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By the Economic
Research team

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For once, the summer proved to be particularly quiet. No major events disrupted the path taken by the world economy. While the summers of 2015 and 2016 were marked by the stock market crash in China and then by Brexit, the summer of 2017 was, instead, characterised by historically low volatility on financial markets at the end of July, while numerous stock market indices like the S&P 500 and the MSCI Emerging Markets reached record highs.

Is this situation a source of concern? Does it seem like a potential excess of confidence, and can we fear a possible bursting of a bubble? Could corporate profitability suffer from financial markets turmoil?

On the economic front in appearance, activity is bouncing back, leading us to upgrade 14 sectors (only 2 downgrades). Europe is still on an upward trajectory (upgrade of Hungary, Finland, and Cyprus' assessments), and capital flows are coming back in large emerging economies, even though they will remain vulnerable to the Fed monetary policy and to political risk. There are more and more signs of recovery in Brazil as well as in Russia. However, Chinese resilience is

still masking major vulnerabilities, including a high credit risk, while India has also surprised, with disappointing growth for once in the second quarter. At last, good news in Africa: despite modest growth performances, a busy electoral calendar this summer turned out to be relatively peaceful.

But ultimately, more surreptitiously, the situation is changing on the developed economy scene. While the strong recovery in the eurozone has taken hold, there are more signs of weakness in Anglosphere countries, as illustrated, for example, by the low savings rate both in the United States and in the United Kingdom, characterised by high household debt. This does not suggest good news on the private consumption front, as certain signs of slowdown are already visible in these two economies. The view of their respective future is clouded by major political uncertainty: Brexit negotiations seem to be moving at a glacial pace, while Donald Trump is disappointing investors, who are having every difficulty deciphering the direction of future policies, particularly with regard to its tax plan. Conversely, the political horizon has become considerably clearer in Europe. This situation could naturally lead to the continued appreciation of the euro against the dollar.

Global growth recovery: a real or a false start?

1 LOW VOLATILITY AND FINANCIAL MARKETS PERFORMANCE: AT RISK OF A BUBBLE?

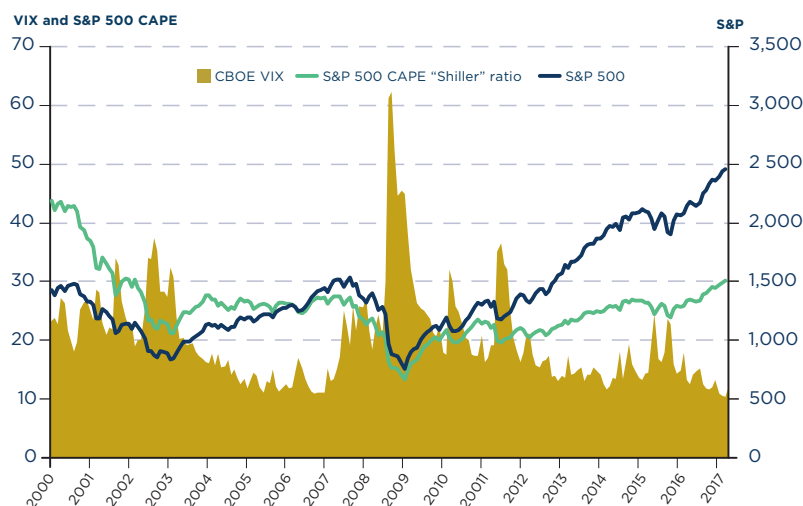
Financial markets were particularly calm this summer.

On 21 July 2017, the VIX⁽¹⁾ reached its lowest point since December 1993 at 9.36. Since then, it has remained low (see chart 1), reflecting how calm investors have been. On the one hand, this low level stems from politics, as political risk in Europe has fallen sharply in recent months. Most of the major elections have passed (although Italy's legislative elections in early 2018 loom). The economic policy uncertainty index (EPU) in Europe, which reached a high point in January, is evidence of the weakening of this risk (today, uncertainty is less than half of its level at the beginning of the year). Indeed, the French presidential election did not lead to a victory for populism, which was particularly feared by the markets, in view of the potentially harmful impacts on growth in the eurozone (cf. risk of exit from the euro). In addition, encouraging news about the economy (modest recovery in US growth, good anticipation by the markets of the evolution of the Fed's monetary policy, positive signs in the eurozone, etc.), was reassuring for investors. Nevertheless, after the calm seen at the beginning of the summer, the VIX "fear index" rose slightly in August, in the light of geopolitical tensions related to North Korea, bringing further uncertainty back to core concerns.

