P R E S S   R E L E A S E

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Further downgrades triggered by the *Brexit* shock and falling oil revenues

- **Global growth: stability in developed countries, slight improvements among emerging economies**
- **Despite the "historic" Algiers agreement, oil remains a major issue**
- **4 downgrades in countries impacted by the fall in commodity prices**
- **Increased political and banking risks in Europe**
- **Post-Brexit incertitude: the UK downgraded to A3**

Further oil shock victims

The high degree of incertitude in the global economy is weighing on the financial health of companies. Two main factors are continuing to impact the situation.

Firstly, the weak level of global trade means that a strong recovery in growth is unlikely. Among developed countries – such as the Eurozone, where domestic demand remains lacklustre - stable growth is forecast for the near-term, with 1.6% in 2016 and 1.5% in 2017. The current situation in the US is not encouraging companies to create additional employment opportunites. In Japan, despite further fiscal policies in order to compensate for weak private investment, forecasts remain under pressure. An improvement is expected, however, among emerging economies, with an increase in GDP growth from 3.7% in 2016, to 4.2% in 2017. This will be supported by Brazil and Russia leaving recession in 2017, shown by a recovery in financial indicators and lower inflation, as both countries have reached their low point.

Secondly, oil prices remain a key issue for emerging economies. Despite the "historic" OPEC agreement on output quotas, the Brent index is only expected to record moderate gains, with Coface forecasting USD 44 in 2016 and USD 51 in 2017. The return to equilibrium between supply and demand will take considerable time. This observation has led to a series of further downgrades in the assessments of several commodity-dependent countries:

- **Oman (B)** is facing a drastic decline in public spending, which is impacting investment;
- **Trinidad and Tobago (B)** is confronted by a heavy fall in natural gas and crude oil output, exacerbated by certain oil fields reaching maturity and maintenance works on production sites;
- **Nigeria (D)** is in recession and has seen its foreign currency reserves depleted. This is affecting industrial production, due to difficulties in importing;
- **Mongolia (D)** is affected by the slowdown in the Chinese economy, which absorbs over 90% of its exports, as well as weak commodity prices. The country is on the verge of a balance of payments crisis.

P R E S S R E L E A S E

The UK has been downgraded amid incertitude surrounding the *Brexit*

Europe is destabilised by political and banking risks.

Although political risks prevail in Greece, Spain and Italy, the *Brexit* remains Europe's key issue. Even though UK growth could reach 1.9% this year, growth in 2017 is only expected to attain 0.9% - despite the Bank of England's base rate cut in August and the anticipated scenario of a favourable deal with the European Union. Furthermore, risks need to be monitored in the property sector, which is characterised by heavy household mortgage debt (132% of available income) and a 34.6% overvaluing of prices. Within this highly uncertain context - and the terms for leaving the European Union yet to be established - sterling remains volatile and has depreciated heavily, particularly against the dollar.
This lack of short term visibility is not only weighing on confidence in the UK's economy, but also across Europe. Coface has therefore downgraded its assessment of the **UK** to **A3.** Nevertheless, companies may benefit from the currency's sharp fall, which hit a 31-year low against the dollar in early October. Although this has boosted exports, it is weighing on consumer spending, due to inflation.

Further to the *Brexit*, fears are mounting regarding the health of certain banks, notably following the results of this summer's stress tests. These tests highlighted the difficulties faced by over a dozen banks, particularly in Italy and Germany.

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