

BAROMETER COUNTRY AND SECTOR RISKS BAROMETER - Q3 2022



By the Coface
Economic
Research team

A cold chill on the global economy

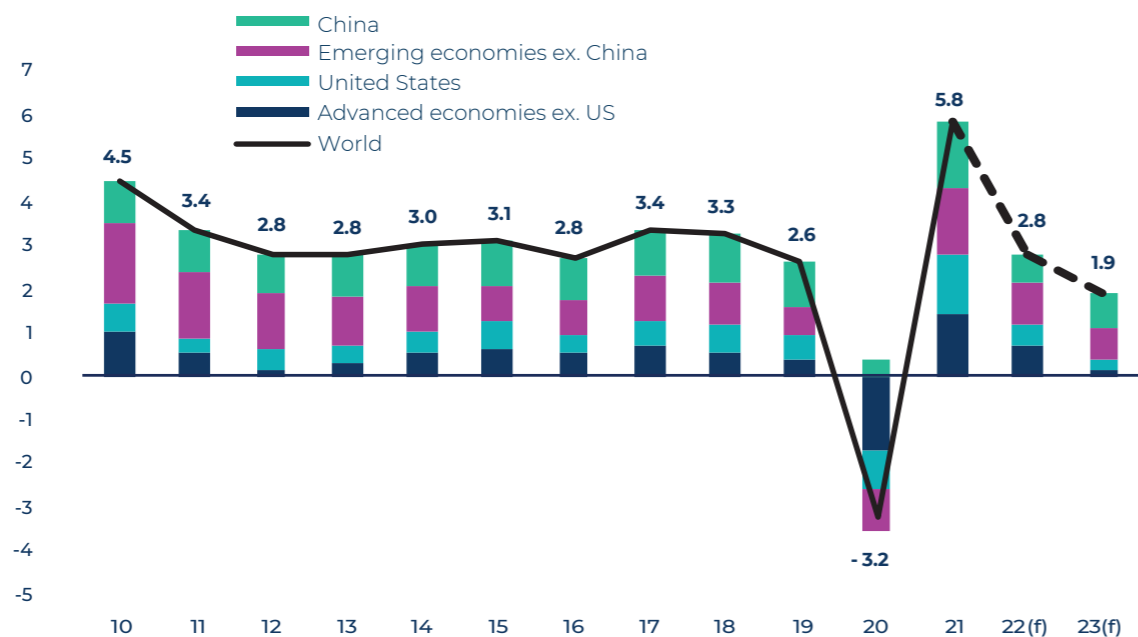
As autumn sets in across the northern hemisphere, the skies are darkening over the global economy. Beyond the repercussions of the events in Eastern Europe, which we highlighted in our last barometer, the global monetary tightening and the multiple constraints on Chinese growth paint a gloomy outlook, to say the least. In the short-term, the economy seems to be settling into a regime of “stagflation”, where almost no growth and rapidly rising prices coexist. The possibility of a global recession, meanwhile, is becoming clearer. The general downward revisions to our GDP growth forecasts this quarter reflect this. Our assessment changes are also consistent with this logic and with the numerous downgrades made last quarter. Coface has downgraded eight countries (Italy, Denmark, Switzerland, Cyprus, Luxembourg, Malta, Egypt and Chile), after 19 in the second quarter. The 49 sector risk assessment downgrades highlight the clear deterioration of conditions in sectors sensitive to the economic cycle (construction, metals and wood).

Over Europe, more than anywhere else, the clouds are particularly threatening. Following the complete shutdown of the Nord Stream gas pipeline at the beginning of September, the energy crisis triggered by the events in Eastern Europe is intensifying. The Old Continent is therefore preparing for “imposed” sobriety, as the European Union has finally agreed on a plan to reduce gas consumption, while some industries have announced that they would reduce their production to cope with soaring energy costs. As the region prepares to wrap itself in its winter clothes, it seems inevitable that it will have to ration its energy consumption, especially of natural gas and electricity. Germany, the continent’s leading industrial power, will be at the forefront of this crisis.

Concomitantly, inflationary pressures, exacerbated by the increased geopolitical tensions, show little sign of abating. The major central banks, led by the U.S. Federal Reserve (Fed), remain resolutely aggressive to contain inflation. Breaking the low interest rate environment that prevailed following the global financial crisis (2008-2009), particularly in the advanced economies, most of them (United States, Canada, Europe, United Kingdom, Australia, etc.) have already returned to key interest rate levels unseen in the last decade. Far from being deterred by the growing signs of a slowdown in activity,



Chart 1:
World GDP growth (annual average, %)



Sources: IMF, National statistical institutes, Refinitiv Datastream, Coface forecasts

they are even intensifying their efforts to curb inflation. In the dock - sometimes wrongly - for letting the inflation genie out of the lamp, central banks are now at risk of dragging the global economy into a major slowdown or even a recession. This is particularly acute in the case of the Fed, whose aggressiveness is leading to increased monetary tightening in other countries - especially emerging countries - in order to stem the depreciation of their currencies against the USD (a reverse "currency war"). Such a tightening of global monetary and financial conditions, should it continue at the current pace, would obviously threaten global growth and financial stability.

In addition to this already gloomy picture, the Chinese economy is experiencing difficulties: the real estate crisis is still simmering and the "zero-COVID" policy continues to penalise domestic activity, with repercussions on supply chains in Asia, Europe, the Americas and Africa. While there is much speculation that this policy will be relaxed after the

Chinese Communist Party Congress on 16 October, the health situation (low immunity) and the coming winter do not call for an immediate easing.

While the sources of risk and uncertainty are legion, new political disturbances could add to their ranks. First, the new geopolitical landscape opened up by Russia's actions could reawaken risks in other global hotspots. Furthermore, price pressures, particularly on necessities, continue to fuel frustrations, building on those generated by the economic and health crisis triggered almost three years ago by the pandemic. As it does every year in the third quarter, Coface shares the results of the update of its index of social and political fragility in this study. Although the index has declined from last year's record level, it still suggests a high risk environment. While the focus naturally shifts to the risks of unrest in emerging countries, the advanced economies are not expected to be spared from this upsurge in social tensions.

1 Coface Barometer: A recession to avoid stagflation? The world economy at a crossroads. 21 June 2022. URL: <https://www.coface.com/News-Publications/Publications/Country-Sector-Risk-Barometer-Q2-2022>

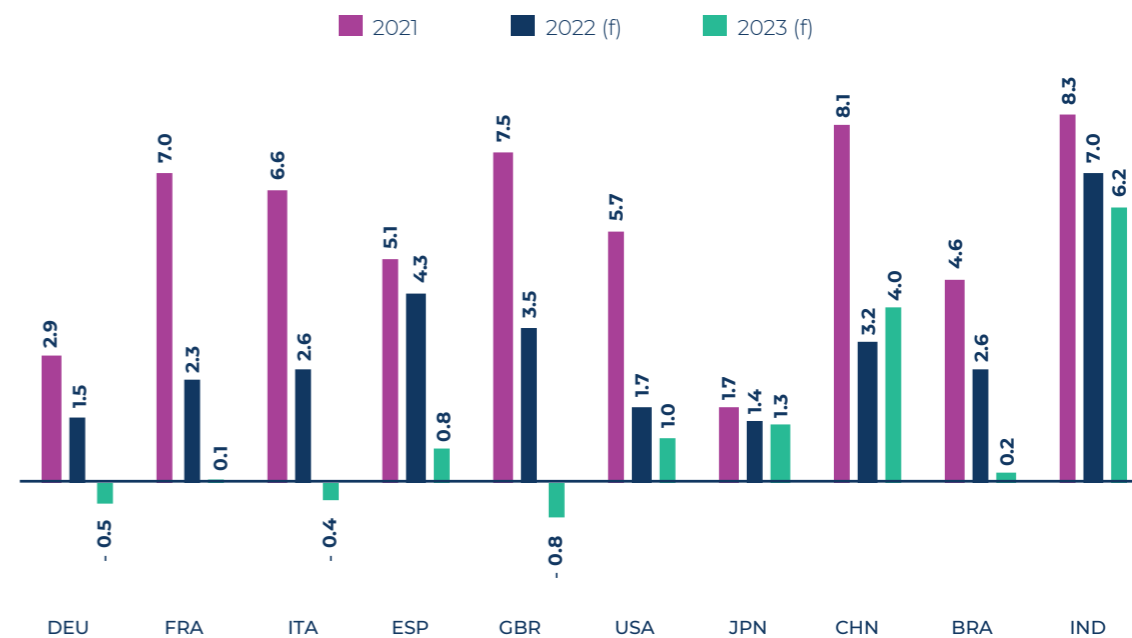
Winter (and recession) looming in Europe

