

For immediate release

27 May 2008

**Coface Warns that a Worldwide B2B Credit Crisis has Begun**

– Company Payment Defaults have Sharply Increased by 45 percent  
Over First Four Months of 2008 –

At the Coface Credit Risk Conference held today at the JW Marriott Hotel Hong Kong, Coface, the leading international credit insurance and credit management services group, announced that a worldwide B2B credit crisis has begun. This is revealed by a significant deterioration in companies payment performance.

“Company payment defaults have increased 45 percent over the first four months of 2008, compared to the same period last year. This is a clear sign of the beginning of a credit crisis,” said Richard Burton, Regional Managing Director Greater China, at Coface. “It is expected that the global payment performance situation will remain critical in the first half of 2008. But we estimate that over the whole year the crisis will be less significant than the one in 2001-2002, which was marked by 30 percent increase in payments incidents.”

The financial crisis has rippled through to the global economy by two channels: reducing American demand, which mainly affects North America and US-oriented countries and sectors; and increased difficulties with access to bank credit. Added to these factors are increased prices for raw materials and energy, the appreciation of currencies outside the dollar bloc, and very stiff competition.

**Local Economic Scene**

In Hong Kong, the GDP growth of the first quarter of 2008 has reached 7.1 percent which is supported by strong consumption in retail sector and exports. However, local economic growth is expected to slow down in the latter half of 2008 due to less dynamic demand from overseas, particularly from the United States.

On the other hand, several factors could mitigate the impact of the American slowdown, including a household consumption recovery buoyed by a decline in interest rates, low unemployment, and a wealth effect associated with the rising stock market and property prices. “We expect local economic growth in 2008 will be around 4.6 percent, and our experience shows that local payment behaviour is currently satisfactory,” said Xavier Farcot, deputy regional managing director, Greater China, of Coface.

The trade deficit widened in 2007, under the combined effect of strong domestic demand and a slowdown in goods exports. The deterioration will intensify in 2008.

### **Global Economic Scene**

Coface forecasts that global economic growth this year will be slightly around 3 percent, against 4 percent in 2007. Coface expects that industrialized countries will lose 1 percent point of GDP, and US should post 1.1 percent GDP growth in 2008. Emerging countries would also lose 1 percent point of GDP but the level of activity will remain strong.

Meanwhile, inflationary pressures are soaring worldwide. It is expected that the rise in inflation will be limited in the main industrialised countries during 2008: 3.6 percent in the United States, and 3.1 percent in the Euro zone. Resurgent inflation is also a crucial factor influencing the outlook for growth in emerging countries. The marked upsurge in prices, notably for food stuffs, has become a priority issue this year.

Given the deteriorating global economy, Coface has downgraded the ratings of seven industry sectors: electronic components, paper, textiles, automobiles, air transport, mass distribution, construction and public works. In particular, the ratings of apparel, automobiles, construction and air transport in North America have been lowered to grade C, which means that those sectors are in a very uncertain economic environment, with vulnerable corporate financial health, and relatively poor payment behaviour. The increased default payments is becoming a thorny problem.

### **United States**

Households, whose total consumption represents 70 percent of the United States' GDP, will continue to significantly reduce expenditure, particularly discretionary spending. Residential construction will continue to decline. The decrease has also spread to non-residential construction with companies postponing investments in corporate structures amid the tight credit conditions.

The economic slowdown has affected corporate payment behaviour, especially for companies in sectors linked to domestic consumption. "The rising costs of energy and transport have increased pressure on their profit margins, and the credit crunch has exacerbated their already shaky financial health," said Farcot.

Given the economic slowdown in the United States, where payment behaviour is deteriorating and access to credit has tightened, Coface has downgraded the rating of the United States to A2.

### **Europe**

Economic activity has been slowing in Europe, with the Euro zone only expected to grow 1.7 percent in 2008 against 2.6 percent in 2007. The American slowdown and unfavourable exchange rates have affected exports, though the damage has been mitigated by continuing strong demand from emerging countries.

In general, residential construction and the housing sector are no longer contributing to GDP growth, while sagging confidence, tightening credit, and a less bright job picture will undermine household consumption and corporate investment.

"In this context, the profitability of companies associated with housing will decline, and other sectors will remain weak," said Farcot.

### **China**

Economic slowdown in the United States will have limited effects on China which GDP growth will only drop 0.2 percent if growth in the United States decreases 1 percent. In this context, Coface expects a limited growth slowdown for China in 2008 (9.5 percent in 2008 vs 11.9 percent last year), spurred by strong investment. Officials have become concerned by the overcapacity in the car, steel, and construction industries, which could lead to tighter margins and financial difficulties. "Companies are fragile because of overinvestment. Any downturn of domestic activities would worsen the payment performance in China," said Farcot.

In view of the priority given to avoiding a catastrophic hard-landing scenario, monetary policy will remain strict, the moderate yuan appreciation will slightly accelerate.

Also, inflation accelerated in 2007 due mainly to rising food prices. Monetary policy will thus tighten further in 2008. Coface forecasts that the inflation rate in China in 2008 will be around 5.4 percent. However, the recent earthquake in Sichuan which is one of the key provinces producing agricultural products, may add pressure to the inflation in China. Food prices are expected to further rise in coming months.

"The huge economic loss brought by the earthquake may loosen the macro economic measures in China in order to speed up the reconstruction in Sichuan after earthquake," add Farcot.

### **Asia and Japan**

Economic growth in emerging Asia will decrease this year, from 8.9 percent in 2007 to 7.6 percent in 2008, affected by the American and European slowdowns and the pursuit of anti-inflation policies. Emerging Asia will remain resilient. The economic growth in emerging Asian countries is increasingly driven by domestic demand. They have been holding up well with their financial situations generally healthy. The good regional performance is receiving a major boost from the booming Chinese and Indian economies, which together represent 62 percent of emerging Asian GDP.

Japan's rating was put under negative watch in April 2008. Growth forecasts for 2008 have been revised down to 1.4 percent. The yen's appreciation in conjunction with the pronounced economic slowdown in the United States continues to impede export growth. The increasing costs of energy, certain raw materials, and transport are putting increasing pressure on profit margins, especially those of small companies.

“Overall, during the global credit crisis, exporters should pay extra attention to increasing country risks and deteriorating corporate payment performances, as companies have reduced economic confidence and tighter profit margins,” Farcot concluded. “By implementing effective credit review procedures with regular monitoring, exporters can react more quickly to the ever-changing business environment.”

Building on the success of conferences in the last six years, the 2008 Credit Risk Conference in Hong Kong today attracted around 300 people to share expert opinions on the challenges and opportunities facing Hong Kong exporters to major countries and regions. Top economists and analysts from renowned financial services companies including Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), Deutsche Bank AG, Hong Kong Branch, HSBC Securities (Japan) and Natixis, together with French Minister for Foreign Trade and representative from Hong Kong General Chamber of Commerce, gave their insights on economic developments in major countries around the globe.

### **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 7,000 staff in 65 countries, over 45% of the world's 500 largest corporate groups are already customers of Coface.

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