P R E S S R E L E A S E

Paris / Vienna, June/July 2016

World corporate risk reaches peak levels

- **Forecast world growth for 2016 down by 0.2 points to 2.5%**
- **The average level of global risk corresponds to B, « significant risk »**
- **Increasing numbers of emerging markets included in the "extreme" and "very high" risk categories**
- **Three leading world economies become fragile**
- **China penalises activity in several Asian countries**
- **Europe facing positive dynamics, but political risk driven by the Brexit must be monitored**

World economy facing "Japanese-style" growth trap

Since the international growth scenario announced by Coface last March, prospects have deteriorated slightly, and growth would appear to remain below 3% in 2016 for the 6th consecutive year. Companies have been penalised by this atonic "Japanese-style" environment: a lack of outlets and weak inflation reducing pricing power. The clear increase in corporate risk around the world has been confirmed by Coface's latest country risk assessments[1]. The average assessment for all 160 countries has reached a peak level, unseen since the early years of the century, corresponding to B, "significant risk" level.

A shock wave caused by the vulnerability of the United States and China

The world's three largest economies have been affected by aggravated credit risk: after the downgrade of Japan to A2 last March, it is now the turn of the **United States** and **China**, downgraded to A2 and B respectively.

- In the United States, companies are facing cyclic problems: the post-crisis recovery point has been reached and led to a rise in business insolvencies for the first time since 2010. Companies facing falling profitability and reduced investment levels underlie the continuous drop in unemployment.
- In China, despite stable growth, stimulus measures are proving to have a limited effect due to overcapacity and excessive corporate debt levels.

Unsurprisingly, this shock wave is spreading, to **Canada** on the one hand, downgraded to A3, and to several Asian countries on the other hand. For this reason, the assessments of **South Korea, Hong Kong, Singapore and Taiwan** have been downgraded to A3, and **Malaysia** to A4. These countries suffer from strong exposure to the Chinese structural slowdown for exports, tourism and investments. Furthermore, volatility on commodity markets, including oil, is penalising corporate business.

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[1] Coface's country risk assessments reflect the average credit risk by companies in a given country, on a scale of 8 levels: A1, A2, A3, A4, B, C, D, E, in increasing order of risk.

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Investment is climbing in Europe, however, political risks are increasing

Political uncertainty in Europe is weighing on the confidence levels of businesses and households. Following on from the Brexit vote, Coface has revised its growth forecast for British GDP by 0.6 points, to 1.2% for 2016. Export segments taking advantage of the low sterling rates are not the worst off. On a long-term basis, a "Norway-style" free trade agreement appears unlikely after the resignation of David Cameron and, if WTO rules are applied, the economic cost could be high for the United Kingdom and the EU. British export sectors, tied to the EU by supply chains, could be penalised by customs duties. Within the EU, countries with a limited domestic market and priority commercial relations with the United Kingdom face the highest level of exposure: Ireland, and to a lesser extent, the Netherlands, Belgium, Denmark and Sweden.

At the current time, no effect is expected on the healthy dynamic growth within the eurozone (forecast at 1.7% in 2016), fed by both household consumption and private investment. Relaxed budgets, decreased oil prices and the low rates of the ECB have had positive effects on the margins of businesses. Small businesses are benefiting from a wider range of bank loan services for the first time.

- **France** has been upgraded to A2, in response to several encouraging signals: the highest level of investment by businesses in the last 4 years, a boost in the construction sector (which represents 5% of GDP), and a constant drop in the number of insolvencies estimated at -3.2% in 2016.
- **Italy** has been upgraded to A3, due to falling insolvencies levels and unemployment and expected increased investment.

Central Europe lies in the positive wake of Western Europe, with upgraded assessments for four countries: **Lithuania (A3)**, **Slovenia (A3)**, **Latvia (A4)** and **Romania (A4)**, taking advantage of solid growth and reduced export dependence on Russia.

Continued considerable impact of falling oil prices

The effects of the fall in oil prices is continuing to be felt within oil-exporting countries. **Saudi Arabia (**new rating **B), Kuwait (A3), Qatar (A3)** and **Algeria (C)** have seen their public deficit expand and non-hydrocarbon business slow. This also applies for **Angola** and **Zambia (D)**, subsequent to the depreciation of their local currency due to the Chinese slowdown and the collapse in commodity prices, and **Mozambique (D)**, facing a highly probable payment default.

In this context, Coface also considers that an 8th assessment category must be introduced, E for "extreme risk", to add granularity to the country risk analysis: some countries with a D assessment will henceforth be allocated the new E category, a synonym for extremely high credit risk. The following countries are concerned: Afghanistan, Armenia, Central African Republic, Cuba, Eritrea, Iran, Iraq, Libya, Sudan, Syria, Timor-Leste, Venezuela, Yemen, Zimbabwe.

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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 2015, the Group, supported by its 4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 100 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 660 underwriters and credit analysts located close to clients and their debtors.
In France, Coface manages export public guarantees on behalf of the French State.

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P R E S S R E L E A S E

COUNTRY RISK ASSESSMENTS CHANGES

UPGRADES

Country	Country risk new
France	A2
Italy	A3
Lithuania	A3
Slovenia	A3
Latvia	A4
Roumania	A4
Ivory Coast	B

DOWNGRADES

Country	Country risk new
United States	A2
Canada	A3
South Korea	A3
Finland	A3
Hong Kong	A3
Koweït	A3
Qatar	A3
Singapore	A3
Taiwan	A3
United Arab Emirates	A4
Malaysia	A4
Namibia	A4
Saudi Arabia	B
China	B
Algeria	C
Angola	D
Mozambique	D

Country risk assessment assesses the average risk of payment defaults by companies in a given country. This evaluation combines economic and political prospects ofthe country, Coface payment experience and business climate assessment. This evaluation has 8 grades: A1, A2, A3, A4, B, C, D, E This scale included so far only 7 notches. An eighth category has been created to add granularity in analyzing country risk: some of the countries belonging to the category D are now included in this new category E synonymous with extremely high credit risk.