Most of the risks mentioned in our previous Barometer¹ have materialised: the intensification of the energy crisis in Europe (disruption of flows), persistent inflation and aggressive monetary tightening around the world. Against this backdrop, we have significantly revised down our global growth forecast for 2023 (Chart 1). As in 2001, 2008, 2009 and 2020, global growth will be below 2%. While we have lowered our growth forecasts in all regions worldwide, Europe is undoubtedly the one whose outlook has darkened the most over the summer. Thus, a recession seems inevitable in all major European economies this winter, and most of them will even record negative growth for the year as a whole (Chart 2).

The potential rebound in the second half of the year, if it were to occur, would be insufficient

to offset the drop in activity caused this winter by the energy crisis. After a gradual reduction in flows and several temporary interruptions, the shutdown of the Nord Stream 1 pipeline on 31 August confirmed the scenario of a drastic reduction in Russian gas supplies to Europe this winter. The incidents (sabotage) on 26 September suggest that these flows are very unlikely to be restored - at least not in the near future. Moreover, with the escalation of the conflict and the growing rift between Russia and Western countries, a resumption of Russian gas flows to Europe in the coming months is increasingly unlikely, which means that energy supply difficulties and consequent price pressures are likely to continue throughout 2023. Thus, although gas prices have fallen back from over EUR 300 per MWh at the end of August, they remain at extraordinarily high levels, almost ten times more expensive than in the winters before the pandemic. Moreover, although European countries have managed to reach

Chart 2:
GDP growth (selected countries, annual average, %)



Sources: IMF, National statistical institutes, Refinitiv Datastream, Coface forecasts



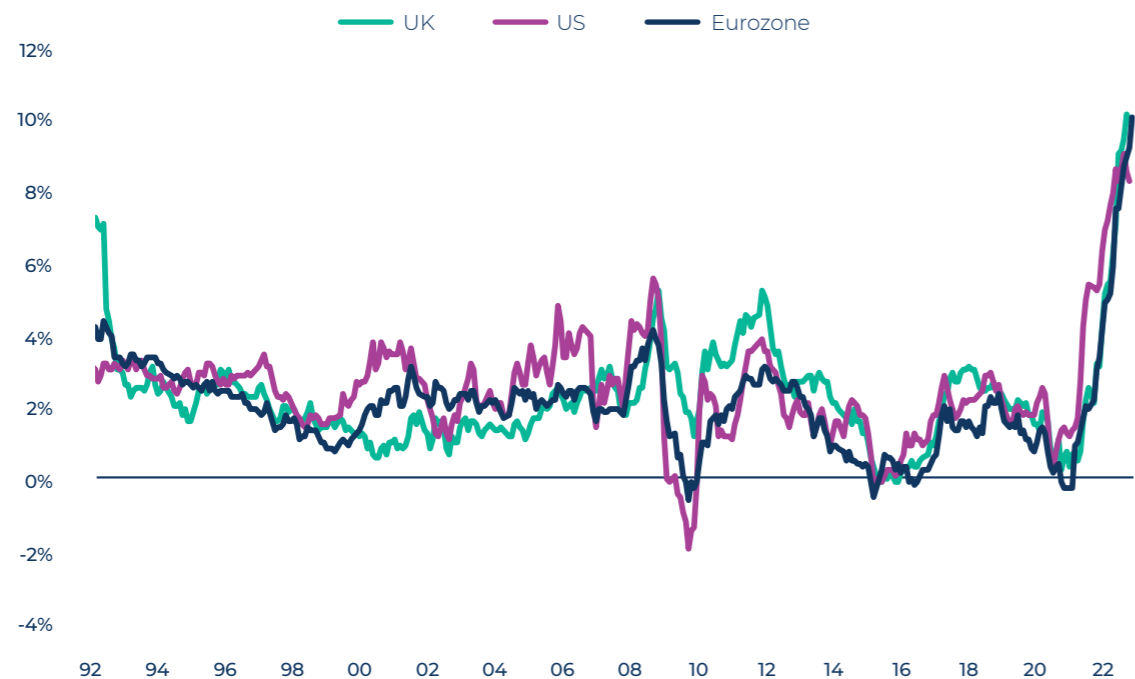
their gas storage targets before winter by paying a high price for LNG (liquefied natural gas) imports, with a filling rate of around 90% at the beginning of October, these represent only a fraction of their winter consumption, so much so that the vast majority of EU countries have committed to save 15% of their gas consumption, an effort that will be largely borne by companies, as European legislation protects individuals. Whether it takes the form of a “voluntary” reduction (suspension of activities that have become unprofitable because of energy costs) or forced rationing decreed by governments, the drop in energy consumption will necessarily result in lower production and a decline in GDP, of which the extent will depend largely on the severity of the winter.

Consequently, the majority of our country risk downgrades this quarter again concern European economies. After 16 downgrades in the previous quarter, we are now downgrading six additional countries,

including three of the four countries where the risk was still considered very low: Denmark, Switzerland and Luxembourg, whose ratings are downgraded from A1 to A2. Given the magnitude of the upcoming shock, only Norway, a gas producer, remains in a position to enjoy the best risk assessment.

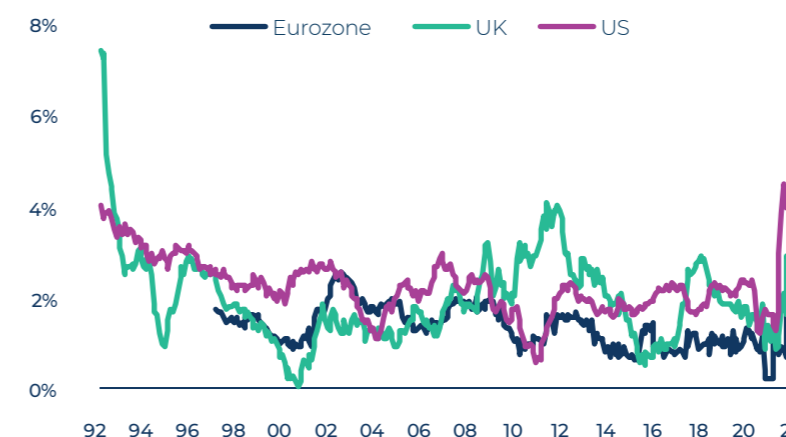
While the extent of the energy savings required will largely depend on the weather, the energy crisis is likely to remain on the agenda as European economies face the challenge of replenishing their storage capacity before the winter of 2023-2024. Since, unlike last spring, Russian gas flows are expected to remain very low, European countries will most likely be forced to again purchase substantial quantities of LNG at high prices, thereby exacerbating gas price pressures. Faced with the prospect of persistently high energy prices at the global level, almost half of our 49 sector risk assessment downgrades this quarter again concern energy-intensive industries such as

