

# RATING PERSPECTIVE

## Ratings on Major Advanced Economies

JCR has affirmed the ratings on the long-term senior debts of major advanced economies

Country	Foreign Currency Long-term Senior Debts	Local Currency Long-term Senior Debts
United States of America	AAA (Affirmed) / Stable	AAA (Affirmed) / Stable
Federal Republic of Germany	AAA (Affirmed) / Stable	AAA (Affirmed) / Stable
French Republic	AAA (Affirmed) / Stable	AAA (Affirmed) / Stable
United Kingdom	AAA (Affirmed) / Stable	AAA (Affirmed) / Stable
Republic of Italy	AA+ (Affirmed) / Stable	AA+ (Affirmed) / Stable
Canada	AAA (Affirmed) / Stable	AAA (Affirmed) / Stable

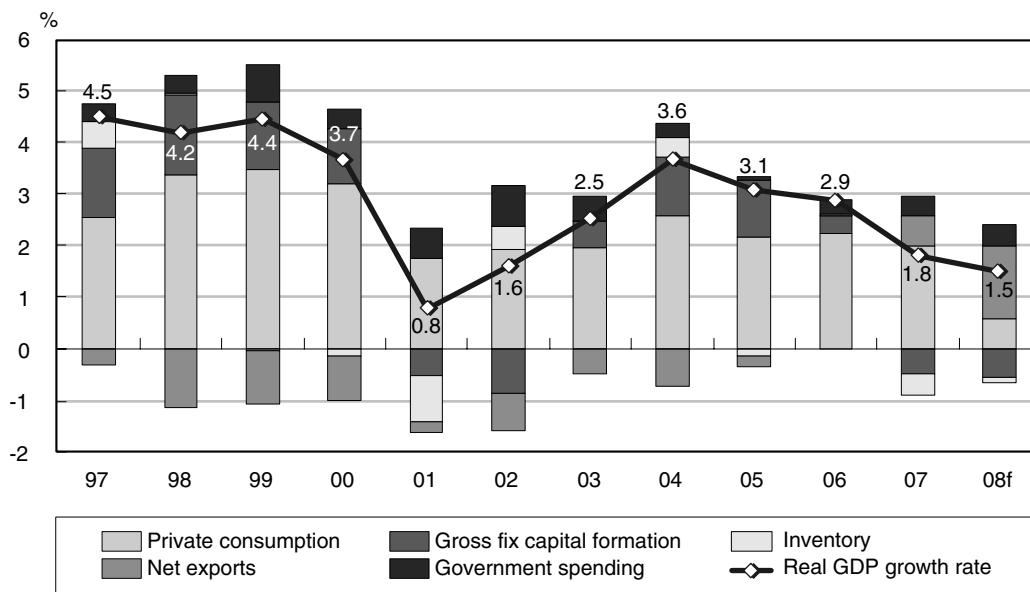
### 1. United States of America

The ratings primarily reflect the United States' social and political stability, its highly advanced economy and industry that lead the world economy, and the dominant economic and military positions it assumes in the international community. The rating outlook is stable.

The U.S. economy decelerated to a 1.8% real GDP growth rate in 2007 from a 2.9% growth the previous year due mainly to a sharp slowdown in housing investment caused by a slumped residential market. After posting a low 0.9% annualized quarter-on-quarter (2.5% year-on-year) growth in the first quarter of 2008 in a continuation of a similarly slow expansion the previous quarter, the economy recovered to an annualized 3.3% quarter-on-quarter (2.2% year-

on-year) growth in the second quarter, driven by private consumption supported by tax rebate and strong external demand. However, while external demand may keep driving the economy, private consumption is likely to contract as the effect of the tax rebate tapers off and both the residential market and employment environment continue to deteriorate. Real GDP growth rate is expected to slow down to the level around 1.5% in 2008. Meanwhile, as to the financial crisis caused by the doldrums in the residential market, the worst scenario has been averted for the present as the government has decided on a relief package including injection of public funds into mortgage government-sponsored enterprises (GSEs). However, as big financial institutions remain exposed to major management crises, it looks not easy for the

U.S.: Real GDP growth rate and contributions of the main components



Source: Department of Commerce, Bureau of Economic Analysis. Figures for 2008 are JCR's projections

United States to come out of its ongoing financial uncertainty. How the situation will develop needs to be watched.

The current account deficit/GDP ratio, which exceeded the 5.0% alert level in 2004, turned downward after peaking out at 6.0% in 2006. The expansion of the trade deficit slowed down as goods exports kept their strong growth, bolstered by robust external demand from emerging economies as well as the effect of a weakened dollar. The ratio is expected to decrease to 4.6% in 2008 from 5.3% in 2007 due to a continued strong expansion of exports and a slower growth of imports. This trend of the current account deficit may ease downward pressure on the dollar. In reality, however, the dollar has been depreciating steeply since the first half of 2007, in particular, against the euro amid the slowdown in the U.S. economy and reduced U.S. interest rates. It is necessary to keep a close watch on future developments of the FX market.

