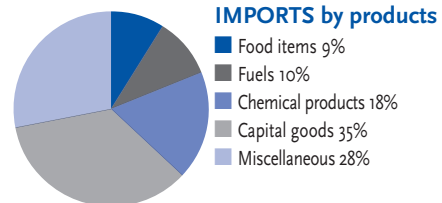
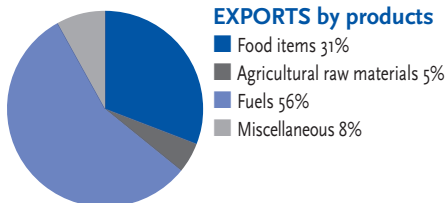
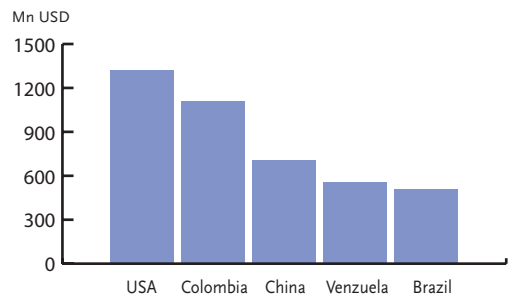
Exports: 43% of GDP

Imports: 49% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Ecuador | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 4,070 | 8,226 | 5,540 |
| GNP per capita (USD) | 2,630 | 3,978 | 2,117 |
| Human Development Index | 0.765 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 42 | 42 | 30 |
| Urban population percentage | 62 | 77 | 43 |
| Percentage under 15 years old | 33 | 30 | 29 |
| Number of computers per 1000 inhabitants | 56 | 89 | 48 |

El Salvador

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 6.9 |
| GDP (US\$ million) | 16,974 |
| GDP per capita (US\$) | 2,467 |

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



2

RISK ASSESSMENT

Growth should slow, due mainly to a deceleration in the North American economy, upon which El Salvador has been very dependent. Private consumption will be the main growth driver, spurred by remittances by expatriates in the United States. In this framework, due to the damage caused by Hurricane Stan and the eruption of the Ilamatepec Volcano in 2005, construction will be the most dynamic sector, followed by services. Conversely, the manufacturing industry will continue to suffer from a lack of competitiveness, with textile sector assembly units (*maquilas*) contending with fierce competition from China.

Although government authorities have pursued prudent fiscal policy under the IMF aegis, the public finance situation is still shaky in the absence of sufficient progress on reducing the fiscal deficit and public debt that is relatively high (43 per cent of GDP).

The trade deficit should increase slightly with the country joining the DR/CAFTA free trade agreement with Central America and the United States, which will initially stimulate investments and, thus, the related imports. Increased expatriate remittances and the development of tourism should, however, result in a reduction of the large current account deficit, while foreign direct investment and long-term borrowing should cover the country's substantial external financing needs. With foreign exchange reserves remaining at respectable levels in that dollarized economy, the foreign debt dynamic should improve and the banking sector strengthen.

President Antonio Saca has enjoyed relatively high popularity even if his right-wing Arena party failed to win a majority in the March 2006 legislative elections. This situation has complicated matters as regards implementation of education, health and pension system reforms, intended notably to alleviate poverty and reduce insecurity.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.5 | 1.7 | 1.5 | 2.8 | 4.0 | 3.3 |
| Inflation (%) | 1.8 | 2.1 | 4.5 | 4.7 | 4.3 | 4.9 |
| Public sector balance (%GDP) | -4.5 | -3.7 | -2.9 | -3.0 | -2.8 | -2.7 |
| Exports* | 3.0 | 3.2 | 3.3 | 3.4 | 3.7 | 4.0 |
| Imports* | 4.9 | 5.4 | 6.0 | 6.4 | 7.3 | 7.7 |
| Trade balance | -1.9 | -2.3 | -2.7 | -3.0 | -3.6 | -3.7 |
| Current account balance (%GDP) | -2.8 | -4.7 | -4.0 | -4.1 | -5.7 | -4.8 |
| Foreign debt (%GDP) | 46.1 | 53.6 | 51.9 | 50.0 | 48.9 | 48.2 |
| Debt service (%Exports)* | 16.4 | 12.3 | 19.9 | 14.1 | 15.5 | 14.0 |
| Foreign currency reserves (in months of imports)* | 3.6 | 3.9 | 3.6 | 3.1 | 3.0 | 3.1 |

* *ex maquilas*

e = estimate, f = forecast

Guatemala

Population (million inhabitants) 12.6
GDP (US\$ million) 31,683

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



2

STRENGTHS

- Implementation since July 2006 of the DR/CAFTA free trade agreement with Central America and the United States should provide the country with new opportunities.
- The very reasonable level of public-sector debt (under 20 per cent of GDP) can be credited to orthodox economic policies.
- Foreign debt has been among the lowest in Latin America, with the debt service ratio remaining at readily manageable levels.
- The country has great tourist potential.

WEAKNESSES

- Guatemala is very vulnerable to natural catastrophes.
- Exports, half of which go to the United States, have been too concentrated on traditional agricultural products – coffee, bananas and sugar – and, thus, exposed to fluctuations in their prices.
- Ethnic, social and geographic cleavages have persisted, with poverty affecting half the population and the country remaining very inegalitarian.
- Marked by the repercussions of 30 years of civil war, the country has suffered from deficient infrastructure and great insecurity.

RISK ASSESSMENT

Growth should slow slightly in 2007 due to an economic downturn in the United States, Guatemala's first trading partner, and uncertainties in the run-up to the November 2007 general elections. Household consumption will, nonetheless, drive the economy, spurred by expatriate remittances from the United States and by public reconstruction spending in the aftermath of Hurricane Stan that devastated the country in late 2005. Private investment will also make a positive contribution, buoyed by implementation of the DR/CAFTA trade agreement in July 2006. That context will benefit the construction sector and services, particularly financial services. Restrictive monetary policy, meanwhile, will not eliminate

inflationary pressures notably attributable to high oil prices.

In that framework, government authorities will have to pursue macroeconomic stability policy under IMF aegis, with fiscal policy continuing to give priority to increasing revenues and reducing tax evasion, thereby financing essential social spending. Meanwhile, a trade imbalance will persist due to the high level of imports of consumer goods, capital equipment and oil, with exports not yet fully benefiting from new free trade agreement. The current account will, thus, remain substantially in deficit despite the volume of expatriate remittances. The country should cover its external financing needs with relative ease, however, due notably to foreign investment inflows, while foreign currency

reserves will remain at satisfactory levels and external debt ratios very moderate.

Improved economic conditions notwithstanding, the political and social situation is still shaky with Indians remaining marginalized although representing 60 per cent of the population and

despite commitments made on their behalf under the 1996 peace agreement. President Oscar Berger's unpopularity and lack of a parliamentary majority, with his term in office almost over, have, moreover, resulted in the blocking or postponement of many reforms – agrarian, judicial, security and electoral.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.2 | 2.2 | 2.6 | 3.2 | 4.4 | 4.0 |
| Inflation (%) | 8.1 | 5.4 | 8.3 | 9.1 | 6.9 | 6.6 |
| Public sector balance (%GDP) | -0.8 | -2.0 | -0.4 | -1.5 | -1.6 | -1.2 |
| Exports | 2.8 | 3.1 | 3.4 | 3.7 | 4.1 | 4.3 |
| Imports | 6.3 | 6.7 | 7.8 | 8.0 | 8.6 | 8.9 |
| Trade balance | -3.5 | -3.7 | -4.4 | -4.3 | -4.5 | -4.6 |
| Current account balance | -1.2 | -1.0 | -1.2 | -1.3 | -1.6 | -1.6 |
| Current account balance (%GDP) | -5.3 | -4.2 | -4.4 | -4.4 | -5.1 | -4.8 |
| Foreign debt (%GDP) | 20.6 | 20.1 | 18.5 | 18.9 | 19.0 | 18.9 |
| Debt service (%Exports) | 8.2 | 8.3 | 7.3 | 7.7 | 7.9 | 7.8 |
| Foreign currency reserves (in months of imports) | 3.7 | 4.3 | 4.6 | 5.2 | 5.0 | 4.9 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

The trade policy of Guatemala, a WTO member since 1995, is based on genuine liberalization. This is reflected in the average rate of customs duty, which in the last 20 years has fallen from 27 per cent to 5.5 per cent. The country gives all its trading partners most favoured nation (MFN) treatment. Custom duties (0, 5, 10, 15, 20, 40 per cent) are set by the Central American customs code, itself based on the harmonized system of designation and codification of goods (HS). The highest duties apply to some rare sensitive products (the rate for rum, for instance, is 40 per cent).

There are no import licences. Imported products are liable to domestic taxes. VAT of 12 per cent is applied to the CIF value of goods. Products such as alcoholic beverages and vehicles are liable to additional taxes. Foodstuffs must be noted in the health register of the Ministry of Agriculture, Animal Husbandry and Food. There is no preshipment inspection requirement, but a label

must be displayed on each package stating the product's name, sell-by date, composition and nutritional value as well as the importer's name and address and health registration number. Labelling may be carried out at home or abroad. Alcoholic drinks must carry a government health warning. The main problems reported by importers are congestion at ports and lack of transparency in customs clearance procedures.

Letters of credit are the most widely used means of payment. Transfers are usually carried out in a timely manner.

■ Attitude towards foreign investors

The legal system is based on the 1985 constitution, which guarantees the right to private property and the right to engage in a commercial enterprise. There is, however, one exception to this rule: foreign ownership of land next to a river, sea or border is forbidden. Expropriation is banned under the constitution, except where it is in the national interest, in which case prior compensation is payable. The non-discrimination principle (MFN

clause) and equal treatment with nationals are enshrined in law. There is no prior approval or registration requirement and formalities for foreigners are broadly similar to those for local investors.

There are no restrictions on investment, except in sectors deemed strategic (such as road freight). The 1998 foreign investment act aims to encourage and facilitate new businesses while strengthening previous legislation. Like other Central American countries witnessing a boom in assembly operations (*maquila*), Guatemala grants tax benefits to foreign investors under Decree 65–89 of the Free Zone Act and Decree 29–89 governing assembly operations. These include exemption from customs duties and VAT for raw materials and equipment required to manufacture products intended for export, as well as 10-year exemption from corporation tax.

The legal system offers identical safeguards to foreign and national investors, but corruption and opaque administrative procedures often place foreigners at a disadvantage. Guatemala has signed and ratified the UN convention on the recognition and enforcement of arbitral awards and joined ICSID in 1996.

The foreign investment act allows international arbitration in disputes arising in connection with investments covered by OPIC and MIGA. A bilateral investment promotion and protection agreement was signed with France on 27 May 1998

and came into force on 28 October 2001. To promote the establishment of foreign businesses, the investment promotion and facilitation agency, Invest in Guatemala, has been reactivated. Six priority sectors have been identified: call centres and services outsourcing, tourism, agri-foods, garments, light industry and forestry. A plan designed to strengthen the country's competitiveness (*Agenda Nacional de Competitividad 2005–2015*) has been launched. Initial results from this initiative are promising. According to UNCTAD, FDI inflows into Guatemala have climbed from US\$154.7 million in 2004 to US\$208 million in 2005. The country has also risen from 97 to 75 on the World Competitiveness League Table, published by the World Economic Forum in September 2006. Its attractiveness has been enhanced since the entry into force on 1 July 2006 of the free trade agreement with the United States.

■ Foreign exchange regulations

There are no restrictions on capital, dividend and currency transfers. Exchange controls were abolished in 2001. The so-called 'Free Currency Trading' Act has legalized the circulation of the US dollar within the economy and allows people to open dollar-denominated accounts and make all types of payment in that currency. Some banks allow accounts to be held in euros. No authorization is required for capital and profit transfers.

OPPORTUNITY SCOPE

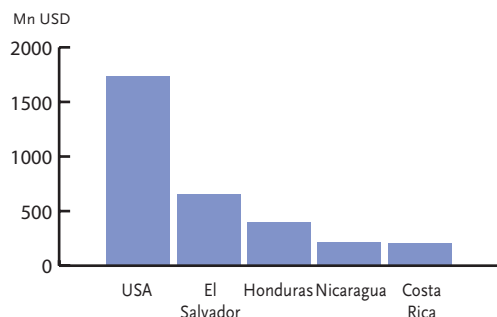
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 72 |
| Public consumption | 4 |
| Investment | 11 |

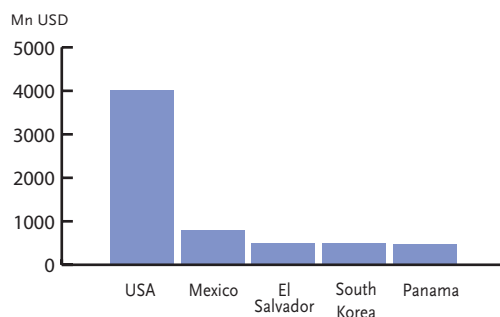
Exports: 16% of GDP

Imports: 29% of GDP

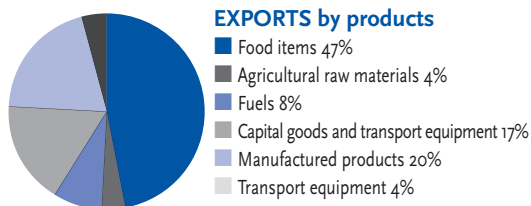
MAIN DESTINATIONS OF EXPORTS



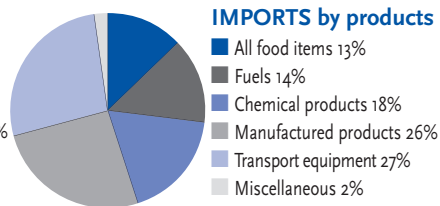
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Guatemala | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 4,410 | 8,226 | 5,540 |
| GNP per capita (USD) | 2,400 | 3,978 | 2,117 |
| Human Development Index | 0.673 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 48 | 42 | 30 |
| Urban population percentage | 46 | 77 | 43 |
| Percentage under 15 years old | 44 | 30 | 29 |
| Number of computers per 1000 inhabitants | 19 | 89 | 48 |

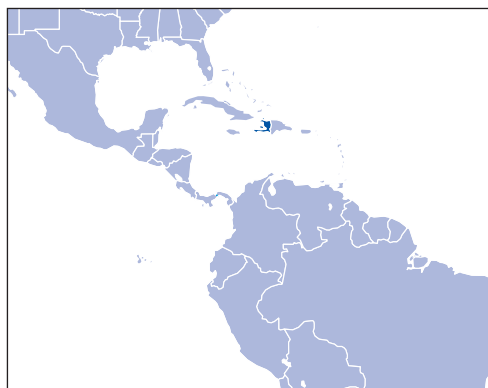
Haiti

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 8.5 |
| GDP (US\$ million) | 4,245 |
| GDP per capita (US\$) | 498 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



2

RISK ASSESSMENT

The democratic election of a new president in February 2006 could contribute to consolidating a still very poor economic and social situation. Insecurity continues to affect economic growth by disrupting formal sector business in an economy still vulnerable to natural catastrophes. Continued high oil prices have, moreover, spurred inflation and undermined public finances.

Government authorities, thus, intend to continue pursuing tight fiscal and monetary policy under IMF aegis. The poorest Latin American country, Haiti has remained very dependent on international financial assistance with US\$1 billion in aid granted in 2004 for use in re-establishing security and restoring basic services and infrastructure. Due to the government's limited capacity to absorb those funds, the validity of that assistance was extended to end-2007 with

additional grants in aid impending. In addition, in September 2006, Haiti became eligible for foreign debt relief under the HIPC programme. Pending materialization of the various aid mechanisms, emigrant remittances continue to be the main revenue source.

With his group L'Espoir having failed to win a majority in the April 2006 legislative elections, President René Preval must come to terms with a coalition government. This has complicated matters in terms of coping with the economic and social underdevelopment problems facing the country and with the resulting climate of violence. In that context, the continued presence of the United Nations Stabilization Mission (MINUSTAH) (whose mandate should be extended beyond February 2007) will remain crucial, especially with its mission broadened to include development assistance.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | -0.5 | 0.4 | -3.5 | 1.8 | 2.5 | 3.0 |
| Inflation (period-end %) | 11.4 | 37.8 | 21.7 | 14.8 | 12.4 | 9.0 |
| Public sector balance (%GDP)* | -3.2 | -3.6 | -3.7 | -4.1 | -4.7 | -7.5 |
| Exports | 273 | 330 | 373 | 459 | 482 | 532 |
| Imports | 983 | 1,116 | 1,183 | 1,309 | 1,512 | 1,732 |
| Trade balance | -709 | -785 | -810 | -850 | -1,030 | -1,201 |
| Current account balance | -166 | -180 | -159 | -272 | -355 | -499 |
| Current account balance (%GDP)* | -4.8 | -6.1 | -4.5 | -6.3 | -7.5 | -9.5 |
| Foreign debt (%GDP) | 39.6 | 47.2 | 38.9 | 32.7 | 29.8 | 27.7 |
| Debt service (%Exports) | 3.1 | 4.5 | 3.6 | 3.5 | 3.7 | 2.9 |
| Foreign currency reserves (in months of imports) | 1.7 | 1.3 | 1.6 | 1.4 | 1.9 | 2.0 |

* ex grants

e = estimate, f = forecast

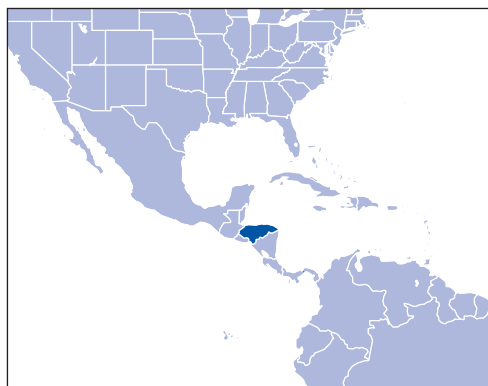
Honduras

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 7.2 |
| GDP (US\$ million) | 7,976 |
| GDP per capita (US\$) | 1,107 |

Short-term: **C**

Medium-term:
Very high risk

Coface analysis



2

RISK ASSESSMENT

Growth should falter, due chiefly to the slowdown in the United States, the country's main trading partner. Private consumption, underpinned by expatriate remittances, will nonetheless continue to buoy the economy amid easing inflation.

Economic policy has remained centred on the main objectives approved by the IMF – fiscal deficit reduction, monetary stability and banking system consolidation – with the country benefiting in 2005 and 2006 from partial cancellation of its foreign debt under the initiative reserved for highly indebted poor countries. The trade deficit should, however, remain significant with coffee and banana sales exposed to fluctuations in world prices and with textile exports by assembly units (*maquiladoras*) suffering from eroded competitiveness. Imports have remained high due particularly to the impact of the oil bill. The

volume of expatriate remittances should, however, considerably limit a current account deficit financed by multilateral aid, together with foreign direct investment that should increase as a result of the coming into force in April 2006 of the DR/CAFTA free trade agreement between Central America and the United States.

With two-thirds of the population living under the poverty line, President Manuel Zelaya, of the Liberal Party and in office since late January 2006, has put emphasis on more socially oriented policies. After a year in office, however, the president's accomplishments without a parliamentary majority have been very limited. Improving the education and health systems and reducing insecurity, along with modernizing energy, transport and telecommunications infrastructure, will be essential.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.7 | 3.5 | 5.0 | 4.2 | 5.2 | 4.0 |
| Inflation (period-end %) | 8.1 | 6.8 | 9.2 | 8.7 | 5.8 | 5.5 |
| Public sector balance (%GDP) | -5.3 | -6.0 | -3.5 | -3.2 | -2.5 | -2.4 |
| Exports | 1.4 | 1.4 | 1.6 | 1.8 | 1.8 | 2.0 |
| Imports | 2.8 | 3.3 | 3.7 | 4.2 | 4.4 | 4.5 |
| Trade balance | -1.5 | -1.9 | -2.1 | -2.4 | -2.6 | -2.6 |
| Current account balance (%GDP) | -3.7 | -3.7 | -5.4 | -0.5 | -1.8 | -1.5 |
| Foreign debt (%GDP) | 82.1 | 80.9 | 84.9 | 66.3 | 62.3 | 60.7 |
| Debt service (%Exports) | 18.9 | 14.3 | 10.0 | 9.0 | 5.7 | 5.8 |
| Foreign currency reserves (in months of imports) | 5.1 | 4.3 | 5.0 | 5.4 | 5.8 | 5.9 |

e = estimate, f = forecast

Jamaica

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 2.7 |
| GDP (US\$ million) | 9,696 |
| GDP per capita (US\$) | 3,545 |

Short-term: **C**

Medium-term:

High risk

Coface analysis



RISK ASSESSMENT

After weather conditions adversely affected agriculture and tourism in 2004 and 2005, the economy is resuming only moderate growth, driven mainly by investment in reconstruction and the mining and tourism sectors. Continued high inflation has, however, indirectly undermined Jamaica's economic competitiveness.

Imports, spurred by capital goods and hydrocarbons purchases (with this item representing 30 per cent of total imports), should far outstrip exports with sluggish sales growth for sugar and bananas and slowing aluminium and bauxite sales. Large external deficits will, thus, continue despite expatriate remittances and tourism revenues. Foreign direct investment inflows should cover half the country's substantial external financing needs, with

relatively expensive short-term financing covering the remainder.

The main fiscal policy objective, meanwhile, continues to be to reduce an imposing public-sector debt representing 115 per cent of GDP, whose servicing alone has absorbed half government spending. Making the adjustments needed to reduce that debt burden – including 45 per cent owed abroad – to 100 per cent of GDP in 2008–09 would entail pursuing fiscal austerity. The new prime minister named late March 2006, Ms Simpson-Miller (of the People's National Party), will probably have to take fiscal tightening measures despite the upcoming elections normally scheduled for February 2008. That austerity will hardly be conducive to easing poverty or the resulting tensions, however, with the level of insecurity remaining high.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.1 | 2.0 | 0.7 | 2.4 | 2.9 | 3.1 |
| Inflation (average annual rate) | 6.5 | 12.9 | 12.7 | 15.5 | 10.7 | 9.4 |
| Public sector balance (%GDP)* | -7.6 | -9.7 | -7.1 | -3.9 | -2.9 | -1.8 |
| Exports | 1.3 | 1.5 | 1.6 | 1.7 | 1.8 | 1.7 |
| Imports | 3.3 | 3.3 | 3.7 | 4.3 | 4.8 | 4.8 |
| Trade balance | -2.0 | -1.8 | -2.1 | -2.6 | -3.1 | -3.1 |
| Current account balance (%GDP) | -15.6 | -6.9 | -6.1 | -8.3 | -13.0 | -11.0 |
| Foreign debt (%GDP) | 68.7 | 67.0 | 70.7 | 60.5 | 58.9 | 57.5 |
| Debt service (%Exports) | 16.7 | 14.4 | 17.8 | 18.9 | 14.2 | 17.5 |
| Foreign currency reserves (in months of imports) | 2.7 | 3.3 | 3.8 | 4.1 | 3.9 | 3.8 |

* fiscal year ending 31 March

e = estimate, f = forecast

Mexico

Population (million inhabitants) 106.2
 GDP (US\$ million) 768,438

Short-term: **A3**

Medium-term:
Low risk

Coface analysis



2

STRENGTHS

- Mexico has become a manufacturing power, particularly by leveraging its membership in NAFTA, the North American Free Trade Area.
- The country has enjoyed good macroeconomic stability.
- Its control of internal and external deficits, coupled with the moderate level of its foreign debt, has been reassuring to international investors.
- Consolidated since the 1994–95 crisis, banking sector performance has been satisfactory.
- The working population is young and growing.

WEAKNESSES

- Exports have been highly concentrated on the United States and have suffered from a lack of competitiveness in facing trade rivals like China.
- Public finances are still very dependent on volatile oil revenues.
- Political gridlock has delayed progress on essential structural reforms (tax system, energy, labour law).
- Inadequate investment and labour skills have impeded a move to higher value-added production.
- Extensive poverty and social inequalities remain and the business environment needs improvement.

RISK ASSESSMENT

After rebounding in 2006, economic growth should be more moderate in 2007, due to a slowdown of the North American economy upon which Mexico continues to be extremely dependent, notably for over 85 per cent of its exports.

Having taken office in December 2006, the new president, Felipe Calderon of the conservative PAN party, plans to pursue a policy of macroeconomic stability supported by a relatively broad consensus. Already-moderate debt ratios should improve further with Mexico continuing to capitalize on market confidence to pursue an advantageous adjustment of its debt profile. The new fiscal responsibility law will, moreover, promote improvement on that score even, with public

finances still dependent on oil revenues. Meanwhile, the external account deficit should remain limited, thanks notably to oil exports and emigrant worker remittances, with the country's financing needs – in marked decline – almost entirely covered by foreign direct investment.

The persistence of inadequate economic growth rates in relation to demographic expansion is attributable to the economy's structural weaknesses. Moving production upmarket to leverage the country's proximity to the United States more effectively will necessitate, in particular, increased investment, greater efficiency on the part of state-owned companies in the energy sector and a more highly skilled labour force. Although reforms will be essential, substantial political foot-

dragging will continue to impede their progress with the new president not enjoying the support of a parliamentary majority.

In this context, the Coface company payment incident index has continued to improve. Cost reduction efforts and restructuring have allowed Mexican exporters to maintain their positions in the North American market, as has been the case in the

car industry, or even to take market share like some export subcontractors (*maquiladoras*) have done in the high technology sector. Traditional sectors like textiles are, however, still facing problems in competing with China and Central American countries and payment times for such sectors are continuing to stretch out.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 0.8 | 1.4 | 4.2 | 3.0 | 4.5 | 3.3 |
| Inflation (average annual rate) | 5.0 | 4.5 | 4.7 | 4.0 | 3.5 | 3.8 |
| Public sector balance (%GDP) | -3.4 | -3.2 | -2.0 | -1.4 | -1.6 | -1.7 |
| Exports | 161.0 | 164.8 | 188.0 | 214.2 | 247.8 | 262.1 |
| Imports | 168.7 | 170.5 | 196.8 | 221.8 | 251.7 | 271.0 |
| Trade balance | -7.6 | -5.8 | -8.8 | -7.6 | -3.9 | -8.9 |
| Current account balance | -14.1 | -8.8 | -6.7 | -4.6 | -0.9 | -3.1 |
| Current account balance (%GDP) | -2.2 | -1.4 | -1.0 | -0.6 | -0.1 | -0.4 |
| Foreign debt (%GDP) | 24.8 | 25.5 | 24.3 | 22.5 | 19.5 | 18.8 |
| Debt service (%Exports) | 13.3 | 16.6 | 18.9 | 12.0 | 9.2 | 7.7 |
| Foreign currency reserves (in months of imports) | 3.0 | 3.5 | 3.3 | 3.4 | 3.1 | 3.0 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Since the entry into force of the North American Free Trade Association (NAFTA) agreement, Mexico offers incentives to foreign companies looking to gain a strategic foothold on the American continent. These include gradual elimination of tariff barriers, industrial property protection and free movement of capital. To date, Mexico has entered into free-trade agreements with 44 countries. The most recent, signed with Japan in September 2004, makes Mexico the only country in the world to have, at one and the same time, free trade agreements with the EU, the United States and Japan. The free trade agreement with the EU, in force since 1 July 2000, makes it easier for EU countries to win back market share and step up investment, both of which have declined under the impact of NAFTA and competition from Asian products.

All industrial goods are now liable to 0–5 per cent customs duty. Tariff barriers were due to be dismantled by 2007. Government-licensed independent inspection companies are responsible for checking product compliance with Mexican Official Standards (NOM) and issuing certificates of conformity. The services of these companies are widely used but fairly expensive. The most common invoicing currency is the US dollar. Settlements are made within 30–45 days, which is fairly short considering the high rates of interest and shortage of credit. Documentary credit is the safest means of payment for export firms, but expensive for the buyer.

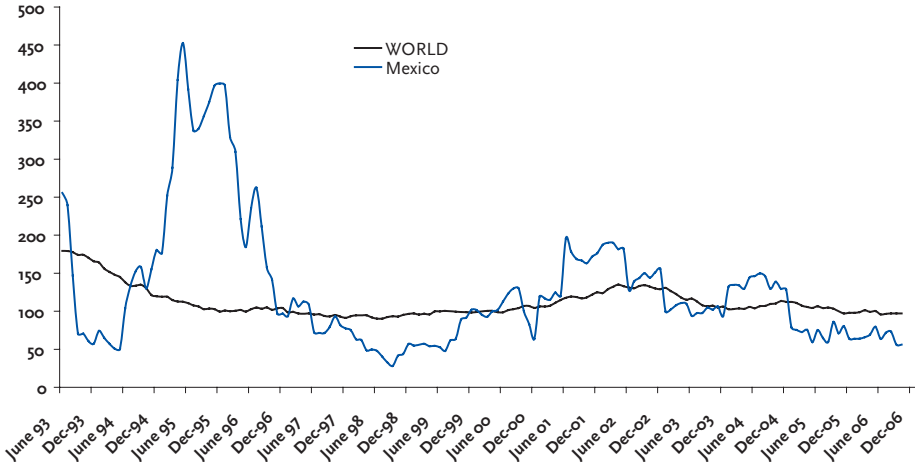
■ Attitude towards foreign investors

The economy today is open to foreign investment, although a number of strategic sectors are closed and remain the preserve of Mexican companies. Foreigners may invest in these sectors only through

the ‘neutral investment’ mechanism, ie without decision-making powers. Foreign investment in open sectors is subject to the approval of the National Commission for Foreign Investment above a certain threshold (currently €140 million). Below this

threshold, foreigners may acquire 100 per cent of a Mexican firm without seeking the Commission’s approval. Since 1999, there has been no capital ceiling on foreign investment in commercial and merchant banks.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

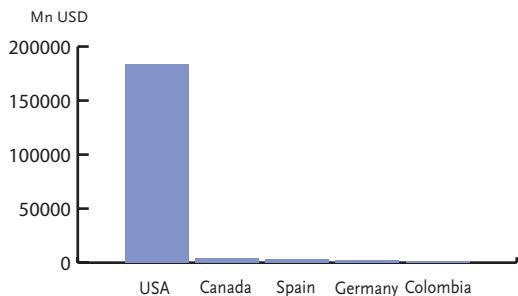
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 53 |
| Public consumption | 10 |
| Investment | 15 |

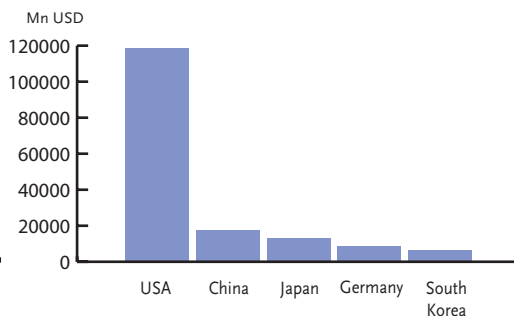
Exports: 30% of GDP

Imports: 32% of GDP

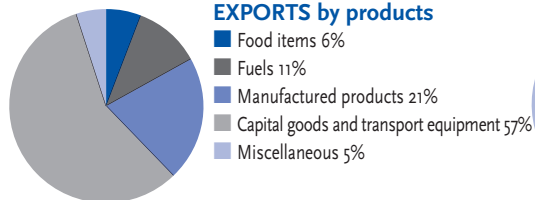
MAIN DESTINATIONS OF EXPORTS



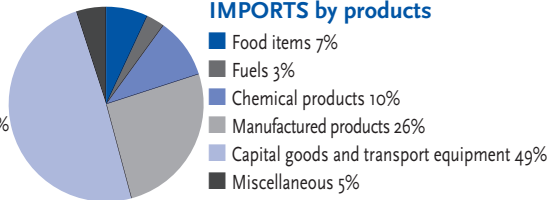
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Mexico | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 10,030 | 8,226 | 5,540 |
| GNP per capita (USD) | 7,310 | 3,978 | 2,117 |
| Human Development Index | 0.821 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 43 | 42 | 30 |
| Urban population percentage | 76 | 77 | 43 |
| Percentage under 15 years old | 32 | 30 | 29 |
| Number of computers per 1000 inhabitants | 108 | 89 | 48 |

Nicaragua

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 5.5 |
| GDP (US\$ million) | 4,911 |
| GDP per capita (US\$) | 895 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



2

RISK ASSESSMENT

Former president Daniel Ortega, of the left-wing Sandinista Front, began his new five-year term in office in January 2007. But with the opposition holding a majority in the National Assembly, the head of state will likely adopt a pragmatic stance and maintain the essential components of his predecessor's prudent economic policy. Renewal of the IMF programme that expired end-2006, necessary to maintain lender and investor confidence, will depend on pursuit of such policy as well as progress on social security reform and electricity sector restructuring.

After an economic slowdown in 2006, attributable mainly to political uncertainties, growth should be revived somewhat amid a modest consumption and investment recovery,

with oil prices, in particular, continuing to stoke inflation.

Integration into the Central American free trade agreement (DR/CAFTA) since April 2006 should spur farm product exports (coffee, sugar) as well as exports of manufactured products from customs-free areas. With Nicaragua's great dependence on imports, however, a structural trade deficit will persist. Despite expatriate remittances and official donations, the current account deficit will remain very large. Foreign debt is still very high despite relief obtained under the HIPC programme reserved for highly indebted poor countries and even with debt service sharply reduced. Excessive public debt, estimated at 70 per cent of GDP in 2006, and a weak financial system have been additional factors of vulnerability for Latin America's poorest country after Haiti.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 0.8 | 2.3 | 5.1 | 4.0 | 3.7 | 4.3 |
| Inflation (period-end %) | 5.2 | 6.6 | 9.3 | 10.5 | 8.6 | 6.8 |
| Public sector balance (%GDP) | -8.3 | -7.6 | -6.3 | -4.9 | -6.6 | -6.0 |
| Exports | 0.9 | 1.1 | 1.4 | 1.6 | 1.8 | 2.1 |
| Imports | 1.8 | 2.0 | 2.5 | 2.9 | 3.2 | 3.5 |
| Trade balance | -0.9 | -1.0 | -1.1 | -1.3 | -1.4 | -1.5 |
| Current account balance (%GDP) | -19.1 | -18.1 | -15.3 | -15.9 | -15.5 | -16.0 |
| Foreign debt (%GDP) | 161.5 | 166.7 | 112.9 | 108.6 | 105.4 | 106.4 |
| Debt service (%Exports) | 33.2 | 18.5 | 3.4 | 3.9 | 4.6 | 4.4 |
| Foreign currency reserves (in months of imports) | 2.3 | 2.3 | 2.7 | 2.6 | 2.9 | 2.7 |

e = estimate, f = forecast

Panama

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 3.2 |
| GDP (US\$ million) | 15,467 |
| GDP per capita (US\$) | 4,786 |

Short-term: **A4**

Medium-term:

Moderately high risk

Coface analysis



RISK ASSESSMENT

The enlargement of the Panama Canal was approved by referendum in late 2006, with work scheduled to start mid-2007 and last for 10 years at an estimated cost of over US\$5 billion. Considering the many derivative economic benefits, this operation will directly influence growth for years to come with relatively dynamic international trade buoying growth in 2007.

The tax reform of 2005 and 2006, entailing tighter public finance management as well the foreseeable increase in Panama Canal Authority revenues, should make it possible to narrow the fiscal deficit and gradually reduce excessive public debt (representing an estimated 60 per cent of GDP in 2006). Purchases linked to the canal enlargement will exacerbate the deficits of external accounts already structurally affected by the

volume of oil imports and profit repatriation by foreign companies. Negotiation in 2007 of a free trade agreement with the United States, the country's main trading partner, nonetheless augurs well for future development of Panamanian exports. Foreign direct investment inflows attracted by a favourable environment will, in any case, more than cover the financing needs, with authorities practising proactive foreign debt management to improve its profile and a still-high ratio in relation to GDP.

Meanwhile, President Martin Torrijos' administration enjoys a parliamentary majority, which could facilitate taking measures intended to reduce the extent of poverty and social inequality. Development will also depend on carrying out other major projects, like a gas pipeline from Colombia and an oil refinery to serve the region.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 2.2 | 4.2 | 7.5 | 6.9 | 7.0 | 6.2 |
| Inflation (average annual rate) | 0.9 | 0.5 | 0.2 | 3.2 | 2.4 | 1.4 |
| Public sector balance (%GDP) | -2.0 | -4.8 | -4.9 | -3.2 | -1.8 | -1.7 |
| Exports* | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 1.1 |
| Imports* | 2.8 | 2.9 | 3.3 | 3.8 | 4.4 | 5.0 |
| Trade balance | -2.0 | -2.1 | -2.4 | -2.8 | -3.4 | -3.9 |
| Current account balance (%GDP) | -0.8 | -4.5 | -7.4 | -5.0 | -3.0 | -4.0 |
| Foreign debt (%GDP) | 64.6 | 63.7 | 63.4 | 60.2 | 56.2 | 54.5 |
| Debt service (%Exports) | 31.2 | 16.9 | 15.0 | 25.9 | 16.6 | 11.7 |
| Foreign currency reserves (in months of imports) | 3.0 | 2.2 | 1.2 | 2.0 | 2.3 | 2.6 |

* ex Colon Free Zone

e = estimate, f = forecast

Paraguay

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 28.0 |
| GDP (US\$ million) | 78,431 |
| GDP per capita (US\$) | 4,786 |

Short-term: **C**

Medium-term:
High risk

Coface analysis



STRENGTHS

- Paraguay boasts substantial farm potential and hydroelectric resources.
- It has benefited from the backing of international financial institutions.
- The public and external debt ratios have markedly improved.
- The democratic system has taken root in recent years.

WEAKNESSES

- Paraguay suffers from its landlocked geographic status, which also makes it a transit site for illicit traffic.
- The economy has been very exposed to various shocks including weather conditions, fluctuations in world prices for farm products and oil, and economic trends in Argentina and Brazil.
- The restructuring of a bloated and not-very-efficient public sector has been lagging, with the banking sector remaining very weak.
- Governance problems, extensive corruption and lagging structural reforms have affected the business environment.
- The levels of inequality, poverty and insecurity have remained high.

RISK ASSESSMENT

Growth is still moderate, driven mainly by private consumption, itself buoyed by expatriate remittances and by investment in manufacturing and infrastructure. Inflation has been easing, meanwhile, despite price pressure on farm products and oil.

Exports should grow, with foreign demand relatively steady, particularly for soybeans, cotton, beef and pork. Robust imports of oil and of capital goods for investment purposes will, however, sustain a trade deficit of significant proportions. The volume of expatriate remittances should facilitate keeping the current account deficit under control.

Public finances, meanwhile, have continued to improve. The new agreement reached with the IMF

in June 2006 will run until August 2008 and allow Paraguay to benefit from increased financial backing and foreign investment inflows. The country can, nonetheless, only succeed in consolidating its macroeconomic situation by completely restructuring state-owned companies and the banking sector.

With President Duarte Frutos commanding a majority only in the Chamber of Deputies, however, and not in the Senate, making progress on structural reforms has been a laborious process. The head of state, whose term in office ends in August 2008, would like to have a constitutional amendment adopted authorizing him to run again, but that proposition has met with fierce hostility from the opposition parties.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 0.0 | 3.8 | 4.1 | 2.9 | 3.0 | 3.1 |
| Inflation (period-end %) | 14.6 | 9.3 | 2.8 | 9.9 | 8.5 | 7.3 |
| Public sector balance (%GDP) | -3.4 | 0.0 | 1.8 | 0.9 | 0.0 | 0.0 |
| Exports | 1.9 | 2.2 | 2.9 | 3.3 | 3.6 | 3.8 |
| Imports | 2.1 | 2.4 | 3.1 | 3.8 | 4.3 | 4.5 |
| Trade Balance | -0.3 | -0.3 | -0.2 | -0.5 | -0.7 | -0.7 |
| Current account balance | 0.1 | 0.1 | 0.1 | 0.0 | -0.2 | -0.2 |
| Current account balance (%GDP) | 1.6 | 2.3 | 2.0 | -0.3 | -2.5 | -1.8 |
| Foreign debt (%GDP) | 52.5 | 57.7 | 49.4 | 44.9 | 37.4 | 36.8 |
| Debt service (%Exports) | 16.9 | 15.9 | 12.2 | 11.9 | 11.5 | 11.4 |
| Foreign currency reserves (in months of imports) | 3.4 | 4.6 | 4.2 | 3.8 | 3.6 | 3.6 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Despite the economic upturn and undeniable progress in the informal sector, Paraguay's future is problematic. The implementation of structural reforms will, at best, be slow, not only because of their social repercussions (impact of certain price adjustments and public sector reform), but also because some policies (ie, better governance and anticorruption measures) will undermine entire sectors of the economy, along with the sources of income of a large section of the population. Paraguay has upside potential in essentially agriculture, livestock breeding and related downstream activities.

■ Means of entry

Paraguay joined Mercosur in 1991 but, in order to access this market, it had to relinquish its RLDC (relatively less developed country) status within LAIA and raise customs duties on most goods in line with the common external tariff phased in by Mercosur.

Paraguay is open to trade and only a handful of products are officially prohibited. The customs code in force since January 2005 aims to facilitate customs clearance and, in theory, to improve inspection procedures as part of the government's

publicly declared goal of combating smuggling and infringement. Export documents must always be stamped by the Paraguayan consulate in the country of origin of the goods, and the relevant stamp duty paid. On the other hand, mandatory inspections of goods exported to Paraguay by an approved firm were scrapped in 1999.

Law 194 unduly protects the interests of Paraguayan agents, representatives and importers and, as such, constitutes a punitive non-tariff barrier.

■ Attitude towards foreign investors

Foreign investment legislation is fairly liberal. In general, there are restrictions on foreign and private investment in government monopoly sectors such as fixed telephony, drinking-water supply and purification, electricity, cement manufacture and crude oil imports. After a first wave of privatizations in the 1990s, including that of the steelmaker Acepar, the privatization programme was revived in October 2000 (disposal of three public service companies: the fixed telephone operator Antelco, the water purification and group Corposana, and the rail operator FCP-CAL), then suspended two years later.

Legal security in Paraguay is non-existent despite claims of international safeguards. The country allows recourse to international arbitration

and is a signatory to both MIGA and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Foreign exchange regulations

There are no exchange controls. The most widely used currency is the US dollar.

OPPORTUNITY SCOPE

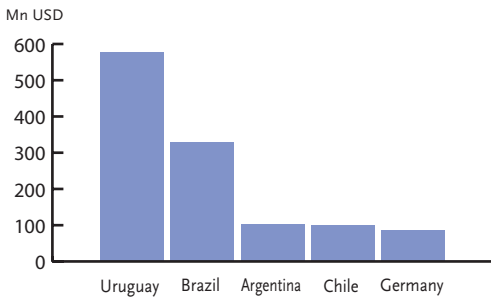
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 60 |
| Public consumption | 5 |
| Investment | 13 |

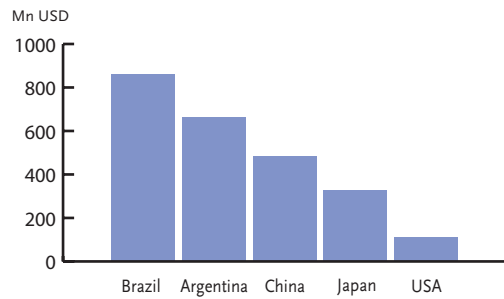
Exports: 33% of GDP

Imports: 36% of GDP

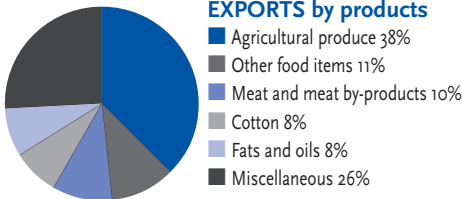
MAIN DESTINATIONS OF EXPORTS



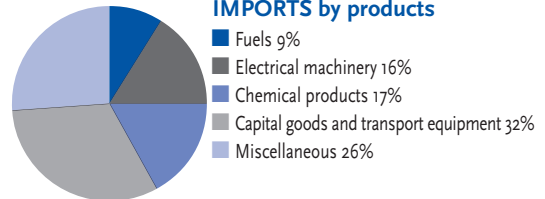
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Paraguay | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 4,970 | 8,226 | 5,540 |
| GNP per capita (USD) | 1,280 | 3,978 | 2,117 |
| Human Development Index | 0.757 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 45 | 42 | 30 |
| Urban population percentage | 57 | 77 | 43 |
| Percentage under 15 years old | 38 | 30 | 29 |
| Number of computers per 1000 inhabitants | 59 | 89 | 48 |

Peru

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 28.0 |
| GDP (US\$ million) | 78,431 |

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Peru boasts abundant mineral wealth (gold, copper, zinc) that has allowed it to benefit from buoyant raw material prices.
- It also enjoys extensive energy, agricultural and fishing resources and an exceptional national heritage.
- Fiscal and monetary policies have been prudent.
- Foreign debt ratios have been improving due to sensible management of public finances and GDP and export growth.
- Foreign currency reserves have been at comfortable levels in terms of months of imports.

WEAKNESSES

- The country has been vulnerable to exogenous shocks (a downturn of world raw material prices, adverse weather conditions).
- Dualism continues to mark the economy with an ethnic cleavage echoing the sharp contrast between a relatively modern sector in the coastal plains and mining areas, and an inland subsistence sector.
- The poverty affecting half of the population has constituted a source of political instability epitomized by the rise of 'indigenist' populism in the Andean regions.
- Fiscal revenues have not sufficed to meet social and infrastructure needs
- The banking system's extensive dollarization could jeopardize its stability in case of a crisis of confidence.

RISK ASSESSMENT

Peru's economic growth continues to be among Latin America's highest and, buoyed by robust domestic and foreign demand, rests on solid foundations. A slight downturn should, nonetheless, develop in 2007 amid a less brisk export growth (particularly minerals) and restrictive monetary policy, intended to keep inflation at moderate levels.

Centre-left president, Alan Garcia, in office since July 2006, should pursue a prudent economic policy with IMF backing, expected to result in a limited fiscal deficit. Most public debt, however, remains denominated in foreign currency, which constitutes a source of vulnerability. The prospect

of a free trade agreement with the United States coming into force in 2007 augurs increased exports and a continuing slight external account surplus, with foreign direct investment expected to cover all Peru's modest financing needs. Foreign debt ratios have continued to improve thanks to early repayment of Paris Club creditors in 2005 and the dynamism of raw material exports. The good level of foreign currency reserves has made it possible to substantially mitigate liquidity crisis risk. In this generally favourable context, payment experience with companies has been relatively satisfactory, with the mining, civil engineering and textile sectors the most dynamic.

Peru is, however, still exposed to a sudden downturn of world prices for raw materials and, despite its consolidation, the banking system has remained weakened by the extent of dollar-denominated deposits and loans. Insufficient

economic diversification and marked inequalities continue to constitute a risk for the nation's cohesiveness, epitomized by the support for indigenist populism in Andean regions.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|------|------|------|------|---------------------|---------------------|
| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
| Economic growth (%) | 4.8 | 3.8 | 5.2 | 6.4 | 7.1 | 5.5 |
| Inflation (period end %) | 1.5 | 2.5 | 3.5 | 1.6 | 2.4 | 2.5 |
| Public sector balance (%GDP) | -2.3 | -1.7 | -1.1 | -0.3 | 1.0 | -0.5 |
| Exports | 7.7 | 9.1 | 12.8 | 17.3 | 22.4 | 23.2 |
| Imports | 7.4 | 8.3 | 9.8 | 12.1 | 14.2 | 16.7 |
| Trade balance | 0.3 | 0.8 | 3.0 | 5.3 | 8.1 | 6.5 |
| Current account balance | -1.1 | -0.9 | 0.0 | 1.1 | 1.3 | 0.5 |
| Current account balance (%GDP) | -1.9 | -1.5 | 0.1 | 1.4 | 1.5 | 0.5 |
| Foreign debt (%GDP) | 49.3 | 48.2 | 44.6 | 36.0 | 32.5 | 30.9 |
| Debt service (%Exports) | 30.4 | 26.4 | 22.2 | 30.1 | 16.9 | 14.7 |
| Foreign currency reserves (in months of imports) | 9.6 | 8.8 | 8.8 | 7.8 | 6.9 | 6.7 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The Camisea gas field, commissioned in August 2004, should help foster the development of a large petrochemicals industry by 2010. Mining has seen strong volume growth particularly since the commissioning in 2001 of Antamina, the world's largest copper and zinc mine. Growth has also been driven by firm metal prices, particularly gold and copper. The forthcoming award of the Las Bambas copper and gold mine concession will increase sector output. Construction is booming on the back of a vast programme of low-cost housing and investment from Peruvians living abroad and will see its medium-term prospects further boosted by the award of road-building concessions. Textiles benefit from the inclusion of apparel in the generalized system of preferences (ATPDEA) granted by the US to four Andean countries for a four-year period (2002-06). This arrangement will be extended under a free trade agreement (TLC) with the US, due to enter into force in 2007.

■ Means of entry

The market is open and there are no payment difficulties in respect of imports. The average rate of customs duty is 10.9 per cent. An ACN common external tariff has been agreed for 62 per cent of tariff categories (four rates of duty: 0, 5, 10 and 20 per cent). Peru, however, has asked for it to be replaced by a more open system.

■ Attitude towards foreign investors

Peru's legislation offers foreign investors a number of safeguards, including equal rights with domestic investors, the option of signing legal stability agreements, unrestricted transfer of profits, dividends and capital, freedom of enterprise, freedom to import and export etc. Foreign investment is not subject to approval. Investors seeking the benefit of legal stability agreements must first register with the Peruvian investment promotion agency, Proinversion, although there is no time limit for doing so.

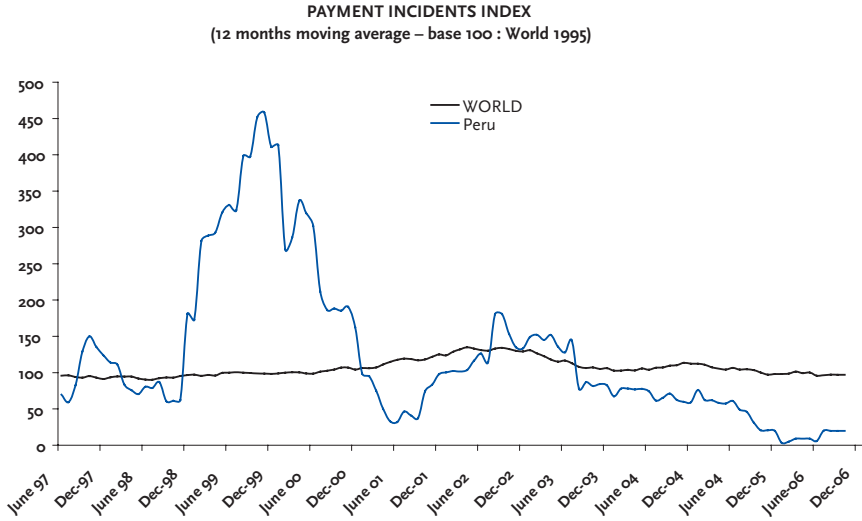
Peru has signed the founding charter of the MIGA as well as the original act of the ICSID. It has

also ratified the New York Convention on the Recognition and Enforcement of Arbitral Awards. A mutual investment promotion and protection agreement was signed with France on 6 October 1993 and ratified in February 1996. With regard to taxation, Peru has dual taxation agreements with three countries (Sweden, Canada, Chile) and, in August 2005, signed a draft agreement with France

due to come into force in 2007. There is no difficulty in obtaining a work or residence permit in connection with an investment.

■ **Foreign exchange regulations**

Peru has a floating, but managed, exchange rate in what is still a highly dollarized economy.



OPPORTUNITY SCOPE

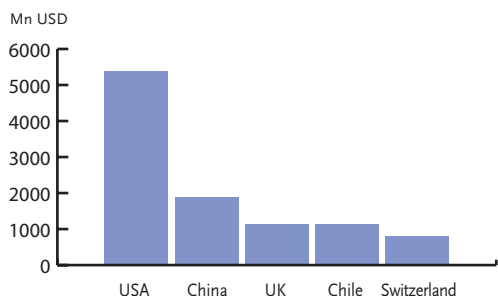
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 60 |
| Public consumption | 9 |
| Investment | 15 |

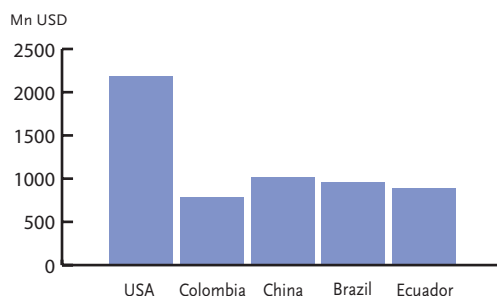
Exports: 25% of GDP

Imports: 19% of GDP

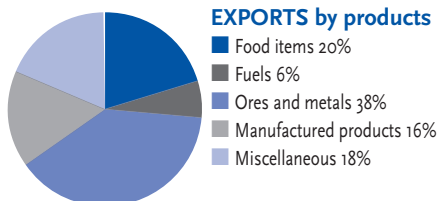
MAIN DESTINATIONS OF EXPORTS



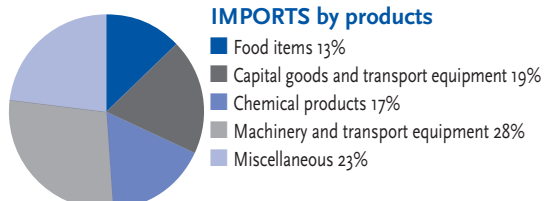
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

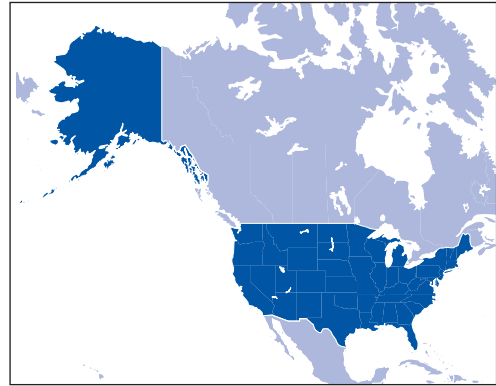


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Peru | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 5,830 | 8,226 | 5,540 |
| GNP per capita (USD) | 2,610 | 3,978 | 2,117 |
| Human Development Index | 0.767 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 37 | 42 | 30 |
| Urban population percentage | 74 | 77 | 43 |
| Percentage under 15 years old | 33 | 30 | 29 |
| Number of computers per 1000 inhabitants | 98 | 89 | 48 |

United States

| | |
|----------------------------------|------------|
| Population (million inhabitants) | 300.0 |
| GDP (US\$ million) | 12,455,068 |
| GDP per capita (US\$) | 41,517 |



Coface analysis

Short-term: **A1**

STRENGTHS

- With its vast domestic market and privileged position in the world financial system, the United States continues to attract foreign investors, particularly from Asia and oil-producing countries.
- A highly trainable and geographically mobile workforce, high immigration rate and flexible labour legislation have fostered a good balance between the labour supply and job creation.
- The government and companies continue to provide substantial financial support for research, greatly enhanced by the cooperation between laboratories, universities and companies and, thus, attractive to foreign engineers and scientists.
- The reactivity and flexibility of companies and the pragmatism of local public authorities have facilitated rapid adjustments to changing conditions.

WEAKNESSES

- The country's sizeable current account deficit will ultimately necessitate economic and financial adjustments.
- The ageing of the population has brought out the inadequacies of existing health and pension financing systems.
- Defective electric power networks and antiquated road, rail and port infrastructure will necessitate major investments.
- An economy that is still not very fossil-fuel efficient will have to make investments to meet environmental constraints.
- The combined effect of those weaknesses has burdened public finances and undermined American company competitiveness.

RISK ASSESSMENT

High growth continued in 2006 driven mainly by household consumption along with investment by companies and public institutions. After several exuberant years, however, households have gradually cut back on housing and car-related spending in phase with tightening monetary policy.

That slowdown should continue in 2007, at least in the first half. Household consumption should slow further with lower energy prices and a continued upward wage trend only partially offsetting the

impact of the ongoing property market correction on their borrowing capacity. In a context of inventory adjustment and sagging new orders, meanwhile, manufacturers will moderately reduce their investments. Exports should continue to benefit from the weak dollar and continued robust demand for capital goods from emerging countries, but that will not suffice to significantly reduce an abysmal current account deficit. In a less favourable context, the public-sector deficit will increase slightly due to slower tax revenue growth and continued dynamic spending by states and local communities. The

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 1.6 | 2.7 | 4.2 | 3.2 | 3.3 | 2.5 |
| Consumption (var.) | 2.7 | 2.9 | 3.9 | 3.5 | 3.0 | 2.8 |
| Investment (var.) | -8.9 | 1.3 | 5.9 | 6.8 | 7.6 | 5.9 |
| Inflation | 1.6 | 2.3 | 2.7 | 3.4 | 3.3 | 2.3 |
| Unemployment | 5.8 | 6.0 | 5.5 | 5.1 | 4.6 | 4.8 |
| Short-term interest | 1.8 | 1.2 | 1.6 | 3.5 | 5.2 | 5.3 |
| Public sector balance (%GDP) | -3.8 | -5.0 | -4.7 | -2.7 | -1.9 | -2.4 |
| Public sector debt (%GDP) | 60.8 | 62.5 | 63.7 | 64.1 | 64.1 | 64.7 |
| Exports (var.) | -2.3 | 1.9 | 8.6 | 6.9 | 8.5 | 6.3 |
| Imports (var.) | 3.4 | 4.4 | 10.7 | 6.3 | 6.3 | 4.1 |
| Current account balance (%GDP) | -4.5 | -4.8 | -5.7 | -6.4 | -6.6 | -6.5 |

e = estimate, f = forecast

extent of the impending slowdown will depend, however, on developments in the property sector and car industry. A marked downturn in those key sectors could spread to the entire economy.

The Coface payment incident index reflects the generally good company financial health, albeit with variations by sector. Contending with grave financial difficulties, American carmakers and most of their subcontractors continue to present a high level of risk that the prospective sluggish sales in 2007 should

hardly mitigate. The construction and furniture sectors should suffer from the property market slowdown. Conversely, chemicals, steel and even air transport will benefit from stabilizing prices for their inputs, which will partially offset less dynamic demand. After enjoying several years of record profits, companies should be able to cope with a less buoyant environment. Only a moderate deterioration of payments, and concentrated in a few sectors, appears likely in 2007.

MAIN ECONOMIC SECTORS

■ Construction

New housing starts fell in 2006 while stocks increased sharply, putting the brakes on price appreciation. That downturn has not only affected builders, like Kara, which filed for Chapter 11 bankruptcy protection, but also their subcontractors. Non-residential construction, underpinned by the good financial health of companies and local communities, has been dynamic and should remain so in 2007. Residential construction, however, should only start improving from summer 2007 and then make gradual progress in the second half.

■ Distribution

Faced with fierce competition and a consumption slowdown, sector heavyweights posted below-par

performance, prompting them to cut costs: Ahold unloaded US Foodservice while Wal-Mart cut back on investments. In 2006, capital-investment funds maintained their interest in buying out distributors (Burlington Coat Factory Outlet and Linen N' Things). That phenomenon should gain momentum in 2007 amid the economic slowdown.

■ Car industry

GM, Ford and DaimlerChrysler posted weaker sales in 2006 while Toyota, Nissan and Honda gained market share. Vehicle production and sales will be sluggish due to sagging household demand, lower petrol-pump prices notwithstanding. Parts manufacturers have taken the brunt of the crisis with many now benefiting from Chapter 11 bankruptcy protection (Dana, Delphi, Dura).

■ Steel

A demand slowdown in construction and the car industry, coupled with high stock levels in service centres, which represent 30 per cent of steel sales, prompted several producers to shut down several facilities end-2006. Business should, nonetheless, increase by some 3 per cent in 2007. A resurgence of imports from China could, however, cause prices to decline and jeopardize that trend. Companies should maintain good profitability by reducing costs, however.

■ Computer industry

The main computer builders – Dell, HP, Acer, Lenovo and Fujitsu Siemens – have been contending with very stiff competition, not only on price (with the downward trend likely to continue in 2007), but also on delivery speed and after-sales service. The price pressure has not, however, affected services and software. Microsoft's new Vista operating

system should give an additional boost to sales, not only of software, but also of personal computers since running it requires recent equipment. With companies having set their 2007 budgets, however, that should not happen until 2008.

■ Telecommunications

The mobile telephone market has been slowing with average revenues per subscriber levelling off. Fixed telephony revenues have been declining with the ADSL broadband internet boom alone bailing out operators. In that context, they have attempted to diversify their product and service range with AT&T offering services linked to the internet protocol (IP) and Verizon enhancing its traditional service offer with access to digital television via its fibre-to-the-premises (FTTP) network, thereby arming itself to offer a quadruple service package (television, fixed and mobile telephony convergence, internet).

PAYMENT AND COLLECTION PRACTICES

■ Payment

Exporters should pay close attention to sales contract clauses on the respective obligations of the parties and determine payment terms best suited to the context, particularly where credit payment obligations are involved. In that regard, cheques and bills of exchange are very basic payment devices that do not allow creditors to bring actions for recovery in respect of exchange law (*droit cambiaire*).

Cheques are widely used but, as they are not required to be covered at their issue, offer relatively limited guarantees. Account holders may stop payment on a cheque by submitting a written request to the bank within 14 days of the cheque's issue. Moreover, in the event of default, payees must still provide proof of claim. Although more difficult to obtain, bank cheques drawn directly on a bank's own account provide greater security as they constitute a direct undertaking to pay from the bank.

Bills of exchange and promissory notes are less commonly used and offer no specific proof of debt.

The open account system is only justified after a continuing business relationship has been established.

Transfers are used frequently especially via the SWIFT electronic network – operated by the Society for Worldwide Interbank Financial Telecommunication – to which most American banks are connected and which provides speedy and low-cost processing of international payments. SWIFT transfers are particularly suitable where trust exists between the contracting parties since the seller is dependent on the buyer acting in good faith and effectively initiating the transfer order. For large amounts, major American companies also use two other highly automated interbank transfer systems – the Clearing House Interbank Payments System (CHIPS), operated by private financial institutions and the Fedwire Funds Service System, operated by the Federal Reserve.

■ Debt collection

As the US legal system is complex and – especially as regards lawyers' fees – costly, it is advisable to negotiate and settle out of court with customers wherever possible, or else to hire a collection agency. The parties can also resort to arbitration or alternative dispute resolution (ADR), a relatively

informal mediation system, which makes it possible to avoid costly and lengthy ordinary court procedures.

The judicial system comprises two basic types of court: the federal district courts with at least one such court in each state, and the circuit or county courts under the jurisdiction of each state. The Federal Rules of Civil Procedure, promulgated by the Supreme Court and regularly amended, govern the various phases of civil procedure at the federal level while each state has its own rules of civil procedure. The vast majority of proceedings are heard by state courts, which apply state and federal law to disputes falling within their jurisdictions (ie, legal actions concerning persons domiciled or resident in the state). Federal courts, on the other hand, rule on disputes involving state governments, cases involving interpretations of the constitution or federal treaties and claims above US\$75,000 between citizens of different American states or between an American citizen and a foreign national or foreign state body or, in some cases, between plaintiffs and defendants from foreign countries.

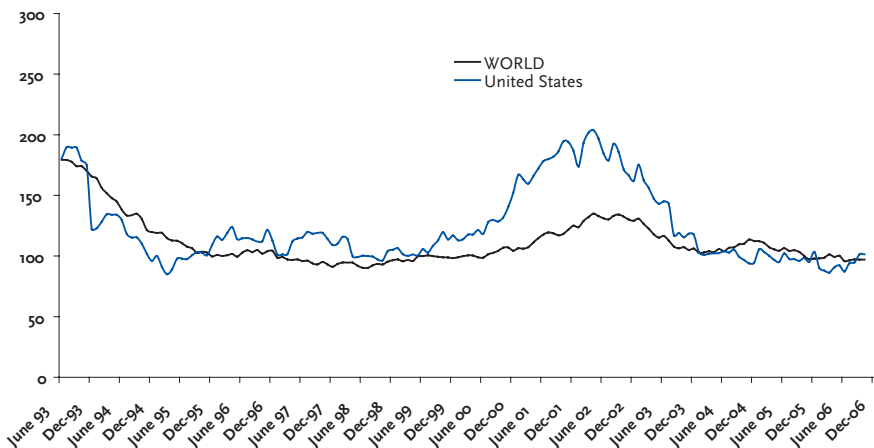
A key feature of the US judicial system is the pretrial ‘discovery’ phase, whereby each party, before the main hearing, may demand evidence and testimonies relating to the dispute from the adversary before the court hears the case. During the trial itself, judges give plaintiffs and their lawyers considerable leeway to produce pertinent

documents at any time and conduct the trial in general (adversarial procedure). The discovery phase can last several months, even years, and entail high costs due to each adversary’s insistence on constantly providing pertinent evidence (argued by each party), and involve various means – like examinations, requests to provide supporting documents, the testimony of witnesses, and reports by detectives – before submitting them for court approval during the final phase of the proceedings.

Another feature of the American procedural system is that litigants may request a civil or criminal case to be heard by a jury (usually made up of 12 ordinary citizens not familiar with legal aspects – ‘twelve good men and true’ according to the popular definition of ‘jury’) whose task is to deliver a verdict based overall on the facts of the case and the evidence produced during the proceedings. In civil cases, the jury determines whether the demand is justified and also determines the penalty to impose on the offender. In criminal cases, the jury decides on the defendant’s guilt but the judge decides the punishment.

For especially complex, lengthy or expensive litigation, as in the case of insolvency actions, courts have been known to allow creditors to hold the professionals (eg, auditors) counselling the defaulting party liable, where such advisors have demonstrably acted improperly.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Uruguay

Population (million inhabitants) 3.5
GDP (US\$ million) 16,792

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Uruguay boasts abundant agricultural resources and has been striving to capitalize on its Mercosur membership.
- The macroeconomic situation has improved markedly with international financial community backing.
- Government authorities have attempted to combine reform implementation (taxes, pensions, banking system) with social progress.
- The country has benefited from a stable democracy and relatively satisfactory social indicators..

WEAKNESSES

- The country's domestic market is small and its exports, predominantly agricultural, not sufficiently diversified.
- Uruguay has been very dependent on the economic fortunes of its main trading partners, the United States, Brazil and Argentina.
- Low savings and investment rates have limited the country's growth potential.
- Public and external debt has remained high despite improvement in its profile.
- With restructuring underway, the banking system has remained weak due to its dollarization, vulnerability to interest rate variations and the extent of the public sector.

RISK ASSESSMENT

Growth should continue at a satisfactory level driven by consumption (itself spurred by wage growth), investment in agriculture, industry and transports, as well as by foreign trade with the main trading partners, the United States, Brazil and Argentina.

Although demand for farm products and beef will continue to buoy exports, imports will also rise due notably to capital goods purchases linked to the construction of two large cellulose factories. Uruguay has remained very dependent on oil imports (about a quarter of total purchases abroad). Overall, a reduction of the external account deficit is expected, and the country should easily cover its financing needs thanks to foreign direct investment and international financing at attractive conditions.

The government of President Tabare Vasquez, who has led a centre-left coalition since March 2005, has pursued pragmatic economic policy in the framework of standby credit granted by the IMF in June 2005. There has been marked improvement in the macroeconomic situation, which allowed the country to repay the IMF ahead of schedule in late 2006. Its debt ratios – both public (representing about 65 per cent of GDP) and external – have been among the highest for emerging countries. Efforts are being made, however, to adjust the debt profile, lengthen its maturity and reduce its cost.

The economic programme has emphasized reforms of the public sector and wage relations intended to make the economy more competitive and diversified. The pace of the changes could, nonetheless, be slow amid the dissension between

the coalition's moderate and radical wings, with the government attempting to combine those reforms

with increased efforts in favour of education and the most disadvantaged population segments.

MAIN ECONOMIC INDICATORS

| USD billions or % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|------|---------------------|---------------------|
| Economic growth (%) | -11.0 | 2.2 | 11.8 | 6.6 | 6.4 | 4.7 |
| Inflation (period-end %) | 25.9 | 10.2 | 7.6 | 4.9 | 5.9 | 5.0 |
| Public sector balance (%GDP) | -4.6 | -3.2 | -2.2 | -0.7 | -0.9 | -0.5 |
| Exports | 1.9 | 2.3 | 3.1 | 3.8 | 4.2 | 4.5 |
| Imports | 1.9 | 2.1 | 3.0 | 3.7 | 4.5 | 5.0 |
| Trade balance | 0.0 | 0.2 | 0.1 | 0.1 | -0.3 | -0.5 |
| Current account balance | 0.4 | -0.1 | 0.0 | 0.0 | -0.4 | -0.3 |
| Current account balance (%GDP) | 3.1 | -0.5 | 0.3 | 0.0 | -2.3 | -1.5 |
| Foreign debt (%GDP) | 104.9 | 118.3 | 105.8 | 81.8 | 75.2 | 69.6 |
| Debt service (%Exports) | 48.6 | 52.6 | 41.1 | 51.2 | 46.4 | 32.6 |
| Foreign currency reserves (in months of imports) | 3.3 | 7.2 | 6.4 | 6.4 | 6.3 | 6.2 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Private sector investment has picked up and infrastructure projects are beginning to resurface. Growth sectors include agri-foods, services (in particular logistics) and new technologies such as software.

■ Means of entry

The Uruguayan market is open, although complex customs clearance procedures and high duties stem the flow of imported luxury products. Goods can be freely imported into the country, with the exception of military equipment, second-hand vehicles and spare parts, meat, livestock etc. A number of non-tariff barriers, such as strict health inspections for all foodstuffs, persist but should be gradually lifted within the framework of Mercosur. The customs union currently applies to 85 per cent of tariff categories, but excludes automobiles, spare parts and sugar. Customs duties and levies are calculated on the CIF value and vary between 0 and 23 per cent. There is also a raft of levies, including a port tax, a fee payable to the Bank of the Republic of

Uruguay, VAT and an ad hoc levy on non-essential goods (IMESI). It is advisable to use documentary credit for payments.

■ Attitude towards foreign investors

Foreign investment is unrestricted and does not need to be declared. All sectors are open to foreign investment, except for oil refining, fixed telephony and electricity generation. The Foreign Investment Act 1998 offers important financial incentives, including exemption from tax and customs duties. Business in the free zones open to Mercosur members is growing.

■ Foreign exchange regulations

There are no restrictions on currency inflows or outflows. The dollar is the *de facto* benchmark currency, with 85 per cent of loans and deposits denominated in dollars. The peso has been floating freely since July 2002. There are no exchange controls for import payments but all foreign exchange transactions above US\$10,000 must be declared. No authorization is required for capital and profit transfers.

OPPORTUNITY SCOPE

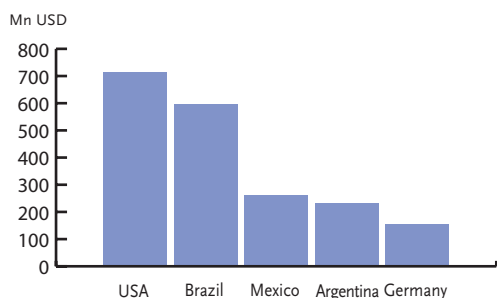
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 60 |
| Public consumption | 9 |
| Investment | 8 |

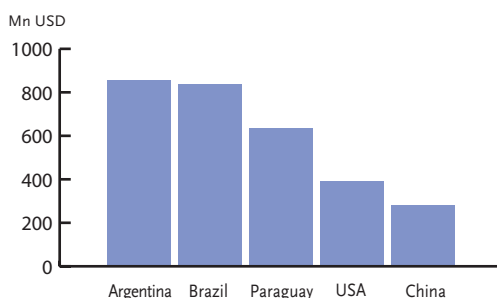
Exports: 30% of GDP

Imports: 28% of GDP

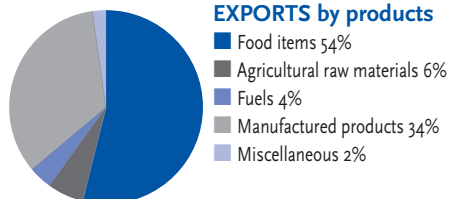
MAIN DESTINATIONS OF EXPORTS



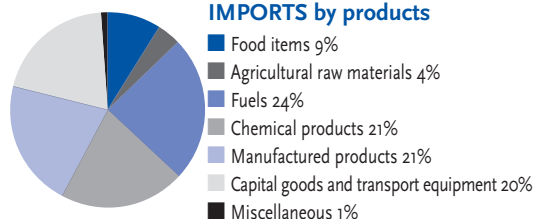
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Uruguay | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 9,810 | 8,226 | 5,540 |
| GNP per capita (USD) | 4,360 | 3,978 | 2,117 |
| Human Development Index | 0.851 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 34 | 42 | 30 |
| Urban population percentage | 93 | 77 | 43 |
| Percentage under 15 years old | 25 | 30 | 29 |
| Number of computers per 1000 inhabitants | 125 | 89 | 48 |

Venezuela

Population (million inhabitants) 26.6
GDP (US\$ million) 138,857

Short-term: **C**

Medium-term:
High risk

Coface analysis



STRENGTHS

- Venezuela boasts substantial oil, gas and mineral resources with considerable reserves, particularly in heavy crude oil.
- Oil export revenues have provided the country with the means to increase its political influence in the region (Caribbean area, Mercosur).
- With its energy dependency and geographic proximity, the United States still constitutes the main market for Venezuelan oil products, political differences notwithstanding.
- The foreign debt burden has been moderate.

WEAKNESSES

- The economy is very dependent on the hydrocarbon sector.
- Extravagant spending of oil revenues is compromising productive investment and the longer-term economic outlook.
- The lack of investment has restricted the PDVSA oil company's production capacity.
- The government's interventionism has undermined confidence in business circles and deterred private investment, thereby impeding the economic diversification needed for balanced growth.

RISK ASSESSMENT

Redistribution of oil wealth to the country's poorest, along with the easing of monetary policy, has spurred household consumption and economic growth. Soaring oil prices have made it possible to both limit the fiscal deficit despite resolutely expansionary policy and to maintain a relatively comfortable external financial position despite rising imports. Market liquidity notwithstanding, inflation eased – a result facilitated by price controls and increased subsidies.

A reduction of social spending in 2007, after the elections, should result in a growth slowdown. External accounts have continued to record a large surplus, with the absence of financing needs,

continued exchange controls and comfortable foreign currency reserves limiting liquidity crisis risk. In this context, the business environment has not remained very conducive and state interventionism has deterred investment. Moreover, abusive spending of the oil windfall has been a source of concern. Should prices decline significantly, adjusting public sector spending would be difficult and cause rapid deterioration of government finances. Redistribution of oil earnings via the national development fund (FONDEN) has been done at the expense of productive investments and has compromised the longer-term sustainability of the growth.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | -8.9 | -7.7 | 17.9 | 9.3 | 8.0 | 4.0 |
| Inflation (%) | 22.5 | 31.1 | 21.7 | 16.0 | 10.9 | 11.3 |
| Public sector balance (%GDP) | -4.0 | -4.4 | -3.6 | -0.8 | -0.5 | -1.0 |
| Exports | 26.8 | 27.2 | 38.7 | 55.5 | 65.9 | 68.2 |
| Imports | 13.4 | 10.7 | 17.3 | 24.0 | 32.2 | 37.7 |
| Trade balance | 13.4 | 16.5 | 21.4 | 31.5 | 33.7 | 30.6 |
| Current account balance | 7.6 | 11.4 | 13.8 | 25.4 | 27.5 | 24.3 |
| Current account balance (%GDP) | 8.2 | 13.7 | 12.6 | 18.3 | 16.8 | 14.3 |
| Foreign debt (%GDP) | 41.1 | 47.8 | 35.6 | 26.7 | 21.0 | 20.7 |
| Debt service (%Exports) | 16.1 | 12.7 | 8.9 | 6.3 | 4.5 | 4.7 |
| Foreign currency reserves (in months of imports) | 4.6 | 10.2 | 7.6 | 8.2 | 6.5 | 5.9 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ **Market overview**

Exchange and price controls have been in force since 5 February 2003. Their implementation has improved markedly, but payment difficulties may arise for imported goods not on the priority list. Difficulties might also arise in connection with dividend transfers, royalty payments and settlements for technical assistance services. It should also be noted that some public retail prices are regulated, especially in the case of foodstuffs, consumer goods, cement and waste processing. Some prices have remained at 2003 levels, whereas aggregate inflation between 2002 and end-2005 was close to 65 per cent. Intellectual property protection remains patchy, especially for textiles and pharmaceuticals, despite attempts to remove significant volumes of counterfeit goods from the market.

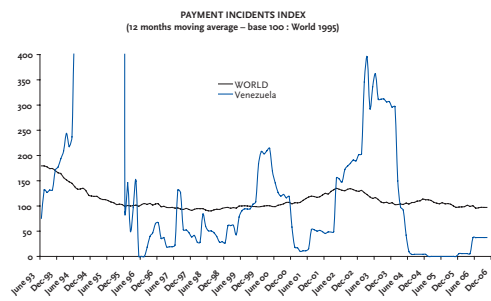
■ **Means of entry**

Apart from exchange controls, a number of tariff and non-tariff measures remain in place: multiple licensing procedures and discretionary licence awards (in particular for cheese, milk powder, wines and spirits), reduction in the number of licences awarded, stringent health restrictions for apples and potatoes, compulsory product labelling with mention of origin, discrimination against imported products and special treatment under foreign

exchange rules for South American products traded within the framework of LAIA. In the field of government procurement, preferential measures have been adopted in favour of local companies showing a domestic value added of over 20 per cent. This device is tantamount to knocking 20 per cent off the value of a local bid before comparing it with foreign bids.

■ **Attitude towards foreign investors**

The 2000 constitution gives foreign and domestic investors equal rights and duties. In this regard, foreign investors have not been spared in the drive conducted by the government over the last few months against private oil companies, cattle-breeding businesses and so-called tax evasion (higher tax rates and royalties, mandatory reassessments, 48-hour company closures, modification of terms of contract, confiscation of land for possession of supposedly bogus titles etc).



This attitude only serves to erode the country's attractiveness, notwithstanding the huge investment in oil and gas, aluminium plants, banking and telecoms since 1998. The reciprocal investment

protection agreement between France and Venezuela was ratified by the Venezuelan government in early 2004.

OPPORTUNITY SCOPE

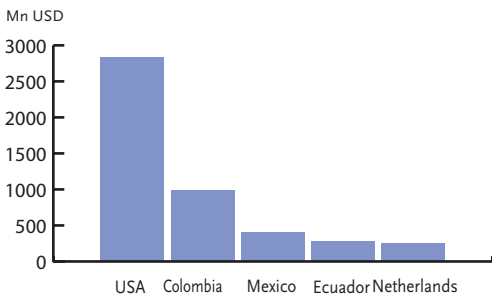
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 56 |
| Public consumption | 7 |
| Investment | 9 |

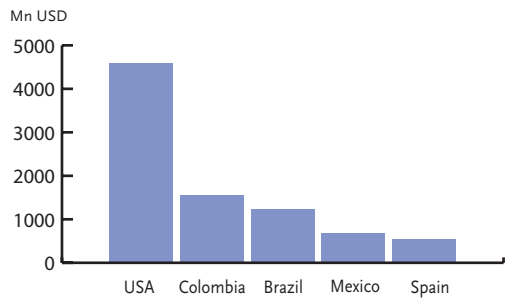
Exports: 36% of GDP

Imports: 20% of GDP

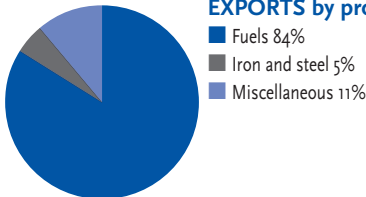
MAIN DESTINATIONS OF EXPORTS



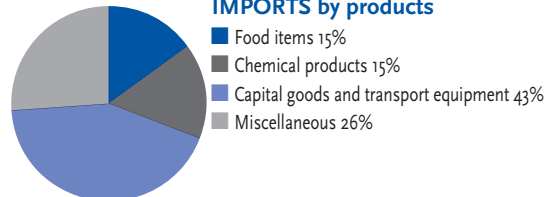
MAIN ORIGINS OF IMPORTS



EXPORTS by products

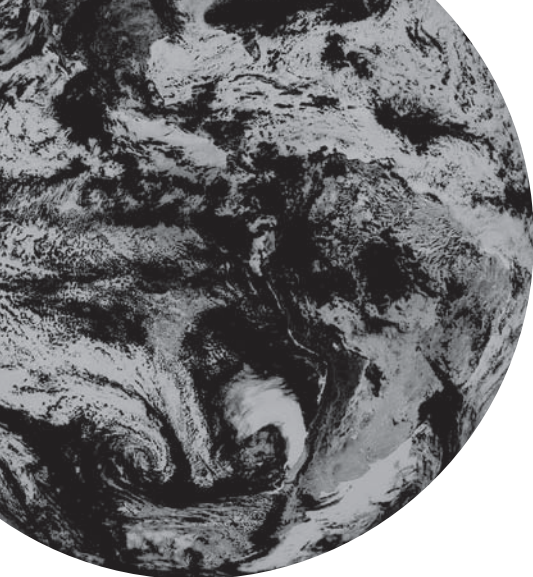


IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Venezuela | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 6,440 | 8,226 | 5,540 |
| GNP per capita (USD) | 4,810 | 3,978 | 2,117 |
| Human Development Index | 0.784 | 0.786 | 0.660 |
| Wealthiest 10% share of national income | 36 | 42 | 30 |
| Urban population percentage | 88 | 77 | 43 |
| Percentage under 15 years old | 32 | 30 | 29 |
| Number of computers per 1000 inhabitants | 82 | 89 | 48 |



Asia

| | |
|-------------------|-----|
| Outlook for 2007: | |
| Asia | 218 |
| Afghanistan | 225 |
| Australia | 226 |
| Bangladesh | 229 |
| Cambodia | 232 |
| China | 234 |
| Hong Kong | 238 |
| India | 242 |
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Asia

Sylvia Greisman, Yves Zlotowski and Olivier Oechslin

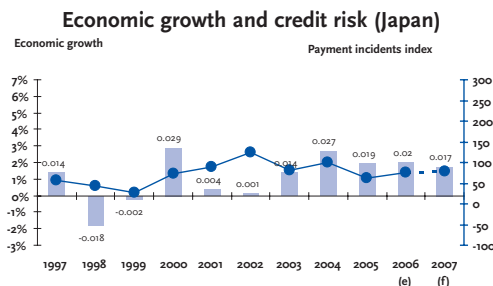
Country Risk and Economic Studies Department, Coface

JAPAN

■ Growth slowdown, but credit risk remains in check

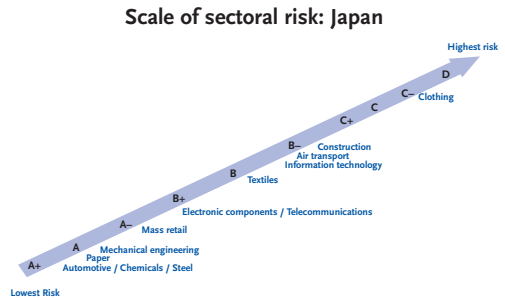
► In 2006, growth allowed many companies to bolster their financial situation and maintain excellent payment performance.