Chart 3: Inflation rate



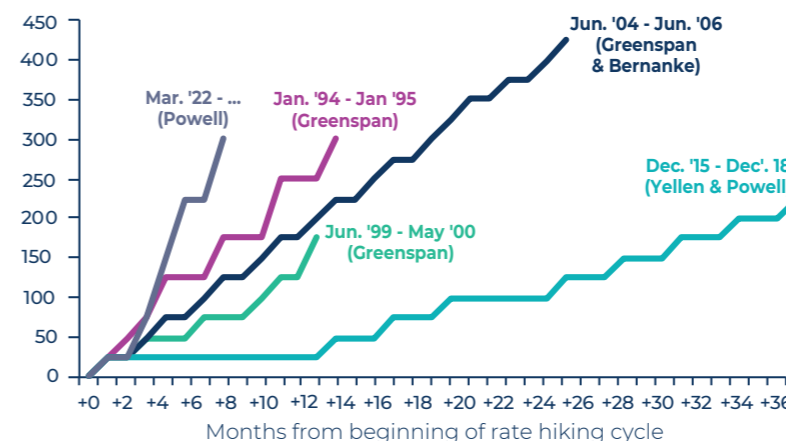
Sources: Refinitiv Datastream, Coface

Chart 4: Core inflation



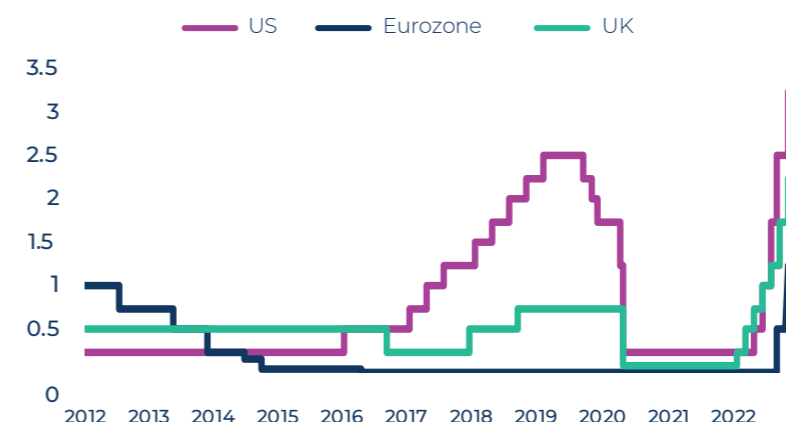
Sources: Refinitiv Datastream, Coface

Chart 5: United States: Cumulative increase in the Fed Funds target rate over the last rate hike cycles (in bps)



Sources: Federal Reserve, Refinitiv Datastream, Coface

Chart 6: Key interest rates (in %)



Sources: Refinitiv Datastream, Coface

chemicals, paper and metals. However, unlike the previous quarter, when most of these downgrades were in Europe, this time we also downgraded these sectors in most Asian economies and, for example, also in South Africa.

Central banks step up the fight against persistent inflation

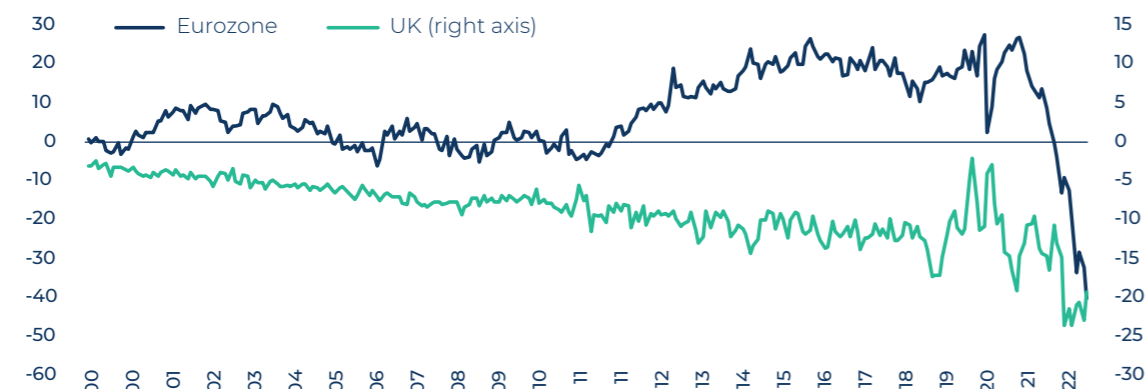
Recent months have also confirmed the materialisation of the risk of persistently high and, above all, increasingly widespread inflation in advanced and emerging economies. In September, annual inflation reached 10% in the Eurozone, the same level as in the UK in August (Chart 3). While inflation in the U.S. - where inflationary pressures emerged a few months earlier - probably peaked in June (9.1%), it was still above 8% in August. More importantly, core inflation, which excludes volatile components (energy and fresh food), increased again in August to 6.3%, a sign of its tenacity and diffusion to the economy as a whole (Chart 4).

Against this backdrop, the Fed has rapidly tightened its monetary policy, with three 75 basis point (bps) increases in the Fed Funds rate since June, a much sharper tightening than in previous cycles of monetary normalisation (Chart 5). As inflationary pressures deepen, the Fed is expected to continue to raise rates over the next few months, to 4.50% by the end of the year, i.e. an increase of 125 bps in the last two meetings of 2022.

The Bank of England (BoE) and the European Central Bank (ECB) are thus also forced to hike their key rates at a much faster pace than expected, due to the acceleration of core inflation, but also to limit the depreciation of the pound sterling and the euro against the dollar, which fuels imported inflation. Moreover, in addition to the observed or anticipated interest rate differential with the US dollar (Chart 6), these currencies are being dragged down by expectations of an imminent recession in Europe and



Chart 7:
Trade balance (EUR and GBP billion)



Sources: Eurostat, ONS, Refinitiv Datastream, Coface

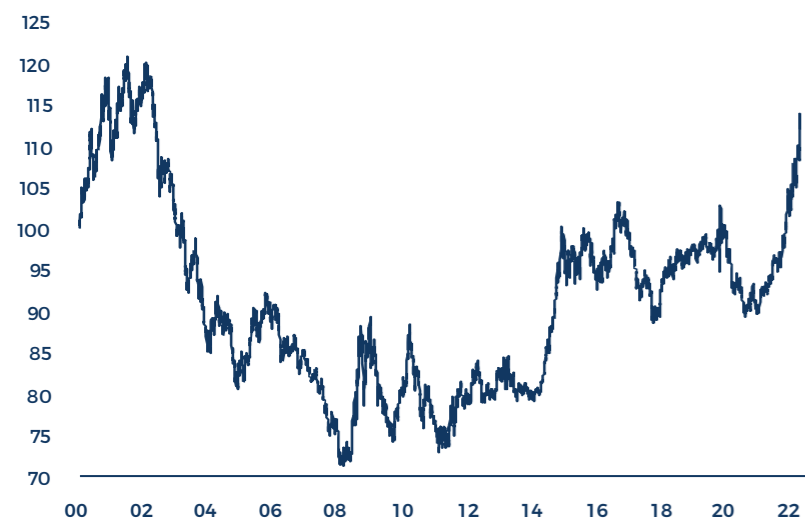
by the considerable widening of the UK and Eurozone trade deficits this year due, in particular, to their soaring energy bills **(Chart 7)**.

