



Country Risk & Credit Risk Management in a Global Credit Crisis

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Agenda

- Story of an announced Crisis
 - ⊕ Sub Prime mortgages
 - ⊕ US Crisis
 - ⊕ Global propagation
- And where we are now
- Coface and Credit Insurance Industry
 - ⊕ Evolution in Credit Insurance Market
 - ⊕ New Credit Insurance Structures
 - ⊕ Coface "New Deal"

Coface Country and Sector Ratings

- **@Country rating**

- Assesses the average risk of payment defaults by companies in a given country
- To rate Countries, Coface combines
 - Economic and Political prospects of the Country
 - Coface Payment Experience
 - Business Climate Assessment
- Ratings are available for 155 countries, with 7 rating grades: A1, A2, A3, A4, B, C, D

- **@Sector Rating**

- Assesses the average risk of payment default by companies in a given sector
- To rate Sectors, Coface combines
 - Economic prospects of the sector
 - Companies' financial situation
 - Coface payment experience
- There are ten different grades from A+ to D, regularly updated for 15 sectors

Coface Rating

- **"Business Climate" Rating**

- Introduced in 2008, this rating is intended to assess overall business environment and more precisely whether corporate information is available and reliable and whether the legal system provides fair and efficient creditor protection
- This rating is based on a yearly survey filled by Coface entities in the world and has seven grades: A1, A2, A3, A4, B, C, D

- **Various Coface Ratings, Payment Incident Index and Assessments of Sector and Country Risks are available on www.cofacerating.com**

Epicentre: USA Summer of 2007

- Issue with “Sub-Prime Mortgage” synthetic loans
 - ⊕ 2 years ago!
 - ⊕ Issue with Quality of Credit Decisions
 - ⊕ Lack of direct exposure in issuing banks
 - ⊕ Consequence: tighter credit terms for Mortgage
- Knock-on effects
 - Financial Sector
 - ⊕ Drying of the securitization market...
 - Issues with Mark-to-marked of Synthetic assets
 - ⊕ Cascading of losses across financial sector
 - Private sector
 - ⊕ Drop of value and volumes of property market
 - Issues with perceived wealth at consumer level
 - Gradual drop in Consumer spending in USA

Propagation: 2008

➤ Financial Sector in USA

● Scrutiny of procedures

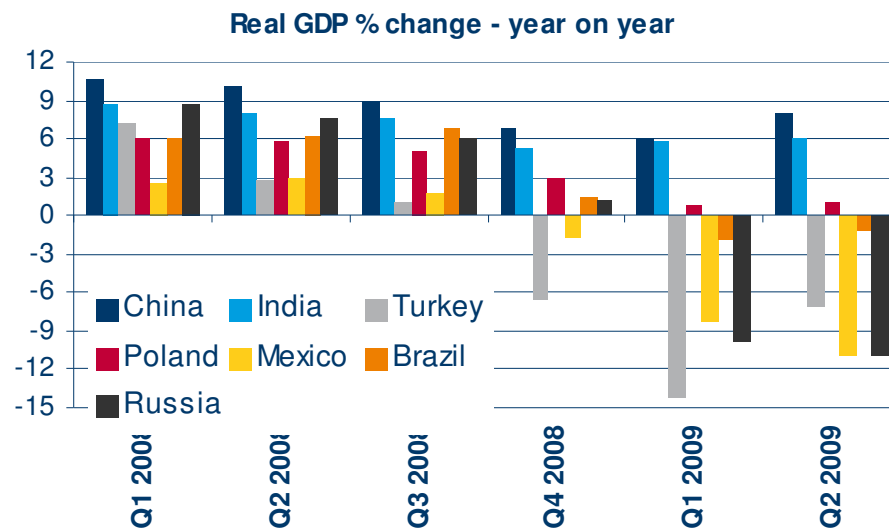
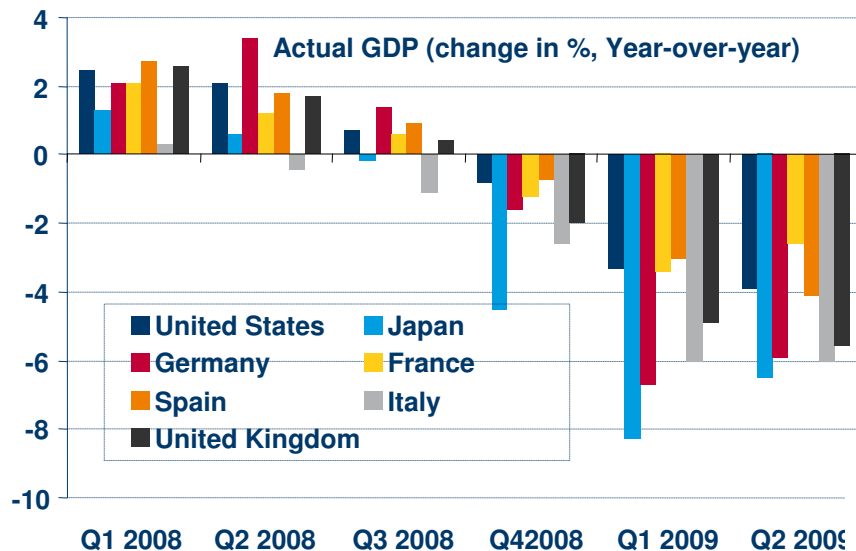
- ⊕ Tightening of Credit procedures
- ⊕ From sub-prime mortgages to sub-prime Credit Cards...
 - ⊕ Hits consumption...

● Bank Balance sheets

- ⊕ Cascading losses
 - From synthetic assets to "Toxic Assets"
 - Fracture in inter-bank market: knock on effect
- ⊕ Credit Squeeze
 - Hits corporate level
 - Hits investments...

➤ By April 2008 it was 100% clear that this was a global crisis... yet to arrive.

Mid-2009: the low point in the activity



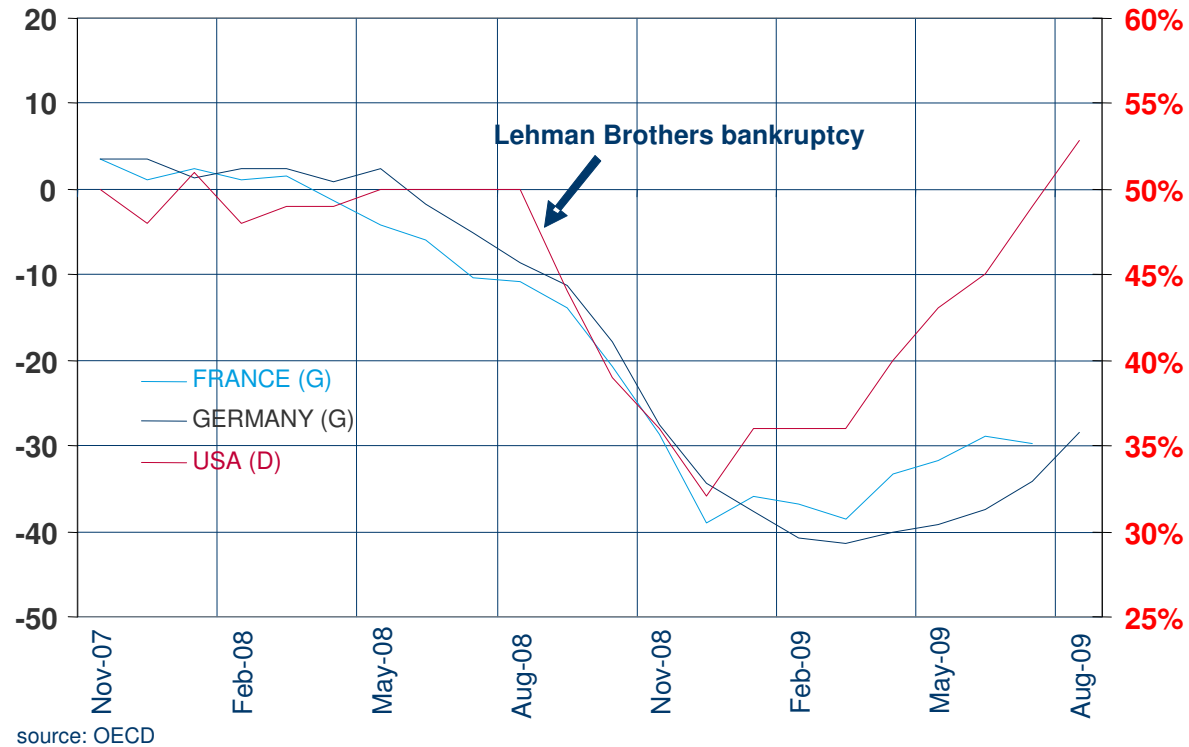
2009: a "L-shaped" scenario

- In Q1, the growth air pocket got bigger, the recession worsened in the industrialised countries and affected the major emerging countries
 - record drop in business investment
 - world trade contracted violently
- In Q2, production is continuing its general drop
 - but the rate of contraction is slowing (in the United Kingdom, in the USA)
 - A slight upswing has even been observed in France and in Germany
 - the recovery is especially sensitive in emerging Asia
- In the second half of the year, **stabilisation in the activity** is expected
 - end of destocking and the recovery plan have a positive effect on domestic demand
 - a renewed appetite for risk in the financial markets

