

RATING PERSPECTIVE

Ratings on Major Advanced Economies

1. Ratings on Major Advanced Economies

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

1. United States

The ratings primarily reflect the United States' social and political stability, its highly advanced economy and industry, and the dominant economic and political positions it assumes in the international community. The rating outlook is stable. The U.S. economy, which looks to have overcome the worst after the financial crisis triggered by the Lehman Shock thanks to the swift and massive stimulus measures, may return to a moderate growth path in the coming years. The chance is only slim that the key currency status of U.S. dollar is fundamentally undermined. In fact, the narrowing current account deficit may ease the downward pressure on the dollar. Nonetheless, if the federal government's fiscal position goes worse than its projection, the dollar may come under fresh downward pressure due also to the influence of the prolonged low interest rates environment. Therefore, it is necessary to keep a close watch on the future development of the economic recovery and its possible impact on federal government's fiscal position as well as on the future trends of the FX market.

1.1 Macroeconomic performance

The U.S. economy decelerated to a 0.4% real GDP growth in 2008 from a 2.1% growth the previous year due mainly to a slowdown of domestic demand such as private consumption and corporate investment amid the global financial crisis after the Lehman shock on top of the slumped residential market. After plunging to a minus 6.4% on an annualized quarter-on-quarter basis (3.3% year-on-year) in the first quarter of 2009, the growth rate recovered to a minus 1.0% in the second quarter, mainly thanks to the economic policy of drastic monetary easing and fiscal measures, although it worsened to minus 3.9% on a year-on-year basis. The U.S. economy may have seen its worst days and is now likely to return to a moderate recovery path. However, given its household sector having to increase savings and debt repay-

ment in a bid to mend its damaged balance sheet, the private consumption, which had driven the economy, may stay sluggish at least over a medium term. Accordingly, there is the possibility that the U.S. economy itself will have to settle with a slower growth.

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. It further fell to 4.9% in 2008. With a trade deficit narrowed as the imports decline faster than the exports, the current account deficit/GDP ratio is expected to drop further in 2009.

1.2 Fiscal Position

The annual federal budget deficit turned upward in FY2008 (October 2007-September 2008) after steadily narrowing since FY2005. It is expected to expand to US\$1, 579.0 billion or 11.2% of GDP in FY2009 from US\$459.0 billion or 3.2% of GDP in the previous year due to the huge fiscal expenditures resultant from the implementation of a massive stimulus package. According to the FY2010 federal budget prepared by the Obama administration, the fiscal deficit for the year is projected at US\$1, 502.0 billion or 10.4% of GDP. It should continue declining after FY2011, falling to 3.9% of GDP in FY2015 and remaining almost at the same level thereafter till FY2019. Meanwhile, the federal debt/GDP ratio is projected to increase to 86.5% (48.0% excluding the federal government account and financial assets) in FY2009 from 70.2% (37.2%) in FY2008. Amid the continuing fiscal deficit, the ratio is projected to top the 100% mark, reaching an estimated 101.0% (61.7%) in FY2011, and keep rising moderately thereafter. There is possibility in which the federal government is forced to implement further fiscal measures, depending on the future development. JCR will monitor the future trends of the economy and their possible impact on the federal government's fiscal position.

2. Canada

The ratings reflect Canada's strong fiscal structure with a substantial reduction of the general government debts through consecutive fiscal surpluses, as well as its stable economy supported by abundant natural resources, a diversified and competitive industrial structure and the sound financial sector.

Outlook of the ratings is stable. The Canadian economy weakened significantly in late 2008 and early 2009 due to the impact of the ongoing economic recession in the US, which accounted for 76% of the country's total exports in 2008. Real GDP is expected to contract by around 2% in 2009. Although external demand may remain weak for some time, given the ongoing recession in the US and the Canadian dollar's continued firmness, further deterioration of the Canadian economy is unlikely as the country's financial market stays relatively stable as compared with other developed economies. Both the budget deficit and government debt may increase in the coming years, but JCR expects that the government will keep a sound fiscal policy based on its prudent expenditure management.

