Autumn 08
no.4 The world economic situation

After three major shocks, in the second half of 2008 the world economy is slowing

Spotlight

On Country Risk

Special Report

Emerging Economies

Vulnerability to the global slowdown

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Economic Outlook

EULER HERMES

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Economic Outlook

no.4

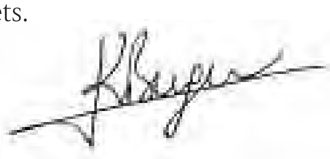
AUTUMN 2008

Euler Hermes Economic Outlook is issued quarterly by the economists of the different companies in the group. ▣ **Head of Research:** Karine Berger • **Economic Analysis Manager:** Maxime Lemerle •**Economic Researcher:** Marie-Christine Schmitt • Roméo Grill • Dan North • **Commodities:** Laurent Bonhoure, Nicolas Lioret, Antoine de Noray • **Country Risk:** David Atkinson,Andrew Atkinson, Manfred Stamer • **Graphic Design:** Claire Mabille • **Production editors:** Martine Benhadj, Anne-Marie Bégoc, Valérie Bissoo, Monique Lefèvre• **Administration and documentation:** Anne-Marie Bégoc • **Translation:** Charles Prager• **For further information, contact:** Support Direction des Etudes 1, rue Euler 75008 Paris – Tel : +33 (0)1 40 70 53 77 ► Euler Hermes is a limited company with a Directoire and Supervisory Board, with a capital of 14,416,804.16 euros • **Photoengraving**: Evreux Compo, Evreux, France – Permit September 2008 ; ISSN 1 162 – 2 881 ▣ **Publication Director:** Karine Berger ▣ *September 18th, 2008*

Editorial

2008 – the year of living dangerously

"With the end of summer 2008, storms are battering world stock markets like the hurricanes lashing the coasts of America. After the US Treasury rescue of Fanny Mae and Freddie Mac, and especially after the grant of Chapter 11 protection to investment bank Lehman Brothers – founded 160 years ago – all the facts that seemed to slightly ease concerns over the summer are now forgotten, and 2008 is now well and truly the year of living dangerously on the financial and economic front. Admittedly, commodity prices, and in particular oil prices, have started to ease, but, for the moment, they continue to fluctuate around levels never seen prior to 2008. Also admittedly, the US situation has seemed more favourable, with growth of 1% in the second quarter of the year, but this upturn is explained in very large part by export price competitiveness gains related to the fall in the dollar against all other currencies. Over the whole of 2008, more than three-quarters of US growth will come from the contribution of foreign trade, and it will be impossible for the world's leading economy to repeat this performance next year. At the same time, the spreads applied on lending to businesses (i.e., the premium over government bond rates that large companies must pay in order to raise finance on the markets) have not stopped increasing, demonstrating the genuine blockage in investment finance, affecting even very large global businesses. And at the beginning of September, the bankruptcies on the part of financial institutions in the US and of major world industrial or services companies have shown, rather, that the worst is yet to come. The euro zone outlook is now a cause of increased concern following its results for the second quarter, during which overall domestic demand in the zone contracted. The European economies have thus moved into tune with the US crisis since spring, and the preliminary figures for the summer period suggest that this situation is not improving. The economic crisis will continue to spread on both sides of the Atlantic over the course of the autumn, first in the construction sector, also via the financial crisis in credit markets, which undoubtedly has yet to claim all its victims, and lastly with the crisis in consumption, durably traumatised by the explosion in prices of some weeks back. In this context, the economic policy responses planned by various OECD countries offer food for thought: it is during the autumn that most governments complete their budgets for the following year, and wherever they can – that is wherever budgetary leeway resulting from good management in previous years permits – governments have opted for recovery policies. It is noted that the United States, Spain, the United Kingdom, and undoubtedly Germany, are all ready to inject not inconsiderable sums into their economies in order to avoid recession. What do these four countries have in common? They all returned to a balanced budget in the course of the last four years. By contrast, France and Italy find themselves blocked: with their public finances mired in debt that kept rising even during the years of economic growth since 2003, both countries are bound hand and foot in the face of the economic downturn and the upheaval in the financial markets.



Revised forecasts

GDP growth 2008

	Jan	Sep	Revision
World	3.0%	2.9%	-0.1%
USA	1.5%	1.8%	0.3%
Canada	1.8%	0.7%	-1.1%
Japan	1.5%	0.9%	-0.6%
Euro zone	2.0%	1.2%	-0.7%
Germany	1.8%	1.5%	-0.3%
France	1.8%	1.0%	-0.8%
Italy	1.3%	0.2%	-1.1%
Spain	2.7%	1.4%	-1.2%
Netherlands	2.1%	2.3%	0.2%
Belgium	1.9%	1.6%	-0.3%
Austria	2.3%	2.2%	-0.1%
Finland	2.6%	2.5%	-0.1%
Greece	3.6%	3.2%	-0.4%
Ireland	2.8%	0.1%	-2.6%
Portugal	1.7%	0.8%	-0.9%
UK	1.9%	1.2%	-0.7%
Sweden	2.4%	1.1%	-1.3%
Denmark	1.7%	0.2%	-1.5%
Norway	2.7%	2.4%	-0.3%
Switzerland	2.2%	2.1%	-0.1%
Central and Eastern Europe	5.3%	5.8%	0.5%
Russia	5.8%	7.0%	1.1%
Asia (excluding Japan)	8.0%	7.6%	-0.4%
China	9.8%	9.7%	-0.1%
India	8.0%	8.0%	0.0%
Latin America	4.1%	4.3%	0.2%
Brazil	3.9%	4.8%	0.9%
Middle East and Africa	4.5%	6.1%	1.5%

Sources: National figures, Euler Hermes forecasts

World economic growth

Are we heading towards a world economic crisis?

A further stalling in the OECD countries this spring

In the fourth quarter of 2007, the large industrialised countries had already recorded a slowing in their economies, with GDP growth dropping to an annualised 1%, its lowest point for four and a half years, against an average of almost 3% since mid-2003. The first quarter of 2008 allowed only a moderate rebound, partly supported by the temporary factor of a mild winter, and failed to prevent the first OECD country officially falling into recession (i.e., two consecutive quarters of falling GDP), in this instance Denmark. The economic indicators published since the summer have more than confirmed not only the scale of the braking in world growth but also the prospects of a prolonged slowdown, at least up to 2009. The first set of bad news came in the form of the downward revisions in Q1 2008 national accounts for many countries: Canada, Japan, Germany, France, Spain, Sweden and the Netherlands. Next, the growth figures for the second quarter have on the other hand, apart from the particular case of the United States *(see page 8)* confirmed the concrete manifestation of the bearish risks identified in our previous issue of Economic Outlook: first, the spread of the housing market downturn to several countries in Europe (in particular, the United Kingdom, Spain and Ireland) and then the continuation of the banking and financial crisis, accompanied by a hardening in the credit conditions for both households and businesses, and lastly the surge in energy and food prices, hitting household purchasing power and thereby private consumption. In the end, the second quarter growth figures were a bit worse than our initial central forecasts, which already marked a clear downward revision. The euro area, hit by the poor performances of its three leading economies – Germany, France and Italy *(see page 9)* – plus Japan, which together account for roughly 30% of world GDP, posted GDP falls of respectively 0.2% and 0.6%. Meanwhile, GDP growth fell to nil in three countries (the United Kingdom, Sweden and Netherlands) and to the bare minimum of 0.1% in both Canada and Spain over the quarter. Thus, the large economies entered the second half of 2008 with a base effect for growth reduced to just 1.3% (after average growth of 2,6% over the period 2004-2007), or even only 1% if we exclude the United States, and with base effects at best just positive for Italy, Ireland and Denmark.

The threat of recession for the second half of 2008

The second half of 2008 is set to be as difficult as the first, if not even worse in the industrialised countries. In the US, Europe and Japan, recent economic indicators nearly all point to a trend of worsening activity in industry and in services in the third quarter, as well as to a worsening in the business outlook and in consumer confidence. More worrying still, advanced indicators – such as order book surveys – point to no marked rebound in the fourth quarter but rather a risk of downward adjustments in business investment and employment markets, such as the already announced drastic manpower cuts in the US and European auto industries and in the Scandinavian paper industry. The probability of some countries entering into technical recession has clearly increased – particularly for the UK, Spain and Ireland – and there remain strong concerns over the strength of domestic markets in the US and Germany. In this context, our growth forecasts have again been revised downward both for 2008 and for 2009, by an average of 0.4 points and 0.5 points respectively. The US economy, after the positive but temporary effects of budgetary measures in the second quarter, is headed for growth of 1.8% for 2008 and 1.2% in 2009, while euro zone growth should slow appreciably to 1.2% for 2008 and 0.8% in 2009.

Contribution to 2008 GDP growth

	Domestic demand	+	External impulse	= GDP
Finland	4.1%		-1.2%	2.9%
Canada	3.6%		-2.9%	0.7%
Greece	3.4%		0.4%	3.8%
Norway	3.3%		-1.0%	2.4%
Belgium	3.2%		-1.6%	1.6%
Netherlands	2.6%		-0.3%	2.3%
Portugal	1.7%		-0.8%	0.9%
Spain	1.5%		-0.1%	1.4%
France	1.2%		-0.2%	1.0%
Sweden	1.0%		0.0%	1.1%
Austria	0.9%		1.3%	2.2%
Denmark	0.8%		-0.6%	0.2%
Germany	0.7%		0.9%	1.5%
UK	0.5%		0.7%	1.2%
USA	0.4%		1.4%	1.8%
Switzerland	0.3%		1.8%	2.1%
Japan	0.0%		0.9%	0.9%
Italy	-0.2%		0.4%	0.2%
Ireland	-1.7%		1.9%	0.1%

Sources: Datastream, Euler Hermes SFAC forecasts

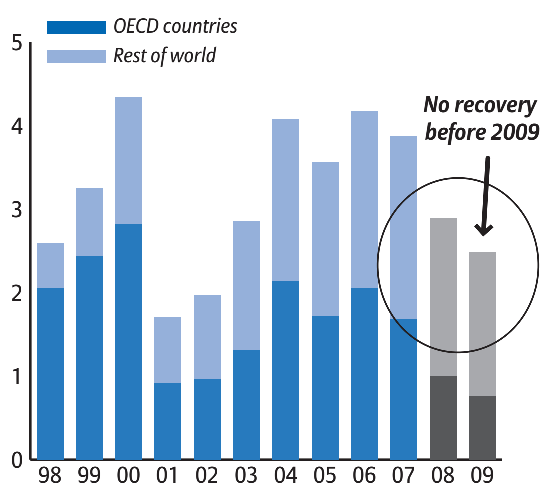
Inflation

	2007	2008	2009
Russia	9.0%	14.0%	10.5%
India	4.8%	8.0%	5.5%
China	4.8%	7.0%	4.5%
Brazil	4.2%	5.7%	5.3%
Spain	2.8%	4.8%	3.8%
USA	3.1%	4.8%	3.1%
Belgium	1.8%	4.6%	1.9%
Greece	3.0%	4.3%	3.0%
Ireland	4.9%	4.3%	2.7%
Finland	2.6%	4.2%	2.3%
Sweden	2.3%	3.9%	2.6%
Norway	0.7%	3.7%	2.7%
UK	2.3%	3.7%	2.5%
Italy	1.7%	3.6%	3.0%
Denmark	1.7%	3.6%	2.4%
Euro zone	2.3%	3.4%	2.4%
France	1.5%	3.3%	1.9%
Portugal	2.4%	3.3%	2.3%
Austria	2.2%	3.3%	2.1%
Germany	2.4%	3.0%	2.3%
Netherlands	1.7%	2.8%	2.7%
Canada	2.4%	2.7%	2.3%
Switzerland	0.9%	2.6%	1.2%
Japan	0.0%	1.1%	0.7%

