PRESS RELEASE

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Coface Country and Sector Risk Update:

Recovery Continues in Europe, Uncertain in US, and Elusive in China

Global trade credit insurer Coface today released its quarterly economic update for country and sector risk. The ongoing recovery seems to be a lasting one, given the economic rally in a considerable number of industrial sectors and in Europe, even if a few rain clouds on the horizon, in the United States and in China, darken the picture. Countries upgraded were Spain (A2), Portugal (A3), Jamaica (B), Russia (B) and Uzbekistan (C). Downgrades were given to Qatar (A4), Mauritius (A4), Namibia (B), Bahrain (C), El Salvador (C), and Burundi (E). On the sector side, the risk level has improved for the automobile and agrofood industries in several countries.

Signals Mixed in the US

Conflicting signals from the **US** economy (A2), along with the lack of clarity surrounding the fiscal stimulus package are signals for caution. Despite an improvement in GDP for Q1 (up from 0.7% to 1.2%) and unemployment being at its lowest level in nearly sixteen years, household consumption is continuing to falter. Credit growth is likely to slow as a result of the expected rise in interest rates.

The recovering **US energy sector** has been upgraded to "high risk" from “very high risk”. Crude oil production and the on-shore oil services industry are growing and will continue to expand as a result of regulatory relaxation.

Wave of Upgrades in Europe

Europe is seeing mostly positive momentum, due to very favorable financing conditions, investments supporting growth, and a revival in corporate confidence. Insolvencies are down in almost all countries, except the **UK** and **Belgium**. In these two countries, 2017 insolvencies are expected to increase by +9% and +5%, respectively, according to Coface forecasts.

Coface has upgraded the assessments of **Spain,** where growth and foreign trade are particularly dynamic, to A2, and **Portugal,** which has withdrawn from the European Commission's excessive deficit procedure, to A3.

Several sectors are following this positive trend. **Agrofood** in **Western Europe** is now assessed as "medium risk". This is the result of rising raw material prices and the end of disastrous crop conditions. **Metals** in **Germany** are now classed as "medium risk" due to the price stabilization and positive dynamics of its core markets. The **automobile** sector in Italy is now rated as "low risk".

Central Europe is seeing improvements as well. This quarter, **pharmaceuticals** are classified as "low risk" due to increases in internal and external demand. **Energy** has improved its classification to "medium risk" at both the regional level and in **Poland,** boosted by the profitability of oil refining companies and the anticipated increase in demand. **Metals** are rated at "medium risk" at regional level and in **Poland,** thanks to new investments in infrastructure and the recovery of the automotive sector.

Varying Performances in Emerging Countries, Including Russia, China and India

A slight recovery is being experienced in **Russia**, where the country assessment has improved to **B.** Investments and industrial production are increasing and retail sales are no longer falling, due to the controlled level of inflation (close to 4%). **Automobile** sales are up (+11% in 2017), allowing the industry to be upgraded from "very high risk" to "high risk". **Uzbekistan** (now C) in particular is benefiting from the economic recovery in Russia, the easing of political uncertainty, and from World Bank and European Bank for Reconstruction and Development (EBRD) financing.

The situation is mixed in **Asia**. In **China,** which was downgraded to B in June 2016, the indicators have returned to red. The country's economy is slowing and insolvency risks are rising due to stricter credit conditions. The **automobile** sector in particular has been downgraded to "high risk" due to drastic control measures on internal combustion cars. Despite a decline in automotive sales, the **retail** sector has seen from robust demand, hence its upgrade to "low risk". In **India**, the the agrofood sector has improved to "medium risk".

Increased Risk in the Middle East and Africa

Since 2014, country risk has increased the most in the **Middle East** and **Africa**. This is due to increased political tensions and falling oil and gas prices. Coface has again downgraded several countries this quarter. **Qatar**'s (now A4) economic growth and financial situation could worsen, following recent measures taken by other Gulf countries. **Bahrain** (now C) is facing a high budget deficit and excessive debt. **Namibia's** (now B) outlook for this year is weak, despite a recovery in the mining sector. **Mauritius** (now A4) received lower rankings in the international benchmarks that measure business environment.

Risks are also escalating on the sector side, as evidenced by the **pharmaceutical** industry's downgrade to "medium risk" in the **United Arab Emirates and Saudi Arabia**, due to lower public spending.

Coface country assessments (160 countries) are ranked on an eight-level scale, in ascending order of risk: A1 (very low risk), A2 (low risk), A3 (quite acceptable risk), A4 (acceptable risk), B (significant risk), C (high risk), D (very high risk) and E (extreme risk).

Coface sector assessments (13 sectors in 6 geographical regions, 24 countries representing almost

85% of the world's GDP) are ranked on a four-level scale: low risk, medium risk, high risk and very high risk.

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About Coface

Coface, a world-leading credit insurer, offers 50,000 companies around the globe with solutions to protect against the risk of financial default of their clients, both on their domestic and export markets. The Group, which aims to be the most agile global credit insurer in the industry, is present in 100 countries, employs 4,300 people and posted consolidated turnover of €1.411 billion in 2016. Coface publishes quarterly country and sector risk assessments, based on its unique knowledge of company payment behavior and on the expertise of its 660 underwriters and credit analysts located close to clients and their debtors.

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