At the same time, some stock market indices set records. For example, the benchmark US stock market, the S&P 500, reached a record-high on 7 August, as well as the British index FTSE100, and the benchmark index on emerging stock markets, the MSCI. This market performance reflects the particularly strong appetite of more tolerant investors for risk for these equity markets, attracted by their much more attractive yields than those of bond markets, where returns are still insufficient, given the prevalence of low interest rates.

Faced with this situation, caution is needed. There is a possibility of a correction, more or less vicious if profits fall short of expectations. History shows that valuations were extremely high before the 1929 crisis and in the beginning of the 2000s with the Internet bubble. This specious lethargy may be synonymous with the underestimation of current risks by investors, like the good health of the US economy, which could weaken, while Donald Trump's policies remain unclear, or China's apparent resilience, while the issue of indebtedness remains crucial. Then, the excess accumulation of past liquidity, related to flexible monetary policies, whether conventional (interest rates close to zero) or unconventional (asset purchase programmes), remains a major source of concern. In August, Bank of America Merrill Lynch published a poll indicating that 44% of the fund managers surveyed believed that equity prices were overvalued (with some analysts suggesting a possible correction of 10% to 15%). In addition, the Shiller ratio⁽²⁾, often used despite its limitations, reached a high point in August of more than 30, also a source of concern.

Chart n° 1
Financial markets: low volatility and high valuation



Source: Reuters - Last available data: august 2017

But what factors could cause a market correction?

A brutal awakening if lower economic indicators watched by the market are reported could be one of the determining factors. Then, while a more restrictive monetary policy from the Fed and the ECB is in the cards, an overly brutal tightening compared with expectations could cause financial markets to fall and thus significantly affect the financial conditions of companies. The Fed could continue to raise its key rate in December 2017 and 2018, while

1/ Volatility index, index of implicit volatility calculated by the Chicago Board Options Exchange (CBOE).

2/ Ratio calculated as market valuation/corporate profits, corrected for the economic cycle.



A fall in financial markets would substantially weaken corporate profitability.



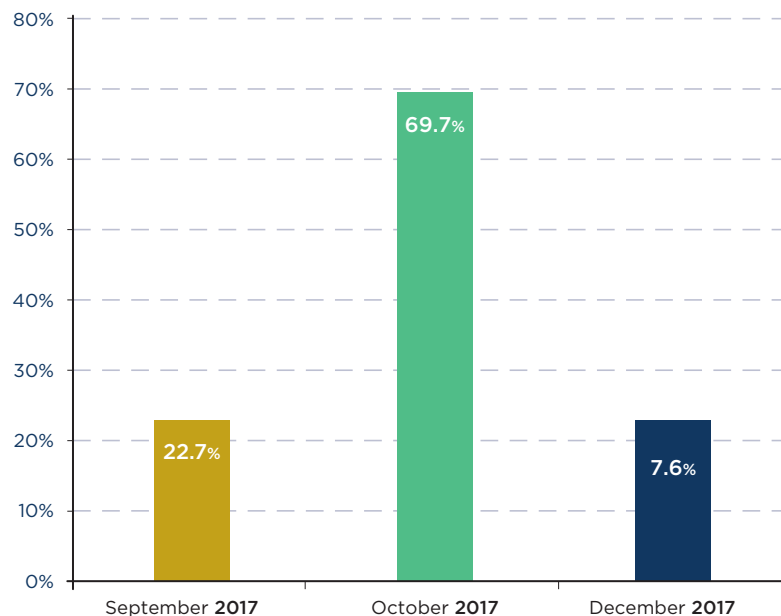
the ECB should probably reduce its purchase programme (currently at 60 billion euros per month) in October (70% of respondents according to Reuters latest survey – see chart 2). The increase in rates is not expected to occur in the very short term (the probability is currently 7% according to Gerlach³), but could rise quickly to 30% if growth and inflation increase more quickly). Since the crisis and the advent of unconventional monetary policies, the transmission of monetary policy has changed, and a return to pre-crisis conditions (implying reduced liquidity) could cause rates to rise sharply. The ECB has also warned about the complacency of markets and the fact that this historically low volatility “poses risks of abrupt and unpredictable price movements”⁴. Lastly, the escalation in certain geopolitical risks, such as tensions between the United States and North Korea (the United States recently declared that it was willing to use its nuclear capabilities), could also disrupt markets, with the VIX, which has already moved upwards several times since mid-August for this reason.