Sources: Datastream, Euler Hermes SFAC forecasts

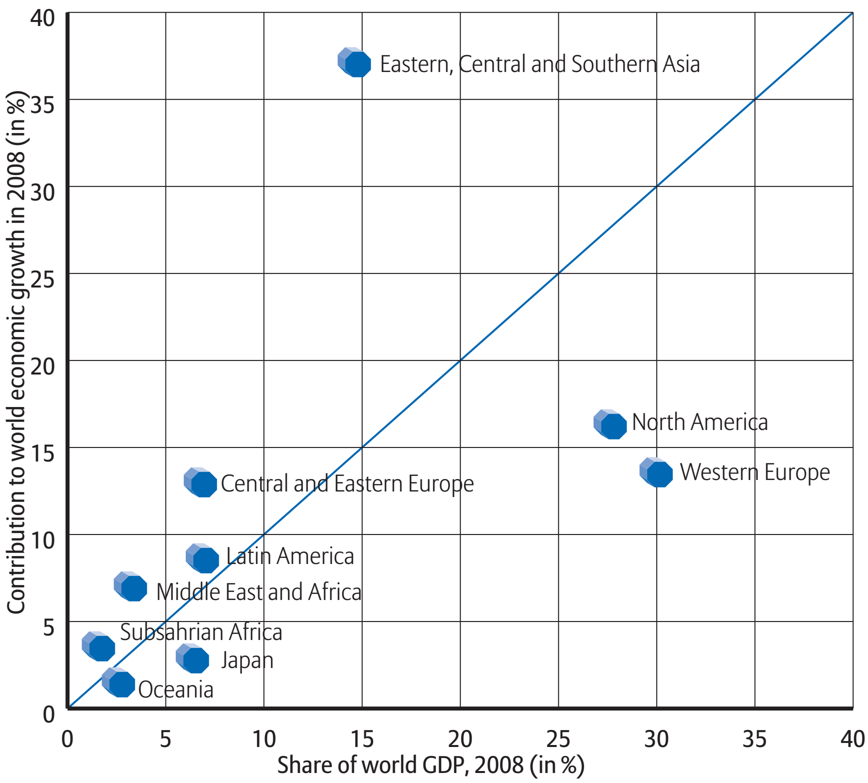
World economic growth

Annual average, in %



Sources: Datastream, Euler Hermes SFAC forecasts

Contributors to world economic growth



Sources: Datastream, Euler Hermes SFAC calculations and forecasts

Economic forecasts

Sources: Datastream, Euler Hermes SFAC forecasts (*) GDP 2006 weighting at current exchange rates *Forecasts*

GDP	*Weighting*	2006	2007	2008	2009	09-07	12-07	03-08	06-08	09-08	12-08
World	100.0	4.2%	3.9%	2.9%	2.5%						
USA	28.6	2.8%	2.0%	1.8%	1.2%	1.2%	0.0%	0.2%	0.8%	0.2%	0.1%
Canada	2.8	3.1%	2.7%	0.7%	1.0%	0.6%	0.2%	-0.2%	0.1%	0.1%	0.2%
Japan	9.4	2.4%	2.0%	0.9%	1.1%	0.2%	0.6%	0.8%	-0.6%	0.0%	0.3%
Euro zone	22.9	3.0%	2.6%	1.2%	0.8%	0.6%	0.4%	0.7%	-0.2%	0.0%	0.1%
Germany	6.3	3.2%	2.6%	1.5%	0.9%	0.6%	0.3%	1.3%	-0.5%	-0.1%	0.1%
France	4.9	2.4%	2.1%	1.0%	0.8%	0.7%	0.4%	0.4%	-0.3%	0.1%	0.1%
Italy	4.0	1.8%	1.5%	0.2%	0.6%	0.1%	-0.4%	0.5%	-0.3%	0.2%	0.2%
Spain	2.7	3.9%	3.7%	1.4%	0.6%	0.6%	0.6%	0.3%	0.1%	-0.1%	0.0%
Netherlands	1.5	3.4%	3.5%	2.3%	1.6%	1.1%	1.3%	0.4%	0.0%	0.2%	0.3%
Belgium	0.9	2.9%	2.8%	1.6%	1.5%	0.7%	0.5%	0.5%	0.2%	0.1%	0.3%
Austria	0.7	3.2%	3.3%	2.2%	1.8%	0.7%	0.6%	0.7%	0.4%	0.2%	0.4%
Finland	0.5	4.8%	4.4%	2.5%	1.8%	0.4%	0.9%	0.3%	0.8%	0.7%	0.4%
Greece	0.7	4.2%	4.0%	3.2%	2.8%	0.9%	0.7%	1.1%	0.8%	0.4%	0.5%
Ireland	0.5	5.7%	6.0%	0.1%	1.0%	0.6%	0.1%	-0.2%	0.5%	0.3%	0.0%
Portugal	0.4	1.4%	1.9%	0.8%	1.1%	0.0%	0.6%	-0.2%	0.3%	0.2%	0.3%
UK	5.2	2.9%	3.1%	1.2%	0.9%	0.6%	0.6%	0.3%	0.0%	-0.1%	0.1%
Sweden	0.8	4.4%	2.9%	1.1%	1.4%	0.4%	0.5%	0.1%	0.0%	0.2%	0.3%
Denmark	0.4	3.9%	1.7%	0.2%	0.7%	1.6%	-0.2%	-0.8%	0.6%	0.2%	0.3%
Norway	0.7	2.5%	3.7%	2.4%	2.1%	1.6%	1.0%	0.0%	0.6%	0.2%	0.4%
Switzerland	0.8	3.4%	3.3%	2.1%	1.5%	0.7%	1.0%	0.3%	0.4%	0.3%	0.2%
Central and Eastern Europe	5.8	7.3%	7.0%	5.8%	4.7%						
Russia	1.9	7.4%	8.1%	7.0%	5.5%						
Asia (excluding Japan)	14.5	9.1%	9.2%	7.6%	6.9%						
China	5.7	11.6%	11.9%	9.7%	8.8%						
India	1.5	9.6%	9.0%	8.0%	7.0%						
Latin America	6.1	5.5%	5.5%	4.3%	3.3%						
Brazil	2.1	3.7%	5.4%	4.8%	3.6%						
Middle East and Africa	2.1	5.9%	5.8%	6.1%	5.4%						

A new state of play for the euro, dollar, oil and inflation – all still hostage to the financial crisis

The worsening outlook should allow a reduction in the inflationary risks by 2009. Slowing demand should be accompanied by a slight easing in commodity and especially oil prices, the main culprits behind the rise in world inflation. But this will undoubtedly prove to be only relative and temporary, given that the fundamentals – emerging country demand, exporting country interests, dwindling resources, etc. – remain bullish for the longer term. It will also continue to be surrounded by strong volatility, given the precarious nature in many cases of supply-demand balances (related to low stock levels) and given uncertainties over foreign exchange rates. We have seen this with the summer correction in oil prices, from a record high of more than $147 a barrel in mid-September, and also in the price corrections for commodities such as corn and copper. But this temporary lull in inflation will bring a welcome breather to households, compensating at least partly for the slowing wages and worsening job markets expected in the industrialised countries. These adjustments to the outlook for activity and inflation have also modified projections for both growth and interest rate differentials, with a timing that should overall prove more unfavourable to the pound sterling and euro than to the US dollar, sustaining a rebalancing in the risks, with less imported inflation but a loss of export competitiveness for the United States, and the opposite situation for the euro zone. These trends were already seen on foreign exchange markets during the summer, but they remain, however, contingent on the continuation of the banking and financial crisis in the US, where the bad news multiplied into September, with the US government takeover of mortgage refinancing giants Fannie Mae and Freddie Mac, followed next by the bankruptcy of prestigious investment banker Lehman Brothers, and then the last-minute rescue in extremis of AIG, the country's biggest insurance group, covering nearly 73 million private individuals. On a yet more general level, despite efforts by central banks to facilitate the access to liquidity, there is still the question of the health of world finances, with fears of domino effects involving the various actors and of the credit crunch proving sharper than expected, all of which in turn threatens the whole of the real economy.

Emerging country resilience put to the test

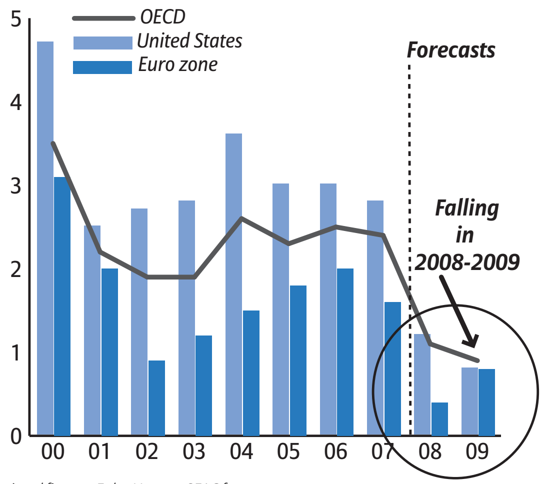
The emerging countries will not escape the general wave of slowing activity affecting the large OECD countries, although they do show different capacities of resilience, or, to the contrary, degrees of vulnerability. The differences are essentially related to their external finance situations, to the exposure of their economies to world trade, or to commodity prices *(see Special Report, pp. 10 to 14)*. This is all the more the case, given that on top of the purely economic and financial risks, there can always be added the geopolitical risks – e.g., the conflict between Georgia and Russia. But the emerging countries should continue to profit from growing (albeit slowing) domestic demand, and this should also continue to fuel trade between commodity producing and non-producing emerging countries. Overall, the emerging countries should be able to get away with only a (relatively) moderate slowing in expansion, with GDP growth in most cases dropping by between 1 and 3 points by 2009. The growth rate should thus remain close to 9% for China (after more than 11.5% in 2006 and 2007), 7% for India, 5.5% for Russia and 3.5% for Brazil. The growth rate should continue to stay above 5% for all non-OECD countries, after averaging 7.5% over 2004-2007, against a figure of 2.6% for all OECD countries. The emerging countries should thus remain the leading contributors to growth in both world GDP and world trade.

