

PRESS RELEASE

Paris, Monday 23 April 2012

Country risk assessments review

Improvement in Japan and the United States, but euro zone risk on the rise

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. 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.

In Coface's view, the world economy is presently marked by divergence between the three major advanced zones: the economic contraction in the euro zone is worsening (-0.3% currently forecast in 2012 versus -0.1% previously), whereas North American growth is stabilizing at 2%, and activity is recovering in Japan, with 1.8% growth after posting -0.9% in 2011.

In this contrasted economic context, Coface has upgraded its assessments of seven countries, including the United States and Japan, and downgraded those of nine other countries, including Portugal and Argentina.

- **American and Japanese companies are benefitting from their favourable economic outlook**

Signs of economic recovery have led Coface to place the **A2** assessment of the **United States** under positive watch and to remove the negative watch on **Japan's** **A1** assessment.

The confidence and consumption of American households are picking up, despite rising petrol prices and the stagnation of disposable income. The improvement in the labour market now involves a significant number of states, but the pace remains insufficient to rapidly decrease unemployment. Generally, corporate debt levels are very low and companies are highly profitable. In 2011, corporate investment increased. However, American SMEs remain fragile due to their difficulties in obtaining credit. Coface notes a good performance in its payment experience with American companies.

After the abrupt downturn following the catastrophic events of March 2011, the Japanese economy is expected to recover, driven by domestic demand and stronger exports. Exports, the traditional engine for Japanese growth, will benefit from the recovery in US economic activity and from the vitality of emerging Asian countries. Even in an environment of economic contraction, the payment behaviour of Japanese companies has remained positive.

- **European companies still in turmoil, notably in Portugal**

The economic contraction in the euro zone is worsening, particularly in Italy, Spain and Portugal.

The growth forecasts for 2012 for Italy and Spain have been revised to -1.5% and -1.2%, respectively. In January 2012, Coface downgraded these two major euro zone economies to A4 and its payment experience with these countries continues to deteriorate in early 2012.

At the same time, Coface observes a marked deterioration in the financial situation of Portuguese companies. The country's recession is likely to deepen even further in 2012 (-4%). Downgraded to A4 in March 2011, then placed under negative watch in September 2011, **Portugal** has now been lowered by one notch to B. Despite receiving European assistance, the solvency of the State continues to worsen and the period of austerity measures has been extended in the event of an expected downturn in European demand. The situation of Portuguese companies, like those in Spain, is characterized by an explosion of external debt, currently in excess of 180% of GDP, which explains their extreme vulnerability to negative economic developments. Since 2011, Coface has registered a surge in non-payments, in particular in the construction, distribution and textile sectors.

- **In Australia and New Zealand, despite strong growth, the manufacturing sectors are in trouble**

Despite the solid growth expected in 2012, +2.8% for **Australia** and +3.2% for **New Zealand**, the A1 assessments of these two countries are now placed under negative watch. Driven by the mining sector, this growth veils the difficulties of the manufacturing and tourism sectors, which are more sensitive to the price-competitiveness mix. With the exception of the mining sector, companies are experiencing difficulties in obtaining credit, resulting in longer payment periods. Over half of recently surveyed Australian companies indicated that payment periods granted to their clients have grown by more than 60 days. In February 2012, on a six-month sliding scale, business bankruptcies increased by 17% in Australia and by 109% in New Zealand.

- **In Argentina, the government's restrictive measures put an end to the risk improvement noted in 2011**

Coface has removed the positive watch on **Argentina's** C assessment as a result of the worsening business situation in early 2012. Coface notes payment delays following the establishment of currency exchange and import control measures, against a backdrop of deteriorating public and external accounts. In emerging countries, protectionist tendencies, which are especially strong in Latin America, have become a key factor in corporate credit risk. Despite an often positive economic trend, the access to foreign currency for importers may sometimes, and in an unpredictable manner, become more difficult due to a certain regulatory decisions.

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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 250 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	January 2012	April 2012 decisions
Upgrades	Japan	A1↓	A1
	United States	A2	A2↗
	South Africa	A3↓	A3
	Tunisia	A4↓	A4
	Ghana	C↗	B
	Sierra Leone	D↗	C
	Venezuela	C↓	C
Downgrades	Australia	A1	A1↓
	New-Zealand	A1	A1↓
	Slovenia	A2↓	A3
	Iceland	A4↗	A4
	Portugal	A4↓	B
	Argentina	C↗	C
	Mozambique	B↓	C
	Mali	C	D
	Ukraine	D↗	D