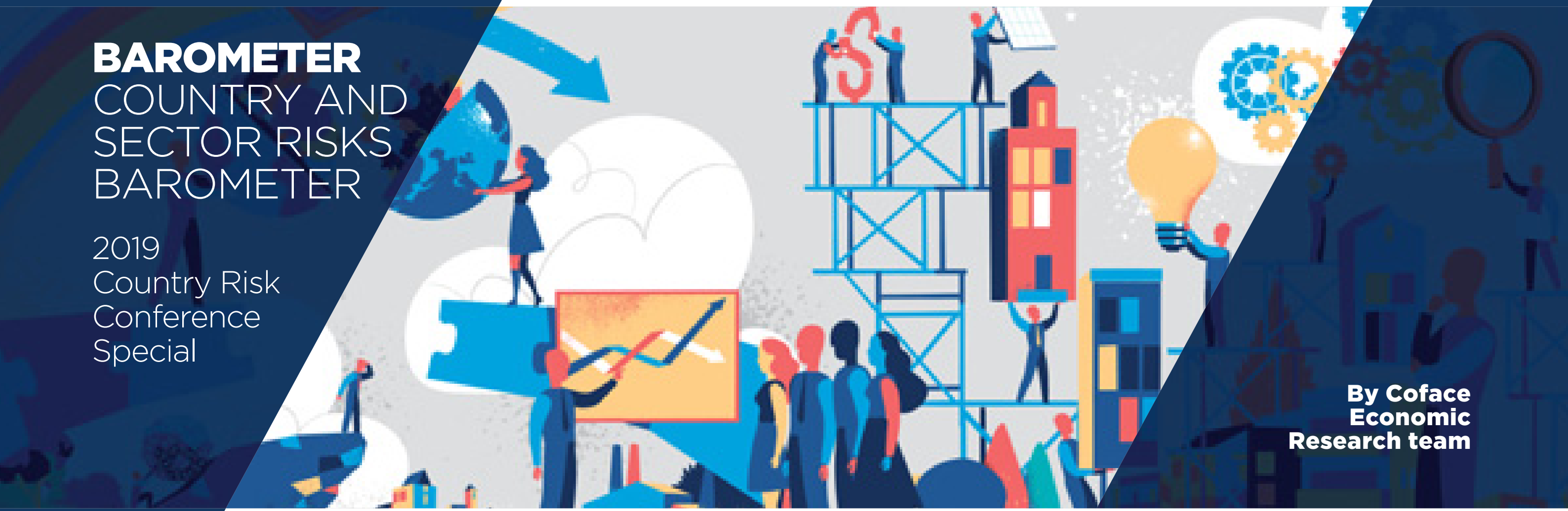
COFACE ECONOMIC PUBLICATIONS

FEBRUARY 2019

BAROMETER
COUNTRY AND SECTOR RISKS BAROMETER

2019 Country Risk Conference Special



By Coface Economic Research team

Global economy: industry is stalling

Despite the many obstacles in its path (diverse and varied political risks, high volatility of commodity prices, supply constraints in advanced economies, to name but a few), world growth in 2018 managed to sustain its 2017 rate (3.2%). However, the multiplication of these pitfalls began to slow growth down by the end of the year, to the point of darkening the outlook for the year ahead (Coface forecast: 3.0%). Although the extent of this decline seems modest, it is sufficient for business credit risk to increase: Coface anticipates that the number of corporate insolvencies will increase in 24 of the 39 countries for which this data is available, which account for 65% of global GDP (**Graph 1**). This is five and nine more countries respectively than in 2018 and 2017. The United States has yet to be part of this, even though its peak growth rate also seems to have been exceeded.

Unsurprisingly, industry provides the impetus for the economy, notably the automotive sector, whose Coface assessment of corporate credit risk has deteriorated in eight countries this quarter (including seven in Europe). This has impacted growth prospects: growth is unlikely to exceed 1.4% in Germany and France in 2019, 2.2% in Spain, and 0.5% in Italy. In this environment, world trade is not spared: Coface expects its growth to reach only 2.3% this year – 1 and 2 percentage points lower than in 2018 and 2017 respectively, but still higher than the low point of 2016.

However, slowing growth in advanced economies – particularly in the United States – has at least one positive effect: by reducing expectations of further key interest rate hikes by the US Federal Reserve, the risks of capital outflows from emerging markets are limited.

Coface anticipates that the price of a barrel of Brent crude oil will reach an average of USD 75 in 2019, a level similar to that of 2018 – even if this forecasting exercise is all the more difficult due to the significantly increasing price volatility since the beginning of the fourth quarter of 2018. This level is sufficient to prevent many oil-exporting countries from having to cut public spending to compensate for lower commodity revenues. In this contrasting context, Coface is upgrading its country risk assessments of economies dependent on this raw material: Angola (up to C), Azerbaijan (B), Canada (A2), the United Arab Emirates (A3), and Trinidad and Tobago (B). The assessments for Montenegro (B), Mozambique (D), the Dominican Republic (A4) and Rwanda (A4) have also been upgraded. In contrast, Lebanon has been downgraded to D.

coface FOR TRADE

Europe: multiple political uncertainties....

Many political uncertainties remain unresolved at the beginning of the year in Europe. Despite the agreement reached between the Italian government and the European Commission in December, the risks facing Italian banks remain high and do not allow for a significant decline in long-term government bond yields. The terms and conditions of the United Kingdom's departure from the European Union also remain uncertain, leading British companies and households to postpone their decisions to invest and/or purchase durable consumer goods. In France, the "*gilets jaunes*" (yellow vest) movement is a sign that social discontent is spreading across the continent.

Five consecutive years of positive growth and a one-third reduction in the eurozone's unemployment rate have not been enough to prevent the rise of anti-European parties in a good number of countries. The scale of these new political forces opposed – to varying degrees – to the European project will be visible during the European elections in May 2019. These could lead to a very fragmented parliament comprised of many anti-European members, which is all the more concerning giving the important powers of the former First, it validates the European Union's budget, and although it is unlikely that Eurosceptic MEPs from Central and Eastern Europe will block the budget from which their countries are the main beneficiaries (in particular through the Structural Funds), there is a risk of obstruction. Parliament also has the possibility to vote on a motion of censure against the European Commission, which is due to be renewed in October 2019 – again there is a risk of blocking, as the motion must obtain the support of two-thirds of the members of Parliament to be adopted and be endorsed by a majority of the votes cast.

... are affecting industry players' morale

The question of the coincidence between these political uncertainties and the slowdown in growth is therefore still relevant. For example, it is difficult not to see in a link between the decline in orders for capital goods in France with the *gilets jaunes* movement since November. However, the December corporate insolvency data did not (yet?) confirm a significant impact of the movement on business health (except in the retail clothing sector[1]).

More generally, the decline in confidence indices in Europe – measured through surveys of business leaders – was continuous in 2018. The beginning of this trend coincided with the rise of protectionist rhetoric in the United States and the rise in oil prices earlier this year. Since the end of the summer, it has been accompanied by a decline in new orders (-4.3% year-on-year in November 2018 in Germany) and, above all, in industrial production (**Graph 4**). Given that industry is usually a major driver of the economy, this decline is a cause for concern.

Supply constraints partly explain this slowdown in production. The production capacity utilisation rate is high: it was above 84% over the whole of 2018 in the eurozone, which is very close to the peaks of previous economic cycles (around 85% in 2007, 2001, and 1991). Recruitment also remains difficult, even in countries where unemployment remains high, such as France.

Nevertheless, in addition to the cyclical slowdown in the European economies, temporary factors specific to certain sectors of activity are in play. For example, the production of energy companies is being penalised by the decline in global prices between October and December 2018 (**Graph 2**). The automotive sector in Western Europe has also been the focus of attention since the end of the summer.

The automotive sector is at a turning point

The growth of the automotive sector has lasted for about eight years in the main markets (**Graph 3**), with very dynamic vehicle sales and registration indicators. It now shows signs of running out of fuel, resulting in eight downgrades in our evaluations (see the tables beginning on page 8), particularly in Europe. It also confirms its pro-cyclical nature, while its actors face common challenges.

This includes the significant investments that traditional car manufacturers have to make in different areas, such as innovation, with increased competition linked to the rise of electric and/or autonomous cars and the concomitant arrival of new players. In addition, there is the need to adapt to the changing preferences and lifestyles of consumers, who increasingly prefer «small» cars to sedans. In addition, the costs of adapting to new environmental pollution standards in China, the United States, and Europe[2], where shortcuts cannot be taken – as the Volkswagen scandal has shown – should also be considered.