Slowing world growth into 2009

After four years of sustained expansion, at an average 3.7% per annum at current foreign exchange rates over 2004-2007, the world economy is undergoing a stronger and most likely more prolonged slowing than anticipated at the start of year. Overall, average world GDP growth should shed 1 percentage point over 2008 (dropping to 2.9%), coming down by a further half a point to 2.5% in 2009 in our central forecast. World trade should also slow noticeably, dropping back to a growth rate of around 5% per annum by volume, after an average of 5% over 2004-2007. But this scenario remains subject to strong contingencies. Some are positive, such as the scale and speed of the expected fall in inflation or the potential arrival of any new economic stimulus programmes, coming on top of those already decided on in countries such as the US, Spain, South Korea, etc. But we have to acknowledge that the negative risks are more likely, the foremost being the scale of the shocks arising from the financial crisis that threatens dangerously to continue. ▣ *ML*

Consumption

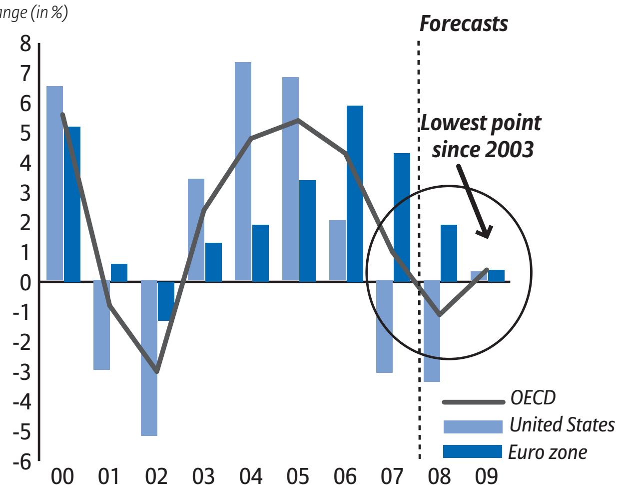
Yearly change (in %)



Sources: National figures, Euler Hermes SFAC forecasts

Investment

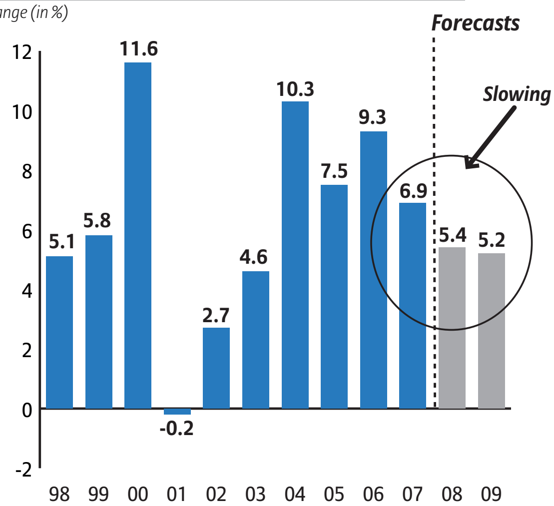
Yearly change (in %)



Sources: Datastream, Euler Hermes SFAC forecasts

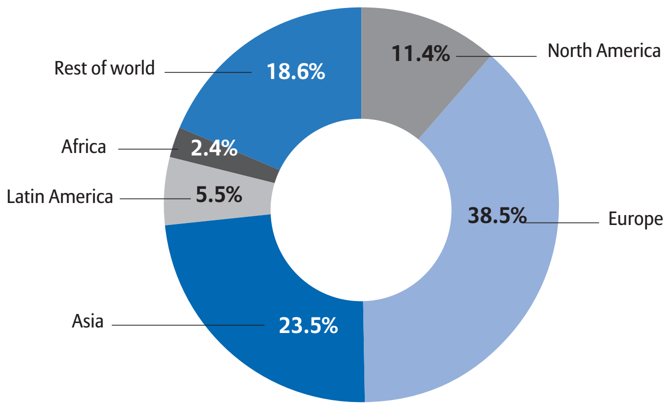
World trade in goods and services

Yearly change (in %)



Sources: National figures, Euler Hermes SFAC forecasts

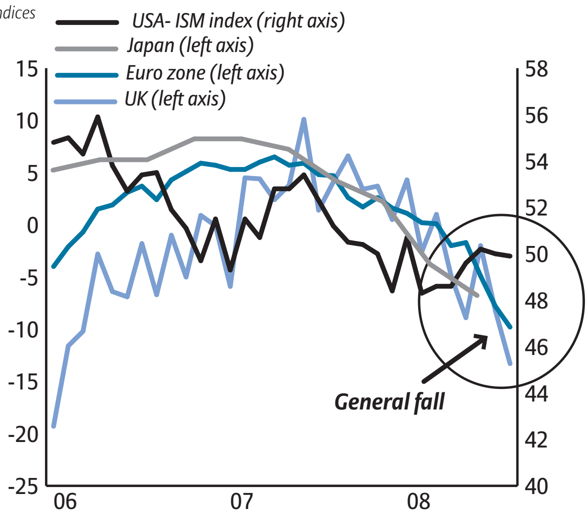
Share of world exports, 2007



Sources: Datastream, IMF

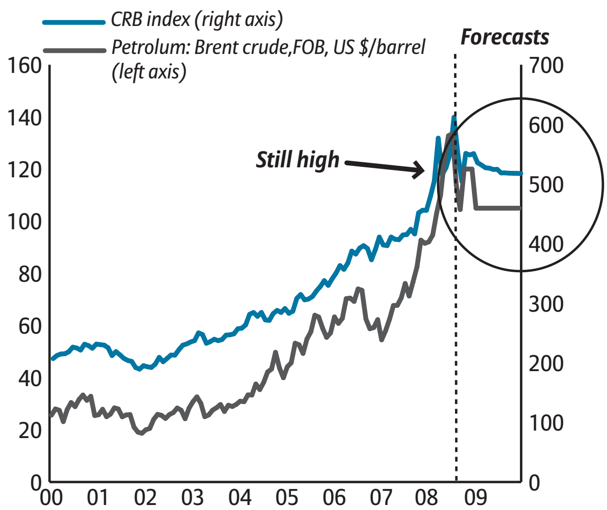
Industrial confidence

monthly indices



Sources: Datastream, Euler Hermes SFAC forecasts

Commodities



Sources: Datastream, Euler Hermes SFAC forecasts

United States

A financial tsunami on an already depressed domestic market

A first half year saved by exports and the fiscal package

The US economy overall proved more resilient than expected to the triple shocks it underwent in the first half of 2008: soaring inflation (rising to more than 5% in July), stoked by the rise in energy prices further worsened by the weakening in the dollar; the deterioration in financing conditions in the wake of the banking and financial crisis, affecting both households and businesses; and lastly the reversal in the wealth effect, in parallel with the fall in real estate and stock market prices. But the bulk of this first half performance came from two factors that fuelled the second quarter (up by 0.8% over the previous quarter despite significant destocking). One of these was the fiscal package announced at the start of year, whose implementation from May made it possible to redistribute more than $100 billion to 100 million American households (even if part of this went into savings). The second, and in particular, was continued export growth, driven by the dollar further weakening to a new low (after dropping by 4% over the previous quarter and by 16% over a year), and which, in the end, should see foreign trade accounting for three-quarters of US growth for the year.

Recession still threatens

It seems unlikely that the economy will avoid hitting an air pocket in the second half of the year – first with the end of the fiscal stimulus measures, and then with the likely slowing in exports resulting from economic slowdown in America's major trading partners (the euro zone, Japan, the UK, etc.) and the trend towards recovery in the US dollar, and finally due to the many worsening factors observed – in terms of negative net job creation, unemployment, housing starts, non-financial business margins, mortgages and corporate bond default rates, and business failures (up by 42% on the 12 months to the end of June. The US economy will remain severely weakened at least until the beginning of 2009, before what promises to be a difficult recovery if a fall in inflation or the beginnings of stabilisation investment fail materialise quickly, or if monetary and budget policies become less accommodating or reactive, in particular after the elections, whose outcome (and thus the next administration's economic programmes) are still unpredictable, not to mention the terrible banking crisis with all its risks of collateral damage. But our central scenario for the United States remains an optimistic one of a slow economic and financial exit from crisis, leading to the GDP growth of 1.8% in 2008, followed by 1.2% in 2009. ▣ *ML*

Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** USD billions*

Sources: Datastream, Euler Hermes SFAC forecasts

Forecasts

UNITED STATES	2007	2006	2007	2008	2009	09 07	12 07	03 08	06 08	09 08	12 08
GDP	100%	2.8	2.0	1.8	1.2	1.2	0.0	0.2	0.8	0.2	0.1
Consumer Spending	72%	3.0	2.8	1.2	0.8	0.5	0.2	0.2	0.4	0.2	0.0
Public Spending	17%	1.7	2.1	2.5	1.6	0.9	0.2	0.5	1.0	0.6	0.4
Investment	16%	2.0	-3.1	-3.4	0.3	-0.2	-1.6	-1.4	-0.6	-0.6	-0.4
Construction	4%	-7.1	-17.9	-20.3	-5.1	-5.6	-7.6	-6.9	-4.2	-3.5	-3.0
Equipment	12%	7.5	4.9	3.5	1.6	2.1	0.8	0.6	0.6	0.2	0.2
Stocks *	0%	0.0	-0.4	-0.3	-0.1	0.2	-0.2	0.0	-0.3	0.0	0.0
Exports	12%	9.1	8.4	8.4	4.8	5.3	1.1	1.2	3.2	0.8	0.8
Imports	17%	6.0	2.2	-1.8	1.9	0.7	-0.6	-0.2	-1.9	0.2	0.1
Net exports *	-5%	0.0	0.6	1.4	0.3	0.5	0.2	0.2	0.7	0.1	0.1
Current account **		-788	-731	-710	-682						
Current account (% of GDP)		-6.0	-5.3	-4.9	-4.6						
Employment		1.9	1.1	-0.1	0.7						
Unemployment rate		4.6	4.6	5.5	6.0						
Wages		3.9	4.0	3.2	3.3						
Inflation		3.1	3.1	4.8	3.1						
General government balance **		-343	-414	-504	-524						
General government balance (% of GDP)		-2.6	-3.0	-3.5	-3.5						
Public debt (% of GDP)		49	49	51	52						
Nominal GDP **		13,178	13,808	14,398	14,963						

Euro zone

Growth stalls

Considerable braking in the first half of 2008

Already noticeable at the end of 2007, the braking in the euro zone became accentuated in the first half of 2008. GDP growth figures for the second quarter not only showed the correction expected after the revival in activity posted in the first quarter, the latter partly due to temporary factors at work in Germany, where investments were helped by a change in amortisation rules and the construction sector benefited from a mild winter. The second quarter figures also announced the first contraction in the zone's GDP since its creation in 1999 and confirmed the spread of the economic slowdown through the various Member States, and in particular the largest of these. Growth fell to -0.5% in Germany, to -0.3% in France and Italy, to 0% in the Netherlands, and to 0.1% in Spain. Behind this was an accumulation of shocks raining down on the economy: falling consumption (hit by higher inflation arising from soaring oil and food prices), adjustment in the construction sector (notably in housing construction in Spain, Ireland and France), a weakening in productive investment (affected by the sharp slowing in activity, poorer outlook, and worsening financing conditions), and the fall in exports, ill-served by the high level of the euro. Such are the factors that have rekindled fears of recession.