Investors in companies are more optimistic

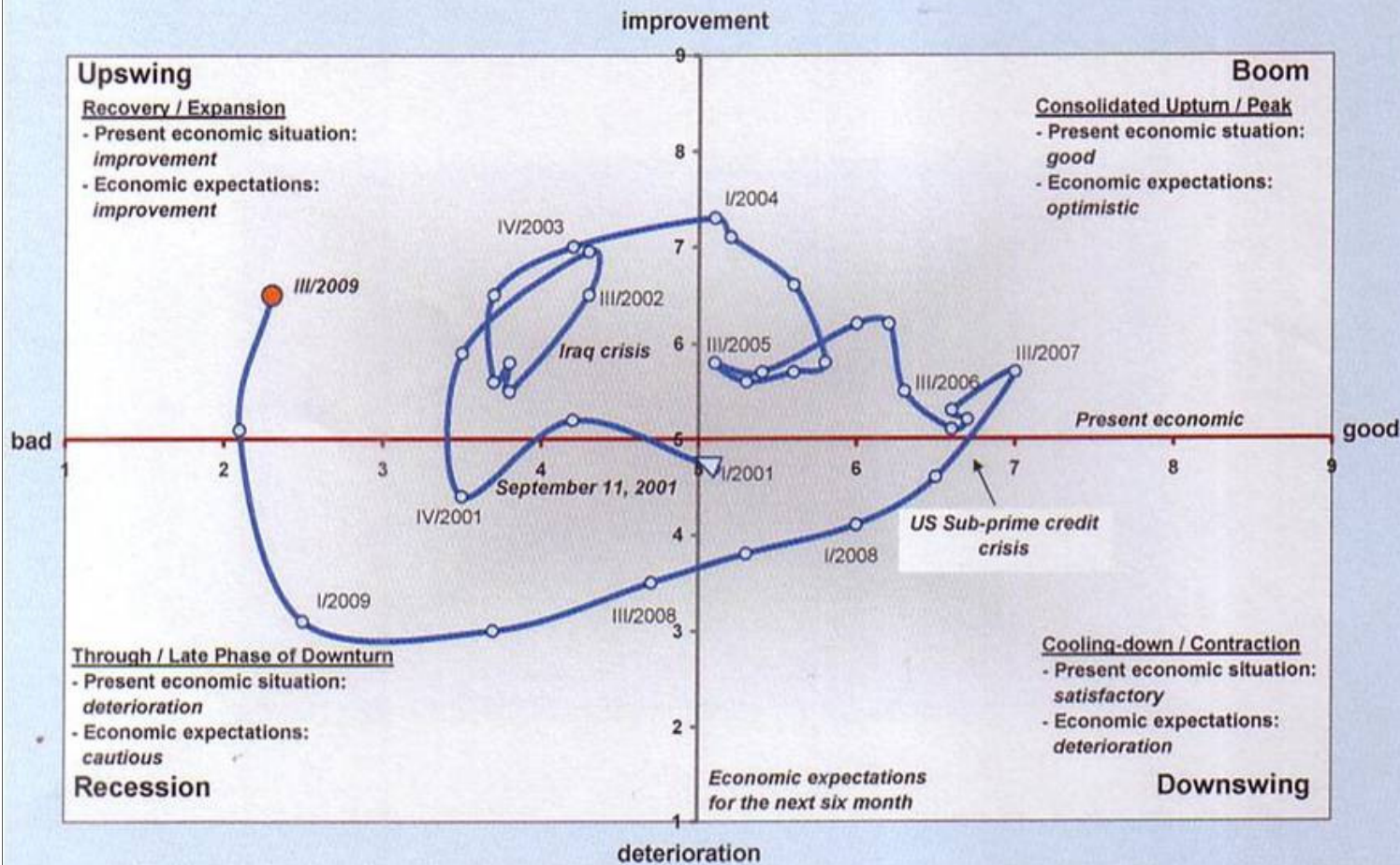
- After the post-Lehman shock on industrials' confidence, *a quick return to confidence was observed in the summer 2009*

France, Germany and United States:
manufacturing sector confidence index



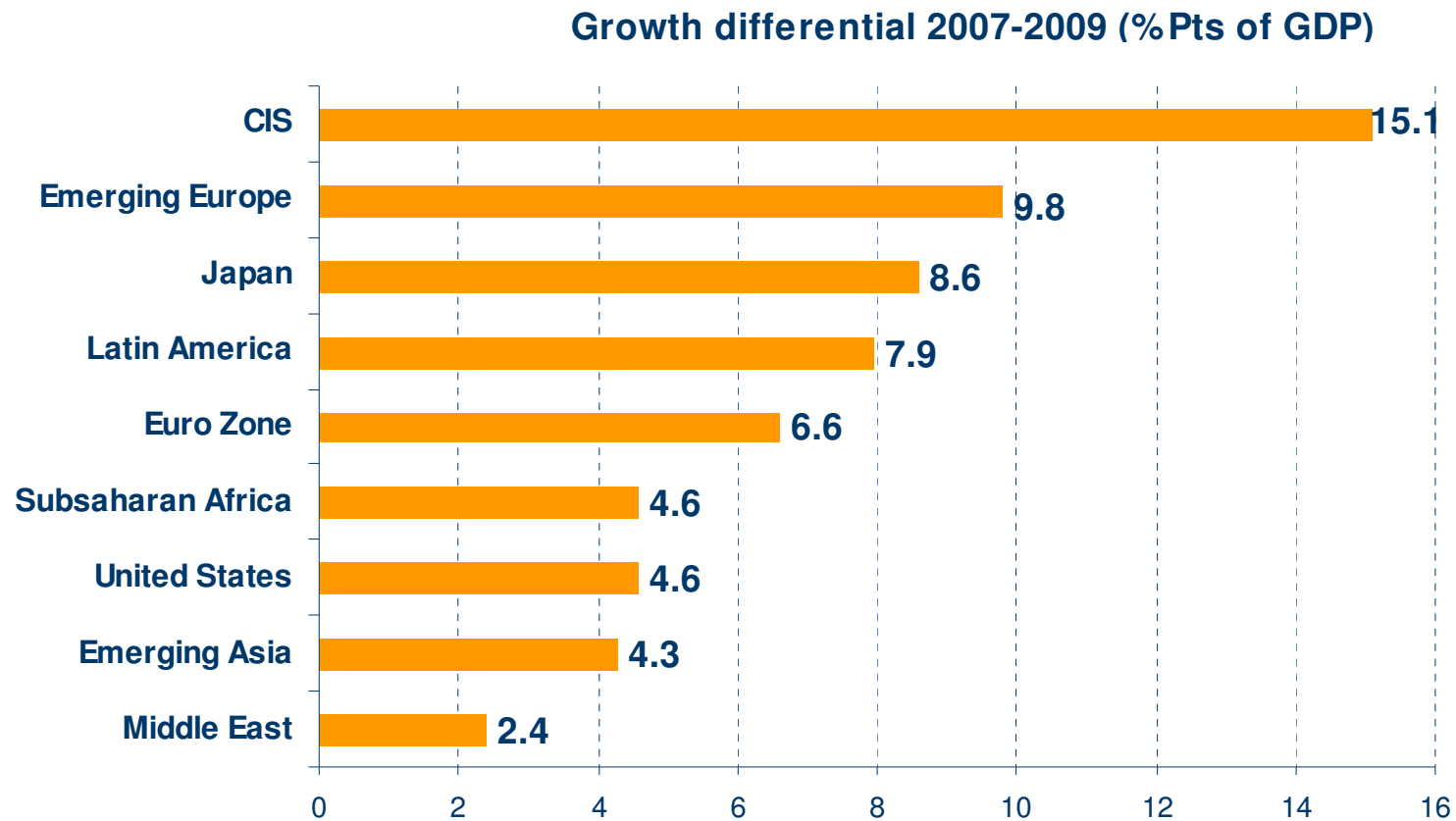
So where are we now?

