

COFACE'S COUNTRY AND SECTOR RISK ASSESSMENT

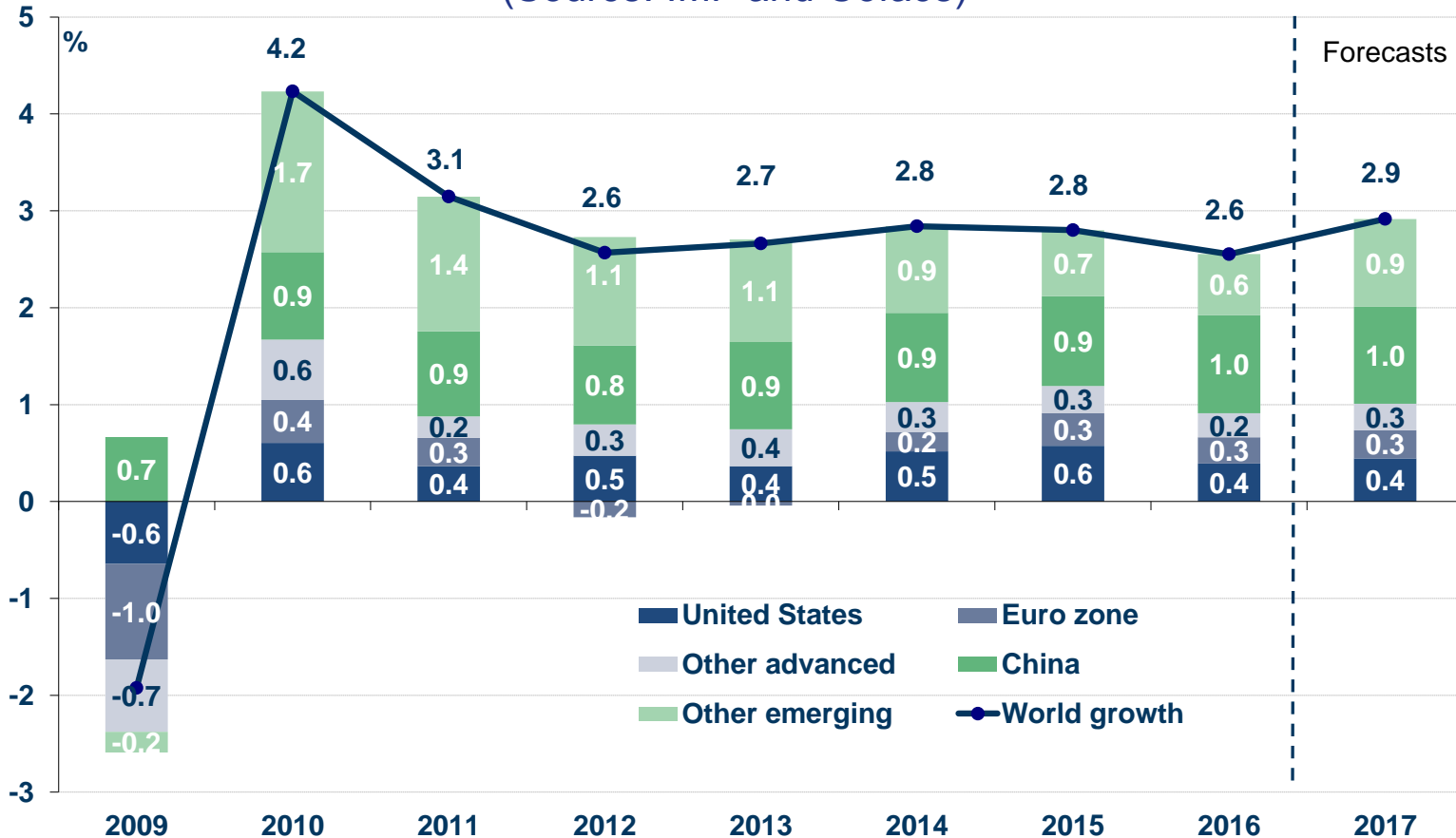
Carlos Casanova,
Economist, Asia Pacific,
Coface

GAINING MOMENTUM? MORE LIKE A FRAGILE RECOVERY...



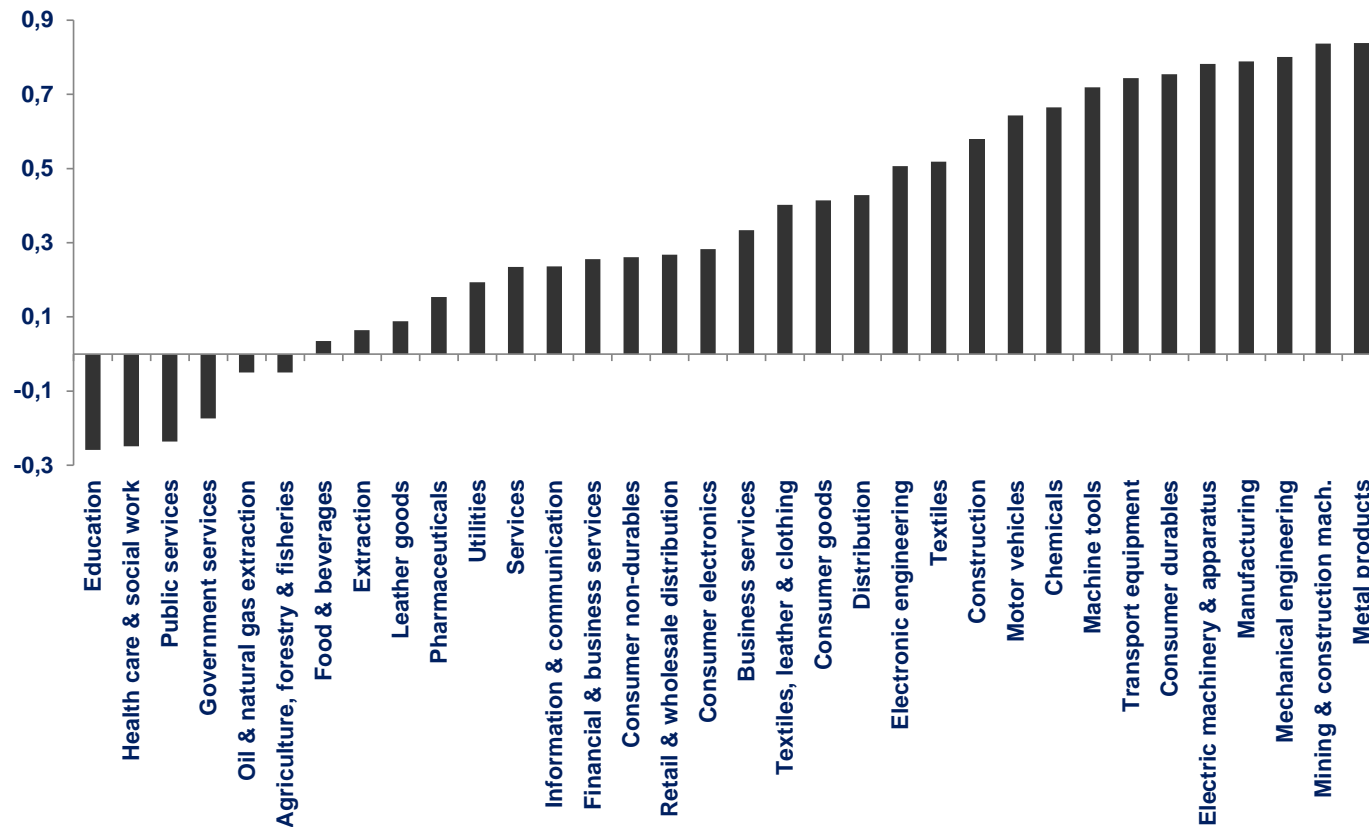
THE GLOBAL ECONOMIC RECOVERY IS SYNCHRONIZED...