2.1 The economy will return to sustained economic growth in the medium term

Canada has an export-oriented economic structure, as it is rich in natural resources in the western provinces and has developed manufacturing industries in the east. Domestic demand has been buoyant in recent years, supported by income stemming from a surge in commodity prices. Real GDP growth rate averaged 2.4% over the past 5 years, which is higher than the G7 average of 1.9%. The country has been suffering a severe setback in exports amid the economic recession in the US. Domestic demand has also contracted on falling private investment and consumption during the global economic crisis. Real GDP contracted by 2.1% (YOY) in the first quarter of 2009 from a fall of 1.0% in the previous

quarter. The manufacturing industry has been hit particularly hard thanks to the leading automotive sector, which is highly dependent on the US market. External demand is likely to remain weak due to the slump in the US housing and auto sectors as well as the Canadian dollar's continued buoyancy. As a consequence, real GDP is expected to shrink by around 2% in 2009. On the other hand, Canada has been less affected by the global financial crisis than the other G7 countries due to its sound financial sector. JCR expects that the country will return to the growth trend in the medium term supported by prudent monetary and fiscal policies.

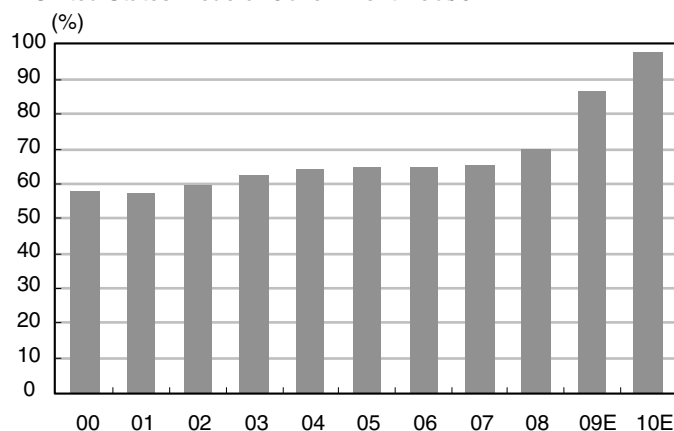
The current account balance is set to slip into a deficit in 2009 for the first time since 1998, with the trade balance deteriorating due to sluggish US demand for Canadian automobiles and forestry products, as well as the appreciation of the Canadian dollar and falling energy prices. It may remain in deficit for the next few years. However, the country has become more resilient to external shocks than in the past, as net external debt, which reached 43.4% of GDP in 1993, has been declining consistently through ten years of current account surplus. Canada became a net creditor in 2008.

2.2 Budget balance turning into deficit temporarily, but sound fiscal policy will be maintained through prudent expenditure management

Canada's fiscal position is quite sound. It is the only country, in the G7, that maintained general government fiscal surplus over the last ten years. The general government debt/GDP ratio declined substantially from over 100% in FY1996 to around 65% in FY2008.

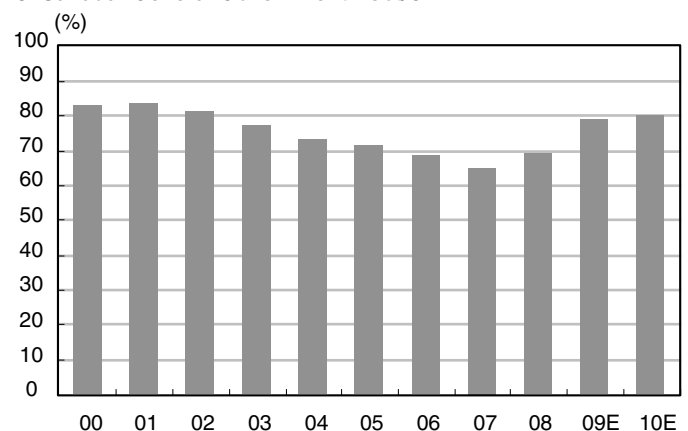
The federal government is now projecting a deficit of C\$3.9 billion, equivalent to 0.2% of GDP, in FY2008 (April 2008 - March 2009) as a result of a significant fall in corporate tax revenues, decreased Goods and Services Tax (GST) revenues following a cut in the GST rate from 6% to 5% in January 2008, and swollen Employment Insurance (EI) ben-

2. United States: Federal Government Debt/GDP



Source: Office of Management and Budget. Figures for 2009 and 2010 are JCR's projections

