PANORAMA

SEPTEMBER 2015

Country Risk Barometer Q3 2015

COFACE ECONOMIC PUBLICATIONS

By Coface Group Economists

For the fourth consecutive year, global growth will fail to exceed 3%. At the beginning of the year however, this target did not appear unattainable, as the highly expansionary monetary policies in place, combined with the fall in the oil price and less restrictive fiscal policies, were expected to effectively accelerate growth. But this was not the case. Who is at fault? Chiefly the emerging markets, with Russia and Brazil in deep recession, and with growth slowing down more rapidly than expected in China, while failing to take off in South Africa or in Turkey. Many of the commodities exporting countries are also struggling. In this context, emerging currencies have depreciated sharply against the dollar. One minor consolation: India is the only major emerging economy which is not a disappointment, with a growth rate of over 7% this year and next year.

In this context, Coface is downgrading several country assessments among emerging markets, particularly in Latin America, which will be in recession this year: Brazil, Ecuador, Chile and Trinidad and Tobago. The level of risk has also increased in Malaysia, Tunisia and Armenia. In contrast, outlook for Hungary has been upgraded to positive, as a symbol of central Europe which is benefitting from the timid Eurozone recovery.

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FOR SAFER TRADE

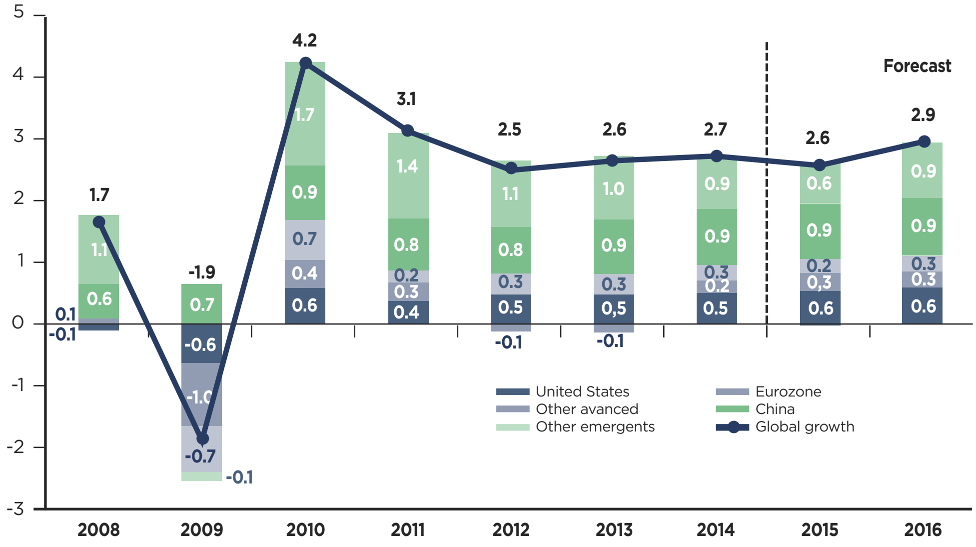
September 2015

GLOBAL GROWTH STUCK IN LOW GEAR

1 ADVANCED ECONOMIES: THE RECOVERY IS UNDERWAY, BUT REMAINS FRAGILE

Growth outlook remains strong for the US. After the brief downtick recorded during the first quarter resulting from number of temporary factors (fall in energy sector investment, harsh weather conditions, etc.), the economy rallied sharply from Q2 onwards (+0.9% q/q), driven by both household consumption and investments. Consumer spending remains underpinned by the decline in the unemployment rate, household debt being lower than pre-crisis levels and cheap petrol prices. Investment also seems to be gaining momentum, as illustrated by the strong increase in durable goods orders in July and continued buoyancy in the property sector. There are nonetheless two clouds on the horizon. The strong dollar is likely to continue weighing on exporting companies and the continued slide in the oil price this summer could have contrasting effects on the US economy by the end of the year. This was the case at the beginning of the year, when gains in terms of household purchasing power due to lower petrol prices, were partially offset by lower investment in the energy sector.

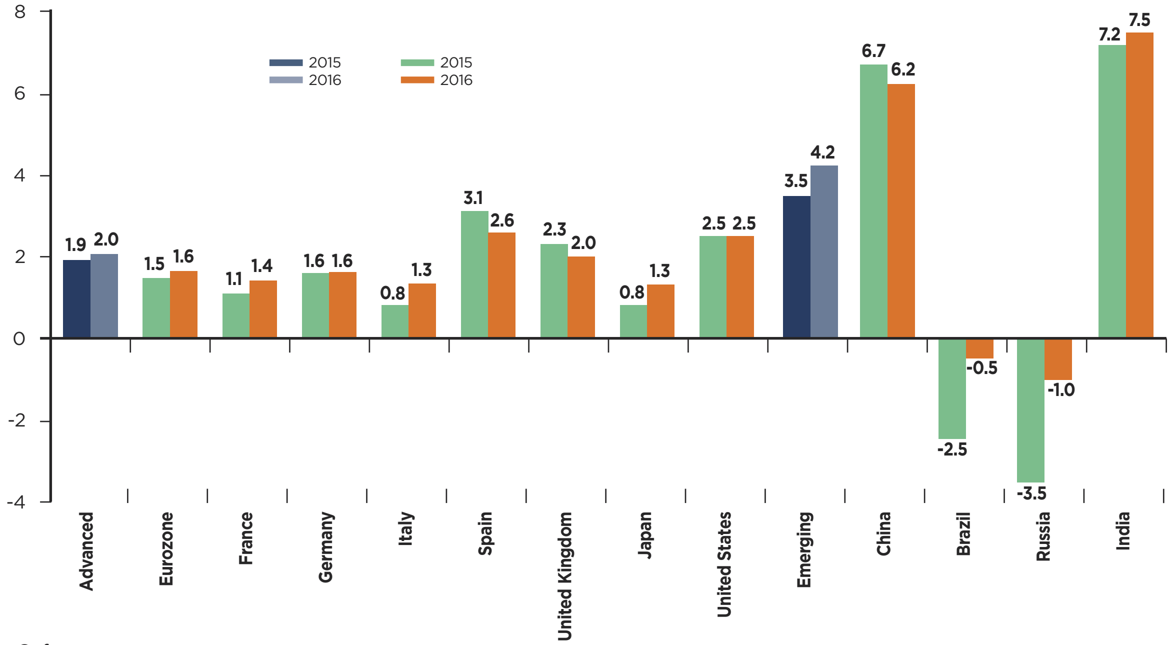
Global growth: Contributions by region (% and % points of GDP)



sources: IMF and Coface forecasts

In the eurozone, successive quarters have recorded positive growth indicators: +0.3% q/q during the 2nd quarter, after +0.4% between January and March. Multiple factors are supporting the eurozone economy: lower unemployment (10.9% in July, down 0.7 point of percentage over one year), less rigorous budgetary policies and a low inflation rate, which is benefitting household consumption, combined with a highly expansionist monetary policy leading to a gradual increase in private sector credit (+1% annualised in July). Economic growth rates lack consistency however. Although growth in Spain should exceed 3% this year, it will be more moderate in Germany (+1.6% expected in 2015 and 2016) and particularly France (+1.1% and +1.4% respectively) and in Italy (+0.8% and +1.3%). Furthermore, the fall in the oil price is maintaining inflation at a low level and helping restore corporate margins. Paradoxically however, wider margins do not necessarily mean a sharp recovery in investment. Corporate investment hinges chiefly on business confidence, which has been tested to the full recently, starting with the Russian crisis during the summer of 2014, which weighed temporarily on investment (particularly in Germany), followed by the risk of Greece exiting the eurozone this spring, while incertitude over Chinese growth is currently worrying company managers and delaying investment decisions.

GDP growth forecast (%)



Source: Coface

2 EMERGING ECONOMIES: CONTINUED DISAPPOINTING GROWTH HAS LED TO VOLATILITY AMONG FINANCIAL MARKETS

Major emerging economies posted disappointing performances once again in the 2nd quarter of 2015. Growth was broadly less dynamic than during the 1st quarter, due to weaker commodities prices and currency depreciation against the dollar.

The headlines were essentially dominated by suspicions of further weakness in Chinese growth, where the government fears it will not meet its year's 7% growth target. Although the slowdown in investments continues and the export growth rate is losing pace, fears are focused mainly on household consumption, even though the slowdown in consumer spending is less marked than in investment. Growth in available household income is effectively much less dynamic (+5% annualised in the 2nd quarter compared to +13% at the end of 2012). However, even though the risk of a hard landing has increased, it is still nonetheless relatively unlikely for the time being, as economic fundamentals remain generally healthy, the jobs market appears relatively resilient and property prices have stopped declining. The authorities still have significant leeway, as illustrated by their repeated intervention, particularly the cuts in reference rates and reductions in reserve requirements ratios.

Furthermore, several major emerging economies are in recession, such as Russia, which is under pressure from the weak oil price, economic sanctions and geopolitical issues. The continued slide in the oil price is driving the rouble lower and the central bank is therefore attempting to prevent the public deficit from deteriorating further. The recession in Brazil is also a major cause for concern as the domestic economy remains weighed down by weaker commodities prices, a restrictive policy mix (increase of interest rate to 14.25% and measures of fiscal consolidation) and corruption scandals (Petrobras) which led to protests against the president Dilma Rousseff this summer. The loss of investment grade status has exacerbated the risks of a flight of capital and put further pressure on the exchange rate.

The situation has also deteriorated in other major emerging economies. Business activity has also contracted in South Africa. All sectors have been hit, in a context of persistent structural weaknesses. Turkey is facing a deteriorating political situation. Having failed to form a government in June, fresh elections have been set for November 1st and the situation remains particularly tense. The country is also weakened by its persistently heavy current account deficit and a high inflation rate, combined with mounting private debt levels (currency risk therefore remains high, with the Turkish lira to US dollar at a low point).

India is the only outstanding exception, confirming its healthy results, benefiting particularly from an improved trade balance due to the reduced energy bill. However, a more dynamic economic recovery is being hampered by poor weather conditions and weak external demand.

Emerging economies are not expected to make a significant recovery given the leading indicators already published for the 3rd quarter. This is particularly the case in China, where the official PMI business confidence index fell to 49.7 in August, i.e. below the 50 threshold, which indicates an economic contraction.

In this deteriorating macroeconomic context, financial markets were highly turbulent during the summer, triggered by turmoil in the Chinese market.

Overall, stock markets posted weak performances. The composite MSCI emerging index has plummeted since May (-37% between the highs recorded on June 12th and September 6th), particularly in Asia. The Chinese stock market effectively collapsed as the speculative bubble burst and undermined confidence, which then spread to all other global financial markets. Despite this negative signal, the actual role of the stock market in Chinese growth remains limited, as households own few stock assets and a relatively small number of private Chinese companies issue equities as a means of raising funds.