Coface world GDP growth forecasts
 (Source: IMF and Coface)



... ALSO IN THE CASE OF THE MAJOR INDUSTRIAL SECTORS

Correlation between added value by sector and global GDP
(Correlation coefficient of annual growth rates between 1980 and 2017)



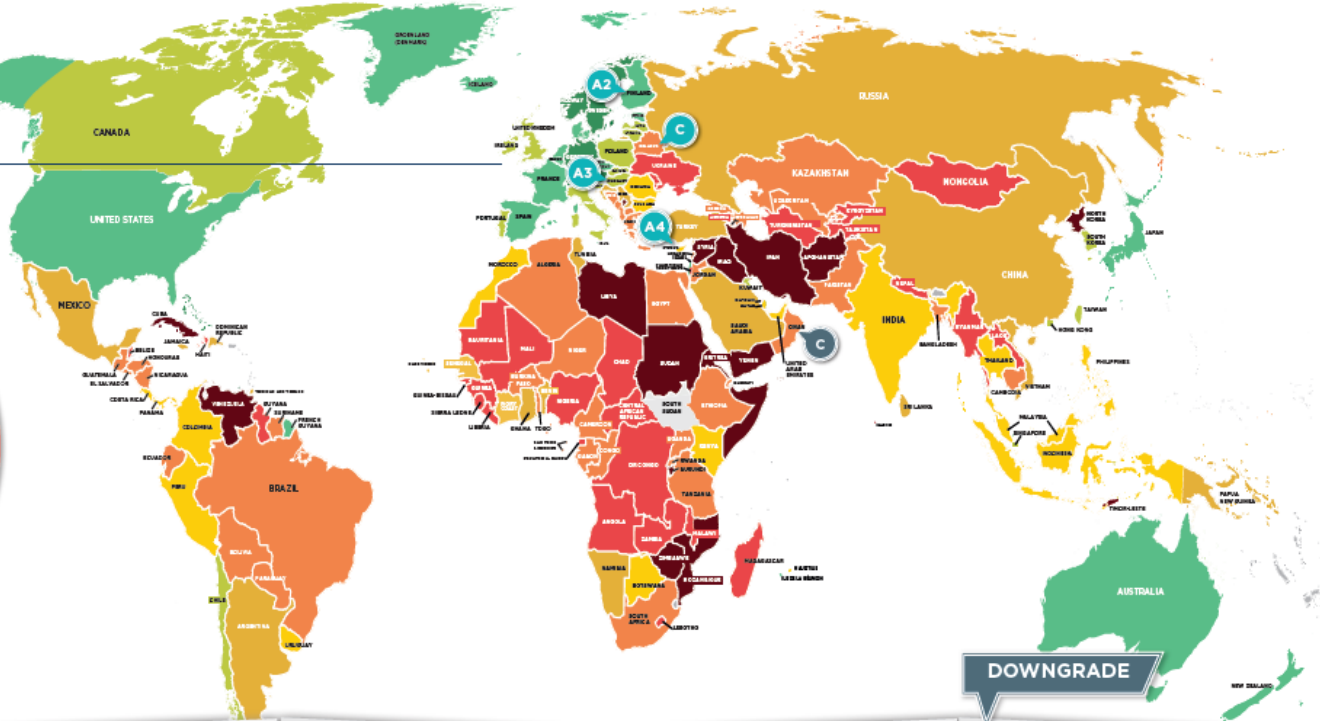
Source: Oxford Economics and Coface



160 COUNTRIES UNDER THE MAGNIFYING GLASS

A UNIQUE METHODOLOGY

- Macroeconomic expertise in assessing country risk
- Comprehension of the business environment
- Microeconomic data collected over 70 years of payment experience



UPGRADES

BELARUS

C

- Belarus is benefiting from the recovery of activity in Russia. Better growth is expected, with 0.9% for 2017 and 1.5% for 2018 (following -3% in 2016)
- Household consumption and exports to Europe should improve

CYPRUS

A4

- Growth remains dynamic, with 3.5% expected for 2017 and 3.2% for 2018
- Thriving tourism is boosting household consumption and construction
- The banking sector and public finances are now on a sound footing

FINLAND

A2

- The Finnish economy entered a positive growth path in 2016 and perspectives are stable (1.3% in 2017 and even better in 2018, at 1.7%)
- The negative consequences of trade restrictions with Russia have significantly diminished and exports are being supported by favourable external demand
- The number of insolvencies dropped by -6% in 2016 and -19% in 2Q 2017

HUNGARY

A3

- GDP growth is expected to strengthen (rising from 2.0% in 2016, to 3.6% in 2017 and then 3.4% in 2018)
- The increase in household consumption and the strong rebound in investments is supported by the easing of lending conditions and the accelerated inflow of EU funds into the current EU budget programme
- The lowest corporate tax rates in the EU
- Improving financial sector, with a gradual decline in banking taxes and the stabilisation of non-performing loans

OMAN

C


- GDP growth is expected to contract in 2017, due to lower oil production and relatively low prices. Current account deficits will remain important
- Despite some gradual fiscal consolidation, high fiscal deficits (around 10% of GDP) are expected to continue until around 2020

DOWNGRADE

	Latin America	North America	Central and Eastern Europe	Western Europe	Emerging Asia	Middle East + Turkey
Automotive	High risk	Medium risk	Low risk	Low risk	High risk	High risk
Agrofood	High risk	Medium risk	Medium risk	Medium risk	Medium risk	High risk
Chemical	High risk	Low risk	Medium risk	Medium risk	High risk	High risk
Construction	High risk	Medium risk	High risk	Medium risk	Very high risk	High risk
ICT*	High risk Upgrade	Medium risk	Medium risk	Medium risk	High risk Upgrade	High risk
Energy	High risk	High risk	Medium risk	High risk	High risk	High risk
Metals	High risk	High risk	Medium risk	High risk	High risk	Very high risk
Paper	Medium risk	High risk	Medium risk	High risk	High risk	Medium risk
Wood	High risk	Medium risk	Medium risk	Medium risk	High risk	High risk
Pharmacy	Medium risk	Low risk	Low risk	Medium risk Upgrade	Low risk	Medium risk
Retail	High risk Upgrade	High risk	Medium risk	Medium risk	Low risk	High risk
Textile	High risk	High risk	Medium risk	High risk	High risk	High risk
Transport	High risk	Medium risk Upgrade	High risk	Medium risk	Medium risk	Medium risk

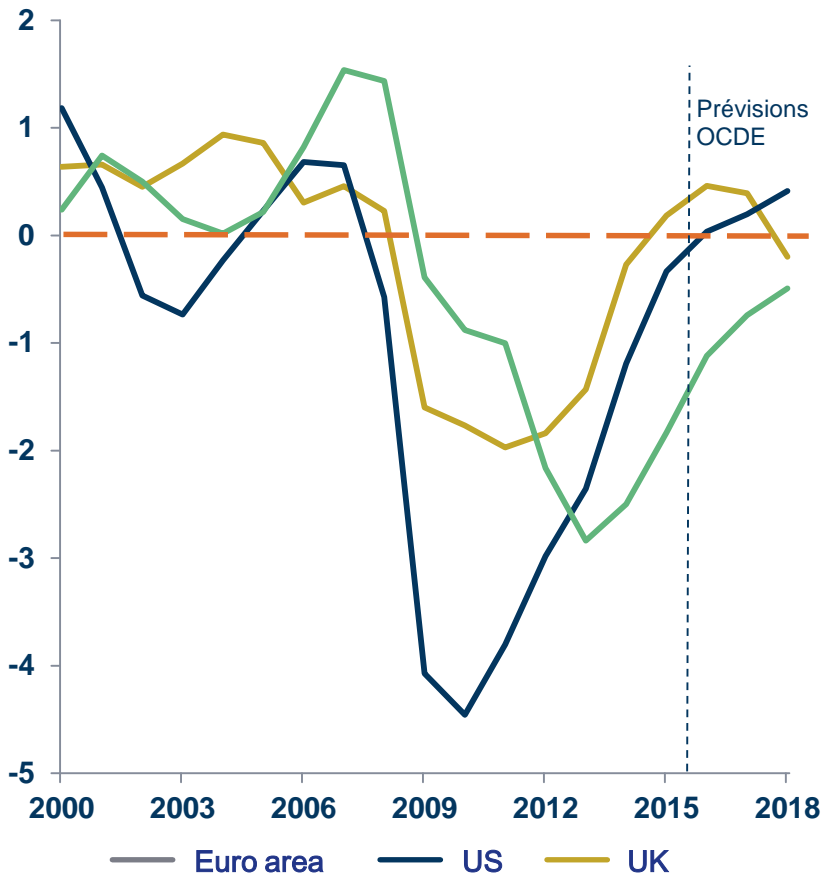
* Information and Communication Technologies
Source: Coface

**BUSINESS
DEFAULT
RISK**

-  Low risk
-  Medium risk
-  High risk
-  Very high risk
-  Upgrade
-  Downgrade

