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Report Card:

Emerging Market Sovereign Credit: The House Shook, But It's Still Standing

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Report Card:

Emerging Market Sovereign Credit: The House Shook, But It's Still Standing

Key Credit Trends

The pace of credit deterioration slowed nearly to a halt in the emerging market sovereign asset class by our metrics since our last report card (see "Emerging Market Sovereign Credit: The Race Is Run; The Runner Spent," published April 20, 2009). In the last six months, we lowered the ratings on three emerging market sovereigns and raised the ratings on two. No emerging market sovereign defaulted, and one emerged from default. Currently, 12 of 42 emerging market sovereigns have a negative outlook, as opposed to 16 of 43 six months before.

As we argued in the last report card, this asset class is resilient: it withstood a severe external shock--an earthquake that knocked over a cabinet or two but didn't collapse the house. No rating on an emerging market sovereign has fallen out of investment grade (although ratings on two other sovereigns have) since the global recession began. The distribution of our ratings by category is virtually unchanged during the period under review, and our default statistics are broadly in line with or below the reference rates proposed by the Basel II Committee On Banking Supervision. Although risks remain to the downside, as our rating outlooks and economic forecasts indicate, we believe our ratings capture these risks. In the near term, we expect the rate of downgrades to remain in the historical range that prevailed before the global recession. In the medium term, we also expect to upgrade selected emerging market sovereigns as their fundamentals improve.

This report card covers 42 central governments of low- and middle-income countries that are significant issuers of foreign currency bonds or that have a material nonresident investor base for their local currency government debt. The selected set began with 14 sovereigns on Jan. 1, 1994, and now includes 42 sovereigns as of Sept. 25, 2009. (In this last period, we graduated the Slovak Republic, and removed its rating data from this set. With an 'A+' rating and having joined the European Monetary Union, the Slovak Republic has more in common with high income nations.) These 42 include more than a third of the 124 sovereigns we now rate. (See table 9 for the list of emerging market sovereigns, including their official names. All ratings in this article are long-term foreign currency sovereign ratings as of the article date; outlooks also refer to foreign currency ratings.)

Rating Action Recap

The number of sovereign downgrades has fallen markedly since March 31, 2009, the data closure date of our last emerging market sovereign report card. In the latest six-month period, we lowered three ratings, versus 14 in the previous period (see table 1). We lowered a high percentage of the emerging market sovereign ratings during the period from October 2008 to March 2009 (see chart 1). In the last six months, the percentage of downgrades returned to the range of 2% to 5% per quarter that was more common in the past decade.

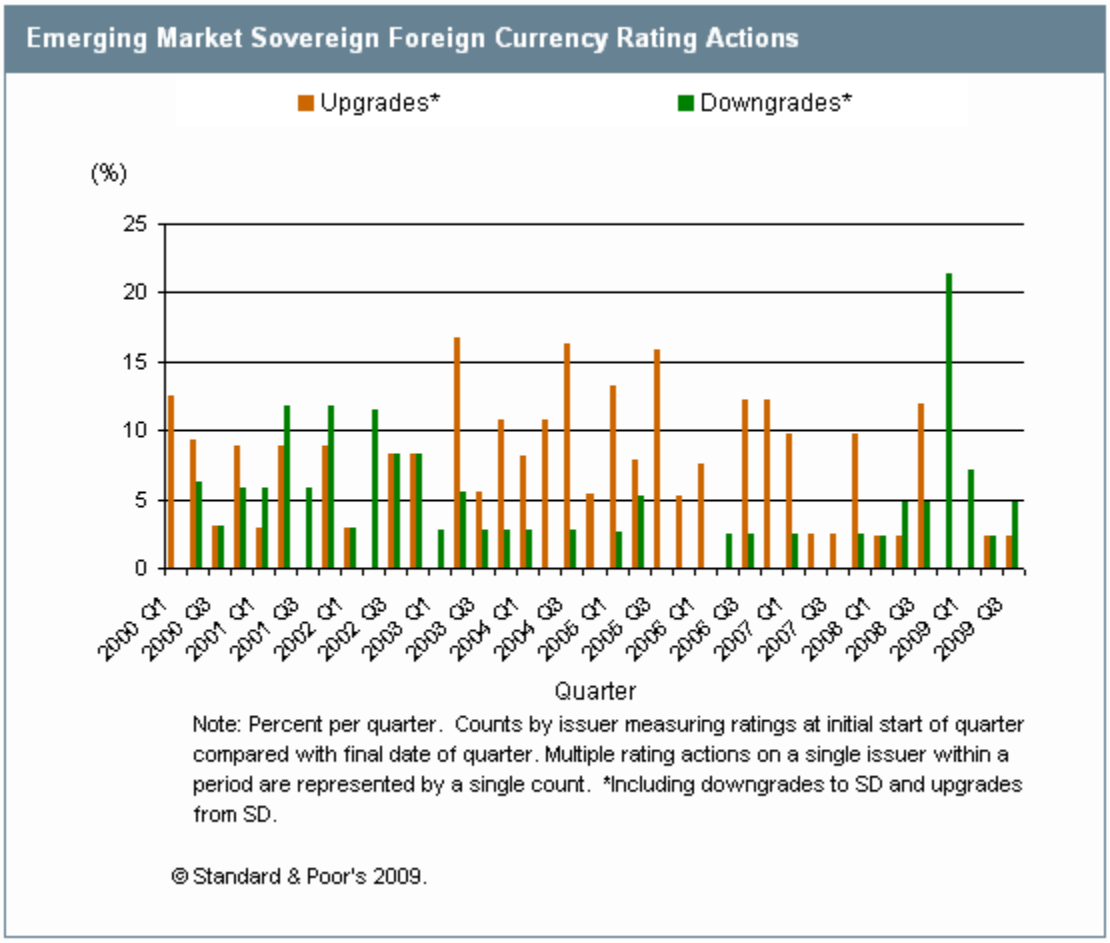
Table 1

Emerging Market Foreign Currency Sovereign Rating Actions: Counts*

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3
Upgrades¶	3	0	5	4	4	1	1	4	1	1	5	1	0	1	1
Downgrades§	0	1	1	1	1	0	0	1	1	2	2	11	3	1	2

Note: Click on the "View Expanded Table" link to see data for 1998-2005. *Counts of discrete downgrades and upgrades. ¶Including upgrades from SD. §Including downgrades to SD.

Chart 1



The downgrades themselves pertained to El Salvador in the second quarter (see "Republic of El Salvador Long-Term Ratings Lowered To 'BB' From 'BB+'; Outlook Stable," published May 12, 2009), and, in the third quarter, Jamaica (see "Jamaica Long-Term Ratings Lowered To 'CCC+'; Outlook Is Negative," published Aug. 5, 2009) and Nigeria (see "Nigeria Sovereign Ratings Lowered To 'B+' On Banking System Distress And Deepening Fiscal Problems; Outlook Stable," published Aug. 21, 2009). We lowered the rating on El Salvador because its debt dynamics no longer were compatible with a 'BB+' rating, which is at the top of speculative grade. We downgraded Jamaica because we believe the chances of a distressed debt exchange have risen. We cut Nigeria's rating because the troubles in its banking system were deeper than we had previously thought and because of the falloff of government oil revenues. All the downgrades were a single notch, although the ratings of Jamaica and Nigeria fell into a lower

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rating category.

During the last six months, we raised two emerging market sovereign ratings. Ecuador emerged from default after curing its default through an exchange (see "Republic of Ecuador Ratings Raised To 'CCC+' From 'SD'; Outlook Stable," published June 15, 2009) and we raised Pakistan's rating one notch, given its improved external liquidity position and the progress it has made under its IMF program (see "Rating On Pakistan Raised To 'B-'; Outlook Stable," published Aug. 24, 2009).

These rating actions left the proportion of emerging market sovereigns in investment grade ('BBB-' or above) unchanged at 40% (see chart 2 and table 2). The proportion of ratings in the 'CCC' category rose to 7% as of Sept. 25, 2009, with the upgrade of Ecuador from 'SD' and the downgrade of Jamaica. The asset class is well spread out among rating categories between 'A' and 'CCC'.

Chart 2

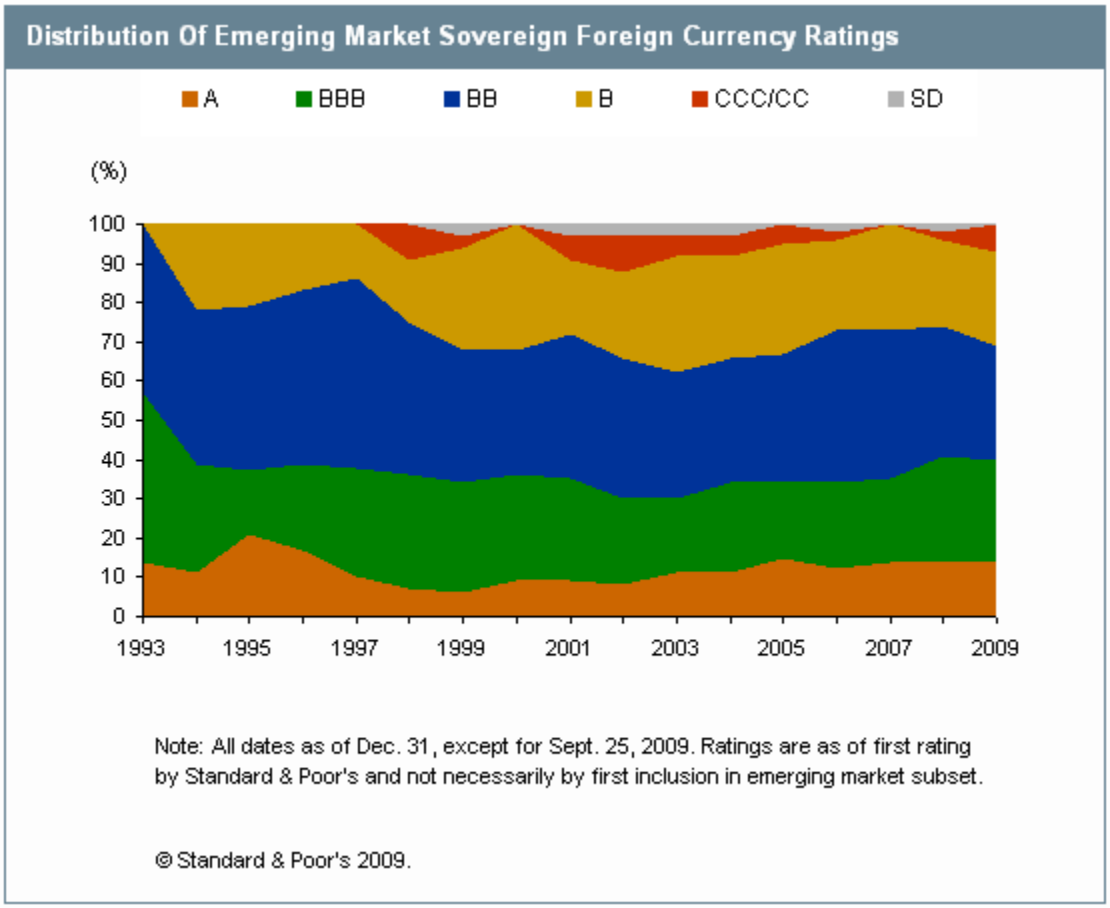


Table 2

Distribution Of Emerging Market Foreign Currency Sovereign Ratings (%)

(%)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
AA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
A	14	11	21	17	10	7	6	9	9	8	11	11	15	12	14	14	14
BBB	43	28	16	22	28	29	28	27	26	22	19	24	20	22	21	26	26

Table 2

Distribution Of Emerging Market Foreign Currency Sovereign Ratings (%) (cont.)

Investment grade	57	39	37	39	38	36	34	36	35	30	30	34	34	34	35	40	40
BB	43	39	42	44	48	39	34	32	37	36	32	32	33	39	38	34	29
B	0	22	21	17	14	16	26	32	19	22	30	26	28	23	27	22	24
CCC/CC	0	0	0	0	0	9	3	0	6	9	5	5	5	2	0	2	7
SD	0	0	0	0	0	0	3	0	3	3	3	3	0	2	0	2	0
Speculative grade	43	61	63	61	62	64	66	64	65	70	70	66	66	66	65	60	60

Note: All dates of Dec. 31, except for Sept. 25, 2009. These data have been rebased to show when we first rated a sovereign, not when it necessarily entered the emerging market sovereign subset by virtue of commercial debt issuance.

Table 3 sets out the rating history of these 42 governments since 1994 (or at later discrete dates if we first rated them more recently). Between 1994 and the present, 19 of the 42 emerging market sovereigns have reached higher ratings than when we first started rating them, 16 have lower ratings, and the ratings on seven are unchanged (see tables 3 and 4). As of Sept. 25, 2009, 12 emerging market sovereigns had a negative outlook, 29 had a stable outlook, and Ukraine alone had a positive outlook. Although outlooks are not announcements of a fate foretold, they have high predictive value (see "Use Of CreditWatch And Outlooks," published Sept. 14, 2009, and "Outlooks: The Sovereign Credit Weathervane, 2008/2009 Update," published March 13, 2009). Thus, we believe that emerging market sovereign ratings will remain under pressure. However, this pressure is abating somewhat. Since our last emerging market scorecard, apart from the governments whose ratings we raised or lowered, the ratings outlooks for three sovereigns improved (Kazakhstan, Turkey, and Ukraine) and worsened for one (Mexico).

Table 3

Long-Term Sovereign Ratings And Outlooks At Period End Dates

	1/1/1994	1/1/2000	1/1/2005	6/30/2007	6/30/2008	3/31/2009	9/25/2009
Argentina	BB-/Stable	BB/Negative	SD	B+/Stable	B+/Negative	B-/Negative	B-/Stable
Belize	NR	NR	B-/Negative	SD	B/Stable	B/Stable	B/Stable
Brazil	NR	B+/Stable	BB-/Stable	BB+/Positive	BBB-/Stable	BBB-/Stable	BBB-/Stable
Bulgaria	NR	B/Positive	BBB-/Stable	BBB+/Stable	BBB+/Stable	BBB/Negative	BBB/Negative
Chile	BBB+/Stable	A-/Stable	A/Stable	A/Positive	A+/Stable	A+/Stable	A+/Stable
China	BBB/Positive	BBB/Stable	BBB+/Positive	A/Stable	A/Positive	A+/Stable	A+/Stable
Colombia	BBB-/Stable	BB+/Stable	BB/Stable	BB+/Stable	BB+/Stable	BB+/Stable	BB+/Stable
Czech Republic	BBB/Positive	A-/Stable	A-/Stable	A-/Positive	A/Stable	A/Stable	A/Stable
Dominican Republic	NR	B+/Stable	CC/Negative	B/Positive	B+/Watch Neg	B/Stable	B/Stable
Ecuador	NR	NR	CCC+/Stable	CCC/Negative	B-/Stable	SD	CCC+/Stable
Egypt	NR	BBB-/Stable	BB+/Negative	BB+/Stable	BB+/Stable	BB+/Stable	BB+/Stable
El Salvador	NR	BB+/Stable	BB+/Stable	BB+/Stable	BB+/Stable	BB+/Negative	BB/Stable
Gabonese Republic	NR	NR	NR	NR	BB-/Stable	BB-/Stable	BB-/Stable
Georgia	NR	NR	NR	B+/Stable	B+/Stable	B/Stable	B/Stable
Ghana	NR	NR	B+/Stable	B+/Stable	B+/Stable	B+/Negative	B+/Negative
Hungary	BB+/Positive	BBB/Positive	A-/Stable	BBB+/Stable	BBB+/Negative	BBB-/Negative	BBB-/Negative
India	BB+/Stable	BB/Stable	BB/Positive	BBB-/Stable	BBB-/Stable	BBB-/Negative	BBB-/Negative

Table 3

Long-Term Sovereign Ratings And Outlooks At Period End Dates (cont.)

