SECTION 7

EVALUATION AND CONTROL OF COUNTRY RISK

EVALUATION AND CONTROL OF COUNTRY'S RISK

Chapter 1 THE JAPANESE APPROACH

[1]. What Is Country Risk?

There is no exact definition of county risk. In general, it is risk caused by conditions in the government of a trade partner engaged in international trade, overseas investment, and financing and which are not attributable to the parties to the export contract. In trade and investment insurance, the word political risk is normally used synonymously with country risk.

The following are the main causes of country risk:

(a) Restriction or prohibition of foreign exchange transaction
(b) War, civil commotion, revolution
(c) Restriction or prohibition of imports
(d) Expropriation

In contrast, there is a commercial risk. Commercial risk is risk for which the trade partner engaged in international trade can be held accountable.

Main causes of risk:
(a) Bankruptcy of export contract counterparty
(b) Nonpayment

(c) Unilateral cancellation of an export contract

[2] Country Risk Management

Implements Risk Control Country-by-Country to prevent or minimise the need for the trade and investment insurance department to have to make claims.

1. Main Structure of Risk Management

Office for International Affairs and Country Policy — Overall trade Insurance Division

2. Degree of Risk

Management of ordinary country risk

ex. Foreign currency reserve conditions requesting the Paris Club to discuss rescheduling

Sudden incidents, serious occurrences with widespread impact

ex. Iraq's invasion of Kuwait, Tiananmen incident in China

3. Details of Risk Management

(1) Information Type and How to Grasp it

- Country risk information
- Business result
- Business information from trade partner
- Information from related organisations

(2) Processing the above information:

(1) Collection and distribution

(2) Analysis and prediction

(3) Evaluating

(3) Response to Changes in Country Risk

(1) Determine. a method for making changes in underwriting policy, etc.

Meeting to evaluate underwriting policy

The meeting for actual practitioners in the organisation
Chairman: Executive Director for International Affairs and Country Policy Office
Date: Every Friday morning

1) Issuing warning

2) Risk management (Changes in underwriting policy, monitoring system change, establishing the total commitments limit, etc.)

Country risk committee

Known as the executive committee
Chairman: Trade Insurance Manager
Date: Every Wednesday afternoon

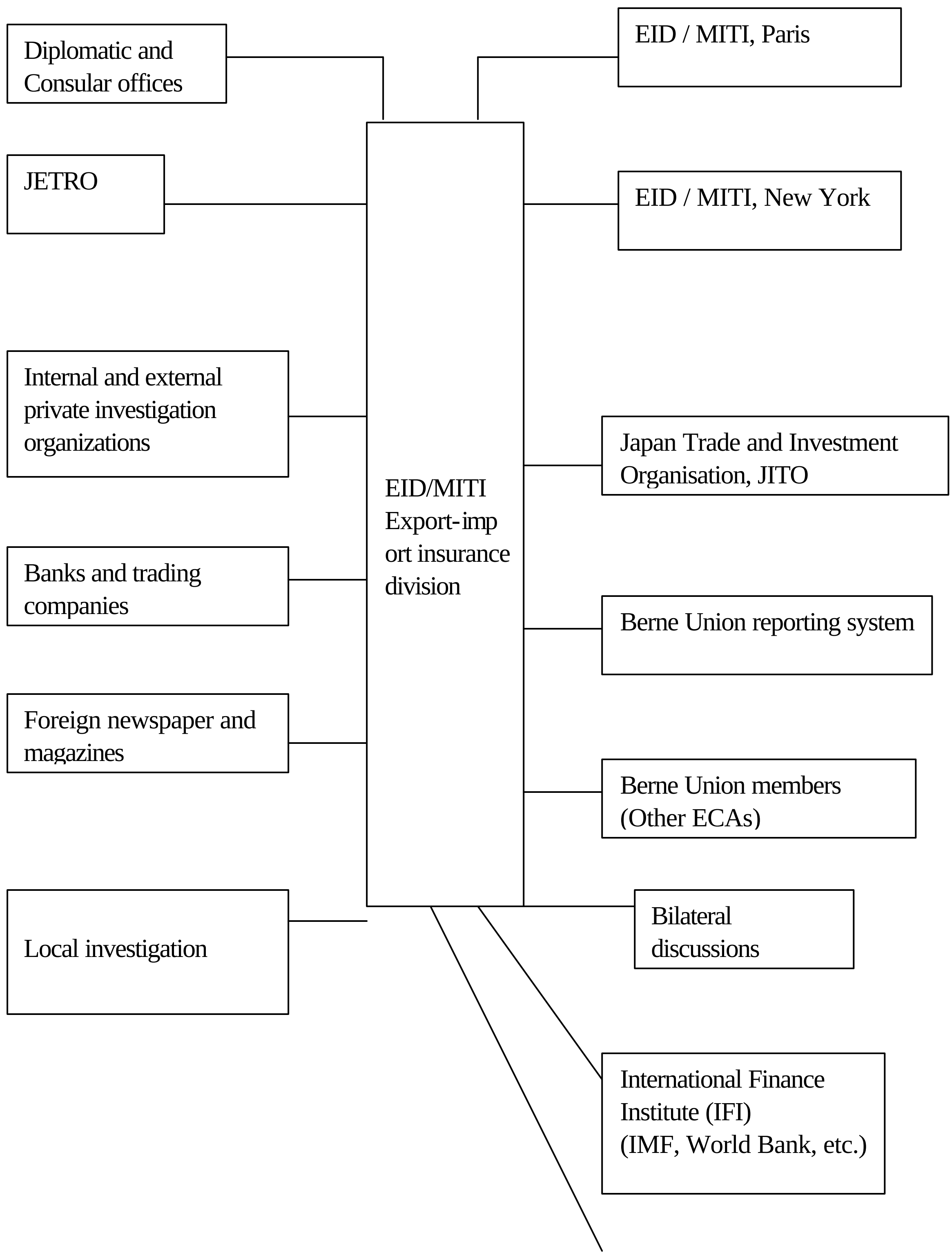
1) Determining underwriting criteria, for example, underwriting policy