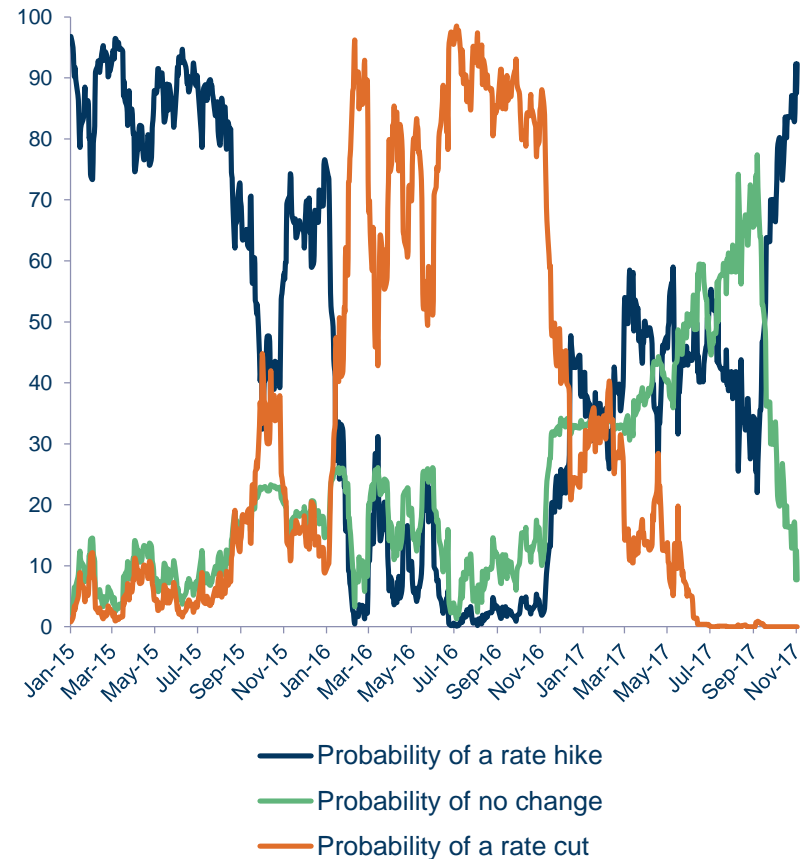
UNITED STATES: HOW LONG WILL THE CYCLICAL RECOVERY LAST?

Gap between structural unemployment rate and unemployment rate (%)



Source: OCDE and Coface

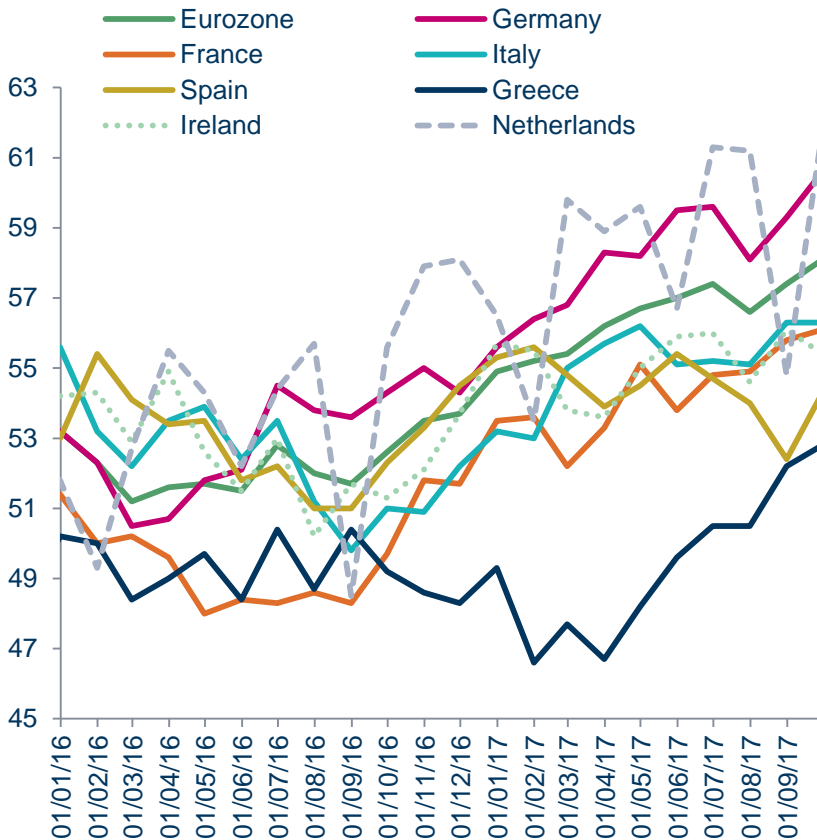
Fed funds futures are pricing in a Dec rate hike. Next one in 2Q18



Source: Bloomberg and Coface

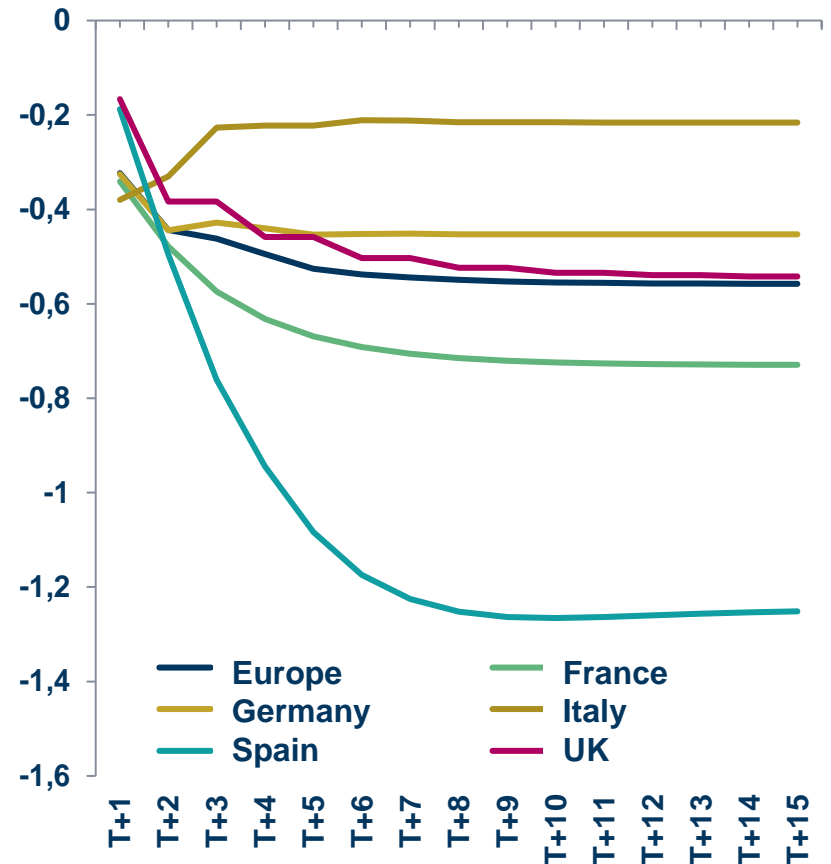
EUROZONE: POLITICAL HEADWINDS CLOUD THE OUTLOOK

Sentiment indicators have been improving gradually in the Eurozone (Mfg PMI)



Source: Markit and Coface

Impact on GDP of a political uncertainty shock similar to the UK referendum (in pp)