Indonesia	BBB-/Positive	CCC+/Watch Neg	B+/Positive	BB-/Stable	BB-/Stable	BB-/Stable	BB-/Stable
Jamaica	NR	B/Stable	B/Stable	B/Stable	B/Stable	B-/Negative	CCC+/Negative
Kazakhstan	NR	B+/Stable	BBB-/Stable	BBB/Stable	BBB-/Negative	BBB-/Negative	BBB-/Stable
Lebanon	NR	BB-/Negative	B-/Stable	B-/Negative	CCC+/Stable	B-/Stable	B-/Stable
Malaysia	A/Positive	BBB/Stable	A-/Stable	A-/Stable	A-/Stable	A-/Stable	A-/Stable
Mexico	BB+/Positive	BB/Positive	BBB-/Stable	BBB/Stable	BBB+/Stable	BBB+/Stable	BBB+/Negative
Morocco	NR	BB/Stable	BB/Positive	BB+/Positive	BB+/Stable	BB+/Stable	BB+/Stable
Nigeria	NR	NR	NR	BB-/Stable	BB-/Stable	BB-/Negative	B+/Stable
Pakistan	NR	B-/Stable	B+/Stable	B+/Positive	B/Negative	CCC+/Developing	B-/Stable
Panama	NR	BB+/Negative	BB/Negative	BB/Positive	BB+/Stable	BB+/Stable	BB+/Stable
Peru	NR	BB/Stable	BB/Stable	BB+/Stable	BB+/Positive	BBB-/Stable	BBB-/Stable
Philippines	BB-/Stable	BB+/Stable	BB/Stable	BB-/Stable	BB-/Stable	BB-/Stable	BB-/Stable
Poland	NR	BBB/Positive	BBB+/Stable	A-/Stable	A-/Positive	A-/Stable	A-/Stable
Russia	NR	SD	BB+/Stable	BBB+/Stable	BBB+/Positive	BBB/Negative	BBB/Negative
Serbia	NR	NR	B+/Stable	BB-/Positive	BB-/Negative	BB-/Negative	BB-/Negative
South Africa	NR	BB+/Stable	BBB/Stable	BBB+/Stable	BBB+/Stable	BBB+/Negative	BBB+/Negative
Sri Lanka	NR	NR	NR	B+/Negative	B+/Negative	B/Stable	B/Stable
Thailand	A-/Stable	BBB-/Stable	BBB+/Stable	BBB+/Stable	BBB+/Stable	BBB+/Negative	BBB+/Negative
Trinidad and Tobago	NR	BBB-/Stable	BBB+/Positive	A-/Stable	A-/Positive	A/Stable	A/Stable
Tunisia	NR	BBB-/Stable	BBB/Stable	BBB/Stable	BBB/Stable	BBB/Stable	BBB/Stable
Turkey	BBB/Negative	B/Positive	BB-/Stable	BB-/Stable	BB-/Negative	BB-/Negative	BB-/Stable
Ukraine	NR	NR	B+/Stable	BB-/Negative	B+/Stable	CCC+/Negative	CCC+/Positive
Uruguay	NR	BBB-/Stable	B/Stable	B+/Positive	B+/Positive	BB-/Stable	BB-/Stable
Venezuela	BB/Negative	B/Stable	B/Stable	BB-/Positive	BB-/Stable	BB-/Negative	BB-/Negative
Vietnam	NR	NR	BB-/Stable	BB/Stable	BB/Negative	BB/Negative	BB/Negative

Note: Foreign currency ratings at period end dates. Dominican Republic, Pakistan, and Venezuela defaulted on debt between period end dates. For a complete sovereign rating history, see "Sovereign Rating And Country T&C Assessment Histories," RatingsDirect, Sept. 8, 2009, and updated monthly. NR--Not rated.

Table 4

Sovereign Rating Movements By Notches Since January 1994*

	1/1/1994	1/1/2000	1/1/2005	6/30/2007	6/30/2008	3/31/2009	9/25/2009
Argentina	BB-	1	(8)	(1)	(1)	(3)	(3)
Belize	NR	NR	B-	(5)	1	1	1
Brazil	NR	B+	1	3	4	4	4
Bulgaria	NR	B	5	7	7	6	6
Chile	BBB+	1	2	2	3	3	3
China	BBB	0	1	3	3	4	4
Colombia	BBB-	(1)	(2)	(1)	(1)	(1)	(1)
Czech Republic	BBB+	1	1	1	2	2	2
Dominican Republic	NR	B+	(4)	0	0	(1)	(1)
Ecuador	NR	NR	CCC+	(1)	1	(4)	0

Table 4

Sovereign Rating Movements By Notches Since January 1994* (cont.)							
Egypt	NR	BBB-	(1)	(1)	(1)	(1)	(1)
El Salvador	NR	BB+	0	0	0	0	(1)
Gabonese Republic	NR	NR	NR	NR	BB-	0	0
Georgia	NR	NR	NR	B+	0	(1)	(1)
Ghana	NR	NR	B+	0	0	0	0
Hungary	BB+	2	4	3	3	1	1
India	BB+	(1)	(1)	1	1	1	1
Indonesia	BBB-	(7)	(4)	(3)	(3)	(3)	(3)
Jamaica	NR	B	0	0	0	(1)	(2)
Kazakhstan	NR	B+	4	5	4	4	4
Lebanon	NR	BB-	(3)	(3)	(4)	(3)	(3)
Malaysia	A	(3)	(1)	(1)	(1)	(1)	(1)
Mexico	BB+	(1)	1	2	3	3	3
Morocco	NR	BB	0	1	1	1	1
Nigeria	NR	NR	NR	BB-	0	0	0
Pakistan	NR	B-	2	2	1	(1)	0
Panama	NR	BB+	(1)	(1)	0	0	0
Peru	NR	BB	0	1	1	2	2
Philippines	BB-	2	1	0	0	0	0
Poland	NR	BBB	1	2	2	2	2
Russia	NR	SD	10	13	13	12	12
Serbia	NR	NR	B+	1	1	1	1
South Africa	NR	BB+	2	3	3	3	3
Sri Lanka	NR	NR	NR	B+	0	(1)	(1)
Thailand	A-	(3)	(1)	(1)	(1)	(1)	(1)
Trinidad and Tobago	NR	BBB-	2	3	3	4	4
Tunisia	NR	BBB-	1	1	1	1	1
Turkey	BBB	(6)	(4)	(4)	(4)	(4)	(4)
Ukraine	NR	NR	B+	1	0	(3)	(3)
Uruguay	NR	BBB-	(5)	(4)	(4)	(3)	(3)
Venezuela	BB	(3)	(3)	(1)	(1)	(1)	(1)
Vietnam	NR	NR	BB-	1	1	1	1

*Rating movements are since Jan. 1, 2004, or since the period end date after initial rating. Foreign currency ratings. Positive numbers indicate upgrades. Negative numbers indicate downgrades. Ratings as of discrete dates. For a complete sovereign rating history, see "Sovereign Rating And Country T&C Assessment Histories," RatingsDirect, Sept. 8, 2009, and updated monthly. NR--Not rated.

Table 5

Sovereign Credit Rating Trends March 31, 2009 Versus Sept. 25, 2009		
	Rating	**Outlook**
Argentina	No change	Improved
Belize	No change	No change
Brazil	No change	No change
Bulgaria	No change	No change

Table 5

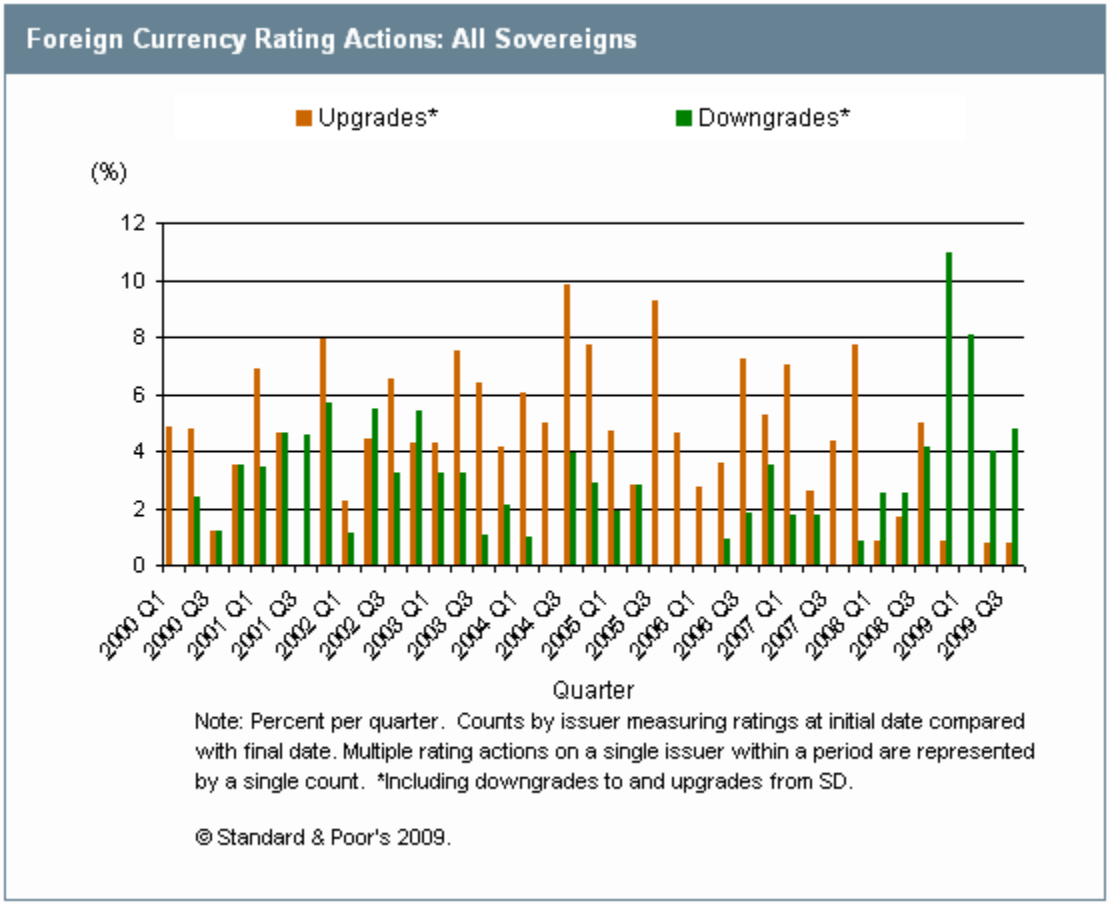
Sovereign Credit Rating Trends March 31, 2009 Versus Sept. 25, 2009 (cont.)		
Chile	No change	No change
China	No change	No change
Colombia	No change	No change
Czech Republic	No change	No change
Dominican Republic	No change	No change
Ecuador	Raised	N/A
Egypt	No change	No change
El Salvador	Lowered	Improved
Gabonese Republic	No change	No change
Georgia	No change	No change
Ghana	No change	No change
Hungary	No change	No change
India	No change	No change
Indonesia	No change	No change
Jamaica	Lowered	No change
Kazakhstan	No change	Improved
Lebanon	No change	No change
Malaysia	No change	No change
Mexico	No change	Worsened
Morocco	No change	No change
Nigeria	Lowered	N/A
Pakistan	Raised	Improved
Panama	No change	No change
Peru	No change	No change
Philippines	No change	No change
Poland	No change	No change
Russia	No change	No change
Serbia	No change	No change
South Africa	No change	No change
Sri Lanka	No change	No change
Thailand	No change	No change
Trinidad and Tobago	No change	No change
Tunisia	No change	No change
Turkey	No change	Improved
Ukraine	No change	Improved
Uruguay	No change	No change
Venezuela	No change	No change
Vietnam	No change	No change

Note: Comparison of foreign currency ratings and outlooks at period end dates. For a complete sovereign rating history, see "Sovereign Rating And Country T&C Assessment Histories," RatingsDirect, Sept. 8, 2009, and updated monthly. N/A--Not applicable.

The rating trends for emerging market sovereigns are comparable to rating trends for all rated sovereigns (see chart

3). We upgraded less than 1% of our entire sovereign set either in the second or third quarter of 2009 and downgrades ran 4% to 5% each quarter, rates comparable to those during the 2001 recession.

Chart 3



Forecasts Remain Glum

Our forecasts also point to persistent ratings pressure. Economic conditions remain difficult. We project that only 14 of the 42 emerging market countries will have positive real per capita income growth in 2009 and eight will continue to contract in 2010. The fiscal position of almost every government will be worse than that of the preceding five years as automatic stabilizers operate. Comparing 2007 with 2011, we expect government debt levels to increase by 5% or more of GDP in 14 sovereigns. Although the global recession will help slow domestic credit growth and help narrow current account positions in many deficit countries, half of them will have gross external financing requirements exceeding current account receipts plus usable reserves this year and next. The stock of external debt, however, should remain at manageable levels for most of them. (See Appendix, tables 1 through 7 for our forecasts.)

Default Rates Will Rise

No emerging market sovereign has defaulted since Ecuador in December 2008. As our rating levels and rating actions indicate, we expect sovereign default rates to rise. Since the 2002 to 2004 cohort, our three-year cumulative default rates for emerging market sovereigns have been below the monitoring and trigger level the Basel Committee On Banking Supervision proposed for all rating categories (see table 6 and "Basel II Update Of Global Ratings," published March 3, 2008). Except for the 'BBB' level, our 10-year average three-year cumulative default rate for emerging market sovereigns is also below the Basel II committee reference rate (see table 7).

Table 6

Three-Year Cumulative Default Rate For Emerging Market Sovereigns

	Monitoring level	Trigger level	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
AA-AAA	0.80	1.20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
A	1.00	1.30	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BBB	2.40	3.00	0	0.00	0.00	11.11	11.11	0.00	0.00	0.00	0.00	0.00
BB	11.00	12.40	14.28	8.33	9.09	9.09	0.00	7.69	0.00	0.00	0.00	0.00
B	28.60	35.00	25	0.00	0.00	9.09	11.11	12.50	18.18	20.00	0.00	0.00

Note: Transition rates to default on foreign currency debt for sovereigns rated at the beginning of the period. All dates as of Dec. 31, except for Sept. 25, 2009. These three-year cumulative default rates (CDR) are calculated to meet the definition of CDR put forward by the Basel Committee on Banking Supervision in the Basel II proposals. The "monitoring level" is the first threshold prompting financial institutions to pay additional attention to the changing credit environment. The "trigger level" is the second threshold that if breached two years in row implies cumulative default rates are considerably above historical default experience prompting financial institutions to review risk weights for investments. N/A--Not applicable (no observations).

Table 7

Ten-Year Average Of Three-Year Cumulative Default Rates: Emerging Market Versus Reference Rate

	Reference rate*	EM sovereigns CDR (%)¶
AA-AAA	0.10	N/A
A	0.25	0.00
BBB	1.00	3.45
BB	7.50	3.20
B	20.00	10.39

*Proposed by the Basel Committee on Banking Supervision. Under its Basel II proposals, the Basel Committee on Banking Supervision has put forward two measures of default risk to provide financial institutions with guidance for risk weighting of investments. The measures are the three-year cumulative default rate and the 10-year average of three-year cumulative default rates on foreign currency sovereign debt. The 10-year average of three-year cumulative default rates is calculated by taking the issuer weighted average of the eight most recent trailing three-year cumulative default rates. (The March 2007 and March 2008 cohorts have not completed a three-year horizon so are not included.) The "long-run reference" is intended to provide financial institutions with a general planning measure. ¶Ten-year average, October 1999 to September 2009; transition rates to default for sovereigns rated at beginning of cohort period. CDR--Cumulative default rate. EM--Emerging market. N/A--Not applicable (no observations, i.e., no EM sovereign has been rated 'AAA' or 'AA' in the referenced time horizon).

By definition, we believe that commercial creditors to governments with ratings at the bottom of our scale (such as Jamaica or Ecuador) are particularly vulnerable either to nonpayment or distressed exchanges. Often, the question of what constitutes a distress exchange is a judgment call. For example, this year, we reviewed three exchanges by Argentina and determined that they did not meet our criteria for distressed exchanges (see "Republic of Argentina 'B-/C' Ratings Affirmed On CER Debt Swap; Outlook Remains Stable," published Aug. 25, 2009, for an example). As with rating trends, default trends between emerging market sovereigns and all rated sovereigns map fairly closely (see table 8). The sovereign defaults from the 'BBB' level both came from the emerging market set: Indonesia and Uruguay. Default rates in the 'B' category may be lower for our sovereign rating universe than for the emerging

market subset because the former includes many governments that received large debt relief before obtaining a rating and thus may not be fully seasoned in the default statistics. (For a complete record of sovereign defaults since see "Sovereign Defaults And Rating Transition Data, 2008 Update," published Feb. 12, 2009, and "Sovereign Defaults At 26-Year Low, To Show Little Change In 2007," published Sept. 18, 2006.)

Table 8

Ten-Year Average Of Three-Year Cumulative Default Rates: Emerging Market Versus All Sovereigns*

	Emerging market sovereigns (%)	All sovereigns (%)
AA-AAA	N/A	0.00
A	0.00	0.00
BBB	3.45	2.04
BB	3.20	3.49
B	10.39	7.95

*Ten-year issuer weighted average of three-year transition to default, October 1999 to September 2009; transition rates to default on foreign currency debt for sovereigns rated at beginning of cohort period. N/A--Not applicable (no observations, i.e., no EM sovereign has been rated 'AAA' or 'AA' in the referenced time horizon.

Why Emerging Market Sovereigns Survived

As we argued in earlier emerging market scorecards (see table 10) and in the rationales discussing the upgrades of individual governments earlier in this decade, many emerging market sovereigns had improved their external positions, which helped them maintain investor confidence through the 2009 global recession. They did this by deepening their domestic financial markets (see "The Impact Of Sovereign Creditworthiness On Local Capital Market Development," published Feb. 1, 2008, and "The Credit Implications Of Local Currency Financing," published Oct. 5, 2005) and by building their international reserves. They did it by adopting more flexible exchange rate policies and by diversifying their sources of international finance. Many of them improved their fiscal positions by raising revenues and paying down debt. Some in investment grade even reached the point of being able to conduct countercyclical fiscal policy (see "Latin America: Golden Or Leaden Casket?" published May 20, 2008). Thus, their credit standing was robust in the face of an external shock. Since August 2007, when market dislocations began, we've lowered the rating on only one emerging market sovereign, Ukraine, by more than two notches (see table 3). The ratings and outlook of more than half have stayed the same or improved.

