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Country and sector risks worldwide

Some emerging economies become increasingly vulnerable

- **Higher oil prices and continued capital outflows from emerging markets mark the third quarter of 2018**
- **A wave of sectorial downgrades in Turkey and Argentina**
- **Risks improve in Central Europe and the CIS**
- **Downgrades for Pakistan and Nicaragua, mainly due to political risks**

Argentina and Turkey, two countries already hampered by major external imbalances and their dependency on external financing, are experiencing a deepening in their currency crises. Against a backdrop of rapidly tightening credit conditions, Coface has downgraded six of Argentina's business sectors suffering from a severe downturn in economic activity (with a forecast of -2.4% for 2018). The **automotive, transport, paper** and **chemicals** sectors are now assessed as «high risk», while the **ICT** and **textiles** sectors are evaluated as «very high risk». **Turkey** is also facing a wave of sectorial downgrades: the **automotive, paper** and **wood** sectors have joined the «high risk» category mainly because of a fall in domestic demand, and the country's **energy** sector, which is particularly vulnerable to currency exchange risks due to the huge investments involved, has fallen into the «very high risk» category. The downgrade of its **metals sector** to «very high risk» has been provoked by new US protectionist measures targeting Turkey.

The other main emerging economies - South Africa, Brazil, India and Indonesia - appear to be particularly susceptible to risks linked to capital outflows. These vulnerabilities result from similar factors at play as in Argentina and Turkey: developed capital markets, current account deficits and political environments that are likely to fuel caution from the markets, elections scheduled before the end of the year or in 2019. Nevertheless, risks of contagion are somewhat mitigated, due to lower dollarisation and overall high levels of foreign currency reserves in these economies.

Some of the smaller emerging countries should also be watched. This quarter, Coface has downgraded the country assessments for **Pakistan** and **Nicaragua** to D. Pakistan is facing default and a sharp depreciation of the rupee, while Nicaragua is undergoing a political crisis.

In contrast, business risks are improving in Central Europe and the CIS countries. **Croatia's** assessment has been upgraded by a notch, to A4. The country is no longer under EU excessive deficit proceedings and is benefitting from an environment of dynamic household consumption. **Slovakia** (now A2) has registered a steady improvement in business insolvencies (-27% in 2017) and an acceleration in investments in its automotive industry. **Armenia** has been upgraded to C and is benefitting from the economic recovery in Russia (which represents 25% of its exports).



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

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:

Ornmanee PRADITPOLPANICH - T. + 66 (0)2 664 8989 ornmanee.praditpolpanich@coface.com

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