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Revised country risk assessments

Coface is optimistic about business risks in the United States and concerned about those of emerging countries such as Brazil and Thailand

In the United States growth and the confidence of business leaders is returning. Overall, advanced economies are doing better: after two years of recession, the eurozone will record modest but positive growth in 2014 (+1%). Within the Economic and Monetary Union, Germany is expected to show a remarkable recovery of 1.8%. France will experience slow growth (0.6%) and the end of the recession is in sight for Spain and Italy. But despite these improvements, the confidence of business leaders has not yet returned in Europe.

The concerns come from the emerging countries, which are facing a structural decline in growth (estimated at 4.8% overall in 2014), even though the BRICS countries will benefit indirectly from the recovery in advanced economies.

Therefore Coface has revised its country risk assessments for the United States, Brazil and Thailand.

United States: A2 placed on positive watch, despite the budget paralysis

The prospect for sustained and balanced growth (estimated at 1.5% in 2013 and 2.2% in 2014) leads Coface to place the A2¹ assessment of the United States on positive watch, despite the current budgetary pressures.

Business investment is robust. Private consumption, the main driver of growth, is making better progress than before the crisis, as households reach the end of their debt reduction. Improvements are also noticeable on the business side. Margins and profitability are increasing while debt levels are low (55% compared to 85% in the eurozone), although growth in some sectors (construction materials, copper, paper) remains anemic. Businesses are the strong segment of the economy: they have low debt and are very profitable.

Though the government shutdown was a surprise, it should not have a significant effect on business provided that it does not persist in the long term. However, uncertainties related to the US government debt ceiling remain high and the risk of non-recovery cannot be ruled out. In this risk scenario, private demand could be significantly affected. However, at this stage our main scenario is that this impasse should be avoided at all costs, so that private consumption and investment remain robust despite further possible budget cuts.

¹ A2 assessment : low risk



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

Brazil: A3 placed on negative watch, due to structural problems

Growth in Brazil is disappointing (estimated at 2.3% this year and 2.9% in 2014) due to less buoyant private consumption and particularly weak business investment. The origins of the economic difficulties are structural. The lack of infrastructure is constraining business. Rising interest rates in the wake of the Selic may reach nearly 10% in late 2013, which averts any prospect of a significant recovery.

The slowdown in consumption weakens industries and businesses that depend on it: household appliances, automotive, electronics. Rising interest rates and inflated prices for imported components and machinery, due to the depreciation of the real, are made worse by taxes and production costs that remain high. Companies hesitate to accelerate their investments. In this context, payment incidents of Brazilian companies recorded by Coface remain at a high level, close to the peak of 2009. Both macroeconomic and microeconomic factors justify a negative watch of Brazil's A3² assessment.

Thailand: A3 placed on negative watch, due to rising household debt

Risks are increasing in Thailand, whose A3 assessment is now on negative watch. Growth there has fallen sharply in 2013 and will remain constrained by household debt (80% of GDP) in 2014. The effects of previous stimulus measures are wearing off. In addition, the country will continue to suffer from sluggish exports, particularly related to its dependence on the Chinese slowdown.

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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 2012, the Group posted a consolidated turnover of €1.6 billion. 4,400 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 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.

Coface is a subsidiary of Natixis, corporate, investment management and specialized financial services arm of Groupe BPCE.

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² A3 assessment : acceptable risk



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

APPENDIX

Note:

A Coface country risk assessment measures the average level of payment defaults by companies in a given country within the framework of their commercial transactions **in the short term**. It does not pertain to sovereign debt. To determine country risk, Coface evaluates the economic, financial and political outlook of the country in conjunction with Coface's payment experience and business climate assessment.

Assessments, which can be watch-listed, have a seven-level scale: A1, A2, A3, A4, B, C, D.

Assessment either upgraded, or removed from negative watch list or placed under positive watch list

Country	Previous CRA	New CRA
United States	A2	A2 ↗

Assessment either downgraded, or removed from positive watch list or placed under negative watch list

Country	Previous CRA	New CRA
Brazil	A3	A3 ↘
Thailand	A3	A3 ↘