Why Emerging Market Sovereign Ratings Haven't Converged With Those Of The G7

Ironically, the resilience of the asset class has led some commentators in the developing world to ask why the ratings on their governments aren't equal to or better than those of the Group of Seven (G7) industrial countries. The two sets, in fact, intersect at the 'A+' rating: Italy is the lowest rated of the G7 and China and Chile are the highest rated of our emerging market set. In general, however, the G7 have stronger institutions that produce policies that have increased national wealth, engendered flexible labor and product markets, promoted a diversified economy, and deepened domestic financial markets. These institutions, in our view, provide checks and balances that help prevent policy formation from going off course, particularly during difficult economic times. As a rule, they borrow mostly in their own currency or in a currency of a monetary union they belong to. As a result, they enjoy the confidence of investors and then can run countercyclical fiscal policy for an extended period of time.

As with any earthquake there are aftershocks. They may deepen the cracks in the ceiling. But we hold to our opinion that the majority of these governments in investment grade and the higher levels of speculative grade will keep their credit standing intact, thanks to previous policy measures. For the lower rated sovereigns in the 'B' and 'CCC' categories, we expect more defaults. There the supporting beams may need to be reinforced quickly.

Notes on each of the 42 rated emerging market sovereigns follow. Table 9 summarizes our view on the creditworthiness of each sovereign with particular emphasis on near-term factors that may have credit implications, and table 10 cites research articles that examine these sovereigns in detail (available on RatingsDirect).

Emerging Markets Sovereign Review

Table 9

Sovereign/Sovereign credit rating/Comment	Analyst
Argentina (Republic of) (B-/Stable/C) Argentina's 'B-' rating balances the greater risks the government will face over the next 18 months to close its financing gap--at the time of decelerating economic activity and growing political pressures--with the financing cushion the government still has. Any significant fiscal slippage would hurt the government's financial profile and complicate its financing program. In addition, the possibility of a distressed debt exchange puts downward pressure on the rating. However, these challenges need to be analyzed in the context of the government's modest expected fiscal deficit for 2009 (of about 1% of GDP), its only moderate debt maturing in the short term, and finally, relatively high government deposits, which provide cushion to cover debt amortization throughout 2009 and part of 2010. However, the ongoing deceleration in economic growth and an increasingly difficult political environment will continue to challenge fiscal policy throughout the near term. Given the government lack of access to international markets, a significant fiscal slippage could lead to a sovereign default, as domestic markets are shallow and sources of intragovernmental financing are exhausted. However, debt maturing in 2010 is less significant than in 2009. The total amount of principal and interest due in 2010 is equivalent to $12 billion, of which only $7 billion is estimated to be in private hands. Some of the buffers provided by government deposits, including the Administración Nacional de la Seguridad Social (Argentina's social security agency) surplus and the additional funds from the Central Bank will still provide some relief. All things considered, and despite the uncertainty regarding the government's financing program for 2010, we expect the government to muddle through 2010. Steps that could bolster investor confidence, improve the government's access to markets, and lead eventually to higher ratings could include improving the credibility of the Instituto Nacional de Estadística y Censos, regularizing the government's relations with Paris Club creditors and holdouts from the 2005 commercial debt restructuring, or beginning discussions with the IMF about a Standby Arrangement (SBA).	Sebastián Briozzo
Belize (B/Stable/B) The ratings on Belize balance the government's large debt against its improved amortization and cost profiles. The debt exchange, which concluded on Feb. 20, 2007, affected 50% of Belize's total public debt and had a participation rate of more than 95% of the eligible claims. The exchange lowered amortization needs and helped reduce external liquidity pressures. The external financing gap was at 128% of usable reserves and current account receipts in 2008, and we expect this to decline to 125% in 2009 from 163% in 2005. This still-tight external liquidity position reflects the central bank's low external reserve position, which totaled US$175 million as of September 2009. On the fiscal side, we expect the general government balance to deteriorate in 2009 to a deficit of 2% of GDP due to slower economic activity, lower oil prices, salary pressures, and reconstruction costs from a surplus of 1.5% of GDP in 2008. Even though recent economic diversification (in tourism, and oil exploration) had helped to support a relatively solid economic performance over the past few years, we expect GDP growth to suffer in 2009. We forecast real GDP growth to come down to 0.5% in 2009 from 3% in 2008. The stable outlook reflects the balance of risks presented by the government's high debt and weak external liquidity position offset by the relief from the debt exchange and improving fiscal discipline. Further fiscal consolidation, matched by similar strides in boosting the quality and transparency of policymaking, ensuring a steady decline in debt levels and rise in international reserves, would improve sovereign creditworthiness. On the other hand, if the government does not capitalize on the benefits of the positive momentum of low debt service or fiscal discipline slips in the context of the worse-than-expected economic slowdown, the ratings will come under negative pressure.	Roberto Sifon-Arevalo
Brazil (Federative Republic of) (BBB-/Stable/A-3) Our low-investment-grade ratings on Brazil are supported by the government's solid commitment to prudent macroeconomic policies. This commitment was recently tested during the international credit crunch and global economic slowdown, which both sffected the local economy. To protect recent improvement in economic fundamentals and regain a sustainable growth trajectory once the global economy stabilizes, it is critical that Brazil reaffirms this commitment. President Lula da Silva's strong popularity will likely facilitate the implementation of policy to deal with the significant economic challenges in 2009 and 2010. Despite Brazil's improved fundamentals, the negative external shock hurt economic activity significantly at the end of 2008 and beginning	Sebastián Briozzo

of 2009. However, economic activity has stabilized since then and an upward momentum is growing for 2010. We recently revised our GDP growth estimates downward. We now expect that Brazil's GDP growth will be 0% in 2009 and expand by 4.0% in 2010. We believe that the authorities' commitment to prudent macroeconomic policies will remain robust and preserve economic improvements despite challenges in 2009 and presidential elections in 2010. A growing track record of pragmatic and prudent policies through periods of political and economic challenges supports our confidence in this commitment. The government's relatively high debt level (an expected 50% of GDP in net terms for 2009) and still-high interest burden on the budget (expected at 13% in 2009) remain vulnerabilities within Brazil's credit analysis and require fiscal responsibility over the medium term. Fiscal management will benefit from declining local interest rates in 2009, which will help improve the overall fiscal result. Although Brazil has only limited room for countercyclical fiscal policy, given still-high interest rates and reserve requirements, expansionary monetary policy could play a greater role in smoothing out the downward part of the economic cycle. But even if there is misalignment with the current fiscal target in the short term because of the impact of economic deceleration on fiscal revenue, the government will likely contain the longer-term implications for debt sustainability. We expect the general government deficit to reach 3.0% of GDP in 2009, deteriorating only slightly compared to a deficit of 2.1% in 2008.

Bulgaria (Republic of) (BBB/Negative/A-3)

Marko Mrsnik

After a period of high growth fueled by a credit boom, Bulgaria's economy is sharply contracting due to the slowdown in external financing flows. Bulgaria's financial system is dominated by Western European banks, and given the continuing adverse market conditions in their home markets, these banks have severely reduced lending to the nongovernment sector in Bulgaria, which has stalled credit growth. This slowdown is likely to continue next year both engendering and responding to falling investment and private consumption, and exacerbated by weak external demand. Therefore, what had been an unsustainably high current account deficit (24.6% of GDP in 2008) and inflation (down from 15.3% year-on-year in June 2008 to 1.3% in August 2009) are correcting markedly and FDI is falling in concert. Bank asset quality will continue to deteriorate--hurting capitalization, liquidity, and profitability of the sector--and test the resolve of Western banks to support their Bulgarian subsidiaries. After a period of solid budgetary performance, which allowed Bulgaria in 2008 to reduce its gross debt level down to about 14% of GDP and to accumulate fiscal reserves of about 13% of GDP, the country's public finances are under pressure as the revenues decline due to the economic downturn, while pressures on social outlays will increase. The newly elected government is committed to support the Currency Board Arrangement fully and to pursue balanced budgets in 2009 and 2010 by increased tax compliance and spending cuts, thus further reinforcing the previous constraints on spending, while worse-than-expected fiscal outcomes would likely be financed by drawing on fiscal reserves. Fiscal underperformance, coupled with the difficult external financing environment may, nevertheless, require support by the international financial institutions.

Chile (Republic of) (A+/Stable/A-1)

Joydeep Mukherji

The combination of a countercyclical fiscal policy and exchange rate flexibility (that absorbs part of the negative shock from abroad) should limit the decline in economic activity during the year. GDP may shrink more than 1% in 2009 before recovering to 2%-3% in 2010. A rapid decline in inflation (which could fall below 1% in 2009), along with falling interest rates, should also help cushion the impact of the external downturn. While the global downturn will hurt Chile, the economy is likely to suffer less than the economies of many emerging market sovereigns, thanks to the recently enhanced flexibility of fiscal, monetary, and exchange rate policies. The general government deficit may approach 3% of GDP in 2009. Chile's general government surplus averaged 7.8% of GDP in 2006-2008, providing the government with ample reserves to fund its current fiscal deficit. The outcome of the national elections scheduled for later this year should not have a material impact on policies that are relevant for Chile's credit rating. While the two presidential candidates differ in style and in their priorities for governing, they are both likely to maintain the general thrust of economic policies pursued by Chilean governments in the last two decades. A possible administration led by Sebastián Piñera, the conservative candidate of the opposition alliance, is likely to put more emphasis on tax reduction and on enlarging the role of the private sector. In contrast, a possible administration of former president Eduardo Frei, representing the governing center-left alliance, is likely to focus more on social spending. The stable outlook incorporates our expectation that Chile will suffer from poor GDP growth and both a fiscal and current account deficit in 2009 without a weakening of its creditworthiness. Ample fiscal, monetary, and external flexibility should cushion the impact of the global downturn on the sovereign's financial profile, allowing the government to pursue moderate countercyclical policies while maintaining investor confidence. Further external shocks could impose greater financial strain on the nonbank private sector, potentially leading the sovereign to provide assistance and assuming added liabilities. The resulting rise in sovereign debt, combined with indications of a weakening of Chile's long-standing commitment to transparent and prudent macroeconomic policies, could lessen creditworthiness. Conversely, and over the long term, continued growth and further investment in human capital and infrastructure could gradually raise income and diversify Chile's economic base, reducing its vulnerability to commodity price cycles. That, along with prudent fiscal and monetary policy, could lead to a higher credit rating.

China (People's Republic of) (A+/Stable/A-1+)

KimEng Tan

Evidence of the effectiveness of China's economic stimulus package is growing. Economic indicators, which gave conflicting signals early in the year, are now all pointing toward a strong rebound in activity. Most forecasters have revised their projections for real GDP growth this year to more than 8%. This has assuaged concerns that a sharp slowdown would follow plummeting exports and increase the chances of social unrest. This growth appears to have been achieved at little immediate cost to the government's financial position. The government deficit is unlikely to amount to much more than 3% of GDP, including the Chinese renminbi 200 billion debt that local governments have been allowed to raise in 2009 (official borrowing by local governments are strictly controlled in China). The deficit for 2010 is also projected at a similar level. Although these deficits are

larger than the general government deficits of recent years (there even was a fiscal surplus in 2007), they are much smaller than expected budget shortfalls elsewhere in the world this year. However, a better picture of the fiscal cost of the economic stimulus package will only emerge in a few years. If strong economic growth is not sustained during this period, a marked increase in banks' nonperforming assets is likely. The lending surge that began late last year is expected to exacerbate asset quality deterioration in this scenario. Lending by financial institutions is forecast to rise by about 30% this year, compared with less than 20% annually in the recent past. The acceleration in credit growth in a weak economic environment likely means that average loan quality is slipping. The government is expected to require banks to sustain this exceptionally high rate of lending growth if the economic situation remains weak. This will compound the expected weakening of banks' balance sheets and increase the likelihood that the government will need to provide significant support for these institutions.

Colombia (Republic of) (BB+/Stable/B)

Joydeep Mukherji

The political scene will be dominated by national elections in 2010, with continued uncertainty about whether President Álvaro Uribe could attempt to change the constitution to allow him to serve a third term in office. Any such changes to the constitution would require approval by Congress and then in a national referendum. Economic policy is likely to remain stable in coming years, regardless of the fate of Mr. Uribe's potential reelection bid. Colombia entered the global recession with relatively solid macroeconomic conditions, including a reduced debt burden, healthier financial sector, and ample exchange rate and monetary flexibility. In addition, the composition of its public debt has shifted over recent years to reduce the vulnerability to a sudden depreciation of the exchange rate, or a sharp temporary spike in local interest rates. Good debt management has stabilized public finances and given greater scope to the central bank to allow the currency to fluctuate. The economy is likely to recover in late 2009, likely resulting in a yearly fall of 0%-0.5% in GDP. Countercyclical monetary and, to a lesser extent, fiscal policy will sustain domestic demand. GDP growth is likely to rise to 2.5% in 2010. The government is basing its medium-term fiscal plan on average growth of 3.3% in the next five years. GDP growth had averaged almost 6% in the five years before 2008 and could return to 4% or higher over the medium term, helped by expanding output of coal and oil and by more investment in physical infrastructure. The central government deficit may approach 4% of GDP in 2009. The government is largely accommodating the rise in the deficit that is caused by revenue shortfalls, with only minor adjustments in spending, to sustain aggregate demand. The general government deficit may rise to 4%-5% of GDP and the public sector consolidated deficit could hover at about 3% of GDP. Fiscal pressure may persist in 2010 and afterward due to rising spending needs in health care and other services. Failure to address this fiscal pressure in a timely manner could enlarge the structural deficit of the central government. That, combined with continued low GDP growth, could materially worsen the sovereign's fiscal flexibility and debt burden, weakening creditworthiness. Similarly, contingent liabilities in the financial sector and nonfinancial private sector could result in an unexpected rise in public debt, hurting creditworthiness. Conversely, the rating could improve if the government's finances and external liquidity remain stable during the global economic crisis. Successfully withstanding the severe stress imposed on the Colombian economy during the global downturn could set the stage for an upgrade when the global economy starts to recover and if Colombia's fiscal and debt profiles become stronger.

Czech Republic (A/Stable/A-1)

Frank Gill

The sovereign credit ratings on the Czech Republic are supported by the country's diversified and competitive economy as well as its capacity to finance itself predominantly in local currency. Ratings are constrained, however, by challenges to fiscal stability posed by the economic downturn and the country's aging population. The Czech economy, which enjoyed average real GDP per capita growth of 5.3% from 2004 to 2008, is expected to contract by 2.5% during 2009, largely as a result of a sizable inventory adjustment, and an accompanying contraction in fixed investment. Despite the difficult external environment, taken together the capital and financial accounts have remained in surplus during 2009, over-financing the Czech Republic's current account deficit, which is projected to average 2% of GDP over the medium term. Overall levels of leverage in the economy are relatively mild, with total gross external debt of less than 40% of GDP. We expect the 2009 general government deficit to exceed 5% of GDP, due to declining direct tax revenues and rising expenditures associated with the budget's automatic fiscal stabilizers. The uncertain timing of general elections makes it more difficult to project the fiscal outcome in 2010, but at current trends the budget deficit could exceed 7% of GDP if the government does not take corrective measures. Despite moderate progress, the government has not yet implemented second pillar pension reform, which is critical for the Czech Republic to ensure the sustainability of long-term public finances. Given the fragility of the current governing coalition and upcoming elections in 2010, significant pension reform is not likely in the near term. General government debt is set to increase from 30% of GDP at end 2008 toward 40% of GDP in 2011. The average maturity of the debt stock is six-plus years implying that the government rolls over roughly 6% of GDP of debt per year. Although this average maturity is likely to decrease slightly in 2009-2010, we expect the rollover percentage to remain at a comfortable figure. Between 2009 and 2011, interest expenditure should remain below 5% of government revenues.

Dominican Republic (B/Stable/B)

Olga Kalinina

The Dominican Republic entered the global economic crisis with many unresolved structural issues (e.g., high infrastructure and social needs, high interest rates, and a loss-making and inefficient electricity sector), weak institutions, and a poorly coordinated policy mix. The challenging external conditions, compounded by the structural weaknesses, are leading to a significant slowdown in economic growth. Falling domestic demand (because of lower remittances, weaker consumer and investor confidence, and higher unemployment) and lower exports (especially in mining, free export zones, and tourism) are only partly counterbalanced by gains in the agriculture, telecommunication, and financial sectors. As a result, the real GDP growth stood at 1.4% in the first half of 2009 and is projected at 1% in 2009 and 2% in 2010. While this growth is significantly lower than the average of 8.1% in the

past three years, the economic activity in the country is holding up much better that that in the rest of the Caribbean region. Fiscal performance is weakened by falling revenues amid lower imports and economic slowdown and difficult-to-contain spending. The general government deficit is projected at 4% of GDP (including the 1.2% of GDP of the central bank's quasi-fiscal losses) in 2009, down from 4.7% in 2008 but substantially wider than the budgeted target for this year. The deficit financing was sourced predominantly on the domestic markets in the first half of the year, with PetroCaribe and multilateral lending significantly below the target. Recognizing the growing financial constraints, the authorities have approached the IMF for an SBA. The forthcoming IMF agreement should help unlock more than $1.2 billion in multilateral financing. On the external front, we expect savings from lower oil prices and drastically reduced imports to bring down the external current account deficit to an estimated 6.1% of GDP in 2009 from 9.7% in 2008. We expect that the recovery in the Dominican Republic's economic growth in 2010 and strong growth prospects supported by a robust FDI pipeline (including the start of promising investments from Barrick Gold Corp, which is estimated at $3 billion) should improve the country's external and fiscal position over time. Tackling institutional and structural issues will take more time and strong political will, but if addressed will augur for a higher rating. On the contrary, if a harsher external environment or a failure to take corrective policy measures places more pressure on the balance of payments than we expect, credit risks could tilt to the downside.

