

**Coface Country Risk:
Companies' solidity already impacted by the systemic crisis in Europe
and political risks in emerging countries**

Warning: Coface country risk assessment measures the average level of payment defaults by companies in a given country within the framework of their commercial transactions. It does not pertain to sovereign debt. To determine the country risk, Coface combines the economic, financial and political outlook of the country, Coface's payment experience and business climate assessment. Assessments have a seven-level scale: A1, A2, A3, A4, B, C and D.

On the occasion of its 16th Country Risk Conference, Coface is principally issuing a warning about the systemic nature of the current crisis, of which the Euro zone is the epicentre. In 2012, the European economy will be marked by a recession rate of -0.1%, while growth will stabilise in the USA at +1.6% and recover in Japan at +1.8%. This should prevent a return to the worst of the 2008-2009 crisis, characterised by a synchronised recession in all three advanced economic areas. Overall, growth in advanced economies will be 1.1% in 2012. Emerging countries should maintain growth at 5.1%, with a 0.6-point drop in GDP against 2011. Emerging European economies will be the areas most exposed to the intensification of the Euro crisis through both commercial and external banking credit channels.

In addition, among the risks to be monitored is a clear return of political risks in emerging countries.

European companies: victims of the new global systemic crisis

The period from the second half of 2009 to the first half of 2011 was a brief respite for the world economy. The situation worldwide has deteriorated since the summer of 2011 with the crisis in the Euro zone worsening. Coface has noted a clean break in companies' payment behaviour in the second half of 2011, with a sharp rise in non payments. For 2011 as a whole, Coface recorded a 19% rise in payment incidents worldwide, with a particularly marked increase (28%) for companies in the Euro zone.

The deterioration of average company solidity demonstrates that the crisis is taking a new direction and has attained a global systemic level with Italy entering a recession. The situation appears to differ from the 2008 shock as a result of this critical mass effect, but also because of increased financial interdependence and the exposure of banks both inside and outside the EU to European sovereign debts.

"With no rapid response from institutions to the crisis, negative forecasts on financial markets have prompted the distrust of actors of the real economy. However, it will be the corporates that will feel the repercussions of this crisis despite that fact that they have never been managed so well. In 2012, the combination of significantly weaker growth in Europe with the drying up of credit facilities could significantly affect the companies' credit risk", stresses François David, President of Coface.

In light of the deteriorated situation, Coface has downgraded its assessment of **Italy** and **Spain** by one notch to **A4**. Italy has been made vulnerable by massive public debt; Spain by the debt levels of its private sector. The two economic powerhouses of southern Europe will also suffer from a contraction in activity in 2012. Coface has noted a rise of 50% in companies' payment incidents in the two countries since the start of 2011.

Increased vulnerability in emerging European economies to a contraction in European demand

The emerging European economies will suffer the most from the contraction in demand and financing movements within the Euro zone. Given their exposure to sovereign debt in the Euro zone, Western European banks will be obliged to reduce support to their subsidiaries, which will affect the granting of credit facilities to companies. Assets held by European banks account for 70% of Eastern European GDP. It is also estimated that one-fifth of the growth in the last decade in Eastern Europe can be attributed to dynamic trans-frontier credit. Were the European credit tap to be shut off, there would be a major impact on emerging European economies, which also frequently have a private sector with massive currency debts.

The growth of open economies will be halved from 4.1% in 2011 to 2% in 2012. The A2 assessments of the **Czech Republic** and **Slovenia** as well as the A3 assessment for **Slovakia** have been placed under negative watch. **Hungary** is facing increased investor distrust and has been downgraded to **B**. Exposure to Italian risks and the weakness of activity resulting from an exchange rate shock have prompted Coface to downgrade the assessment of **Croatia** to **B**.

Emerging countries fall prey to the return of political risks

The wave of political unrest in North Africa and the Middle East in 2011 was a turning point in emerging economies that heralded a return of political risks. In 2011 Coface noted several non payments as a result of political risks. The wave of regime changes can be attributed to the inexorable surge in the will to change the societies in emerging countries. This reflects profound economic and political frustration, supported by a burgeoning middle class and social and cultural changes (access to the Internet, falling fertility, travel). In emerging democracies, as in Latin American countries, frustration is expressed by higher crime rates, whereas regime changes in authoritarian States take place when incumbents are no longer capable of meeting the increasingly pressing hopes of their population in terms of political rights and access to employment and entrepreneurship.

The current process of political transformation in the North Africa / Middle East region is not without consequences for some country risk assessments. The assessment of **Egypt**, which faces pressure on its public finances and foreign accounts, was downgraded to **C**, primarily owing to the large uncertainty of its political situation in 2012. **Syria**, downgraded to **D**, is experiencing an extremely tense situation in which international sanctions will have an adverse effect on economic growth and public finances.

Coface has decided to remove positive watch on the **D** assessment of **Nigeria**. Its problematic governance remains a key risk factor for non-payment by the country's entities.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions for trade receivables management. In 2010 the Group posted a consolidated turnover of € 1.6 billion euros. 6,400 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 156 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 250 underwriters.

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

Coface is a subsidiary of Natixis whose share capital (Tier 1) was 16.8 billion Euros end December 2010.

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APPENDIX

CHANGES IN COUNTRY RISK ASSESSMENTS

	Country	October 2011	January 2012 decisions
Western Europe	Spain	A3↓	A4
	Italy	A3↓	A4
Emerging Europe	Slovenia	A2	A2↓
	Czech Republic	A2	A2↓
	Slovakia	A3	A3↓
	Croatia	A4↓	B
	Hungary	A4	B
Other emerging countries	Egypt	B↓	C
	Nigeria	D↗	D
	Syria	C↓	D
	Ghana	C	C↗
	Mongolia	D↗	C
	Sierra Leone	D	D↗