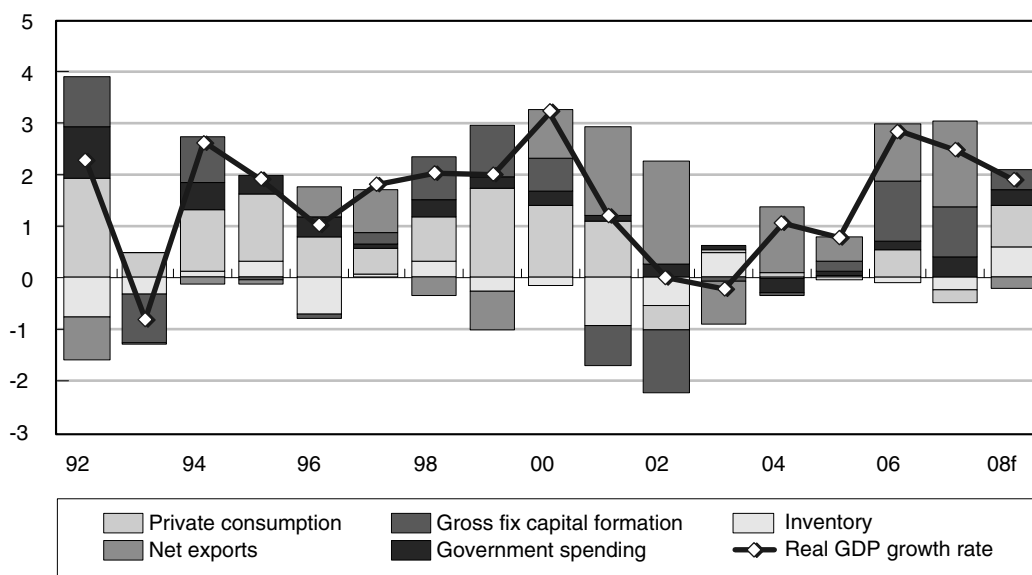
The annual federal budget deficit had continued to narrow since FY2005 (October 2004 - September 2005) thanks to increased tax revenues brought by a stable economic expansion. However, according to an announcement by the Congressional Budget Office on September 9, the deficit in FY2008 is expected to widen to USD407 billion or 2.9% of GDP from USD161 billion or 1.2% of GDP the previous fiscal year due mainly to the emergency economic package centering on tax reduction and increased defense expenditures. According to a mid-session review of the FY2009 budget announced by the Bush administration in July, the fiscal deficit was projected to further increase to USD482 billion or 3.3% of GDP. Under its medium-term fiscal plan, the administration is aiming to turn the fiscal balance from a deficit

equivalent to 3.3% of GDP in FY2009 to a surplus equivalent to 0.3% of GDP in FY2012. The federal debt/GDP ratio was projected to fall moderately from 70.4% (40.2% excluding the federal government account) in FY2009 to 67.9% (35.7%) in FY2012, with the net interest expenses/revenue ratio kept almost flat at 8.9% in FY2012 as against 8.6% in FY2009. In the United States, some 76 million baby boomers (who account for 25% of the total population) will reach the retirement age around 2010, inevitably bringing about a tremendous increase in pension and medical insurance costs. The government needs to provide for this by strengthening its fiscal position in the medium term. However, depending on the extent of an economic slowdown in the future, it may have to implement fiscal measures such as an additional tax cut and public fund injection into the GSEs and the banking sector. JCR will keep a close watch on future developments of the U.S. economy, resultant policy response and its impact on the medium-term fiscal plan along with economic measures to be adopted by the new administration that assumes power following the presidential election in November 2008.

**2. Federal Republic of Germany**

The ratings reflect Germany's strong export-oriented economy supported by its highly developed and diversified industries and the leading position it assumes among the EU member countries. The country's fiscal position has improved significantly thanks to its continuing economic growth and sustained fiscal discipline. The rating outlook is stable. Germany is likely to maintain a stable economic growth and sound fiscal position in the medium term although its growth may decelerate in 2008 amid the global

**Germany: Weak external demand is the main reason for the economic slowdown**



Source: Eurostat. Figures for 2008 are JCR's projections

economic slowdown. JCR will closely watch whether the government can keep its rigid budget expenditure discipline amid mounting pressure both inside and outside the ruling party for increased spending ahead of the general elections scheduled for 2009.

The German economy made a marked recovery in 2006 after registering growth rates lower than the Euro-zone average for a long time. It posted a 2.9% real GDP growth rate in 2006 and 2.5% in 2007. The main driving force was the expansion of external demand. German export industries have been keeping their stronger competitive edge as they have improved the labor productivity and cut the unit labor cost through restructuring efforts. The economic growth is losing steam in 2008 as exports turn weaker and investments stay slower than the year before amid the global economic slowdown. However, its deceleration will be less severe than other G7 countries as domestic demand, centering on private consumption, is expected to stay solid thanks to increased employment and other factors. Bigger concerns for the German economy are its aging population, regional gaps in employment and the higher ratio of long-term unemployment.