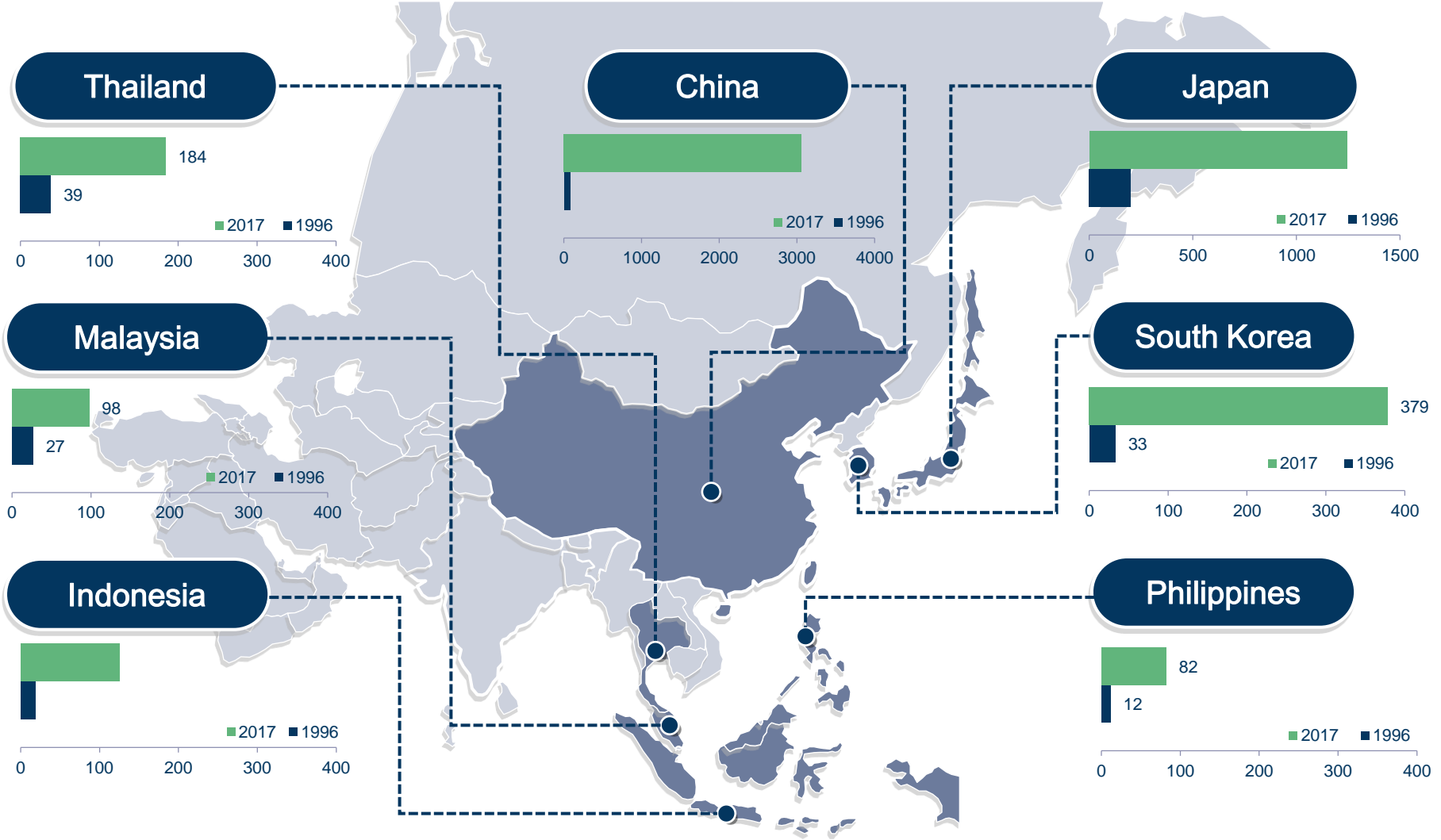


Source: Coface

COFACE RISK AND BUSINESS CLIMATE ASSESSMENTS FOR APAC

Country	2013	2014	2015	2016 Jan	2016 Mar	2016 Jun	2016 Oct	2017 Jan	2017 Mar	2017 Jun
Japan	A1	A1	A1	A1	A2	A2	A2	A2	A2	A2
Korea	A2	A2	A2	A2	A2	A3	A3	A3	A3	A3
Hong Kong	A1	A1	A1	A1	A1	A3	A3	A3	A3	A3
Singapore	A1	A1	A1	A1	A1	A3	A3	A3	A3	A3
Taiwan	A1	A1	A1	A1	A1	A3	A3	A3	A3	A3
India	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4
Indonesia	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4
Malaysia	A2	A2	A2	A2	A3	A4	A4	A4	A4	A4
Philippines	B	A4	A4	A4	A4	A4	A4	A4	A4	A4
Thailand	A3	A3	A4	A4	A4	A4	A4	A4	A4	A4
China	A3	A3	A3	A4	A4	B	B	B	B	B
Sri Lanka	C	C	B	B	B	B	B	B	B	B
Vietnam	C	C	C	B	B	B	B	B	B	B
Bangladesh	C	C	C	C	C	C	C	C	C	C
Cambodia	D	D	D	C	C	C	C	C	C	C
Pakistan	D	D	D	D	D	D	D	C	C	C
Mongolia	C	C	C	C	C	C	D	D	D	D

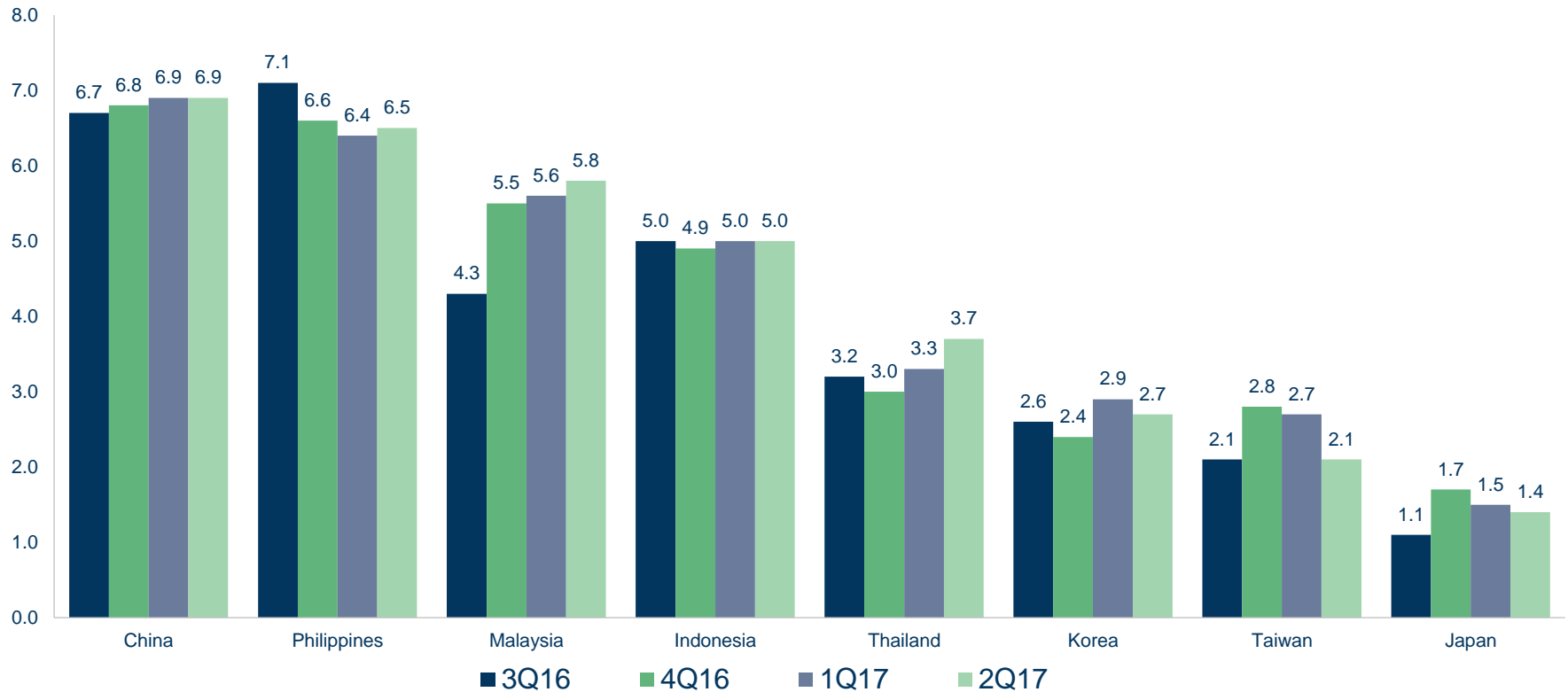
ASIAN ECONOMIES HAVE COME A LONG WAY SINCE THE ASIAN FINANCIAL CRISIS



Foreign exchange reserves (Billions of USD)

