



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

Hong Kong, 18 November 2015

Coface announces its latest country and sector risk assessments at its annual Country Risk Conference in Hong Kong

Although worldwide growth continues to recover, its rate will not exceed 3% for the fourth year in a row (2.6% in 2015). The advanced economies are doing much better: Activity in the USA rose significantly in the 2nd quarter (2.5% forecast for 2015), thanks to both consumer spending and investment, and in the Eurozone (1.5%) the gradual upturn in activity continues

Growth in China is unlikely to exceed 6.7% in 2015 and 6.2% in 2016, compared with 13.4% over the period 2006-2007. This is mainly a result of the technological and capital catch-up process running out of steam: several industries are suffering from overcapacity and corporate indebtedness is high, thus impacting investment. According to Coface, the country risk in the emerging countries will remain a major point of vigilance this year.

A number of small emerging countries, dragged down by large emerging countries

- The A2 assessment for **Malaysia** is under a negative watch. The country, dependent on external demand, is suffering as a result of the slowdown in the Chinese economy (one of its main partners) and the fall in raw material prices. The high levels of household debt and public debt are a risk.
- **Brazil**, placed under negative watch by Coface in March, has been downgraded to B. Its economy is in recession (-2.5% growth forecast for 2015), in a context of increased political instability. Household consumer spending, the main driver of growth, and investment both fell, notably given the repercussions of the Petrobras affair.
- **Chile**, whose assessment has been downgraded to A3, is suffering from the sustained fall in copper prices and the slowdown in China (the main destination for Chile's copper). Corruption scandals are destabilising the business environment.

China on the eve of major change

On-going change to the current Chinese model reveals two major developments: deteriorating price competitiveness in relation to other countries in Asia, and a transition to growth sustained by consumption rather than by investment.

The increase in unit labour costs, in part due to the fall in the working-age population, is causing a deterioration in price competitiveness requiring the country to move up the value chain. Foreign direct investment (FDI) in China has stalled in favour of more competitive countries (Thailand, Malaysia, Indonesia, and Vietnam). The contribution of investment to growth has become less significant, as evidenced by the gradual slowdown in the growth of fixed capital investment (11.2% in Q1 2015), in the profits reported by companies and in

industrial production (6.3% on average per month between the beginning of the year and July 2015, against 8.3% in 2014).

Consumption is therefore playing a more important role in growth. This is supported by the Chinese authorities, who want to rebalance growth and make the economy more efficient by giving the market a greater role. In the long term, the Chinese economy's financial liberalisation is likely to offset the slowdown linked to the loss of price competitiveness, by supporting consumption and moving the country up the value chain. However, in the short term, the slowdown poses risks both for the domestic economy and for other countries in the region.

The risk of contagion for other Asian countries

Hong Kong and Singapore are both very exposed to the slowdown in China in two ways. Firstly, through their financial markets, since their stock markets are highly correlated with the Chinese market and as a result of cross-border bank loans their banks are exposed to the deterioration in the creditworthiness of Chinese companies. Secondly, through trade, because the proportion of their exports to China in high risk sectors is significant: 74% of GDP in Hong Kong and 15% in Singapore.

Financial and trade exposure in Thailand, Malaysia, Indonesia and Vietnam is significant because the proportion of exports to China is high. However high risk exports represent less than 10% of total GDP. They are therefore sufficiently solid to avoid their growth derailing if the Chinese economy manages a soft landing: a 10% fall in these countries' exports to China would lead to a loss of growth of less than one point in these economies. Finally, these countries benefit from China's declining competitiveness and consequently are seeing an increase in FDI. Trade relations between India, Philippines and China are limited, as are the risks of financial contagion.

Risk assessment on industries in Asia

- **Energy** : Although affected by the slowdown in China, the impact has been felt less in emerging Asia, since the public nature of the leading oil companies provides them with safeguards. However, there will be major repercussions for the players with less access to public financing.
- **Automotive** : The situation is more difficult in emerging Asia, which Coface has downgraded to "medium" risk. Sales growth fell to 2.6% in China for the first eight months of 2015. The slowdown in the Chinese economy and increased competition have had an impact on activity for manufacturers, who must adapt to a "new growth standard" far from the double-digit levels enjoyed in the past.
- **Metals** : The sector is also experiencing a worldwide fall in prices and has been hard hit by the problems of overcapacity in emerging Asia.
- **Paper/wood** : The sector is faced with overcapacity problems and competition from electronic media. However, in emerging Asia it is boosted by processing for export.



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

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 Natixis, European Union Office to Hong Kong and Macao, Moody's Investors Service, DBS Bank, The Hong Kong Exporters' Association and Triumph International Services 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 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 2014, the Group, supported by its 4,400 staff, posted a consolidated turnover of €1.441 billion. Present directly or indirectly in 99 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 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French State.

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APPENDIX

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

Country	Country risk previous	Country risk new
Armenia	C	C↓
Brazil	A4↓	B
Chile	A2	A3
Ecuador	B↓	C
Malaysia	A2	A2↓
Trinidad and Tobago	A3↓	A4
Tunisia	B↗	B

SECTOR RISK ASSESSMENT

Sectors	Emerging Asia	North America	Western Europe
Agrofood	Medium risk	Medium risk	Medium risk
Automotive	Medium risk ↓	Low risk	High risk
Chemicals	High risk	Low risk	Medium risk
Construction	High risk	Medium risk	High risk
Energy	High risk ↓	High risk ↓	High risk ↓
Engineering	High risk	Medium risk	Medium risk
ICT*	Medium risk	Medium risk	Medium risk ↗
Metals	Very high risk	High risk	High risk
Paper-Wood	Medium risk	Medium risk	High risk
Pharmaceuticals	Low risk	Medium risk	High risk
Retail	Low risk	Low risk	Medium risk
Services	Low risk	Medium risk	Medium risk
Textile-clothing	Medium risk	Low risk	Medium risk
Transportation	Medium risk	Low risk	Medium risk

Source: Coface

▬ Low risk
 ▬ Medium risk
 ▬ High risk
 ▬ Very high risk

* Information and communications technologies

↗ The risk has improved
↘ The risk has deteriorated

Sectorial risk assessment methodology

Coface's assessments are based on the financial data published by over 6,000 listed companies in three major geographic regions: Emerging Asia, North America and the European Union 15.

Our statistical credit risk indicator simultaneously summarises changes in four financial indicators: turnover, profitability, net indebtedness, and cash flow, completed by the claims recorded through our network.