The government attained better-than-expected improvement on the fiscal balance in 2007 through spending cuts and increased revenues brought by bigger tax yields resulting from the favorable economic growth and the hike of the VAT rate. As a result, the government has achieved the fiscal balance for the first time since 2000. Although the fiscal balance may slip back into deficit again in 2008, the deficit is expected to be small at 0.5% of GDP. On the revenue side, tax receipts will decline as German businesses suffer profit setbacks amid global financial woes and economic slowdown. Besides, the government is planning to cut the corporate tax rate, which is higher by global standards. On the expenditure side, unemployment insurance-related spending is likely to be reduced amid the improving jobless rate. However, pressure for greater spending will remain strong as increases in retirement allowances and wage hikes for public officials are in the pipeline. With domestic demand staying solid and with many forecasts predicting the economic recovery in 2009, the drop in revenues may prove only transitional. JCR will closely watch whether the grand coalition government can hold to its fiscal reform policy ahead of the general elections in 2009. Germany's public debt/GDP ratio stood at 65.0% as of the end of 2007, relatively higher than those of other euro-zone countries. However, if the government can steadily expand the primary balance surplus as planned in the Stability Program, the ratio will go down and will be kept at sound levels in the medium to long term.

### 3. French Republic

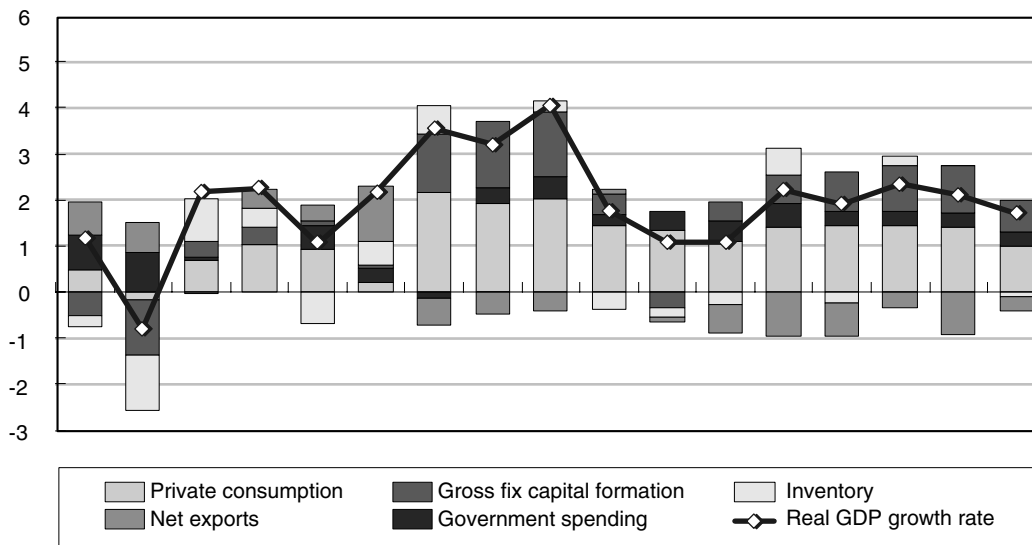
The ratings reflect France's strong economy supported by its well-diversified and highly-developed industries as well as its status as the second largest economy in the euro area.

They also reflect the country's improving fiscal structure. The outlook is stable. France is likely to achieve a stable economic growth on solid domestic demand in the medium term, although it will be adversely affected by the global food and energy price upsurge and turbulent financial market. In order to enhance the country's growth potential, the French government needs to continue implementing structural reforms that will help strengthening the competitive edge, expand employment and improve the fiscal balance. The government has postponed the target year to achieve the fiscal balance to 2012 from 2010. This will inevitably slow down the process of reducing the fiscal deficit for the years to come.

France posted an annual real GDP growth rate matching the euro-zone average from 2001 to 2005. However, its economic growth has been rather modest since 2006. In 2007, the economy grew a stable 2.1% but the rate was still lower than the euro-zone average. In order to accelerate the growth, the government has launched reform initiatives aimed at expanding employment, stimulating private consumption and honing the international competitive edge. Thanks to labor market reforms, the unemployment rate kept on falling to reach 8.3% at the end of 2007, though it was still higher than the 7.4% euro-zone average. In particular, the jobless rate for workers aged less than 25 years dropped to 18.4% in 2007 from more than 20% in 2006. Personal consumption eased off in the first and second quarters of 2008 as consumers' purchasing power was eroded by one of the steepest inflation rates in 12 years. But consumption is expected to recover in the second half of 2008 on growing employment. The inflation rate had been kept low in France until the end of 2007. However, it may pick up to reach 4.0% on the average in 2008 due to the impact of higher energy and food prices. The external payments balance is likely to remain in deficit in 2008 due in part to the declining competitive edge of its export industries amid the euro's continuing appreciation.

The country's fiscal balance has been improving thanks to curbed expenditures and increased tax revenues brought by the favorable economic growth in the last several years. The fiscal deficit as a percentage of GDP stood at 2.7% in 2007, mostly unchanged from the previous year. Under its Stability Plan for 2008, the government has been seeking to reduce the fiscal deficit mainly by keeping the growth of expenditures lower than the inflation rate. The plan envisages two growth scenarios: a "lower" growth scenario (2-2.5% for 2008 and 2.5% thereafter) and a "higher" growth scenario (2-2.5% for 2008 and 3.0% thereafter). Given the country's 2.0% growth potential and a slowdown in the world economy, even the lower scenario looks harder to attain. France will need some more time to achieve the fiscal balance. For a while, the government will try to keep the fiscal deficit at around 2.5% of GDP. With any substantial fiscal balance improvement unlikely, the country's official debt will stay just below 65% of GDP for the time being.