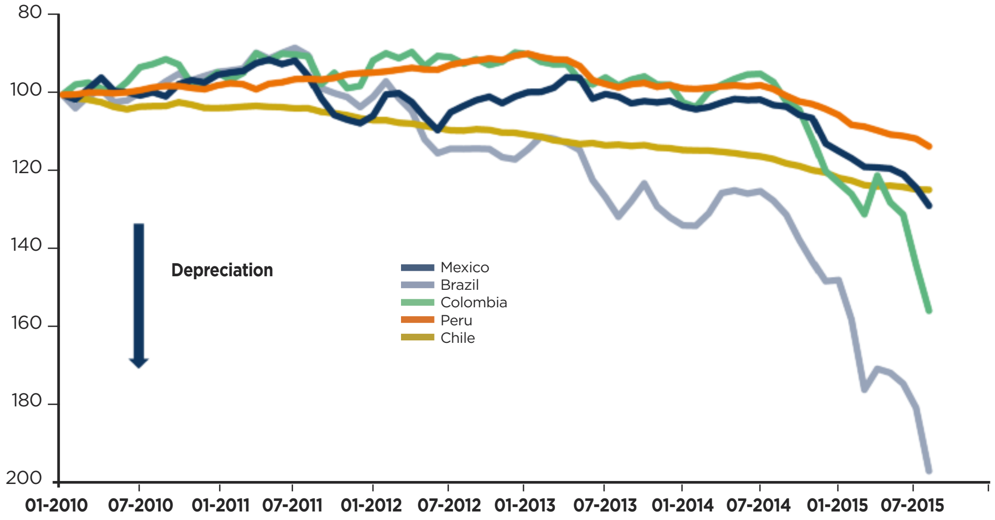
Pressures on spreads also widened significantly across all emerging markets, particularly Latin America. Furthermore, currencies continued to depreciate against the dollar as risk aversion generally increased, combined with domestic factors. The devaluation of the yuan on August 11th triggered anxiety among financial markets, in the context of a deteriorating Chinese economy, but also represented a further step in the process towards financial liberalisation. Currencies depreciated heavily in Asia, especially in Indonesia and Malaysia, and also in Latin America, particularly in Colombia and Brazil (the currency fell by 33% between January and August 2015 and no longer appears over-valued) and also in Russia, Turkey and South Africa, where the domestic currencies hit low points.

Shanghai Shenzhen CSI 300 Index

Sources: China Securities Index Company, Thomson Reuters

Latin America: Exchange rates vs USD

100 = january 2010



Sources: Central banks, Reuters

Risks weighing on emerging economies are mainly bearish. They include:

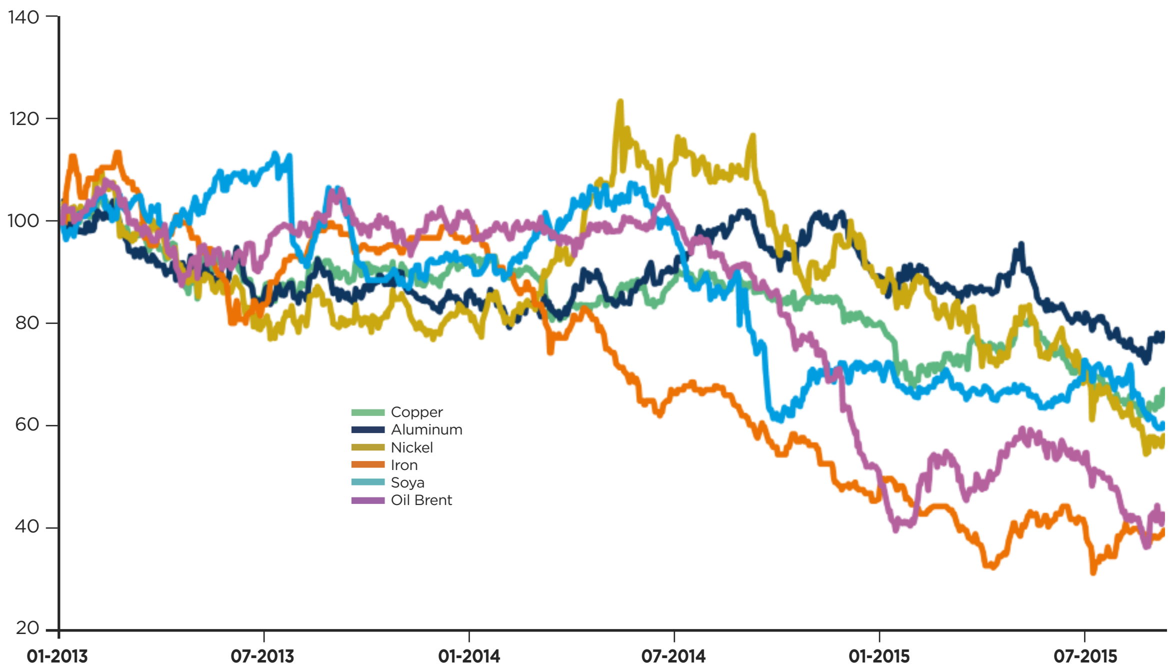
• a more marked slowdown than expected in the Chinese economy, which would impact not only countries in which exports towards China represent a significant proportion of their GDP (particularly in Asia), but also commodities-exporting countries (which may be hit by a volume effect and also a price effect if commodities prices fall);

• monetary tightening in the US: certain countries are more vulnerable, particularly those with a heavy current account deficit, which have already been impacted by capital flight during the summer of 2013 following the Fed's tapering announcement, and also countries characterised by weak currency reserves and more generally high external risk (large foreign-currency denominated debt);

• a further fall in commodities prices, as the drop in the oil price would continue for example to weigh on countries which are dependent on their oil resources, particularly in terms of exports and also through a deteriorating budgetary situation (Russia, Venezuela and to a lesser extent Saudi Arabia and the United Arab Emirates). Inversely, net oil-importing countries (Turkey, India and China) would benefit from an improvement in their current account balance via a reduced energy bill (particularly in Asia). The US WTI oil price hit a low point this summer, as did the price of copper and soya.

Commodity prices

100 = 01/01/2013



Sources: LME, ICIS Pricing, Department of agriculture US

BAROMETER
September 2015

COUNTRY RISK ASSESSMENT CHANGES

ASSESSMENT EITHER UPGRADED, OR REMOVED FROM NEGATIVE WATCH LIST OR PLACED UNDER POSITIVE WATCH LIST

Country	Country risk previous	Country risk new
Hungary	B	B↗

Country risk assessments

• **Country risk assessment** assesses the average risk of payment defaults by companies in a given country. This evaluation combines economic and political prospects of the country, Coface payment experience and business climate assessment. This evaluation has 7 grades: A1, A2, A3, A4, B, C, D and can be watch listed (positive, ascending arrows in the table; negative descending arrows).

Hungary : B↗

- Solid growth (+3% in 2015 and +2,4% in 2016), not only due to one off factors.
- Household CHF loans issue solved.
- Tight integration with German manufacturing.
- Diversified exports.
- Satisfactory business environment, almost as good as Poland's or Czech Republic's.

ASSESSMENT EITHER DOWNGRADED, OR REMOVED FROM POSITIVE WATCH LIST OR PLACED UNDER NEGATIVE WATCH LIST

Country	Country risk previous	Country risk new
Armenia	C	C↘
Brazil	A4↘	B
Chile	A2	A3
Ecuador	B↘	C
Malaysia	A2	A2↘
Trinidad and Tobago	A3	A4
Tunisia	B↗	B

Country risk assessments

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Armenia : C↘

- Economic downturn and worsening of public finances expected for 2015. Armenia, highly dependent economically and financially from Russia, suffers from the decrease in transfers from expatriate workers and exports.
- The political situation is unstable. Armenians have expressed their discontent several times and recently in June 2015 during a demonstration to protest against the rise in electricity tariffs. Expectations vis-à-vis the government are high while the economic situation slows the reform process.

Brazil : B

- Brazil's economy falls into recession and outlook for the following quarters isn't encouraging.
- All leading indicators are deteriorating (retail sales, industrial production, business confidence; high household debt).
- Household consumption (the main growth engine) is decreasing due to the increasing inflation and unemployment rates.
- Investments are declining given the repercussions of Petrobras scandal.
- Weak activity compromises government tax revenues, increasing the risk of downgrade by rating agencies
- Fiscal additional adjustment is threatened by low support in Congress.
- Budget balance is expected to achieve a deficit of 10% of GDP in 2015 and public debt to reach 70% of GDP in 2016.
- High exchange rate volatility
- Political fragility.

Chile : A3

- The economy is affected by the persistence of low copper prices and the slowdown in Chinese economy (the main destination of Chilean copper).
- Industrial output has contracted mainly due to the copper production decline and investments are not expected to rebound given the outlook for minerals prices.
- Household consumption is expected to slow down due to increasing inflation and unemployment.
- Labor reform which aims to strengthen labor union's bargaining power and corruption scandals engulfing the President and her close entourage is contributing to deteriorate business environment.

Ecuador : C

- The economic situation is deteriorating because of the persistence of low oil prices. As a result of lower oil income, government announced further cuts to fiscal expenditures.
- Ecuador is the second most affected country in the region by the decrease in oil price after Venezuela. The economy is poorly diversified and dependent on oil income (40% of the fiscal income, more than 50% of exports).
- Public spending and investments (the main keys of growth) are expected to go down given the current decrease in oil prices. Country requires an oil price of around 120 US dollar/barrel to maintain fiscal stability.
- The dollarization of the economy makes difficult a devaluation to adjust public accounts and non-oil exports are less competitive notably towards Europe.
- Outlook for local private businesses seems to be gloomy after disagreements over safeguards against Colombia and Peru (two of Ecuador's largest trading partners).
- High dependence on Chinese funds.

Malaysia : A2↘

- The Malaysian economy relies on external demand and is affected by the Chinese slowdown and the drop in commodity prices notably oil prices.
- Household demand remains sustained but is slowing down
- Household debt (level and debt service) is very high
- Despite reforms initiated by the government (VAT at 6% since April 2015, cut in subsidies), public debt is still high
- Investor confidence is hurt by the scandal related to the sovereign fund 1MDB.

Trinidad and Tobago : A4

- The economy is affected by the persistence of low oil prices.
- The energy sector (oil and natural gas production) is the key drive in the economy (approximately 40% of GDP, 50% of fiscal income and more than 80% of merchandise exports).
- Infrastructural developments and gas supply issues which affected the energy sector in 2014 is continuing in 2015.
- Energy and non-energy sectors have both contracted in the first quarter.
- Tourism activity is affected by the decline in Venezuelan visitors.

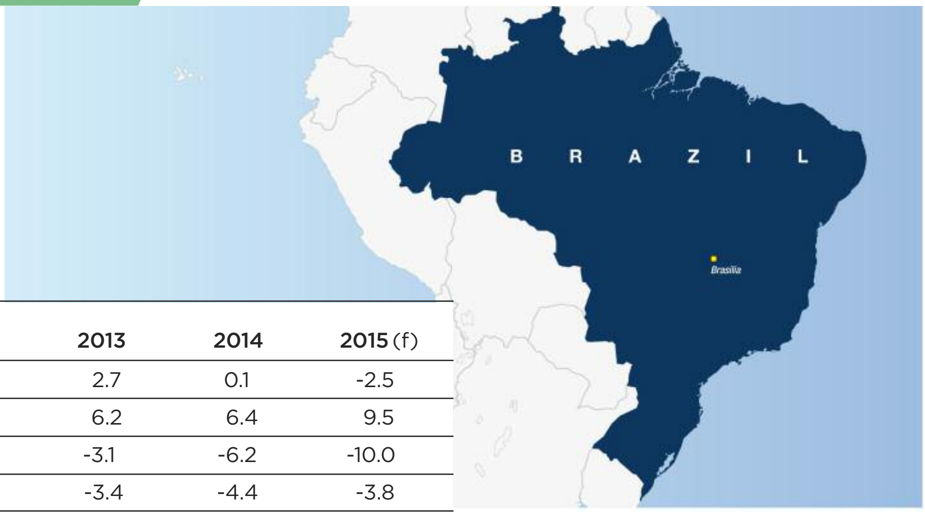
Tunisia : B

- Tunisian economy may plunge into a recession in 2015 as a result of the economic chocks caused by to the two deathly attacks that had hit the country in March and June. The persistent risk of terrorist strikes and the enduring social tension have dampened the possible benefits from the post-transition confidence boost.
- As for the depressed economic condition, external imbalances are expected to worsen. The current account deficit is expected at 8.5% of GDP in 2015.