3. Canada: General Government Debt/GDP



Source: OECD. Figures for 2009 and 2010 are JCR's projections

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efits. The government's fiscal stimulus package in FY2009 and FY2010 totals C\$62 billion, equivalent to approximately 4% of GDP, of which C\$47 billion is to be put up by the federal government and C\$15 billion by provincial and territorial governments. The updated fiscal outlook announced in June 2009 projects the fiscal deficit to widen further to reach 3.3% of GDP in FY2009, due to a steeper fall in corporate tax revenues, a significant increase in EI benefits and a rise in infrastructure investment. The government is committed to return to surplus in future years, and is set to streamline Equalization payments, tighten controls on departmental spending and review the payment system of federal public-sector employees. In FY2009, these measures are estimated to save budget expenditures by C\$1.8 billion, C\$4.3 billion and C\$600 million, respectively. The annual growth of tax revenues may likely be rather moderate in the aftermath of the successive tax cuts in recent years. However, JCR expects that the government will maintain a sound fiscal policy with cautious expenditure control in the coming years.

The projected annual budget deficits, coupled with the increased non-budgetary expenditures needed for the federal government's purchase of financial assets under its Extraordinary Financial Framework, could send the general government debt/GDP ratio rising to reach around 80% in the coming years. However, JCR expects that the ratio will decline in the medium term on economic recovery and continuation of a sound fiscal policy. The net debt/GDP ratio should remain below 30% in 2009, the lowest among the G7 countries. (This rationale is quoted from the press release publicized on August 14, 2009.)

3. United Kingdom

The ratings are supported by the country's stable sociopolitical structure, highly developed open economy, flexible and effective economic policy, and deep domestic capital market that may well accommodate an expansionary fiscal policy. Since 2008, the UK has been in a severe financial and economic crisis and, as a result of extensive economic policy responses against it, its fiscal burden is substantially expanding. Though the situation has begun to show some signs of easing, it is expected to take certain time and fiscal cost for the UK to return to a stable growth path, given the need for a considerable balance-sheet adjustment.

The rating outlook is stable. Nevertheless, in order for the UK to maintain the current ratings in the future, the following conditions will have to be met: (i) additional fiscal burdens for crisis abatement will not materially exceed the authorities' current assumption, (ii) persistence of the authorities' strong determination to maintain fiscal sustainability and wide public support for that policy, and (iii) formation and implementation of a timely and effective exit strategy from the aftermath as the economy recovers. JCR will keep monitoring the country's future economic trends and the authorities' policy responses.

3.1 UK in serious financial and economic crisis

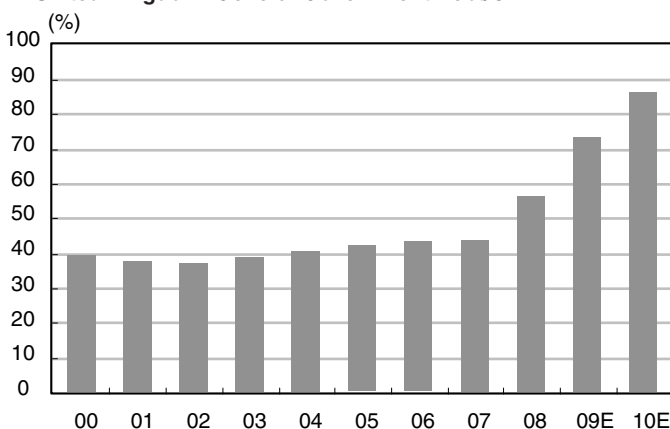
The UK economy grew by an average 2.7% per year for 17 consecutive years from 1992 through 2008 under an open and stable business environment, drawing large inflows of foreign investment. Financial services, among others, attained a phenomenal growth in London, which has established itself as the world's leading international capital market. Meanwhile, the expansion of financial services, accompanied by financial innovations, propelled domestic household debts swelling and pushed up the asset prices particularly property. These produced synergetic effects, driving the banks in the UK to expand their balance sheets to more than five times of the country's GDP and accelerating their dependence on wholesale funding.

Such structural vulnerability had been accumulated when the UK was hit by the credit crunch triggered by the Lehman shock in September 2008. Credit impairment and consequent liquidity crisis among financial institutions led to deceleration in banks' credit supply, fall in asset prices, deterioration in their asset quality and their capital shortage. The resultant surge of corporate failures, reduced employment and slowdown of demand both at home and abroad all combined to send the UK plunging into a full-scale financial and economic crisis. Its real GDP (quarter-on-quarter, seasonally adjusted) has been contracting for five consecutive quarters since the second quarter of 2008.