An outlook of durably slower growth

Economic surveys do not point to any rapid recovery in activity, but rather towards a likely growth rate of zero in the third quarter and at best just positive growth in the fourth quarter. Major business climate indicators (the PMI and European Commission surveys) generally continued to worsen over the July-August period in industry, construction industry and services alike. Although the lows reached are higher than those of 2001, the bottom of the last cycle, and higher still than at the worst of the last recession in 1993, the scale of the deterioration is likely to bring further adjustments to labour markets, residential investment and business investment. This is all the more so given that developments in the financial crisis exclude any improvement in short-term lending conditions. Some support factors should, however, avoid any further deterioration. Some small budgetary leeway exists in those countries enjoying (or close to enjoying) budget surpluses, such as Spain (but not including Greece, Portugal or France). There is also the trend reversal in the euro which, should it continue, would be a welcome development for exporters, up to such time as world demand revives. Lastly, there is a lull in oil prices, which should ease inflationary pressures, restore household purchasing power, moderate wage pressures, or even help in lowering inflationary expectations, allowing an easing in monetary policy. In the end, however, revival in euro zone activity should prove only gradual and barely perceptible before the second half of 2009, with GDP growth of just 1.2% in 2008 and 0.8% in 2009. ▣ *ML*

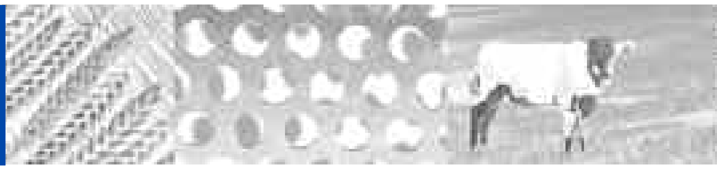
Economic forecasts

*Change over the period, unless otherwise indicated: * contribution to GDP growth ** euro billions*
Sources: Datastream, Euler Hermes SFAC forecasts

Forecasts

EURO ZONE		2007	2006	2007	2008	2009	09 07	12 07	03 08	06 08	09 08	12 08
GDP		100%	3.0	2.6	1.2	0.8	0.6	0.4	0.7	-0.2	0.0	0.1
Consumer Spending		57%	2.0	1.6	0.4	0.8	0.4	0.2	0.0	-0.2	0.1	0.2
Public Spending		20%	1.9	2.3	1.5	1.6	0.5	0.3	0.3	0.5	0.4	0.4
Investment		22%	5.9	4.3	1.9	0.4	0.9	1.1	1.5	-1.2	-0.1	0.0
Construction		7%	5.6	3.2	0.1	-1.2	0.7	0.5	1.8	-2.2	-0.6	-0.4
Equipment		15%	6.0	4.7	2.7	1.4	1.1	0.7	1.4	-0.2	0.1	0.3
Stocks	*	0%	0.0	0.1	0.1	0.0	0.2	-0.4	0.3	0.0	0.0	0.0
Exports		45%	8.1	6.1	3.2	2.6	1.8	0.4	1.8	-0.4	0.2	0.3
Imports		43%	8.0	5.5	2.9	2.9	2.2	-0.4	1.9	-0.4	0.2	0.5
Net exports	*	1%	0.1	0.3	0.2	-0.1	-0.2	0.3	0.0	0.0	0.0	0.0
Current account	**		-4	25	-43	-20						
Current account (% of GDP)			0.0	0.3	-0.5	-0.2						
Employment			2.1	1.9	1.5	0.7						
Unemployment rate			8.2	7.4	7.4	7.8						
Wages			3.2	2.9	2.9	2.2						
Inflation			2.1	2.3	3.4	2.4						
General government balance	**		-111	-54	-88	-103						
General government balance (% of GDP)			-1.3	-0.6	-1.0	-1.1						
Public debt (% of GDP)			69	66	65	64						
Nominal GDP	**		8,503	8,924	9,223	9,514						

Summary of economic forecasts



GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)
Sources: Datastream, Euler Hermes SFAC forecasts

Forecasts

Country		2006	2007	2008	2009
USA	GDP	2.8	2.0	1.8	1.2
	Inflation	3.1	3.1	4.8	3.1
	Unemployment rate	4.6	4.6	5.5	6.0
	General government balance (% of GDP)	-2.6	-3.0	-3.5	-3.5
	Public debt (% of GDP)	49	49	51	52
	Current account (% of GDP)	-6.0	-5.3	-4.9	-4.6
Canada	GDP	3.1	2.7	0.7	1.0
	Inflation	1.7	2.4	2.7	2.3
	Unemployment rate	6.3	6.0	6.1	6.6
	General government balance (% of GDP)	0.9	0.9	0.8	0.5
	Public debt (% of GDP)	68	64	60	58
	Current account (% of GDP)	1.4	0.9	1.2	0.6
Brazil	GDP	3.7	5.4	4.8	3.6
	Inflation	3.1	4.2	5.7	5.3
	Unemployment rate	10.0	9.3	8.3	8.7
	General government balance (% of GDP)	-3.0	-2.3	-2.6	-2.7
	Public debt (% of GDP)	46	45	44	43
	Current account (% of GDP)	1.2	0.3	-1.7	-2.2
Japan	GDP	2.4	2.0	0.9	1.1
	Inflation	0.2	0.0	1.1	0.7
	Unemployment rate	4.1	3.9	4.1	4.0
	General government balance (% of GDP)	-2.9	-3.4	-3.6	-3.7
	Public debt (% of GDP)	162	163	167	168
	Current account (% of GDP)	3.9	4.8	3.1	2.1
China	GDP	11.6	11.9	9.7	8.8
	Inflation	1.5	4.8	7.0	4.5
	Unemployment rate	9.5	9.5	9.4	9.4
	General government balance (% of GDP)	-0.5	0.7	-0.8	-1.0
	Public debt (% of GDP)	19	17	16	15
	Current account (% of GDP)	9.5	11.6	9.4	8.0
India	GDP	9.6	9.0	8.0	7.0
	Inflation	4.8	4.8	8.0	5.5
	Unemployment rate	7.6	7.3	7.5	7.8
	General government balance (% of GDP)	-6.0	-5.5	-6.2	-6.6
	Public debt (% of GDP)	64	61	63	65
	Current account (% of GDP)	-1.0	-1.3	-2.6	-2.0
Euro zone	GDP	3.0	2.6	1.2	0.8
	Inflation	2.1	2.3	3.4	2.4
	Unemployment rate	8.2	7.4	7.4	7.8
	General government balance (% of GDP)	-1.3	-0.6	-1.0	-1.1
	Public debt (% of GDP)	69	66	65	64
	Current account (% of GDP)	0.0	0.3	-0.5	-0.2
Germany	GDP	3.2	2.6	1.5	0.9
	Inflation	1.4	2.4	3.0	2.3
	Unemployment rate	10.3	8.7	7.7	7.9
	General government balance (% of GDP)	-1.6	0.0	0.2	-0.1
	Public debt (% of GDP)	68	65	61	59
	Current account (% of GDP)	6.1	7.6	7.0	6.5
France	GDP	2.4	2.1	1.0	0.8
	Inflation	1.6	1.5	3.3	1.9
	Unemployment rate	8.9	8.0	8.2	8.6
	General government balance (% of GDP)	-2.4	-2.7	-3.1	-3.3
	Public debt (% of GDP)	64	63	64	65
	Current account (% of GDP)	-0.7	-1.2	-2.0	-2.6
Italy	GDP	1.9	1.4	0.2	0.6
	Inflation	2.0	1.7	3.6	3.0
	Unemployment rate	6.8	6.1	7.0	7.5
	General government balance (% of GDP)	-3.4	-1.9	-2.4	-2.0
	Public debt (% of GDP)	107	104	102	101
	Current account (% of GDP)	-2.6	-2.4	-3.1	-2.6
Spain	GDP	3.9	3.7	1.4	0.6
	Inflation	3.5	2.8	4.8	3.8
	Unemployment rate	8.5	8.3	10.6	12.3
	General government balance (% of GDP)	1.8	2.2	0.7	0.0
	Public debt (% of GDP)	40	36	34	33
	Current account (% of GDP)	-8.9	-10.1	-9.5	-8.9

GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)
Sources: Datastream, Euler Hermes SFAC forecasts