Ecuador (Republic of) (CCC+/Stable/C)

Richard Francis

Questions surrounding "willingness to pay" are expected to continue to assume a prominent role in Ecuador's credit dynamics. In December 2008 and February 2009 the Correa government defaulted on $3.2 billion (6.2% of 2008 GDP) of its global bonds. The government considered the 2012 and 2030 global bonds "illegitimate" and defaulted based on "willingness" rather than "capacity" to pay. The low ratings on the Republic of Ecuador reflects its challenging political environment, namely weak institutions and an unpredictable, divisive political landscape marked by conflicting vested interests along regional and ethnic lines. In sharp contrast with recent governments characterized by the failure of elected presidents to complete their term in office, President Rafael Correa has unprecedented popular support. During his first term in office, he secured passage of a new constitution via national referendum in September 2008. He was then reelected as president in April 2009 for a four-year term. We expect a strong deceleration in Ecuador's growth this year and next given the global recession, lower oil prices, and that the government's default limits access to financing for the private sector. Real GDP is projected to decline 1.5% in 2009, and grow 1% in 2010. Policy uncertainty about the role of the private sector in the economy, ranging from energy to banking to telecommunications, exacerbates long-standing weaknesses that limit diversified growth in Ecuador over the medium term. As a small, open, commodity-dependent economy, Ecuador's growth is vulnerable to external shocks. Declining oil production by Petroecuador (the government-owned oil company) is not being adequately redressed, and private-sector oil investment is not likely to be forthcoming given changes to the decree implementing the 2006 hydrocarbons law that increases the government's take from extraordinary profits under existing oil contracts. Under dollarization, Ecuador's economy has stabilized--a supporting factor for creditworthiness. However, policies to strengthen the dollarization framework have not been enacted by successive governments since dollarization went into effect in 2000. Balance of payments pressures, and banking sector and fiscal weaknesses could undermine dollarization over the coming years. The government's financing options are limited. They essentially include the local social security institute and multilateral creditors Corporación Andina de Fomento, Fondo Latinoamericano de Reserva, and the Inter-American Development Bank. Given the willingness issues surrounding the 2008-2009 default, we do not expect Ecuador to have access to the international capital markets in the near-term.

Egypt (Arab Republic of) (BB+/Stable/B)

Farouk Soussa

We estimate that economic growth may have fallen to 4.2% in fiscal 2009 (ending June 30, 2009), and expect it to be about 3.8% in fiscal 2010, down from an average of 7% in the previous three years, mainly due to a decline in external demand. There are, however, early signs of a mild recovery in external trade, and risks are on the upside for our 2010 projection. Slower growth is, nevertheless, putting pressure on public finances, and we expect that the general government deficit will widen to about 9.4% of GDP in fiscal 2010. We also believe the current account deficit will widen to more than 3% of GDP in fiscal 2010, compared with an estimated 2.2% in fiscal 2009. We expect inward FDI to decline (albeit from a strong 8% of GDP in fiscal 2008), while substantial net outflows from the debt and equity markets have already occurred and bottomed out. However, Egypt is better-placed to weather external shocks than it was before the cabinet, installed in mid-2004, launched its program of fiscal reform, banking sector consolidation, and privatization, and the central bank simultaneously embarked on an overhaul of monetary policy. Although public finances remain weak, gross debt-to-GDP has maintained a steady downward trajectory, to an estimated 66% at end-fiscal 2009 from 105% in 2005. On the external side, the substantial build-up of central bank reserves and other foreign currency assets gives the monetary authorities greater capacity to mitigate the shock of falling external demand. Crucially, the cabinet has built up considerable credibility and momentum since 2004, leaving Egypt relatively well placed to attract investment once external conditions improve. However, we believe the government will be reluctant to see growth fall too sharply because of the social impact. Therefore, the deeper and longer lasting the external slowdown, the more difficult it will be for the authorities to maintain reform momentum and prevent a more substantial reversal in the trend of fiscal consolidation.

El Salvador (Republic of) (BB/Stable/B)

Olga Kalinina

The administration of Mauricio Funes, the first left-wing president since the country gained independence in 1838, has been facing rising social and economic challenges since the government took the office in June 2009. The real economy has been hit by the global economic crisis. The consumption outlook is weak due to rapidly decelerating remittances (which are projected to fall by as much as 10% this year), investment has fallen due to global trends and in the context of the untested domestic political environment), and exports are suffering. Overall, we expect real GDP to contract by 2.5% in 2009, before recovering to a 0.5%

growth in 2010 and 3% in 2011. On the positive side, a weaker domestic demand translates into a lower inflation (2.5% on average in 2009, from 7.3% in 2008). Similarly, subdued economic activity (and lower oil prices) has shrunk trade deficits considerably, leading to the narrowing of the external current account deficit to a projected 3.6% of GDP, half of the level in 2008. Fiscal challenges are most acute, reflecting falling revenues (10% down in the first half of the year) amid the need to provide a countercyclical boost to the economy and offer social protection to the population (hence, the announcement in June 2009 of a $587 million (about 2.6% of GDP) anti-crisis plan). As a result, we forecast the fiscal deficit will widen to 5.4% of GDP in 2009, from 2.9% in 2008. While the deficit financing has been secured (via official disbursements, helped by the IMF precautionary SBA, and local issuance), the corresponding increase in the general government debt (an estimated 40% of GDP in 2009 rising to 43% in 2011) is of concern. The return to a more prudent debt trajectory is contingent upon the Frente Farabundo Martí para la Liberación Nacional (FMLN) government's ability to structurally improve the fiscal accounts in the future, including through the envisioned tax reform. Looking ahead, the government's challenge lies in finding a compromise between fiscal prudence and fulfilling social and economic election promises, as well as achieving transparent and cooperative relations with the business sector and the political opposition. These relations so far have been constructive, partly helped by the mutual recognition of the challenging economic situation. While a temporary deterioration in the macroeconomic situation is expected in El Salvador, the strength of the political consensus and fiscal commitment remain crucial to support the rating at 'BB'. If the diverging political agendas (coming either from the opposition party or internally, from within the FMLN) start influencing the progress in fiscal consolidation, or if the FMLN pursues policies that undermine previous advances in macroeconomic stability, we are likely to lower the ratings.

Gabonese Republic (BB-/Stable/B)

Sarah N'Sondé

On Sept. 3, 2009, Ali Bongo, former minister of defense, was declared the winner of Gabon's first presidential election in a close first-past-the-post election, with 42% of the vote. President Bongo succeeded his father, Omar Bongo, who died in office after ruling the nation for 41 years. Although there were some riots following the announcement of the election results, we believe that the nation's economic bearings and its good relations with the international community will be preserved in the transition to the new administration. Moreover, despite some deterioration, Gabon's economy has weathered the global economic and financial crisis relatively well. The Gabonese economy is highly dependant on oil, which accounted for about 60% of GDP in 2008. We expect the fiscal position to shrink to a surplus of 1% of GDP this year from a large 12% in 2008, given lower oil prices. This fiscal performance remains better than the 'BB' median deficit of 3% of GDP. General government debt-to-GDP will remain moderate, at 18% of GDP in 2009 and we expect the government to maintain annual payments to its sinking fund for its $1 billion bond. Real GDP growth is likely to slightly contract this year by 1%, from a weak growth of 2% in 2008. This reflects lower oil exports income and weak performance in the non-oil economy, particularly forestry and mining. Social indicators are poor in Gabon, despite a relatively high GDP per capita (estimated at $7,850 in 2009), reflecting high income inequalities. We view those high income inequalities, together with the current tense political climate, as potential sources of renewed civil disturbances, which, if sufficiently intense, could put downward pressure on the ratings.

Georgia (Government of) (B/Stable/B)

Trevor Cullinan

Foreigner's appetite for investing in Georgia has been significantly dampened as a result of various domestic and geopolitical upheavals since end-2007. Offsetting this has been the estimated $4.9 billion (45% of GDP) in foreign aid over the period 2008-2011, pledged following the Aug. 7-16 2008, war with Russia, which will help fund the sovereign's substantial government borrowing and external financing needs in the short-term while also lengthening the average maturity of the government's debt obligations. However, we do not believe that Georgia will soon receive FDI inflows at the prewar annual amounts of close to $2 billion (15% of GDP), which spurred the economy's impressive growth performance up to 2007, unless the external environment on both economic and political fronts improves. As a result, the ratings will continue to be constrained by the low diversification of the economic base, alongside the ongoing political and financial sector risks. We expect the Georgian economy to fall by 4% in 2009, as a result of sharp declines in both domestic and external demand. The latest data indicate that the negative effects of the financial crisis on the Georgian financial system began to lessen in mid-2009 when deposit outflows and deposit dollarization (73% in June 2009) began to stabilize. Nevertheless, nonperforming loans have increased sharply to 19% of total loans in June 2009, compared to 3% in the same period of 2008. Ongoing concern with regard to the quality of bank's loan books is expected to result in continued weak credit growth over the medium term, acting as a drag on economic growth, but alleviating further pressure on bank's solvency to some extent. The high level of foreign currency loans, 77% of total loans in June 2009, adds a further risk to banks' asset quality should there be further pressure for exchange depreciation following the 17% devaluation in the Georgian lari in November 2008. The devaluation occurred following substantial foreign reserve losses due to attempts to support the currency peg. Since then, the central bank introduced an auction-based system for the foreign exchange market in March 2009, increasing exchange rate flexibility by allowing market developments a greater role in determining the price.

Ghana (Republic of) (B+/Negative/B)

Remy Salters

A preelectoral fiscal blowout and high oil prices in 2008 contributed to extremely large twin deficits, sustained depreciation, persistent inflation, rising yields, and increasingly short domestic government paper maturities. Nevertheless, the peaceful conduct of the elections held in December 2008/January 2009 strengthened Ghana's track record of political stability, underpinning donor support in the face of the economic imbalances. The new administration budgeted a much-reduced deficit of 9.4% of GDP on 5.9% economic growth in 2009. We expect growth in the region of 3%-4% for the next two years, in parallel with a correction of the current account deficit to about 14% of GDP in 2009. Despite efforts on both the revenue and spending sides, we expect the central government deficit to remain above 10% of GDP in 2009. Given the shortening of domestic debt maturities

during 2008 and the shallowness of local markets, this will put a premium on continued close cooperation with donors. The IMF agreed to a three-year $600 million Poverty Reduction and Growth Facility in July, while the government is receiving $300 million in budget support from the World Bank this year. Multilateral help has shored up foreign exchange reserves and stabilized the currency, while budget outturns so far this year are broadly in line with the sought-after consolidation. We believe key challenges remain on the fiscal front, however, with a further step in consolidation in 2010 necessitating more painful structural measures. Moreover, the very large arrears and commitments left behind by the 2008 budget, estimated at close to 10% of GDP and currently being audited, will weigh on the government's future borrowing requirements. Beginning in late 2010, oil production should provide room for faster improvements in the twin deficits. The prospect of nationally significant oil production volumes supports the ratings but increases the importance of strong fiscal governance. Faltering commitment to fiscal consolidation in anticipation of oil revenues, or any deterioration in donor support, would likely lead to a downgrade. For the rating to remain at 'B+', there would need to be tangible reductions in the fiscal and external deficits, a lengthening of domestic debt maturities, and a timely start to oil production.

Hungary (Republic of) (BBB-/Negative/A-3)

Kai Stukenbrock

We expect the Hungarian economy to contract by 7% in 2009 and by another 1% in 2010, as the economy not only is hurt by the international economic and financial crisis, but also by the procyclical tightening of fiscal policy under a €20 billion IMF/EU program. We expect the technocratic government of Prime Minister Gordon Bajnai to broadly achieve the general government deficit target of 3.9% of GDP agreed to with the IMF for 2009, and we also expect the government to pass a budget for 2010 in line with the IMF target of 3.8% of GDP. We expect gross general government debt to rise to 84% of GDP in 2010, from 66% in 2007. IMF and EU funds continue to provide significant relief for government funding. Calming markets and availability as well as adherence to the IMF/EU program eventually allowed the government to gradually return to capital markets for funding, first in forint, and in July with its first foreign currency issuance in more than a year. Improved market access is expected to make the government rely less on IMF/EU funds in the future. Instead, the government agreed in September to extend the duration (but not the size) of the current SBA with the IMF by six months to October 2010. We expect general elections in April 2010 to bring a change in government, with center-right Fidesz likely to head the next government. While the party is currently campaigning on a populist platform, we do not expect a significant departure from prudent fiscal policies. Despite the gradual improvements in Hungary's fiscal and economic situation, the new government will be faced with a sizable reform challenge. Further consolidation of public finances and the reduction in Hungary's large government debt burden will be key elements. Key structural challenges, such as the large size of the public sector and a still relatively generous social system, which stifle private-sector performance and Hungary's growth potential, also remain to be addressed. The deteriorating economy will continue to put pressure on Hungary's financial sector, increasing the risk of contingent liabilities materializing despite relatively strong solvency positions at the outset of the downturn. We expect nonperforming loans to rise, driven by the weakening economy.

India (Republic of) (BBB-/Negative/A-3)

Takahira Ogawa

The full budget for fiscal 2009 (ending March 31, 2010) announced in July 2009 disappointed the Indian markets. As well as confirming a high fiscal deficit, it lacked information on the government's medium-term fiscal strategy. It gave no details about the strategy for the consolidation of the sharply deteriorated fiscal position, financial sector deregulation (to raise the limit of foreign ownership of banks in India to 49% from current 26%), or plans for divestments, among others. We believe the consolidated general government deficit (including state governments' and off-balance-sheet expenses, such as oil and fertilizer subsidies) could remain at 11.1% of GDP in fiscal 2009, after reaching an estimated 11.4% in fiscal 2008 from 5.7% in fiscal 2007. The expected improvement in the fiscal deficit is mainly attributable to lower global oil and fertilizers prices, which would reduce the size of subsidies. However, if such items were excluded, the central government fiscal deficits would increase to 6.8% of GDP in fiscal 2009 from 6.2% in fiscal 2008, according to the fiscal 2009 budget. For fiscal 2009, starting April 1, 2009, the government plans to issue a record of Indian rupee (INR) 2.9 trillion in new domestic bonds out of the INR4.0 trillion fiscal deficit. However, because the Reserve Bank of India increased the size of the purchase of government bonds in the secondary market, the impact on the long-term interest rate in the country is relatively limited. National Hydro Power Corp. was successfully divested in August 2009, and all the proceeds will go to the National Investment Fund. The fund is managed by three outside managers and, under current regulations, the government cannot access directly the proceeds to finance its fiscal deficits. More government divestments could follow, but will not be enough in themselves to regain the government's fiscal soundness. The focus of fiscal policy has now shifted to the contents of the 13th Financial Commission's report. It will recommend a medium-term fiscal strategy to the government. In addition, the Fiscal Responsibility and Budget Management Act, which expires March 31, 2010, will be replaced. On the macroeconomic front, we expect India's GDP growth to grow 5.8% in fiscal 2009 against 6.7% in fiscal 2008 and 9.3% in fiscal 2007. The GDP growth is subject to the level of rainfall in the harvest season. This year, the metrological department forecasts monsoon rainfall in June to September 2009 will be 13% lower than in an average year. On the price front, the WPI stood at negative 0.21% for the week ended Aug. 22, 2009. This is due mainly to cheaper global commodity prices such as oil, after this price reached a 13-year high of 12.91% in August 2008. However, we expect the WPI to rebound to about 6% by the end of the year. In addition, the CPI paid by industrial workers and CPI paid by farm workers remained high at 11.89% and 12.67%, respectively, over the year to July 2009. The sovereign credit ratings on India are dependent on the government's ability to reduce the fiscal deficit, which has increased significantly since fiscal 2008.

Indonesia (Republic of) (BB-/Stable/B)

Agost Benard

Parliamentary and presidential elections earlier in the year marked another significant milestone for Indonesia's young democracy, as they were highly successful in their conduct and outcome. The elections were free of incidents and despite

protestations of irregularities by some losing presidential candidates, both elections were perceived by the public as fair and have been certified by the electoral commission as valid. By delivering a resounding majority support for current President Susilo Bambang Yudhoyono and his Democratic Party, the outcome of the two elections also bodes well for Indonesia, in terms of policy continuity and governance effectiveness. President Yudhoyono is expected to continue and step up his reform agenda, relying on the increased representation of his Democratic Party in parliament, and likely on an expanded role of proven technocrats in his cabinet. Easing of monetary policy appears to have run its course, as potential inflationary concerns replace the preoccupation with economic growth. Bank Indonesia's policy rate at 6.5% is likely to be the bottom, with policy tightening expected to begin in the first quarter of 2010. Economic growth is recovering with about 4% real GDP growth expected for this year, and 5.0%-5.5% in 2010. Additional inflationary impetus may come from a rise in fuel prices if continued oil price rises compel the authorities to reverse previous cuts in domestic retail price, and also from the proposed raise in electricity tariffs. Given that these are key energy items, a rise in their prices will cause widespread price hikes along the supply chain for other goods and services. As we expected, with the passage of stimulus needs to counterbalance the global slowdown, the authorities are reverting to the customary conservative fiscal stance. According to a recent official statement, for 2010 the government is planning a fiscal deficit of 1.6% of GDP, which is consistent with continued debt reduction, and will pose no problems for cost-effective financing. This plan, however, could be revised upward by the new parliament, although likely to still prudent levels. Also, fuel subsidies, which are still substantial, and the likelihood of higher oil prices as global recovery takes hold could endanger the current target. Nevertheless, based on past performance the authorities are expected to be able to make sufficient adjustment to retail prices to prevent a serious blowout in the budget.