THE GLOBAL RECOVERY HAS LED TO AN UPTICK IN ASIA

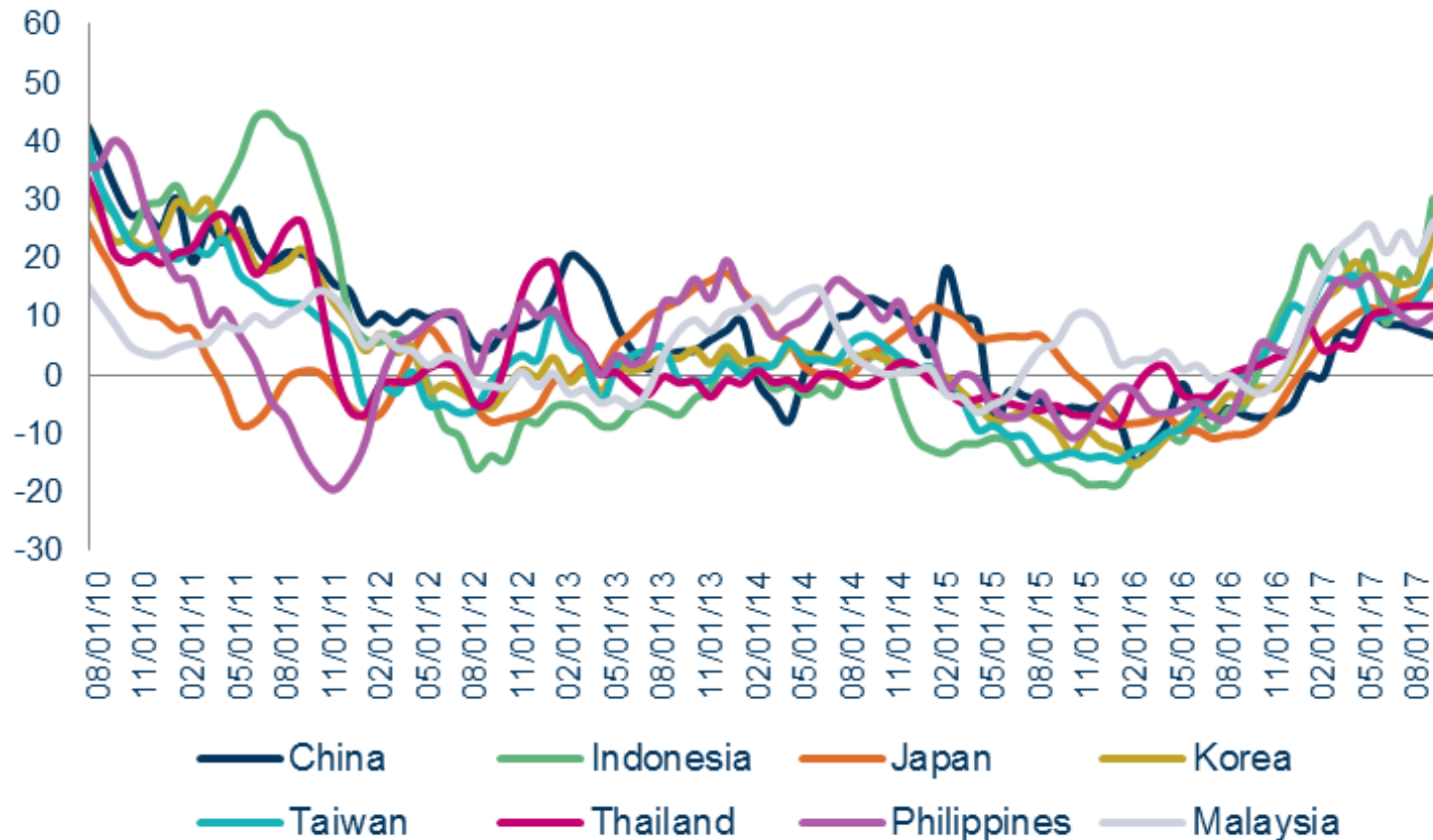
Growth in the last quarters has ticked up, especially in emerging Asia



Source: Bloomberg and Coface

BOOSTED BY ROBUST EXPORT PERFORMANCE

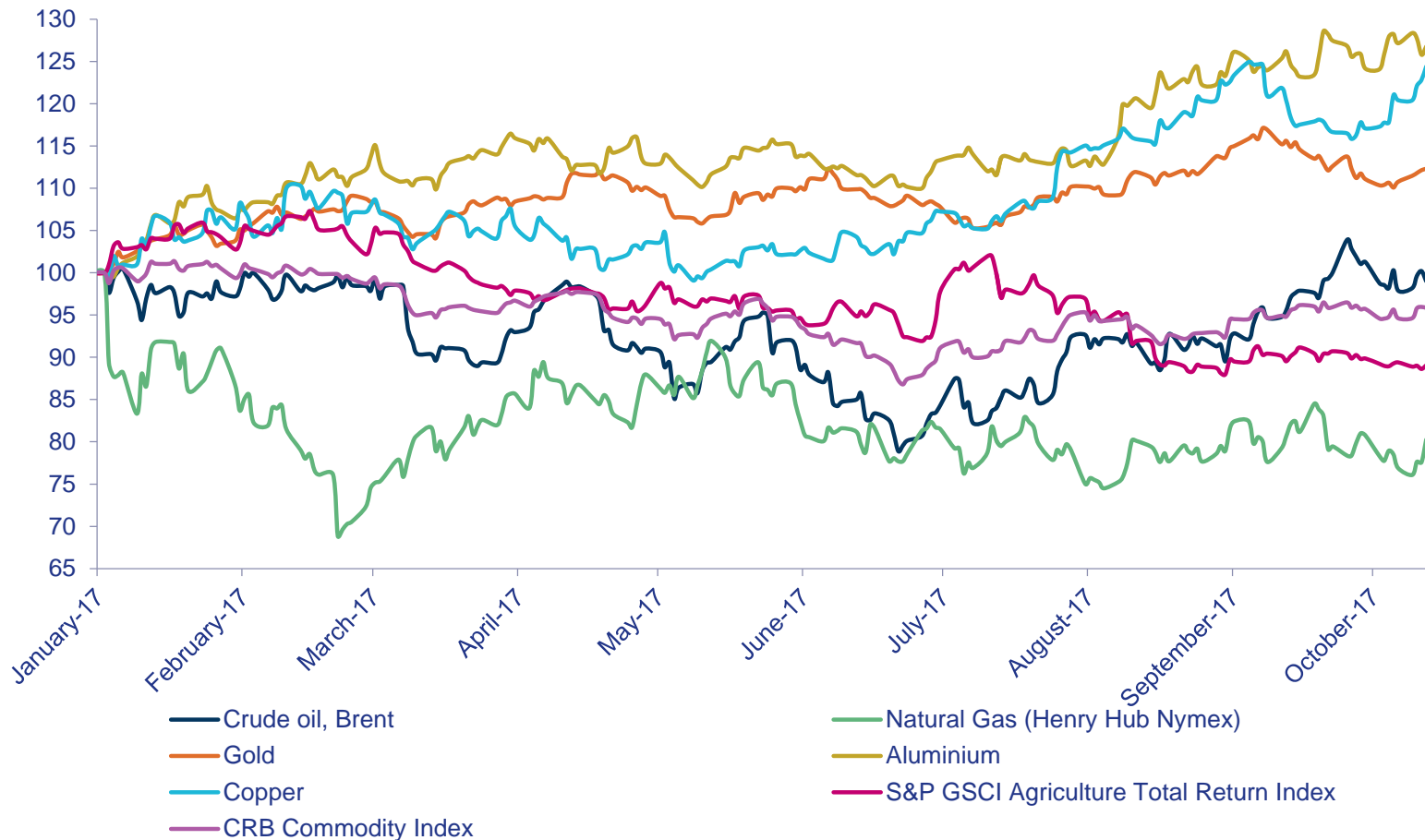
Strong demand from developed markets in North America and Europe helped to boost exports (YoY) in the last quarter of 2016 and first half of 2017



Source: Bloomberg and Coface

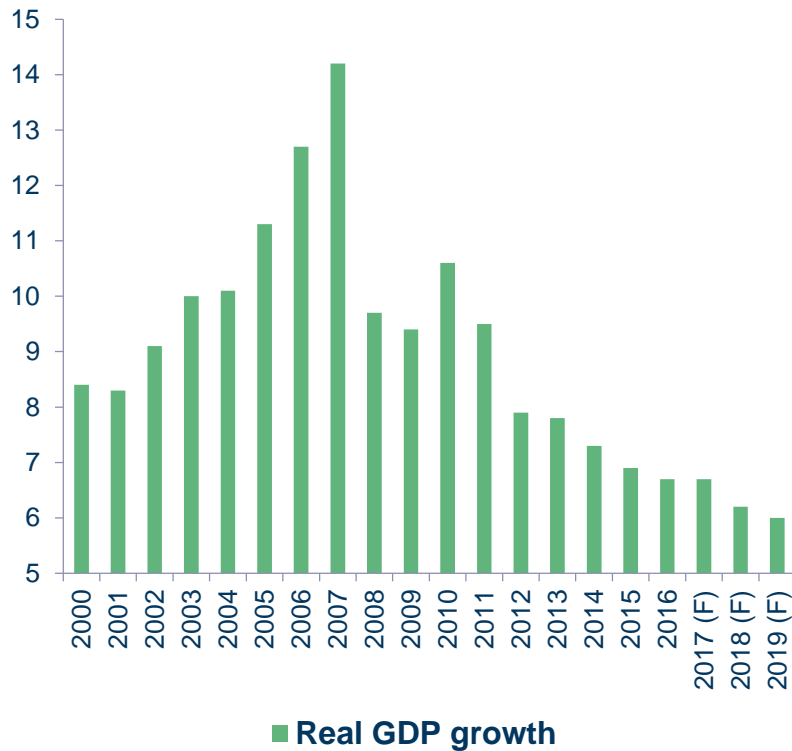
THE RECOVERY IN EXPORT AND HIGHER COMMODITY PRICES

Commodity prices performed well in 2017, especially metals
(Source: Datastream and Coface; Index: January 2017 = 100)