3.2 Extensive policy responses adding to fiscal burden

Faced with the grave crisis, the UK authorities implemented wide-ranging, large-scale policy measures. To cope with the financial crisis, they initially took steps targeted at specific financial institutions in difficulty. Subsequently, they took extensive measures aimed to protect the financial system, such as liquidity support, capital injections, credit guarantees and asset protection (i.e., loss indemnification), which amounted to 88% of GDP in total (N.B. the Bank of England's

4. United Kingdom: General Government Debt/GDP



Source: HM Treasury. Figures for 2009 and 2010 are JCR's projections

estimate on a gross basis that does not include future potential collections). To address the economic crisis, the monetary policy has been eased significantly, even to embark on an unorthodox quantitative easing policy (Asset Purchase Facility). On the fiscal front, the government announced a temporary departure from its fiscal disciplinary rules, paving the way for a fiscal deficit (i.e., public sector net borrowing) equivalent to 12.4% of GDP under its FY2009 (April 2009 - March 2010) budget.

3.3 Economic and fiscal outlook

The recession in the UK may have seen its worst days. Real GDP contraction turned somewhat modest in the second quarter of 2009. Some latest indices, such as housing prices, the consumer confidence index and industrial production index, looked to be signaling that the economy is about to bottom out. Nevertheless, employment continues deteriorating. Households, corporations and banks will need to take much longer time to complete their balance-sheet adjustment. The banking system remains structurally vulnerable to economic downturn, falls in asset prices and deterioration of credit status. Thus, while the current crisis may ease off in the short term, it will take longer for the economy to return to a stable growth track.

The country's public finance retains some room to tolerate an expansionary fiscal policy given (a) its relatively smaller public debt among the G7 countries before the crisis (its public sector net debt standing at 37% of GDP and its general government gross debt at 43% as of the end of March 2008, respectively), (b) long maturity of its existing debts (average 14.1 years as of the end of March 2009), (c) its deep capital market, (d) the pound sterling's foreign reserve currency status and (e) the central bank's quantitative easing policy. The UK government envisages a scenario in which its fiscal deficit will be gradually compressed after FY2010 through expenditure cuts and tax increases and the public sector net debt/GDP ratio will start declining after climbing close to 80% in FY2013 and FY2014. However, in order for the scenario to materialize, the following conditions will have to be met: (i) a global financial and economic crisis will not recur nor be protracted and additional fiscal burdens will not materially exceed the authorities' current assumption, (ii) both the opposition parties and the public will share the authorities' resolve for fiscal consolidation and the government will steadfastly enforce necessary fiscal consolidation measures (such as expenditure cuts and tax increases) as the economic situation improves, (iii) formation and implementation of a timely, effective and well coordinated exit strategy from the crisis including a smooth end to the quantitative easing policy. The UK is set to have its next general election by June 2010. JCR will keep watching its political and economic developments and the authorities' policy measures (including additional fiscal burdens, if any).

4. Germany

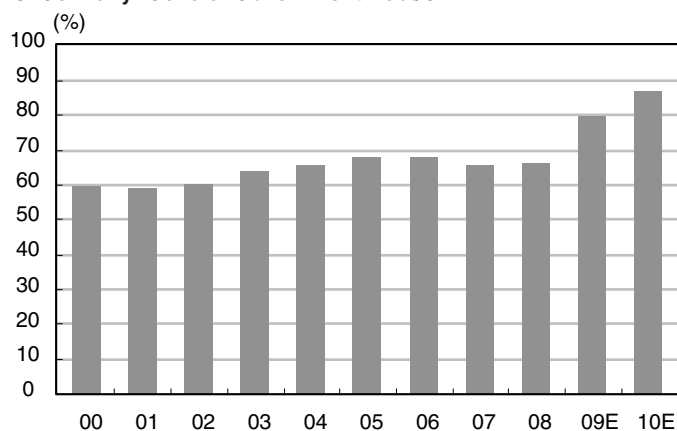
The ratings reflect Germany's strong export-oriented economy with highly developed and diversified industries and the leading position it assumes among the EU member countries.