Jamaica (CCC+/Negative/C)

Roberto Sifon-Arevalo

Jamaica's fiscal accounts, which were already under pressure before the international financial crisis started last September, have deteriorated even further this year. We project the government borrowing requirement for the fiscal year 2009 (ending March 31, 2010) to be 20% of GDP. The debt profile is weak. Variable-rate domestic debt constitutes 58% of total domestic debt. One-quarter of total domestic debt matures within one year. One-half of gross government debt (external plus domestic) is foreign-currency denominated or foreign-exchange indexed. As a result, we estimate general government interest at 60% of 2009 government revenue, up from 48% in 2008. We project that gross general government debt will rise to 120% of GDP at fiscal year-end 2009. The vulnerabilities in the government's debt profile may give it incentives to negotiate with its creditors, particularly its resident creditors, to extend maturities at below-market prices. In the government's last debt issue; it placed two-year debt at a 21% coupon. While the government's engagement with the IMF is a positive effort to stabilize external pressures and to address the long-standing structural issues, the negative outlook on the ratings signals the risk that a debt exchange, if undertaken by the government, could be an event of selective default under our distress debt exchange criteria.

Kazakhstan (Republic of) (BBB-/Stable/A-3)

Frank Gill

Kazakhstan's long-term foreign currency sovereign rating reflects the government's decision to limit potential liabilities arising from banking pressures, while at the same time providing sufficient resources to underpin depositor confidence and to allow the system to function in a manner supportive of the economy, despite near-term challenges. The government's resolution to restructure rather than guarantee or repay the debt of BTA Bank J.S.C. (D/--/D), Kazakhstan's largest bank (which it took over in February), and its refusal to take over the fourth-largest bank, Alliance Bank JSC (D/--/D) lead us to conclude that the Kazakh government is not prepared to sacrifice its financial strength to repay commercial banks' external debts, which at year-end 2008 amounted to about 30% of GDP. We expect the Kazakh economy to remain under considerable stress during 2009, not least due to the deterioration in the country's terms of trade, and the resulting shift of the current account from a surplus of 8% of GDP into a deficit of 5% of GDP during 2009. Kazakh commercial banks face external debt principal repayments of $4.3 billion during the second half of this year, and $5.2 billion during 2010; together equivalent to 10% of GDP. Nevertheless, structurally high net FDI inflows into the commodity sector have enabled the financial account to remain in surplus throughout 2009, even though the rollover rate of the stock of gross external debt is likely to fall below 85% during 2009. Over the medium term, FDI funding should continue to be substantial, while $10 billion in funds from the Chinese government in return for access to Kazakhstan's energy resources will also contribute to significant external funding. The economy is in line to contract 2% during 2009 before recovering toward 3% GDP growth during 2010. We expect lending under the government's fiscal stimulus package to drive the general government into a deficit of 8.4% of GDP in 2009. However, we believe that Kazakhstan is well placed to provide stimulus support and, if necessary, further capital to systemically important banks, as it holds little debt and retains fiscal assets in the National Oil Fund of the Republic of Kazakhstan amounting to 22% of forecast 2009 GDP. Kazakhstan's monetary reserves also remain sizable.

Lebanon (Republic of) (B-/Stable/C)

Farouk Soussa

The ratings on Lebanon will remain constrained in the near term by heightened political risks and precarious debt sustainability dynamics. We raised the ratings in August 2008 to reflect the easing of tensions between the Western-leaning March 14th coalition, and the Hezbollah-led opposition that in May of that year had taken Lebanon to the brink of civil conflict. The agreement between the parties, brokered in Doha, Qatar, has held since that time, with planned general elections going ahead successfully in June 2009. In those elections, the March 14th coalition confounded expectations by winning a sufficient majority in parliament to allow Saad Hariri, the prime minister designate, to form a government. Since that time, the complex rules governing Lebanon's fragile confessional political system and the ongoing animosity between political actors have resulted in Mr. Hariri's inability to date to form a government. While we do not expect frictions between the parties to descend to the level of hostilities of early-2008, the failure of these parties to arrive at a sufficient consensus to form a government does not augur well for economic

policy in Lebanon. Ultimately, however, Lebanon's creditworthiness rests on its ability to continue to meet its substantial financing needs, with a general government deficit of more than 10% of GDP expected in 2009, and a debt burden of about 140% of GDP. The government is highly dependent on the banking sector for this financing, ultimately linking sovereign debt sustainability to depositor confidence. While the political scene will remain turbulent, with heated exchanges between the main political actors, and the possibility of renewed tensions on the Israeli border following limited rocket attacks on Northern Israel in September 2009, depositor confidence has remained resilient in the face of considerably greater crisis in the past, and we expect that this will remain the case in the medium term.

Malaysia (A-/Stable/A-2)

Takahira Ogawa

We expect Malaysia's GDP for 2009 to contract by 3.2%. The pace of the contraction in the second quarter of this year moderated to 3.9% from 6.2% in the first quarter. Despite the government's massive stimulus packages, negative net export growth over the year and weak investments kept Malaysia's second-quarter GDP growth in negative territory. Despite signs of bottoming out, activity in the manufacturing sector is likely to remain slow for most of 2009, after a sharp fall in the fourth quarter of 2008. Given a small and open economy, with total trade as a percentage of GDP above 200%, Malaysia's pace of economic recovery is largely dependent on that of the global economy. To attract foreign investment, the government announced in April 2009 that it would lift the ceiling on foreign ownership for 27 subsectors of the service industry. This was followed by the abolition of the 30% Bumiputra (ethnic Malays and other indigenous ethnic groups) quota, which used to be required for listing on the stock exchange. These could be positive moves for the Malaysian economy in the long term, in our view. However, it is difficult to predict the short-term effect because of the currently difficult macroeconomic environment. The impact also depends on the pace of the implementation of the administration's policies. Any significant deregulation of the Bumiputra policy (affirmative action to protect indigenous Malay's privileges) would need to carefully consider the extent and pace of implementation. If the government pushes forward with such deregulations too quickly, it could face a backlash in terms of support for the ruling coalition among ethnic Malays. Further slippage in Malaysia's fiscal position could increase downward pressure on the 'A+' local currency sovereign credit rating. In this regard, global oil prices are an important factor for Malaysia's fiscal position as petroleum-related revenue became the country's largest source of revenue, at almost 40% of estimated total revenue, in 2008. The budget speech for 2010, scheduled on Oct. 23, 2009, could give us a clearer picture of Malaysia's fiscal position and the future economic and fiscal policy of the government. However, given the current economic conditions in the country, a significant reduction of the fiscal deficit in 2010 appears unlikely. The foreign currency sovereign credit rating is likely to remain stable in next few years. That's because Malaysia has a strong external position for the rating category, despite an estimated increase in public-sector debt and short-term external debt in 2009.

Mexico (United Mexican States) (BBB+/Negative/A-2)

Lisa Schineller

We expect the Mexican economy to undergo its deepest recession in decades, with a contraction of real GDP of 7.5% this year. This is deeper than the 6.2% decline in 1995 during the Tequila crisis and during the debt crisis in the 1980s. We expect only a modest recovery of about 2.5% in 2010, consistent with subdued recovery in the U.S. With 80% of its exports going to the U.S., the Mexican economy is among the economies exposed to the U.S. recession through a decline in manufacturing exports (notably autos/auto parts), worker remittance inflows, and tourism receipts. We expect a 2.7% contraction in the U.S. real GDP this year and growth of 1.6% in 2010. U.S. industrial production, which is more tightly correlated with activity in Mexico, is projected to drop 10.3% this year, and expand by 3.3% in 2010. Mexico's long-term foreign currency sovereign credit rating of 'BBB+' is two notches above the lowest rating in the investment-grade category, reflecting the strengthening of Mexico's economic policy predictability and institutions during the last decade coupled along with lower fiscal and external debt burdens. As in most other rated sovereigns, fiscal and external debt indicators are projected to deteriorate this year and next. Fiscal pressure has led to reliance on nonrecurring revenues of 2.8% of GDP this year, highlighting weaknesses in Mexico's revenue base. We revised the outlook on our rating to negative on May 11, 2009, owing to a challenging fiscal outlook over the medium term. Mexico's structural fiscal vulnerabilities center on its limited fiscal flexibility, specifically, budgetary dependence on oil revenue, the lack of significant fiscal savings, and a low non-oil tax base (only 10% of GDP). Modest growth over the coming years and the ongoing decline in oil production exacerbate the pressures on its fiscal accounts. The 2010 budget recently tabled by the finance ministry takes some steps to enhance the non-oil revenue base, but broad-based political support for these efforts remains unclear. We could lower the ratings if the government, including actions by Congress, does not address the factors that limit its fiscal maneuvering room and medium-term growth prospects.

Morocco (Kingdom of) (BB+/Stable/B)

Véronique Paillat-Chayriguès

The global crisis has significantly affected Morocco's export-led economy throughout 2009, although an exceptional agricultural season should prevent the country from going into recession. We forecast that real GDP growth will decelerate to 2.4% in 2009 and 3.3% in 2010 (from about 5% annually over the previous five years). Several of Morocco's key exports have performed poorly, specifically textiles, automobile equipment, and phosphates, as a result of lower prices, a sharp reduction in the EU demand, and weaker domestic demand. Exports have slumped by almost 26% in dollar terms year-on-year compared to September 2008, and tourism revenues (8.3% of 2008 GDP) are expected to have slowed significantly (falling 19% year-on-year in the first quarter of 2009). We also expect remittances from Moroccan employed abroad (10% of 2008 GDP) to decline as employment for Moroccan immigrants in Europe falls. More positively, lower commodity prices have alleviated the import bill, and the current account deficit should eventually narrow to a moderately high 3.6% of GDP in 2009 and 2.1% of GDP in 2010 (from 5.8% in 2008). We forecast that fiscal ratios will deteriorate, owing to a contraction in tax revenues, high social demands, and the government's anti-crisis plan to support the export-oriented industries and accelerate public investment. Subsidies should also weigh on the

budget given rising unemployment. Overall, we expect central government deficits (excluding privatization receipts) of about 3.5% of GDP in 2009 and 2010 (equivalent to a general government deficit of about 2.5% of GDP). The central government debt burden should stand just below 50% of GDP in 2010, which would remain high compared to that of its peers. Including the social security assets held in government bonds, the general government debt ratio should stand just below 40% of GDP in 2010. Looking ahead, the debt trajectory will remain crucial to the evolution of the rating. Should the government successfully manage the fiscal and social risks resulting from the challenging external environment, upward pressure on the ratings could build. Conversely, a loosening of macroeconomic policies that would translate into a worse debt trajectory than we currently expect would put downward pressure on the ratings.

Nigeria (Federal Republic of) (B+/Stable/B)

Moritz Kraemer

The ratings on Nigeria, which we lowered on Aug. 21, reflect the reduced fiscal flexibility due to costs associated with the government's recent bailout of five large domestic banks, and also the falloff in government oil revenue. Although all-important oil production reportedly reached 1.7 million barrels per day (mbpd), a slight improvement from first-quarter 2009, it still falls well below the budgeted amount of 2.2 mbpd and is unlikely to recover unless initiatives attempting to contain militant activities in the Niger delta progress, which we consider unlikely in the short-term, limiting upside potential on the rating. So far, neither negotiations, an attempted military clampdown in early 2009, nor an amnesty offer during the summer have led to a breakthrough. In August, the central bank intervened in five major banks, replacing their management and undertaking recapitalizations. An extraordinary audit of these banks revealed that aggregate nonperforming loans exceeded 40% of total loans. In our opinion, this action has begun a welcome restructuring of Nigeria's banking system, but it also reveals the extent of problem loans beyond our previous estimates. We expect bank credit to contract in the coming months, slowing economic growth. We believe that the one-off cost of the bank recapitalizations, combined with low oil production and prices, will result in a 7% of GDP swing in the general government balance to a projected 2009 deficit of 4.5% of GDP. The estimated 2009 general government deficit will likely result in Nigeria's Excess Crude Account (its main fiscal reserve) falling to $7 billion (4% of GDP) from $20 billion at the beginning of the year, and an increase of the general government debt ratio to 13% of GDP. Although we forecast that international reserves will fall by about one-third from the 2008 peak to $43 billion at year-end 2009, we expect the ratio of gross external financing requirements to current account receipts plus international reserves to remain unchanged in 2009 from the year before at a comfortable 60%. If the government's and the country's strong external balance sheet erode more quickly than we expect, it could lead to renewed pressure on the rating.

Pakistan (Islamic Republic of) (B-/Stable/C)

Agost Benard

Pakistan's macroeconomic stabilization program under the aegis of the IMF SBA is continuing to make progress, with the IMF reporting that after the first review all quantitative performance criteria and structural benchmarks have been mostly met. In turn, it approved an additional $3.2 billion under the SBA, which includes some amount for budget support, until donor commitments of additional support materialize. In March, the Friends of Pakistan group committed $5.7 billion over three years. In parallel, slowing imports and buoyant remittances are translating into a reduced current account gap, which narrowed to 5.9% of GDP in fiscal year 2009, from 9.3% the previous year. Gross external financing needs are about 110% of current account receipts plus usable reserves, in line with those of similarly rated sovereigns. These developments substantially remove the risk of debt service payment difficulties, and were one of the key factors behind our recent upgrade of the long-term sovereign foreign currency rating to 'B-' with a stable outlook. A note of caution is warranted, however, with the upward creep in oil prices. As both domestic and global growth picks up, and given the country's dependence on imported fuel, Pakistan could yet again face a ballooning oil import bill, which it may not be able to offset with export earnings, given the narrow and uncompetitive profile of its export sector. The policy adjustments are also translating into fiscal correction, aimed at reversing an unsustainable fiscal trajectory that evolved amid the political transition and instability of the recent past. The fiscal year 2009 deficit was reduced to 5.2% of GDP (excluding grants), down from 7.4% the previous year. Fiscal consolidation complements monetary tightening, and helped bring inflation down to below half the 25% annual rate that prevailed in October last year. While the overall policy mix is evolving in a positive direction, domestic political pressures and security risks present continued uncertainty about the completion of the policy program under the IMF SBA.

Panama (Republic of) (BB+/Stable/B)

Roberto Sifon-Arevalo

The ratings on the Republic of Panama reflect a stable macroeconomic environment that has supported strong economic growth performance during the past few years that, in turn, enhanced fiscal flexibility. GDP grew 9.2% in 2008 and an average of 8.75% since 2004. However, even though the project to expand the Panama Canal has already started, we expect GDP growth to drop to about 2.3% in 2009 as the economy suffers from a deteriorating international economic scenario. The fiscal improvement of the past three years came to a halt in 2008. The general government had a deficit of 0.8% of GDP in 2008, down from a surplus of 2.6% in 2007. We expect the deficit to increase to about 3.2% of GDP in 2009 as the new government of President Ricardo Martinelli attempts to cope with the international financial crisis through an ambitious public infrastructure spending plan. To help facilitate this before leaving office, former president Martín Torrijos sent the national assembly an amendment to the fiscal responsibility law that lifted the restriction of keeping the deficit of the nonfinancial public sector below 1%. In addition, the net general government debt burden, which includes large asset holdings such as the Trust Fund for Development and government deposits at Banco Nacional de Panama, declined to about 19% of GDP in 2008 from 27% in 2007. However, in line with our fiscal expectations, we expect it to increase to about 22% in 2009. At the same time, we expect the interest burden, which came down to 13% of general government revenue in 2008, to go back up to about 17% in 2009. The stable outlook reflects the risks associated with the ongoing canal expansion in a global economic recession balanced with an economy with robust prospects

despite expectations of continued deceleration of GDP growth in 2009. Further fiscal consolidation reducing the government's debt burden, continued GDP growth, and positive developments in the canal expansion will improve Panama's creditworthiness. However, if the canal project impairs the government's fiscal performance or if the government's commitment to fiscal discipline deteriorates more than expected, we could lower the rating.

Peru (Republic of) (BBB-/Stable/A-3)

Richard Francis

Peru is well positioned to weather an adverse external environment. Large new investments in gas and mining along with continued economic diversification are expected to lead to a recovery of growth rates of 4% in 2010 and a return to potential growth of more than 5% in 2011-2012. Furthermore, negligible external amortization requirements for the next three years help insulate the government from the difficult international financial conditions. Peru's main vulnerability is political. A large informal economy, widespread poverty, and significant income disparities make the country susceptible to populism. Radical alternative candidates could gain traction in the run-up to the 2011 presidential elections. The government's ability to address the underlying causes of its population's discontent will be key in keeping the government on an improving credit trend and in preserving the hard-won economic gains achieved in the past decade. The ratings on Peru are supported by the government's commitment to economic stability and a positive investment climate that will underpin solid growth through 2012, despite the sharp slowdown in 2009. The government has maintained prudent fiscal and monetary policies over the last decade despite political uncertainties. After running fiscal surpluses over the past three years, leading to significant declines in net general government debt, the government is expected to run modest deficits of 1%-2% of GDP in 2009-2011. Net general government debt is, therefore, expected to remain at close to 20% of GDP over the next three years, well below the 'BBB' median. Inflation is well contained, although the level of dollarization in the financial system remains high. Additionally, we expect Peru's external indicators to remain robust despite the fact that the current account balance swung to a deficit of 3.3% of GDP in 2008 and is expected to remain at a deficit of 2%-3% of GDP in 2009-2011. We expect external debt net of liquid assets to remain below 10% of current account receipts versus the 'BBB' median ratio of 34%. Gross external financing needs over current account receipts plus usable reserves is expected to remain below 80%, well below the 'BBB' ratio of about 115%.

