

Vienna, 30 March 2015

Quarterly updated country risk and business environment assessments

Coface upgrades country risk assessments of two European economies and places Brazil under negative watch Business environment in Russia downgraded to C

Improvements in country risk are increasingly perceptible in advanced countries, where growth is expected to rise in 2015 (+2.1%). The Eurozone, driven by Germany and Spain, records two positive changes with the Netherlands and Belgium rising by a notch. Changes vary widely in emerging countries, however (downward growth revision, to 4.2%). Brazil and Ecuador are placed under negative watch and Russia sees its business environment assessment downgraded.

Belgium and the Netherlands upgraded to A2, confirming the recovery in the Eurozone

The upward revision in the ratings of **Belgium** and the **Netherlands** to A2 follows that of Germany, Spain, the United Kingdom and Austria in 2014 and Portugal at the start of 2015. This confirms the zone's gradual return to growth (estimated by Coface at +1.3% in 2015, after +0.9% in 2014).

Household spending, exports and investments have made a positive contribution to growth in both countries. Corporate insolvencies continue to fall. In Belgium, the political landscape has become more stable, with a government focused on fiscal consolidation. In the Netherlands, the start of the year was marked by increased confidence among companies in the construction sector, in line with the rise in real-estate prices (+3.6% in January 2015 compared with their low point in 2013).

Latin America slumps

Emerging countries are displaying divergent trends.

The front-runners in terms of good news are **Tunisia**, whose B assessment is now accompanied by a positive watch, and **Cambodia**, which has been upgraded to C.

- In Tunisia, the business climate has been improved by the end of the political transition, which is unlikely to be jeopardised by the threat of terrorist attacks. Tunisia's growth is set to pick up in 2015 (+3%) rising half a point compared with 2014, supported by expansion in agricultural production and a strengthening in economic activity in the industrial sector. The country will also benefit significantly from the

improvement in the international economic environment, including low oil prices and the recovery in Europe, its main export destination. Tourism is likely to suffer from the short-term security risk.

- Cambodia continues on the road to growth. Its economic activity is robust, with GDP growth of more than 7% since 2011, supported by the tourism sector and the strength of its textile exports and privileged access to the European Union, the United States and Canada. Foreign direct investments continue to increase due to Chinese and Vietnamese plant relocations in the country, as well as public-private partnerships established in the context of energy infrastructure projects.

Latin America has been severely affected by economic and political uncertainty, including the fall in commodities and the decline in Chinese demand. Venezuela and Argentina, sorely tested in 2014 by major external liquidity risks, are not the only ones affected. **Brazil's** A4 assessment and **Ecuador's** B assessment are now under negative watch.

- In Brazil, prospects of a recovery in 2015 appear unlikely (growth forecast at -0.5%), due to the decline in spending and investment. Industry is set to continue to suffer from the lack of infrastructure and qualified labour, with a high risk of water shortages and possible electricity rationing. The automotive industry will suffer from the economic slowdown in Argentina, its principal market, while the construction sector and offshore petroleum activity are also likely to be impacted by the decrease in investments, following the corruption scandal surrounding Petrobras.
- Ecuador is the country in the region most affected by the falling oil price after Venezuela. Its budget deficit is widening and growth has slowed considerably (to 1.5% in 2015, compared with 3.8% in 2014). The country needs an oil price of US\$120/barrel to maintain its fiscal stability. The dollarization of the economy makes it difficult to devalue to adjust the public accounts. Non-petroleum exports are also less competitive, particularly to Europe.

Russian business environment more fragile than ever

Following the downgrade of its country assessment to C in October 2014, Russia has again been downgraded, this time in respect of its business climate. The business environment, now at a C assessment, is poor and suffers from particularly blatant failings in terms of protection of property rights. Weak governance and corporate transparency also contributed to this downgrade, as did the sanctions put in place in 2014 which complicate companies' activities in some sectors. As a reminder, Russia is ranked 176th (out of 215), according to the World Bank's governance indicator for control of corruption, which remains a recurrent weak point.



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MEDIA CONTACTS:

Michaela WIMMER - Communicationsmanager
T. 01/515 54 540 – michaela.wimmer@coface.com

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 2014, the Group, supported by its 4,406 staff, posted a consolidated turnover of €1.441 billion. Present directly or indirectly in 98 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 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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APPENDIX

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.

ASSESSMENT UPGRADED, REMOVED FROM NEGATIVE WATCH LIST, OR PLACED UNDER POSITIVE WATCH LIST

Country	Country risk previous	Country risk new
Belgium	A3 ↗	A2
Netherlands	A3 ↗	A2
Tunisia	B	B ↗
Cambodia	D ↗	C
Lebanon	C ↘	C

The Coface Business environment assessment is a component in the overall country risk assessment and is published alongside this. It assesses the availability and reliability of data on companies and the legal protection for creditors and takes into account the quality of the institutional environment. The business environment assessments are



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measured on a scale of 7 levels A1, A2, A3, A4, B, C and D, with risk increasing as one descends down the scale, in the same way as the country risk ratings.

ASSESSMENT UPGRADED, REMOVED FROM NEGATIVE WATCH LIST, OR PLACED UNDER POSITIVE WATCH LIST

	Business climate previous	Business climate new
Togo	D	C

ASSESSMENT DOWNGRADED, REMOVED FROM POSITIVE WATCH LIST, OR PLACED UNDER NEGATIVE WATCH LIST

Country	Country risk previous	Country risk new
Brazil	A4	A4↓
Ecuador	B	B↓
Sierra Leone	C↓	D

ASSESSMENT DOWNGRADED, REMOVED FROM POSITIVE WATCH LIST, OR PLACED UNDER NEGATIVE WATCH LIST

	Business climate previous	Business climate new
Kuwait	A3	A4
Russia	B	C
Uganda	C	D