The rating outlook is stable. The German economy is expected to contract by around 5% in real GDP terms in 2009 on a sharp slowdown of exports amid the global recession. JCR considers that the country's fiscal deficit and public debt will inevitably increase in the coming years due mainly to increased spending on fiscal stimulus measures but that they will head for improvement in the medium term, providing fiscal consolidation measures will be taken as planned upon a full economic recovery.

4.1 Economic recovery will be moderate amid sluggish external demand

The German export industries have kept their competitive edge through successful restructuring efforts to improve the labor productivity and cut the unit labor cost. The country's economy made a marked recovery in 2006 and 2007 on the expansion of external demand. However, its real GDP growth rate declined to 1.3% in 2008 from 2.5% in 2007 as exports plunged amid the global economic downturn. There have been signs of recovery lately, with the real GDP growth turning positive in the second quarter of 2009 compared with the previous quarter as the countercyclical measures such as the government's car scrapping incentive scheme began to produce some effect. However, the GDP growth rate in 2009 as a whole is expected to be lower than minus 5% given the lingering impact of the global economic and financial crisis. The growth rate in 2010 will be around 0% as a full-fledged recovery of the global economy will take time and a pickup of exports will remain rather limited during that process.

5. Germany: General Government Debt/GDP



Source: Federal Ministry of Finance. Figures for 2009 and 2010 are JCR's projections

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The country's financial system has been gradually stabilizing following the implementation in October 2008 of a financial stabilization package totaling EUR480 billion (equivalent to 21% of GDP in 2008), which consisted of EUR400 billion in guarantees for interbank transactions and EUR80 billion in capital injection to banks and purchase of financial assets from banks.

4.2 Fiscal deficit may widen due to fiscal stimulus but will improve in medium term

The general government fiscal deficit in FY2008 (January 2008 - December 2008) stood low at 0.1% of GDP. The fiscal position stayed almost balanced in 2008 as in the previous year. The fiscal deficit will widen to around 4% of GDP in 2009 as the government is set to implement a fiscal stimulus package totaling EUR82 billion (3.6% of GDP in 2008) in 2009-2010, which will include an expansion of public investments in schools, nursery centers, hospitals and roads, a reduction of government-managed health insurance premiums and car scrapping incentive scheme.

The general government debt/GDP ratio, which stood at 65.9% at the end of 2008, is projected to rise to higher than 80% in the coming years due primarily to increased expenditures on stimulus measures. However, JCR expects that the ratio will head for improvement in the medium term as the government will take fiscal consolidation measures as soon as the economy is brought back on a recovery track.

5. France

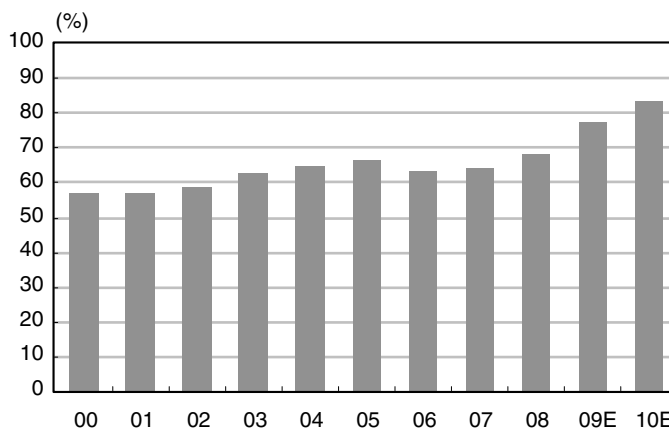
The ratings reflect France's strong economy supported by its well-diversified and highly-developed industries, and its status as the core country in the eurozone with the second largest economy in the area. They are also based on the prospect that the country's fiscal structure will improve in accordance with the EU Stability and Growth Pact in a medium term, despite the recent increase in its fiscal deficit.

The rating outlook is stable. The French economy is expected to return to a stable growth path on solid domestic demand in a medium term, although it is likely to shrink substantially in 2009 due to the impact of the global financial crisis and the contraction of the world trade. The budget deficit as a percentage of GDP is expected to stay above the 3% Maastricht ceiling for the coming few years, but JCR expects that the country's fiscal structure will start improving again in a medium term through fiscal reforms in accordance with the Stability and Growth Pact, once the economy starts recovering.