BRAZIL

COFACE ASSESSMENTS

B	Country risk
A4	Business climate
FAIRLY LOW RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	1.8	2.7	0.1	-2.5
Inflation (yearly average) (%)	5.4	6.2	6.4	9.5
Budget balance (% GDP)	-2.6	-3.1	-6.2	-10.0
Current account balance (% GDP)	-2.4	-3.4	-4.4	-3.8
Public debt (% GDP)	54.8	53.3	58.9	67.6

(f): forecast

RISK ASSESSMENT

Brazil's economy enters recession

The Brazilian economy enters recession. The country recorded a contraction in activity in the first two quarter of this year; the outlook for the following quarters is hardly encouraging as the domestic and external economic environment is unfavourable to growth.
Domestically, household consumption, the main growth engine, is likely to slow down under the effect of high interest rates on loans and the fall in the real wage caused by the upswing in inflation. Investment will probably decline further because of the close to 40% reduction in the 2015-2019 investment programme for the oil & gas giant Petrobras and the repercussions on companies in related sectors such as military and civil shipbuilding. This comes on top of a steep social cost in terms of employment. Industry should continue to suffer from the shortfall in infrastructure and skilled labour, resulting in a faster rise in costs to the detriment of productivity. Externally, foreign trade remains negatively affected by the long-lasting fall in commodity prices, especially iron ore, and by the fall in Chinese demand. Agricultural exports, conversely, will probably grow, at least in volume terms, due to the increase in oilseed, grain and legume crops (including soybeans). The depreciation of the real against the dollar should improve the competitiveness of exports, but the simultaneous depreciation of several other currencies in the region is reducing the competitive advantage of similar Brazilian export products. Lastly, the rise in inflation since the start of 2015, due to the realignment of subsidised electricity, petrol and transport prices and rates, should continue under the effect of imported inflation linked to the depreciation of the Brazilian currency, despite a significant monetary tightening that has not yet borne fruit.

An austerity policy whose results are rather mixed

Rebalancing public finances in order to restore investor confidence and prevent a possible downgrade of the country's sovereign seems inconclusive: Brazil's sovereign rating was cut of investment grade that it enjoyed for 7 years by one of the rating agencies. One the one hand, initial tax revenue figures seem disappointing due to the slowdown in activity and the additional adjustment measures (increases in certain taxes, asset sales and budget cuts) are struggling to be approved by Congress. On the other hand, the president can't anymore rely on its former political allies to pass these reforms and the business community becomes more reluctant with regard to the government.

Slight improvement in the current-account balance thanks to the fall in imports

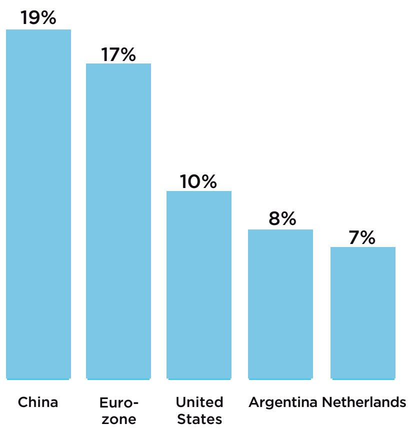
The current-account deficit is expected to post a slight improvement in 2015 thanks to the expected return of the trade surplus, caused by the fall in imports. The weakening of the Brazilian currency combined with the slowdown in investment and consumption is indeed reducing demand for imported goods, which have become more expensive. Despite the improved competitiveness of exports thanks to the exchange-rate adjustment, exports remain negatively affected by the long-lasting fall in commodity prices (agricultural and mining). The services and income balance (tourism, dividends, interest) remains in the red. The current-account deficit should be partly financed by foreign direct investment (around 2.6% of GDP, excluding reinvestment) and by public debt.

The search for a new economic boost despite the political tensions surrounding the Petrobras affair

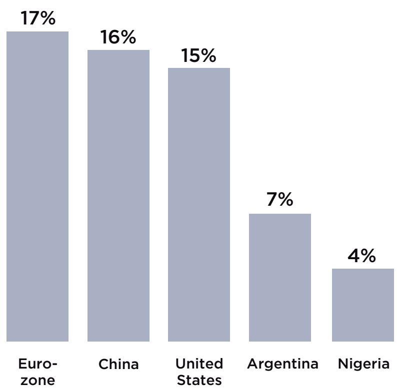
Dilma Rousseff's administration has been weakened politically and is struggling to meet its objective to break with four years of lacklustre growth. The government is seeking to revive the economy, in particular via a plan for concessions (roads, airports, railway lines), estimated at close to $64 billion, in order to offset part of the shortfall in infrastructure that is hampering Brazilian productivity. The Petrobras affair may nevertheless have negative repercussions on domestic investment (the company has already reduced its five-year investment plan by nearly 50%) and on FDI flows because of the lack of investor confidence in the country. Despite a certain upswing in confidence in the government after the removal of the company's senior executives, the imprisonment of leaders of building and public works companies accused of price collusion and the publication of Petrobras' quarterly results, Dilma Rousseff's image could deteriorate further if the accusations about the financing of her 2014 electoral campaign by the companies involved in this scandal were to be proved. Meanwhile, protests are held in many Brazilian states calling for the departure of President.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- 6th-largest economy worldwide
- Growing active population
- Varied and abundant mineral and agricultural resources
- Advanced manufacturing industry: aerospace, chemicals, pharmaceuticals and oil engineering
- Resistance to external shocks: creditor external position, considerable reserves
- Major macroeconomic balances maintained

Weaknesses

- Lack of qualified labour/incomplete educational system
- Shortcomings in infrastructure (transport, energy)
- Insufficient investment
- High production costs (wages, energy, logistics and credit)
- Public expenditure high and inefficient
- Corruption flourishing due to inequalities

CHINA

COFACE ASSESSMENTS

A4	Country risk
B	Business climate
LOW RISK	Medium term

MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	7.7	7.7	7.3	6.7
Inflation (yearly average) (%)	2.6	2.6	2.0	1.2
Budget balance (% GDP)	0.2	-1.1	-1.1	-1.9
Current account balance (% GDP)	2.6	1.9	2.0	3.2
Public debt (% GDP)*	37.3	39.4	41.1	43.5

(f): forecast
* Comprising central and local debt (excl. financing vehicles)

RISK ASSESSMENT

Continued economic slowdown in 2015

The slowdown of the Chinese economy continues in 2015. The authorities have implemented the necessary reforms to ensure a more even balance in growth towards consumer-driven expansion. However, corporate profits are being affected in the short term in sectors hit by heavy overcapacity, particularly infrastructure and construction. Nevertheless a collapse in the property market is unlikely however, as the authorities have the capacity to intervene in the event of a major crisis. Beijing has tended to focus its interventions on easing the regulations implemented in 2010 and 2011, when property prices surged as cut in interest rate. Thus property prices began to recover in April 2015 in major cities.
Besides, household spending should remain firm due to the healthy jobs market. However, a slowdown in disposable income is perceivable, as retail sales growth slowed in the first half of 2015.
Finally, growth in Chinese exports should stabilise due to the strength of the US economy and the slight economic improvement in Europe. Chinese exports are also expected benefit somewhat from the depreciation of the yuan during the summer 2015.

Private sector and local authority debt jeopardising the financial system

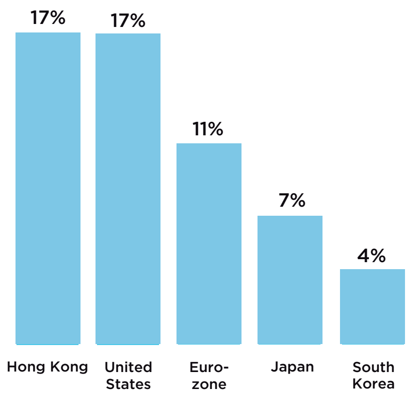
Although the level of public debt is sustainable, local authorities have a high level of debt which remains opaque. At the end of 2013, a national audit revealed local authority debt to be RMB17.9bn, i.e. one third of GDP.
Given the development of a shadow banking industry as an alternative source of financing (estimated at 30% of total funding), it is difficult to accurately assess the level of debt in the private sector. However, the IMF estimated debt at 207% of GDP at the beginning of 2014 compared to 130% in 2008. Whereas most private companies have deleveraged, debt ratios have continued to progress among public companies and property and construction groups. Furthermore, SMEs frequently have to rely on shadow banking at exorbitant rates, given their difficulty in securing financing.
Moreover, the quality of banking assets is deteriorating although the shadow banking industry remains underestimated. The non-performing loans ratio reached 1.25% at the end of 2014, its highest level in several years. In April 2015, China experienced its first SOE default in the domestic bond market with the solar energy group Baoding Tianwei which failed to pay a USD14m coupon and debt holders requested reimbursement from the parent company. Although this credit event did not cause panic, the market is nonetheless awaiting the reaction of the parent company. The introduction of real bankruptcy risk is inevitable and will reduce moral hazard generated by government interventions. The solvency of more fragile borrowers will have to be scrutinised in the context of an economic slowdown.
Besides, Chinese stock markets, which had risen by more than 110% from November 2014 to a peak in June 2015, have tumbled more than 37% since then. Admittedly this market correction can be seen as a healthy development after such a sharp rally disconnected from corporates' fundamentals, but volatility and equity price deflation pose risks: the heavy use of margin finance (investors borrow money to buy shares) could lead to a downward spiral, real activity could be affected by this downturn and there could be an impact on domestic and international confidence in the cabinet's reform agenda if the market doesn't stabilize.