Philippines (Republic of) (BB-/Stable/B)

Agost Benard

Second-quarter GDP growth turned positive on a quarter-on-quarter basis, suggesting that as in many other regional economies, the first quarter of 2009 represented the trough of the current global slowdown. The 2.4% quarterly growth against the 2.1% contraction in the first quarter took first-half 2009 growth to 1% year-on-year, which is largely in line with our expectation of 1.0%-1.5% growth for the full year. It also reinforces our fundamental view that the Philippine economy, despite its relatively significant exposure to global growth, will have been able to ride out the global financial market implosion and attendant recession relatively unscathed. Aside from the government's fiscal stimulus, a large part of the reason is the continued resilience of remittance inflows, which are performing much in accordance with our prediction of low growth this year, but no contraction. For the first six months of the year remittance flows rose 2.9% year-on-year, to $8.5 billion, or about 10% of GDP on annualized basis. These transfers support private consumption, which rebounded to a 2.2% quarter-on-quarter growth rate after an anemic 1.3% rate in the first quarter, when sentiment was at its lowest. The strength of remittances, combined with renewed net positive portfolio and FDI inflows are yielding ever-stronger external liquidity, one of the key supporting factors for the sovereign rating. Foreign exchange reserves at end-August reached an all-time high of $41.3 billion, providing more than seven months of import coverage, and 3.3x short-term external debt based on residual maturity. Despite continued export weakness for the remainder of the year, we envisage a further incremental boost to the external liquidity profile. The fiscal trajectory, however, continues to disappoint, notably on the revenue side. For the first six months of the year, the central government deficit came to Philippine peso 188 billion, or an estimated 4.6% of GDP on an annualized basis. Revenue collection declined by 4.1% year-on-year, reflecting the slowing economic activity and trade, while potential revenue increasing measures long held up in Congress remain pending. Revenues may pick up slightly as the economy gathers pace, but it will be rather difficult for the government to cap the full year fiscal deficit at 3% of GDP. One potential revenue-raising measure: increased tobacco taxes, suffered a setback, while approaching congressional and presidential elections make expenditure cuts more difficult then would normally be the case. Revenue underperformance thus remains an ongoing credit constraint, but the overall fiscal slippage that will result in this year is not likely, in our view, to translate into a trend, and therefore, poses little threat to credit quality at this stage.

Poland (Republic of) (A-/Stable/A-2)

Kai Stukenbrock

Poland's economy is weathering the international economic and financial crisis comparatively well, and is expected to be the only economy in the Central and Eastern European region not to contract, but to stagnate, instead, after average annual growth of 5.9% in 2006-2008. The relative resilience of consumption, the international competitiveness of Poland's economy, supplemented by the zloty's flexible exchange, and an accommodative fiscal policy support Poland's economic resilience compared to that of its regional peers. We expect growth to recover only gradually in 2010, at 1%, before growing at an average 3.8% in 2011-2012. The economic contraction, a fall in investment, and depreciation of the zloty since mid-2008 are supporting an adjustment in the current account. We expect the current account deficit to fall from its multiyear peak of 5.5% of GDP in 2008 to a forecast 2.6% in 2009, and then to remain at broadly that level during 2010-2011. We expect the headline deficit to be fully financed by net FDI inflows and EU transfers recorded on the capital account. This does not include sizable errors and omissions, however, which amounted to 4% of GDP in 2008. Poland's external liquidity is further bolstered by access to the $20 billion flexible credit line concluded with the IMF in May 2009. Poland's public finances continue to deteriorate markedly, driven by cyclical factors as well as by fiscal loosening. The 2008 general government deficit, at 3.9% of GDP, came in considerably higher than we expected as a

result of one-offs, weaker tax revenue, and a weaker performance of local governments. We expect the deficit to widen further to 5.7% of GDP in 2009 and 6.5% in 2010. As a result, we forecast the government's gross debt burden will peak at just below 55% of GDP by 2011, down from 47% in 2008. We expect the debt containment rules in place to be effective in controlling the development of government debt levels. Should, for example, 2010 general government debt exceed 55% of GDP, the public finance law would require the government to draft a 2012 budget that ensures the 2012 debt-to-GDP ratio will be lower than in 2010. Above 60% of GDP there is even a constitutional requirement for a balanced budget.

Russian Federation (BBB/Negative/A-3)

Frank Gill

The ratings and outlook on the Russian Federation reflect still-substantial risks to public finances due to the severe economic contraction, and large contingent liabilities to the government associated with continued stress in the financial sector, and the significant foreign liabilities of state enterprises. We expect net general government debt levels to increase from negative 14% of GDP in 2008 to positive 14% of GDP in 2012, with the Russian government becoming a slight net debtor by the end of 2010. These projections take into account our expectation that general government deficits average almost 8% of GDP between 2009 and 2011 before narrowing to 4% of GDP 2012. Our deficit forecasts include the estimated 6% of GDP cost to recapitalize Russia's banking system as well as a cumulative 14% of GDP transfer from the central budget to the pension fund as part of the government's long-term efforts to shore up the finances of the undercapitalized social security system. During this period public-sector borrowing needs will be financed by a combination of rising gross general government debt and the depletion of the two fiscal funds by 2013. Long-term prospects for the Russian economy remain uncertain. Unless investor confidence is sufficiently restored, the economy is likely to be starved of development capital for the foreseeable future. Resistance to supply-side reforms, and the lack of progress on the fight against corruption imply relatively low FDI inflows over the next half decade. The negative outlook reflects the possibility of a downgrade if authorities fail to consolidate the primary general government deficit over the next several years from current levels of near 8% of GDP. We also could lower the rating should the worsening economic environment weaken the government's political mandate, making it more difficult to stabilize the economy, and recapitalize the troubled financial sector. On the other hand, rapid consolidation of public finances, most probably accompanied by improving terms of trade, would restore strength to Russia's balance sheet, and support a stable outlook.

Serbia (Republic of) (BB-/Negative/B)

Marko Mrsnik

Pressures emanating from Serbia's heavy external burden and the narrowing of the external credit channel have led the Serbian authorities to conclude an SBA with the IMF, amounting to about 10% of estimated 2009 GDP over 27 months. As a result of the agreement, we expect the 2009 and 2010 budgets to be subject to the government's deficit-reducing measures. However, given that the recession in Serbia is likely to be sharper than previously expected--and the subsequent large shortfall in revenues--we believe the 2009 deficit is likely to be about 5% of GDP, compared to the 3% of GDP target presented in the SBA. Because of the severity of the Serbian recession and the growing political tensions within the governing coalition, we believe the IMF may focus on authorities' efforts to stem the deterioration of the budgetary position, rather than solely on the fiscal outcome. A lasting improvement in external financing conditions or successful implementation of the economic and budgetary program along the lines of the IMF arrangement would support the ratings. Government debt-to-GDP has declined markedly despite growing deficits in recent years. However, we expect that higher projected fiscal deficits, reduced privatization revenues, and a weaker currency (raising the cost of the largely foreign currency denominated debt) will increase the debt burden to 36% of GDP in 2011. Amid a deep recession, the current account deficit is shrinking and is expected to fall below 10% of GDP in 2009 from almost 18% of GDP in 2008. High current account deficits in the past have heightened Serbia's vulnerability to a sharp decline in the availability of external financing. As a part of the IMF arrangement, however, the major banks have committed themselves to maintaining their cross-border exposure in Serbia and to adequately support their subsidiaries through 2010, which has contributed to improving investor sentiment, despite the slowdown in credit and economic growth in Serbia. Prospect of EU integration have further contributed to the support. Greater-than-expected economic and financial pressures due to the external adjustment could lead to a downgrade.

South Africa (Republic of) (BBB+/Negative/A-2)

Remy Salters

President Jacob Zuma's appointments to key relevant positions, especially at the National Treasury and Reserve Bank, have supported our baseline scenario that the new administration will not put in place a major macroeconomic policy shift. The balance and modus operandi between the new National Planning Commission and the economic ministries will take some time to emerge. We expect, however, that the Treasury will retain the main role in government macroeconomic policy. We expect real GDP to contract by close to 2% in 2009, recovering to growth of about 2% in 2010. Although leading indicators suggest the worst of the recession may have passed, the budget for fiscal 2009 (ending March 31, 2010) assumed GDP growth of 1.2%, and the difference has been felt in significant monthly revenue shortfalls. The Medium-Term Budget Policy Statement due to be presented in October will be new Finance Minister Pravin Gordhan's first opportunity to take stock and adjust the fiscal policy outlook. In the short term, some effort to increase expenditure efficiency is ongoing, but we believe the government will continue letting automatic stabilizers take effect. Therefore, we expect a general government deficit of about 6% of GDP in fiscal 2009. There is further downside risk to that forecast due to revenue uncertainties and a trend of higher-than-budgeted wage settlements. The government debt and interest burdens are moderate in themselves, but stepped-up rand bond issuance, combined with large public enterprise borrowing plans, could eventually raise questions about domestic market capacity and/or crowding out effects. The $2 billion in global notes issued this year highlighted international appetite for South African paper, but we believe currency risk considerations will continue to cap external issuance. We forecast a tangible reduction in the current account deficit in 2009 despite the public investment push, to 5.3% of GDP from 7.6% in 2008. On the financing side, net portfolio inflows have

recovered with emerging market appetite in the year to date, driving sustained rand appreciation. If inflows once again come under pressure, however, the risks remain tilted toward an additional domestic demand adjustment as the route to balance-of-payments easing, given the still poor external demand environment.

Sri Lanka (Democratic Socialist Republic of) (B/Stable/B)

Agost Benard

Sri Lanka's balance of payments position swiftly reversed its earlier sharp deterioration, following the combination of a pickup in foreign portfolio inflows into local currency debt after the decisive end of the country's ethnic war, and the approval in July of a $2.9 billion IMF SBA. The improvement was aided by a narrowing current account deficit, which benefits from lower oil prices and resilient remittance flows. For January-June, the trade deficit has come down by 60% year-on-year, as the 36.7% fall in imports more than outweighed the 18% fall in exports. Remittances are up 5.4% year-on-year for the first half of 2009 at $1.6 billion, which more than covers the goods trade deficit of $1.25 billion. The resulting rise in foreign exchange reserves to a reported $2.9 billion at the end of August, from its low of $1.3 billion in March, substantially alleviates concerns about short-term external liquidity, and served as the main reason for revising the outlook on Sri Lanka 's sovereign rating to stable on Aug. 25. Nevertheless, the increased reliance on portfolio inflows will remain a source of vulnerability for the external accounts, and therefore, a prudent fiscal and monetary policy mix will be needed to maintain investor confidence. The IMF agreement should aid in meeting this objective, by conditioning policy formulation. One key area is fiscal policy, where a significant adjustment is needed to reverse the current negative trajectory and attendant rising debt burden. Under the IMF-endorsed program, the government is aiming to cap the fiscal deficit at 7% of GDP for 2009, against a January-June outturn of an estimated 10.5% of GDP deficit on an annualized basis. It comes as slowing growth and trade depress revenues (down 6.1% year-on-year), against which expenditure growth remains excessive. Notably, while capital spending in the first half of 2009 declined in absolute terms, current spending jumped 25.7% year-on-year, yielding an overall expenditure rise of 17.6% for the first six months of the year. Small measures to increase revenue implemented so far this year are likely to have some moderating impact, but without a more strenuous revenue effort and/or expenditure cuts, the fiscal deficit and debt levels will remain well in excess of those of similarly rated sovereigns in the near term, and will be the chief credit constraints.

Thailand (Kingdom of) (BBB+/Negative/A-2)

KimEng Tan

Political stability remains the key sovereign credit concern in Thailand. Mass rallies in the country have been peaceful since April 2009, when protestors disrupted the Association of Southeast Asian Nations summit. However, political divisions in Thailand remain deep and unresolved. A major event could spark another round of violent reaction from protestors on either or both sides of the political divide. Meanwhile, the current Democrat Party-led coalition government enjoys limited policy flexibility and an uncertain future due to differences among its member parties. Many observers expect a new legislative election to be held well before the government's term of office runs out in late 2011. In these circumstances, we expect capital spending to remain weak even when the global economy regains momentum. Expected general government deficits in fiscal 2009 and 2010, after years of surpluses, are unlikely to weaken Thailand's fiscal health materially. In 2009, the government implemented various stimulus measures in response to an economic contraction that we project at 3.4%. In August, it also approved a second stimulus package that would spend more than Thai baht 1 trillion over three years on a number of investment projects. Although touted as a stimulus measure, the package mostly consists of infrastructure spending delayed by political uncertainties of recent years. We do not expect the financial impact of these measures to damage Thailand's relative fiscal health, which compares favorably to the fiscal position of other 'BBB' rated sovereigns. Although Thailand's banking sector remains laden with legacy nonperforming assets, it has weathered the financial and economic pressures of the past year relatively well. Reflecting this, bank lending continued to grow (albeit at low single-digit rates) and the nonperforming loan ratio has risen only marginally. Thailand's external creditor position looks set to strengthen further in 2009. We project that the annual current account surplus will exceed $16 billion (6.3% of GDP). Foreign exchange reserves will likely rise by more than $20 billion as the central bank seeks to maintain a stable nominal effective value of the currency.

Trinidad and Tobago (Republic of) (A/Stable/A-1)

Roberto Sifon-Arevalo

The ratings on the Republic of Trinidad and Tobago reflect a solid fiscal profile resulting from several years of high energy prices that in turn have enhanced policy flexibility. This position has allowed the government to respond with countercyclical policies to the recent world economic crisis as well as to the bankruptcy of one of Trinidad's largest financial conglomerates--the CL Financial group (CLFG)--with a potential gross loss for the government, assuming no recovery from any asset sales, of about TT$9 billion or 6% of 2009 GDP. In this context, we expect the general government to have a deficit of 4.5% of GDP in 2009, down from a surplus of 6.3% of GDP in 2008. As a result, we expect fiscal spending to partially offset the negative global trends on economic growth, with GDP expected to contract by about 0.5% in 2009 returning to a growth of 2.5% in 2010. At the same time, we do not expect the government to contribute nor tap into the Heritage and Stabilization Fund in 2009 or in 2010, keeping the fund's balance at about 11% of 2009 GDP. We expect the current account to remain in a surplus of about 15.5% of GDP in 2009 and about 18% in 2010. Even though this is a marked reduction from the 37% of GDP surplus of 2008, it is still a solid performance that enhances the government's external liquidity position. We expect gross external financial requirements to be 48% of current account receipts plus usable reserves, which still compares well with the 104% expected for the median of 'A' rated peers. We expect net general government debt to be 7% of GDP in 2009 and 12% in 2010 compared to 28% and 31% for the median of 'A' rated peers in the same period. Finally, the stable outlook reflects our expectations that the government will be able to muddle through the international financial crises as well as through its intervention in the CLFG affaire without material erosion in its balance sheet. Improvements in transparency, governance, and regulation in the financial industry and among public-sector enterprises in particular, could further strengthen Trinidad and Tobago's creditworthiness over the medium term. Conversely, a

higher than expected fiscal deterioration due to higher than forecasted costs associated with the government bailout of CLFG as well as slippages in the pace of restructuring government-owned entities could lead to negative actions on the ratings.

Tunisia (Republic of) (BBB/Stable/A-3)

Véronique Paillat-Chayriguès

The global crisis has significantly affected Tunisia's export-led economy in recent months, although the government's track record of prudent macroeconomic policies and economic reforms should allow the country to withstand the slowdown relatively well. A sharp contraction in EU demand for Tunisian products, in particular those produced by the textile and mechanical industries, and lower domestic demand have been the main drivers of the crisis in Tunisia. We forecast real GDP growth will decelerate to about 2.0% in 2009 and 3.0% in 2010, having expanded by more than 4% annually over the past decade. These growth rates remain above our expectations for the 'BBB' median, however, reflecting the fairly good resilience of the Tunisian economy and the tourism industry, continuously strong remittances from Tunisian workers abroad, and ongoing large FDI inflows. In addition, lower commodity prices in recent months have alleviated the import bill. As a result, the country's external position should remain solid, with comfortable reserve levels totaling some $9 billion at the end of second-quarter 2009. We believe external financing will remain available throughout the crisis, with large committed FDI. On the fiscal side, we expect fiscal ratios to weaken in the coming two years, after years of prudent policies yielded central government deficits of below 3% of GDP, and an exceptionally low 1.2% in 2008. We forecast a general government deficits (including the social security balance) of about 4%-5% of GDP in 2009 and 2010, due to a contraction in tax revenues, and the stimulus plan implemented to help the economy to recover (including measures such as accelerated infrastructure spending, cuts in taxes and contributions, increase of minimum wages and state pensions by 3.5%, together amounting to 2% of GDP). The general government debt burden should rise accordingly, having fallen to 45% of GDP in 2008 from 55% in 2005. We forecast a ratio of 48% of GDP in 2011, which would remain above the expected 'BBB' median (35%). The ratings on Tunisia remain constrained by a pace of political liberalization that is gradual compared that of with similarly rated countries, despite advances in recent years. The upcoming presidential elections are not expected to change the Tunisian political landscape in the medium term, and policy direction should remain in line with previous years. We believe the government will continue to implement structural reforms, in particular monetary reforms, banking sector reforms and capital account liberalization. Looking ahead, the debt trajectory will remain key to the evolution of the rating.

