PRESS RELEASE

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Coface Country Risk Outlook

Three Risks to Monitor in 2016: Weak Growth, Political Tensions and Company Debt in Emerging Economies

- Advanced economies: Many causes for concern, including financial market volatility, cheap oil and the Chinese slowdown
- Emerging countries: In addition to sluggish growth, increasing company indebtedness
- Increased political risks likely to affect business confidence in all regions

A New Year of Political Uncertainties

A cautious approach to country risk will be necessary in 2016, since the risks that emerged in 2015 are expected to continue this year. Coface forecasts global growth to remain soft at 2.7%, compared to 2.5% in 2015. At the forefront are the political tensions gaining ground in both advanced and emerging countries.

The elections in the United States and the risk of a “Brexit” by the United Kingdom are likely to weigh on business confidence. Both of these countries outperformed the eurozone in 2015. In the emerging world, uncertainties remain high in the Middle East, and the risk of terrorism could lead to stronger nationalist movements. According to Coface’s political risk index[1], Turkey and Brazil stand out due to the significant deterioration of their economic situations that brought about growing political instability between 2007 and 2015. The country risk assessment of **Brazil**, whose political crisis and recession are expected to continue in 2016, is now **C,** the second downgrade in less than a year.

Advanced Countries: Recovery under Pressure

Overall, advanced countries will see moderate 2% growth in 2016. The main concerns here are their dependency on commodity prices, the Chinese slowdown and financial market volatility.

The trend of low barrel prices should continue in 2016, due to the continued surplus of oil supply - in part attributable to Iran’s return to the market. **Canada** is heavily affected by the drop in oil sector investment and is now assessed **A2**. The continued decline in oil prices has, however, had a beneficial effect on households and businesses in some advanced countries. With the exception

[1] Coface’s political risk index combines two indicators: measures of the intensity of socio-political frustrations in a given country, such as inflation, unemployment, corruption control, etc., and instruments of change for transforming frustrations into political action, such as education, social networks, proportion of youth, role of women, etc.

of Japan and Italy, the fall in energy costs has helped to revive corporate investment, especially in Spain and the United Kingdom.

Japan is also among the potential victims of the stronger than expected Chinese slowdown, given that 18% of its exports are destined for China. Weak growth, estimated at 0.9% for 2016, and the persistent risk of deflation have prompted Coface to place Japan's **A1** assessment under **negative watch**. Not surprisingly, the decrease in demand and in tourism from mainland China will continue to adversely affect activity in **Hong Kong** and **Taiwan**, also under **negative watch**.

In the eurozone, where growth of 1.7% is expected in 2016, the company situation is gradually improving. This is evidenced by the insolvency statistics for France, Germany, **Italy** (which decreased between -3.5% and -5% through the third quarter of 2015 compared with the previous year) and especially Spain (-26%.) Growth in Italy will be supported by domestic demand, spurred by the return of confidence and the progress in structural reforms. This has led Coface to place Italy's **B** assessment under **positive watch**.

Excessive Company Indebtedness: A New Malaise in Emerging Countries

In emerging countries, growth has halved in five years with 3.9% is expected in 2016. Company indebtedness is growing, affected by both the drop in commodity prices and the highly expansionary monetary policies that followed the Lehman Brothers crisis. Only Central Europe remains unaffected. **Hungary**, upgraded to **A4,** and **Latvia, B,** placed on **positive watch**, stand out for solid growth driven by household consumption and for increased exports to European countries other rather than Russia.

Chinese companies are among the most indebted. Their debt represents more than 160% of GDP and 60 points more than in 2008. Following China are Turkey (+30 points), Brazil (+17 points), Russia (+14 points), and Malaysia (+11 points). Turkish companies, which have one-third of their debt denominated in US dollars, are proving to be among the most exposed to currency risk. The main glimmer of hope in the medium-term are the gains in competitiveness resulting from recent depreciations of emerging currencies.

In this context of increased risk, Coface has downgraded of the assessments of several emerging countries that were already under negative watch. These include:

- **Algeria** (**B**) and **Gabon** (**C**), due to the low price of hydrocarbons
- **South Africa** (**B**), negatively affected by sluggish growth and growing social tensions
- **Tanzania** (**C**) and **Madagascar** (**D**), where growth is constrained by political uncertainties

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

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect 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 consolidated revenues of €1.441 billion. Present directly or indirectly in 99 countries, Coface protects transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes assessments of country risk for 160 countries, based on its unique knowledge of company payment behavior and on the expertise of its 350 underwriters located close to clients and their debtors. Learn more at [www.coface.com.](http://www.coface.com)

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APPENDIX

CORPORATE DEFAULT PROBABILITY

- A1: VERY LOW
- A2: LOW
- A3: ACCEPTABLE
- A4: QUITE ACCEPTABLE
- B: SIGNIFICANT
- C: HIGH
- D: VERY HIGH

↗ Country under positive watch list
↘ Country under negative watch list

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

Country	Country risk previous	Country risk new
Hungary	B↗	A4
Italy	B	B↗
Latvia	B	B↗
Ivory Coast	C	C↗

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

Country	Country risk previous	Country risk new
Hong Kong	A1	A1↘
Japan	A1	A1↘
Taiwan	A1	A1↘
Canada	A1↘	A2
Finland	A2	A2↘
Namibia	A3	A3↘
South Africa	A4↘	B
Algeria	A4↘	B
Bahrain	A4↘	B
Kazakhstan	B	B↘
Brazil	B	C
Gabon	B↘	C
Tanzania	B↘	C
Zambia	C	C↘
Madagascar	C↘	D