Ifo World Economic Climate

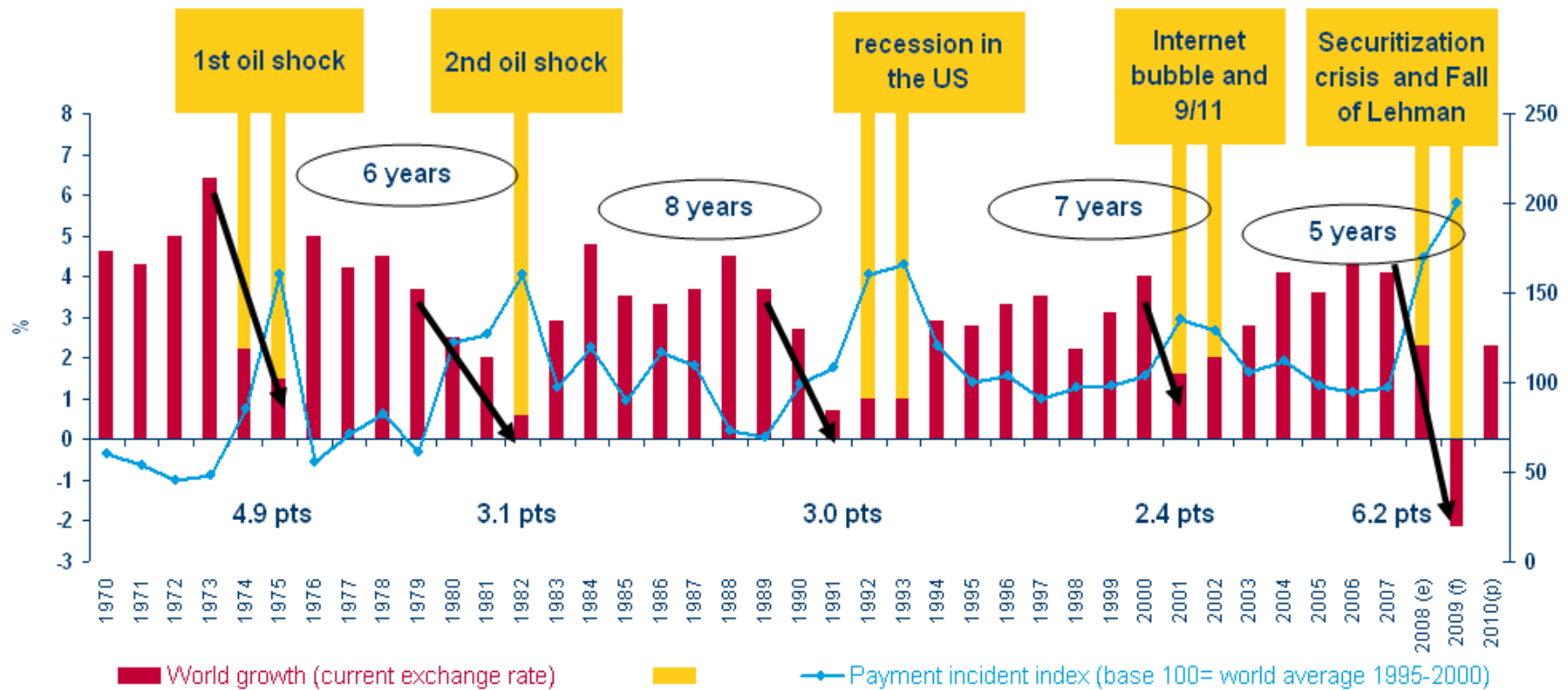


Upswing?

2009: sharp drop in growth affecting every geographical area

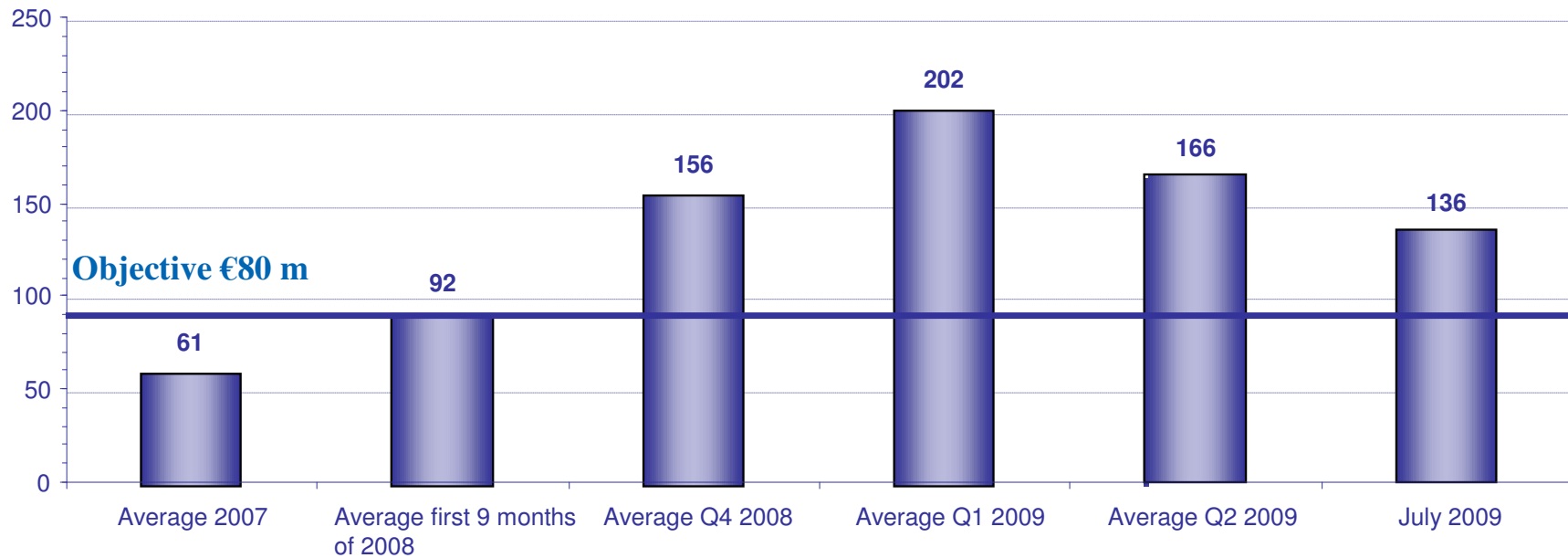


End of the credit crisis at the beginning of 2010 unless recovery is too fast and growth falls again



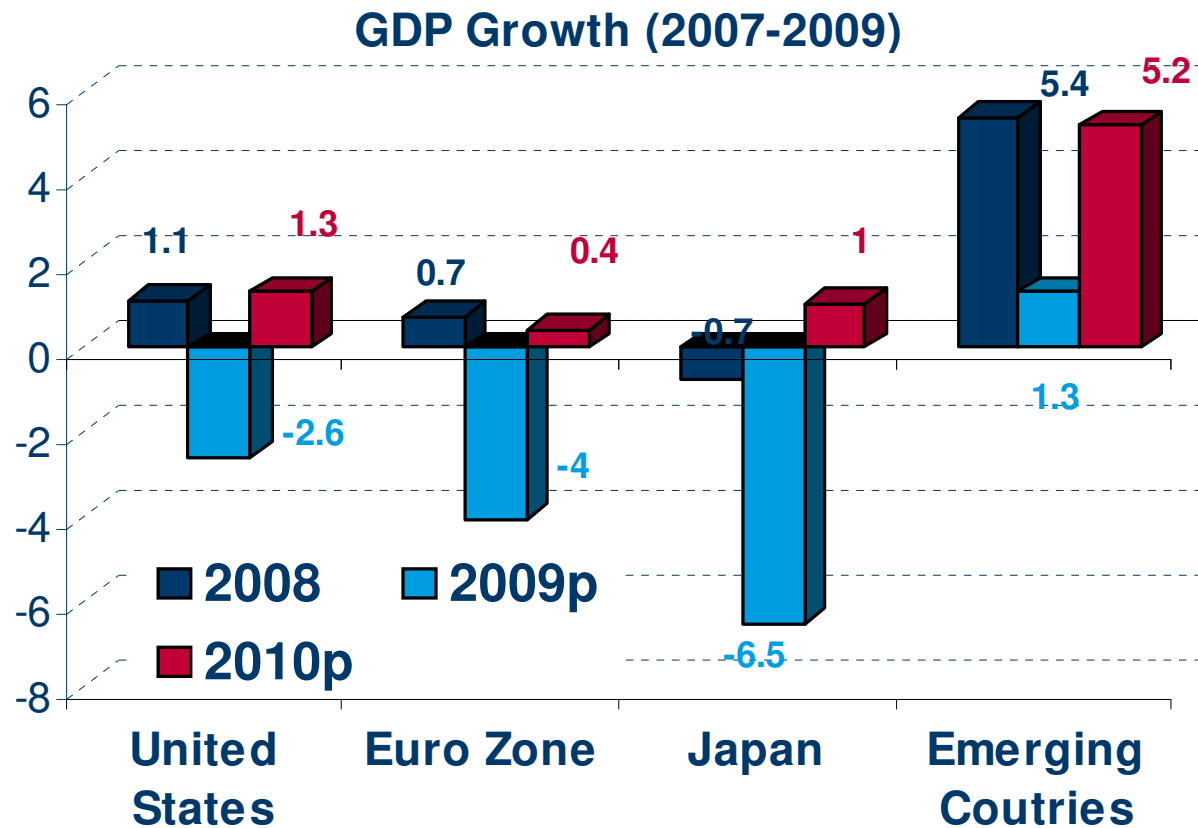
A peak of claims after the post-Lehman shock