France: The economy slows down in 2008 due to weak domestic demand



Source: Eurostat. Figures for 2008 are JCR's projections

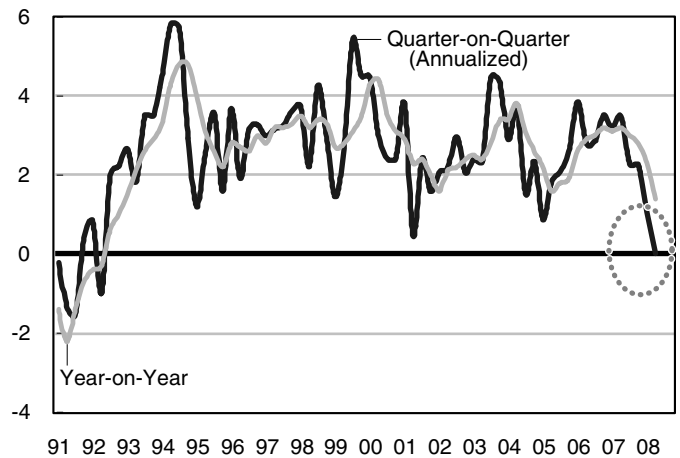
#### 4. United Kingdom

U.K.'s ratings reflect its stable sociopolitical structure, diversified, highly developed economy, and good track record of macroeconomic stability and growth. Despite the weak fiscal performance in the past years and recent stresses in the financial sector, U.K.'s credit fundamentals remain comfortably within current ratings.

Microeconomic structural reforms implemented during the past several decades rendered the product and factor markets of the U.K. highly flexible, enhancing the economy's resilience to shocks. The economy recorded more than fifteen years of uninterrupted growth, which has just ended in second quarter of 2008, when the growth was flat on a quarter-on-quarter basis. Macroeconomic stability has been underpinned by transparent and anti-inflationary monetary policy implemented by the central bank given operational autonomy. Despite recent surge in inflation which currently stays well above the 2% target, monetary policy credibility remains intact. Due to the central bank's solid anti-inflation credentials and modest level of public debts, monetary and fiscal policy has an adequate leeway to cope with any foreseeable short term shocks.

From FY2003, general government budget deficit has widened to around 3% of GDP, due to increased capital spending aiming at improving public services, and mild deterioration in structural operating balance. Level of operating expenditure has been on an upward path since FY2000, pushing up its ratio to GDP to 38% in FY2007 from 36% in FY1999. On the other hand, the size of the gross debt of general government is modest, with its ratio to GDP at the end-2007 standing at 44%, representing the lowest level among the G-7 countries. As a result of pension system

U.K.: "Longest uninterrupted growth" coming to an end



Source: ONS. Real GDP Growth Rate: %

reforms carried out in the past, fiscal pressures associated with the aging population is limited and thus manageable, with level of government pension expenditure for the coming several decades forecasted to remain one of the lowest among advanced industrial countries.

The global credit crunch created significant pressures on U.K. banks. Deposit run at Northern Rock (NR) in September 2007 has somewhat tarnished UK's reputation as an international financial center. However, subsequent take-over of NR's debt by the government has demonstrated its resolve to prevent the risk from jeopardizing the financial system. Despite the recent stresses in the financial sector,

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JCR thinks that contingent liabilities of the government related to the sector are still manageable.

While the U.K. reserves the right to participate in the European Economic and Monetary Union (EMU) by being a member of the European Union (EU), whether and when to join EMU is not clear at present. However, the government will maintain robust medium term growth prospects and solid credit standing for coming years with or without joining EMU, supported by its flexible microeconomic structure and sound macroeconomic policy framework firmly established.

