

Coface downgrades United States rating to A2, and watch-lists Japan with negative outlook

One year after watch-listing the United States with negative outlook, Coface, the leading international credit insurance and credit management services group, has downgraded the rating of the United States to A2. Coface found that American companies' payment behaviour deteriorated in January and February, 2008. Tougher access to credit is handicapping the most vulnerable companies trading in sectors that depend on domestic consumption.

"The US economy is likely to be weak in the first half of 2008, affected by a greater-than-expected slowdown of household consumption, which comprises 70 percent of GDP," said Richard Burton, Regional Managing Director, Greater China, Coface. "The subprime property crisis and the tighter conditions of access to credit applicable to both households and companies have been spreading to the real economy since late last year. But there should be a slight recovery in the second half of the year, stimulated by the reactive economic policy and the dynamic demand observed in the emerging countries, which represent more than 50 percent of the country's trading outlets".

The US Economy is Deteriorating

The United States' GDP growth forecast has been revised to 1.5 percent for 2008, down from 2.2 percent in 2007. This reflects an erosion in household confidence, attributable to factors including a gloomy job outlook, a negative wealth effect caused by declining property and financial asset values, higher food and petrol prices, and increasingly difficult mortgage refinancing conditions. Residential construction, and now the non-residential component continue fall amid tighter credit conditions.

Meanwhile, companies have been delaying their investments. Filings for bankruptcy and Chapter 11 protection have increased, a trend borne out by the deterioration in the corporate payment experience registered by Coface since last fall. The stiffer conditions for obtaining bank credit have particularly affected companies with the highest debts, notably in connection with debt-leveraged transactions. The weakest sectors are construction and those associated with domestic consumption.

Japan Is Likely to be Affected and is Now Watchlisted by Coface

In a related move, Coface has watch-listed the Japan rating (A1) with negative outlook. The growth forecast has been revised down to 1.4 percent. This is due to export growth slowing, handicapped by the fall in American and European demand (accounting for 25 percent and 15 percent of export sales, respectively) and a strong yen, which are reducing companies' price-competitiveness. Household consumption continues to be impeded by regular salary cuts and soaring food prices. Bankruptcies consequently rose in 2007 (increased by 18 percent), affecting companies in the construction, distribution and service sectors, as well as small and medium-sized manufacturing companies focusing on the domestic market.

"These companies have got their backs to the wall," stresses Burton. "They are often dependent on a single client, so were already suffering from pressure on their margins prior to the rise in the prices of their inputs, the keen competition now offered by Chinese sub-contractors, and flat internal demand."

Future Perspective

"If the United States economy continues to slowdown, global payment defaults should increase by 10 percent in 2008 – a third of the rise that occurred in 2001," added Burton.

Since January 2008, Coface has noted a clear increase in payment defaults in North America, beyond sectors directly connected to real estate. This shows difficulties are affecting the economy as a whole. "For example, we have a recent claim case in China's textile and products sector, involving a buyer in the United States," said Burton. "The total claim is about RMB\$2 million."

Outside North America, the impact of the crisis is still weak, but harder conditions for granting credit and a decline in growth are expected. Tougher business relations, with payment delays and a rise in litigations, are also possible.

Preventive Measures Now in Place

Coface began applying preventive measures in the second half of 2007. Risk monitoring has been significantly reinforced, linked to company information activity. Plus, a 10 percent premium increase in all the new credit insurance contracts has been announced: in Germany at the end of 2007, and early 2008 in the other countries where Coface has a direct presence.

"These measures are necessary but sufficient to carry on supporting our customer operations, while limiting the disadvantageous impact on our accounts," said Burton.

About Coface

Coface, rated AA (stable outlook) by Fitch Ratings, AA (negative outlook) by S&P and Aa3 (stable outlook) by Moody's, is a subsidiary of Natixis whose share capital (Tier 1) was 11.7 billion euros end December 2007. Coface's mission is to facilitate global business-to-business trade by offering its 120.000 customers four product lines to fully or partly outsource trade relationship management and to finance and protect their receivables: **credit insurance, company information and ratings, receivables management and factoring**. Coface also offers, in France, management of government export guarantees. Thanks to the worldwide local service delivered by 6,000 staff in 65 countries, over 45% of the world's 500 largest corporate groups are already customers of Coface.

For further information, please contact:

Coface Hong Kong Branch

Leo Chak / Joanne Lee

Tel: +852 2585 9188

E-mail: Leo_CHAK@coface.com /

Joanne_Lee@coface.com

Red Edge Public Relations

Sally To / Karis Chiu

Tel: +852 2893 9800 / 2893 8799

E-mail: info@red-edge.com