

The Climate of Export Credit and the Global Financial Crisis



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The World Leader's in International Credit Insurance

coface 

COFACE & Global financial crisis



Preparation by

ECSEI

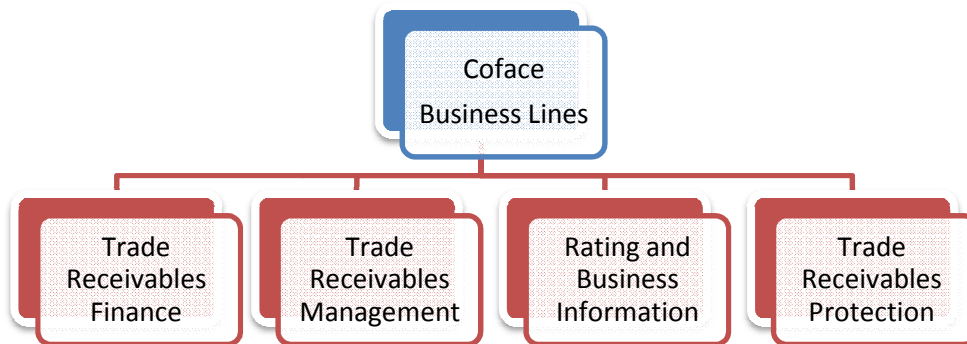
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The Coface Group

The Coface Group is the world leader in international credit insurance and ranks third in the world in commercial information.

Coface, an expert in risk analysis, supports companies in the monitoring, management, protection and financing of their accounts receivable through its four business lines:



In France, Coface also manages public procedures for export guarantees provided by the French State.

The financial crisis

The financial crisis is confirmed in Europe and is spreading to the most fragile emerging countries:

In Europe, the crisis is dragging Spain down, which is pulling Portugal along in its wake. In Denmark, more vulnerable than the other Scandinavian countries, companies are suffering from the economic downturn and from tighter margins.

Although the BRICs (Brazil, Russia, India and China) are still withstanding the crisis well, there is a rising credit risk in the Baltic countries, in South Africa and in Vietnam, all three handicapped by unbearable external balances and an economic slowdown.

The credit crisis is deepening in Europe...

- ☹ In Spain, activity's drop in the building industry, up until then the main engine for growth, is hampering consumption and investments.
- ☹ The companies' payment behaviour has clearly declined.

- ☘ Coface has observed a 66% increase in payment incidents since January 2008 in this country, half of which occurred in this sector. After having placed its rating under negative watch in September 2007, Coface has reduced Spain's rating to A2.
- ☘ Portugal has been affected in turn via a domino effect (30% of its exports are intended for its neighbour).
- ☘ Overdue payments have increased twofold since the beginning of the year.
- ☘ Coface has therefore placed its A2 rating under negative watch.

- ☘ Finally, Denmark is more vulnerable than the other Scandinavian countries due to a fragile construction sector and high levels of household debt.
- ☘ Because of a significant deterioration in the economic situation, the number of bankruptcies has definitely increased (+25% since the beginning of the year).
- ☘ Coface is therefore placing this country's A1 rating under negative watch.

and is spreading to fragile emerging countries.....

- ☘ The activity slowdown, a higher inflation rate and volatility of the Rand are causing problems for South African companies.
- ☘ Coface is therefore placing this country's A3 rating under negative watch.

- ☘ Both in Vietnam and in two Baltic countries (Estonia and Latvia), overheated economies are in evidence.
- ☘ Years of strong growth have deepened external imbalances and stimulated inflation.
- ☘ Moreover, households and businesses are carrying considerable foreign currency debt.
- ☘ Vietnam (B rating placed under negative watch) is facing an important foreign exchange crisis.
- ☘ In Latvia and Estonia (whose ratings have been respectively lowered to A4 and to A3), a brutal landing for business activities is now underway.
- ☘ The BRICs have so far avoided the crisis. Vigorous domestic demand and the absence of any major imbalance are supporting their performance levels.

Credit risks are increasing in the vulnerable emerging countries,

Explains Yves Zlotowski, Chief economist for Coface. "South African, Vietnamese and Baltic companies are suffering from the brutal curbing of excessive imbalances (ample foreign deficits, overheated economies and accelerating inflation), which are no longer sustainable in the current business climate."