2) Evaluating transactions which do not fall within the criteria

(2) Establishing country-rating and premium rate by country

[3] Evaluating Country Risk

(1) Information collection organizations



Paris Club meeting

(2) Major Sources for Collection of Information

(1) Reports from organizations which perform various analyses

(a) IMF report

(b) IIF (The Institute of International Finance Inc.) / Washington mainly analyzes country's economies

: Issued **once** or twice a year for major countries, and every other year for other countries.

(c) EIU (The Economist Intelligence Unit) / London Analysis of each country's political situation and economy

: Issued quarterly

(d) PRS (Political Risk Service) / New York

mainly analyzes country's political risk

: Issued annually

(2) Publications

(a) IFS (International Financial Statistics)

Details of economic situation, exchange rate, foreign currency reserve, trade figures, balance with banks, finance, etc.

: Issued monthly

(b) WDT (World Debt Table)

mainly deals with foreign debt of developing countries.

: Issued annually

(3) GRH, (Global Rating Handbook) Standard and Poors;

Country ratings, company ratings, bank ratings (credit strength company ratings)

: Issued monthly

(d) GSMR (Global Short-Term Market Record)

Same as (c); Moodys

: Issued monthly

[4] Response to Changes in Country Risk

1. Making Changes in Underwriting Policy

(1) When acquiring information which leads to a change in underwriting policy, immediately determine the following Basic Policies depending on the degree of risk. By doing this, it is possible to avoid an increase in the amount of new underwriting, which can help minimize the risk of future claims, and increase new underwriting as the country risk decreases in order to increase premium income.

1) Suspending underwriting (off-cover)
2) Tightening conditions for underwriting
3) Easing conditions for underwriting
4) Resuming underwriting
5) Case-by-case basis

(2) Information which leads to a change in underwriting policy

Obtain information regarding changes in each item of country rating as soon as possible and before the insured can obtain it.

(3) Relationship between the degree of risk and basic policy

1) Suspending underwriting (off cover):
   - (a) In the event that payment arrears occurred regarding existing insured credit
   - (b) In the event that a Paris Club Reschedule has been requested
   - (c) In the event that debt has been reduced / (partly forgiven) (Egypt, Poland)
   - (d) In the event that the country's political or economic situation is extremely unstable because of a regional dispute, etc. (Iraq, Angola, etc.)

2) Resuming underwriting (resumption)

The conditions for resuming underwriting are;

(a) Based on the agreement of Paris Club re-schedule, bilateral agreement is concluded.

(b) Based on the agreement, repayment of interest is restarted. (once or twice)

(c) The past rescheduled debt is repaid consistently, and the country risk, such as political and economic situation has improved.

However, in the event that an international agreement for the country exists, or in the light of political considerations, even though the conditions (b) through (d) are not satisfied, the underwriting might be resumed.

The conditions for resuming for the debt reduced countries are;

(a) Continuous sound economic performance

(b) Good relationship with international financial organizations

(c) Repayment of principal has started

3) Tightening conditions for underwriting

(a) Based on the Political and economic situation, Specifically, In the event that civil unrest has occurred, or foreign currency reserves suddenly decreased, and an arrears in payment is highly likely. (Although the, conditions for underwriting have been tightened depending on the degree of risk, an automatic change is difficult to implement.)

(b) In the event that underwriting is continued because of external forces even though arrears occur.

4) Easing conditions for underwriting

(a) In the case that the condition in (1-(a) is seen to be improving.

(b) In the case that the country's recovery / progress is satisfactory.

(5) Case-by-case basis

(a) When resuming underwriting, if there is concern whether payment will be continued, it is possible to stop the underwriting in practice by evaluating each transaction even though the trade partner's country risk has suddenly become worse. (Resume cover on a case-by-case basis)

(b) When it is necessary to renew underwriting policy for an inexperienced country for which the underwriting policy has not been fixed. This is because there is not enough information about country risk.

(4) Conditions for underwriting (Open with certain restrictions)

1) The conditions for underwriting are as follows;

1) Country category (Premium rate)
2) Insured percentage, 97.5 ~ 70%
3) Restriction of usance period, one year, six months
4) Requiring ILC (Letter of credit)
5) Limiting the size of Individual transaction

2) For these underwriting policies how to appropriately avoid risk when combining various factors is determined case-by-case based upon past experience.