CHINESE REBALANCING IN 2018 AND LOWER GROWTH

Real GDP growth is expected to continue to moderate gradually (%)



Source: Bloomberg and Coface

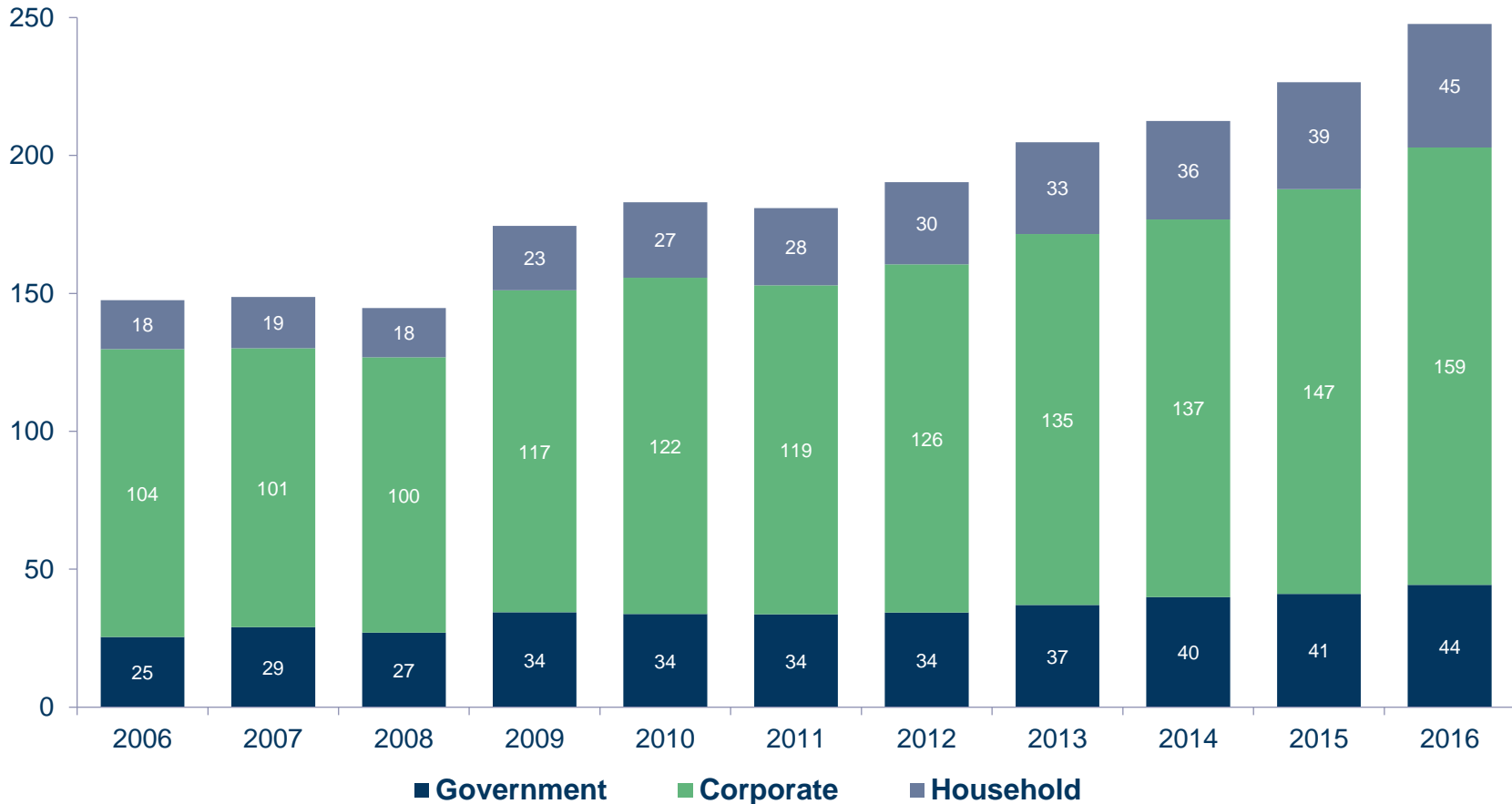
Key official targets and performance YTD point to gradual deceleration

	YTD	Target	Actual
	2017	2017	2016
Real GDP growth	6.9%	6.5%	6.5-7.0%
Urban fixed asset investment growth	8.50%	9.0%	10.5%
Retail sales growth	10.7%	10.0%	11.0%
Consumer price inflation	1.5%	3.0%	3.0%
M2 growth	10.0%	12.0%	13.0%
Total social financing growth	16.3%	12.0%	13.0%
Unemployment rate	4.0%	4.5%	4.5%
Fiscal deficit (% GDP)	N/A	3.0%	3.0%

Source: Report on the work of the government, NBS and Bloomberg and Coface

CORPORATE DEBT HAS SOARED SINCE THE GLOBAL FINANCIAL CRISIS

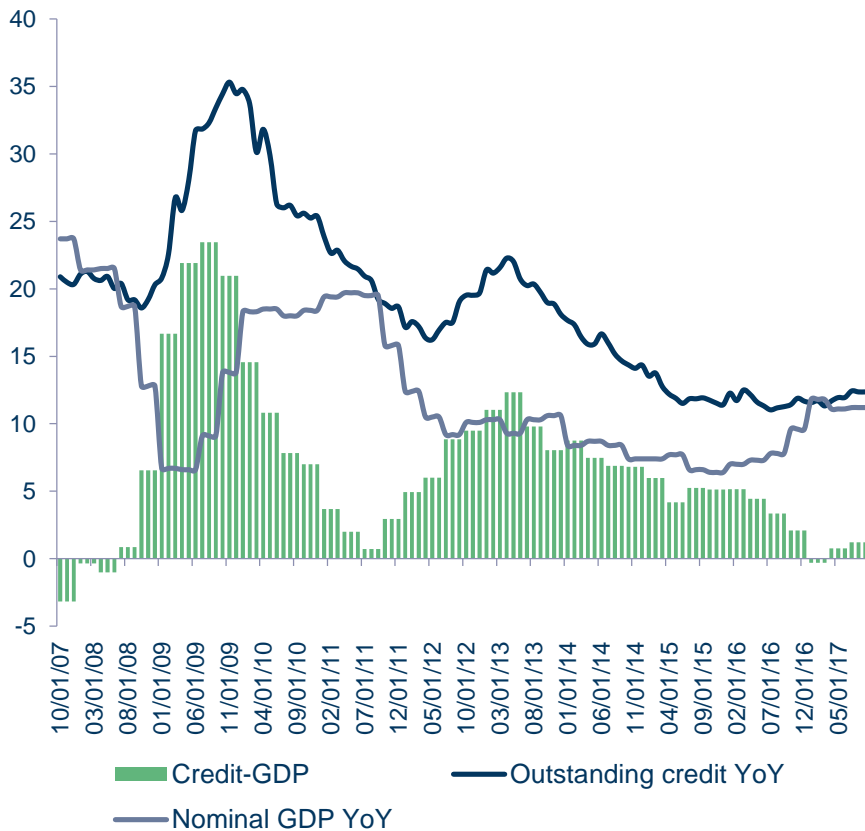
Decomposition of debt in China as a % of GDP between 2006 and 2016