Monthly amount of claims notifications since the first quarter



2010: back up the slope

World growth of 2,3% with 1% in the industrialised countries and 5,2% in the emerging countries



2010: a year for convalescence

- Positive growth because
 - efforts made in terms of budget policy and monetary policy
 - interest rates kept low
 - renewed investor and consumer confidence
 - intense recovery expected in emerging Asia and in Latin America
- But sluggish growth due to
 - household deleveraging (in the United States, Spain and in the United Kingdom) which is affecting demand
 - rise and inertia in terms of unemployment
 - rising commodity prices
 - rise in the euro
- **A "W" is still possible** because
 - bubbles are coming back
 - these are a potential factor of course for an accelerated recovery
 - but these bubbles increase the risk that activity will fall again
 - as private demand – especially American consumption hampered by debt and unemployment – may not be able to benefit from the upturn

Unjustified increases...

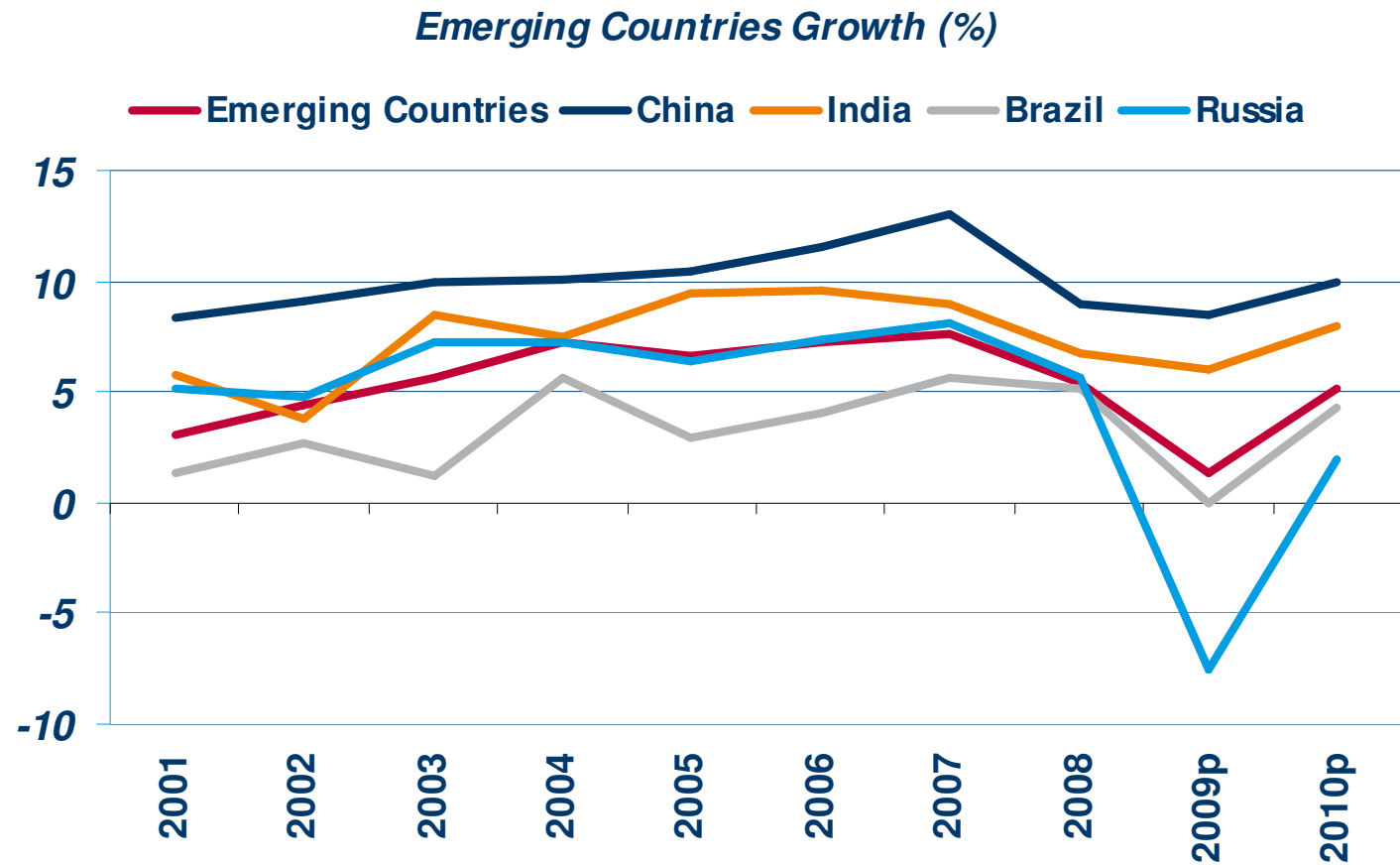
⇒ are the bubbles threatening again?

<i>Bubbles identified in September 2009</i>	<i>Current stage</i>	<i>Outlook</i>
<p>➤ Credit bubbles</p> <p><i>Industrialised countries</i></p> <p><i>Emerging countries</i></p>	<p><i>has burst</i></p> <p><i>has burst</i></p>	<p><i>absorbing itself?</i></p> <p><i>absorbing itself</i></p>
➤ Real estate bubbles	<i>has burst</i>	<i>absorbing itself</i>
➤ Market bubbles	<i>reforming</i>	<i>high volatility</i>
➤ Over-capacities in China	<i>reforming</i>	<i>amplification</i>
➤ Exchange risk		
<i>United States</i>	<i>reforming</i>	<i>moderate amplification</i>
<i>Emerging countries</i>	<i>reforming</i>	<i>amplification</i>
➤ Commodities bubble	<i>reforming</i>	<i>amplification</i>

Industrialized Countries : @Country and Business Climate Ratings

	Country risk rating					Business climate rating
	January 2008	January 2009	March 2009	June 2009	September 2009	2009
Canada	A1	A1↓	A2	A2	A2	A1
Japan	A1	A1↓	A2	A2	A2	A1
United States	A1↓	A2	A2↓	A2↓	A2↓	A1
Sweden	A1	A1	A1↓	A1↓	A1↓	A1
Switzerland	A1	A1	A1↓	A1↓	A1↓	A1
Germany	A1	A1↓	A2	A2	A2	A1
Australia	A1	A2	A2	A2	A2	A1
Austria	A1	A1	A1↓	A2	A2	A1
Belgium	A1	A1↓	A2	A2	A2	A1
Denmark	A1	A1↓	A2	A2	A2	A1
France	A1	A1↓	A2	A2	A2	A1
Netherlands	A1	A1	A1↓	A2	A2	A1
Greece	A2	A2↓	A3	A3	A3	A2
Ireland	A1↓	A2	A3	A3	A3	A1
Italy	A2	A2↓	A3	A3	A3	A2
United Kingdom	A1↓	A2	A3	A3	A3	A1
Spain	A1↓	A2↓	A3↓	A3↓	A3↓	A1
Portugal	A2	A2↓	A3	A3↓	A3↓	A2
Iceland	A1↓	A3	A4	A4	A4	A1

Emerging “Bric” markets are hurt...



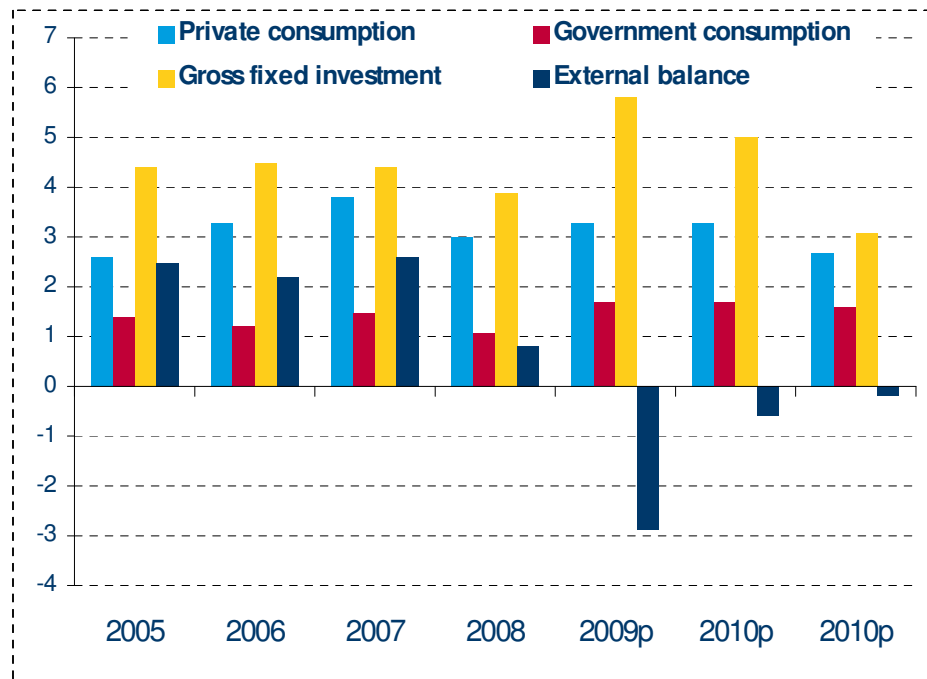
Decoupling...a myth...