The consequences of the Fed's monetary tightening are not limited to Europe, as the dollar has appreciated significantly against all other currencies over the past 12 months **(Chart 8)**. Also, as is customary when the Fed raises interest rates, the vast majority of central banks in emerging countries have

been forced to do the same in order to limit capital flight and the resulting depreciation of their currencies **(Chart 9)**, and thus to avoid further fuelling the growing inflationary pressures resulting from commodity prices. In recent weeks, the central banks of Thailand, Indonesia and Morocco have finally decided to start increasing their interest rates. Meanwhile, monetary authorities in emerging economies such as India, Mexico, South Africa, Nigeria and Poland have continued to tighten. A notable exception was Brazil's central bank, which decided at its September policy meeting not to hike its interest rate for the first time since March 2021. However, this pause comes after rapid and early monetary tightening (from 2% to the current 13.75%), which allowed the Brazilian real to be one of the few currencies to have appreciated (slightly) against the dollar in 2022.

Furthermore, as mentioned in the previous Barometer, three emerging central banks are continuing to pursue counter-current monetary policies: Russia, Turkey and China. The Chinese monetary authorities lowered several of their benchmark interest rates in August in order to support activity in response to the confirmation of a sharp slowdown in the economy. The latter is still affected by the "zero-COVID" strategy, the crisis in the real estate sector and the severe drought recorded

Chart 8:
US dollar nominal effective exchange rate (DXY)

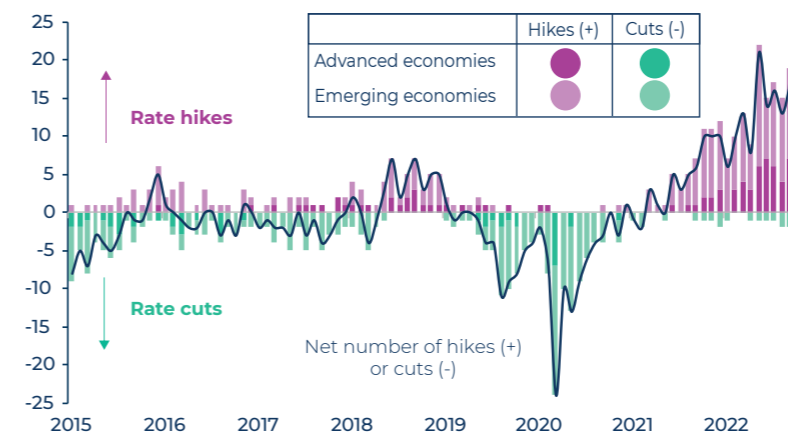


Sources: Refinitiv Datastream, Coface

this summer. The difficulties linked to the first two factors are expected to persist in the coming months. Given the health situation, the possibility of a change in approach after the 20th Chinese Communist Party (CCP) Congress on 16 October, which is expected to consolidate Xi Jinping's political dominance as leader, seems to be diminishing. Concurrently,

the deflating of the real estate bubble should continue. Given that the real estate sector is estimated to account for around 30% of GDP, the sector's woes will result in GDP growth well below the standards of the last decades in 2022 (3.2%) and 2023 (4.0%). As the driver of global economic activity for the past twenty years, Chinese growth will therefore contribute to the sharp global slowdown.

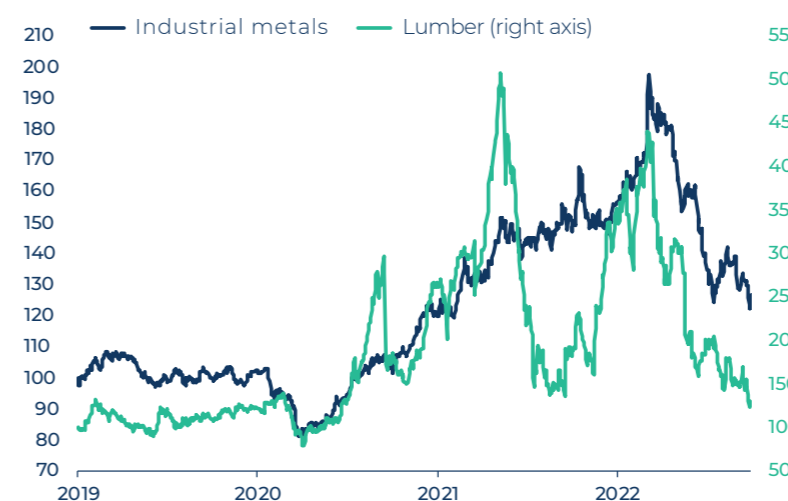
Chart 9:
Number of key rate hikes/cuts by major central banks



Advanced economies: Australia, Canada, Czech Republic, Japan, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States, European countries under the ECB jurisdiction.
Emerging economies: Brazil, Chile, China, Colombia, Croatia, Egypt, Ghana, Hungary, India, Indonesia, Malaysia, Mexico, Nigeria, Pakistan, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Turkey

Sources: National central banks, IMF, Refinitiv Datastream, Coface

Chart 10:
Industrial metals and timber prices (100 = 1 January 2019)



Sources: Refinitiv Datastream, Coface

In this particularly adverse environment of widespread monetary tightening, the outlook for the global construction sector is clearly negative. Therefore, after soaring at the beginning of March 2022, industrial metals and timber prices have been falling steadily since, ultimately recording declines of 20% and 60% respectively since the beginning of the year **(Chart 10)**. While industrial metals prices are still above their 2019 levels, this energy-intensive sector is facing a decline in activity and rising costs. We have therefore downgraded the assessment of Chile, whose copper (of which the price fell by 30% compared with the beginning of March) accounts for more than half of its exports, from A3 to A4. Additionally, we have downgraded the metals and wood sectors in several countries in Europe, Asia, North America and South America.

Danger! Conflicting objectives between fiscal and monetary policies

While central banks are determined to fight inflation with "whatever it takes", many are faced with a conflict of objectives with the fiscal policy of their country/region. National governments, anxious to limit (or even avoid) the contraction in activity, have in fact multiplied measures in recent months to support household purchasing power and corporate cash flow. In the absence of a fall in (household) demand, this configuration does not allow for a significant decrease in inflationary pressures, especially as the constraints on supply are well and truly tangible (closure of numerous production sites), forcing central banks to implement



even more restrictive monetary policies. The outcome will be a potentially explosive cocktail for public finances: a widening public deficit and soaring financing costs, in a context where public debt has increased considerably during the pandemic, both in emerging and advanced economies. The turbulences experienced by the UK economy at the end of September illustrate the risks arising from the conflict of objectives between monetary and fiscal policies. The announcement by the government of the new Prime Minister, Liz Truss, of an energy price cap until 2024 (cost: GBP 60 billion for 6 months) and, above all, of the biggest tax cuts since 1972 (GBP 45 billion by 2026) led to the collapse of the pound sterling and the surge in interest rates on British debt. While the energy price cap should reduce inflation in the short-term, the scale of this fiscal support will inevitably fuel inflation in the medium-term, forcing the Bank of England to pursue an even more aggressive monetary policy.