Activity should see a moderate slowdown in 2007 and consumption will, again, experience only a weak progression. Exports will remain a growth driver, however there will be a downturn in dynamism due to sagging US growth and a slight deceleration in demand from China. The high level of production capacity utilization will push companies to pursue investments. Consequently, the risks presented by the different economic sectors remain uneven.



Export sectors have benefited for several years not only from the dynamism of regional sales outlets but also from the competitiveness of their products in more mature markets, above all the United States. The **car industry**, **chemicals**, **steel**, **mechanical engineering** and **paper**¹ sectors (all rated A) will present very little risk despite moderating sales in

2007. **Mass distribution** (rated A-) has been benefiting from restructuring and stronger domestic demand. The **construction** sector (rated B-) has been experiencing divergent trends with residential property recovering after slumping for years and public works still suffering from the decline of government and local community investment. With fierce regional competition squeezing their margins, **textiles** (rated B) and **clothing** (C-), as well as **IT** (B-) and **electronic components** (B+), present a higher level of risk than the other economic sectors.



EMERGING ASIA

■ No pause expected in Asian growth

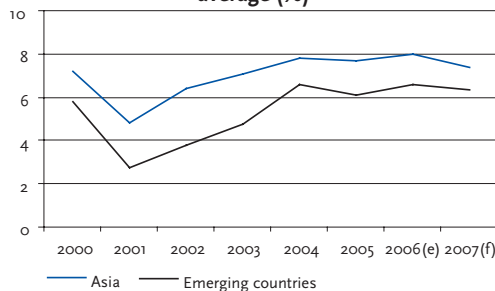
► **Emerging Asian** economies posted record 8 per cent growth in 2006. The impending slowdown in 2007 should be very moderate with the growth rate still expected to reach 7.3 per cent. That steadiness is attributable to several factors. Domestic demand has remained buoyant across the continent and has been driving growth since the Asian crisis. Only two economies (**Taiwan** and **South Korea**) have shown any weakness, albeit modest, in their

¹ Coface accords sector ratings on a global and regional basis. Ratings mentioned here are for Japan.

internal dynamic. The expected stabilization of oil prices will give an appreciable boost to economies that are mostly net oil importers. Although certainly deriving much of their dynamism from exports, those economies should generally suffer little from either the loss of one point of GDP by the United States or the expected levelling-off of the Japanese economy, with the exports of many countries diversified by region, including a growing proportion of sales to Emerging Asia itself. Asian growth has, thus, been self-sustaining. Only small open economies like **Singapore** or **Hong Kong** will slow in the wake of the US slowdown while maintaining enviable growth rates.

The Chinese scenario will be crucial for the entire continent, except India whose growth has been more autonomous. Constituting an end market and re-export workshop for Asian countries, **China's** role as an economic engine has grown. While benefiting from an economy relatively impervious to the US slowdown, **China's** internal dynamic has been a source of concern. With investments increasing sharply in the 2006 first half, the government has sought to combat overcapacity – particularly in steel, the car industry, distribution, property and cement – which could trigger a deflationary crisis. The economic policy and administrative measures taken in 2006 (which may be supplemented by a ‘managed’ speed-up of the yuan appreciation in 2007) should avert the catastrophe scenario. Coface expects a very measured slowdown to develop with growth easing from 10.6 per cent in 2006 to 9.5 per cent in 2007.

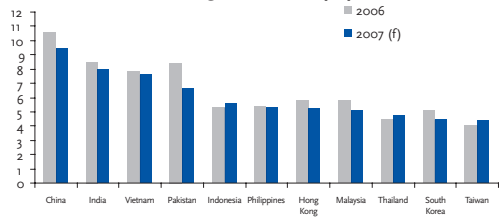
GDP growth higher than emerging country average (%)



India, meanwhile, should post strong growth again in 2007 – around 8 per cent of GDP. It has no overcapacity like China and is even less vulnerable to

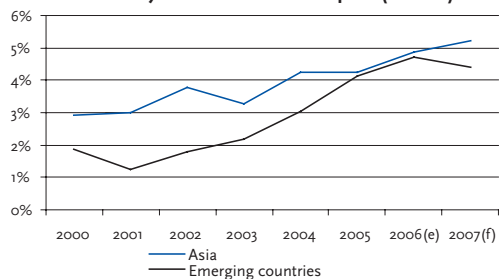
external market trends with its growth resting essentially on an internal dynamic. Industrial growth has been almost as high as that of services, which have been playing a preponderant role in the economy. The IT industry continues to enjoy high growth but other industrial sectors like pharmaceuticals, metallurgy and the car industry have also registered remarkable performance.

GDP growth rate (%)



- **Managing the region's impressive foreign currency reserves may pose problems**
- The large aggregate current account surpluses run by emerging Asia have cloaked disparities.

Satisfactory current account surplus (%GDP)

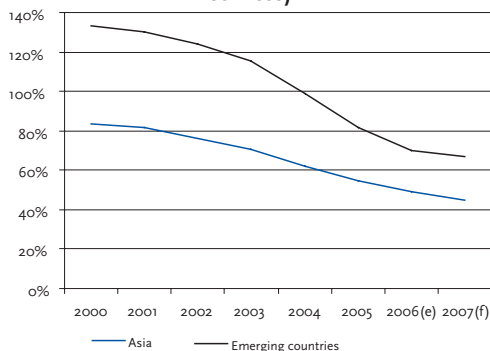


ASEAN countries, **South Korea** and mainland **China**, boast substantial current account surpluses. With its growing surplus, **China's** situation is exceptional. Its exports have been gaining market share, representing 8 per cent of world exports now against just 1 per cent in 1980; and have been moving upmarket. The textiles/clothing sector thus represented only 22 per cent of total sales abroad in 2006 – down from 32 per cent in 1990 – compared with 40 per cent for electronics and machine tools. Although contributing less to total sales, **China's** textiles are still exceptionally competitive thanks to low-cost labour. For world economies specialized in high value-added products, especially electronics, massive delocalizations to mainland **China**

continue to represent a strategic move for remaining competitive. Those technology transfers could, however, spawn fierce competition. It is, thus, crucial for **Taiwan**, **Singapore**, **South Korea**, **Malaysia** and **Thailand** to retain strategic assets in research and development terms and to continue to promote services and innovation-based sectors. Governments everywhere have been pursuing incentive policies to continue improving the national specialization and developing infrastructure.

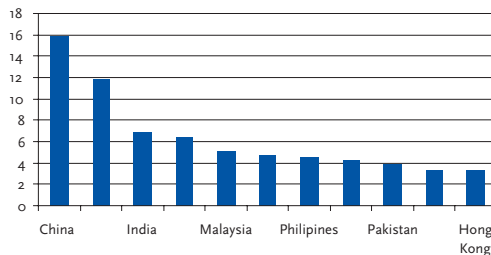
In South Asia, conversely, current accounts have been in deficit, moderately in **India** (about 1.5 per cent of GDP in 2006 and 2007) and **Bangladesh**, although more significantly in **Pakistan** (over 4 per cent of GDP) and **Sri Lanka**. Export growth has, however, been high throughout the region, thanks particularly to the textile sector's good performance. In **India**, metals, pharmaceuticals and computer services have also contributed to the dynamism of sales abroad. That dynamism has, however, not sufficed to offset equipment purchases and the oil bill, which should remain significant in 2007.

External debt ratio lower than emerging country average (%) (external debt/exports of goods and services)



Debt ratios continue to decline throughout the continent. The external financial situation of Asian countries has been healthy overall, with South Asia and particularly **Pakistan** still weaker. Foreign currency reserves have reached record proportions with a level equivalent to 10.4 months of imports expected in 2007, against 8.6 months on average for emerging countries.

Foreign exchange reserves (2007 f) (in months of imports)



That seemingly idyllic situation is not risk-free. China's case exemplifies the problems associated with exchange rate controls. With the central bank only 'sterilizing' half the inflow of capital, the surplus liquidity has sustained the risk of a bubble developing in the property market and limited the possibility of stemming excessive bank credit growth. The capacity of financial systems to absorb liquidity is, thus, crucial and Asia's leaders appear better equipped to deal with such risk. Many countries, such as **South Korea**, **Indonesia** and **Malaysia**, have consolidated their banking systems. Questions over the use of the reserves should, however, be the subject of further developments. The Singaporean holding company Temasek, which invests in Asia on the government's behalf, could serve as an example.

Disparities on governance

Emerging Asian countries are characterized by undeniable political stability, with economic policy predictability constituting a major factor in their economic performance and notably their high investment rates. The events of 2006 have, nonetheless, been a reminder of the latent tensions and weaknesses associated with their political systems. Although the announcement of a nuclear test by **North Korea** in October 2006 had no economic repercussions, it highlighted the failure of the conciliatory strategies of **China** and **South Korea** vis-à-vis the unpredictable Pyongyang regime.

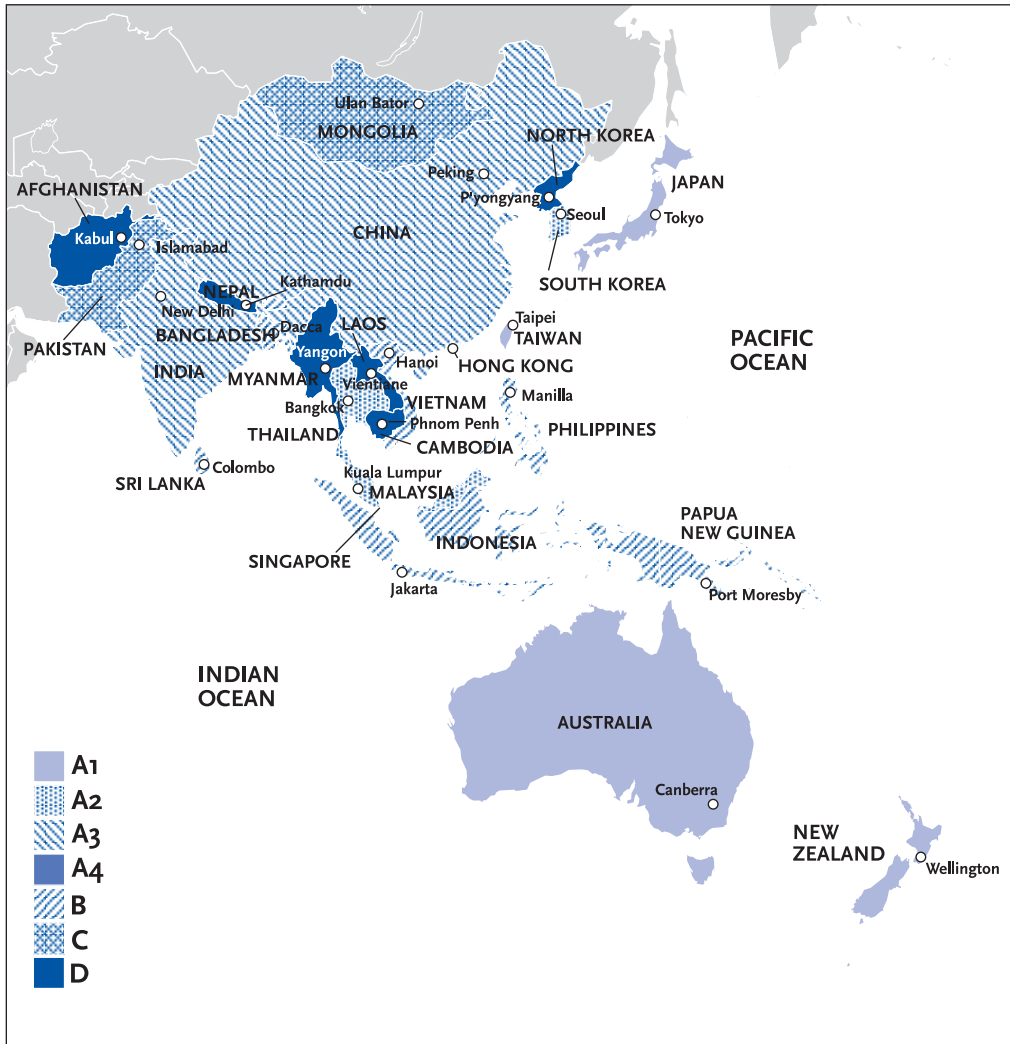
The **Taiwan** question, meanwhile, continues to be a potential source of tensions, with Beijing playing the opposition card against a weakened president. The coup in **Thailand** was a reminder of the vulnerability of the progressive democratization

process in Asia, and has obscured the underlying political scenario in the country. At a much higher level of risk, the situation has also deteriorated in Western **Pakistan** (north-east border, Balouchistan), and especially in **Sri Lanka** with a near-civil war situation again gripping the north-east part of the island. Even in **China**, growing inequality has spurred increasingly frequent incidents of social conflict, triggered by requisitions of farmland.

On governance, the Asian continent is characterized by extreme diversity, as evidenced by

World Bank ratings of compliance with regulations. The highest ratings given to **Taiwan**, **Singapore** and **Hong Kong** (or even the progress made by **South Korea** and **Malaysia** or **India**'s respectable ranking) are in sharp contrast with the recurring deficiencies encountered in **China**, **Indonesia**, the **Philippines**, **Pakistan** and **Vietnam**, with the last three countries also afflicted by extensive corruption. In many countries, the overlapping of the business and political communities continues to affect the investment climate.

COFACE MAP OF COUNTRY @ RATINGS



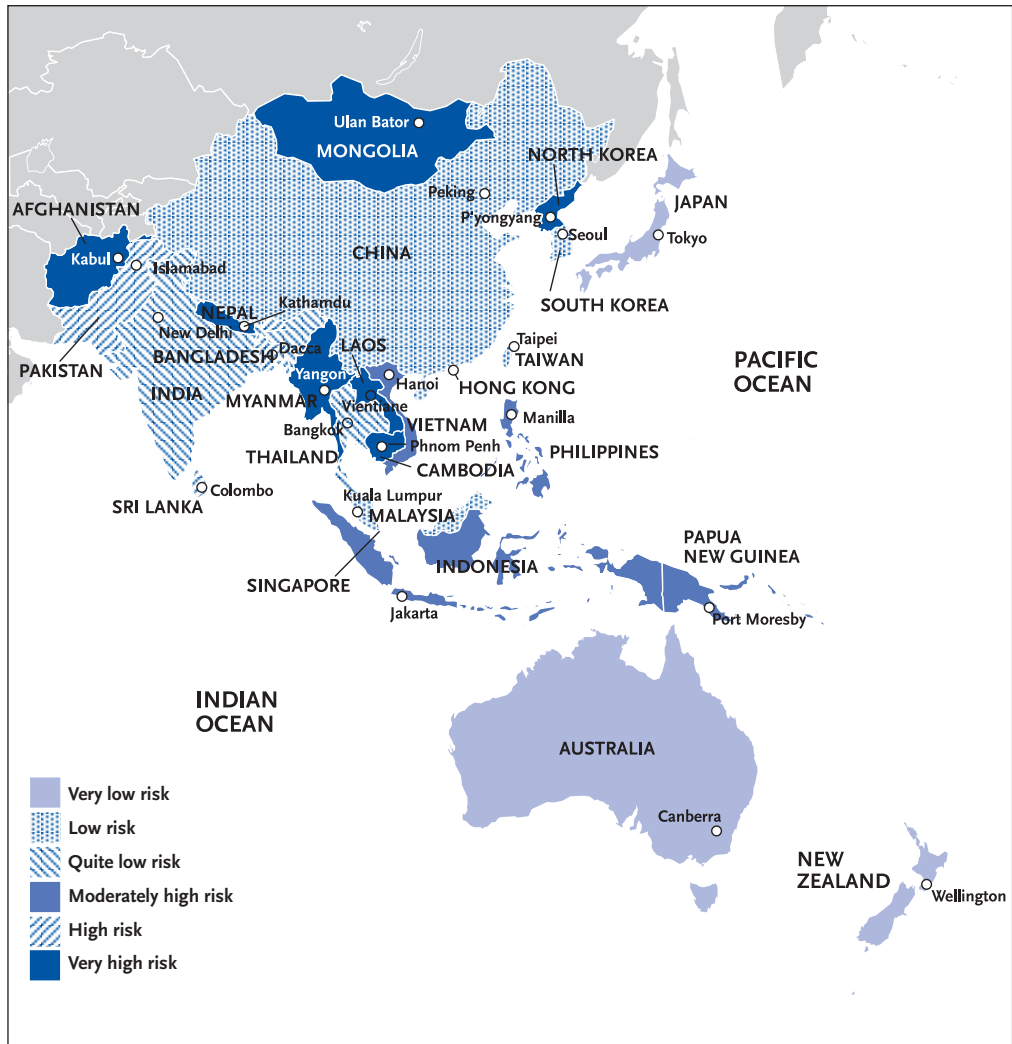
■ **Asian companies: limited and increasingly stable non-payment risk**

► In a buoyant and financially stable context, the Coface payment experience on Asia is still very good. Even in **India** where late payments were traditionally commonplace, all sectors combined, their frequency has been declining amid the strong economic growth. In **South Korea**, **Malaysia** or even the **Philippines**, companies have demonstrated good payment behaviour attributable to improvement in their financial health and, sometimes, to restructuring undertaken by major

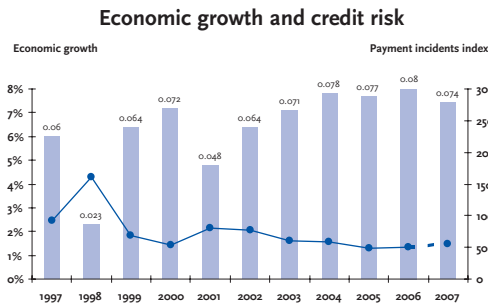
groups, as in **South Korea** or **Malaysia**, as well as to delocalizations.

In some cases, despite poor corporate governance, sustained high growth in countries like **Vietnam** or **Indonesia** has been buoying corporate performance. After the prosperous years following the Asian crisis, which prompted a far-reaching company shakeout, the situation seems tenser today precisely as a consequence of the emphasis given by those economies to gaining market share. Competition has, however, tended to squeeze the margins of many players unable to pass on any cost

COFACE MAP OF MEDIUM- AND LONG-TERM COUNTRY RISK



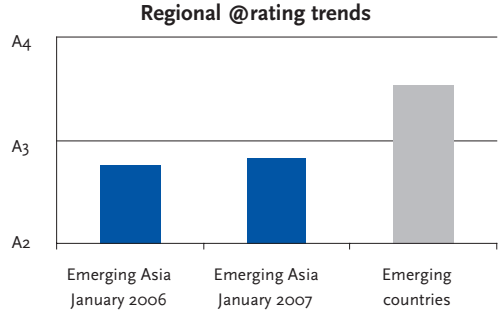
shocks in their final prices, a trend already palpable in two cases. In **China**, although companies are still making good profits, the Coface experience reveals lengthening payment times, particularly in the private sector focusing on the domestic market, due to fierce competition. The expected moderate growth slowdown could result in an increase in credit risk in the current context of pressure on margins coupled with overcapacity. In **Taiwan**, payment performance has deteriorated with company margins shrinking in the electronics sector and likely to feel the effects of the US demand slowdown.



■ **Regional @ rating trend**

➤ The level of risk associated with Asian companies – still below that observed in other emerging regions – has essentially tended to level off. **Singapore** and **Hong Kong** are still rated A1. **South Korea**, despite disappointing growth, has retained its A2 rating thanks to gradual improvement in corporate financial health. The situation has remained stable in **Malaysia** (A2) and **China** and **India** are still rated A3.

Despite **China**'s robust macroeconomic and financial situation, lengthening payment times



will bear watching. While **Indian** companies seem generally healthier, the macroeconomic situation is not quite as robust. **Vietnam**, **Indonesia**, **Pakistan**, **Bangladesh** and **Sri Lanka** are still rated B with the sharp deterioration of the Sri Lankan political situation justifying the country's continued negative watchlist status. Although all five of those B-rated countries have enjoyed sustained high economic growth, credit risk has remained relatively high amid governance shortcomings linked to poor legal systems. Despite good economic conditions, the **Philippines** has kept its B rating – with positive watchlist status withdrawn in June 2006 – due to recurrent financial and political weaknesses, making it vulnerable to a sudden loss of operator confidence.

The country @ratings of **Thailand** (A2) and **Taiwan** (A1) have negative watchlist status with political uncertainties persisting in **Thailand** since the September 2006 coup and corporate financial health deteriorating in **Taiwan** albeit to a still not very high level of risk.

RATINGS OF THE MAIN REGIONAL ECONOMIES

| | January 2001 | January 2002 | January 2003 | January 2004 | January 2005 | January 2006 | January 2007 |
|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Australia | A1 | A1↓ | A1 | A1 | A1 | A1 | A1 |
| Hong Kong | A1 | A2 | A2 | A2↗ | A1 | A1 | A1 |
| Japan | A1 | A2 | A2 | A2↗ | A1 | A1 | A1 |
| New-Zealand | A1 | A1 | A1 | A1 | A1 | A1 | A1↓ |
| Singapore | A2↗ | A2 | A2 | A1 | A1 | A1 | A1 |
| Taiwan | A1 | A2 | A2 | A1 | A1 | A1 | A1↓ |
| Korea | A2 | A2 | A2 | A2 | A2 | A2 | A2 |
| Malaysia | A2 | A2↓ | A2 | A2 | A2 | A2 | A2 |
| Thailand | A3 ? | A3 | A3 | A3 | A2 | A2 | A2↓ |
| China | A3 | A3 | A3 | A3 | A3 | A3 | A3 |
| India | A4 | A4 | A4 | A4 | A3 | A3 | A3 |
| Indonesia | C | C | C | C↗ | B | B | B |
| Philippines | A4 | A4 | A4 | A4 | A4↓ | B↗ | B |
| Vietnam | C | C | B | B | B | B | B |
| Sri Lanka | B | B | B | B | B | B↓ | B↓ |
| Pakistan | D | D | D | D↗ | C | C | C |

Afghanistan

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 31.1 |
| GDP (US\$ million) | 7,095 |
| GDP per capita (US\$) | 228 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

Despite the squandering and lack of coordination of international aid, there has been noticeable progress on macroeconomic stabilization. Inflation has trended down and foreign currency reserves have increased. International support has resulted in tangible improvement in the lives of some Afghans through irrigation, construction of roads and clinics, education and very rapid development of mobile telecommunication and television channels, for example. The international aid and a catch-up phenomenon after years of war have kept the pace of economic activity at high levels. Below average precipitation has, however, had a negative impact on the farm sector limiting GDP growth to about 8 per cent for the 2006–07 financial year ending 30 March, down from 14 per cent in 2005–06.

Although over five years have passed since the Taliban regime fell, the outlook has remained very gloomy amid pervasive insecurity (ethnic conflicts, murders, attacks, kidnappings), largely attributable to the extent of opium poppy cultivation and drug trafficking. That situation has blurred in the minds of Afghans the positive aspects since the regime change. The trafficking has fostered widespread corruption at all levels and enhanced the power of warlords, who sometimes control financial resources exceeding those of the central government whose fiscal revenues have remained among the lowest in the world at 5.3 per cent of GDP. Central authorities in Kabul have, thus, been incapable of exercising control over some provinces, especially in the south where NATO forces have had great difficulty in combating the Taliban.

MAIN ECONOMIC INDICATORS

| USD millions | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 ^(f) | 2007/08 ^(f) |
|---|---------|---------|---------|---------|------------------------|------------------------|
| Economic growth (%) | 28.6 | 15.7 | 8.0 | 14.0 | 8.0 | 11.1 |
| Inflation (%) ⁽¹⁾⁽²⁾ | 52.4 | 10.3 | 14.9 | 9.5 | 9.0 | 5.0 |
| Public sector balance (%GDP) | -0.1 | -3.0 | -1.2 | -0.9 | -1.5 | -2.1 |
| Exports | 1,291 | 1,894 | 1,642 | 1,600 | 1,726 | 1,827 |
| Imports | 2,508 | 3,786 | 3,873 | 4,222 | 4,649 | 4,836 |
| Trade balance | -1,217 | -1,892 | -2,231 | -2,622 | -2,923 | -3,009 |
| Current account balance (%GDP) ⁽²⁾⁽³⁾ | -33.5 | -51.0 | -45.2 | -42.6 | -39.1 | -34.5 |
| Foreign debt (%GDP) | 13.2 | 14.6 | 12.8 | 11.6 | 17.5 | 16.3 |
| Debt service (%Exports) | 3.6 | 4.0 | 3.9 | 3.8 | 1.5 | 1.5 |
| Foreign currency reserves (in months of imports) | 1.8 | 3.1 | 3.9 | 4.8 | 5.5 | 5.5 |

⁽¹⁾ Kabul, ⁽²⁾ period-end, ⁽³⁾ ex grants

f = forecast

Australia

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 20.3 |
| GDP (US\$ million) | 700,672 |
| GDP per capita (US\$) | 34,480 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

Still-robust domestic demand buoyed growth in 2006, despite tightening monetary policy. Household consumption benefited from an income tax reduction, sharp job growth and rising wages, particularly in the mineral sector. Corporate investment remained dynamic, fuelled by exceptionally high production capacity utilization.

Economic growth will remain high in 2007 despite a slight household consumption slowdown attributable to the tightening monetary policy. Households will, nonetheless, continue to enjoy satisfactory incomes thanks to recent tax relief. Joblessness will stabilize at near full employment. Running at high capacity utilization, companies will be facing labour shortages that will throttle production. After several exuberant years,

corporate investment should slow. Underpinned by a slight weakening of the Australian dollar against the American dollar and good geographic positioning in relation to Asia, exports will make a positive contribution to economic growth. An excessive price decline for natural resources, which have played a predominant role in the structure of exports, could, however, exacerbate the current account deficit. The drought ravaging the eastern part of the country will limit farm-product sales abroad. Budgeted infrastructure spending and tax relief will reduce the public-sector surplus.

For the second straight year, companies posted very strong turnover growth. This good performance does, however, mask the disparity between the mineral sector and the rest of the economy where solvency has deteriorated, as

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 3.9 | 3.3 | 3.2 | 2.9 | 2.6 | 3.0 |
| Consumption (var.) | 3.9 | 3.8 | 5.9 | 3.1 | 2.6 | 2.4 |
| Investment (var.) | 14.4 | 10.7 | 10.4 | 16.5 | 10.9 | 5.0 |
| Inflation | 3.0 | 2.8 | 2.4 | 2.7 | 3.7 | 2.8 |
| Unemployment | 6.4 | 6.0 | 5.6 | 5.1 | 5.0 | 5.0 |
| Short-term interest | 5.8 | 5.4 | 5.6 | 5.6 | 6.0 | 6.3 |
| Public sector balance (%GDP) | 0.8 | 1.6 | 1.6 | 1.6 | 2.5 | 1.9 |
| Public sector debt (%GDP) | 20.9 | 19.4 | 18.3 | 17.2 | 14.4 | 13.3 |
| Exports (var.) | 0.3 | -2.6 | 4.1 | 2.1 | 2.7 | 4.4 |
| Imports (var.) | 11.1 | 10.4 | 15.1 | 8.2 | 5.8 | 6.0 |
| Current account balance (%GDP) | -3.9 | -5.6 | -6.2 | -5.9 | -5.5 | -5.6 |

evidenced by an increase in bankruptcies for the second consecutive year. The Coface payment

incident index is, nonetheless, still below the world average.

PAYMENT AND COLLECTION PRACTICES

As a former colony of the British crown, Australia's legal system and legal precepts are broadly inspired by British common law and the British court system. On 1 January 1901, the six British colonies formed the dominion of Australia as an independent federated union within the Commonwealth.

■ Payment

Bills of exchange and promissory notes are not widely used in Australia and are considered, above all, to authenticate the existence of a claim. Cheques, defined as 'bills of exchange drawn on a bank and payable on presentation', are commonly used for domestic and even international transactions.

SWIFT bank transfers are the most commonly used payment method for international transactions. The majority of Australian banks are connected to the SWIFT electronic network, offering a rapid, reliable and cost-effective means of payment. The Australian dollar, along with the main foreign currencies, is now also part of the Continuous Linked Settlement System (CLS), a highly automated interbank transfer system for processing international trade settlements. The handling of payments via the client bank's internet site is becoming increasingly commonplace.

■ Debt collection

The collection process starts with service of an order to pay via a registered seven-day letter, reminding the client of his/her obligation to pay the amount due plus any contractually agreed interest penalties or, lacking such a penalty clause, interest at the legal rate applicable in each state.

Absent payment by the debtor company and if the creditor's claim is due for payment, uncontested and over AU\$2,000 (or after a ruling has been made), the creditor may issue a summons demanding payment within 21 days. Unless the debtor settles the claim within the required

timeframe, the creditor may lodge a petition for winding-up of the debtor's company, considered insolvent (statutory demand under section 459E of the Corporations Act 2001).

Under ordinary proceedings, once a statement of claim (summons) has been filed and where debtors have no grounds on which to dispute claims, creditors may solicit a fast-track procedure enabling them to obtain an executory order by issuing the debtor with an application for summary judgement. This petition must be accompanied by an affidavit (a sworn statement by the plaintiff attesting to the claim's validity) along with supporting documents authenticating the unpaid claim. For more complex or disputed claims, creditors must instigate standard civil proceedings, an arduous, often lengthy process lasting up to two years as court systems vary from one state to the next.

During the preliminary phase, the proceedings are written insofar as the court examines the case documents authenticating the parties' respective claims. During the subsequent discovery phase, the parties' lawyers may request that their adversaries submit any proof or witness testimony that is relevant to the matter and duly examine the case documents thus submitted. Before handing down its judgement, the court examines the case and holds an adversarial hearing of the witnesses who may be cross-examined by the parties' lawyers.

Besides local courts, which hear minor claims not exceeding AU\$50,000 on average, claims for amounts up to AU\$750,000 in New South Wales, AU\$500,000 in Western Australia, AU\$250,000 in Queensland or AU\$200,000 in Victoria, for example, are heard either by a county court or a district court, depending on the state. Claims exceeding the aforementioned amounts are heard by the Supreme Court in each state. As a general rule, appeals lodged against Supreme Court decisions, where a prior ruling in appeal instance has been handed down by a panel of judges, are

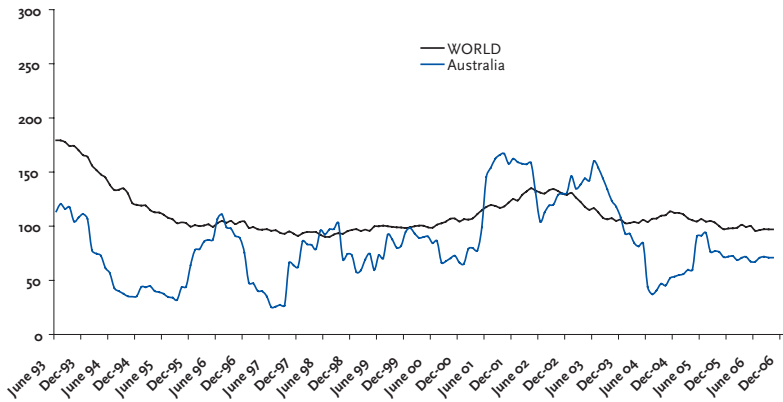
heard by the High Court of Australia, in Canberra, which may decide, only with leave of the court itself, to examine cases of clear legal merit. The right of final recourse before the Privy Council, in London, was abolished 3 March 1986 (Australia Act 1986). Although, though the Australian legal system does not have commercial courts *per se*, in certain states, such as New South Wales, commercial sections of the district or supreme courts offer fast-track proceedings for commercial disputes.

Since 1 February 1977, federal courts have been created alongside the state courts and

established in each state capital. The federal courts have wide powers to hear civil and commercial cases (like company law, winding-up proceedings) as well as fiscal or maritime matters, intellectual property, consumer law, and so on. In certain cases, the jurisdictional boundaries between state and federal courts may be indistinct and this may lead to conflicts depending on the merits of each case.

Arbitration and mediation proceedings may also be used to resolve disputes and obtain out-of-court settlements, often at a lower cost than through the ordinary adversarial procedure.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Bangladesh

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 144.3 |
| GDP (US\$ million) | 59,598 |



Short-term: **B**

Medium-term:
High risk

Coface analysis

STRENGTHS

- Bangladesh enjoys natural conditions well suited to farming, along with large gas reserves.
- The clothing industry, which generates over three-quarters of total exports, has been contributing to the country's development since the early 1990s.
- Emigrant worker transfers and international aid have made it possible to compensate for the large foreign trade imbalance.
- The country's debt has been moderate.

WEAKNESSES

- Bangladesh has been very vulnerable to natural catastrophes.
- The manufacturing sector's complete specialization in clothing production has made it very sensitive to Chinese competition.
- Poor governance, an economy still subject to excessive state control, and marked political instability have impeded both private sector development and investment from abroad.
- Fiscal deficits have been excessive.
- The banking sector and state-owned companies have remained very weak.

RISK ASSESSMENT

Despite a difficult political context and a still very high poverty rate, Bangladesh has continued to post robust growth rates exceeding 6 per cent since 2003–04. In 2005–06, a 25 per cent increase in transfers from workers abroad, mainly in the Gulf region, coupled with the dynamism of textiles representing 75 per cent of exports (up 23 per cent), allowed Bangladesh to cope with the increase in its oil bill. The increased cost of energy along with depreciation of the national currency, the taka, has nonetheless contributed to a sharp inflationary surge.

In 2006–07 and 2007–08, the growth rate should remain high – above 6 per cent – with the clothing sector, which has benefited from large investments, still the main economic driver. Besides

weather conditions, several factors could undermine that bright outlook. In particular, inadequate foreign currency reserves – not enough to cover two months of imports – have made the country vulnerable to shocks.

Severe political tensions centred on the January 2007 legislative elections between the leading party in the outgoing government coalition, the BNP (Bangladesh Nationalist Party), and its main rival, the Awami League, could affect the economy. External economic factors like further oil price rises or increased competition in the textile sector could also undermine Bangladesh companies that are already hampered by worsening electricity shortages and an infrastructure that is, generally, inadequate.

MAIN ECONOMIC INDICATORS

| USD billions* | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 ^(f) | 2007/08 ^(f) |
|---|---------|---------|---------|---------|------------------------|------------------------|
| Economic growth (%) | 5.3 | 6.3 | 6.0 | 6.5 | 6.0 | 6.5 |
| Inflation (%) | 4.4 | 5.8 | 6.5 | 7.0 | 7.0 | 5.2 |
| Public sector balance (%GDP) | -3.4 | -2.9 | -3.4 | -3.3 | -3.8 | -3.6 |
| Exports | 6.5 | 7.5 | 8.6 | 10.4 | 12.0 | 13.2 |
| Imports | 8.7 | 9.8 | 11.9 | 13.3 | 15.4 | 17.6 |
| Trade balance | -2.2 | -2.3 | -3.3 | -2.9 | -3.4 | -4.4 |
| Current account balance | 0.1 | 0.2 | -0.6 | 0.6 | 0.3 | -0.5 |
| Current account balance (%GDP) | 0.1 | 0.3 | -0.9 | 0.9 | 0.4 | -0.6 |
| Foreign debt (%GDP) | 36.3 | 36.0 | 34.2 | 36.4 | 36.2 | 33.8 |
| Debt service (%Exports) | 5.9 | 8.5 | 8.7 | 6.4 | 5.6 | 5.2 |
| Foreign currency reserves (in months of imports) | 2.2 | 2.3 | 2.1 | 2.0 | 1.9 | 2.1 |

* = July-to-June financial year

f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

In contrast to a public sector hamstrung by the formation of political cliques and chronic malfunction of the three branches of government, Bangladesh's private sector is a powerful and vibrant market driver. Indeed local businessmen operate in a highly liberal economic environment, underpinned by genuine openness to international trade and multilateral donors' direct involvement in targeted spending for infrastructure development, poverty alleviation and improved tax collection.

■ Means of entry

Imports into Bangladesh are regulated by the Import Policy Order (IPO), which is reviewed every two years. This document sets out the products that can be imported and the customs duties applicable. In the last few years, steps have been taken to simplify import procedures and customs regulations. There are three tiers of customs duty plus, where applicable, supplementary duty, development fee and VAT.

Several commodity categories, including intermediate products, saw import duty cut to 12 per cent in the 2006-07 budget. More significantly, the two tiers of supplementary import duty (19 per cent of tax revenues) have been lowered to 25 per cent and 15 per cent, thus reducing the cost of imports. The government, which is extremely enthusiastic about

new technologies, is keen to cut duty on some electronic components from 13 per cent to 5 per cent.

■ Attitude towards foreign investors

Start-ups are granted tax exemptions (or 'tax holidays') by the national board of revenue (NBR). For the Dhaka and Chittagong regions (excluding the three Hill Tracts), the exemption period is five years; elsewhere, it is seven years. Other key tax exemptions cover interest on foreign loans, royalties and other income from technology transfers, and capital gains. In addition, investment can be deducted in full from taxable income.

Firms setting up in business can opt for accelerated depreciation of capital instead of a tax holiday. In developed areas, it is possible to depreciate 80 per cent of the cost of machinery in the first year and 20 per cent in the second. In undeveloped areas, depreciation can be as high as 90 per cent in the first year.

Free zones (EPZs) are reserved for firms whose production is entirely export-led. The Bangladesh Export Processing Zone Authority (BEPZA) offers a large number of services and support facilities to investors setting up an operation in an EPZ.

■ Intellectual property

It is difficult to enforce laws and regulations as the judicial process is slow, ineffective and rarely results in a decision. This is compounded by lack of

cooperation and transparency at all levels of government, in particular police and customs. While Bangladesh does not appear to produce counterfeit goods, it still imports and sells them. Infringement

may not be endemic in the country, but the slowness and inefficiency of the government departments, not to say their corruption, makes effective enforcement of intellectual property laws difficult.

OPPORTUNITY SCOPE

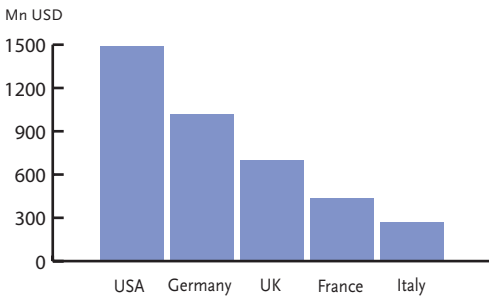
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 64 |
| Public consumption | 4 |
| Investment | 20 |

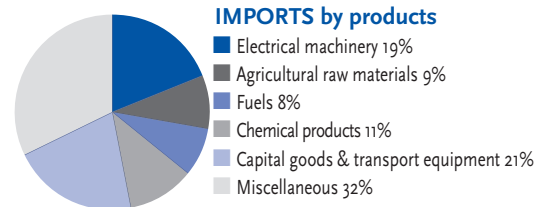
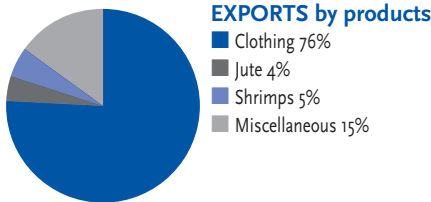
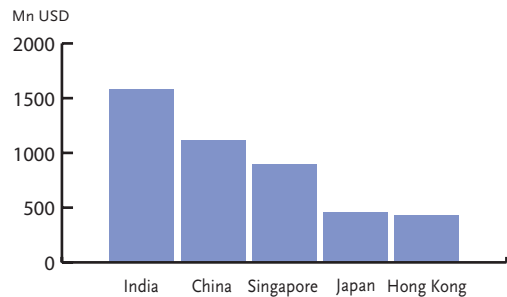
Exports: 16% of GDP

Imports: 23% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Bangladesh | Regional average | DC average |
|--|------------|------------------|------------|
| GNP per capita (PPP dollars) | 1,860 | 5,210 | 5,540 |
| GNP per capita (USD) | 470 | 1,597 | 2,057 |
| Human Development Index | 0.530 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 27 | 32 | 32 |
| Urban population percentage | 24 | 35 | 43 |
| Percentage under 15 years old | 36 | 28 | 29 |
| Number of computers per 1000 inhabitants | 12 | 39 | 48 |

Cambodia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 14.1 |
| GDP (US\$ million) | 5,391 |
| GDP per capita (US\$) | 383 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

After the exceptional growth of 2005, spurred by a rebound in agriculture, the economy has been growing at a more modest but, nonetheless, robust pace. This is still driven by a dynamic tourism sector and the exceptional steadiness of a textile sector generating nearly 80 per cent of exports and benefiting from the limits imposed on purchases from China by the United States – which absorbs 60 per cent of Cambodia’s exports. With clothing industry companies often dominated by Asian capital and largely working on a subcontracting basis, that very labour-intensive sector has, in reality, remained very vulnerable. That also holds true for the still-key farm sector, representing 34 per cent of GDP but, with its low productivity level, remaining vulnerable to weather conditions. Growth has, thus, been uncertain for a country ranking among ASEAN’s poorest, alongside Laos and Myanmar.

Corruption has remained a major problem, harshly rated by international institutions in relation to governance. This shortcoming has tested the goodwill of financial donors, with the country running large external imbalances and continuing to have a vital need for foreign aid. It has, nonetheless, benefited from the multilateral debt relief initiative, which contributed substantially to reducing the stock of foreign debt.

Prime Minister Hun Sen, in power for 20 years, continues to dominate political life as well as his party, and should prove victorious in the various elections scheduled in 2007 and 2008. Meanwhile, Cambodia’s ties to the United States and Vietnam have been growing stronger. Implementation of the announced reforms on governance has lacked consistency, as they would jeopardize the interests of a powerful bureaucracy. Moreover, the government has lacked adequate administrative resources to carry them out effectively. These weaknesses have limited the country’s attractiveness to foreign investors.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|-------|-------|-------|--------|---------------------|---------------------|
| Economic growth (%) | 5.2 | 8.6 | 10.0 | 13.4 | 5.0 | 6.5 |
| Inflation (%) | 3.7 | 0.5 | 5.6 | 6.7 | 5.0 | 4.0 |
| Public sector balance (%GDP) | -6.3 | -6.0 | -4.7 | -3.4 | -3.0 | -4.2 |
| Exports | 1,755 | 2,087 | 2,589 | 2,910 | 3,214 | 3,428 |
| Imports | 2,318 | 2,668 | 3,269 | 3,928 | 4,542 | 4,995 |
| Trade balance | -563 | -581 | -680 | -1,018 | -1,328 | -1,567 |
| Current account balance (%GDP) | -8.4 | -10.8 | -8.4 | -9.4 | -11.1 | -12.5 |
| Foreign debt (%GDP) | 60 | 60 | 57 | 51 | 34 | 34 |
| Debt service (%Exports) | 3.1 | 2.6 | 2.1 | 1.8 | 0.8 | 1.1 |
| Foreign currency reserves (in months of imports) | 3.3 | 3.1 | 2.8 | 2.6 | 2.6 | 2.6 |

f = forecast

China

Population (million inhabitants) 1,306.3
 GDP (US\$ million) 2,228,862



Short-term: **A3**

Medium-term:
Low risk

Coface analysis

STRENGTHS

- Industrial diversification and competitiveness have benefited external accounts.
- Foreign investment has facilitated a gradual move upmarket.
- Infrastructure development has been laying the foundations for long-term growth.
- A very high corporate saving rate has provided most of the financing for investment.
- China's ascendancy on the international scene is a readily observable fact.

WEAKNESSES

- Increasing inequality has stoked growing social tensions.
- Several industrial and commercial sectors have been under the threat of overcapacity.
- The failure of banks to take a counterparty's financial situation sufficiently into account when extending credit has been a major weakness.
- Environmental problems will be an obstacle to sustainable growth.
- The Taiwan question has remained a major risk factor.

RISK ASSESSMENT

Growth is still very high, with investment continuing to drive the economy. The various measures taken in 2006 to avert overheating should allow a moderate slowdown to develop. A modest speed-up in the pace of the yuan appreciation could, moreover, be decided to foster more balanced growth. In that buoyant context, corporate profits have remained high. But overcapacity has been squeezing margins in sectors like the car industry, cement and steel. The expected consolidation of the corporate sector – in the likely case of a gradual economic slowdown – will, thus, take place in a tighter financial situation, particularly for a private sector subject to fierce competition in the domestic market. In that context, Coface has already noted an increase in payment delays. Corporate transparency has improved,

however, with company accounts now often available. The new bankruptcy law scheduled to come into force in 2007 will constitute a step forward on creditor rights. Financial disputes are still commonplace, however, reflecting persistent corporate governance shortcomings.

China's financial situation is very robust. The current account surplus has continued to grow. The country is becoming a major exporter of capital with a pivotal role in international finance underpinned by record levels of foreign currency reserves. Companies have been investing in many countries to secure their raw material supply. The fiscal situation has markedly improved, thanks to increased tax revenues, even if the many off-budget commitments mean that public-sector debt has actually been closer to 50 per cent of GDP than to the official 17 per cent figure put forward. In the

banking sector, meanwhile, there has been relative improvement in the situation of state-owned banks, evidenced by the decline in a still very large stock of non-performing loans. The buoyant supply of bank credit (and informal credit) has remained, in that regard, a source of concern.

Growing inequality continues to mark the social climate. Although government authorities

have decided to make improving the situation in rural areas a priority, their means of action have been limited amid the rapid industrial development now taking place in many regions of China. That trend has resulted in land requisitions that have triggered conflicts in those same rural areas with increasing frequency.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 9.1 | 10.0 | 10.1 | 10.2 | 10.6 | 9.5 |
| Inflation (%) | -0.4 | 3.2 | 2.4 | 1.6 | 1.0 | 1.2 |
| Public sector balance (%GDP) | -3.3 | -2.4 | -1.5 | -1.3 | -1.6 | -1.5 |
| Exports | 325.7 | 438.3 | 593.4 | 762.5 | 952.0 | 1,168.0 |
| Imports | 281.5 | 393.6 | 534.4 | 628.3 | 754.0 | 917.0 |
| Trade balance | 44.2 | 44.7 | 59.0 | 134.2 | 198.0 | 251.0 |
| Current account balance | 35.4 | 45.9 | 68.7 | 160.8 | 230.0 | 295.0 |
| Current account balance (%GDP) | 2.4 | 2.8 | 3.6 | 7.2 | 8.7 | 9.6 |
| Foreign debt (%GDP) | 12.8 | 12.7 | 12.8 | 12.6 | 12.0 | 11.3 |
| Debt service (%Exports) | 7.1 | 4.7 | 3.1 | 3.2 | 2.6 | 2.2 |
| Foreign currency reserves (in months of imports) | 9.9 | 10.4 | 11.7 | 13.3 | 14.8 | 15.9 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

China has opened up its market considerably following WTO accession in 2001. Most non-tariff barriers have been abolished. In the space of just four years, the average customs tariff has been lowered from 14 per cent to 9.9 per cent. In 2004, the import-export sector was opened to all Chinese law companies, including foreign-held ones, and all remaining restrictions on distribution were lifted. Yet, market access continues to be impeded by all sorts of obstacles. Restrictive and often discriminatory health and technical standards remain in place for a number of imported products (foodstuffs, cosmetics etc), and a safety certification system (CCC) complicates import procedures for vehicles, electrical appliances and electronic goods.

■ Attitude towards foreign investors

From the very outset in the 1990s, China has been tremendously successful in attracting foreign direct investment. In quantitative terms, ever-higher investment inflows (US\$72 billion in 2005) place it regularly among the top three recipient countries. In qualitative terms, WTO accession has helped open up new sectors. While FDI remains prohibited in basic postal services, air traffic control and the media, sectors such as telecommunications, construction, town gas and water supply, tourism and finance have been opened up. Every FDI scheme is subject to government approval. The tier of government at which approval is required – municipal, provincial or central – is determined by the investment's size.

The preferred vehicle for FDI is the foreign investment enterprise (FIE), eligible for tax incentives (which are, nevertheless, to be abolished under tax

reforms that will be passed in 2007, enacted no sooner than 2008 and accompanied by a five-year transition period). There has been a flurry of acquisitions (US\$8 billion in 2005 alone, ie the same amount as that generated between 1999 and 2002).

It should be noted that land is the property of the state and may be acquired only on leasehold (50 years for an industrial plant). In principle, FIEs are required to hire local labour, but may employ foreigners on an exceptional basis. The statutory working week is 40 hours. Paid leave varies from five to 15 working days per year. China does not, as yet, have a unified social welfare system.

■ **Foreign exchange regulations**

The yuan is freely convertible only for ordinary business transactions. Foreign exchange regulations were eased in July 2005 and the currency revalued by 2 per cent against the dollar. While the yuan's peg to the dollar has been officially scrapped, the currency has since appreciated by only 2.5 per cent due to the government's close supervision of the currency market. At mid-October, the exchange rate was RMB7.91 to the dollar. In any event, the Chinese currency is expected to edge upwards only very slowly in the coming years.

OPPORTUNITY SCOPE

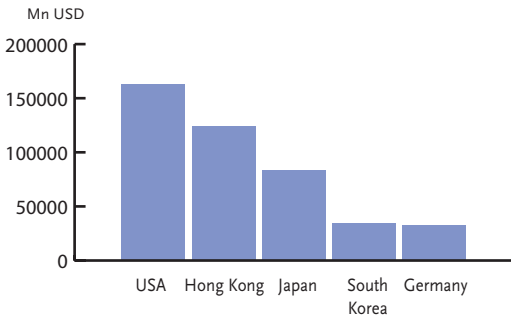
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 35 |
| Public consumption | 10 |
| Investment | 34 |

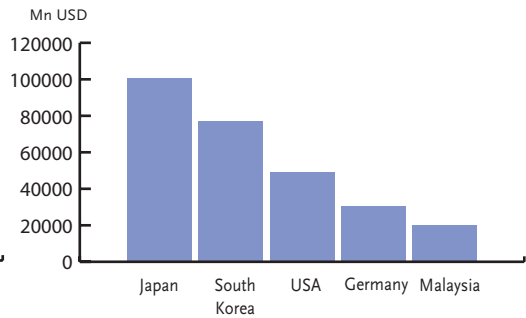
Exports: 34% of GDP

Imports: 31% of GDP

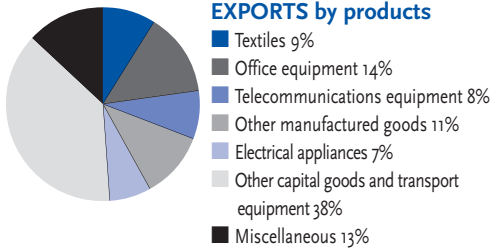
MAIN DESTINATIONS OF EXPORTS



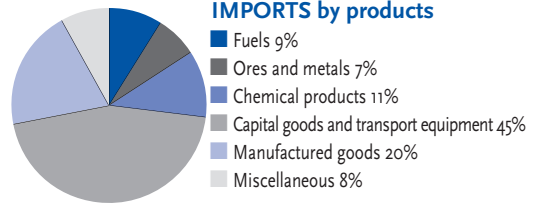
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | China | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 6,600 | 5,210 | 5,540 |
| GNP per capita (USD) | 1,740 | 1,597 | 2,057 |
| Human Development Index | 0.768 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 33 | 32 | 32 |
| Urban population percentage | 39 | 35 | 43 |
| Percentage under 15 years old | 23 | 28 | 29 |
| Number of computers per 1000 inhabitants | 41 | 39 | 48 |

Hong Kong

Population (million inhabitants) 6.9
GDP (US\$ million) 177,722

Short-term: **A1**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Hong Kong has been benefiting from China's economic growth via an influx of tourists and strong demand for services.
- Governance quality is one of the highest in Asia.
- Government authorities have focused on enhancing the territory's comparative advantage, mainly infrastructure and regulatory quality.
- The 'one country, two systems' principle should endure, considering the complementarity of the Chinese and Hong Kong economies.

WEAKNESSES

- Increasingly integrated with mainland China, the Hong Kong economy has become vulnerable to an economic downturn.
- Industry has completely delocalized operations to continental China.
- Mainland China has begun to compete with Hong Kong on services.
- Nearly half of fiscal revenues have been linked to the property sector, constituting a source of vulnerability.
- The territory's possible democratization will affect its relations with Beijing.

RISK ASSESSMENT

Although still high, growth has tended to slow amid less-dynamic foreign demand, especially from the United States. Household consumption has remained buoyant, however, thanks to easing unemployment. With economic conditions remaining good, Coface has continued to register satisfactory payment experience. Information on unlisted companies, which have no obligation to publish financial statements, can be very sparse; collection possibilities available via an effective legal system can, however, compensate for that shortcoming.

The Hong Kong economy has been in excellent financial health, as evidenced by its large current account surpluses. Services, still constituting the dominant economic sector by far, generating 88 per cent of GDP, have remained competitive although contending increasingly with competition from mainland China, which has been developing its

infrastructure. The territory must, therefore, remain highly competitive to preserve its attractiveness. Its efficient legal framework inherited from British law has retained its specificity in relation to China's system and has constituted a comparative advantage in Asia. The financial system has also been an asset. Banks are robust with an advanced prudential regulatory system. The stock exchange, ranked second in Asia, has been preferred by many Asian companies seeking to raise capital, as exemplified by the record listings of two public Chinese banks in 2006. Government authorities have, moreover, undertaken an infrastructure enhancement programme that is intended to allow Hong Kong to preserve its dominant trade transit position in Asia.

Donald Tsang, now chief executive officer, is the current favourite for the elections to be held in March 2007. His taking office in mid-2005 contributed to easing political tensions. He enjoys a degree of

popularity and preserves the assent of the Beijing central authorities that will control development of

any political reform. They have a vested interest, however, in maintaining the status quo.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 2.3 | 3.1 | 8.2 | 7.3 | 5.8 | 5.2 |
| Inflation (%) | -1.5 | -1.9 | 0.3 | 1.4 | 2.4 | 2.5 |
| Public sector balance (%GDP) | -4.8 | -3.3 | 1.7 | 1.0 | 1.1 | 1.0 |
| Exports | 200.3 | 224.7 | 260.3 | 289.5 | 317.5 | 353.2 |
| Imports | 205.4 | 230.4 | 269.6 | 297.2 | 330.8 | 366.0 |
| Trade balance | -5.1 | -5.7 | -9.3 | -7.7 | -13.3 | -12.8 |
| Current account balance | 12.3 | 16.6 | 15.8 | 20.2 | 17.3 | 16.1 |
| Current account balance (%GDP) | 7.5 | 10.5 | 9.5 | 11.4 | 9.3 | 8.1 |
| Foreign debt (%GDP) | 29.1 | 37.8 | 41.0 | 40.7 | 38.8 | 38.7 |
| Debt service (%Exports) | 2.0 | 1.8 | 2.1 | 2.2 | 2.3 | 2.2 |
| Foreign currency reserves (in months of imports) | 4.9 | 4.8 | 4.3 | 3.8 | 3.5 | 3.3 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Hong Kong's reputation is built on the effectiveness and transparency of its free trade legislation and regulations. It is unquestionably the most open market in Asia and one of the most open in the world, even in the field of government procurement. Hong Kong's new status as a Special Administrative Region following its return to China on 1 July 1997 has allowed the former colony to keep its economic and legal system and not affected its openness to international trade. It has also remained a free port.

There are no customs duties and indirect taxes are levied on only a small number of products, such as cigarettes, wines and spirits, fuel and cars. Non-tariff barriers are extremely rare. A few foodstuffs require a health certificate. For most imports, the only requirement is an import declaration. In some cases, it is possible to make a monthly declaration, rather than one for each shipment. Hong Kong's standards are in line with, or similar to, international standards. It is the second largest financial centre after Tokyo and boasts a highly internationalized banking sector. Trade is well regulated and all the usual means of payment are accepted.

■ Attitude towards foreign investors

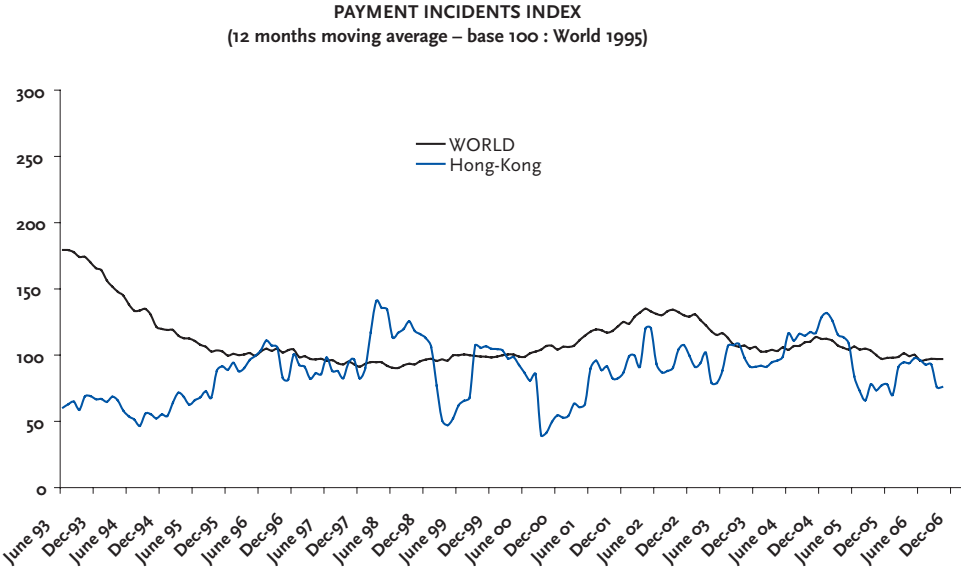
The territory's free trade principles, inherited from the British, are upheld by the government of the SAR without any meddling by China in the territory's legal, financial and economic affairs. In keeping with its free market traditions, Hong Kong does not place any restrictions on the activities of foreign investors. There are no prior notification or approval formalities but, by the same token, there are no government incentives or subsidies for foreign investors. On the ground, local monopolies have succeeded in driving out foreign competitors. In the absence of competition law, the authorities only intervene when distortions damage consumer interests. The legal system is simple and company incorporation formalities rapid. Tax laws too are simple and tax rates fairly low.

The marginal rate of income tax has been 16 per cent since 1 April 2004 and corporation tax 17.5 per cent since 1 April 2003. Following the tightening of work permit approval procedures, the rules have been relaxed since 15 May 2006 to allow dependants of work and investment permit holders to work and study there without formalities. Hong Kong still imposes high start-up costs on potential investors, due to rising property prices and wages.

Foreign exchange regulations

There are no exchange controls and, therefore, the Hong Kong dollar is fully convertible. It is pegged to the US dollar within a band of HKD7.75-7.85

to the dollar. This rate is guaranteed by a currency board system that automatically links Hong Kong's foreign currency reserves to the monetary base.



OPPORTUNITY SCOPE

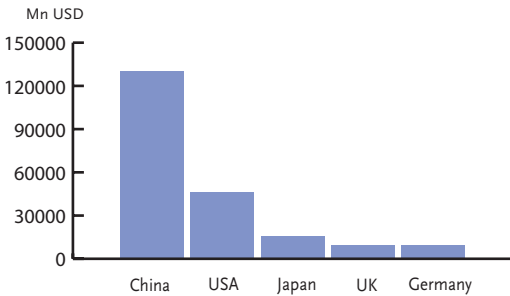
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 20 |
| Public consumption | 4 |
| Investment | 8 |

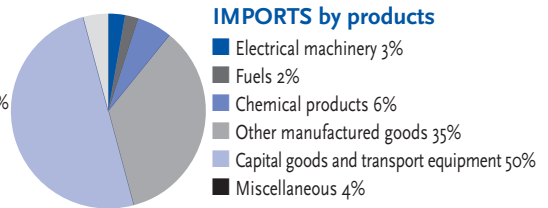
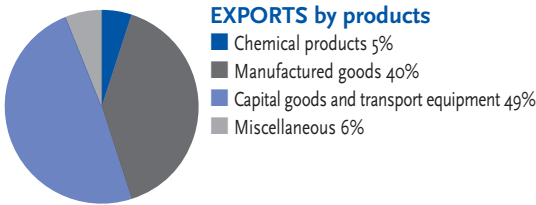
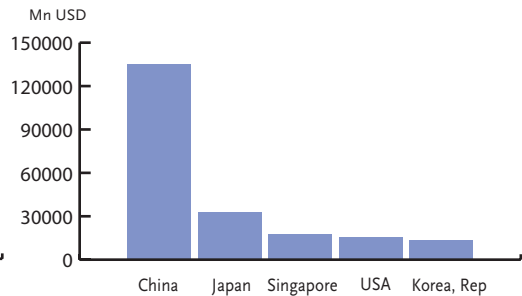
Exports: 198% of GDP

Imports: 185% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

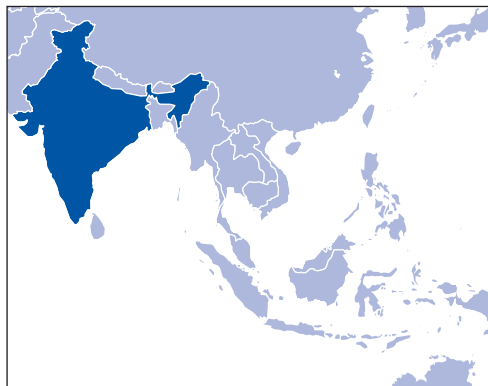


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Hong Kong | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 34,670 | 5,210 | 5,540 |
| GNP per capita (USD) | 27,670 | 1,597 | 2,057 |
| Human Development Index | 0.927 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 35 | 32 | 32 |
| Urban population percentage | 100 | 35 | 43 |
| Percentage under 15 years old | 15 | 28 | 29 |
| Number of computers per 1000 inhabitants | 608 | 39 | 48 |

India

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 1,094.6 |
| GDP (US\$ million) | 785,468 |



Short-term: **A3**

Medium-term:
Quite low risk

Coface analysis

STRENGTHS

- India enjoys indisputable advantages in many sectors, in both services (computers, outsourcing) and industry (pharmaceuticals, textiles, for example).
- Gradual economic liberalization since 1991 has fostered a growth dynamic, particularly in the many sectors protected until then.
- The marked increase in the savings rate in recent years has allowed companies to finance their investments.
- The market offers vast potential, buoyed by rapid development of a middle class.
- The country has moderate foreign debt and comfortable foreign currency reserves.

WEAKNESSES

- The public sector's large debt service burden has been siphoning away a portion of the government's meagre revenues to the detriment of development spending.
- The resulting major infrastructure deficiencies will constitute the main obstacle to durable growth.
- Very complex business regulations continue to impede private company investment.
- Rural areas, which represent the majority of the electorate, have not been benefiting from the current economic growth.
- The Kashmir question continues to be an element of uncertainty in India's historically hostile relations with Pakistan.

RISK ASSESSMENT

India continues to post exceptional growth rates. Industry has been growing almost as fast as services, that, nonetheless, generate most economic activity. The very rapid development of goods and services exports has allowed India to cope with its soaring oil bill.

In coming years, India should remain in a robust growth cycle, fuelled by high savings and investment rates, the presence of competitive groups and the development of a middle class, spurring consumption in a favourable demographic context. In those circumstances, despite numerous

late payments, the Coface payment incident index has been below the world average, all sectors combined. Reliable information on companies is still difficult to find. The legal system, albeit fair, is very slow with procedures apt to drag on for years.

In the longer term, the fiscal situation will remain the principal weakness. The large debt service burden will leave government authorities with little room for manoeuvre to modernize infrastructure and the education system, which will be the main obstacles to sustained robust growth. The slow pace of decision making by a government coalition of some 10 parties has delayed necessary reforms.

MAIN ECONOMIC INDICATORS

| USD billions | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 ^(e) | 2007/08 ^(f) |
|---|---------|---------|---------|---------|------------------------|------------------------|
| Economic growth (%) | 3.8 | 8.5 | 7.5 | 8.4 | 8.5 | 8.0 |
| Inflation (%) | 6.0 | 4.8 | 5.3 | 3.9 | 5.0 | 4.8 |
| Public sector balance (%GDP) | -9.7 | -9.1 | -8.0 | -7.6 | -7.0 | -6.8 |
| Exports | 53.8 | 66.3 | 82.2 | 104.8 | 134.1 | 164.0 |
| Imports | 58.0 | 72.0 | 106.9 | 140.7 | 173.5 | 201.0 |
| Trade balance | -4.2 | -5.7 | -24.8 | -35.9 | -39.5 | -37.0 |
| Current account balance | 6.3 | 14.1 | -5.4 | -10.6 | -10.1 | -8.7 |
| Current account balance (%GDP) | 1.2 | 2.3 | -0.8 | -1.3 | -1.1 | -0.9 |
| Foreign debt (%GDP) | 23.1 | 21.2 | 20.0 | 18.6 | 18.6 | 17.6 |
| Debt service (%Exports) | 13.7 | 13.2 | 8.2 | 8.0 | 4.9 | 4.5 |
| Foreign currency reserves (in months of imports) | 9.8 | 12.4 | 10.3 | 8.6 | 7.7 | 6.9 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Customs duties in India remain steep for both agricultural and industrial products. The cut in basic duty from 15 to 12 per cent under the last budget has been largely offset by the introduction of a new 4 per cent tax on consumer goods. The average rate of duty on industrial products is around 15 per cent (4 per cent for the EU) and peaks of 40 per cent or more are not rare – cars, for example, are liable to 100 per cent duty. The average rate of duty on foodstuffs is high (56 per cent) and some products (wine) continue to attract extremely steep rates of duty (140–250 per cent). On the other hand, some products considered essential to the country's economic development benefit from reduced rates. Machinery and intermediate goods for the textile industry, IT sector, some uncut gems, drinking water purification equipment and raw materials are taxed at only 5 per cent.

At the WTO Doha Round of trade talks, India has embarked on a slow reduction in customs duties and should continue to lower and rationalize its tariffs in coming years. Complex non-tariff barriers not only remain in place, but also have multiplied since the complete abolition of quantitative restrictions on 1 April 2001. Each shipment of imported foodstuffs is, in principle, subject to

systematic inspection. Moreover, prepackaged goods must bear the maximum retail price (including local taxes and transport costs) on their label prior to shipment. Finally, the application of technical certification rules of the Bureau of Indian Standards for certain goods – as well as ad hoc duties or the requirement to open a subsidiary or liaison office – places importers at a disadvantage.

■ Attitude towards foreign investors

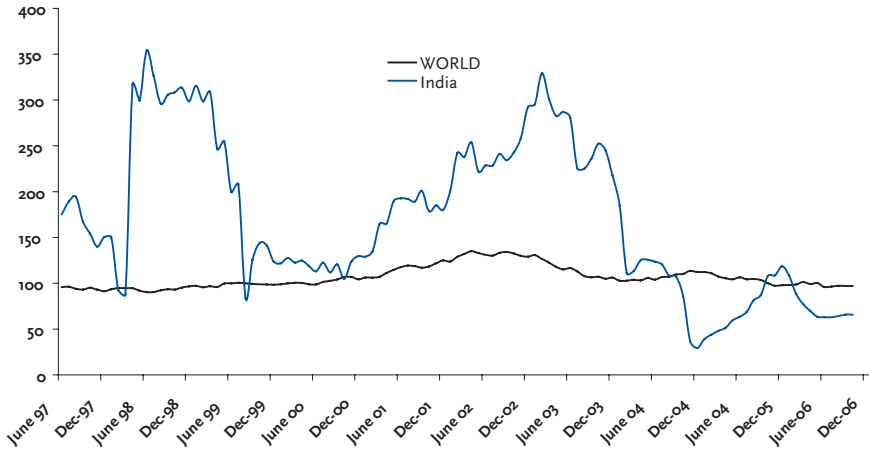
In contrast to the policy of economic self-sufficiency pursued by the government since independence, from 1991 India has been actively involved in opening up its economy to foreign investment, mainly via the adoption of a 'negative list' of sectors that makes automatic FDI approval the norm. Some obstacles survive, although the number of restricted manufactured goods – a preserve of local small industry – has been cut from 506 to 218 under new relaxation measures.

Ceilings on foreign shareholdings remain in place across a variety of sectors, with multibrand retail, in particular, still closed to foreign investors. A foreign company already based in India via a joint venture may not open a subsidiary with another partner in the same sector without the written consent of its Indian partner. However, a recent change in legislation scraps this condition for new agreements (provided it is specified therein by the parties), while maintaining it for existing

agreements. Corporation tax for foreign law companies is 41.82 per cent, compared with 33.66 per cent for Indian companies. Indirect taxation is complex and lacks transparency. Nevertheless, the reform programme continues apace under the present government as under the previous one, with the focus primarily on higher ceilings for foreign

investment in the few remaining sectors concerned (eg, opening of retail to single brand companies), the establishment of a foreign investment commission, greater transparency in approval procedures for foreign investments, adaptation of intellectual property legislation and greater capital account openness.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

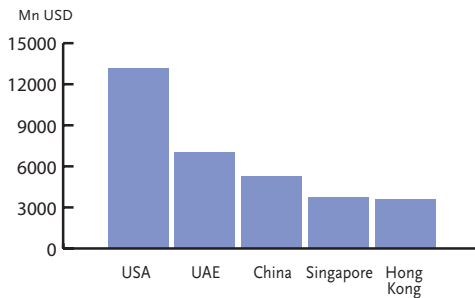
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 57 |
| Public consumption | 11 |
| Investment | 19 |

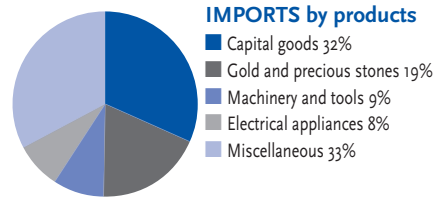
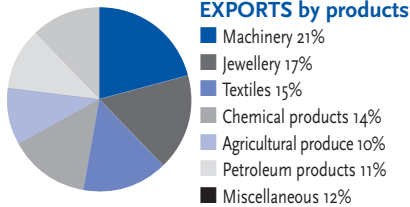
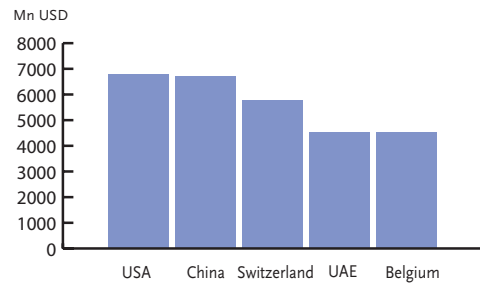
Exports: 19% of GDP

Imports: 21% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | India | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 3,460 | 5,210 | 5,540 |
| GNP per capita (USD) | 720 | 1,597 | 2,057 |
| Human Development Index | 0.611 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 29 | 32 | 32 |
| Urban population percentage | 28 | 35 | 43 |
| Percentage under 15 years old | 33 | 28 | 29 |
| Number of computers per 1000 inhabitants | 12 | 39 | 48 |

Indonesia

Population (million inhabitants) 228.9
 GDP (US\$ million) 287,217

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- Indonesia's financial situation has improved markedly since the crisis of the 1990s.
- The country is endowed with diversified natural resources (agriculture, energy, minerals).
- The business climate and, particularly, the legal framework have been gradually improving.
- The peace established in the Aceh region has been strengthening.

WEAKNESSES

- Oil production continues to decline with the country having become a net importer of oil.
- A large infrastructure backlog has undermined industrial competitiveness.
- Foreign debt has remained vulnerable to a crisis of confidence in financial markets.
- Corruption is still pervasive despite the improvement efforts underway.
- The intention of some local governments to institute Sharia traditional Islamic law constitutes a threat to the secular character of both the constitution and the government.

RISK ASSESSMENT

Economic growth has been in an acceleration phase, thanks to implementation of a more accommodating monetary policy that will spur consumption and investment. Exports have also been driving the economy. With its improved fundamentals, the overall economy was able to withstand a wide range of shocks, from a lethal earthquake in May 2006 to a shift in market sentiment on emerging markets the following month. Company finances registered a relative consolidation, buoyed by the good economic conditions. Company accounts are rarely available, however, and when they are, their reliability is uncertain. Debt collection has suffered from an inefficient, slow and costly legal system.

Debt ratios have been gradually declining with public-sector debt now below the average for Asia. The country's financial situation, nonetheless,

continues to show some weakness. The current account surplus has been relatively limited with imports remaining very dynamic. The high level of public-sector debt service has been restricting spending options. Even if the fiscal deficit has been under control, thanks to discontinuation of oil subsidies, the relatively low level of foreign currency reserves has resulted in a weakening of the Indonesian ringgit. Securities exchanges and the exchange rate may be vulnerable to a crisis of confidence evidenced by their sharp, if temporary, declines in June 2006 after the wave of market skittishness that buffeted emerging markets. The country's interest rate-sensitive foreign debt, therefore, bears watching.

Structural reforms have been gradually progressing under President Yudhoyono's authority. With the president's party in the minority, parliamentary hostility has sometimes caused delays

in the adoption of new laws. After two years in office, however, the president has remained popular. The government has made progress in combating corruption, evidenced by the incrimination of high-

ranking personalities. As regards governance, however, Indonesia has remained among the Asian countries ranked lowest by international organizations.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 4.4 | 4.9 | 4.9 | 5.6 | 5.3 | 5.6 |
| Inflation (%) | 10.0 | 5.1 | 6.4 | 17.1 | 7.5 | 6.0 |
| Public sector balance (%GDP) | -0.9 | -1.8 | -1.3 | -0.5 | -1.2 | -0.9 |
| Exports | 59.2 | 64.1 | 70.8 | 86.2 | 99.1 | 109.3 |
| Imports | 35.7 | 39.5 | 50.6 | 63.9 | 72.9 | 81.5 |
| Trade balance | 23.5 | 24.6 | 20.2 | 22.4 | 26.3 | 27.8 |
| Current account balance | 7.8 | 8.1 | 1.6 | 0.9 | 3.0 | 2.5 |
| Current account balance (%GDP) | 3.9 | 3.4 | 0.6 | 0.3 | 0.8 | 0.6 |
| Foreign debt (%GDP) | 66.0 | 56.8 | 54.2 | 45.9 | 36.9 | 31.7 |
| Debt service (%Exports) | 34.8 | 30.8 | 26.2 | 20.3 | 20.8 | 21.1 |
| Foreign currency reserves (in months of imports) | 6.0 | 6.6 | 5.0 | 3.9 | 4.4 | 4.3 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Indonesia pursues a liberal trade policy and, since the Marrakech agreement, has gradually dismantled customs duties; some 72 per cent of tariff lines are now liable to 0–5 per cent duty. Tariff peaks exist for imported cars, iron and steel, certain chemicals and wines and spirits. As well as cutting customs duties, Indonesia is gradually lifting non-tariff barriers on all items except priority products such as rice and sugar. However, a number of products, especially consumer goods, require a licence or certificate to be released on the market. Moves to liberalize trade in line with WTO agreements have been backed by measures to open trade further with the country's ASEAN partners. The objective of AFTA is to cut duties on manufactured goods to within a 0–5 per cent band.

■ Attitude towards foreign investors

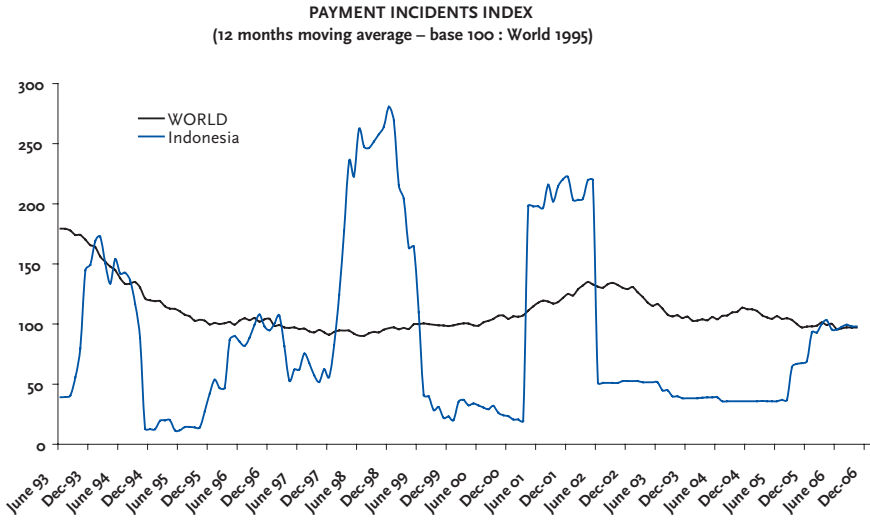
The Indonesian government is extremely open to foreign investment. BKPM, the government investment promotion and coordination agency,

performs its role actively, albeit with limited powers. The government is keen to boost declining foreign investment after years of crisis. It regards FDI as vital for technology transfer and job creation. Indonesia has signed binding investment protection and guarantee agreements with 56 countries, including France.

The country's economic situation does not allow it to grant extremely attractive tax incentives, except for companies operating in a limited number of priority free zones such as Batam Island, compared with Singapore. There is temporary tax relief for raw materials and primary machinery purchased by foreign manufacturing companies. Foreign investors may repatriate profits upon payment of local tax.

Despite the initiatives announced by successive governments to simplify start-ups in Indonesia, the investment approval procedure adopted by BKPM remains long-winded and tedious. Projects in the banking, financial services and insurance sectors are overseen by the Ministry of Finance, whereas those in mining, oil and gas are the responsibility of the Ministry of Energy. The negative list – which bars foreign

investors from a limited number of sectors or activities and regulates access to sectors deemed sensitive by the government – is under review and a new investment law is due to be passed shortly.



OPPORTUNITY SCOPE

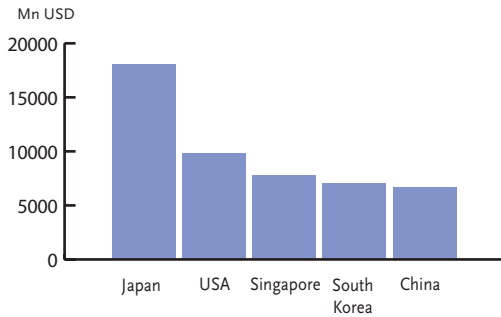
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 54 |
| Public consumption | 7 |
| Investment | 16 |

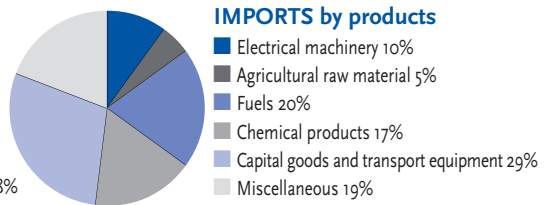
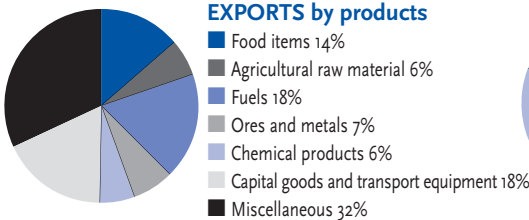
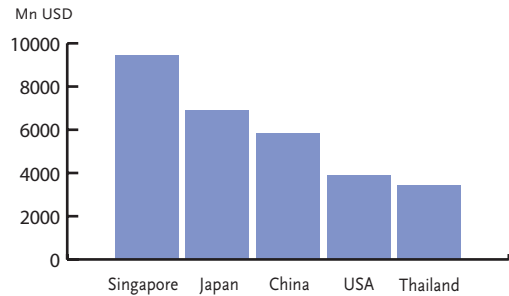
Exports: 38% of GDP

Imports: 33% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Indonesia | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 3,720 | 5,210 | 5,540 |
| GNP per capita (USD) | 1,280 | 1,597 | 2,057 |
| Human Development Index | 0.711 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 29 | 32 | 32 |
| Urban population percentage | 46 | 35 | 43 |
| Percentage under 15 years old | 29 | 28 | 29 |
| Number of computers per 1000 inhabitants | 14 | 39 | 48 |

Japan

| | |
|----------------------------------|-----------|
| Population (million inhabitants) | 128.0 |
| GDP (US\$ million) | 4,505,912 |
| GDP per capita (US\$) | 35,215 |



Coface analysis

Short-term: **A1**

STRENGTHS

- A dynamic regional environment has been conducive to growth.
- The competitiveness of export industries, particularly electronics and the car industry, has underpinned a current account surplus.
- Restructuring already carried out by major banks and companies has improved their profitability.
- High-level R&D coupled with a skilled workforce has fostered the relocation of production facilities in the archipelago.
- The advanced development of automated (robotics) production processes should allow the country to cope with an ageing population.

WEAKNESSES

- High public-sector debt and deficit levels have necessitated implementation of tight fiscal policy.
- Privileged ties between the political, administrative and business worlds have impeded reforms.
- Increasingly precarious employment and an inadequate social safety net have affected household consumption.
- The many sectors still insufficiently deregulated and the still relatively closed financial markets have not been conducive to productivity gains or foreign investments.
- Unreliable economic indicators have hampered decision making.

RISK ASSESSMENT

Growth was moderate in 2006. Buoyed by record profits and a return to profitability, companies continued investing. Benefiting from the weakening of the yen, exports accelerated in phase with dynamic Asian and American demand. Despite generous year-end bonuses, however, household consumption was less dynamic amid limited wage increases.

A moderate economic slowdown should develop in 2007. Although remaining the growth engine, exports will be less dynamic amid slowing growth in the United States and a slight slowdown of Chinese demand. High production capacity utilization levels and the quest for productivity gains

will spur investment. Household consumption (57 per cent of GDP) should remain sluggish. Declining unemployment, attributable to a shrinking working population and job growth, and dissaving by retirees will not suffice to offset that trend, with wage growth only moderate. Despite a slight increase in consumer prices, deflation risk will persist. Large public sector deficits will continue to limit fiscal stimulatory policy options. In the run-up to senate elections in July, moreover, adoption of measures to consolidate public sector finances will be unlikely.

The Coface payment incident index has remained far below the world average with bankruptcies declining in 2006 for the fifth straight year. Large companies still enjoy satisfactory

financial health with their debt lower and profits continuing to trend upward, albeit at a slower pace. Smaller companies have not fared as well, however, particularly outside major metropolitan areas. The export slowdown to the United States will affect the car industry and electronics. The low level of public

sector investment will continue to undermine the construction sector, while moderate household consumption will affect wholesale commerce, property and the hotel-food service industry. Overall, company solvency will remain generally good in the coming months.

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth | -0.3 | 1.4 | 2.7 | 1.9 | 2.0 | 1.7 |
| Consumption (var) | 0.5 | 0.3 | 1.5 | 1.5 | 1.0 | 1.0 |
| Investment (var) | -5.3 | 4.4 | 5.6 | 6.6 | 6.1 | 5.8 |
| Inflation | -0.9 | -1.6 | -1.1 | -1.3 | 0.3 | 0.4 |
| Unemployment | 5.4 | 5.3 | 4.7 | 4.4 | 4.2 | 3.9 |
| Short-term interest | 0.1 | 0.0 | 0.0 | 0.0 | 0.2 | 0.4 |
| Public sector balance (%GDP) | -8.2 | -8.0 | -6.3 | -5.3 | -4.6 | -4.0 |
| Public sector debt (%GDP) | 149.0 | 154.0 | 156.0 | 169.4 | 175.5 | 180.1 |
| Exports (var) | 7.5 | 9.2 | 13.9 | 7.0 | 9.6 | 6.5 |
| Imports (var) | 0.8 | 3.9 | 8.1 | 5.8 | 7.3 | 7.8 |
| Current account balance (%GDP) | 2.8 | 3.1 | 3.7 | 3.6 | 4.0 | 4.0 |

e = estimate, f = forecast

MAIN ECONOMIC SECTORS

■ Car industry

Japanese passenger car production rose in 2006 and that trend should continue in 2007, although at a slower pace. Rising petrol prices spurred small-vehicle sales at the expense of other categories. Carmakers offset stagnant domestic market sales with excellent performance in emerging Asia, Europe and the United States, where their production should continue to increase.

■ Steel

A flat steel production rebound, spurred by the large needs of shipyards, the car industry and mechanical engineering, marked 2006. That trend should continue in 2007. In the long steel segment, however, with competition from Chinese products squeezing their production, Japanese steelmakers will adopt strategies focused on profitability or mergers and acquisitions (Nippon Steel and JTE Steel respectively with the Koreans Posco and

Dongkuk steel mill). Despite price volatility, steelmakers should turn satisfactory profits in 2007.

■ Construction

Economic growth buoyed the sector in 2006. Increased private investment offset the continued decline of public investment. Interest rate increases expected by households spurred demand, resulting in an increase in new housing starts. Business will continue to trend up in 2007, even if reductions in spending by local communities will put the financial health of regional operators at risk again.

■ Consumer electronics and home appliances

The sector has been in structural decline due to delocalization of standard production to emerging Asia. Domestic production of high value-added goods like plasma and liquid-crystal television

screens and DVD readers has, however, been growing strongly, enabling Japanese groups to consolidate their finances. The computer electronic-component and peripheral segment has also been growing, buoyed by digitization of many applications. Despite a very competitive environment, digital television manufacturing will benefit from replacement demand generated by implementation of digital terrestrial television, to be completed by 2011.

■ Mass distribution

Amid weak household consumption growth in 2006, supermarkets were unable to improve their sales due to competition from low-price chains and the large number of players in the market. Mini-markets and departments stores, however, fared somewhat better. With their restructuring continuing, notably with the closing of unprofitable stores, the major national distributors will consolidate their finances, except those operating in regions, whose situation will remain precarious.

PAYMENT AND COLLECTION PRACTICES

■ Payment

Japan has ratified the International Conventions of June 1930 on Bills of Exchange and Promissory Notes and of March 1931 on Cheques. As a result, the validity of these instruments in Japan is subject to the same rules as in Europe. The bill of exchange (*kawase tegata*) and the much more widely used promissory note (*yakusoku tegata*), when unpaid, allow creditors to initiate debt recovery proceedings via a fast-track procedure, subject to certain conditions. Although the fast-track procedure also applies to cheques (*kogitte*), their use is far less common for everyday transactions. Clearing houses (*tegata kokanjo*) play an important role in the collective processing of the money supply arising from these instruments. The penalties for payment default act as a powerful deterrent. A debtor who fails twice in six months to honour a bill of exchange, promissory note or cheque, collectable in Japan, is barred for a period of two years from undertaking business-related banking transactions (current account, loans) with financial establishments attached to the clearing house. In other words, the debtor is reduced to a *de facto* state of insolvency. These two measures normally result in the calling in of any bank loans granted to the debtor.

Bank transfers (*furikomi*) have developed greatly throughout the economy in recent decades, thanks to widespread use of electronic systems in Japanese banking circles. Various highly automated interbank transfer systems are also available for local or international payments, like the Foreign Exchange Yen Clearing System (FXYCS, operated by the

Tokyo Bankers Association) and the BOJ-NET Funds Transfer System (operated by Bank of Japan).

Payment made via the internet site of the client's bank is also increasingly common.

■ Debt collection

In principle, to avoid certain disreputable practices employed in the past by specialized companies, only lawyers (*bengoshi*) may undertake debt collection. However, the law of 16 October 1998, which came into force on 1 February 1999, established the profession of 'servicer' to foster debt securitization and facilitate collection of non-performing loans (NPL debts) held by financial institutions. Servicers are debt collection companies licensed by the Ministry of Justice to provide collections services, but only for certain types of debt: bank loans, loans by designated institutions, loans contracted under leasing arrangements, credit card repayments and so on.

Out-of-court settlement is always preferable and involves obtaining a signature from the debtor on a notarized deed that includes a forced-execution clause, which, in the event of continued default, is directly enforceable without requiring a prior court judgement. The standard practice is for the creditor to send the debtor a registered letter with acknowledgement of receipt (*naïyo shomei*), the content of which must be written in Japanese characters and certified by the post office. The effect of this letter is to set back the statute of limitation by six months (which is five years for commercial debts). If the debtor still fails to respond, the creditor

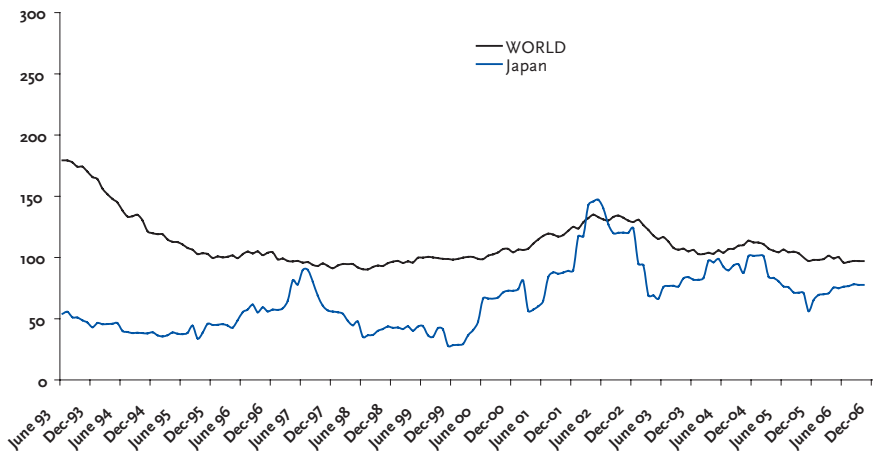
must start legal action during that period to retain the benefit of interruption of the limitation period.

Summary proceedings intended to allow creditors to obtain a ruling on payment (*tokusoku tetsuzuki*), applies to uncontested claims and effectively facilitates obtaining a court order to pay (*shiharai meirei*) from the judge within about six months. Court fees, payable by the claimant in duty stamps, vary according to the size of the claim. If the debtor contests the order within two weeks of service of notice, the case is transferred to ordinary proceedings. Ordinary proceedings are brought before the summary court (*kan-i saibansho*) for claims under JPY1.4 million and before the district court (*chiho saibansho*) for claims above this amount. Those proceedings, consisting of written and oral submissions, can take from one to three years and generate significant legal costs. Court fees, payable in duty stamps, depend on the size of the claim.

With the 1 January 1998 revision of the civil procedure code undertaken to reduce the duration of legal procedures, the new amendment, adopted 1 April 2004, is notably intended to speed up submission of evidence to both the adverse party and judge during the preliminary examination phase.

The importance attached to conciliation represents the chief characteristic of the Japanese legal system. Under a conciliation procedure (*chotei*) – conducted under court supervision – a panel of mediators, usually comprising a judge and two assessors, attempts to resolve civil and commercial disputes amicably. While avoiding lengthy and costly proceedings, any transaction obtained through such conciliation becomes enforceable once approved by the court. Similarly, disputes can be resolved via arbitration (*chusai*), an approach well appreciated locally and not involving excessive formalism.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



Laos

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 5.9 |
| GDP (US\$ million) | 2,855 |
| GDP per capita (US\$) | 482 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

Growth has been very robust, spurred by hydroelectricity and mining sector development. This formerly closed agricultural country has, thus, been developing an open, export-oriented economy. Its natural resources will meet the demand from dynamic neighbours, Thailand and Vietnam. That strategy has been buoying the economy despite risks associated with social imbalances. A not-very-competitive agricultural sector has provided a livelihood for 80 per cent of the population. Moreover, with the country just getting started with its strategy for attracting foreign investors, development of its potential will be closely tied to the steadiness of these resulting capital inflows.

Despite this favourable dynamic, sovereign risk has reached critical levels. Public-sector foreign debt has been high and servicing it has impacted on, and

will continue to impact on, fiscal revenues, whose level has been stagnant. Government authorities are reluctant, however, to seek any debt relief; tight and transparent fiscal policy, broad tax reform and improved governance will, consequently, be necessary to make the debt sustainable. With a large current account deficit there has been notable overindebtedness and good export performance will be essential to reduce it. An evidently underdeveloped and weak banking system, burdened by non-performing loans, will need assistance from international organisations.

The country has benefited from a stable domestic political situation and good relations with its neighbours. However, the level of governance is one of the lowest in Asia and, in general, the advent of a profitable economy is not helpful in improving this situation.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|------|------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 5.9 | 6.1 | 6.4 | 7.0 | 7.3 | 6.6 |
| Inflation (%) | 15.2 | 12.6 | 8.7 | 8.8 | 5.0 | 5.0 |
| Public sector balance (%GDP) | -4.1 | -5.7 | -3.4 | -3.5 | -4.0 | -4.0 |
| Exports | 371 | 450 | 300 | 500 | 600 | 782 |
| Imports | 583 | 694 | 977 | 1,142 | 1,239 | 1,364 |
| Trade balance | -212 | -244 | -677 | -642 | -639 | -582 |
| Current account balance (%GDP) | -6.3 | -8.2 | -22.4 | -22.0 | -17.5 | -14.7 |
| Foreign debt (%GDP) | 95.4 | 89.6 | 83.4 | 78.7 | 77.8 | 74.4 |
| Debt service (%Exports) | 7.1 | 6.3 | 10.1 | 9.1 | 7.8 | 6.3 |
| Foreign currency reserves (in months of imports) | 3.8 | 3.2 | 2.5 | 2.1 | 2.2 | 2.1 |

Malaysia

Population (million inhabitants) 25.3
GDP (US\$ million) 130,143

Short-term: **A2**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Malaysia exports both manufactured products and raw materials, such as petroleum and palm oil.
- It enjoys comparative advantages in terms of infrastructure and education, which will underpin long-term growth.
- Efforts to promote training and technological development have been responsible for the economy's competitiveness.
- Reforms have fostered the financial sector's gradual consolidation.

WEAKNESSES

- With the economy very open, it has been vulnerable to a world economic downturn.
- The country has remained one of the most inequalitarian in Asia.
- Despite positive discrimination policy, the Malay majority has remained the poorest ethnic group.
- Although gradually declining, the stock of bank loans granted to the private sector has remained among the highest in Asia.

RISK ASSESSMENT

Growth has been very dynamic, spurred notably by a private sector investment rebound. Although growth should slow somewhat in 2007 amid the slowdown expected in the United States, Malaysia's primary client, it will remain buoyant thanks to economic diversification. Electronics, representing 53 per cent of exports, certainly seems to be the most vulnerable sector, although chemicals, petroleum products, textiles, shoes and rubber provide remarkable support to the economy. The Coface payment experience has, thus, remained good and debt collection has been efficient. It is noteworthy, however, that unlisted companies rarely publish financial statements.

The country has been in good financial health thanks to a comfortable current account surplus that should decline only moderately in 2007. The banking sector, meanwhile, has been gaining

strength, as evidenced by the declining stock of non-performing loans. Continued robust public spending has resulted in an appreciable fiscal deficit with public-sector debt representing nearly 50 per cent of GDP. Sovereign risk has, however, been very limited. Maintaining current performance will necessitate continuing the move upmarket via promotion of high value-added products together with services. That has been the objective of the long-term plans implemented by government authorities. The Malaysian economy has been finding it increasingly difficult to rely on its eroding price competitiveness with labour costs twice those of China.

Under attack by his own party, the UNMO, and particularly his predecessor, Prime Minister Ahmad Badawi's position has seemed less solid than in the past. The political situation is, nonetheless, still stable. Progress has been made on

governance, as evidenced by the relatively good ranking given to the country by international organizations. However, efforts to reform state-

owned companies, particularly to enhance transparency, will have to be continued.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|------|-------|-------|-------|---------------------|---------------------|
| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
| Economic growth (%) | 4.1 | 5.3 | 7.1 | 5.2 | 5.8 | 5.1 |
| Inflation (%) | 1.8 | 1.0 | 1.5 | 3.0 | 3.6 | 3.4 |
| Public sector balance (%GDP) | -5.6 | -5.3 | -4.3 | -3.8 | -3.6 | -3.7 |
| Exports | 93.4 | 105.0 | 126.6 | 141.8 | 159.9 | 174.1 |
| Imports | 75.2 | 79.3 | 99.1 | 108.7 | 127.6 | 143.7 |
| Trade balance | 18.1 | 25.7 | 27.5 | 33.1 | 32.3 | 30.4 |
| Current account balance | 7.2 | 13.4 | 14.8 | 19.9 | 19.5 | 18.2 |
| Current account balance (%GDP) | 7.5 | 12.8 | 12.5 | 15.2 | 13.2 | 11.2 |
| Foreign debt (%GDP) | 50.7 | 46.6 | 44.0 | 41.0 | 35.3 | 32.1 |
| Debt service (%Exports) | 7.1 | 7.8 | 6.2 | 5.6 | 5.2 | 4.8 |
| Foreign currency reserves (in months of imports) | 4.0 | 4.9 | 6.0 | 5.7 | 5.4 | 5.1 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

A WTO member and signatory to the ASEAN free trade agreement (AFTA), Malaysia has a free trade policy. The average rate of customs duty for all goods is below 8 per cent; over 99 per cent of tariff lines bear 0–5 per cent duty (AFTA rules require duties on imports from the five other founding members of ASEAN – Brunei, Philippines, Singapore, Indonesia, Thailand – to be below 0.5 per cent for 99 per cent of tariff lines). Tariff peaks remain for cars, steel and alcoholic beverages. The Malaysian government regulates the import and export of certain goods (17 per cent of tariff lines) through automatic and non-automatic licensing. This procedure is not such a hindrance in actual fact, except in the automotive sector where high customs duties, excise duties, quotas and preimport compulsory licensing serve to protect local manufacturers.

■ Attitude towards foreign investors

The government has introduced tax incentives to encourage the establishment of foreign businesses

(pioneer status, investment tax allowance, regional distribution centre status, operational headquarters status). Foreigners are allowed to wholly own manufacturing, high-tech or industrial service companies. Malaysia also runs an offshore financial site at Labuan in the east of the country and 14 tax- and duty-free zones.

Meanwhile, the government's policy of encouraging greater involvement of Bumiputras (mainly ethnic Malays who make up 60 per cent of the population) in the country's economic development continues to hamper foreign investment in the non-industrial services sector. The government's sector guidelines remain vague and each application is examined on a case-by-case basis by the competent local authority.

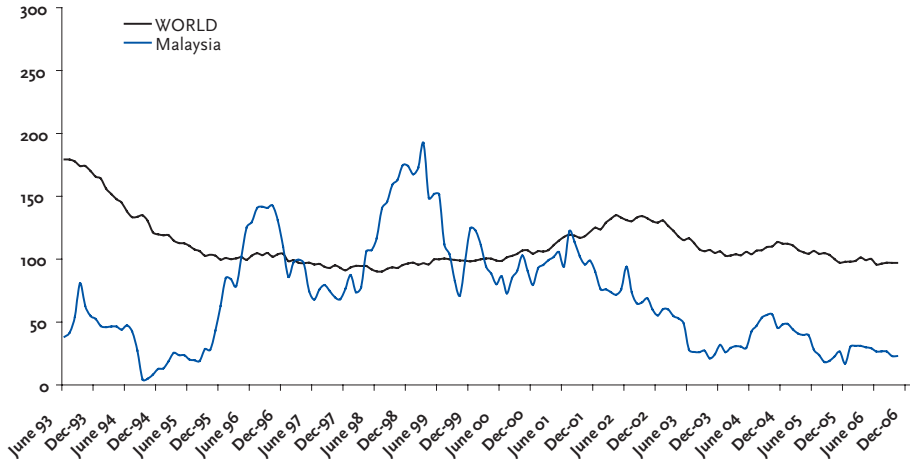
■ Foreign exchange regulations

On 21 July 2005, Malaysia abandoned its fixed exchange rate against the US dollar, in force since September 1998, in favour of controlled flotation. Currency transactions are subject to central bank approval, but this does not pose a problem. Local currency borrowings for the purchase of foreign exchange, which contributed to the speculative

movements seen in 1997, continue to be tightly regulated. That is why the currency's internationalization (assets in Malaysian ringgits

held outside Malaysia) is not on the agenda. This does not seem to affect business life in the country, however, which goes on regardless.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

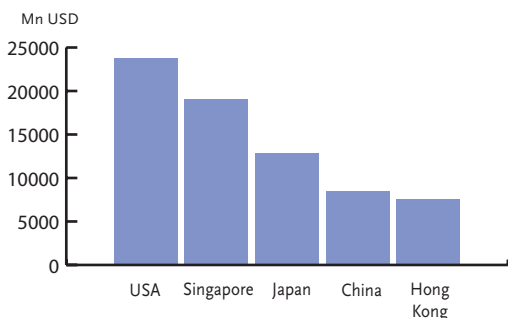
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 23 |
| Public consumption | 7 |
| Investment | 11 |

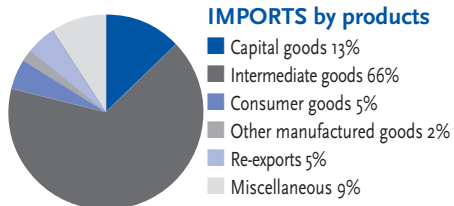
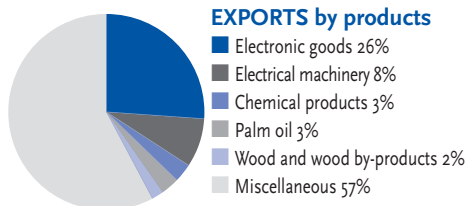
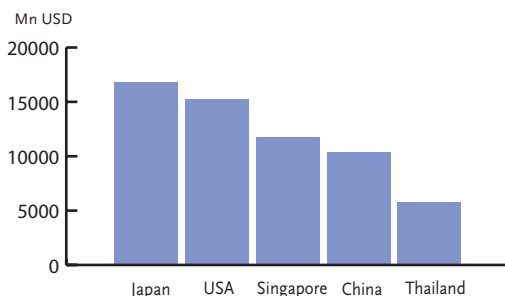
Exports: 121% of GDP

Imports: 100% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Malaysia | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 10,320 | 5,210 | 5,540 |
| GNP per capita (USD) | 4,960 | 1,597 | 2,057 |
| Human Development Index | 0.805 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 38 | 32 | 32 |
| Urban population percentage | 64 | 35 | 43 |
| Percentage under 15 years old | 33 | 28 | 29 |
| Number of computers per 1000 inhabitants | 197 | 39 | 48 |

Mongolia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 2.8 |
| GDP (US\$ million) | 1,880 |
| GDP per capita (US\$) | 674 |



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

Growth has been high and the upward trend should continue, buoyed mainly by booming copper sales (45 per cent of exports), notably to China, which has provided a market for 70 per cent of Mongolian exports. Raw material demand from that large neighbour should remain dynamic. Comparably robust gold exports have followed a similar dynamic. However, although the services sector has also been rebounding, agriculture has been weak with breeding very vulnerable to possible pandemics. Suffering from a lack of competitiveness, textile sales to the American market have declined sharply.

Despite the apparent economic dynamism, the precise extent of the improvement underway continues to be difficult to quantify with consistent data unavailable. The country will be likely continue to run a current account surplus but whose sustainability will remain very vulnerable to a raw

material price downturn. The growth of foreign currency reserves has resulted in a marked improvement in Mongolia's external financial situation. However, with government debt still very high, the country continues to be dependent on multilateral aid. Sustaining current economic performance will depend on the foreign investment inflows that foster exploitation of the country's mineral wealth. Despite the marked interest demonstrated by the major mining operators, investors could become skittish in the face of the population's and government's latent hostility. An estimated 40 per cent of the population is considered to be living below the poverty line.

Governance quality – considered mediocre according to available ratings – has undermined the country's attractiveness. This has also been true for the relative political instability amid a weak government coalition.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|-------|------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 4.0 | 5.6 | 10.7 | 6.2 | 6.8 | 5.6 |
| Inflation (%) | 1.7 | 5.0 | 8.2 | 12.7 | 5.5 | 5.5 |
| Public sector balance (%GDP) | -5.9 | -4.2 | -2.2 | -1.8 | 3.0 | -3.2 |
| Exports | 524 | 616 | 870 | 1,056 | 1,226 | 1,400 |
| Imports | 691 | 801 | 1,021 | 1,065 | 1,113 | 1,447 |
| Trade balance | -167 | -185 | -151 | -9 | 112 | -47 |
| Current account balance (%GDP) | -14.4 | -7.5 | 3.9 | 5.5 | 7.0 | 5.0 |
| Foreign debt (%GDP) | 87.5 | 97.1 | 89.7 | 80.4 | 78.2 | 73.8 |
| Debt service (%Exports) | 4.5 | 34.0 | 7.5 | 3.7 | 3.5 | 3.9 |
| Foreign currency reserves (in months of imports) | 3.7 | 2.2 | 2.0 | 2.5 | 5.7 | 4.7 |

f = forecast

Myanmar

Population (million inhabitants) 50.5
GDP (US\$ million) 8,900

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

With the limited data available, economic analysis is difficult. Growth seems to be accelerating thanks mainly to exports of gas (31 per cent of total sales), petroleum products and wood. Strong demand for raw materials from dynamic neighbours with voracious appetites for energy – Thailand, India and China – has been the main driver of the economic upturn underway. Still dominated by commodities, the economy has, thus, remained weak. Agriculture, representing 50 per cent of GDP, has been operating below its potential due to administrative controls undermining the incentive to increase harvests. The Myanmar economy still has the highest poverty rate in Asia, evidenced by social indicators that are below those of Laos and Cambodia.

It is undeniable, however, that the improvement in external accounts has resulted in a substantial increase in the county's foreign currency reserves.

Major macroeconomic imbalances have, nonetheless, persisted with inflation notably seeming high. The central bank has been largely monetizing public-sector deficits that have begun to grow again; meanwhile banks are still very weak. The extent of the informal economy, an environment of insecurity, and especially the unpredictable economic policy pursued by the military junta, known as the State Peace and Development Council, have undermined the economic outlook. The junta has refused all dialogue with the opposition whose leader, Aung San Suu Kyi, continues to be under house arrest. Actual implementation of the roadmap to democracy – formally accepted by the junta – seems very unlikely. The members of ASEAN, to which Myanmar belongs, could take a tougher stance after years of neutrality. With continued support from China, however, the military junta will likely keep a firm grip on political power and maintain the status quo in the country.

MAIN ECONOMIC INDICATORS

| USD millions | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 ^(f) | 2006/07 ^(f) |
|---|---------|---------|---------|---------|------------------------|------------------------|
| Economic growth (%) | 5.2 | 5.5 | 0.0 | 5.0 | 4.5 | 7.0 |
| Inflation (%) | 53.8 | 54.0 | 8.0 | 15.0 | 15.0 | 16.0 |
| Public sector balance (%GDP) | -5.8 | -3.6 | -5.4 | -4.7 | -3.8 | -4.9 |
| Exports | 2,485 | 2,728 | 2,781 | 2,902 | 3,531 | 3,919 |
| Imports | 2,736 | 2,300 | 2,240 | 1,973 | 1,984 | 2,174 |
| Trade balance | -251 | 428 | 541 | 929 | 1,547 | 1,745 |
| Current account balance (%GDP) | -2.8 | 0.2 | -1.0 | 2.3 | 4.2 | 4.8 |
| Foreign debt (%GDP) | 118.4 | 87.8 | 69.6 | 64.1 | 62.4 | 63.9 |
| Debt service (%Exports) | 9.0 | 10.0 | 11.0 | 14.0 | 10.0 | 9.0 |
| Foreign currency reserves (in months of imports) | 2.0 | 2.8 | 3.4 | 4.5 | 5.3 | 7.1 |

f = forecast

Nepal

Population (million inhabitants) 27.7
GDP (US\$ million) 7,346



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

The outlook has brightened for Nepal with King Gyanendra lifting the state of emergency on 24 April 2006 after several weeks of demonstrations and accepting a return to parliamentary democracy. The new interim government and Maoist rebels signed an historic peace agreement on 21 November 2006, which should put an end to 10 years of civil war that left over 12,500 dead. In exchange for a role in the government, the Maoist rebels must place their combatants and arms under UN control. The fate of the king has, nonetheless, remained a grave source of discord that will be considered after the election of the constituent assembly, due in June 2007. Renewed hostilities are

not completely out of the question in view of that discord and the profound ideological differences between the two parties.

If peace proves to be long-lasting, the Nepalese economy's prospects should finally improve. Between 2004 and 2006, only expatriate worker remittances – representing nearly half the country's foreign currency revenues – and continuing farm production allowed the country to avert a recession. The international community has now promised to increase aid to Nepal. The economy could, thus, begin growing again at a 3–4 per cent rate in coming years, underpinned by the recovery of non-farm sectors, notably textiles and tourism.

MAIN ECONOMIC INDICATORS

| USD millions* | 2002/03 | 2003/04 | 2004/05 ^(f) | 2005/06 ^(f) | 2006/07 ^(f) | 2007/08 ^(f) |
|---|---------|---------|------------------------|------------------------|------------------------|------------------------|
| Economic growth (%) | 3.3 | 3.8 | 2.7 | 1.9 | 3.7 | 4.5 |
| Inflation (%) | 6.1 | 2.0 | 6.6 | 8.3 | 8.3 | 5.0 |
| Public sector balance (%GDP) | -3.7 | -3.3 | -3.5 | -3.9 | -6.7 | -6.1 |
| Exports | 653 | 748 | 832 | 865 | 939 | 1,059 |
| Imports | 1,556 | 1,801 | 2,022 | 2,392 | 2,777 | 3,078 |
| Trade balance | -903 | -1,053 | -1,190 | -1,527 | -1,838 | -2,019 |
| Current account balance (%GDP) | 0.3 | 0.9 | -0.3 | 0.6 | 0.2 | -0.1 |
| Foreign debt (%GDP) | 52.6 | 51.2 | 45.8 | 43.0 | 41.6 | 40.3 |
| Debt service (%Exports) | 5.6 | 6.0 | 6.3 | 6.3 | 6.3 | 6.3 |
| Foreign currency reserves (in months of imports) | 7.8 | 7.9 | 7.1 | 7.2 | 6.8 | 6.6 |

* Financial year ending 15 July

f = forecast

New Zealand

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 4.1 |
| GDP (US\$ million) | 109,041 |
| GDP per capita (US\$) | 26,531 |



Coface analysis

Short-term: **A1**

RISK ASSESSMENT

The economic slowdown continued in 2006 amid a still-restrictive monetary policy, intended to reduce inflationary pressures, and the current account deficit. Exports benefited little from the buoyant world economy with the New Zealand dollar strengthening in the second half. The downturn had a lesser effect on households, with their incomes increasing significantly again, spurred not only by a continued labour shortage – particularly in construction and services – despite increased immigration but also by job and wage growth in the public sector.

The cycle will bottom out in 2007 and give way to a moderate recovery toward year-end. Household spending should decline further amid rising unemployment that will help ease wage tensions and prompt an easing of monetary policy. Conversely,

companies should resume investing amid continuing production capacity shortages and considering the need to improve productivity. Farm exports (milk, meat, fruit) and equipment exports intended for the forestry, paper and food industries, along with tourism, should benefit from more favourable foreign exchange rates and satisfactory external economic conditions with the Asia Pacific region representing over half of sales abroad.

The economic slowdown, rising costs and declining productivity have squeezed margins in industry, agriculture and distribution. Services and construction, less exposed to competition, have suffered little. Margins should increase in 2007 with labour costs rising more slowly and energy costs declining. Two sectors in particular will, however, bear close watching: the forestry industry, whose

MAIN ECONOMIC INDICATORS

| % | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|--------------------------------|------|------|------|------|---------------------|---------------------|
| Economic growth | 4.5 | 3.7 | 4.4 | 2.3 | 2.0 | 1.8 |
| Consumption (var.) | 4.0 | 5.4 | 6.3 | 4.9 | 2.1 | 1.0 |
| Investment (var.) | 3.3 | 13.4 | 15.9 | 12.5 | -2.5 | 6.0 |
| Inflation | 2.7 | 1.8 | 2.4 | 3.2 | 3.2 | 2.7 |
| Unemployment | 5.2 | 4.6 | 3.7 | 3.6 | 3.6 | 4.2 |
| Short-term interest | 5.7 | 5.4 | 6.1 | 7.5 | 7.4 | 7.0 |
| Public sector balance (%GDP) | 3.9 | 5.3 | 5.5 | 4.1 | 6.3 | 3.2 |
| Public sector debt (%GDP) | 34.0 | 32.0 | 29.0 | 27.0 | 26.0 | 25.0 |
| Exports (var.) | 6.3 | 2.1 | 5.9 | -0.5 | 3.0 | 5.0 |
| Imports (var.) | 10.5 | 8.4 | 16.6 | 6.2 | -2.2 | 2.0 |
| Current account balance (%GDP) | -4.2 | -4.2 | -6.5 | -9.0 | -9.0 | -8.0 |

exports could suffer from the decline of demand and material prices for residential construction in the

United States and Australia, and the sports articles trade, currently undergoing restructuring.

PAYMENT AND COLLECTION PRACTICES

As a former British colony in the 19th century, New Zealand's legal code and precepts are largely inspired by British common law and the British court system. New Zealand became a dominion within the Commonwealth on 26 September 1907.

■ Payment

Bills of exchange or promissory notes are not frequently used for commercial transactions in New Zealand and mainly serve to authenticate the existence of claims. Although cheques are still used in everyday domestic transactions, payment by electronic bankcard has been developing rapidly. Wire transfers or SWIFT bank transfers are the most commonly used payment method for domestic and international transactions. Most of the country's banks are connected to the SWIFT network, which offers a rapid, cost-efficient means of effecting payments.

The New Zealand dollar, along with the main foreign currencies, is now also part of the Continuous Linked Settlement System (CLS), a highly automated interbank transfer system for processing international trade settlements.

■ Debt collection

The collection process starts with the serving of final notice by recorded delivery – a seven-day letter – whereby the creditor notifies the debtor of his/her payment obligations including any contractual interest due. Without payment by the debtor company of an uncontested payable claim exceeding NZ\$1000 (or after obtaining a ruling), the creditor may summon the debtor to settle the debt within 15 days or face a winding-up petition with his/her company considered insolvent (statutory demand under section 289 of the Companies Act 1993).

Under ordinary proceedings, once a statement of claim (summons) has been filed and where debtors have no grounds on which to dispute

claims, creditors may solicit a fast-track procedure enabling them to obtain an executory order by issuing the debtor with an application for summary judgement. This petition must be accompanied by an affidavit (a sworn statement by the plaintiff attesting to the claim's existence), along with supporting documents authenticating the unpaid claim. For more complex or disputed claims, creditors must instigate standard civil proceedings – an arduous, often lengthy process lasting up to two years. Proceedings are heard by district courts or, for claims exceeding NZ\$200,000, by the High Court.

Since 1 January 2004, appeals against the decisions handed down by the Court of Appeal, located in Wellington, are lodged after agreement by the Court on the legal validity of the case to be submitted to it, before the Supreme Court of New Zealand, also located in Wellington. Such recourse was previously sought via the Privy Council in London.

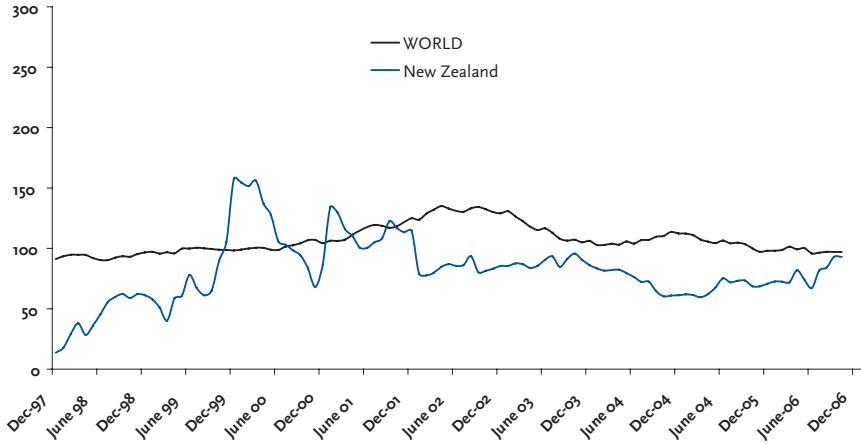
A revision of the Judicature Act 1908 led to establishment of a list of commercial cases eligible for processing via a fast-track procedure, for example in the fields of insurance, banking and finance, disputes on intellectual property rights, merchandise transport, commercial contracts and merchandise import/export. The High Court of Auckland implemented the first such commercial list in April 1987. The High Court is also competent to hear insolvency proceedings and maritime disputes.

During the preliminary phase, proceedings are written insofar as the court examines the case documents, authenticating the parties' respective claims. During the subsequent discovery phase, the parties' lawyers may request their adversaries to submit any proof or witness testimony that is relevant to the case and duly examine the case documents thus submitted. Before handing down

its judgement, the court examines the case and holds an adversarial hearing of the witnesses who may be cross-examined by the parties' lawyers.

Arbitration and mediation proceedings may also be used to resolve disputes and obtain out-of-court settlements, often at a lower cost than through the ordinary adversarial procedure.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)

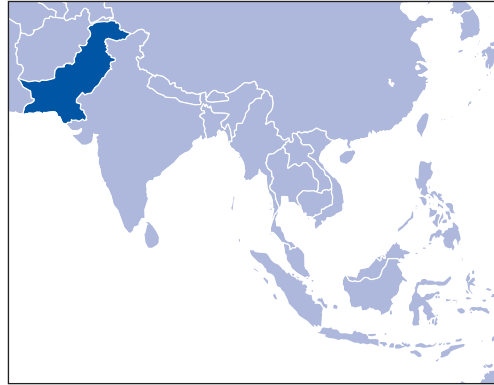


Pakistan

Population (million inhabitants) 162.4
GDP (US\$ million) 110,732

Short-term: **C**

Medium-term:
High risk



Coface analysis

STRENGTHS

- Pakistan has benefited from substantial international aid since 11 September 2001.
- Public-sector finances are now healthier.
- Private transfers from expatriates working in the Gulf region have been a very important source of foreign currency.
- The country has benefited from discontinuation of the multifibre arrangement due to the substantial comparative advantages it enjoys in the textile sector as a cotton producer with a low-cost labour pool.

WEAKNESSES

- The economy has remained very dependent on low value-added sectors – textiles and cotton.
- Low levels of investment and human development indicators have made it difficult to move toward higher value-added production.
- The Kashmir question has remained a major element of uncertainty in relations with India.
- Islamabad has been exercising diminishing control over the western half of the country (north-west border, Balouchistan).

RISK ASSESSMENT

Although not as exceptional as in the 2004–05 financial year, economic growth has remained robust thanks to remittances from expatriates employed in the Gulf region and, especially, to a dynamic textile sector, which affords the country undeniable comparative advantages.

The external financial situation has significantly improved since the end of the 1990s with textile sector dynamism, international aid since 11 September 2001 and implementation of major structural reforms constituting contributing factors. The robust growth and inadequate local

production in a context of high oil prices has caused major imbalances (trade deficit, inflation) that will make sustaining the current growth rate a very unlikely proposition. A low investment rate and poor education system will make sustainable growth a particularly difficult objective to achieve.

A deteriorating political environment in the run-up to legislative and presidential elections end-2007 is even more troubling, with Balouchistan and the north-west border increasingly escaping Islamabad's control. The main uncertainty remains the possible return of political instability after the elections, however.

MAIN ECONOMIC INDICATORS

| USD billions* | 2002/03 | 2003/04 | 2004/05 | 2005/06 ^(e) | 2006/07 ^(f) | 2007/08 ^(f) |
|---|---------|---------|---------|------------------------|------------------------|------------------------|
| Economic growth (%) [*] | 2.8 | 5.8 | 6.4 | 8.4 | 6.6 | 6.0 |
| Inflation (%) | 2.9 | 6.5 | 8.4 | 7.1 | 6.8 | 5.9 |
| Public sector balance (%GDP) [*] | -4.0 | -2.9 | -2.8 | -3.1 | -3.0 | n/a |
| Exports | 9.8 | 11.9 | 13.4 | 15.4 | 17.9 | 20.2 |
| Imports | 10.4 | 12.0 | 16.7 | 21.2 | 24.3 | 27.0 |
| Trade balance | -0.6 | -0.1 | -3.3 | -5.8 | -6.4 | -6.8 |
| Current account balance | 3.9 | 3.6 | -0.7 | -3.4 | -4.2 | -4.9 |
| Current account balance (%GDP) | 5.5 | 4.4 | -0.7 | -3.2 | -3.6 | -3.9 |
| Foreign debt (%GDP) | 47.1 | 44.2 | 37.8 | 37.7 | 36.4 | 35.1 |
| Debt service (%Exports) | 24.7 | 17.9 | 17.4 | 9.8 | 10.3 | 9.3 |
| Foreign currency reserves (in months of imports) | 3.5 | 6.4 | 5.1 | 4.1 | 3.9 | 3.9 |

* July-to-June financial year

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Market access is gradually being freed up. Customs duties in the industrial sector are trending downwards. The maximum rate of custom duty is 2 per cent ad valorem (CIF value), with some notable exceptions such as cars, which are subject to a separate system of taxation (50–75 per cent depending on the number of cylinders). The maximum rate of duty in the service sector is 10 per cent. As a general rule, Pakistan follows the World Customs Organization's harmonized international nomenclature and recommendations. Nevertheless, exporters are advised to remain vigilant about Pakistani customs' interpretation of imported products. The practice of applying tariffs that place local importers at a disadvantage often results in disputes. Excise duty ranging from 3 per cent to 90 per cent, and 15 per cent maximum general sales tax apply to all goods and transactions on top of customs duties. In fact, excise duty is being phased out in favour of a broader sales tax.

■ Attitude towards foreign investors

Foreign investment is governed by special legislation. The Pakistan government is extremely positive towards foreign investment, up sharply over the last few years to US\$3.9 billion (3 per cent of

GDP) in 2006. The government is formulating new strategies to attract foreign capital – expected to rise to US\$9 billion by 2009 – mainly targeted at multinationals. The new measures include tax and non-tax incentives under the 2006 budget, targeted initiatives to woo 300 of the biggest international investors and the creation of an investor relations office, as well as investment-friendly centres of competitiveness, to support government trade policy in such sectors as agrifoods, services, engineering, textiles (toilet linen, denim etc) and mechanical products.

Foreign investors face no restrictions on share ownership (100 per cent ownership is permitted except in the agricultural sector where there is a 60 per cent ceiling) and foreign companies may own property. There is no requirement to tie up with a local partner, except in construction and public works projects, which are subject to tight restrictions. There is a minimum capital requirement of US\$0.15 million in services and US\$0.3 million in infrastructure and the care sector. Once established, resident companies are subject to the same taxation as local firms.

The 2005–06 budget has reduced corporation tax. Banks have seen their tax rates lowered to 38 per cent from 41 per cent, private sector enterprises are taxed at 37 per cent from 39 per cent, and the tax rate for public-sector undertakings remains unchanged at

35 per cent. Moreover, the Pakistan government has signed bilateral investment protection agreements and double taxation treaties with 47 and 52 countries respectively, including France. It has recently ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The previous mechanism for settling investment disputes made Pakistan less attractive to international investors. The country is also a signatory to the convention establishing the MIGA.

■ Foreign exchange regulations

The Pakistani rupee is partially convertible. Although the currency is in a floating system, its rate is, to some extent, administered by the central bank, which intervenes on the currency market to maintain a fairly stable rupee versus the dollar, ie between 59 and 60 rupees to the dollar. Foreign investors are allowed to repatriate capital, including royalties, profit, dividends and principal.

OPPORTUNITY SCOPE

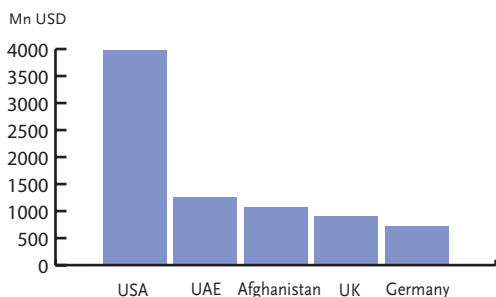
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 63 |
| Public consumption | 8 |
| Investment | 13 |

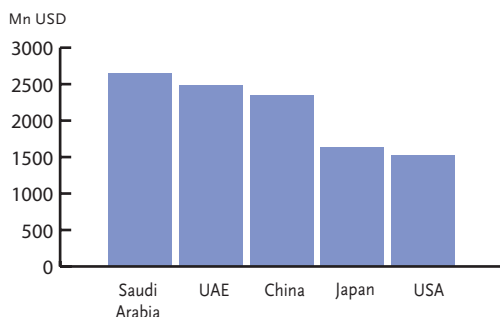
Exports: 15% of GDP

Imports: 20% of GDP

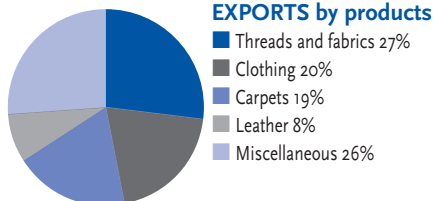
MAIN DESTINATIONS OF EXPORTS



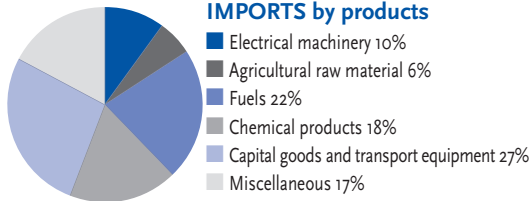
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Pakistan | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 2,350 | 5,210 | 5,540 |
| GNP per capita (USD) | 690 | 1,597 | 2,057 |
| Human Development Index | 0.539 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 28 | 32 | 32 |
| Urban population percentage | 34 | 35 | 43 |
| Percentage under 15 years old | 40 | 28 | 29 |
| Number of computers per 1000 inhabitants | 5 | 39 | 48 |

Papua New Guinea

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 4.4 |
| GDP (US\$ million) | 116,764 |
| GDP per capita (US\$) | 354 |

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



RISK ASSESSMENT

The country's economic and financial performance has been improving, underpinned mainly by dynamic export growth. Raw materials have dominated sales abroad, particularly gold, oil and copper, generating 70 per cent of the total, with Australia – the main trading partner – absorbing 40 per cent of total foreign trade. The country's natural-resource exporting specialization has substantially benefited the balance of payments, generating comfortable current account surpluses and a marked increase in foreign currency reserves. Papua New Guinea continues to pursue tight economic policy, evidenced by an inflation rate under relatively good control and, in particular, a fiscal surplus. Although economic growth has stabilized, a takeoff has yet to develop with manufacturing, particularly textiles, and agriculture performing poorly.

Increasingly focused on minerals and fuel, the economy has remained vulnerable to a downturn

of world raw material prices. Outside the particular case of oil, production volumes have been declining for raw materials crucially important to the country, notable gold and copper. The continued rise of world prices for those two metals is, moreover, very uncertain. Inadequate infrastructure, meanwhile, has kept the country from fully exploiting its potential. The future of the ambitious PNG Gas Project to link Papua New Guinea with Australia seems in jeopardy once again. The country's relations with its main economic partner have been erratic, with recurring tensions jeopardizing projects. Politically, Sir Michael Somare seems likely to become the first head of the government's executive branch to succeed in completing his five-year term as prime minister. The run-up to legislative elections in spring 2007 could, however, spell a new period of tensions in a context of persistent insecurity.

MAIN ECONOMIC INDICATORS

| USD millions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|---------|---------|---------|---------|---------------------|---------------------|
| Economic growth (%) | 2.0 | 2.9 | 3.0 | 2.9 | 3.5 | 4.0 |
| Inflation (%) | 11.7 | 14.7 | 2.2 | 1.7 | 2.4 | 3.0 |
| Public sector balance (%GDP) | -5.3 | -1.6 | 1.1 | 2.7 | 0.4 | 0.4 |
| Exports | 1,640.0 | 2,200.7 | 2,554.8 | 3,277.9 | 4,147.6 | 4,500.0 |
| Imports | 1,077.5 | 1,187.3 | 1,459.4 | 1,525.5 | 2,100.0 | 2,400.0 |
| Trade balance | 562.5 | 1,013.4 | 1,095.4 | 1,752.4 | 2,047.6 | 2,100.0 |
| Current account balance (%GDP) | -4.3 | 3.8 | 2.8 | 14.9 | 10.9 | 11.3 |
| Foreign debt (%GDP) | 83.4 | 69.1 | 49.1 | 44.2 | 39.1 | 33.8 |
| Debt service (%Exports) | 15.1 | 12.0 | 16.7 | 11.4 | 8.5 | 8.5 |
| Foreign currency reserves (in months of imports) | 2.6 | 2.5 | 2.6 | 2.4 | 3.3 | 3.8 |

f = forecast

Philippines

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 87.9 |
| GDP (US\$ million) | 98,306 |
| GDP per capita (US\$) | 1,119 |

Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis



STRENGTHS

- A record level of expatriate worker remittances representing 10 per cent of GDP has cushioned the impact of political turbulence and exogenous shocks on the economy.
- The country has been able to stay competitive, particularly in special economic zones.
- The workforce's training, productivity and adaptability have been assets, particularly for multinational companies.
- Tax reform has eased sovereign risk.

WEAKNESSES

- The country has an exceptionally low savings rate for Asia, representing 18 per cent of GDP.
- The level of infrastructure has lagged behind other Asian emerging countries.
- Inflation is still high.
- Insecurity and recurrent political crises have deterred investment.

RISK ASSESSMENT

Economic growth has remained high, driven by dynamic household consumption. Underpinned by the volume of emigrant worker remittances, the economy will remain very buoyant in 2007. The investment rate has been relatively low, however, averaging 16 per cent of GDP against over 30 per cent in the other Asian emerging economies. The Coface payment experience has been good, with companies showing real dynamism in telecommunications, services, food and, especially, electronics, which continues to be the main economic engine, generating 68 per cent of goods exports. The financial statements published by companies are, however, often not very reliable, with debt collection hampered by slow and costly legal procedures. Company performance has, moreover, been vulnerable to a volatile economic environment.

Despite tight fiscal policy, evidenced by the decline of public-sector deficits, the government

financial situation has remained shaky with debt service still representing a third of fiscal revenues and public-sector debt remaining high and sensitive to interest rate risk. The banking system continues to be too fragmented with the stock of non-performing loans still substantial. The external situation has, however, remained solid with private transfers underpinning a large current account surplus, debt ratios easing and foreign currency reserves remaining at satisfactory levels.

President Gloria Arroyo has withstood the various crises that have shaken her administration and she may even be able to complete her term in office, which ends in 2010. She has depended increasingly on support from the army and her capacity to carry out the public-sector financial consolidation is far from certain. The country still suffers from governance shortcomings, meanwhile, with corruption one factor undermining the business climate.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 4.4 | 4.5 | 6.0 | 5.0 | 5.4 | 5.3 |
| Inflation (%) | 2.5 | 3.9 | 8.6 | 6.7 | 6.1 | 4.1 |
| Public sector balance (%GDP) | -5.3 | -4.6 | -3.9 | -2.8 | -2.1 | -1.6 |
| Exports | 34.4 | 35.3 | 38.8 | 40.2 | 44.6 | 48.2 |
| Imports | 39.9 | 41.2 | 44.5 | 47.8 | 49.4 | 53.0 |
| Trade balance | -5.5 | -5.9 | -5.7 | -7.6 | -4.8 | -4.8 |
| Current account balance | 4.4 | 0.3 | 1.6 | 2.4 | 5.4 | 5.3 |
| Current account balance (%GDP) | 5.7 | 0.4 | 1.9 | 2.4 | 4.6 | 3.9 |
| Foreign debt (%GDP) | 77.7 | 78.9 | 69.6 | 63.8 | 55.9 | 50.4 |
| Debt service (%Exports) | 9.5 | 9.8 | 9.4 | 9.2 | 9.6 | 9.4 |
| Foreign currency reserves (in months of imports) | 3.5 | 3.5 | 3.4 | 3.7 | 4.4 | 4.5 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

On the whole, the market is very open, with non-tariff barriers more than anything else limiting market access. Some imports are subject to stringent regulatory restrictions, including the award of certificates by an inefficient, and what is perceived as a corrupt, administrative service (ranked 117 out of 159 on Transparency International's corruption index). Eight tariffs currently apply: 0, 1, 3, 5, 7, 10, 15 and 20 per cent (sensitive products). Customs duties remain fairly low. The average most favoured nation (MFN) tariff fell from 9.7 per cent in 1999 to 5.8 per cent in 2003, before rising to 7.8 per cent in 2005. Some exceptional protective tariffs continue to apply. Farm products have a higher degree of protection than either manufactured products or chemicals and mining products (11.85 per cent against 7.26 per cent and 2.47 per cent in May 2006). Customs duties are doubled by swinging excise duties on some goods (champagne, cigarettes, sparkling wine and certain makes of car).

While a legal system is in place to strengthen intellectual property protection, its effectiveness is limited by the slowness of administrative procedures and the lack of resources available to judges to enforce legal decisions.

For payments, the irrevocable and confirmed documentary letter of credit is recommended.

■ Attitude towards foreign investors

The Foreign Investment Act 1991, amended in 1996 and again in 1998, has liberalized foreign investment regulations and helped boost investment. Notwithstanding, overall investment has been paltry these last few years. Two restrictive sector lists impose phased ceilings on foreign shareholdings (20–60 per cent). List A enumerates the sectors where foreign participation is restricted by constitutional or legal constraints (media, the professions, utilization of natural resources); list B concerns areas where foreign ownership is restricted for reasons of national security, defence, public health and morals. This list also seeks to protect local SMEs and restrict gambling.

The banking sector is accorded special treatment and foreign ownership therein is limited to 60 per cent. The General Banking Law of 2000 permits 100 per cent foreign ownership for a seven-year period. Land is reserved for Filipinos and 60 per cent locally-held companies. Foreign investors may lease land to put up a production facility. All investment is subject to the approval of the Security and Exchange Commission – responsible for the registration, regulation and supervision of all foreign companies and joint

ventures – and the Board of Investments. A one-stop action centre run by the Board of Investment (BOI) disseminates practical information and facilitates administrative formalities. It is advisable to engage a local lawyer.

Foreign investors interested in infrastructure development can avail themselves of the provisions of the Build-Operate-Transfer Act 1990 (amended in 1994). Tax incentives are granted to investment in the development of backward areas, exports and mining. These include exemption from corporation tax, local taxes and customs duties on imported equipment, ad hoc tax rebates, accelerated depreciation and so on. In addition, there are several categories of special economic zones and tax- and duty-free zones, including buildings for ICT companies in Great Manila. A

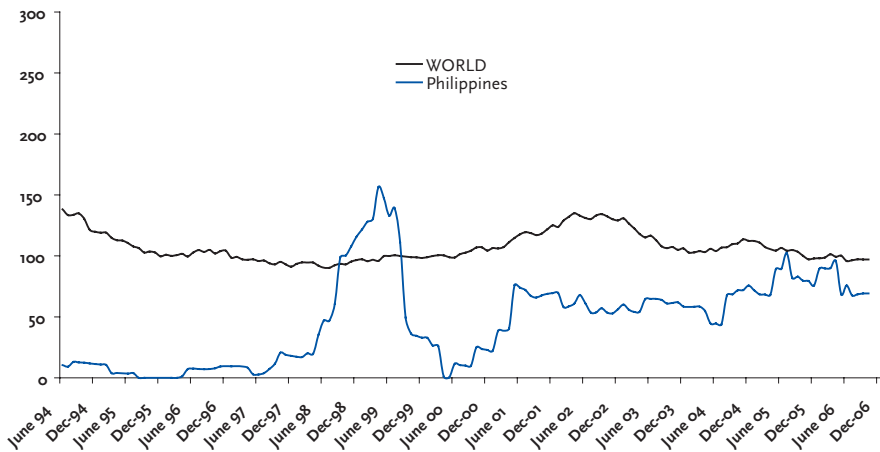
review of ways of rationalizing these measures is underway.

Under an investment protection agreement between France and the Philippines, in force since 13 June 1996, investors are provided safeguards against all expropriation and nationalization measures. The agreement recognizes the free transfer of funds and gains related to an investment.

■ Foreign exchange regulations

There are no exchange controls, but importers must document their request for foreign exchange. Local banks can, on the instruction of the central bank, require their clients to support their request for foreign currency with proof. The exchange rate is floating.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

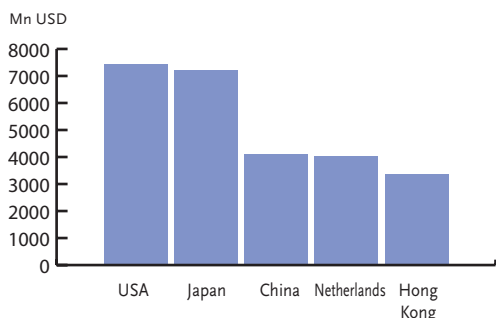
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|----|
| ■ Private consumption | 46 |
| ■ Public consumption | 7 |
| ■ Investment | 11 |

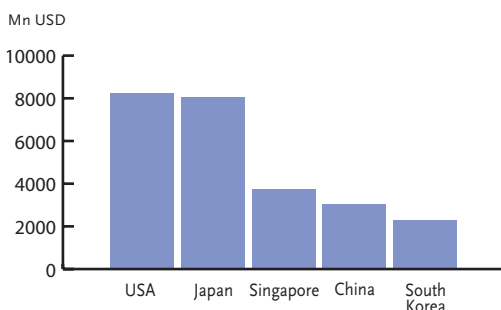
Exports: 46% of GDP

Imports: 47% of GDP

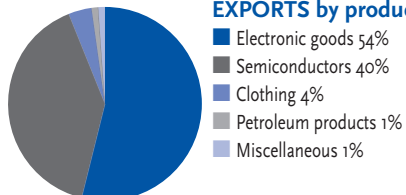
MAIN DESTINATIONS OF EXPORTS



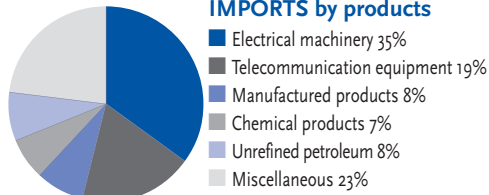
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Philippines | Regional average | DC average |
|--|-------------|------------------|------------|
| GNP per capita (PPP dollars) | 5,300 | 5,210 | 5,540 |
| GNP per capita (USD) | 1,300 | 1,597 | 2,057 |
| Human Development Index | 0.763 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 36 | 32 | 32 |
| Urban population percentage | 61 | 35 | 43 |
| Percentage under 15 years old | 36 | 28 | 29 |
| Number of computers per 1000 inhabitants | 45 | 39 | 48 |

Singapore

Population (million inhabitants) 4.4
GDP (US\$ million) 116,764

Short-term: **A1**

Medium-term:
Very low risk

Coface analysis



STRENGTHS

- Singapore has been implementing ambitious diversification strategy, focused particularly on the chemicals and pharmaceuticals sectors.
- The country's quality competitiveness has been among the highest in Asia.
- It has become a major exporter of capital in Asia, notably via the state-owned Temasek holding company.
- Political stability and an excellent business climate have benefited the economy.

WEAKNESSES

- Skilled manpower has been lacking in the sectors targeted for development.
- An ageing population could, ultimately, affect economic performance.
- Growing inequality and the emergence of long-term unemployment among the least skilled could generate social tensions.
- As the world's most open economy, it has been vulnerable to world economic downturns.

RISK ASSESSMENT

After high growth in 2006, buoyed by the dynamism of both exports and household consumption, a slowdown is expected in 2007. As a result of foreign trade's major contribution to economic growth (with goods exports representing 200 per cent of GDP), the expected demand slowdown in the United States, the country's second trading partner, would limit growth to a nonetheless satisfactory 5 per cent in 2007. That relative steadiness is attributable to the high proportion of exports going to emerging Asia (over 50 per cent) and by the diversified character of the corporate sector. The Coface payment experience should, thus, remain good. Corporate profitability continues to improve. The country also boasts the best governance in Asia, thanks to an effective legal system facilitating debt collection and to a high degree of financial transparency.

External accounts have remained substantially in surplus, thanks especially to the dynamism of the electronics and pharmaceuticals sectors and to repatriation of profits from Singaporean investments. The island's predominant role in Asia as a financial and tourist centre have also contributed to the large current account surpluses. The equilibrium in the public finances and the banking system's robustness attest to Singapore's exceptional financial soundness.

Prime Minister Lee Hsien Loong's People's Action Party won the May 2003 legislative elections by a wide margin and continues to dominate the political scene with a fragmented opposition facilitating matters. Government authorities will continue to pursue the policy of tax incentives and spending on research and development and infrastructure intended to counter the growing competition from Asian

economies with lower production costs. The objective is to strengthen the city-state's specialization, especially in financial services and

the chemicals-pharmaceuticals sector, where exports rose from 10 per cent of total sales in 1990 to 30 per cent in 2005.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|-------|-------|-------|-------|---------------------|---------------------|
| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
| Economic growth | 4.0 | 2.9 | 8.7 | 6.4 | 7.5 | 5.0 |
| Inflation (%) | -0.4 | 0.5 | 1.7 | 0.5 | 1.0 | 1.0 |
| Public sector balance (%GDP) | -1.1 | -1.6 | -1.1 | -0.3 | -0.1 | 0.3 |
| Exports | 137.7 | 158.4 | 197.3 | 232.0 | 283.6 | 302.0 |
| Imports | 120.2 | 130.3 | 166.1 | 195.4 | 246.1 | 269.0 |
| Trade balance | 17.6 | 28.1 | 31.2 | 36.6 | 37.5 | 33.0 |
| Current account balance (%GDP) | 17.2 | 28.4 | 25.1 | 27.9 | 26.8 | 22.2 |
| Foreign debt (%GDP) | 23.3 | 24.0 | 22.0 | 20.3 | 18.4 | 18.7 |
| Debt service (%Exports) | 1.9 | 1.8 | 1.5 | 1.4 | 1.2 | 1.3 |
| Foreign currency reserves (in months of imports) | 5.9 | 6.4 | 6.0 | 5.4 | 5.0 | 4.9 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

A fervent advocate of multilateral trade through international institutions (WTO) and regional bodies (ASEAN, APEC), Singapore is engaged in a series of ambitious free trade talks aimed at strengthening its links with the most vibrant markets. The city-state – a small developed economy with a population of 4.4 million – has signed nine free trade agreements, including with New Zealand in 2000; with Japan and EFTA in 2002; with the United States and Australia in 2003; with Jordan in 2004; and with India and South Korea (and Brunei, Chile and New Zealand under the Trans-Pacific agreement) in 2005. Other agreements are currently being negotiated (with around 10 countries, including Canada, Mexico, Pakistan and the Gulf states).

■ Means of entry

Singapore's exceptional openness to the outside world is one of the keys to its economic success. The country is a free port, with storage and warehousing playing a significant economic role. Regardless of the international economic situation, Singapore continues to pursue liberal trade and

investment policies, without the slightest inclination towards protectionism. Its trade policy is characterized by the near-total absence of tariff protection measures. There are no customs duties except on some alcoholic beverages. Non tariff barriers are rare.

■ Attitude towards foreign investors

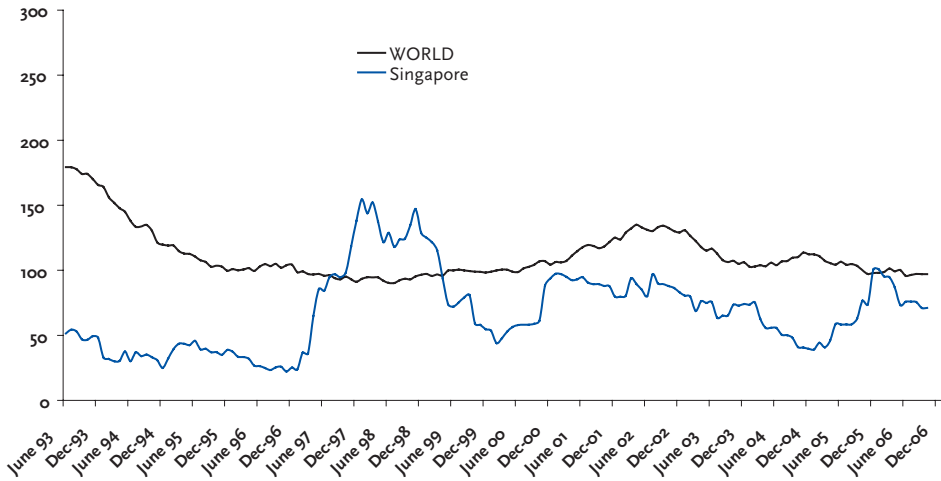
Singapore continues to keenly welcome foreign investment and offers a very open and well-planned economic and political environment. The government uses foreign direct investment to develop priority sectors (electronics, chemicals, biotechnology). The aim is to encourage the growth of high added-value activities and turn the island into a regional hub for foreign investors looking to do business in Asia. The Economic and Development Board (EDB) is a key player in the development and promotion of investment in Singapore. However, certain sectors (media, legal and financial services) are only partially open to foreign investment. The government is starting to open them up, but progress is slow. Plans to increase competition across the entire economy were given the green light in the Singapore Competition Act 2004, which partially came into force on 1 January 2005.

■ Foreign exchange regulations

The exchange rate is a key instrument of government monetary policy, which aims to maintain a flexible rate within an adjustable fluctuation band. Since April 2004, the policy of the

Monetary Authority of Singapore (MAS) is to marginally raise the Singapore dollar's exchange rate against a basket of currencies of its main trading partners, the main component of which is the US dollar.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

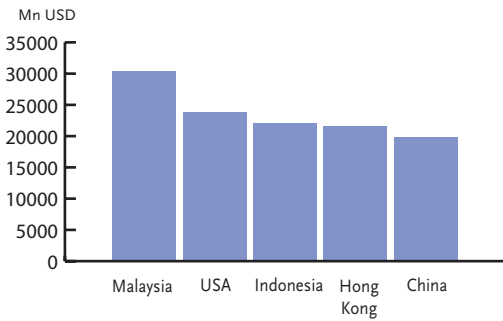
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 13 |
| Public consumption | 3 |
| Investment | 7 |

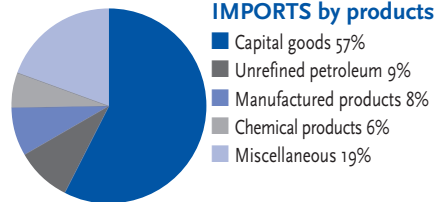
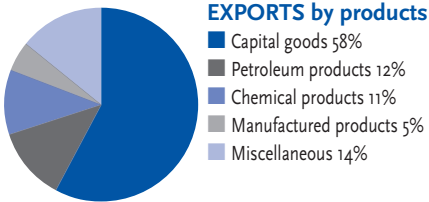
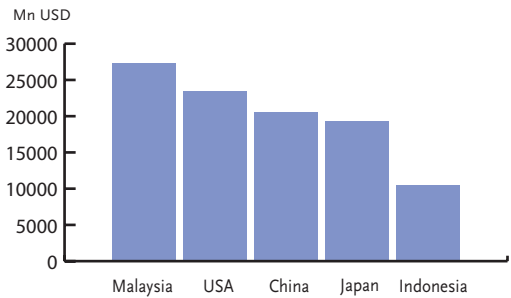
Exports: 243% of GDP

Imports: 213% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Singapore | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 29,780 | 5,210 | 5,540 |
| GNP per capita (USD) | 27,490 | 1,597 | 2,057 |
| Human Development Index | 0.916 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 33 | 32 | 32 |
| Urban population percentage | 100 | 35 | 43 |
| Percentage under 15 years old | 21 | 28 | 29 |
| Number of computers per 1000 inhabitants | 763 | 39 | 48 |

South Korea

Population (million inhabitants) 48.6
 GDP (US\$ million) 787,600

Short-term: **A2**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- South Korea benefits from a diversified industrial base competitive in new technologies and the car industry.
- Korean electronics (40 per cent of exports) has been a leader on quality.
- The country has become a major investor in Asia and, in particular, the largest one in China.
- The education system has been very effective in preparing a highly skilled working population.
- The financial system has strengthened considerably.

WEAKNESSES

- The won appreciation has been a major constraint on company performance.
- The steel and textile sectors have been suffering from Chinese competition.
- The world's fourth largest oil importer, South Korea has been very dependent on raw materials.
- Households and small companies are still carrying too much debt.
- The North Korean regime's unpredictability weighs heavy on South Korea's geopolitical environment.

RISK ASSESSMENT

The economy continues to post respectable growth, spurred mainly by dynamic exports. The expected consumption recovery has not materialized, however, with wages held down by low productivity in services (65 per cent of jobs). Corporate financial health has remained good, as evidenced by the good payment behaviour observed by Coface. Large companies have, in some cases, delocalized production to China; they have also developed technological breakthroughs with South Korea notably the leader in flash memory chips. Those development efforts have allowed them to continue to make large profits, albeit undercut by the won appreciation. Margins could shrink in the wake of the slowdown looming in the United States. Small companies focusing more on the domestic market have been the most vulnerable.

Characterized by family control and hereditary succession, chaebol governance continues to be a sizeable challenge. A government offensive has produced a wave of judicial investigations of several executive officers of those large groups. Although these developments have undermined the business climate in the near term, they augur probable improvement in governance quality, which is advanced according to available classifications. Banks have been solid and profitable, but the extent of household debt has raised fears of new difficulties should interest rates increase sharply. The country's external and sovereign financial situation is still robust.

In the political arena, the announcement of a North Korean nuclear test in October 2006 was a shock, enough to call into question the conciliatory policy toward the unpredictable neighbour and

create tensions with Washington, which has favoured tough sanctions. It was another setback for a President Roh, weakened since the Uri Party's defeat in the May 2006 local elections and lacking a parliamentary majority since the April 2005 by-

elections. He has, thus, been unable to obtain adoption of reforms intended to loosen the grip of unions and his room for manoeuvre will remain limited until the presidential elections end-2007.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|-------|-------|-------|---------------------|---------------------|---------------------|
| USD billions | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(e) | 2007 ^(f) |
| Economic growth (%) | 7.0 | 3.1 | 4.6 | 4.0 | 5.1 | 4.5 |
| Inflation (%) | 3.7 | 3.4 | 3.0 | 2.6 | 2.8 | 3.0 |
| Public sector balance (%GDP) | 0.7 | 0.2 | -0.5 | -0.6 | -1.4 | -1.0 |
| Exports | 163.4 | 197.3 | 257.7 | 289.0 | 334.0 | 378.0 |
| Imports | 148.6 | 175.3 | 220.1 | 255.5 | 309.0 | 352.0 |
| Trade balance | 14.8 | 22.0 | 37.6 | 33.5 | 25.0 | 26.0 |
| Current account balance | 5.4 | 11.9 | 28.2 | 16.6 | 3.0 | 1.0 |
| Current account balance (%GDP) | 1.0 | 2.0 | 4.1 | 2.1 | 0.3 | 0.1 |
| Foreign debt (%GDP) | 25.9 | 25.9 | 25.3 | 24.1 | 23.9 | 22.6 |
| Debt service (%Exports) | 8.7 | 8.6 | 5.7 | 5.9 | 5.7 | 6.1 |
| Foreign currency reserves (in months of imports) | 7.5 | 8.3 | 8.5 | 7.7 | 6.9 | 6.5 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

South Korea's import regime is fairly open, with most obstacles to import having been lifted in the last few years, especially since OECD membership in 1996. The weighted average rate of customs duty is 34. per cent for the primary sector and 7.1 per cent for the secondary sector. However, tariff peaks are still in force, mainly in the agricultural sector. Trade obstacles faced by foreign companies consist mainly of non-tariff barriers. These usually take the form of technical standards (as in the case of cars) or health norms. Due to the special characteristics of Korean food, food health regulations and practices in the country fail to take into account new foodstuffs on offer.

Intellectual property, especially trademarks, is better protected today as long as registration formalities are complied with. However, infringements are still widespread. The current legal system may seem satisfactory, but there are

shortcomings in the way laws are sometimes enforced.

Business relations with a Korean partner are not quite as difficult as they are made out to be. For ordinary business transactions, it is customary for the exporter, at least early on in a relationship, to ask for partial or total payment before shipment. In any case, for small buyers the irrevocable letter of credit is recommended.

■ Attitude towards foreign investors

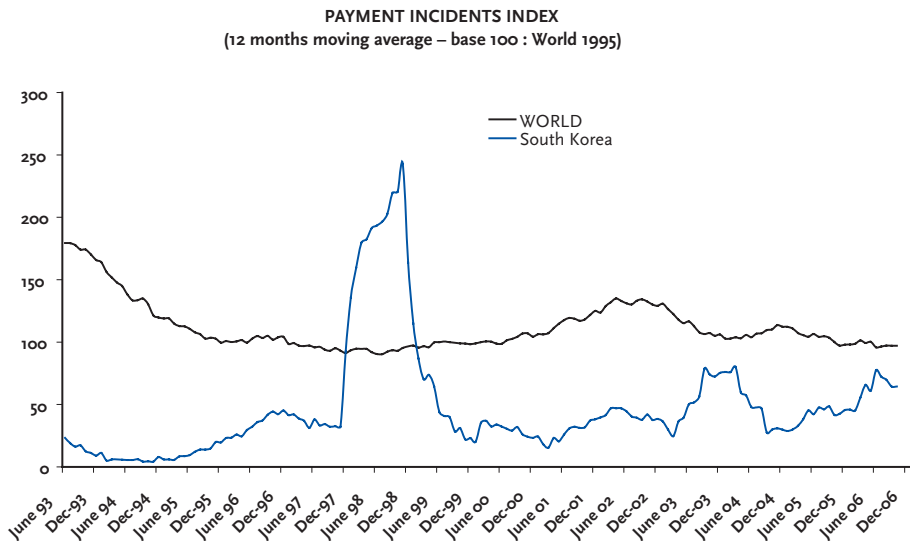
Since joining the OECD in 1996, South Korea has pursued a highly proactive FDI promotion strategy and opened up almost all sectors to foreign investment. The few restrictions that remain are often also found in the legislation of other OECD countries (utilities, defence, agriculture).

Between 1995 and 2000 foreign direct investment inflows increased eight-fold to US\$15.2 billion. As inflows have since shrunk considerably, partly due to the drying up of opportunities created by the opening of the market, President Ron Moo-hyun's government (elected in

2003) is attempting to revive South Korea's attractiveness, capitalizing on its geographical assets to turn it into a hub of north-east Asia. The measures adopted include the creation of special economic zones designed to attract foreign investment into an environment governed by special arrangements. Foreign direct investment appears to have increased since 2004, settling at around US\$12 billion a year.

■ Foreign exchange regulations

The parity of the won is determined by the currency market. Since January 2001, when exchange controls introduced in the wake of the 1997 financial crisis were abolished, the currency has been fully convertible and freely transferable. Korean residents, however, are required to declare capital exports and obtain approval for certain transactions. The foreign exchange regime will be gradually, but fully, liberalized by 2011.



OPPORTUNITY SCOPE

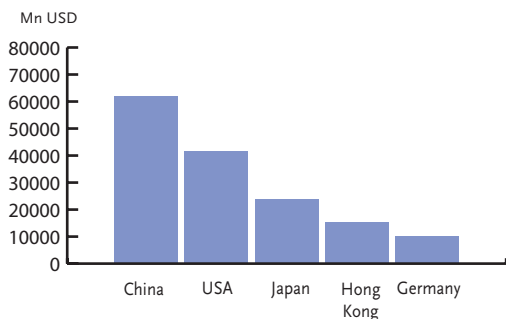
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 39 |
| Public consumption | 10 |
| Investment | 22 |

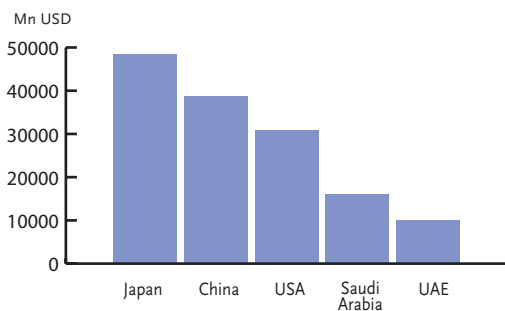
Exports: 37% of GDP

Imports: 32% of GDP

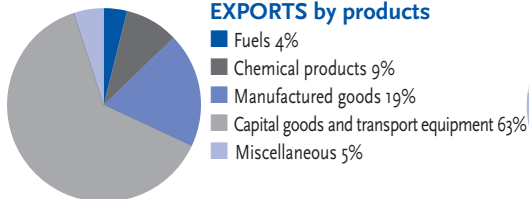
MAIN DESTINATIONS OF EXPORTS



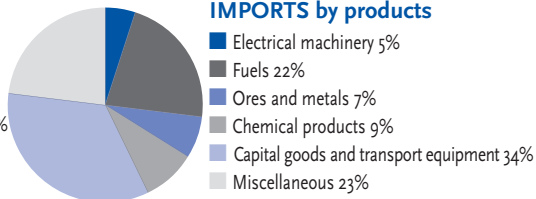
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | South Korea | Regional average | DC average |
|--|-------------|------------------|------------|
| GNP per capita (PPP dollars) | 21,850 | 5,210 | 5,540 |
| GNP per capita (USD) | 15,830 | 1,597 | 2,057 |
| Human Development Index | 0.912 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 23 | 32 | 32 |
| Urban population percentage | 80 | 35 | 43 |
| Percentage under 15 years old | 20 | 28 | 29 |
| Number of computers per 1000 inhabitants | 545 | 39 | 48 |

Sri Lanka

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 20.5 |
| GDP (US\$ million) | 23,479 |

Short-term: **B**

Medium-term:
High risk

Coface analysis



STRENGTHS

- Sri Lanka boasts Asia's best development indicators for education, literacy (exceeding 90 per cent) and life expectancy.
- The economy's industrial and agricultural sectors, including textiles, have been competitive internationally.
- Proximity to the rapidly expanding Indian market has been a major asset.
- The country has great tourist potential.

WEAKNESSES

- Near-civil war conditions should persist in Sri Lanka's north-eastern region with deep ethnic and religious divisions separating the Tamils and Sinhalese, compounded by major cleavages within those communities.
- The country's almost complete dependence on textiles has been a major weakness even if that sector has thus far withstood Chinese and Indian competition relatively well.
- The excessive debt service burden generated by very high public-sector debt has impeded necessary spending on infrastructure.

RISK ASSESSMENT

The Sri Lankan economy demonstrated exceptional resilience in 2006 in the face of rising oil prices, fierce competition in the textile sector and especially sharp deterioration of the political situation. Economic growth thus exceeded 7 per cent, driven by domestic demand, excellent agriculture performance and post-tsunami reconstruction. Services and industry posted good results while the textile sector, representing half of exports, has been coping relatively well thus far with the elimination of quotas.

That robust growth amid continuing high oil prices has been accompanied, however, by a marked widening of macroeconomic imbalances (inflation,

public and external deficits) making a slowdown unavoidable in 2007. The current account deficit would have been even higher without the sharp increase in expatriate remittances.

The troubling escalation of tensions between Tamils and Sinhalese has been clouding the outlook. A continuing climate of extreme violence and major community turmoil appears very likely with a return to peace seeming compromised by the cycle of attacks and reprisals. The sharp increase in the military budget for 2007 could particularly exacerbate an already precarious financial situation amid very high public-sector debt, representing 90 per cent of GDP and limited foreign currency reserves.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 4.0 | 6.0 | 5.4 | 6.0 | 7.1 | 5.6 |
| Inflation (%) | 9.5 | 6.3 | 7.6 | 11.6 | 12.7 | 7.1 |
| Public sector balance (%GDP) | -8.9 | -8.0 | -8.2 | -8.7 | -9.0 | -9.2 |
| Exports | 4.7 | 5.1 | 5.8 | 6.3 | 7.1 | 7.8 |
| Imports | 6.1 | 6.0 | 7.2 | 8.2 | 9.6 | 10.3 |
| Trade balance | -1.4 | -0.9 | -1.4 | -1.9 | -2.5 | -2.5 |
| Current account balance (%GDP) | -1.6 | -0.4 | -3.0 | -2.9 | -3.8 | -2.5 |
| Foreign debt (%GDP) | 57.4 | 55.9 | 54.2 | 45.4 | 46.2 | 47.2 |
| Debt service (%Exports) | 13.0 | 7.5 | 9.6 | 5.3 | 8.4 | 8.7 |
| Foreign currency reserves (in months of imports) | 2.6 | 3.1 | 2.3 | 2.8 | 2.6 | 2.5 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Having opened up some 70 per cent of its economy (and in the process increasing its exposure to international economic developments), Sri Lanka welcomes foreign investment, seeing it as a key driver of economic growth in the country's move towards much-needed modernization of its infrastructure and plant. Its legislative environment and trade practices modelled on the UK make the island a fairly free and attractive market.

Sri Lanka is ideally situated at the gateway to the Indian subcontinent, particularly since the ratification in 2000 of a free-trade agreement with India - a precursor of the Comprehensive Economic Partnership Agreement (CEPA) to be signed in 2007. It has simultaneously pursued closer regional integration, ratifying a free trade agreement with Pakistan in 2005. Under the GSP+ scheme, Sri Lanka can export duty-free almost all its products to the EU subject to compliance with certain rules of origin.

Numerous investment opportunities exist in the service sector (telecommunications, hotels, restaurants etc), which accounted for 66 per cent of approved investment in 2005, manufacturing (textiles, agri-foods, rubber) and infrastructure (ports, energy). Poor public infrastructure can, at

times, be a problem for investors, especially outside Colombo.

■ Attitude towards foreign investors

Sri Lanka is open to foreign investment for which appropriate safeguard provisions have been developed under the country's liberal regulatory framework, legislative environment and constitution. The non-discrimination principle ensures equality of treatment for domestic and foreign investors, although there is a surtax of 100 per cent on property acquisitions by non-nationals. Generally speaking, there is no local partnership requirement and only some sectors are reserved for local investors.

A founding member of MIGA, Sri Lanka provides safeguards against expropriation and non-commercial and political risk. It also has bilateral investment protection agreements with many countries, including France. These agreements offer investors protection against possible nationalization and provide for full compensation if necessary, free repatriation of profit and capital and arbitration via ICSID. The Board of Investment (BOI) is responsible for promoting and monitoring investments. It offers much-needed assistance with a whole raft of administrative formalities relating to start-up as well as numerous tax incentives. However, the present system discriminates against

SMEs and individuals by imposing an abnormally high minimum investment threshold. This discrimination becomes all the more glaring as the

government steps up support for investment in large-scale projects rather than smaller ones.

OPPORTUNITY SCOPE

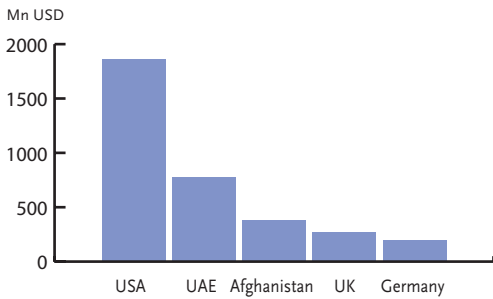
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 50 |
| Public consumption | 9 |
| Investment | 14 |

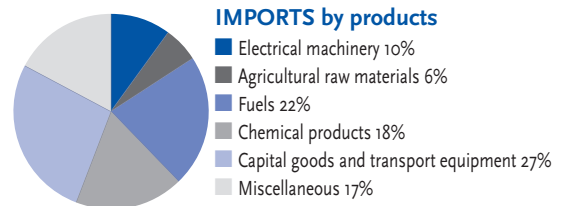
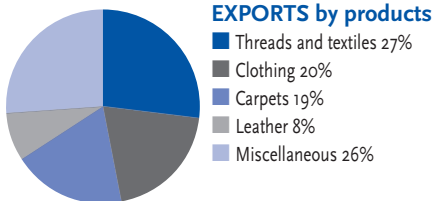
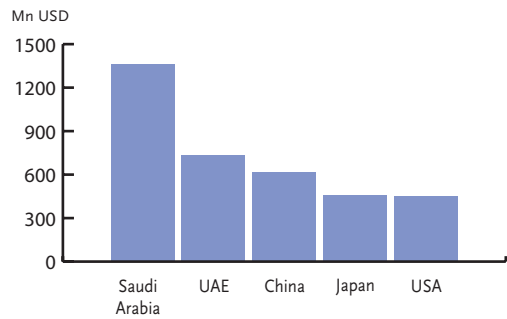
Exports: 34% of GDP

Imports: 46% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Sri Lanka | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 4,520 | 5,210 | 5,540 |
| GNP per capita (USD) | 1,160 | 1,597 | 2,057 |
| Human Development Index | 0.755 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 28 | 32 | 32 |
| Urban population percentage | 21 | 35 | 43 |
| Percentage under 15 years old | 25 | 28 | 29 |
| Number of computers per 1000 inhabitants | 27 | 39 | 48 |

Taiwan

Population (million inhabitants) 22.7
 GDP (US\$ million) 323,400



Short-term: **A1**

Medium-term:
Low risk

Coface analysis

STRENGTHS

- Taiwan is a world-leading electronics equipment manufacturer, ranked fourth in computer equipment and third in semiconductors.
- Taiwanese companies have proven flexible and innovative.
- The external financial situation has been solid and stable.
- The government continues to support research through public spending.
- A consensus exists on established democratic principles and practices.

WEAKNESSES

- Foreign trade has been too concentrated on China and the United States.
- Massive delocalization has drained industry from the island, while services have lacked competitiveness.
- Infrastructure has lagged behind the other advanced Asian economies.
- Relations with mainland China continue to be the main source of uncertainty.

RISK ASSESSMENT

Growth has stabilized with exports driving the economy. The sale of electrical and electronics equipment (representing 76 per cent of sales abroad) has been very dynamic. Domestic investment has, however, been declining. Furthermore, the United States economy has been slowing, with a large proportion of exports to China re-exported to the US market. Squeezed between sluggish domestic demand and a less-promising external market, economic growth has appeared weakened. The process of delocalizing manufacturing to mainland China has continued, with the island retaining a crucial asset in its extensive research and development activities. The 'air pocket' will probably prove to be only cyclical, pending the next wave of technological innovation.

In a less favourable context than elsewhere in Asia, the Coface payment experience has been deteriorating. With their margins shrinking for the second consecutive year, Taiwanese companies have accordingly been vulnerable to external shocks and competition from other Asian economies.

Although the island has benefited from high foreign currency reserves and maintained comfortable current account surpluses, the accumulation of fiscal deficits has resulted in the emergence of substantial public debt. Political tensions meanwhile have impeded implementation of tighter policies – notably via tax reform that is more restrictive for companies. The executive has little room for manoeuvre in promoting such policies. Despite notable progress, the banking system will have to take its restructuring efforts further.