These constraints are all the more difficult to work around, as any solutions must be implemented in a context of monetary tightening that has begun in the United States, Asia, and a number of Eastern European countries. This is also gradually happening in the eurozone with the end of the European Central Bank's purchases of debt securities and its expected increase in interest rates. Furthemore, the already high level of global household debt continues to increase worldwide, and was estimated[3] to be at 59.6% of GDP in the third quarter of 2018.

1 De Moura Fernandes, B. (January 24, 2019). *Corporate insolvencies in France: 2018 summary and 2019 outlook*. Available at https://www.coface.com/Economic-Studies-and-Country-Risks
2 Environmental norms vary considerably from one market to another.
3 As per estimates from the Institute of International Finance.

In addition, US protectionist policy currently penalises the US automotive sector by increasing input costs[4] and maintains uncertainty about potential measures, given the White House tenant's recurring threats to the European, particularly German, automotive sector.

The maturity of the Chinese market is also a major factor explaining the difficulties in the automotive sector, particularly in Europe. Not surprisingly, Germany is at the top of the list of countries exposed to problems in the sector in China, as it is its main supplier of automotive components. For the first time in twenty years, automobile sales fell in 2018.

Emerging markets are facing headwinds

This global environment has contrasting effects on emerging economies: the lower growth outlook in the United States (+2.3% expected in 2019 after 2.9% in 2018) limits the extent of monetary tightening by the Federal Reserve expected in 2019 and, therefore, the risks of capital outflows from emerging markets. However, the slowdown in growth in the eurozone (+1.6% forecast in 2019, after 2.5% and 1.9% respectively in 2017 and 2018) and in the United States exposes them to contagion effects, primarily through trade flows. These effects have been increasingly visible since the end of 2018. In December, growth in emerging economies was at its lowest level since April 2016, according to the International Institute of Finance's leading indicator (**Graph 5**).

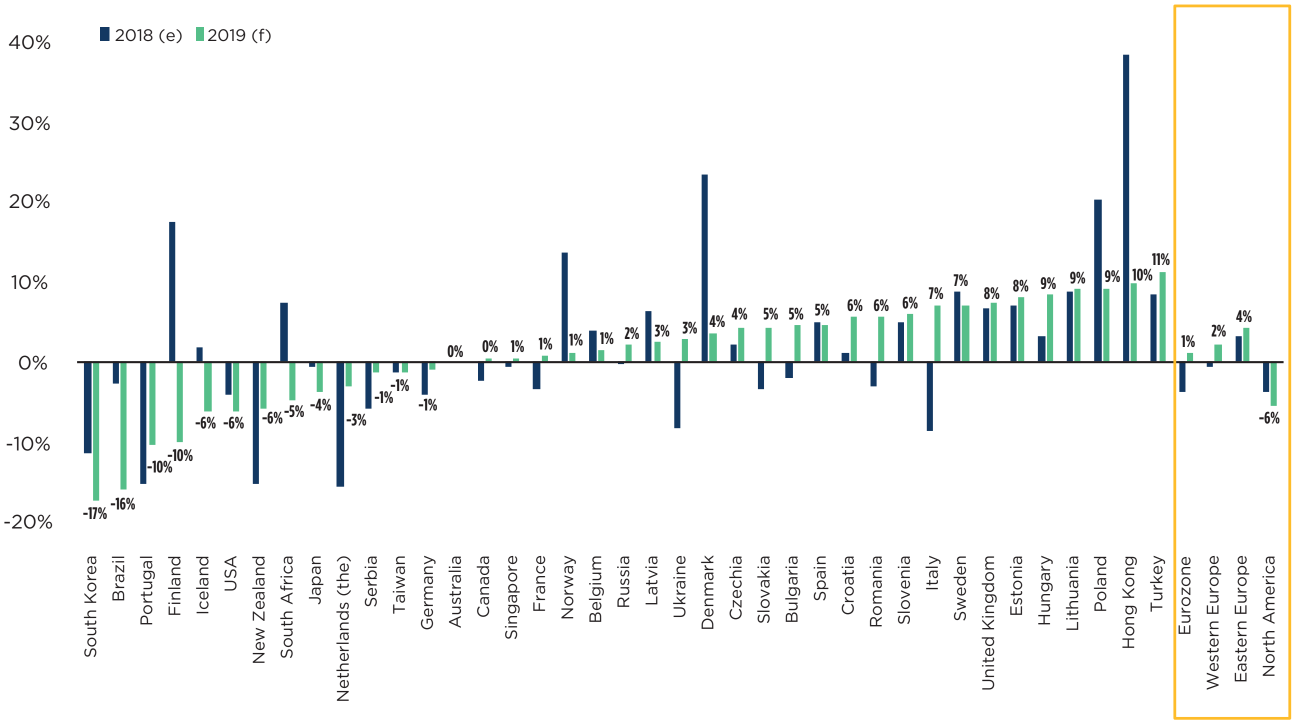
The slowdown in the Chinese economy is an additional source of risk. Although this slowdown has until now reflected the difficulties faced by companies in infrastructure-related sectors of activity constrained by high debt (construction, metals in particular), private consumption has begun to show signs of slowing down, in a context of rapidly rising household debt and the maturation of certain markets (such as the aforementioned automotive sector). In this context, defaults on the local corporate bond market multiplied last year: their amount was five times higher than in 2017, mainly due to a sharp increase in the fourth quarter (**Graph 6**). These solvency problems no longer only concern public companies involved in major infrastructure investment projects; they now affect the fabric of small and medium-sized companies penalized by the authorities' desire to limit the extent of poorly supervised and riskier alternative financing («shadow banking»), as well as by stricter bank credit conditions. The share of bank loans dedicated to SMEs in total loans granted to companies increased from 35% to 20% between the first half of 2016 and the first half of 2018.

In the rest of the emerging world, Argentina and Turkey – the two main victims of the wave of capital outflows from emerging markets in spring and summer 2018 – are, not surprisingly, in difficulty, with both economies recording growth below zero in the third quarter of 2018. The effects of the recent currency crisis therefore continue to be felt in both countries. Nevertheless, on the external accounts side, the adjustment was effective from the second half of 2018. Thus, the Argentine trade deficit narrowed by nearly 45% between May and November last year, mainly due to a contraction in imports. The trend is similar in Turkey, and is expected to continue this year in both cases: exporting companies will benefit from the price competitiveness gains resulting from the fall of the peso and the lira in 2018. Additionally, in Argentina, exports in the agriculture and agri-food sector should also benefit from better harvests, after a 2018 that was marked by the worst drought in 50 years. The country should also join the club of shale gas exporters, which has only 20 members.

Nevertheless, while external vulnerabilities are diminishing, internal problems are far from over. In Argentina, the banks' bad debt ratio had continued to rise until 2003, i.e. two years after the currency crisis of the time. Similarly, in Turkey the bad debt ratio peaked at 19% in 2001, just over a year after the currency crisis hit. In both countries, it is therefore expected that credit risk will remain high for companies, except for those that are fortunate enough to derive a significant portion of their income from exports.

