

## News

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### Moody's Analytics: European Corporate Credit Risk Expected to Remain Elevated

**LONDON – OCTOBER 03, 2012** Moody's Analytics expects that the credit risk of western European companies will worsen over the coming two years as the average expected default probability, a key measure of credit risk, increases. The forecast is based on Stressed EDF™ (Expected Default Frequency) measures, a recently launched credit metric, based on one-year expected default probabilities under a variety of macroeconomic scenarios.

According to Moody's Analytics, the current average EDF measure for publicly traded non-financial companies in western Europe is 5%, and based on the most likely expected economic scenario, will rise to 6.5% by the end of 2014. This will put the average corporate default probability in western Europe at a level commensurate with that in the US, where companies have historically exhibited higher credit risk.

"While the credit quality of US firms was severely affected following the 2008 financial crisis, European companies fared slightly better. Now, the intensification of the sovereign debt crisis and slower economic growth across the continent are pushing up the average default risk of European companies in line with that of US companies," said Danielle Ferry, Senior Research Analyst and lead developer of Stressed EDF measures. "Even under the baseline scenario, economic growth is expected to be sluggish enough to significantly weigh on corporate credit quality."

The outlook for corporate credit risk in western Europe is contingent upon the depth of the euro area recession. A severe recession in the coming months could push up average EDFs to as much as 10% through 2014. It's likely they would then remain elevated, at 7.8%, in December 2015.

However, the scale of credit risk is dependent on the region. The average EDF in peripheral countries is currently 10%, compared with 3.7% in core Europe and 4.7% in the Nordics. In the event of a deep recession, by the end of 2012 credit measures for the peripheral countries would rise to 23%. Whereas, given the same adverse economic scenario, the

increase would just be to 6.2% for core Europe and 9.3% for the Nordics. In the UK, the average default probability would be 8.7%.

"High interest rates on government bonds imply higher corporate credit risk, especially in fiscally troubled countries," said Petr Zemcik, Chief European Economist at Moody's Analytics. "These countries now include Italy and Spain as well as economies in the euro area periphery."

A high average EDF measure suggests a higher likelihood of payment default or bankruptcy. Stressed EDF measures provide a view up to five years into the future and are based on five different macroeconomic scenarios, including a baseline or expected case, an upside scenario, and three progressively worse downside scenarios.

Moody's Analytics launched its Stressed EDF measures in May in response to the growing importance of macroeconomic-based stress testing of credit quality. The European model launched today includes coverage for firms in the UK, France, Germany, Austria, Denmark, Portugal, Spain, Greece, Italy, Ireland, Netherlands, Luxembourg, Norway, Sweden, Finland, Switzerland, and Belgium. The North America module includes coverage for firms in the US, Canada, and the Caribbean Islands.

For more information, visit <http://www.moodyanalytics.com/StressedEDF>.

## **About Moody's Analytics**

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including the proprietary analysis of Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of \$2.3 billion in 2011, employs approximately 6,100 people worldwide and maintains a presence in 28 countries. Further information is available at [www.moodyanalytics.com](http://www.moodyanalytics.com).

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