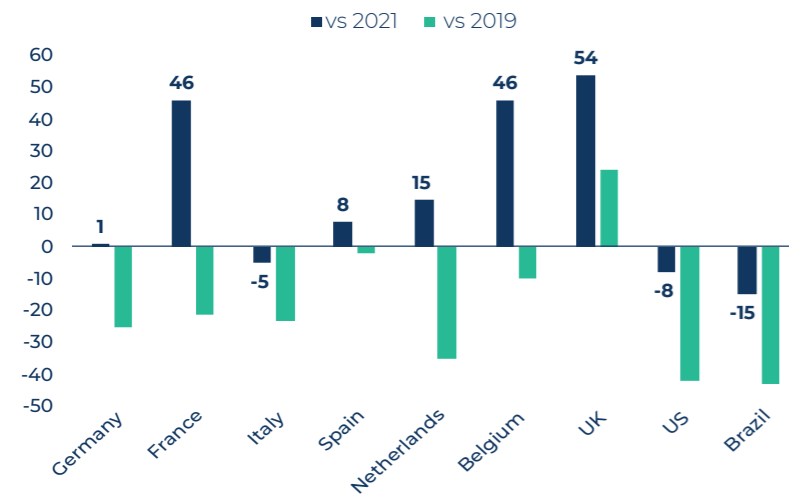
The widening of the public deficit in this configuration of inflation and high interest rates appears all the more problematic as a significant part of the UK's debt is indexed to inflation (over 20%) or to the BoE's policy

rate (30% of the total, following the massive asset purchase programme conducted during the pandemic). In order to calm the markets, the BoE had no choice but to resume buying government bonds and to postpone the sale of public debt to reduce its balance sheet until 1 November. A few days later, under pressure from its MPs, the government was forced to backtrack on one of the tax cuts. While these announcements have temporarily calmed the markets, the pressure will be strong for the BoE to raise its key rate drastically at its next meeting in early November, in order to convince them that it remains determined to fight inflation. At present, the markets are expecting a 100-150 bps increase, two to three times the rate decided in September.

Once again, the measures that governments have already taken or will take have a considerable influence on the evolution of corporate insolvencies. In 2022, only the UK is likely to record a very high level of insolvencies (**Chart 11**) due to the absence of support measures for most of the year. In Belgium and Spain (where insolvencies have rebounded since the third quarter of 2020), they should be close to their pre-crisis levels. Conversely, in the other main economies, the number of insolvencies should remain limited over the year as a whole, despite a rebound in the last quarter.

Although there is less fiscal room for manoeuvre than during the pandemic, a scenario of further divergence between the macroeconomy (significant slowdown, or even recession in some countries) and the microeconomy (limited increase in corporate insolvencies) cannot be ruled out for 2023. In that case, the adjustment needed in the medium-term to correct the resulting macroeconomic imbalances would be all the greater.

Chart 11:
Change in corporate insolvencies in 2022



Sources: National sources, Coface forecasts

Social unrest to escalate as socio-economic pressures mount

As early as March 2022², in the days following the rise in geopolitical tensions in Eastern Europe, Coface warned of the potential for heightened social risks associated with rising prices for necessities, led by food and energy. Since then, inflationary pressures have intensified and popular discontent with increasing living costs is already beginning to manifest itself in the streets around the world, from Bangladesh to Haiti, from the UK to Ghana. Political risk in its various forms - rising populism, social unrest, conflict, terrorism, protectionism - has been a recurring theme in the news for several years. Moreover, the COVID-19 pandemic, and its human (over 6.5 million deaths between February 2020 and September 2022) and

economic impact, has opened a new page for political risk, and the risk of social movements in particular.

Last year³, we warned that grievances related to the economic and health crisis could amplify the frustrations inherited from the pre-COVID-19 period and generate new sources of tension. In light of the multiplication of social movements already observed in recent months, the deteriorating outlook described above suggests that the risk of social unrest will remain high in the coming months..

In order to assess political risk, Coface has an index, launched in March 2017⁴ and updated annually (see **Box 1**). In the 2022 edition of our indicator, the average score

Box 1:

COFACE POLITICAL RISK MODEL

Coface's political risk model is a synthetic indicator of political risk on a scale of 0%, indicating zero risk, to 100%, indicating maximum risk. It takes into account two main risk categories:

- **Security risks**, based on the observation of conflicts (between states or between factions within a given territory) around the world. It is measured using a synthetic index calculated by factoring in the occurrence of fights, the intensity of the conflict and the associated number of victims.
- **The risks arising from political and social fragility**, which is the combination of three distinct indices:
 1. **Social risk index**: it takes into account two categories of variables. First, pressures (1) for change, measuring the degree of social frustration based on socio-economic factors: inflation, unemployment rate, income inequality as measured by the GINI coefficient, per capita income and its evolution; perception of corruption, people's capacity for self-expression, and the homicide rate. Second, instruments (2) to express these socio-economic frustrations: the tertiary education rate, the adult literacy rate, internet access, the proportion of youth in the population, the fertility rate, the urbanisation rate and the female participation rate.
 2. To identify cracks in the foundations of the political system, Coface also constructs a **fragility index** based on the nature of the political system, ethnic and linguistic fragmentation, and the degree of political freedom and civil rights that the population holds.
 3. **Populism index**: specific variables from the Manifesto Project database, constructed from textual analysis of the content of political parties' election programmes to account for the rise of populism, in order to better understand the rise of social frustrations in some democracies.

² Coface Focus: Stagflation ahead. March 2022

³ Coface Focus: "New wave of post-pandemic social movements: international trade as a collateral victim". September 2021

⁴ Coface Panorama: "The rise and rise of political risks", March 2017



Chart 12:
World: Average Coface political risk index score



Source: Coface

at the global level (**Chart 12**) has declined from the record level reached last year. This is unsurprising: despite the emergence of inflationary pressures, the post-pandemic recovery has allowed socio-economic conditions to improve across the board compared with the height of the health crisis. While the political and social fragility indicator deteriorated for 145 of the 160 countries analysed last year, 140 countries have seen their scores improve this year. However, this improvement should be put into perspective, as, despite the decline in the overall average index, it remains one percentage point above its pre-COVID-19 crisis level (between 2015 and 2020), indicating still very high levels of risk. Two-thirds of the countries analysed (99) have a higher score than two years ago. For more than half of them, it is up by more than one point compared to the 2020 index. The catalytic effect of the COVID-19 pandemic on political risks would therefore tend to be confirmed. It also suggests that the socio-economic pressures associated with the rising cost of living have immediately taken over the risks generated by the pandemic.

The ranking of scores for the political and social fragility index (see **Table 1**) remains dominated by Iran (81.6%). Economic suffering, already the cause of large-scale anti-government protests in 2017 and 2019, remains a fertile ground for challenges to the authoritarian regime. Since 16 September, the series of protests triggered by the death of Mahsa Amine, a young woman arrested three days earlier by the morality police, has once again illustrated the fragility of the Iranian context. The “podium” of our indicator is completed, as since 2017, by Syria (78.0%) and Sudan (76.5%).

Against the backdrop of a near-universal decline in the indicator, the largest increase in the risk level (see **Table 2**) can be attributed to Myanmar (59.9%), which remains in a state of significant unrest since the military coup in February 2021. Afghanistan, where the Taliban have regained power after the withdrawal of U.S. troops, and Guinea, which is also still struggling with political uncertainty following a coup last year, are also among the few countries that have seen their scores increase

Table 1:
Top 10 riskiest countries according to the index of political and social fragility

Country	2022 score	Change	
		vs 2021	vs 2020
Iran	81.6%	+1.2 pp	+0.2 pp
Syria	78.0%	+0.5 pp	+1.1 pp
Sudan	76.5%	-2.3 pp	-0.9 pp
Bahrain	71.7%	-4.6 pp	+0.9 pp
Afghanistan	71.6%	+1.6 pp	+5.7 pp
Venezuela	70.6%	-2.3 pp	-3.7 pp
Djibouti	70.1%	-0.6 pp	+0.4 pp
Turkmenistan	69.8%	-2.1 pp	-1.0 pp
Laos	69.8%	-0.9 pp	+1.2 pp
Yemen	69.5%	-2.2 pp	+5.4 pp

pp: percentage points

Table 2:
List of countries whose political and social fragility score increased in 2022

Country	Change	Score	2022 rank* (change vs 2021)	
Myanmar	+6.0 pp	59.9%	42	(+30)
Timor-Leste	+4.8 pp	47.5%	87	(+27)
Belarus	+2.3 pp	63.9%	27	(+11)
Serbia	+2.0 pp	47.5%	88	(+16)
Guinea	+1.6 pp	57.7%	52	(+10)
Afghanistan	+1.6 pp	71.6%	5	(+9)
Tajikistan	+1.3 pp	64.5%	25	(+10)
Benin	+1.2 pp	46.0%	95	(+14)
Iran	+1.2 pp	81.6%	1	(+0)
Egypt	+1.1 pp	59.8%	43	(+11)
Guyana	+1.0 pp	48.5%	83	(+15)
Nicaragua	+0.7 pp	59.5%	45	(+7)
Turkey	+0.7 pp	60.6%	38	(+6)
Syria	+0.5 pp	78.0%	2	(+1)
Tanzania	+0.5 pp	53.3%	64	(+16)
Central African Rep.	+0.3 pp	65.5%	24	(+8)
Togo	+0.2 pp	59.3%	46	(+4)
Niger	+0.1 pp	51.1%	72	(+13)
Sao Tome and Principe	+0.1 pp	37.4%	115	(+10)
Ethiopia	+0.0 pp	61.4%	35	(+5)

* over 160 countries
pp: percentage points

this year. While the manifestations of political risk are less clear, the increase in scores for Belarus, Serbia and Egypt are noteworthy. Turkey also falls into this category, and will receive special attention. Indeed, the rather heterodox economic policy there continues to fuel record inflation, which could encourage political unrest in the coming months.

While our indicator points to an even higher level of risk of social unrest than before the pandemic, it probably underestimates the sense of fatigue and weariness that people are experiencing. Moreover, the data do not fully capture the severity and persistence of inflationary pressures, which will undoubtedly mean that people’s patience with their leaders is limited. Furthermore, the 2022 edition of our indicator does not reflect the possible impact of the economic slowdown that we anticipate, particularly on unemployment, which could fuel social discontent.

The most explosive civil unrest will likely occur where the scope for dissent is reduced and the capacity to protect people from rising living costs is limited. The fiscal response to the COVID-19 crisis has, in fact, largely eroded the policy space of governments, particularly in middle- and low-income countries, limiting their ability to respond to the amplification of new socio-economic tensions. For instance, President Joko Widodo’s decision to cut fuel subsidies in early September triggered major protests in Jakarta, Indonesia. The removal of energy subsidies was already at the root of protests in Kazakhstan earlier this year, and other countries are likely to face similar situations in the coming weeks. The focus is primarily on emerging countries with troubled public finances: Kenya, Bolivia, Tunisia and Egypt could fall into this category.

Nevertheless, advanced economies, starting with Europe, will not be spared from these risks. While European governments have already made announcements aimed at protecting households from rising energy prices (see above), households are already



feeling the impact of inflation to a large extent, leading to increased discontent with public policy makers. One example of this is in the United Kingdom, where the “Don’t Pay UK” movement is calling on British people to stop paying energy bills from 1 October. In addition to the fatigue caused by the pandemic, the “Partygate” scandal, which cost Boris Johnson his job as Prime Minister, and the major economic challenges, suggest that patience with Liz Truss’ government is likely to be very limited.

The discontent of European populations is manifesting itself both in the streets and in the ballot box. The socio-economic context is giving a new impetus to the so-called “anti-system” parties across Europe. The victory of the far-right Fratelli d’Italia in the Italian elections is the most recent example, the breakthrough of the national-populist Sverigedemokraterna party in the Swedish elections is another illustration. An anti-system seething, which has been particularly visible since the 2008 crisis, could find a new momentum in a worsening economic context.

While social concerns among advanced economies will be strongest in Europe, the United States (35.1%) has the highest score on our political and social fragility indicator. The country remains sharply divided on many issues, which continues to fuel political tensions, particularly in the run-up to the 8 November mid-term elections and the 2024 presidential election. For this November, economic issues (inflation, fears of a recession) are a major concern for voters. Some worker protests requesting wage increases and better working conditions, such as the private nurses’ strike in Minnesota, are a testimony to this. The aftermath of the Supreme Court’s decision on 24 June to overturn Roe v. Wade, paving the way for the banning (or severe restriction) of abortion rights in some states, has also brought the protection of rights and the process of appointing judges to the Supreme Court into the debate. If the latest polls suggesting that the Republicans are

in a position to regain control of the House of Representatives were to be confirmed in the ballot box, then policy-making would be constrained for Democratic President Joe Biden until the next elections in 2024.

As with our economic scenario, the balance of risks is tilted towards a deterioration in social unrest and political instability. On top of this, the geopolitical upheaval triggered by the events in Eastern Europe raises concerns about renewed tensions that could escalate, particularly in Eurasia. The clashes on the border between Tajikistan and Kyrgyzstan in mid-September are part of this context. The new rise in tensions in the Aegean Sea between Turkey and Greece, already the source of disputes that came close to escalating into military confrontation in the 1980s and 1990s, is also a source of apprehension. Further east, the firing of a North Korean ballistic missile over Japan, the first since 2017, was also a reminder of the fragile security environment in the Sea of Japan region. Added to this are the growing concerns around Taiwan. The visit of Nancy Pelosi, President of the American House of Representatives, to the island at the beginning of August and the recent statements of President Joe Biden assuring that the United States would react to any Chinese military initiative have effectively stressed the authorities of the People’s Republic of China. Caution therefore remains the order of the day when it comes to the risk of conflict: the uncertainty, not to say anxiety, is likely to last.

Box 2:
COFACE STRENGTHENS ITS SECTORAL METHODOLOGY BY INTEGRATING THE IMPACT OF “NETWORK EFFECTS”

Coface’s sector risk assessment methodology consists of three pillars and eight criteria. The model assigns a relative weight to each criterion in order to arrive at a final risk assessment for the sector in a selected country or region⁵.

We now integrate the impact of “network effects” into our sector methodology. Using Coface’s internal data, we create a network (also called a graph) that represents the interactions of sectors/countries between them and thus allows us to assess the impact of a shock in a given sector/country on the others. The interest of this approach is documented in academic research⁶.

For instance, a downturn in the agri-food sector in China will have an impact on the agri-food sector in Brazil. The graph allows us to take these interactions into account and integrate them into our final sector risk assessment - which is the score without the network plus the shocks transmitted by the network.

Pillar 1 - Coface expertise regarding payment behaviour

- **Unpaid ratio:** This criterion provides both an overview of Coface’s databases concerning the notification of unpaid invoices and the evolution of payment incidents (over the previous quarter) in companies for each sector in each country under review.
- **Changes in default amounts by sector at the global level:** obtained for each of the 13 sectors at the global level. The historical series are extracted from Coface databases.
- **Sector risk assessment by Coface underwriters:** based on their expertise in the sectors in their portfolio region.