5.1 Economic downturn on financial crisis less pronounced compared to the eurozone average

France's economic growth has slightly underperformed the euro average for the past five years, and is expected to shrink more than 2% in 2009 amid the global financial crisis and the contraction of the world trade. Nonetheless, the downturn in the French economy is expected to be less pronounced

6. France: General Government Debt/GDP



Source: INSEE. Figures for 2009 and 2010 are JCR's projections

than the eurozone average thanks to steady private consumption, supported by automatic stabilizers including generous unemployment benefits and a fiscal stimulus totaling EUR28.6 billion (1.5% of GDP). The jobless rate rose to 9.5% in June 2009 on substantial personnel reduction in the corporate sector, and it is likely to surpass 10% in 2010. Therefore, the French economy is likely to grow only modestly in 2010. The current account balance has been negative since 2005 mainly on declining competitiveness of its export industries, and JCR will watch how the country will restore its competitiveness over a long-term.

5.2 Widening fiscal deficit likely to improve in a medium term

France's fiscal deficit as a percentage of GDP had been kept below the 3% Maastricht ceiling since FY2005 (January 2005 - December 2005). However, it jumped to 3.4% in 2008 on reduced tax revenues and increased social security-related expenditures. Given the revenue shortfalls brought by the recession and the greater expenditures necessitated by the fiscal stimulus package, the deficit is expected to stay above the Maastricht limit for the coming few years. The government has adopted a strategy to pursue both economic growth and fiscal consolidation. It intends to cover that portion of the fiscal deficit which has been caused by the financial and economic crisis (increased social welfare expenditures and reduced tax revenues) with greater tax revenues to be brought by a future economic recovery and slash a structural deficit caused by high administrative cost through administrative reforms. The multi-year budget framework law was enacted in 2009 to strengthen the fiscal consolidation. JCR expects that the fiscal structure will start improving again in a medium term in accordance with the Stability and Growth Pact, once the economy starts recovering. The country's general government debt, which stood at 68% of GDP at the end of 2008, is likely to reach nearly 80% in 2009 on a larger fiscal deficit and capital injections into the banking sector

(EUR 23.5 billion). The level of gross debt is expected to lower in a medium term following improvement of the fiscal balance.

5.3 Relatively sound banking system

The French banking system has stayed relatively sound. Total losses it incurred from write-downs of nonperforming loans following the collapse of asset prices have been smaller than those in other advanced economies, thanks to its rigid lending standard and supervision. French banks have survived the liquidity crisis in 2008, as the government guaranteed EUR320 billion worth of financial bonds and pledged to provide them with EUR40 billion in capital injection.

6. Italy

The downgrade is primarily based on the prospect that the Italy's potential economic growth rate continues to slow down in the coming years and that a deteriorating fiscal balance will further push up the government debt/GDP ratio, which is already higher than 100%. On the other hand, the ratings continue to be supported by the country's leading position among the EU member countries and its diversified economic structure.

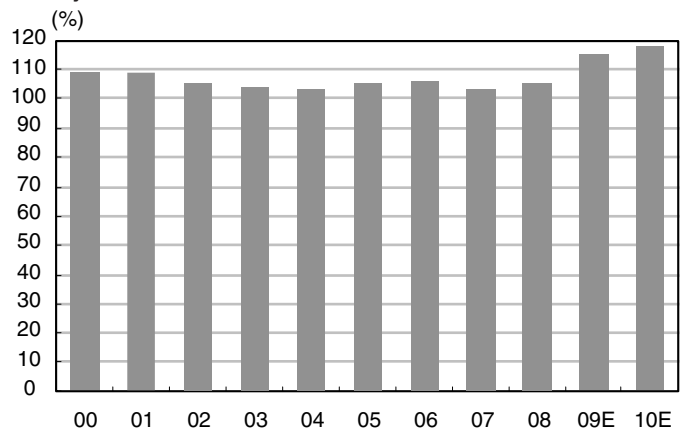
The outlook of the ratings is stable, in view of the government's continued commitment to proceed with fiscal reforms mainly through expenditure cut. However, there is an uncertainty about future progress on the fiscal consolidation as the economic growth is likely to remain weak. JCR will closely watch its future economic developments.