Forecasts

Country		2006	2007	2008	2009
Netherlands	GDP	3.4	3.5	2.3	1.6
	Inflation	1.4	1.7	2.8	2.7
	Unemployment rate	5.6	4.6	4.1	4.4
	General government balance (% of GDP)	0.5	0.4	0.7	0.9
	Public debt (% of GDP)	48	45	43	40
	Current account (% of GDP)	8.2	6.1	7.0	6.6
Belgium	GDP	2.9	2.8	1.6	1.5
	Inflation	1.8	1.8	4.6	1.9
	Unemployment rate	9.6	8.9	8.4	8.5
	General government balance (% of GDP)	0.3	-0.2	-0.5	-0.2
	Public debt (% of GDP)	88	85	84	83
	Current account (% of GDP)	2.7	2.1	-4.2	-0.8
Finland	GDP	4.8	4.4	2.5	1.8
	Inflation	1.6	2.6	4.2	2.3
	Unemployment rate	7.7	6.9	6.2	6.2
	General government balance (% of GDP)	4.1	5.3	4.8	3.9
	Public debt (% of GDP)	39	35	32	31
	Current account (% of GDP)	4.5	4.6	4.3	4.0
Greece	GDP	4.2	4.0	3.2	2.8
	Inflation	3.1	3.0	4.3	3.0
	Unemployment rate	8.9	8.3	8.4	9.2
	General government balance (% of GDP)	-2.6	-2.8	-2.5	-2.3
	Public debt (% of GDP)	105	100	98	96
	Current account (% of GDP)	-11.1	-14.1	-14.7	-19.7
Portugal	GDP	1.4	1.9	0.8	1.1
	Inflation	3.3	2.4	3.3	2.3
	Unemployment rate	7.7	8.0	7.4	7.2
	General government balance (% of GDP)	-3.9	-2.6	-2.5	-2.3
	Public debt (% of GDP)	66	66	66	67
	Current account (% of GDP)	-10.1	-9.8	-12.3	-12.3
United Kingdom	GDP	2.9	3.1	1.2	0.9
	Inflation	2.4	2.3	3.7	2.5
	Unemployment rate	5.4	5.3	5.5	5.9
	General government balance (% of GDP)	-2.2	-2.6	-3.4	-3.2
	Public debt (% of GDP)	43	44	46	47
	Current account (% of GDP)	-3.9	-4.3	-3.4	-3.1
Sweden	GDP	4.4	2.9	1.1	1.4
	Inflation	1.4	2.3	3.9	2.6
	Unemployment rate	7.0	6.1	6.1	6.4
	General government balance (% of GDP)	2.2	3.4	2.6	2.3
	Public debt (% of GDP)	46	41	37	35
	Current account (% of GDP)	8.6	8.6	7.3	7.6
Denmark	GDP	3.9	1.7	0.2	0.7
	Inflation	1.9	1.7	3.6	2.4
	Unemployment rate	3.8	2.7	1.8	2.1
	General government balance (% of GDP)	4.8	4.4	3.7	2.9
	Public debt (% of GDP)	30	26	22	19
	Current account (% of GDP)	2.9	1.1	0.7	0.4
Norway	GDP	2.5	3.7	2.4	2.1
	Inflation	2.3	0.7	3.7	2.7
	Unemployment rate	3.4	2.5	2.6	2.8
	General government balance (% of GDP)	18.4	17.4	16.9	16.2
	Public debt (% of GDP)	55	52	49	45
	Current account (% of GDP)	17.2	15.4	18.1	18.1
Switzerland	GDP	3.4	3.3	2.1	1.5
	Inflation	1.0	0.9	2.6	1.2
	Unemployment rate	3.0	2.4	2.2	2.4
	General government balance (% of GDP)	0.5	0.2	0.1	0.1
	Public debt (% of GDP)	26	25	24	23
	Current account (% of GDP)	14.5	13.3	14.3	17.3
Russia	GDP	7.4	8.1	7.0	5.5
	Inflation	9.7	9.0	14.0	10.5
	Unemployment rate	7.2	6.2	6.7	6.6
	General government balance (% of GDP)	8.4	5.4	3.0	1.5
	Public debt (% of GDP)	9	6	5	4
	Current account (% of GDP)	9.5	6.1	7.0	5.0

World trade

Export destination markets in %

Cumulative 12 months to the end of December, 2007

Sources: Datastream, IMF

⚠ *Using this table : Canada (row 1) sends 79% of its exports to the USA (column 2*

Export destination market 2007	AMERICA					ASIA				EUROPE																					
	Canada	United States-	Mexique	Argentina	Brazil	Japan	China	India	South Korea	Germany	France	Italy	Spain	Netherlands	Belgium	Greece	Austria	Finland	Ireland	Luxembourg	Portugal	UK	Sweden	Norway	Denmark	Switzerland	Russia	Euro zone	Europe-27	Rest of world	Total exports (USD billions)
Canada	0.0	79.0	1.1	0.1	0.3	2.1	2.1	0.4	0.7	0.8	0.7	0.6	0.3	0.9	0.4	0.0	0.1	0.2	0.1	0.0	0.0	2.8	0.1	0.9	0.1	0.3	0.3	4.2	7.5	3.7	389.5
USA	21.4	0.0	11.7	0.5	2.1	5.4	5.6	1.5	3.0	4.3	2.4	1.2	0.8	2.8	2.2	0.2	0.3	0.3	0.8	0.1	0.2	4.3	0.4	0.3	0.3	1.5	0.6	15.6	21.3	16.4	1037.1
Mexico	6.0	76.5	0.0	0.5	0.6	1.1	1.2	0.3	0.2	1.7	0.3	0.2	1.4	0.5	0.5	0.0	0.0	0.0	0.1	0.0	0.1	0.4	0.0	0.0	0.0	0.0	0.0	4.9	5.6	7.1	231.7
Argentina	0.7	7.6	3.3	0.0	17.5	1.2	9.4	2.0	0.9	2.5	1.1	2.5	4.1	2.7	0.9	0.3	0.3	0.2	0.2	0.0	0.4	1.3	0.1	0.1	0.6	1.0	1.9	15.3	18.5	32.2	46.2
Brazil	1.7	14.2	3.2	8.3	0.0	3.1	9.2	0.7	1.4	4.4	2.1	2.7	2.1	4.3	2.1	0.2	0.1	0.3	0.1	0.0	1.0	2.0	0.4	0.4	0.2	0.6	2.5	19.6	23.1	29.4	142.3
Japan	1.5	20.4	1.4	0.1	0.6	0.0	15.3	0.9	7.6	3.2	1.2	0.9	0.8	2.6	1.1	0.2	0.2	0.4	0.2	0.0	0.1	2.3	0.3	0.2	0.1	0.4	1.5	10.9	14.8	18.6	646.8
China	1.6	19.4	1.0	0.3	0.9	8.4	0.0	1.9	4.6	4.1	1.7	1.7	1.3	3.4	1.0	0.3	0.1	0.5	0.3	0.2	0.0	2.7	0.4	0.2	0.4	0.3	2.3	14.7	20.1	17.4	969.3
India	1.2	15.1	0.9	0.2	1.2	2.5	8.4	0.0	2.4	3.6	1.7	2.8	1.7	1.7	2.7	0.4	0.2	0.1	0.2	0.0	0.3	4.3	0.4	0.2	0.4	0.4	0.7	15.4	21.5	24.3	120.3
South Korea	1.4	12.3	2.0	0.1	1.0	6.8	25.7	1.7	0.0	2.7	0.9	1.1	1.1	1.0	0.8	0.6	0.2	0.2	0.1	0.0	0.1	1.5	0.3	0.2	0.1	0.3	1.6	9.2	13.6	20.4	330.4
Germany	0.7	7.5	0.7	0.2	0.7	1.3	3.1	0.8	0.9	0.0	9.7	6.7	5.0	6.4	5.3	0.8	5.4	1.1	0.7	0.5	0.8	7.3	2.2	0.8	1.6	3.8	2.9	42.8	64.7	10.8	1111.1
France	0.7	6.1	0.5	0.2	0.8	1.4	2.2	0.8	0.7	14.9	0.0	8.9	9.3	4.1	7.3	0.9	0.9	0.5	0.7	0.5	1.2	8.2	1.3	0.4	0.7	2.6	1.4	49.6	64.6	14.4	489.2
Italy	0.8	6.8	1.0	0.2	0.7	1.2	1.8	0.8	0.7	12.9	11.4	0.0	7.4	2.4	3.0	2.1	2.4	0.5	0.5	0.2	0.9	5.8	1.1	0.4	0.8	3.8	2.7	44.5	60.0	17.5	409.7
Spain	0.4	4.2	1.7	0.4	0.7	0.7	1.1	0.4	0.3	10.8	18.8	8.5	0.0	3.3	2.8	1.2	0.8	0.4	0.6	0.1	8.6	7.6	1.0	0.6	0.8	1.4	1.2	56.2	69.6	15.0	204.3
Netherlands	0.4	4.4	0.4	0.1	0.3	0.7	0.9	0.4	0.7	24.4	8.5	5.0	3.6	0.0	13.5	0.7	1.4	1.0	0.9	0.3	0.7	9.1	1.8	0.8	1.3	1.2	1.7	60.4	77.9	8.9	462.4
Belgium	0.7	5.6	0.2	0.1	0.5	0.8	1.0	1.7	0.3	19.7	16.7	5.2	3.7	12.0	0.0	0.7	1.0	0.7	0.7	1.7	0.6	7.6	1.5	0.4	0.9	1.7	1.0	62.8	76.7	7.2	369.0
Greece	0.4	4.1	0.2	0.0	0.2	0.7	0.6	0.3	0.2	11.4	4.2	10.7	3.4	2.0	1.6	0.0	0.8	0.6	0.3	0.0	0.7	5.4	1.0	0.2	0.8	0.7	2.5	36.9	64.6	32.4	20.6
Austria	0.8	4.9	0.3	0.1	0.4	1.0	1.4	0.5	0.5	29.9	3.6	8.9	2.8	1.8	1.4	0.6	0.0	0.5	0.3	0.1	0.4	3.6	1.1	0.5	0.7	4.3	2.5	52.4	72.5	11.8	139.8
Finland	0.8	6.4	0.3	0.1	0.7	1.8	3.3	0.7	0.9	10.9	3.4	2.8	2.8	5.6	2.4	0.6	0.7	0.0	0.4	0.1	0.4	5.8	10.7	3.1	2.0	0.9	10.3	30.1	56.7	19.5	77.1
Ireland	0.4	17.8	0.6	0.0	0.2	1.9	1.5	0.2	0.5	7.4	5.8	3.6	3.7	3.9	14.5	0.5	0.6	0.5	0.0	0.2	0.5	18.8	1.1	0.7	0.6	3.7	0.3	41.1	63.4	4.9	111.9
Luxembourg	0.4	1.8	0.3	0.0	0.2	0.2	1.2	0.2	0.2	21.1	16.3	7.4	5.0	5.4	10.1	0.6	1.9	0.8	0.4	0.0	1.0	7.1	3.2	0.4	1.5	0.9	0.9	70.2	87.6	4.0	22.8
Portugal	0.4	4.7	0.3	0.2	0.7	0.8	0.5	0.1	0.1	12.9	12.3	4.0	27.1	3.3	2.5	0.4	0.5	0.6	0.5	0.3	0.0	5.9	1.2	0.3	0.7	0.7	0.4	64.4	74.4	12.9	43.3
UK	1.7	14.1	0.4	0.1	0.5	1.7	1.7	1.4	0.9	11.0	7.8	3.9	4.2	6.4	5.3	0.6	0.6	0.9	7.5	0.1	0.6	0.0	2.1	1.3	1.0	1.8	1.2	49.9	55.4	12.1	422.6
Sweden	1.0	7.6	0.4	0.1	0.7	1.2	1.9	0.9	0.6	10.4	5.0	3.2	2.8	5.1	4.6	0.5	1.0	6.4	0.5	0.1	0.5	7.1	0.0	9.4	7.4	0.9	2.0	40.2	60.9	10.2	147.3
Norway	2.9	6.1	0.1	0.0	0.3	0.9	1.2	0.4	0.9	12.7	8.5	2.9	2.3	10.2	2.5	0.2	0.3	1.2	1.6	0.0	0.6	26.1	6.4	0.0	3.1	0.7	0.7	43.0	81.2	3.5	121.6
Denmark	0.9	6.1	0.2	0.1	0.3	1.8	1.7	0.4	0.7	17.3	4.9	3.5	3.0	4.8	1.6	0.8	0.8	2.8	1.6	0.1	0.5	8.0	14.5	5.7	0.0	0.8	1.8	41.7	70.2	8.0	92.8
Switzerland	1.2	8.3	0.7	0.2	0.8	2.8	3.1	1.1	1.0	21.9	8.3	8.4	2.3	1.7	1.8	0.8	4.4	0.3	0.4	0.1	0.3	5.2	0.7	0.5	0.5	0.0	1.1	50.9	59.8	10.8	141.8
Russia	0.3	4.8	0.1	0.0	0.2	2.6	5.0	1.1	0.8	9.5	3.6	5.6	2.4	7.5	1.5	1.0	0.7	3.0	0.0	0.1	0.4	3.1	1.2	0.4	0.3	4.0	0.0	35.4	52.4	23.3	291.3
Euro zone	0.6	6.5	0.6	0.2	0.6	1.1	2.0	0.8	0.7	11.7	9.2	5.9	5.3	4.8	5.7	0.9	2.6	0.8	0.6	0.5	1.3	7.6	1.8	0.7	1.1	2.8	2.3	49.7	67.8	12.0	3483.3
EU-27	0.7	6.7	0.5	0.2	0.5	1.1	1.9	0.8	0.6	12.9	8.5	5.7	4.8	4.8	5.2	0.9	2.4	1.0	1.2	0.4	1.1	6.7	2.1	1.1	1.3	2.4	2.3	49.3	67.7	12.1	4545.6
Rest of World	2.1	26.7	1.9	0.3	1.4	9.4	14.4	4.0	4.8	5.1	2.2	3.5	1.6	2.7	2.0	0.4	0.6	0.1	0.1	0.1	0.4	3.8	0.6	0.2	0.5	0.7	1.6	18.9	25.7	42.2	3254.7
Total imports (mds $)	419	2,017	271	45	136	622	953	247	364	1,059	616	505	492	414	76	163	82	83	27	78	32	635	151	80	100	195	238	4000	5491	3004	13807

