



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

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Country Risk Conference 2018

2018: the upturn continues, but corporates risk overheating

During its annual conference on country and sector risks, Coface shares with companies its vision of the major global economic trends for 2018.

Heading for a spike in global growth in 2018

Having begun with the threat of protectionism and punctuated by numerous elections and political crises, 2017 held some pleasant economic surprises. Only thirteen countries ended the year in recession, compared with twenty-five in 2016. Global trade made a spectacular leap (growing 4.4% in 2017 according to Coface forecasts, after +1.5% in 2016), while the risks associated with protectionism did not materialize: the net number of protectionist measures worldwide reached 283 in 2017 (against 374 in 2016), despite increasing in the United States. Business was stronger than expected in the United States, Europe and several emerging countries where it was supported by the gradual rise in price of several commodities. Country assessments for **Brazil (B)** and **Egypt (B)** thus improved.

Among the winners in the acceleration in global trade were several open economies whose country assessments improved: **the Netherlands (A1), South Korea (A2), Taiwan (A2), Singapore (A2) and Hong Kong (A2)**. **Greece** benefited from the return of consumer and business confidence and left category C (high risk) for B (fairly high risk).

Despite the fact that political risk remains high, Coface improved assessments for **Ukraine (now in C), Moldova (C)** and **Georgia (B)** which are enjoying good growth following the pick-up in Russia and the clear recovery in Europe. **Kazakhstan (B)** is benefiting from increased oil production and public investment related to China's "New Silk Road" project.

In 2018, global growth could peak (Coface forecasts +3.2%). In emerging countries, the recovery is expected to be stronger (with growth of 4.6% according to Coface) and above all more synchronized. In advanced countries, the downward trend in insolvencies continues but is beginning to run out of steam (the forecast decline is only 1.8% in 2018, after a 6% drop in 2017) as many countries have already returned to their pre-crisis levels. The United Kingdom will see an increase in insolvencies (up 10% according to Coface) in a context of persistent political uncertainties.

Three major risks in 2018

This global improvement will not be risk-free. Coface warns of three major risks:

1. Greater supply constraints in advanced economies

From the second half, the issue of overheating will be particularly relevant for companies in advanced countries. Historically low levels of unemployment in Germany, the United States and Central Europe indicate that companies are close to their maximum production capacity. This supply issue is shared with French companies, paradoxically facing a labour shortage despite high levels of unemployment, which could limit their growth.

2. Banking risk still present in China

Temporarily hidden in 2016 and 2017 as a result of public investment, the structural weaknesses in the Chinese economy are resurfacing: overcapacity in steel and soaring corporate debt in the form of bank credit and shadow banking. In this context, banking risk increases significantly, especially for small and medium-sized banks.

3. Political risk under watch in the context of a busy electoral calendar

A resurgence of political risk cannot be ruled out in 2018. Social frustrations are still high in emerging countries at the beginning of a busy election year and are accompanied by high Coface social turmoil risk index levels in Iran (71%), Lebanon (65%), Russia (64%), Algeria, Brazil and Mexico (61% each). In the Middle East, this risk is exacerbated by the volatility of oil prices. **Saudi Arabia** is also marked by a high level of risk in this respect (score of 65%) and Coface has lowered its assessment of the country to **C**.

Several sectors are picking up again, with the exception of the UK automotive industry

In order to give companies an even more thorough and in-depth understanding of global risks, Coface now assesses credit risks in 13 business sectors in 24 countries representing nearly 85% of global GDP.

2018 opens with 18 sector assessment revisions, 15 of which are positive. **The metallurgy sector** has the best news as a result of metal prices bouncing back. Risk is no longer considered "very high" but "high" in **Italy, India and Turkey**, and "medium" in **the Netherlands**. **The energy sector** is recovering in **Canada** (now "high risk") and in **the United States** ("medium risk") in line with an increase in production and prices. In **France**, the assessment of the **construction** sector has been revised for the second time in nine months and is now "low risk".

The UK automotive industry is out of step with the rest of Western Europe. The first negative signs of the risk of a future hard Brexit - depressed investment, production, and sales caused by a downturn in the confidence of households and investors explain the deterioration in the sector to "high risk".



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Coface country assessments (160 countries) are ranked on an eight-level scale, in ascending order of risk: A1 (very low risk), A2 (low risk), A3 (quite acceptable risk), A4 (acceptable risk), B (significant risk), C (high risk), D (very high risk) and E (extreme risk).

Coface sector assessments (13 sectors in 6 geographical regions, 24 countries representing almost 85% of the world's GDP) are ranked on a four-level scale: low risk, medium risk, high risk and very high risk.

MEDIA CONTACT

Maria KRELLENSTEIN - T. +33 (0)1 49 02 16 29 maria.krellenstein@coface.com

About Coface

Coface, a world-leading credit insurer, offers 50,000 companies around the globe solutions to protect them against the risk of financial default of their clients, both on their domestic and export markets. The Group, which aims to be the most agile global credit insurer in the industry, is present in 100 countries, employs 4,300 people and posted consolidated turnover of €1.411 billion in 2016. Coface publishes quarterly country and sector risk assessments, based on its unique knowledge of companies' payment behavior and on the expertise of its 660 underwriters and credit analysts located close to clients and their debtors.

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