3) However, it is thought that restriction of underwriting, such as reducing the country grade by one, 70% of insured percentage, shortening usance period (two years to one year), and limiting the size of transactions, can have a, strong positive impact.

2. Rules of underwriting

(1) Rules for suspending underwriting (Off-Cover)

l) Debt reduction	When a request is made to the Paris Club
2) Paris Club reschedule	When a request is made to the Paris Club
3) Claims	When a request is made for claims
4) Increased accumulated arrears	When determined by CR country risk committee
5) Poor condition of the economy	When determined by CR country risk committee

because of the United Nations sanctions, political change, etc. (when to change)

(Note) In the case of 1) and 2), transactions that involve suspension of underwriting are Medium- and Long-term and Short-Term transactions over one year.

(2) Rules for Resuming

1) Basically, underwriting is not resumed for debt reduced countries.

Leave the least-less developed country (LLDC) to ODA (ALD facility)

Do not resume for lower- middle income countries for some time.

2) For countries-which have been rescheduled, evaluate when the first payment

is completed and the remaining payments are thought to be complete after the Paris Club bilateral agreement is concluded.

However, even after the first payment, if it is likely to be rescheduled again, maintain close observation.

However, if there is an international agreement for flexibility or a political request, this does not have to be followed.

(3) Rules for starting underwriting

Currently, there are 146 countries and 237 regions for which the underwriting policy is medium- and long-term.

A new underwriting policy is set when a transaction is requested or the trade partner country has requested. The underwriting is decided according to the political and economic situation and underwriting policy of other countries' insurance organizations. Basically, underwriting with limitation is for short-term transactions, and case-by-ease for medium and long-term transactions.

(4) Rules for establishing Credit Line

Credit Line is given extremely exceptionally to countries with underwriting with restrictions, or off-cover, in cases which need special care because of the international trade policy or (and) foreign policy.
(In some cases, Credit Line for short-term transactions is only given.)

3. Exposure Control

(1) To Minimize. future payment of claims, set a Total Commitments Limit for each country, and control the exposure.
(2) Establish a system which checks, once a month in advance, that the Exposure (Exposure, = Insured Amount + commitments + Unrecovered Claim) is not higher than the Total Commitments Limit.

(3) Countries which need to be set a Total Commitments Limit

a) A country which needs to be controlled because a certain degree of increase in underwriting is projected.
b) A country for which it is thought that insurance without restrictions would substantially increase exposure, if arrears occured in the future, they would be substantial.
c) A country which is underwritten for medium -and long-term transactions even though it is rescheduled.
d) A country for which a Credit Line has been established

(4) Formula to calculate total commitments limit

a) Total commitments limit is set for a country which needs controlled exposure, and is calculated according to a formula. There are currently 63 countries for which Total Commitments Limits are set.

b) The formula is calculated based on the elements of country risk, such as a country's export volume amount, foreign currency reserves, import volume, and outstanding external debt, including the share of Japan for each elements, and multiplied by a constant coefficient.

(5)Japan’s Country Risk Evaluation Method

1. Introduction

1. To set the premium rate based on the risk, Japan classifies a country by its country risk, every year, using an evaluation system.

2.This evaluation system is based on the following three indexes.

(a) Country's political and economy situation
(b) Business Results I (Balance of payment,-,)
(c) Business Results 11 (situation of claim and recovery)

3. To evaluate, first, score for each group explained above, and next, make an adjustment according to the previous year's score, and classify country risk.

4. Maximum score of country risk is 270 points: 1) maximum of 135 points for country's political and economy situation, 2) maximum of 70 points for Business Result I (Balance of payments), and 3) maximum of 65 points for Business Result II (Claim and recovery situation)

5. Japan classifies a country in eight categories (levels) based on evaluation. Reflecting the evaluation results, a different premium rate is applied for each country.

6. The new country classification and premium rate are updated by a new evaluation and applied basically every April at the start of the new fiscal year.

II. Polictical and Ecoomic Situatiion

1. Selection of Index

1.1. The index for the country's Political and economic situation is evaluated by the following five categories:

- Domestic political and social, situation
- External relations of the country
- Economic structural factors
- Domestic economy and domestic economic system
- Balance of international payments, outstanding external debt

1.2 Evaluation items and scoring

Each of the five indexes consists of specific evaluation items, and is scored 0 to 3 points. The coefficient of importance is as shown in ( ), and a higher coefficient indicates more importance.

