coface

PRESS RELEASE

Paris / Vienna, 24 March 2016

Czech Republic, Poland, Chile, and Thailand closest to a quick upturn in exports

- **Of the 34 emerging countries studied, only 4 are capable of bouncing back in the short term**
- **Criteria: price competitiveness, indebtedness, political risk**
- **China, Saudi Arabia, Egypt, and Ecuador very much at risk**

Although the current crisis in emerging countries is surprising in its intensity, with their growth cut in half in five years and increased exposure to currency risk and debt, this is not an isolated phenomenon. Similar crises, observed in the 1990s, ended with a sudden, rapid upturn in activity, despite surging capital outflows and the lack of a rebound in bank credit. On average, these emerging economies reached their prior production level in two to three years even if their long-term growth remained durably lower.
Today, which of these countries can offer their businesses a speedy recovery? Among the sample of thirty-three countries studied by Coface, only four meet the three essential criteria: price competitiveness gains revived through the depreciation of their currency since 2013, companies' borrowing capacity, and a moderate political risk. They are the Czech Republic, Poland, Chile, and Thailand.

Criterion 1: Price competitiveness gains

In the short term, the most effective way to increase competitiveness is depreciation of the real effective exchange rate (i.e., in relation to all currencies of countries with which exchanges are carried out, not limited to the dollar), which primarily benefits manufacturing exports and certain services. Among the fourteen countries that would benefit most from the recent trends on the exchange market, two categories can be identified : exporters of manufactured products whose currency has depreciated moderately since 2013 (Czech Republic, Poland, Bulgaria, Hungary, Malaysia, Thailand, and Turkey) and exporters of commodities whose currency has lost much of its value (Brazil, Mexico, Chile, Colombia, Kazakhstan, South Africa, Russia).

The currencies of the main losers – Vietnam, China, Ecuador, Egypt, and even Saudi Arabia – have appreciated in real effective terms, as a third currency or a fixed or inflexible exchange rate system against the dollar is used.

Criterion 2: Companies' debt level

In order for these price competitiveness gains to translate into more investments by companies, their initial debt level must not be excessive. However, this debt level increased following the post-Lehman expansionist monetary policies relaxing bank lending conditions and rapid development on the bond markets. Between 2004 and 2014, it multiplied by 4.5 in absolute value and, relative to GDP, grew by 26 percentage points, against a backdrop of

weak growth in emerging countries decreasing from 7.2% in 2010 to 3.4% in 2016 (3.9% expected in 2016).
Combined with tighter lending conditions (except emerging Europe), high debt means a greater interest expense, limits investment capacities, and hampers recovery. This risk is particularly high in five countries whose total corporate debt exceeds 90% of GDP or has increased by 10 or more points since mid-2008: Brazil, Malaysia, Turkey, Bulgaria, and Russia.

Criterion 3: Political risk

Lastly, the economic rebound may be delayed by major political uncertainties forcing companies to postpone their investment decisions. Of the eight countries likely to benefit from price competitiveness gains and not affected by the risk of corporate debt, half are facing excessive political risk. They are the countries whose score on each of the two Coface indicators - pressures for change[1] and instruments of change[2] - is greater than the average of the countries studied and has tended to rise since 2007.

After applying the three-criteria filter, four countries are able to bounce back quickly or better withstand the current crisis: Czech Republic, Poland, Chile, and Thailand. These economies represent less than 2% of global GDP, but they share common strengths: they are relatively industrialised, have overcome the middle-income trap, and do not export too much to the worst-hit emerging markets. Their economic fundamentals are good: little inflationary pressure, low (Chile, Czech Republic) or moderate (Thailand, Poland) public debt, and none of them has a high current account deficit. However, sources of vulnerabilities exist: political and social risk in Poland, Thailand, and Chile, even though it is moderate. Chile has a significant dependence on copper.

At the other end of the scale, this study confirms that other economies have little room for rebound in the short term: China, Saudi Arabia, Egypt, and Ecuador all have a currency that has appreciated significantly since 2013 (particularly because of the use of a third currency or a fixed or inflexible exchange rate system against the dollar) and a high level of political risk. Among them, China has even accumulated all the weaknesses, since the debt level of its companies is very high.

MEDIA CONTACTS:
Verena SCHWARZ - T. +43 (0) 1 515 54-540 – verena.schwarz@coface.com

[1] Pressures for change (inflation, unemployment, control of corruption) measure the intensity of socio-political frustrations in a given country
[2] Instruments of change (education, social networks, proportion of young people, role of women) capture the ability of these societies to transform frustrations into political action

PRESS RELEASE

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 340 underwriters located close to clients and their debtors.
In France, Coface manages export public guarantees on behalf of the French State.

www.coface.at

Coface SA. is listed on Euronext Paris – Compartment A
ISIN: FR0010667147 / Ticker: COFA