

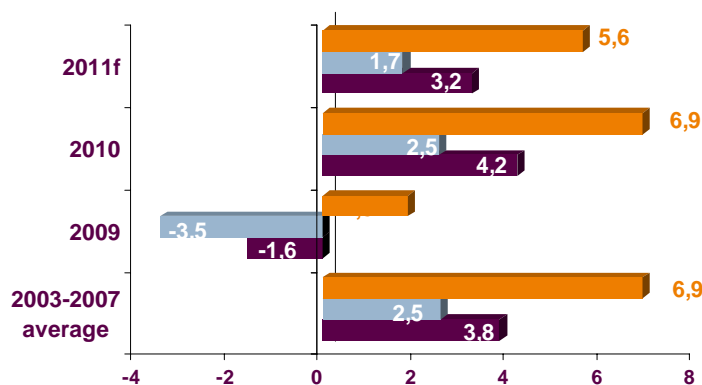
## Coface warns against increased country risk by announcing a wave of ratings downgrades

*Warning: the Coface country rating does not pertain to the sovereign debt since it indicates the average level of risk displayed by the companies in a country within the framework of their commercial transaction. This average change does not prejudge that of the score for each company, which remains determined by its own characteristics: it is therefore necessary for the partners of a company in one of the countries mentioned to have its specific evaluation by Coface.*

After upgrading many of its country ratings in 2010, Coface is now downgrading 10 country ratings, including those for Japan and several countries in the Middle East/North Africa region.

Coface has revised downwards its world growth forecast for 2011 from 3.4% to 3.2%, notably as a result of recent events in Japan, North Africa and the Middle East. Despite this downturn, the economic environment remains buoyant.

■ World Growth ■ Advanced economies ■ Emerging Countries



- **Economic shockwaves in Japan**

Due to the recent spate of disasters in **Japan**, Coface has put the country's A1 rating on negative watch. Japan's 2011 growth forecast has been revised downwards from 1.5% to 0.3%, after a 3.9% rebound in 2010.

The economic shockwaves will initially hit exports - traditionally the driving force of Japanese growth. Disruptions to power supplies will have a long-lasting impact on output in the prefectures directly affected, as well as in more industrialised areas. Small subcontracting firms with minimal cash flow will be particularly affected.

Although, at this stage, it is difficult to assess the impact of these events on the global economy, Coface already predicts repercussions for the global production chain, in which Japan is a key player, especially in the automotive and electronics industries.

According to Coface's main scenario, the rebound should occur in the third quarter, at the very earliest, and will be driven by reconstruction efforts and renewed consumer confidence.

- **Euro zone growth overshadowed by the sovereign crisis**

The euro zone has been severely hit by the sovereign crisis and is expected to grow by 1.3% in 2011 compared with 1.8% in 2010. However, the ratings for most European countries have been left unchanged, with the exception of **Portugal** (downgraded to **A4**) and **Cyprus** heavily exposed to Greek debt (downgraded to **A3**). Portugal, which is caught up in a political crisis and has just asked the EU for financial aid, will remain in recession this year (-1.3%). Portuguese companies, with a low cash flow rate, will still find it hard to obtain credit.

Outside the euro zone, in the **UK** (A3 positive watch removed), drastic austerity measures and high inflation will dampen consumer confidence. Manufacturing firms will face shrinking margins due to rising input costs.

- **Countries in North Africa and the Middle East placed under negative watch**

Political uncertainty in the Middle East/North Africa region could impact the activity and exacerbate the imbalances in public finances and depress currency earnings. Coface has decided to put **Tunisia** (A4↘) and **Egypt** (B↘) under negative watch, as the political transition that these countries are going through makes them fragile in the short term. **Syria's rating** (C↘) has also been put on negative watch due to the growing wave of political protest in an inadequate business environment. **Libya**, which is expected to see a very sharp decline in activity of at least 15%, has been downgraded to D.

- **The rise of oil prices will impact the activity worldwide**

Coface expects oil prices to flare up significantly, driven by socio-political tensions in oil-exporting countries and reconstruction efforts in Japan, the world's third-largest oil importer. In 2011, Coface expects Brent oil prices to rise by 25% compared with 2010 at \$100 per barrel. This will knock 0.1 to 0.2 points off GDP growth in the major oil-importing countries: USA (2.5% growth in 2011), Germany (2.3%), UK (1%) and South Korea (3.5%).

**In this view, Coface has revised down its world growth forecast from 3.4% to 3.2%** (1.7% for the advanced countries and 5.6% for the emerging countries), compared with 4.2% in 2010. These forecasts also factor in the impact of the euro zone's sovereign debt protracted crisis and the expected slowdown in emerging economies, especially Asian countries, which have introduced measures to curb economic overheating.

*"After a year of marked recovery, we are now seeing an increase in global risk due to political upheavals and the natural disasters occurring in the first quarter. The economic downturn is affecting also emerging countries. The recovery continues but at a slower pace,"* commented Yves Zlotowski, Chief Economist at Coface.

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#### **About Coface**

Coface's mission is to facilitate global business-to-business trade by offering its 135,000 customers solutions to fully or partly outsource trade relationship management and to finance and protect their receivables: credit insurance, factoring, business information and receivables management. Thanks to the worldwide local service delivered by 6,600 staff in 65 countries, over 45% of the world's 500 largest corporate groups are already customers of Coface.

Coface is a subsidiary of Natixis whose share capital (Tier 1) was 16.8 billion Euros end December 2010.

[www.coface.com](http://www.coface.com)

## APPENDIX

### MODIFICATIONS DES NOTES PAYS / COUNTRY RATING CHANGES

	Pays / Countries	Décembre 2010/ December 2010	Decisions Mars 2011/ March 2011 new rating <small>(ordre décroissant de risque par région/descending order of risk by region)</small>
Europe	Portugal	A3↓	A4
	Royaume-Uni/United Kingdom	A3↔	A3
	Chypre/Cyprus	A2↓	A3
Asie / Asia	Japon/Japan	A1	A1↓
	Vietnam	B↓	C
Moyen Orient/Afrique Middle East/ Africa	Bahrein/Bahrain	A3	A4
	Tunisie/Tunisia	A4	A4↓
	Egypte/Egypt	B	B↓
	Syrie/Syria	C	C↓
	Libye/Libya	C	D

The Coface risk map is available at [www.coface.fr](http://www.coface.fr).  
Click on "Online Services" then "Country Risk and Economic Research".