Persistent shortcomings in terms of governance

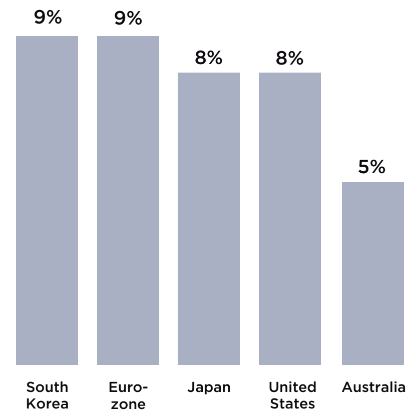
Whilst reaffirming the supremacy of the Chinese Communist Party (CCP), the annual central committee session in October 2014 concluded with decisions relating to an improvement in the state of law. However, the national security reform project has caused concern among some NGOs and foreign investors. Despite a seamless transition from the previous administration, President Xi Jinping wields unprecedented authority over the CCP, particularly following the anti-corruption campaign which targeted the highest-ranking party dignitaries. However, the Xi Jinping – Li Keqiang administration is facing both social and ethnic unrest. The country has seen an increasing level of worker activism which caused the authorities to publish a guide on the development of "harmonious work relations". Furthermore, pro-democracy demonstrations in Hong Kong last year were a challenge for the Chinese government. Finally, major shortcomings in term of governance persist, particularly concerning access to company balance-sheets and legal protection for creditors.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- External accounts benefitting from industrial competitiveness and diversification
- Sovereign risk contained: public debt mainly domestic and denominated in local currency
- Gradual move up-market
- Infrastructure development

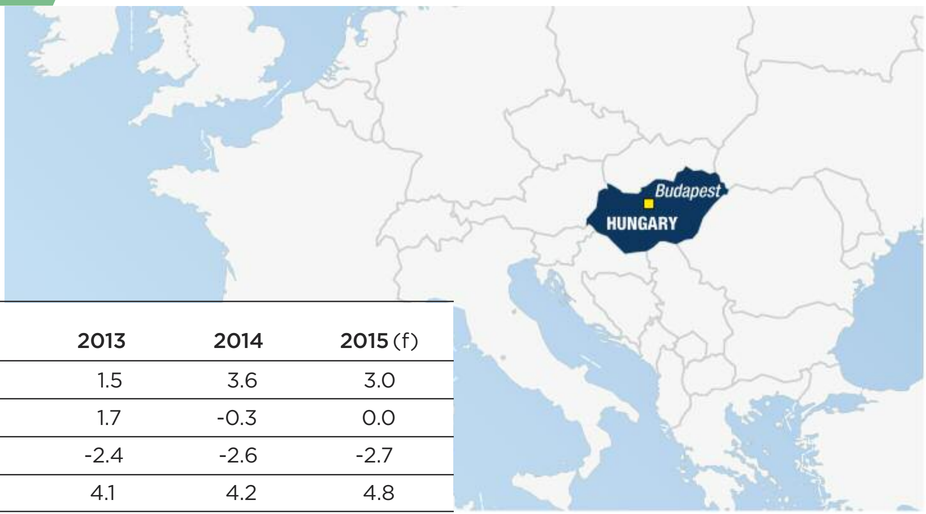
Weaknesses

- High volatility in the stock market
- Social tensions linked to rising inequality
- The share of consumption in GDP remains weak: rebalancing the Chinese growth model remains a challenge in the medium term
- Aging population and gradual drying up of the pool of cheap and abundant labour
- Overcapacities in certain industries and high debt level of corporates
- Chinese banks weak, considering the credit dynamism and uncertainties over the level of non-performing loans
- Environmental problems

HUNGARY

COFACE ASSESSMENTS

B	Country risk
A2	Business climate
MODERATE RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	-1.5	1.5	3.6	3.0
Inflation (yearly average) (%)	5.7	1.7	-0.3	0.0
Budget balance (% GDP)	-2.3	-2.4	-2.6	-2.7
Current account balance (% GDP)	1.9	4.1	4.2	4.8
Public debt (% GDP)	78.5	77.3	76.9	75.5

(f): forecast

RISK ASSESSMENT

Economic activity sustained by domestic and European demand

After accelerating strongly in 2014, growth is expected to slow slightly in 2015 and be closer to its potential. In 2015, the major growth contributor will be household consumption. Employment will continue to grow, thanks in particular to the dynamism of public works. Wages will keep increasing more rapidly than prices which will be moderated by hydrocarbons price fall, boosting purchasing power. Investment is temporarily favoured by the accelerated use of European structural funds under the 2007-2013 programme, as the final date for its use approaches (30 June 2015), as well as by the granting by the Central Bank of subsidised loans to SMEs. Because of Hungarian industry's integration in the production chain and the recovery of European demand, exports will still be dynamic, but as imports will be sustained by domestic demand and the high import-intensity of exports, trade's contribution to growth will be positive but limited.

Slow improvement in the public accounts but debt remains huge

The public accounts deficit is expected to remain similar to the 2014 deficit, slightly below 3%. But the accumulation of previous budget deficits has led to significant debt (77% of GDP in 2014). The slow improvement is expected to continue in 2015, thanks in particular to the control of spending now that the elections are over.

Trade surplus, weak FDIs and sizeable external debt

The current account surplus is expected to grow in 2015, thanks to the euro zone recovery (representing 57% of Hungarian exports) and weak oil prices. Thanks to machinery, automotives, consumer electronics, domestic appliances, foodstuffs and services to business and tourism, trade in goods and services has been in surplus since 2009. Together with European funding these surpluses make it possible to deal with the weakness of FDIs and deleveraging by the banks. Government interventionism is discouraging foreign investment. Certain sectors such as telecommunications, energy, banking and the media are particularly under pressure. The public authorities are taking measures (fiscal or others) to reduce profitability and encourage foreign investors to withdraw to the advantage of Hungarian public and private players. Foreign groups are not encouraged to increase their presence, even though their preferred sectors (cars and electronics) are to a large extent spared.
Meanwhile, the burden of external debt has diminished (116% at the end of 2014 against 144% of GDP in 2010), chiefly because of deleveraging by banks and businesses. The State's share (44% of the total) is stable. This movement is facilitated by the strength of the forint, which is depreciating slowly and steadily in the context of a fixed exchange system with wide fluctuation bands, against the euro. In view of the still large foreign exchange commitments of the banks and also of households, the central bank would not hesitate to increase interest rates rapidly to prevent a significant depreciation.

A weak banking sector

As a result of the financial crisis and government pressure, the share of foreign interests in the banking sector, previously largely dominant, has considerably reduced. Sector activity, which shrank sharply in 2009, is still shrinking because of deleveraging by the private sector. The quality of its assets deteriorated sharply with the forint's depreciation in 2009, which affected households heavily indebted in Swiss francs. Weak activity, poor asset quality, punitive taxation and the burden of restructuring foreign currency loans to households are leading to zero profitability. Although greatly reduced, exchange rate risk exposure remains considerable.

Prime Minister Viktor Orban's government lost his two thirds majority

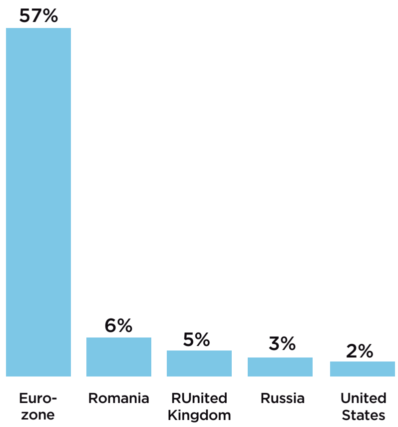
Sporadic tensions are arising with Slovakia and Rumania concerning the large Hungarian minorities there. These tensions exist also with the county's European partners on Hungary's sympathetic attitude towards Russia regarding the Ukrainian affair. European leaders have also expressed their concern about the drift towards authoritarianism since the conservative Fidesz party came to power in 2010 and, recently, about the attitude of the authorities about immigrants. Backed a two thirds majority confirmed in the April 2014 poll, Prime Minister Viktor Orban's government had no hesitation in making changes to the legal texts in a way that was unfavourable to the balance of powers and to democratic and cultural freedoms. However, he lost this two thirds majority (holding with one seat only) during the February 2015 by-election, in favour of the liberal opposition. This shows concerns of a certain part of the Hungarian electorate (internet tax plan, link between V. Orban and Moscow, corruption). Thus, the Prime Minister will no longer be able to amend the Constitution at will, although he can govern without great difficulty. By launching infringement proceedings for violating European values, Brussels has occasionally succeeded in pressing the authorities to back down regarding the most extreme amendments. Nevertheless, the business climate is still satisfactory, very similar to that of the neighbouring countries despite the State's unbridled interventionism in certain sectors of the economy.

Strengths

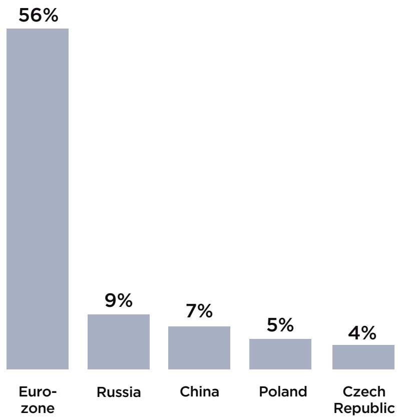
- Trade surplus
- Good infrastructures
- Diversified economy
- Skilled workforce
- Inclusion in the European production chain

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



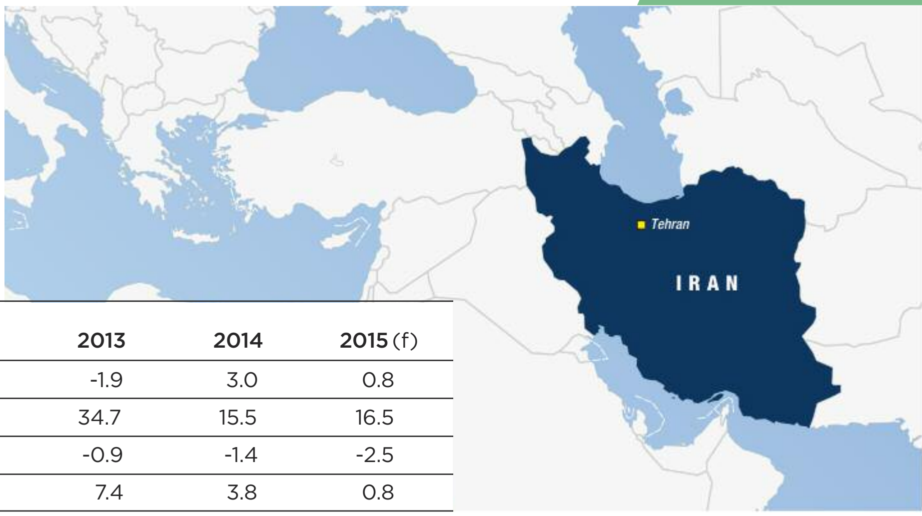
Weaknesses

- Aging population
- Little room for manoeuvre on budget
- High public and external debt
- High exposure to exchange rate risk
- Weak banking sector
- Energy dependency: 70% of needs imported
- Drift towards authoritarianism and interventionism
- Large poorly integrated Roma minority

IRAN

COFACE ASSESSMENTS

D	Country risk
C	Business climate
VERY HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	-6.6	-1.9	3.0	0.8
Inflation (yearly average) (%)	30.5	34.7	15.5	16.5
Budget balance (% GDP)*	-0.3	-0.9	-1.4	-2.5
Current account balance (% GDP)	6.3	7.4	3.8	0.8
Public debt (% GDP)	11.2	11.1	12.2	11.9

(f): forecast
* fiscal year starting on 21 March

RISK ASSESSMENT

An agreement that marks a turning point in 2015

The Vienna agreement signed on 14 July 2015 ratified the negotiation process between the Islamic Republic and the P5+1 members (the five permanent members of the Security Council plus Germany) concerning the Iranian nuclear programme. It states that the international sanctions imposed on Iran by the international community will gradually be lifted from spring 2016. While it appears that the American president Barack Obama has managed to secure enough Senate votes, the definitive implementation of the agreement remains subject to the ratification of the terms of the agreement by the Iranian Majlis (Parliament). A successful conclusion of these negotiations and the lifting of sanctions should be one of the decisive factors for the outcome of the next Iranian parliamentary elections, which will be held on 26 February 2016. If the sanctions are not lifted in 2016, the risk is that the most radical parties whom are opposed to this agreement may get a boost.

A decline in growth because of the oil countershock

The impact of the fall in oil price ended the slight economic recovery that started in 2014. Thus, the Iranian activity has severely slowed down in 2015. Hydrocarbon production did not exceed 0,4 mb/d in the first three month of 2015 and the value added of this sector has declined by 5,2% over the same period. Hydrocarbon exports, which account for 75% of Iranian exports, declined by 15% year-on-year. Although non-oil exports have risen by 10%, they still stem from related sectors (petrochemicals, plastic industry) and could therefore be affected by the downturn in the oil sector. The expected pick-up in consumption, following lower inflationnary pressures, did not materialize in the first three months of 2015. On the contrary, private consumption seems to have declined over the same period (-0,1%). Investment, which had displayed some signs of rebound in the end of 2014, declined significantly in the beginning of the year, reflecting the investors' wait-and-see stance. Increasing governement consumption and public investment should remain the main tools to support growth. The completion of the agreement between the P5+1 could also foster renewed confidence. Activity could therefore pick up in the last two quarters of 2015, nevertheless without making up for the slowdown at the beginning of the year.

Public account in deficit and current accounts on the edge

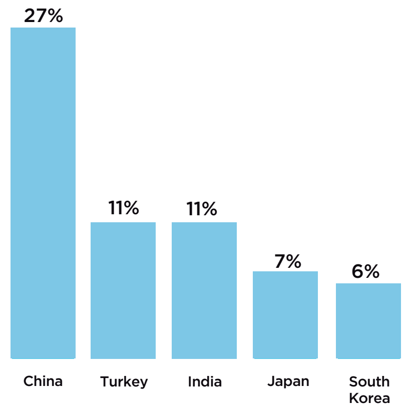
The weak imbalance in the public finances is expected to last and could widen in 2015. The contraction in fiscal revenues could continue because of lower hydrocarbon prices, which are the State's main source of finance. Effectively, the price of crude could stabilise below that which allows the Iranian budget to balance. The Horani government has already taken steps to limit the impact of this price fall by incorporating it into the 2015 budget, at the risk of introducing a policy of austerity against a background of social tensions and high unemployment. The current account balance will still post a small surplus in 2015, but this surplus is weak. Despite the sanctions, Iran's businesses benefited thanks to the depreciation of the Iranian rial, a drop in their export prices which opened up more of the Asian markets. However, the weak increase in export of hydrocarbons could adversely affect movements in the current account.

Critical business climate

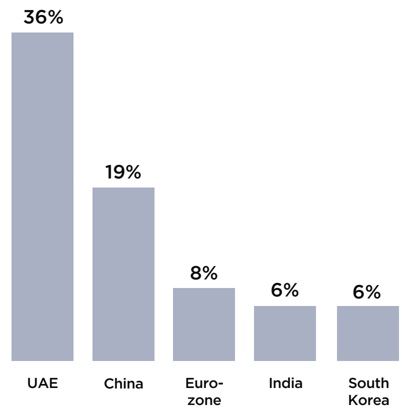
The country, which for a long time has been closed to exports, is starting a gradual opening to international actors. The authorities are preparing a number of measures with a view to increasing the country's attractiveness, in particular by creating a "one-stop-shop" that is meant to simplify administrative formalities. However, institutional shortcomings remain and the contractual framework, especially on legal issues, still hampers an improvement in the business climate.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Substantial reserves of gas and oil (second and fourth in the world respectively)
- Very low external debt
- Strategic position in the sub-region

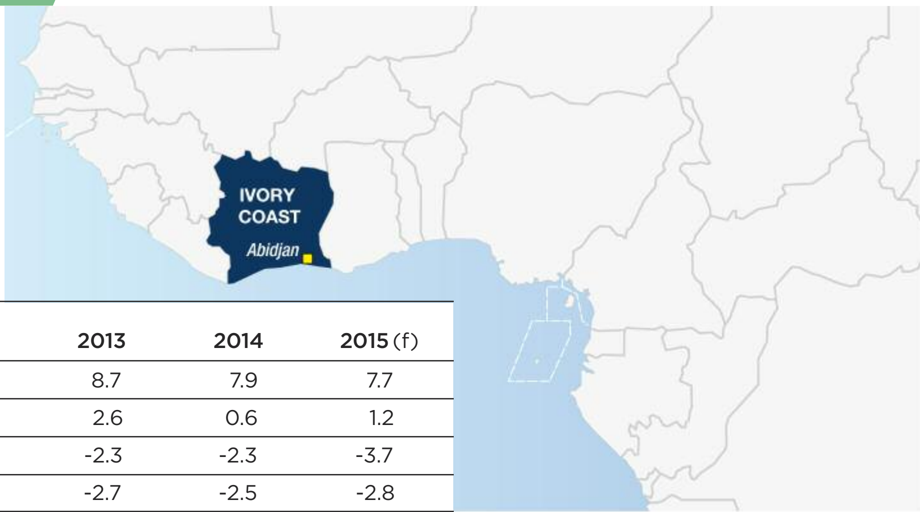
Weaknesses

- High inflation
- Social tensions
- Unfavourable business climate

IVORY COAST

COFACE ASSESSMENTS

C	Country risk
C	Business climate
VERY HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	10.7	8.7	7.9	7.7
Inflation (yearly average) (%)	1.3	2.6	0.6	1.2
Budget balance (% GDP)	-3.1	-2.3	-2.3	-3.7
Current account balance (% GDP)	-1.8	-2.7	-2.5	-2.8
Public debt (% GDP)	44.5	43.7	46.6	45.6

(f): forecast

RISK ASSESSMENT

Growth driven by the implementation of structural investment projects and the dynamism of agriculture and services

Growth remains vigorous, sustained by the dynamism of the building, public works and energy sectors and by the good performance of agriculture and services. Construction and energy are benefitting from public and private investments made under the National Development Plan while cash crops, first among them cocoa of which the country is the world's leading producer, are taking advantage of the measures aimed at increasing productivity. The cocoa industry also benefits from the current high level of world prices. Nevertheless, the sector is concerned about the risks of the Ebola epidemic spreading to the main cocoa production area from neighbouring Guinea and Liberia. The mining sector, especially gold, is expected to expand, thanks to the discovery of new deposits and the adoption of a new mining code. The exhaustion of certain oil wells is currently affecting production but the sector's regulatory framework has also been amended and prospecting for oil is expected to intensify. Growth is also expected to benefit from the improvement of the business climate and the implementation of the government strategy of developing SMEs/SMIs.
Growth, however, is still very exposed to fluctuations in raw material prices and is still hampered by aging infrastructures. Much remains to be done to make up for the loss resulting from a long period of economic stagnation and political crisis (with the average growth being 1.2% per year between 2005 and 2011, with a contraction in activity of 4.1% in 2011). However, the recovery in economic activity since the end of the post-electoral crisis has helped to raise the population's standard of living (+22% of GDP per capita, in purchasing power parity terms between 2011 and 2015), thus enabling household consumption to grow. Under the reform of the cocoa/coffee network, planters benefit from the increase of production prices. Wages have been raised in the public sector, access to public services has improved and universal health insurance should be introduced by the end of 2015.

A widening of the current account deficit and sound management of public finances

Strong domestic demand should continue to be accompanied by a rise in goods imports (particularly equipment) and services (freight, insurance), resulting in a widening of the current account deficit in 2015. This deficit should be mainly financed by direct foreign investment, up sharply since 2011.

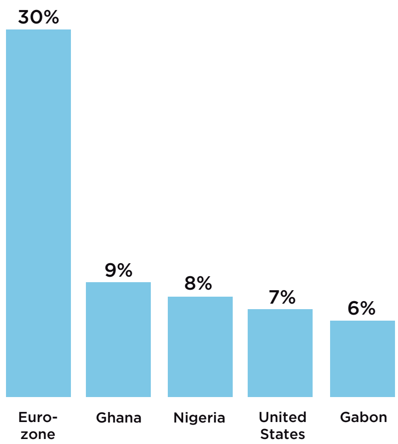
Budget implementation is satisfactory and the performance criteria used in the agreement under the Extended Credit Facility concluded with the IMF have been complied with. The very successful issue of eurobonds for $750 million in July 2014 and $1 billion in February 2015, that took place scarcely three years after the country defaulted on some coupons of its 2010 eurobond, has contributed to financing the budget and the increase in the average maturity of the public debt. The effect of the latter has been greatly reduced since the major relief that the country benefited from in 2012 under HIPC/MDRI initiatives (public debt was halved between 2011 and 2015 following the partial cancellations of 2011). The risk of over-indebtedness is now considered moderate but the authorities will have to see that the funds, which could again be raised on the capital markets, continue to be invested in growth promoting projects.

The Head of State well placed to win the 2015 presidential election

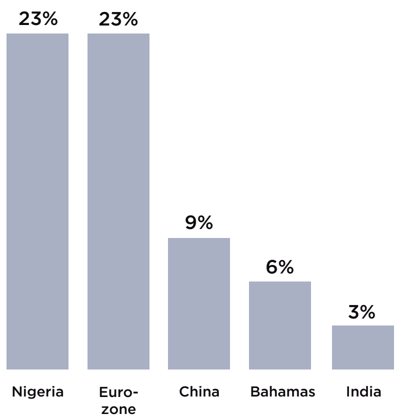
The political situation has gradually returned to normal since the 2010-2011 post-electoral crisis, thanks to the holding of legislative and local elections, and the insecurity has noticeably reduced, encouraging the return of investors. However, progress on national reconciliation is still slow and the main opposition party, which is divided on its participation in the electoral process and sees itself as subject to legal persecution, has not yet regained its place on the political stage. Alassane Ouattara intends to stand again in the October 2015 presidential election and has a good chance of being re-elected, benefitting from his good management of the economy, the restoration of security and the support for his candidacy in September 2014 of the leader of the other major party of the ruling coalition. However, renewed violence during this election and the legislative elections which are to follow in 2016 cannot be wholly ruled out.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



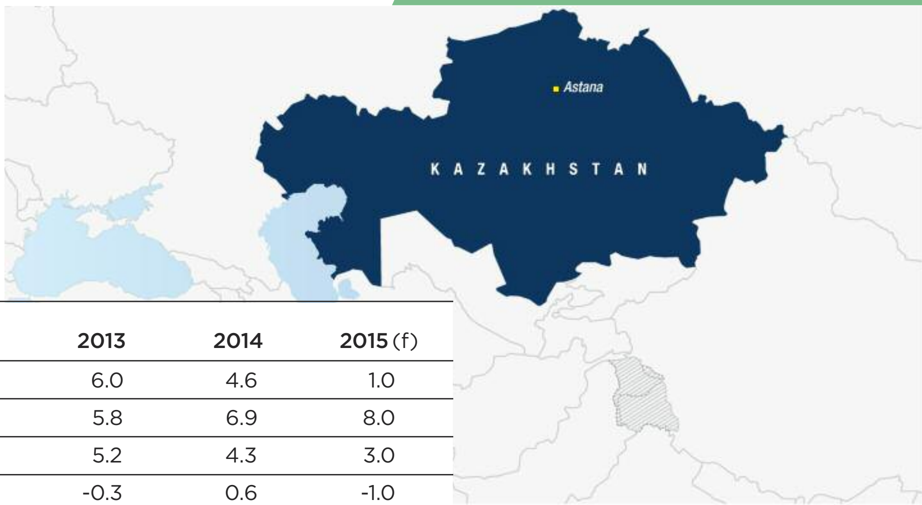
Strengths

- Agricultural wealth (world's leading cocoa producer) and diversification into hydrocarbons and ores
- Port, road and energy infrastructures undergoing modernisation
- Further debt cancellation obtained in 2012 under the HIPC and MDRI initiatives

