



## PRESS RELEASE

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### *Country risk assessments review*

#### ***The crisis worsens in Southern Europe and the Indian model begins to show signs of struggle***

**Warning: Coface country risk assessment** measures the average level of payment defaults by companies in a given country within the framework of their commercial transactions **in the short term**.

It does not pertain to sovereign debt. To determine country risk, Coface combines the economic, financial and political outlook of the country, Coface's payment experience and business climate assessment. Assessments have a seven-level scale: A1, A2, A3, A4, B, C and D.

**The recession in Southern Europe is becoming increasingly severe in Spain and Italy, and has spread to Cyprus. The contraction in activity in these three countries is expected to be respectively 2%, 1.8% and 1.3% for the year 2012. Some concern has appeared about the emerging markets. The first signs of struggle in the Indian economic growth model and a deterioration in the business climate in Argentina are beginning to emerge. However, Indonesia – bolstered by the vitality of its domestic market – is demonstrating a significant ability to withstand external shocks.**

**In this increasingly difficult environment for companies, Coface has reduced its risk assessments for 6 countries, including Spain, Italy, Cyprus and India, and upgraded those of 4 countries.**

#### **The recession worsens in Southern Europe**

Because of the worsening economic situation in Southern Europe, Coface has placed the A4 assessments of Spain and Italy under negative watch and downgraded that of Cyprus, where the situation is raising concerns, from B to C.

In Spain, in the first quarter of 2012, there was a notable worsening of the recession with a sharp decline in industrial and services activity and a 30% fall in house prices since the peak in December 2007. The unemployment rate continues to rise and has been above 24% since March 2012. Late payments and company bankruptcies in Spain are up significantly and involve companies not just in the construction sector but also those in the agri-food, electrical equipment, chemical and non-specialist trade sectors. The slow growth is holding back any reduction of public debt and the tensions within the secondary debt market remain severe.

In Italy, GDP fell 0.8% in the first quarter of 2012, down for the third consecutive quarter. The decline in industrial activity accelerated, with the construction sector in particular suffering from a 15.1% fall in output over a year. Unemployment is running at record levels and reached 10.2% of the population in April. In a context where reforms could lead to increasing disillusionment among the population, the scale of public debt represents a threat, with its level of viability remaining highly vulnerable to changes in market expectations. Coface is seeing a sharp deterioration in its payment experience among Italian companies, notably in the metallurgy, agri-food, construction and textile industries.

Cyprus is the fifth country in the euro zone to call for financial assistance from the monetary Union. The banking sector, seriously exposed to Greek risk, represents a systemic risk with a balance sheet equal to seven times Cyprus' GDP. The level of private debt (311% of GDP in 2011) is the highest in Europe while corporate debt amounted to 186% of GDP. The construction sector continues to suffer following the bursting of the property bubble and the petrochemical industry had been impacted as a result of the electricity supply failures.

### **India: A growth model under pressure**

With regards to India, Coface has placed its (A3) global assessment of the country, and specifically the (A4) business climate assessment, under negative watch.

In India, weakening external demand and the tightening of monetary policy between March 2010 and October 2011 is holding back growth. Coface is expecting GDP to grow by 6.5% over the year. Growth in the quarter was the weakest for the last nine years and was marked by a contraction in manufacturing output. The rupee, with a 23% plunge in June 2012, continues to suffer downwards pressure linked with a high sovereign risk and the slowdown in DFI. These continuing stresses relating to the currency, the fears of inflation and the level of public debt do not leave any scope for an economic stimulation plan, despite the economic slowdown. In addition, the weakened status of the Congress Party following the March 2012 elections has slowed the structural reform calendar. With the continuing level of corruption, infrastructures which still show little efficiency and the decline in the quality of regulation giving rise to concerns among foreign investors, the business climate is having a negative impact on growth.

### **Argentina: Deterioration in the business climate**

Coface has cut its rating for the business climate in Argentina from B to C, following the enforcement of restrictive exchange controls, which make it difficult for both import and export companies to access currency. The regulatory instability and increasing interventionism of the Government is beginning to undermine household and business confidence and is contributing to the slowing rate of growth.

### **Indonesia: Growing strength**

Coface has placed its country (B) and the business climate assessments (C) for Indonesia under positive watch. The domestic market is being boosted by favourable demographic factors, and exports of raw materials to China are helping to sustain the vigour of its growth. The continuing improvement in its sovereign risk, the reforms implemented to restructure the banking sector and the on-going fight against corruption has enhanced the strength of the economy and its ability to withstand the worsening world economic climate.

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### **About Coface**

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2011, the Group posted a consolidated turnover of €1.6 billion. 4,600 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 157 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters.

### **In France, Coface manages export public guarantees on behalf of the French state.**

Coface is a subsidiary of Natixis whose Core Tier 1 ratio is 10.2% end December 2011.

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# APPENDIX

## CHANGES IN COUNTRY RISK ASSESSMENTS

	Country	April 2012	July 2012 decisions
Upgrades	Slovakia	A3↓	A3
	Indonesia	B	B↑
	Nicaragua	D	C
	Ivory Coast	D	D↑
Downgrades	Czech Republic	A2↓	A3
	India	A3	A3↓
	Spain	A4	A4↓
	Italy	A4	A4↓
	Cyprus	B	C
	Guatemala	B	C