1.2.1 Domestic political and social situation

1) Political stability (2)

2) Longevity of policy after political change (1)

3) Ability to implement policy (1)

4) Risk of civil unrest and social disorder (3)

1.2.2 External relations of the country

1) Possibility of war or dispute (3)

2) Relationship with international finance organization, such as IMF and World Bank (2)

1.2.3 Economic structural factors

1) GNP (GDP) (1)

2) GNP per capita (GDP) (2)

3) Industrial products share in exports (1)

4) Share of energy imports in product exports (1)

5) Self-sufficiency rate in food, or share of food in imports (1)

6) Existence of natural resources (3)

1.2.4 Domestic economy and Institutional situations

1) Economic growth rate (latest one year) (1)

2) Economic growth rate (Tendency in last three years) (1)

3) Inflation rate (latest one year) (1)

4) Unemployment rate (latest, one year) (1)

5) Fiscal deficit (surplus) / GNP (GDP) (1)

6) Domestic capital formation or domestic savings / GNP (GDP) (1)

7) Establishment of economic system (including legal system) (3)

1.2.5 Balance of International payments, external debt

1) Current account balance / export(latest one year) (2)

2) Current account balance (Tendency in last three years) (2)

3) Total external debt /GNP (GDP) (3)

4) Total external debt / Export goods, services and income (3)

5)External debt (services) / Export goods, service and
export income amount (latest one year): DSR (debt service ratio)
(including both public and private) (3)

6) Foreign currency reserve / monthly import (latest one year) (2)

2.Weight of Index

2.1 Weighting or coefficient of importance is from 0 to 3.

For example, an index for "Politic stability" has 2 for its importance, and its coefficient is multiplied depending on the following elements of stability:

3 points	Stable
2 points	Cannot decide
1 point	Unstable
0 point	Extremely unstable

If a country is evaluated as Stable (3 points), as this index of importance is 2, the score of this index is 6 points (3 x 2).

2.2 The overall score for country' s political and economic situation is 135 points, and shares 50 % of the total maximum score, 270 points.

III. Business Result I (Balance of payment)

1. Selection of Index

1.1 Business result I is evaluated by balance of payment (only for political risk) for both short-term and medium- and long-term.

1.2 Balance of payment, is evaluated by results itself and the following factors

- Balance of payment = Premium + Recovery - Claim
- Loss ratio = (Claim - Recovery) / Outstanding liability
- Loss occurrence ratio = Loss occurrence amount / Outstanding liability
- Outstanding liability ratio = Outstanding liability / Total Commitment limit

- Balance of payment is an index which shows a country whose record is good.
- Loss occurrence-ratio evaluation includes those countries, which did not have to pay because money was deposited after the notice of occurrence of insured risk was submitted ie. Those who are constantly late payers
- Outstanding liability ratio is an index which shows the actual level of liability calculated against the country's total commitments limit

2. Weight of Index

2.1 Balance of payment is evaluated based on the amount, and other evaluation items as classified by the scoring system.

2.2 Evaluation of balance of payment is classified into 9 levels from a maximum of 24 points (over 1 billion yen) to 0 points (-10 billion yen or below).

2.3 Evaluation of loss ratio is classified into 8 levels from maximum of 21 points (O %) to 0 point (1,000 % or more).

- When evaluating loss rate, if the outstanding liability is small (below 100 million yen), the evaluation score of a developed country is the maximum 21 points and 12 points for other countries.

2.4 The evaluation for the loss occurrence ratio is classified in seven levels from a maximum of 18 points (o %) to 0 Points (1,000 Points or more).

- In the case that the Outstanding liability is too small (below 100 million yen) when evaluating the loss occurrence ratio, the evaluation Point, for developed countries is the, maximum 18 Points and 10 Points for other countries.

2.5 Outstanding liability ratio is classified in eight levels from a maximum of 7 points (O %) to 0 points (100 % or more).

- Proper outstanding liability is a the total commitments limit which is specified for each country. For countries,; whose total commitments limit is not established, the - evaluation score is the maximum 7 points, and 3 for other countries.

2.6 Maximum evaluation score for Business Result I (Balance of payment) is 70 points.

IV Business Result II (Situation of claim and recovery)

While Business Result I (Balance of payment) evaluates country risk from the point of view of contribution and Influence on Japanese trade insurance finance, Business Result 11 (situation of claim and recovery) evaluates the payment, performance and arrears situation of countries in arrears, especially countries rescheduled by the Paris Club.

1. Selection of Index

1.1 Situation of claim

and recovery is evaluated according to the rescheduling agreement of the Paris Club, payment situation based on the rescheduling agreement, and the country arrears situation with other countries,

2. Weight of Index

2.1 Evaluation of a Paris Club rescheduling uses a penalty mark system starting at 40 points.

1) Evaluate the country according to whether the country is actually rescheduling or not, and if the country is actually rescheduling, reduce the score by 10 points.

2) The agreement of the Paris Club is evaluated by adding up the points, which were subtracted according to the range of rescheduling debt for each agreement. Elements for evaluation are as follows.

All past agreements are evaluated. The more recent the actual year is, the greater the minus points. For example, if rescheduling is agreed to in 1996, the elements will be the maximum minus points.

- Overall re-reschedule	Maximum of 10 minus points
- Partial re-reschedule	Maximum-of 7 minus points
- COD[1] change	Maximum of 10 minus points
- Special treatment after COD	Maximum of 6 minus points
- Capitalizing delayed interest increased	Maximum of 5 minus points
- Capitalizing rescheduled interest	Maximum of 10 minus points

3) Adjustment

- Debt reduced countries	Decrease to one-third.
- Low and middle income countries	Decreases to two-thirds

4) Evaluation formula

(40 – 1) – 2)) X 3 = evaluation score

2.2 The score when evaluating the recovery situation is 1) 30 points for recovery rate and re-reschedule rate, and 2) 25 points for balance recovery rate.