6.1 Potential economic growth rate to slow down reflecting falling competitiveness

The country's economic growth has been lower than the euro zone average since the late 1990s. This has stemmed from the country's relatively lower labor productivity and higher labor cost, which have eroded its competitive edge and deteriorated its external balance. While the impact of the global economic and financial crisis on the country's banking system has been rather limited, the economy has suffered a steep production setback on falling exports amid the economic downturn of the European countries and sluggish consumer spending due to a worsened employment at home. Amid a slow recovery of the European economies, Italy may further lose its competitive edge as the emerging economies will grow more competitive, backed mainly by the depreciation of their currencies. JCR holds that Italy's potential growth rate will inevitably fall as it has limited room for fiscal stimulus measures to boost domestic demand in the midst of its fiscal reform initiatives. Its economic recovery in 2010 is expected to be much slower than the euro zone average.

Italy's banking system has so far remained stable. However, it could be adversely affected depending on the impact of the economic stagnation on asset quality and future developments of the massive exposure to Central and Eastern European countries held by its two major banks.

7. Italy: General Government Debt/GDP



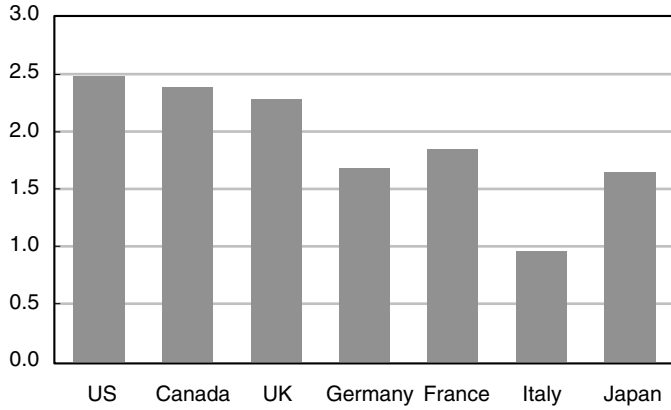
Source: Ministry of Economy and Finance. Figures for 2009 and 2010 are JCR's projections

6.2 Public debt/GDP ratio to rise further amid poorer prospect of fiscal consolidation

Italy has a chronic budget deficit that primarily stems from heavy interest burdens equivalent to around 5% of GDP. Its general government debt exceeds 100% of GDP in gross terms and stands at around 90% in net terms, both among the highest in the EU countries. More than 50% of its government bonds are held by non-residents. The annual fiscal deficit shrank in FY2006 (January 2006 - December 2006) and 2007 thanks to increased tax revenues, but its ratio to GDP rose again to 2.7% in 2008 due to the economic slowdown. Though the fiscal stimulus package announced so far by the government is equivalent to only around 2.5% of GDP, the budget deficit/GDP ratio is expected to exceed 5% in 2009 due to deterioration of the economy. As a result, the public debt/GDP ratio is expected to rise further in the medium term. The government is committed to uphold its three-year fiscal consolidation package announced in June 2008, aggressively cutting discretionary expenditures and increasing corporate taxes for the banking, insurance and energy sectors in a bid to make up for reduced tax revenues resulting from the economic slump. According to the 2010-2013 Economic and Financial Planning Document announced in July 2009, the government plans to implement some additional corrective measures after 2011 and aims to cut the fiscal deficit/GDP ratio to 2.4% by 2013. However, there is an uncertainty about future progress on fiscal consolidation, as fiscal reforms including tax increases seem harder to carry out and the projected effect of the three-year plan may face downside risks from a slow economic growth. (JCR)

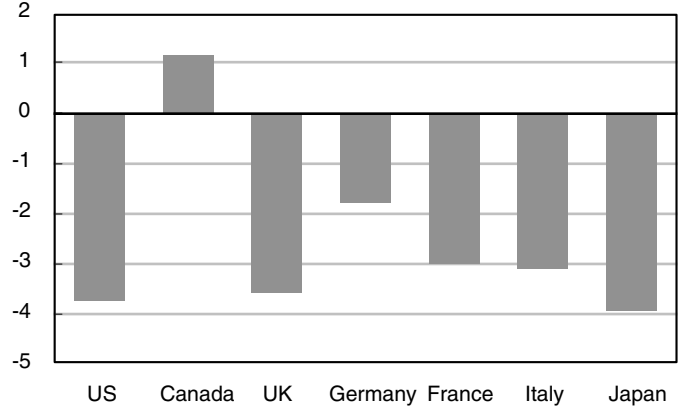
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8. Real GDP Growth Rate (04-08 average, %)



