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PRESS RELEASE

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Coface Country Risk Update:
Favorable risk trend in advanced economies in 2014 but persistent tensions in large emerging countries

According to a new country risk outlook by global credit insurer Coface, risks in advanced countries are stabilizing, sustained by fairly dynamic growth in the United States (estimated to be +2.4% in 2014), the start of a recovery in the eurozone (+0.9%) and confirmed growth in Japan (+1.4%). In emerging countries, the growth rate will increase only slightly (+4.7%.)

Advanced countries: Improvement or stabilization

The recovery situation in advanced economies differs by country. The situation of businesses in the **US** (A2 assessment under positive watch since October 2013) has considerably improved. "Corporate America" is the strong link in the economy and has a number of strengths: high level of self-financing, record profitability, low debt and strong investment. Clearer budget and monetary policies and growth in household demand boost this positive trend.

In Europe, Coface notes risk improvement in **Germany** and in **Austria** (+1.7% growth forecast for the two countries in 2014), and places their A2 assessments on positive watch. German economic activity is highly susceptible to the vagaries of global trade, but it can now rely on household consumption. Company insolvencies are less numerous and costly (for the last year, -9.1% in number and -6.3% in financial cost[1].) This upturn in activity benefits Austria, where unemployment is low and the number of insolvencies is falling.

Among the European countries to have succeeded in reforming and lowering costs, **Ireland** stands out. Growth of +1.7% is expected there in 2014, with a rise in exports (thanks to US and British growth), retail trade, and increasing business and household confidence. The employment market, a major challenge of the past year, has begun to improve, and property prices show the first signs of stabilization. These successes have led Coface to upgrade Ireland to A3, the same level as France and the UK.

The diagnosis is more mixed for the rest of the eurozone. At the least, it can be said that risks have ceased to increase. In **France**, companies remain extremely vulnerable to the fluctuations of domestic demand, which is still very lackluster compared to the historical average (+0.6% growth forecast in 2014.) The consequence of this vulnerability is that insolvencies will remain high at around 62,000 in 2014. In **Southern Europe**, the weakness in domestic demand, and the domination of entrepreneurial activity by very small, fragile companies coupled with a lack of

[1] Financial cost is measured by supplier and bank debts.

innovation, has prevented credit risk from improving. In addition, there are high levels of corporate debt, such as in Spain.

Emerging economies: Company tensions in major emerging countries but performance holding up in several Sub-Saharan African economies

The slowdown in growth has taken root in emerging countries. In 2014, the BRICS countries will shed 2.4 growth points compared to the average growth from 2000 to 2011. According to Coface, this is not due to a simple cyclical downturn but related to supply constraints (household demand is too high for local production, which can no longer keep up.) Investment faces obstacles of a structural nature, including inadequate infrastructure, problematic business climate and shortage of skilled labor. In addition, the weakening of local supply fuels imports and thus current deficits will remain high in 2014. Exchange rates will therefore be vulnerable, all the more so since Brazil, India, Turkey and South Africa are due for major elections in 2014.

Four countries in Sub-Saharan Africa are not subject to this new increase in risk. Despite a volatile security situation, Coface places a positive watch on the D assessment of **Rwanda** and **Nigeria** and the C assessment of **Kenya**. The **Ivory Coast** is upgraded to C. Growth should remain strong in 2014, maintained by sector diversification that benefits the consumer.

"*Decreasing risk in advanced countries is confirmed and is illustrated by the positive trends in the US and Germany. Both countries benefit from the financial robustness of their businesses and a recovery that is now based on firm foundations. With regards to the other major European players, the end of the recession means a stabilization in risks for the time being. But we expect growth to be sluggish. In fact, it would require growth of at least +0.8% in Italy, +1.6% in France and +2.5% in the UK for insolvencies to fall significantly. However, in all three economies, the growth expected in 2014 will not reach these levels. In emerging countries, current account deficits and growth, weakened over the long-term, burden companies. But fortunately a new generation of countries is characterized by resistance to external shocks, including many Sub-Saharan African economies*," says Yves Zlotowski, Chief Economist at Coface.

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APPENDIX

COUNTRY RISK ASSESSMENT CHANGES		
UPGRADES		
COUNTRY	PREVIOUS ASSESSMENTS	NEW ASSESSMENTS JANUARY 2014
GERMANY	A2	**A2↗**
AUSTRIA	A2	**A2↗**
IRELAND	A4↗	**A3**
LATVIA	B	**B↗**
IVORY COAST	D↗	**C**
KENYA	C	**C↗**
NIGERIA	D	**D↗**
RWANDA	D	**D↗**

↗ Positive watch

Note:

A 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 evaluates the economic, financial and political outlook of the country in conjunction with Coface's payment experience and business climate assessment. Assessments, which can be watch-listed, have a seven-level scale: A1, A2, A3, A4, B, C, and D.