1) To evaluate the recovery rate and re-reschedule rate;

(a) evaluate the recovery rate in the list two years using maximum score of 15 points

(b) evaluate re-reschedule rate in last two years in maximum score of 10 points

(c) subtract (b) from (a)

(d) make a final adjustment according to the. deviation in arrears situation in the last two years

- Formula for the collection rate is as follows:

(Recovered amount / Recovered amount other than re-rescheduled amount) X I 00

- Formula for re-re-schedule rate is as follows:

(Re-reschedule rate / reschedule amount,) x 100

- Adjustment method of recovery rate and re-reschedule rate is as follows:

Regarding payment due in last two years.

A country which consistently falls, into arrears three months or more

Decrease the score to one-third

A country which has fallen into arrears three months or more

Decrease the score to two- third

A country which consistently fall into arrears one month or more

Decrease the score to two-thirds

A country which has fallen into arrears one month or more

Decrease the score to five-sixths

2) "Recovery Score" is evaluated in eighteen levels from 0 to 25 according to the ratio of total recovered amount vs. reschedule balance amount in the last two years.

- If the rate resulting from the calculation of the reschedule recovery amount divided by rescheduled debt balance in the last two years is 16% or more, the evaluation for the country is the maximum 25 points.

3) Formula for rescheduled recovery is as follows:

(When evaluating 1996)

(a) (Evaluation score of reschedule recovery rate of 1994 + Evaluation score of reschedule recovery rate of 1995 - Minus points of re-reschedule rate of 1994 - Minus points of re-reschedule rate of 1995) X Adjustment value The minimum evaluation score is 0.

(b) Evaluation score according to balance recovery rate

(c) Evaluation score of past history of insurance (likelihood of claim and the collection situation) (a) + (b)

1 C.O.D. Cut off date

2.3 Evaluation of Arrears Other Than Reschedule

If a rescheduled country has had the following two arrears other than rescheduled Amounts in the last two years, subtract point_from total 0f [2.1 Evaluation of resheduling] and [2.2Evaluation of recovery]

1) Arrears (Credit before COD (cut-off-date))

For temporary arrears; this may lead to rescheduling in the future. Do not subtract the score immediately. However, if there are arrears beyond any one-year period in the past two years, it is evaluated according to the six levels. The score differs depending on the length of arrears and whether or not the arrears have been resolved.

2) Arrears after COD

if there have been arrears in the post two years, it is evaluated according to six levels.

2.4 Subtotal is calculated by adding (a) the score for the Paris Club rescheduling agreement

2.1 and (b) Recovery/2.2 and subtracting (c) Arrears situation other than rescheduling/2.3. To evaluate the claims and recoveries, recalculate the total of 95 to a total of 65.

3. Evaluation for Non-rescheduled Country

3.1 To evaluate a country which has been rescheduled by the Paris Club and which does not have debt related to Japan, apply almost the same method explained above with the exception of evaluating the arrears situation relative to G7 countries.

3.2 To evaluate the claims and recovery situation of non-reschedule countries, first evaluate the arrears situation relative to Japan, (for example, if there have been no arrears relative to Japan in the past two years, score 65 points), and then subtract points according to the arrears situation relative to the remaining G7 countries.

V. Country Classification

1. Country classifications are according to the following eight categories using 270 as the maximum score.

A category	245 or more
B category	225 – 244
C category	200 - 224
D category	190 - 199
E Category	180 - 189
F category	155 - 179
G category	128 - 154
H category	Less than 128

A suspended – underwriting (off cover) country is generally classified in H category.

2. Premium by category

It is a basic rule of the Japanese trade insurance business that the revenue and payment should be balanced.

Japanese trade insurance law specifies that the premium in the contract of trade insurance is specified by a government ordinance that the income of government insurance business following trade insurance law covers the expenditure,. Also, Japanese trade insurance business is run without receiving any subsidy.

To maintain the balance of insurance business, Japan restricts underwriting, or reduces the insured rate of a country whose risk is high. Also, the premium rate based on risk is revised every year as the risk changes.

Basic premium rate is revised approximately once in three years based on the medium- and long-term vision to keep balance of its result and establish proper premium rates according to risk.

APPENDIX I

IV. Example Evaluation of Country Risk by Country
Algeria, Brazil, Turkey

ALGERIA

1. Political Situation

(1) After the landslide victory in general election in 1991, FIS (Islamic Salvation Front) was illegalized by the government who was afraid of the possible establishment of Islamic government. As the result, it was followed by the intensification of activities by terrorists led by FIS.

(2) Experiencing, Political vicissitude over the administration, Mr. Zeroual (from military circle) assumed the office of presidency in February 1994.

(3) At the time of presidential election held in November 1995,incumbent President Zeroual was re-elected with overwhelmingly high support, obtaining 61% of votes when overall voting rate in the election of that Year was as high-as 75.-5%,even though the election was held under the strong opposition by FIS to boycott it.

(4) A national referendum to decide whether to revise the national constitution was approved by majority vote of 85.5%, under the voting rate of 79.8%,despite the opposition group's calling for boycotting the voting. The major points to be revised were to specify: (a) the separation of Politics and religion,(b) a ban to organize a Political party based on the Islamic religion, aiming at an elimination of FIS from its Political activities.
Other points to be revised included denial of violence, principle of democratic and republican system under the majority rule.

