



P R E S S R E L E A S E

Hong Kong, 31 March 2016

Quarterly update of Coface country risk assessments

High tension at the start of the year

- **The global economy is turning "Japanese": world growth remains low, despite ultra-expansionist monetary policies**
- **Surplus cash on financial markets is intensifying volatility**
- **Three increased risks: Chinese slowdown, low oil prices and mounting political uncertainties**
- **Based on these developments, Coface has downgraded seven country risk assessments this quarter**

An international scenario with uncertain outcomes

Although emerging economies recorded a slight recovery earlier this year (Coface forecasts a growth of 3.9% in 2016, after 3.4% in 2015 and 7.2% in 2010), the slowdown in advanced countries (1.7% in 2016) is disturbing the balance of the global economy more than ever before. Growth is unlikely to exceed 2.7% this year.

In the United States, despite a generally healthy economy, there are vulnerable points. While the services sector is doing well, buoyed up by high levels of employment and household consumption, industry is suffering from the strong dollar. The United Kingdom is facing uncertainty over its future within the European Union, which is increasing the volatility of financial markets and weighing down confidence indexes. The euro area is driven by internal demand, an improved employment market and favourable credit terms. In Greece, Portugal, Spain and Ireland, corporate confidence is low, hampering growth (1.6% in 2016), particularly with the rise of political risks.

A number of threats have influenced the arguments behind Coface forecasts: today, the world economy shares the economic characteristics of Japan, with low growth despite ultra-expansionist monetary policies, volatile financial markets and zero inflationary pressure..

The Japanese economy is also hindered by low consumption levels. The evaluation of the yen earlier this year and the ineffectiveness of the *Abenomics* initiatives deployed have led the Bank of Japan to adopt negative interest rates. After placing the country under negative watch in January 2016, Coface has downgraded Japan's assessment to **A2**.

Tensions and uncertainties lead to increased risks

- **Chinese slowdown and low oil prices**

While the Central Bank of China has reduced its mandatory reserves, supporting Coface's growth forecast of 6.5% in 2016, the risk of a more significant slowdown remains. In parallel, the fall in oil prices has brought budgetary difficulties to exporting countries - their deficits are increasing more rapidly and operations in the hydrocarbon segment are challenged by negative external effects. These factors have led to several downgrades and negative watches.

- ✓ **Malaysia** (new **A3** assessment) is suffering from low prices for raw materials and the scandal over the 1MBD sovereign wealth fund. Investor confidence has been affected, against a backdrop of high household debt and low external demand. The country's growing political risks add to the problem.
- ✓ The **Sultanate of Oman** (new **A4** assessment) remains one of the most vulnerable economies in the region when faced with low oil prices. Its short-term production capacity remains limited, while oil income (almost 85% of public income) dropped by 36.3% in 2015.
- ✓ **Kazakhstan** exports (new **C** assessment) to China have slowed, while the country has also been affected by Russia's recession and low oil prices.
- ✓ **Saudi Arabia** (**A4, now under negative watch**) has seen its public deficit expand. Prices remain low and company confidence indexes are starting to deteriorate.
- ✓ To date, **Kuwait** (**A2, now under negative watch**) has been less affected. It may see its public and external accounts downgraded in 2016.

- **Increased political risks**

The rise in political instability could have a serious impact on economies already affected by the global slowdown. Moreover, the logical follow-on from a deterioration in economic conditions, is a rise in discontent within populations and weakening national unity.

- ✓ **Armenia** has joined the **D** category, which includes countries where companies are facing a very high probability of default. The country is impacted by the Russian recession (the number of Armenian workers in Russia dropped by 5% in 2015). It is also facing growing frustration from the population over corruption and weak economic performance, which is contributing to the deterioration of its social and political situation.

COUNTRY RISK ASSESSMENT CHANGES

CORPORATE DEFAULT PROBABILITY

A1: VERY LOW
 A2: LOW
 A3: ACCEPTABLE
 A4: QUITE ACCEPTABLE
 B: SIGNIFICANT
 C: HIGH
 D: VERY HIGH

↗ Country under positive watch list
 ↘ Country under negative watch list

ASSESSMENT EITHER DOWNGRADED, OR REMOVED FROM POSITIVE WATCH LIST OR PLACED UNDER NEGATIVE WATCH LIST

country	Country risk previous	Country risk new
Armenia	C	D
Japan	A1↘	A2
Kazakhstan	B	C
Kuwait	A2	A2↘
Malaysia	A2↘	A3
Oman	A3	A4
Saudi Arabia	A4	A4↘

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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 2015, the Group, supported by its ~4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 100 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 340 underwriters located close to clients and their debtors.

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