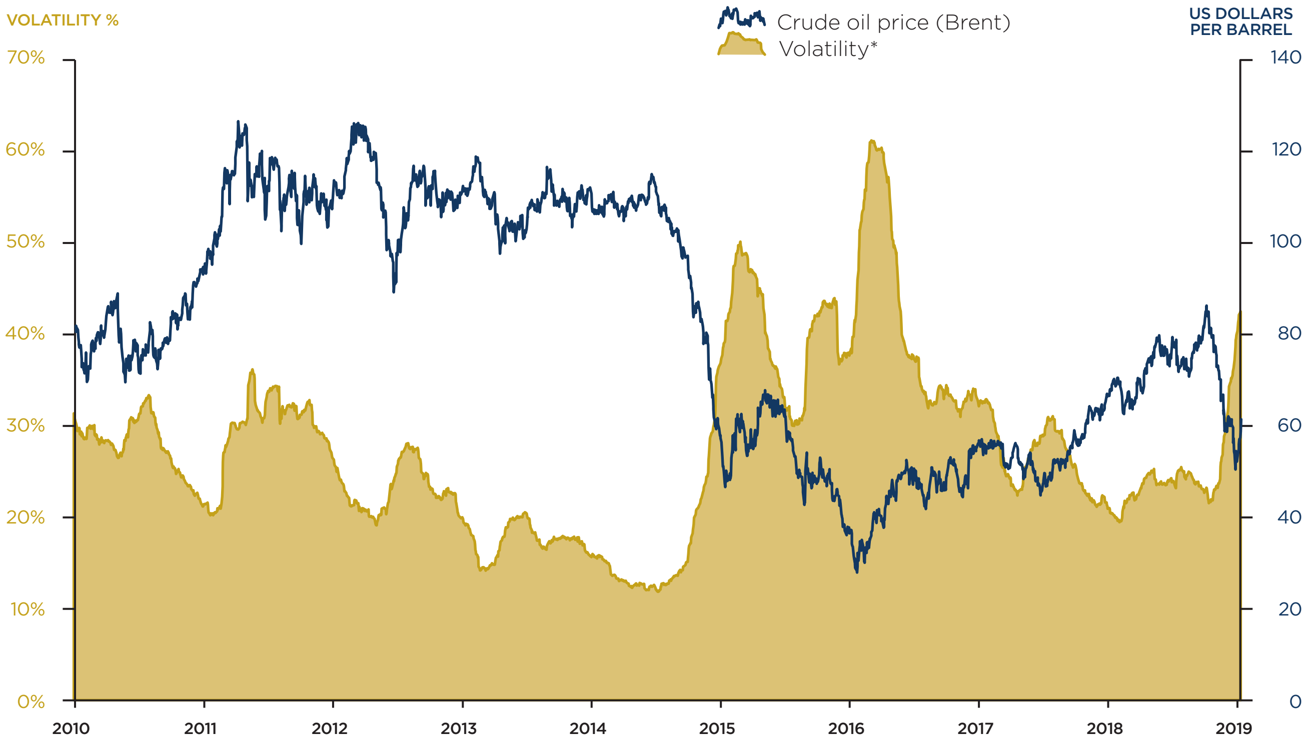
4 London, M. & Marcilly, J. (October 9, 2018): "*US Trade Protectionism: what are the knock-on effects on global value chains?* Available at: https://www.coface.com/News-Publications/Publications/US-Trade-Protectionism-what-are-the-knock-on-effects-on-global-value-chains

Chart 1:
Annual evolution of corporate insolvencies per country



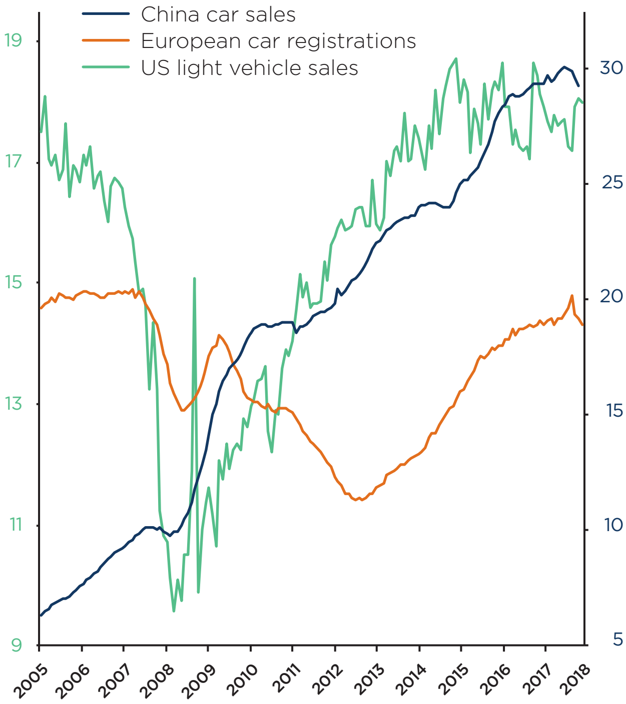
Source: Coface, domestic sources
e: estimate
f: forecast

Chart 2:
Crude oil price volatility



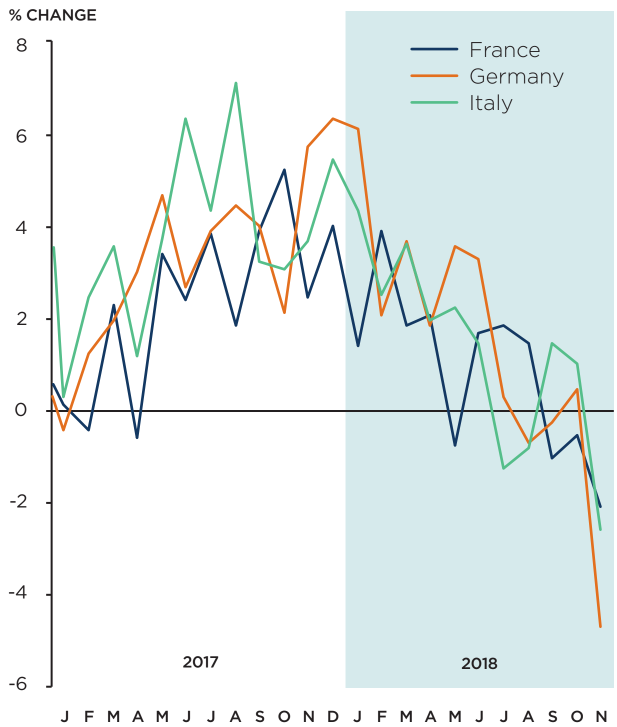
* Volatility is estimated using the Yang and Zhang (2000) estimator with a rolling window of 63 days (one quarter).
The sample period is January 1st, 2010 to January 9th, 2019.
Source: Datastream, Coface calculation

Chart 3:
Evolution of vehicle sales and registrations in China, Europe and the United States
(millions)



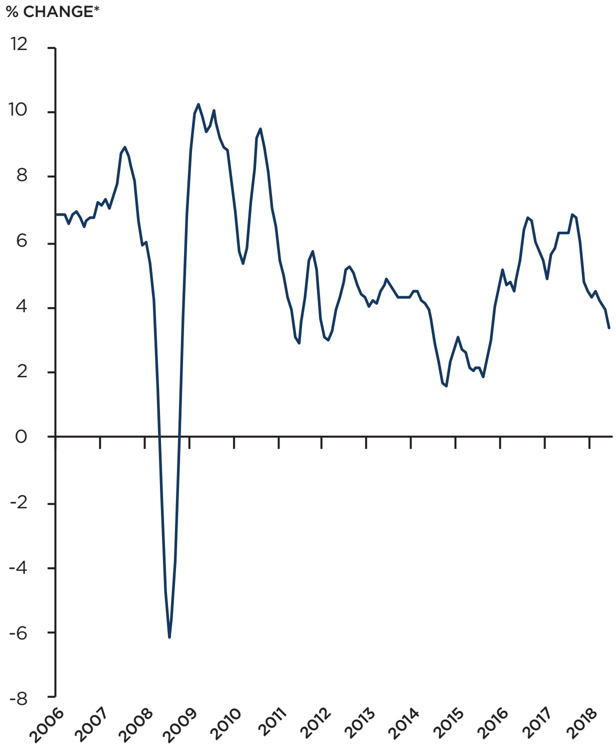
Source: Thomas Reuters Datastream

Chart 4:
Industrial output evolution in large euro area economies



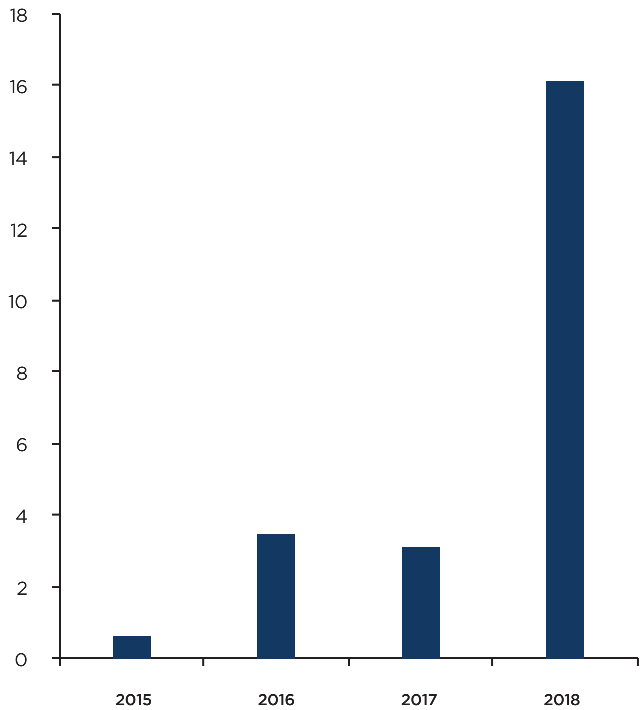
Source: INSEE, Istat, Federal Statistical Office

Chart 5:
Emerging Markets Growth Tracker



*Percent change, 3m/3m sa ar
Source: IIF

Chart 6:
China: outstanding amount of bond defaults
(USD billion)



Source : S&P

Country Risk Assessment Changes

COUNTRY	Previous Assessment		Current Assessment
ANGOLA	D	↗	C
AZERBAIJAN	C	↗	B
CANADA	A3	↗	A2
DOMINICAN REPUBLIC	B	↗	A4
MONTENEGRO	C	↗	B
MOZAMBIQUE	E	↗	D
RWANDA	B	↗	A4
TRINIDAD & TOBAGO	C	↗	B
UNITED ARAB EMIRATES	A4	↗	A3
LEBANON	C	↘	D

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme
- ↗ Upgrade
- ↘ Downgrade

Angola ↗

(Upgrade from D to C)

- Oil production stabilised in the second half of 2018 and is expected to grow in 2019, supporting a return to growth after three consecutive years of negative GDP growth (between 2016 and 2018).
- Higher oil receipts and fiscal consolidation efforts are expected to result in a significant narrowing of the fiscal deficit in 2018 and in 2019 (respectively -1.9% and -1.2% of GDP, after -5.8% in 2017).
- Flexibilisation of the exchange rate regime in early 2018 has helped alleviate pressure on the rate and on foreign exchange reserves. The spread between the official rate and the parallel market rate has narrowed significantly in 2018. Depreciation of the official rate is therefore expected to slow in 2019.
- The pass-through effect of depreciation to inflation was limited. Disinflation continued in 2018. Even though it remains high, consumer price inflation is at its lowest level since January 2016. For the first time since 2014, Banco Nacional de Angola, the central bank, was able to cut its benchmark borrowing rate in order to stimulate the non-oil economy.
- Reforms of SOEs and to improve the business environment have accelerated in the past 18 months. A law to support competition and on private investment was notably passed to support investment.

Azerbaijan ↗

(Upgrade from C to B)

- Higher oil and gas prices, particularily in the second half of 2018, have lead to increases in government spending without reducing the public and current accounts surpluses.
- The sovereign wealth fund, SOFAZ - fed by oil & gas revenues - represented 90% of GDP on October 1, 2018. The country therefore has the means to take care of its ailing banking sector.
- The completion of Tanap gas line will enable increased exports of gas to Turkey.
- Higher economic growth is expected in 2019.

Canada ↗

(Upgrade from A3 to A2)

- Stabilisation of house prices thanks to prudential rules aimed at limiting the risks associated with real estate loans and tighter monetary policy (central bank's key interest rate at 1.75% in October 2018, compared with 1% at the end of 2017).
- Signing of the USMCA deal (renegotiated NAFTA), which ended uncertainty about future trade relations with the United States – a key partner, as it accounts for 71% of total exports.
- Growth is expected to remain solid in 2019 (+2% after +2.1% in 2018).

Dominican Republic ↗
(Upgrade from B to A4)

- The domestic economy has grown well above the region's average in recent years: while the Dominican Republic registered an annual average growth rate of 6.1% in the last five years, regional growth stood at 1% (taking into account the same parameters). Growth has been driven by manufacturing in free trade zones and stronger exports to the United States. The construction sector has also played a key role, underpinned by post-Hurricane Maria reconstruction projects in the tourism, energy, and commercial sectors. The services sector also had a strong showing, driven by retail on the back of buoyant credit growth, low inflation (3.5% YOY in October 2018), and an unemployment rate that is near historical lows (5.6% in August 2018). GDP growth is expected to decelerate somewhat in 2019, due to projections of reduced US activity. Nevertheless, the growth rate will remain high (growth forecast for 2019: 5%).
- The economy increased by 7.3% YOY in the third quarter of 2018. This was up from the previous 7.1% hike registered in Q2, and appears to have been the fastest pace of growth in the whole of Central America and the Caribbean.
- End-2018 gross public debt is estimated at 36.7% of GDP, down from 37.2% of GDP in 2017, and is expected to reach 36.1% by the end of 2019. The 2019 budget, presented and approved by Parliament, shows a slight improvement in the public deficit. The objective is to increase state revenues by 14%, thanks in particular to more efficient collection of taxes and customs duties, as well as maintaining vigorous growth. This increase should slightly exceed the planned 13% increase in public expenditure.
- Regarding the external account, some deterioration is expected for 2019 (current account deficit of 2.1% of GDP in 2019, up from 1.6% estimated for 2018), though it should continue to be largely financed by FDI favoured by the existence of many free zones, which are growing (responsible for nearly 60% of FDI in the Caribbean zone).

Montenegro ↗
(Upgrade from C to B)

- Serious budget consolidation: despite the construction of a costly road, a surplus in 2019 is likely.
- Tourism, the main activity, is doing very well. Russian visitors are still numerous, despite the application of counter-sanctions by their government, and they are continuing to support the domestic construction sector with their purchases of residences.
- Institutional and political stability.

Mozambique ↗
(Upgrade from E to D)

- Even though it is expected to remain capped as it continues to struggle from the aftermath of the hidden debt crisis, economic growth will probably exceed 3% in 2018 (3.3%) and 2019 (3.5%), supported mainly by mining activities and investment in gas. Monetary easing is also expected to support internal demand.
- Supported by better trade figures, the Mozambican metical exchange rate stabilised in 2018. According to the latest figures, foreign exchanges reserves have reached their highest level since late 2014.
- The metical's stability and better harvests have brought inflation down to an average of 4.2% in 2018, after it had peaked to close to 24% in late 2016. Even though inflation is expected to increase in 2019, it is expected to remain in single-digit territory.
- Authorities have started to take measures to reduce the fiscal deficit, notably by eliminating some subsidies.
- Political stability remains fragile and the security situation is still precarious ahead of the 2019 general elections, and also due to the islamist insurgency near the Tanzanian border.

Rwanda ↗
(Upgrade from B to A4)

- The business climate is constantly improving and the momentum of reform remains strong. In 2018, measures to reduce red tape in the construction sector, facilitate the issuance of building permits, and improve electricity supply were taken.
- GDP growth, estimated to reach more than 7% in 2018, confirmed its robustness. It should remain strong in 2019 (Coface forecast: 7.6%), reaping the dividends from the public investment made.
- Export diversification programmes and increased private investment are gradually reducing the country's external vulnerability. Foreign exchange reserves continue to accumulate, and the depreciation of the Rwandan franc continues to slow.

Trinidad & Tobago ↗
(Upgrade from C to B)

- After a four-year recession due to a drop in hydrocarbon prices and lower production in the energy sector, growth returned to positive figures in 2018 (2018 GDP: 1%). Inflation is also expected to remain under control (at 1% YOY as of October 2018).
- The large public deficit (11% of GDP) in 2017 should be reduced to 6% in 2018 and 4.6% in 2019, thanks to a maintained restrictive fiscal policy. Public spending is expected to decline due to a reduction in subsidies and transfers (approximately 2% of GDP), and public goods and services (1% of GDP). On the other hand, revenues - mainly from the energy sector (6% of GDP) - are expected to increase as production in the gas industries increases. Also, the implementation of tax reforms by the government should improve the collection of taxes (finalisation of energy tax reforms; validation of the bill on real estate reforms).
- The current account surplus should remain high due to both higher oil prices comparing to historical trends (despite high volatility in the market) and gas production forecasts that will help to maintain a trade surplus in 2019. Nevertheless, the current account surplus is set to drop from 10.7% of GDP in 2018 to 7.3% of GDP in 2019.

United Arab Emirates ↗

(Upgrade from A4 to A3)

- Higher oil prices up until the of 2018 have contributed to higher government spending and improved economic confidence.
- Domestic demand is likely to gain pace.
- Payment terms have leveled off.

Lebanon ↘

(Downgrade from C to D)

- The delayed and pending formation of a new government is shedding light on the vulnerabilities of the political system.
- The continuing political difficulties – which are ancitipated to drag on for a long time – will likely weaken the country's economic perspective.
- A lack of a government following the May elections caused the budget deficit to widen significantly in 2018. The deep political fragmentation and weak policy-making will continue to limit fiscal consolidation plans. As a result of slow progress in reducing the budget deficit, the public debt ratio will remain extremely high.
- The banking system, although representing a stable outlook, remains largely dependent on foreign deposits, which could quickly flee if the political uncertainty worsens. Operating conditions have stabilised, but will remain challenging. In April 2018, international donors pledged more than USD 11 billion in loans and aid in April 2018, which was earmarked for investment spending – however, at the time of writing, none of these funds have been released.
- Banks' heavy sovereign exposure will grow, increasing their level of financial risk. In effect, the large fiscal deficit will be financed primarily by the banks. Sovereign exposure made up about half of banks' total assets at the end of 2017, linking their creditworthiness with that of the heavily-indebted Lebanese government, and exposing them to interest rate and liquidity risks.

Sector Risk Assessment Changes

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

REGIONAL SECTOR RISK ASSESSMENTS

	Asia	Central & Eastern Europe	Latin America	Middle East & Turkey	North America	Western Europe
Agri-food	Medium Risk	Medium Risk	High Risk	High Risk ↗ Medium Risk	High Risk	Medium Risk
Automotive	High Risk	Low Risk ↘ Medium Risk	Medium Risk ↘ High Risk	High Risk	Medium Risk ↘ High Risk	Low Risk ↘ Medium Risk
Chemical	Medium Risk	Medium Risk	High Risk	High Risk ↗ Medium Risk	Low Risk	Medium Risk
Construction	Very High Risk	High Risk	High Risk	Very High Risk	Medium Risk ↘ High Risk	Medium Risk
Energy	High Risk	Medium Risk	High Risk	High Risk	Low Risk	Medium Risk
ICT*	High Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	Medium Risk
Metals	High Risk	Medium Risk	High Risk	Very High Risk	Medium Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk
Pharmaceuticals	Low Risk	Low Risk	Medium Risk	Medium Risk	Low Risk	Low Risk
Retail	Low Risk ↘ Medium Risk	Medium Risk	Medium Risk	High Risk	High Risk	Medium Risk
Textile-Clothing	High Risk	Medium Risk	High Risk	High Risk	Very High Risk	High Risk
Transport	Medium Risk	High Risk	High Risk	Medium Risk	Low Risk	Medium Risk
Wood	High Risk	Medium Risk	High Risk ↗ Medium Risk	High Risk	Medium Risk	Medium Risk

* Information and Communication Technologies
Source: Coface

Decoding the WORLD ECONOMY

January 2019

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COUNTRY RI

161 COUNTRIES UNDER THE MAGNIFYING GLASS

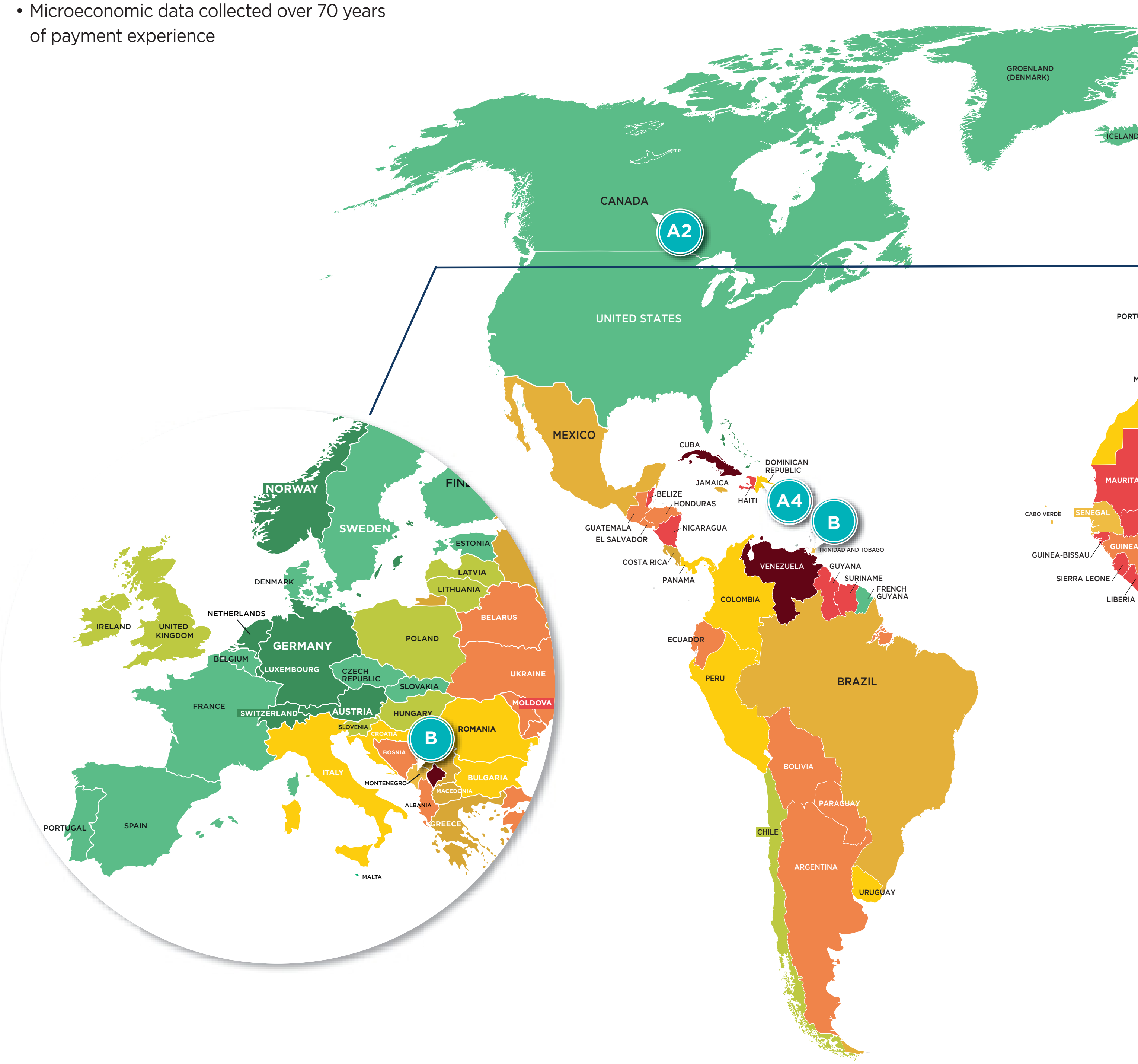
A UNIQUE METHODOLOGY

- Macroeconomic expertise in assessing country risk
- Comprehension of the business environment
- Microeconomic data collected over 70 years of payment experience

BUSINESS DEFAULTING RISK

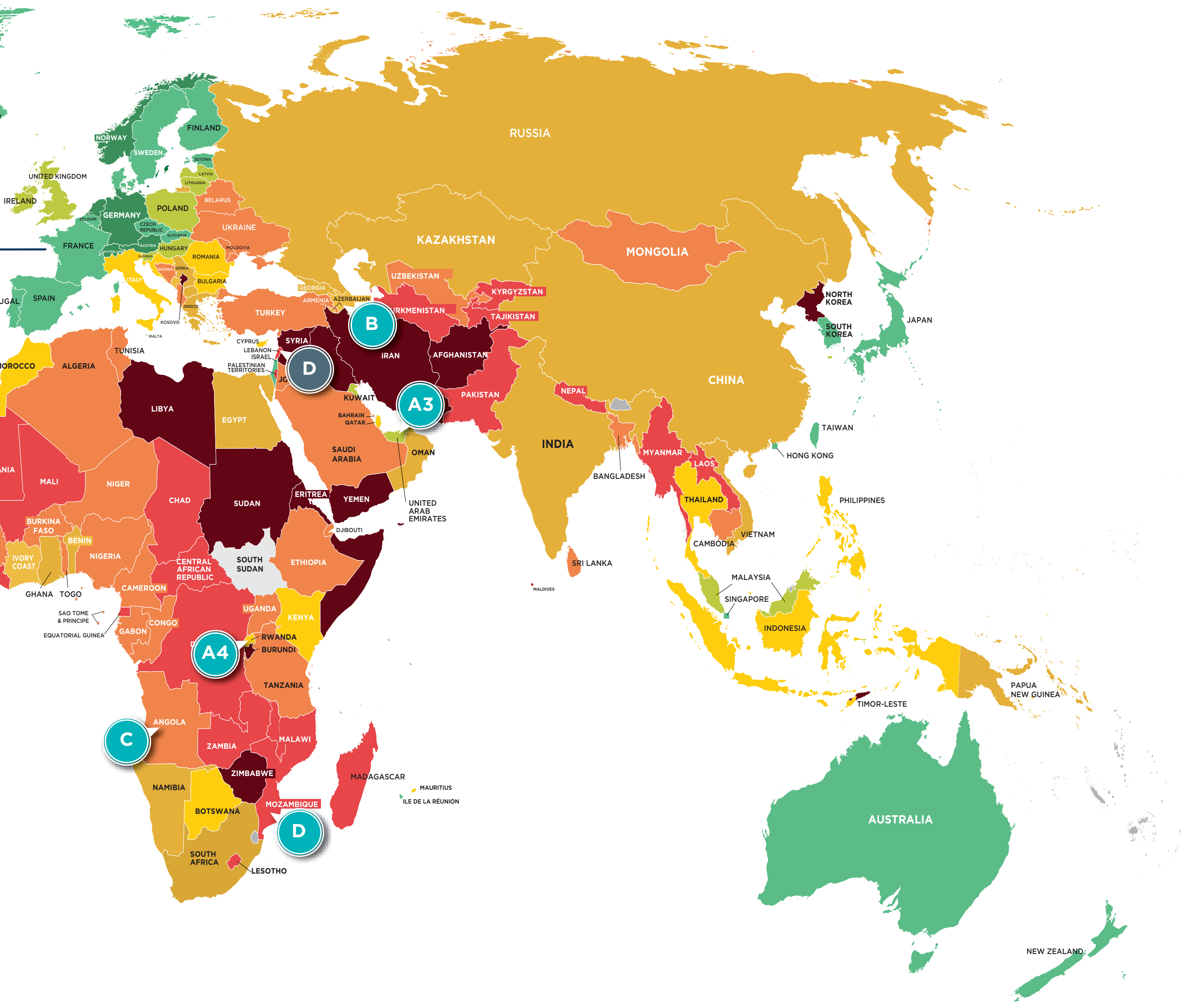
UPGRADES

DOWNGRADES



SK ASSESSMENT MAP

A1	A2	A3	A4	B	C	D	E
VERY LOW	LOW	SATISFACTORY	REASONABLE	FAIRLY HIGH	HIGH	VERY HIGH	EXTREME



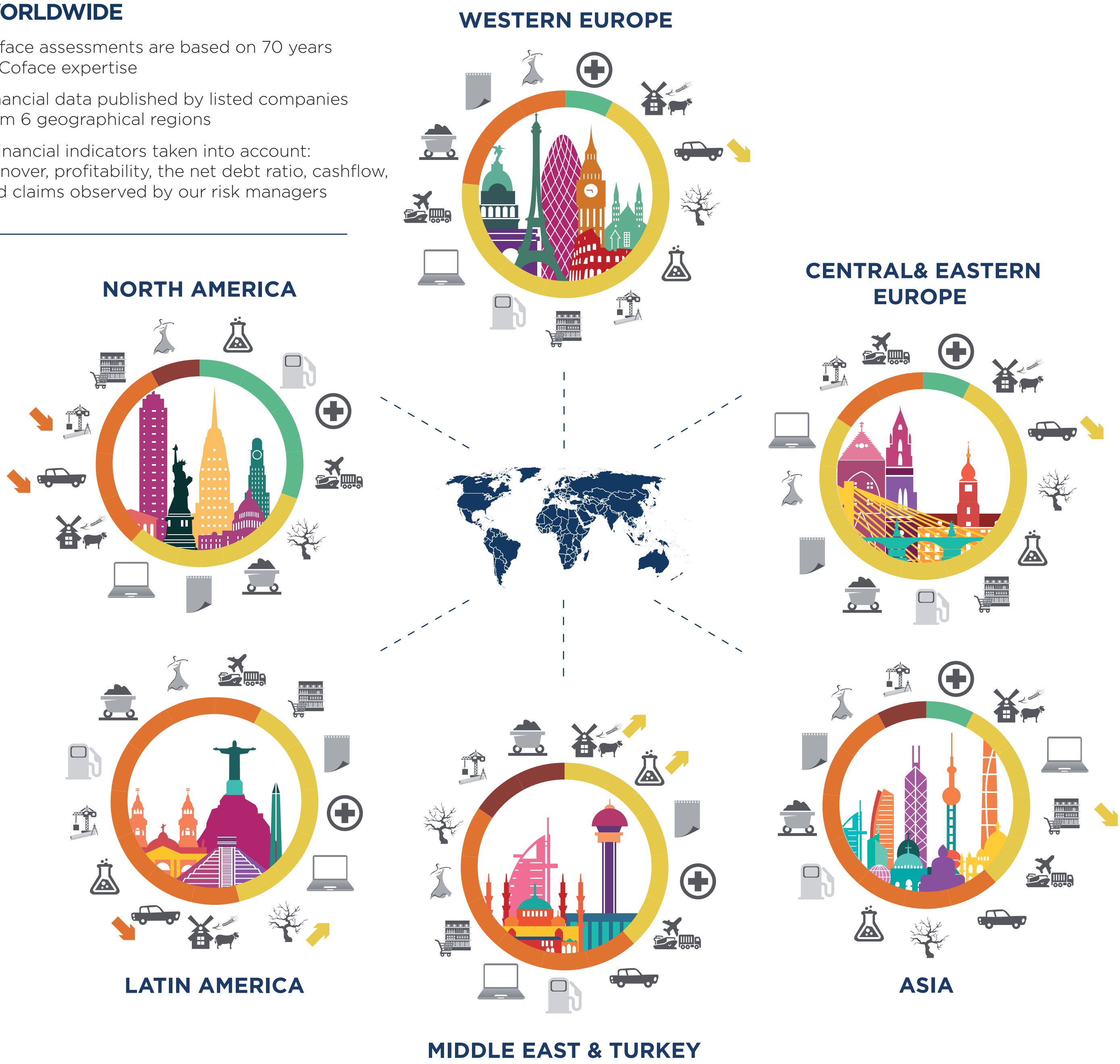
SECTOR RISK ASSESSMENTS

13 MAJOR SECTORS ASSESSED WORLDWIDE

Coface assessments are based on 70 years of Coface expertise

Financial data published by listed companies from 6 geographical regions

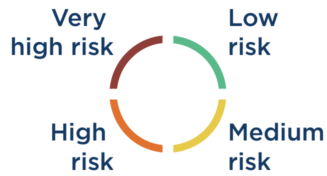
5 financial indicators taken into account: turnover, profitability, the net debt ratio, cashflow, and claims observed by our risk managers



- agri-food
- automotive
- chemical
- construction
- energy
- ICT*
- metals
- paper
- pharmaceuticals
- retail
- textile-clothing
- transport
- wood

* Information and Communication Technologies

- Upgrade
- Downgrade



ASIA-PACIFIC

	Asia	China	India	Japan	South Korea
Agri-food	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Automotive	High Risk	High Risk	Medium Risk	Medium Risk	High Risk
Chemical	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk
Construction	Very High Risk	Very High Risk	High Risk	Medium Risk	Very High Risk
Energy	High Risk	High Risk	High Risk	High Risk	High Risk
ICT*	High Risk	High Risk	High Risk ↘ Very High Risk	Medium Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Low Risk	Medium Risk
Retail	Low Risk ↘ Medium Risk	Low Risk ↘ Medium Risk	High Risk	Medium Risk	Medium Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	Medium Risk
Transport	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk
Wood	High Risk	High Risk	Medium Risk	Medium Risk	Medium Risk

** Information and Communication Technologies*
Source: Coface

CHINA
Retail ↘
(Low Risk to Medium Risk)

- Rising income levels and the restructruing of the economy towards more domestic consumption will help to boost demand in the long-term. However, the sector was subject to pressures in 2018. Retail sales growth – a gauge of the domestic pulse of the economy – slowed to 8.6% YOY in October, significantly below the 10.4% average for 2017, and the lowest in 15 years.
- The sector is undergoing consolidation. Many companies have built their platforms in China according to traditional "brick-and-mortar" models and high growth expectations. This has led to an excess capacity in retail space. Higher overhead costs will impact some profitability until this overcapacity is cleared.

INDIA
ICT ↘
(High Risk to Very High Risk)

- India is the world's second-largest mobile phone manufacturer after China, surpassing the United States. However, pricing pressures and cheap imports remain key challenges in the domestic ICT market. These pressures are most prominent in the mobile phone segment. The local market is dominated by the low-end affordable segment. Low-cost Chinese brands, such as Oppo, Vivo, and Xiaomi, account for most of the sales (53% in the second quarter of 2018). Tight competition with domestic brands has driven prices down, squeezing profits. A tight market has also exerted pressure on vendors, which is a very fragmented sub-sector.
- Telecommunications should perform better than the mobile phone segment, as the country has pledged to invest up to USD 100 billion in the development of infrastructure under the National Digital Communications Policy of 2018. The multiplier effect of investment in communications may increase GDP by up to 3.3 percentage points according to the Department of Telecommunications. This is encouraging, but domestic investment in India will remain constrained by tighter liquidity and budgetary pressures.