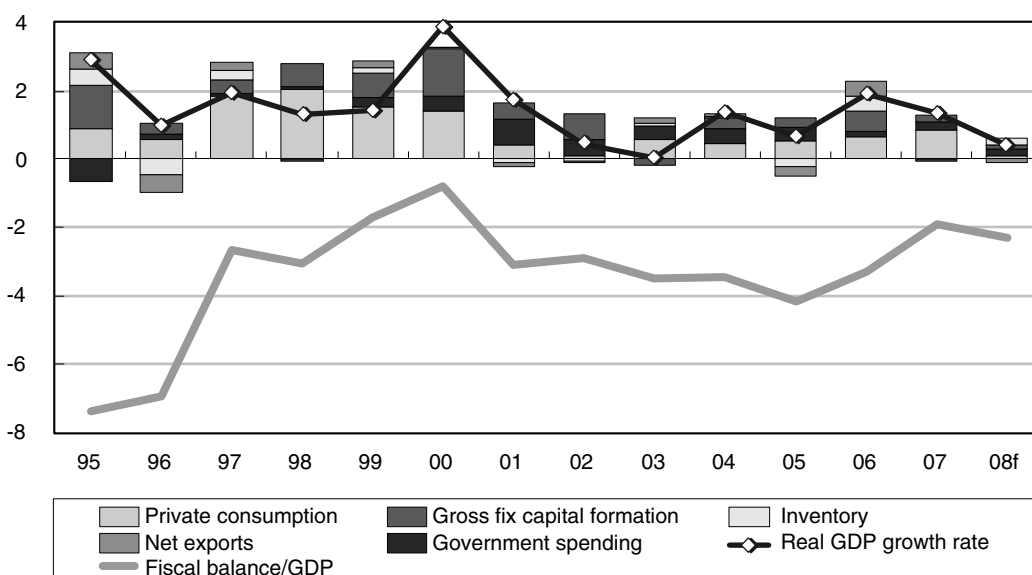
### 5. Republic of Italy

The ratings reflect Italy's relatively larger economic scale in the euro area and its diversified and highly developed economic structure. The outlook is stable. Although the country's general government debt burden stayed higher among the euro-zone countries in 2007, the annual fiscal deficit narrowed in 2006 and 2007 thanks to the stricter tax evasion policy and favorable economic growth. Upon its inauguration in May 2008, the administration of Prime Minister Silvio Berlusconi announced that it will toe the previous government's fiscal reform policy and maintain the goal of attaining a fiscal balance by 2011 under an updated Stability Program. The fiscal structure is likely to improve despite a slower growth of budgetary revenues that may result from an economic deceleration in the years ahead.

Since Italy's real GDP growth has been lower than the euro-zone average since the 1990s, the acceleration of economic growth remains one of the crucial challenges facing the country's economic policy. The Italian economy turned

upward in 2006 and 2007, driven by the favorable economic growth in the euro area. However, it has been slowing down again since the turn of 2008. While contribution of net exports turned positive in the first quarter of the year, domestic demand weakened amid a higher inflation rate, with household expenditure on both durable and nondurable goods declining for the third consecutive quarter. Growth of business investment also slowed down as investment in the construction sector fell after a decade of uninterrupted expansion. The unemployment rate turned modestly upward at the beginning of 2008 after falling steadily until the end of 2007. From a longer term perspective, however, the country's employment situation has been going through structural improvement, as exemplified by the constant decline in the jobless rate in the past decade. Net exports may continue to make positive contribution to economic growth, as imports grow slower than exports amid weak domestic demand. The current account deficit in 2008 is likely to remain at the same level as in 2007 (2.4% of GDP). An economic slowdown is expected to continue in the short term, given the worsening consumer confidence index and business sentiment index. The real GDP growth in 2008 is likely to stay slower. The global financial turmoil has had little direct impact on the Italian economy. However, the country's higher inflation rate and the appreciation of the euro are having a greater adverse impact on Italy than on other euro area countries. This is due mainly to the country's structural problems such as a relatively lower labor productivity and weaker international competitiveness. In the longer term, an expansion of domestic demand will be needed to ensure an economic recovery. However, there may be only

Italy: The economy has slowed, while the fiscal position has been improving



Source: Eurostat. Figures for 2008 are JCR's projections

limited measures available to stimulate domestic demand as Italy is in the process of fiscal reforms. The economic growth after 2009 will depend on how far the government can ease the inflationary pressure at home and cope with external factors such as appreciation of the euro. At the same time, much will depend on the government's ability to implement measures to resolve the country's structural issues.

Italy's fiscal structure has been improving. The general government fiscal deficit narrowed to 3.4% of GDP in 2006 and fell below the 2.8% target under the Stability Program to reach 1.9% in 2007 after rising to 3.5% in 2004 and 4.2% in 2005. Much of the improvement in 2006-2007 stemmed from a larger-than-expected gain in tax revenues amid the favorable economic growth. However, the government has projected in the updated Stability Program that the fiscal deficit will again increase to 2.5% of GDP in 2008. The deterioration will come from reduced tax revenues amid an economic slowdown. The program has estimated the fiscal deficit at 2.0% of GDP in 2009. However, the government is aiming to attain a balanced budget by 2011 mainly through reduction of expenditures under a three-year plan. In order to achieve this goal, the government needs to cut the fiscal deficit by more than 0.5% of GDP every year, which seems to be difficult in view of a slower economic growth. However, fiscal consolidation may make steady headway as the government has already started work on legislation to curtail expenditures. Specifically, the government is aiming to attain fiscal stability by trimming the fiscal deficit through reduction of expenditures while seeking to accelerate economic growth by easing tax burdens in a bid to expand domestic demand and improve productivity. While Italy's