Against this backdrop, the continuation of the dynamics of corporate profits raises questions.

In recent years, corporate profitability has improved overall (even though it has not returned to its pre-crisis levels), mainly because of the moderate recovery in global growth. Indeed, there have been major changes since the start of the most recent economic crisis: ten years ago, Instagram, UBER, and 30 of today’s largest multinationals did not exist. This demonstrates a rapidly changing landscape in the world’s largest companies. Among the largest companies in the ICT sector ranking in the top 20 most profitable companies are Apple and Alphabet. Apple was the world’s most profitable company in 2016, with an estimated profit of nearly 46 billion dollars. Financial services companies continued to dominate the world’s top 10 most profitable companies in the world in 2016. Admittedly, equity prices in advanced economies remain strong this year, indicating the market’s continued optimism with regard to corporate profits, but the situation could change: according to a recent survey by the Institute of International Finance (IIF)⁵, only one

Chart n°2

ECB monetary policy: tightening to come - Response to the question “When do you think the ECB will announce an adjustment to its asset purchase programme?”*



Source: Thomson Reuters Eikon

*All respondents expect the ECB to reduce the monthly purchase amount.

third of the investors asked in August anticipate an improvement in corporate profitability, compared with 60% in January. With lower performances in Anglosphere countries and the euro’s appreciation for the eurozone, gains should be lower. Private debt also saw a turnaround and increased slightly (early 2015 for the United Kingdom and early 2016 for the United States). In addition, the interest coverage ratio (earnings before interest/interest expenses) has declined in the United States according to the IIF, especially for small businesses. In emerging economies, the low level of investment expenditures in recent years, the increase in wage costs, and the growth of private debt weigh on profit dynamics. An abrupt market correction is an additional risk for companies through the deterioration of their financial conditions (but also through negative wealth effects on households).



3/ VoxEu, “Economic conditions and ECB interest Rate increases”

<http://voxeu.org/article/economic-conditions-and-ecb-interest-rate-increases>, Stefan Gerlach, 1 August 2017.

4/ ECB, “Account of the monetary policy meeting”, <https://www.ecb.europa.eu/press/accounts/2017/html/ecb.mgl70817.en.htm>, 19-20 July 2017

5/ IIF Weekly Insight, “The worry factor”, 17 August 2017.

2 ANGLOSPHERE/EUROZONE ARM-WRESTLING: CHANGE IN THE BALANCE OF POWER

The eurozone's performance continues to be in excellent shape, against the backdrop of recovery in world trade.

In April, the WTO expected a recovery in world trade to 2.4% in 2017 and between 2.1% and 4.0% in 2018. Encouraging results for air freight companies, export orders and container traffic confirm this trend. In terms of activity, growth increased in the second quarter in the eurozone (+0.6% after +0.5% quarter on quarter), and the outlook for France is more encouraging (revision to +1.6% this year – see *chart 3*). The pharmacy sector in this country has been reclassified to low risk, which is also the case for Italy and Germany, particularly due to good production and demand. In the end, this sector and the automotive sector are considered the least risky by Coface in Western Europe. The drivers of activity remain strong and rely on domestic demand, but the likely continuation of the euro's appreciation against the dollar could soon tarnish the momentum of exports. Credit conditions remain favourable, and growth in loans granted to companies and households continued to increase in July (+2.6% in total over one year)⁽⁶⁾. The unemployment rate declines slowly (9.1% for the region in July), and inflation remains moderate (1.5% in August), still supporting consumer purchasing power. Although the risk of deflation is no longer on the agenda, inflation expectations remain lower than the ECB's inflation target of 2%. Brent prices should also remain stable

