

**Coface sees the end of the global credit crisis by easing the outlooks for its country ratings, but continues to pay attention to the threat of bubbles**

*Caution: the Coface country rating does not concern sovereign debt, but rather indicates the average level of risk presented by a country's companies on their commercial transactions. This average trend is not a guide to each company's rating, which is determined by its own characteristics. It is therefore essential that the partners of a company located in one of the cited countries check the company's specific Coface rating.*

During its 14<sup>th</sup> Country Risk Conference, Coface announces some 20 upgrades in country ratings. The credit crisis, which will have lasted two years as announced at the conference held in January 2008, has been of an unprecedented magnitude for the past 60 years. Since the second half of 2009, Coface has recorded a net reduction in payment defaults. Payment defaults, still up 19% in the 1<sup>st</sup> half of 2009, declined 40% in the 2<sup>nd</sup> half. Nevertheless, for 2010 Coface foresees a very soft recovery in developed countries, which is fragile due to the threat of various bubbles.

**End of the first “globalisation crisis”**

This credit crisis has lasted two years, like the previous crisis and as Coface predicted at the beginning of 2008 when it recorded the initial increase in companies' payment defaults. But it has been the most violent credit crisis in the past 60 years: the world growth differential between the beginning and end of the crisis was 6.1 points, with strong geographic disparities, as Eastern Europe and Russia were affected the most (10.2 and 16.2 points respectively). Compared to previous crises, the magnitude of the shock is explained by the increasing globalisation of economies: a confidence shock spread everywhere following Lehman Brothers' bankruptcy, with the seism reaching both finance and industry, Europe or Asia. Even yet in countries not characterised by debt bubbles the record contraction in world trade had a brutal impact on companies.

Nevertheless, the decrease in payment defaults clearly indicates that the credit crisis as such is over. This correlates with the end of the recession in most major industrialised countries at the end of the third quarter 2009. Thus, after having implemented several waves of rating downgrades throughout the crisis, Coface is easing the rating outlooks for all industrialised countries. Exceptions include the United Kingdom, Italy and the “PIGS” (Portugal, Ireland, Greece and Spain), which remain rated A3, some still under a negative watch.

The dynamism of emerging countries rebalances world growth. The decoupling of emerging countries / developed countries has finally occurred, but in a specific and new way. As stakeholders in the world economy, emerging countries couldn't escape being affected: where companies were too heavily indebted, the growth contraction brought on credit crises (i.e.: significant increases in payment defaults). But in most cases, the emerging countries managed this crisis independently. Thus they demonstrated their ability to learn the lessons from previous crises and to rely on solid fundamentals, which allowed them implement recovery policies.

## Yes to recovery, but look out for bubbles

If the end of the credit crisis is confirmed, the 2010 recovery in industrialised countries is of high risk because of threatening bubbles:

- ➔ The bubble in public debt is especially dangerous: it is not so much the risk of sovereign defaults that is feared, but rather the need to quickly implement budget restriction policies that are detrimental to growth and therefore to companies.
- ➔ The overcapacities in China have to be monitored: after strong credit growth that supported Chinese companies, the authorities have decided to restrict the credit supply in overcapacity sectors: this “go and stop” policy, typical of China, could destabilise fragile companies.
- ➔ The asset price bubble (stock markets) can also affect the economy. Sharp stock market volatility can be expected in industrialised countries due to the financial markets optimism, which is out of sync with the real economy’s recovery.

The bursting of these bubbles is likely to generate new negative shocks for companies (“W” scenario). A relapse would affect companies, many of which are now quite weakened after two years of under-activity. Nevertheless, Coface leans towards a soft “L-shaped” recovery scenario and therefore without a relapse in economic activity. For 2010, we foresee world growth of 2.7%, comprised of 1.4% in industrialised countries and 5.3% in emerging countries.

*“The 5<sup>th</sup> credit crisis recorded by Coface was distinguished by the magnitude of the shock but not by its duration, since like all previous crises it ended after two years. The end of the crisis, marked by the decline in payment defaults, does not signal the elimination of all risks. Indeed, bubbles, the source of all of the observed crises, reform at an incredible speed,”* explains François David, Coface Chairman, *“but the economy is in an upturn phase and we, Coface, are already working with our customers on the recovery, especially in Asia where it is well under way.”*

## Ratings changes

Zone	Pays / Country	Anciennes notes/ Old ratings	Nouvelles notes/New ratings
Amérique du Nord / North America	Etats-Unis / United States	A2↓	A2
	Canada	A2	A2↗
Amérique latine / Latin America	Chili / Chile	A2↓	A2
	Colombie / Colombia	A4↓	A4
	République dominicaine / Dominican republic	B	B↓
	Jamaïque / Jamaica	C	C↓
Europe	France	A2	A2↗
	Allemagne / Germany	A2	A2↗
	Autriche / Austria	A2	A2↗
	Belgique / Belgium	A2	A2↗
	Pays-Bas / Netherlands	A2	A2↗
	Suède / Sweden	A1↓	A1
	Norvège / Norway	A2	A2↗
	Grèce / Greece	A3	A3↓
Europe émergente / Emerging Europe	Pologne / Poland	A3↓	A3
	Turquie / Turkey	B↓	B
	Albanie / Albania	D	D↗
Asie / Asia	Japon / Japan	A2	A2↗
Asie émergente / Emerging Asia	Hong-Kong	A2↓	A2
	Malaisie / malaysia	A2↓	A2
	Taiwan / Taiwan	A2↓	A2
	Singapour / Singapore	A2	A2↗
Océanie / Oceania	Australie / Australia	A2	A2↗
	Nouvelle-Zélande / New Zealand	A2	A2↗
Moyen-Orient / Middle East	Israël / Israel	A4	A3
	Emirats Arabes Unis / United Arab Emirates	A2↓	A3
	Yemen	C	D

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### About Coface

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