Weaknesses

- Economy dependent on meteorological conditions and movements in the prices of cocoa and oil, the country's main export products
- Gaps to be filled in the management of public finances, infrastructures and governance, despite progress recorded in recent years
- Renewed violence still possible around next elections

KAZAKHSTAN



COFACE ASSESSMENTS

B	Country risk
B	Business climate
FAIRLY HIGH RISK	Medium term

MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	5.0	6.0	4.6	1.0
Inflation (yearly average) (%)	5.1	5.8	6.9	8.0
Budget balance (% GDP)*	4.5	5.2	4.3	3.0
Current account balance (% GDP)	0.4	-0.3	0.6	-1.0
Public debt (% GDP)	12.4	12.9	13.7	14.5

(f): forecast
* including Oil Fund transfers (NFRK)

RISK ASSESSMENT

Growth slowed by the slump in oil price

Growth is slowing significantly in 2015. Industrial output, dominated by the oil sector, makes little progress. The start of operations at the offshore Kashagan oilfield is still suffering major delays and is unlikely to happen before 2016.
Major investment projects, in particular work on the international exhibition EXPO-2017, will sustain activity in construction and services. In contrast, consumption, the main growth driver, will be dampened by credit constraints, a more restrictive fiscal policy and also the acceleration of inflation.
Exports will be hit by the downturn in growth in China, the recession in Russia and above all by the low price of oil.
Inflation, fuelled by the impact of the tenge devaluation on the cost of imports, could reach the upper limit of target range of 6-8% fixed by the central bank (NBK).
After a devaluation of almost 20% in February 2014, the tenge exchange rate decreased further (by more than 20%) in August 2015, after the decision of the NBK to introduce a free floating exchange rate system. A slight increase in the oil price may allow a stabilisation of the currency at the end of the year. However, the exchange rate of the Kazakhstan currency, closely linked to the Russian rubble (first export market, excluding hydrocarbon) is expected to remain volatile.
The situation of the banking sector, already weak, may deteriorate further due to the consequences of the depreciation on the foreign currency debt of the banking sector, and also to the worsening of the quality of the portfolio in a deteriorating economic environment.

Erosion of the budget surplus and worsening current account balance

Fiscal revenues, over half of which derive from the oil sector, will be hit by the weak gains in hydrocarbon output, which cannot be fully offset by the increased export taxes decided in April 2014. Non-oil tax revenues are also expected to be hit by the weakness of growth. The government has announced some measures to cut spending, especially the postponement in wage increase, initially planned for 2015 and the freeze of some non-priority investments projects. Nevertheless, infrastructure projects will certainly be maintained and the government will keep on sustaining public indebted companies (especially the energy company KazMunaiGaz). Oil funds will be used to cover these expenses, thus limiting their fiscal impact and allowing to deliver a surplus which is, though, on a falling trend.

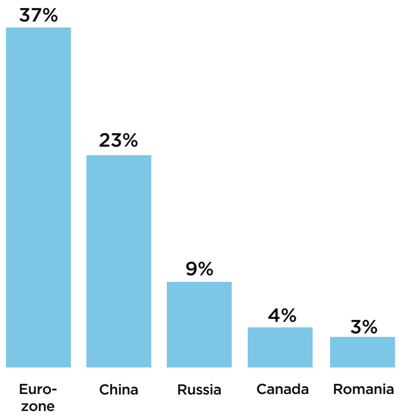
The current account balance will continue to contract in 2015, because of the weak oil exports (75% of total), associated with production difficulties combined with an adverse evolution of the price. Demand, too, is unlikely to be buoyant on Kazakhstan's main export markets: the EU, China and Russia.
Imports will remain high due to the need for equipment as well as food and energy (fuel, given the weak local refining capacity). Profit repatriation by the oil companies will accentuate the scale of the deficit. The country remains exposed to external shocks, but its foreign exchange reserves (4 months of imports, excluding gold) and the NFRK ensure it has enough leeway in liquidity terms. Moreover, the country continues to benefit from international funding (EBRD, ADB, World Bank) and its underground riches remain attractive to foreign investors.

The question of President Nazarbayev's succession remains a source of uncertainty

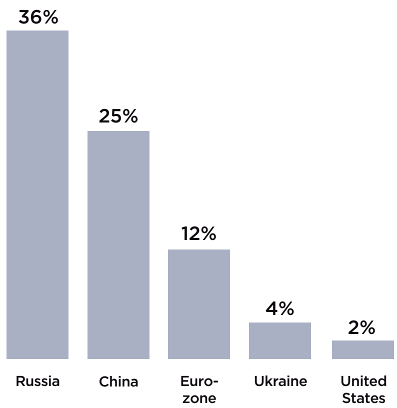
The country has been led since 1991 by Nursulatan Nazarbayev and his party (Nur Otan), which holds a big majority of parliamentary seats. N. Nazarbayev was re-elected for a fifth term with 98% of the votes in the early election in April 2015 (formerly scheduled for 2016). Considering his age (74 years), the country's political stability remains a source of uncertainty due to the risk of conflicts which could break out between the different government factions, if his succession had to be suddenly brought forward.
Popular discontent is growing in the face of wage levels, rising prices and corruption. Organised mass movements are, however, still unlikely given the weakness of the opposition. Meanwhile, the security measures, tightened in response to fears of terrorism and religious extremism in the context of the withdrawal of UN forces from Afghanistan, are limiting the opportunities for large-scale protests.
The business climate remains strongly hampered by State interference in the economy, inefficient institutions and corruption.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Expected increase in oil exports thanks to exploitation of Kashagan oil field
- Plentiful foreign direct investments
- Strategic position between Asia and Europe

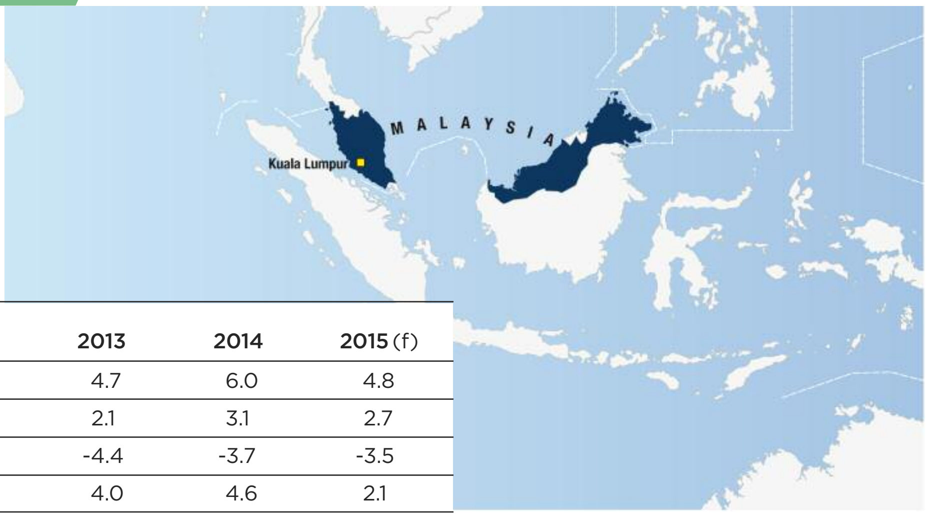
Weaknesses

- Economic dependence on raw materials (oil, gas, uranium, iron)
- High external debt
- Weak banking system
- Persistent shortcomings in legal and institutional framework
- Risk of political instability if succession to President Nazarbayev is rushed

MALAYSIA

COFACE ASSESSMENTS

A2	Country risk
A3	Business climate
LOW RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	5.6	4.7	6.0	4.8
Inflation (yearly average) (%)	1.7	2.1	3.1	2.7
Budget balance (% GDP)*	-3.9	-4.4	-3.7	-3.5
Current account balance (% GDP)	5.8	4.0	4.6	2.1
Public debt (% GDP)	56.2	57.7	57.0	56.7

(f): forecast
* Fiscal year 1 July to 30 June

RISK ASSESSMENT

Slower growth in 2015

After having picked up in 2014, growth should decrease in 2015. The low price of commodities should continue to penalise exports of crude oil, petroleum products and liquefied natural gas. Nevertheless, the country also exports high value added manufactured products but electronic exports are impacted by the economic slowdown in China, one of Malaysia's largest partner. However, demand from the US should remain dynamic.

Furthermore, domestic demand should remain vigorous despite high household debt (87% of GDP, which is the highest level in Asia). The government's budget consolidation efforts will affect household purchasing power. Oil subsidies were reduced on several occasions in 2014, the price of petrol has risen to close to 10% and the government introduced VAT at a rate of 6% in April 2015. However, in order to reduce the effect of these measures on the poorest households, the government has also decided to strengthen the social security system and inflation should remain contained due to the moderation of food prices and the deceleration in lending, particularly for properties.

Moreover, the effects of the impetus of the economic transformation programme will continue to be positive for public and private investment due notably to the construction of a rapid public transport network in Kuala Lumpur for a total of USD 11 billion (4% of GDP). Furthermore, the Malaysian and Singaporean authorities have decided to build a high-speed rail link connecting Singapore to Kuala Lumpur. The work is estimated at USD 12 bn and should start during 2015.

Lastly, the sectors linked to tourism have suffered from the effects of the two Malaysian Airlines air disasters that occurred in 2014 as well as the deterioration in security in Borneo.

The budget balance is recovering, while the external position remains sound

In 2014, the budget deficit narrowed and this trend is expected to continue in 2015, as the authorities have begun a fiscal consolidation process aimed at balancing the budget by 2020. Therefore, the government introduced VAT at a rate of 6%, extended the property tax and reduced subsidies for electricity, sugar and petrol. Whereas it represented 20% of GDP in 2012, the weighting of the subsidies was reduced to 17% of GDP in the first half of 2014 and the trend should continue in 2015. The improved budget balance should enable the public debt to be reduced, which, however, will remain at a high level, above that of the Asian average. Furthermore, the current account surplus is projected to deteriorate in a context of downward commodity prices cycle and economic slowdown in China. Even if, the high level of foreign exchange reserves (close to 7 months of imports) ensures Malaysia has a good capacity to resist sudden flights of capital, the ringgit is under pressure because of the drop in oil prices and the political scandal linked to the sovereign fund 1MDB and affecting the Prime Minister. Even though the currency had been little affected in comparison to the other Asian currencies by the announcements of the American Federal Reserve during the summer of 2013, the expected tightening of US monetary policy could impact the currency in a context of global financial turmoil. Finally the banking sector remains adequately capitalised and liquid, with little foreign debt and with a low rate of non-performing loans. Nevertheless, the high level of household debt and the banks' exposure to foreign assets is a risk.