(5) Following the national parliamentary election on 5th June 1997, an incumbent administration RND became the first ruling party but without obtaining the majority. Under the circumstance, it is predicted that RND may go toward the direction of forming a coalition government with conservative parties in the future.

(6) Meanwhile, intensification of terrorist activities has been growing around the capital city of Algiers. However, in the southern part of the country, a main region for being covered by the trade insurance, quite few such activities have been observed. Moreover, hydrocarbon industry, the country's major industry for export has not been attacked by terrorists so far. It is due to the fact that these areas are strictly guarded by local police and at the same time these facilities are also regarded as strategically important for guerillas as well.

(7) Incidentally, Japanese Foreign Ministry has been warning several times to Japanese residents in Algiers to leave the city as soon as possible and to incoming Japanese not to enter this country as Algerian public security has been deteriorating since 90s.

2.Economic Situation

(1) Details in the Past

(a) Due to the sharp fall in oil Price 1986($28/B '85 to $8/B '86),Algerian international balance of payment recorded a substantial deficit in 1988($2.2 billion)

(b) In 1994,the first agreement for rescheduling was made in the Paris Club due to the difficulty in cash-flow in Algeria.

(2) Since the secondary rescheduling in 1995, Algerian economy has been going relatively smoothly. However the country's economic structure has not changed as their earning of foreign currency is still heavily depending on hydrocarbon industry (about 90% of total export value).

(a) Economic growth rate

The growth has been predicted in the level of 4% to 5% since 1995. It was attributed to the soaring of oil prices (average $20/B), and increase of export due to the production increases of hydrocarbon.

(b) Inflation

Due to the increase of crop harvest and restriction of the increase of food price, the country's inflation rate was improved substantially to 15% level compared to its peak of 38% in 1994.

(c) Financial revenue and expenditure

Basically, the financial revenue heavily depends on hydrocarbon industry, affected by the fluctuation of international oil price. Being favorably affected by an increase of hydrocarbon revenue and reduction of fiscal deficit in the past few years, the amount of deficit in GDP has steadily improved in 1993(-8.7%), 1994 (-4. 4%), and in 1995(-1.4%)

(d) International balance of payment

The I.M.F. predicts that though the amount of deficit in current balance shrunk, it will not turn into surplus for the time being. However the recent IIF report says that the current balance will be in the black due to revenue from oil in the same year. According to the report by Algerian Central Bank issued in December 1996, the export amount in hydrocarbon industry will reach to $14.47 billion in the year 2000 from $11.94 billion in 1996.

(e) Foreign reserves

Attributed to increase of-revenue in foreign currency due to the oil price hike, the amount of foreign reserves reached $3.5 billion in 1996 and was expected to reach $4.5 billion at the end of 1996. As the result, midterm prospect would be "reasonably favorable" says The World Bank.

(f) Finance

Algeria has received $1.8 billion from ESAF of I.M.F. in April 1995. Moreover, the World bank is planning to finance $500 million in the next 2 years to Algeria for its support scheme. The country's relations with international financial institutions have been good since EU agreed to finance $156 million in December 1996 in order to support Algerian economic reform and African Development bank signed for aid of Fr.1.8 billion to assist fostering small and medium-sized enterprises.

(3) External debt

The IMF reports that the country's payment of foreign debt will face its peak
time for DSR(Debt Service Ratio) by 53% in 1998, 59% in 2001 and 52% in 2002 compared to 38 % in 1997.
The prospect of debt payment in Algeria is based on $17/B crude oil price.

COUNTRY DATABASE: ALGERIA

	94	95	96e	97f	98f	99f	0of	Olf

Real GDP %	-0.9	4.3	4.2	5.5	5.7	5.0	5.5	6.6
Inflation %	38.4	21.9	15.0	6.5	4.5	4.0	3.5	3.0
Budget balance %GDP	-4.4	-1.4	0.3	0.3	1.2	1.5	1.5	1.5
Current account balance($ billion)	-1.8	-2.3	-2.2	-2.3	-1.8	-1.3	-1.1	-1.1
Trade balance ($ billion)	-0.3	0.1	0.0	-0.3	0.4	0.8	0.9	0.8
Export ($ billion)	8.9	10.3	11.0	11.3	- 12.3	13.0	13.7	14.4
Import ($ billion)	9.2	10.2	11.0	11.6	11.9	12.2	12.8	13.5
Reserves excluding gold ($ billion)	2.6	2.1	2.7	3.2	3.4	3.6	3.8	4.0
DSR %	48.6	43.8	36.5	37.7	52.9	57.6	56.9	58.8
ORR %	331	309	303	311	291	278	261	249
Oil price($/b)	16.31	17.58	17.40	16.22	16.38	16.55	16.71	16.88

(Source: IMF)

TURKEY

1. Political Situation

(1) The coalition government of the Islamist Refah Party and the centre right True Path Party have been under pressure from the army that has the highest authority and plays the role of the guardian of secularism since this year. Finally, Prime Minister Necmettin Erbakan was forced to step down in June.

(2) A new secular coalition government, headed by Motherland leader Mesut Yilmaz, which is more acceptable to the military than the former Islamist / secular coalition was approved by Parliament in mid-July.

