

The credit crisis^{*} no longer spares any zone and even reaches the BRICs: Coface announces at its Country Risk Conference that China and Russia have been placed on negative watch

Warning: Coface country rating does not concern Sovereign Debt, but indicates the average level of risk presented by corporates on their short term commercial transactions.

During the 13th Country Risk Conference, Coface announces the downgrades of 22 country ratings. For the first time, two of the biggest emerging countries are negative watch-listed simultaneously: China and Russia.

On a worldwide level, the growth differential anticipated is now 3.1 GDP points from 2007 to 2009. It was only 2.5 points between 2000 and 2001 during the previous credit crisis due to the collapse of the Internet bubble. This slacking of growth explains the rise of over 50% in the Coface payment default index between 2007 and 2008. Coface forecasts that the credit crisis will only end when the year 2009 comes to a close.

A credit crisis now similar in extent to those of the 80s and 90s

The credit crisis which started at the beginning of 2008 seems to have taken a new dimension in the fourth quarter when businesses in countries that had managed to hold out so far (such as Germany) are, in turn, being affected. Given the new global growth forecast of 0.9% for 2009, this crisis resembles those of the early 1980s and 1990s if we consider the growth drop. The slowdown in growth from 2007 to 2009 should be 3.1 points – just as from 1979 to 1982, and from 1989 to 1991. Nonetheless, it is below that of the 1st oil shock. For the year 2008, Coface registered an increase of 47% in its payment default index with a speeding up during the fourth quarter.

The global country risk overview presented during the Conference emphasizes how the credit crisis has spread since it started in January 2008 in the United States, then reaching the other so-called “bubble” countries (the United Kingdom, Spain, Ireland, etc.). No area seems to be spared any longer. The industrialised countries close to the epicentre of the crisis, then the countries with no speculative bubbles but sustaining flat growth (Italy, France, Germany, Japan, etc.) have, in turn, been affected in addition to the fragile emerging countries (South Africa, Viet Nam, etc.).

^{*}The credit crisis for Coface is a significant worsening in companies’ payment behaviour. A credit crisis may be limited to a country, a region, a sector, or may be global. Coface has recorded 4 global credit crises, since 1973 and the first oil crisis, and the 5th crisis began in January 2008.

China and Russia: vulnerable companies undergoing a slowdown

As all industrialized country ratings were downgraded in 2008, Coface places under negative watch two BRIC countries, which had resisted up until now. *“The credit crisis is now affecting two major emerging countries - Russia and China - despite the comfortable macro-economic and financial situation they had been enjoying over the recent years,”* explains François David, Coface Chairman. *“However, companies in these two countries were showing signs of strong vulnerabilities - already pinpointed by Coface - heightened by the current slowdown.”*

Coface forecasts 7% growth for China in 2009. The Coface survey on Chinese company payment behaviour, conducted over the last 6 years, has enabled to spotlight the effects of excessive competition on the private sector’s contracting profit margins. In this context showing evidence of micro-economic vulnerability, the turndown in growth will result in an increase of payment defaults on the part of Chinese companies. China’s A3 rating has therefore just been placed on negative watch. As for Hong Kong and Taiwan, they have been downgraded to A2.

For Russia, Coface forecasts growth of 2.5% in 2009. Coface business-to-business payment experience in Russia deteriorated in 2008, mainly due to persistent deficiencies in corporate governance, these problems already taken into account in Russia’s B rating. The country is now severely affected by the crisis (drop in credit, fall in oil prices). Russian companies’ foreign debt rose by 140% since 2005, which should generate further payment default, hence why Russia’s rating has been placed on negative watch.

Ratings changes

	Country	Former classification	Changes	
Industrialized countries	<i>Germany</i>	A1	Negative watch	A1 ⬇️
	<i>Belgium</i>	A1	Negative watch	A1 ⬇️
	<i>Australia</i>	A1	Downgrade	A2
	<i>New Zealand</i>	A1 ⬇️	Downgrade	A2
	<i>Spain</i>	A2	Negative watch	A2 ⬇️
	<i>Greece</i>	A2	Negative watch	A2 ⬇️
Asia	<i>Singapore</i>	A1	Negative watch	A1 ⬇️
	<i>Taiwan</i>	A1 ⬇️	Downgrade	A2
	<i>Hong Kong</i>	A1 ⬇️	Downgrade	A2
	<i>China</i>	A3	Negative watch	A3 ⬇️
	<i>Pakistan</i>	C	Negative watch	C ⬇️
Emerging Europe and CIS	<i>Slovenia</i>	A1	Negative watch	A1 ⬇️
	<i>Poland</i>	A3 ↗️	Positive watch withdrawal	A3
	<i>Hungary</i>	A3	Negative watch	A3 ⬇️
	<i>Croatia</i>	A4	Negative watch	A4 ⬇️
	<i>Russia</i>	B	Negative watch	B ⬇️
	<i>Ukraine</i>	C	Negative watch	C ⬇️
	<i>Albania</i>	D ↗️	Positive watch withdrawal	D
Latin America	<i>Chile</i>	A2	Negative watch	A2 ⬇️
	<i>Mexico</i>	A3 ⬇️	Downgrade	A4
	<i>Ecuador</i>	C	Negative watch	C ⬇️
Middle East	<i>UAE</i>	A2	Negative watch	A2 ⬇️

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About Coface

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