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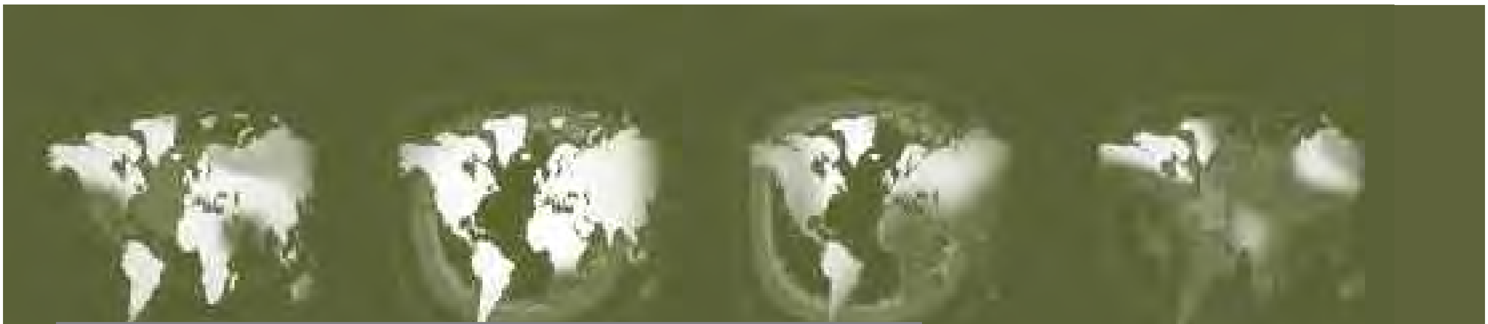

Special report

Emerging Economies

Vulnerability to the global slowdown

Hit by two large shocks – the credit crisis and an upsurge in oil prices – it is not surprising that the major economies are experiencing a sharp slowdown as domestic demand weakens. Moreover, as financial crises of the present magnitude take time to work through and high commodity prices, particularly energy, in some cases combined with unbalanced growth models, have imparted an inflation boost, further limiting the scope for a policy stimulus, there is considerable uncertainty over both the duration and the depth of the downturn. It should be no surprise that emerging economies are feeling the impact of these shocks as well, directly or indirectly.

Latest data show signs of a significant slowdown across the regions. Markets are pointing in the same direction, as equities fall and bond spreads rise. Commodity prices have also begun to retreat. De-coupling looks like proving less powerful than the naïve version optimists thought.

This article looks along three key transmission routes of a slowdown in the major economies to emerging economies and identifies the countries that are the most vulnerable along each of these channels. The three channels are external financing, trade and commodity prices.

It should be noted that while this analysis highlights potential stress points, it is not intended to be a predictor of systemic collapse of a country. Neither is it a comprehensive assessment of country risk. That is contained in the overall country grade assigned by EH in-house methodology, which takes into account important factors such as government stability and effectiveness and allows for the fact that some governments may already have begun to adjust policies to the new global realities or are in a strong position to take remedial action. Nonetheless, it does highlight the economies which, in our view, could be hardest hit by tightening external financing conditions, absent appropriate policy adjustment and/or through loss of export demand, compounded by poor policies and a weak external liquidity and debt position (again absent of appropriate corrective policies). It also indicates the more vulnerable economies should non-fuel commodity prices fall further in the event of an extended downturn. For completeness, we also identify energy producers, clear beneficiaries in the current environment, but also potentially exposed if energy prices were to fall unexpectedly sharply. ▣

Current Account Account is used as a "warning" trigger in **table 1** , identifying economies with a current account deficit of more than 5% of GDP as high (H) risk.

External Liquidity includes the current account deficit along with other variables such as how the current account is financed and the stock of foreign exchange reserves relative to potential claims on those reserves, as well as a cyclical variable.

Policy (**col. B**) includes credit expansion, inflation, fiscal deficits, the real exchange rate and a variable for the policy track record.

Debt (**col. C**)) includes traditional public and external debt ratios, such as debt-GDP, debt-exports of goods and services and debt payments as a proportion of export earnings.

In the EH country risk model each individual indicator is scored and the sum of the scores of the indicators belonging to External Liquidity, Policy and Debt, respectively, identifies whether these indicator groups pose high (H), medium-high (M/H), medium-low (M/L) or low (L) risk.
Source : Euler Hermes CRU

The external financing route

Table 1 shows those economies with a GDP of more than USD20bn that are most vulnerable along the external financing channel. As a starting point we identified those economies with a large current account deficit (>5% of GDP). The rationale is that the current account is the most often cited "headline" measure of vulnerability. However, the current account of itself is not the whole story. A better measure of vulnerability is to set a large current account deficit in the context of overall external liquidity (EH Indicators column 1), macroeconomic policy indicators (EH Indicators column 2) and public and external debt ratios (EH Indicators column 3). Those countries most vulnerable along financial channels (short of total meltdown in the main financial markets) are the ones with wide current account deficits, weak external liquidity indicators overall, high public and external debt ratios and already poor policy indicators. Accordingly, countries that have a high (H) or a combination of High (H) and Medium-high (M/H) risk in columns 1, 2 and 3 are the most vulnerable along the external financing channel of transmission and other things equal would require the strongest corrective action to avoid a crisis in the event of financing becoming more restrictive. Medium-low (M/L) can be considered as a relatively mild early warning signal, while Low (L) can be considered as relatively insignificant in this context. Equally these countries would be the most likely to create an internally driven financing problem through weak policies and/or political instability.

External financing route vulnerability

Table 1

EH grade	Country	Current account	Euler Hermes indicators: External liquidity A	Policy B	Debt C
D	Ukraine	H	H	H	M/L
C	Latvia	H	H	M/H	M/H
C	Vietnam	H	M/H	M/H	M/H
B	Romania	H	H	M/H	M/L
C	Turkey	H	H	M/L	M/L
C	Dominican Rep.	H	H	M/H	L
D	Serbia	H	L	M/H	H
B	Bulgaria	H	M/H	M/H	M/L
D	Lebanon	H	M/H	M/H	M/L
B	Estonia	H	H	M/L	L
B	Hungary	H	M/H	M/H	L
C	Pakistan	H	M/H	M/H	L
C	Guatemala	H	M/F	M/H	M/L
B	Lithuania	H	M/H	M/L	M/L
BB	South Africa	H	M/H	M/L	L
B	Costa Rica	H	M/H	M/L	L
B	El Salvador	H	M/H	L	M/L
BB	Slovak Rep.	H	M/L	M/L	L
D	Kenya	H	M/L	M/L	L
BB	Poland	H	M/L	M/L	L
B	Croatia	H	M/L	L	M/L

► *Note : excludes vulnerable countries with GDP<USD 20bn*
► *Threshold: trigger "warning" on current account deficit measure (> 5% of GDP)*
Source: Euler Hermes CRU

Key:

H	High risk
M/H	Medium-High risk
M/F	Medium-Low risk
L	Low risk

The trade route

The most pervasive trade effect is along the merchandise (goods) trade route. Merchandise trade can be divided broadly into trade in manufactures and trade in commodities. **Table 2** identifies countries with a GDP of more than USD20bn that are more vulnerable to the impact of the global slowdown on trade in manufactures. (Countries with EH country grade D were excluded.) The countries likely to be affected through the commodities route are identified in **table 3** as price developments will be crucial. There is also a considerable and important trade in services, particularly tourism. Moreover, remittances flows may also be of crucial importance for some countries. This can be captured to some extent by looking at the overall openness of the economy to trade (measured in table 2 by exports of goods and services as a proportion of GDP). Services receipts and remittances are taken into account in the EH Indicators and therefore are reflected in the ability to cope with a downturn. As a starting point we identified countries with high ratios of exports of goods and services to GDP (>25%) and manufactures in total exports (>50%) as the most exposed to the downturn. It is likely that these countries will have the sharpest slowdown (relative to their recent growth rates) in the absence of offsetting policies. We then looked at the same groups of indicators as for external financing vulnerability. Fourteen of the 30 countries (those in italics) also appear on the external financing table, though only six of these have at least two M/H ratings or worse. The conclusion is that most of these countries while among the more vulnerable to a growth slowdown are relatively low risk as far as systemic problems stemming from a debt/banking/currency crisis that would exacerbate the slow-

Special report

Emerging Economies

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down associated with weaker growth of export demand are concerned. Moreover, as many of the countries in table 2 have sound policy indicators, low debt ratios and strong external liquidity positions, they may well be in a position to alleviate the downturn through offsetting domestic policy actions.

Commodity prices

Table 3 identifies those countries vulnerable to falls in non-fuel commodity prices. The outlook for these prices is uncertain, and within this category of commodities there are important subgroups that could take divergent tracks. The global slowdown most probably will weaken demand for metals and industrial raw materials. It is also likely that recent high prices will have encouraged greater supply. That would seem to add up to downward pressure on prices and weaker volume demand, but by how much and whether that means a reversal of recent real increases is an open question. Other sectors, beverages and food, for example, are less influenced by the economic cycle, and food is subject to the vagaries of the weather among other things. Important to note, however, is that six economies (those in italics) appear, or would appear if the GDP size constraint were removed, in the external financing table, an indication of potential vulnerability beyond the slowdown that would seem almost inevitable if commodity prices fall.

