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

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Coface predicts slow growth of world economy at its annual Country Risk Conference in Hong Kong

World growth recovering, slowly but surely

The world economy has entered into a confirmed, but slow and uneven, recovery phase. Several factors explain the laborious nature of the post-crisis upturn. These include high levels of public and private debt, a credit dynamic below pre-crisis rates, a new risk of deflation in the eurozone and weakened long-term confidence amongst the economic players.

Coface forecasts global growth of 2.8% for 2014, a rise of +0.1 points compared to 2013. This is the first increase since 2010, although its level remains below that of pre-crisis growth levels (between 4 and 4.5% in 2006 and 2007). The advanced economies have become the main driver of this acceleration (accounting for 1.6%, which is +0.3 points higher than in 2013), whereas emerging countries have registered a slowdown of an equivalent size (4.3%, down by -0.3 points). 2015 will see the overall acceleration gradually continue, with global growth of 3.2%.

Prospects of growth for emerging Asia are still strong

Coface forecasts growth of Asia will be at 6.3% and 6.2 in 2014 and 2015 vs. 4.3 and 4.7% for average emerging markets. In Asia there are no stagnating emerging markets such as Brazil or Russia. Why Asia has such a good and resilient performance?

Despite the slowdown, the locomotive of the region, China is still growing at more than 7%. We also see strong consumption with emerging middle classes. A new generation of countries, driven by very strong consumption momentum prove to post strong growth and resilient to shocks : Philippines and Indonesia. We also see the less developed countries gaining from China outsourcing such as Cambodia who have been posting extremely strong growth for several years. Finally, despite the fact that world trade is not going to grow as fast as before the crisis (Coface expects 5% in 2015 vs. more than 8% between 2002 and 2008), intra-Asian trade has been extremely dynamic (as opposed to other regional emerging trade).

All those aspects lead us to be positive on country risks in Asia. Coface Country Risk Assessment (CRA) measures the average risk of corporate defaults in a given economy and has 7 grades A1, A2, A3, A4, B, C, D in the order of mounting risks. Indonesia was upgraded to A4 in December 2012 and Philippines was upgraded to A4 in June 2013. In October 2014, a positive watch was put on Cambodia's CRA D. Nevertheless, because of slowing growth, high corporate leverage and volatile exchange rate, India's CRA has been downgraded to A4 in December 2012. Most of the CRA in emerging Asia are high and stable.

Challenges of China and Hong Kong in 2015

China's CRA is stable at A3. Coface expects 7.4% in 2014 and 7% GDP growth in 2015. The macroeconomic soft landing is a good news. China's growth (10.3% in 2000-2011) was largely driven by export and investment and led to overcapacities in many sectors (construction, metal, solar). This slowdown is addressed and being managed by the Chinese authorities through implementation of different economic reform. Nevertheless, we observe that the rebalancing of Chinese growth (more consumption-led, less investment led) is only slowly happening. The reason is that financing is still too dynamic as the credit supply is growing faster than nominal GDP. Besides, the recourse to shadow banking allows Chinese companies to get financing when official credit is no longer available. High and non-transparent leverage (total corporate debt, according to estimates, may be close to 200% of GDP), slowdown of the domestic economy, faltering housing sector (we see price decreasing in most of Chinese regions or land which is an important collateral for financing) and overcapacities are a dangerous cocktail for corporate risk.

'It seems that the Chinese authorities are willing to make budget constraint harder on insolvent companies. However, Coface does not expect a wave of default in China since the social and economic cost of massive and frequent bankruptcies would be too high.' said Yves Zlotowski, Chief Economist of Coface.

Hong Kong CRA at A1 remains strong and stable. Hong Kong should grow at 2.5% in 2014 and the same in 2015. In the near-term, the economy might be negatively hit by political tensions, fewer tourist-arrivals from mainland China, and a slowdown in retail sales. Nevertheless, Hong-Kong economy has had the experience of many shocks and is used to recover quickly because of its strong fundamentals (low inflation and unemployment, robust twin surpluses, very high standard governance and flexibility).

Coface held its annual Country Risk Conference in Hong Kong today which attracted more than 300 people attended the event. Top economists and executives from renowned companies including ANZ, Crédit Agricole CIB, Hong Kong General Chamber of Commerce, ANTA Sports Products Ltd and Telos Capital & Risk Management Ltd gave their insights on economic developments in major countries around the globe and shared their views on business risk management at the conference.

MEDIA CONTACT

Kennix YEUNG - T. +852- 25859176 - kennix.yeung@coface.com

About Coface

The Coface Group, a worldwide leader in creditinsurance, offerscompaniesaround the globe solutions to protectthemagainst the risk of financial default of their clients, both on the domesticmarket and for export. In 2013, the Group, supported by its 4,440 staff,posted a consolidated turnover of €1.440 billion.Presentdirectly or indirectlyin 98 countries, itsecures transactions of over 37,000 companies in more than 200 countries.Each quarter, Coface publishesitsassessments of country risk for 160 countries, based on its unique knowledge of companies' paymentbehaviour and on the expertise of its 350 underwriterslocated close to clients and theirdebtors.
In France, Coface manages export public guarantees on behalf of the French State.

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