Source: IMF, Bloomberg and Coface

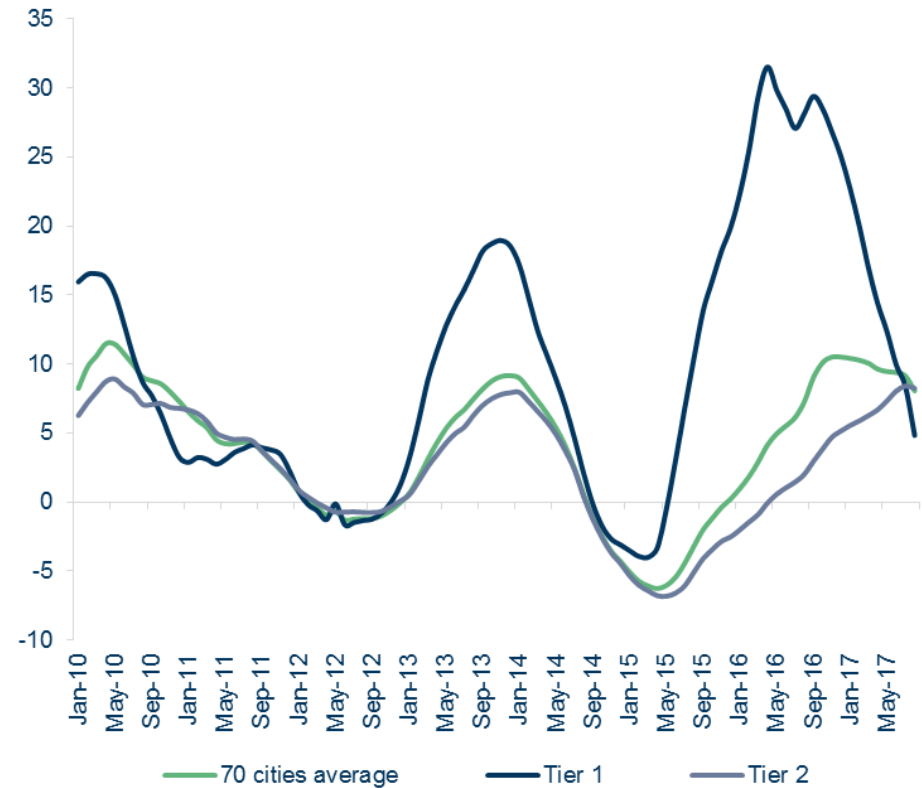
IN PARTICULAR, THE GOVERNMENT WILL TACKLE FINANCIAL VULNERABILITIES

Debt-GDP Dynamics



Source: Bloomberg and Coface

Housing bubble



Source: Bloomberg and Coface

STRESS IN DEBT SERVICE BY SECTOR

Higher debt levels means higher costs of debt service. Interest cover (defined as EBITDA/Interest expense) remains high for certain sectors in China

Sector	Proportion of firms with Interest cover >1
Metals	37.0
Energy	25.0
Chemicals	22.8
Agrofood	19.7
Construction	16.9
Textile	16.7
Transport equipment	16.1
Engineering	15.1
TOTAL	14.5
Financial services	12.1
Others	10.9
Transport services	10.2
Electrical equipment	10.2
Retail	9.1
Wood and Paper	6.5
Services	5.6
Pharmaceuticals	5.3

ASIA PAYMENT SURVEY: OVERDUE SITUATION DETERIORATED IN 2016

Sector	Overdue issues in 2016 vs. 2015 (% of respondents)						Coface barometer **
	Overdue issues over the past 12 months		Increase in overdue amounts over the last year		Ultra-long overdue issues*		
	2016	2015	2016	2015	2016	2015	
Automotive and transportation	64.0%	↗ 70.8%	26.8%	↗ 35.1%	28.0%	↘ 22.7%	↘
Chemicals	72.4%	↗ 75.0%	32.6%	↗ 41.0%	27.3%	↘ 19.4%	↘
Construction	67.0%	↗ 72.5%	32.9%	↗ 49.1%	33.3%	↗ 38.0%	↘
Household electronics***	61.9%	↗ 69.0%	27.4%	↗ 32.8%	22.0%	↗ 23.1%	↘
Industrial machinery & electronics***	68.0%	↗ 77.7%	38.0%	↗ 44.3%	31.5%	31.5%	↘
IT-telecom***	59.0%	↗ 74.3%	32.1%	↘ 29.8%	30.5%	↘ 21.4%	↘
Metals	63.2%	↗ 68.5%	42.9%	↘ 40.3%	22.4%	↘ 20.1%	↘
Paper-wood	72.2%	↗ 73.9%	35.7%	↗ 41.5%	15.1%	↗ 20.0%	↘
Pharmaceuticals	64.6%	↘ 62.5%	29.0%	↘ 23.3%	21.3%	↗ 23.3%	↘
Retail	57.3%	↗ 64.3%	28.8%	28.0%	24.6%	↘ 15.3%	↘
Textile-clothing	58.6%	↗ 60.0%	26.4%	↗ 37.2%	15.4%	↗ 29.3%	↘
Total	63.8%	69.8%	32.1%	36.9%	25.7%	24.2%	

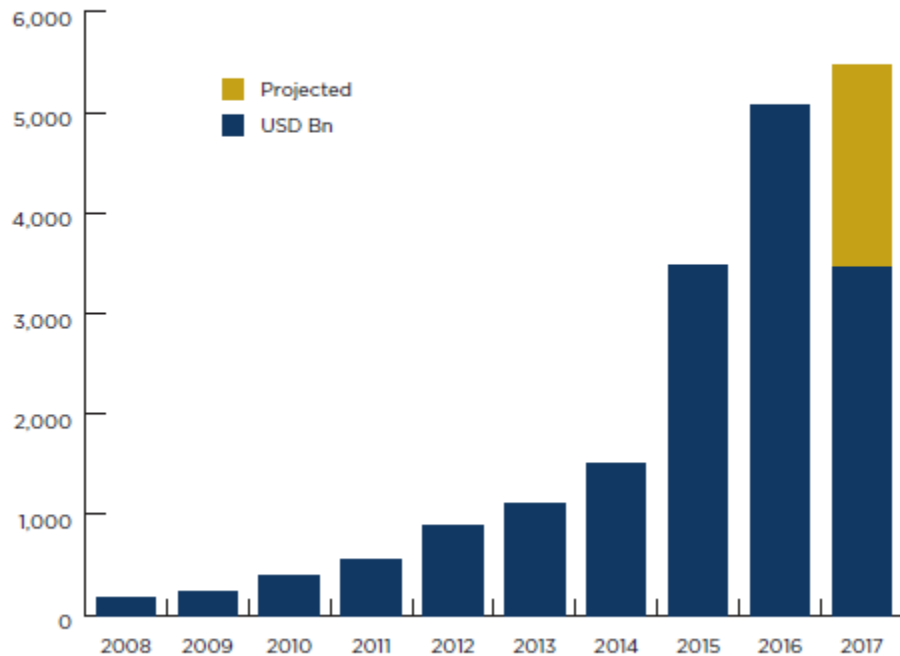
*The higher the percentage of respondents suffering from ultra-long overdue amounts (> 180 days) exceeding 2% of annual turnover, the more vulnerable the sector. This percentage of respondents with ultra-long overdues in 2016 was compared to 2015, to give a 3 level assessment: Deteriorated, Stabilised and Improved. ** Coface's assessments are based on the financial data published by listed companies, including: turnover, profitability, net indebtedness and cash flow; as well as our payment experience. ***For Coface barometer, these three sectors are categorised as the Information and Communication Technologies (ICT), according to Coface.

Source: Coface

SHOULD YOU BE CONCERNED ABOUT CHINA'S BOND MARKET?

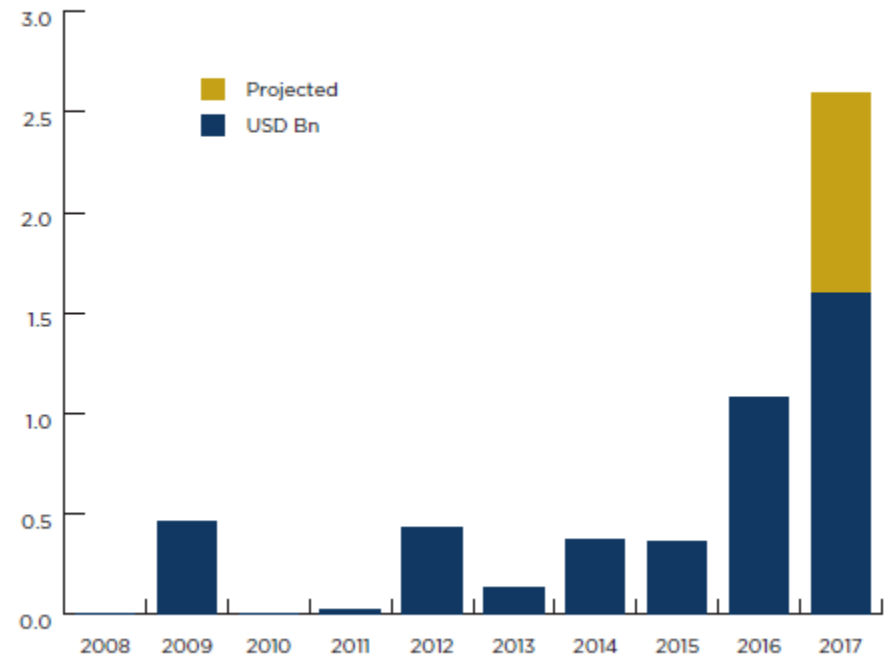
Bond defaults are very small relative to the size of China's huge domestic bond market, but they have increased quickly in 2016 and 2017