(3) The new government is backed by a disparate aggregation of center-right and left-of-center parties, who are united mainly by their opposition to the Islamist, and are unlikely to agree on structural reforms needed for a sustainable tightening of demand management.

(4) The parties supporting the new government are likely to push for early parliamentary elections in 1998,but it will not be easy for these parries to secure a majority after the election.Therefore, we expect that the political uncertainty will remain for the time being.

2. Economic Situation

(1) Having very unstable political situation as stated above, the prompt implementation of structural reform for social security, taxation and privatization can not be expected.

(2) On the other hand, in case if any corruptive action was undertaken under Yilmaz government to win the election, the financial deficit will fall into a more serious situation and

deterioration of macro economy can not be avoided. Unless the political stabilization as achieved and drastic structural reform were to be enforced, we can not deny that there is a possibility of economic crisis.

(3) Trend of macro economy

(a) Economic growth

The growth rate of GDP throughout 1996 had marked 7.2%. According to the macro economic target set by the government in 1997, to restrain the GDP growth rate up to 4%. However a possible early election will boost growth to over 5%.

(b) Inflation

Rising rate of consumer prices have been 80.4% throughout 1996. It is a little lower compared to 1995 but is still high. The annual inflationary rate is expected to be around 80 to 85%, even though it had dropped down to 76% at the end of June 1997. The main cause of high inflation is chronic deficit in government finances.

(c) Financial revenue and expenditure

The interest rate burden of nearly 40% and expenses for national corporations and social security fund which accounted for more than 20% of national expenditures, creating concern over rigidity of the national budget. The core of improvement of financial structure is to reform the social security system and taxation. Also, improvement of inefficient national corporations and encouraging of privatization are also the crucial issues. However we can not expect much progress in these structural reforms under the present fragile coalition government.

(d) Current account balance

Current balance in 1996 marked a deficit of $4.4 billion as their import has increased, affected by implementation of customs union with the EU in January 1996 and large increase of trade deficit. The current account deficit has also increased to 4.0% of GDP from 1.3% of-GDP. The current deficit will further expand, and is expected to reach 4.4% of GDP in 1997.

(e) Repayment of debt

Foreign debt has gradually been increasing and will reach the level of 40% of GNP to $78 billion. Also, annual debt service will be maintained for the time being between $11 billion to $13 billion and DSR is expected to move around 25%.

The level of short term debt has been increasing as well. This should be watched carefully.

COUNTRY DATABASE:TURKEY

	93	94	95	96e	97f
Real GDP %	8.3	-5.5	7.3	7.0	5.5
Inflation %	66.1	106.2	93.5	80.7	86.1
Budget balance %GDP 6.7	3.9	4.1	8.8	-	
Current account balance billion) -	6.4	2.6	-2.3	-7.0	-9.0
Trade balance ($ billion)	-14.2	-4.2	-13.2	-19.7	-23.3
Export Billion ($billion)	15.6	18.4	22.0	23.4-	26.5
Import ($ billion)	29.8	22.6	35.2	43.1	49.8
Reserves excluding gold ($ billion)	6.2	7.1	12.4	16.6	12.8
Months of imports	2.0	2.8	3.3	3.7	2.5
Total external debt ($ billion)	67.3	65.6	73.3	76.5	80.8
ORR %	245	218	193	182	172
Total debt service billion)	7.9	10.0	11.9	11.1	12.7
DSR %	28.7	33.2	31.3	26.4	27.1

(Source: December 1996 IIF)

BRAZ I L

1. Political and Economic Points

(1) With regard to the issue on presidential re-election, a bill to revise nation's constitution that specifies the procedure of re-election of President was approved, and no other candidate seems to be more hopeful, the incumbent President is almost certain to be re-elected at the next election in 1998. In the opinion Doll conducted in June, supporting ratio for President Cardozo marked 40% (if those who answered "average" were included, 81%), so that the move towards the constitutional revision concerning the administrative and financial reform can be predicted to be accelerated, supported by strong political backing.

(2) Division and privatization of communication industry (esp. portable telephone) will be implemented from April. Important stock sales in Rio Doce, (iron ore mining company) took effect on 6th May. In the future, the large scale issues including electric company etc. will be expected to be privatized, resulting in large amount of influx of foreign capital.

(3) Though hyper inflation in the past seems to have settled down (10% in 1996) the government still regards the restraint of inflation as their main policy, but will continue their monetary and foreign exchange policy with high interest rate and high currency exchange rate. Consumption restraining policy has been adopted to tackle the still increasing trade deficit ($ 5.5billion in 1996) by regulating imported finance and imposing heavier tax on consumer credit. However, an immediate effect can not be expected, and deficit in 1997 may well reach to more or less $12 billion. With the increased credibility of Brazil in international financial circles, she will be financed by foreign capital related to the above mentioned privatization program.
*Standard and Poors has already decided the up-rating of Brazil

from B+ to BB-) in April and the spread of Brady Bond has been shrinking by nearly 30% during the period from March 1996 to March 1997.