The political situation has appeared increasingly tense. Weakened by corruption scandals, President Chen Shui-Bian's position has been precarious, with his ability to complete his term in office called into question. Beijing has looked favourably on the

ascendancy of a Guomintang opposition more open to dialogue. The current period could give rise to renewed tensions with Beijing, with a weakened president tempted to overreact and push matters to the brink on the issue of the island's independence.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 3.9 | 3.3 | 5.7 | 4.0 | 4.0 | 4.4 |
| Inflation (%) | -0.2 | -0.3 | 1.6 | 2.3 | 1.4 | 1.3 |
| Public sector balance (%GDP) | -3.5 | -3.5 | -3.3 | -3.1 | -2.9 | -2.8 |
| Exports | 129.9 | 143.4 | 173.2 | 193.1 | 213.9 | 231.4 |
| Imports | 105.7 | 118.5 | 157.0 | 175.1 | 196.8 | 214.7 |
| Trade balance | 24.2 | 24.9 | 16.2 | 18.0 | 17.1 | 16.7 |
| Current account balance | 25.6 | 29.4 | 18.6 | 16.2 | 14.4 | 16.4 |
| Current account balance (%GDP) | 8.7 | 9.8 | 5.8 | 4.7 | 4.1 | 4.2 |
| Foreign debt (%GDP) | 15.6 | 21.5 | 25.8 | 25.7 | 26.5 | 26.0 |
| Debt service (%Exports) | 2.6 | 2.7 | 3.1 | 3.5 | 3.5 | 3.5 |
| Foreign currency reserves (in months of imports) | 14.4 | 16.3 | 14.8 | 13.9 | 12.6 | 11.9 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The Taiwanese market has no major barriers to the import of foreign goods and services. For the last 10 years the Taiwanese government has focused on widening market access and harmonizing its regulations with international standards in order to pave the way for WTO accession. Its membership of the organization on 1 January 2002 is yet another of the many advantages the country offers foreign companies.

Customs duties, already low in comparison with the other countries of the region prior to WTO accession, have been further reduced. Rates for some 5000 tariff lines will be gradually cut over a 10-year period from 2002 to 2011, with the first reductions implemented from 1 January 2002. The average nominal tariff rate was cut from 8.25 per cent prior to accession to 7.2 per cent, and then to 5.67 per cent in 2005. The biggest cuts concern farm products. Their average rate of duty – lowered from 20.02 to 16.3 per cent in 2002, then to 13.46 per cent in 2005 – will eventually be brought down to 12.86 per cent. Tariffs have been eliminated for

several product families, including drugs and medical equipment, toys, furniture, agricultural machinery, construction equipment, paper and steel. Quotas are applied only to private vehicles and some farm and fishery products. Geographical restrictions are in place for over 2000 listed products from China.

Non-tariff barriers in the form of technical, environmental and safety standards (cars) remain in force on top of 23.2 per cent duty. Stringent health standards, laborious examination and inspection procedures for foodstuffs, and delays in obtaining permission for a product's release on to the market protect sectors deemed sensitive by the government (uncompetitively priced agriculture, automobile assembly, manufacture of generic drugs).

Some business practices remain deficient, especially in matters of public procurement (unfair terms, outrageous benefits for government customers), public-private partnership and intellectual property. While intellectual property has been improved since 2002, in line with the TRIPS agreements, trademark infringement persists and the process of enforcing sentences remains laborious.

The letter of credit is the most widely used means of payment in the country. To a lesser degree, bank transfers and SWIFT are also used for business settlements, however instruments other than the letter of credit should be used with caution because of the difficulties in enforcing court rulings against defaulters.

Taiwan is neither a member of ICSID, nor a signatory to its 1966 convention or to the 1958 New York convention on commercial arbitration. As a result, it applies the principle of bilateral reciprocity, especially in matters of enforcement. On investment protection issues, the island is poorly ranked on Business Monitor International's 2006 league table, with the second lowest safeguard ratio (20 per cent) among Asian countries (regional average 40 per cent), ahead only of China (4 per cent). WTO accession should contribute to the adoption of international commercial standards. The Financial Supervisory Commission (the country's stock market regulator with legislative powers) has announced the application of Basel II prudential rules to Taiwanese law within five years.

■ Attitude towards foreign investors

Foreign companies encounter few administrative obstacles to establishment. While Taiwan regularly achieves a high ranking in the global league tables measuring the ease of doing business that are prepared by the World Bank and the World Economic Forum in Davos, its position has been

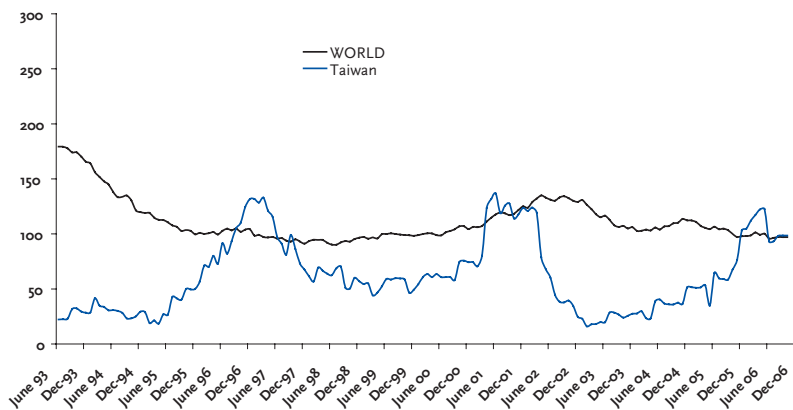
eroded in the last few years by an insufficiently modern banking and financial system.

Most of the foreign companies established on the island are engaged in a commercial activity and look to open representative offices or branches. Those involved in a heavier activity, such as manufacturing, operate via subsidiaries incorporated as capital companies having their own legal personality and commercial capacity, usually in the form of a joint venture with a local partner. Taiwan's company law contains discriminatory provisions against foreign-held subsidiaries. These can be waived, however, by obtaining foreign investment approval from the Foreign Investment Commission (FIC) under the Ministry of Economic Affairs (MOEA). Approvals are difficult, even impossible, to obtain for protected sectors such as agri-foods, chemicals, pharmaceuticals, steelmaking and most services (finance, insurance, media, post office, property, transport, leisure, utilities etc).

■ Foreign exchange regulations

In theory, the Taiwanese currency (new Taiwanese dollar) has a floating exchange rate. In practice, however, the Central Bank of China intervenes on the currency market, setting its central rate to reduce the currency's appreciation, particularly against the US dollar and the yen, so as to maintain the country's international competitiveness. Taiwan's foreign exchange regulations are fairly strict, although foreign investment approval procedures have been relaxed.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

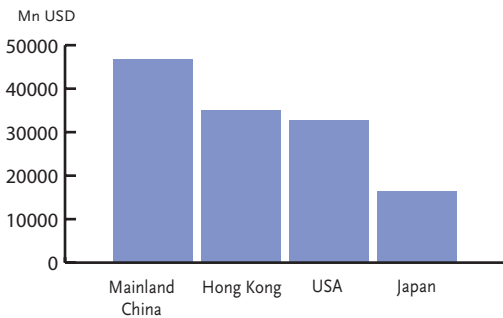
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 86 |
| Public consumption | 19 |
| Investment | 28 |

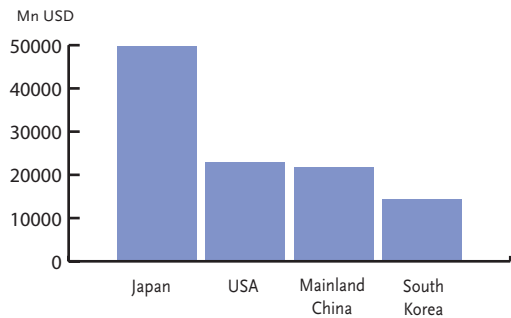
Exports: 56% of GDP

Imports: 51% of GDP

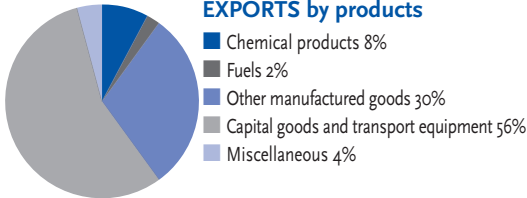
MAIN DESTINATIONS OF EXPORTS



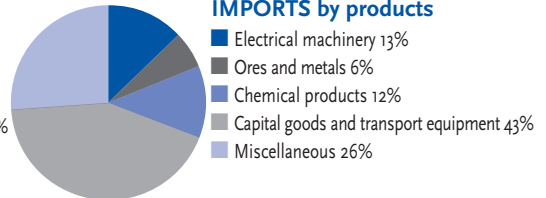
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Taiwan | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 29,320 | 5,210 | 5,540 |
| GNP per capita (USD) | 15,356 | 1,597 | 2,057 |
| Human Development Index | n/a | 0.683 | 0.669 |
| Wealthiest 10% share of national income | n/a | 32 | 32 |
| Urban population percentage | n/a | 35 | 43 |
| Percentage under 15 years old | n/a | 28 | 29 |
| Number of computers per 1000 inhabitants | 499 | 39 | 48 |

Thailand

| | |
|----------------------------------|---------|
| Population (million inhabitants) | 62.0 |
| GDP (US\$ million) | 142,953 |



Short-term: **A2**

Medium-term:
Quite low risk

Coface analysis

STRENGTHS

- The economy performed well in both agriculture (particularly rice and fish farming) and industry (food, the car industry, electronics).
- Companies have proven flexible in adjusting to demand and moving upmarket.
- Education spending in relation to GDP has been among Asia's highest.
- Corporate governance has tended to improve.
- The country has been a regional hub open to its dynamic neighbours.

WEAKNESSES

- Thailand has suffered from Chinese competition, sometimes offering the same product range in the same markets.
- Privatization has made little progress.
- Political uncertainties have impeded efforts to strengthen infrastructure.
- Persistent ties between the business and political worlds continue to mark the business climate.
- The insurrection of Muslim rebels in the south-east has been a recurring source of tensions.

RISK ASSESSMENT

The economic impact of the September 2006 coup should be limited, with growth likely to level off in 2007. While domestic demand has sagged, exports have been dynamic with growth benefiting from diversification of the corporate sector. The country's finances have remained in good shape. Public-sector debt has been declining with domestic savings providing virtually all the necessary financing. Foreign direct investment has been covering a large proportion of Thailand's limited external financing needs. Portfolio flows have been appreciable, however, making the exchange rate vulnerable to prolonged political instability.

The payment experience recorded by Coface has remained favourable. Balance sheets are often available even if the results are sometimes understated to reduce tax exposure. Company

solvency has generally continued to improve thanks to the Thai industry's gradual move upmarket and the rebound of exports to Asia and the Middle East. Companies have been assuming more debt, however, with their competitiveness still undermined by the real baht appreciation. Efforts on research and development have been relatively limited, furthermore, compared with neighbouring Asian economies.

The military takeover in September 2006 and Thaksin Shinawatra's departure have not put an end to political uncertainties. If the new calendar is respected – with elections to be held in October 2007 – the situation should stabilize. The risk is, however, that the military will seek to hold on to power. Whatever the political outcome, future government changeovers will become less predictable whereas the institutions have been seen to be solid for the past 15 years.

MAIN ECONOMIC INDICATORS

| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|-------|---------------------|---------------------|
| Economic growth (%) | 5.3 | 7.0 | 6.2 | 4.5 | 4.5 | 4.4 |
| Inflation (%) | 1.6 | 1.8 | 2.9 | 5.8 | 3.1 | 2.5 |
| Public sector balance (%GDP) | -2.5 | 0.4 | 0.1 | 0.1 | 0 | -0.6 |
| Exports | 66.1 | 78.1 | 94.9 | 109.2 | 127.2 | 139.9 |
| Imports | 57.0 | 66.9 | 84.1 | 106.0 | 114.8 | 127.4 |
| Trade balance | 9.1 | 11.2 | 10.8 | 3.2 | 12.4 | 12.5 |
| Current account balance | 7.0 | 8.0 | 6.9 | -3.7 | 4.9 | 3.8 |
| Current account balance (%GDP) | 5.5 | 5.6 | 4.2 | -2.1 | 2.4 | 1.7 |
| Foreign debt (%GDP) | 47.5 | 38.0 | 32.7 | 31.0 | 27.1 | 25.1 |
| Debt service (%Exports) | 17.3 | 9.6 | 7.6 | 5.4 | 5.2 | 4.4 |
| Foreign currency reserves (in months of imports) | 5.8 | 5.5 | 5.2 | 4.3 | 4.8 | 4.8 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

A signatory to GATT in November 1982, Thailand became a WTO member on 1 January 1995. A founding member of ASEAN in 1967, the country actively calls for the implementation of AFTA and has slashed customs duties on goods traded with its ASEAN partners. Since 2001, the focus of its trade policy is on regional, mainly bilateral, issues involving the liberalization of trade with its main partners. While it is a member of two highly active groups in the WTO (G20 and Cairns group), it tends to take a back seat in multilateral negotiations, adopting a conservative position and eschewing consolidation at WTO level of advantages, conceded by it under bilateral agreements.

Thailand has signed two significant, comprehensive free trade agreements with Australia and New Zealand. Others with Bahrain, China and India are at an 'early-harvest' stage. An agreement with Japan, although technically ready, has not yet been signed, while that under negotiation with the United States has been shelved because of a number of outstanding sensitive issues. The trade policy orientations of the new Thai government formed after the coup d'état are not yet known. The EU is likely to start talks in 2007 on a free trade framework agreement with ASEAN countries.

Means of entry

Thailand has gradually reduced import quotas in accordance with its WTO commitments, replacing them with tariff quotas and fairly high customs duties. The average rate of customs duty is 12.5 per cent for industrial goods and 29.3 per cent for foodstuffs, with tariff peaks for leading French exports, such as consumer goods (foodstuffs, toiletries, cosmetics and cars).

Market access in many sectors is difficult and fairly restricted via high customs and excise duties (176 per cent for wines) as well as technical, regulatory and administrative non-tariff barriers (customs valuations, benchmark pricing, mandatory import licences for foodstuffs, cosmetics and drugs, sector restrictions for foreigners, limited protection of confidential data for pharmaceuticals).

Attitude towards foreign investors

For some 15 years, Thai economic growth has been driven by exports and foreign direct investment. Thailand's comparative and multiple assets continue to attract investors: exceptional geographical situation, political and social stability (the recent coup d'état notwithstanding), promising and diversified industrial base, high-quality

infrastructure, good transport links and upgraded legal environment. Having long capitalized on the low cost of Thai labour as the main comparative advantage, the government is now looking to attract high added-value activities and companies offering transfers of technology and know-how in an effort to meet the challenge posed by the Thai economy's rise in the value chain and the country's emergence as an economic power.

Using a combination of tax incentives (corporation tax exemption, duty-free admission of commodities and imported machinery) and fast-track procedures (visas, work permits, property acquisition), in late 2005 the Board of Investment (BOI) adopted a proactive policy to attract foreign investment in six sectors: agriculture and foodstuffs, cars, fashion, electricity production and electronics, alternative energies and high added-value services.

The foreign investment regime (Foreign Business Act of 4 March 2000) nevertheless retains numerous restrictions aimed at preserving national interests via restrictions on foreign shareholdings in strategic sectors, and distinguishes three business categories according to level of foreign shareholding: activities from which foreigners are banned (rice farming, fishing); activities closed to foreigners on grounds of national security or cultural identity (arms trade, Thai handicrafts); and

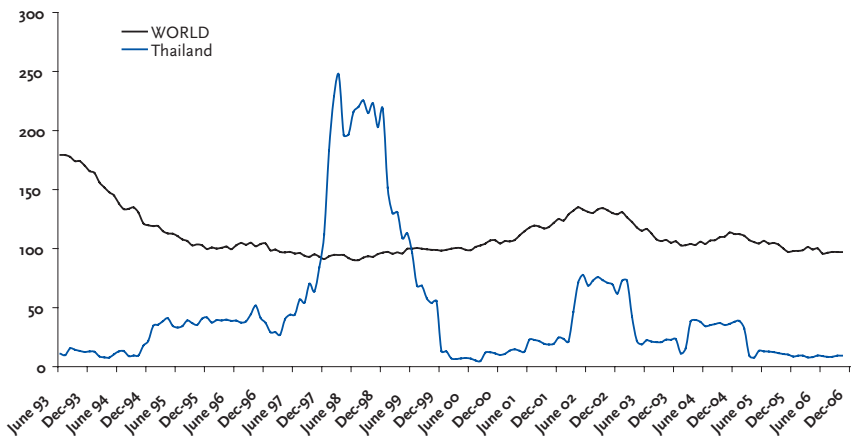
activities closed to foreign capital as Thailand does not consider itself ready to take on foreign competition (legal consulting, accounting, advertising). Foreigners can, however, obtain permission to engage in activities belonging to categories two and three.

Although Thailand has signed bilateral investment protection agreements – some a long time ago – with its main trading partners, its legislation requires foreign investors seeking protection under a bilateral agreement to apply to an ad hoc committee, which issues authorizations on a case-by-case basis. This requirement, in conjunction with the non-recognition of international arbitration clauses in government contracts, has deadlocked talks with some European countries, including France.

■ Foreign exchange regulations

From the onset of the Asian crisis on 2 July 1997, the baht has been floating against the dollar. Anxious to maintain the local currency's stability, the central bank only intervenes on an ad hoc basis to cushion sharp fluctuations, and limit off-shore transactions, of the baht. Thai legislation does not restrict foreign currency transactions associated with the trading of goods and services. On the other hand, it retains restrictions designed to prevent purely speculative movements.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



OPPORTUNITY SCOPE

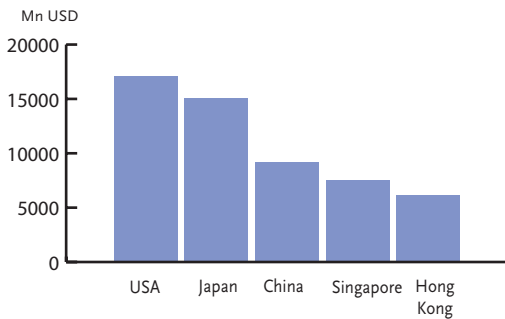
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 35 |
| Public consumption | 7 |
| Investment | 15 |

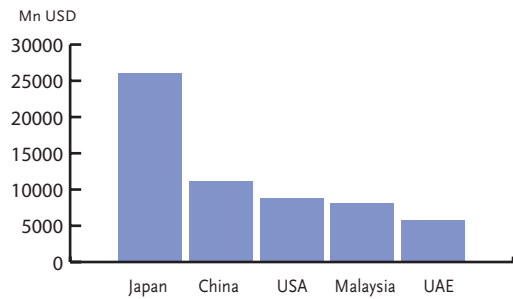
Exports: 74% of GDP

Imports: 76% of GDP

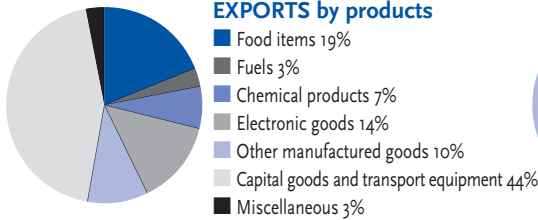
MAIN DESTINATIONS OF EXPORTS



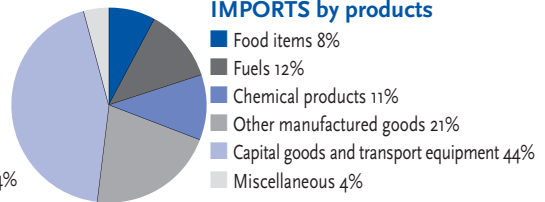
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Thailand | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 8,440 | 5,210 | 5,540 |
| GNP per capita (USD) | 2,750 | 1,597 | 2,057 |
| Human Development Index | 0.784 | 0.683 | 0.669 |
| Wealthiest 10% share of national income | 34 | 32 | 32 |
| Urban population percentage | 32 | 35 | 43 |
| Percentage under 15 years old | 25 | 28 | 29 |
| Number of computers per 1000 inhabitants | 58 | 39 | 48 |

Vietnam

Population (million inhabitants) 83.5
GDP (US\$ million) 52,408



Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis

STRENGTHS

- Vietnam is endowed with solid agricultural potential and extensive natural resources.
- The economy benefits from quality low-cost manpower, attractive to foreign investors.
- The development strategy adopted, based on economic liberalization and a move upmarket, appears to be paying off.
- Vietnam's ASEAN membership and admission to the UN attest to its good diplomatic and economic relations with its main partners.

WEAKNESSES

- The country's specialization is still too focused on price competitiveness and low-end products.
- The administrative and legal environment continues to lag far behind the major Asian economies.
- Banking system reform has not gone far enough with the volume of non-performing loans a vulnerability for public-sector finances.
- Social and geographic disparities have been widening, particularly between urban and rural areas.
- In per capita income terms Vietnam is one of Asia's poorest countries.

RISK ASSESSMENT

Growth has remained dynamic, underpinned by trade liberalization strategy, economic diversification and a high investment rate (second in Asia after China). That rapid growth has not been under control, however, with the dynamic credit expansion posing a risk of economic overheating. In these dynamic economic conditions, the Coface payment experience has been good. Despite progress on transparency, very poor governance quality is still Vietnam's Achilles heel. Although a third of Vietnamese companies publish financial statements, they are not always reliable. The legal and regulatory system is still deficient and hardly capable of settling economic

disputes. Corruption, in particular, is still very widespread.

External accounts have strengthened. Foreign direct investment inflows, attracted by low-cost labour and Vietnam's admission to the WTO, have covered its limited financing needs. Although foreign debt has been modest, exchange rate risk bears watching in view of the country's limited foreign currency reserves. Fiscal policy has, moreover, lacked transparency. The cost of banking reform will exacerbate public-sector debt, especially with the already-large volume of non-performing loans likely to grow with credit still expanding too rapidly.

The political situation has been very stable. Although the Community Party continues to

dominate Vietnam's institutions, it has supported economic liberalization policy. The new government team, named in early 2006, has demonstrated its

commitment to undertaking major reforms and combating corruption.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|------|------|------|------|---------------------|---------------------|
| USD billions | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
| Economic growth (%) | 7.1 | 7.3 | 7.8 | 8.4 | 7.8 | 7.6 |
| Inflation (%) | 4.0 | 2.9 | 9.7 | 8.8 | 7.7 | 6.5 |
| Public sector balance (%GDP) | -4.7 | -6.4 | -2.8 | -5.9 | -6.3 | -5.5 |
| Exports | 16.7 | 20.1 | 26.5 | 32.4 | 39.0 | 45.1 |
| Imports | 17.8 | 22.7 | 28.8 | 33.3 | 39.3 | 46.3 |
| Trade balance | -1.1 | -2.6 | -2.3 | -0.8 | -0.3 | -1.2 |
| Current account balance | -0.7 | -1.9 | -1.6 | 0.2 | 0.2 | -0.5 |
| Current account balance (%GDP) | -1.9 | -4.9 | -3.4 | 0.4 | 0.3 | -0.7 |
| Foreign debt (%GDP) | 35.0 | 33.9 | 33.9 | 32.6 | 32.6 | 32.2 |
| Debt service (%Exports) | 7.4 | 7.0 | 5.5 | 5.0 | 5.2 | 5.4 |
| Foreign currency reserves (in months of imports) | 2.0 | 2.4 | 2.2 | 2.6 | 2.9 | 3.3 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

There is no doubt that Vietnam has been striving for several years to liberalize trade. The first stage of this process consisted in membership of AFTA in 1995 as part of the country's regional commitments to ASEAN. Since 1 January 2006, it has been fully integrated into AFTA. Henceforth, 95 per cent of tariff lines for Asean products will be liable to 0–5 per cent customs duty.

WTO accession in November 2006 will also substantially open up market access. Vietnam is committed to cutting customs duty to below 15 per cent on 75 per cent of its tariff lines for industrial goods. Tariff peaks (over 25 per cent) will apply to only 7 per cent of tariff lines. At the end of a maximum 12-year period, average customs duty on industrial goods will be 12.4 per cent. Average duty for agricultural products will be lowered from its current level of 27 per cent to 21 per cent. Vietnam has agreed to lift all quantitative restrictions and to suspend export subsidies for agricultural products on the date of accession.

Market access in the service sector has been opened up considerably. In general, wholly foreign-owned companies are to have unrestricted access to all sectors (except those considered sensitive) at the end of a phasing-in period.

■ Attitude towards foreign investors

Foreign investment in 2006 is expected to beat a record US\$6.5 billion (up more than 40 per cent on 2005), demonstrating increasing investor confidence in the Vietnamese economy. The bulk of the investment comes from Asian investors (67 per cent), with France remaining the leading Western investor (US\$2.2 billion at 1 January 2005).

The country's basic law sets out highly investment-friendly principles. The 1992 amended constitution encourages private investment and recognizes free enterprise as private ownership of the means of production, other than land and mineral resources. The passing of a single investment act, based on the principle of non-discrimination between Vietnamese and foreign investors, was a precondition for WTO accession. The only requirement placed by this law on

investments below US\$18.7 million is that they be declared to the competent regional authority or, in the case of industrial areas, the management firm. Projects above US\$18.7 million, or those in a conditional sector, are subject to an assessment process.

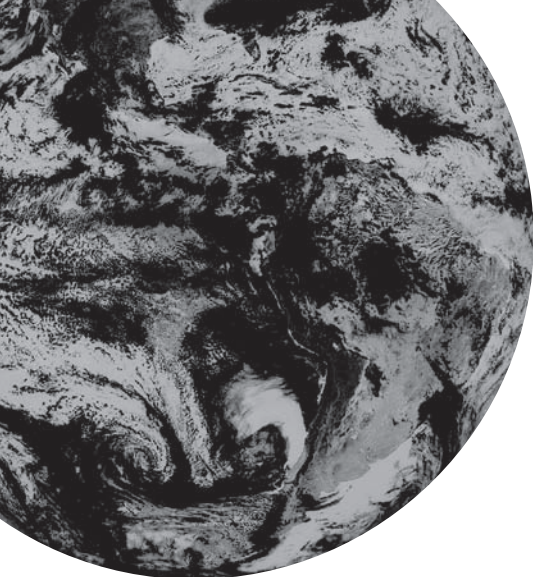
An enforcement decree for the investment law was passed only recently (22 September 2006), although it will not be supplemented by enforcement circulars. The law's application will therefore need to be closely monitored, especially outside major industrial centres.

As for the settlement of disputes, in addition to questions of due process and jurisdiction, there is no guarantee that court decisions will be properly

enforced. National arbitration remains extremely limited and recourse to international arbitration is making little headway.

■ **Foreign exchange regulations**

The currency regime is based on a fluctuation band with a dollar peg. However, the Bank of Vietnam intervenes on the currency market to limit the dong's average annual depreciation to 1 per cent or 1.5 per cent. Vietnam completely liberalized its current account transactions on 5 January 2006, retroactive to 8 November 2005 and accepts IMF's article VIII (lifting of restrictions on international currency transactions and transfers).



The Middle East and North Africa

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The Middle East and North Africa

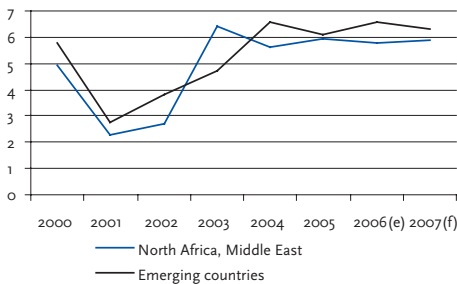
Sylvia Greisman and Catherine Monteil

Country Risk and Economic Studies Department, Coface

■ Continued buoyant growth driven by petrodollars

► The buoyant growth in a geographic region representing 11 per cent of emerging-country GDP reflects the dynamism of oil-producing countries that are profiting from the high barrel prices and generating 73 per cent of regional GDP. The oil windfall has not only spurred domestic investment contributing to non-oil sector development, but has also benefited most regional countries via investments or emigrant worker remittances. The regional economy is heading into 2007 with good momentum based on that dynamic; the many major infrastructure, industrial and property projects underway; and a reasonable hypothesis of continued high oil prices.

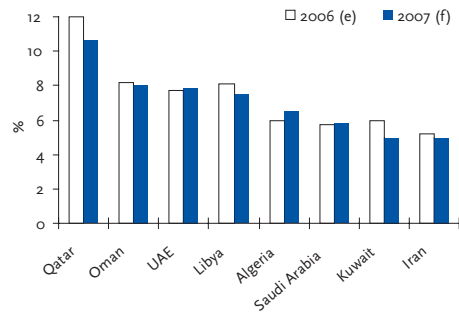
GDP growth close to the emerging country average



► **Oil countries continue to enjoy high growth rates despite the slowdown that began to develop in the hydrocarbon sector in 2006 amid slackening external demand.** The abundant oil revenues have fostered expansionary fiscal policies of varying degrees that are intended to support

household consumption, develop infrastructures and contribute to economic diversification.

GDP growth for oil-exporting countries (%)



The **Gulf monarchies** have initiated a dynamic that should continue to provide them with high growth – between 5 and 10 per cent – in 2007. Besides developing oil and gas downstream industries, they have been diversifying their economies, particularly in services (tourism, finance, health, education) much like the **United Arab Emirates** has done. The monarchies that have the least oil wealth but are more open to foreign investment – namely **Dubai, Bahrain** and **Oman** – have made the most progress on that score. **Qatar**, meanwhile, holds the world record for per-capita income and boasts the region’s highest growth rates. This small country’s enormous oil and, especially, gas potential should ensure its prosperity for many years to come. **Saudi Arabia**, the region’s leading economy generating 22 per cent of regional GDP, ahead of **Iran** with 16 per cent, has been gradually opening up to foreign investment. Its economy remains buoyant, spurred by petro-

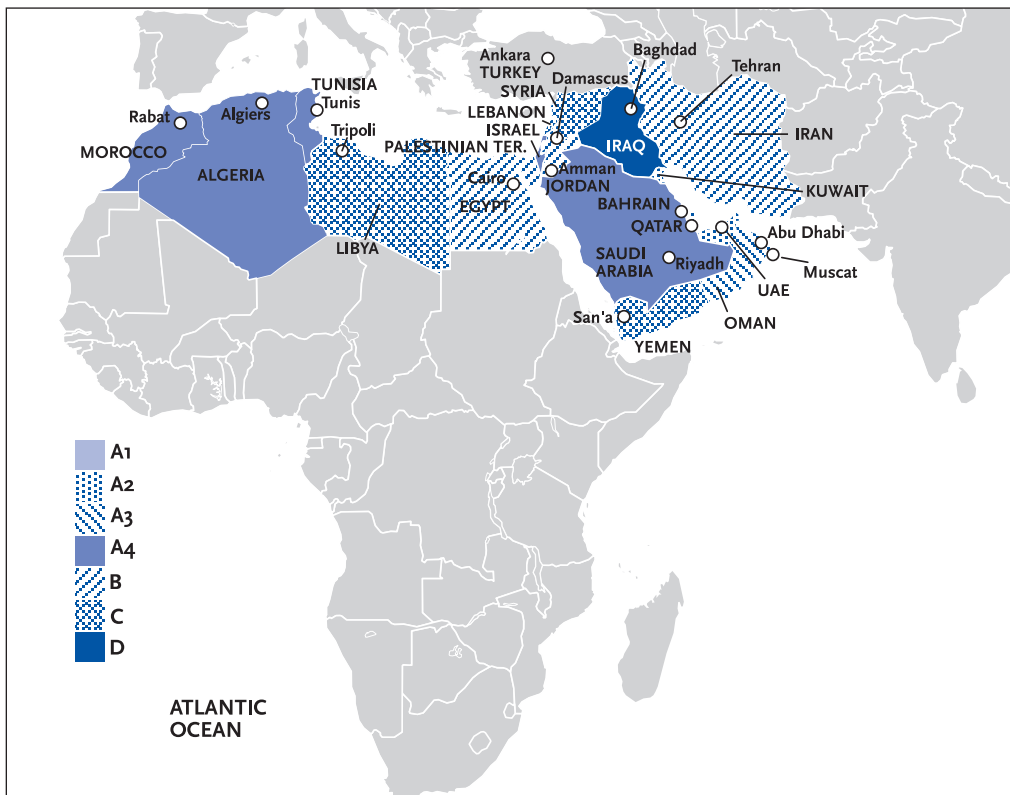
chemical development and a construction boom. Although **Kuwait**, on the contrary, is still not very diversified, it has accumulated considerable income-producing financial assets that would provide a cushion should barrel prices decline. In that favourable environment, the stock market corrections in 2006 have had little impact on growth and the cleaning up of those markets should restore investor confidence. The rapid regional growth has, however, put pressure on prices in some cases, notably on construction materials and rent, particularly in Qatar and the Federation of the United Arab Emirates.

Among the **region's other oil economies**, **Algeria** paid off its public foreign debt ahead of schedule in 2006 and has implemented a far-reaching public investment programme that should drive its economy for the next few years. The country has, moreover, undertaken necessary

reforms, particularly in the financial sector, to facilitate private investment. In **Iran**, although radically expansionary fiscal policy has spurred domestic consumption, it has kept inflation high and increased the economy's vulnerability to a decline in barrel prices. Political uncertainties linked to the nuclear issue should continue to affect investment. **Libya** has also been stimulating its economy through public spending, while counting on foreign investment to develop an oil sector that has suffered from years of embargo.

► **Non-oil and low-producing Near and Middle Eastern countries** have generally benefited from the regional dynamic as well as petrodollars via **Gulf country investments and remittances from emigrant workers in those monarchies**. That has notably been the case for Egypt, Jordan, Syria and Yemen.

COFACE MAP OF COUNTRY @RATINGS

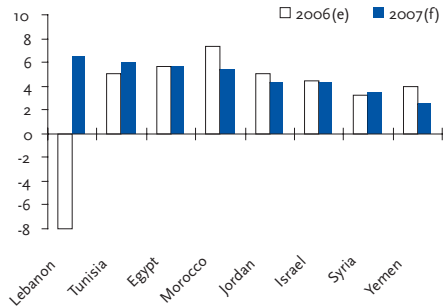


THE MIDDLE EAST AND NORTH AFRICA

In **Egypt**, reforms implemented since 2004 have restored consumer and investor confidence, with the outlook for 2007 remaining bright. Despite the terrorist attacks, tourism has been holding up well and the privatization programme should continue to attract foreign investment. **Jordan** has benefited from its role as rear base to Iraq and from the influx of regional capital. Although business has been expanding in most economic sectors, tighter fiscal policy could affect household consumption. The economies of **Syria** and **Yemen** (the region's poorest country) have been the worst performers in the region and the decline of oil production should continue to undermine growth in 2007. In **Lebanon**, in the wake of the summer-2006 war, political instability could affect depositor, investor and tourist confidence and undermine the strength of the recovery. The **Israeli** economy should grow at a rate comparable to that of 2006, buoyed by public spending and investments, but remain

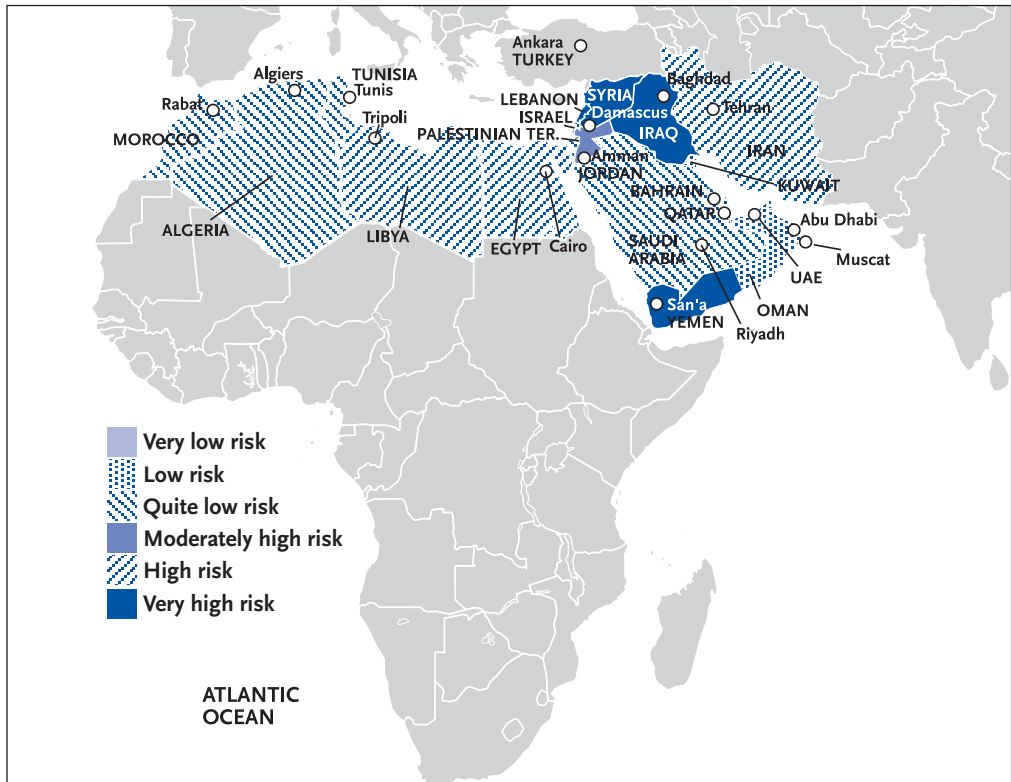
sensitive to economic conditions in the United States.

GDP growth of non oil-exporting countries (%)



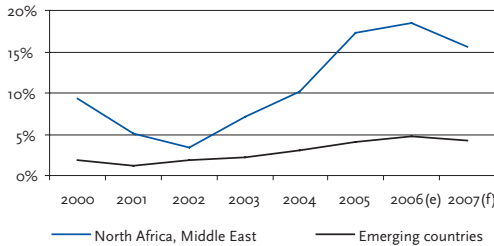
Morocco and **Tunisia** should continue to enjoy strong growth, thanks to dynamic infrastructure and productive-sector investments fostering gradual diversification of the industrial fabric beyond textiles. Good tourism-sector performance and the exceptional services boom will also contribute to growth.

COFACE MAP OF MEDIUM- AND LONG-TERM COUNTRY RISK



■ **A comfortable external situation that nonetheless masks disparities between oil and non-oil countries**

Very satisfactory current account surplus (% GDP)



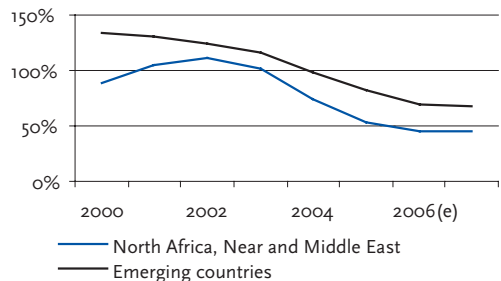
► **The wealthiest oil countries should continue to run external account surpluses in 2007, mostly between 20 and 40 per cent of GDP, although down slightly from 2006.** Assuming high oil prices will continue, trade balances will remain largely in surplus despite the slowdown of external demand for oil that emerged in 2006 and the import growth accompanying the economic boom. Those countries have been consolidating their financial situation and accumulating considerable assets abroad, which would allow them to cope more effectively with a possible market downturn. That applies to the Gulf countries, particularly **Saudi Arabia**, **Abu Dhabi** and **Kuwait**. **Algeria**, meanwhile, holds substantial official foreign currency reserves that have made it less vulnerable to a decline in barrel prices. **Iran**, conversely, has been running much smaller surpluses – under 10 per cent of GDP – with its production and refining capacity affected by years of embargo. Its foreign currency reserves are at comfortable levels, although relatively modest compared with the other regional oil countries.

► **The external account situation of non-oil or small-producing countries has been more modest, but their external financing needs should remain covered by foreign investment, the influx of capital and, for some of those countries, grants.** In 2007, only **Israel** and **Egypt** may be able to run surpluses (5.4 per cent and 0.6 per cent respectively). Israel’s service exports have remained dynamic, particularly to the United States and Europe. In **Egypt**, traditional sources of foreign

currency earnings have remained buoyant – oil/gas, Suez Canal, tourism, emigrant worker remittances – but strong import growth should undermine the end result. Small oil exporters **Syria** and **Yemen** should keep the deterioration of their current account deficits under control, thanks to the high barrel prices and emigrant worker remittances. **Jordan** and **Lebanon** should continue to run large deficits, remaining very dependent on their imports. In **Jordan’s** case, the increase in the oil bill and decline in international aid have exacerbated financial imbalances and made the country more dependent on volatile capital; in **Lebanon**, an increase in imports has accompanied reconstruction efforts. Its financial solidity will remain vulnerable to a loss of depositor and investor confidence – a high risk amid the political instability.

With a worsening trade balance linked to oil imports, despite buoyant exports to Europe, North African non-oil countries have been able to offset that imbalance with tourism revenues and expatriate remittances. **Tunisia’s** current account deficit should remain limited while **Morocco** should continue to run current account surpluses.

External debt ratios below emerging country average (external debt/exports of goods and services in %)



► **Oil countries in general have limited foreign debt** with ratios of debt to goods and services exports between 20 and 30 per cent. **Algeria’s** ratio has been below 10 per cent since early repayment of its public foreign debt in 2006. **Qatar** conversely has the region’s highest ratio – 65 per cent – as a result of the loans set up to finance development of its gas fields. Its debt service ratio has, however, remained at a modest 10 per cent of foreign currency earnings.

► Although most other countries have high foreign debt, Lebanon holds the record with a ratio of debt to goods and services exports that could reach 280 per cent in 2007. The resulting debt service, with a ratio exceeding 40 per cent of foreign currency earnings, will be a difficult burden to bear. Although Israel – on a par with Tunisia – has relatively high foreign debt, representing about 100 per cent of foreign currency earnings, debt service has remained manageable. Morocco, meanwhile, has pursued active management policy and reduced its foreign debt ratio to below 50 per cent of goods and services exports. Along with Egypt, Jordan, Syria and Yemen, Morocco has benefited from rescheduling that has reduced debt service for all five countries and pushed their debt ratios below 10 per cent of goods and services exports.

■ Geopolitical uncertainties with no improvement in sight for 2007

► Despite their magnitude, the geopolitical uncertainties have thus far had limited impact on the regional boom. They have, on the contrary, spurred the increase in oil prices benefiting most countries in the geographic region. The factors of instability have not disappeared and should continue to keep prices high in 2007.

► The Israeli-Palestinian conflict is still the focal point of regional tensions, with resumption of peace negotiations hardly the most likely scenario. The Israeli-Lebanese war in summer 2006 left in its wake a political crisis in Lebanon that could have short-term effects on the strength of its economic recovery in 2007. New outbreaks of hostilities between Israel and Hezbollah will remain possible. Although Iran's support for the Hezbollah has enhanced its regional influence, the risk of sanctions over the nuclear issue will, doubtless, affect investments. In Iraq, the situation has been degenerating into civil war and prospects for a return to civil peace any time soon seem poor. The risk of partition overhanging the country cannot be ignored and constitutes a major factor of regional instability.

► The social climate has, generally, been shaky. The governments of most regional countries, with the notable exception of Iran and Syria, have

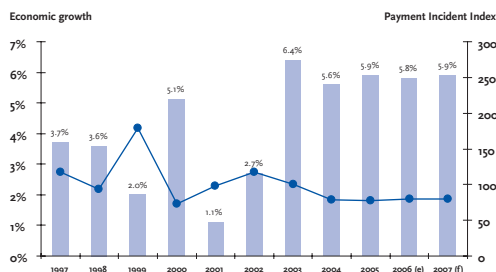
maintained more or less close relations with Washington. This has put them at cross purposes with their own people who, contrarily, harbour anti-American and anti-Israeli sentiment, exacerbated by the situation in Iraq and the Israeli-Palestinian and Israeli-Lebanese conflicts. That situation has contributed to the ascendancy of Islamist opposition, with oil wealth redistribution via subsidies, wage increases, infrastructure improvement and social services helping to keep the tensions under control. That has been the case in the wealthiest oil countries. Elsewhere in the region, social peace has been maintained by slowing the pace of economic structural reforms (Egypt, Algeria, Libya, Jordan, Yemen, Lebanon) – a process likely to continue in 2007.

In Morocco and Tunisia, where political stability has, on the contrary, facilitated a speed-up of reforms, the political consequences of deterioration of the social climate has, nonetheless, also constituted the main risk.

■ The solvency of regional companies has been good with limited non-payment risk

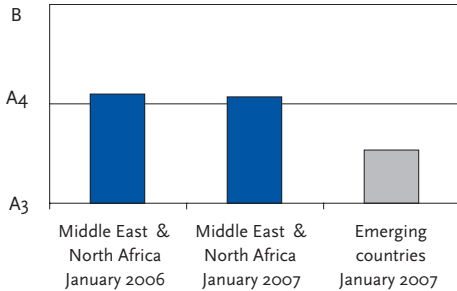
► The Coface payment incident index for regional companies is below the world average. The economic environment has remained buoyant for companies, which have benefited from a very liquid market, relatively low interest rates and a climate of opportunity. That has been especially the case in the Gulf monarchies. Payment experience in Israel has also been excellent. In Egypt, performance has considerably improved on payments since the liquidity crisis and pound devaluations between 2000 and 2003. In Algeria, Tunisia and Morocco, payment delays have been a tradition, with defaults nonetheless the exception.

Economic growth and credit risk



In many regional countries, however, governance weaknesses and legislation affording little protection to creditors have marked the business climate. The lack or opacity of financial data has, moreover, constituted a supplementary risk in many cases.

■ **Regional @rating trend**



➤ The regional risk level is above the emerging country average. Regional geopolitical instability

has particularly affected the ratings for **Saudi Arabia, Iran, Israel, Egypt, Syria** and **Yemen**. Governance weaknesses compound those risks to varying degrees in **Libya, Yemen, Syria, Saudi Arabia, Egypt** and **Algeria**.

The A4 ratings of **Morocco** and **Tunisia** have acquired positive watchlist status, reflecting the dynamism of their economies enhanced by sustained policies of implementing structural reforms and diversifying the productive fabric.

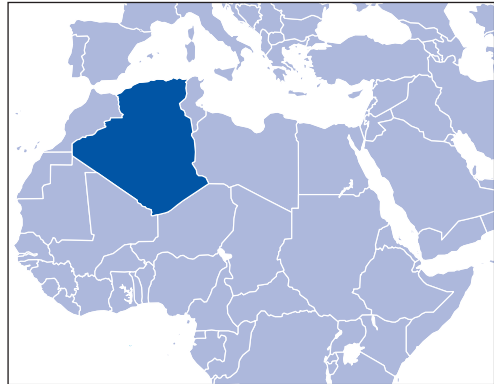
Jordan's B rating, conversely, has acquired negative watchlist status amid deterioration of external and fiscal accounts and increased vulnerability to volatile capital flight. **Lebanon's** C rating has also been negative watchlisted, with deterioration of the political climate apt to jeopardize economic recovery in the near term.

RATINGS OF THE MAIN REGIONAL ECONOMIES

| | January 2002 | January 2003 | January 2004 | January 2005 | January 2006 | January 2007 |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| UAE | A2 | A2 | A2 | A2 | A2 | A2 |
| Kuweit | A2 | A2 | A2 | A2 | A2 | A2 |
| Qatar | A2 | A2 | A2 | A2 | A2 | A2 |
| Bahrein | A2↘ | A2↘ | A3 | A3 | A3 | A3 |
| Oman | A2↘ | A2 | A2 | A3 | A3 | A3 |
| Saudi Arabia | A4 | A4 | A4 | A4 | A4 | A4 |
| Iran | C | C | C | B | B | B |
| Libya | C | C | C | C | C | C |
| Iraq | - | D | D | D | D | D |
| Israel | A3↘ | A4 | A4↘ | A4 | A4 | A4 |
| Egypt | B | B | B↘ | B | B | B |
| Jordan | B | B | B | B | B | B↘ |
| Lebanon | C | C | C | C | C | C↘ |
| Syria | C | C | C | C | C | C |
| Yemen | C | C | C | C | C | C |
| Algeria | B | B | B↗ | B↗ | A4 | A4 |
| Morocco | A4 | A4 | A4 | A4 | A4 | A4↗ |
| Tunisia | A4↘ | A4↘ | A4 | A4 | A4 | A4↗ |

Algeria

Population (million inhabitants) 32.9
GDP (US\$ million) 102,257



Short-term: **A4**

Medium-term:
Quite low risk

Coface analysis

STRENGTHS

- The country boasts great natural wealth (oil, gas).
- Europe has provided Algeria with a sure market for its oil and gas.
- The oil stabilization fund intended to allow the country to weather an economic downturn could also contribute to financing the Growth Consolidation Plan.
- The country has initiated a process of reforming and liberalizing its economy.
- Early repayment of Paris Club rescheduled debt has made the economy less vulnerable to a possible decline in oil revenues.

WEAKNESSES

- The economy continues to depend on the hydrocarbon sector.
- Budgetary spending has remained inelastic due to the financial burden of unprofitable state-owned companies with bloated payrolls.
- The high unemployment rate, although declining, has been a source of social tensions, hampering implementation of some reforms.
- Deficient infrastructure, red tape and deficiencies in the banking system, despite the reforms underway, have deterred investment.

RISK ASSESSMENT

Increased oil and gas production capacity and the high hydrocarbon prices have generated solid external and fiscal surpluses. The oil windfall has made it possible to finance a broad growth-support programme through public spending and to speed up the pace of foreign debt reduction while building up foreign currency reserves. Unemployment has been declining, with inflation remaining under control. In this generally positive context, payment behaviour has been satisfactory.

The growth trend for 2007 remains buoyant amid further increases in gas production and the dynamism of the non-oil sector, which should benefit from an expanded public investment

programme, robust household consumption spurred by civil service wage hikes, and increased spending by an emerging middle class.

The economy will, nonetheless, long remain dependent on the energy sector. An archaic banking system, inadequate skills levels and a deficient civil service continue to impede the emergence of a dynamic private sector. Government authorities have undertaken reforms and enjoy substantial leeway to implement them thanks to greater political stability and unprecedented financial ease. The process will, nonetheless, take time considering the many factors that could durably block their implementation.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 4.1 | 6.9 | 5.2 | 5.5 | 6.0 | 6.5 |
| Inflation (%) | 1.4 | 2.6 | 3.6 | 1.9 | 3.0 | 3.3 |
| Public sector balance (%GDP) | 0.2 | 7.8 | 6.9 | 8.5 | 10.0 | 8.0 |
| Exports | 18.7 | 24.5 | 33.2 | 46.4 | 57.9 | 61.7 |
| Imports | 12.0 | 13.3 | 18.0 | 19.6 | 25.6 | 33.3 |
| Trade balance | 6.7 | 11.1 | 15.2 | 26.8 | 32.3 | 28.4 |
| Current account balance | 2.5 | 8.0 | 10.9 | 21.2 | 28.1 | 22.7 |
| Current account balance (%GDP) | 4.4 | 12.1 | 14.0 | 23.7 | 27.9 | 21.6 |
| Foreign debt (%GDP) | 40.5 | 35.3 | 28.1 | 20.1 | 6.3 | 6.5 |
| Debt service (%Exports) | 20.7 | 16.3 | 15.8 | 11.2 | 17.5 | 2.3 |
| Foreign currency reserves (in months of imports) | 14.4 | 19.2 | 19.1 | 21.3 | 23.2 | 23.9 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

The association agreement between Algeria and the EU, in force since 1 September 2005, provides for the immediate or gradual dismantling of tariff barriers for industrial products grouped under three lists. The agreement abolishes duties on certain intermediate goods and raw materials. It also phases out duties on some finished goods over a five-year period with effect from 1 September 2007. Finally, it provides for the dismantling of customs duties on other finished goods, in particular those currently taxed at 30 per cent, over a 10-year period commencing on the same date.

Protocols between Algeria and the EU are in place for the gradual liberalization of bilateral trade in agricultural products and foodstuffs. From 1 September 2005, annual tariff quotas are applicable to certain processed farm products on a 'first-come first-served' basis. Provisional additional duty (DAP), introduced in 2001, was abolished at the end of December 2005. France remains Algeria's largest supplier (25 per cent market share), with the EU accounting for more than 58 per cent of the country's imports.

The low capitalization of many recently established Algerian companies and the lack of transparency of their balance sheets hamper the work of the few audit firms in the marketplace. The

most widely recommended means of payment is the documentary credit, failing which the documentary bill if the business relationship is sound and dependable. People doing business with Algeria should check the reputation of their customer's bank. The country's cumbersome banking procedures remain a problem.

■ Attitude towards foreign investors

Algeria does not discriminate between local and foreign investment in manufacturing and services (development, capacity expansion, rehabilitation, privatization-related buy-ins or buy-outs) or investments made in connection with the award of concessions and/or licences (Decree No 01-03 of 20 August 2001). Identical tariff preferences and tax concessions are granted to locals and foreigners in order to encourage investment. Wholly foreign-held subsidiaries are permitted to operate in most sectors open to private investment, including financial services. The law guarantees repatriation of all investment capital and earnings.

A certain number of sectors (telecommunications, sea and air transport, electricity and gas supply, mining) have been opened to private investment. Since early 2005, even the oil and gas sector has been opened to foreign competition. In general, 'productive' investment is welcome. Conversely, trade and retail are not open to foreign investment. Fee transfers related to services and

intangible investments (royalties etc) continue to pose problems.

■ Foreign exchange regulations

The dinar is fully convertible for the import of goods and equipment. However, exchange controls are in place for the settlement of service contracts invoiced in foreign currency for which central bank

permission is required. It should be noted, however, that the Bank of Algeria has relaxed regulations in respect of dividend transfers, profit repatriation and transfer of income from asset disposals. The central bank now intervenes only *a posteriori* to control the primary banks – not foreign investors – authorized to carry out such transfers.

OPPORTUNITY SCOPE

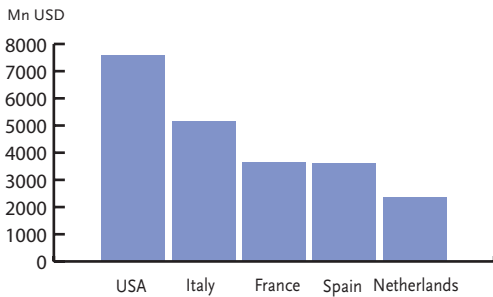
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 34 |
| Public consumption | 12 |
| Investment | 20 |

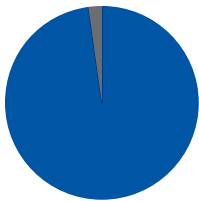
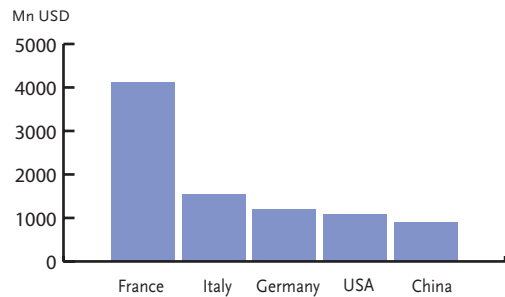
Exports: 46% of GDP

Imports: 24% of GDP

MAIN DESTINATIONS OF EXPORTS

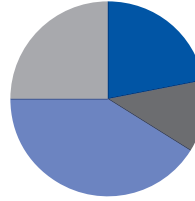


MAIN ORIGINS OF IMPORTS



EXPORTS by products

- Fuels 98%
- Miscellaneous 2%



IMPORTS by products

- Electrical machinery and equipment 22%
- Chemical products 12%
- Capital goods and transport equipment 41%
- Miscellaneous 25%

STANDARD OF LIVING / PURCHASING POWER

| Indicators | Algeria | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 6,770 | 6,712 | 5,540 |
| GNP per capita (USD) | 2,730 | 3,613 | 2,117 |
| Human Development Index | 0.722 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 27 | 23 | 30 |
| Urban population percentage | 59 | 61 | 43 |
| Percentage under 15 years old | 30 | 33 | 29 |
| Number of computers per 1000 inhabitants | 9 | 78 | 48 |

Bahrain

Population (inhabitants)
GDP (US\$ million)

700,000
12,995

Short-term: **A3**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- The economy is open and diversified (hydrocarbons, aluminium, financial services and tourism).
- Offshore banks, including rapidly developing Islamic banks, have made Bahrain the region's leading financial centre.
- Enjoying good relations with the United States, the kingdom has hosted the US Fifth Fleet and the two countries have concluded a free trade agreement.
- Bahrain can rely on neighbouring countries for financial backing in case of need.

WEAKNESSES

- The kingdom's oil reserves are very limited.
- Despite diversification, the economy is still very dependent on hydrocarbon-sector revenues.
- Differences in standard of living and representation in institutions between the ruling Sunni minority and the majority Shiite population have been recurring factors of tension.
- Efforts to promote employment in the private sector in Bahrain have been lagging due to the negative impact on the competitiveness of companies.

RISK ASSESSMENT

Economic growth has been high, driven by a dynamic non-oil sector generating 75 per cent of nominal GDP growth. A regional financial centre, the kingdom has benefited from the petrodollar-driven investment boom and is on its way to becoming the Gulf's primary Islamic banking centre. With oil prices high, the hydrocarbon sector's foreign currency earnings have buoyed external and internal accounts and, thereby, facilitated financing infrastructure projects and backing private industrial development projects.

Economic conditions will remain buoyant in 2007. Financial services continue to develop strongly, benefiting from the regional investment

dynamic. Construction should also continue to post good performance, spurred by ongoing major projects, especially construction of Bahrain Financial Harbour. Privatizations and gradual liberalization of public services should, moreover, attract foreign investment, which will be vulnerable, however, to a deterioration of the regional geopolitical situation.

Social tensions continue to run high with the opposition strengthening its position in the lower house of parliament. The upper house ensures political stability, however, with its members appointed by the king. Increased spending on social needs has contributed to easing the tensions.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 5.2 | 7.2 | 5.4 | 6.6 | 9.0 | 7.2 |
| Inflation (%) | -0.5 | 1.6 | 2.4 | 5.0 | 4.4 | 3.5 |
| Public sector balance (%GDP) | -0.1 | 1.8 | 3.5 | 7.8 | 7.6 | 3.1 |
| Exports | 5.9 | 6.7 | 7.6 | 10.1 | 12.6 | 13.1 |
| Imports | 4.7 | 5.3 | 6.1 | 7.6 | 8.7 | 9.1 |
| Trade balance | 1.2 | 1.4 | 1.5 | 2.5 | 3.8 | 4.0 |
| Current account balance | -0.1 | 0.2 | 0.4 | 1.6 | 2.9 | 3.0 |
| Current account balance (%GDP) | -0.6 | 2.1 | 3.7 | 11.9 | 18.8 | 17.7 |
| Foreign debt (%GDP) | 47.5 | 54.0 | 49.0 | 42.0 | 37.0 | 34.4 |
| Debt service (%Exports) | 5.5 | 5.4 | 5.6 | 5.5 | 5.7 | 5.4 |
| Foreign currency reserves (in months of imports) | 2.0 | 2.0 | 1.8 | 1.6 | 1.5 | 1.6 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

The Kingdom of Bahrain has a liberal trade policy designed to attract maximum foreign direct investment, diversify the country's economy and reduce its dependence on oil and gas. A WTO member from the outset, Bahrain has a long trading tradition and is one of the most open markets in the Gulf. It has proven this several times since 2001 by adopting measures to free up trade before its GCC neighbours. These include acquisition by foreign companies of a 100 per cent stake in a Bahraini company, introduction of anti-money laundering regulations and harmonization of customs duties with the GCC common external tariff from 2003.

Customs duties on imports from non-GCC countries are 5 per cent for all but 53 duty-free products. Alcohol and cigarettes are liable to 125 per cent and 100 per cent duty respectively. Under the GCC free trade agreement, any product with a 40 per cent GCC component is eligible for duty-free admission into member countries. Under the decree of 13 March 1998, foreign companies are not bound to a sole agent and may choose their partner on the basis of the project.

The country remains the financial centre of the region, facilitating the establishment of financial

institutions, banks and insurance companies by means of flexible regulations and attractive tax laws administered by the central bank. Bahrain is the first GCC state to sign and ratify a free trade agreement with the United States.

■ Attitude towards foreign investors

Bahrain offers foreign companies a highly attractive legal and tax environment. The provisions include no corporation tax, income tax, fund transfer tax or VAT; unrestricted foreign investment in projects; up to 100 per cent foreign ownership of a Bahraini company in certain sectors (information and communication technologies, healthcare, tourism, training, services, manufacturing); easy movement of persons (visa at airport); exemption from customs duties of goods for re-export and of material and machinery intended for manufacture; and unrestricted acquisition of land by foreigners in some areas. As well as these benefits, in 2001, the foreign investment-friendly Bahrain government set up an Economic Development Board (EDB) to facilitate and speed up administrative formalities. In cooperation with the Ministry of Trade and Industry, the EDB has set in place a fast-track registration procedure for companies.

OPPORTUNITY SCOPE

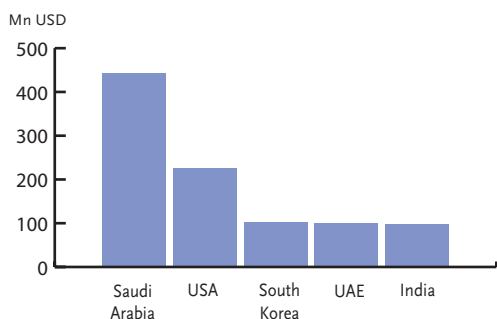
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 25 |
| Public consumption | 11 |
| Investment | 12 |

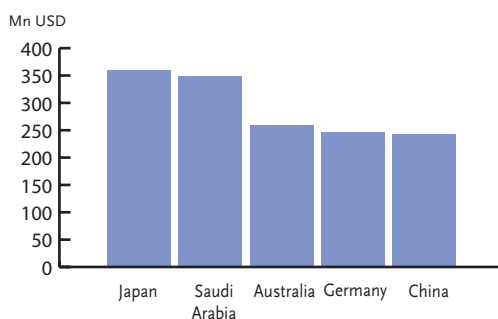
Exports: 82% of GDP

Imports: 64% of GDP

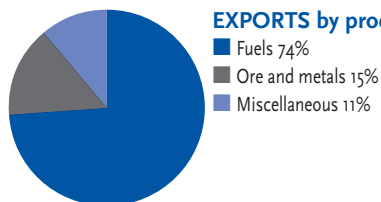
MAIN DESTINATIONS OF EXPORTS



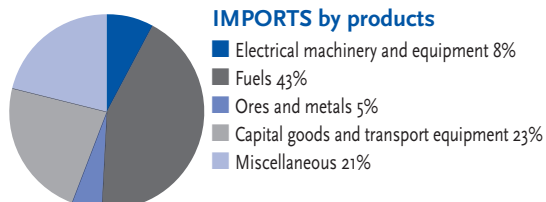
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Bahrain | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 21,290 | 6,712 | 5,540 |
| GNP per capita (USD) | 14,370 | 3,613 | 2,117 |
| Human Development Index | 0.846 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 92 | 61 | 43 |
| Percentage under 15 years old | 27 | 33 | 29 |
| Number of computers per 1000 inhabitants | n/a | 78 | 48 |

Egypt

Population (million inhabitants) 77.5
 GDP (US\$ million) 89,336



Short-term: **B**

Medium-term:
High risk

Coface analysis

STRENGTHS

- Egypt enjoys diversified sources of foreign currency including the Suez Canal, tourism, private transfers, and oil and gas exports.
- The level of foreign currency reserves has been comfortable amid moderate foreign debt.
- The government has undertaken a structural reform programme intended to consolidate the conditions for economic growth.
- With its regional mediator role, Egypt has been a privileged interlocutor and can, thus, rely on political and financial backing of western countries.

WEAKNESSES

- The tourism sector, a crucial source of revenues for the country's current account balance and economic activity, has been vulnerable to the terrorism threat.
- Inelastic fiscal spending – on debt interest, wages and subsidies – has undermined public-sector finances and generated increasing debt.
- The level of domestic debt has limited the country's capacity for infrastructure development.
- The investment rate remains low in relation to Egypt's development needs.

RISK ASSESSMENT

Reforms implemented since 2004 have restored consumer and investor confidence. A bright outlook has been shaping up for 2006 and 2007. Despite the terrorist attacks, tourism has been holding up well. Progress on the reform programme should continue to foster a propitious business climate. New increases in gas production capacity have benefited the oil and manufacturing sectors. The external financial situation has been buoyant amid the favourable trend of traditional foreign currency earnings and the increase in foreign direct investment spurred by privatizations. In that context, the corporate environment has been improving with the Coface payment incident index

below the world average. The mining, manufacturing and construction sectors should continue to outperform the rest of the economy.

With the fiscal deficit and public-sector debt continuing to be a source of concern, public-sector financial consolidation has become imperative. The need to broaden the ruling NPD party's electoral base and check the Islamic current's progress could, however, limit the government's capacity to control spending and, thus, to undertake unpopular measures.

The region is subject to an extreme geopolitical instability risk and the country has repeatedly been prey to terrorist acts that could ultimately affect tourism and investment.

MAIN ECONOMIC INDICATORS (June to July financial year)

| (USD billions) | 2001/02 | 2002/03 | 2003/04 | 2004/05 ^(e) | 2005/06 ^(f) | 2006/07 ^(f) |
|---|---------|---------|---------|------------------------|------------------------|------------------------|
| Economic growth (%) | 3.2 | 3.1 | 4.1 | 4.9 | 5.6 | 5.6 |
| Inflation (%) | 2.7 | 4.0 | 16.6 | 4.7 | 5.0 | 6.0 |
| Public sector balance (%GDP) ⁽¹⁾⁽²⁾ | -10.3 | -9.8 | -9.3 | -9.43 | -8.8 | -8.6 |
| Exports | 7.1 | 8.2 | 10.5 | 13.8 | 18.5 | 20.8 |
| Imports | 14.6 | 14.8 | 18.3 | 24.2 | 28.7 | 32.8 |
| Trade balance | -7.5 | -6.6 | -7.8 | -10.4 | -10.3 | -12.0 |
| Current account balance ⁽³⁾ | -0.5 | 1.8 | 2.5 | 1.8 | 2.5 | 0.7 |
| Current account balance (%GDP) | -0.6 | 2.2 | 3.2 | 2.1 | 2.4 | 0.6 |
| Foreign debt (%GDP) | 32.8 | 36.1 | 37.9 | 32.3 | 30.2 | 26.4 |
| Debt service (%Exports) | 10.3 | 10.2 | 9.5 | 8.1 | 7.8 | 7.8 |
| Foreign currency reserves (in months of imports) | 8.3 | 8.7 | 7.4 | 7.4 | 7.3 | 7.3 |

⁽¹⁾general government ⁽²⁾ ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

Generally speaking, the Egyptian economy is opening up on the back of government initiatives to revive growth through private enterprise and market forces. While the pace of reform is going to be gradual, there will be new opportunities for firms in the consumer and capital goods sectors.

■ Means of entry

Wide-ranging tariff reforms were introduced in 2004, including a 35 per cent reduction in customs duties on average and a simpler tariff nomenclature. However, rate setting and customs valuations are usually haphazard and subjective.

Numerous non-tariff barriers remain in place, despite a programme to streamline customs organization. Government departments and agencies are required to meet their procurement requirements through local suppliers for a number of products (telephone equipment, furniture, cars, tyres, bulbs, pipes etc) as imported goods may be purchased only where there is no local substitute. The merging, in 2000, of the various inspection agencies into the General Organization for Import and Export Control (GOEIS), responsible for

coordinating import and export inspection procedures, as well as the recent approval of international certification firms should undoubtedly help to simplify procedures. Exporters and importers can also qualify for simplified inspections by applying for registration on 'white lists'. The commitments contracted by Egypt to the WTO, as well as the association agreement with the EU, which came into force on 1 June 2004, should also speed up the opening of numerous sectors.

■ Attitude towards foreign investors

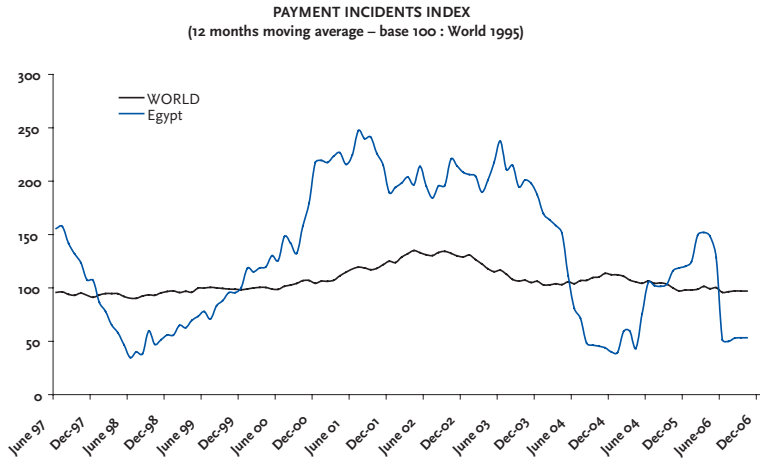
Promoting foreign investment is clearly a government priority. The law guarantees capital transfers and repatriation. A large privatization programme is underway. Key local companies in the banking, cement, retail and telecommunications sectors have already been sold off to foreign investors. As a result, foreign direct investment soared to 6 per cent of GDP in 2005–06 for the first time. France was the second biggest foreign investor after the United States over this period.

■ Foreign exchange regulations

The Egyptian pound is officially convertible. There are no legal restrictions on the repatriation of income and profits by foreign companies. While the

currency market is officially free (the parallel market has totally disappeared since 2004), the Central Bank closely monitors its behaviour. The abundance of foreign exchange on the currency market has helped stabilize the Egyptian pound

against the US dollar since early 2005. For payments, the irrevocable and confirmed documentary letter of credit is strongly recommended and widely used.



OPPORTUNITY SCOPE

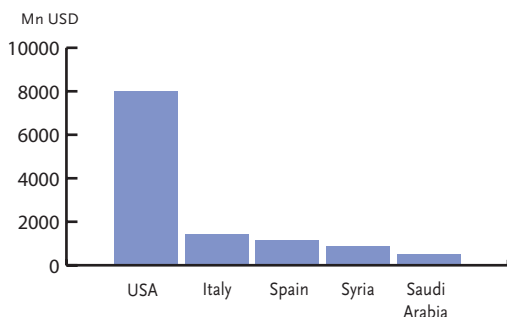
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 55 |
| Public consumption | 10 |
| Investment | 13 |

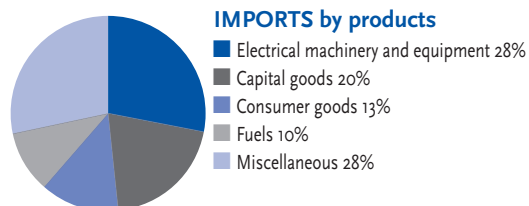
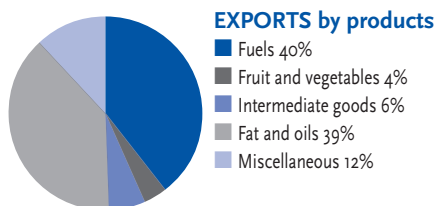
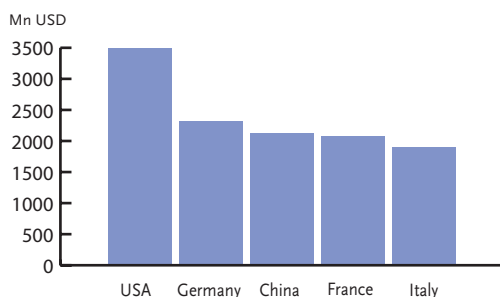
Exports: 15% of GDP

Imports: 27% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Egypt | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 4,440 | 6,712 | 5,540 |
| GNP per capita (USD) | 1,250 | 3,613 | 2,117 |
| Human Development Index | 0.659 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 30 | 23 | 30 |
| Urban population percentage | 42 | 61 | 43 |
| Percentage under 15 years old | 34 | 33 | 29 |
| Number of computers per 1000 inhabitants | 32 | 78 | 48 |

Iran

Population (million inhabitants) 67.7
GDP (US\$ million) 196,343

Short-term: **B**

Medium-term:
High risk



Coface analysis

STRENGTHS

- Iran is the second-largest OPEC producer and has the world's second-largest gas reserves after Russia.
- The non-oil sector has benefited from structural reforms implemented under the authority of aegis of former President Khatami.
- Iran has limited foreign debt.

WEAKNESSES

- Although diversified, the economy is still dependent on oil revenues.
- The legislative and political framework has not been conducive to either partnerships with foreign companies or foreign direct investment. The public sector remains predominant.
- Relations with the United States, which has branded the country as being part of the 'Axis of Evil', have deterred investment.
- The discord between Iran and the international community over the country's nuclear programme has been a major element of uncertainty.

RISK ASSESSMENT

The oil boom has allowed Iran to spur economic growth through public spending and to consolidate the country's external financial situation, with foreign debt remaining moderate. Private investment has suffered, however, from mistrust over the new government's economic policies and especially geopolitical uncertainties; this has been detrimental to oil industry modernization and development of the gas sector.

Expansionary fiscal policy, intensified since President Mahmoud Ahmadinejad's election, has caused public finance surpluses to be constrained,

despite surging oil prices, and has limited the accumulation of reserves in the Oil Stabilization Fund. It has, thus, made the economy more vulnerable to a decline in barrel prices and been accompanied by high inflation.

The structural reforms necessary to consolidate government finances, diversify the economy and attract foreign investment have stalled since 2004, with their prospects remaining uncertain. Tense relations with the international community over the nuclear issue have fostered a climate of uncertainty detrimental to the economy.

MAIN ECONOMIC INDICATORS ⁽¹⁾

| (USD billions) ⁽¹⁾ | 2002/03 | 2003/04 | 2004/05 | 2005/06 ^(e) | 2006/07 ^(f) | 2007/08 ^(f) |
|---|---------|---------|---------|------------------------|------------------------|------------------------|
| Economic growth (%) | 7.5 | 7.1 | 5.1 | 5.4 | 5.2 | 5.0 |
| Inflation (%) | 15.8 | 15.6 | 15.2 | 12.1 | 15.0 | 15.0 |
| Public sector balance (%GDP) | -2.4 | -0.1 | -0.4 | 4.3 | 3.8 | 2.8 |
| Exports | 28.2 | 34.0 | 44.4 | 58.1 | 69.3 | 73.9 |
| Imports | 22.0 | 29.6 | 36.6 | 40.9 | 46.0 | 50.0 |
| Trade balance | 6.2 | 4.4 | 7.8 | 17.3 | 23.3 | 23.9 |
| Current account balance | 3.6 | 0.8 | 4.0 | 12.7 | 18.2 | 18.6 |
| Current account balance (%GDP) | 3.1 | 0.6 | 2.5 | 6.4 | 7.6 | 6.5 |
| Foreign debt (%GDP) | 8.0 | 9.0 | 10.4 | 9.0 | 7.2 | 5.2 |
| Debt service (%GS&T exports) | 9.3 | 7.9 | 6.0 | 5.1 | 4.6 | 4.4 |
| Foreign currency reserves (in months of imports) | 8.5 | 7.5 | 8.2 | 8.7 | 10.9 | 13.2 |

⁽¹⁾ financial year ending 20 March ⁽²⁾ including revenues allocated to the Oil Stabilisation Fund e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

Iran's customs tariff, whose *raison d'être* remains the protection of local producers, has been gradually amended over the last four years in an effort to switch from a non-tariff to a tariff-based system that eventually complies with WTO rules. Launched on 21 March 2002, this process has involved the unification of exchange rates that, in some cases, has led to a reduction in duties. Some electronic equipment (cell phones), on the other hand, has been subject to a sharp increase in duties. A number of non-tariff barriers remain in place for imported foodstuffs and medical goods. Article 14 of the Finance Act 2006/07 makes it compulsory for importers to register trademarks as well as each product in a family for a fee of IRR54 million and IRR9 million respectively. As part of the national policy of food self-sufficiency, imports of food staples (wheat, meat etc. are subject to high duties that are temporarily lowered in line with the country's requirements. It is still forbidden to import non-Islamic products (wines and spirits, non-halal meat etc). Import payments are primarily made by documentary credit issued through Iranian banks.

■ Attitude towards foreign investors

The law on foreign investment incentives (FIPPA), passed in 2002, still requires foreigners to obtain government approval for all investments in which they hold a majority stake. The sole body in charge of foreign investment is the IETAIO (Iranian Economic and Technical Assistance and Investment Organization), headed by the Deputy Minister of Economic Affairs. Investment applications are vetted by an inter-ministerial body, the Foreign Investment Commission. Foreign investment can take the form either of direct investment in areas open to the private sector or of buy-back and BOT (build-operate-transfer) contracts for other sectors.

To prevent the formation of monopolies, the law sets a ceiling on foreign operations in the country. The total value of goods and services delivered by a foreign investment scheme may not exceed 25 per cent and 35 per cent market share respectively of the sector or sub-sector concerned. However, foreigners may now hold a 100 per cent stake in an Iranian company. On 12 May 2003, France and Iran signed an investment promotion and protection agreement that was ratified by the two countries and came into force on 12 November 2004. The agreement represents a significant step

forward in that it provides for recourse to international arbitration for the settlement of disputes.

With regard to taxation, the 2002 reforms have slashed corporation tax from 54 per cent to 25 per cent, while offering big incentives to local and foreign firms. It has to be said that Iran has hardened its terms for granting investment licences. There are numerous cases of investors being required to export a proportion (usually 20 per

cent) of their output or face the risk of not being able to repatriate dividends and royalties.

■ Foreign exchange regulations

On 21 March 2002, the two exchange rates were unified into a single market rate of approximately IRR9,200 to the US dollar. The administered exchange rate has been abolished. Subsidies are now included in the accounts of recipient undertakings.

OPPORTUNITY SCOPE

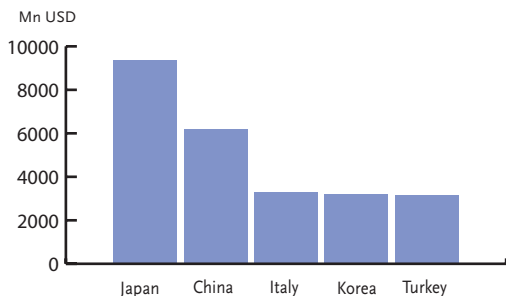
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 35 |
| Public consumption | 10 |
| Investment | 23 |

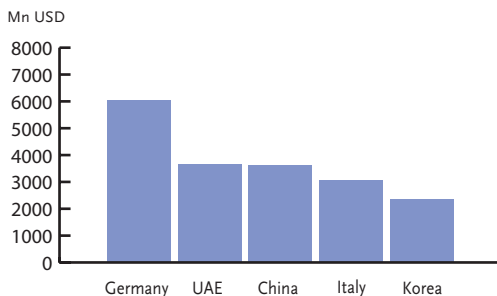
Exports: 29% of GDP

Imports: 214% of GDP

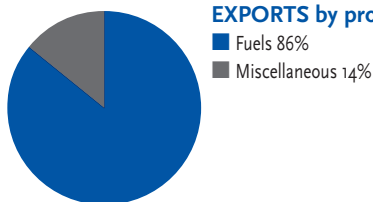
MAIN DESTINATIONS OF EXPORTS



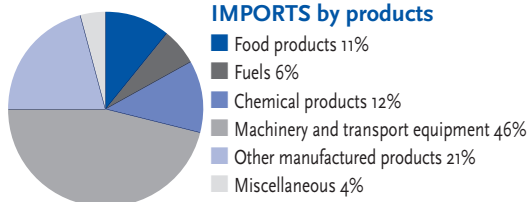
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Iran | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 8,050 | 6,712 | 5,540 |
| GNP per capita (USD) | 2,770 | 3,613 | 2,117 |
| Human Development Index | 0.736 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 34 | 23 | 30 |
| Urban population percentage | 67 | 61 | 43 |
| Percentage under 15 years old | 29 | 33 | 29 |
| Number of computers per 1000 inhabitants | 110 | 78 | 48 |

Iraq

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 26.1 |
| GDP (US\$ million) | 46,500 |
| GDP per capita (US\$) | 1,783 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

The country has been racked by pervasive insecurity. Religious discord between Shiites and Sunnis has meant that a climate of civil war persists. Repeated sabotage of oil rigs has deprived the country of desperately needed foreign currency earnings, with the increase in exports attributable to rising barrel prices alone. Persistent chaos has impeded the functioning of institutions and revival of the economy and led to deferral of international aid and investments for reconstructing and restoring the industrial fabric, particularly oil production capacity. In this context, growth should remain very weak with continued American aid remaining essential.

The debt relief planned in the Paris Club framework – cancellation of up to 80 per cent of foreign debt with the balance rescheduled from 2011 – should bring Iraq's debt ratios to sustainable levels. Improvement is likely to be short-lived, however, due to the chaotic situation.

Prospects for a return to civil peace any time soon seem poor. Although the constitution adopted in October 2005 established a federal government for Iraq, it left some sensitive issues pending that could heighten tensions even more when finally decided. Prospective withdrawal of US troops has introduced a new element of uncertainty. The risk of partition represents a real possibility and would constitute a major destabilizing factor in the region.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---------------------------------|------|-------|-------|---------------------|---------------------|---------------------|
| Economic growth (%) | -6.5 | -41.4 | 46.5 | 2.6 | 3.0 | 3.0 |
| Inflation (%) | 15.0 | 36.3 | 31.7 | 31.6 | 40.0 | 35.0 |
| Public sector balance (%GDP)* | | -42.0 | -49.7 | -15.5 | -30.0 | -35.0 |
| Exports | 12.5 | 9.3 | 17.8 | 23.0 | 32.0 | 33.0 |
| Imports | 9.4 | 7.3 | 19.7 | 20.2 | 29.7 | 33.5 |
| Trade balance | 3.1 | 2.0 | -1.9 | 2.9 | 2.3 | -0.5 |
| Current account balance* | -0.4 | 1.3 | -10 | -5.9 | -5.8 | -5.1 |
| Current account balance (%GDP)* | -2.5 | 10.8 | -40.2 | -17.0 | -12.3 | -8.4 |
| Foreign debt (%GDP) | 724 | 974 | 345 | 183 | 102 | 83 |

* = ex grants

e = estimate, f = forecast

Israel

Population (million inhabitants) 6.9
 GDP (US\$ million) 129,800

Short-term: **A4**

Medium-term:
Quite low risk

Coface analysis



STRENGTHS

- Israel's productive fabric is diversified and its economy is open.
- Its workforce is highly skilled.
- Development of advanced technology industries has been a growth factor, although dependent on a cyclical American market.
- The political and financial institutions are solid.
- Israel can rely on the political and financial backing of the United States and the Diaspora with the United States' guarantee on part of the public borrowing programme mitigating government default risk.

WEAKNESSES

- Public finances have remained in deficit with public debt high.
- The extent of short-term debt has been a source of vulnerability.
- The social climate has suffered from the pervasive insecurity and fiscal austerity measures.
- The situation of conflict with the Palestinian authority has affected the budget and economic activity.
- The fragmented electoral landscape has spawned shaky government coalitions hardly conducive to economic policy continuity.
- With the failure to resolve the Palestinian problem, the risk of conflict has remained high.

RISK ASSESSMENT

The war in Lebanon temporarily disrupted otherwise robust economic activity in the first half of 2006, affecting, in particular, agriculture and tourism. The chemicals and electronics sectors remained dynamic. Stock markets and the shekel withstood the political uncertainties with the conflict's consequences limited to the loss of a point of growth for the year. In that context, the Coface payment incident index remained below the world average. The economy should continue to grow in 2007 at a rate comparable to that posted in 2006, buoyed by both public spending, particularly on defence and reconstruction, and investment.

Despite the increased public spending, government authorities should continue to limit the public-sector deficit to 3 per cent of GDP. External accounts have continued to improve thanks to the dynamism of services. European and Asian demand for high-technology services should offset a possible weakening of American demand. Financing needs will remain limited and largely covered by the influx of foreign capital and direct investment.