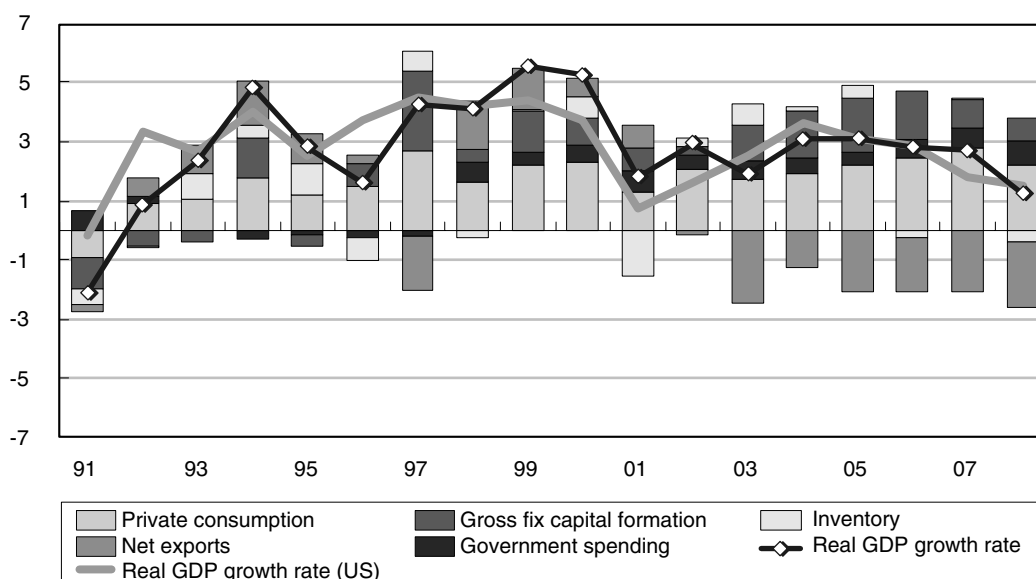
general government debt remains higher than 100% of GDP, it has turned to a downtrend. The ratio is expected to fall to 102.5% in 2009 from 106.5% in 2006. The Berlusconi administration can hope to manage politics in a more stable manner as it controls a majority of seats in both chambers of parliament. Right after its inauguration, there was skepticism that it might not be able to uphold the previous administration's stringent fiscal policy. Its pledge to keep on fiscal reforms under a revised Stability Program is having a positive impact on the country's creditworthiness.

**6. Canada**

The ratings reflect Canada's strong fiscal position. Canada is the only country among G7 countries who maintains fiscal surplus. It has been continually reducing debt burden. It also reflects the resilient economy supported by abundant natural resources, diversified and competitive industrial structure and continuing growth of domestic demand. The outlook is stable. Both of the federal government and provincial-territorial governments are likely to sustain the fiscal surplus and reduce the general government debt for years to come. Although the economy of Canada slows down in 2008 due to the U.S. weak economic growth and inflation pressures, Canada is expected to maintain its solid economic growth in the medium term.

Canada has highly competitive export-oriented economic structure, as it is rich in natural resources and has developed manufacturing industries. Despite the fact that Canada remains susceptible to the U.S. economy, with U.S.-bound exports accounting for about 80% of total exports which dominates about 40% of GDP, Canada maintains the highest

**Canada: Domestic demand growth has decelerated**



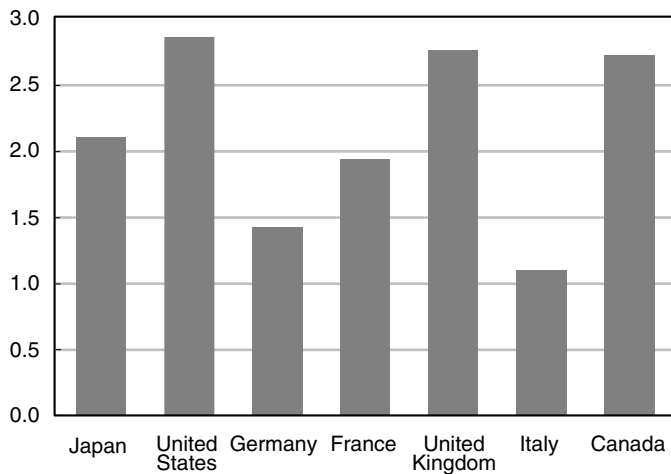
Source: Statistics Canada. Figures for 2008 are JCR's projections

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real GDP growth in G7 countries at 3.3% on average in the last decade thanks to the strong economic growth of Western Canada, which has abundant natural resources, amid commodity price hike. Reflecting the favorable economic growth, employment has increased in 2007 except for agriculture, forestry and fishery sector as well as manufacturing sector. Unemployment rate in 2007 was the lowest level in the last 33 years. As wages have also been increasing, private consumption grew steadily. The commodity price hike has positive impacts on government revenue, corporate profits and business investment that support domestic demand growth. The inflation rate has stayed moderate until the first quarter of 2008 amid the appreciation of the Canadian dollar and the reduction of the goods and service tax (GST) and

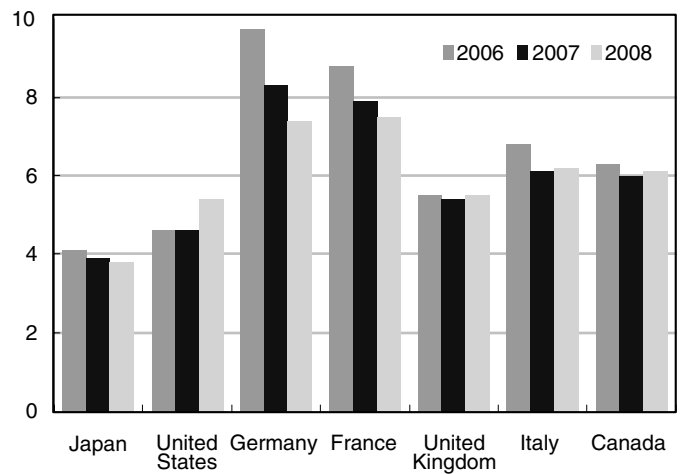
harmonized sales tax (HST). While economic slowdown became obvious and the headline inflation rate has sharply risen to 3.4% in July, 2008 and is likely to stay higher in 2008, core CPI inflation remained low and stable at 1.5% in July. External demand is likely to remain weak due to the decrease of exports in the forestry and automobile sector due to the peaking out of housing sector and automobile sector in the United States. The financial market is relatively stable compared to other G7 countries; the spread between real short term interest rate and the policy interest rate was narrowest. Although the housing sector activity has peaked, it is not likely to result in a sharp fall of housing prices. The impaired loan rate and sub-prime related exposures are significantly lower than those in the United States. Although

