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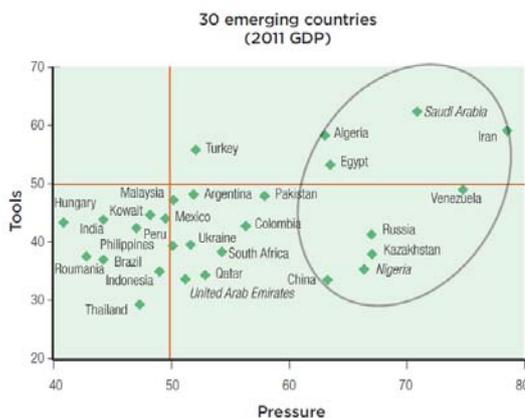
Risks are back on the radar in emerging countries: political instability, increasing protectionism, credit bubbles

Coface's original new indicators

Despite resilient growth, estimated at 5.1% in 2013, and improved sovereign and external fundamentals, emerging country risks have not disappeared altogether, but have changed form. Three major risks now weigh on emerging markets. Politically, tensions have sharpened, illustrated by protests in North Africa and the Middle East, and now also in Russia and India. Economically, we are seeing a rise in protectionist measures. Financially, excessive growth in bank loans to the private sector in a number of emerging economies is stoking fears of a credit bubble, in Asia in particular.

Rising political instability risk, fed by growing frustration, but also by the marked capacity to translate these frustrations into action

The wave of revolutions in the Arab world revealed new political, cultural and institutional demands in emerging societies. To analyse a society's capacity for political fracture, Coface has created an interpretive lens with two types of indicators: pressures for change (inflation, unemployment, control of corruption, etc.), which measure the intensity of socio-political frustration in a given country, and the instruments for realising change (education, social networks, percentage of young people in the population, the role of women, etc.), which capture the society's capacity to transform these frustrations into political action.



Of the 30 emerging countries examined, **North Africa and the Middle East regions** stand out clearly by the presence of both strong pressure and instruments for change. This analysis points to the persistent nature of the risk of instability in the region, especially where post-revolutionary regimes have proven incapable of meeting the demands of their populations, which put them in power in the first place.

Nigeria, Russia, Kazakhstan and China all show frustration levels above or equal to the situation in Tunisia and Egypt, but with fewer instruments for change, a situation which

limits their capacity to transform frustration into radical political change.

Increasing protectionism, potentially problematic for business

Since 2008, capital controls and protectionism have become weapons of protection against forces outside the control of emerging economies. They also represent a risk for business.

Note that **Russia, Argentina**, and to a lesser extent, **India** have by far the highest levels of protectionism, while **Mexico, South Africa** and **Turkey** remain relatively open to international trade.

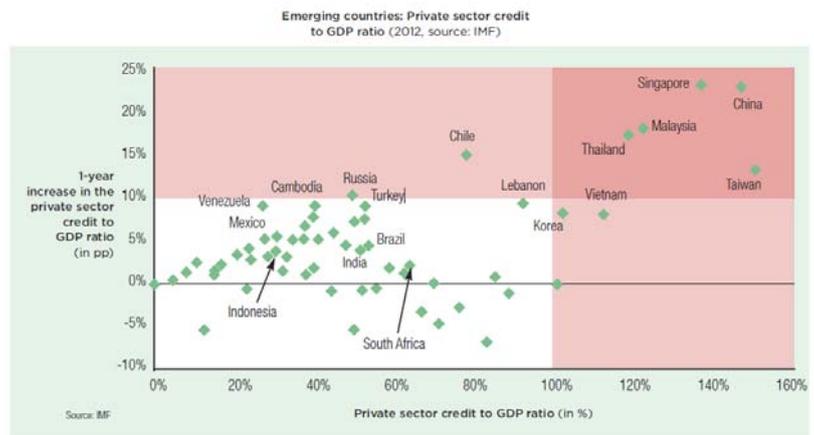
Massive recourse to restrictive measures can result in longer payment delays for importers, and more barriers to entry for companies exporting to these protectionist countries. While the effects seem limited for now on a global scale, they are expected to be exacerbated against a backdrop of increasing international division of production processes, with a negative impact on companies across the value chain. In addition, it is a trend that is likely to impact more on European countries seeking dynamic growth opportunities during a period when domestic demand remains depressed.

Rising risk of a credit bubble in emerging Asian markets

Expansionist monetary policies in place in emerging economies since the 2008-2009 crisis and failures in prudential controls have generated sustained growth in bank credit, to the point of forming credit bubbles.

Based on a summary indicator of credit bubbles comparing credit stock levels and credit growth, Coface estimates that **emerging Asia** is the region most at risk (Malaysia, Thailand and, to a lesser extent, Korea, China and Taiwan). While credit stock to the private sector in other countries is not as high, it is rising rapidly.

Chile, Turkey, Russia and **Venezuela** are also experiencing, or close to experiencing, a credit boom.



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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2012, the Group posted a consolidated turnover of €1.6 billion. 4,400 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French state.

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