- *External Trade* : emerging markets face a synchronized recession of Industrialized economies
- *Credit Crunch* : High Current Account deficit + domestic credit bubble lead to exchange rate crisis or/and Hard landing
- *Capital Outflow* : Risk aversion hurt emerging exchange rates at the end of 2008, from non resident loss of confidence to resident loss of confidence
- *Raw Material Prices*: Commodities exporters faced falling prices (and in some cases constraints in volume output)

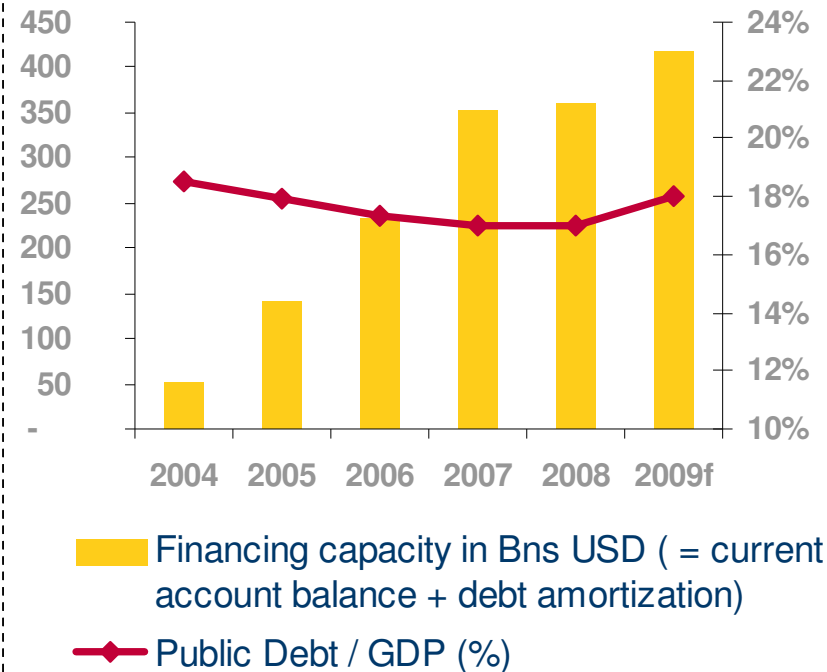
Or a reality ?

- Quick recovery in emerging Asia, even in small open economies
- Emerging countries benefited from lower risk aversion ⇒ *spreads are down, Stock markets are up since march 2009* :
- No major sovereign default, high reserves restored at the end of 2009
- Efficient and quick IMF response and centered in Emerging Europe...
- The main problem is bank and corporate external debt service
- Governments in emerging countries have not been passive : Public institutions have strengthened, as shown by better crisis management..

China: Efficient stimulus... in the short term

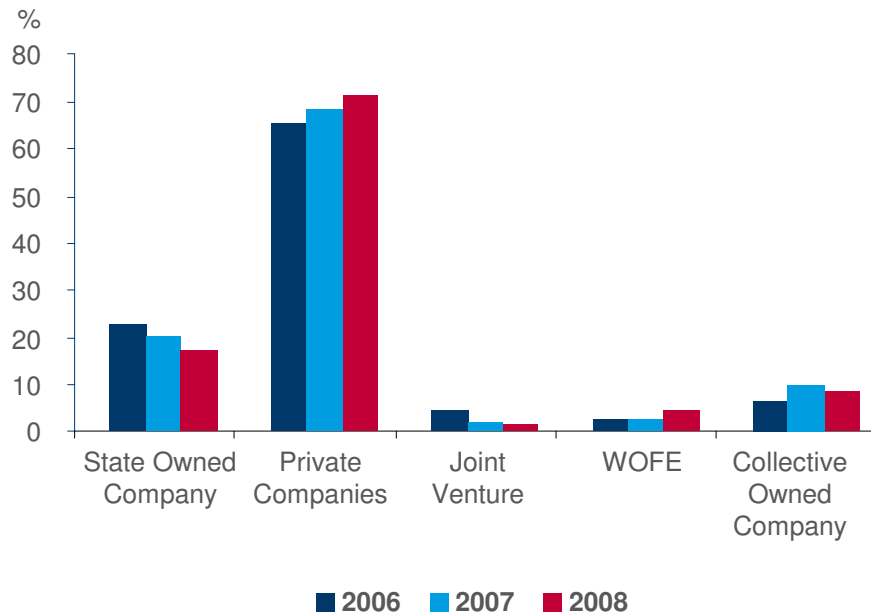


China: a strong financial situation



China: Corporates can be impacted by a small shock

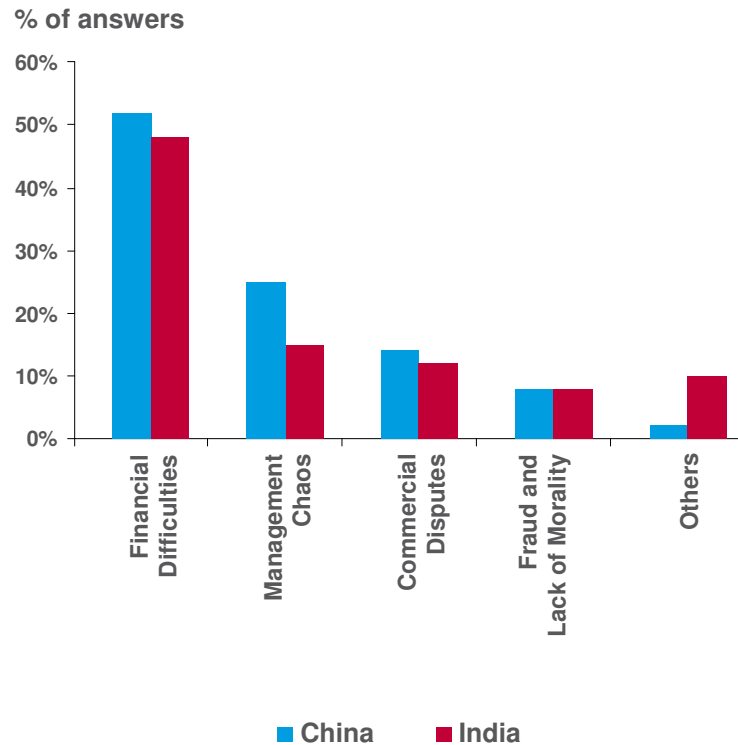
China Survey 2008: The Most Risky Type of Corporate



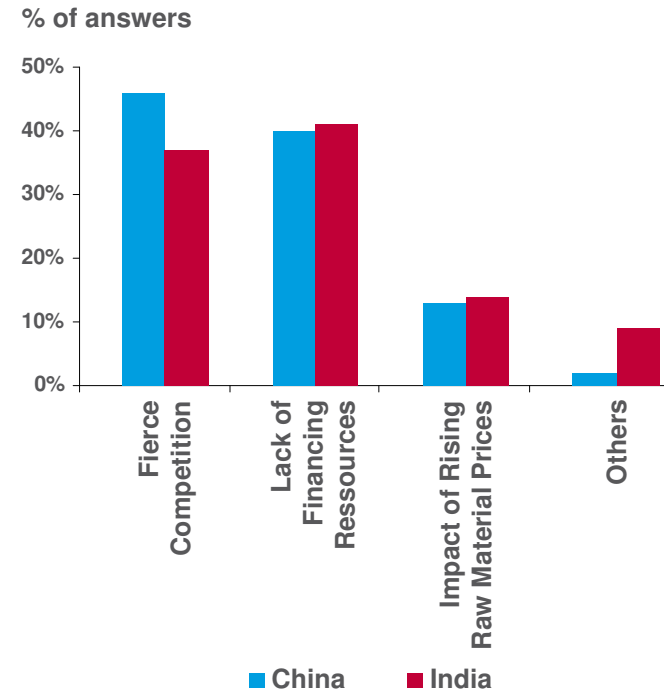
Hit Sectors	Resilient Sectors
Textile-Clothing	Pharmaceuticals
Other Light Industry (toys...)	Agricultural Products
Automotive	Environment
Construction and related Sectors	Energy
	Infrastructure

India: Are Companies more resilient than the Chinese ones?