Real GDP Growth Rate (03-07 Average, %)



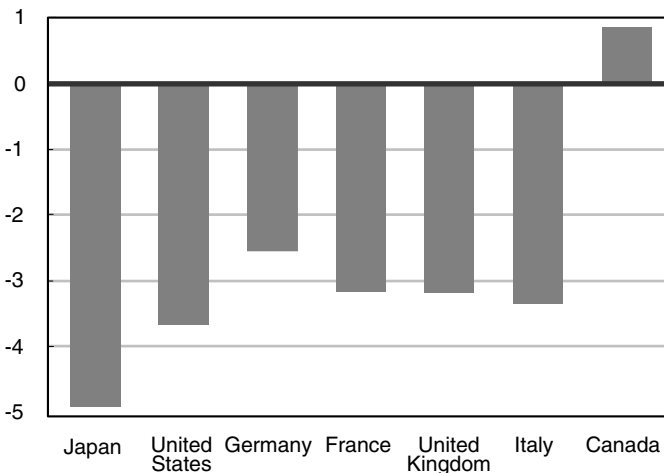
Source: OECD Economic Outlook No.83

Unemployment Rate (Annual Average, %)



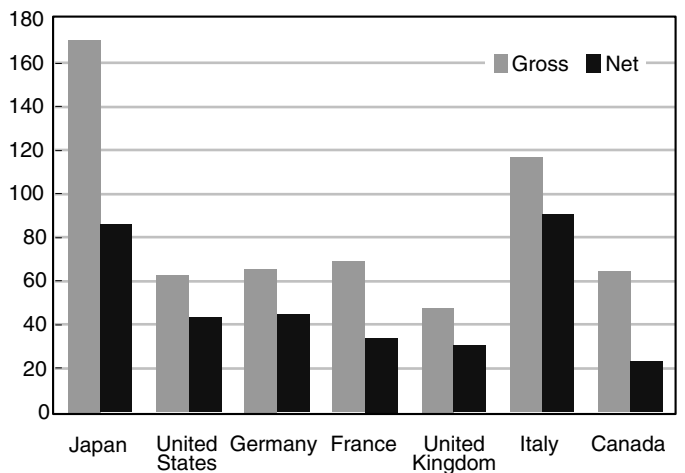
Source: OECD Economic Outlook No.83

General Government Fiscal Balance (03-07 Average, %)



Source: OECD Economic Outlook No.83

General Government Debt (as % of GDP, 2007)



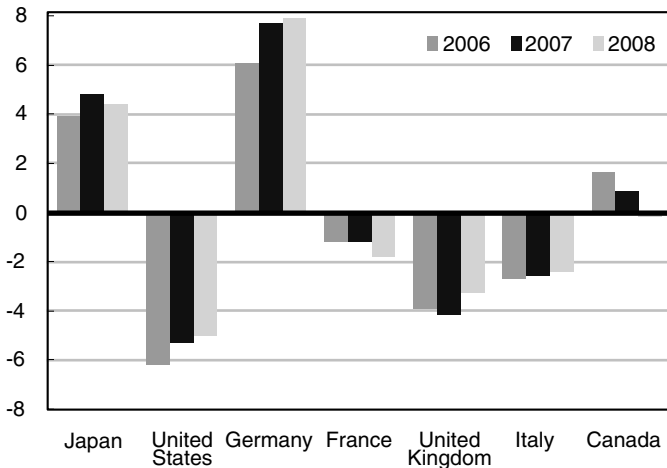
Source: OECD Economic Outlook No.83

the economy in 2008 is likely to be adversely affected by the slowdown of US economy and rising inflation rate, it will keep stable economic growth in the medium term.

Canada is the only country in G7 which maintains general government fiscal surplus. The fiscal structure has been strengthened, as both federal and provincial-territorial governments maintain fiscal surplus since FY2005 amid increase in natural resource related revenue and federal transfers. The federal government budgetary revenue in FY2007 increased slightly from the year before due to tax rate cut of private income tax and GST/HST tax rate cut. Although growth rate of total federal expenses was higher than that of budgetary revenue mainly due to the increase of federal transfers to the provincial-territorial governments, the bud-