In the political arena, there are still major risks. No regional solution resulted from the war in Lebanon and the instability generated with Hamas taking power in the Palestinian territories has left little chance for resumption of the peace process in the near term.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | -0.9 | 1.5 | 4.8 | 5.2 | 4.5 | 4.3 |
| Inflation (%) | 5.7 | 0.7 | -0.4 | 1.3 | 2.8 | 2.4 |
| Public sector balance (%GDP) | -3.3 | -5.0 | -3.2 | -1.9 | -3.0 | -3.0 |
| Exports | 27.5 | 30.2 | 36.7 | 40.1 | 42.6 | 46 |
| Imports | 32 | 33.2 | 39.4 | 43.9 | 46.4 | 49.8 |
| Trade balance | -4.5 | -3.0 | -2.7 | -3.8 | -3.8 | -3.8 |
| Current account balance | -0.5 | 1.8 | 3.2 | 3.8 | 6.7 | 8.2 |
| Current account balance (%GDP) | -0.5 | 1.6 | 2.6 | 2.9 | 4.8 | 5.4 |
| Foreign debt (%GDP) | 63.2 | 62.7 | 62.8 | 59.3 | 59.0 | 56.0 |
| Debt service (%Exports) | 15.3 | 15.4 | 10.7 | 10.4 | 10.7 | 10.1 |
| Foreign currency reserves (in months of imports) | 5.9 | 6.2 | 5.5 | 5.2 | 5.0 | 4.8 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Israel has a modern economy comparable with that of a western European country: organized and honest judiciary, transparent retail sector, open public tenders conducted transparently, efficient production apparatus and skilled manpower. With per capita GDP at an estimated €15,000, household purchasing power is similar to that of southern Europe. Israel's economy is already largely liberalized. Since 2005, the government has continued to pursue its policy of opening market access in many areas, including the privatization of the Leumi and Discount banks, postal services and refining. This has been coupled with measures to improve transparency in the capital markets, reduce corporation tax and reform taxation by lifting obstacles to Israeli investment abroad. As a result, the Israeli market offers EU firms real opportunities in the form of ordinary business deals, direct investment and joint ventures across all sectors of the economy.

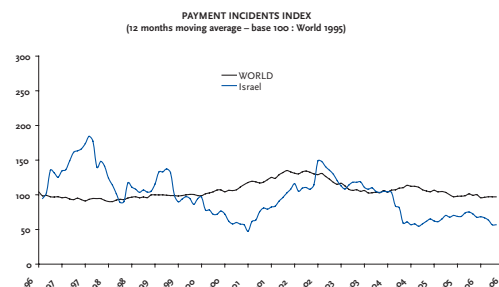
■ Means of entry

Israel is one of the rare countries in the world to have a free trade agreement with both the EU and the United States. Similar agreements have been passed with 12 other countries, including Turkey,

Canada, the Czech Republic, Poland, Hungary and Mexico. Except for some agricultural products, goods covered by the major free trade agreements may be imported into Israel duty-free. However, some consumer goods are liable to sales tax. Moreover, foreign bidders are often subject to offsetting arrangements under the public tender act amounting to at least 28 per cent of the tender's total value. Similarly, the regulations in respect of foreign workers have become more restrictive.

■ Attitude towards foreign investors

Due to an ambitious infrastructure modernization programme that is beyond the capacity of the local financial market, a number of measures are in place to encourage investment, whether local or foreign. Foreign investment is little regulated, except in protected sectors, such as defence and some utilities (telegraphic and some mail distribution services).



THE MIDDLE EAST AND NORTH AFRICA

There are also restrictions in fixed telephony, wireless telecommunications and tourism. Commercial payments between Israel and the outside world are totally unrestricted, as is the transfer or repatriation of profits, dividends and

financial receivables, after payment of Israeli taxes. The country has signed 29 bilateral investment protection agreements and 34 double taxation treaties.

OPPORTUNITY SCOPE

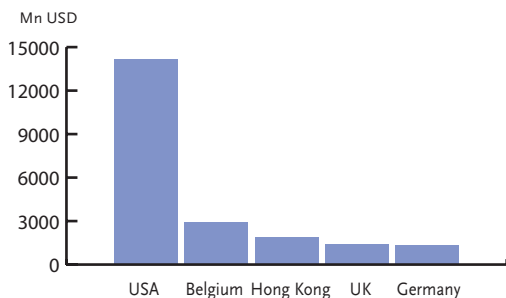
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 40 |
| Public consumption | 21 |
| Investment | 12 |

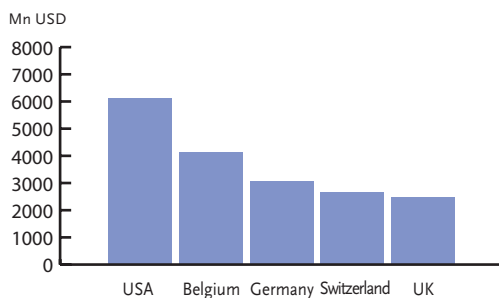
Exports: 46% of GDP

Imports: 51% of GDP

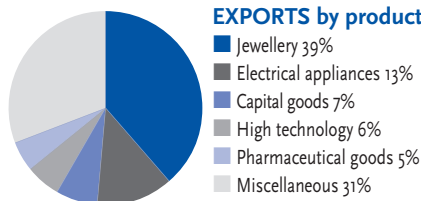
MAIN DESTINATIONS OF EXPORTS



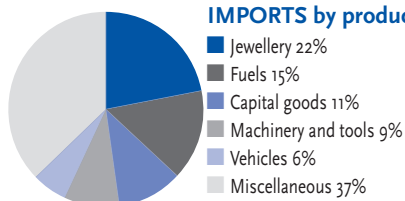
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Israel | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 25,280 | 6,712 | 5,540 |
| GNP per capita (USD) | 18,620 | 3,613 | 2,117 |
| Human Development Index | 0.915 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 28 | 23 | 30 |
| Urban population percentage | 92 | 61 | 43 |
| Percentage under 15 years old | 28 | 33 | 29 |
| Number of computers per 1000 inhabitants | 741 | 78 | 48 |

Jordan

Population (million inhabitants) 5.8
GDP (US\$ million) 12,861



Short-term: **B**

Medium-term:

Moderately high risk

Coface analysis

STRENGTHS

- Expatriate remittances have been a source of foreign currency revenues, albeit dependent on regional economic conditions.
- Customs-free areas and the free trade agreement with the United States have spurred exports and attracted investors.
- Paris Club rescheduling agreements have eased the foreign debt burden.
- Jordan has benefited from international community political and financial support, but the level of aid has declined.
- Jordan's situation as a rear base for Iraq has spurred the economy.

WEAKNESSES

- The country has limited natural resources, mainly phosphate and potassium.
- Rising oil costs and declining international aid have exacerbated financial imbalances and increased the country's dependence on volatile capital.
- The textile sector has suffered from the ending of the multifibre arrangement.
- Social tensions have run high in a population with mainly Palestinian roots, afflicted by poverty and unemployment.
- At the centre of regional turmoil, the country has not escaped terrorism, which has deterred tourism and investment.

RISK ASSESSMENT

Jordan has benefited from its role as a rear base for Iraq and from the resulting influx of regional capital. In that context, most economic sectors – manufactured products, construction, property, transport and communications – have remained buoyant. Although greater fiscal discipline, notably with petrol subsidies progressively phased out, should make it possible to keep the public-sector deficit under control, it will affect private consumption.

External accounts continue to be vulnerable to a possible loss of investor confidence, which would

make the dinar-dollar peg unsustainable. The country should, nonetheless, be able to count on international aid to avert a major crisis.

With Jordan's geographic position and population mix (with mostly Palestinian origins), the political and economic scene has been very sensitive to regional geopolitical tensions, which have shown little sign of easing. Political stability should, nonetheless, not be in jeopardy despite the likely strengthening of the Islamic Action Front in the run-up to legislative elections in 2007, buoyed by the success of Islamist parties in neighbouring countries.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|-------|-------|-------|---------------------|---------------------|---------------------|
| Economic growth (%) | 5.7 | 4.1 | 8.4 | 7.2 | 5.0 | 4.3 |
| Inflation (%) | 1.8 | 1.6 | 3.4 | 3.5 | 6.9 | 5.8 |
| Public sector balance (%GDP)* | -10.0 | -12.7 | -12.5 | -10.7 | -8.0 | -3.7 |
| Exports | 2.8 | 3.1 | 3.9 | 4.3 | 4.6 | 5.0 |
| Imports | 4.5 | 5.1 | 7.3 | 9.2 | 9.8 | 10.4 |
| Trade balance | -1.7 | -2.0 | -3.4 | -5.0 | -5.2 | -5.4 |
| Current account balance* | 0.0 | -0.2 | -1.3 | -3.1 | -3.0 | -2.9 |
| Current account balance (%GDP) | 0.3 | -2.2 | -11.7 | -24.5 | -20.9 | -18.6 |
| Foreign debt (%GDP) | 88.2 | 84.1 | 72.0 | 65.7 | 61.1 | 59.8 |
| Debt service (%GS&T exports) | 13.6 | 15.8 | 13.7 | 9.4 | 8.6 | 7.9 |
| Foreign currency reserves (in months of imports) | 6.3 | 8.0 | 5.9 | 4.6 | 4.1 | 3.4 |

* = ex donations

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

On the whole, the banking system is sound. Since the implementation of the new Banking Act in 2000, the bank of issue has further strengthened prudential measures, including higher bad debt provisions (60 days instead of 90) and greater bank capitalization. Jordanian banks will also be required to comply with Basel II criteria by the second half of 2007. The central bank will, therefore, probably drop plans to force another increase in their minimum capital requirements to an estimated JOD100 million (US\$141 million), according to figures released earlier.

Caution is called for when dealing with private Jordanian customers. While bankruptcies remain few and far between, cases of late payment have been reported. Also, information on the creditworthiness of local firms remains scarce. For example, there is still no system for informing bankers in real time about the sector's total commitments to small clients (no declaration requirement for amounts under JOD30,000, or US\$42,000). Similarly, the banks have not been able to reach an understanding with the central bank on the establishment of a credit bureau. But strides are being made towards greater transparency. The central bank's risk control unit is

doing a better job of collating client information provided by the banks, despite a minimum waiting period of two months to obtain it. Given the fanciful nature of some declarations, exporters should, nonetheless, check the credit history of potential customers and gather key information about them from local market sources so as to avoid unreasonable risk.

■ Attitude towards foreign investors

The Jordanian government continues to pursue its privatization policy. Following the first wave of privatizations (telecommunications, cement, banks and other services) between 1999 and 2002 that helped France become Jordan's top foreign investor, the incipient second wave (potash, fixed and mobile telephony, railways, airports, post office, electricity and oil) is expected to draw renewed foreign interest. Additional French investment in telecommunications in summer 2006 further lifted total foreign investment for the seven months to July, up already 43 per cent year-on-year. Such investment has a stabilizing and market-leading function.

The rule is equality of treatment between foreign and local investors. As well as WTO membership and the implementation of free trade agreements with the United States, the countries of the Agadir agreement, Israel and GAFTA (Arab League) and an

association agreement with the EU (which includes since end-July the application of PanEuroMed cumulation rules), structural reforms to modernize the economy (Amman Stock Exchange, introduction of VAT, industrial and intellectual property protection, standards' supervision by private international bodies, health checks by the Food and Drugs Administration) are helping to

bring Jordan into line with western standards. The deteriorating regional political situation has, if anything, led Jordan to redouble efforts to attract foreign investors via sizeable tax benefits and preferential access to the US and European markets. There is also a reciprocal investment promotion and protection agreement, plus a double taxation treaty, between Jordan and France.

OPPORTUNITY SCOPE

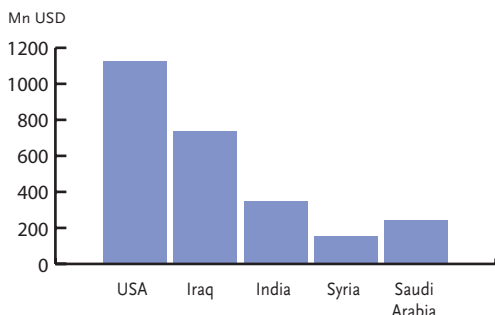
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 47 |
| Public consumption | 14 |
| Investment | 13 |

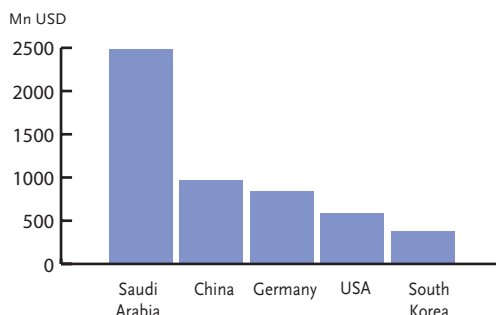
Exports: 34% of GDP

Imports: 73% of GDP

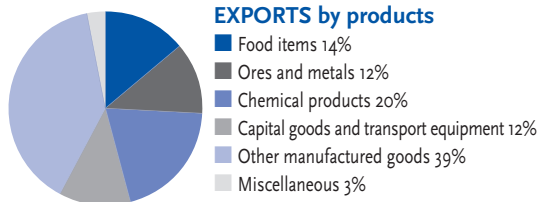
MAIN DESTINATIONS OF EXPORTS



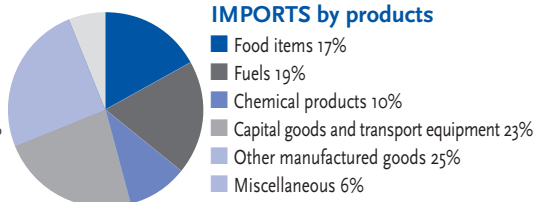
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Jordan | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 5,280 | 6,712 | 5,540 |
| GNP per capita (USD) | 2,500 | 3,613 | 2,117 |
| Human Development Index | 0.753 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 30 | 23 | 30 |
| Urban population percentage | 79 | 61 | 43 |
| Percentage under 15 years old | 37 | 33 | 29 |
| Number of computers per 1000 inhabitants | 55 | 78 | 48 |

Kuwait

Population (million inhabitants) 3.0
 GDP (US\$ million) 80,780

Short-term: **A2**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Kuwait boasts extensive oil and gas reserves.
- The country's financial health has been solid with surplus oil revenues allowing it to accumulate considerable financial holdings abroad, constituting a further source of revenues.
- The emirate has benefited from strategic alliances not only with the United States but also with France, the UK and Russia.

WEAKNESSES

- With little economic diversification, Kuwait has been the most dependent on its oil sector among Gulf Cooperation Council countries.
- The welfare state tradition, sustained by the oil revenues, is supported by members of parliament who are hostile to economic reforms and privatization.
- The private sector is still relatively undeveloped and dependent on government spending.
- The political turmoil in Iraq has not been conducive to private investments.

RISK ASSESSMENT

The emirate's economic and financial situation has been good thanks to high hydrocarbon prices and increased production capacity. The oil wealth has allowed it to double its GDP between 2003 and 2006. Public spending has been driving economic growth. Wage growth and gift distribution have spurred household consumption. The government has invested in the water and electricity sectors, infrastructure and petrochemicals as well as the oil sector.

Despite a gradual slowdown, attributable mainly to slower oil production growth, the non-oil sector trend for 2007 is still buoyant. It should

benefit from the start-up of several industrial projects and from implementation of new public investments. With oil prices remaining high, the economy will continue to generate solid external and fiscal surpluses.

With an economy less diversified than that of most other GCC countries, Kuwait continues to depend heavily on the oil sector. The additional revenues generated by financial surpluses largely invested abroad would, however, cushion the effects of a market downturn. Lack of reform, which parliament could continue to obstruct, has impeded diversification and economic development.

MAIN ECONOMIC INDICATORS (financial year ending 31 March)

| (USD billions) | 2002/03 | 2003/04 | 2004/05 | 2005/06 ^(e) | 2006/07 ^(f) | 2007/08 ^(f) |
|---|---------|---------|---------|------------------------|------------------------|------------------------|
| Economic growth (%) | 5.1 | 13.4 | 6.2 | 8.3 | 6.0 | 5.0 |
| Inflation (%) | 1.4 | 0.9 | 1.1 | 4.1 | 3.6 | 3.2 |
| Public sector balance (%GDP) | 19.0 | 16.3 | 22.5 | 37.3 | 40.1 | 37.5 |
| Exports | 15.4 | 21.8 | 30.1 | 46.9 | 59.8 | 63.0 |
| Imports | 8.1 | 9.9 | 11.7 | 15.7 | 18.8 | 22.6 |
| Trade balance | 7.2 | 11.9 | 18.4 | 31.2 | 40.9 | 40.4 |
| Current account balance | 4.2 | 9.4 | 18.2 | 32.6 | 43.6 | 43.0 |
| Current account balance (%GDP) | 11.1 | 19.7 | 30.7 | 40.4 | 44.9 | 41.6 |
| Foreign debt (%GDP) | 32.5 | 27.3 | 23.2 | 22.0 | 22.6 | 26.1 |
| Debt service (%Exports) | 9.1 | 3.9 | 1.2 | 3.9 | 3.5 | 3.2 |
| Foreign currency reserves (in months of imports) | 6.7 | 4.7 | 4.4 | 3.8 | 4.4 | 4.4 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET
■ Means of entry

Kuwait is a free market with one of the highest import to consumption ratios in the world (around 90 per cent). It applies customs duty at a standard rate of 5 per cent *ad valorem*, in line with the decision by the six member countries of the GCC to standardize their customs duties. Some products, though, such as industrial components are exempt from duty. Per capita income is high and demand for capital and consumer goods disproportionately strong for a country of its size. The lifting of the security threat from Iraq, swelling oil revenues and the arrival on the throne of a modernizing emir have revived interest in large-scale projects, having a multiplier effect on the economy. But Kuwait is a much coveted market demanding special knowledge and perseverance, backed by close contact with ordering customers. Companies exporting to Kuwait are not required to have a sole local partner and may sell directly to several Kuwaiti importers.

■ Attitude towards foreign investors

Since the implementation in 2003 of FDI Act No 8/2001, the government has introduced 100 per

cent foreign ownership of companies and 10-year tax exemption for foreigners. It has also drawn up a positive list of sectors open to FDI, with the exception of oil exploration and production, which remain closed. Sectors that are open include light processing industries, tourism, hotels, leisure (foreigners may acquire real estate for their projects), culture, information, marketing, livestock breeding and farming, healthcare, banking – BNP Paribas was the first foreign bank authorized to operate in the country), investment management and securities brokering, insurance and information technology. At the same time, cuts in corporation tax for foreign companies from 55 per cent to 15 per cent have been announced under the government's tax reform programme.

As part of its policy of openness, the government has undertaken or plans to undertake the privatization of a number of state-owned entities. The privatization of downstream oil activities (petrochemicals, tanker fleets) is a key priority, with the national airline, the post office, fixed telephony and urban transport following on its heels. The third-largest Gulf economy, Kuwait is a lucrative and solvent market underpinned by robust growth, a buoyant economy and institutional stability.

OPPORTUNITY SCOPE

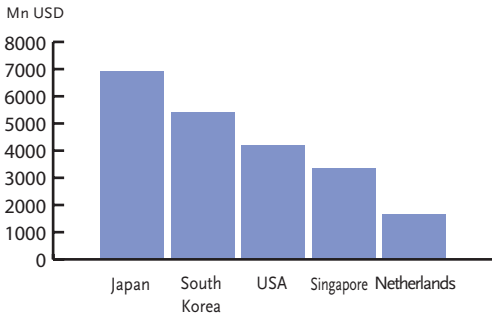
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 36 |
| Public consumption | 19 |
| Investment | 6 |

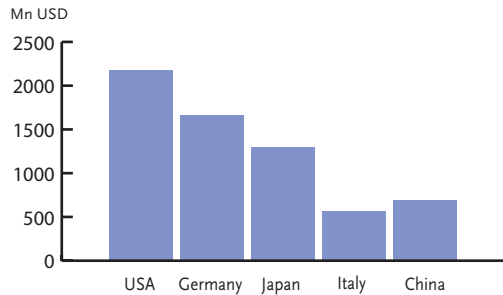
Exports: 58% of GDP

Imports: 19% of GDP

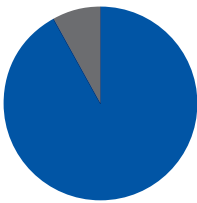
MAIN DESTINATIONS OF EXPORTS



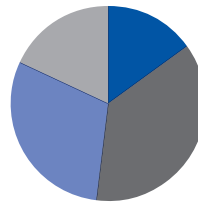
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Kuwait | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 24,010 | 6,712 | 5,540 |
| GNP per capita (USD) | 22,470 | 3,613 | 2,117 |
| Human Development Index | 0.844 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 96 | 61 | 43 |
| Percentage under 15 years old | 24 | 33 | 29 |
| Number of computers per 1000 inhabitants | 183 | 78 | 48 |

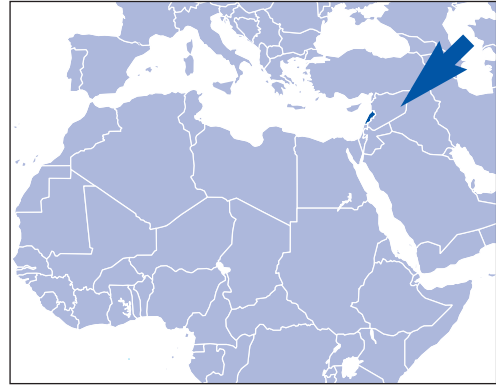
Lebanon

Population (million inhabitants) 3.6
GDP (US\$ million) 22,210

Short-term: **C**

Medium-term:
Very high risk

Coface analysis



STRENGTHS

- In its situation, Lebanon has been the focus of particular attention from western governments.
- Financial services should continue to play a major role in the economy.
- Banking sector solidity, despite its exposure to sovereign risk, has been an asset to the economy. It is underpinned by extensive deposits that have thus far held up well in crises.

WEAKNESSES

- The country has been the epicentre of regional instability that could continue to undermine the economic outlook.
- Domestic sectarian tensions have been a threat to political stability.
- Severe macroeconomic imbalances continue to mark the financial situation, with public-sector debt reaching difficult-to-sustain levels that the consequences of July–August 2006 will further exacerbate. Lebanon will, thus, remain very dependent on international community aid.

RISK ASSESSMENT

With the economy just beginning to get back on track after the upheavals triggered in 2005 by former prime minister Raffic Hariri's assassination, the July–August 2006 war severely disrupted economic activity – tourism, industry, construction, commerce – and caused the fiscal and current account deficits to deteriorate. Thanks to Arab funds, Lebanon was able to continue to support its currency and avoid going into default. Although that situation put some companies in difficulty, payment behaviour held up well overall.

Amid persistent external tensions, however, and with the country in the grip of a political crisis, both a break out of civil war and renewed hostilities between Hezbollah and Israel will remain real possibilities. In that context, a loss of confidence by depositors, investors and tourists could affect the business climate and the strength of the recovery expected in 2007 after the recession last year. Moreover, that could degenerate into a serious financial crisis should the country prove incapable of mobilizing international community aid.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|-------|-------|-------|---------------------|---------------------|---------------------|
| Economic growth (%) | 2.9 | 5.0 | 6.0 | 1.0 | -8.0 | 6.5 |
| Inflation (%) | 1.8 | 1.3 | 3.0 | 2.4 | 5.0 | 5.0 |
| Public sector balance (%GDP) | -16.0 | -12.5 | -9.3 | -8.8 | -16.0 | -14.0 |
| Exports | 1.0 | 1.4 | 1.6 | 1.9 | 1.7 | 2.0 |
| Imports | 6.0 | 6.7 | 8.7 | 9.3 | 8.6 | 10.2 |
| Trade balance | -5.0 | -5.2 | -7.1 | -7.5 | -6.9 | -8.2 |
| Current account balance | -2.8 | -3.0 | -4.0 | -3.4 | -4.1 | -5.2 |
| Current account balance (%GDP) | -15.4 | -15.2 | -18.2 | -15.4 | -19.1 | -21.9 |
| Foreign debt (%GDP) | 87.1 | 97.9 | 105.7 | 113.4 | 140.2 | 143.4 |
| Debt service (%GS&T exports) | 33.0 | 31.9 | 31.9 | 33.1 | 42.6 | 41.7 |
| Foreign currency reserves (in months of imports) | 6.9 | 10.8 | 8.3 | 8.3 | 10.3 | 9.1 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

Against a background of domestic political strife and sharply deteriorating public finances, Lebanon is struggling to implement structural reforms rendered all the more vital by its increasing international exposure (implementation of the Arab free trade agreement in January 2005 and of the association agreement with the European Union in April 2006).

Foreign investment had been extremely buoyant up until the war with Israel in July–August 2006. Following the massive investment of the reconstruction period in the 1990s, FDI inflows are on the increase and, in 2005, accounted for 41.2% of gross fixed capital formation (GFCF) (US\$2.6 billion). The end to hostilities and the lifting of the blockade have ushered in a transition period conducive to reconstruction and economic revival. The financial situation is satisfactory, better than after the assassination of Rafic Hariri in February 2005. All early indicators clearly point to a pick-up in economic activity.

Between 1995 and 2004 Arab investment in Lebanon amounted to US\$4.7 billion, making the country of cedars the largest recipient of intra-Arab investment. Arab capital creates real market opportunities for foreign suppliers as well as private Lebanese firms, which were behind the country's

economic boom in the 1990s that followed the end of the civil war.

At the international conference on aid for Lebanon to be held in Paris in January 2007, the Lebanese government will present to the international community a multiannual reconstruction and economic development plan designed to restore and strengthen confidence.

■ Means of entry

Despite continued instability and the narrowness of the domestic market, Lebanon, with its highly enterprising businesspeople, offers comparative advantages over its closest neighbours. At the centre of the eastern Mediterranean, it is a meeting point between Europe, Asia and Africa. It also offers access to some 300 million consumers because of its geographical and cultural proximity to the Arab markets of the Middle East.

Lebanon stands out from its neighbours by virtue of a highly developed and reliable banking system – comprising some 60 banks – competently managed by the Bank of Lebanon, full convertibility of the dollar-pegged local currency, and the absence of restrictions on capital movements. In 2000, the rates of customs duty were slashed to between 0 and 70 per cent. The nominal tariff rate is 9 per cent, down from 16 per cent in 2002. There are few non-tariff barriers. Such restrictions as exist principally consist of an import ban on some 326 products or

product categories, import licences and permits for 261 other product categories, and technical inspections conducted on the basis of changing specifications. Health regulations, although still based on vague legal principles, are fairly liberal and comply with the recommendations of leading international organisations.

All means of payment are accepted, although the irrevocable and confirmed letter of credit, denominated in euros or US dollars, is the most widely used instrument. Late payment, especially of short-term contracts, is fairly rare. In the event of default, companies usually try and avoid litigation due to the instability of the legal system and the opacity of procedures. The issue of bad debt is often sorted out amicably. Disputes arising out of large commercial contracts are best settled outside Lebanon through international arbitration, available since 2002 for government contracts as well.

■ Attitude towards foreign investors

Lebanon has a modern legal system that protects the rights and assets of foreign investors and places few restrictions on them. In the absence of specific legislation, foreign-held companies are automatically subject to ordinary laws in matters of trade, labour relations and taxation. At 15 per cent, standard

corporation tax is among the lowest in the world. Amendments to a law aimed at facilitating foreign investment in the country were recently approved by a parliamentary commission. Under the changes foreign companies are eligible for tax breaks (no corporation tax, reduction in the work permit levy etc), but cannot have a Lebanese national on their board.

Foreign companies enjoy all the provisions of the country's Investment Promotion Act adopted in August 2001 which, among other things, empowers the government one-stop-shop, IDAL (Investment Development Authority in Lebanon), to handle and facilitate its administrative formalities. Under this Act, whose enactment decree was passed in early 2003, all local and foreign businesspersons investing in designated underprivileged areas or key sectors (tourism, manufacturing, agri-foods, agriculture, telecommunications and IT) are entitled, under certain conditions, to total or partial tax exemption according to the amount invested, the number of jobs created, the impact on the economy and environment, and the type of technology transferred. In 1996, France and Lebanon signed a reciprocal investment protection and promotion agreement that came into force in 1999.

OPPORTUNITY SCOPE

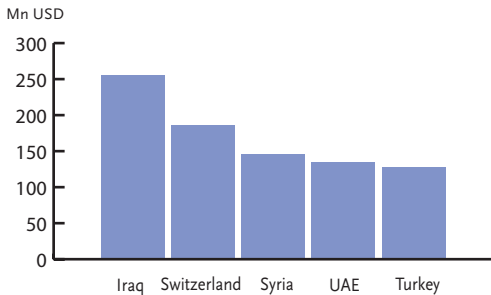
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 15 |
| Public consumption | 39 |
| Investment | 14 |

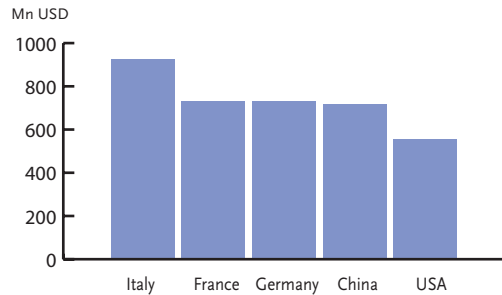
Exports: 9% of GDP

Imports: 42% of GDP

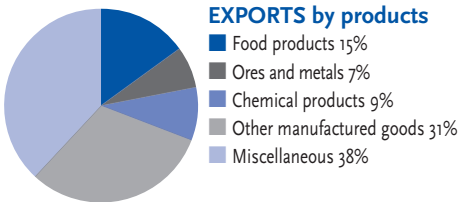
MAIN DESTINATIONS OF EXPORTS



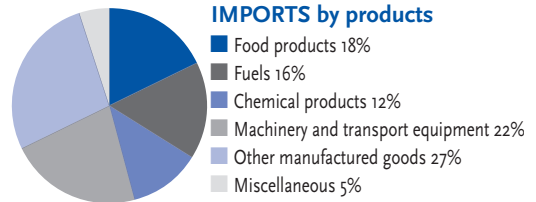
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

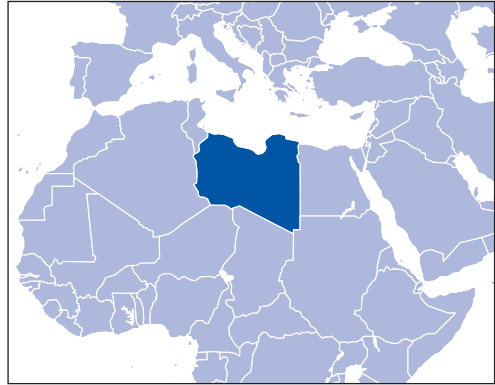


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Lebanon | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 5,740 | 6,712 | 5,540 |
| GNP per capita (USD) | 6,180 | 3,613 | 2,117 |
| Human Development Index | 0.759 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 88 | 61 | 43 |
| Percentage under 15 years old | 29 | 33 | 29 |
| Number of computers per 1000 inhabitants | 113 | 78 | 48 |

Libya

Population (million inhabitants) 5.9
 GDP (US\$ million) 38,756



Short-term: **C**

Medium-term:
High risk

Coface analysis

STRENGTHS

- Extensive oil and gas reserves offer potential for increasing production capacity that has been limited by years of embargo.
- Although reforms have been slow, government authorities have affirmed their commitment to liberalizing the economy to attract investment.
- The financial situation has been comfortable, with foreign debt at moderate levels and longstanding debts largely settled.

WEAKNESSES

- The economy is not very diversified and has remained vulnerable to an oil-market downturn.
- A bloated and ineffective civil service and the lack of a suitable legal and financial framework have deterred investment.
- World Bank indicators attest to the poor governance that has hampered the country's development.

RISK ASSESSMENT

Public spending, buoyed by high growth of oil revenues since 2003, has underpinned the economy. Investments, intended especially to restore infrastructure, have been the main growth engine. Wage growth – in a still-dominant public sector – and subsidies have spurred household consumption. The most dynamic sectors include construction and transport, as well as the hotel industry and services. With its production capacity still limited, oil-sector growth has been modest.

Provided oil prices remain high in 2007, and despite a slowdown of foreign demand for

hydrocarbons, government investments should continue to drive the economy. Increased public spending and imports notwithstanding, fiscal and external accounts will remain in surplus with foreign currency reserves continuing to grow.

Libya needs foreign investment to increase oil-production capacity and diversify an economy remaining vulnerable to a possible oil-market downturn. With its political situation remaining stable, the country's economic options still do not appear very clear and contradictory government announcements tend to blow hot and cold on the business environment.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(f) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 3.3 | 9.1 | 4.6 | 4.3 | 5.0 | 4.6 |
| Inflation (%) | -7.5 | -1.3 | -3.4 | 2.7 | 3.1 | 3.3 |
| Public sector balance (%GDP) | 10.3 | 10.7 | 16.8 | 24.5 | 24.0 | 14.5 |
| Exports | 9.9 | 14.7 | 19.2 | 29.7 | 37.0 | 37.6 |
| Imports | 7.4 | 7.2 | 8.8 | 11.0 | 14.5 | 17.9 |
| Trade balance | 2.4 | 7.5 | 10.4 | 18.6 | 22.5 | 19.6 |
| Current account balance | -0.3 | 3.2 | 5.4 | 12.9 | 14.4 | 10.0 |
| Current account balance (%GDP) | -1.5 | 13.7 | 18.0 | 32.9 | 32.1 | 21.2 |
| Foreign debt (%GDP) | 29.1 | 23.9 | 18.6 | 14.3 | 12.4 | 11.9 |
| Debt service (%Exports) | 6.8 | 4.7 | 4.0 | 3.0 | 2.7 | 2.7 |
| Foreign currency reserves (in months of imports) | 15.1 | 17.7 | 19.6 | 24.2 | 26.2 | 27.6 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

Foreign investment is encouraged by Law No 5 and its enforcement decrees in the agricultural, service, manufacturing, healthcare and tourism sectors. The minimum capital requirement, set down in Decree 86 of April 2006, is LYD5 million (around €8 million). Where the local interest in a project is equal to or more than 50 per cent, this threshold is lowered to LYD2 million (about €3.2 million). Significant investment programmes are underway to improve transport infrastructure and equipment (air, land), expand telecommunications to 2.5 million fixed line and 3 million GSM subscribers, step up electricity production and generating capacity from 4500MW today to 10,000MW by 2020, and develop oil and gas production and exploration by awarding new licences with a view to increasing output to 3 million barrels daily by 2010.

Other projects include large-scale river development (water supply), desalination (installation of 11 desalination plants), the environment, radio and television (digitisation of equipment and training), and food supply. Libya offers a host of new business opportunities, despite the widespread system of state controls, characterized by cumbersome, slow and inconsistent administrative practices.

■ Means of entry

Since early 2003, licences to import goods into the country have been abolished; each shipment, however, must be accompanied by a certificate of origin. Libya switched its customs tariff to the simplified harmonized nomenclature in January 1998. An import ban is in place for 17 so-called 'luxury' and locally manufactured products (list available). Customs duties on imported goods were abolished on 1 August 2005 and replaced by 4 per cent 'port services tax' payable by Libyan importers on all but 85 products. Importers are also liable to 2 per cent production tax and 25 or 50 per cent consumption tax. Sales contracts are settled exclusively by irrevocable letter of credit, which can take six months or more to open.

The law governing contracts with Libyan government agencies requires foreign suppliers to pay 2 per cent stamp duty on the total value of the contract (1 per cent for sub-contracting agreements). The Libyan market should only be approached by financially sound companies that are used to long and arduous negotiations. Certain goods (vehicles, motorcycles, office equipment, electrical appliances, electronic equipment, roadworks and quarry equipment, farm machinery) may not be sold without entering into a representation agreement with a Libyan agent responsible for after-sales service. SMEs can usefully engage in ordinary business not requiring

THE MIDDLE EAST AND NORTH AFRICA

funding. The Annual Tripoli International Trade Fair in April is an excellent showcase for trade and business.

Foreign exchange regulations

The country's foreign exchange regulations – far more flexible than in the past – are overseen by the

Exchange Control Department, an arm of the central bank. Since 16 June 2003, the Libyan government has successfully maintained a free exchange rate system on the currency market based on a single rate. The current exchange rate is LYD1.6 to the euro.

OPPORTUNITY SCOPE

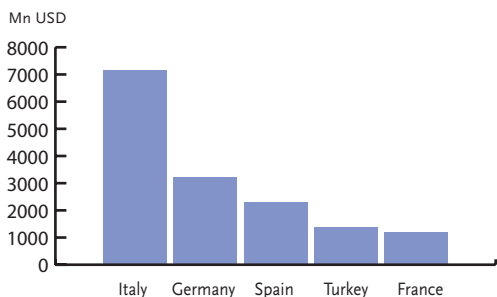
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 42 |
| Public consumption | 12 |
| Investment | 10 |

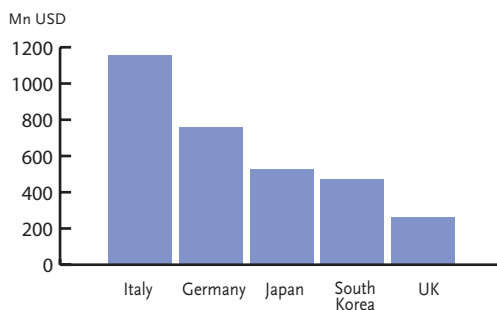
Exports: 78% of GDP

Imports: 29% of GDP

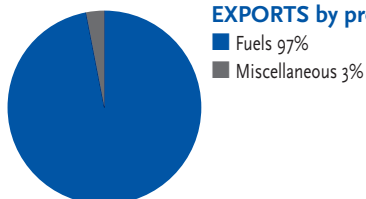
MAIN DESTINATIONS OF EXPORTS



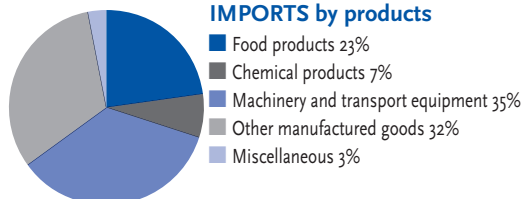
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Libya | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 8,550 | 6,712 | 5,540 |
| GNP per capita (USD) | 5,530 | 3,613 | 2,117 |
| Human Development Index | 0.799 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 86 | 61 | 43 |
| Percentage under 15 years old | 30 | 33 | 29 |
| Number of computers per 1000 inhabitants | 24 | 78 | 48 |

Morocco

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 32.7 |
| GDP (US\$ million) | 51,745 |



Short-term: **A4**

Medium-term:
Quite low risk

Coface analysis

STRENGTHS

- Morocco enjoys significant assets (geographic position, natural resources, vast tourist potential, political stability) that have attracted the interest of western countries.
- Major structural reforms carried out or underway have strengthened the macroeconomic framework and accelerated the process of diversifying the economic fabric.
- Banking system consolidation has contributed to the steady improvement of the business environment.
- Foreign debt has been modest, which has enhanced the country's credit status with rating agencies.

WEAKNESSES

- The Moroccan economy continues to be vulnerable to conditions in the farm sector.
- The public-sector financial situation, which has generated substantial public domestic debt, constitutes an element of weakness.
- Economic growth is still insufficient to meet the expectations of the people, with poverty and unemployment (especially of youth) being potential sources of social tensions.
- The unresolved West Sahara problem, which has continued to affect relations with Algeria, has reduced the benefits that Morocco could derive from furthering regional integration.

RISK ASSESSMENT

The dynamism of investments in infrastructures and the productive sector, notably textiles, as well as high consumption rates have been underpinning economic activity. Most industrial sectors, including the food, metallurgical, electrical and construction material industries, have particularly benefited from local demand. Efforts to diversify the economy in conjunction with the impact of structural reforms should provide the basis for sustaining 4–5 per cent annual growth in the non-farm sector. Reflecting those economic conditions, the Coface payment incident index has remained near the world average.

That favourable context, coupled with a civil service reorganization, better control over spending and greater efforts to realize revenues, should facilitate the consolidation of public-sector finances

and reduce the public domestic debt burden (55 per cent of GDP), while efforts continue on an ambitious investment programme (transport and housing infrastructure, health, education). Meanwhile, despite pressures on the trade balance linked to energy costs and capital goods imports, revenues from tourism and expatriate remittances have contributed to generating a current account surplus, thereby further reducing the foreign debt burden.

The legislative elections scheduled in autumn 2007 should not jeopardize the country's political stability. In the longer term, the social reforms implemented, particularly under the National Human Development Initiative launched in 2005, should contribute to meeting the challenges of reducing poverty, unemployment and illiteracy.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 3.2 | 5.5 | 4.2 | 1.7 | 7.3 | 5.4 |
| Inflation (%) | 2.8 | 1.2 | 1.5 | 1.0 | 2.5 | 2.0 |
| Public sector balance (%GDP)* | -4.7 | -5.0 | -4.8 | -5.9 | -4.1 | -3.6 |
| Exports | 7.8 | 8.8 | 9.9 | 10.5 | 11.7 | 12.6 |
| Imports | 10.9 | 13.1 | 16.4 | 18.7 | 21.3 | 23.8 |
| Trade balance | -3.1 | -4.3 | -6.5 | -8.2 | -9.6 | -11.1 |
| Current account balance (%GDP) | 2.9 | 2.0 | 1.0 | 1.9 | 1.7 | 1.1 |
| Foreign debt (%GDP) | 45 | 43 | 35 | 30 | 28 | 26 |
| Debt service (%G&S exports) | 20.3 | 19.5 | 13.6 | 11.6 | 9.8 | 9.4 |
| Foreign currency reserves (in months of imports) | 8.1 | 9.3 | 9.2 | 8.1 | 8.4 | 8.2 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

Means of entry

But for a handful of well-defined and regulated exceptions, almost all sectors of the Moroccan economy are open to foreign investment (no local partner requirement) and imports (few import licences). Morocco has already undertaken substantial tariff dismantling. The WTO bound rate is 39 per cent, the average applied rate is 27.1 per cent and the import-weighted average rate is 6.9 per cent. However, tariff peaks of up to 329 per cent remain in place for some agricultural and industrial goods. European products benefit from tariff dismantling under the EU-Morocco association agreement. Under this agreement, which aims to establish a free trade area by 2012, import duties have already been abolished on half the tariff lines for industrial goods. For so-called sensitive, industrial goods manufactured locally, tariffs will be gradually eliminated by 2012.

The last few years have seen wide-ranging reforms aimed at creating a better-defined business environment. Numerous laws complying with international business standards have been passed. Key measures include new trade legislation (1996); the establishment of commercial courts (1997); modernization of company law (1997 and 2001); new government procurement legislation (1998); a new Customs Code (2000); and legislation on competition and prices, intellectual and industrial

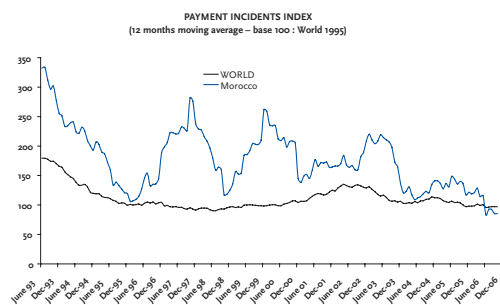
property protection (2004 and 2006), and literary and artistic property (since January 2001). The insurance act, passed in 2002, has been in force since October 2004. A new labour code has been in force since June 2004 and a delegated management law was passed in 2006.

Attitude towards foreign investors

The regulations governing foreign investment are set out in the Investment Charter. The charter introduces a series of incentives designed to reduce investment costs, including the establishment of one-stop enterprise creation shops or regional investment centres, overseen by *Walīs* (prefects), to facilitate investor formalities. Start-up, as a result, now only takes around 10 days. The centres also provide investment advice.

Foreign exchange regulations

Exchange controls remain in place. The exchange rate is set by the central bank, Bank Al Maghrib, on



the basis of a basket of currencies. The dirham is convertible for ordinary business transactions (imports and exports). A currency convertibility

system, set up in 1992, guarantees foreign investors repatriation of capital, profit and income.

OPPORTUNITY SCOPE

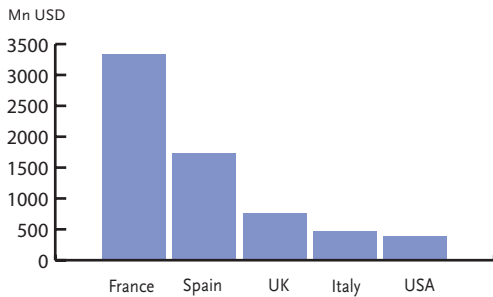
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 45 |
| Public consumption | 16 |
| Investment | 18 |

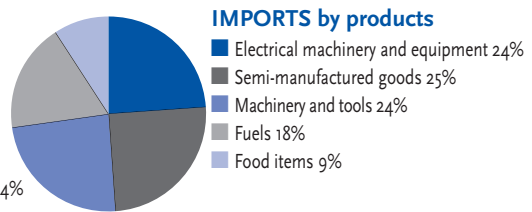
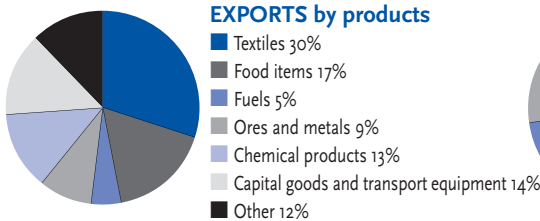
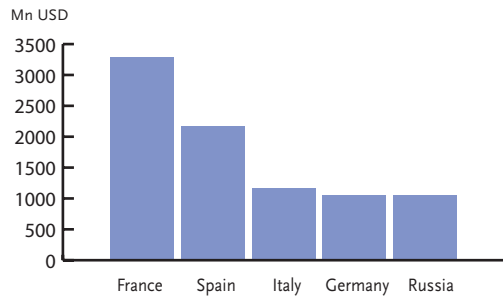
Exports: 34% of GDP

Imports: 43% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Morocco | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 4,360 | 6,712 | 5,540 |
| GNP per capita (USD) | 1,730 | 3,613 | 2,117 |
| Human Development Index | 0.631 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 31 | 23 | 30 |
| Urban population percentage | 57 | 61 | 43 |
| Percentage under 15 years old | 31 | 33 | 29 |
| Number of computers per 1000 inhabitants | 21 | 78 | 48 |

Oman

Population (million inhabitants) 3.0
 GDP (US\$ million) 30,733



Short-term: **A3**

Medium-term:
Low risk

Coface analysis

STRENGTHS

- Oman's open and diversified economy (gas, petrochemicals, metalurgy, tourism) has provided an environment conducive to domestic and foreign private investment.
- Prudent management of oil revenues has made it possible to finance productive investments while reducing public-sector debt and building up reserves.
- The country's political stability has benefited the business climate, despite uncertainty over the succession of the sultan.
- The privatization programme should provide investors with new opportunities.

WEAKNESSES

- Despite diversification, the economy is still dependent on oil revenues and, thus, vulnerable to sharp declines in barrel prices.
- Crude oil production has been decreasing, with production costs high due to ageing fields.
- Rigid spending (wages, defence and subsidies) is negatively impacting public finances.
- Unemployment for Omani nationals has remained high, despite the GDP growth; the 'Omanization' of employment will take time.

RISK ASSESSMENT

Spurred by private investment and public spending, a dynamic non-oil sector has been driving economic growth. Industry continues to develop with the start-up of a third gas liquefaction facility and a new fertilizer factory in late 2005. An increase in the number of hotels will, moreover, foster the growth of a tourism sector that is still not very developed. The oil sector, meanwhile, has stabilized after several years of decline. The growth of condensate and natural gas production has offset the decline of crude oil production.

The economy will remain buoyant in 2007 amid increased industrial production with the scheduled start-up of several metallurgical and petrochemical facilities. Private investment should continue to underpin domestic demand. A decline of oil prices could, however, result in a public spending and household consumption slowdown. The external and internal financial situations have been healthy with low debt ratios. Despite regional geopolitical tensions and uncertainties surrounding the succession of the sultan, Oman's political stability has spurred investment. In that context, the business environment has remained buoyant.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 2.6 | 2.0 | 5.6 | 4.8 | 8.2 | 8.0 |
| Inflation (%) | -0.7 | -0.4 | 0.4 | 1.3 | 4.0 | 2.8 |
| Public balance (%GDP) | 3.1 | 1.5 | 4.8 | 12.0 | 12.5 | 10.7 |
| Exports | 11.2 | 11.7 | 13.4 | 18.7 | 23.4 | 24.7 |
| Imports | 5.6 | 6.1 | 7.9 | 8.0 | 9.2 | 10.3 |
| Trade balance | 5.5 | 5.6 | 5.5 | 10.7 | 14.1 | 14.3 |
| Current account balance | 1.8 | 1.5 | 0.6 | 4.7 | 7.5 | 7.1 |
| Current account balance (%GDP) | 9.1 | 6.7 | 2.3 | 15.3 | 20.9 | 18.1 |
| Foreign debt (%GDP) | 22.2 | 19.3 | 21.4 | 20.2 | 18.9 | 19.0 |
| Debt service (%Exports) | 11.2 | 10.4 | 9.2 | 6.7 | 5.2 | 4.5 |
| Foreign currency reserves (in months of imports) | 3.8 | 3.9 | 3.1 | 3.5 | 3.4 | 3.4 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**Market overview**

The Omani economy's dependence on oil and gas is increasing (55 per cent of GDP in 2005), despite government efforts to reduce it. In the face of this situation, the government has decided to step up industrially led economic diversification, increase private-sector participation via wider privatization of state-owned enterprises and public services, and speed up the Omanization of jobs.

Means of entry

For private contracts, there is no requirement for exporters of consumer goods not demanding after-sales service to be represented by a local agent. To bid for international open tenders, foreign suppliers must have a local office or be represented by an Omani company. Standard customs duty for the majority of products is 5 per cent of the CIF value. Some goods are subject to prior licensing on grounds of health, religion or protection of local manufacture. There are no exchange controls and foreign currency is freely sold. There are no restrictions on profit transfers, nor any impediments to the free movement of capital.

Attitude towards foreign investors

While Omani legislation has kept in place a number of sector restrictions, it tends to encourage foreign investment in industrial and infrastructure projects, especially in connection with the privatization programme. As a result, foreigners can now acquire a stake in manufacturing, trading and service companies. Foreign companies looking to open a representative office in the Sultanate are not required to have a local sponsor, provided they have been registered for 10 consecutive years in the trade register of the country where their head office is based. The additional condition requiring the parent company to have three subsidiaries in three foreign countries was scrapped in 2005. Tax incentive schemes have also been introduced to reduce discrimination against foreign companies and encourage local companies to open their capital to foreigners.

The recent conclusion of a free trade agreement with the United States should lead to greater relaxation of local human resources regulations. The agreement's implementation will speed up moves towards the adoption of more investment-friendly labour and company laws.

OPPORTUNITY SCOPE

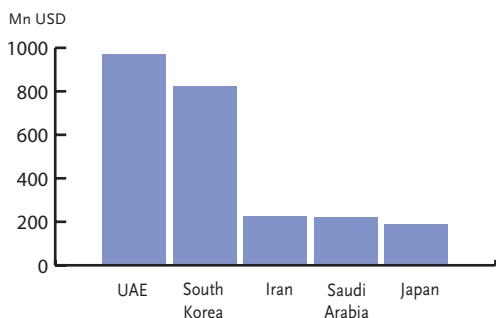
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 32 |
| Public consumption | 16 |
| Investment | 11 |

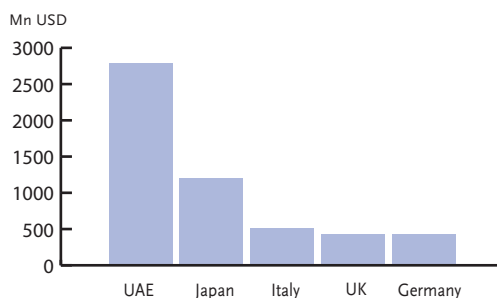
Exports: 61% of GDP

Imports: 26% of GDP

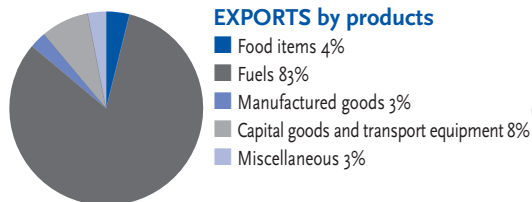
MAIN DESTINATIONS OF EXPORTS



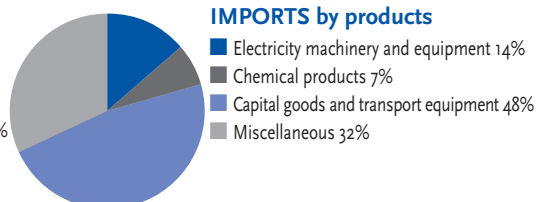
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

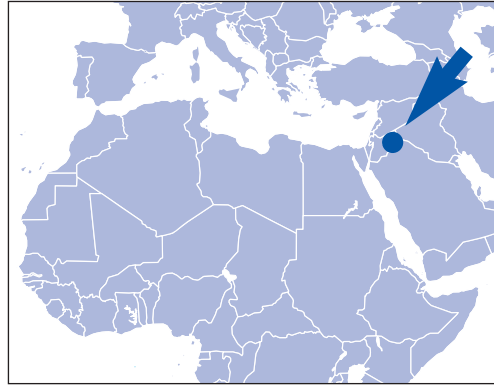


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Oman | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 14,680 | 6,712 | 5,540 |
| GNP per capita (USD) | 9,070 | 3,613 | 2,117 |
| Human Development Index | 0.781 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 78 | 61 | 43 |
| Percentage under 15 years old | 34 | 33 | 29 |
| Number of computers per 1000 inhabitants | 47 | 78 | 48 |

Palestinian Territories

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 3.6 |
| GDP (US\$ million) | 3,454 |
| GDP per capita | 1,016 |



RISK ASSESSMENT

The Hamas victory in the January 2006 legislative elections has considerably complicated an already difficult economic and political situation. The Israeli government has frozen *sine die* the transfer of taxes it collects on behalf of the territories, which represent about two-thirds of the Palestinian Authorities resources. Western countries have, moreover, suspended vital financial aid that had covered over half the Territories' financing needs from 2000 to 2005. Furthermore, the rare donations promised by some Arab countries have been slow to materialize. The Palestinian Treasury Department's bank account has been frozen and developing a budget for 2006 has been abandoned.

Completely isolated economically and financially, the Palestinian economy thus sank in 2006 into a deep recession estimated at 27 per cent and the public-sector deficit could substantially exceed 20 per cent of GDP. Erratic payment of wages has generated an insurrectional climate.

The Palestinian Authorities' survival will depend on a thaw in the political situation that would make it possible to lift the financial blockade. However, the discord between President Abbas' Fatah Party and Prime Minister Haniyeh's Hamas, compounded by dissension in the ranks of those two parties, has paralyzed the functioning of institutions, leaving little hope for normalizing the situation in the short term.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|-------|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | -14.8 | -10.1 | 6.1 | 6.2 | 6.3 | -27 | -7.4 |
| Inflation (%) | 1.2 | 5.7 | 4.4 | 3.0 | 3.0 | n/a | n/a |
| Public sector balance (%GDP) ⁽¹⁾ | -22.6 | -23 | -14.6 | -14.1 | -14.4 | n/a | n/a |
| Public sector balance (%GDP) ⁽²⁾ | -8.4 | -8.2 | -7.4 | -5.4 | -9.2 | n/a | n/a |
| Unemployment (%) | 25.2 | 31.3 | 25.6 | 26.9 | 23.4 | n/a | n/a |
| Imports | 2.7 | 2.5 | 2.8 | 3.2 | 3.6 | n/a | n/a |
| Exports | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 | n/a | n/a |
| Trade balance | -2.1 | -2.0 | -2.3 | -2.7 | -3.0 | n/a | n/a |
| Current account balance (%GDP) | -8.9 | -7.5 | -16.7 | -21.5 | -22 | n/a | n/a |

(1) ex donations (2) inc donations

f = forecast

Qatar

Population (inhabitants) 900,000
GDP (US\$ million) 42,113

Short-term: **A2**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- Vast gas reserves (ranked third worldwide) and oil reserves endow Qatar with great and sustainable development potential.
- Per capita income has been among the world's highest.
- Foreign debt has been largely secured by long-term export contracts.
- Diversification to high energy-content export industries (steel and petrochemicals) has continued and private investment in energy-independent projects are encouraged.
- The emirate was a major base for American troops.

WEAKNESSES

- Fiscal revenues have remained very dependent on oil and gas market conditions.
- With the education level of nationals (a quarter of the total population) ill-suited to the economy's needs, Qatar has been heavily dependent on foreign labour.
- The private sector is still relatively undeveloped, with geopolitical uncertainties affecting investment.
- Economic data has lacked transparency.
- A more conservative succession could affect the pursuit of economic policy.

RISK ASSESSMENT

Increased oil production and expansionary fiscal policy have generated robust growth, which has, however, spurred inflationary pressures. Qatar's bright industrial outlook should augur continued fiscal surpluses, high spending notwithstanding. Large current account surpluses have, moreover, allowed it to consolidate its external financial situation.

Its vast oil and gas potential should allow this small country to enjoy many more years of prosperity. In the longer term, the economy's diversification (tourism, financial services, health, education) will limit its dependence on hydrocarbons. Reforms will, nonetheless, be

necessary to attract foreign investors, with the government remaining the non-oil sector's main actor. Gearing the population's training to the economy's needs and, thereby, reducing the country's reliance on foreign labour, will also be a major challenge.

Although the emir, who took power in 1995, has put his country on the path to prosperity and reform, the influence of conservatives is still appreciable. In addition, regional geopolitical tensions have hardly been conducive to foreign investment outside the oil sector, even if the protection of American troops has thus far sheltered the emirate from powerful neighbours that might covet its wealth.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 7.3 | 7.4 | 11.4 | 11.1 | 12.1 | 10.6 |
| Inflation (%) | 0.2 | 2.3 | 6.8 | 8.8 | 9.2 | 7.5 |
| Public sector balance (%GDP) | 8.0 | 4.0 | 15.8 | 8.9 | 5.0 | 2.5 |
| Exports | 11.0 | 13.4 | 18.7 | 25.8 | 32.5 | 34.9 |
| Imports | 3.7 | 4.4 | 5.4 | 9.1 | 11.3 | 13.7 |
| Trade balance | 7.3 | 9.0 | 13.3 | 16.7 | 21.2 | 21.2 |
| Current account balance | 3.8 | 5.8 | 7.5 | 11.4 | 14.8 | 13.8 |
| Current account balance (%GDP) | 19.3 | 24.4 | 23.9 | 27.0 | 27.7 | 21.6 |
| Foreign debt (%GDP) | 75.6 | 58.1 | 47.5 | 45.1 | 41.2 | 42.3 |
| Debt service (%GS&T exports) | 24.0 | 23.5 | 9.4 | 8.1 | 8.5 | 8.5 |
| Foreign currency reserves (in months of imports) | 2.2 | 3.5 | 2.9 | 2.9 | 2.6 | 2.6 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The Qatari market is free and open to trade, except for imports of live cattle and bovine products of European origin (due to the BSE outbreak). There is also free movement of goods between the six countries of the CCASG since the introduction of a customs union in January 2003. Imports into Qatar are, nevertheless, subject to rules of origin that vary from country to country. Local sponsorship is required to distribute and market imported goods but not to bid for public tenders. Trademark and intellectual property protection legislation is relatively recent. Qatar has been a signatory to the Geneva Convention (industrial property) and the Bern Convention (intellectual property) only since 5 July 2000. Consequently, the country still lacks essential manpower to enforce and implement this legislation on a systematic basis.

■ Means of entry

Since 1 January 2003, all goods are liable to 5 per cent *ad valorem* duty under the GCC customs union, except products directly competing with local manufacture (steel: 20 per cent), products taxed on grounds of health (cigarettes: 100 per cent) or those banned by Islam (wines and spirits: 100 per cent). Exporters should demand an irrevocable and confirmed letter of credit in

transactions with local customers as it is the most widely used means of payment in Qatar. Public procurement contracts are paid for in cash.

■ Attitude towards foreign investors

Regulations governing foreign investment were relaxed under a new law passed on 16 October 2000. Subject to certain conditions defined on a case-by-case basis, foreign investors can now own a 100 per cent stake in a company operating in the agricultural, manufacturing, healthcare, education, tourism and energy sectors. Approvals are handled by the Ministry of Economic Affairs and Trade and, for industrial projects, by the Ministry of Energy and Industry. The only precondition is that the foreign investment comply with the government's development plans.

Sectors falling outside the scope of this legislation are banking, insurance, property and retail. Foreigners investing in these sectors are required to have a majority Qatari partner who owns at least 51 per cent of the scheme. The Qatar Financial Center set up in Doha on 1 May 2005 accepts foreign banks and financial services firms without a local partner. Similarly, foreign research and development laboratories can operate out of Doha's Science and Technology Park under the free-zone status awarded to it in September 2005. Foreign investors can acquire leaseholds for a maximum period of 50 years on a renewable basis, but are barred from acquiring freehold property except in

the building complex under construction on the artificial island known as Pearl Island.

Disputes between a foreign investor and a local party are subject to local or international arbitration. Foreigners are required to have a Qatari sponsor when applying for a residence permit linked to a work permit. Foreign access to the Doha Stock Exchange, principally via mutual funds, has been opened up

following the government's announcement in May 2004 to allow foreigners to own up to 25 per cent of listed companies. The Ministry of Economic Affairs and Trade grants wholly foreign-funded projects 10-year tax relief, together with exemption from customs duties for imported equipment, raw materials and semi-finished goods that are not available locally.

OPPORTUNITY SCOPE

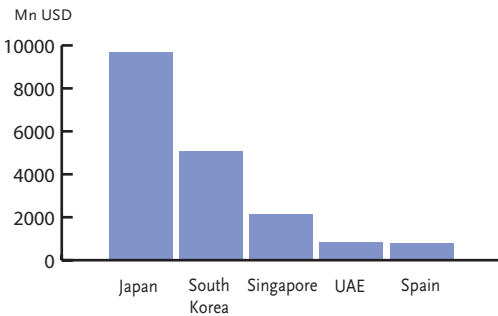
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 14 |
| Public consumption | 14 |
| Investment | 24 |

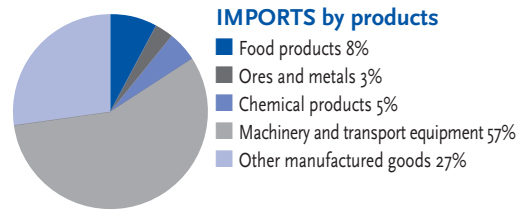
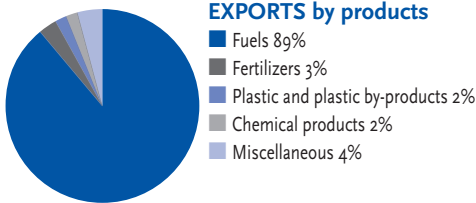
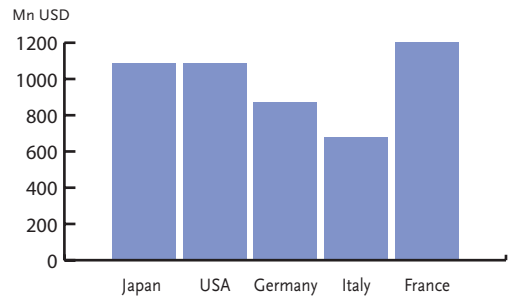
Exports: 61% of GDP

Imports: 22% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Qatar | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 39,610 | 6,712 | 5,540 |
| GNP per capita (USD) | 52,900 | 3,613 | 2,117 |
| Human Development Index | 0.849 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 92 | 61 | 43 |
| Percentage under 15 years old | 22 | 33 | 29 |
| Number of computers per 1000 inhabitants | 169 | 78 | 48 |

Saudi Arabia

Population (million inhabitants) 26.4
GDP (US\$ million) 309,778

Short-term: **A4**

Medium-term:
Quite low risk

Coface analysis



STRENGTHS

- The leading OPEC oil-producing country with one-quarter of world reserves, Saudi Arabia holds a strategic position in oil markets.
- With WTO admission spurring the reform process, the country has been opening up to foreign investment.
- Foreign debt has been moderate and the public sector has considerably reduced its domestic debt.
- The country continues to enjoy a privileged relationship with the United States in the region.

WEAKNESSES

- With the economy very dependent on oil revenues, it has been vulnerable to external shocks.
- Conservatism has impeded political and economic liberalization.
- High demographic growth and an ineffective education system have contributed to a high unemployment rate jeopardizing the social climate.
- Inelastic spending, notably on subsidies and wages, is weighing heavily on public finances.

RISK ASSESSMENT

Despite an oil-production slowdown attributable to sagging foreign demand growth, the robust economic expansion should continue in 2006. The non-oil sector has been the main economic driver buoyed by the market's abundant liquidity, which is encouraging household consumption and investment (in infrastructure, industry, property). In this favourable environment, the stock market correction registered last spring should have a limited impact on consumption, with the economy remaining buoyant in 2007 in view of the non-oil sector dynamic and the still-high hydrocarbon prices, which are maintaining an advantageous climate in terms of investment.

Those good economic conditions have been generating large external and fiscal surpluses that

have contributed to reducing public-sector debt and building up asset holdings denominated in foreign currencies. In that context, companies are posting good results and the Coface payment incident index has remained below the world average. Petrochemicals, construction and financial services should remain the best performers.

Although the business environment has improved with Saudi Arabia's admission to the WTO, the country needs to sustain its efforts on reforms and, thereby, continue to diversify the economy. Regional geopolitical tensions, along with persistent weaknesses in governance terms, continue to cloud the outlook and deter investment.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|-------|---------------------|---------------------|---------------------|
| Economic growth (%) | 0.1 | 7.7 | 5.3 | 6.6 | 5.7 | 5.8 |
| Inflation (%) | 0.2 | 0.6 | 0.5 | 0.5 | 1.7 | 1.8 |
| Public sector balance (%GDP) | -2.9 | 4.5 | 11.4 | 18.4 | 19.2 | 13.4 |
| Exports | 72.5 | 93.2 | 126.0 | 181.5 | 225.8 | 237.3 |
| Imports | 29.6 | 33.9 | 41.1 | 54.5 | 65.4 | 78.5 |
| Trade balance | 42.8 | 59.4 | 85.0 | 127.0 | 160.4 | 158.8 |
| Current account balance | 11.9 | 28.0 | 51.9 | 90.7 | 116.8 | 108.7 |
| Current account balance (%GDP) | 6.3 | 13.0 | 20.7 | 29.3 | 32.5 | 28.1 |
| Foreign debt (%GDP) | 12.4 | 11.6 | 11.1 | 10.9 | 11.2 | 11.6 |
| Debt service (%Exports) | 7.2 | 4.0 | 3.2 | 2.6 | 2.5 | 2.6 |
| Foreign currency reserves (in months of imports) | 3.6 | 3.7 | 3.9 | 3.1 | 3.0 | 3.1 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

With domestic GDP accounting for 55 per cent of aggregate GCC GDP and more than US\$500 billion invested in infrastructure for the next few years, Saudi Arabia offers tremendous business opportunities. Saudi households spend the bulk of their income on non-durable goods. Consumer demand for such goods is strong as already-abundant cash reserves swell further. With 24 million inhabitants and per capita GDP estimated to exceed US\$15,000 at end-2006, the Kingdom is one of the main markets of the Middle East.

However, the Saudiization of jobs by 5 per cent a year (official target) remains a problem as local manpower is inadequately trained to meet the needs of business and the various sectors of the economy. With 200,000 young Saudis arriving on the job market each year, youth unemployment is rising (28 per cent among 20–24 year-olds). Spending on education and vocational training is therefore a priority, with the government allocating 28 per cent of overall spending to these sectors in the budget.

■ Means of entry

Although member states of the GCC (Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Oman and Qatar) introduced a customs union on 1 January 2003, Saudi Arabia continues to apply differential

duties to hundreds of products over a transition period due to expire in 2006. Actual customs duties range from 0 per cent (basic foodstuffs and staple commodities), 5 per cent (80 per cent of imported goods) and 12 or 20 per cent (some locally produced goods) to 25 per cent (various fruit and vegetables) and 100 per cent (milk, wheat, cigarettes and dates). Import bans are applied on mostly religious grounds.

WTO-accession in December 2005 has led to a gradual reduction in differential duties and a review of certain non-tariff barriers to trade, such as the principle of national preference for public tenders. Despite the announcement of measures to relax visa formalities, entry and residence requirements for foreigners remain restrictive (compulsory Saudi sponsor). The legal environment remains hazy, but intellectual property protection is improving. In general, government agencies are slow to pay (7 to 30 months), but defaults are rare.

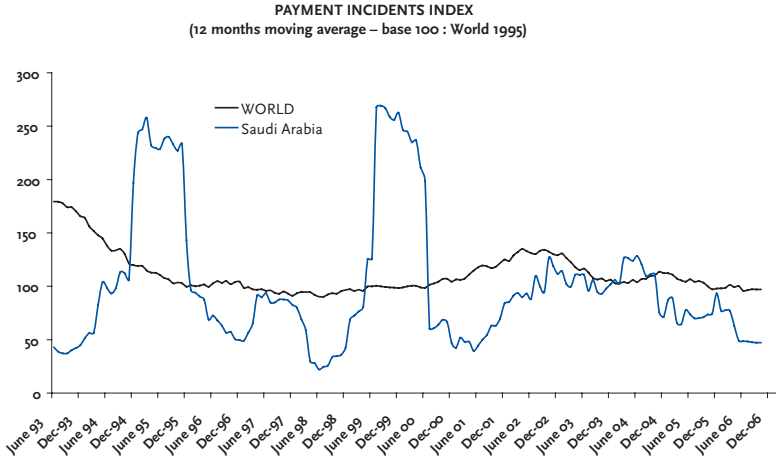
■ Attitude towards foreign investors

A new investment code was adopted in April 2000. Its key features include issue of licences within 30 days, establishment of a one-stop shop for processing applications (SAGIA), freehold ownership of staff facilities and accommodation, self-sponsorship for foreign companies, and access to concessional Saudi financing. However, because of the monopoly barring foreigners from directly

holding shares in the country, foreign companies can operate only through Saudi law subsidiaries incorporated as private limited liability companies or branches. A negative list of sectors from which foreign investors are barred was drawn up in February 2001 but cut in 2003 and in 2005.

The marginal rate of corporation tax for foreign companies has been lowered to 20 per cent. Losses

can now be carried forward over a limited number of years. A reciprocal investment protection and promotion agreement with France was concluded in June 2002 and came into force in March 2004. There is also a double taxation agreement between the two countries renewable every five years, the next time being 2008.



OPPORTUNITY SCOPE

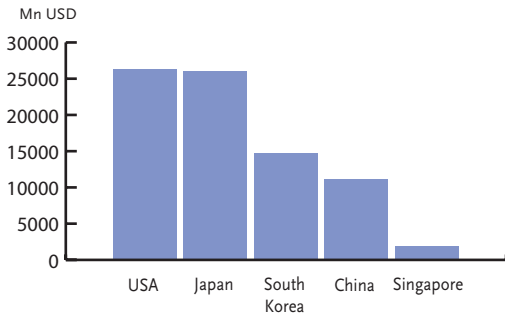
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 27 |
| Public consumption | 20 |
| Investment | 14 |

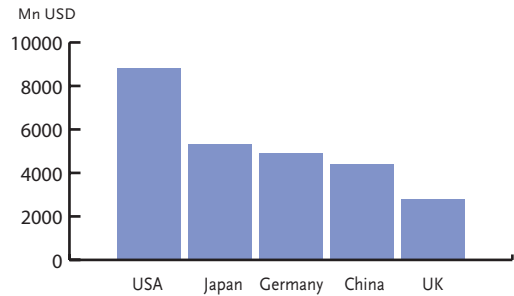
Exports: 61% of GDP

Imports: 26% of GDP

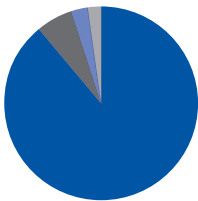
MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

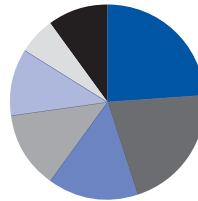


EXPORTS by products



- Unrefined petroleum 89%
- Petroleum products 6%
- Manufactured goods 3%
- Miscellaneous 2%

IMPORTS by products



- Electrical machinery and equipment 24%
- Transport equipment 21%
- Food items 15%
- Chemical products 13%
- Base metals 11%
- Wood, paper and jewellery 6%
- Miscellaneous 10%

STANDARD OF LIVING / PURCHASING POWER

| Indicators | Saudi Arabia | Regional average | DC average |
|--|--------------|------------------|------------|
| GNP per capita (PPP dollars) | 14,740 | 6,712 | 5,540 |
| GNP per capita (USD) | 11,770 | 3,613 | 2,117 |
| Human Development Index | 0.772 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 88 | 61 | 43 |
| Percentage under 15 years old | 37 | 33 | 29 |
| Number of computers per 1000 inhabitants | 354 | 78 | 48 |

Syria

Population (million inhabitants) 19.0
 GDP (US\$ million) 27,300



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

STRENGTHS

- A government reform programme, undertaken to foster investment and consolidate public-sector finances, has been progressing slowly.
- Syria concluded a free trade agreement with GCC member countries in 2005 to foster regional trade and investment.
- Tourism offers great growth potential.
- Debt ratios have become manageable since the settlement of arrears and the debt cancellation granted by Russia.

WEAKNESSES

- An inefficient banking system, red tape and poor governance have impeded economic development.
- The depletion of oil reserves threatens the economic and financial situation and, thus, necessitates a speed-up of reforms.
- Inelastic spending, particularly on petrol price subsidies, has undermined public-sector finances.
- Syria's political isolation and the regional geopolitical uncertainties have affected investment and economic restructuring.

RISK ASSESSMENT

The oil production decline has affected growth with the economy driven, essentially, by the non-oil sector. This sector should remain buoyant in 2007, underpinned by domestic demand spurred by direct investment from Gulf countries and emigrant worker remittances. The petrodollars have notably gone into property, tourism and financial services.

Although an initial reduction of petrol price subsidies should reduce the public-sector deficit, it should also generate inflationary pressures.

Moderately in deficit at this juncture, external accounts have been gradually deteriorating, however, as oil exports decline. The situation will worsen when the country becomes a net importer starting in 2010. Reforms intended to consolidate public finances and attract more foreign investment will, thus, be essential. However, geopolitical uncertainties and the country's political isolation have not been very conducive to speedy implementation of a reform programme.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 3.7 | 1.0 | 3.1 | 2.9 | 3.2 | 3.5 |
| Inflation (%) | -0.5 | 5.8 | 4.4 | 7.2 | 5.6 | 7.0 |
| Public sector balance (%GDP) | -1.6 | -2.7 | -5.3 | -4.2 | -3.2 | -2.5 |
| Exports | 6.6 | 5.8 | 5.5 | 6.5 | 6.5 | 6.7 |
| Imports | 5.0 | 5.0 | 6.7 | 8.2 | 8.1 | 8.4 |
| Trade balance | 1.6 | 0.8 | -1.2 | -1.7 | -1.6 | -1.7 |
| Current account balance | 1.6 | 1.1 | 0.0 | -0.6 | -0.6 | -0.7 |
| Current account balance (%GDP) | 7.1 | 4.7 | 0.0 | -2.2 | -1.9 | -2.3 |
| Foreign debt (%GDP) | 93.3 | 94.2 | 86.4 | 36.4 | 33.4 | 33.0 |
| Debt service (%Exports) | 18.4 | 18.8 | 18.2 | 7.7 | 5.2 | 6.6 |
| Foreign currency reserves (in months of imports) | 6.3 | 6.9 | 6.1 | 5.2 | 5.0 | 4.8 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Syria is committed to a policy of customs reform and gradual trade liberalization. A signatory to GAFTA (Greater Arab Free Trade Area), it has had full and free access to the Arab market since 1 January 2005 as well as having free trade agreements with Iraq and Turkey. An association agreement with the European Union initialled on 19 October 2004, however, remains on the back burner. This agreement provides for the phasing out of customs duties over a 12-year period and the lifting of import bans.

There are ten rates of customs duty ranging from 1 per cent for agricultural and industrial commodities to 50 per cent for upmarket goods. A sweeping customs reform programme, underway since 2004, proposes a series of measures, including huge tariff cuts for numerous goods (eg industrial inputs and, more recently, consumer goods), unified taxation, computerization and index-scan inspections. The Ministry of Economic Affairs and Trade has backed this proactive policy by freeing up numerous imports and publishing an extremely limited negative list. Syria follows the international tariff nomenclature.

The means of payment normally used in transactions between foreign suppliers and Syrian buyers from both the public and private sectors is the letter of credit. Most Syrian private import firms

have funds with foreign banks. Since the opening of the banking sector to private banks in 2004 and the easing of exchange controls, Syrian importers are encouraged to route their transactions via local banks.

■ Attitude towards foreign investors

In 1991, Syria introduced a series of tax and legal regulations, collectively known as Law No 10, to encourage investment, regardless of the origin of funds or the nationality of investors. This law was subsequently made more flexible by a raft of measures. A specific tourism investment law offers numerous tax incentives and authorizes property ownership. There are also seven free zones in Syria – as well as one run jointly by Syria and Jordan – offering highly attractive tax breaks. The main restrictions relate to trade with Israel or with Israeli-held companies under Arab boycott legislation.

Investment legislation is undergoing many changes. Following the passing of Decree 51/2006 on company taxation, the Council of Ministers decided on 17/10/06 to repeal this law from 1 January 2007. The decree contains many clauses that call into question Law No 10. Across-the-board tax exemptions are to be abolished and replaced by reduced rates of corporation tax. Ad hoc laws for industrial areas and estates offer new incentives for setting up industrial sites. The changeover is from a global to a targeted policy in

terms of both location and activity. The new investment law should, however, retain the general principles of property ownership.

■ Foreign exchange regulations

The Syrian pound's exchange rate is pegged to the US dollar. There are now only two rates: one for public-sector transactions, the other for the private sector. They are set by the Syrian central bank. At 19 October 2006, the rate was SYP51.5:US\$1. The

Syrian pound is a non-convertible currency. Since the opening of private banks, foreign currency accounts are authorized, but there is a ceiling on transfers. Only foreign currency brought into the country may be transferred abroad. Currency regulations are gradually being liberalized as importers find it easier to buy foreign exchange through local banks. Unlawful moneychangers have all but disappeared, pending their legalisation.

OPPORTUNITY SCOPE

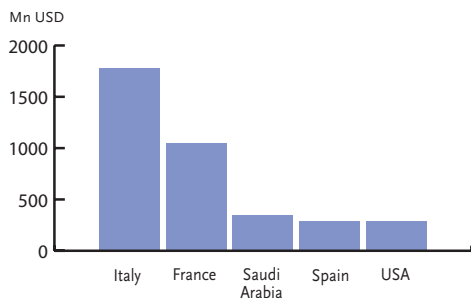
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 46 |
| Public consumption | 10 |
| Investment | 18 |

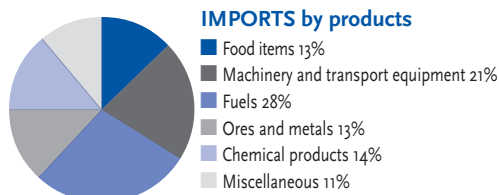
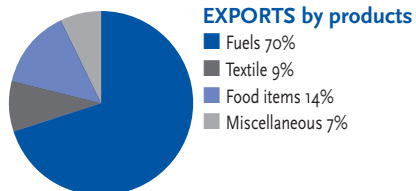
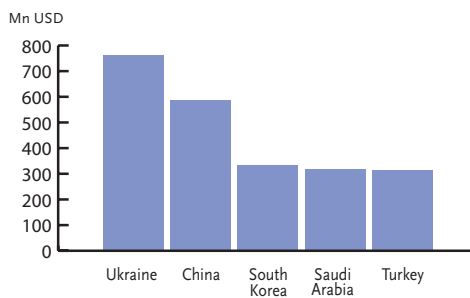
Exports: 31% of GDP

Imports: 37% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Syria | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 3,740 | 6,712 | 5,540 |
| GNP per capita (USD) | 1,380 | 3,613 | 2,117 |
| Human Development Index | 0.721 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 50 | 61 | 43 |
| Percentage under 15 years old | 37 | 33 | 29 |
| Number of computers per 1000 inhabitants | 32 | 78 | 48 |

Tunisia

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 10.1 |
| GDP (US\$ million) | 28,683 |



Short-term: **A4**

Medium-term:
Quite low risk

Coface analysis

STRENGTHS

- With its economic diversification and liberalization policy, Tunisia has won international community political and financial support. Its access to international capital markets has, thus, been secured.
- The partnership agreement with the European Union has spurred a progressive upgrading of industry, infrastructure and the financial sector.
- Political stability and prudent economic policy have been assets for investors.
- Access to education and a developed social system have fostered a reduction in inequalities and the emergence of a dynamic middle class.

WEAKNESSES

- With the country's limited natural resources, economic activity has been subject to exogenous factors including European demand, tourism and weather conditions.
- Tunisia's increasing openness and the discontinuation of the multifibre arrangement since 2005 have made it necessary to speed up efforts to diversify and improve the competitiveness of industrial output.
- The financial sector has been suffering from the effects of the continued high rate of non-performing loans (21 per cent at end-2005).
- Unemployment has remained at high levels affecting 14 per cent of the working population and as much as 30 per cent of the youth population.

RISK ASSESSMENT

Gradual diversification of the productive sector has been underpinning a stable and robust growth. Good tourist industry performance and an exceptional boom in services have been offsetting the difficulties in textiles, whose relative weight in the economy has been declining with the ascendancy of other industrial sectors, particularly the mechanical and electrical engineering industries. Amid that transition, supported by proactive government industrial policy, corporate solvency has remained generally satisfactory with the Coface payment incident index even improving in the past two years.

The good economic conditions have facilitated management of public finances, despite the increase in subsidies to mitigate the impact of rising oil prices on the public. The fiscal deficit should, thus, remain near 3 per cent of GDP. External financing needs, meanwhile, have remained moderate, due particularly to tourism revenues and private transfers, which have been offsetting the widening trade deficit attributable to increased energy and capital goods imports. In that context, the relative weight of the still-substantial foreign debt burden has continued to decline.

In the political arena, Tunisia's stability should not obscure possible sources of tension, notably social ones.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 1.7 | 5.6 | 5.8 | 4.7 | 5.0 | 6.0 |
| Inflation (%) | 2.7 | 2.7 | 3.6 | 2.1 | 4.5 | 3.2 |
| Public sector balance (%GDP) | -3.1 | -3.2 | -2.9 | -3.2 | -3.0 | -2.8 |
| Exports | 6.9 | 8.0 | 9.7 | 10.5 | 11.1 | 11.5 |
| Imports | 9.0 | 10.3 | 12.1 | 12.5 | 13.2 | 13.8 |
| Trade balance | -2.1 | -2.3 | -2.4 | -2 | -2.2 | -2.3 |
| Current account balance (%GDP) | -3.5 | -2.7 | -1.9 | -1.1 | -1.4 | -1.2 |
| Foreign debt (%GDP) | 64.2 | 67.4 | 67.8 | 67.8 | 64.3 | 61.1 |
| Debt service (%G&S exports) | 12.3 | 13.5 | 14.5 | 12.9 | 15.7 | 14.3 |
| Foreign currency reserves (in months of imports) | 2.4 | 2.7 | 3.0 | 3.3 | 4.6 | 4.6 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Means of entry**

The conclusion of an association agreement between Tunisia and the European Union in 1995 has led Tunisia to increase market access for EU manufactured goods and lower customs tariffs for different product categories at varying speeds. There are no duties, for example, on goods without a locally produced substitute, but necessary for the manufacture of finished products. However, 11 per cent duty (22 per cent in 2006) will still be applied in 2007 to finished goods having a locally manufactured substitute whose import could destabilize the domestic market. By 2008, rates should be lowered to 0 per cent, except for farm products excluded from the agreement (effective rates for several foodstuffs remain above 100 per cent).

