PRESS RELEASE

Hong Kong, 27 June 2018

Country and sector risks worldwide

Signals of risk on the increase in the 2nd quarter

- **A sense of déjà-vu between the economic contexts of 2018 and of 2012-2013**
- **Italy, downgraded to A4, has been the focus of all attention**
- **The rise in oil prices is benefiting the energy sector in several countries but, combined with capital outflows, is detrimental to the economies of Argentina, Turkey, Sri Lanka and India**
- **Construction and retail are the primary sectors to be affected by the currency risk in the emerging countries**
- **The intensification of protectionist policies is alarming businesses**

Downgraded assessments in the majority this quarter

The high number of signals of risk in Q2 2018 is reminiscent of the situation in the years 2012-2013: rise of sovereign spreads in the Eurozone, increased protectionism, higher oil prices, capital outflows from major emerging countries, global trade on the downturn. Even if the extent of the impact is not the same, taking account of a far lower oil barrel price (75 USD at the start of June 2018 compared to around 110 USD in 2012), and the yield of a 10-year Italian government bond less than twice as high, these signals confirm that the peak in world growth has passed. The credit risk of companies is increasing in the advanced economies where, after the start of the year being marked by a loss of confidence linked to rising protectionism, a slowdown in growth is to be observed (forecasts of 2.2% in 2018 and 2% in 2019 for the advanced economies; forecasts of 2.1% for 2018 and 1.8% in 2019 for the Eurozone). Coface has therefore downgraded the country assessment of **Italy** to **A4**, where the companies that are particularly indebted will be vulnerable to a potential hardening of the bank lending conditions. The United States stands out as an exception, spared at this stage from this slowdown (growth forecast of 2.7% in 2018, following on from 2.3% in 2017).

Although the recent rise in petrol prices is profiting the emerging exporters, such as **Oman**, which sees its assessment improved to **B**, and Malaysia (**A3**), the importing nations are faced with the deterioration of their trade balance and a reduced appetite from international investors for their financial assets, similar to the situation observed in 2013. These countries include **Argentina (now C), Turkey (C), Sri Lanka (C) and India (B)**, which Coface is downgrading faced with the dynamic internal demand favouring imports and the internal political tensions. In other emerging economies, the currency risk is undermining the sectors in which the production process requires the importing of inputs, while the outlets are essentially to be found on the domestic market. **Construction in Argentina (downgraded to "high risk")** and **retail in Argentina and in Turkey ("very high risk")** are already affected.

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

The oil situation, which is favourable to the development of the **energy sector** (for which production is strongly revived), has led Coface to review its oil price forecast to 70-75 USD for 2018, corresponding to a 30% rise compared to its average price in 2017. In five countries, the assessment for this sector is improved: **United States ("low risk"), Canada ("medium risk"), United Arab Emirates ("medium risk"), Saudi Arabia ("medium risk") and France ("medium risk")**.

The trade war is already affecting the ICT sector in China and the metals industry in Canada

The premises of the trade war that were announced at the start of the year have been confirmed. The US protectionist policy has been intensified, targeting Chinese exports, including many "Made in China 2025" ICT products, which explains the downgrading of the **Chinese ICT sector to the "high risk" category**.

Among the countries recently concerned by the coming into force of the US protectionist measures targeting steel and aluminium, it is Canada that will be the most affected, hence the downgrading of the **Canadian metals sector** to **"very high risk"** (87% of its steel exports are for the United States). **The metals sector** is developing favourably in the **USA**, leading Coface to upgrade its assessment to **"medium risk".**

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.

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

Country Risk Assessment Changes

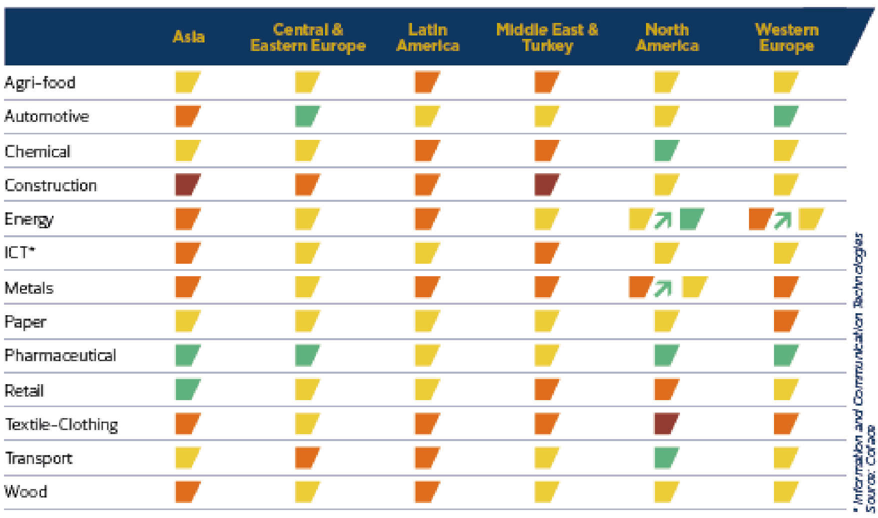
COUNTRY	Previous Assessment		Current Assessment
MALAYSIA	A4	↗	A3
OMAN	C	↗	B
ARGENTINA	B	↘	C
INDIA	A4	↘	B
ITALY	A3	↘	A4
TURKEY	B	↘	C
SRI LANKA	B	↘	C

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme
- ↗ Upgrade
- ↘ Downgrade

Sector Risk Assessment Changes

REGIONAL SECTOR RISK ASSESSMENTS†



* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade