

December 2008



COMPAGNIE GENERALE D'AFFACTURAGE

World News...

Emerging countries are resilient in the face of the crisis

According to Olivier de Boysson, Research Manager for Emerging Countries at the Risk Department of Société Générale, emerging countries have been more or less spared since the beginning of the crisis, as the banking systems in these countries have had low exposure to "subprime" assets.

Furthermore, the slowdown in US imports was not of such magnitude as to be a matter of concern, while commodities prices soared. Only the Dollar fundings had become difficult, particularly for banks in emerging countries, which led to a banking crisis in Kazakhstan as early as August 2007. This was a warning sign for Emerging European countries where the banking systems tend to borrow from abroad, as it is the case for Baltic countries, Romania and Russia.

However, pressures were contained by very strong growth prospects and by the sustained capital inflow.

Thus, in the 1st half of 2008, economic growth accelerated in Russia, Romania and Brazil and only slightly decelerated in Asia, which was indeed welcome as the region was showing signs of overheating.

Since July 2008, commodities prices have declined very significantly and the crisis has considerably intensified. The impact of the financial crisis is such that today, capital markets for debt refinancing are virtually closed for most of these countries.

But one major difference in the way these countries are experiencing this crisis compared to the previous ones is that they now have huge reserves and thus the means to support their banking system and to take the necessary measures to guarantee the repayment of their external debt.

Thus Russia was able to announce a major plan and other emerging countries have set up various systems to facilitate debt refinancing - Korea for example.

We thus witnessed the "decoupling" between the economies of emerging countries and those of developed countries, whereby growth in emerging countries could resist a cyclical slowdown in the economies of developed countries.

On the one hand, domestic factors driving growth in these countries have become more significant, as shown by the urbanisation process in China for instance. On the other hand, these countries account for a greater share of the global economy: they are less financially vulnerable, are less leveraged and have more reserves...

However, this resilience, which was very tangible until 3 months ago, is now threatened by the intensification of the crisis, which is not a cyclical phenomenon but a much more serious crisis.

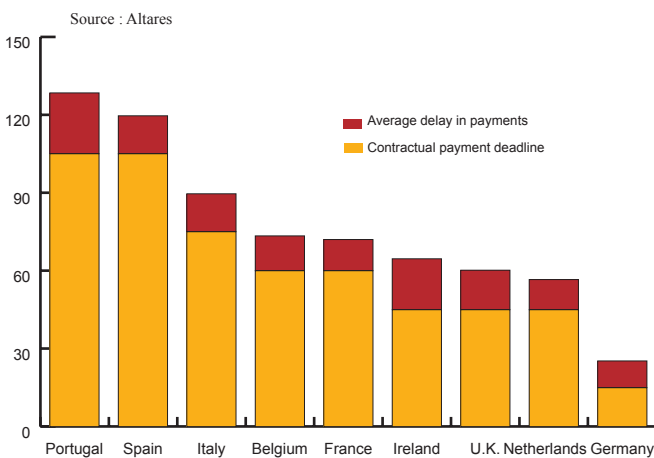
All these emerging countries will therefore be impacted by the financial crisis due to:

- the fall in global demand;
- the fall in commodities prices;
- the increase in borrowing costs.

Yet, for the first time, these countries have strong financial capacities to resist the crisis and they already form a counterweight to the recession which has hit some countries... It is therefore realistic to consider that the capacity of emerging countries to bounce back, once the money market crisis in developed countries is overcome, remains strong.

Receivables indicators...

Payment Patterns in Europe in 2008 (in days)

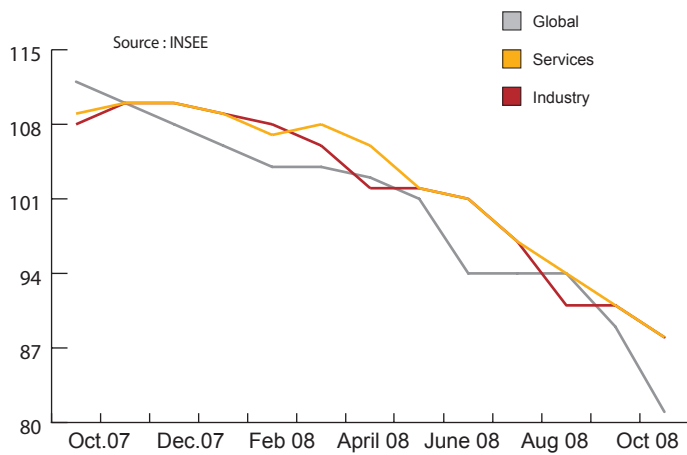


CGA Indicators

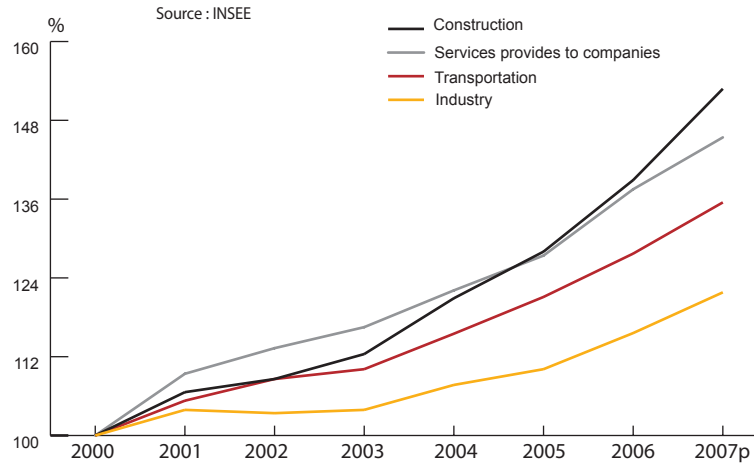
Jan-Nov 2008	CGA average	French National Average
Response to credit approval requests	3.75 days	7.1 days
Responses to credit opinion requests	4.4 days	5.8 days

French Economy side-bar ...

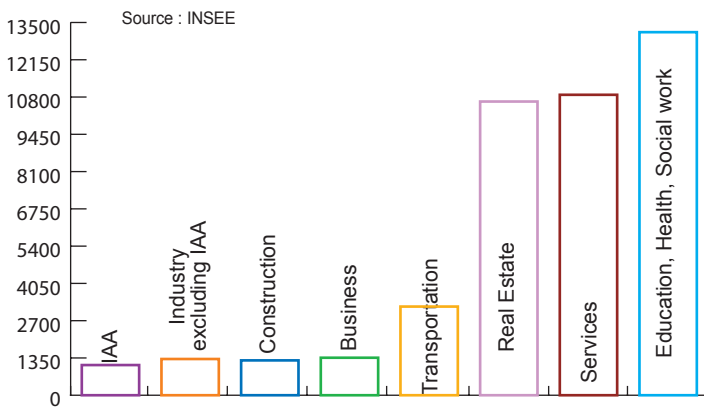
Summary indicator of the business climate
Level 100 = long term average



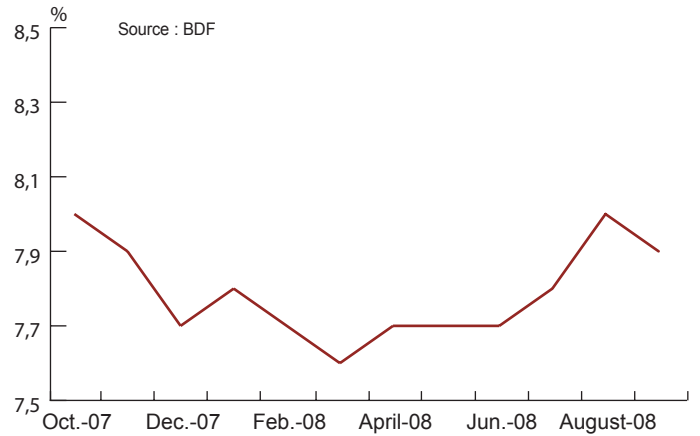
Companies' turnover trend



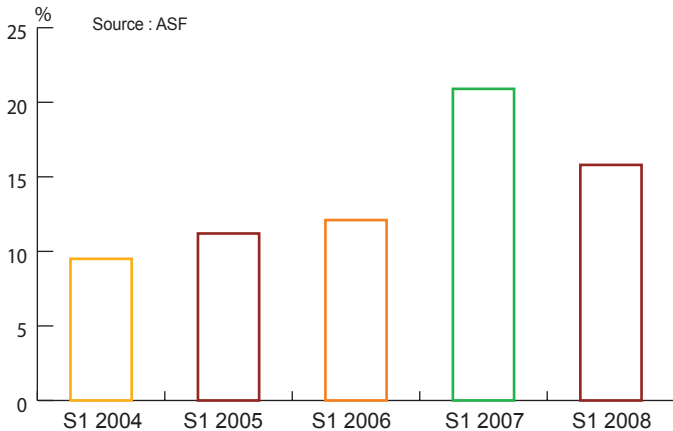
Business failure by industry sector in 2007



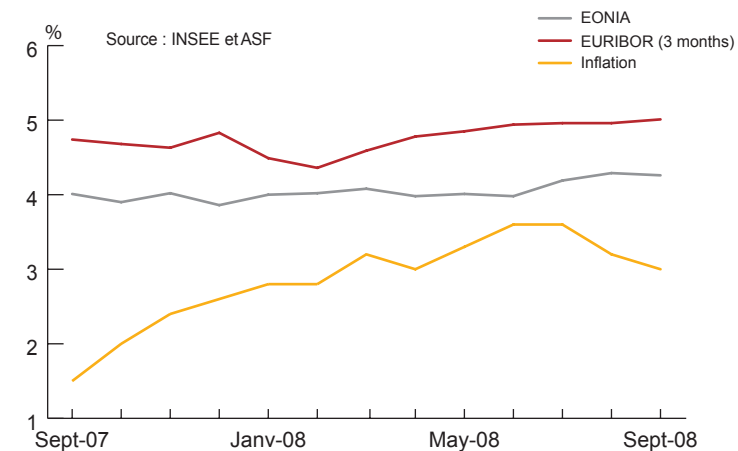
Trend in the unemployment rate



French Factoring market growth



Inflation and short term interest rates



Focus on ...

For or against ecotax on heavy goods vehicles ?

The various measures considered within the framework of Grenelle 2 (extension of the "bonus-malus" system, zero-rated loan for thermal renovation works, incineration tax, landfill tax, etc.) are stirring disputes. Among these, a tax on heavy goods vehicles, as per Article 10 of the Grenelle 1 Law, must be re-examined within the framework of the Grenelle 2 law, by the end of 2008 or the beginning of 2009.

This law introduces a mileage tax on all heavy goods vehicles weighing more than 12 tons as from 2012, to be applied on non-conceded State road network (12,000 Km.) and on departmental and communal roads (915 000 km).

There are thus two opposing camps. On the one hand, there is the National Federation of Common Carriers (FNTR – Fédération Nationale des Transports Routiers) which believes that this fee "is environmentally unfounded" and will only increase the costs of transportation, manufacturing and distribution of goods to the concerned regions at the risk of hampering town and country planning. The FNTR considers that carriers, which account for 36,000 SMEs and more than 400,000 jobs, are not in a position to bear an additional tax.

Therefore, it is requesting a compensation for the additional tax burden, in particular through a decrease in commercial diesel to the floor level authorised in Europe: 38 euro cents per litre.

This request has caused irritation among environmentalists who blame some operators in the road transport industry for exclusively defending their "vested professional interests", although this tax has several benefits:

- France Nature Environnement (FNE), a French association for nature and environment, states that the aim of Grenelle 1 and Grenelle 2 projects is to cause a shift in the transportation of goods from roads to other means (rail, river, sea) and that all operators are ready to collaborate by contributing to a means of goods transport which emits less greenhouse gases.
- This tax exists in Germany, in the Czech Republic, in Switzerland and at the European level.
- The industry already enjoys direct or indirect subsidies (national roads have always been free, the motorway network is free in some regions, there are rebates on the domestic tax on petroleum products) and a compensation for this tax would amount to a subsidy.

Economic slowdown and financial crisis

According to the research firm Altares, bankruptcies have reached their highest level in 10 years, as a result of the financial crisis. In fact, business failures increased by 17% in the 3rd quarter of 2008, with 11,407 filings, a level not witnessed since 1997.

Presently, excluding agriculture, all industries are affected in the third quarter: the real estate sector is completely down with an increase of 55% in bankruptcies, the transport sector is witnessing a surge of 49% in business failures, the industry sector +23%, services to private individuals +22%, the construction sector +13% and the trading sector +11%.

For Euler Hermes SFAC, the increase in business failures (bankruptcy, safeguard procedure, recovery proceedings, and liquidation) for the year should be between 10 and 15%. According to the CGPME (Confederation of Small and Medium-sized Industrial Enterprises), the sectors most affected are the hotel, catering, transport and construction industries with no long-term orders.

This situation is due to a combination of factors:

- The economic slowdown witnessed since the beginning of the year (due to the surge in commodities prices which could not be passed on to prices given the decline in both domestic and foreign demand...)
- Severe cash flow problems after the summer due to the ensuing credit crunch
- Orders getting depleted and credit becoming less accessible or more expensive

And even industries that seemed to have been spared up to now are witnessing a reduction in their order books and the crisis is spreading across all industries. Hence, the difficulties of the automobile industry, the first to feel the impacts of the financial crisis and of the credit crunch, have already percolated down to equipment manufacturers and to sub-contractors, as well as to the chemical and metallurgy industries, which are suppliers to the industry.

Thus, 3 leaders of the European chemical industry have announced the temporary closure of plants which employ tens of thousands of people - yet another evidence of the slow propagation of the economic crisis to all industry sectors.

However, for the optimistic ones, not all SMEs face an immediate risk: some have full order books, have built stocks of commodities, and will not necessarily be refused credit by regional banks which have nothing to gain by doing so.

This month's figure ...

13.6 days

On average, over the first 6 months of 2008, late payment by European companies is around 13.6 days after due date. Stable at 12.5 days for over 2

years, it worsened by one day since the 1st half of 2007, and this is particularly so in the UK and in Italy.

In short ...

Inflation by industry

According to Euler Hermes SFAC, in the first semester, cereal prices have increased by 35%, oil prices by 40% and steel prices have soared by 65%. According to a study carried out by this credit insurer and published on 18 September 2008, this «commodities shock» will cost 23 billion Euros on average to French companies in 2008. According to Euler Hermes' estimates, around 50 to 70% of this additional cost will be passed on to prices. As a result, companies should lose 1.4 point margin on average in 2008.

Air transport, chemical and electronics industries are likely to be most affected by this decline in profits.

To make up for this, Euler Hermes expects companies to adopt «cost reduction measures, and even embark on restructurings» in 2008 and 2009. «The automobile industry is, at this point, the best illustration of this final impact» states the credit insurer.

Over time, this increase in commodities prices should cost «1 less point of GDP» according to Michel Mollard, the Chairman of the Executive Board of Euler Hermes SFAC. However, the financial crisis has a slowdown effect on demand and on business activity which, in addition to the fall in oil prices and in the cost of money witnessed since September, should now have a stabilising effect on inflation.

Transmission of the financial crisis to the real economy

The crisis which we are experiencing has witnessed 2 phases: the first phase was felt as from 2007, followed by the second phase, in which the financial crisis, which started in September 2008, further heightened uncertainties, risks and the existing crisis.

Thus, as from July 2007, the US subprime crisis is mentioned and in the first half of 2008, an economic slowdown is seen, on account of:

- inflation (due to the surge in commodities prices);
- the erosion of purchasing power as a result of inflation;
- the shock registered in the real estate market.

The credit crisis thus started in January 2008 and we have since witnessed a 36% increase in payment-related incidents worldwide. Recently, this phenomenon has been felt even more in France: the amount of default payment increased by 75% at the end of September, and even by 125% in the 3rd quarter of 2008 compared to the same period in 2007.

In September 2008, we witnessed the outburst of the global financial crisis with:

- several bank failures, mainly in the US;
- the crisis of confidence, particularly with the collapse of international stock markets and their extreme volatility;
- the credit crunch.

In order to deal with these problems, several countries introduced State support schemes. For example, in France, the State injected 10.5 Bn Euros in the 6 largest French private banks to sustain the financing of the economy, and has created a public fund to help strategic companies in need of equity. This fund can invest in 3 ways: directly in the capital of companies, in the form of participating loans or repayable loans. This support schemes has already proven some positive effects as the credit lending to SME and VSE increased in October by 0.4% (213 vs. 212 M€). Although companies will not obtain financing which are as favorable as those available over the period 2005-2006, with extremely low Government bonds rates and narrower spreads.

And some companies involved in industries that are more exposed to the economic cycle such as the construction, chemical, automobile or paper industries may encounter more difficulties for refinancing, and

Agenda ...

The findings of our satisfaction survey



For the fifth consecutive year, CGA called upon the polling firm LH2 to conduct a survey, among its customers, of the quality of service offered. More than three hundred and fifty of our members were interviewed and the results of this survey show an overall satisfaction score of 7.1 out of 10, mainly attributable to the good relationship with the CGA representative and the high quality of response. However, expectations are still high in terms of the debt collection.

Our participation in the Entrepreneurship Fair in February 2009

Salon des
Entrepreneurs

CGA will participate in the next edition of Entrepreneurship Fair which will be held at the

Palais des Congrès in Paris on 4 and 5 February 2009. Our team of sales representatives will be available at stand no. 139 to welcome visitors and to provide them with information within the area dedicated to Banking, Financing, Insurance and Consulting.

the same applies to LBOs. Banks that have been hit by the crisis are reluctant to grant loans to companies; however, factoring could be a solution for both parties:

- on the one hand, from the point of view of the company, factoring brings in immediate cash and guarantees against debtor risks,
- on the other hand, from the point of view of the bank, it can rely on the value of the advances, which prevents it from financing losses without having any visibility over the company's business activity.

Furthermore, factoring is at the core of banks' third commitment in the French plan to support the financing of the economy.

In the previous crises, such as in 1973, 1982 or 1991, the difficult period did not last more than 18 to 24 months.

Therefore, according to François David, Chairman of COFACE, default payment should reach a peak at the beginning of 2009, before recovering at the end of the year.

Moreover, the current crisis differs from the previous ones due to the fact that world economic growth, driven by emerging countries, remains strong at around 3%.

CGAinfos

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