For companies, the absence of a publicly available reference document makes each import duty untransparent. Moreover, Tunisian customs may reclassify products into a different tariff category at their discretion. Despite some improvement, customs clearance still takes too long compared with international standards. Products such as foodstuffs and consumer goods, even where they comply with European standards, are not immune from comprehensive, though entirely justified, local inspections, mainly on grounds of

public health. Authorization must be obtained from the Ministry of Trade or the competent ministry to import products considered sensitive on grounds of safety, public order, health, hygiene and morality, or essential for the protection of wildlife, plants and cultural heritage.

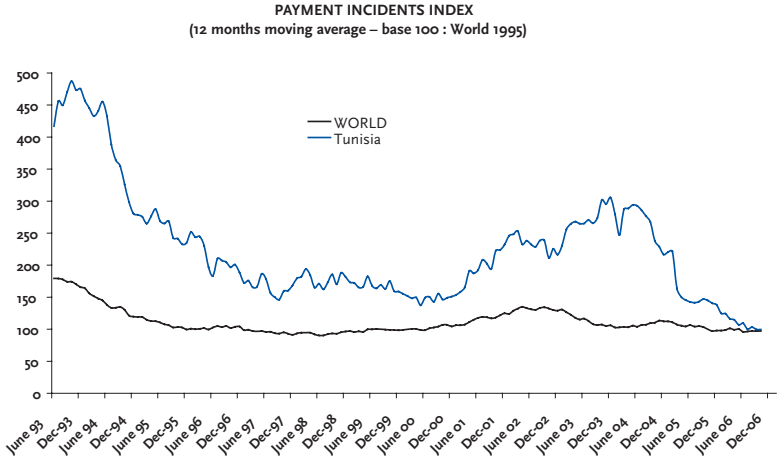
Fund transfers in settlement of ordinary transactions are unrestricted and handled by approved financial institutions (banks) without prior central bank approval. Disputes over contracts entered into with Tunisian companies are usually brought before Tunisian courts.

■ Attitude towards foreign investors

Under the Investment Incentive Act (CII) of December 1993, foreigners are free to invest in all sectors, except mining, energy, local retail and financial services – all of which are governed by specific regulations. On the other hand, foreigners must obtain permission from the Higher Investment Commission to acquire marketable securities with attached voting rights or shares in existing Tunisian companies where the overall foreign interest exceeds 49 per cent. They may not invest in sectors constituting a state monopoly (water supply, post office, tobacco), without being awarded a concession. Prior authorization must be obtained for some partially export-related service activities in which the foreign interest exceeds 50 per cent.

For ‘totally export-orientated’ investment (ie where over 70 per cent of production is exported), there are generous tax breaks. Foreigners are barred from owning farmland, but can acquire long leaseholds. A number of sectors face only limited administrative formalities, as do offshore banks and

totally export-orientated firms. Although the country has an open attitude to foreign investment, companies should give serious attention to managing the risks arising from wider issues of governance (legal stability, legal certainty, clarity of administrative procedures).



OPPORTUNITY SCOPE

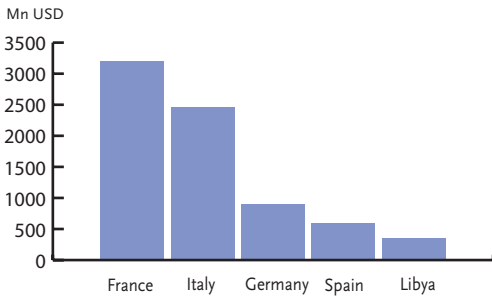
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 42 |
| Public consumption | 11 |
| Investment | 16 |

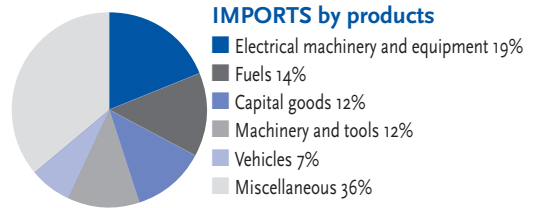
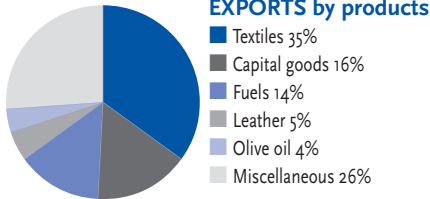
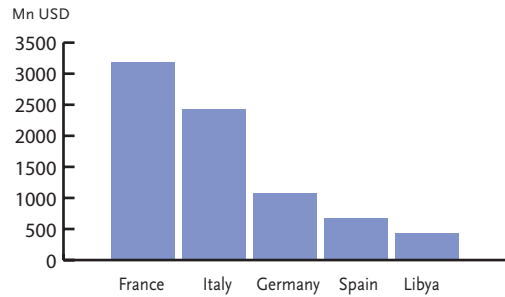
Exports: 48% of GDP

Imports: 51% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Tunisia | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 7,900 | 6,712 | 5,540 |
| GNP per capita (USD) | 2,890 | 3,613 | 2,117 |
| Human Development Index | 0.753 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 32 | 23 | 30 |
| Urban population percentage | 64 | 61 | 43 |
| Percentage under 15 years old | 26 | 33 | 29 |
| Number of computers per 1000 inhabitants | 48 | 78 | 48 |

United Arab Emirates

Population (million inhabitants) 4.6
GDP (US\$ million) 132,184

Short-term: **A2**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- The sixth world oil exporter (ranked by volume), Abu Dhabi has accumulated considerable holdings abroad, effectively guaranteeing the federation's financial solidity.
- With its open economy, Dubai's diversification strategy – to aluminium, petrochemicals, financial services and tourism – has paid off and spread to the other emirates.
- The federation's political stability is reassuring for foreign investors.

WEAKNESSES

- Public finances have remained opaque.
- Despite a booming economy, indigenous unemployment has persisted with efforts to 'Emiratize' jobs meeting with little success due to a lack of training.
- Although diversified, the economy is still dependent on Abu Dhabi oil revenues.
- The dispute with Iran, over that country's occupation of the strategically important Lesser Tumbs, Greater Tumbs and Abu Mousa islands since 1971, continues.

RISK ASSESSMENT

With unprecedented dynamism, the non-oil sector has been the main economic driver. Development of tourism, infrastructure and property has resulted in strong growth of construction, transport, commerce and financial services. The oil sector has also been expanding. Sharp stock market corrections, meanwhile, have made the markets more attractive to investors. The economic boom has been accompanied by a tripling of foreign debt over a three-year period, but with robust foreign currency earnings, debt ratios have remained manageable.

The outlook for 2007 has been bright in all sectors. Industry should particularly benefit from the start-up of an additional aluminium production unit. An increase in available property should limit rent increases and calm inflationary pressures. Slackening foreign demand for oil should have a moderate effect on the economy with still-high oil prices continuing to generate robust external and fiscal surpluses. The business environment has remained buoyant. Despite regional geopolitical uncertainties, the country's economic liberalism and domestic political stability have been reassuring to investors and attractive to capital.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(f) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 2.6 | 11.9 | 9.7 | 8.2 | 7.7 | 9.7 |
| Inflation (%) | 2.9 | 3.1 | 5.0 | 6.2 | 8.5 | 6.9 |
| Public sector balance (%GDP) | 10.4 | 12.8 | 18.1 | 26.4 | 33.7 | 32.9 |
| Exports | 52.2 | 67.1 | 91.0 | 115.5 | 144.6 | 166.8 |
| Imports | 37.5 | 45.8 | 63.4 | 71.2 | 82.6 | 97.4 |
| Trade balance | 14.6 | 21.3 | 27.6 | 44.3 | 62.1 | 69.4 |
| Current account balance | 3.4 | 7.6 | 10.6 | 26.5 | 41.7 | 45.5 |
| Current account balance (%GDP) | 4.6 | 8.7 | 10.1 | 20.0 | 26.1 | 24.8 |
| Foreign debt (%GDP) | 22.5 | 19.1 | 26.4 | 31.4 | 30.6 | 31.6 |
| Debt service (%GS&T exports) | 7.1 | 4.9 | 3.6 | 3.5 | 2.8 | 2.4 |
| Foreign currency reserves (in months of imports) | 3.5 | 2.9 | 2.7 | 2.6 | 3.1 | 3.5 |

f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

In spite of a number of restrictive practices (local majority partner, closure of certain sectors to foreigners, local agent, local sponsorship for a residence permit), the United Arab Emirates' market is very open and highly competitive. The UAE is a member of WTO and, through the GCC, a party to talks on a free trade agreement with the European Union.

■ Means of entry

UAE customs duties applicable since 1 January 2003, the date of introduction of the GCC customs union, are 0 per cent for 417 customs nomenclatures and 5 per cent of the CIF value for other goods. The country's standards policy is based on that of the GCC. A national standards agency ESMA (Emirates Authority for Standardization and Metrology) was set up in the first half of 2003 to establish nationwide standards and, above all, to play an active role in the harmonization of regulations within the GCC.

All modern means of payment are available in the UAE. The cheque, documentary credit collection, promissory note and bill of exchange are not recommended.

■ Attitude towards foreign investors

The Emirate of Abu Dhabi has actively sought FDI both to develop the oil and gas sector and, more recently, to improve management of some of its public services. Faced with the gradual depletion of its resources, it is striving to channel foreign investment into economic diversification, particularly in the property, tourism and service sectors. There is no direct taxation of individuals or companies (except banks, oil companies and telecoms operators). Capital may be freely repatriated. Moreover, new laws have been passed to strengthen intellectual property protection and to support moves to open up land ownership to foreigners. Nevertheless, a number of obstacles to FDI remain. These include the requirement for foreign companies outside the free zones to have a local majority partner in a joint venture and for non-nationals residing in the UAE to have a local sponsor. A reform of company law permitting foreigners to hold a majority stake in local companies is due to come into force over the coming months.

■ Foreign exchange regulations

There are no exchange controls in the UAE. The UAE dirham enjoys fixed parity with the US dollar at AED3.6725 to the dollar. There are no restrictions on capital transfers.

OPPORTUNITY SCOPE

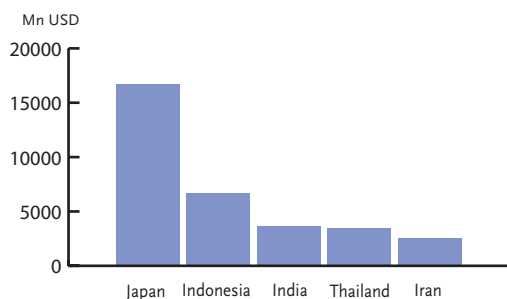
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 29 |
| Public consumption | 9 |
| Investment | 14 |

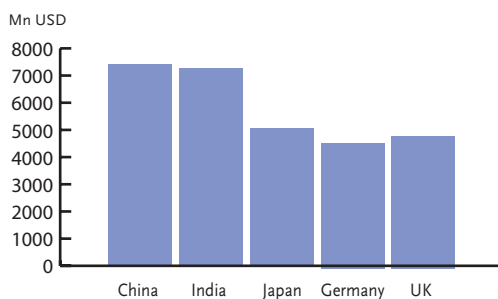
Exports: 82% of GDP

Imports: 65% of GDP

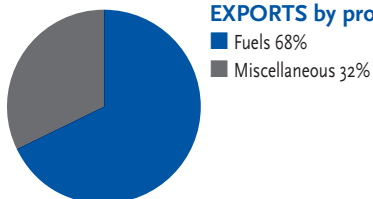
MAIN DESTINATIONS OF EXPORTS



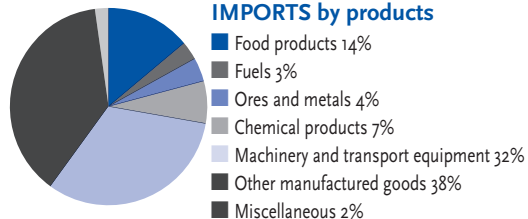
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | United Arab Emirates | Regional average | DC average |
|--|----------------------|------------------|------------|
| GNP per capita (PPP dollars) | 24,090 | 6,712 | 5,540 |
| GNP per capita (USD) | 23,770 | 3,613 | 2,117 |
| Human Development Index | 0.849 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | n/a | 23 | 30 |
| Urban population percentage | 85 | 61 | 43 |
| Percentage under 15 years old | 22 | 33 | 29 |
| Number of computers per 1000 inhabitants | 116 | 78 | 48 |

Yemen

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 21.0 |
| GDP (US\$ million) | 15,188 |

Short-term: **C**

Medium-term:
Very high risk

Coface analysis



STRENGTHS

- The country boasts large natural gas reserves that are attractive to foreign investment; their exploitation will breathe life into the economy from 2009.
- Yemen enjoys the support of the international community, which has remained attentive to progress on reforms.
- With debt relief granted by the Paris Club, foreign debt has been only a minor constraint.
- Transfers from expatriate workers have consolidated the invisibles balance.
- Yemen has received financial and military aid in exchange for cooperation with the United States on combating terrorism.

WEAKNESSES

- The economy is still dependent on oil revenues, with reserves expected to run out in 10 years.
- Inelastic public spending will not be sustainable with the prospect of oil revenues drying up.
- A nonetheless precarious political stability and the poverty afflicting the population have limited the government's room for manoeuvre to make necessary structural adjustments.
- An environment marked by corruption and insecurity has deterred investment.
- The consumption of qat has had a detrimental effect on economic activity.

RISK ASSESSMENT

High oil prices have buoyed growth and made it possible to contain the fiscal and external deficits. Household consumption, supported by expatriate workers' remittances and wage increases for civil servants, has been driving the economy, with the oil sector affected by the decline of crude production.

Although the hydrocarbon sector only represents 25 per cent of GDP, the economy continues to depend on oil, which still generated 85 per cent of foreign currency earnings and 70 per cent of fiscal revenues in 2006. From 2009, liquid gas exports will allow the country to limit the growth slowdown and the widening of the fiscal and

external deficits but will not offset the decline of oil revenues from current levels.

Structural adjustments will be necessary to avoid having macroeconomic imbalances grow increasingly severe in the longer term and generate unsustainable debt, but government authorities will probably give priority to preserving an already-precarious political stability. In such conditions, progress on reforms will be slow with high social costs associated with the structural adjustments generating an insurrectional climate as evidenced by the violent protests that followed the raising of oil prices in July 2005.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 ^(e) | 2006 ^(f) | 2007 ^(f) |
|---|------|------|------|---------------------|---------------------|---------------------|
| Economic growth (%) | 3.9 | 3.1 | 2.6 | 3.8 | 3.9 | 2.5 |
| Inflation (%) | 6.8 | 11.9 | 12.0 | 14.6 | 15.7 | 13.1 |
| Public sector balance (%GDP) | -2.8 | -5.2 | -3.0 | -2.4 | -0.8 | -1.0 |
| Exports | 3.6 | 3.9 | 4.7 | 6.4 | 6.9 | 6.7 |
| Imports | 3.1 | 3.6 | 3.9 | 4.7 | 6.2 | 6.6 |
| Trade balance | 0.5 | 0.4 | 0.8 | 1.7 | 0.7 | 0.1 |
| Current account balance | 0.5 | 0.0 | 0.2 | 0.3 | -1.0 | -1.3 |
| Current account balance (%GDP) | 5.0 | -0.4 | 1.6 | 1.8 | -5.5 | -6.8 |
| Foreign debt (%GDP) | 53.1 | 44.8 | 40.6 | 35.0 | 31.4 | 29.4 |
| Debt service (%Exports) | 2.5 | 4.4 | 5.2 | 3.9 | 4.5 | 4.4 |
| Foreign currency reserves (in months of imports) | 10.9 | 10.3 | 10.7 | 8.8 | 7.6 | 6.8 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Yemen can be called a free market economy. There are few restrictions and no discrimination between supplier countries.

■ Means of entry

Several types of levy apply to imported goods, including 'duties and taxes' on all authorized imports. Customs duty is levied at a single rate of 5 per cent on the CIF value. There is also 3 per cent additional tax, a freight tax calculated on the volume and length of storage and, since July 2005, a 5 per cent general sales tax (except for flour, rice, drugs, baby milk and raw gold).

Exporters are advised to use either irrevocable letters of credit confirmed by a first-rate (preferably foreign) bank or advance payments. Some Yemeni traders have financial assets abroad, which they can use to pay for imports into the country. A letter of credit opened with CALYON, the only western financial institution with branches in Yemen, does not need to be confirmed, particularly if the seller is prepared to cover the risk of non-transfer. Some foreign inspection companies (eg SGS but not

Véritas) are represented in Yemen, but do not have offices there. As a result, caution is called for in dealing with inspections.

■ Attitude towards foreign investors

Foreign investment is governed by Law No 22 of 1991, amended several times, most recently in 2002. There are also ad hoc laws offering special terms for oil exploration/production and public works. In general, investors are granted tax breaks and are exempt from customs duty. Investment capital and profits can be freely repatriated at the market rate. The law lays down the principle of equality between Yemenis and foreigners. Foreigners may hold a majority, even 100 per cent, stake in a local company, but would be well advised to team up with a local partner. The labour code (in Arabic) covers key issues, but its interpretation can be a source of confusion. As social protection is poor, some companies take out private insurance cover for their employees.

■ Foreign exchange regulations

The Yemeni rial fell slightly against the US dollar in 2005 and, in October 2006, stood at 198 rials to the dollar.

OPPORTUNITY SCOPE

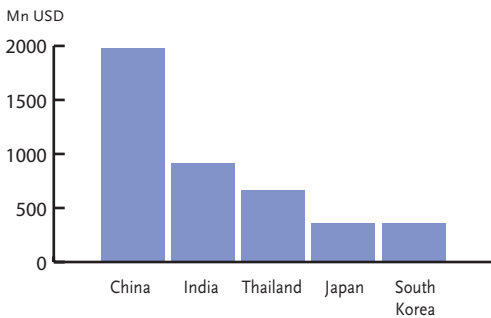
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 53 |
| Public consumption | 9 |
| Investment | 10 |

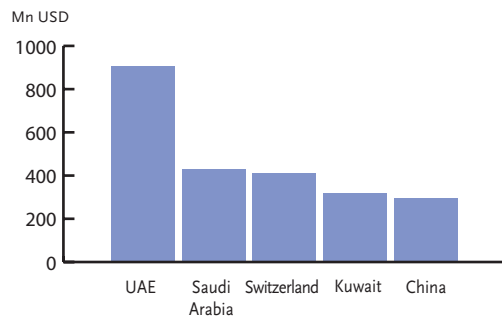
Exports: 42% of GDP

Imports: 31% of GDP

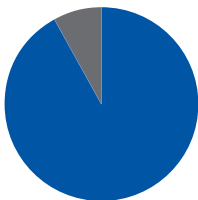
MAIN DESTINATIONS OF EXPORTS



MAIN ORIGIN OF IMPORTS

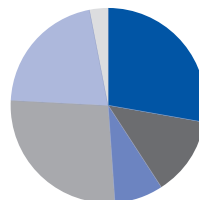


EXPORTS by products



Fuels 92%
Miscellaneous 8%

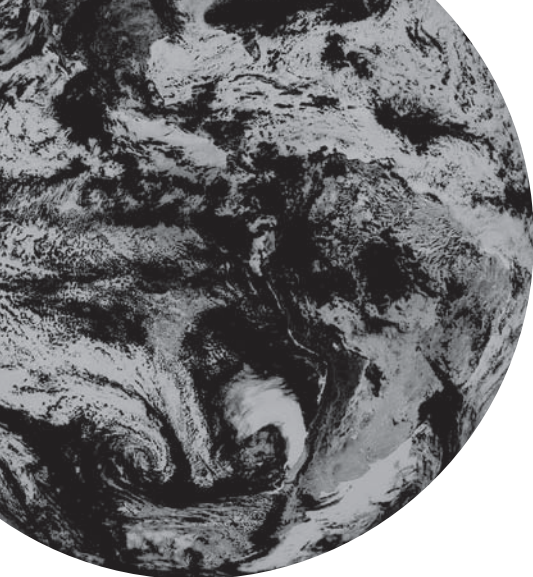
IMPORTS by products



Food products 28%
Fuels 13%
Chemical products 8%
Capital goods and transport equipment 27%
Other manufactured goods 21%
Miscellaneous 3%

STANDARD OF LIVING / PURCHASING POWER

| Indicators | Yemen | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 920 | 6,712 | 5,540 |
| GNP per capita (USD) | 600 | 3,613 | 2,117 |
| Human Development Index | 0.489 | 0.666 | 0.660 |
| Wealthiest 10% share of national income | 26 | 23 | 30 |
| Urban population percentage | 26 | 61 | 43 |
| Percentage under 15 years old | 46 | 33 | 29 |
| Number of computers per 1000 inhabitants | 15 | 78 | 48 |



Sub-Saharan Africa

| | | | |
|---|-----|-----------------------|-----|
| Outlook for 2007: Sub-Saharan Africa | 370 | Kenya | 412 |
| Angola | 376 | Madagascar | 415 |
| Benin | 379 | Malawi | 416 |
| Botswana | 380 | Mali | 417 |
| Burkina Faso | 384 | Mauritania | 418 |
| Burundi | 385 | Mauritius | 421 |
| Cameroon | 386 | Mozambique | 425 |
| Cape Verde | 389 | Namibia | 428 |
| Central African Republic | 390 | Niger | 429 |
| Chad | 391 | Nigeria | 431 |
| Congo | 393 | Rwanda | 434 |
| Democratic Republic of Congo | 394 | São Tomé and Príncipe | 435 |
| Djibouti | 395 | Senegal | 436 |
| Eritrea | 397 | Sierra Leone | 440 |
| Ethiopia | 399 | South Africa | 441 |
| Gabon | 401 | Sudan | 445 |
| Ghana | 405 | Tanzania | 446 |
| Guinea | 408 | Togo | 450 |
| Ivory Coast | 409 | Uganda | 451 |
| | | Zambia | 455 |
| | | Zimbabwe | 458 |

Sub-Saharan Africa

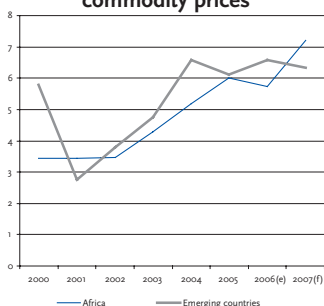
Sylvia Greisman and Bernard Lignereux

Country Risk and Economic Studies Department, Coface

■ **Growth still underpinned by raw material exports and investment**

► Buoyed by high raw-material prices, the **sub-Saharan African** economy grew a satisfactory 5.7 per cent in 2006, although still below the 7 per cent needed to meet the millennium objectives intended to cut poverty in half by 2015. Prices for oil and gas, as well as minerals like precious metals, iron, copper, zinc and aluminium, continue to trend up. Prices for some farm products – including cotton, sugar and cocoa – have remained at satisfactory levels. As for demand, good harvests spurred household consumption in most countries. Investment, both private (raw materials) and public (transport, health and education infrastructure), has shown some dynamism. Major efforts to implement structural reforms enhanced the favourable context in many countries.

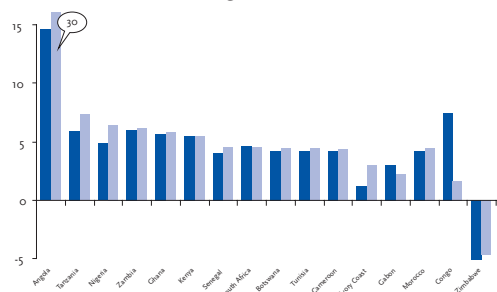
Activity has benefited from buoyant commodity prices



► In **South Africa**, which is responsible for 40 per cent of regional GDP, the growing confidence of economic players and a diversified economic fabric

have underpinned high growth. Moreover, the depreciation of the South African rand in 2006 strengthened the competitiveness of manufactured products, even if it contributed to an upsurge of prices. That positive growth trend, spurred by dynamic domestic and foreign demand, should continue at about a 5 per cent rate in 2007, despite rising interest rates, with process industries and services particularly benefiting from the favourable economic conditions.

GDP growth rate



► For the other countries, with less-diversified economies, the outlook for 2007 is based on continued satisfactory price levels for mineral raw materials with agriculture affected by greater uncertainty, particularly when it comes to weather conditions. **Angola** in particular, but also **Nigeria**, **Sudan** and, to a lesser extent, **Cameroon** will benefit from the production start-up of new oil fields. Economic growth in **Botswana** (diamonds), **Zambia** (copper) and **Ghana** (gold and cocoa) will also benefit from the continued high raw-material

prices. For countries like **Tanzania**, **Senegal** and **Kenya**, the growth rate will reflect the impact of reforms undertaken by those countries to diversify their economic fabric. The foreign debt reduction process will allow most countries that have benefited from the HIPC and MDRI programmes – along with **Nigeria** – to redirect public spending toward infrastructure improvement. On the other hand, no significant recovery appears likely in **Ivory Coast** and **Zimbabwe**, due to the ongoing economic and political crises, with **Zimbabwe** remaining in recession.

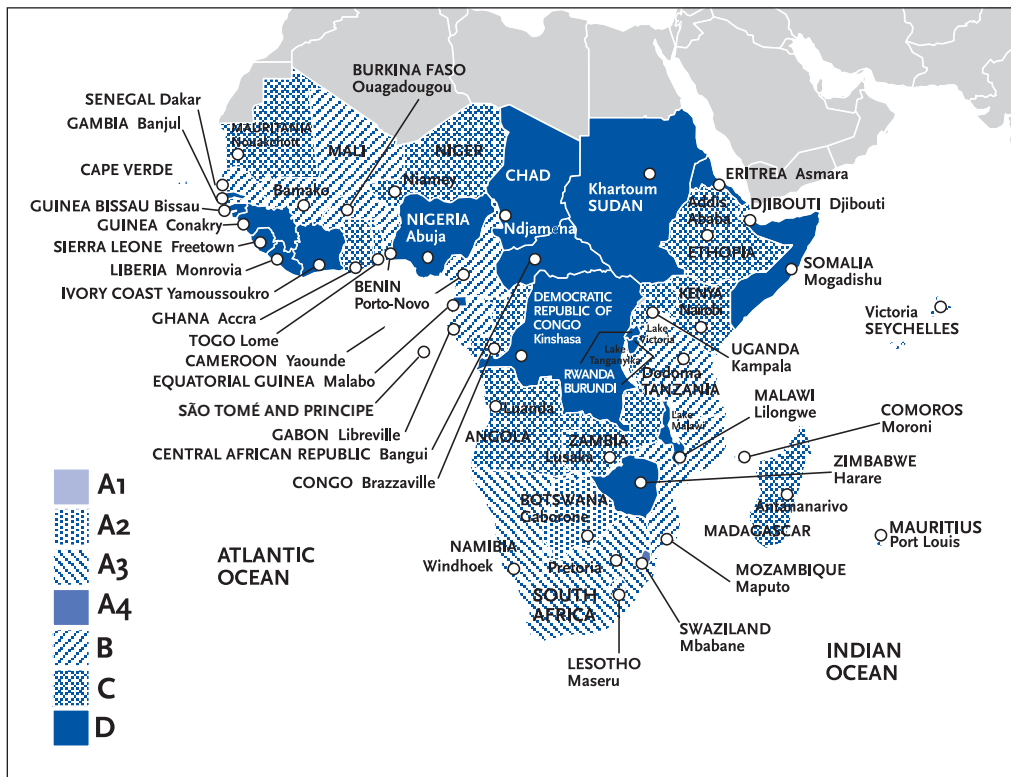
Those generally favourable economic conditions have not, however, resulted in overall improvement in the public-sector balance of those countries, except in most oil-producing countries, which have accumulated large public sector financial surpluses, and **South Africa**, where pursuit of tight fiscal policy has kept public accounts essentially in balance. The other

countries, hampered by narrow tax bases, will continue to experience difficulties in adjusting always insufficient revenues to their continuing large needs for infrastructure, poverty reduction, public health and education, and in coping with the AIDS pandemic. Although grants will always cover their domestic financing needs, improvement in the fiscal management framework will allow them to further reduce their recourse to payment arrears.

■ **Except for oil exporters, most countries have been running external deficits**

► The sharp increase in commodity prices in 2006, not only for hydrocarbons but also for metals, spurred a relative improvement in the current accounts of sub-Saharan African countries. Although the major oil producers, **Nigeria** and **Angola**, were able to generate large surpluses, the foreign trade balance of most other African countries remained in deficit. With a less spectacular price trend for farm

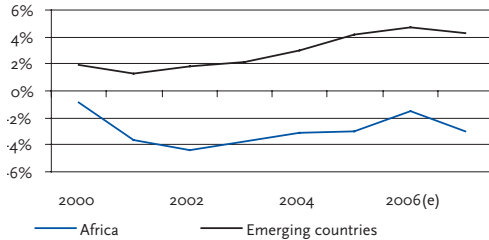
COFACE MAP OF COUNTRY @RATINGS



SUB-SAHARAN AFRICA

products (cotton, coffee, cocoa), those countries suffered from the price increases for the oil they import, along with their other large needs for imported goods, especially capital goods.

Region's current account balance to remain in deficit (%GDP)



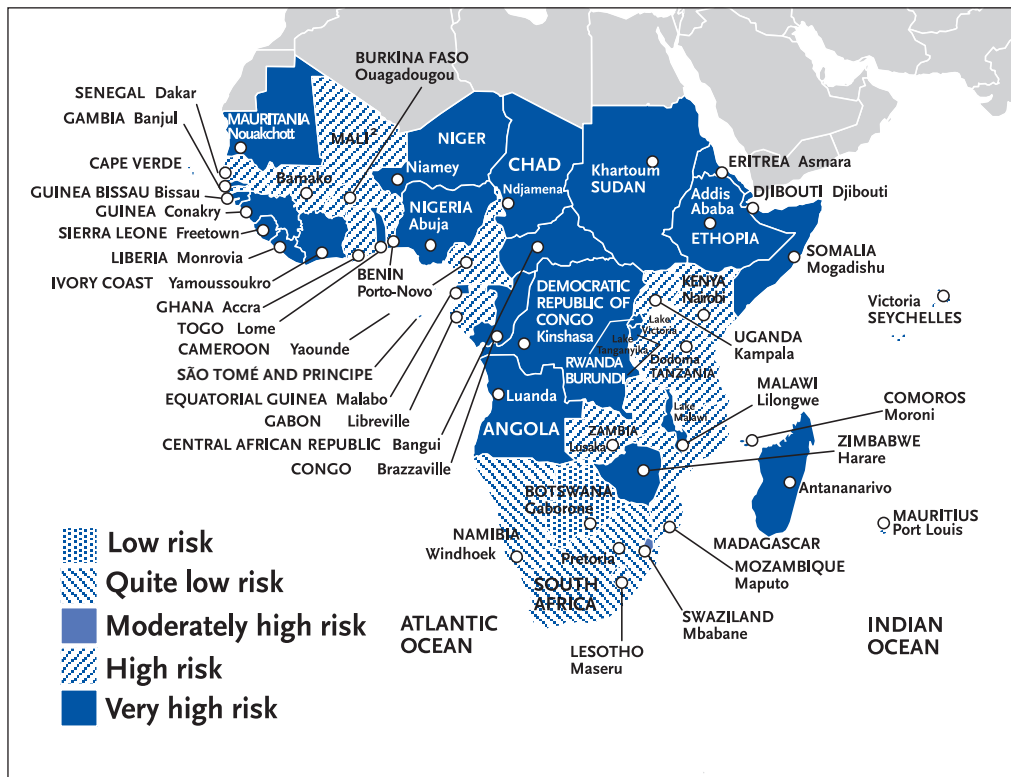
In **South Africa**, exchange-rate risk has persisted. The trend toward deterioration of the current account balance has continued despite the growth of export revenues (precious metals and manufactured products) spurred, moreover, by the rand depreciation. Besides increased energy spending,

dynamic domestic consumption and investment generated high import volumes. In 2007, although some improvement is expected with moderation of oil prices and consumption, South Africa's external account situation will continue to exacerbate pressure on the structurally volatile rand exchange rate. The country has been especially sensitive to swings in market sentiment, with its external financing needs covered essentially by portfolio investments.

For the other sub-Saharan African countries, forecasts for 2007, based on some moderation of raw material prices, envision slight deterioration of external accounts.

► Except for **Cameroon**, hydrocarbon-exporting countries (**Gabon**, **Nigeria**, **Congo** and **Angola**) should, thus, continue to run comfortable trade and current account surpluses, allowing them to replenish their foreign currency reserves. This group includes **Botswana**, based on its diamond exports, and **Namibia**. In the new oil-exporting countries, **Sudan**

COFACE MAP OF MEDIUM- AND LONG-TERM COUNTRY RISK



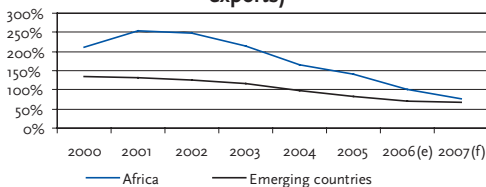
and **Chad**, however, the trade surpluses will still not suffice to generate current account surpluses in view of the volume of outgoing dividends paid by oil companies and of interest payments on foreign debt.

► For oil-importing countries, their exports of mineral raw materials (**Zambia, Tanzania, Ghana**), farm products (**Ivory Coast, Ghana**), or semi-finished products (**Kenya, Senegal**) will not generate enough revenues to offset increases in their capital goods and fuel imports. Moreover, their invisibles will remain in deficit despite the foreign debt relief granted to them and, for some countries, despite significant tourism revenues (**Mauritius, Senegal, Kenya, Tanzania**) or expatriate remittances, which will affect their current account surplus. Except for **South Africa**, those countries do not enjoy access to international financial markets, with their financing needs remaining essentially covered by international aid, upon which they are still very dependent. Foreign direct investment, meanwhile, has focused mainly on the mineral raw-material sectors and a limited number of countries including **South Africa, Angola, Nigeria, Mozambique, Ghana**, and **Guinea**.

■ The HIPC and MDRI programmes have contributed to a marked improvement in foreign-debt ratios

► Public foreign-debt reduction programmes implemented in recent years in the enhanced HIPC programme framework have continued to operate, however, with 16 countries reaching the completion point since 2000 (**Malawi** and **Cameroon** being the last ones, in 2006) and, thus, benefiting from cancellation of their bilateral Paris Club debt. Moreover, the Multilateral Debt Relief Initiative – implemented for the benefit of those countries since 2006, which results in cancellation of virtually all debt owed to the IMF, World Bank and the African Development Bank – has substantially reduced debt ratios in the region.

External debt ratios falling (% goods and services exports)



Ineligible for the HIPC programme, **Nigeria** concluded a debt-exit agreement with the Paris Club in October 2005, combining repayment and partial cancellation, which resulted in considerable reduction of its foreign debt, of which 80 per cent was originally bilateral.

■ Shaky improvement in the political environment amid governance deficiencies

► Southern Africa should remain the continent's most stable region, with the notable exception of **Zimbabwe**, increasingly mired down in an economic, social and political crisis and for which developments in 2007 will be decisive. **South Africa, Botswana, Mauritius** and **Namibia** have benefited from relative political consensus with intercommunity tensions remaining limited, despite high levels of underemployment and poverty. Meanwhile, the political stabilization process has continued in **Mozambique** as well as in **Angola**, which has been preparing for its first general elections since 1992; in addition, the December 2006 presidential elections in **Madagascar** failed to generate the serious turmoil that marked the previous election.

► Conversely, the situation has been deteriorating markedly in East Africa, affected by developments in **Somalia** and **Sudan**. Implementation in February 2006 of **Sudan's** internal peace agreement with the south has remained uneven and incomplete. The conflict in Darfur has, moreover, continued despite the partial agreement signed in May 2006, which has indirectly heightened tensions in neighbouring countries, **Central African Republic** and especially **Chad**, with growing rebel agitation. Since summer 2006, risks of turmoil in the Horn of Africa have heightened amid the developments in **Somalia**, where **Ethiopia's** military support for the interim government has sparked calls for war on the part of the Islamic militias that control most of Somalia's territory. Compounding the tensions, the lack of a settlement of Ethiopia's border demarcation dispute with **Eritrea** results in the high risk of renewed conflict between those two countries.

Prospects for breaking out of crisis conditions seem to have emerged in the **Democratic Republic**

of Congo. Legislative and presidential elections in 2006 marked the end of the institutional transition period begun in 2002. Consolidating the institutions will now depend on the effective strengthening of parliament's role and, especially, on improving security conditions. The instability fomented by various militias has, however, persisted in many regions. Exacerbation of post-election tensions will remain possible. In view of the magnitude of the improvement task in a very precarious social situation, and foot-dragging in circles that benefited from the turmoil, the outlook will remain shaky.

► How the political environment evolves in West Africa's two most important countries will remain uncertain in 2007. The severe political crisis that has been gripping **Ivory Coast** since 2002, resulting in *de facto* partition of the country, has persisted despite international community involvement. Although the African Union and United Nations have postponed elections for a year, until October 2007, and organized a second transition year entailing broader authority for Prime Minister Konan Banny, he will nonetheless have little room for manoeuvre. The prospects for breaking out of the crisis remain uncertain and will, therefore, delay the resumption of financial backer involvement in the country.

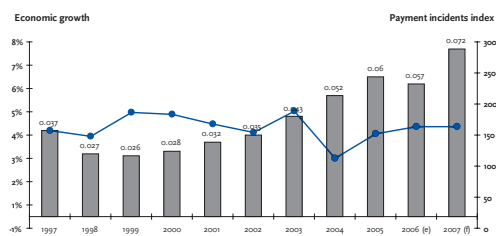
In **Nigeria**, which has remained in the grip of profound internal instability, recurrent ethnic, social, political and religious tensions could worsen in the run-up to presidential, legislative and regional elections in April 2007. Conversely, the political stability of countries like **Mali**, **Burkina Faso**, **Senegal**, **Benin**, **Gabon** and **Cameroon** should remain unshaken by the elections scheduled in 2007 in some of those countries, while the gradual stabilization of **Sierra Leone**, **Liberia**, **Togo** and **Mauritania** should stay on track. In any case, despite the more or less effective implementation of the many reforms intended to improve it, the business environment is still difficult in all those countries.

■ **The economic growth has been conducive to improving company solvency, but the business environment continues to be weak**

► The good economic conditions benefiting South Africa have contributed to the improvement

in company solvency reflected by a sharp decline in bankruptcies in 2006 and a Coface payment incident index that has been below the world average and should remain so in 2007. Similarly, in **Mauritius**, although the traditional economic mainstays have been undergoing a difficult period, the improved economic conditions have been good for corporate solvency. Conversely, in **Senegal**, the deterioration of payment behaviour has been a reflection of the financial crisis buffeting Industries Chimiques du Senegal (ICS).

Economic growth and credit risk



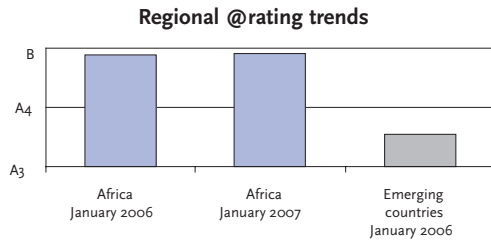
In the remaining countries, company payment behaviour continues to reflect the difficulties that particular economic sectors may experience, for example textiles, which is undermined by Asian competition or agriculture, and exposed to weather vagaries and difficulties in reorganizing the cotton and peanut industries. Oil prices have, moreover, affected corporate finances, while in some countries the difficulties of public or private energy suppliers (electricity, fuel), confronted with the rising cost of imported oil and the impossibility of passing on the increase to customers, have sometimes led to a rash of payment problems.

In some countries, furthermore, such as **Angola** and **Nigeria**, corruption and a deficient business environment contribute to an irregular payment experience.

■ Regional @rating trend

► The level of risk has stabilized, but at a high level compared with the emerging country average. The main Southern African countries continue to boast the best rating. They have allied political stability with financial health that has been either excellent (**Botswana**, A2), or at least acceptable despite recent deterioration (**South Africa**, **Mauritius**, A3). They carry limited foreign debt,

however, and have maintained their creditworthiness in financial markets. South Africa, in particular, could thus cope with a sudden loss of investor confidence.



In **Gabon** and **Cameroon** (B), the oil-revenue-driven improvement in the financial situation has buoyed payment behaviour in the public sector and, thereby, that of companies. Renewed efforts on structural reforms should, moreover, speed up diversification of their productive fabric. Beneficiaries of broad debt cancellation, non-oil countries **Senegal**, **Mozambique** and **Tanzania**

(B), have also benefited from regular implementation of structural reforms.

Despite improvement in their financial situation, the ratings of **Angola** (C) and **Nigeria** (D), both oil-producing countries, have not changed with their business environments remaining very difficult. In Angola, that environment coupled with the country's financial opacity has been an obstacle to resumption of substantive relations with multilateral credit agencies. In Nigeria, despite notable efforts to diversify the economy, the many risks of heightened tensions facing the country in the run-up to elections in 2007 have remained substantial.

Political uncertainties have had an impact on **Kenya's** C rating. Despite better economic conditions, the shortcomings of the anticorruption campaign and the slowdown of structural reforms in the run-up to general elections in December 2007 have prevented an upgrade for the country.

RATINGS OF THE MAIN REGIONAL ECONOMIES

| | January 2001 | January 2002 | January 2003 | January 2004 | January 2005 | January 2006 | January 2007 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Botswana | A2 | A2 | A2 | A2 | A2 | A2 | A2 |
| South Africa | A4↗ | A4 | A4 | A4 | A3 | A3 | A3 |
| Mauritius | A3 | A3 | A3 | A3 | A3 | A3 | A3 |
| Namibia | A3 | A3 | A3 | A3 | A3 | A3 | A3 |
| Cameroon | C | B | B | B | B↘ | B | B |
| Senegal | B | B | B | B | B | B | B |
| Gabon | B | B | C | C | C | B | B |
| Mozambique | D | D | C | C | C | B | B |
| Tanzania | C | C | C | C | B | B | B |
| Angola | C | C | C | C | C | C | C |
| Kenya | C | C | C | C | C↗ | C↗ | C |
| Zambia | C | C | D | D | D | C | C |
| Ivory Coast | C↘ | C | D | D | D | D | D |
| Nigeria | D | D | D | D | D | D | D |
| Zimbabwe | D | D | D | D | D | D | D |

Angola

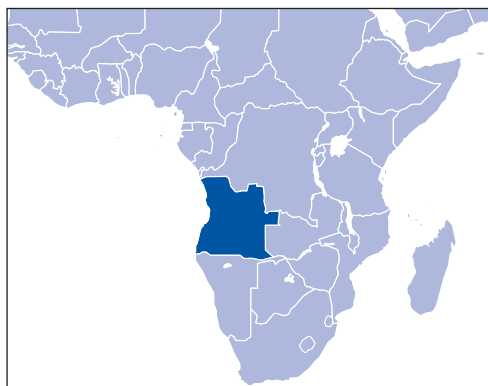
Population (million inhabitants) 13.5
GDP (US\$ million) 13,189

Short-term: **C**

Medium-term:

Very high risk

Coface analysis



STRENGTHS

- Consolidation of the peace process has made it possible to begin actively reconstructing the country.
- Angola's status as sub-Saharan Africa's second biggest oil producer without belonging to OPEC has been a strategic asset.
- The country has, thus, attracted the interest of western and Asian oil-consuming countries and investors.
- The country's diversified economic potential – diamonds, minerals, hydroelectricity, agriculture and fishing – could ultimately underpin its industrialization.

WEAKNESSES

- Dominated by an oil sector that represents 65 per cent of GDP, 90 per cent of export earnings and 80 per cent of fiscal revenues, the economy is vulnerable to a price downturn.
- Marked regional inequalities, exacerbated by dilapidated infrastructure and the health and social consequences of over 20 years of civil war, have impeded development.
- Insufficient restructuring and a very difficult business environment have hampered the economy.
- That environment and the opacity of public finances have impeded the renewal of working relationships with multilateral credit agencies.

RISK ASSESSMENT

Increased oil extraction, with some of the revenues financing reconstruction of infrastructure destroyed during 27 years of civil war, has spurred remarkable growth. Despite the country's broad economic potential, however, a lack of major structural reforms has kept it dependent on the oil sector, whose economic impact has been limited in employment and wealth distribution terms.

The oil wealth has nonetheless allowed Angola to consolidate its public finances and external accounts. The improved economic situation has, moreover, reduced the foreign debt burden's relative weight. With some of that debt overdue and

half consisting of costly oil-backed loans, however, it can only be partly restructured. Prospects for payment of arrears and improving the country's credit profile will depend on conclusion of an agreement with the IMF.

Meanwhile, despite continued political stability, Angola still has to deal with many challenges, above all improving governance and the business environment. Although the general elections to be held end-2007 or in 2008 will allow the country to bring the post-civil war period to a close, establishment of a legal framework more conducive to development and less-inegalitarian distribution of oil revenues will remain uncertain.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 15.3 | 3.3 | 11.2 | 20.6 | 14.6 | 30.2 |
| Inflation (%) | 95.6 | 98 | 43.5 | 23 | 13 | 16.6 |
| Public sector balance (%GDP) | -9.3 | -6.4 | -1.6 | 6.8 | 2.3 | 5.5 |
| Exports | 8.3 | 9.5 | 13.5 | 23.7 | 30.3 | 43.5 |
| Imports | 3.8 | 5.5 | 5.8 | 8.7 | 12.5 | 15.5 |
| Trade balance | 4.5 | 4 | 7.7 | 15 | 17.8 | 28 |
| Current account balance (%GDP) | -1.6 | -5.1 | 3.5 | 12.9 | 8.8 | 12.5 |
| Foreign debt (%GDP) | 83 | 73 | 55 | 38 | 34 | 28 |
| Debt service (%GS exports) | 17.1 | 15.1 | 14.8 | 7.7 | 5.9 | 4.4 |
| Foreign currency reserves (in months of imports) | 0.5 | 0.9 | 1.9 | 2.5 | 4.2 | 4.6 |

e = estimate, f = forecast

OPPORTUNITY SCOPE

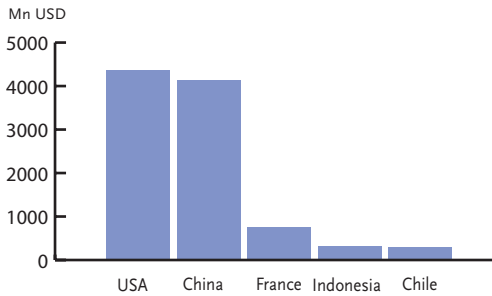
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 28 |
| Public consumption | 21 |
| Investment | 8 |

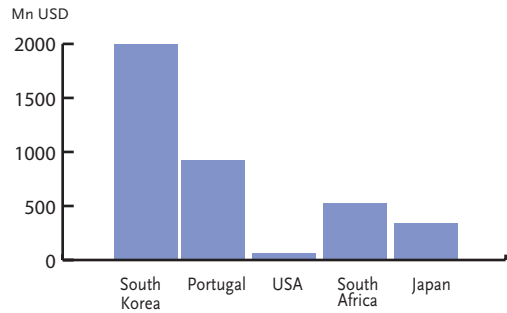
Exports: 70% of GDP

Imports: 55% of GDP

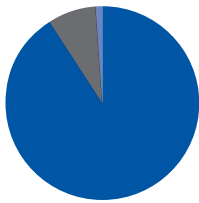
MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

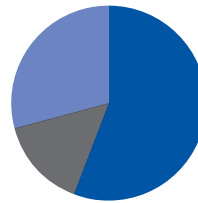


EXPORTS by products



- Petroleum 91%
- Diamonds 8%
- Miscellaneous 1%

IMPORTS by products



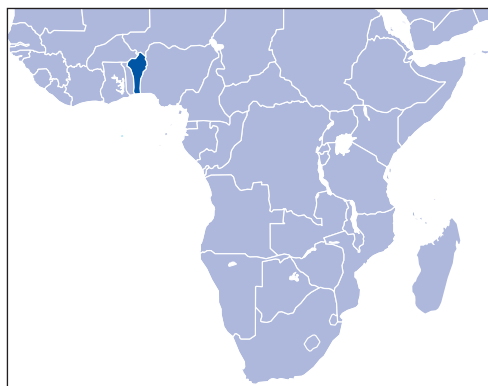
- Consumer goods 56%
- Intermediate goods 15%
- Transport equipment 29%

STANDARD OF LIVING / PURCHASING POWER

| Indicators | Angola | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 1,930 | 2,123 | 5,540 |
| GNP per capita (USD) | 930 | 749 | 2,117 |
| Human Development Index | 0.445 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | n/a | 28 | 30 |
| Urban population percentage | 36 | 36 | 43 |
| Percentage under 15 years old | 47 | 43 | 29 |
| Number of computers per 1000 inhabitants | 2 | 13 | 48 |

Benin

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 6.7 |
| GDP (US\$ million) | 3,476 |
| GDP per capita (US\$) | 519 |



Short-term: **B**

Medium-term:

High risk

Coface analysis

RISK ASSESSMENT

Resolution of the cotton industry's problems (with the sector employing one-quarter of the population) and the investments committed to modernizing the Port of Cotonou should allow Benin to post more dynamic growth in 2006 and 2007. That outlook will be subject, however, to weather conditions and continuation of Nigeria's liberalization policy with Benin's economy, particularly its transport and trade activities – very vulnerable to developments in that neighbouring country.

Consolidation of the cotton industry and the settlement of domestic arrears have strained public finances, with fiscal revenues, moreover, limited by the extent of poverty and the informal economy in

the country. The increase in imports, due notably to the price of energy, has widened Benin's trade deficit, with its current account imbalance likely to persist despite the debt relief from which it has benefited under the HIPC and MDRI programmes.

In any case, a resumption of structural reforms will be necessary to consolidate the country's economy and improve the business climate. Although President Boni Yayi, who was elected in March 2006 with 75 per cent of the ballots in the second round run-off, has made a commitment on that score, the effective pace of the reform process will depend on the parliamentary make-up resulting from the legislative elections in spring 2007.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 4.5 | 3.9 | 3.1 | 2.9 | 4.5 | 5.1 |
| Inflation (%) | 2.4 | 1.5 | 0.9 | 5.4 | 3.0 | 2.5 |
| Public sector balance (%GDP)* | -3.3 | -3.7 | -3.7 | -4.6 | -5 | -5.4 |
| Exports | 211 | 289 | 349 | 326 | 319 | 468 |
| Imports | 555 | 690 | 804 | 754 | 781 | 985 |
| Trade balance | -344 | -401 | -454 | -428 | -462 | -518 |
| Current account balance (%GDP)* | -8.6 | -8.5 | -7.9 | -7.2 | -7.0 | -6.7 |
| Foreign debt (%GDP) | 67.9 | 47.2 | 34.9 | 36.9 | 12.7 | 13.4 |
| Debt service (%G&S exports) | 14.4 | 6.3 | 6.9 | 6.5 | 5.4 | 4.8 |
| Foreign currency reserves (in months of imports) | 9.3 | 8.7 | 6.8 | 8.9 | 8.6 | 6.9 |

* = ex grants

e = estimate, f = forecast

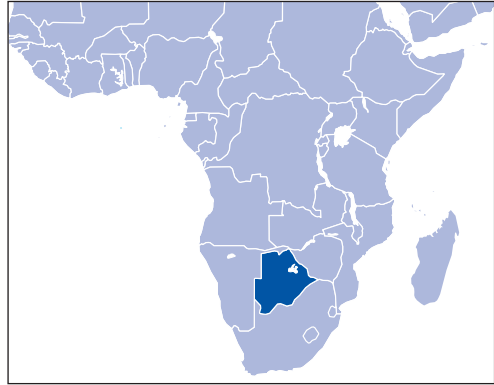
Botswana

Population (million inhabitants) 7.0
 GDP (US\$ million) 7,530

Short-term: **A2**

Medium-term:
Low risk

Coface analysis



STRENGTHS

- With a comfortable financial situation, continued political stability, and a positive business environment, Botswana is the highest rated country by Coface in sub-Saharan Africa.
- It boasts substantial natural resources including diamonds (second largest world producer), copper, nickel and gold.
- Tight economic policy has facilitated management of diamond revenues, allowing the country to avert the 'Dutch Disease'.
- Quality infrastructure has fostered the development of tourism and services (finances, telecommunications).

WEAKNESSES

- Botswana's landlocked status, small population and narrow economic fabric have limited its attractiveness, with the country's finances almost entirely dependent on a diamond sector that represents 75 per cent of exports and 45 per cent of fiscal revenues.
- Efforts to diversify the economy (processing industries, tourism) have not sufficed to significantly reduce poverty (30 per cent of the population) and unemployment (24 per cent).
- The AIDS pandemic, which affects a third of the population, will weigh on the country's long-term economic and financial outlook.

RISK ASSESSMENT

Despite the good performance of services (particularly tourism), manufacturing and civil engineering, underpinned by dynamic public-sector investment policy, diamond production trends still determine the overall pace of economic growth. Barring discovery of new deposits, however, that production should level off at its current level.

That situation has affected both public-sector finances and external accounts. After posting a large surplus in 2006, with revenues higher and spending lower than expected, public sector finances should

be nearly in balance again. Meanwhile, the current account balance should continue to show large surpluses, which explains the country's limited foreign debt and the level of its foreign currency reserves. The devaluation last year, which, in conjunction with rising oil prices, spurred higher price levels, should furthermore improve the competitiveness of manufactured product exports.

A speed-up in diversifying the productive fabric will remain essential in meeting the challenges of reducing poverty and dealing with the AIDS pandemic.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 5.6 | 6.3 | 5.9 | 6.2 | 4.2 | 4.4 |
| Inflation (%) | 8.0 | 9.3 | 6.9 | 8.6 | 11.3 | 6.5 |
| Public sector balance (%GDP) | -3.8 | -0.4 | 0.9 | -0.5 | 8.5 | 1.4 |
| Exports | 2,353 | 3,035 | 3,734 | 4,559 | 4,707 | 4,919 |
| Imports | 1,643 | 2,135 | 2,893 | 2,791 | 3,515 | 3,852 |
| Trade balance | 710 | 900 | 841 | 1,768 | 1,192 | 1,067 |
| Current account balance (%GDP) | 3.3 | 5.6 | 3.0 | 15.4 | 10.7 | 8.6 |
| Foreign debt (%GDP) | 20.0 | 13.8 | 12.6 | 10.0 | 9.5 | 9.4 |
| Debt service (%GS exports) | 4.2 | 3.3 | 3.5 | 2.1 | 1.7 | 1.7 |
| Foreign currency reserves (in months of imports) | 26.2 | 20.7 | 15.9 | 19.8 | 19.1 | 19.7 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

Market overview

Botswana is a member of the Southern Africa Customs Union (SACU) along with Lesotho, Swaziland, Namibia and South Africa. *Ad valorem* tariffs and excise duties apply to third countries. The extension to SACU countries of the Trade, Development and Cooperation Agreement between the EU and South Africa ensures preferential access for Botswanan products to European markets. Under the African Growth and Opportunity Act (AGOA), the country's products may also access the North American market. In October 2002, Botswana teamed up with other SACU members to sign a fresh customs protocol establishing a new mechanism for resolving commercial disputes and setting customs tariffs. Botswana is also a member of the South African Development Community (SADC), which comprises 14 southern African countries and is headquartered in Gaborone. The local market, however, remains narrow (less than 2 million inhabitants) and is mainly concentrated in towns to the east of the country.

Means of entry

The country's customs regulations grant duty-free admission to commodities and machinery imported for the manufacture of products intended for export. Other tax measures include exemption from

sales tax for commodities used in exported products. Sales agents of any nationality are allowed to operate, though local agents and representatives are predominant. Public invitations to tender and large-scale work contracts comply with internationally recognized standards. Imported goods are usually invoiced in rands, US dollars or sterling. The euro is starting to gain acceptance as legal tender for trade, albeit to a limited degree. Payment instruments available in Botswana are similar to those in Europe and the United States.

Attitude towards foreign investors

Botswana possesses numerous investment-grade assets that make it one of the most competitive countries in Africa. It has a liberalized economy, no exchange controls, a convertible currency and fairly attractive tax laws, in particular for financial services. Corporation tax is 15 per cent for manufacturing companies and 25 per cent for the rest, including non-resident companies. VAT of 10 per cent was introduced in July 2002. Industrial relations are peaceful. The government is, however, considering simplifying corporation tax, seen by foreign investors as too complex, via a flat rate and the introduction of a withholding tax on dividends.

The Botswana Export Development and Investment Authority (BEDIA) encourages investment in the country, especially in the form of export-related projects and import substitution.

Priority sectors include manufacturing (glass, tanneries, textiles etc), ICTs, tourism and financial services. There is an International Financial Centre, but it is having teething trouble.

The legal system is founded on common law principles. Judicial procedures are highly liberal and similar to those in developed countries. As for investment safeguards, Botswana is a signatory to both the World Bank's MIGA agreement and the OPIC agreement with the United States. A reciprocal investment promotion and protection agreement with France has been under negotiation for several years and could be finalized shortly. A tax agreement with France, signed in 1999 and in force since 1 June 2003, covers income earned from 1 January 2004 or during an accounting year commencing after that date.

■ Foreign exchange regulations

Botswana's foreign exchange reserves allow it to be very flexible in this matter. There are no exchange controls. The local currency, the pula, introduced after the country's withdrawal from the rand area in 1976, is fully convertible. However, the pula remains dependent on the rand's movement. Since 30 May 2005, Botswana has a crawling peg system that enables it to carry out successive adjustments while retaining the same basket of benchmark currencies (rands and SDRs). There are no restrictions on capital transfers by non-residents. Dividends and capital can be freely repatriated by foreign investors upon payment of 15 per cent withholding tax.

OPPORTUNITY SCOPE

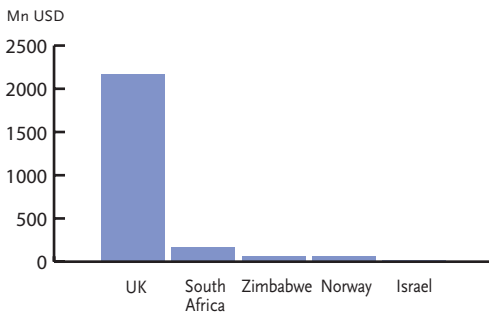
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 20 |
| Public consumption | 25 |
| Investment | 18 |

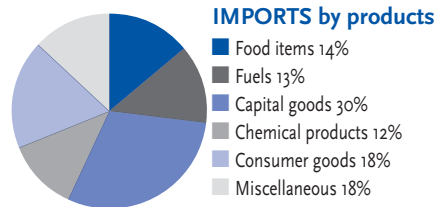
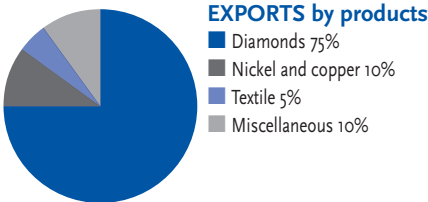
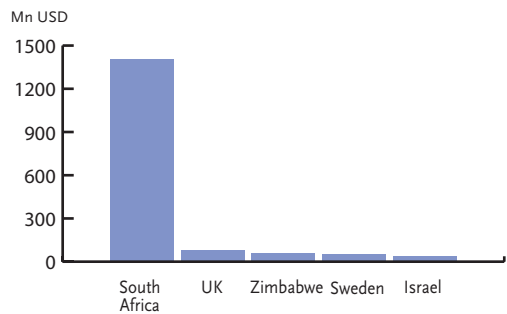
Exports: 40% of GDP

Imports: 32% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

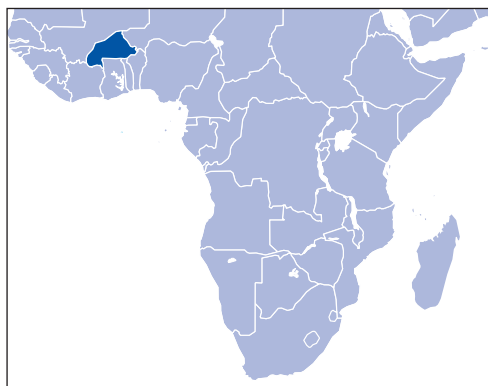


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Botswana | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 1,170 | 2,123 | 5,540 |
| GNP per capita (USD) | 4,380 | 749 | 2,117 |
| Human Development Index | 0.565 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 57 | 28 | 30 |
| Urban population percentage | 52 | 36 | 43 |
| Percentage under 15 years old | 38 | 43 | 29 |
| Number of computers per 1000 inhabitants | 40 | 13 | 48 |

Burkina Faso

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 12.1 |
| GDP (US\$ million) | 4,182 |
| GDP per capita (US\$) | 346 |



Short-term: **B**

Medium-term:
High risk

Coface analysis

RISK ASSESSMENT

The robust growth of 2005 and 2006 reflects the very favourable impact of weather conditions on farm production (cotton and grains), the livelihood for 85 per cent of the population. Implementation of an agricultural development programme should, moreover, modernize the sector, notably the cotton segment, and reduce its vulnerability. The manufacturing sector, meanwhile, has been slow to recover from the production and freight cost increases attributable to exogenous shocks and the country's landlocked condition. Barring a weather catastrophe, growth should remain robust in 2007, buoyed by an upturn of cotton prices and steady investment growth, fostered by dynamic structural reform policy.

However, due to the country's narrow tax base, linked to the extent of both poverty and the

informal economy, the good economic conditions have not sufficed to significantly broaden fiscal revenues. With spending on education, health, electricity price subsidies and infrastructure remaining at high levels, the public sector deficit has, thus, widened. Similarly, external accounts have remained very out of balance, affected by the deterioration of the terms of trade caused by rising oil prices. In that context, the country has remained dependent on international aid despite substantial foreign debt relief under the HIPC and MDRI programmes.

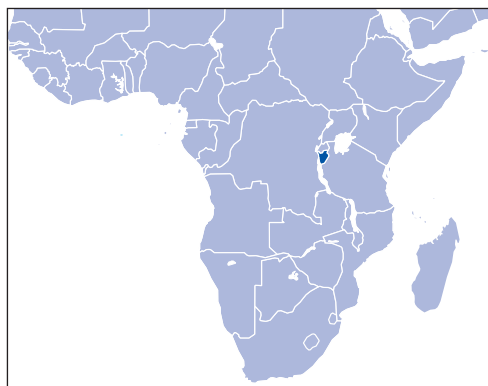
The May 2007 legislative elections should bear out Burkina's political and democratic stability and make it possible to continue the efforts on reform and improving the business environment.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 5.2 | 8 | 4.6 | 7.1 | 6.8 | 6.3 |
| Inflation (%) | 2.3 | 2.0 | -0.4 | 6.4 | 3.1 | 2.0 |
| Public sector balance (%GDP)* | -10.0 | -8.2 | -8.6 | -9.2 | -10.0 | -10.1 |
| Exports | 246 | 321 | 480 | 465 | 576 | 681 |
| Imports | 578 | 687 | 868 | 991 | 1,142 | 1,300 |
| Trade balance | -332 | -365 | -389 | -526 | -566 | -619 |
| Current account balance (%GDP)* | -12.6 | -12.7 | -11.9 | -13.2 | -13.2 | -12.2 |
| Foreign debt (%GDP) | 50 | 41 | 38 | 32 | 15 | 9 |
| Debt service (%G&S exports) | 15.2 | 12.8 | 12.6 | 9.3 | 5.3 | 3.9 |
| Foreign currency reserves (in months of imports) | 4.7 | 5.6 | 6.4 | 4.4 | 3.7 | 3.8 |

Burundi

| | |
|----------------------------------|-----|
| Population (million inhabitants) | 7.2 |
| GDP (US\$ million) | 595 |
| GDP per capita (US\$) | 83 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

After the disappointing results of 2005, with growth affected by a poor coffee harvest, Burundi registered better performance in 2006 and the near-term outlook now seems brighter. The better results expected from farming and civil engineering, spurred by the reconstruction of the country, have been driving the economic growth, which will nonetheless not suffice to reduce a poverty rate exacerbated by high demographic pressure and inadequate land resources – Burundi is the world's third poorest country. Moreover, the economy will remain very vulnerable to external shocks.

In that context, Burundi's accounts will remain very out of balance with its financing needs covered by international aid, which has already resulted in

Paris Club debt rescheduling and the country's admission to the HIPC programme partly conditioned, however, on a speed-up of structural reforms.

Above all, there are still major political uncertainties. Government authorities widely elected in 2005 under the 2000 Arusha peace agreement have not made significant progress on disarmament or reintegrating displaced persons. And the ceasefire concluded in September 2005 with the last Hutu rebellion has, apparently, not been respected. Rumours of attempted coups and widespread corruption within the party in power have, moreover, heightened internal tensions again and reduced the capital of sympathy it had enjoyed among the population and donor countries.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 4.5 | -1.2 | 4.8 | 0.9 | 3.8 | 4.7 |
| Inflation (%) | -1.2 | 10.7 | 8.0 | 13.4 | 11.0 | 8.5 |
| Public sector balance (%GDP)* | -5.7 | -13.8 | -19.7 | -16.8 | -22.8 | -21.9 |
| Exports | 31 | 38 | 48 | 57 | 70 | 84 |
| Imports | 104 | 126 | 149 | 239 | 315 | 364 |
| Trade balance | -73 | -88 | -101 | -182 | -245 | -280 |
| Current account balance (%GDP)* | -18.6 | -21.3 | -25.5 | -34.3 | -37.9 | -37.8 |
| Foreign debt (%GDP) | 182 | 225 | 208 | 178 | 153 | 141 |
| Debt service (%G&S exports) | 84.5 | 75.5 | 90.6 | 49.2 | 39.4 | 32.6 |
| Foreign currency reserves (in months of imports) | 1.4 | 1.1 | 0.9 | 1.0 | 1.1 | 1.0 |

* = ex grants

e = estimate, f = forecast

Cameroon

Population (million inhabitants) 16.1
GDP (US\$ million) 12,491



Short-term: **B**

Medium-term:
High risk

Coface analysis

STRENGTHS

- Cameroon's economy is one of the most diversified in Central Africa. The country is endowed with vast resources: agriculture, timber, tourism and mining potential and energy (oil, gas and hydropower).
- Its structural reform policy and progress on improving governance have attracted investors and spurred development of its productive fabric.
- Cameroon has benefited from substantial foreign debt relief under the HIPC and MDRI programmes.
- The political environment has been stable.

WEAKNESSES

- The country's finances still depend on oil production (30 per cent of tax revenues and 50 per cent of exports), whose decline has made speeding up the development of alternative revenues a necessity.
- A still-difficult business environment has hampered formal private-sector development.
- The informal economy has been generating substantial competition via fraud, smuggling and counterfeits.
- Combating poverty still constitutes a major challenge.

RISK ASSESSMENT

The economic acceleration registered in 2006 should continue in 2007 amid robust non-oil sector growth. That favourable trend has benefited from implementation of major privately financed industrial projects (aluminium, hydropower stations) and renewed emphasis on public-sector investment (urban, road and port infrastructure) spurred by the oil windfall and the government's increased fiscal leeway.

The renewal of efforts on structural reform, despite some delay on privatizations, and tighter management of public finances have allowed Cameroon to benefit from substantial debt relief

under the HIPC and MDRI programmes. The trade surpluses generated by oil exports have, nonetheless, not sufficed to offset negative services and revenue balances, with the current account balance remaining slightly in deficit.

The June 2007 legislative and municipal elections should bear out the country's political stability. In addition, the agreement concluded with Nigeria in June 2006 has paved the way for the application of the International Court of Justice 2002 ruling, recognizing Cameroon's sovereignty over the Bakassi Peninsula and its extensive oil resources.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 4.0 | 4.0 | 3.7 | 2.6 | 4.2 | 4.3 |
| Inflation (%) | 2.8 | 0.6 | 0.3 | 2.0 | 2.6 | 1.0 |
| Public sector balance (%GDP)* | 0.8 | 0.7 | -0.8 | 3.0 | 0.8 | 0.2 |
| Exports | 2,206 | 2,638 | 2,882 | 3,026 | 3,427 | 3,566 |
| Imports | 2,120 | 2,374 | 2,90 | 2,785 | 3,064 | 3,393 |
| Trade balance | 86 | 264 | -8.0 | 241 | 363 | 173 |
| Current account balance (%GDP)* | -6.4 | -2.6 | -3.6 | -2.0 | -1.9 | -2.1 |
| Foreign debt (%GDP) | 86.7 | 73.5 | 60.3 | 53.1 | 26.0 | 24.9 |
| Debt service (%G&S exports) | 28.3 | 28.1 | 10.4 | 11.0 | 6.2 | 3.2 |
| Foreign currency reserves (in months of imports) | 2.2 | 2.0 | 2.3 | 2.2 | 2.1 | 2.0 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The Cameroon market is open to imports and the authorities apply no special protectionist measures or tariff barriers. Customs duties on imports into the EMCCA area range from 5 per cent for staple commodities and 10 per cent for raw materials and capital goods to 20 per cent for semi-finished and miscellaneous products and 30 per cent for certain consumer goods. There is 19.25 per cent VAT, from which staple commodities are exempt, as well as 25 per cent excise duty on so-called luxury products, cigarettes, wines and spirits, and most non-alcoholic beverages. The average time it takes for a container to clear customs is two weeks (one week if the file is complete and the forms have been properly filled), which is a significant improvement over the last year or so. Exporters are strongly advised to demand cash payment upon confirmation of the order or payment by irrevocable letter of credit confirmed by a first-rate bank.

■ Attitude towards foreign investors

Cameroon has an open policy towards foreign direct investment. Law No 2002/004 of 19 April 2002, also called the Investment Charter, is a general piece of legislation that was supposed to be supplemented with sector codes. Some 40 or so sectors have been earmarked for special laws; to date, only mining, gas and oil legislation has been passed. The remaining sectors are still *de facto* governed by the investment act of 1990. Officially, this law is backed by other arrangements designed to attract foreign capital, such as OHBLA, which aims to provide a more secure legal environment for business, an industrial free zone regime (on paper) and an investment promotion agency. In practice, however, numerous obstacles remain, all to often discouraging new investors; these include administrative harassment, poor transport infrastructure and a malfunctioning judicial system, to name but a few.

SUB-SAHARAN AFRICA

OPPORTUNITY SCOPE

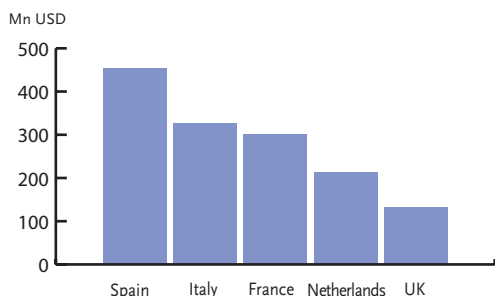
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 57 |
| Public consumption | 13 |
| Investment | 11 |

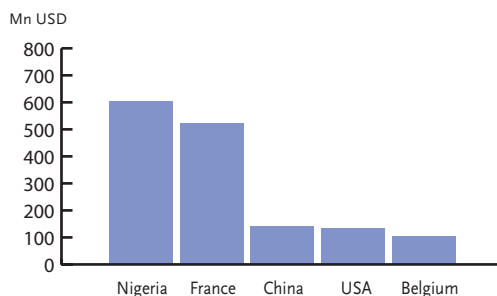
Exports: 19% of GDP

Imports: 20% of GDP

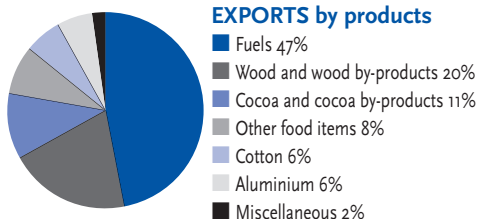
MAIN DESTINATIONS OF EXPORTS



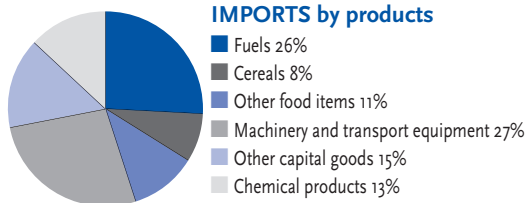
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

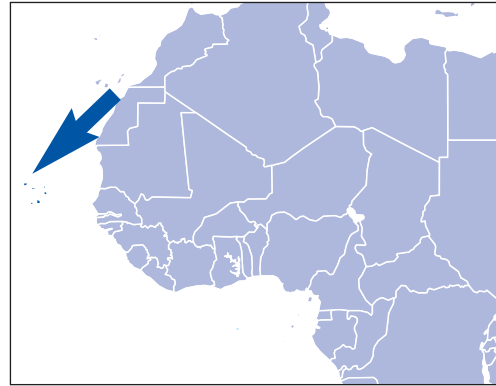


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Cameroon | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 2,120 | 2,123 | 5,540 |
| GNP per capita (USD) | 890 | 749 | 2,117 |
| Human Development Index | 0.497 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 35 | 28 | 30 |
| Urban population percentage | 51 | 36 | 43 |
| Percentage under 15 years old | 42 | 43 | 29 |
| Number of computers per 1000 inhabitants | 6 | 13 | 48 |

Cape Verde

| | |
|--------------------------|---------|
| Population (inhabitants) | 500,000 |
| GDP (US\$ million) | 588 |
| GDP per capita (US\$) | 1,251 |



Short-term: **B**

Medium-term:

High risk

Coface analysis

RISK ASSESSMENT

The country has benefited from political stability borne out of the victories of the ruling Party for the Independence of Cape Verde in the legislative and presidential elections, held respectively in January and February 2006.

This environment has been conducive to the implementation of major structural reforms (privatization, tightening management of state-owned companies and public sector finances, improving the business climate), thereby allowing Cape Verde to win international financial community support. Those reforms have, moreover, contributed to developing high growth, driven by public and private investment in the civil engineering sector (hotels, airports, infrastructure) and services, resulting in the steady expansion of

tourism. Reflecting the impact of measures taken to reduce poverty, the UNDP human development index ranks the country favourably among African countries.

Public and external account imbalances (excluding grants) have remained large, highlighting the country's limited economic diversification, limited export potential and structural dependence on food, energy and capital goods imports, which have resulted in a large trade deficit. Although mitigated somewhat by expatriate remittances and tourism revenues, the country is still very dependent on international aid to cover its internal and external financing needs. With Cape Verde not poor enough to qualify for multilateral debt relief programmes, its foreign debt burden continues to be a drag on the economy.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|------|-------|---------------------|---------------------|
| Economic growth (%) | 5.3 | 4.7 | 4.4 | 5.8 | 5.5 | 6.0 |
| Inflation (%) | 1.9 | 1.2 | -1.9 | 0.4 | 6.2 | 0.2 |
| Public sector balance (%GDP)* | -11.3 | -9.0 | -7.9 | -12.2 | -16.1 | -13.2 |
| Exports | 42 | 53 | 58 | 98 | 103 | 108 |
| Imports | 278 | 344 | 389 | 481 | 533 | 639 |
| Trade balance | -236 | -291 | -331 | -383 | -431 | -531 |
| Current account balance (%GDP)* | -17.1 | -15.4 | -12 | -9.3 | -14.4 | -16.4 |
| Foreign debt (%GDP) | 95.9 | 66.2 | 66.7 | 56.2 | 57.4 | 52.1 |
| Debt service (%G&S exports) | 10.4 | 10.7 | 11.4 | 9.9 | 10.5 | 9.6 |
| Foreign currency reserves (in months of imports) | 1.5 | 1.9 | 2.6 | 3.1 | 3.1 | 3.2 |

* = ex grants

e = estimate, f = forecast

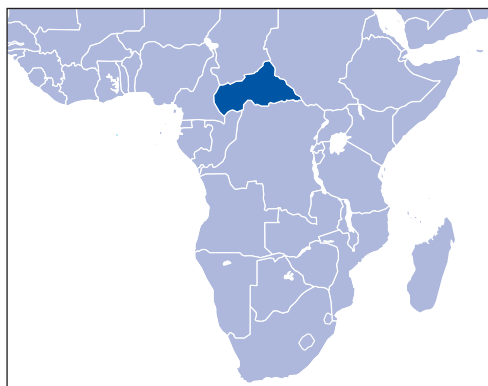
Central African Republic

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 4.2 |
| GDP (US\$ million) | 1,369 |
| GDP per capita (US\$) | 323 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

The mining sector (diamonds, gold, uranium), buoyed by focused reforms on the sector – which, in turn, spurred foreign investor interest – contributed substantially to economic growth in 2006. The development of forestry and manufacturing has, however, made little progress. Growth still does not suffice in the reduction of poverty in the country and is hampered by very low purchasing power, an infrastructure devastated by a lack of maintenance and by wilful destruction, a very large informal economy and high production costs resulting from, among other things, the country's landlocked status.

Despite this difficult context, improved control of spending and the tax revenues derived from the mining sector have made it possible to begin consolidating public finances. Regarding external accounts, however, the growth of diamond exports

was not enough to offset the increase in oil and capital goods imports and, with a structurally negative services balance, the current account has remained in deficit. Although still dependent on international aid to cover its financing needs, the country will only be eligible for debt relief under the HIPC programme after satisfactorily implementing programmes agreed with the IMF.

Prospects for consolidating both economic growth and the financial situation will depend on how the security situation develops. Although President Bozize's political authority has strengthened since the 2005 elections, unrest caused by rebel movements has developed in the north (a diamantiferous region with prospects for oil exploration on the Chad border) and the east (bordering on the Sudanese Darfur region), which could hamper efforts to get the economy back on track.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | -0.6 | -7.6 | 1.3 | 2.0 | 3.0 | 3.8 |
| Inflation (%) | 2.3 | 4.4 | -2.2 | 3.0 | 3.0 | 2.5 |
| Public sector balance (%GDP)* | -5.0 | -4.6 | -5.5 | -4.6 | -3.3 | -3.0 |
| Exports | 162 | 141 | 137 | 127 | 143 | 167 |
| Imports | 139 | 133 | 153 | 147 | 164 | 189 |
| Trade balance | 23 | 8.0 | -16 | -20 | -21 | -22 |
| Current account balance (%GDP)* | -6.4 | -6.9 | -9.7 | -7.1 | -7.0 | -7.2 |
| Foreign debt (%GDP) | 102 | 109 | 92 | 77 | 78 | 73 |
| Debt service (%G&S exports) | 21.5 | 25.8 | 26.0 | 25.7 | 25.3 | 26.6 |
| Foreign currency reserves (in months of imports) | 5.7 | 6.4 | 5.9 | 6.3 | 6.1 | 5.6 |

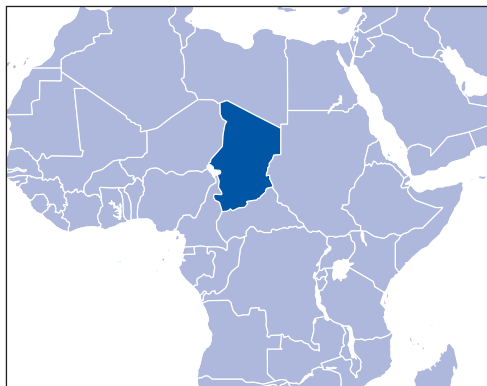
Chad

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 9.7 |
| GDP (US\$ million) | 5,469 |
| GDP per capita (US\$) | 561 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

Problems experienced by the oil sector, generating 50 per cent of GDP, undermined economic growth in 2006. Technical problems compounded the uncertainty resulting from the calling into question by government authorities of the oil-revenue allocation formula negotiated with the World Bank and from the revision of the tax regime applicable to oil companies. Farm production (employing 70 per cent of the working population), food industries and telecommunications did, however, contribute to driving the economy. In the longer term, the extreme poverty afflicting the population and a difficult business environment will limit Chad's development prospects.

Normalization of relations with the World Bank in July paved the way to unfreezing the portion of oil revenues reserved for the budget, but the increase in tax revenues spurred by high oil prices – notwithstanding the substantial discount applicable

to Chadian crude – was coupled with a sharp increase in spending on current needs as well as on infrastructure and security. Despite a growing trade surplus, meanwhile, dividend repatriation by foreign companies led to a slight increase in Chad's current account deficit. Tensions with multilateral institutions, moreover, delayed prospective debt relief under the HIPC programme.

Forecasts for 2007 appear very uncertain. Besides oil-sector performance, meeting the forecasts will especially depend on political developments. Despite President Deby Itno's re-election in May 2006 in an election boycotted by the opposition, the development of rebel movements joined by regime personalities could, however, degenerate into internal conflict – witness the attack on N'djamena in April 2006 and the continued turmoil in the eastern part of the country bordering on the Sudanese province, Darfur.

SUB-SAHARAN AFRICA

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 8.5 | 14.7 | 31.3 | 8.4 | 4.6 | 4.0 |
| Inflation (%) | 5.2 | -1.8 | -5.4 | 7.9 | 5.5 | 4.0 |
| Public sector balance (%GDP)* | -12.5 | -16.4 | -10.1 | -6.9 | -6.7 | n/a |
| Exports | 186 | 604 | 2,165 | 3,113 | 3,682 | 3,997 |
| Imports | 1,594 | 781 | 876 | 813 | 836 | 908 |
| Trade balance | -1,409 | -177 | 1,288 | 2,300 | 2,846 | 3,090 |
| Current account balance (%GDP)* | -102 | -53 | -8.1 | -1.3 | -2.9 | -3.1 |
| Foreign debt (%GDP) | 68 | 62 | 42 | 38 | 38 | 40 |
| Debt service (%G&S exports) | 24.7 | 8.9 | 2.5 | 2.4 | 1.9 | 1.7 |
| Foreign currency reserves (in months of imports) | 1.2 | 1.1 | 1.0 | 1.0 | 1.4 | 1.2 |

* = ex grants

e = estimate, f = forecast

Congo

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 4.0 |
| GDP (US\$ million) | 5,091 |
| GDP per capita (US\$) | 1,273 |



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

With little diversification, the Congo's productive fabric has been very dependent on an oil sector representing 55 per cent of GDP and 95 per cent of exports. Rising oil production, in conjunction with the start-up of new fields and firm world prices, drove the strong growth registered in 2006 whereas an extraction slowdown will slow the economy somewhat in 2007. The non-oil sector's potential (agriculture, forestry, construction), meanwhile, is still underdeveloped. It has, nonetheless, remained dynamic, buoyed by public-sector investment and the structural reforms undertaken. Dilapidated infrastructure and governance shortcomings have, however, impeded growth.

In conjunction with large external deficits, the oil wealth and improved transparency on revenues have facilitated consolidation of public-sector accounts.

That consolidation has nonetheless remained precarious, with slippage on spending in 2006 leading to suspension of the IMF programme concluded in 2004, which will delay the expected cancellation of public-sector external debt under the HIPC programme. Although settlement of the arrears on the domestic debt and the rescheduling concluded with the Paris Club in December 2004 have eased the debt-service burden, the country's per capita debt is nonetheless still among the world's highest.