For completeness, table 4 identifies energy producers and their dependence on energy exports. At this point a collapse in energy prices does not seem imminent, though prices are easing. Were prices to fall unexpectedly, however, the biggest potential problems would be found among countries graded C and D, though at present none has a serious external liquidity problem.

Trade route vulnerability

Table 2

EH grade	Country	Exports goods & services *as % of GDP*	Manufactures *as % of total exports*	Euler Hermes indicators: External liquidity A	Policy B	Debt C
AA	Singapore	252.6	82.9	L	L	L
A	Hong Kong	205.8	92.6	L	L	L
A	Malaysia	122.2	74.9	L	L	L
B	*Estonia*	83.8	68.8	H	M/L	L
BB	Slovak Rep.	80.2	86.0	M/L	M/L	L
B	*Hungary*	78.0	89.4	M/H	M/H	L
C	*Vietnam*	75.0	51.5	M/H	M/H	M/L
A	Czech Rep.	74.1	90.4	L	M/L	L
BB	Thailand	73.7	75.7	L	L	L
A	Taiwan	71.7	90.8	L	L	L
A	Slovenia	68.5	87.2	L	M/L	L
B	*Bulgaria*	63.9	56.3	M/H	M/H	M/L
B	*Lithuania*	63.2	58.3	M/H	M/L	M/L
BB	Cyprus	50.3	55.4	L	L	L
BB	Tunisia	50.3	76.1	L	L	L
B	*Costa Rica*	49.7	64.5	M/H	M/L	L
B	Philippines	46.6	86.6	L	M/H	L
B	*Croatia*	46.5	56.5	M/L	L	M/L
BB	Israel	44.8	60.1	L	L	L
C	*Latvia*	44.2	63.1	H	M/H	M/H
B	*Romania*	43.7	89.2	H	M/H	M/L
BB	*Poland*	40.9	79.9	M/L	M/L	L
B	China	40.7	92.5	L	L	L
A	South Korea	34.0	79.0	L	M/L	L
C	*Dominican Rep.*	33.4	79.3	H	M/H	L
BB	Mexico	33.0	75.9	L	M/L	L
C	Sri Lanka	32.6	68.4	L	M/H	M/L
B	Morocco	32.5	65.8	L	L	L
B	El *Salvador*	26.5	55.2	M/H	L	L
C	*Turkey*	26.0	90.1	H	M/L	M/L

► *Note : excludes countries with GDP < USD 20 bn or EH country grade D*
► *Thresholds: exports of goods & services >25% of GDPand manufactures >50% of total exports*
Sources: Euler Hermes CRU, UNCTAD (for export data)

Key:
- H High risk
- M/H Medium-High risk
- M/F Medium-Low risk
- L Low risk

Key conclusions

Emerging economies have not decoupled but many are more resilient to external shocks than before thanks to better policies and the accumulation of ample foreign exchange reserves over the past decade. Nonetheless vulnerabilities clearly exist and this analysis highlights those economies which, in our view, could be hardest hit without appropriate corrective policies. Periods of boom often mask policy weaknesses but periods of bust tend to find them out. ▣ *DA/AA/MS*

Vulnerability of selected non-fuel commodity producers

Table 3

Grade	Country	Euler Hermes indicators: External liquidity A	Policy B	Debt C
C	*Jamaica*	M/H	M/H	M/L
C	Tanzania	M/L	M/H	M/H
C	Argentina	L	M/L	H
C	Ghana	M/L	H	L
B	*Guatemala*	M/L	M/H	M/L
C	*Honduras*	M/H	M/H	L
C	*Mozambique*	M/L	M/L	M/H
BB	*South Alrica*	M/H	M/L	L
C	Benin	L	M/H	L
C	Burkina Faso	L	M/H	M/L
BB	Brazil	L	M/H	L
B	El *Salvador*	M/L	L	M/L
B	Paraguay	L	M/H	L
C	Uganda	L	M/H	L
B	Uruguay	L	M/L	M/L
A	Chile	M/L	L	L
B	Namibia	L	M/L	L
BB	Botswana	L	L	L
B	Peru	L	L	L

► *Note: excludes countries with GDP <USD 7bn or EH country grade D*

► *Threshold: non-fuel primary commodities >40% of totalexports*

Source: Euler Hermes CRU

Key:

H	High risk
M/H	Medium-High risk
M/F	Medium-Low risk
L	Low risk

Selected energy producers

Table 4

EH grade	Sub-Saharan Africa	%	Latin America and Caribbean	%	Middle East and North Africa	%	Europe and Asia	%
A					UAE	51.3		
BB			Trinidad & Tobago	76.5	Oman	94.7	Brunei	96.3
					Kuwait	94.3		
					Qatar	89.7		
					Saudi Arabia	89.2		
					Bahrain	79.1		
C	Gabon	85.6			Algeria	98.1	Kazakhstan	68.7
	Cameroon	61.6			Egypt	55.5	Russia	62.9
					Libya	90.6		
D	Angola	97.5	Venezuela	92.6	Iraq	93.9	Azerbaijan	84.6
	Nigeria	95.0	Bolivia	48.8	Yemen	91.8	Turkmenistan	79.7
	Chad	94.6	Ecuador	44.0	Iran	83.3		
	Equatorial Guinea	94.5			Syria	40.3		
	Congo	90.3						
	Sudan	87.5						

► *Note: excludes countries with GDP < USD 5 bn EH country grade D*

► *Threshold: Fuel >40% of total exports*

Sources: Euler Hermes CRU, UNCTAD (for export data)

Spotlight

On Country Risk

World leader in credit insurance, the Euler Hermes group continuously monitors country risk across the globe. The group has developed a methodology that combines both political and economic analysis. This produces country ratings in six categories, from the safest to potentially the most risky. We offer here a detailed table of risk ratings for the world's biggest economies (out of 241 rated) and a mapping of these risks for developing and emerging economies.
Since the start of 2008, all revisions in these ratings have been downwards: Kenya and the Marshall Islands have been rated D since February 2008, while Lesotho and Swaziland were downgraded to C in, respectively, April and June 2008.

Definition of Euler Hermes country ratings

For more details on the methodology of our Country Risk Ratings, see the previous issue of Economic Outlook (no 3, Summer 2008, page 47)

EH rating	Number of countries*	% of world GDP 2007	Definition
AA	35	73.8	Strong economic structure and policy framework (industrialised economy or similar). Negligible risk of external liquidity crisis. Generally sound business environment. Negligible risk of political instability. Strong capacity to respond to economic crisis.
A	44	4.3	Economic structure and policy framework generally adequate. Very low risk of external liquidity crisis. Generally sound business environment. Negligible risk of political instability. Good capacity to respond to economic crisis.
BB	20	7.0	Some signs of structural and policy weakness. External liquidity adequate, some weakness in business environment and/or identified but moderate risk of political instability and adequate capacity to respond to economic crisis.
B	25	8.5	A range of structural and policy weaknesses and/or vulnerable external liquidity position, some weaknesses in business environment and/or serious weaknesses in political framwork with higher risk of political instability and limited capacity to respond to economic crisis.
C	41	4.4	Deep structural weakness and/or strong policy measures required and/or external liquidity risk is high, serious weaknesses in business environment and/or serious weaknesses in political framework with higher risk of political instablility and little capacity to respond to economic crisis.
D	76	2.0	Structurally very weak and policy ineffective and/or current/imminent external liquidity crisis, serious weakness in business environment and/or actual or very high risk of political instablility. No capacity to respond to economic crisis.

** as of July 31, 2008*

Spotlight

On Country Risk

Population, GDP and risk rating

	POPULATION 2007 *(millions)*	% OF WORLD *total*	GDP 2007 *($ billions)*	% OF WORLD *total*	GDP PER CAPITA ($) 2007	AVERAGE 2007 EXCHANGE RATE *(units per $1.00)*	EH RATING**
North America	336.5	5.1	15,237.7	28.0	45,288		AA
USA	303.7	4.6	13,807.6	25.4	45,468	1.0	AA
Canada	32.7	0.5	1,430.2	2.6	43,785	1.1	AA
Western Europe	401.9	6.1	16,512.0	30.4	41,087		AA
Germany	82.6	1.2	3,321.1	6.1	40,184	0.7	AA
UK	60.6	0.9	2,764.8	5.1	45,632	0.5	AA
France	61.4	0.9	2,590.1	4.8	42,163	0.7	AA
Italy	59.0	0.9	2,101.5	3.9	35,620	0.7	AA
Spain	44.1	0.7	1,437.9	2.6	32,641	0.7	AA
Netherlands	16.4	0.2	776.1	1.4	47,335	0.7	AA
Sweden	9.1	0.1	454.4	0.8	49,993	6.8	AA
Belgium	10.4	0.2	453.6	0.8	43,449	0.7	AA
Switzerland	7.5	0.1	426.7	0.8	57,175	1.2	AA
Norway	4.7	0.1	388.1	0.7	82,989	5.9	AA
Austria	8.3	0.1	373.3	0.7	44,765	0.7	AA
Greece	11.1	0.2	313.4	0.6	28,159	0.7	AA
Denmark	5.4	0.1	311.6	0.6	57,345	5.4	AA
Ireland	4.2	0.1	261.0	0.5	61,510	0.7	AA
Finland	5.3	0.1	245.6	0.5	46,589	0.7	AA
Portugal	10.6	0.2	222.8	0.4	21,027	0.7	AA
Luxembourg	0.5	0.0	50.1	0.1	106,121	0.7	AA
Iceland	0.3	0.0	20.0	0.0	66,747	64.1	A
Japan	128.0	1.9	4,375.0	8.0	34,185	117.8	AA
South, Central and East Asia	3,600.8	54.4	7,663.2	14.1	2,128		B
China	1,323.1	20.0	3,242.3	6.0	2,451	7.6	B
India	1,156.6	17.5	1,139.9	2.1	986	41.3	B
South Korea	48.1	0.7	957.0	1.8	19,896	929.2	A
Indonesia	229.7	3.5	433.0	0.8	1,885	9,139.9	C
Taiwan	22.7	0.3	383.2	0.7	16,901	32.9	A
Thailand	63.6	1.0	247.7	0.5	3,897	34.2	BB
Hong Kong	7.2	0.1	206.7	0.4	28,895	7.8	A
Malaysia	26.2	0.4	186.7	0.3	7,113	3.4	A
Singapore	4.4	0.1	161.4	0.3	36,703	1.5	AA
Philippines	86.7	1.3	144.2	0.3	1,663	46.1	B
Pakistan	161.7	2.4	143.4	0.3	887	60.7	C
Kazakhstan	15.3	0.2	103.8	0.2	6,769	122.5	C
Bangladesh	156.8	2.4	72.4	0.1	462	68.9	D
Vietnam	86.5	1.3	71.1	0.1	821	16,083.8	C
Sri Lanka	19.2	0.3	30.0	0.1	1,561	110.6	C
Turkmenistan	5.1	0.1	26.9	0.0	5,249	5,200.1	D
Uzbekistan	26.6	0.4	22.3	0.0	839	1,264.0	D
Macao	0.5	0.0	18.5	0.0	40,037	8.0	A
Myanmar	48.5	0.7	13.5	0.0	279	-	D
Brunei	0.4	0.0	12.4	0.0	32,536	1.5	BB
Nepal	26.0	0.4	10.9	0.0	418	66.1	D
Afghanistan	27.0	0.4	8.9	0.0	332	49.5	D
Cambodia	14.3	0.2	8.7	0.0	609	4,004.4	D
Laos	5.8	0.1	4.0	0.0	698	9,598.1	D
Mongolia	2.6	0.0	3.9	0.0	1,491	1,170.6	D
Kyrgyzstan	5.3	0.1	3.8	0.0	712	37.2	D
Tajikistan	6.4	0.1	3.7	0.0	581	-	D
Bhutan	0.7	0.0	1.3	0.0	2,002	41.3	C