Noting Credit Crisis

- ✚ Coface Downgrades Seven Industry Sectors Net deterioration in company payment behavior is seen – 45% increase in payment defaults over the first four months of 2008.
- ✚ Paris – May 22, 2008 – Coface is observing a net deterioration in company payment behavior, with payment defaults increasing 45% over the first four months 2008 compared to the same period in 2007.
- ✚ This is a clear sign of the beginning of a credit crisis, even after taking into account that the indicator, based on statements from Coface insured clients in 65 countries, traditionally overreacts at the start of a crisis.
- ✚ For this reason, Coface confirms its January forecast of a crisis less significant overall than the crisis of 2001-2002, which was marked by a 30% increase in payment incidents.

The financial crisis has rippled through to the actual economy in two ways.

- ❖ **First**, American demand is reduced, mainly affecting North America and U.S.-oriented countries and sectors.
- ❖ **Second**, is the increased difficulty in access to bank credit. Added to these factors are higher prices for raw materials and energy, the appreciation of currencies outside the dollar bloc and very stiff competition.

For the moment, France and Germany are only slightly affected.

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Coface lowers the rating of seven sectors

The affected sectors are:

- Air transport,
- Public works,
- Automotive,
- Paper,
- Mass distribution,
- Electrical components and
- Textiles.

Ratings have been lowered on the worldwide level for some and only in the United States and/or Western Europe for others.

Vulnerability of sectors to various market conditions

	Raw materials, energy	Exchange rate	Investment bubble	Tightening of credit	Obsolescence	Asian competition	Market balance
Air transport	yes						good
Public works	yes		yes	yes			bad
Automotive	yes	yes		yes			average
Paper	yes	yes					average
Distribution	yes			yes			average
Electrical components					yes	yes	good
Textiles	yes	yes			yes	yes	average

Downgraded sectors by region

Region	Sector
North America	1- Mass distribution (from A- negative outlook to B+) 2- Apparel (from C to C-) 3- Automobile (from C to C-) 4- Construction (from B- to C+) 5- Air transport (from C+ to C) 6- Electronic components (from A to A-)
Western Europe	1- Paper (B+ negative outlook to B) 2- Construction (from B to B-)
Emerging Asia	1- Electronic components (from A to A-)

Overall

Few sectors are **escaping** the crisis, but some like metallurgy, chemistry, mechanics, pharmacy, information technologies and communication are managing **to reduce** the impact of these shocks, particularly in emerging countries where economic conditions are resisting.

“The fifth credit crisis since the first oil crisis has begun, and the payment behavior of companies has clearly deteriorated since the beginning of 2008,” said Coface CEO Jérôme Cazes. “Our risk monitoring has been reinforced to allow us to continue supporting our customers in their operations while limiting the impact of the crisis on our results”.

APPENDIX

- ♣ **Sector ratings measure the average level of default risk posed by companies in individual sectors.**
- ♣ **A rating assesses the likely impact on short-term payment behavior of the economic prospects and average corporate financial position in a particular sector.**
- ♣ **To establish a rating, Coface uses three evaluation criteria:**
 - **Business trends in the sector, which reflects how market prospects, price levels and production costs might influence company solvency;**
 - **Average financial position of companies in the sector, which reflects the ability of companies to cope with economic downturns;**
 - **Payment behavior in short-term transactions, as reported by Coface databases.**

Coface establishes Sector ratings on ten levels — ranging from A+ for the lowest risks to D for the highest, according to the following definitions:

A+	In a good sector economic environment with robust corporate financial health, payment experience has been satisfactory. Default probability is low on average.
A	
A-	
B+	The essentially good economic environment in the sector is not exempt from short-term deterioration with negative repercussions on corporate financial health. Payment experience has been generally correct and default probability acceptable.
B	
B-	
C+	In a very uncertain economic environment with vulnerable corporate financial health, payment behavior is relatively poor. Default probability becomes a nettlesome problem.
C	
C-	
D	With a very poor economic environment prevailing in the sector, weakened corporate financial health gives rise to generally bad payment behavior. Default probability is high.

With best Wishes
Mr. Medhat saad
General Manager