Amid growing political stability, President Sassou-Nguesso has sought to broaden his electoral base in the run-up to legislative elections in 2007. Major risks have, nonetheless, persisted. Besides a poor social situation, violent clashes between the army and rebels have continued in the Pool region despite the March 2003 peace agreement.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 4.6 | 0.8 | 3.6 | 7.9 | 7.4 | 3.0 |
| Inflation (%) | 3.1 | 1.5 | 3.6 | 2.5 | 2.5 | 2.2 |
| Public sector balance (%GDP)* | -8.1 | 0.4 | 3.9 | 15.9 | 17.9 | 17.4 |
| Exports | 2,77 | 2,598 | 3,463 | 4,949 | 5,608 | 5,868 |
| Imports | 706 | 810 | 1,100 | 1,288 | 1,541 | 1,672 |
| Trade balance | 1,71 | 1,788 | 2,363 | 3,661 | 4,068 | 4,196 |
| Current account balance (%GDP)* | 0.6 | 1.0 | 2.2 | 11.7 | 14.0 | 13.5 |
| Foreign debt (%GDP) | 247 | 268 | 184 | 138 | 129 | 89 |
| Debt service (%G&S exports) | 35.5 | 26.8 | 23.0 | 17.0 | 12.6 | 10.8 |
| Foreign currency reserves (in months of imports) | 0.2 | 0.2 | 0.4 | 2.5 | 4.0 | 6.3 |

* = ex grants

e = estimate, f = forecast

Democratic Republic of Congo

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 60.8 |
| GDP (US\$ million) | 6,974 |
| GDP per capita (US\$) | 115 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

The legislative and presidential elections won in 2006 by the incumbent president, Joseph Kabila, marked the end of the institutional transition period. Political consolidation will now depend on effectively strengthening the role of parliament, where the dispersion of political parties will make it difficult to form a stable and lasting majority, and especially on improving the security conditions in the country. Despite the efforts of UN forces, however, the instability fomented by various militias has persisted in many southern and eastern regions. Furthermore, exacerbation of post-election tensions cannot be ruled out.

The country's economic outlook, which has been uncertain in that context, will depend on how the political situation develops. Even if the economic reconstruction funded by donor

countries has been spurring strong growth, the macroeconomic framework has remained in very poor shape. Years of conflict and poor management have devastated the country's mineral, hydraulic and agricultural wealth, resulting in major public and external account imbalances. A lasting recovery will necessitate renewed efforts on robust structural reform policy and improvement in the business environment, with progress in either direction coming up against powerful entrenched interests.

The country has, thus, remained dependent on international aid. The lagging pace of reforms and slippage on public-sector finances prompted, however, the suspension in March 2006 of the Poverty Reduction and Growth Facility agreed with the IMF and will, thus, delay prospective debt relief under the HIPC programme.

MAIN ECONOMIC INDICATORS

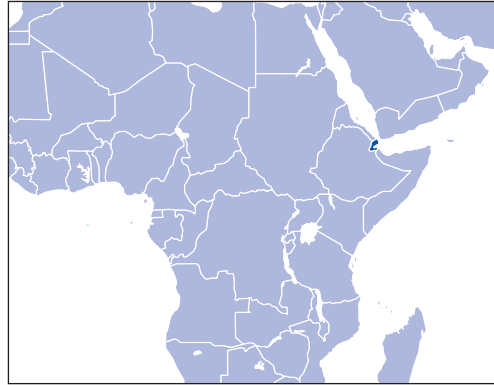
| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 3.5 | 5.7 | 6.6 | 6.5 | 6.5 | 6.5 |
| Inflation (%) | 25 | 13 | 9 | 21 | 13 | 10 |
| Public sector balance (%GDP)* | -2.4 | -5.9 | -6.1 | -7.9 | -10.7 | -9 |
| Exports | 1,076 | 1,340 | 1,813 | 2,050 | 2,366 | 2,650 |
| Imports | 1,093 | 1,496 | 2,056 | 2,248 | 2,607 | 2,991 |
| Trade balance | -17 | -156 | -243 | -198 | -241 | -341 |
| Current account balance (%GDP)* | -5.3 | -9.8 | -12.3 | -10.7 | -14.8 | -11.9 |
| Foreign debt (%GDP) | 182 | 198 | 182 | 172 | 152 | 138 |
| Debt service (%G&S exports) | 2.9 | 8.0 | 8.2 | 6.9 | 9.8 | 11.8 |
| Foreign currency reserves (in months of imports) | 0.5 | 0.5 | 1.0 | 0.5 | 0.8 | 0.8 |

* = ex grants

e = estimate, f = forecast

Djibouti

| | |
|--------------------------|---------|
| Population (inhabitants) | 705,000 |
| GDP (US\$ million) | 576 |
| GDP per capita (US\$) | 817 |



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

The Djibouti Port, through which a high proportion of the freight headed to and from Ethiopia transits, and investment associated with construction of the Doraleh port complex, financed by investment from Dubai, will continue to be the main growth drivers. Spending by the foreign troops stationed in Djibouti has, moreover, buoyed local consumption. That growth has, nonetheless, not sufficed to significantly reduce poverty with unemployment affecting nearly 60 per cent of the working population. The country's longer-term development potential has remained limited with many institutional constraints impeding development of a formal private sector that generated 22 per cent of GDP in 2004.

The lack of economic diversification has resulted in major imbalances in the country's finances. In that context, fiscal revenues have depended heavily on transactions related to military

agreements and on international aid. The widening current account deficit in 2006 and 2007, meanwhile, is attributable to rising imports connected with port investments, which the exports of services resulting from the start-up of Doraleh port infrastructure operations will only offset in the longer term. The foreign debt burden, with 75 per cent contracted on concessional terms, has been high, but not high enough to qualify the country for the HIPC debt relief programme for highly indebted poor countries.

Despite persistent social tensions, the ruling party's victory in the March 2006 elections bore out the country's political stability even if the opposition considered itself penalized by the adoption of a first-past-the-post electoral system. In a regional context marked, moreover, by heightened tensions (Ethiopia-Eritrea conflict, Somalia), the country has enjoyed western country support.

SUB-SAHARAN AFRICA

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(f) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 2.6 | 3.2 | 3 | 3.2 | 3.4 | 3.3 |
| Inflation (%) | 0.6 | 2.0 | 3.1 | 3.0 | 2.2 | 2.0 |
| Public sector balance (%GDP)* | -11.9 | -15.9 | -18.0 | -16.7 | -15.5 | -14.8 |
| Exports | 36 | 37 | 34 | 36 | 37 | 38 |
| Imports | 197 | 238 | 275 | 288 | 318 | 336 |
| Trade balance | -162 | -201 | -241 | -252 | -280 | -298 |
| Current account balance (%GDP) | -2.6 | -0.8 | -7.4 | -6.2 | -8.5 | -9.3 |
| Foreign debt (%GDP) | 56 | 63 | 59 | 61 | 65 | 69 |
| Debt service (%G&S exports) | 7.3 | 6.9 | 7.6 | 7.6 | 8.1 | 8.4 |
| Foreign currency reserves (in months of imports) | 3.4 | 3.9 | 3.1 | 3.1 | 3.1 | 3.1 |

* = ex grants

f = forecast

Eritrea

| | |
|----------------------------------|-----|
| Population (million inhabitants) | 4.4 |
| GDP (US\$ million) | 751 |
| GDP per capita (US\$) | 171 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

Besides the vulnerability to recurrent drought of an agricultural sector representing 22 per cent of GDP in 2005 and 70 per cent of the working population, economic activity has suffered from poor governance and the lagging pace of economic reforms (import and exchange rate controls) that has hampered development of a budding private sector. Insufficient investment in relation to needs, particularly for infrastructure, has undermined the longer-term growth outlook. The continued military mobilization, furthermore, has caused, among other things, a labour shortage in productive sectors.

Public-sector and external accounts continue to run large deficits, affected by the extent of military spending, a narrow export base and closure of the border with Ethiopia, formerly the country's main trading partner. Meanwhile, the international aid that, in conjunction with recourse to debt, has covered Eritrea's financing needs, has been

declining, compelling the country to assume debt in the domestic market with public-sector debt, thus, growing to nearly 200 per cent of GDP. By refusing to cooperate with the IMF, the country has, moreover, denied itself access to the HIPC programme for highly indebted poor countries.

The political situation has remained tense. The country's relations with Ethiopia have deteriorated further with settlement of the border demarcation issue still pending. Furthermore, with Eritrea's support for Islamic militias in Somalia – perceived as the opening of a second front by Ethiopia (which supports the interim government militarily) – renewed hostilities between the two countries will remain a real possibility. The expulsion not only of several UN representatives assigned to monitor the Ethiopian border but also of many NGOs supervising food aid (even with two-thirds of the population dependent on it) have soured Eritrea's relations with western countries.

| MAIN ECONOMIC INDICATORS | | | | | | |
|---|------|-------|-------|-------|---------------------|---------------------|
| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
| Economic growth (%) | 0.7 | 3.9 | 2.0 | 4.8 | 1.5 | 1.3 |
| Inflation (%) | 16.9 | 22.7 | 25.1 | 12.4 | 10.9 | 10.0 |
| Public sector balance (%GDP) | -41 | -37 | -39 | -30 | -26 | -25 |
| Exports | 42 | 9 | 11 | 12 | 12 | 12 |
| Imports | 369 | 479 | 460 | 475 | 468 | 468 |
| Trade balance | -327 | -470 | -449 | -463 | -456 | -456 |
| Current account balance (%GDP) | -6.3 | -13.8 | -11.3 | -10.0 | -9.1 | -8.5 |
| Foreign debt (%GDP) | 80 | 94 | 99 | 85 | 73 | 173 |
| Debt service (%G&S exports) | 15.1 | 8.0 | 8.4 | 9.3 | 6.2 | 12.3 |
| Foreign currency reserves (in months of imports) | 0.7 | 0.3 | 0.5 | 0.6 | 0.6 | 0.6 |

e = estimate, f = forecast

Ethiopia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 68.6 |
| GDP (US\$ million) | 6,652 |
| GDP per capita (US\$) | 97 |

Short-term: **C**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

After record harvests in 2005, growth remained at satisfactory levels in 2006 but, nonetheless, not high enough to reduce the still omnipresent poverty afflicting the population (the UNDP human development index ranks Ethiopia 170th out of 177 countries). The impact of infrastructure projects, notably on road construction and electricity delivery, undertaken to open up rural areas has contributed to driving the economy, however, and should ultimately facilitate the country's development. Its economy will, in any case, remain very dependent on weather conditions to meet forecasts for 2007.

Inflation has remained high with the country's finances very out of balance. Social and capital spending has been weighing down public and state-owned company accounts with the tax base remaining very narrow. A notable export expansion – coffee, oleaginous grains and gold – has, moreover, not sufficed to offset import growth (oil).

Although the debt relief granted under the HIPC and MDRI programmes will reduce the country's financing needs, they will nonetheless remain substantial with international aid still needed to cover them.

The political outlook could jeopardize the necessary financial support, however, with the domestic situation remaining marked by repercussions of the brutal repression of post-election riots in June and November 2005, which decapitated the opposition, and by renewed ethnic tensions in several regions. Compounding the tensions, the lack of a settlement of the border demarcation dispute with Eritrea entails high risk of renewed conflict. Moreover, since summer 2006, risks of turmoil in the Horn of Africa have heightened amid the developments in Somalia, where Ethiopia's military support for the interim government has sparked calls for war on the part of the Islamic militias that control most of Somalia's territory.

SUB-SAHARAN AFRICA

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|--------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 1.2 | -3.3 | 11.1 | 8.8 | 5.2 | 5.4 |
| Inflation (%) | -7.2 | 15.1 | 8.6 | 6.8 | 10.5 | 8.0 |
| Public sector balance (%GDP)* | -14 | -14.8 | -10.2 | -10.7 | -10.7 | -11.1 |
| Exports | 452 | 483 | 600 | 818 | 1,044 | 1,139 |
| Imports | 1,696 | 1,856 | 2,587 | 3,633 | 4,047 | 4,215 |
| Trade balance | -1,244 | -1,373 | -1,987 | -2,815 | -3,003 | -3,076 |
| Current account balance (%GDP)* | -12.9 | -9.8 | -10.9 | -15.8 | -13.1 | -10.8 |
| Foreign debt (%GDP) | 103.4 | 82.9 | 76.0 | 53.8 | 47.4 | 14.7 |
| Debt service (%G&S exports) | 12.5 | 10.7 | 11.4 | 6.9 | 2.8 | 2.8 |
| Foreign currency reserves (in months of imports) | 3.8 | 4.6 | 5 | 4.2 | 3.1 | 3.3 |

* = ex grants

e = estimate, f = forecast

Gabon

Population (million inhabitants) 1.3
GDP (US\$ million) 6,057

Short-term: **B**

Medium-term:
High risk



Coface analysis

STRENGTHS

- Gabon's mineral, forestry, hydroelectric and tourist resources endow it with great growth potential.
- Government authorities have undertaken structural reforms intended to diversify the productive fabric.
- The country has, thereby, won the backing of international financial institutions.
- That backing has resulted in foreign debt rescheduling, whereas the country is not eligible for the HIPC programme.
- Its political stability has been reassuring to investors.

WEAKNESSES

- The economy is still too dependent on an oil sector that generates 54 per cent of GDP, 80 per cent of exports and 63 per cent of tax revenues.
- The high cost of factors of production attributable to deficient infrastructure has undermined the country's competitiveness.
- A still-difficult business environment and insufficient institutional capacity have impeded the country's development.
- Despite high per capita income, Gabon has to meet major challenges to achieve further improvement in social indicators (poverty, education, health).

RISK ASSESSMENT

Economic activity has remained moderate. Although the non-oil sector (manganese extraction, forestry and services) has sustained 4 per cent average annual growth, the oil sector has been suffering from a downward production trend, despite large investments and a momentary upturn in 2006. The decline expected in 2007 explains, moreover, the growth slowdown. In the longer term, however, foreign direct investments underway in mining and infrastructure should spur growth.

At this juncture, oil and manganese prices have been generating large public-sector surpluses tending to obscure, however, the country's narrow

tax base. The oil windfall has also benefited foreign accounts. The surpluses, along with compliance with the IMF programme concluded for 2004 and 2005, have made it possible to bolster Gabon's macroeconomic stability and sharply reduce debt levels (settlement of arrears on domestic debt and Paris Club rescheduling agreement). Implementation of the structural reform programme, notably privatizations, has, however, been lagging.

The December 2006 legislative elections will not jeopardize the country's political stability, amply borne out by President Bongo's re-election by a wide majority (79 per cent of the votes cast) in the November 2005 presidential elections.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 0 | 2.4 | 1.4 | 2.9 | 3.0 | 2.1 |
| Inflation (%) | 0.2 | 2.1 | 0.4 | 0 | 1.1 | 1.2 |
| Public sector balance (%GDP) | 3.4 | 7.4 | 7.4 | 9.3 | 11.1 | 11.6 |
| Exports | 2,848 | 3,556 | 4,661 | 5,393 | 6,070 | 6,275 |
| Imports | 1,042 | 1,167 | 1,500 | 1,329 | 1,458 | 1,653 |
| Trade balance | 1,806 | 2,390 | 3,161 | 4,064 | 4,611 | 4,621 |
| Current account balance (%GDP) | 5.2 | 6.7 | 12.4 | 21.0 | 25.0 | 22.9 |
| Foreign debt (%GDP) | 87.4 | 73.2 | 63.6 | 45.8 | 39.2 | 34.5 |
| Debt service (%G&S exports) | 20.9 | 16.9 | 14.7 | 14.3 | 9.8 | 9.8 |
| Foreign currency reserves (in months of imports) | 0.6 | 0.7 | 1.3 | 2.1 | 4.6 | 7.2 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The Gabonese market is very open. The country's tariff system is common and consists of the common external tariff (CET) and the internal and external general preferential tariff (GPT) of the Economic and Monetary Community of Central Africa (CEMAC). In principle, it grants duty-free access to goods from other member countries; in practice, however, the customs union does not work too well. A number of tariff and non-tariff barriers remain, including double duties on products imported from third countries, poor application of rules of origin for CEMAC products and conditional, exceptional or discretionary exemptions. Duties range from 0 per cent for some goods such as medical equipment and stationery, 6 per cent for basic staples, 11 per cent for raw materials and capital goods, 21 per cent for semi-finished goods and 31 per cent for consumer goods. The most strongly recommended means of payment is the irrevocable and confirmed letter of credit. Documentary collection upon presentation of a complete set of bills of lading and bills of exchange should only be used if the customer is well known to the exporter. Bank transfers and cheques, for which the customer incurs no liability, should be avoided.

Exporters should exercise caution when dealing with government agencies. For all public-

sector orders, it is necessary to obtain a copy of the official purchase order issued by the Budget Expenditure Office at the Ministry of Finance. Contracts and orders placed by the government with a foreign supplier must be countersigned by the Director-General of Public Accounts. Suppliers are advised to check the relevant tax clauses with the departments concerned.

■ Attitude towards foreign investors

The legislative and regulatory environment is extremely liberal and the attitude of government officials generally positive. Investors enjoy free trade through CEMAC, modern instruments of business law through OHADA (Organization for the Harmonization of Business Law in Africa), investment security through the World Bank's Multilateral Investment Guarantee Agency (MIGA) and a guaranteed appeals procedure through the International Centre for the Settlement of International Disputes (ICSID). However, the judicial process remains lengthy and court judgements are often arbitrary as the reports drawn up by CIAN (Conseil Français des Investisseurs en Afrique) in 2004 and by FIAS (Foreign Investment Advisory Services) reveal.

The country's Investment Charter provides for freedom of enterprise, the right to property (including intellectual property), unrestricted access to foreign currency, free movement of capital etc.

From time to time, it is supplemented with special laws (Forestry Act 2001, Investment Act, Mining Act, Oil Act, Labour Act, Competition Act).

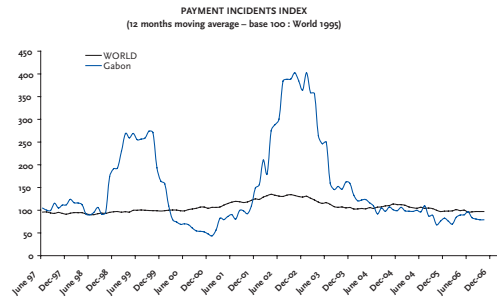
As far as oil is concerned, Gabon undoubtedly offers oil companies the best terms of investment in Sub-Saharan Africa. The new production sharing agreements (CPPs) offer oil companies quick depreciation of oil exploration costs, better and more reliable taxation and higher oil profits than neighbouring rivals.

In 2005, the government set up a Competition Directorate and a National Commission Against Illicit Gain at the Ministry of Commerce, while strengthening the Public Procurement Directorate. Gabon joined the Extractive Industries Transparency Initiative (EITI) in 2004. EITI published its first report in 2005 (the second is due in 2006) and, at its Oslo conference, designated Gabon one of the most cooperative countries in this field.

The country's Private Investment Promotion Agency (APIP), set up in 2002, acts as a one-stop shop for investors, while providing them with practical information. Its services have steadily improved, especially as regards the time required to obtain administrative documents. The Gabonese Employers' Federation (CPG) gives entrepreneurs

proper support and is proactive, rather than reactive. In 2004, it advised the government to set up a government creditors' club – the Libreville Club – for the settlement of domestic debt. In 2004, 2005 and 2006, the Libreville Clubs I, II and III enabled many private companies to have their receivables acknowledged and settled within 120 days.

Customs duties and VAT are negotiable for large industrial schemes. New VAT-related tax provisions were introduced in summer 2004. Wood processing offers interesting investment opportunities following the adoption of a forestry law. Libreville too offers real comparative advantages for the development of services on a regional scale, especially as a site for the regional headquarters of international companies.



OPPORTUNITY SCOPE

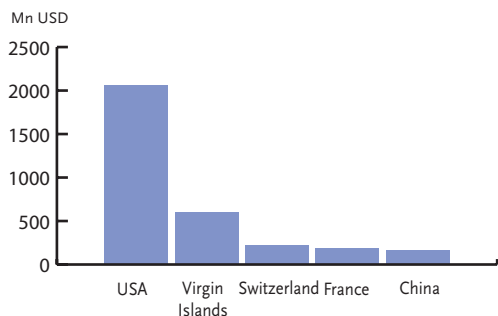
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 32 |
| Public consumption | 8 |
| Investment | 21 |

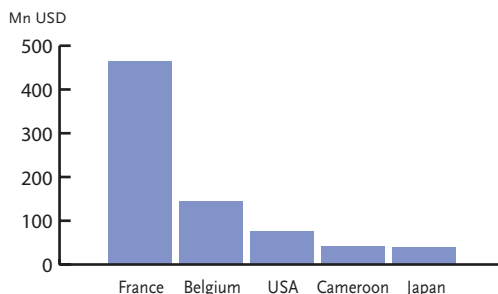
Exports: 61% of GDP

Imports: 40% of GDP

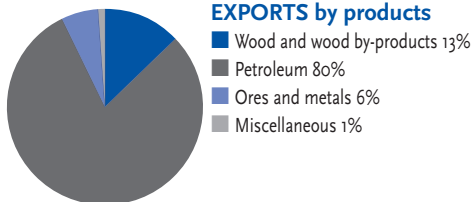
MAIN DESTINATIONS OF EXPORTS



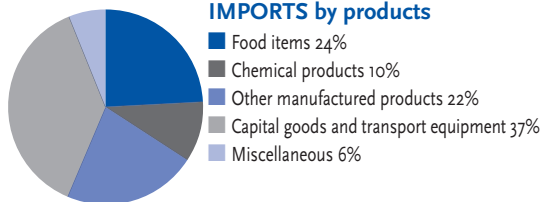
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

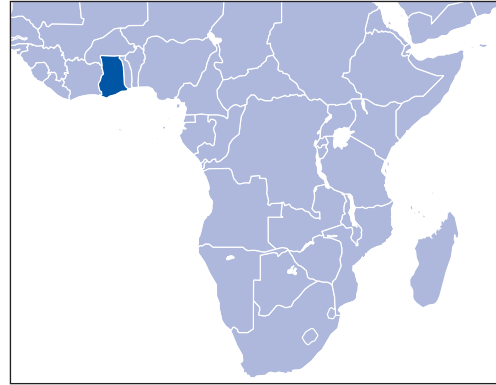


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Gabon | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 5,700 | 2,123 | 5,540 |
| GNP per capita (USD) | 4,080 | 749 | 2,117 |
| Human Development Index | 0.635 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | n/a | 28 | 30 |
| Urban population percentage | 84 | 36 | 43 |
| Percentage under 15 years old | 41 | 43 | 29 |
| Number of computers per 1000 inhabitants | 22 | 13 | 48 |

Ghana

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 20.7 |
| GDP (US\$ million) | 7,624 |



Short-term: **C**

Medium-term:
High risk

Coface analysis

STRENGTHS

- Political stability and an improved business environment have been assets for investors.
- Having long made efforts on structural reforms, Ghana has benefited from the support of financial backers.
- Cancellation of a large proportion of its foreign debt will make it possible to speed up economic development and poverty reduction.
- With its geopolitical situation and mediator role in regional conflicts, Ghana enjoys a positive image.

WEAKNESSES

- With gold and cocoa generating two-thirds of export revenues, the economy is still insufficiently diversified and, thus, exposed to exogenous shocks (weather conditions, world prices).
- Outdated and insufficient infrastructure and a difficult access to credit have impeded diversification.
- Both public-sector and external accounts have remained structurally in deficit, thus keeping Ghana dependent on international aid.

RISK ASSESSMENT

Economic growth has remained high, underpinned by the good performance of the gold and cocoa sectors and spurred by increasing private investment. In 2007, public investments should bolster the civil engineering sector with services (telecommunications, tourism) remaining dynamic. Nevertheless, inadequate infrastructure, particularly as regards electricity generation and delivery, along with difficult access to credit has hampered companies.

The country has struggled, furthermore, to translate economic performance into poverty reduction, which has limited its capacity to increase fiscal revenues whereas the run-up to general elections in 2008 is prompting authorities to increase social spending. In that context, public-sector

finances have remained out of balance. External accounts, meanwhile, have remained in deficit with the growth of gold and cocoa export revenues and the very significant reduction of foreign debt granted under the HIPC and MDRI programmes not sufficing to offset the pressure of oil and capital goods imports. Covering the country's internal and external financing needs will, thus, continue to depend on the inflow of aid granted by donor countries.

In any case, Ghana's domestic political stability, democratic maturity and conflict-free relations with neighbouring countries have been conducive to structural reform implementation, albeit at an unsteady pace, and have facilitated the significant progress made on education and health.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 4.5 | 5.2 | 5.6 | 5.9 | 5.7 | 5.8 |
| Inflation (%) | 14.8 | 26.7 | 12.6 | 15.1 | 10.9 | 9.2 |
| Public sector balance (%GDP)* | -8.1 | -8.0 | -9.5 | -6.9 | -10.5 | -8.4 |
| Exports | 2,057 | 2,471 | 2,785 | 2,802 | 3,684 | 3,902 |
| Imports | 2,714 | 3,259 | 4,297 | 5,345 | 6,377 | 6,891 |
| Trade balance | -657 | -788 | -1,512 | -2,543 | -2,693 | -2,989 |
| Current account balance (%GDP)* | -2.9 | -3.5 | -8.8 | -12.3 | -9.0 | -9.2 |
| Foreign debt (%GDP) | 140.4 | 99.0 | 72.7 | 59.2 | 21.2 | 22.1 |
| Debt service (%G&S exports) | 16.4 | 14.5 | 16.2 | 14.2 | 11.8 | 4.3 |
| Foreign currency reserves (in months of imports) | 2.6 | 4.8 | 4.5 | 4.1 | 3.6 | 3.9 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The privatization programme continues, albeit slowly. Water management has been awarded to a foreign consortium for an initial five-year period. Petroleum product distribution has been liberalized and gasoline prices reflect the movement in world oil prices. Liberalization of the electricity industry is under review. Moves to dispose of a majority stake in Ghana Telecom are underway, with the search for a strategic investor.

There are no import licences or foreign exchange controls. The country has comprehensive copyright protection laws that are not properly enforced. Industrial property is better protected; trademarks and company logos receive proper and adequate protection, provided they are registered beforehand.

Customs duties vary between 0 per cent and 25 per cent. Some products from the Economic Community of West African States (ECOWAS) are exempt from customs duty. Ghana levies 0.5 per cent duty (ECOWAS levy) on products from non-ECOWAS countries. A 0.5 per cent tax has also been introduced to provision the Export Development Investment Fund (EDIF). Since 1 April 2000, goods inspections at the point of entry are carried out by GSBV (a Bureau Véritas/Ghana

Standards Board joint venture) and by Gateway Services Limited-GSL (a Cotecna/Ghanian customs joint venture). GSBV inspects goods at airports and border crossings, whereas GSL conducts inspections at the ports of Tema and Takoradi. VAT is applicable at a flat rate of 12.5 per cent on the customs value of goods plus customs duties and levies. Since 1 August 2004, a 2.5 per cent national health tax applies, like VAT, to all imported goods and services. It is levied by the tax department responsible for VAT collection. Foreign companies face a number of difficulties: a stifling and omnipresent bureaucracy; a legal and judicial system that, although ostensibly adequate for the job, is both arbitrary and prone to outside interference; and poor financing (the banking sector is not interested in industrial and business investment).

■ Attitude towards foreign investors

To set up a joint venture with a local partner, a minimum investment of US\$10,000 is required. The equity requirement is five times higher for wholly foreign-owned companies. Purchasing and sales groups are required to invest a minimum of US\$300,000 and employ at least 10 local staff. These conditions do not apply to investment and fund management firms or companies exporting Ghanaian products.

OPPORTUNITY SCOPE

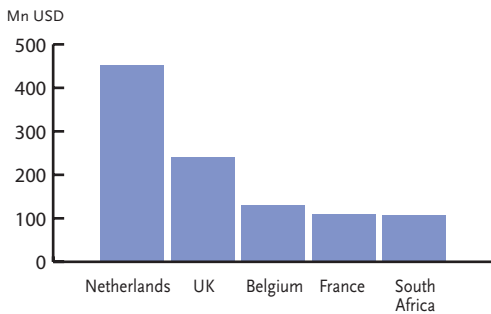
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 52 |
| Public consumption | 10 |
| Investment | 16 |

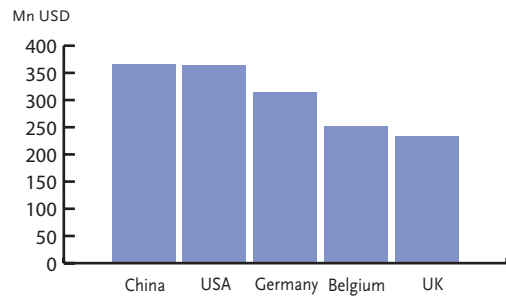
Exports: 35% of GDP

Imports: 54% of GDP

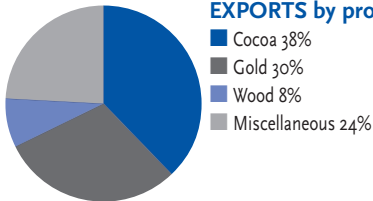
MAIN DESTINATIONS OF EXPORTS



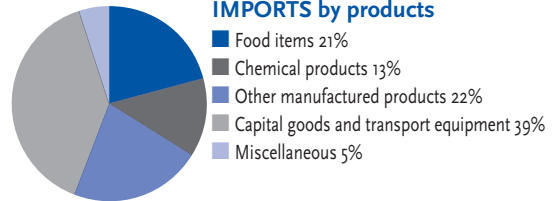
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Ghana | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 2,220 | 2,123 | 5,540 |
| GNP per capita (USD) | 380 | 749 | 2,117 |
| Human Development Index | 0.520 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 30 | 28 | 30 |
| Urban population percentage | 45 | 36 | 43 |
| Percentage under 15 years old | 40 | 43 | 29 |
| Number of computers per 1000 inhabitants | 4 | 13 | 48 |

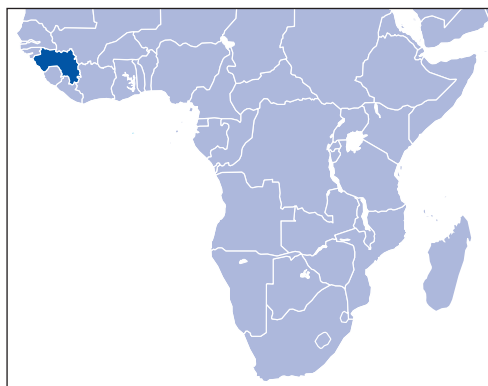
Guinea

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 9.5 |
| GDP (US\$ million) | 2,689 |
| GDP per capita (US\$) | 284 |

Short-term: **D**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

Political uncertainties continue to undermine Guinea's outlook with a shaky regional environment (Ivory Coast, Liberia, Sierra Leone) compounding an unstable domestic situation, marked by the removal in April 2006 of the prime minister responsible for initiating reform policy intended to ensure the support of donor countries. Questions over the possible succession of President Conté have, moreover, persisted and the business climate has remained deleterious.

Although recent large investments in the mineral sector, in bauxite and gold extraction, aluminium refineries and relevant infrastructure, has been driving the economy, growth in the other sectors has been very low. The country's continues to under-exploit its full potential – bauxite, diamonds, gold,

iron, hydropower and agriculture – with its infrastructure network remaining inadequate and dilapidated. High inflation has, moreover, worsened living conditions for the large majority of the population who are already suffering from irregular access to drinking water, electricity and basic food products. This is a source of tensions that have sometimes degenerated into violence.

The mineral sector has contributed to improvement, albeit precarious, in public finances. As regards external accounts, the volume of food and oil imports, in conjunction with a services balance deficit, has made it difficult to reduce the current account deficit, with the country thus remaining dependent on international aid. Lacking an IMF agreement, Guinea has, moreover, been unable to benefit from foreign debt relief under the HIPC programme.

MAIN ECONOMIC INDICATORS

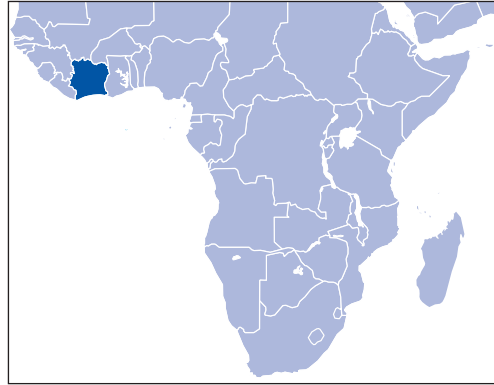
| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 4.2 | 1.2 | 2.7 | 3.0 | 3.7 | 4.0 |
| Inflation (%) | 3.0 | 12.9 | 17.5 | 31.1 | 25.0 | 20.0 |
| Public sector balance (%GDP)* | -6.2 | -8.9 | -5.9 | -2.0 | -1.2 | n/a |
| Exports | 709 | 727 | 735 | 769 | 837 | 899 |
| Imports | 596 | 578 | 712 | 739 | 799 | 904 |
| Trade balance | 112 | 148 | 24 | 30 | 39 | -5 |
| Current account balance (%GDP)* | -5.6 | -4.1 | -5.8 | -5.6 | -5.3 | -5.5 |
| Foreign debt (%GDP) | 106 | 95 | 89 | 106 | 114 | 107 |
| Debt service (%G&S exports) | 19.0 | 23.3 | 24.6 | 23.0 | 22.0 | 19.4 |
| Foreign currency reserves (in months of imports) | 2.1 | 1.4 | 1.0 | 0.9 | 0.9 | 0.8 |

Ivory Coast

Population (million inhabitants) 16.8
GDP (US\$ million) 13,734

Short-term: **D**

Medium-term:
Very high risk



Coface analysis

STRENGTHS

- The Ivory Coast economy represents a substantial proportion of West Africa's agricultural and mineral potential.
- The country has a significant manufacturing industry and good transport, financial services and telecommunications infrastructure.
- Despite the current political gridlock, membership in the West Africa Monetary Union has contributed to its monetary stability.

WEAKNESSES

- The political crisis has resulted in deterioration of living conditions and infrastructure, expansion of the informal economy and higher costs for companies.
- That context will complicate matters in getting the economy back on track.
- Its regional role in financial matters, transit and as a trading base – and thus its attractiveness to investors – has been called into question.
- The country cannot benefit from the debt relief that it is entitled to and has been accumulating arrears.

RISK ASSESSMENT

The political crisis that has been gripping the country since September 2002 continues to drag on. With the impossibility of organizing elections in October 2005 due to the partition of the country, the African Union and the UN organised a one-year transition period, after which voter registration and disarmament of all militias should have allowed the elections to proceed. President Gbagbo's term in office was extended and a consensus prime minister approved by the UN and endowed with broad authority, Charles Konan Banny, was appointed to carry out the programme. Several factors prevented the programme's completion, however, including tensions within the executive branch, reluctant cooperation attributable to the climate of mutual mistrust between the parties, and the resistance of parties with vested interests who are benefiting from the partition and wishing to preserve their gains.

The African Union (AU) and UN (Security Council Resolution 1721 of November 2006) postponed the elections again and organized a second transition year with even broader authority granted to Prime Minister Konan Banny. His room for manoeuvre will, nonetheless, still be very limited with the prospects for breaking out of the crisis remaining uncertain.

The re-involvement of donor countries in the Ivory Coast, which has been in arrears with all its creditors except the IMF, has thus been delayed. The economic outlook has remained very precarious even if the cocoa sector and an expanding oil industry have been helping to sustain modest economic growth while generating foreign currency earnings. With the social situation continuing to deteriorate, an accumulation of problems has undermined the business environment, including cross arrears, high security and transport costs, smuggling and rackets.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---------------------------------|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | -1.4 | -1.6 | 1.8 | -0.7 | 1.2 | 3.0 |
| Inflation (%) | 3.1 | 3.3 | 1.5 | 3.9 | 4.6 | 3.0 |
| Public sector balance (%GDP)* | -2.1 | -5.0 | -5.0 | -4.3 | -1.5 | n/a |
| Exports | 5,694 | 6,285 | 7,454 | 7,263 | 8,672 | 9,415 |
| Imports | 2,610 | 3,443 | 4,526 | 4,920 | 5,726 | 6,216 |
| Trade balance | 3,084 | 2,842 | 2,928 | 2,343 | 2,947 | 3,199 |
| Current account balance (%GDP)* | 6.4 | 1.7 | 1.5 | -0.1 | 0.6 | 1.5 |
| Foreign debt (%GDP) | 111 | 115 | 111 | 92 | 89 | 88 |
| Debt service (%G&S exports) | 19 | 28.7 | 25.3 | 20.0 | 15.7 | 14.5 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Since 1 January 2000, the date of introduction of the common external tariff, all WAEMU countries have an identical customs regime. Imports from member states are totally exempt from customs duties, while those from third countries are liable to four rates of duty: 0, 5, 10 and 20 per cent. There is also a statistical tax (1 per cent of the CIF value), a community solidarity tax (1 per cent), an ECOWAS community levy (0.5 per cent) and 18 per cent single-rate VAT. *Ad hoc* duties apply to a number of products, including fish, rice, alcoholic beverages, tobacco, cigarettes and petroleum products, while a limited number of goods are liable to temporary sliding-scale duties that vary between 2.5 per cent (lower band) and 5 per cent (upper band). Protectionist measures include an import licence for cotton and 100 per cent cotton products (eg wax and bazin) as well as oil and gas. Sugar imports, moreover, are subject to the importing entity obtaining an importer code.

Products are quality controlled by a state entity, Codinorm (Côte d'Ivoire Normalisation). Quantity control is carried out by Bivac and Cotecna Inspection Ltd prior to shipment. Under a decree dated 2 April 2002, a certificate of conformity is

required since 2 June 2003 to commercialize 80 or so products. As for exchange controls, capital flows between the Ivory Coast and non-ECOWAS member states (excluding France) are subject to the approval of the Ministry of Economic Affairs and Finance (Finex Department) for sums equal to or greater than CFA300,000 (€458). There are no restrictions on the movement of capital between Ivory Coast, other member countries and France.

■ Attitude towards foreign investors

The current Investment Act, in force since 1995, provides for two mechanisms that grant five- or eight-year tax exemptions depending on the size and type of investment. Under the approval scheme (investments \geq €762,000), investors are liable to a 5 per cent flat-rate import duty on machinery, equipment and the first batch of spares.

The act does not differentiate between origin of investment and applies to both local and foreign investment. However, legal insecurity and the social and political crisis that has gripped the country since 2002 are a cause for concern to business. There are no special restrictions on the employment of foreign workers. To hire a foreigner though, a vacancy must be advertised for one month and permission obtained from the Ministry of Civil Service and Labour.

OPPORTUNITY SCOPE

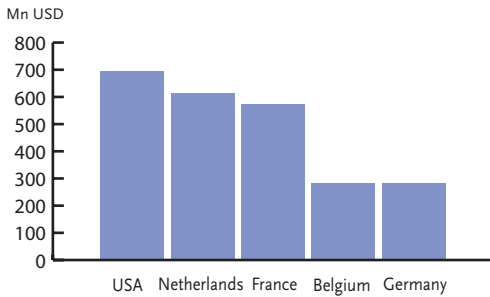
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 50 |
| Public consumption | 12 |
| Investment | 7 |

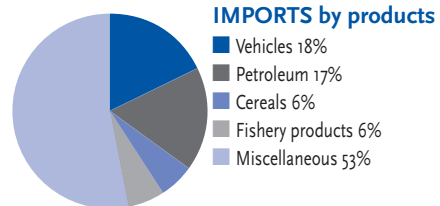
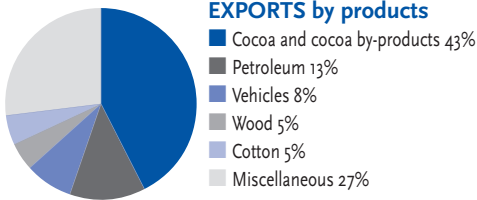
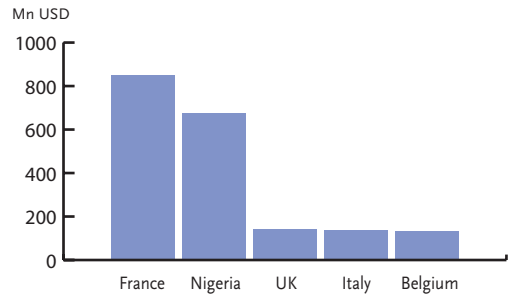
Exports: 48% of GDP

Imports: 38% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

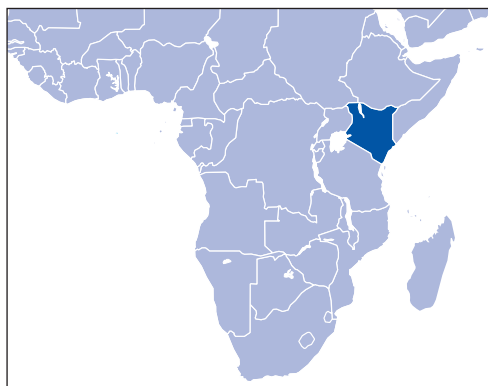
| Indicators | Ivory Coast | Regional average | DC average |
|--|-------------|------------------|------------|
| GNP per capita (PPP dollars) | 1,470 | 2,123 | 5,540 |
| GNP per capita (USD) | 760 | 749 | 2,117 |
| Human Development Index | 0.420 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 34 | 28 | 30 |
| Urban population percentage | 45 | 36 | 43 |
| Percentage under 15 years old | 42 | 43 | 29 |
| Number of computers per 1000 inhabitants | 9 | 13 | 48 |

Kenya

Population (million inhabitants) 31.9
 GDP (US\$ million) 14,376

Short-term: **C**

Medium-term:
High risk



Coface analysis

STRENGTHS

- The regional integration underway within the East African Community will further strengthen Kenya's position and its attractiveness to investors.
- Improved infrastructure (transport, telecommunications and financial services) will make it possible to exploit the potential of an already diversified economy more fully.
- That should facilitate gradually separating policy development from economic development.

WEAKNESSES

- Agriculture is still a key economic sector (25 per cent of GDP), thus making most personal incomes vulnerable to weather conditions.
- Combating poverty, unemployment and the AIDS pandemic continues to necessitate major efforts.
- The business climate and persistent corruption have damaged the country's image.
- High production costs have been hampering companies.
- The domestic debt burden (20 per cent of GDP) has undermined public-sector finances.

RISK ASSESSMENT

After several years of stagnation, the recovery underway since 2004 continued in 2006, despite the economic impact of the energy bill and the drought that affected farm and hydropower production during the early months of the year. While all economic sectors registered growth, agriculture, transport, telecommunications and tourism were the most dynamic. Barring exogenous shocks, those trends should continue in 2007 underpinned by infrastructure modernization and active tax incentive policy. Meanwhile, the rapid increase of prices should ease, bar exceptionally adverse weather or fiscal slippage.

With investment spending and domestic debt already straining the public-sector balance, a

marked increase in current public spending in the run-up to general elections end-2007 could, thus, negate the management efforts facilitated in past years by rising fiscal revenues. Export dynamism has, moreover, not sufficed to offset the rapid rise of imports (oil products and capital goods), thereby increasing the current account deficit. With moderate foreign debt, however, Kenya's financing needs have remained manageable.

The political context has been marked by the approach of elections (which could even be brought forward) that could heighten political and social tensions, and by an inadequate anti-corruption campaign, which has soured the country's relations with western financial backers.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|--------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 1.5 | 2.8 | 4.9 | 5.8 | 5.5 | 5.5 |
| Inflation (%) | 2.0 | 9.8 | 11.7 | 10.3 | 13.6 | 8.0 |
| Public sector balance (%GDP) | -2.6 | -3.3 | -0.4 | 0.1 | -4.4 | -4.0 |
| Exports | 2,162 | 2,412 | 2,721 | 3,240 | 3,550 | 3,934 |
| Imports | 3,159 | 3,555 | 4,351 | 5,408 | 6,479 | 7,102 |
| Trade balance | -997 | -1,143 | -1,630 | -2,168 | -2,929 | -3,168 |
| Current account balance (%GDP) | -0.9 | 1.0 | -2.2 | -2.6 | -4.6 | -4.8 |
| Foreign debt (%GDP) | 47.5 | 45.8 | 42.1 | 34.8 | 29.2 | 28.8 |
| Debt service (%G&S exports) | 9.3 | 11.1 | 6.0 | 6.1 | 5.5 | 6.7 |
| Foreign currency reserves (in months of imports) | 3.2 | 4.0 | 3.3 | 3.2 | 3.7 | 3.4 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Kenya is a stable democracy and hosts the headquarters of UN agencies as well as numerous regional head offices of firms operating in East Africa. Mombasa port and the Northern Corridor are the gateway to East Africa and the Great Lakes region. Nairobi airport, currently undergoing capacity expansion work, is a tourism and freight hub. Kenya sells close to 50 per cent of its exports to neighbouring countries. The EU is Kenya's main trading partner and donor.

The country's ageing and choked infrastructure is undergoing modernization. Programmes are underway to improve roads, the recently concessioned Kenya railways, electricity generation and information technologies. Strong regional integration is seen as the key to the country's development.

Kenya is a member of the East African Community (EAC) along with Tanzania, Uganda and, since November 2006, Burundi and Rwanda. The EAC established a customs union in 2005 with a view to developing a common market in 2008. Kenya is also a member of the 20-country Common Market of Eastern and Southern Africa (COMESA) and one of 11 countries belonging to its free trade area. Regional integration allows Kenya to maintain a liberal economy open to investment and imports. Only some products (firearms, pesticides, animal and plant seed etc) are

banned or restricted. Kenyan animal health authorities react quickly to warnings issued by the WHO (Newcastle disease, BSE, avian flu etc).

Protectionist measures restrict foreign ownership of land, investment management and reinsurance companies, and slow utilities' privatization. The EAC common external tariff, in force since 1 January 2005, applies rates of 0, 10 and 25 per cent depending on the degree of goods' transformation. The standard rate of VAT is 16 per cent. *Ad hoc* duty is applied to imported crude oil and refined petroleum products.

■ Means of entry

The US dollar, euro and pound sterling are the most widely used units of account. Goods exported to Kenya have, since September 2005, been subject to pre-shipment inspection. Inter-teck and SGS, the two firms appointed to carry out such inspections, share the various countries between them.

It is advisable to take certain precautions with regard to payments and to use tested procedures such as presentation of documents against payment, guaranteed bank cheques, international transfers and confirmed letters of credit.

■ Attitude towards foreign investors

The Kenyan government's proactive approach to foreign investment is not always borne out in practice. The teething troubles faced by the

SUB-SAHARAN AFRICA

Investment Bill and the Kenya Investment Authority, supposedly responsible for facilitating foreign investment via the creation of a one-stop shop, have engendered an attitude of scepticism towards them. In fact, Kenya attracts three times less foreign investment than either of its

neighbours, Tanzania and Uganda. Work permits are hard to come by.

Other than *de facto* or *de jure* limitations on access to specific activities (gaming, hunting etc), there are few restrictive or discriminatory measures.

OPPORTUNITY SCOPE

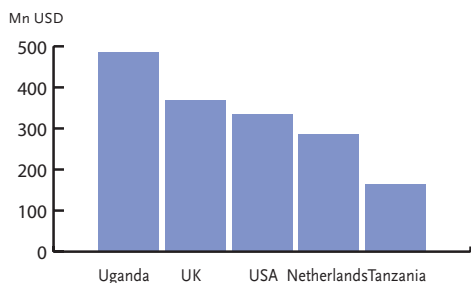
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|----|
| ■ Private consumption | 57 |
| ■ Public consumption | 14 |
| ■ Investment | 10 |

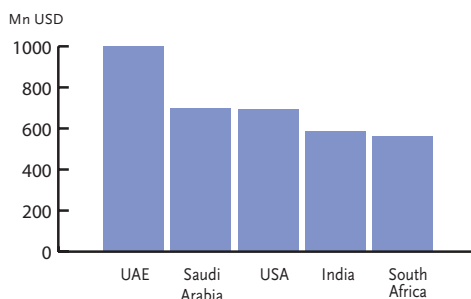
Exports: 26% of GDP

Imports: 32% of GDP

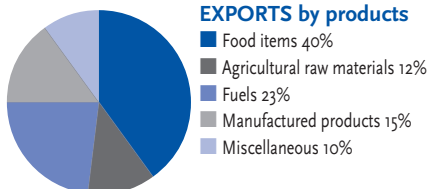
MAIN DESTINATIONS OF EXPORTS



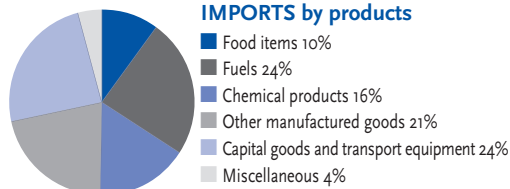
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Kenya | Regional average | DC average |
|--|-------|------------------|------------|
| GNP per capita (PPP dollars) | 1,130 | 2,123 | 5,540 |
| GNP per capita (USD) | 480 | 749 | 2,117 |
| Human Development Index | 0.474 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 34 | 28 | 30 |
| Urban population percentage | 39 | 36 | 43 |
| Percentage under 15 years old | 43 | 43 | 29 |
| Number of computers per 1000 inhabitants | 6 | 13 | 48 |

Madagascar

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 16.9 |
| GDP (US\$ million) | 5,474 |
| GDP per capita (US\$) | 324 |



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

An ambitious public investment programme to modernize and develop the country's infrastructure has buoyed growth with not only the civil engineering sector but also services (telecommunications and tourism) posting good performance. Barring major political turmoil or catastrophic weather, that trend should gain momentum in 2007, spurred by implementation of major mining investments.

At this juncture, public-sector accounts continue to reflect not only the insufficient diversification of an economy still very vulnerable to exogenous shocks but also the persistent poverty afflicting a high proportion of the population. External accounts have been subject, moreover, to

deterioration of the terms of trade suffered by the country amid rising oil prices and declining revenues from vanilla and textile exports from the export-processing zone. International aid has, thus, been needed to cover its financing needs. In that regard, thanks to efforts undertaken to speed up structural reforms, the country has benefited from western-country and international financial community backing. It has, thus, been able to benefit from debt relief under the HIPC and MDRI programmes.

The risk of political or social turmoil has, nonetheless, remained high amid the electoral period that began with presidential elections in December 2006 and should last until the legislative elections end-2007.

MAIN ECONOMIC INDICATORS

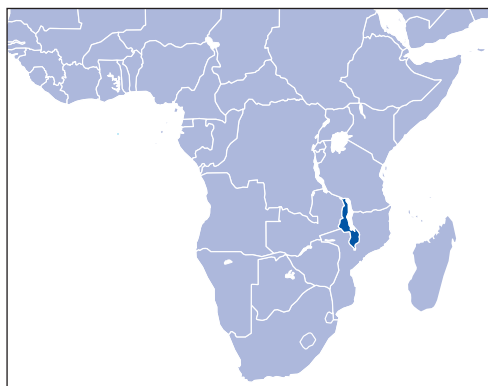
| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | -12.7 | 9.8 | 5.3 | 4.6 | 4.7 | 5.6 |
| Inflation (%) | 16.3 | -1.7 | 13.9 | 18.4 | 11.2 | 9.6 |
| Public sector balance (%GDP)* | -8.4 | -9.3 | -13.9 | -10.1 | -10.8 | -9.3 |
| Exports | 486 | 941 | 1,017 | 834 | 848 | 912 |
| Imports | 603 | 1,131 | 1,472 | 1,419 | 1,426 | 1,546 |
| Trade balance | -118 | -190 | -455 | -585 | -577 | -634 |
| Current account balance (%GDP)* | -6.1 | -7.5 | -13.1 | -12.1 | -11.6 | -11.4 |
| Foreign debt (%GDP) | 99 | 91 | 80 | 77 | 26 | 29 |
| Debt service (%G&S exports) | 20.6 | 12.3 | 5.4 | 6.7 | 5.3 | 3.6 |
| Foreign currency reserves (in months of imports) | 3.8 | 2.6 | 2.7 | 2.8 | 2.8 | 3.1 |

* = ex grants

e = estimate, f = forecast

Malawi

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 11.0 |
| GDP (US\$ million) | 1,714 |
| GDP per capita (US\$) | 156 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

This poor landlocked country's economy, with its limited diversification, has remained vulnerable to swings in the fortunes of the farm sector (tobacco, tea). After the slowdown in 2005, caused by the drought, which precipitated a new upsurge of prices, a moderate recovery developed in 2006. However, difficulties with the fertilizer supply and the extent of the AIDS pandemic will limit its scope. The growth rate will remain insufficient to significantly reduce poverty.

In that context, the fiscal situation will remain precarious. Government authorities have, nonetheless, succeeded in exercising greater control over public spending and in adhering to the economic policy agreed in the framework of the programme concluded with the IMF in June 2005.

Compliance with the IMF programme, moreover, allowed the country to benefit from broad cancellation of public-sector foreign debt under the HIPC and MDRI programmes in September 2006. Meanwhile, although the farm sector recovery and development of tourism have led to an increase in export earnings, that increase has not sufficed to offset the expansion of imports and the current account will, thus, remain in deficit.

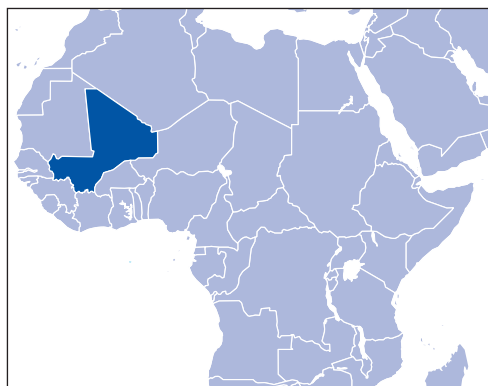
A shaky political situation could, however, jeopardize the progress made. The reforms undertaken and President Mutharika's anti-corruption campaign have met with fierce opposition in parliament even causing a split in the majority party. In this context, the risk of impeachment proceedings against the president has remained high.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 2.1 | 3.9 | 5.1 | 1.9 | 2.3 | 3.4 |
| Inflation (%) | 14.9 | 9.6 | 11.5 | 15.4 | 14.4 | 10.5 |
| Public sector balance (%GDP)* | -18.3 | -19.9 | -18.0 | -21.2 | -19.0 | -15.2 |
| Exports | 421 | 441 | 470 | 524 | 572 | 593 |
| Imports | 727 | 792 | 894 | 998 | 1,070 | 1,049 |
| Trade balance | -306 | -351 | -424 | -474 | -498 | -456 |
| Current account balance (%GDP)* | -18.5 | -16.0 | -19.6 | -18.8 | -19.7 | -16.3 |
| Foreign debt (%GDP) | 149 | 178 | 148 | 137 | 20 | 24 |
| Debt service (%G&S exports) | 11.8 | 9.0 | 10.6 | 8.1 | 5.9 | 0.7 |
| Foreign currency reserves (in months of imports) | 1.5 | 1.5 | 1.4 | 1.4 | 1.2 | 2.2 |

Mali

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 11.7 |
| GDP (US\$ million) | 4,326 |
| GDP per capita (US\$) | 370 |



Short-term: **B**

Medium-term:

High risk²

Coface analysis

RISK ASSESSMENT

Despite the cotton sector's uncertain outlook, agriculture, along with increased gold production and the dynamism of the telecommunications sectors, has been underpinning economic growth. With public and private investments now being made in mining, oil exploration and transport infrastructure, the outlook for 2007 appears bright. Establishing sustainable growth has, however, come up against structural constraints, including a productive apparatus still lacking in diversification, production costs exacerbated by Mali's landlocked condition, and a thin domestic market.

With international community backing, the country has been making major efforts to develop infrastructure, increase the proportion of production processed locally and significantly reduce poverty.

Those efforts, allied with a prudent structural reform programme focused particularly on the cotton industry, have moreover benefited from the country's political stability, which the presidential and legislative elections in April and June 2007 should not jeopardize.

At this juncture, the public-sector financial deficit has been growing amid capital spending and the subsidizing of petrol prices. Conversely, earnings from gold exports should contribute to reducing the current account deficit, the oil bill's impact and the need for capital goods imports notwithstanding. In any case, the country's external accounts will remain vulnerable to exogenous factors and it will continue to depend on donor countries to cover its external financing needs. That support has resulted in a substantial reduction of its foreign debt under the HIPC and MDRI programmes.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 4.3 | 7.4 | 2.2 | 6.1 | 5.1 | 6.0 |
| Inflation (%) | 5.0 | -1.3 | -3.1 | 6.4 | 2.0 | 3.0 |
| Public sector balance (%GDP)* | -7.3 | -5.7 | -6.6 | -7.3 | -8.6 | -8.8 |
| Exports | 999 | 1,040 | 1,071 | 1,105 | 1,489 | 1,747 |
| Imports | 788 | 1,105 | 1,200 | 1,227 | 1,435 | 1,639 |
| Trade balance | 211 | -65 | -129 | -121 | 54 | 108 |
| Current account balance (%GDP)* | -4.3 | -8.7 | -10.3 | -9.2 | -7.6 | -7.2 |
| Foreign debt (%GDP) | 105 | 73 | 63 | 65 | 25 | 26 |
| Debt service (%G&S exports) | 5.1 | 5.8 | 6.5 | 6.4 | 4.8 | 3.8 |
| Foreign currency reserves (in months of imports) | 4.9 | 7.3 | 6.0 | 6.6 | 6.5 | 5.2 |

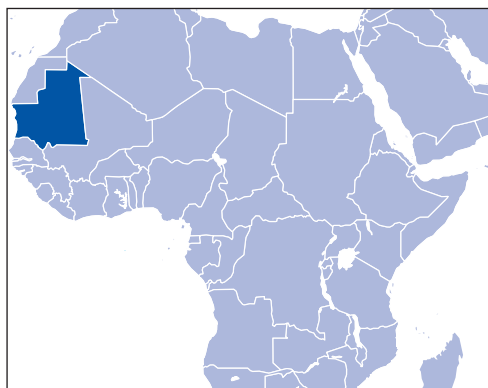
* = ex grants

e = estimate, f = forecast

2. except international finance or FDA (French Development Association)

Mauritania

Population (million inhabitants) 3.1
GDP (US\$ million) 1,888



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

STRENGTHS

- In addition to substantial mineral resources (iron, gold, diamonds), the country's natural wealth has also included oil extraction since 2006.
- This potential, along with implementation of structural reforms, has attracted foreign investment.
- This has fostered the necessary diversification of the productive fabric beyond its two traditional mainstays: iron ore and fishing.
- Mauritania has benefited from substantial relief of public foreign debt under the HIPC and MDRI programmes.

WEAKNESSES

- A small population and the poverty afflicting 46 per cent of it have limited the country's domestic market potential.
- The UNDP human development index ranks Mauritania 153rd out of 177 countries.
- The 'Dutch Disease' risk is high for manufacturing industry competitiveness.
- The growing desertification affecting the cattle-breeding economy has been responsible for the incompressible flow of food imports.

RISK ASSESSMENT

Mauritania has been undergoing a twofold political and economic transition. The political transition initiated by the August 2005 coup is still underway. Besides implementation of many reforms intended to improve the management of public finances and ensure the transparency of oil revenues, the military authorities have abided by their commitment to hold a referendum in June on a constitution largely amended toward greater democracy and then to hold free and transparent municipal and legislative elections in November 2006. In that context, the process that is supposed to culminate in March 2007 with the election of the president of the republic by popular vote seems to be on track.

Concurrently, the start of oil extraction has spectacularly improved the country's economic environment and prospects. The oil industry, together with major investments made in the other mining sectors and transport infrastructure has been driving the economy. That dynamism has also benefited services. As a result, after the major imbalances suffered in recent years, public and external accounts will be in surplus in 2006 and 2007. Cancellation of a substantial portion of public foreign debt under the HIPC and MDRI programmes will, moreover, improve the country's solvency.

Elements of weakness have nonetheless persisted, including high inflation and inadequate electric power generation capacity, which have hampered the manufacturing sector.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 1.1 | 5.6 | 5.2 | 5.4 | 19.4 | 10.3 |
| Inflation (%) | 5.4 | 5.3 | 10.4 | 12.1 | 8.5 | 7.5 |
| Public sector balance (%GDP)* | 3.8 | -16.4 | -8.0 | -9.1 | 8.0 | 5.6 |
| Exports | 330 | 318 | 440 | 604 | 1,892 | 2,384 |
| Imports | 409 | 542 | 923 | 1,387 | 1,209 | 1,457 |
| Trade balance | -79 | -224 | -484 | -783 | 683 | 928 |
| Current account balance (%GDP)* | -4.8 | -20.5 | -38.7 | -53.7 | 1.0 | 4.3 |
| Foreign debt (%GDP) | 159 | 150 | 138 | 115 | 43 | 26 |
| Debt service (%G&S exports) | 8.1 | 7.2 | 6.4 | 5.5 | 2.3 | 2.0 |
| Foreign currency reserves (in months of imports) | 1.5 | 0.5 | 0.4 | 0.5 | 0.9 | 1.4 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Market overview**

The country's legal system is fairly comprehensive judging by the multitude of laws (business act, investment act, tax code etc, all of which are available at Ubifrance) and the quality of their content. Real estate laws, however, can be somewhat vague at times. It is, therefore, important to check the authenticity of title deeds to land, especially in urban and industrial areas, around airports and ports, and alongside major roads. A foreign company can win an action against a local partner. It is even possible to win a suit against the government and have the ruling enforced. On the other hand, it can be difficult, even impossible, to enforce a ruling against an influential local businessman.

The country has a double taxation agreement with France. However, the treatment (or lack of it) of parent/subsidiary relations should be re-examined. There appear to be cases of double taxation that could deter some investors. The Mauritanian tax authorities also tend to charge VAT on services performed in France as part of contracts undertaken in Mauritania. The financial system gives the greatest cause for concern. Mauritanian banks perform none of the functions normally expected of a banking

system, such as savings collection, investment credit provision and so on. Their main role is to serve a tiny number of interest groups as providers of foreign exchange.

■ Means of entry

Economic players not linked to these interest groups have to turn to moneychangers, and so pay a surcharge in order to meet their foreign currency requirements. As both businesses and individuals keep cash savings in the local currency at home or at the workplace, there is a flourishing parallel market. Since the demonetization of 1974-series banknotes on 1 December 2004, better funding is available for the country's economy through the banking sector.

The governor of the Central Bank of Mauritania, appointed in July 2004 and confirmed after the coup of 3 August 2005, has introduced important changes, including greater transparency in the allocation of foreign exchange, which is primarily reserved for imports of basic staples and commodities. The next six months should see rapid growth of automated payment systems. The year 2006 – in which oil production come on-stream – was a pivotal one, with the arrival of two foreign banks (BII operated by ING and BNP Paribas) at the forefront of the drive to make credit cheaper.

SUB-SAHARAN AFRICA

OPPORTUNITY SCOPE

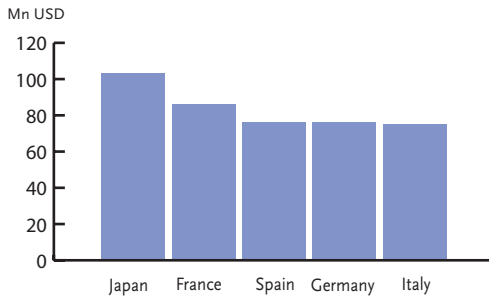
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 55 |
| Public consumption | 12 |
| Investment | 9 |

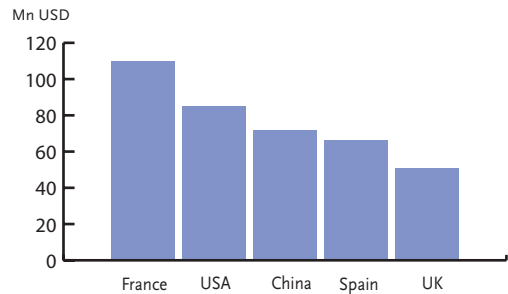
Exports: 6% of GDP

Imports: 45% of GDP

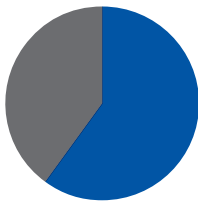
MAIN DESTINATIONS OF EXPORTS



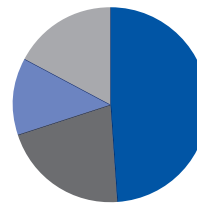
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Mauritania | Regional average | DC average |
|--|------------|------------------|------------|
| GNP per capita (PPP dollars) | 2,050 | 2,123 | 5,540 |
| GNP per capita (USD) | 530 | 749 | 2,117 |
| Human Development Index | 0.477 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 30 | 28 | 30 |
| Urban population percentage | 62 | 36 | 43 |
| Percentage under 15 years old | 43 | 43 | 29 |
| Number of computers per 1000 inhabitants | 11 | 13 | 48 |

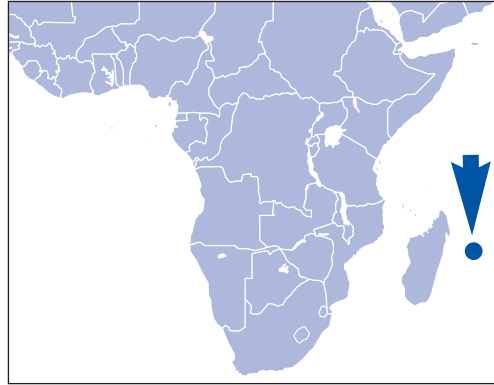
Mauritius

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 1.2 |
| GDP (US\$ million) | 5,224 |

Short-term: **A3**

Medium-term:
Quite low risk

Coface analysis



STRENGTHS

- With a favourable political and institutional environment, Mauritius is one of Africa's most developed countries.
- It has maintained good relations with countries in the west and on the Indian Ocean rim.
- The economy has been diversifying to high value-added sectors, notably finance and new information, and communication technologies.
- A well-capitalized and profitable banking sector has made it possible to support growth while limiting foreign debt.

WEAKNESSES

- The sugar and textile sectors, representing nearly 20 per cent of jobs and 40 per cent of exports, have been suffering from the termination of preferential trade agreements.
- The necessary restructuring of those two sectors could exacerbate unemployment, a possible source of social tensions.
- Public-sector debt has been high – 72 per cent of GDP – reflecting its persistent difficulties.

RISK ASSESSMENT

Economic activity got back on track in 2006. Tourism (notwithstanding the chikungunya epidemic), financial services and telecommunications remained dynamic, and civil engineering benefited from increased investment. That trend should continue in 2007, with tax incentives giving a further boost to private investment. The improved economic conditions have contributed to strengthening corporate solvency, evidenced by the decline of the Coface payment incident index. The Mauritius economy's traditional mainstays are, nonetheless, still mired in difficulties. Sugar production should continue to decline, with the preferential trade agreements with Europe coming progressively to an end, while the textile sector has been suffering from discontinuation of the multifibre arrangement.

A quality business environment should facilitate diversification of the productive fabric, while the government in power since summer 2005 has the majority needed to undertake necessary structural reforms.

The recovery should spur consolidation of public-sector finances, whose large deficits are attributable, in part, to the poor financial health of state-owned companies. The cost of oil imports and the stagnation of exports has been increasing a trade deficit that the services balance can no longer offset, thereby generating a current account deficit. With the country's limited financing needs and foreign debt, however, the government enjoys ample room for manoeuvre to cope with any further deterioration of external balances.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 2.5 | 2.9 | 4.2 | 3.1 | 4.6 | 5.0 |
| Inflation (%) | 6.3 | 5.1 | 4.1 | 5.2 | 4.7 | 5.0 |
| Public sector balance (%GDP) | -6.0 | -6.2 | -5.4 | -5.0 | -5.5 | -4.0 |
| Exports | 1,586 | 1,835 | 1,935 | 2,016 | 1,845 | 1,886 |
| Imports | 1,790 | 2,133 | 2,309 | 2,708 | 2,618 | 2,694 |
| Trade balance | -204 | -298 | -375 | -692 | -773 | -808 |
| Current account balance (%GDP) | 5.6 | 1.7 | 1.3 | -2.9 | -2.3 | -2.5 |
| Foreign debt (%GDP) | 47.1 | 57.3 | 50.4 | 40.6 | 42.9 | 48.8 |
| Debt service (%G&S Exports) | 12.9 | 12.9 | 11.5 | 11.6 | 9.9 | 9.1 |
| Foreign currency reserves (in months of imports) | 6.8 | 7.6 | 8.0 | 6.5 | 5.9 | 4.8 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Mauritius has been a full member of the WTO since the 1994 Marrakech Summit. It signed the New York Convention on International Arbitration in June 1996, ratifying it in October 2002. Tariff barriers have been dismantled under a series of regional agreements (SADC, COMESA, IOC). It introduced single-rate VAT in 1998, which currently stands at 15 per cent.

Import licences remain in force for only a few products. These fall into three categories: prohibited goods (dangerous items such as firearms, ammunition, vehicle spare parts); supervised goods subject to government approval (foodstuffs, energy, pharmaceuticals); and unrestricted, formality-free goods.

Adopted in 1994, the tariff system differentiates between exporting countries benefiting from a preferential tariff (RSA, COMESA, SADC) and the 25 or so countries that are subject to a general tariff. In April 2005, the government decided to make Mauritius a duty-free island in four years, starting with the immediate abolition of customs duties for 1,850 tariff lines and cuts in duty on a host of other products. Unveiling the 2006–07 budget, the new finance minister did not call into question the policy of his predecessor, declaring that the dismantling of customs duties would be completed within three

years. He has also announced immediate reductions in customs duty on 60 per cent of tariff lines. Tariff peaks of 65, 55 and 40 per cent have all been lowered to 30 per cent, including those applicable to alcoholic beverages and cigarettes, where the cuts have been offset by an increase in excise duties. The number of non-zero-rated tariff bands have been reduced from seven to three at 10, 15 and 30 per cent. Excise duties are levied on four categories of imported and/or locally manufactured goods (alcoholic beverages, cigarettes, petrol and motor vehicles). Some products (food staples, pharmaceuticals) and services (education, transport, electricity, water) are VAT-exempt.

Import licences and price controls apply to staples, 30 of which are also subject to either administered pricing or profit control. Dairy products and pharmaceuticals have recently been added to this list. Some so-called 'strategic' products may be imported by only state-owned enterprises. The key state monopolies are the STC (State Trading Corporation), which imports almost all the rice ration, some wheat flour, petroleum products and cement (up to 25 per cent of requirements), and the AMB (Agricultural Marketing Board), which holds an import monopoly on onions, garlic, potato seeds, saffron and cardamoms. However, since early 1998 the AMB has relinquished some of its monopoly powers and permits potatoes to be imported free

from price controls by approved private agents, subject to certain conditions.

■ Attitude towards foreign investors

In the 2006–07 budget, the Mauritius finance minister announced a series of measures designed to open the country to foreign investors and facilitate their establishment in the country. The Board of Investment (BOI) – a one-stop shop set up in 2001 for investments in excess of €300,000 – has, since 1 October 2006, coordinated the new start-up and establishment procedures in accordance with the provisions of the Business Facilitation Act. The aim of this act is to facilitate investment projects and start-ups for both Mauritians and foreigners on the basis of a clear and exhaustive set of rules.

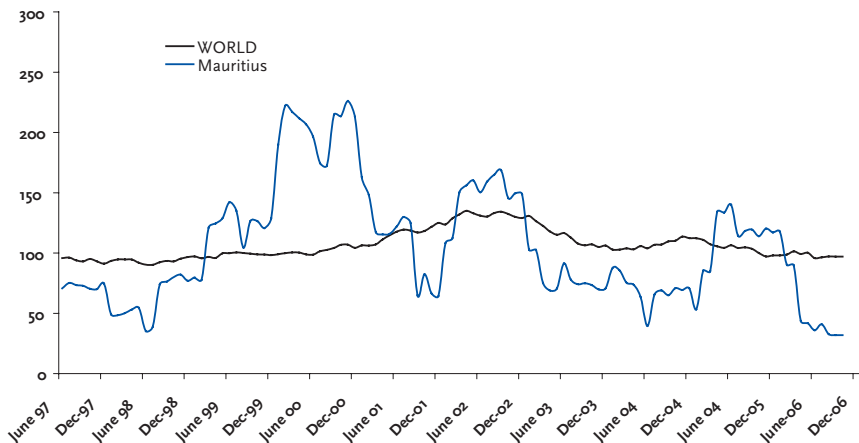
Since 1 October it is possible for SMEs to set up in business in three days. The government checks compliance with rules and procedures *ex post*. The

act also provides for facilitation of business arising from a foreign investment and acquisition of property by foreigners. Numerous measures have been taken to promote recruitment of foreign experts by Mauritian firms. On the other hand, all existing investment incentives have been abolished, except for two schemes: free ports and integrated resorts. Free port status too will disappear and be replaced by a tax regime applicable to all companies at a single rate of 15 per cent.

■ Foreign exchange regulations

The rate of exchange of the Mauritian rupee is set by the central bank against a basket of currencies. There are no exchange controls in Mauritius. The Mauritian rupee is fully convertible against the main currencies and may be transferred without restriction upon the sender providing proof of origin of the funds.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



SUB-SAHARAN AFRICA

OPPORTUNITY SCOPE

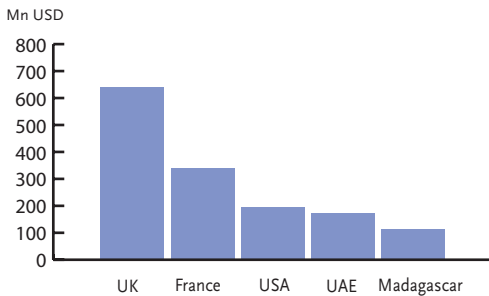
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 40 |
| Public consumption | 8 |
| Investment | 15 |

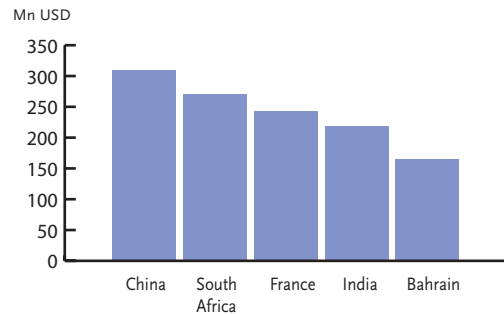
Exports: 56% of GDP

Imports: 56% of GDP

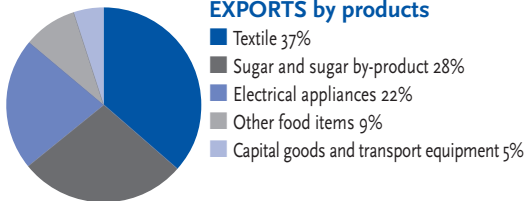
MAIN DESTINATIONS OF EXPORTS



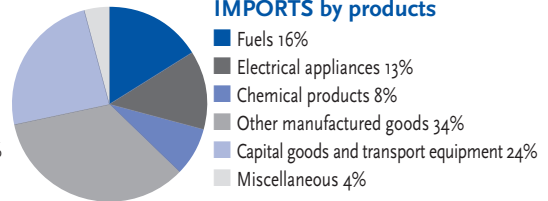
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Mauritius | Regional average | DC average |
|--|-----------|------------------|------------|
| GNP per capita (PPP dollars) | 11,950 | 2,123 | 5,540 |
| GNP per capita (USD) | 4,640 | 749 | 2,117 |
| Human Development Index | 0.791 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | n/a | 28 | 30 |
| Urban population percentage | 43 | 36 | 43 |
| Percentage under 15 years old | 25 | 43 | 29 |
| Number of computers per 1000 inhabitants | 147 | 13 | 48 |

Mozambique

Population (million inhabitants) 18.8
GDP (US\$ million) 4,321



Short-term: **B**

Medium-term:
High risk

Coface analysis

STRENGTHS

- The country boasts abundant natural resources (agriculture, minerals, hydroelectricity, tourist potential).
- Tension-free relations with neighbouring countries, its political stability and implementation of structural reforms have enhanced Mozambique's attractiveness to investors.
- Major industrial projects financed by private foreign capital have contributed to diversifying the economy.
- International community backing has resulted in substantial public-sector foreign debt reduction under the HIPC and MDRI programmes.

WEAKNESSES

- Economic growth has remained too dependent on megaprojects and has had difficulty spreading to the rest of the economy, particularly in terms of creating jobs and reducing the poverty affecting 54 per cent of the population.
- Agriculture still employs 80 per cent of the population, whose livelihood remains vulnerable to weather conditions.
- With limited infrastructure development (energy delivery, transport), major regional disparities have persisted.
- Difficult access to financing and a deficient institutional framework have hampered the national private sector's development.
- The country has remained dependent on international aid to cover its internal and external financing needs.

RISK ASSESSMENT

Robust economic growth should continue in 2007. The industrial sites already completed (aluminium, gas) and the investments underway in titanium and coal extraction and processing have been generating most of that growth directly or, via infrastructure construction, indirectly. Export crops (sugar, tobacco, cotton) have also been developing, thanks to major efforts to improve productivity.

Nonetheless, despite tighter management, the public-sector financial deficit has widened and should remain at a high level. With the high

poverty rate and the megaproject tax regime limiting the margin for increasing fiscal revenues, spending on education, health and urban renewal has been increasing, financed by debt cancellation and international aid. Similarly, the impact of rising prices for oil and for imports linked to major industrial projects will continue to affect external accounts, generating appreciable financing needs despite the substantial reduction of public-sector foreign debt from which the country has benefited.

Meanwhile, the country's political stability should make it possible to continue structural

reforms. Improvement in the business environment, along with modernization of the

financial sector and legal system, are the main areas where progress is expected.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 8.2 | 7.8 | 7.5 | 7.7 | 7.9 | 7.5 |
| Inflation (%) | 16.8 | 13.4 | 12.6 | 6.4 | 9.5 | 8.0 |
| Public sector balance (%GDP)* | -19.7 | -15.5 | -12 | -8.9 | -13.4 | -13.4 |
| Exports | 810 | 1,044 | 1,504 | 1,745 | 2,101 | 2,246 |
| Imports | 1,543 | 1,741 | 2,035 | 2,467 | 2,725 | 2,909 |
| Trade balance | -733 | -697 | -531 | -722 | -624 | -663 |
| Current account balance (%GDP)* | -22.3 | -19.9 | -14.1 | -16.0 | -17.0 | -17.8 |
| Foreign debt (%GDP) | 116 | 112 | 96 | 91 | 41 | 43 |
| Debt service (%GS exports) | 21.6 | 24.8 | 23.9 | 19.1 | 13.6 | 14.4 |
| Foreign currency reserves (in months of imports) | 4.6 | 4.8 | 5.1 | 4.1 | 3.4 | 3.4 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Customs duties currently range from 0 per cent for pharmaceuticals, 2.5 per cent for commodities, 5 per cent for capital goods and 7.5 per cent for semi-finished goods to 20 per cent for luxury and similar products. Different rates of duty may apply to one and the same product category (eg vegetables and private vehicles). Duties on passenger cars, for instance, vary between 5 and 20 per cent. According to foreign companies based in Mozambique, the existence of a thriving parallel economy not subject to import duties, levies or VAT (17 per cent) hampers free competition and exports of their products.

Customs procedures are so long-winded and complex that it is essential to hire the services of a special Mozambican agent (*despachante*) as well as a shipping agent. For payments, other than credit from international lenders, the irrevocable and confirmed documentary letter of credit is strongly recommended. Foreign capital may be repatriated, subject to approval of the Central Bank and Ministry of Finance, provided that the investment project has been authorized beforehand by the Investment Promotion Centre (CPI). Pre-shipment inspection is carried out by Intertek Testing Services (ITS) of the UK and an expensive

system for scanning container goods has been in place since May 2006.

■ Attitude towards foreign investors

An investment promotion centre (CPI) was set up to facilitate and coordinate the decision-making process relating to direct investments. While there is no legal requirement to consult this body, foreign investors are strongly recommended to do so. The government guarantees legal certainty and protection of property and other rights. The Tax Benefits Act and industrial free zone regulations offer many FDI incentives. The country's legislation provides for the establishment of wholly foreign-owned businesses, but joint ventures with local partners are encouraged by the government. Living conditions for expatriates in the capital and major towns are highly satisfactory; hygiene remains a concern in some regions.

■ Foreign exchange regulations

An interbank currency market to regulate purchases and sales of foreign currency is in place. It is closed to everyone but the central bank and approved financial institutions. The value of the metical is determined daily on the basis of supply and demand. Foreigners are strongly advised to carry out all foreign exchange transactions via approved banks

and moneychangers. Banks can carry out currency transactions up to the value of their hard currency

holdings. There are no restrictions on capital transactions.

OPPORTUNITY SCOPE

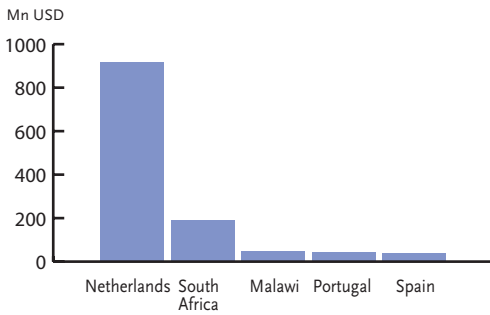
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|----|
| ■ Private consumption | 47 |
| ■ Public consumption | 12 |
| ■ Investment | 12 |

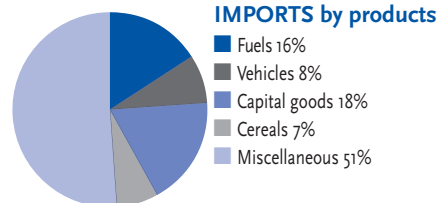
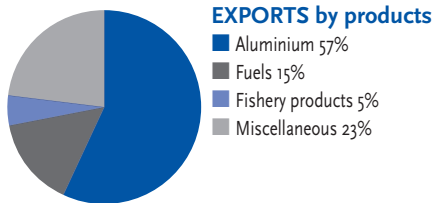
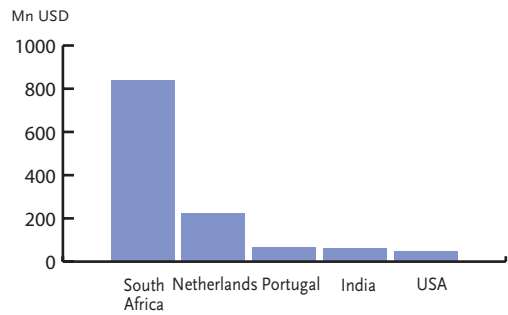
Exports: 31% of GDP

Imports: 39% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS

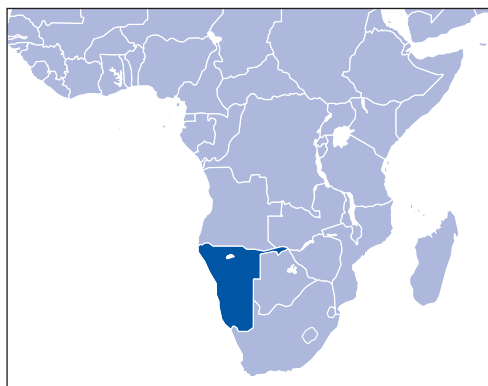


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Mozambique | Regional average | DC average |
|--|------------|------------------|------------|
| GNP per capita (PPP dollars) | 1,170 | 2,123 | 5,540 |
| GNP per capita (USD) | 270 | 749 | 2,117 |
| Human Development Index | 0.379 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 32 | 28 | 30 |
| Urban population percentage | 36 | 36 | 43 |
| Percentage under 15 years old | 44 | 43 | 29 |
| Number of computers per 1000 inhabitants | 4 | 13 | 48 |

Namibia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 2.0 |
| GDP (US\$ million) | 4,271 |
| GDP per capita (US\$) | 2,136 |



Short-term: **A3**

Medium-term:
Quite low risk

Coface analysis

RISK ASSESSMENT

Like 2006, the main growth driver in 2007 will be the mining sector, which has registered substantial increases in the extraction and export of diamonds and uranium. Zinc refining and copper processing have also contributed to the growth of manufacturing production, offsetting the disappointing performance of agriculture and fishing. Meanwhile, although the depreciation of the Namibian currency (pegged to the South African rand) has contributed to raising the level of prices, it has also improved the competitiveness of the country's products and contributed to the increase in earnings from tourism.

External accounts have, thus, remained in good shape despite the increase in imports (oil and capital goods linked to development of the Kudu

gas complex) with a modest foreign debt burden. Efforts to consolidate public-sector finances have, moreover, continued.

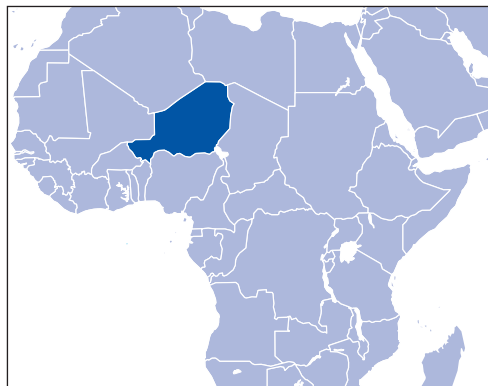
Nonetheless, persistent poverty with 35 per cent of the population living on less than a dollar a day, a high 20 per cent unemployment rate and very high AIDS infection rate (21 per cent of the adult population) have made more extensive development and diversification of Namibia's resources imperative. Implementation of a policy to devolve economic power to the black population and the acceleration of land reform could contribute to achieving the needed development and diversification. Furthermore, continued political stability and a good business environment, underpinned by the quality of the country's signature, constitute an asset for investors.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 6.7 | 3.5 | 5.9 | 3.5 | 4.5 | 5.0 |
| Inflation (%) | 11.3 | 7.2 | 4.1 | 2.4 | 5.3 | 4.2 |
| Public sector balance (%GDP) | -3.5 | -7.5 | -4.1 | -3.7 | -3.4 | -2.6 |
| Exports | 1,072 | 1,251 | 1,823 | 1,653 | 1,803 | 1,875 |
| Imports | 1,280 | 1,711 | 2,107 | 2,225 | 2,350 | 2,481 |
| Trade balance | -208 | -460 | -284 | -572 | -547 | -606 |
| Current account balance (%GDP) | 5.3 | 5.1 | 10.2 | 5.7 | 6.6 | 5.4 |
| Foreign debt (%GDP) | 27.6 | 24.7 | 22.6 | 21.7 | 21.7 | 20.9 |
| Debt service (%GS exports) | 5.0 | 2.7 | 2.4 | 3.2 | 3.3 | 3.6 |
| Foreign currency reserves (in months of imports) | 2.9 | 2.1 | 1.8 | 1.9 | 1.9 | 2.0 |

Niger

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 11.8 |
| GDP (US\$ million) | 2,731 |
| GDP per capita (US\$) | 231 |



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

After growing strongly in 2005, the economy slowed in 2006 and should accelerate somewhat in 2007, bar a natural catastrophe. Despite the investments encouraged by the government in the mining sector (uranium, gold, coal), telecommunications and infrastructure, the economy of this landlocked country – among the world's poorest – has nonetheless remained highly dependent on weather conditions. Agriculture (including breeding) still employs 80 per cent of the working population.

Public-sector finances have suffered from the country's narrow tax base and the extent of the informal sector. After the deterioration of 2006 – attributable to the speed-up in implementing investment projects intended to improve food security (irrigation, slaughterhouses, creation of a farm bank) and to wage increases, particularly in

social services – improvement appears likely in 2007. It will be the result of efforts made to improve resource mobilization. The public-sector financial situation will, nonetheless, remain precarious, with the necessary financing covered by international aid.

External accounts have also remained out of balance. The good performance of uranium exports, whose development has been offsetting the oil price increases, and the impact of the debt cancellations granted under the HIPC and MDRI programmes should make it possible, however, to reduce the current account deficit in 2007. Niger will, thus, continue to depend on the support of international financial donors, which should not be in jeopardy despite delays on structural reforms. Persistent social tensions, often exacerbated by wage arrears, are, in fact, limiting the government's room for manoeuvre.

SUB-SAHARAN AFRICA

MAIN ECONOMIC INDICATORS

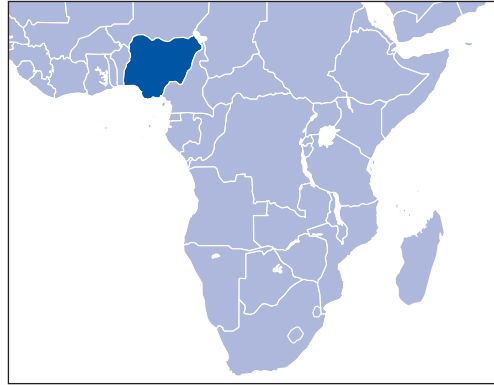
| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 3.0 | 5.3 | -0.6 | 7.0 | 3.5 | 4.2 |
| Inflation (%) | 2.7 | -1.8 | 0.4 | 7.8 | 0 | 2.0 |
| Public sector balance (%GDP)* | -7.7 | -7.5 | -9.2 | -7.2 | -11 | -7.8 |
| Exports | 311 | 375 | 479 | 505 | 534 | 619 |
| Imports | 414 | 524 | 647 | 664 | 744 | 770 |
| Trade balance | -102 | -149 | -168 | -159 | -210 | -150 |
| Current account balance (%GDP)* | -8.4 | -9.8 | -10.3 | -10.1 | -12.1 | -8.6 |
| Foreign debt (%GDP) | 74 | 66 | 62 | 59 | 39 | 18 |
| Debt service (%G&S exports) | 34.9 | 27.2 | 6.2 | 11.7 | 6.3 | 5.2 |
| Foreign currency reserves (in months of imports) | 3.1 | 4.7 | 3.7 | 3.4 | 3.1 | 3.1 |

* = ex grants

e = estimate, f = forecast

Nigeria

Population (million inhabitants) 136.5
 GDP (US\$ million) 58,390



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

STRENGTHS

- Nigeria boasts extensive hydrocarbon resources and great farming potential.
- The agreement concluded with the Paris Club in 2005 allowed the country to settle its entire debt with Club creditors and thereby significantly reduce its foreign debt.
- Along with the structural reforms implemented, this background has allowed Nigeria to make new resources available for economic and social development.
- The country, home to half of West Africa's population, has played a preponderant political role at both the regional and continental levels.

WEAKNESSES

- Heightened social, ethnic and religious tensions have been a major deterrent to investors, especially with the business environment remaining very shaky.
- The economy continues to depend heavily on oil revenues, which represent nearly 90 per cent of exports, about 25 per cent of GDP and over 80 per cent of tax receipts.
- Deficient infrastructure (transport, energy delivery) has hampered diversification of the productive sector.
- The oil wealth has only spread in a very limited manner to the population, with the poverty rate remaining very high and 70 per cent living on under a dollar a day.

RISK ASSESSMENT

The economy sagged slightly in 2006 amid an oil production slowdown attributable to growing tensions in Delta producer regions. Conversely, the non-oil sector continued to exhibit the dynamism registered in the past two years. The recovery expected in 2007 should reflect increased oil production and dynamic domestic demand (which may benefit from greater redistributions of revenues). A range of public-sector investments will bolster the farm and civil engineering sectors.

Oil wealth has allowed the country to post large surpluses in both public-sector and external accounts. Excluding hydrocarbon revenues,

however, those accounts have continued to run troubling deficits. Furthermore, the debt relief agreement Nigeria concluded with the Paris Club in October 2005 has allowed it to substantially reduce its foreign debt burden.

The country has, nonetheless, remained subject to severe domestic instability. Recurring ethnic, social and religious tensions could heighten in the run-up to the April 2007 general elections (presidential, legislative, regional). This context could, moreover, slow down or even interrupt the structural reform process. Despite some progress, governance – and particularly corruption – still constitute a source of concern.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 1.5 | 10.7 | 6 | 6.5 | 4.8 | 6.4 |
| Inflation (%) | 13.7 | 14 | 15 | 17.9 | 11.9 | 6.5 |
| Public sector balance (%GDP) | -2.4 | 0 | 9.9 | 12.9 | 10.9 | 4.9 |
| Exports | 17.7 | 27.3 | 37.3 | 52.5 | 62.4 | 64.3 |
| Imports | 13.6 | 17.2 | 19.1 | 23.0 | 28.2 | 33.5 |
| Trade balance | 4.1 | 10.1 | 18.2 | 29.5 | 34.2 | 30.9 |
| Current account balance (%GDP) | -11.5 | -3.6 | 4.5 | 11.1 | 11.1 | 5.9 |
| Foreign debt (%GDP) | 68.8 | 58.2 | 51.6 | 21.5 | 5.1 | 4.6 |
| Debt service (%G&S exports) | 11.1 | 9.7 | 5.9 | 14.3 | 10.3 | 0.9 |
| Foreign currency reserves (in months of imports) | 3.2 | 2.5 | 5.1 | 7.0 | 8.4 | 9.7 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Nigeria is a member of the WTO, but does not fully observe its rules. Application of the ECOWAS common external tariff (more or less the same as WAEMU's) has, since early 2006, led to an overall reduction in customs duties, although fairly substantial numbers of products continue to receive temporary additional protection via 50 per cent tariffs. Moreover, an import ban is in place for 40 or so products, including re-treaded and second-hand tyres, second-hand clothes, cars over eight years old, furniture, some textiles, frozen meat (for protectionist not health reasons), mineral water, pasta and biscuits. To favour local products, the Nigerian government has increased the number of protectionist measures against finished goods, but cut customs duties on raw materials, intermediate products and machinery. It has also announced the lifting of import prohibitions over the next few years and their replacement with additional protective tariffs.

Privatization of port services has spectacularly speeded up customs clearance. The country recently switched from pre-shipment inspection to inspection upon arrival. The problems associated with distribution should not be underestimated. Given the country's size and poor infrastructure, foreigners may need to turn to a well-established distribution network when starting up in business.

■ Attitude towards foreign investors

The Nigerian Investment Promotion Commission (NIPC), headquartered in Abuja, regularly publishes a list of priority investment sectors and grants (financial, tax etc) offered to companies by the government. It provides a wide range of services for investors and has recently set up a one-stop shop to speed up formalities. A foreign investor may hold a 100 per cent stake in a local company. The repatriation of capital, dividends and profit is unrestricted, although extremely slow. Nigeria encourages oil companies to expand exploration and production (long-term target: 4 million barrels daily).

Labour is fairly cheap. A semi-skilled worker earns about €150 a month, while a local English-speaking secretary makes around €250. Employees usually receive one month extra pay.

■ Foreign exchange regulations

The Central Bank of Nigeria (CBN) uses wholesale Dutch auctions to supply the local market with currency. Under this system, twice a week the CBN announces the volume of currency (US dollars) it is prepared to sell against nairas and invites banks to put in purchase bids for nairas, favouring those offering the highest rate. The auction process has been extended to include moneychangers since spring 2006, and the traditional spread between the official exchange rate and the parallel market rate has been all but eliminated by the central bank. The

naira's exchange rate against both the US dollar and the euro has also steadied.

Exporters are strongly advised to obtain payment for all orders before shipment either by

irrevocable and confirmed letter of credit or in cash in a hard currency. French banks no longer operate in the country.

OPPORTUNITY SCOPE

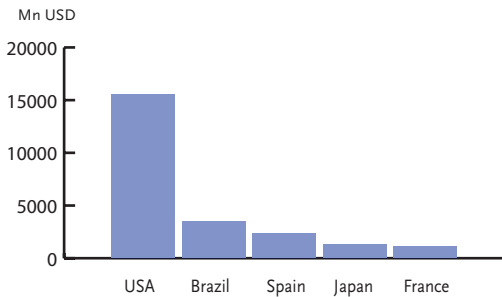
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|----|
| ■ Private consumption | 49 |
| ■ Public consumption | 3 |
| ■ Investment | 5 |

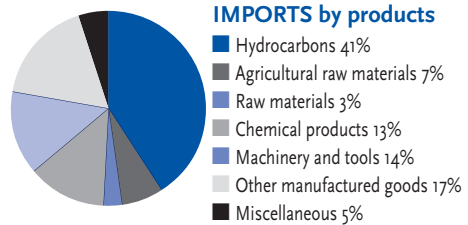
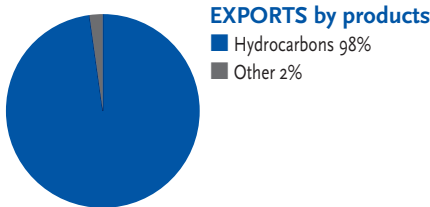
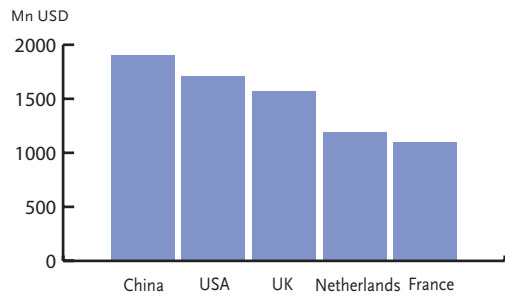
Exports: 55% of GDP

Imports: 37% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Nigeria | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 970 | 2,123 | 5,540 |
| GNP per capita (USD) | 430 | 749 | 2,117 |
| Human Development Index | 0.453 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 41 | 28 | 30 |
| Urban population percentage | 47 | 36 | 43 |
| Percentage under 15 years old | 45 | 43 | 29 |
| Number of computers per 1000 inhabitants | 7 | 13 | 48 |

Rwanda

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 9.4 |
| GDP (US\$ million) | 2,131 |
| GDP per capita (US\$) | 227 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

After a gloomy start in 2006, better precipitation patterns resulted in comfortable growth, although still not enough to raise living standards significantly in the country. The coffee/tea industry restructuring and the efforts made to increase farm sector productivity seem to be paying off. Services and mineral extraction also contributed to growth. However, the manufacturing sector in this landlocked country continues to suffer from a lack of skilled labour, energy-supply problems and high transport costs. Meeting growth forecasts for 2007 will, thus, depend on the level of farm production – which has provided a livelihood for 90 per cent of the population – and, ultimately, on weather conditions.

In this context, although Rwanda has extensive facilities needs that will weigh on public spending and imports, a narrow tax base and modest export potential have limited the country's capacity to develop additional revenues. Major imbalances, largely covered by international aid, have thus marked public and external accounts. That support has resulted in substantial cancellation of foreign debt under the HIPC and MDRI programmes.

Considering the structural reform policy pursued by government authorities and the precarious environment in the Great Lakes region, that support may well continue indefinitely. Western countries have, nonetheless, criticized the regime for not being open enough and for the lagging national reconciliation process, which could ultimately jeopardize the country's stability.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 9.4 | 0.9 | 4.0 | 6.0 | 5.8 | 6.0 |
| Inflation (%) | 2.0 | 7.4 | 12.0 | 9.2 | 8.0 | 7.5 |
| Public sector balance (%GDP)* | -8.9 | -10.3 | -12.2 | -13.4 | -13.9 | -13.3 |
| Exports | 67 | 63 | 98 | 125 | 132 | 137 |
| Imports | 235 | 244 | 276 | 374 | 474 | 468 |
| Trade balance | -167 | -181 | -178 | -249 | -342 | -331 |
| Current account balance (%GDP)* | -16.6 | -19.2 | -18.2 | -19.4 | -21.4 | -19.2 |
| Foreign debt (%GDP) | 85 | 93 | 92 | 71 | 15 | 19 |
| Debt service (%G&S exports) | 17.3 | 16.4 | 13.8 | 9.7 | 2.1 | 2.5 |
| Foreign currency reserves (in months of imports) | 2.7 | 2.3 | 2.4 | 2.3 | 4.9 | 4.8 |

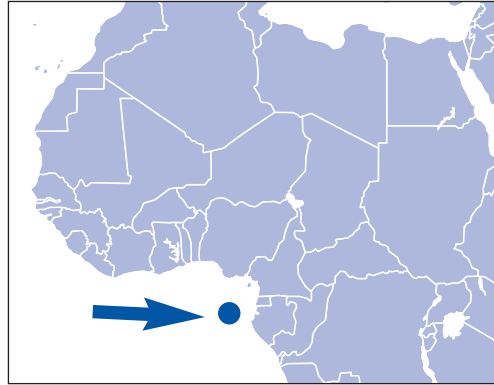
São Tomé and Príncipe

| | |
|--------------------------|---------|
| Population (inhabitants) | 200,000 |
| GDP (US\$ million) | 57 |
| GDP per capita (US\$) | 367 |

Short-term: **C**

Medium-term:
Very high risk

Coface analysis



RISK ASSESSMENT

Growth accelerated in 2006 with the start of construction of tourist sites and the impact on the services sector of activities linked to the development of oil exploration. Those trends should continue in 2007 with the start of oil extraction expected in 2011–12. That dynamism has, however, triggered a marked upsurge in inflation.

In the interim, until oil revenues arrive, the country's financial situation will remain subject to major imbalances. The public deficit has widened with the increase in spending. This slippage and the accumulated delay in implementing tax reform has, moreover, resulted in postponement of the debt relief under the HIPC programme originally scheduled for 2006. External accounts, meanwhile, have suffered from the stagnation of cocoa exports

with the oil and capital good imports intended for the oil sector rising sharply, further increasing the country's financing needs. Increased foreign direct investment and exploration contract signing bonuses now suffice, however, to cover a large proportion of those needs and, thereby, limit recourse to debt, which is already unsustainable.

President De Menezes' election in July 2006 with 61 per cent of the votes cast seems to have enhanced political stability. His party only won a plurality in the spring legislative elections and the government lacks the support of a parliamentary majority. That augurs difficulties to come in implementing reforms demanded by financial donors, especially those intended to improve the business environment.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 4.1 | 4.0 | 3.8 | 3.8 | 5.5 | 5.5 |
| Inflation (%) | 9.2 | 9.6 | 12.8 | 16.3 | 19.8 | 17.2 |
| Public sector balance (%GDP)* | -43.6 | -49.5 | -58.8 | -42.6 | -47.6 | -45.5 |
| Exports | 5 | 7 | 4 | 3 | 3 | 3 |
| Imports | 29 | 34 | 36 | 42 | 59 | 63 |
| Trade balance | -23 | -27 | -32 | -38 | -56 | -60 |
| Current account balance (%GDP)* | -54 | -56.7 | -58.8 | -61.5 | -93.9 | -88 |
| Foreign debt (%GDP) | 533 | 492 | 468 | 426 | 337 | 298 |
| Debt service (%G&S exports) | 52.4 | 49.5 | 45.3 | 29.9 | 25.6 | 10.6 |
| Foreign currency reserves (in months of imports) | 4.1 | 4.9 | 3.6 | 3.8 | 2.7 | 2.6 |

* = ex grants

e = estimate, f = forecast

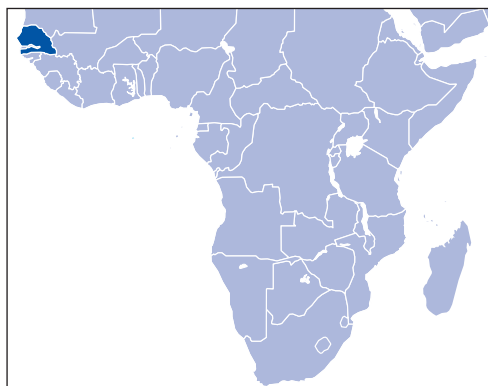
Senegal

Population (million inhabitants) 11.9
GDP (US\$ million) 8,318

Short-term: **B**

Medium-term:
High risk

Coface analysis



STRENGTHS

- By virtue of its geographic position, Senegal has been a transit point in regional trade, a quality enhancing its development potential.
- With prudent economic policy bolstering its political stability, the country can rely on international backing.
- That has resulted in substantial cancellation of public sector external debt under the HIPC and MDRI programmes.
- The process of diversifying the productive apparatus has benefited from the dynamism of services, notably new information and communication technologies.

WEAKNESSES

- The economy continues to be vulnerable to the vagaries that can affect agriculture, which generates 17 per cent of GDP and supports 60 per cent of the working population.
- The high growth has not sufficed to reduce poverty significantly, particularly in rural areas.
- High energy costs and deficient infrastructure have made it difficult to speed up the pace of development.
- The country continues to depend on international aid and expatriate remittances to cover its external financing needs.

RISK ASSESSMENT

Growth slowed in 2006. Although farm production was less exceptional than the previous year, problems in the industrial sector were the main drag on the economy. High oil prices affected company finances and worsened the financial health of *Industries Chimiques du Sénégal* (ICS) with the deterioration of the Coface payment incident index reflecting the acute crisis buffeting that company. Conversely, the dynamic performance of both civil engineering – benefiting from a government programme of major projects and from housing construction – and services (transport and telecommunications) has continued. Bar a weather catastrophe, those trends should continue in 2007.

Despite tight public-sector financial management and steady revenues, the fiscal deficit widened with the cost of bailing out state-owned

companies affected by rising oil prices, compounding increased spending on health, education and infrastructure. The higher oil prices also affected the trade balance with the main exports (seafood, phosphate by-products) stagnating. Although external account deficits continue to generate large financing needs, substantial debt relief under the HIPC and MDRI programmes will ease the country's financial situation.

The legislative and presidential elections in February 2007 should not jeopardize the prudent reform policy pursued by government authorities, and Senegal should remain politically stable, heightened tensions notwithstanding. The situation in the Casamance region has remained tense, however, despite some improvement since the January 2005 peace agreement.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 1.1 | 6.5 | 5.6 | 6.1 | 4.0 | 4.5 |
| Inflation (%) | 2.3 | 0 | 0.5 | 1.8 | 2.6 | 1.7 |
| Public sector balance (%GDP)* | -1.8 | -4.0 | -6.0 | -5.3 | -6.0 | -5.0 |
| Exports | 1,278 | 1,411 | 1,486 | 1,603 | 1,861 | 1,898 |
| Imports | 1,924 | 2,319 | 2,507 | 2,729 | 3,174 | 3,206 |
| Trade balance | -645 | -907 | -1,022 | -1,126 | -1,313 | -1,307 |
| Current account balance (%GDP)* | -8.0 | -8.6 | -8.7 | -9.2 | -9.1 | -8.4 |
| Foreign debt (%GDP) | 82.7 | 64.1 | 53.2 | 44.3 | 30 | 13.1 |
| Debt service (%G&S exports) | 9.9 | 10.5 | 6.6 | 5.9 | 2.1 | 2.1 |
| Foreign currency reserves (in months of imports) | 3.1 | 4.1 | 4.4 | 4.4 | 4.3 | 4.4 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

The customs union established by the member states of the West African Economic and Monetary Union (WAEMU) is simple and non-discriminatory. Customs duties vary between 0 and 20 per cent according to product category. There are some token surtaxes (usually around 2.5 per cent), plus 18 per cent standard-rate VAT. However, there is a strong incentive for tax evasion and fraud at borders as some products are liable to an import tax (TCI), a countervailing duty, excise duties (TIN), a temporary tax and an equalization tax. A market regulation agency (ARM) has been set up with powers to temporarily suspend imports of certain agricultural products during the marketing season for a local product (eg onions).

Some goods are subject to special import formalities, but only products likely to 'upset public order' or 'contravene good morals' are banned. However, since October 2005 the country has an embargo on poultry and eggs. It is also forbidden to import second-hand poultry equipment. Eggs for hatching and breeding chicks are excluded from this measure. Similarly, a ban on very old second-hand car imports has been in place since 2003.

■ Attitude towards foreign investors

The National Assembly passed a new law on 11 August 2005 designed to facilitate start-up procedures for new investors and streamline investment formalities. The law, whose enforcement decree was passed on 26 August 2005, introduces three major innovations: a one-stop shop for the completion of administrative formalities, a time-limit within which government departments must process investment applications, a duty on government departments to explain their reasons for turning down an application.

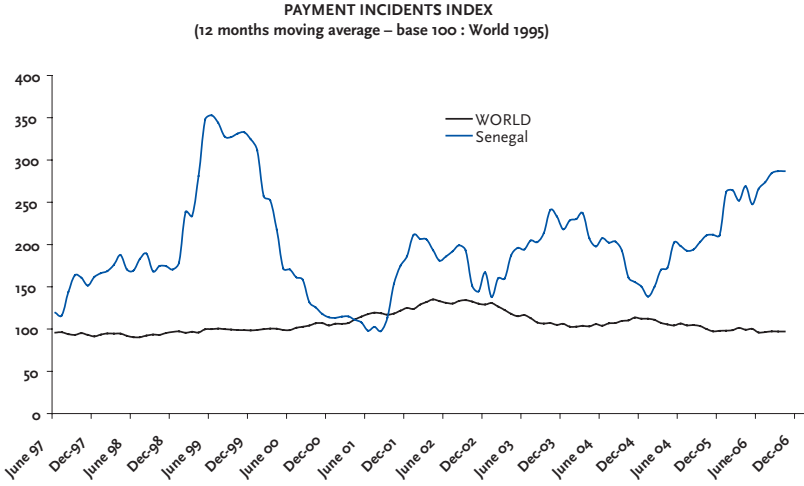
These mechanisms reinforce the new investment code, the concessions act and, last but not least, the community regulatory framework (OHBLA, WAEMU, SYSCOA).

With regard to taxation, Law No 2006-17, adopted on 16 June 2006 and amending certain provisions of the general tax code, has cut corporation tax to 25 per cent. The government also proposes to abolish equalization tax from 1 January 2007. Despite these improvements, critics argue that tax audits are too narrowly focused on the formal sector, thereby strengthening unfair competition from the informal sector, still untaxed despite the introduction of a composite tax.

Foreign exchange regulations

Funds may be freely transferred from Senegal, as from all WAEMU member countries, through approved intermediaries and the post office (for amounts equal to or below CFA1 million) subject to presentation of proof and submission of a currency approval form to the intermediary concerned. In general, foreign currency payments for goods delivery are authorized. These include

payments of fees incurred in connection with port services, warehousing, storage, customs clearance and customs inspection as well as fees and expenses related to goods transport, insurance, reinsurance, etc. Administrative formalities can be slow and transfers lengthy, while relations between the Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO) and local banks can at times be strained.



OPPORTUNITY SCOPE

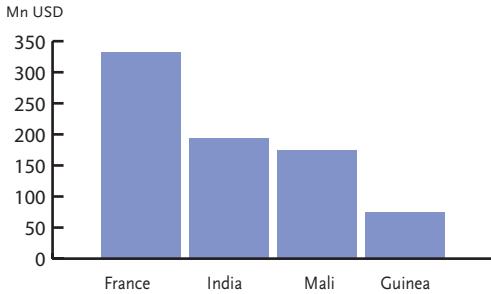
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 56 |
| Public consumption | 9 |
| Investment | 16 |

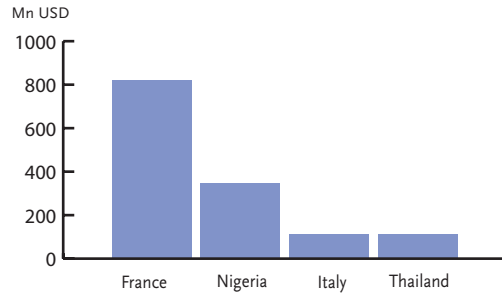
Exports: 28% of GDP

Imports: 41% of GDP

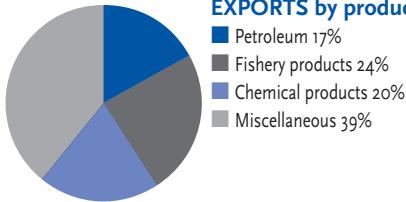
MAIN DESTINATIONS OF EXPORTS



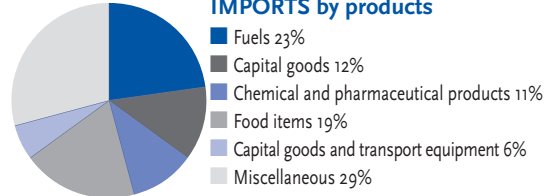
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

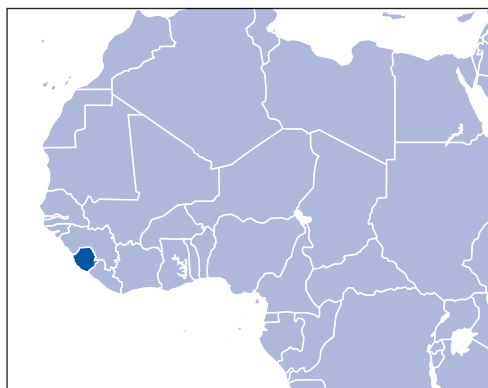


STANDARD OF LIVING / PURCHASING POWER

| Indicators | Senegal | Regional average | DC average |
|--|---------|------------------|------------|
| GNP per capita (PPP dollars) | 1,660 | 2,123 | 5,540 |
| GNP per capita (USD) | 600 | 749 | 2,117 |
| Human Development Index | 0.458 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 34 | 28 | 30 |
| Urban population percentage | 50 | 36 | 43 |
| Percentage under 15 years old | 43 | 43 | 29 |
| Number of computers per 1000 inhabitants | 21 | 13 | 48 |

Sierra Leone

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 5.9 |
| GDP (US\$ million) | 1,193 |
| GDP per capita (US\$) | 203 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

The mineral sector, benefiting from a substratum particularly rich in diamonds, rutile, gold and bauxite, continues to be the main driver of the country's strong growth. Dynamic farm and services sectors have also buoyed the economy, spurred by the influx of international grants intended to restore infrastructure (roads, electricity) and improve water purification and distribution. With the reconstruction phase that followed the civil war drawing to a close, however, growth should gradually slow with inflation remaining high. Carrying out the many structural reforms and improving the business environment will, moreover, remain long-term challenges.

The current account continues to depend on mineral exports. Meanwhile, the progress made thus

far on tax reform has still not sufficed to increase revenues significantly, with spending on infrastructure and combating poverty remaining incompressible. In that context, Sierra Leone continues to depend on international assistance. With its very high external debt, moreover, it has been admitted to the HIPC programme, which will make partial cancellation of foreign debt possible in the near term.

Despite a difficult social situation (very high unemployment, return of refugees and reintegration of former combatants), internal security has improved, as evidenced by the smooth withdrawal of UN forces in early 2006. In the run-up to general elections in July 2007, however, tensions could heighten again.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 27.5 | 9.3 | 7.4 | 7.3 | 7.4 | 6.5 |
| Inflation (%) | -3.7 | 7.5 | 14.2 | 12.1 | 12.4 | 9.3 |
| Public sector balance (%GDP)* | -16.5 | -14.5 | -12.5 | -12.8 | -9.3 | -9.8 |
| Exports | 115 | 146 | 171 | 211 | 280 | 322 |
| Imports | 255 | 295 | 248 | 339 | 403 | 445 |
| Trade balance | -140 | -149 | -77 | -128 | -123 | -123 |
| Current account balance (%GDP)* | -12.1 | -14.1 | -11.6 | -14.3 | -12.3 | -11.5 |
| Foreign debt (%GDP) | 166 | 167 | 193 | 170 | 154 | 119 |
| Debt service (%G&S exports) | 21.8 | 21.5 | 21.9 | 14.7 | 10.3 | 9.9 |
| Foreign currency reserves (in months of imports) | 2.6 | 1.6 | 3.3 | 3.2 | 2.9 | 2.9 |

South Africa

Population (million inhabitants) 48.8
GDP (US\$ million) 159,886

Short-term: **A3**

Medium-term:
Quite low risk

Coface analysis



STRENGTHS

- With 40 per cent of African GDP, the country's economic and political clout is an inescapable fact on the continent.
- South Africa boasts extensive mineral resources, diversified industry, quality infrastructure and a very efficient services sector (banks, telecommunications, transport).
- Public-sector finances have been under control with moderate external financing needs and limited debt.
- With the country's good creditworthiness, the government has enjoyed substantial capacity to contract new loans in dealing with deterioration of its external position.
- South Africa's political stability, tight economic management and good business environment have been assets.

WEAKNESSES

- The country's social and economic dualism has resulted in a wage gap constituting a source of social and political tensions.
- Combating poverty, unemployment and the AIDS pandemic will necessitate higher growth rates.
- A lack of both skilled labour and the domestic resources needed to finance economic development has been hampering GDP growth.
- With the country dependent on volatile inflows of foreign capital to cover its financing needs, it has been vulnerable to a crisis of confidence in financial markets.

RISK ASSESSMENT

The growing confidence of economic players, coupled with a diversified economic fabric, has been underpinning more dynamic growth. Buoyed by robust domestic and foreign demand, that trend should continue in 2007 despite the effects of rising interest rates. The currency depreciation in 2006 has, moreover, enhanced the competitiveness of manufactured products even if it contributed to driving prices higher. Those good economic conditions, particularly benefiting process industries and services, have bolstered company solvency, as reflected by the sharp drop in

bankruptcies in 2006 and a Coface payment incident index that has remained below the world average.

A good business environment has underpinned the macroeconomic framework. Tight fiscal policy has made it possible to keep public-sector debt relatively low and generate room for manoeuvre to support the economy. At the same time, widening current account deficit, spurred by increases in the energy bill and imports of capital and consumer goods, has been increasing the country's financing needs. Although the level of foreign debt has posed no risk to its solvency, the country has remained

SUB-SAHARAN AFRICA

exposed to liquidity crisis risk, mitigated however by growing foreign currency reserves.

Even if recent elections have borne out the country's political stability, social and political

tensions could, nonetheless, heighten in 2007 amid the designation of the future ANC candidate in the coming presidential elections in 2009.

MAIN ECONOMIC INDICATORS

| (USD billions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|------|------|------|------|---------------------|---------------------|
| Economic growth (%) | 3.7 | 3.0 | 4.5 | 4.9 | 4.6 | 4.5 |
| Inflation (%) | 9.2 | 5.9 | 1.4 | 3.9 | 5.0 | 4.5 |
| Public sector balance (%GDP) | -1.1 | -2.3 | -1.5 | -0.3 | -0.4 | 0.5 |
| Exports | 31.6 | 38.5 | 48.1 | 54.7 | 61.9 | 67.5 |
| Imports | 26.8 | 35.0 | 48.3 | 56.6 | 64.9 | 71.1 |
| Trade balance | 4.8 | 3.5 | -0.2 | -1.9 | -3.0 | -3.6 |
| Current account balance (%GDP) | 0.6 | -1.3 | -3.4 | -4.2 | -5.0 | -4.8 |
| Foreign debt (%GDP) | 29.9 | 23.0 | 20.2 | 19.3 | 19.7 | 20.2 |
| Debt service (%G&S exports) | 13.6 | 13.1 | 10.0 | 7.2 | 7.1 | 6.7 |
| Foreign currency reserves (in months of imports) | 1.9 | 1.5 | 2.3 | 2.8 | 2.9 | 2.9 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

South Africa's trade liberalization commenced in 1990 and gathered pace after WTO accession in 1994. The country uses the World Customs Organization's harmonized international nomenclature. Customs duties have been slashed. The cuts have been facilitated by the Trade, Development and Cooperation Agreement signed between the EU and Africa in 1999, the full impact of which will be felt in 2012. Talks involving South Africa on economic partnership agreements (EPAs) with the EU are underway in Southern Africa.

■ Means of entry

Under the free trade agreement signed with the EU in October 1999 and implemented in January 2000, about 86 per cent of products imported from the EU will be exempt from customs duty by 2012. South Africa is not a signatory to the WTO government procurement agreement. Tenders have traditionally been overseen at central level by the State Tender Board and at local level by one of nine provincial tender boards. However, a common service provider is shortly to replace the tender boards with the aim of

facilitating the adoption of a uniform policy on government procurement in line with the State Tender Board Act.

The Preferential Procurement Policy Framework Act, in force since February 2000, creates a points system that favours companies whose shareholders or managers are 'historically underprivileged people' (black, mixed race, Indian), women and the disabled. Public procurement in South Africa serves to widen Black Economic Empowerment (BEE) by encouraging South African and foreign companies to team up with black partners. Where a public tender exceeds US\$10 million, foreign companies are required to pay 30 per cent compensation (offset) on the total value of imports under the National Industrial Participation Programme. Current legislation imposes restrictions on foreign investment in the audiovisual sector. Consequently, no foreign investor may own more than 20 per cent of a local radio or television company.

BEE is driven by a limited number of laws, codes of best practice and sector charters. A Black Economic Empowerment Charter has been adopted by the financial services industry. It imposes a number of obligations, including 25 per cent black equity ownership by 2010. In December 2004 and

December 2005, the South African government sent for review two sets of best practice codes relative to BEE for the purposes of standardizing socioeconomic transformation initiatives across all sectors of the economy. These codes are under final review before they are published and take effect.

The South African Bureau of Standards (SABS) cooperates with a large number of similar international bodies to harmonize technical standards and regulations. International standards, such as IEC and ISO, as well as a vast number of European standards, are recognized by the bureau, but must still be approved by it.

■ Attitude towards foreign investors

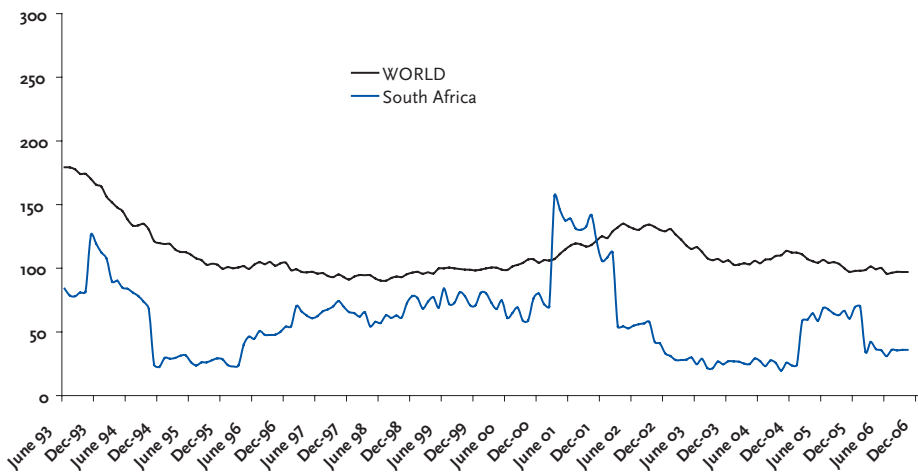
Foreign companies are subject to numerous statutory obligations and orders (BEE, positive discrimination and immigration) that impact upon their decisions. They operate in an administrative environment, which can lack transparency and predictability, as in the case of some privatizations, public tenders and administrative procedures. About 80 per cent of imported goods are invoiced in US dollars. Other currencies to be widely used are the euro, the pound sterling and the South

African rand. Payment instruments in South Africa, which has a sophisticated financial services sector, are similar to those available in Europe and the United States.

■ Foreign exchange regulations

Exchange controls, which are governed by the 1961 Act and its manifold amendments, have been considerably relaxed in the last few years. The Act makes a distinction between resident and non-resident transactions and between ordinary business and capital transactions. The provisions for transfers by non-residents in connection with ordinary business have been liberalized. Currency traders believe there are no more *de facto* exchange controls. Capital transactions – in particular loans from a parent company to a South African subsidiary – remain subject to some restrictions. Relaxation measures aimed at removing restrictions on the size of foreign investment came into force in October 2004. For residents, however, the regulations for both capital and ordinary business transactions have become more restrictive, although transactions destined for Africa are allowed greater latitude.

PAYMENT INCIDENTS INDEX
(12 months moving average – base 100 : World 1995)



SUB-SAHARAN AFRICA

OPPORTUNITY SCOPE

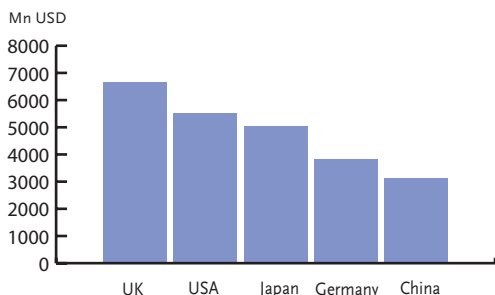
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 50 |
| Public consumption | 15 |
| Investment | 13 |

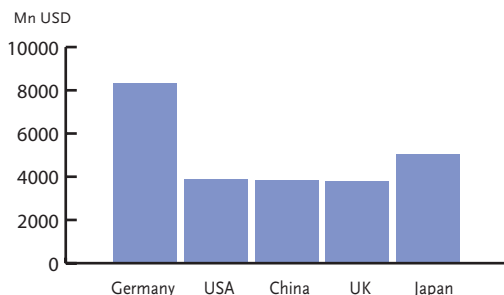
Exports: 27% of GDP

Imports: 22% of GDP

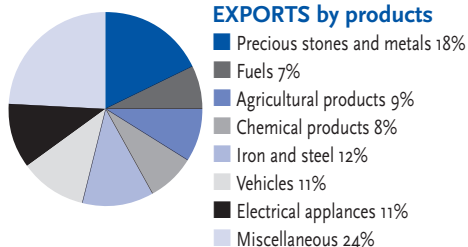
MAIN DESTINATIONS OF EXPORTS



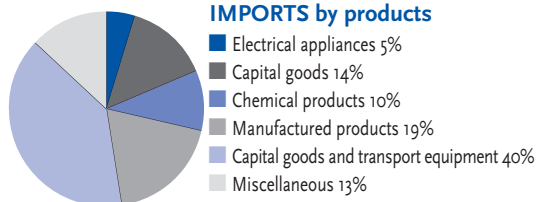
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products

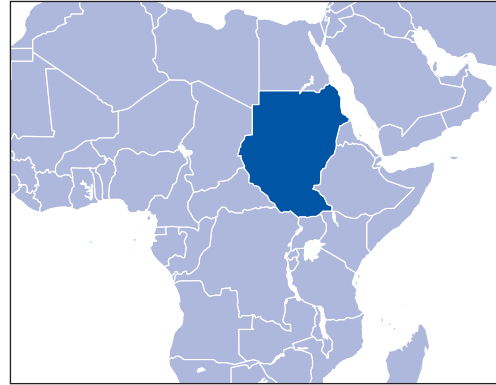


STANDARD OF LIVING / PURCHASING POWER

| Indicators | South Africa | Regional average | DC average |
|--|--------------|------------------|------------|
| GNP per capita (PPP dollars) | 10,960 | 2,123 | 5,540 |
| GNP per capita (USD) | 3,670 | 749 | 2,117 |
| Human Development Index | 0.658 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 45 | 28 | 30 |
| Urban population percentage | 57 | 36 | 43 |
| Percentage under 15 years old | 33 | 43 | 29 |
| Number of computers per 1000 inhabitants | 71 | 13 | 48 |

Sudan

| | |
|----------------------------------|--------|
| Population (million inhabitants) | 33.5 |
| GDP (US\$ million) | 17,793 |
| GDP per capita (US\$) | 531 |



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

The political and social situation has remained grave. Implementation of the February 2005 peace agreement with the south has been uneven and incomplete and, despite the partial agreement reached in Darfur in May 2006, the conflict has continued there, spurring tensions with neighbouring countries, the Central African Republic and, especially, Chad. The humanitarian situation in the region deteriorated further in 2006, seriously damaging the image of a country condemned many times by international institutions even if those condemnations have not resulted in tangible sanctions.

Economic conditions have been favourable, however, buoyed by the oil sector and dynamic private investment. That has facilitated the management of public-sector finances and the

consolidation of external accounts, which have nonetheless remained in deficit due to a structurally negative invisibles balance. Financing needs, amply covered by foreign direct investment inflows focused mainly at the oil sector, have been declining. Moreover, since the country has accumulated arrears on its foreign debt, including with multilateral institutions, it cannot benefit from debt relief measures until it regularizes its situation with creditors.

In the longer term, settlement of the country's financial and political problems will be essential to create conditions conducive to remedying the currently insufficient diversification of its productive fabric and to restoring an infrastructure that has been devastated by 20 years of civil war in the south and west.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|--------|---------------------|---------------------|
| Economic growth (%) | 6.1 | 5.1 | 5.2 | 8.0 | 13.0 | 10.3 |
| Inflation (%) | 8.3 | 7.7 | 8.4 | 8.5 | 7.5 | 5.0 |
| Public sector balance (%GDP) | -0.8 | 0.7 | 1.6 | -1.8 | -0.9 | -0.4 |
| Exports | 1,949 | 2,577 | 3,778 | 4,825 | 7,936 | 10,203 |
| Imports | 2,153 | 2,536 | 3,586 | 5,946 | 7,248 | 8,341 |
| Trade balance | -204 | 41 | 192 | -1,121 | 688 | 1,862 |
| Current account balance (%GDP) | -9.8 | -7.7 | -6.3 | -10.7 | -6.9 | -5.5 |
| Foreign debt (%GDP) | 156 | 145 | 120 | 100 | 80 | 64 |
| Debt service (%G&S exports) | 29.2 | 28.7 | 20.8 | 18.2 | 12.2 | 9.7 |
| Foreign currency reserves (in months of imports) | 0.3 | 0.9 | 2.6 | 2.9 | 3.5 | 3.4 |

e = estimate, f = forecast

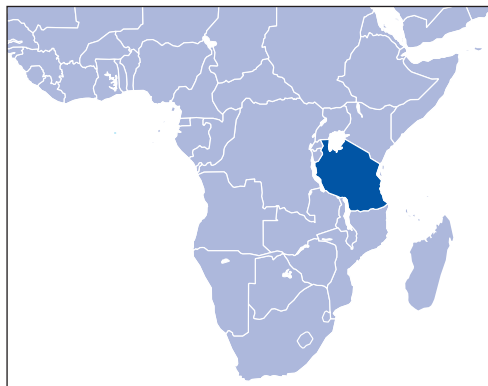
Tanzania

Population (million inhabitants) 35.9
 GDP (US\$ million) 10,297

Short-term: **B**

Medium-term:
High risk

Coface analysis



STRENGTHS

- Political stability and close cooperation with neighbouring countries and the international community have facilitated the pursuit of tight economic policy and implementation of major structural reforms.
- International community support has resulted in substantial reduction of public external debt under the HIPC and MDRI programmes.
- The resources thus freed up can contribute to developing the country's great economic potential, including arable land, gas, mineral wealth and tourism.
- The country has been attracting growing foreign investor interest in East Africa.

WEAKNESSES

- Tanzania is still among the world's poorest countries.
- With the extent of subsistence farming, most incomes continue to depend on weather conditions.
- The still insufficient development of infrastructure has been an obstacle to spreading economic growth throughout the country.
- Relations with the semi-autonomous island of Zanzibar, where the economic situation has been poor, have remained tense.

RISK ASSESSMENT

Although drought and problems with the hydropower supply slowed economic activity in 2006, the Tanzanian economy remained dynamic with the development of major road and energy-supply infrastructure projects; the start of exploitation of new mineral deposits will provide a further boost in 2007. Services (tourism, transport and communications), the impact of investments in agriculture productivity and the emergence of the manufacturing sector will also help consolidate growth.

The programme of large-scale structural and institutional reforms conducted by government authorities has allowed the country to benefit from substantial debt reduction under the HIPC and MDRI programmes. Its external financing needs,

which increased in 2005–06 amid the rising cost of food and energy imports, will remain high and covering them will continue to depend on international financial community support. Similarly, the imbalance in public finances will persist since, in the face of necessary development spending (infrastructure, health, education), it will be difficult to enlarge the country's narrow tax base in view of the extent of poverty and the preferential tax regime granted to foreign investors.

The country has enjoyed remarkable political stability. The absence of tensions (except with Zanzibar) led to the ruling party's re-election by a wide margin and the election of its candidate, Jakaya Kikwete, as President of the Republic in the December 2005 elections with 80 per cent of the votes cast.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|--------|--------|---------------------|---------------------|
| Economic growth (%) | 6.2 | 5.7 | 6.7 | 6.9 | 5.8 | 6.7 |
| Inflation (%) | 4.6 | 4.4 | 4.1 | 4.4 | 5.9 | 4.9 |
| Public sector balance (%GDP)* | -7.8 | -9.3 | -11.4 | -12.6 | -12.7 | -12.1 |
| Exports | 1,010 | 1,299 | 1,607 | 1,767 | 1,865 | 2,169 |
| Imports | 1,660 | 2,159 | 2,611 | 3,273 | 3,609 | 3,976 |
| Trade balance | -650 | -860 | -1,004 | -1,506 | -1,743 | -1,807 |
| Current account balance (%GDP)* | -7.3 | -6.9 | -8.6 | -13.2 | -13.9 | -13.7 |
| Foreign debt (%GDP) | 58.1 | 64.7 | 62 | 63 | 22.8 | 14.1 |
| Debt service (%G&S exports) | 4.6 | 4.5 | 3.6 | 4.0 | 4.1 | 3.7 |
| Foreign currency reserves (in months of imports) | 8.1 | 7.2 | 7.1 | 5.9 | 5.8 | 5.6 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

Import duties between the three countries of the East African Community (EAC) – Kenya, Tanzania and Uganda – have been harmonized in accordance with the East African Community Customs Management Act passed in 2004 and revised in 2005. There are three tariffs: 0, 10 and 25 per cent. Some priority products are exempt from duty (unpacked drugs); others (gold, gems, perishable goods) are subject to pre-shipment inspection; others still (foodstuffs, live animals, fish, reptiles, firearms and ammunition) require an import permit. Tanzania has set up two types of free zone: export processing zones (EPZs) governed by the EPZ Act 2002 and special economic zones (SEZs) run as part of the Tanzania Mini Tiger Plan 2020.

The first SEZ was established in Dar es Salaam in 2005. Tax incentives available in the EPZs are administered by the National Development Corporation (NDC) independently of the Tanzania Investment Centre (TIC). Capital goods may be imported into these zones free from customs duty and VAT. Some non-capital goods too (eg equipment for hotels) are eligible for tax breaks, but require a certificate of incentive issued by the Tanzania Investment Centre for a fee of US\$750. Tanzania applies article VII of the WTO, which provides for the inspection and valuation of goods

prior to shipment. The importer's bank is responsible for submitting the file to the pre-shipment inspection agency, which forwards it to its agent in the country of origin of the goods. Under this procedure, 1.2 per cent of the FOB value of goods above US\$5,000 is payable to the bank as inspection charges.

Excise duties are payable on imports of cigarettes, wines and spirits and so-called luxury goods. The rates of excise duty are 5, 10, 15 and 30 per cent, depending on the product. *Ad hoc* duties are levied on wines and spirits, beer, carbonated drinks, cigarettes and petroleum products. A temporary import tariff, equal to import duty marked up by 5 per cent, is also in place to fight fraud. The customs and excise department is responsible for collecting import duties.

VAT of 20 per cent is applicable to the CIF value of goods, marked up by customs and excise duties and all applicable import levies. A rate of 0 per cent applies to imports financed from the budget of international donors.

The Tanzania Revenue Authority has appointed Cotecna Inspection SA to carry out pre-shipment inspections (PSIs). All imported commercial goods with a FOB value over US\$5000 are subject to pre-shipment inspection. A second inspection to determine the value of the imported goods and the duties payable thereon is carried out by ICS upon entry.

There are no exchange controls in Tanzania. The payment instrument to be used is decided by the contracting parties. Most transactions are carried out in Tanzanian shillings or dollars, although the euro is gaining ground.

■ Means of entry

Tanzania has set up, within the framework of the Tanzania Investment Act, a national investment promotion agency, the Tanzania Investment Centre (TIC), which serves as a one-stop shop for investors. Foreign equity in investment projects must be equal to or higher than US\$300,000. The TIC issues an incentives certificate to investors and indicates the period of investment based on the type of product. Tanzania no longer awards corporation tax holidays, which have been replaced by investment grants.

Legislation relating to the free zones, set up in 2002, is extremely investor-friendly, but imposes an obligation to export 70 per cent of production. Restrictions on property ownership and a system of permits for foodstuffs are the main obstacles to market access in Tanzania. Work permits for foreigners are strictly regulated.

■ Attitude towards foreign investors

The Tanzanian government encourages foreign direct investment where this helps promote exports, facilitate the transfer of technology and create jobs. Growth sectors include mining, telecommunications, energy, agriculture and some utilities earmarked for privatisation. Tanzania is still heavily assisted by international aid donors.

OPPORTUNITY SCOPE

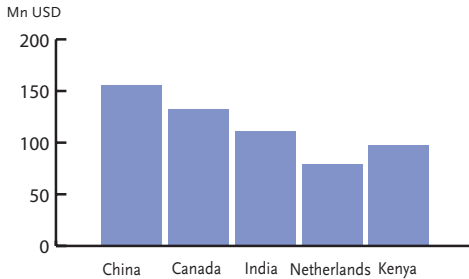
Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 65 |
| Public consumption | 5 |
| Investment | 15 |

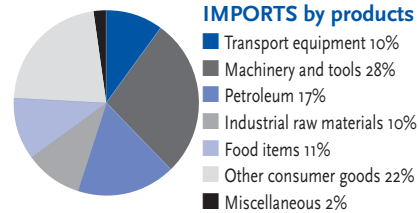
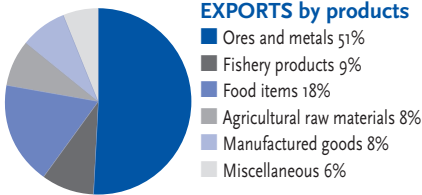
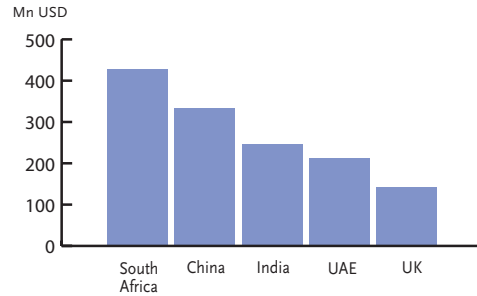
Exports: 18% of GDP

Imports: 28% of GDP

MAIN DESTINATIONS OF EXPORTS



MAIN ORIGINS OF IMPORTS



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Tanzania | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 670 | 2,123 | 5,540 |
| GNP per capita (USD) | 320 | 749 | 2,117 |
| Human Development Index | 0.418 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 30 | 28 | 30 |
| Urban population percentage | 35 | 36 | 43 |
| Percentage under 15 years old | 43 | 43 | 29 |
| Number of computers per 1000 inhabitants | 6 | 13 | 48 |

Togo

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 4.9 |
| GDP (US\$ million) | 1,759 |
| GDP per capita (US\$) | 359 |



Short-term: **C**

Medium-term:
Very high risk

Coface analysis

RISK ASSESSMENT

Since the period of political crisis that followed President Eyadema's death in February 2005 and the disputed election of his son, Faure Gnassingbe, as president the following April, the outlook now appears more encouraging. Conclusion of an agreement with the opposition in August 2006 made it possible to set up a government enjoying wide political support. Besides continuing to democratize the country's institutions, the government's tasks include preparing legislative elections – currently scheduled for June 2007 – on a transparent basis.

Carrying out that programme should pave the way for renewed cooperation with the EU and

multilateral institutions, and for debt relief under the HIPC programme. All that support will be necessary to cover Togo's financing needs, reduce its debt burden and settle arrears accumulated on internal and external debt.

This climate should, thus, prove more conducive to growth. After two years of decline, the recovery of phosphate and cotton production should contribute to an expansion and, in the longer term, the resumption of structural reforms. An ambitious policy of restoring infrastructure (transport, energy delivery) should strengthen the country's economic fabric.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|------|-------|---------------------|---------------------|
| Economic growth (%) | 4.1 | 1.9 | 3.0 | 0.8 | 3.2 | 3.7 |
| Inflation (%) | 3.1 | -0.9 | 0.4 | 6.8 | 3.0 | 2.7 |
| Public sector balance (%GDP)* | -0.8 | 1.8 | 0.2 | -1.6 | -3.5 | -2.1 |
| Exports | 405 | 467 | 537 | 621 | 743 | 760 |
| Imports | 539 | 701 | 850 | 975 | 996 | 1,044 |
| Trade balance | -134 | -235 | -313 | -354 | -253 | -284 |
| Current account balance (%GDP)* | -10.2 | -10.0 | -9.0 | -12.3 | -11.1 | -9.6 |
| Foreign debt (%GDP) | 93 | 95 | 86 | 93 | 84 | 80 |
| Debt service (%G&S exports) | 15.3 | 15.9 | 15.4 | 10.5 | 8.0 | 7.4 |
| Foreign currency reserves (in months of imports) | 3.9 | 2.6 | 3.9 | 2.6 | 2.6 | 2.4 |

Uganda

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 28.8 |
| GDP (US\$ million) | 8,712 |



Short-term: **C**

Medium-term:
High risk

Coface analysis

STRENGTHS

- Uganda boasts substantial economic potential (agriculture, fishing, tourism, minerals and recently discovered oil fields).
- Greater integration into the East African Community constitutes an additional asset.
- With its sustained efforts on structural reform, the country has earned international financial community backing.
- That has resulted in substantial foreign debt relief under the HIPC and MDRI programmes.
- Uganda has made encouraging progress on education, combating poverty and improving health conditions in the country.

WEAKNESSES

- Uganda's landlocked condition and its inadequate transport and energy supply infrastructure have resulted in high production costs.
- A regional environment marked by continued instability in the Great Lakes area, together with a difficult business climate, has undermined the country's attractiveness to investors.
- The potential and the diversification of Uganda's economic fabric have thus remained underdeveloped with agriculture – generating 33 per cent of GDP and 70 per cent of jobs – still predominant.
- Covering internal and external financing needs still depends on international aid.

RISK ASSESSMENT

The impact of the drought on farm production and hydropower generation in early 2006 slowed economic growth and affected a still relatively underdeveloped processing industry. Dynamic services and civil engineering sectors, nonetheless, kept economic growth at satisfactory levels. Subject to adequate rainfall, forecasts for 2007 project a growth still notably underpinned by energy sector investments in thermal and hydropower stations.

Reflecting its lack of diversification, the country's tax base is still narrow despite the strengthening of fiscal management with social, investment and security spending remaining substantial and major imbalances undermining public accounts. Similarly, external accounts have suffered from the increase in

imports (oil, capital goods) and the vulnerability of exports (coffee, tea, horticultural products) to weather conditions and world price trends. In this context, international aid is still essential. It covers almost half of the fiscal deficit and has led to a sharp reduction in foreign debt.

Political tensions, heightened by the campaigns for the February 2006 presidential and legislative elections won by President Museveni (with 59 per cent of the votes cast) and his party, have been gradually easing. Donor countries have, however, criticized the regime for not being open enough and for the persistence of major governance problems. Despite the ceasefire agreement signed in August 2006, hopes for settlement of the conflict that has been ravaging the northern part of the country for the past 18 years remain frail.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 6.8 | 4.5 | 5.6 | 5.6 | 5.0 | 5.3 |
| Inflation (%) | -2.0 | 5.7 | 5.0 | 8.0 | 6.5 | 6.0 |
| Public sector balance (%GDP)* | -12.2 | -10.8 | -11.1 | -8.7 | -8.8 | -7.7 |
| Exports | 476 | 512 | 647 | 682 | 863 | 994 |
| Imports | 1,083 | 1,131 | 1,321 | 1,604 | 1,888 | 2,007 |
| Trade balance | -607 | -619 | -674 | -922 | -1,025 | -1,013 |
| Current account balance (%GDP)* | -13.9 | -14 | -12 | -10.2 | -11.4 | -10 |
| Foreign debt (%GDP) | 66 | 68 | 69 | 58 | 58 | 11 |
| Debt service (%G&S exports) | 6.5 | 8.2 | 7.9 | 7.8 | 6.6 | 2.8 |
| Foreign currency reserves (in months of imports) | 5.9 | 6.4 | 6.6 | 6.4 | 5.8 | 5.6 |

* = ex grants

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Market overview

The introduction in January 2005 of a customs union between the member countries of the East African Community (EAC) has enabled tariff harmonization around three rates – 0, 7 and 15 per cent – with continued zero-rated access for industrial machinery and essential goods. Some 426 products imported from Kenya bear temporary duty at an initial rate of 10 per cent, which will be lowered by two points each year over a five-year period. COMESA member countries are granted a preferential tariff also based on three rates: 0, 4 and 6 per cent.

Customs declarations must be supported by an invoice, a certificate of origin and an import certificate valid for six months on a renewable basis, and issued within 24 hours by the Ministry of Commerce and Industry. Where applicable, a health certificate for live animals, an import licence as well as a health certificate for plants (fresh fruits, vegetables and seeds) and a disinfection certificate for second-hand clothes, bedding and similar articles intended for sale must also be produced. Customs clearance takes about a week.

All duties are *ad valorem* and calculated on the CIF value of goods transported by road, and on the insured value of goods transported by air. In addition to customs duties and a 4 per cent levy calculated on

the CIF value (warehousing duty), all imports are charged 0.8 per cent duty on the FOB value (in respect of inspection fees), a 2 per cent levy on the CIF value (Import Licence Commission) and, where applicable, 17 per cent VAT and excise duties.

Uganda does not apply minimum import prices or quotas. Several import prohibitions and restrictions apply on grounds of health, safety etc. The country observes the most favoured nation (MFN) clause for all its trade transactions.

■ Attitude towards foreign investors

Foreign direct investment in Uganda is governed by the 1991 investment code, which is restrictive on paper but liberal in its application. The Uganda Investment Authority (UIA) is responsible for processing investment proposals and offering assistance and advice to investors. In a pragmatic move, the government has given it wide powers of initiative to reduce discrimination between foreigners and nationals, pending the introduction of a revised, less restrictive code. To obtain a licence, foreign investors must submit to the UIA a business plan, along with a detailed financial statement of their company's activities. The UIA is not overly strict in this matter and licences are liberally awarded for a minimum period of five years, provided the investment complies with the code. The time required to issue a licence is two to five days.

The UIA is required to draw up a report on each investment application within 30 days and reach its decision within a further 14 days. However, the investment code does not guarantee foreign investors equal treatment with local ones. Foreigners face a number of obstacles or obligations not applicable to the domestic investors, including a minimum investment of US\$100,000, staff training, use of local suppliers, respect for the environment, technology transfer etc. On the other hand, no sector of the economy is closed to foreign investment. Foreign investors are protected from forced sales. Where a company is subject to an expropriation order, it is entitled to receive compensation based on the real value of its business within 12 months of the date of expropriation. Property laws continue to hamper investors seeking land to operate their businesses. In such cases, it is advisable to turn to specialist agencies, law firms or the UIA, all of whom are

able to offer land owned by *bona fide* landlords and to carry out identity checks on landlords.

The shortcomings of the judicial system constitute an obstacle to investment. Lack of professionalism, corruption and files that go missing means it can take years to get a judgement or conclude an action. However, assistance and pressure from lenders has already yielded tangible results, such as the setting up of a Tax Appeal Tribunal.

Uganda has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1992. The agency provides investors with safeguards against non-commercial, risks such as profit repatriation in hard currency, currency transfers, breach of contract, social conflict etc.

France and Uganda signed a reciprocal investment protection and promotion agreement in 2004.

SUB-SAHARAN AFRICA

OPPORTUNITY SCOPE

Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 62 |
| Public consumption | 11 |
| Investment | 17 |

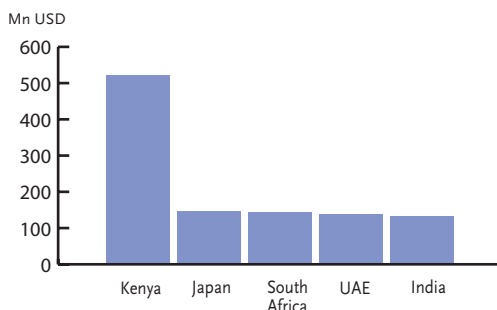
Exports: 14% of GDP

Imports: 28% of GDP

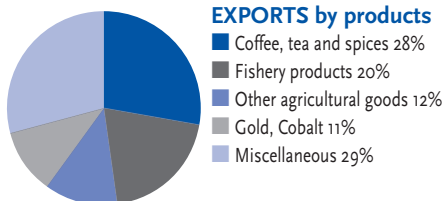
MAIN DESTINATIONS OF EXPORTS



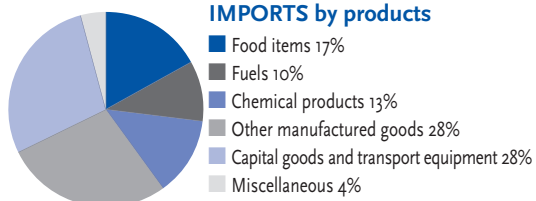
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Uganda | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 1,450 | 2,123 | 5,540 |
| GNP per capita (USD) | 250 | 749 | 2,117 |
| Human Development Index | 0.508 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 35 | 28 | 30 |
| Urban population percentage | 12 | 36 | 43 |
| Percentage under 15 years old | 50 | 43 | 29 |
| Number of computers per 1000 inhabitants | 4 | 13 | 48 |

Zambia

| | |
|----------------------------------|-------|
| Population (million inhabitants) | 10.4 |
| GDP (US\$ million) | 4.335 |



Short-term: **C**

Medium-term:
High risk

Coface analysis

STRENGTHS

- Zambia boasts extensive mineral resources (leading world cobalt producer, leading African copper producer).
- Its farm and tourist potential has been the focus of development policy that will ultimately facilitate the economy's necessary diversification.
- The country has enjoyed international financial community backing, which has resulted in substantial cancellation of its foreign debt.
- Besides the absence of tensions with neighbouring countries, the domestic political situation has been stable despite great ethnic diversity.

WEAKNESSES

- The economy is still highly dependent on copper extraction and, thus, vulnerable to exogenous shock – not only swings in copper prices but also the impact of weather conditions on the food supply.
- Poverty afflicts a high proportion (67 per cent) of the population with 16 per cent also affected by the AIDS virus.
- This landlocked country's exports have suffered from the inadequacy of transport infrastructure and been sensitive to rising costs.
- Major deficiencies have undermined the business environment.

RISK ASSESSMENT

The country has been enjoying a strong growth phase that should continue in 2007, buoyed by high copper prices, which have spurred investment and mining production. The economy has also benefited from increased tourism and the impact of productivity improvement measures on farm production, which will ultimately be a source of diversification of foreign currency earnings.

Although those good economic conditions, in conjunction with the adoption of tight fiscal policy, have facilitated the public sector's financial consolidation, it should continue to run deficits, prompting government authorities to revise the tax regime applicable to foreign direct investment.

Similarly, despite the improvement in external accounts attributable to the growth of exports and cancellation of most of the foreign debt burden under the HIPC and MDRI programmes, the country's financing needs have remained large and covering them will continue to depend on international aid.

President Mwanawasa's re-election in September 2006, with 43 per cent of the votes cast, should facilitate continuing structural reform policy, particularly modernizing the financial sector and improving the business environment. However, with a divided parliament and the reservations of a population whose situation has hardly improved, the risks of getting bogged down will be high.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | 3.3 | 5.1 | 5.4 | 5.0 | 6.0 | 6.2 |
| Inflation (%) | 22.2 | 21.4 | 18 | 18.3 | 9.2 | 8.6 |
| Public sector balance (%GDP) | -14.6 | -13.5 | -7.2 | -8.3 | -6.9 | -5.9 |
| Exports | 916 | 1,061 | 1,779 | 2,161 | 3,341 | 3,177 |
| Imports | 1,204 | 1,393 | 1,727 | 2,161 | 2,739 | 3,089 |
| Trade balance | -288 | -332 | 52 | 0 | 602 | 88 |
| Current account balance (%GDP) | -17.3 | -15.9 | -10.7 | -9.6 | -7.9 | -9.0 |
| Foreign debt (%GDP) | 172 | 150 | 130 | 86 | 43 | 17 |
| Debt service (%GS exports) | 14.7 | 15.0 | 18.5 | 6.8 | 2.1 | 2.0 |
| Foreign currency reserves (in months of imports) | 2 | 1.2 | 1.0 | 1.4 | 1.4 | 1.7 |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET

■ Means of entry

Goods may be freely exchanged and imports of certain goods in the agricultural and mining sectors are exempt from duty. ATA (Air Transport Association) carnets are accepted. Customs clearance is usually done within 72 hours of the products being presented and import consolidation is allowed. For an import to qualify for preferential treatment, a COMESA or SADC certificate of origin is required. Excise duties vary between 5 and 125 per cent of the product's value, and customs duties between 0 and 25 per cent. VAT is levied at the rate of 17.5 per cent. There is also a duty drawback system. All means of payment are used and accepted, however documentary credit is recommended.

■ Attitude towards foreign investors

The Investment Act 1993, amended in 1998, guarantees freedom of investment in Zambia. Some sectors – tourism, mining, air and road transport,

financial – require an additional operating licence. There are no restrictions against foreign shareholdings on the statute book and the Lusaka stock exchange is open to foreign investors. Corporation tax varies between 15 and 45 per cent, according to activity. Profits are fully repatriable. Free zones (EPZs) introduced in 2003 offer foreign investors such tax benefits as exemption from corporation tax and excise duties. The country has reciprocal investment protection and double taxation agreements with several countries, including France. Disputes between a foreign investor and a local party are subject to local or international arbitration (ICSID, UNICITRAL). Zambian law makes it difficult to employ expatriates and 50 per cent of managers must be Zambian.

■ Foreign exchange regulations

There are no exchange controls in Zambia. A foreign resident may open a foreign currency account with a local bank. There are no hedging arrangements against exchange risk. Transaction costs remain high.

OPPORTUNITY SCOPE

Breakdown of domestic demand (%GDP + imports)

| | |
|---------------------|----|
| Private consumption | 52 |
| Public consumption | 11 |
| Investment | 19 |

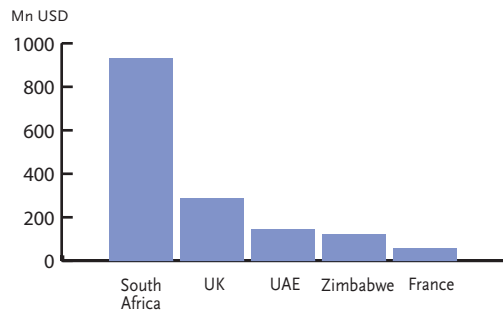
Exports: 20% of GDP

Imports: 27% of GDP

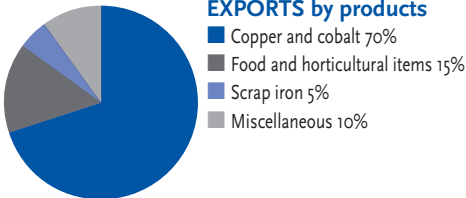
MAIN DESTINATIONS OF EXPORTS



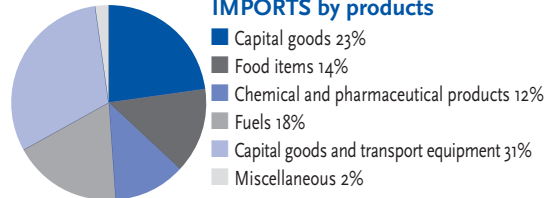
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Zambia | Regional average | DC average |
|--|--------|------------------|------------|
| GNP per capita (PPP dollars) | 890 | 2,123 | 5,540 |
| GNP per capita (USD) | 400 | 749 | 2,117 |
| Human Development Index | 0.394 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 41 | 28 | 30 |
| Urban population percentage | 36 | 36 | 43 |
| Percentage under 15 years old | 46 | 43 | 29 |
| Number of computers per 1000 inhabitants | 8 | 13 | 48 |

Zimbabwe

Population (million inhabitants) 13.0
 GDP (US\$ million) 3,364



Short-term: **D**

Medium-term:
Very high risk

Coface analysis

STRENGTHS

- Zimbabwe has great agricultural, tourism and mineral potential (second world platinum producer, palladium, gold, nickel).
- Its industrial fabric is diversified.
- Quality transport and financial infrastructure, along with the good level of labour skills, could facilitate efforts to get the country back on track.

WEAKNESSES

- The country's economy and finances have remained disaster-stricken and it will take a long time to overcome the crisis effects.
- The economic crisis, which has further heightened political and social tensions, has moreover exacerbated the deteriorating food and health situation in the country.
- The AIDS infection rate is among the highest in both Africa and the world.
- Through default on payments to international financial institutions and other creditors, Zimbabwe has been ostracized by the international community.

RISK ASSESSMENT

The economic situation worsened in 2006 with continuing recession, albeit tempered by a degree of improvement in mineral extraction, compounded by resurgent hyperinflation. Those negative developments are attributable to a sharp currency depreciation (affecting both the official and informal exchange rates), the rising cost of imported products and, above all, the monetization of public and state-sector deficits.

Even if exports sectors have been able to capitalize on both an easing of exchange-rate policy and buoyant raw material prices, foreign currency earnings did not increase. With its foreign debt now

at unsustainable levels, Zimbabwe has remained in arrears with most of its creditors. In that context, the current debate over possible nationalization of mining companies, coupled with a poor business environment, has undermined the country's attractiveness to investors and further delayed a hypothetical recovery.

The political outlook has been marked, meanwhile, by increased repression of the opposition and by the emergence of divisions within the ruling party over 82-year-old President Mugabe's succession. His term in office will end in 2008, bar a possible extension.

MAIN ECONOMIC INDICATORS

| (USD millions) | 2002 | 2003 | 2004 | 2005 | 2006 ^(e) | 2007 ^(f) |
|---|-------|-------|-------|-------|---------------------|---------------------|
| Economic growth (%) | -4.4 | -10.4 | -3.8 | -6.5 | -5.1 | -4.7 |
| Inflation (%) | 133 | 365 | 350 | 255 | 1,027 | 853 |
| Public sector balance (%GDP) | -2.8 | -0.4 | -7.7 | -16.1 | -23.9 | n/a |
| Exports | 1,802 | 1,670 | 1,680 | 1,694 | 1,727 | 1,709 |
| Imports | 1,821 | 1,778 | 1,989 | 2,053 | 1,998 | 2,002 |
| Trade balance | -19 | -108 | -309 | -359 | -271 | -293 |
| Current account balance (%GDP) | -2.6 | -3.1 | -7.3 | -6.8 | -12.8 | -7.0 |
| Foreign debt (%GDP) | 53.0 | 64.4 | 67.4 | 74.4 | 80.6 | 85.9 |
| Debt service (%G&S exports) | 22.6 | 21.4 | 16.9 | 16.4 | 16.8 | 17.2 |
| Foreign currency reserves (in months of imports) | 0.1 | 0.1 | 0.5 | 0.0 | 0.0 | n/a |

e = estimate, f = forecast

CONDITIONS OF ACCESS TO THE MARKET**■ Means of entry**

Goods may be freely traded, although a certificate of origin is required for imports. Customs duties vary between 0 and 138 per cent according to the type of import, except for goods from COMESA, which are exempt from duties on the basis of reciprocity. Since 1 August 2005, VAT on all imports has risen to 17 per cent from 15 per cent, the rate in force when VAT was introduced on 1 January 2004. A 15 per cent surtax applies to all products charged more than 30 per cent customs duty. Due to the now chronic shortage of hard currency, exporters are strongly advised to demand advance payment. While many companies, especially in mining, have offshore accounts, experience shows that some, usually from other sectors, use the restrictions on obtaining foreign exchange from the Reserve Bank as an excuse to not pay their bills.

■ Attitude towards foreign investors

The Investment Act 1989 guarantees protection of foreign investment. Total (100%) foreign ownership is allowed in mining, manufacturing and tourism; 70 per cent in services; and 35 per cent in agriculture, armaments and water. Since 1 January 1995, all profits and dividends are repatriable upon payment of taxes (30 per cent).

Money transfers remain a rarity in a country facing a severe shortage of foreign exchange. Companies operating in Zimbabwe are liable to 20 per cent tax on dividends earned by their foreign-based subsidiaries. A 3 per cent tax is levied on all companies to support the fight against AIDS.

Zimbabwe has a double taxation agreement with France and some other countries. However, the reciprocal investment protection agreement signed with France in May 2001 has never been ratified, notwithstanding several attempts by the French government to do this. Foreign enterprises can locate to any of the so-called export processing zones (EPZs), which offer a number of incentives, including tax breaks and more flexible wage arrangements.

The stock exchange is open to foreign capital, but a listed company must not be more than 40 per cent foreign-held, nor more than 10 per cent-owned by any single foreign shareholder. Investors with a capital of US\$100,000 can obtain a three-year work permit. It is possible to employ foreigners only where equivalent local skills are unavailable.

Disputes between a foreign investor and a local party are subject to local or international arbitration.

■ Foreign exchange regulations

The current currency management and control system, which changes at least once if not twice a year,

SUB-SAHARAN AFRICA

applies two rates: one government (ZWD100:US\$1), payable to the Reserve Bank of Zimbabwe and applicable to 25 per cent of the foreign currency earnings of exported products; the other an interbank

rate, originally 'freely fixed' by the market but now politically administered, at ZWD250 to the dollar. Since August 2006, a new Zimbabwean dollar, equal to 1000 old ZWDs, is in circulation.

OPPORTUNITY SCOPE

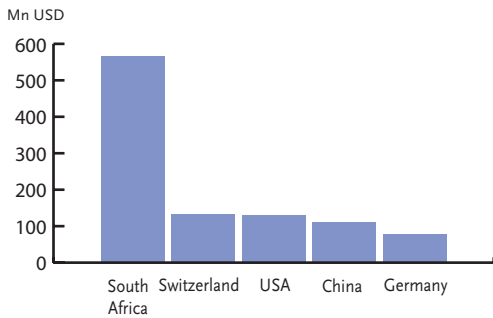
Breakdown of domestic demand (%GDP + imports)

| | |
|-----------------------|-----|
| ■ Private consumption | 109 |
| ■ Public consumption | 2 |
| ■ Investment | 3 |

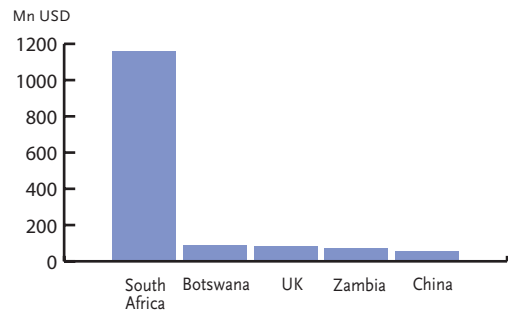
Exports: 36% of GDP

Imports: 44% of GDP

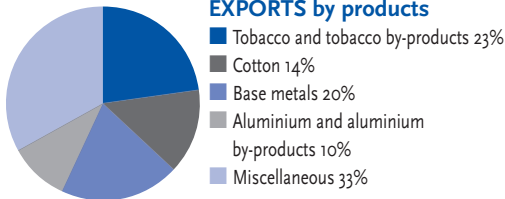
MAIN DESTINATIONS OF EXPORTS



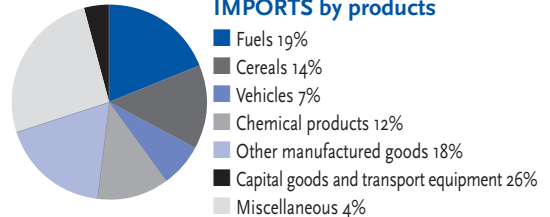
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



STANDARD OF LIVING / PURCHASING POWER

| Indicators | Zimbabwe | Regional average | DC average |
|--|----------|------------------|------------|
| GNP per capita (PPP dollars) | 2,040 | 2,123 | 5,540 |
| GNP per capita (USD) | 620 | 749 | 2,117 |
| Human Development Index | 0.505 | 0.447 | 0.660 |
| Wealthiest 10% share of national income | 40 | 28 | 30 |
| Urban population percentage | 35 | 36 | 43 |
| Percentage under 15 years old | 41 | 43 | 29 |
| Number of computers per 1000 inhabitants | 53 | 13 | 48 |

ACRONYM TABLE AND LEXICON

ACN: Andean Community of Nations

ADB: Asian Development Bank

AFTA: ASEAN's Free Trade Area

ASEAN: Association of South East Asian Nations

CAFTA: Central American Free Trade Area

CCASG: Cooperation Council of the Arab States of the Gulf

CEFTA: Central European Free Trade Agreement

CEMAC: Economic and Monetary Community of Central Africa

CET: common external tariff

CIS: Community of Independent States

COMESA: Common Market for Eastern and Southern Africa

CSID: International Centre for Settlement of Investment Disputes

Currency board: system whereby a country pegs its currency to a foreign currency (generally the US dollar or euro) with a currency board supplanting the central bank

EBRD: European Bank for Reconstruction and Development

ECOWAS: Economic Community of West African States

EDB: Economic and Development Board

EMCCA: Economic and Monetary Community of Central Africa

EMU: Economic and Monetary Union

EU: European Union

FDI: foreign direct investment

GAFTA: Greater Arab Free Trade Area

GDP: gross domestic product

GNP: gross national product

GOEIC: General Organization for the Import and Export Control

HIPC initiative or programme: a joint IMF/World Bank initiative in favour of heavily indebted poor countries, which can permit cancellation of their public external debt once they meet specified conditions and thus reach the HIPC 'completion point'

IBRD: International Bank for Reconstruction and Development

ICSID: International Centre for the Settlement of Investment Disputes

IDB: Inter-American Development Bank

IFO: Information and Forschung, one of the leading economic research institutes in Germany

IMF: International Monetary Fund

LAIA: Latin American Integration Association

MDRI: Multinational Debt Relief Initiative

MIGA: Multilateral Investment Guarantee Agency

NAFTA: North American Free Trade Agreement

NATO: North Atlantic Treaty Organization

OHBLA/OHADA: Organization for the Harmonization of Business Law in Africa

OECD: Organization for Economic Cooperation and Development

OPEC: Organization of Petroleum Exporting Countries

OPIC: Overseas Private Investment Corporation

Paris Club: an informal group of official creditors devoted to finding sustainable solutions to payment difficulties experienced by debtor nations

Payment incidents index: payment default indices reflect the payment-incident trend on commercial transactions payable in the short term worldwide across a broad range of economic sectors. The monitoring of payment incidents is based on a composite of several sets of company-payment-capacity indicators available in Coface databases: those derived directly from its credit insurance, receivables management and company information activities, and those obtained from partners. Payment incidents are expressed as indices based on the average of incidents recorded over the world between 1995 and 2000. The resulting curves thus permit comparing a country's or sector's payment risk level with the world average as well as monitoring the trend of those risks

PPP: purchasing power parity

R&D: research and development

SACU: Southern African Customs Union

SADC: Southern African Development Community

SEC: Security and Exchange Commission

SWIFT: Society for Worldwide Interbank Financial Telecommunication, which runs a worldwide network whereby messages concerning financial transactions can be exchanged between banks and other financial institutions in 194 countries

SYSCOA: Système Comptable Ouest-Africain (West African Accounting System)

UEOMA/WAEMU: Union Economique et Monétaire Ouest Africaine/West African Economic and Monetary Union

UNCITRAL: United Nations Commission on International Trade Law

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Programme

WTO: World Trade Organization