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

CENTRAL & EASTERN EUROPE

	Central & Eastern Europe	Czechia	Poland	Romania
Agri-food	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Automotive	Low Risk ↘ Medium Risk	Low Risk ↘ Medium Risk	Low Risk ↘ Medium Risk	Low Risk
Chemical	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Construction	High Risk	Medium Risk	High Risk	High Risk
Energy	Medium Risk	Medium Risk	Medium Risk	Medium Risk
ICT*	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	Medium Risk	High Risk	Medium Risk	High Risk
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Pharmaceuticals	Low Risk	Low Risk	Low Risk	Low Risk
Retail	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Textile-Clothing	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Transport	High Risk	Medium Risk	High Risk	Medium Risk
Wood	Medium Risk	Medium Risk	Medium Risk	Medium Risk

** Information and Communication Technologies*
Source: Coface

CZECHIA
Automotive ↘
(Low Risk to Medium Risk)

- Czechia has a strong dependence on Western European demand, where a bulk of production is exported (the country is home to local plants of Toyota, Peugeot, Citroen, Skoda, and Hyundai). Most Western European countries have started to record lower dynamics of car sales. An increased level of risk in the Western European automotive sector therefore affects Czechia.
- Domestic demand in Czechia remains solid but it will not compensate weaker demand on export markets.

POLAND
Automotive ↘
(Low Risk to Medium Risk)

- A leading manufacturer of components and parts for automotive production, Poland is reliant on the demand of Western Europe, where a bulk of production is exported. An increased level of risk in the Western European automotive sector therefore weighs on Poland a consequence. Most Western European countries have started to record decelerating car sales.
- Domestic demand in Poland remains solid but it will not compensate weaker demand on export markets.

BUSINESS DEFAULT RISK

Low Risk

Medium Risk

High Risk

Very High Risk

↗ Upgrade

↘ Downgrade

LATIN AMERICA

	Latin America	Argentina	Brazil	Chile	Mexico
Agri-food	High Risk	High Risk	High Risk	High Risk	High Risk
Automotive	Medium Risk ↘ High Risk	High Risk ↘ Very High Risk	Medium Risk	Low Risk	High Risk
Chemical	High Risk	High Risk	High Risk	High Risk	High Risk
Construction	High Risk	High Risk	High Risk	High Risk	Very High Risk
Energy	High Risk	Medium Risk	Medium Risk	Low Risk	Very High Risk
ICT*	Medium Risk	Very High Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	Medium Risk	High Risk	Low Risk ↘ Medium Risk	High Risk
Paper	Medium Risk	High Risk	Medium Risk	Medium Risk	Medium Risk
Pharmaceuticals	Medium Risk	Medium Risk	Medium Risk	Low Risk	Low Risk
Retail	Medium Risk	Very High Risk	Medium Risk	Low Risk	Medium Risk
Textile-Clothing	High Risk	Very High Risk	High Risk	Medium Risk	High Risk
Transport	High Risk	High Risk	High Risk	Medium Risk	Medium Risk
Wood	High Risk ↗ Medium Risk	Medium Risk	High Risk	High Risk ↗ Medium Risk	Medium Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

ARGENTINA

Automotive ↘
(High Risk to Very High Risk)

- According to Adefa, from January-November 2018, vehicle production totalled 446,000 units, or +1.4% YOY (a drop of 18.6% YOY in November). Nevertheless, capacity utilisation in September 2018 stood at 44.8%, compared to the industry average of 61.1% in the same month.
- The fall in vehicle sales worsened to 45.9% YOY in November (down from a drop of 38.5% YOY in October 2018). Dealerships have said that they have enough stock to last six months due to the sudden sales downturn, and car manufacturers have already begun to suspend workers in high numbers as idleness rises. This was the sharpest YOY decline on record for any single month over the last six years. Over the January-November period, sales were down 9.2% YOY, with the H2 downturn coming after six months of record sales since the start of the year. Local sales have been impacted by the fall of the exchange rate (the Argentine peso has depreciated by 100% in nominal terms in the year until end November), lower real wages (inflation reached 45.5% YOY in October 2018), and high borrowing costs (the benchmark interest rate 7-day Leliq rate stands above 60% per annum).
- Exports are going through somewhat of a revival thanks to stronger demand from Brazil and a more competitive exchange rate, but while exports are rising by some 5,000-10,000 units YOY, domestic sales started to drop by some 30,000 units per month year-on-year since early H2 2018. In the first 11 months of 2018, exports rose by 28.8% YOY to reach 246,613 units.
- The sector will likely continue to present very high levels of risk in 2019. Although inflation and interest rates are expected to improve somewhat in 2019, they are set to remain at high levels. In addition, in September 2018 the government announced a transitional tax on exports, which will come into force between 2019 and 2020. The fiscal changes will lead to a reduction of tax reimbursements for this sector from 6.5% to 2% for export, and the application of withholdings of 3 pesos per US dollar exported.

CHILE

Metals ↘
(Low Risk to Medium Risk)

- According to the central bank's GDP proxy (IMACEC), mining activity dropped for the fourth consecutive month in October, contracting by 6.1%, after a 1.6% drop in September. Moreover, in the three months up to October, mining activity contracted 4.2% (-2.7% in Q3 2018 and +11.7% across the first half of 2018).
- The sector has been hampered by poor ore grade. Moreover, while the strikes in 2017 were followed by a strong recovery in production, the level of production in 2018 remained sluggish.
- Mineral prices have decelerated in recent months. The London Metal Exchange Index (LMEX) declined by 15.8% from January to November 2018. In addition, copper (the country´s major commodity) saw a 14.3% price drop in the same period.
- Prices have been impacted by the escalating trade protectionist rhetoric between the United States and China, which could hamper global growth as well as the demand for metals.

Wood ↗
(High Risk to Medium Risk)

- In the first ten months of 2018, production of wood, wood and cork products (except furniture), and articles of straw and plaiting materials dropped by 4.3% YOY. Over the same period, furniture manufacturing rose by 7%.

MIDDLE EAST & TURKEY

	M. East & Turkey	Israel	Saudi Arabia	Turkey	UAE
Agri-food	High Risk ↗ Medium Risk	Medium Risk	High Risk ↗ Medium Risk	High Risk	High Risk ↗ Medium Risk
Automotive	High Risk	Low Risk	High Risk	High Risk	High Risk
Chemical	High Risk ↗ Medium Risk	Low Risk	High Risk ↗ Medium Risk	High Risk	High Risk ↗ Medium Risk
Construction	Very High Risk	High Risk	Very High Risk	Very High Risk	High Risk
Energy	High Risk	Medium Risk	Medium Risk	Very High Risk	Medium Risk
ICT*	High Risk	Medium Risk	High Risk	Very High Risk	High Risk
Metals	Very High Risk	Medium Risk	Very High Risk	Very High Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Pharmaceuticals	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Retail	High Risk	High Risk	High Risk	Very High Risk	High Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	High Risk
Transport	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Wood	High Risk	Medium Risk	High Risk	High Risk	High Risk ↗ Medium Risk

* Information and Communication Technologies
Source: Coface

SAUDI ARABIA

Agri-food ↗
(High Risk to Medium Risk)
- Higher economic growth will sustain consumer spending.

Chemicals ↗
(High Risk to Medium Risk)
- The operating environment has improved thanks to higher oil prices until end-2018, as well as the economic recovery.

UNITED ARAB EMIRATES

Agri-food ↗
(High Risk to Medium Risk)
- Following the implementation of the VAT, there have yet to be any significant signs of UAE consumers cutting down spending on food and beverages.
- Business conditions have improved in line with higher oil revenues, and payment terms have stabilised after expanding during the period of falling oil prices.

Chemicals ↗
(High Risk to Medium Risk)
- Operating conditions are improving, which is helping chemical companies to improve their performances.
- Renewed sanctions on Iran will increase the potential of exports for UAE chemical products.

Wood ↗
(High Risk to Medium Risk)
- The demand for wood and wood-related products is buoyed by the expansion of construction activity ahead of Expo 2020.
- A higher number of project announcements from the beginning of 2019 onwards should subsequently stimulate demand for interior decor, wood products, and woodworking machineries in the medium-term.
- The massive construction activities in the GCC, especially in Dubai, will continue to drive demand for wood products as well.