Turkey (Republic of) (BB-/Stable/B)

Farouk Soussa

The ratings on the Republic of Turkey are constrained by medium-term macroeconomic challenges relating mainly to the fall in external demand and financing, and the negative impact this has had on fiscal outturns. Real annual GDP growth registered a weak 1.1% in 2008, and we expect the economy to contract by about 6.5% in 2009, as exports fall and external financing continues to be tight. Unemployment is on the rise, with nonseasonally adjusted figures showing a 4.4% year-on-year increase in the rate of unemployment in May 2009. We expect the fiscal impact of the slowdown to be marked in 2009. Pressures on the budget deficit have increased as the government seeks to provide fiscal stimulus to the economy. While the majority of stimulus measures so far have been temporary and reversible, the era of fiscal consolidation that followed the 2001 crisis has almost certainly come to a halt in the medium term, and uncertainties persist regarding the future path of fiscal policy. On the other hand, Turkey's external balances will continue to improve, mainly due to an easing in the global price of oil and a fall in imports related to domestic investment and consumption. However, in our view, the inverse relationship between domestic economic activity and external imbalances remains a structural feature of the Turkish economy, and this dependence on external financing remains a constraint on the ratings despite the nominal improvement in the current account deficit. The ratings on Turkey will remain supported by the government's track record of sound economic and fiscal management, and the significant structural improvements these have yielded to Turkey's public finances since 2001. Improvements in the banking sector have also helped it to weather the global financial crisis better than most peers, although scope for deterioration in asset quality in the coming months exists as the economic slowdown persists. Finally, Turkey's relatively high level of wealth underpins its standing within the 'BB' rating category.

Ukraine (CCC+/Positive/C)

Frank Gill

The positive outlook on Ukraine's long-term foreign currency sovereign credit rating reflects exceptional international financial backing for Ukraine, which has helped to offset significant medium-term pressures on the sovereign's debt servicing capacity. With more than 60% of the IMF loan already disbursed, the Ukraine government has been able to fund capital injections into the financial system worth more than 5% of GDP, while increasing its 2009 general government deficit target (which excludes 2.6% of GDP in transfers to Naftogaz, as well as the restructuring costs for the banking system) from 0% to 6% of GDP. As of the end of August, foreign exchange reserves of $29 billion cover more than 2x short-term debt. Meanwhile, sovereign foreign debt servicing payments for 2009 and 2010 total a fairly moderate $2.7 billion. Ukraine's 'CCC+' rating continues to signal intense economic, fiscal, and external pressures, as well as weak political institutions, which will be tested ahead of the January 2010 presidential elections. The preelection period may usher in a marked slowdown in the implementation of measures attached to the IMF program, such as the reduction in state subsidies for residential gas consumption, amid a deterioration of the fiscal stance. Failure to meet budgetary targets for 2009 and 2010 could lead to increased monetization of fiscal deficits, though for 2009, most of the Central Bank's local currency government securities purchases (equivalent to 3% of GDP) were made to bolster the capital adequacy ratios of nationalized banks rather than to finance current expenditures. Uncertainty on future policy direction has generated another round of exchange rate depreciation, which, should it continue, will further increase the cost to the government of recapitalizing the financial system. While the current account deficit is narrowing, it is doing so primarily because of a sharp fall in real incomes. The timing and extent of any economic recovery will mainly depend on the external environment, Ukraine's terms of trade, and the commitment of the government to implementing the remainder of the IMF

program.

Uruguay (Oriental Republic of) (BB-/Stable/B)

Sebastián Briozzo

A growing track record of prudent macroeconomic management, recently tested by the severe global financial and economic crisis, and improvements in the medium-term economic outlook based on significant levels of green field FDI continue to be constrained at the current rating level by still-high government debt, dollarization, and vulnerability to regional developments. We expect a smooth transition into the new administration--to be elected in October 2009--given Uruguay's solid political institutional framework. While in our view, the electoral process will certainly heighten the debate on microeconomic issues, the ratings on Uruguay assume a relatively solid level of consensus on macroeconomic restrictions, as well as on the key role that private investment will play in improving Uruguay's medium-term economic prospects. Improving economic conditions, combined with Uruguay's strong institutional framework, have attracted and continue to attract green field FDI, led by the pulp and paper industry. FDI levels averaged 6% of GDP over the last four years, and, although we expect a decline from these very high levels, will remain strong over the medium term. We believe that strong FDI flows are assisting in the reversal of one of Uruguay's greatest economic weaknesses: a low level of investment. Despite recent declines, we consider that a still-high general government debt level (at 45% of GDP in net terms expected for 2009) remains an important credit weakness in Uruguay. Government debt remains highly vulnerable to exchange rate fluctuations, with 65% of the debt denominated in foreign currency. In addition, high levels of dollarization (85% of deposits) that undermine monetary policy implementation, and a rigid fiscal structure, which diminishes fiscal room to maneuver, restrict the flexibility of economic policy implementation. The ratings on Uruguay will continue to be constrained by its vulnerability to both commodity prices and regional performance. In addition, we believe that the uncertain prospects for the Argentine economy could hinder Uruguay's own economic performance, even though recent policies in Uruguay have moderated some of the historical channels of contagion, such as the financial one.

Venezuela (Bolivarian Republic of) (BB-/Negative/B)

Roberto Sifon-Arevalo

The ratings on Venezuela are based on the republic's still good--albeit deteriorating--liquidity position compared to that of other rated peers. At the same time, we believe that the costs to the government's fiscal profile associated with the ongoing recession and the continued government intervention in the private sector leave credit risks on the downside. The outlook on Venezuela has been negative since Dec. 10, 2008. It reflects our forecast for an economic contraction in 2009 and the attendant deterioration in the nation's fiscal and external accounts. In 2009, we expect that Venezuela's GDP will contract by about 2%, the general government balance will move into a deficit of 6% of GDP from a surplus of 1.4% of GDP in 2008, and the current account will swing to a deficit of 1% of GDP from a surplus of 12.5% of GDP in 2008. Although the recent rise in oil prices has brightened the outlook for 2010, we believe that the costs to the government's fiscal profile associated with this recession and the continued government intervention in the private sector leave credit risks on the downside. We project that the central bank's reserves will decline to about $30 billion in 2009 from $41 billion in 2008 and that other government external liquid assets--such as those at the Fondo de Desarrollo Nacional--will fall to $9 billion in 2009 from $16 billion in 2008. Despite this deterioration, we estimate that external financing needs as a percentage of current account receipts plus usable reserves should be about 80% in 2009, which compares favorably with the 96% ratio for the 'BB' median. If oil prices declined below current expectations without additional adjustment of the government's policy mix, the country's external and fiscal indicators could deteriorate further, triggering a downgrade. On the other hand, if the government's fiscal and external indicators stabilize, ratings could stabilize at the current levels.

Vietnam (Socialist Republic of) (BB/Negative/B)

KimEng Tan

Vietnam's economy has stabilized significantly but concerns remain about the state of banks' balance sheets. After large swings in lending growth over the last two years, the banking system enters the current period of economic slowdown with a weakened balance sheet. A number of small banks are believed to be insolvent. However, the major state owned and joint-stock banks do not appear to be under significant stress. This likely reflected their greater caution in expanding their lending during 2007 and 2008. Nevertheless, a renewed acceleration of banking lending has kept concerns alive. Loan growth in 2009 is expected to reach 30% after a slow start early in the year. This pickup is triggered by the interest subsidy scheme introduced by the government as one of its economic stimulus measures. Should the global economic recovery prove short-lived, we expect banks' balance sheets to weaken markedly as loans turn bad. Interventions by the government are likely in this scenario and could result in a sharp escalation in the government's debt level. For the time being, Vietnam's economy is showing signs of increasing stability. We forecast economic growth this year to be more than 4% on continued inflows of foreign investments and the government's fiscal stimulus. The current account deficit is also projected to come down sharply in 2009 as imports shrink faster than exports. In August, the change in the consumer price index also fell to below 2% compared to a year earlier. Despite plans for a large fiscal deficit, the government appears to be careful to ensure sufficient liquidity for domestic corporate borrowers. During auctions of treasury and state-owned enterprise debt in 2009, the Ministry of Finance set low ceiling rates that caused the failure of several such sales. Public funding activities, therefore, drove up domestic funding costs less than it could have. While a reported increase in Japanese official development aid funding could have helped fund the budget shortfall, the government also held back on its spending. The half-year budget report showed that the deficit was significantly lower than planned.

*Ratings are as of Sept. 25, 2009. All ratings are foreign currency ratings. CPI--Consumer price index. EMU--European Monetary Union. FDI--Foreign direct investment. IMF--International Monetary Fund. SBA--Standby Agreement. SDR--Special drawing rights. WPI--Wholesale price index.

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Table 11

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Appendix: Emerging Market Sovereign Key Indicators

The following tables were discussed and referred to in the Key Credit Trends portion of this article, in the section titled "Forecast Remain Glum."

Appendix Table 1

Real GDP Per Capita Growth (%)								
	2004	2005	2006	2007	2008	2009e	2010f	2011f
Argentina	8.0	8.1	7.4	7.6	6.0	(3.0)	0.0	1.5
Belize	0.9	0.4	2.1	(1.7)	(0.2)	(2.6)	(1.5)	1.0
Brazil	4.2	1.8	2.5	4.2	3.6	(1.4)	2.5	2.5
Bulgaria	7.3	6.8	6.9	6.7	6.6	(7.2)	(2.2)	2.3
Chile	4.9	4.4	3.5	3.6	2.4	(2.5)	1.5	2.5
China	9.3	9.7	10.9	12.3	8.4	7.4	8.3	6.9
Colombia	3.1	4.2	5.5	7.5	1.2	(1.8)	1.2	2.7
Czech Republic	4.4	6.2	6.5	5.6	2.3	(2.4)	1.3	3.0
Dominican Republic	(0.5)	7.3	8.7	6.6	3.4	(0.4)	0.6	2.6
Ecuador	6.8	3.8	2.8	1.4	6.5	(2.6)	(0.3)	1.3
Egypt	2.2	2.6	5.0	5.1	5.1	2.2	1.8	3.3
El Salvador	0.0	1.3	2.5	2.9	0.8	(4.1)	(1.2)	1.3
Gabon	(2.7)	(1.1)	(2.9)	2.5	(1.0)	(3.9)	(0.5)	(0.0)
Georgia	7.1	10.9	10.7	13.8	3.3	(2.8)	2.8	4.8
Ghana	3.2	3.5	4.1	4.0	4.8	0.9	1.9	7.7
Hungary	4.9	4.1	4.2	1.3	0.8	(6.8)	(0.8)	2.2
India	5.7	7.9	8.1	7.7	5.2	3.4	4.5	5.1
Indonesia	3.7	4.4	4.2	5.0	4.3	3.6	5.3	5.6
Jamaica	0.4	1.1	2.2	1.0	(1.0)	(3.9)	(1.4)	0.6
Kazakhstan	9.0	8.8	9.6	7.4	2.3	(2.5)	2.0	2.0
Lebanon	4.5	(0.4)	(1.9)	1.6	7.0	2.6	3.0	3.1
Malaysia	4.8	3.4	3.9	4.4	2.9	(5.2)	1.5	2.7
Mexico	3.2	2.3	4.1	2.2	0.5	(8.4)	1.5	1.0

Appendix Table 1

Real GDP Per Capita Growth (%) (cont.)								
Morocco	3.7	1.8	6.5	1.5	4.1	1.1	2.0	2.7
Nigeria	7.9	4.0	3.5	3.9	3.9	(0.9)	3.0	2.6
Pakistan	5.9	5.7	4.3	3.8	5.4	0.1	2.1	3.0
Panama	5.5	5.5	6.6	9.3	6.8	0.5	2.4	4.4
Peru	3.6	5.5	6.4	7.6	8.6	0.5	2.5	4.0
Philippines	4.4	3.0	3.5	5.2	2.7	(1.0)	1.7	2.5
Poland	5.5	3.8	6.5	7.1	5.1	0.3	1.4	3.9
Russia	7.7	6.9	8.2	8.5	6.0	(7.6)	2.4	3.4
Serbia	8.5	5.9	5.6	7.3	5.4	(4.7)	(0.1)	1.6
South Africa	3.5	3.7	4.1	4.0	2.0	(2.4)	1.3	2.9
Sri Lanka	4.3	5.1	6.5	5.6	4.6	1.7	4.2	5.2
Thailand	8.2	3.9	4.5	4.6	2.0	(3.6)	3.0	3.5
Trinidad and Tobago	8.0	4.6	13.3	4.7	3.5	(0.5)	1.7	4.0
Tunisia	5.1	3.1	4.5	5.3	3.9	1.0	2.0	3.0
Turkey	7.9	6.9	5.4	3.2	(0.3)	(7.3)	1.1	2.1
Ukraine	13.0	3.3	8.2	8.6	23.2	(11.3)	4.4	4.9
Uruguay	5.1	7.4	4.5	7.3	8.6	(0.8)	1.7	3.6
Venezuela	16.2	8.4	8.5	6.6	3.2	(3.5)	0.2	0.4
Vietnam	6.3	7.0	6.8	7.2	5.0	2.7	5.0	5.3

e--Estimate. f--Forecast.

Appendix Table 2

General Government Balance / GDP (%)								
	2004	**2005**	**2006**	**2007**	**2008**	**2009e**	**2010f**	**2011f**
Argentina	3.6	2.2	1.4	0.9	1.0	(1.0)	(0.5)	(0.5)
Belize	(6.2)	(4.8)	(3.7)	(1.0)	1.5	(2.0)	(1.6)	(1.1)
Brazil	(3.1)	(3.7)	(3.8)	(2.8)	(2.1)	(3.0)	(2.3)	(1.9)
Bulgaria	1.6	1.9	3.0	0.1	1.5	(2.8)	(3.3)	(2.5)
Chile	2.1	4.7	7.9	9.0	6.8	(2.4)	(1.2)	2.5
China	(1.3)	(1.2)	(0.7)	0.7	(1.1)	(3.4)	(3.2)	(2.7)
Colombia	(1.9)	(2.3)	(2.2)	(1.1)	(0.8)	(4.2)	(2.9)	(1.9)
Czech Republic	(2.9)	(3.6)	(2.6)	(0.6)	(1.4)	(5.3)	(5.0)	(4.0)
Dominican Republic	(5.4)	(3.0)	(3.1)	(1.7)	(4.7)	(4.0)	(3.8)	(2.5)
Ecuador	(0.9)	(2.0)	0.5	(3.1)	(5.8)	(6.1)	(3.5)	(2.2)
Egypt	(8.2)	(8.4)	(9.2)	(7.6)	(7.8)	(7.9)	(9.4)	(7.4)
El Salvador	(2.4)	(3.0)	(2.9)	(1.9)	(2.9)	(5.4)	(3.5)	(2.9)
Gabon	6.8	8.6	9.2	8.5	12.8	1.0	3.9	7.8
Georgia	(0.3)	(2.6)	(3.4)	(4.8)	(6.2)	(9.0)	(7.8)	(6.7)
Ghana	(1.7)	(0.4)	(5.7)	(7.9)	(14.9)	(11.0)	(8.0)	(3.0)
Hungary	(6.4)	(7.8)	(9.3)	(4.9)	(3.4)	(4.0)	(4.0)	(3.0)
India	(7.8)	(7.4)	(6.6)	(5.7)	(11.4)	(11.1)	(11.2)	(10.8)
Indonesia	0.1	0.8	0.3	(0.3)	(2.3)	(2.0)	(1.8)	(1.8)

Appendix Table 2

General Government Balance / GDP (%) (cont.)								
Jamaica	(6.9)	(3.9)	(6.0)	(5.1)	(7.6)	(8.0)	(7.3)	(5.6)
Kazakhstan	2.5	5.8	7.2	5.1	1.3	(8.4)	(5.0)	(1.3)
Lebanon	(8.6)	(7.6)	(12.5)	(9.6)	(9.1)	(11.0)	(10.1)	(10.0)
Malaysia	(3.7)	(2.8)	(2.8)	(3.3)	(5.0)	(8.2)	(7.7)	(7.0)
Mexico	(0.9)	(0.7)	(1.5)	(1.6)	(1.4)	(3.7)	(3.3)	(2.9)
Morocco	(1.7)	(3.7)	(0.6)	(1.4)	1.5	(2.1)	(2.5)	(0.8)
Nigeria	8.1	9.4	7.7	0.4	2.6	(4.5)	(1.5)	(2.0)
Pakistan	(2.5)	(3.0)	(3.7)	(3.9)	(7.2)	(4.4)	(3.5)	(3.0)
Panama	(5.6)	(4.2)	(0.2)	2.6	(0.8)	(3.2)	(2.4)	(1.6)
Peru	(1.2)	(0.6)	1.7	3.0	2.0	(1.5)	(1.9)	(1.5)
Philippines	(3.0)	(1.3)	0.4	0.7	0.4	(2.4)	(1.0)	(0.5)
Poland	(5.7)	(4.3)	(3.9)	(1.9)	(3.9)	(5.7)	(6.5)	(4.7)
Russia	4.5	7.7	8.0	6.0	4.8	(8.7)	(8.5)	(6.5)
Serbia	1.2	1.0	(1.6)	(1.9)	(2.5)	(4.5)	(3.2)	(2.7)
South Africa	(1.6)	(0.2)	0.8	1.1	(1.4)	(5.8)	(4.8)	(3.5)
Sri Lanka	(7.5)	(7.0)	(7.0)	(6.9)	(7.2)	(8.5)	(8.3)	(7.8)
Thailand	1.2	1.8	2.6	1.2	1.6	(1.9)	(0.8)	1.1
Trinidad and Tobago	2.1	5.0	6.3	1.7	6.3	(4.5)	(3.5)	(0.7)
Tunisia	(2.6)	(3.3)	(3.1)	(3.1)	(1.5)	(4.4)	(4.3)	(3.3)
Turkey	(5.5)	(1.3)	(0.8)	(1.9)	(2.0)	(6.5)	(3.0)	(1.4)
Ukraine	(2.9)	(1.8)	(0.7)	(0.9)	(1.2)	(6.0)	(4.5)	(2.0)
Uruguay	(3.3)	(1.8)	(1.4)	(0.9)	(0.7)	(2.0)	(1.5)	(1.4)
Venezuela	(2.0)	2.3	0.0	(0.9)	1.4	(6.0)	(4.7)	(3.5)
Vietnam	(2.7)	5.0	(4.1)	(4.7)	(3.2)	(6.7)	(4.1)	(3.2)

e--Estimate. f--Forecast.