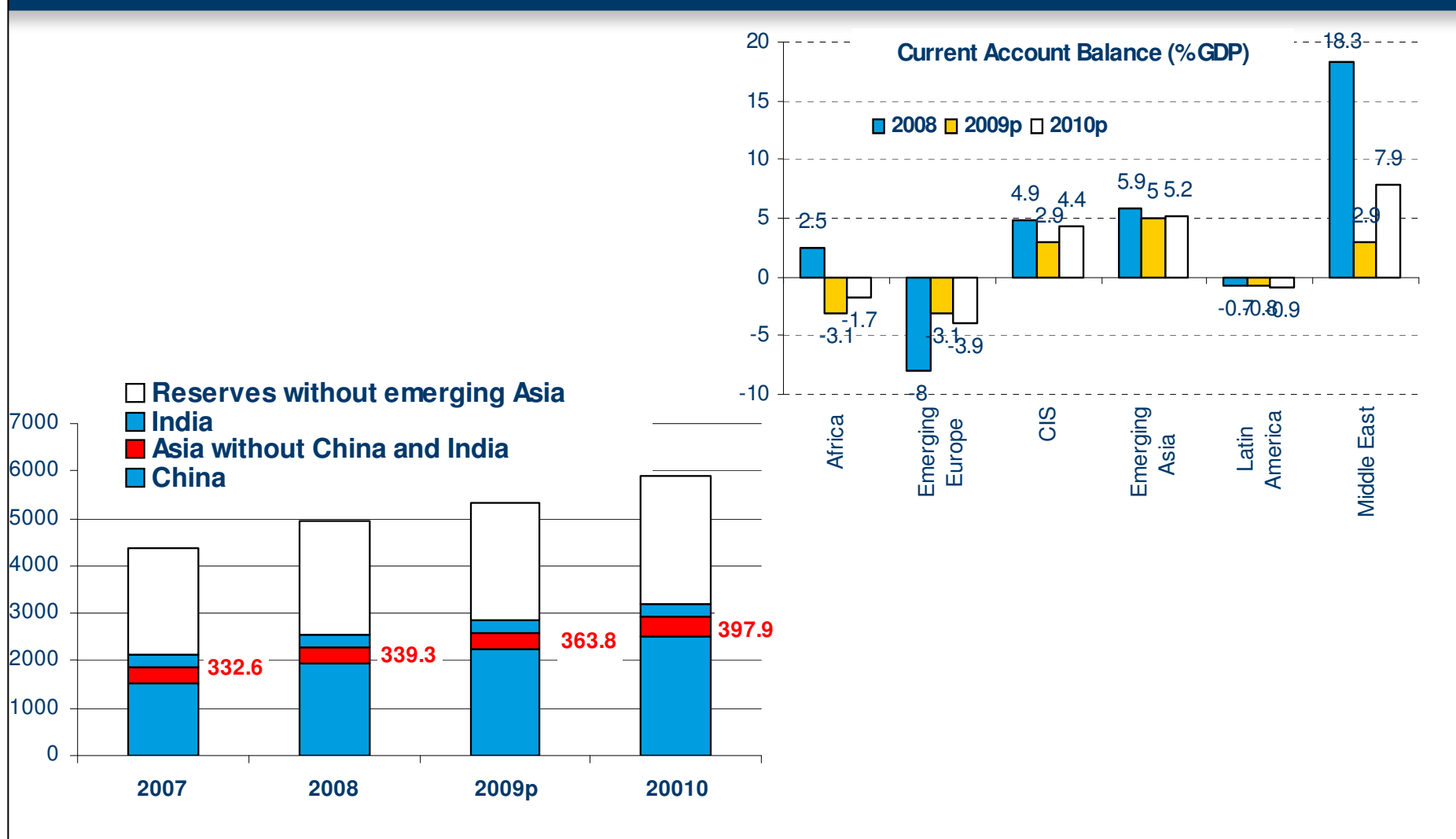
Major Reasons for Non-Payments



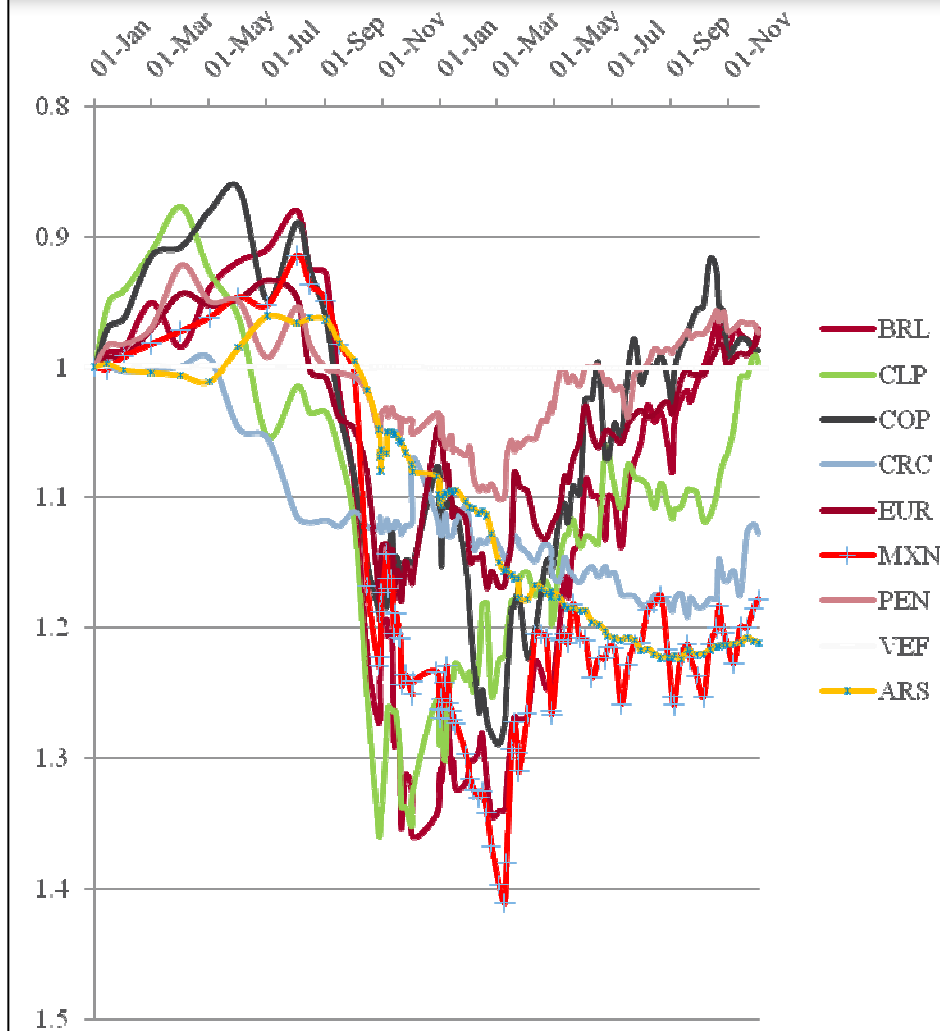
Main Reasons for Financial Difficulties



Emerging Asia: The post Lehman shock is being overcome



The day it hit home in Latin America...