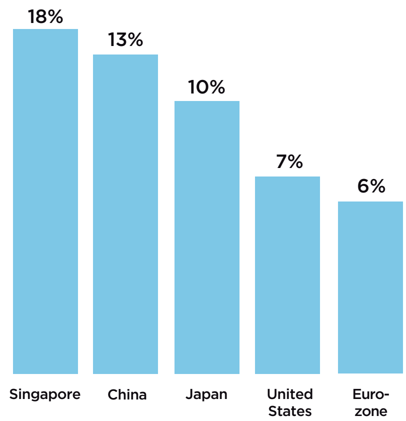
The prime minister weakened by suspected corruption

Despite the victory of the Prime Minister's party, Barisan Nasional (BN), the general elections of May 2013 confirmed a redistribution of political forces and the rise in power of the opposition initiated during the 2008 elections. The legitimacy of the Prime Minister, Najib Razak, was confirmed by his victory during the party's internal elections in October 2013 and the opposition has been weakened by an internal crisis relating to the appointment of the Head Minister of the State of Selangor and the sentencing to five years in prison of its leader, Anwar Ibrahim, for a sex scandal. Nevertheless, suspected corruption and the embezzlement of funds linked to the 1MDB public investment fund have weakened the Prime Minister since July 2015. Members of his party have called for his resignation and he has dismissed his deputy as well as the country's public prosecutor, both involved in the enquiry.

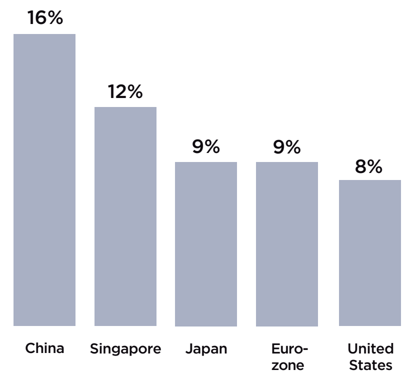
Lastly, the NB is keen to use its One Malaysia programme to end the New Economic Policy introduced in 1969 - positive discrimination measures favouring the Bumiputra (indigenous Malays) and seen, in particular, as a disincentive to foreign investment. However, community tensions remain below the surface due to religious and ethnic diversity.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

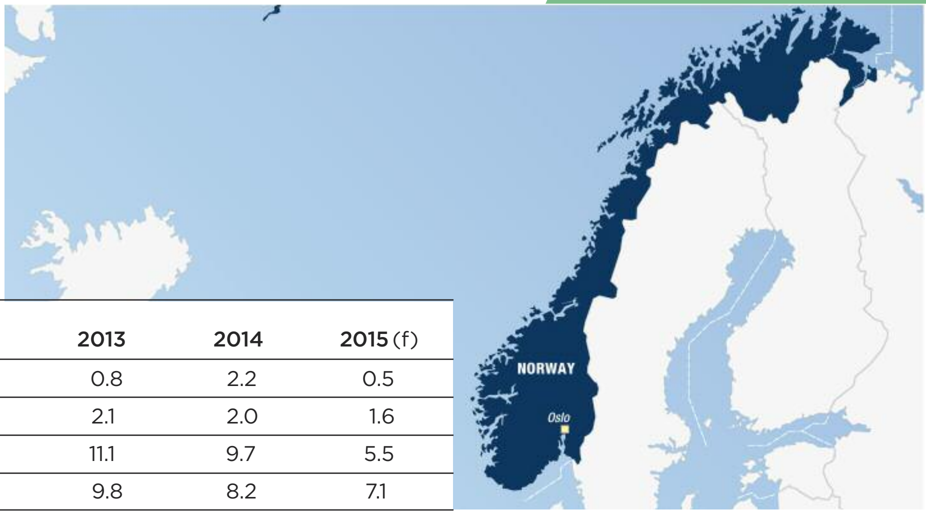
- Diversified exports
- Dynamic services sector
- Excellent education system, good infrastructures, high level of R&D
- Investment supported by development of local financial market and broader access to foreign direct investments

Weaknesses

- Economy dependent on external demand
- Budgetary revenues heavily reliant on performance of gas and oil sector
- Very high stock of bank credit to private sector
- Erosion of economy's price competitiveness linked to high labour costs
- Persistent regional disparities

COFACE ASSESSMENTS

A1	Country risk
A1	Business climate



MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	2.5	0.8	2.2	0.5
Inflation (yearly average) (%)	0.7	2.1	2.0	1.6
Budget balance (% GDP)	14.4	11.1	9.7	5.5
Current account balance (% GDP)	12.5	9.8	8.2	7.1
Public debt (% GDP)	28.9	29.0	28.5	28.2

(f): forecast

RISK ASSESSMENT

Activity is likely to slow down in 2015

Economic growth is likely to fall in 2015: low oil prices have led to a fall in tax revenue (exports) and a fall in investment (-0.3% annualised for the first quarter 2015) in all sectors of the economy. The energy sector plays a crucial role in the economy, with its output accounting for over 20% of GDP and over 25% of tax revenue. The industrial sector is also in difficulty: industrial output had fallen by an annualised 3.4% in April 2015, largely because of deterioration in the extractive industries but also in the manufacturing sector. Incidentally, the production capacity utilisation rate has crossed the 80% threshold (a sign of falling demand). Moreover, household debt is still high because of an increase linked to mortgage credit, which itself has led to a sharp increase in property prices. At the same time, the authorities are trying to control this increase in property prices (the highest in the OECD) so as to avoid the risks associated with a burst bubble.

A gradual recovery is expected in 2016, however, thanks to an increase in external demand but also to a recovery in household consumption and investment. Monetary policy may have to remain accommodating so as to continue stimulating growth. Incidentally, Norway's central bank cut its key policy rate to 1% on 18 June 2015 (at a time of limited deflationary pressure) because of low oil prices and prices in the eurozone; 2015's rate of inflation is therefore likely to be below the 2% target fixed by the authorities. In budgetary terms, public spending plans are likely to continue supporting activity - the construction of hospitals in particular. With regard to the labour market, unemployment should remain under 4%. From a sector point of view, the non-oil sector is likely to take over from the oil sector.

Lastly, the expected end of QE in the USA is a bearish risk which could generate some volatility and depreciate the Norwegian krone, which would allow American investors to have a greater presence in Norway as it would cost less to invest. Should there be an adverse external economic shock (a fall in oil prices or a further fall in European activity), the government has sufficient resources to support growth, thanks mainly to revenue from energy production which is used to finance the oil fund (the Government Pension Fund Global), 4% of which can be used in the budget. In this context, the budgetary surplus would remain very high, and public debt lower than the average level for advanced countries.

Exports will continue to suffer from low oil prices in 2015-2016

An increase in energy exports volume would not offset the fall in the price of oil. Energy exports have fallen by 3.8% since the beginning of the year (Norway is the world's 7th largest oil exporter), but an economic upturn is expected in the USA and Europe which would favour energy exports (oil and gas account for 50% of Norway's exports). This would not offset the low price of oil, however, as it is only likely to increase gradually over the next few years.

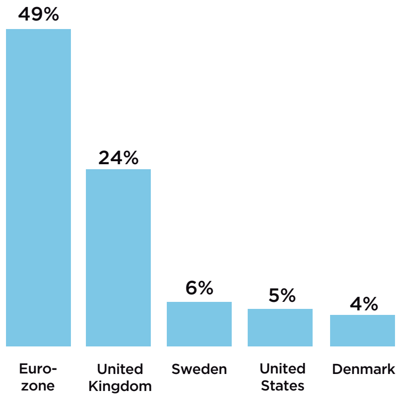
Other positive factors are likely to favour exports and ease the bearish pressure on the current account surplus in 2016. The fact that the markets are anticipating an end to QE in the USA during the second half of 2015 is likely to help limit the deterioration in the current account balance thanks to the depreciation of the krone; this would make the country's extractive industries competitive again.

The populist parties are making majority decisions a tense affair

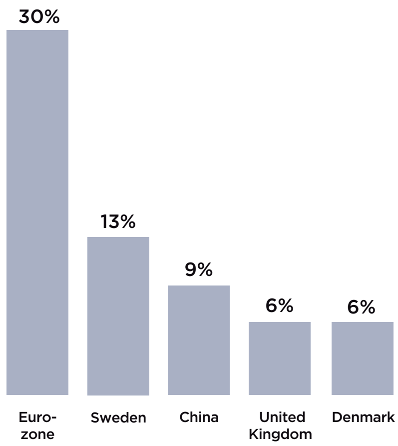
The conservatives won the September 2013 elections and replaced the outgoing left-wing coalition led by Labour's Jens Stoltenberg; the left had been in power since 2005. The new Prime Minister, Erna Solberg, presented her coalition government in which the populist and anti-immigration Progress Party (Fremskrittpartiet, FrP) acquired two key ministries – petroleum and energy (Tord Lien), and finance (Siv Jensen). This is an historic government for Norway and there is a major risk of the authorities being challenged. Despite these risks, the legitimacy of the new government has not yet been questioned.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Discovery of new oil deposits
- Support from the sovereign oil fund (Europe's largest fund in terms of assets)
- Norway's currency is attractive to investors
- Wide political consensus
- Solid banking system
- Tension on the employment market eased by immigration

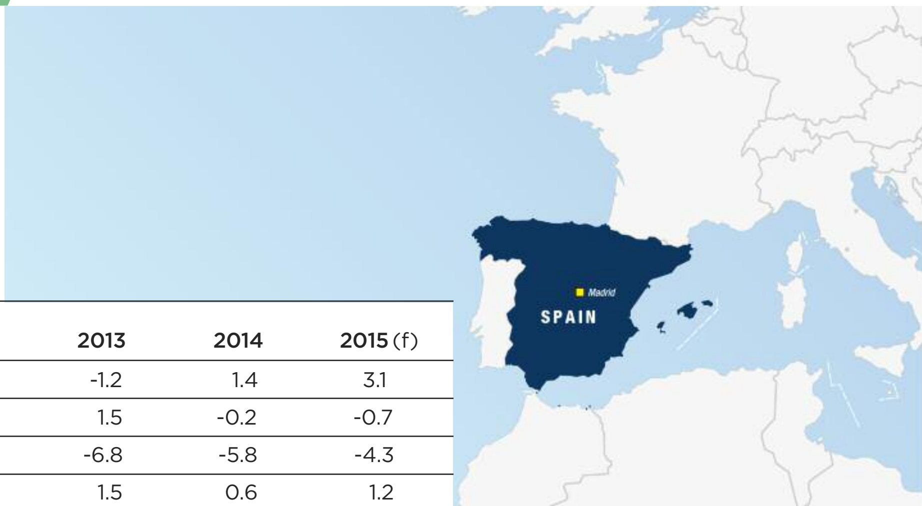
Weaknesses

- Dependence on the oil sector
- Slowdown in investment in various sectors
- Very high level of household debt
- Competitiveness eroded by high wages
- Shortage of labour in the high-value-added sectors

SPAIN

COFACE ASSESSMENTS

A4	Country risk
A1	Business climate



MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	-2.1	-1.2	1.4	3.1
Inflation (yearly average) (%)	2.4	1.5	-0.2	-0.7
Budget balance (% GDP)	-10.3	-6.8	-5.8	-4.3
Current account balance (% GDP)	-0.4	1.5	0.6	1.2
Public debt (% GDP)	84.4	92.1	97.7	99.4

(f): forecast

RISK ASSESSMENT

Dynamic recovery, now mainly driven by domestic demand

The recovery which started in the second half of 2013 is strengthening in 2015 (+1.0% in Q2 2015 qoq after 0.9% in Q1 2015). The return of confidence, linked to improved financing conditions on the markets and good export performance, as well as adjustment policies implemented by the government, created a basis for a more vigorous rebound than initially expected.