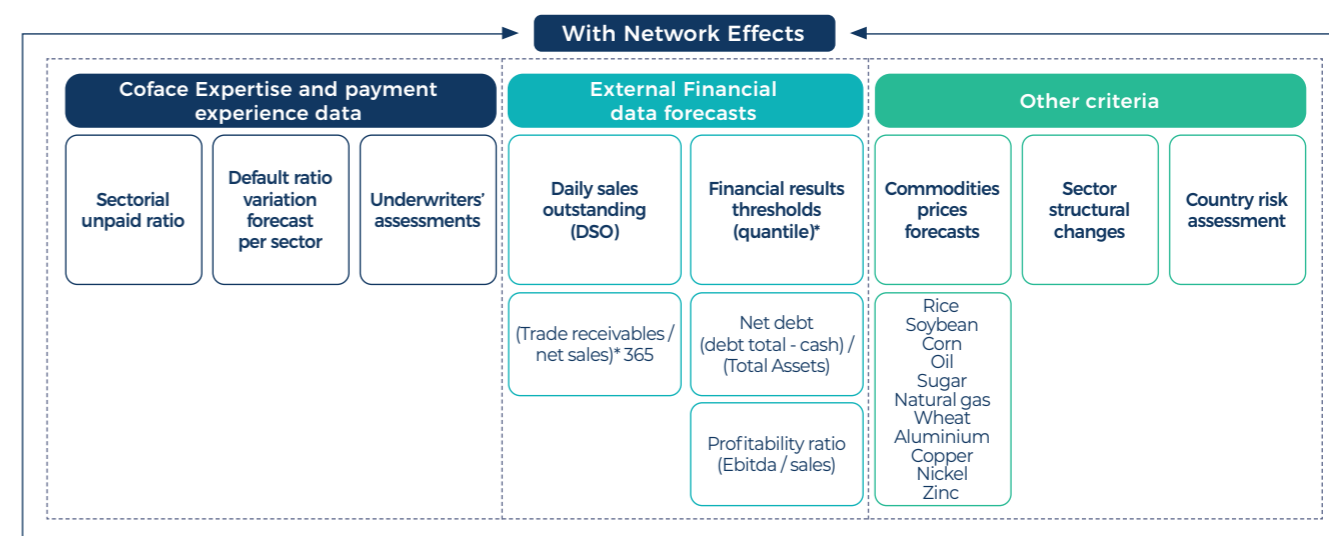
Pillar 2 - Financial Data Integration/Forecasting

- **Daily sales outstanding (DSO)** measure the average number of days it takes for businesses in a sector to receive payment after the sale has been made.
- **Financial ratio forecasts:** Coface produces forecasts of the net debt and profitability ratios of companies in each country/sector monitored (364 in total).

Pillar 3 - Other criteria

- **Commodity price forecasts:** Forecasts are made for a six-month horizon. They are updated quarterly.
- **The structural changes aspect** aims to analyse, through a set of criteria⁷, the risks associated with structural changes faced by companies in a given sector at a global level. Through this method, we analyse the degree of risk inherent in certain structural changes, such as the risks associated with climate change and the impact of some regulations on companies in a sector - for instance, the impact of EU regulations such as the CO₂ standard for thermal car manufacturers (aimed at limiting the amount of CO₂ emitted by the cars they sell). We also include elements such as the level of innovation in a sector or the potential legal risks faced by companies in a sector (e.g. the financial risks of litigation for pharmaceutical companies).
- **Coface’s country risk assessments** are updated quarterly (see country risk map) and link the sector risk assessment to a given country.

Chart 13 :
Diagram of Coface’s sector risk analysis methodology including network effects



⁵ Coface produces sector risk assessments for 28 countries in 6 regions of the world, which account for approximately 88% of the world economy.
⁶ See PhD in Economics : “ Analyse des vulnérabilités d’entreprises : une approche par les réseaux ” by Melina London, May 2022
⁷ The associated criteria article is produced by Coface’s Group Economic Research Department



Country Risk Assessment Changes

AREA		Previous Assessment		Current Assessment
CHILE		A3	↓	A4
CYPRUS		A4	↓	B
DENMARK		A1	↓	A2
EGYPT		B	↓	C
ITALY		A4	↓	B
LUXEMBOURG		A1	↓	A2
MALTA		A2	↓	A3
SWITZERLAND		A1	↓	A2

BUSINESS DEFAULT RISK

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

Sector Risk Assessment Changes (Q3 2022)

REGIONAL SECTOR RISK ASSESSMENTS

	Asia-Pacific	Central & Eastern Europe	Latin America	Middle East & Turkey	North America	Western Europe
Agri-food	↓	↓	↓	↓	↓	↓
Automotive	↓	↓	↓	↓	↓	↓
Chemical	↓	↓	↓	↓	↓	↓
Construction	↓	↓	↓	↓	↓	↓
Energy	↓	↓	↓	↓	↓	↓
ICT*	↓	↓	↓	↓	↓	↓
Metals	↓	↓	↓	↓	↓	↓
Paper	↓	↓	↓	↓	↓	↓
Pharmaceuticals	↓	↓	↓	↓	↓	↓
Retail	↓	↓	↓	↓	↓	↓
Textile-Clothing	↓	↓	↓	↓	↓	↓
Transport	↓	↓	↓	↓	↓	↓
Wood	↓	↓	↓	↓	↓	↓

* Information and Communication Technologies
Source: Coface

ASIA-PACIFIC

	Asia-Pacific	Australia	China	India	Japan	South Korea
Agri-food	↓	↓	↓	↓	↓	↓
Automotive	↓	↓	↓	↓	↓	↓
Chemical	↓	↓	↓	↓	↓	↓
Construction	↓	↓	↓	↓	↓	↓
Energy	↓	↓	↓	↓	↓	↓
ICT*	↓	↓	↓	↓	↓	↓
Metals	↓	↓	↓	↓	↓	↓
Paper	↓	↓	↓	↓	↓	↓
Pharmaceuticals	↓	↓	↓	↓	↓	↓
Retail	↓	↓	↓	↓	↓	↓
Textile-Clothing	↓	↓	↓	↓	↓	↓
Transport	↓	↓	↓	↓	↓	↓
Wood	↓	↓	↓	↓	↓	↓

* Information and Communication Technologies
Source: Coface

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	High Risk	High Risk	High Risk	High Risk
Chemical	High Risk	High Risk	High Risk	High Risk
Construction	Very High Risk	High Risk	Very High Risk	Very High Risk
Energy	Medium Risk	High Risk	Medium Risk	High Risk
ICT*	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Medium Risk
Retail	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Textile-Clothing	Very High Risk	Very High Risk	Very High Risk	Very High Risk
Transport	Very High Risk	High Risk	Very High Risk	High Risk
Wood	High Risk	High Risk	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

MIDDLE EAST & TURKEY

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

* Information and Communication Technologies
Source: Coface

LATIN AMERICA

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

* Information and Communication Technologies
Source: Coface

NORTH AMERICA

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

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	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk
Automotive	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Chemical	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk
Construction	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk
Energy	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
ICT*	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk
Paper	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk
Retail	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Transport	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Wood	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

OTHER COUNTRIES

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



Decoding the
WORLD ECONOMY
3rd quarter 2022

coface
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162 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