BUSINESS DEFAULT RISK

Low Risk
Medium Risk
High Risk
Very High Risk
↗ Upgrade
↘ Downgrade

NORTH AMERICA

	North America	Canada	United States
Agri-food	High Risk	Medium Risk	High Risk
Automotive	Medium Risk ↘ High Risk	Medium Risk	Medium Risk ↘ High Risk
Chemical	Low Risk	Low Risk	Low Risk
Construction	Medium Risk ↘ High Risk	High Risk	Medium Risk ↘ High Risk
Energy	Low Risk	Medium Risk	Low Risk
ICT*	Medium Risk	Medium Risk	Medium Risk
Metals	Medium Risk	Very High Risk	Medium Risk
Paper	Medium Risk	Medium Risk	Medium Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk
Retail	High Risk	High Risk	High Risk
Textile-Clothing	Very High Risk	High Risk	Very High Risk
Transport	Low Risk	Low Risk	Low Risk
Wood	Medium Risk	High Risk	Medium Risk

** Information and Communication Technologies*
Source: Coface

UNITED STATES

Automotive ↘
(Medium Risk to High Risk)

- Automotive products output increased by 4.6% in October 2018 (after +0.4% in Q2). The production of both motor vehicles (+7.7%) and auto parts (+3.6%) accelerated in comparison with the second quarter of 2018. However, light vehicle sales started decreasing (-1.8% YOY in the three months to October): car sales continued on a very negative trend (-16.2% YOY, after -11.7% in Q2), and light-duty truck sales also decelerated sharply (+6.5% YOY after +10.1%). While imported light-duty truck sales remained buoyant (+19% YOY), domestic sales only grew by 3.8% YOY.
- The tailwind of the fiscal stimulus package is decreasing and is partly offset by rising interest rates.
- Domestic production is affected by the punitive tariffs on steel (25%) and aluminium (10%) imports, which have significantly increased production costs.
- The transition from car to SUV production to meet consumer preference requires huge amounts of cash, putting even more pressure on manufacturers financial health.

Construction ↘
(Medium Risk to High Risk)

- All indicators are deteriorating and the outlook is negative. Construction sector activity contracted in the 12 months to October: building permits and housing starts fell respectively by 5.8% and 2.9% YOY. Building permits are on downward trend after reaching a peak in March 2018, and residential construction posted its third consecutive quarter of negative growth in Q3 (-0.7% QOQ).
- Spending on US construction projects fell by 0.1% in October, the third consecutive monthly decline, as weakness in home building and non-residential construction offset a rebound in government projects.
- The tailwind of the fiscal stimulus package is being offset by rising interest rates.
- The punitive tariffs on steel (25%) and aluminum (10%) and on Canadian lumber imports (20%) increased the production costs and are affecting the sector. According to the ISM's October report: "Tariffs are beginning to impact business. We ask our suppliers to hold pricing for six months, but we are experiencing difficulties".

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

WESTERN EUROPE

	Western Europe	Austria	France	Germany	Italy	Netherlands (the)	Spain	Switzerland	United Kingdom
Agri-food	Medium Risk	Low Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk
Automotive	Low Risk ↘ Medium Risk	Low Risk ↘ Medium Risk	Low Risk ↘ Medium Risk	Low Risk ↘ Medium Risk	Low Risk ↘ Medium Risk	Low Risk	Low Risk ↘ Medium Risk	Low Risk	High Risk
Chemical	Medium Risk	Low Risk	Medium Risk	Low Risk	Medium Risk	Low Risk	Medium Risk	Low Risk	Medium Risk
Construction	Medium Risk	Medium Risk	Medium Risk	Low Risk	Very High Risk	Medium Risk	Medium Risk	High Risk	Very High Risk
Energy	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	High Risk	Medium Risk	High Risk
ICT*	Medium Risk	Medium Risk	Low Risk	Low Risk	High Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	Medium Risk	High Risk	Medium Risk	High Risk	Medium Risk	Medium Risk	High Risk	Very High Risk
Paper	High Risk	Low Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk ↘ Medium Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk
Retail	Medium Risk	Medium Risk	Low Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk	High Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	Medium Risk	High Risk
Transport	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk	Medium Risk
Wood	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	Medium Risk	Medium Risk	High Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK
Low Risk
Medium Risk
High Risk
Very High Risk
↗ Upgrade
↘ Downgrade

AUSTRIA
Automotive ↘
(Low Risk to Medium Risk)

- Most Western European countries have started to record lower dynamics of car sales, and the increased level of risk across the Western Europe automotive sector has a knock-on effect on Austria.
- The country has a strong dependence on German demand, where a bulk of production is exported (direct exports and an inclusion in value chains).
- Domestically, new passenger car sales were nearly flat in 2018 (an increase of 0.05% YOY in Jan-Oct 2018).

FRANCE
Automotive ↘
(Low Risk to Medium Risk)

- Car registrations rose by 6.2% YOY in the 12 months to November, after reaching a peak in August (+9.4% YOY). However, in the three months to November, registrations fell by 6% YOY. Moreover, passenger car orders decreased by 5% YOY in the three months to November.
- The sector is affected by lower consumer confidence despite low interest rates. As a consequence, insolvencies are rebounding: +2% YOY in the 12 months to October after -6.5% in 2017. This rebound is mainly due to the car and light motor vehicle trade (+20% after -9.6% in 2017).
- Automotive output contracted sharply in the three months to October: -4.6% YOY after +3.1% in Q2.
- On a yearly basis, indicators remain positive, but are clearly decelerating, meaning the sector must be monitored closely.

GERMANY
Automotive ↘
(Low Risk to Medium Risk)

- Registrations were stagnating (+0.25%) at end-November 2018 YOY, with motor vehicle production falling by 8% over the same preiod. New testing procedures are impacting German carmakers.
- Weakened consumer confidence across the eurozone and the US-China trade conflict have reduced the number of registrations.
- Although carmakers are posting healthy profits, the US metal tariffs act as a sword of Damocles hanging over their heads, and the need to heavily invest in e-mobility and electronic vehicles could dent profitability in the future.

ITALY
Automotive ↘
(Low Risk to Medium Risk)

- Automotive production is shrinking: data from the car manufacturers' association show that car production fell by 18% in October 2018 YOY, to reach 55,000 units. Over the first ten months of 2018, passenger car production decreased by 8% (nearly 585,000 cars) compared to 2017.
- Car registrations are also falling sharply, reflecting the decline in demand for vehicles. Between January and November 2018, the Italian automotive market fell by 3.5% (-6% in November). The FCA Group recorded a 10% decrease (11% for the first ten months of 2018). For other types of vehicles, sales of light commercial vehicles, trailers and semi-trailers fell by -5% and -2%, but sales of heavy goods vehicles were still resilient with an increase of +8% from January to November.

- The same applies to exports, whose value fell by 3.4% in September. Italian automotive exports represent 5.4% of total exports. In value terms, the United States continues to represent the leading destination country for motor vehicle exports from Italy (22%), followed by Germany (15%) and France (13%).
- Although the government had planned to introduce an eco-tax as part of its major budgetary measures, this measure was strongly criticised by car manufacturers, and may not enter into force following a statement by Minister of Economic Development Luigi Di Maio. According to estimates by Anfia, Federauto and Unrae, the introduction of any form of penalty would lead to a 8-12% drop in new car sales in 2019. This new regulation could also discourage investment. The FCA group announced in December that if the measure is not amended, the group will be forced to review its EUR 5 billion investment plan in Italy, a plan that includes the launch of 13 new models and the redesign of existing models with new engines based on hybrid and electric technologies.

Pharmaceuticals ↘
(Low Risk to Medium Risk)

- Affected by the economic downturn in Italy, the pharmaceuticals sector has begun to show some signs of slowdown. After being one of the most dynamic manufacturing industries in Italy in 2018, industrial production in the pharmaceutical sectors decreased in October, and posted an average 5% decrease over the previous three months. The turnover index has also slowed sharply since June.
- Net public pharmaceutical spending also declined in the first three months of 2018, equal to -5.2% YOY. There is a continuing trend of reducing the expenditure on medicine supplied by pharmacies via the normal conventional regime.

SPAIN

Automotive ↘
(Low Risk to Medium Risk)

- Spanish automotive production returned to growth in October, despite the weakness of its main export markets. Spanish car factories produced 246,445 units in October, a 1.7% increase YOY. Total vehicle production stood at 2,416,296 units over the first ten months of the year, a 1.7% increase in production YOY. However, as a result of the slowdown in car sales in both the European market and the United Kingdom (an important market for Spain), it is expected that car production will slow down in 2019.
- Increased uncertainty lead to a decline in November car registrations. SUV registrations decreased by 12.6% in November, to 91,063 units. Similarly, deliveries of light commercial vehicles decreased by 3.3% in the eleventh month of the year to 17,639 units. Sales of industrial vehicles, buses, coaches and minibuses fell by 21% in November (2,554 units).

OTHER COUNTRIES

	Russia	South Africa
Agri-food	Low Risk	Medium Risk
Automotive	Medium Risk	High Risk
Chemical	Low Risk	Medium Risk
Construction	High Risk	Very High Risk
Energy	Medium Risk	High Risk
ICT*	Medium Risk	Medium Risk
Metals	High Risk	High Risk
Paper	Medium Risk	Medium Risk
Pharmaceuticals	High Risk	Medium Risk
Retail	Medium Risk	Medium Risk
Textile-Clothing	High Risk	Medium Risk
Transport	High Risk	High Risk
Wood	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

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