(4) Along with the trade deficit, financial deficit (3.5% against GDP)is also a pending issue for this country but it will take some time as it also requires the revision of the constitution by reducing social security expenditure and correcting excessive transfer of funds of national treasury to the local government. (Meanwhile, an administrative reform bill related to the issue of public officials passed the lower house on 9th of April.)

COUNTRY DATABASE: BRAZIL

		93	94	95	96e	97f
Real GDP %		4.2	5.7	4.3	2.9	4.4
Inflation %		2540	1113	22	9.1	6.5
Budget balance %GDP	-0.7	1.3	-4.8	-3.9	-	
Current account balance ($ billion)		-0.4	-1.7	-18.0	-24.3	-29.3
Trade balance ($ billion)		13.3	10.5	-3.4	-5.5	-8.6
Export ($ billion)		38.6	43.5	46.5	47.7	50.7
Import ($ billion)		25.3	33.1	49.9	53.3	59.3
Reserves excluding gold ($ billion)		30.6	34.6	33.5	33.2	33.2
Months of imports		8.0	8.2	7.7	8.2	7.2
Direct investment ($ billion)		0.4	0.9	2.8	10.0	12.9
Total external debt ($ billion)		168.1	173.8	184.8	195.5	204.8
ORR %		384	346	335	332	332
Total debt service ($billion)		17.3	17.4	22.8	26.2	33.6
DSR %		30.6	34.6	41.3	44.5	54.6

(Source: March 1997 IIF)

APPENDIX II

BUSINESS RESULT OF EID/MIT

SEP.%.1997
*96fy:estimate

1. Business Result (100Million Yen)

Fiscal Year	89	90	91	92	93	94	95	96
Insured Amount	182.952	227.620	219.522	218.348	197.653	193.593	168.820	189.796
Premium A Recoveries B Claims C Others D	342 693 1.427 14	448 387 1.986 11	357 407 3.419 9	447 1.112 1.482 12	462 773 1.280 13	441 852 806 21	435 983 571 18	410 1.212 444 22
A+B-(C+D)	♦ 406	♦ 1.162	♦ 2.664	65	♦ 58	466	829	1.156
Interest E Administration F	144 23	235 35	300 44	346 45	249 45	270 46	171 44	126 46
A+B-(C+D+E+F)	♦ 573	♦ 1.432	♦ 3.008	♦ 326	♦ 352	149	614	984
Total Debts	2.941	3.698	6.378	6.886	6.744	6.224	5.360	4.041

2.Recoveries (10Million Yen)

Fiscal	90	91	92	93	94	95	96
Total Recovery	387	407	1,112	773	852	983	1,212
Top 5 countries (%)	173 (44.7)	229 (56.3)	879 (79.0)	587 (75.7)	550 (64.6)	752 (76.5)	942 (77.7)

Major Recoveries (100 Million Yen)

	90	91	92	93	94	95	96
1	Philip 86	Philip 83	Brazil 603	Brazil 300	Brazil 249	Brazil 403	Brazil 493
2	Nigeria 63	Argent 49	Nigeria 10	Philip 189	Philip 207	Philip 200	Argent 234
3	Iraq 58	Nigeria 40	Argent 79	Argent 58	Mexico 91	Argent 114	Philip 153
4	Turkey 41	Poland 30	Philip 65	Mexico 65	Argent 65	Egypt 46	Mexico 70
5	Egypt 15	Brazil 27	Egypt 52	Egypt 39	Egypt 44	Mexico 26	Russia 45

Payment of Claims (100 Million Yen)

Fiscal Year		90	91	92	93	94	95	96
		1,986	3,419	1,482	1,280	806	571	444
Non-rescheduled		495	2,379	651	297	98	204	180
	Iraq	291	1,446	595	250	62	29	24
	Other	204	933	56	47	36	175	157
rescheduled		1,491	1,041	831	983	708	367	264
	Russia	-	-	9	522	321	155	181
	Others	1,491	1,041	821	461	387	212	82

Major Payment (100 Milli0n Yen)

	90	91	92	93	94	95	96
1	Brazil 383	Iraq 1446	Iraq 595	Russia 522	Russia 321	Argeria 183	Russia 189
2	Philip 296	Iran 777	Brazil 194	Iraq 250	Nigera 142	Russia 157	Nigeria 124
3	Nigeria 292	Brazil 246	Nigeria 182	Nigeria 155	Argeria 93	Nigeria 133	Argeria 67
4	Iraq 291	Nigeria 179	Egypt 122	Egypt 77	Iraq 62	Iraq 29	Iraq 24
5	Mexico 179	Egypt 137	Philip 95	Brazil 71	Argent 48	Egypt 20	Syrian 17

I. BUSINESS RESULTS OF EID/MITI

1977

(billion yen)

Fiscal Year	1990	91	92	93	94	95	96
Insured amount	22,762	21,952	21,835	19,765	19,359	16,882	18,980
Premium	44.8	35.7	44.7	46.2	44.1	43.5	41.0
Recoveries	38.7	40.7	111.2	77.3	85.2	98.3	121.2
Claims	198.6	341.9	148.2	128.0	80.6	57.1	44.4
Balance ♒	👎 142.1	👎 299.9	👎 31.4	👎 33.9	17.1	63.2	100.6

♒ adjusted after paying interest and administration expenses