➤ September 08

- ✦ Bankruptcy Lehman Brothers
- ✦ Collapse Latin American currencies

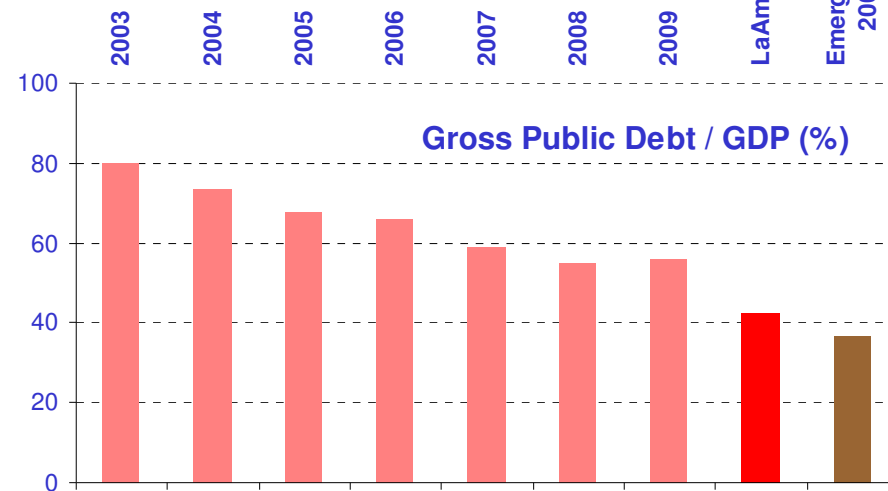
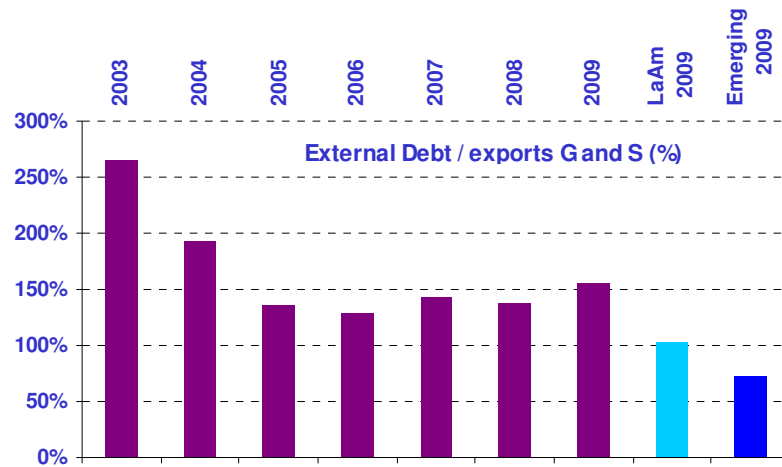
➤ 4Q2008

- ✦ Crisis confirmed
- ✦ Negative growth in world economy
- ✦ Crisis different from one country to the other

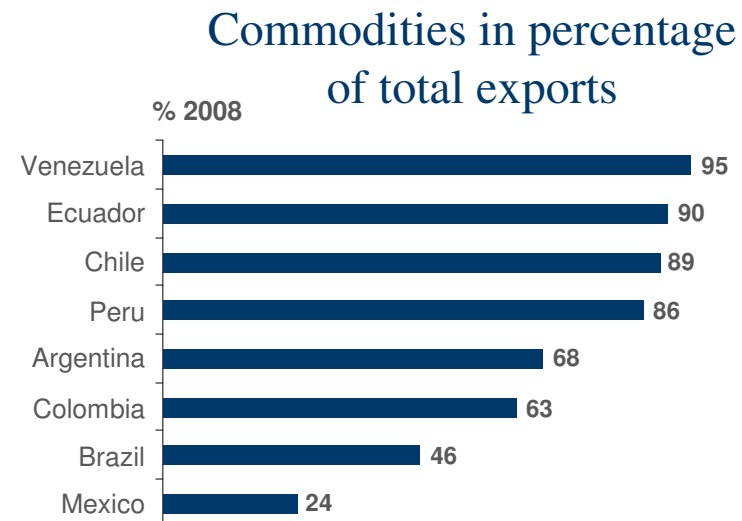
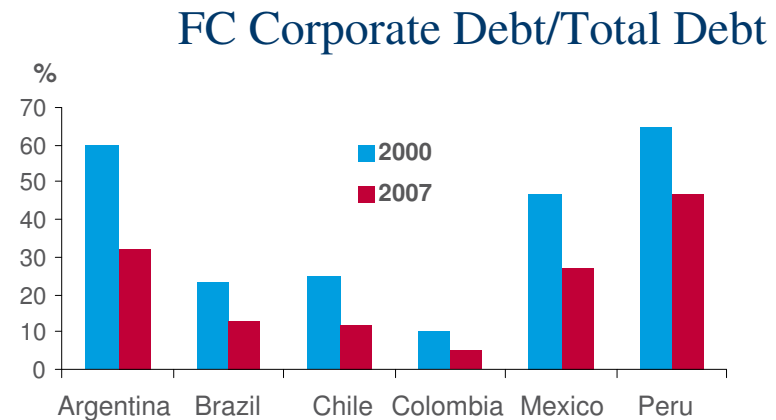
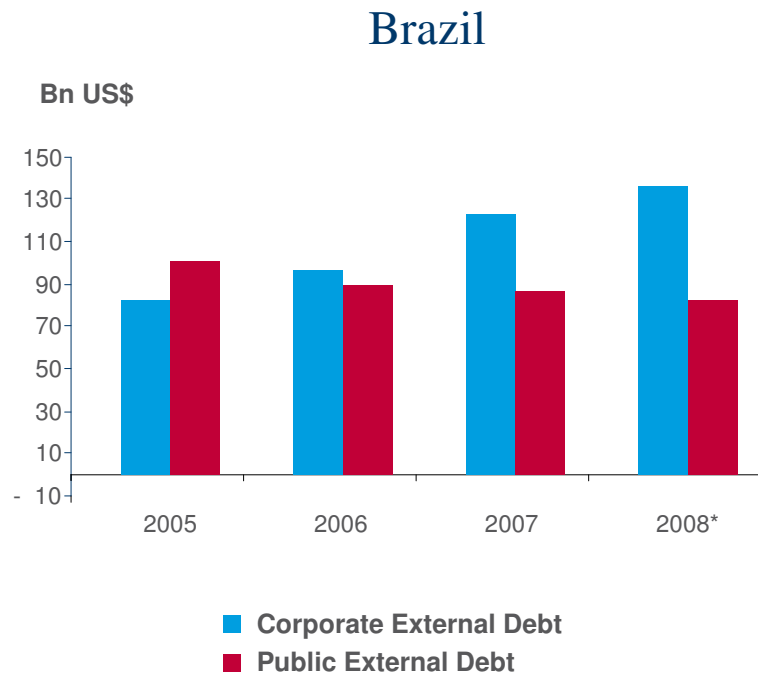
➤ 1Q and 2Q 2009

- ✦ Crisis deepening in Latin America
- ✦ But first signs of recuperation in developed countries

Brazil : the crisis came after solid macro-financial improvements



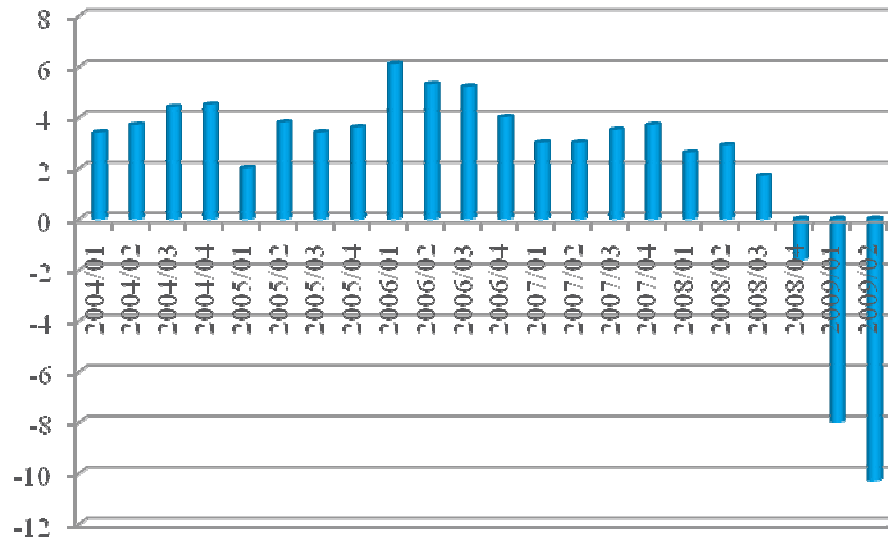
Latin America: Learning lessons from previous crisis



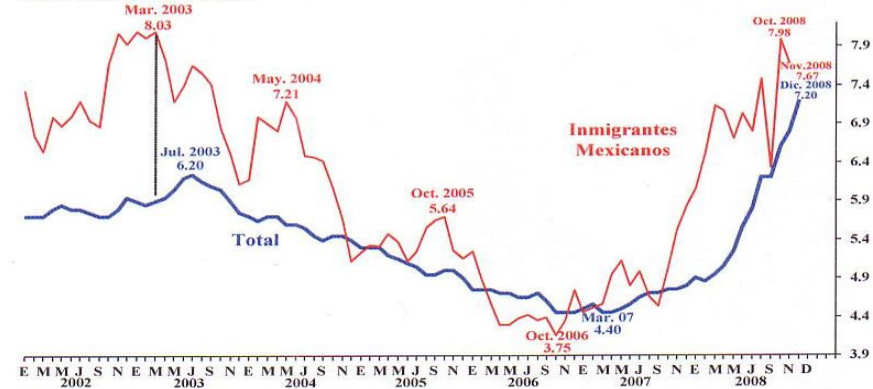
What about México...