The contribution to growth of domestic demand has outstripped the contribution of external demand. Situation on the labour market is improving, the unemployment rate has been declining steadily since May 2013, although it is still at a very high level (22.5% in June 2015). The recovery is expected to continue in 2015 thanks to an expected resumption of credit, continuous improvement of the labour market and a slight rise in household purchasing power thanks to low inflation. The improved economic outlook, the healthy state of exports and the need to renew existing equipment will continue to drive productive investment. Moreover, residential investment is beginning to recover (+5.0/5.1% in Q1 and Q2 2015 yoy after +2.4% in Q4 2014) and housing prices, having reached a low in the beginning of 2014, have begun to rise slightly.

The external accounts have posted a surplus since 2013 thanks to lower labour costs and falling imports triggered by the contraction in domestic demand. This surplus decreased in 2014 because of the recovery in imports but should rise again in 2015. Sales abroad are expected to continue to benefit from competitiveness gains and slightly stronger demand from the country's main export markets. Spain should also benefit from the euro's depreciation. The specialisation in production segments with low or medium technological content has not been detrimental to the country, which has benefited from diversifying its exports to the emerging economies. The euro zone is still Spain's top market, but its share of exports has fallen (50% in 2014 compared with 60% in 2004). Export momentum was sustained in sectors such as capital goods, automotive, agrifood and chemicals.

Overall, there is a gradual reduction of imbalances, although the private sector remains highly indebted (163% of GDP in 2014), which limits the scale of the recovery.

Businesses in better health, a restructured banking sector but public debt continues to rise

Exporting companies, in particular the large industrial groups which have benefited most from productivity gains, have been able to hold their own during the crisis, but those oriented towards the domestic market are just emerging from the crisis. Gross margins started to recover as of 2008 and companies have been deleveraging since end 2010, although the current spell of deflation is tending to slow the process. Finally the number of bankruptcies has been falling since late 2013 (the highest number of insolvencies is still recorded in the construction and retail sectors).

The steps foreseen under the bank restructuring programme implemented from mid-2012 in exchange for European financial assistance have been successfully completed. The financial assistance programme expired, as planned, at the end of 2013. It was instrumental in getting an improvement of the situation of the financial sector badly hit by the explosion of the property bubble in summer 2007 and then by the recession back on its feet. The banking sector is now better capitalised, with greater liquidity and better provisions for losses. Its financing conditions on the markets have improved considerably, The ECB's stress tests carried out in autumn 2014 revealed no weaknesses regarding the sector's capital adequacy. However, the proportion of non-performing loans, although declining, remains high.

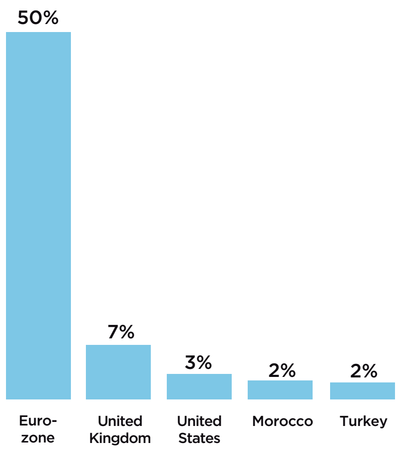
Sovereign risk improved, thanks to the sharp fall in the cost of borrowing on the bond markets (the 10 year bond interest rate is 2% in July 2015) and the fiscal adjustment undertaken (the cyclically adjusted budget balance rose by 6.8 point between 2009 et 2014 to reach -2.3% of potential GDP in 2014). Nonetheless, the public debt is still rising (expected to reach almost 100% of GDP in 2015), making the country still vulnerable to a change of mood on the markets.

Difficulties piling up on the political scene

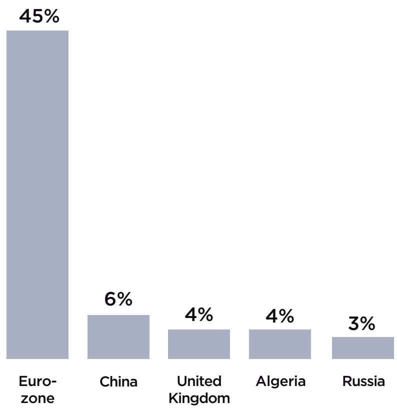
The disclosure, in October 2014, of another corruption scandal is yet again undermining the credibility of the traditional political class. This scandal should penalize the ruling centre-right party (PP), as well as the socialist opposition (PSOE). With legislative elections coming up (December 2015), the radical left-wing party, Podemos, born from the indignados movement, is capitalising on social discontent and this pernicious situation. In May 2015, Podemos won Barcelona municipal elections. However, the party, which ranked first in the polls until March 2015, is seeing his popularity sliding and doesn't compete on an equal footing with traditional parties (PSOE and Popular Party) anymore. The centrist party Ciudadanos appears to be close behind. This is reinforcing the country political fragmentation and could lead to more political instability in the future, complicating the process of forming a solid majority. Meanwhile, the government needs to deal with the growing pressure from Catalan separatists, who are feeling stronger after their symbolic victory in the referendum on 9 November 2014.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Renewed competitiveness and stronger exporting sectors
- Improved financial situation of businesses
- Reform efforts
- High-quality infrastructures
- Significant tourism potential

Weaknesses

- Convalescing construction and banking sectors
- High private debt
- Increasing public debt
- Very high unemployment, particularly among young people

COFACE ASSESSMENTS

B	Country risk
A4	Business climate
MODERATE RISK	Medium term

MAIN ECONOMIC INDICATORS	2012	2013	2014	2015 (f)
GDP growth (%)	2.1	4.2	2.9	3.1
Inflation (yearly average) (%)	8.9	7.5	9.0	7.5
Budget balance (% GDP)	-2.1	-1.2	-1.3	-1.6
Current account balance (% GDP)	-6.2	-7.9	-5.8	-5.0
Public debt (% GDP)	36.2	36.3	34.9	33.5

(f): forecast

RISK ASSESSMENT

Growth subject to political uncertainty and tensions, as well as continuing depreciation of the lira

In 2014, household consumption, the main engine of activity (70% of GDP) suffered from high inflation, driven by the depreciation of the Turkish lira, and high interest rates. In this context, unemployment reached a high level, close to 10% of the active population. The Turkish lira, alike other emerging market currencies, depreciated by more than 28% against the dollar between May 2013 and the end of 2014. Admittedly, this depreciation pushed up inflation, but it also benefitted the exporting sectors.

In 2015, growth will remain moderated. Indeed, investors and consumers are facing several concerns. First, parliamentary elections in June and the run-up to the early ones in November have not dispelled political uncertainty. Second, internal (armed conflict with Kurdish fighters from the PKK in the south-east) and external geopolitical tensions (in the South with Syria and Iraq, in the North with Russia and Ukraine) will persist, affecting exports to these important markets for Turkey. Then, the activity could be penalized by the continuing depreciation of the lira (26% from January 1st to August 24th), fed by this uncertainty and tensions, but also by the general distrust of emerging markets in the slowing China context. Consumers and investors' confidence is highly sensitive to currency fluctuation.

Soundness of public finances but vulnerable external accounts

Management of the public finances remains conservative, with a primary balance (excluding interest payments on debt) in surplus. The low public deficit is expected to rise slightly in 2015 even though the prospect of elections did not cause a significant fiscal easing. The weight of public debt is not a cause for concern. It continues to fall and should not be compromised by the budget deficit, which is lower than anticipated by the government.

Despite a recent improvement, the current account deficit remains high. The trade deficit has decreased due to lower prices of energy and raw materials imports, a large part of the deficit, even though the lira depreciation reduces the benefit. Moreover, the financing of the economy heavily depends on foreign capital. The currency's volatility imposes a big risk on Turkish businesses, which are heavily indebted in foreign currencies and import large amounts of intermediate products and components. Their results and capacity to roll over their debt could suffer. Finally, foreign exchange reserves, despite their comfortable level (slightly above 5 months of imports), may not be sufficient to face a sudden capital withdrawal and short-term commitments.

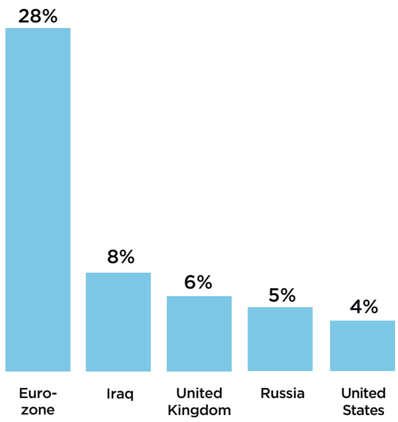
A tense local and regional political context

The former Prime Minister, Mr Erdogan, was elected President by direct universal suffrage in August 2014. However, his Islamist-conservative party (AKP - Justice and Development Party) lost the absolute majority at the June 2015 parliamentary elections, despite remaining the first political party. This new political configuration gives evidence of certain lassitude and concern of the electorate facing authoritarian governing, economic slowdown and blurred policy with ISIS. In early July 2015, President Erdogan asked his Prime Minister Ahmet Davutoglu to form a government with a parliamentary majority within the next 45 days. Following the failure of the negotiations the president called for snap elections on November 1st. Uncertainty related to the outcome of these elections will maintain anxiety.

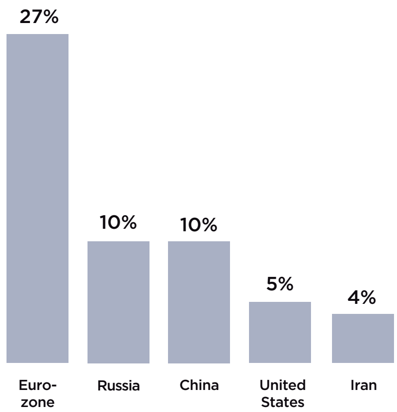
In the months prior to the June elections, Mr Erdogan had multiplied his goodwill gestures towards the Kurdish electorate, sketching reconciliation with the PKK, in order to gain the support of the BDP, the Kurdish party, in the future parliament. In July talks ceased and the government resumed its strikes against PKK bases in the Iraqi Kurdistan and arrested hundreds of people. The resumption of hostilities, with many casualties on both sides, will result in a vote either sanctioning the about-face of the AKP or favouring of the AKP out of fear. Turkish politics are complicated by the Kurdish support to Western powers in their fight against ISIS, in which Turkey is also committed. However, Ankara fears that its alliance with the Kurdistan Regional Government (KRG) in the northern third of Iraq will fuel the demands for independence from a part of the local Kurdish population and eventually helps with the building of a Kurdish territory in Syria south of its border. Moreover, Turkey fears that the fight against ISIS extremists could benefit the Syrian regime it wants to expel. The country also has to find solutions for 1.4 million refugees from Syria and Iraq, whose presence contributes to the instability of the Turkish-Syrian border.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Public finances under control
- Resilient banking sector
- Demographic vitality and skilled labour force
- Pivotal regional position which increases the attractiveness of the Turkish market

Weaknesses

- Insufficient domestic savings, substantial current account deficit and heavy dependence on foreign capital
- Rising corporate foreign debt increases exposure to exchange rate risk
- The Kurdish question remains a source of social and political instability
- Geographic stability tested by the Syrian and Iraqi conflicts

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