PRESS RELEASE

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2015 Country Risk Conference:
In 2015, the global recovery will be laborious and subject to multiple risks

The global economy is on the path of gradual recovery. Less vigorous than before the 2008 crisis, global growth continues to follow a moderately accelerating trend: +3.1% in 2015, after +2.8% in 2014 and +2.7 in 2013. Slight improvements are expected both in advanced countries (from +1.7% in 2014 to +2.1% in 2015) and in emerging countries (from +4.2% to +4.3%).

Advanced countries: certainly a recovery, but a fragile one as a result of still constrained investment in Europe

Coface is cautiously optimistic in its assessment of risks in advanced countries. Firstly, in the United States, strong growth (+2.9% in 2015) is based on on robust domestic demand and a real industrial renaissance, such as the car industry, where companies are running at 90% of their capacities. Companies are taking advantage of a multi-faceted reduction in costs: lower energy costs, linked to the expansion of shale gas and the fall in oil prices, but also limited wage rises. The steel industry remains the only sector where risk is considered as high, whereas the chemicals, textile, transport and car industries are classed in the moderate risks category, the best evaluation, in Coface's sector risk barometer.

Improvement is much slower in Europe, but it is perceptible: in the eurozone, growth should reach +1.2% in 2015 (after +0.8% in 2014 and -0.4% in 2013). After the recent upgraded assessments of Spain, Germany and Austria, Coface announces a new improvement: **Portugal**’s B assessment is now under positive watch. Emerging from its rescue plan, the country is experiencing growth (+1.2% in 2015). The financial situation of companies is gradually improving: margins are recovering and bankruptcies are down.

In France and in Italy too, we note an improvement in companies’ financial health. Coface notably anticipates a rise in French companies’ margin rates to 31.1% by the end of 2015, i.e. of the same level as 2009, as a result of the implementation of the government’s ‘pact of responsibility’ and the fall in oil prices. However, companies will remain very cautious on investment decisions, due to the lowflation[1] environment and growing political risks in the eurozone (uncertainty over governments’ ability to carry out reforms, growing popularity of parties hostile to European construction).

[1] Lowflation: weak growth and weak inflation

In Europe, cash retention behaviour is at the heart of lowflation. In fact, the still heavy burden of public and private debt means a large proportion of revenue is used for debt repayment. However, negative inflation, itself caused by this low demand, causes a rise in the debt's real value. Consequently, reduction in public and private debt maintains deflationary pressures and these same pressures complicate debt reduction. In this context, the offensive action of the ECB is crucial as a reassuring framework, both for companies and for households, to avoid the deflationary crisis. It will not, however, be sufficient to boost significantly the appetite for investment in the real economy.

"*After the sovereign crises, Europe has now discovered an opposite risk: that of conserving heavy debt that considerably affects the recovery and feeds deflationary pressures. Growth is also hindered by geopolitical events with still uncertain outcomes, primarily the Russia-Ukraine geopolitical crisis, which affects the morale of players in the economy. Lastly, the return of the political risk in Europe itself affects confidence. In this regard, the elections that punctuate 2015 will be important tests*", comments Yves Zlotowski, Coface chief economist.

Emerging countries: Return of "traditional" crises, with a few fortunate exceptions

While their growth remains strong overall, emerging countries are suffering from the return of traditional crises, with capital outflows and recurring tensions in their exchange rates. The volatility of six fragile currencies since 2009 serve as illustration: Brazil, India, Indonesia, Turkey, South Africa and Russia. The combination of an economic slowdown, rising private debt and repeated depreciations has led Coface to review downwards several country assessments. The most recent have been the downgrade of Turkey to B (+3.5% in 2015) and of Russia to C (-3.0% in 2015). Nonetheless, it is worth noting that while companies are at risk, crises of a systemic nature are no longer the rule in emerging countries. Banks are stronger and public finances are solid. In brief, no large emerging country has had to call on the IMF in an emergency. Two Latin American countries have been particularly tested in 2014 by major risks of external liquidity: Venezuela and Argentina. In both cases, China has played the role of "purveyor of liquidity" in the last resort.

However, several countries have distinguished themselves by favourable trends. **Vietnam**, whose C assessment is now accompanied by a positive watch, has stabilised its exchange rate, moved upmarket (as shown by the dynamism of its exports of electronic products) and attracted foreign investment, particularly Korean, despite a difficult business environment. Coface has also raised the assessment of **Sri Lanka** by a notch to B, because since the end of the war in 2009 growth has been strong and stable and the budget deficit has fallen.

Negative watch on China: first downgrade of the "companies" risk since 2010

For Coface, Chinese companies have entered into a danger zone, hence the decision to announce a negative watch on the A3 country risk assessment of **China**.

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

Currently, companies face several challenges: the slowdown is confirmed. Coface is expecting growth of 7% in 2015. Overcapacities remain in several different sectors, including metallurgy and construction.

Above all, indebtedness has reached a worrying level. Private debt is estimated by Coface at over 200% of GDP. Bank credit continues to increase faster than GDP. To this must be added financing from shadow banking, which is not very transparent and sometimes practised at usurious rates. This phase of increasing risks is inevitable and intrinsic to the "normalisation" of Chinese growth. The willingness of authorities to favour consumption to the detriment of investment, in order to reduce overcapacities, means that companies' colossal debt can no longer by systematically refinanced. Consequently, we expect Chinese companies to have payment difficulties in 2015, in a context of domestic activity that is less buoyant but more sustainable in the medium term.

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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 2013, the Group, supported by its 4,440 staff, posted a consolidated turnover of €1.440 billion. Present directly or indirectly in 98 countries, it secures transactions of over 37,000 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 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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P R E S S   R E L E A S E

ANNEXE

The Coface Country risk assessment measures the average risk of non-payment by companies in a country in the context of their short term commercial transactions. Sovereign debt is not included in this. In forming the assessment, Coface brings together the economic, political and financial outlooks for the country, Coface's payment experience and the business environment of the country.
The country risk and business environment assessments are based on a scale with 7 levels: A1, A2, A3, A4, B, C, and D and can be combined with watch categories.

COUNTRY RISK ASSESSMENTS CHANGES		
UPGRADES		
COUNTRY	PREVIOUS ASSESSMENTS	NEW ASSESSMENTS JANUARY 2015
CZECH REPUBLIC	A4	**A4↗**
PORTUGAL	B	**B↗**
SRI LANKA	C↗	**B**
VIETNAM	C	**C↗**
DOWNGRADE		
COUNTRY	PREVIOUS ASSESSMENT	NEW ASSESSMENT JANUARY 2015
CHINA	A3	**A3↘**