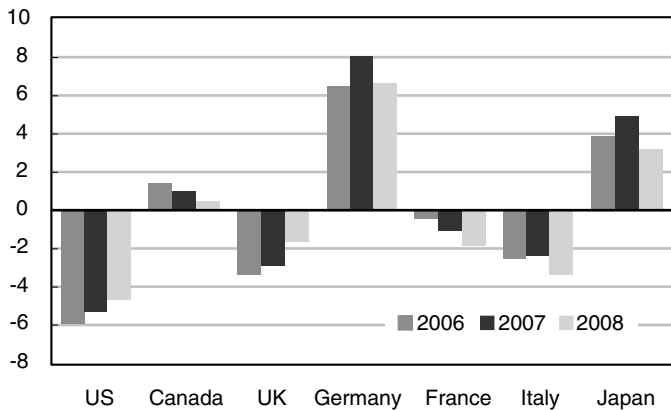
Source: OECD Economic Outlook, June 2009

9. General Government Budget Balance/GDP (04-08 average, %)



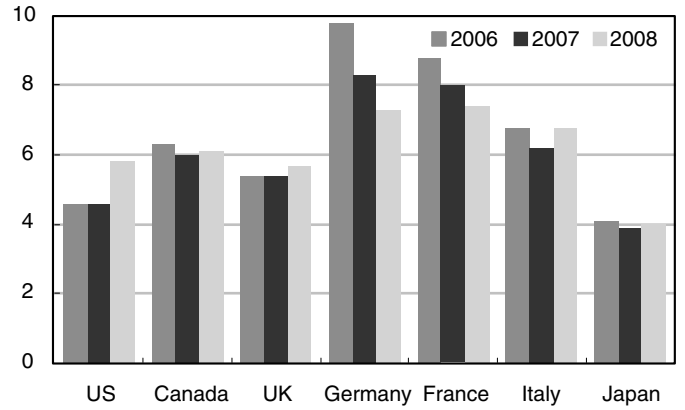
Source: OECD Economic Outlook, June 2009

10. Current Account Balance/GDP (%)



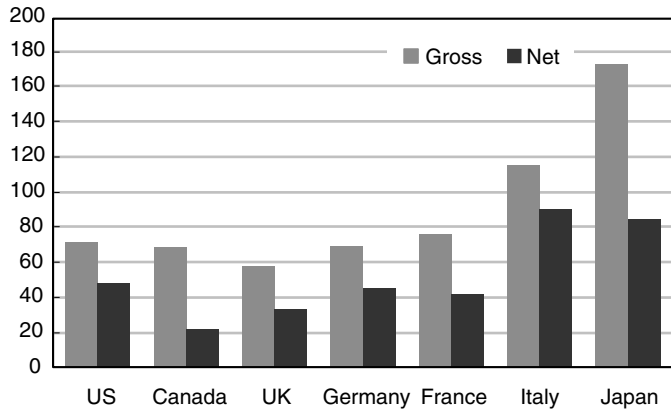
Source: OECD Economic Outlook, June 2009

11. Unemployment Rate (Yearly average, %)



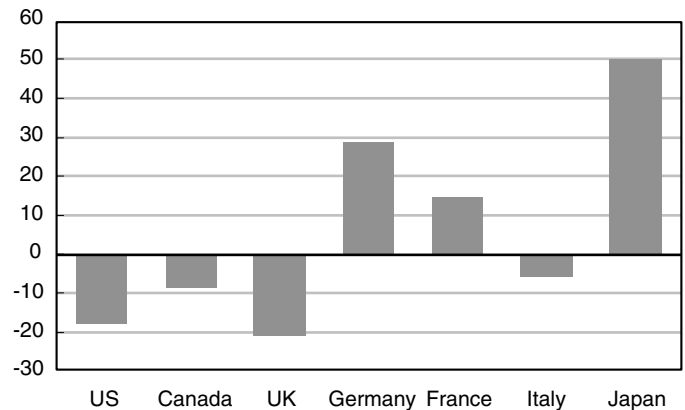
Source: OECD Economic Outlook, June 2009

12. General Government Debt/GDP (2008, %)



Source: OECD Economic Outlook, June 2009

13. Net External Asset/GDP (2007, %)



Sources: OECD Economic Outlook, June 2009, IMF IFS, July 2009