A1

VERY LOW

A2

LOW

A3

SATISFACTORY

A4

REASONABLE

B

FAIRLY HIGH

C

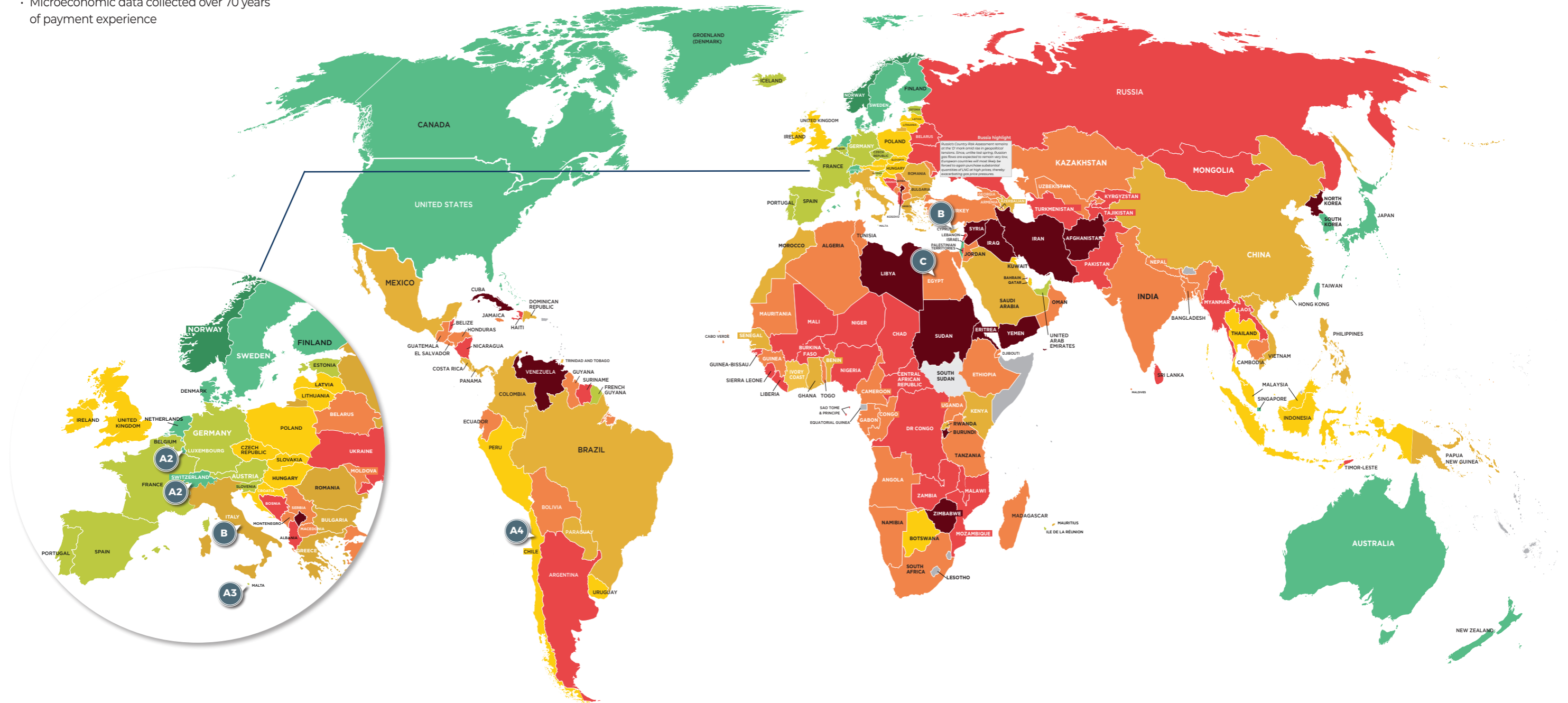
HIGH

D

VERY HIGH

E

EXTREME



SECTOR RISK ASSESSMENTS

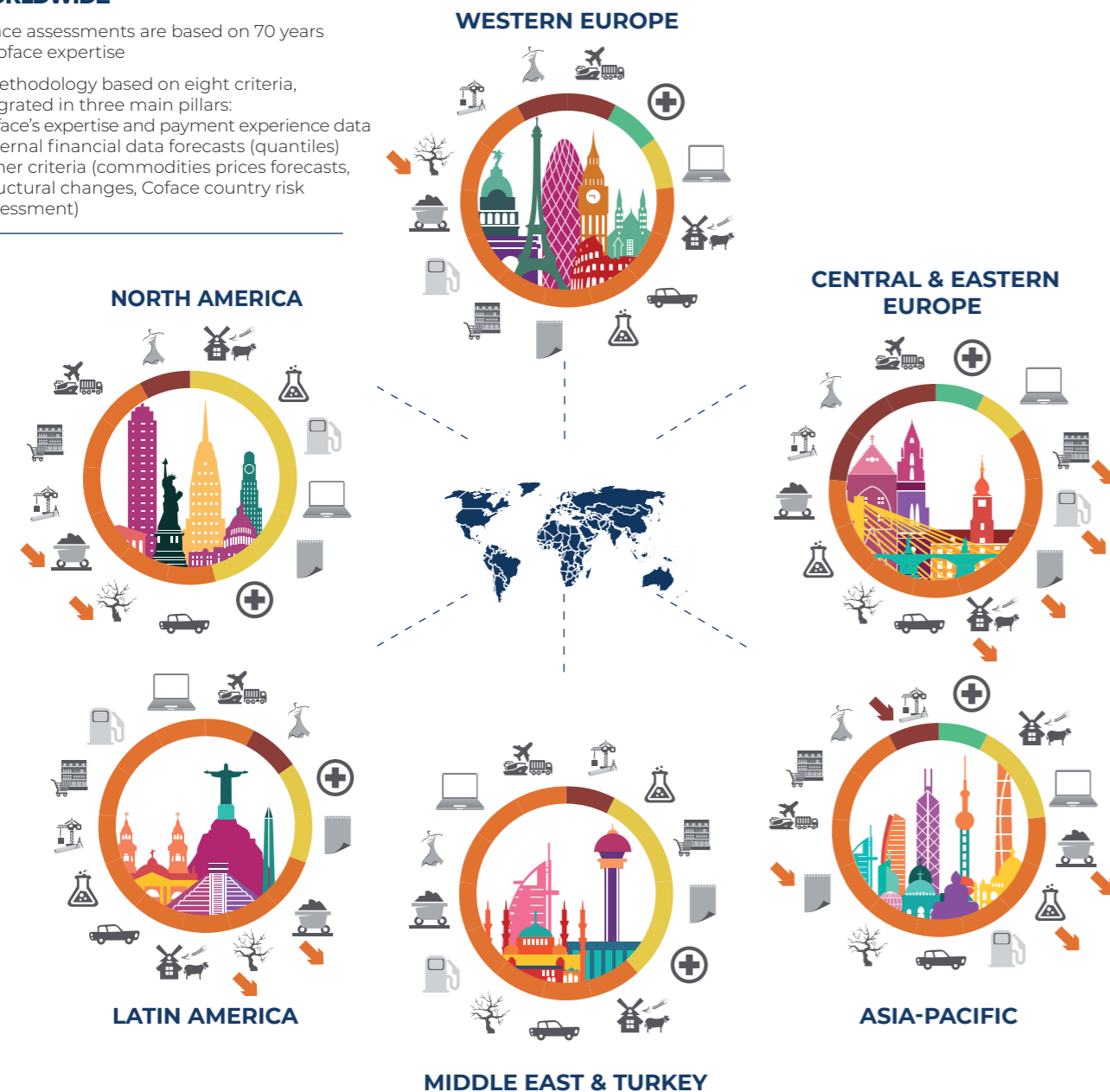
3rd quarter 2022

13 MAJOR SECTORS ASSESSED WORLDWIDE

Coface assessments are based on 70 years of Coface expertise

A methodology based on eight criteria, integrated in three main pillars:

- Coface's expertise and payment experience data
- External financial data forecasts (quantiles)
- Other criteria (commodities prices forecasts, structural changes, Coface country risk assessment)



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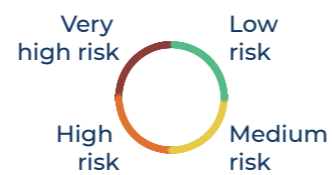
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