Chart 16:
 Corporate bond issuance in China



Source: Bloomberg

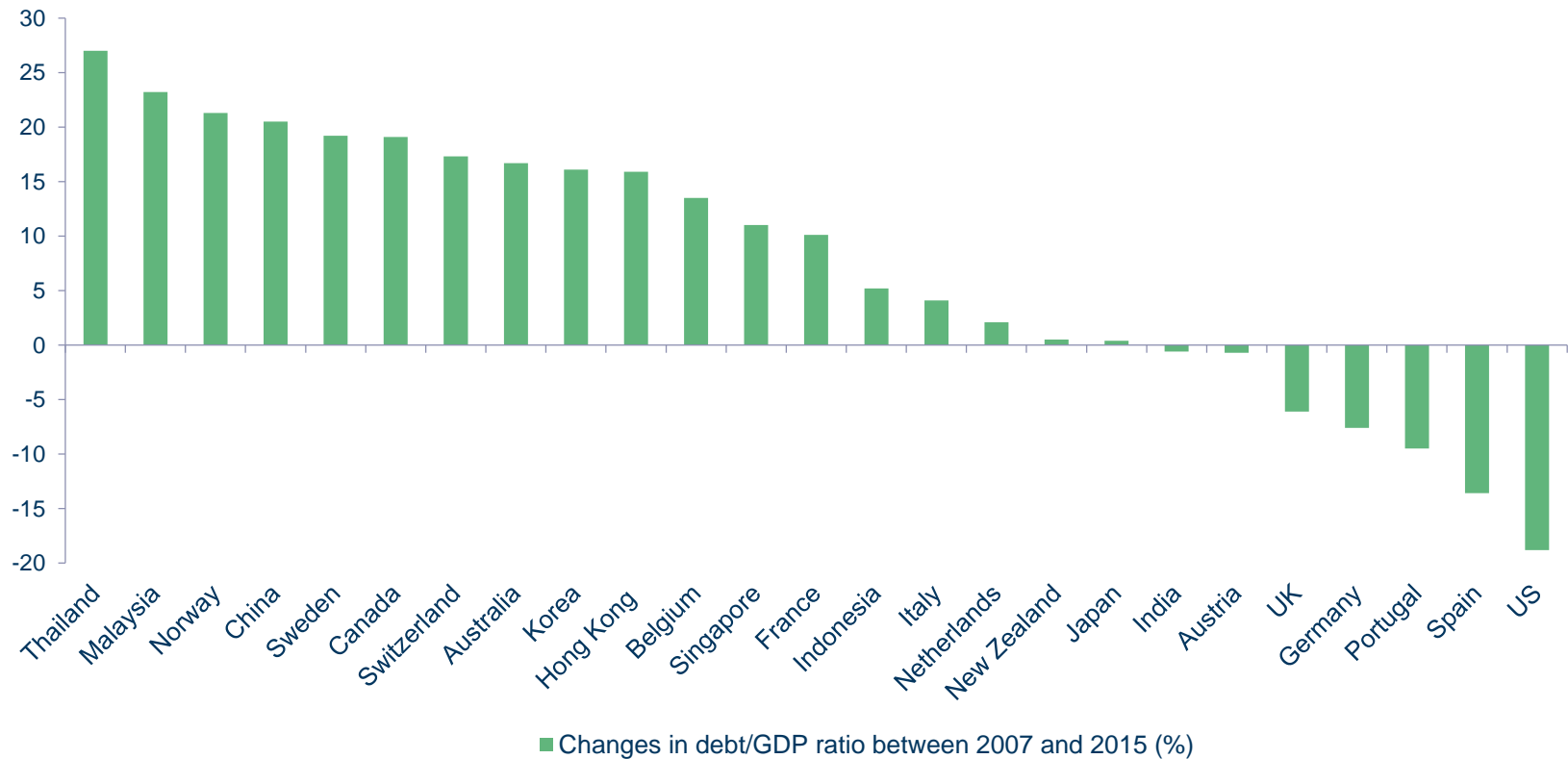
Chart 17:
 Corporate bond defaults in China



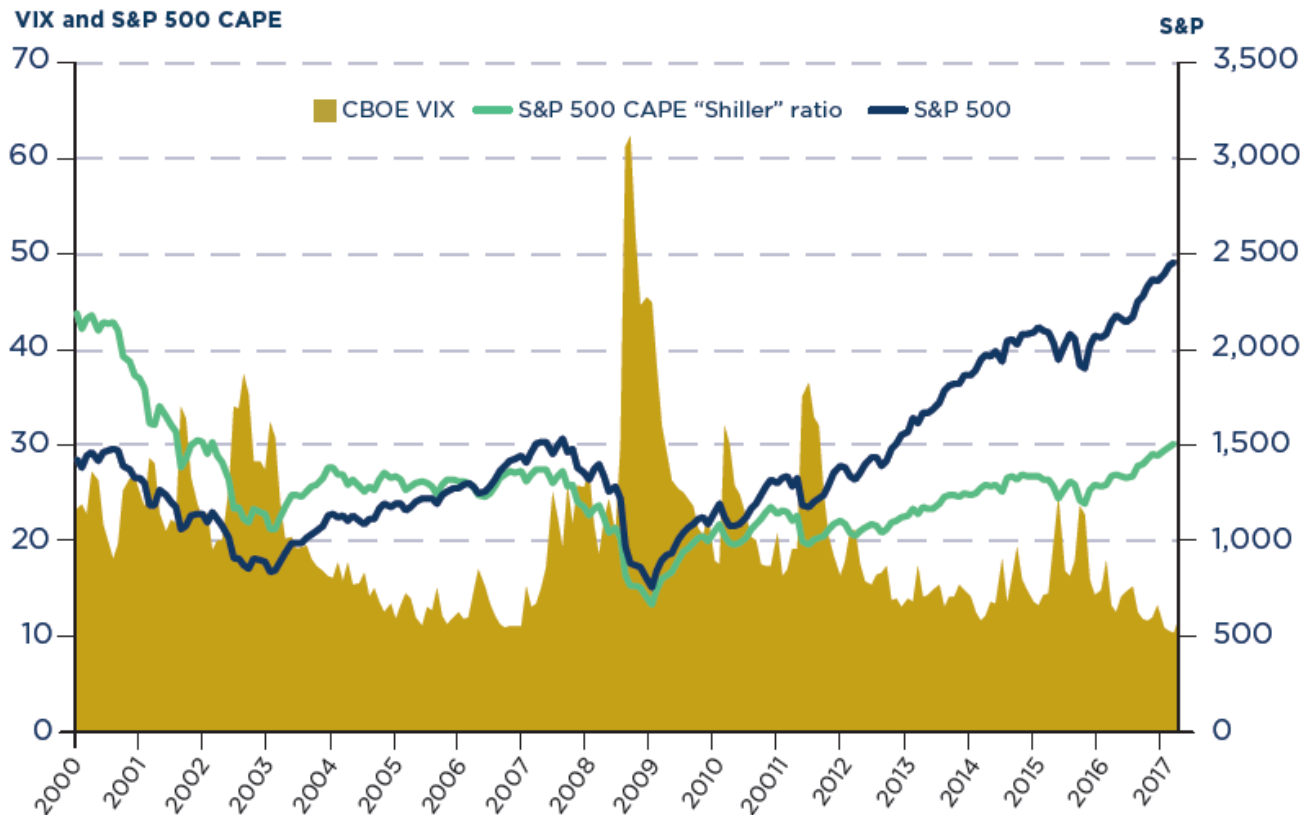
Source: Bloomberg

EMERGING ECONOMIES ARE NO STRANGERS TO MOUNTING RISKS

Emerging Asia has experienced some of the largest increases in household debt/GDP levels between 2007 and 2015, led by Thailand, Malaysia and China



Low volatility and high valuations: Ultra-accommodative monetary policies interfere with traditional warning mechanisms. Investors ignore political risk.



Source: Datastream and Coface

THANK YOU!

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