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Paris, October 17, 2016

Coface Country Risk Outlook: Downgrades Triggered by the *Brexit* Shock and Falling Oil Revenues

- **Global growth watch: Stability in developed countries, slight improvements among emerging economies**
- **Despite the "historic" Algiers agreement, oil remains a major issue**
- **Four downgrades in countries impacted by the fall in commodity prices: Oman, Trinidad and Tobago, Nigeria and Mongolia**
- **Increased political and banking risks in Europe**
- **Post-Brexit uncertainty prompts UK downgrade to A3**

Further Oil Shock Victims

The high degree of uncertainty in the global economy is weighing on the financial health of companies. Two main factors are continuing to impact the situation.

First, weak global trade activity means that a strong growth recovery is unlikely. Among developed areas such as the Eurozone, stable growth is forecast for the near-term, with 1.6% in 2016 and 1.5% in 2017. The current situation in the US is not encouraging companies to create additional employment opportunities. In Japan, despite further fiscal policies in order to compensate for weak private investment, forecasts remain under pressure. An improvement is expected, however, among emerging economies, with an increase in GDP growth from 3.7% in 2016, to 4.2% in 2017. Brazil and Russia are expected to exit their recessions in 2017, after demonstrating a recovery in financial indicators and lower inflation.

Second, oil prices remain a key issue for emerging economies. Despite the "historic" OPEC agreement on output quotas, the Brent index is only expected to record moderate gains, with Coface forecasting USD 44 in 2016 and USD 51 in 2017. The return to equilibrium between supply and demand will take some time. This observation has led to a series of further downgrades in the assessments of several commodity-dependent countries:

- **Oman (B)** is facing a drastic decline in public spending, which is impacting investment
- **Trinidad and Tobago (B)** is confronted by a heavy fall in natural gas and crude oil output
- **Nigeria (D)** is in recession and has seen its foreign currency reserves depleted. This is affecting industrial production, due to difficulties in importing;
- **Mongolia (D)** is affected by the slowdown in the Chinese economy, which absorbs over 90% of its exports, as well as weak commodity prices. The country is on the verge of a balance of payments crisis.

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UK Downgraded Amid Uncertainty Surrounding Brexit

Europe is destabilized by political and banking risks. Although political risks prevail in Greece, Spain and Italy, Brexit remains Europe's key issue. Even though UK growth could reach 1.9% this year, growth in 2017 is only expected to be 0.9%, despite the Bank of England's base rate cut in August and the anticipated scenario of a favorable deal with the European Union. Furthermore, risks need to be monitored in the property sector, which is characterized by heavy household mortgage debt (132% of available income) and a 34.6% overvaluing of prices. Within this highly uncertain environment – and the terms for leaving the European Union yet to be established – the pound remains volatile and has depreciated heavily, particularly against the dollar.

This lack of short term visibility is not only weighing on confidence in the UK's economy, but also across Europe. Coface has downgraded its assessment of the **UK** to **A3.** Even so, companies may benefit from the currency's sharp fall, which hit a 31-year low against the dollar in early October. Although this has boosted exports, it is curbing consumer spending, due to inflation.

Fears are rising in regards to the health of certain banks, especially after this summer's stress tests. These tests highlighted the difficulties faced by over a dozen banks, particularly in Italy and Germany.

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About Coface

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