➤ The reality of the crisis hit home fast and furious

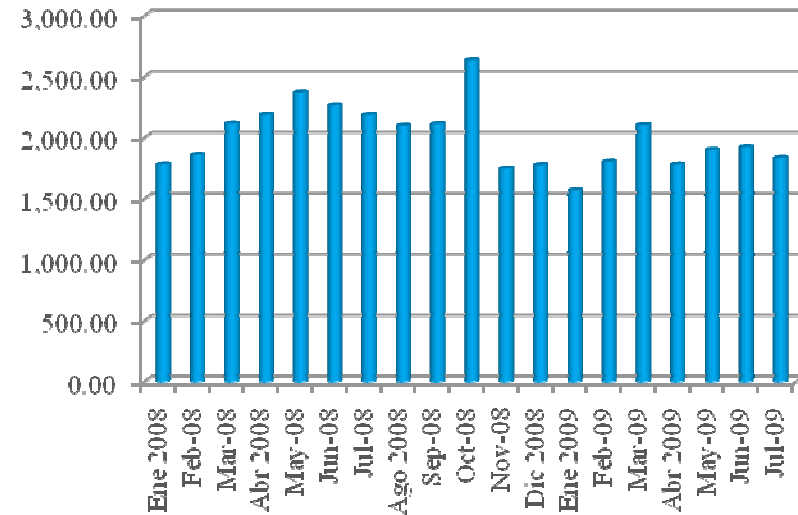
- PIB Y-on-Y quarter
 - ⊕ Worse than "Tequila Crisis" in 1994
- Remittances



Estados Unidos: Tasa de Desempleo Total y de Inmigrantes Mexicanos
Datos desestacionalizados



* Promedio móvil de dos meses hasta junio de 2008.
Fuente: Oficina de Estadísticas Laborales de Estados Unidos (BLS; Bureau of Labor Statistics).



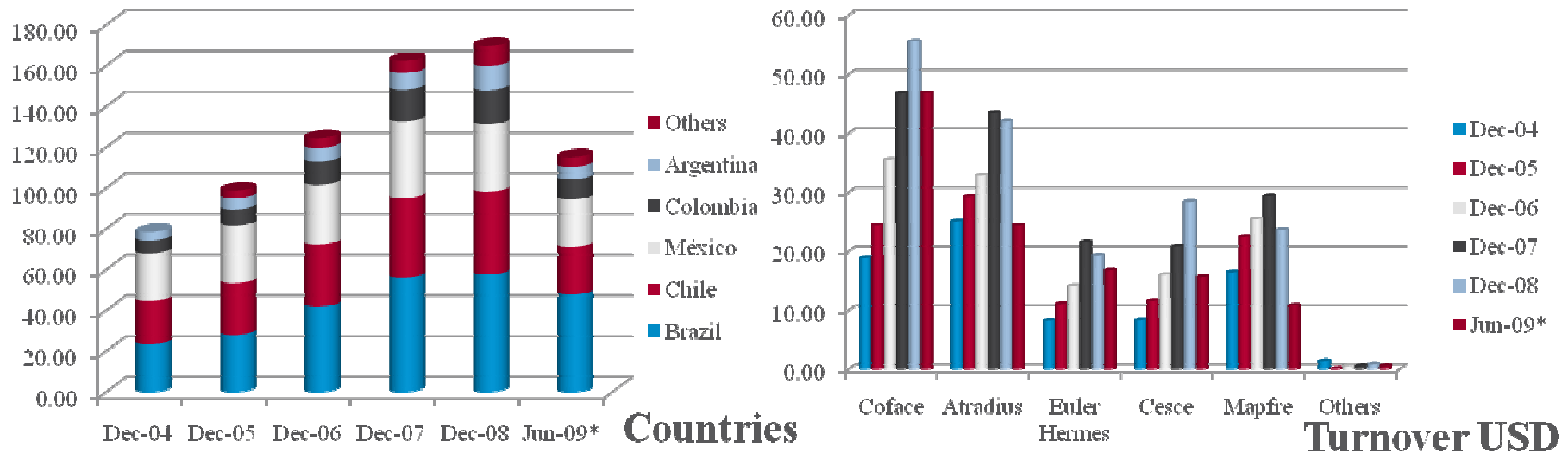
Latin America : @Country and Business Climate Ratings

	Country risk rating					Business climate rating
	January 2008	January 2009	March 2009	June 2009	September 2009	2009
Chile	A2	A2 ↘	A2 ↘	A2 ↘	A2 ↘	A2
Brazil	A4	A4	A4	A4	A4	A4
Colombia	A4	A4	A4 ↘	A4 ↘	A4 ↘	B
Mexico	A3	A4	A4 ↘	A4 ↘	A4 ↘	A4
Peru	B	B	B	B	B	B
Uruguay	B	B	B	B	B	A4
Argentina	C	C	C	C	C	B
Ecuador	C	C ↘	C ↘	C ↘	C ↘	C
Venezuela	C	C	C	C ↘	C ↘	C
Bolivia	D	D	D	D	D	C

Credit Insurance in a Credit Crisis

➤ Credit Management and Credit Insurance are crisis management tools

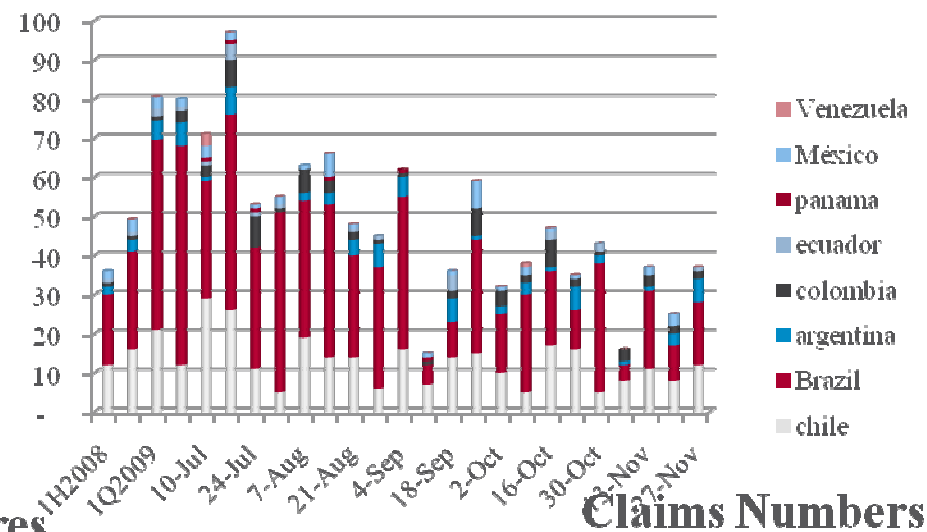
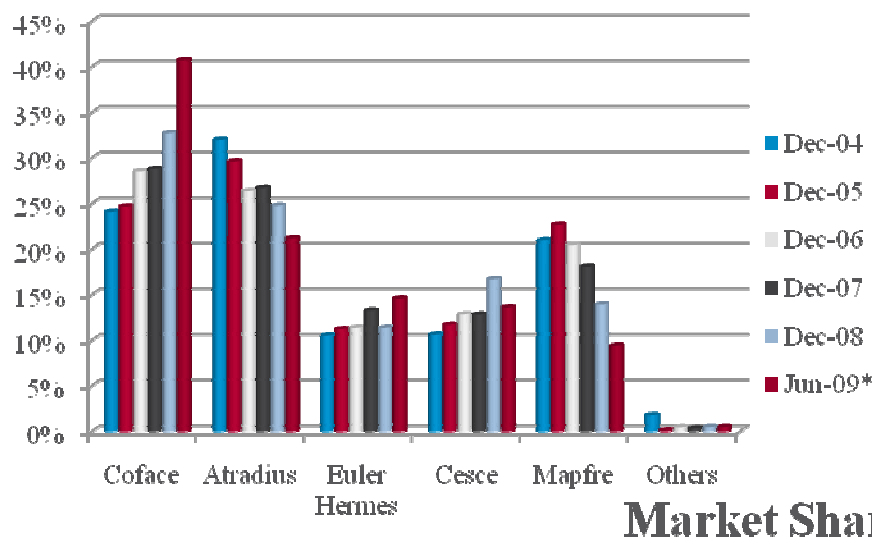
- ⊕ High growth in Latin American Markets...
 - Double in Market between 2004 and 2008...
 - 6 months 2009 equivalent to 12 months 2006...
- ⊕ Drivers for Growth are "Brasil" and "Coface"



Credit Insurance in a Credit Crisis

➤ Changing Credit Insurance Landscape

- ⊕ Issues with reinsurance "Swiss Re"
- ⊕ Claims situation in 2009
- ⊕ Continuing support for Key Customers
 - ⊕ Only 6% reduction in Buyer Limits
 - ⊕ Increased support for "Investment Grade Buyers"



Credit Insurance in Brasil

- Largest economy – Largest Market
- ⊕ But some really difficult sectors

