

PRESS RELEASE

Coface COUNTRY RISKS:

- **United States placed on negative watch list, together with Latvia and Estonia**
- **Thailand and Iran downgraded**

Paris, 10 April 2007

Coface has today published changes to its country @ratings further to its report published after the annual “country risk” conference held on January 23.

Current weak points - decreased dynamism in the United States, stock-market tensions and overheating in certain emerging countries - represent significant risks, and have led Coface to modify several of its country ratings. The United States, Estonia and Latvia have been placed on negative watch list; Thailand and Iran have been downgraded. Furthermore, Georgia has been upgraded.

	COUNTRY	Current rating	Revision	
Negative change	United States	A1	Negative watch list	A1↓
	Estonia	A2	Negative watch list	A2↓
	Latvia	A3	Negative watch list	A3↓
	Thailand	A2 negative watchlist	Downgrade	A3
	Iran	B	Downgrade	C
Positive change	Georgia	D	Upgrade	C

United States on negative watch list

Coface has decided to place the United States’ A1 rating on negative watch list in light of several issues that are cause for concern.

- Signs of a slowdown in the American economy are multiplying (with growth of 3.3% in 2006 and 2.4% forecast for 2007).
- The difficulties seen in the residential real-estate market could spread to the economy as a whole and affect household consumption.
- More difficult access to credit for the most vulnerable companies could lead to a rise in payment defaults and bankruptcies.

Sylvia Greisman, Coface’s chief economist, warns that now, “*even with a hypothesis showing a gentle slowdown, Coface is forecasting a 5% increase in payment incidents*”.

Sectoral trends confirm these concerns. Coface considers that risk levels in the automotive, mass retail, pharmaceuticals and construction sectors will remain high.

In the construction sector, a decline in sales, together with an erosion of prices, has strengthened distrust towards institutions specialising in high-risk credit. Reimbursement difficulties encountered by certain households presenting a high level of risk (i.e. sub-prime) could, in the event of mortgages being re-possessed, result in a rise in the amount of unsold housing units, and also have a negative impact on prices.

Coface also draws attention to the weaknesses of two other sectors: the chemical and paper sectors.

Overheating in the Balkan states: Latvia (A2) and Estonia (A3) on negative watch list

Following the downgrading of Hungary, the central and eastern European zone still carries significant short-term risk. **Latvia and Estonia** are showing clear signs of overheating, which is linked to a major rise in credit. Growth rates reached record levels in these countries last year (+12% and +11.4% respectively). At the same time, imbalances have been exacerbated, making these economies more vulnerable to a currency crisis and/or a marked slowdown in economic activity. In Latvia (where there are now rumours of devaluation), the current account deficit has consequently reached 20% of GDP, whilst Estonia is showing a gap of 14% with regard to its GDP. Furthermore, companies in the two countries are showing high levels of foreign currency debt.

Coface, however, has made no change to the **Lithuania** rating, as it seems to be better equipped than its neighbours to withstand a mood of mistrust, which could spread across the whole of the Baltic states.

Conversely, the **Georgia** rating (with a higher level of risk) has been upgraded from D to C as a result of continuing vigorous growth (it again reached 9% in 2006 and should exceed 7% in 2007) and its reduced level of dependence on Russia. From a business environment perspective, Georgia has shown the biggest improvement out of all the emerging countries, according to the World Bank, although corruption remains prevalent.

Thailand and Iran downgraded

The **Thailand** rating has been downgraded from A2 negative watch list to A3 in light of the economic situation and the political climate, which has significantly deteriorated and is affecting the business environment. Domestic demand saw a significant slowdown at the end of 2006 and the growth forecast for 2007 has been revised downwards (4% versus 5% in 2006). This deterioration in the political climate comes amidst a loss of competitiveness in the Thai export sector, as a result of a rise in the Baht and Chinese competition. Electronics exports, in particular, could suffer from a slowdown in American demand. In terms of payment behaviour, Coface has not as yet observed any deterioration, but the current climate is likely to have a weakening impact on companies.

The **Iran** rating has been downgraded from B to C. The radically expansionist budgetary policy, in addition to a probable further slide in public spending in 2007, should lead to the appearance of a budgetary deficit. Activity has been boosted by public spending, which is underpinning household consumption but is combined with a high level of inflation (17%). Tension with the international community concerning the nuclear issue and the restrictions imposed by the UN in December 2006 are negatively impacting the business environment and discouraging investments. Furthermore, the increasing caution shown by the foreign banks and the lack of domestic financing are likely to affect company payment behaviour.

Country rating methodology

The Country @rating assigned by Coface reflects the average level of **short-term** non-payment risk associated with companies in a particular country. It reflects the extent to which a country's economic, financial, and political outlook influences financial commitments of local companies.

Ratings are based on twofold expertise developed by Coface :

- macroeconomic expertise in assessing country risk based on a battery of macroeconomic financial and political indicators
- microeconomic expertise that draws on Coface databases covering 44 million companies worldwide and 50 years experience with payment in trade flows it guarantees.

7 families of risk are combined in order to determine an overall rating for each of the 154 countries monitored. Coface ranks country ratings on seven risk levels, A1, A2, A3, A4, B, C and D, in the order of increasing risk. The seven risk families are:

- Growth vulnerability
- Foreign currency liquidity crisis
- External over indebtedness
- Sovereign financial vulnerability
- Banking sector's fragilities
- Geopolitical and Governance vulnerabilities
- Company payment behaviour.

Specific information on each country is available at www.cofacerating.com

About Coface

Coface, rated AA+ by Fitch Ratings, AA by S&P and Aa3 by Moody's, is a subsidiary of Natixis whose share capital (Tier 1) was 11.2 billion euros end 2006 after application of CRD/Basel II norms. Coface's mission is to facilitate global business-to-business trade by offering its clients four product lines to fully or partly outsource trade relationship management and to finance and protect their receivables: credit insurance, company information and ratings, receivables management and factoring. Coface also offers, in France, management of government export guarantees. Coface operates a quality local service for its 85,000 clients thanks to its 5,100 staff in 60 countries where Coface has a direct presence. www.coface.com

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