

Country risk assessments: Deterioration in Europe and in the United States

Coface notes a deterioration of the average strength of companies in Europe and in the United States and is placing on negative watch, or removing positive watch of, 8 developed countries. The country risk assessment for Greece and Cyprus is being dropped one notch.

The economic situation of the developed countries has indeed deteriorated since the summer of 2011. In addition to the negative effect of economic agents' deleveraging in Europe and the United States which formerly weighed upon activity, the confidence crisis, illustrated by the volatility of the financial markets, has started to spread to the real economy. The ups and downs of the eurozone crisis and the US economic policy impasse now prevent expectations of a predictable scenario and these uncertainties could lead to consumers and investors suspending their purchases.

Another source of concern: the distrust towards the banks because of their exposure to sovereign risk could affect access to credit for European companies. In the first half of 2011, credit contracted in Greece, Spain, Portugal and in Ireland. A major risk is that credit may also become rarer and more expensive in the heart of the EU. In this context, overdue payments recorded by Coface are again progressing, particularly in peripheral eurozone economies. A weakened growth of 1.6% in the Monetary Union is expected by Coface in 2011.

- **The eurozone faced with distrust and deleveraging**

The deterioration of the economic and financial outlook leads Coface to drop the risk assessment for Greece by one notch to C and Cyprus to B, already downgraded last June. The worse-than-expected recession (-4% in 2011) has further increased Greek public deficit. Although widely anticipated, a larger default by the Greek government will affect investors and banks, having tightened the conditions for lending to businesses. In the first half of 2011, lending to businesses has already shrunk by 7% year on year. Coface notes an increase in payment incidents by Greek companies since the start of 2011.

Furthermore, the positive watch on the A2 risk assessments for five other eurozone economies – **Germany, Austria, Belgium, France and the Netherlands** – has been removed. A slowdown in activity in the second quarter of 2011, the deterioration of foreign trade and particularly the risk of an increase in consumer and companies' distrust forewarn a very modest growth over the rest of the year.

The A3 risk assessments for Italy and A4 for Portugal have been put under negative watch. The hardening of budget austerity measures should keep the Italian economy in quasi-stagnation and the Portuguese economy in recession in 2011 and beyond. Payment abilities of companies are affected by the negative trends in the macroeconomic and financial context of these two countries, as witnessed by the deterioration of Coface's payment experience for Italian and Portuguese companies in the first half of 2011.

- **Growth in the United States constrained by political tensions**

The removal of the positive watch placed on the A2 of the **United States** is based upon the downwards revision of growth in 2011, to 1.7% versus 2.2% last July. The levels of confidence demonstrated by

business leaders and households have decreased in a context of political division on how to pursue stimulus plans. All drivers of activity should slow down in the second half of the year and in 2012. This sluggishness of activity is likely to result in an increase of bankruptcies, particularly for small and medium-sized companies weakened by high exposure to regional banks and suffering from reduced access to credit.

- **Expected downturn in company activity**

In this context, company activity will die down, even if demand from emerging countries, which will grow by 5.8% in 2011, can still be counted upon. Despite being in net decline compared to 2010, global trade will continue to post positive growth rates.

“The negative changes of country risk assessments confirm that we have left the phase of global improvement in payment behaviour of companies observed since the second half of 2009. A reversal in the confidence of the actors involved in the real economy is taking place and weighs upon activity. The absence of consensus between political actors on the solutions that should be taken in order to tackle the sovereign crisis or the weak American growth is one of the drivers fuelling this crisis of distrust. The major challenge for European construction is setting up measures to stem the contagion of the Greek debt crisis to other eurozone economies. This will be the key element which will ensure that the slowdown does not turn into recession”, comments Yves Zlotowski, Chief economist of Coface.

- **Positive signals in Iceland and in Thailand**

In this period of crisis, the good news comes from **Iceland** whose A4 risk assessment has been placed on positive watch. Downgraded in March 2009, Iceland has a renewed growth (2.5% in 2011) supported by household consumption and by business investment. Furthermore, the country's foreign debt, although it remains high, has improved considerably (from 564% of 2008's GDP to 250% of today's GDP). The banking sector has also been cleaned up.

Coface removes the negative watch for **Thailand's** A3 risk assessment which is benefitting from the stabilisation of the political situation after the elections and stands out by showing a certain economic resistance to the worldwide economic and financial turmoil.

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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

The Coface country risk assessment does not pertain to the sovereign debt since it indicates the average level of risk displayed by the companies in a country within the framework of their commercial transaction. This average change does not prejudice that of the score for each company, which remains determined by its own characteristics: it is therefore necessary for the partners of a company in one of the countries mentioned to have its specific evaluation by Coface.

COUNTRY RISK ASSESSMENT CHANGES

	Country	June 2011	October 2011 decisions
Advanced countries	Germany	A2↗	A2
	Austria	A2↗	A2
	Belgium	A2↗	A2
	France	A2↗	A2
	Netherlands	A2↗	A2
	Italy	A3	A3↘
	Portugal	A4	A4↘
	Cyprus	A4	B
	Greece	B	C
		United States	A2↗
	Iceland	A4	A4↗
Emerging countries	Thailand	A3↘	A3