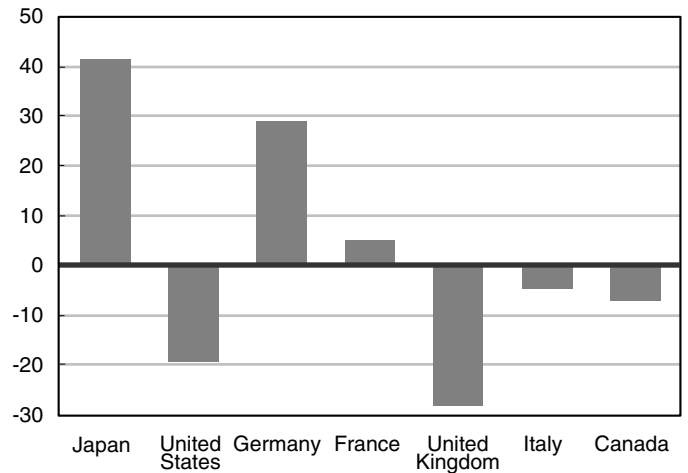
getary surplus is expected to amount to the C\$ 10.2 billion projected in Budget 2008. The federal government plans to maintain balanced budget in the medium term despite increasing necessary fiscal measures against economic slowdown from FY2008. It still maintains fiscal surplus of C\$ 1.2 billion, which was lower than the year before, in the first three months (April to June) of FY 2008-2009 amid negative growth of budgetary revenue by -1.8%. The public debt burden has been continually eased; net general government debt outstanding to GDP ratio is the lowest level in the G7 countries. If the government maintains its sound fiscal position in the future, the debt burden is likely to be further eased. (JCR)

**Current Account Balance (as % of GDP)**



Source: OECD Economic Outlook No.83

**Net External Assets (as % of GDP, 2006)**



Sources: IMF International Financial Statistics, July 2008 and OECD Economic Outlook No.83

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### Main Economic Indicators for G7 Countries

(%, unless otherwise indicated)

		Japan	USA	Germany	France	UK	Italy	Canada
Nominal GDP (US\$ billion) *1	2007	4,376	13,841	3,324	2,590	2,771	2,101	1,426
Population (million) *1	2007	127.5	301.1	82.6	61.7	61.0	58.1	32.9
GDP per capita (US\$, PPP base)	2007	33,600	45,963	33,990	33,630	35,049	30,700	38,450
GDP per capita (US\$) *1	2007	34,322	45,968	40,239	41,977	45,426	36,162	43,337
Real GDP growth *2	2007	2.1	2.2	2.6	2.1	3.0	1.4	2.7
	2003-2007	2.1	2.9	1.4	1.9	2.8	1.1	2.7
Unemployment rates *2	2007	3.9	4.6	8.3	7.9	5.4	6.1	6.0
	2003-2007	4.5	5.2	9.5	8.6	5.1	7.5	6.8
CPI *2	2007	0.1	2.9	2.3	1.6	2.3	2.0	2.1
(HICP for countries in EU)	2003-2007	-0.1	2.9	1.8	2.0	1.9	2.3	2.2
Long-term interest rates*1	2007	1.7	4.6	4.2	4.3	5.0	4.5	4.3
	2003-2007	1.5	4.4	3.9	3.9	4.7	4.1	4.7
Household savings rates *2	2007	3.1	0.4	10.9	12.7	2.9	6.8	1.5
	2003-2007	3.5	1.1	10.5	12.3	4.4	9.3	2.2
General government budget balance/GDP *2	2007	-2.4	-3.0	0.0	-2.7	-3.0	-1.9	1.0
	2003-2007	-4.9	-3.7	-2.6	-3.2	-3.2	-3.4	0.9
General government primary budget balance/GDP *2	2007	-1.7	-1.0	2.4	-0.2	-1.0	2.5	1.9
	2003-2007	-4.0	-1.7	-0.1	-0.7	-1.3	0.9	2.1
General government structural budget balance/GDP *2	2007	-2.6	-3.2	-0.2	-2.9	-3.1	-1.3	0.8
	2003-2007	-4.6	-3.7	-1.9	-3.0	-3.3	-2.8	0.7
Gross general government debt/GDP *2	2007	170.3	62.8	65.4	69.4	47.5	116.7	64.4
	2003	158.0	60.9	65.3	71.4	41.9	116.9	76.6
Net general government debt/GDP *2	2007	85.9	43.8	44.5	34.0	30.4	90.7	23.3
	2003	76.5	41.1	43.5	44.2	34.0	93.1	38.7
Current account balance/GDP *2	2007	4.8	-5.3	7.7	-1.2	-4.2	-2.6	0.9
	2003-2007	3.9	-5.6	5.1	-0.4	-2.7	-1.9	1.6
External assets/GDP *1 (net)	2006	41.3	-19.2	28.7	5.0	-28.1	-4.7	-7.2
	2002-2006	37.8	-19.3	16.3	7.9	-11.4	-5.1	-14.4
Net external assets/	2006	246.6	-175.7	63.4	19.0	-99.0	-17.1	-19.9
Export of goods & services *1	2002-2006	270.1	-192.2	43.8	29.1	-47.1	-19.5	-35.9
Total reserve minus gold *1	2006	879.7	54.9	41.7	42.7	40.7	25.7	35.0
(US\$ billion)	2007	952.8	59.5	44.3	45.7	49.0	28.4	41.0

Sources: \*1 IMF International Financial Statistics, July 2008 \*2 OECD Economic Outlook, June 2008