** average rating using GDP weighting* *** EH rating as of July 31, 2008*

Source: Euler Hermes

Population, GDP and risk rating

	POPULATION 2007 *(millions)*	% OF WORLD *total*	GDP 2007 *($ billions)*	% OF WORLD *total*	GDP PER CAPITA ($) 2007	AVERAGE 2007 EXCHANGE RATE *(units per $1.00)*	EH RATING**
Latin America	562.0	8.5	3 404.6	6.3	6,058		BB
Brazil	190.0	2.9	1,313.5	2.4	6,912	1.9	BB
Mexico	105.6	1.6	893.5	1.6	8,461	10.9	BB
Argentina	39.2	0.6	259.6	0.5	6,615	3.1	C
Venezuela	27.3	0.4	189.8	0.3	6,947	2,677.6	D
Colombia	45.7	0.7	171.6	0.3	3,753	2,075.9	B
Chile	16.5	0.2	163.9	0.3	9,926	522.1	A
Peru	27.7	0.4	109.0	0.2	3,938	3.1	B
Ecuador	13.2	0.2	44.2	0.1	3,337	25,000.0	D
Dominican Republic	9.7	0.1	36.8	0.1	3,808	33.0	C
Guatemala	13.1	0.2	33.4	0.1	2,547	7.7	B
Costa Rica	4.4	0.1	26.2	0.0	5,934	516.8	B
Uruguay	3.3	0.1	22.9	0.0	6,864	23.5	B
Trinidad & Tobago	1.3	0.0	20.7	0.0	15,564	6.3	BB
El Salvador	6.8	0.1	20.4	0.0	3,001	8.8	B
Panama	3.3	0.0	19.7	0.0	5,975	1.0	B
Bolivia	9.4	0.1	13.0	0.0	1,385	7.9	D
Honduras	7.0	0.1	12.3	0.0	1,758	18.9	C
Paraguay	6.0	0.1	11.8	0.0	1,956	5,027.5	B
Jamaica	2.7	0.0	11.3	0.0	4,210	69.0	C
Bahamas	0.3	0.0	6.6	0.0	20,052	1.0	BB
Central and Eastern Europe	417.8	6.3	3,442.1	6.3	8,239		B
Russia	143.0	2.2	1,289.5	2.4	9,016	25.6	C
Turkey	74.2	1.1	606.4	1.1	8,174	1.4	C
Poland	38.1	0.6	420.5	0.8	11,030	2.8	BB
Czech Republic	10.2	0.2	175.3	0.3	17,209	20.3	A
Romania	21.6	0.3	166.1	0.3	7,700	2.4	B
Ukraine	46.7	0.7	141.0	0.3	3,021	5.0	D
Hungary	10.1	0.2	138.2	0.3	13,752	183.6	B
Slovak Republic	5.4	0.1	75.0	0.1	13,925	24.7	BB
Croatia	4.4	0.1	51.4	0.1	11,579	5.4	B
Slovenia	2.0	0.0	46.0	0.1	22,992	0.7	A
Belarus	9.7	0.1	44.7	0.1	4,618	2,147.9	D
Serbia	7.0	0.1	41.7	0.1	5,954	-	D
Bulgaria	7.7	0.1	39.6	0.1	5,151	1.4	B
Lithuania	3.4	0.1	38.4	0.1	11,335	2.5	B
Azerbaijan	8.4	0.1	31.2	0.1	3,711	0.9	D
Latvia	2.3	0.0	27.5	0.1	12,018	0.5	C
Estonia	1.3	0.0	21.3	0.0	15,893	11.4	B
Cyprus	0.8	0.0	21.3	0.0	25,070	0.4	BB
Bosnia-Hercegovina	4.0	0.1	14.8	0.0	3,730	1.4	D
Albania	3.2	0.0	10.7	0.0	3,376	90.4	D
Georgia	4.4	0.1	10.2	0.0	2,317	1.7	D
Armenia	3.0	0.0	9.2	0.0	3,062	341.5	D
Macedonia	2.0	0.0	7.5	0.0	3,673	44.8	D
Malta	0.4	0.0	7.4	0.0	18,152	0.3	A
Moldova	3.8	0.1	4.2	0.0	1,111	12.1	D
Sub-Saharan Africa	792.7	12.0	859.5	1.6	1,084		C
South Africa	48.4	0.7	282.8	0.5	5 ,843	7.1	BB
Nigeria	145.7	2.2	166.0	0.3	1,139	125.7	D
Angola	16.7	0.3	61.4	0.1	3,677	76.8	D
Sudan	37.9	0.6	46.1	0.1	1,217	2.0	D
Kenya	36.8	0.6	29.5	0.1	802	67.3	D
Cameroon	18.3	0.3	20.7	0.0	1,130	479.0	C
Côte d'Ivoire	19.0	0.3	19.6	0.0	1,030	479.3	D

** average rating using GDP weighting* *** EH rating as of July 31, 2008*
Source: Euler Hermes

Spotlight

On Country Risk

Population, GDP and risk rating

	POPULATION 2007 *(millions)*	% OF WORLD *total*	GDP 2007 *($ billions)*	% OF WORLD *total*	GDP PER CAPITA ($) 2007	AVERAGE 2007 EXCHANGE RATE *(units per $1.00)*	EH RATING**
Ethiopia	81.6	1.2	19.0	0.0	233	9.0	D
Botswana	1.9	0.0	17.9	0.0	9,629	4.2	BB
Tanzania	39.7	0.6	16.3	0.0	411	1,240.8	C
Ghana	23.1	0.3	14.9	0.0	645	0.9	C
Uganda	30.2	0.5	11.6	0.0	384	1,723.8	C
Gabon	1.3	0.0	11.3	0.0	8,575	479.0	C
Zambia	11.8	0.2	11.2	0.0	951	3,995.5	D
Senegal	12.2	0.2	11.1	0.0	914	479.0	C
Equatorial Guinea	1.2	0.0	10.5	0.0	8,878	479.0	D
Congo (Democratic Rep of)	61.2	0.9	9.4	0.0	154	555.8	D
Congo (Peoples Rep of)	3.7	0.1	7.6	0.0	2,061	479.0	D
Mozambique	21.1	0.3	7.6	0.0	359	25.8	C
Namibia	2.1	0.0	7.4	0.0	3,606	7.0	B
Madagascar	19.3	0.3	7.3	0.0	380	1,873.3	D
Chad	9.3	0.1	7.1	0.0	760	479.0	D
Mauritius	1.3	0.0	7.0	0.0	5,589	31.2	BB
Burkina Faso	14.5	0.2	7.0	0.0	481	479.0	C
Mali	12.1	0.2	6.8	0.0	567	479.0	D
Benin	8.8	0.1	5.6	0.0	629	479.0	C
Guinea (Rep of)	9.2	0.1	4.4	0.0	473	4,509.1	D
Niger	13.9	0.2	4.2	0.0	301	479.0	D
Malawi	13.7	0.2	3.6	0.0	260	140.0	D
Rwanda	9.5	0.1	3.3	0.0	351	547.1	D
Swaziland	1.1	0.0	2.9	0.0	2,585	7.0	C
Mauritania	3.1	0.0	2.8	0.0	897	262.5	D
Togo	6.5	0.1	2.5	0.0	386	479.0	D
Central African Rep	4.3	0.1	1.7	0.0	400	479.0	D
Sierra Leone	5.8	0.1	1.7	0.0	287	2,984.6	D
Lesotho	2.0	0.0	1.6	0.0	800	7.0	C
Cape Verde Islands	0.5	0.0	1.4	0.0	2,723	80.9	D
Eritrea	4.6	0.1	1.3	0.0	287	-	D
Burundi	8.3	0.1	1.0	0.0	122	1,081.7	D
Djibouti	0.8	0.0	0.9	0.0	1,034	175.8	D
Liberia	3.6	0.1	0.7	0.0	202	-	D
Middle East and North Africa	347.1	5.2	1,824.2	3.4	5,255		B
Saudi Arabia	24.3	0.4	375.8	0.7	15,442	3.7	BB
Iran	70.5	1.1	290.0	0.5	4,115	9,278.8	D
U.A.E.	4.3	0.1	192.6	0.4	44,858	3.7	A
Israel	7.1	0.1	161.8	0.3	22,839	4.1	BB
Algeria	33.5	0.5	131.8	0.2	3,935	69.7	C
Egypt	74.5	1.1	129.5	0.2	1,738	5.6	C
Kuwait	2.8	0.0	110.0	0.2	39,247	0.3	BB
Morocco	30.9	0.5	73.4	0.1	2,372	8.2	B
Qatar	0.8	0.0	67.8	0.1	81,606	3.6	BB
Libya	6.1	0.1	57.0	0.1	9,380	1.3	C
Oman	2.6	0.0	40.0	0.1	15,667	0.4	BB
Iraq	27.5	0.4	39.7	0.1	1,442	1,255.0	D
Syria	19.6	0.3	38.0	0.1	1,942	51.7	D
Tunisia	10.2	0.2	35.1	0.1	3,423	1.3	BB
Lebanon	4.1	0.1	24.6	0.0	6,038	1,512.2	D
Yemen	21.8	0.3	21.7	0.0	993	198.9	D
Oceania	33.5	0.5	1,046.6	1.9	31,197		AA
Australia	20.6	0.3	907.1	1.7	44,048	1.2	AA
New Zealand	4.2	0.1	128.0	0.2	30,813	1.4	AA
World	6,620.3	100.3	54 365.0	100.0	8,212		A

** average rating using GDP weighting*   *** EH rating as of July 31, 2008*

Source: Euler Hermes

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