Appendix Table 3

General Government Debt / GDP (%)								
	2004	**2005**	**2006**	**2007**	**2008**	**2009e**	**2010f**	**2011f**
Argentina	133	78	68	60	51	49	48	48
Belize	98	98	90	87	83	82	80	76
Brazil	62	58	57	60	61	64	63	60
Bulgaria	38	29	23	18	14	17	18	18
Chile	24	19	15	13	13	13	12	12
China	27	24	22	23	21	23	24	24
Colombia	46	45	42	39	38	41	41	40
Czech Republic	30	30	30	29	30	36	39	41
Dominican Republic	36	40	37	34	37	39	39	39
Ecuador	39	34	28	27	22	17	17	15
Egypt	104	105	92	81	71	66	68	67
El Salvador	39	39	38	35	35	40	42	43
Gabon	61	47	38	37	19	18	16	15

Appendix Table 3

General Government Debt / GDP (%) (cont.)								
Georgia	51	40	32	26	31	35	42	46
Ghana	94	78	41	51	58	71	69	45
Hungary	59	62	66	66	73	84	83	82
India	91	90	86	84	82	85	87	87
Indonesia	61	48	43	37	34	33	30	28
Jamaica	126	126	125	118	117	117	118	117
Kazakhstan	16	9	12	8	6	15	16	16
Lebanon	153	167	164	156	137	139	140	140
Malaysia	46	44	42	42	39	47	51	53
Mexico	30	30	29	29	33	37	38	38
Morocco	48	50	47	43	37	37	37	36
Nigeria	53	29	12	13	10	13	12	11
Pakistan	70	65	59	55	53	49	49	48
Panama	66	61	57	50	42	43	42	40
Peru	45	41	34	34	28	27	27	26
Philippines	78	70	63	56	56	55	54	52
Poland	46	47	48	45	47	52	55	56
Russia	24	16	9	6	7	9	11	13
Serbia	54	50	35	28	26	32	35	36
South Africa	36	34	32	29	30	34	36	36
Sri Lanka	110	91	88	85	81	84	82	76
Thailand	N.A.	32	28	26	25	28	27	24
Trinidad and Tobago	29	27	22	24	28	29	31	29
Tunisia	56	55	51	48	45	46	48	48
Turkey	57	52	46	40	41	47	45	41
Ukraine	20	15	12	11	18	43	41	38
Uruguay	90	77	67	59	57	55	52	49
Venezuela	41	42	33	22	16	15	14	13
Vietnam	36	37	37	39	35	33	33	32

e--Estimate. f--Forecast. N.A.--Not available.

Appendix Table 4

Current Account Balance / GDP (%)								
	2004	**2005**	**2006**	**2007**	**2008**	**2009e**	**2010f**	**2011f**
Argentina	2.1	2.9	3.6	2.7	2.1	2.3	2.4	2.2
Belize	(14.2)	(13.6)	(1.3)	(3.6)	(13.3)	(11.5)	(7.1)	(5.0)
Brazil	1.8	1.6	1.2	0.1	(1.8)	(1.1)	(1.5)	(1.9)
Bulgaria	(6.8)	(12.3)	(18.5)	(25.4)	(25.2)	(8.5)	(3.5)	(1.3)
Chile	2.2	1.2	4.7	4.4	(3.9)	(5.6)	(2.6)	(0.2)
China	3.5	7.0	9.0	10.7	9.8	7.6	7.4	7.7
Colombia	(0.8)	(1.3)	(1.8)	(2.8)	(2.8)	(4.1)	(3.6)	(2.7)
Czech Republic	(5.3)	(1.3)	(2.7)	(3.3)	(3.1)	(2.0)	(2.5)	(3.0)

Appendix Table 4

Current Account Balance / GDP (%) (cont.)								
Dominican Republic	4.8	(1.4)	(3.6)	(5.1)	(9.7)	(6.1)	(6.5)	(6.0)
Ecuador	(2.4)	(0.1)	2.8	2.7	1.7	(7.0)	(4.5)	(2.2)
Egypt	4.4	3.3	1.6	1.7	0.5	(2.3)	(3.1)	(0.5)
El Salvador	(4.0)	(3.3)	(3.6)	(5.8)	(7.2)	(3.6)	(3.1)	(2.8)
Gabon	12.9	22.9	16.3	15.8	17.7	1.6	4.1	3.9
Georgia	(8.4)	(12.0)	(16.2)	(20.8)	(22.3)	(18.7)	(16.5)	(15.0)
Ghana	(6.4)	(10.3)	(8.2)	(14.9)	(21.2)	(12.9)	(10.3)	4.2
Hungary	(8.6)	(7.5)	(7.5)	(6.5)	(8.4)	(4.6)	(4.7)	(4.6)
India	0.1	(1.0)	(0.9)	(1.5)	(3.7)	(1.9)	(2.0)	(2.4)
Indonesia	0.6	0.1	3.0	2.5	1.5	1.9	2.4	2.7
Jamaica	(4.9)	(9.4)	(9.6)	(13.7)	(19.3)	(12.3)	(10.2)	(9.0)
Kazakhstan	0.8	(1.9)	(2.4)	(7.0)	8.2	(4.7)	1.8	1.9
Lebanon	(19.1)	(10.3)	(5.8)	(10.4)	(11.3)	(9.0)	(7.6)	(7.2)
Malaysia	12.1	14.5	16.3	15.7	17.5	14.0	14.6	15.1
Mexico	(0.9)	(0.6)	(0.2)	(0.8)	(1.4)	(2.0)	(2.0)	(2.3)
Morocco	1.7	2.2	2.6	(0.1)	(5.9)	(3.6)	(2.1)	(0.9)
Nigeria	5.1	7.2	9.4	0.8	6.3	(5.4)	(3.0)	(2.1)
Pakistan	1.9	(1.4)	(3.9)	(4.8)	(9.3)	(6.1)	(6.2)	(7.1)
Panama	(7.5)	(5.1)	(3.1)	(7.2)	(11.9)	(8.6)	(7.6)	(7.1)
Peru	0.0	1.4	3.1	1.1	(3.3)	(2.7)	(2.5)	(2.0)
Philippines	1.9	2.0	4.5	4.9	2.5	3.2	3.5	3.8
Poland	(4.0)	(1.2)	(2.8)	(4.7)	(5.5)	(2.6)	(2.6)	(3.0)
Russia	10.1	11.1	9.6	5.9	6.1	3.4	3.6	2.0
Serbia	(13.8)	(8.7)	(10.1)	(15.7)	(17.5)	(9.8)	(8.7)	(7.4)
South Africa	(3.2)	(4.0)	(6.3)	(7.3)	(7.6)	(5.3)	(5.8)	(6.0)
Sri Lanka	(3.3)	(3.0)	(5.7)	(4.5)	(8.2)	(6.2)	(5.8)	(5.0)
Thailand	1.7	(4.3)	1.1	5.7	(0.1)	6.3	3.6	2.5
Trinidad and Tobago	11.6	24.9	24.9	24.7	36.4	15.5	18.8	19.0
Tunisia	(1.9)	(1.0)	(2.0)	(2.5)	0.2	(3.2)	(2.9)	(2.0)
Turkey	(4.0)	(4.7)	(6.1)	(5.9)	(5.7)	(2.0)	(1.5)	(1.1)
Ukraine	10.6	3.1	(1.5)	(4.3)	(7.2)	(2.8)	(3.0)	(3.0)
Uruguay	0.0	0.1	(2.0)	(0.9)	(3.8)	(0.5)	(2.0)	(2.2)
Venezuela	13.8	17.3	14.7	8.8	12.5	(0.8)	1.2	1.7
Vietnam	(2.0)	(0.9)	(0.3)	(9.8)	(9.3)	(2.1)	(1.4)	(1.5)

e--Estimate. f--Forecast.

Appendix Table 5

Gross External Financing Needs / CAR + Usable Reserves								
	2004	**2005**	**2006**	**2007**	**2008**	**2009e**	**2010f**	**2011f**
Argentina	N/A	N/A	93	91	85	86	95	103
Belize	163	163	124	126	133	126	122	119
Brazil	98	104	98	90	79	70	77	75

Appendix Table 5

Gross External Financing Needs / CAR + Usable Reserves (cont.)								
Bulgaria	112	133	132	148	143	139	139	134
Chile	91	95	92	91	112	110	98	96
China	68	63	58	52	50	46	44	42
Colombia	96	102	102	101	93	95	95	93
Czech Republic	97	96	98	99	103	104	107	108
Dominican Republic	102	111	114	119	129	126	127	127
Ecuador	124	119	109	110	102	121	125	121
Egypt	82	83	82	81	81	84	89	89
El Salvador	106	109	111	112	110	105	104	107
Gabon	108	85	90	86	88	106	77	68
Georgia	121	122	136	135	135	132	123	122
Ghana	106	109	103	112	121	119	112	91
Hungary	124	119	114	115	123	120	117	119
India	80	84	84	72	69	72	77	81
Indonesia	86	92	98	92	90	91	87	83
Jamaica	112	114	106	118	136	125	126	127
Kazakhstan	101	99	117	120	107	126	116	107
Lebanon	119	131	119	119	123	103	104	102
Malaysia	93	88	79	75	68	73	73	71
Mexico	98	96	93	94	96	96	95	98
Morocco	69	67	69	71	78	77	78	78
Nigeria	101	86	64	64	59	60	68	72
Pakistan	78	86	94	96	105	112	106	102
Panama	286	271	243	247	279	300	277	261
Peru	86	86	77	86	86	75	69	70
Philippines	94	94	91	85	81	78	75	75
Poland	111	108	107	115	114	118	120	119
Russia	73	62	64	64	61	64	66	65
Serbia	120	108	108	104	110	124	128	129
South Africa	118	114	115	117	113	115	117	118
Sri Lanka	105	109	116	113	124	134	113	110
Thailand	N/A	85	83	76	76	70	66	68
Trinidad and Tobago	77	58	56	50	47	48	48	48
Tunisia	113	105	106	98	95	96	99	100
Turkey	133	144	140	139	135	134	132	121
Ukraine	102	110	105	116	124	141	166	168
Uruguay	N/A	138	122	112	116	99	95	95
Venezuela	66	57	62	65	59	80	81	77
Vietnam	90	90	89	95	89	83	85	83

e--Estimate. f--Forecast. N/A--Not applicable. CAR--Current account receipts.

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Appendix Table 6

Net External Debt / CAR (%)

	2004	2005	2006	2007	2008	2009e	2010f	2011f
Argentina	133	(7)	(30)	(40)	(45)	(75)	(95)	(110)
Belize	128	117	94	84	78	85	79	72
Brazil	95	53	29	(7)	(10)	(13)	(13)	(12)
Bulgaria	(13)	(27)	(29)	(16)	11	18	23	20
Chile	52	41	20	10	(1)	11	18	18
China	(93)	(97)	(108)	(120)	(113)	(139)	(149)	(148)
Colombia	862	16	7	(5)	(5)	2	6	2
Czech Republic	(29)	(28)	(23)	(19)	(16)	(16)	(12)	(10)
Dominican Republic	36	32	11	9	12	19	22	23
Ecuador	95	63	47	29	16	23	33	35
Egypt	8	(14)	(23)	(52)	(55)	(30)	(27)	(34)
El Salvador	49	52	54	39	44	52	53	53
Gabon	50	24	16	21	(6)	(63)	(95)	(111)
Georgia	108	55	39	36	58	72	75	78
Ghana	103	83	6	22	25	43	42	13
Hungary	42	37	45	52	56	78	75	78
India	(9)	(8)	(20)	(37)	(11)	(4)	(2)	3
Indonesia	102	75	60	50	40	27	15	4
Jamaica	48	56	63	67	82	104	105	100
Kazakhstan	(33)	(22)	(26)	(15)	(25)	(30)	(33)	(39)
Lebanon	(62)	(73)	(103)	(122)	(126)	(123)	(118)	(89)
Malaysia	(25)	(24)	(30)	(39)	(20)	(32)	(37)	(49)
Mexico	24	14	7	4	2	8	12	13
Morocco	6	(5)	(19)	(26)	(16)	(11)	(10)	(11)
Nigeria	33	(20)	(63)	(75)	(58)	(109)	(78)	(73)
Pakistan	78	68	56	53	75	95	86	84
Panama	19	21	(13)	8	24	17	10	59
Peru	99	57	29	3	8	6	5	3
Philippines	57	51	40	24	17	18	18	13
Poland	30	19	23	28	37	50	53	53
Russia	(12)	(22)	(44)	(48)	(46)	(76)	(82)	(81)
Serbia	103	87	51	59	83	126	146	149
South Africa	(13)	(19)	(18)	(17)	(10)	(7)	(0)	2
Sri Lanka	88	73	74	74	95	73	66	59
Thailand	(16)	(16)	(25)	(32)	(33)	(45)	(51)	(47)
Trinidad and Tobago	(10)	(20)	(40)	(49)	(53)	(73)	(65)	(58)
Tunisia	88	71	54	43	26	30	29	26
Turkey	104	94	91	93	81	108	99	78
Ukraine	4	(7)	(8)	(7)	(7)	19	26	21
Uruguay	22	(4)	(20)	(31)	(33)	(45)	(50)	(57)
Venezuela	(87)	(87)	(109)	(119)	(135)	(182)	(139)	(124)

Appendix Table 6

Net External Debt / CAR (%) (cont.)								
Vietnam	14	11	2	(4)	2	5	(0)	(5)

e--Estimate. f--Forecast. CAR--Current account receipts.

Appendix Table 7

Domestic Credit: Private And NFPEs / GDP (%)								
	2004	2005	2006	2007	2008	2009e	2010f	2011f
Argentina	10	11	13	14	13	13	13	13
Belize	54	54	56	62	64	68	72	77
Brazil	26	29	31	36	42	45	46	49
Bulgaria	36	44	47	67	75	76	75	72
Chile	67	69	68	74	81	86	86	86
China	120	111	108	109	113	134	144	144
Colombia	26	25	31	33	35	35	36	37
Czech Republic	34	38	42	49	54	57	57	57
Dominican Republic	24	24	21	22	22	20	20	20
Ecuador	21	23	24	25	27	27	27	27
Egypt	64	61	55	50	46	40	39	37
El Salvador	47	48	47	46	45	44	46	48
Gabon	9	8	9	12	12	12	12	12
Georgia	11	16	21	29	34	33	32	31
Ghana	16	18	20	28	33	31	30	29
Hungary	45	50	54	59	68	69	68	66
India	38	45	45	52	53	56	59	60
Indonesia	27	27	25	26	30	33	36	39
Jamaica	23	24	26	29	31	30	31	33
Kazakhstan	27	36	48	59	50	49	43	42
Lebanon	77	68	68	74	75	79	85	95
Malaysia	129	125	120	116	113	120	118	115
Mexico	14	15	17	19	19	21	22	22
Morocco	50	54	58	70	78	79	80	84
Nigeria	13	13	13	23	31	34	32	32
Pakistan	29	31	31	31	33	32	34	37
Panama	91	92	93	95	93	95	104	106
Peru	18	19	18	21	25	25	25	25
Philippines	39	35	34	32	30	31	33	35
Poland	30	31	35	41	52	51	52	54
Russia	25	27	32	39	42	48	49	51
Serbia	24	30	30	35	39	40	39	40
South Africa	70	75	83	88	88	86	85	86
Sri Lanka	33	33	35	34	31	30	31	31
Thailand	108	105	99	96	97	98	97	97
Trinidad and Tobago	29	31	30	31	31	29	32	33

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Appendix Table 7

Domestic Credit: Private And NFPEs / GDP (%) (cont.)								
Tunisia	61	62	61	60	62	61	61	62
Turkey	17	22	26	30	33	34	34	35
Ukraine	27	35	47	62	78	95	87	80
Uruguay	27	24	25	23	27	27	28	29
Venezuela	11	13	17	24	22	18	14	18
Vietnam	59	66	71	93	91	99	107	116

e--Estimate. f--Forecast. NFPE--Nonfinancial public enterprise.

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