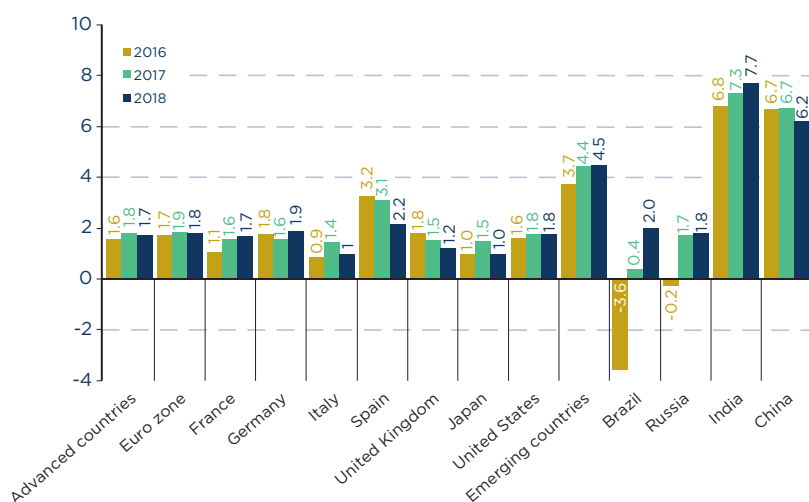
over 2017-2018, slightly above 50 dollars, and would therefore not favour a rebound in inflation. In these circumstances, economic confidence continues to improve, and the European Commission's Economic Sentiment Indicator (ESI) has increased, setting a 10-year record in August. Company insolvencies would therefore continue to decline in the eurozone, notably, by 11% in Italy and by between 2% and 5% in France, Germany, and Spain.

The level of corporate investment remains low, even though the dynamic is more encouraging in certain sectors.

In Q1 2017, the investment rate reached 22% of GDP in the eurozone according to Eurostat (versus 24.1% on average in 2007), and there was relatively little change, although the share of profits of non-financial companies in the value added reached 42.5%. This lack of vitality in investment is explained in particular by insufficient productivity and the lack of visibility of investors. However, the prospects are more positive in certain sectors such as automotive, particularly from the point of view of electric vehicle production. Western Europe and North America represented nearly equal shares in global investment in the auto manufacturing sector in first quarter 2017, with 17.9% and 19.3% respectively. Western European companies in this sector invested in future technologies for electric, self-driving, and connected cars in Q2. Manufacturers and start-ups see Germany as a major production centre in this respect.

Ultimately, investments in Europe but also globally are expected to continue to increase because of the overall more favourable growth prospects. According to the UNCTAD, investment in the digital industry will remain a key factor for investment, as it is growing rapidly with significant effects on investment models. Indeed, multinational digital companies are increasing at a faster pace than other multinationals.

Chart n° 3
GDP growth rate (%)



Source : Coface

6/ BCE, Press release "Monetary developments in the euro area: July 2017", 28 August 2017
<https://www.ecb.europa.eu/press/pdf/md/ecb.md1707.pdf?c997f6c60f0f8d64f40d9d47f7e9e00f>

Unlike the eurozone, the outlook is dimming for the major Anglosphere countries. In the United Kingdom, activity slowed in the first half of the year.

It can be explained by less energetic consumption, as inflation has increased significantly (up to 2.9% in August), and real wages are rising weakly in a context of historically low savings rates (1.7% in Q1 2017). Nevertheless, the unemployment rate remained low at 4.4% in Q2 2017. In the end, the room for manoeuvre for households continues to shrink, especially since the credit intended for them has increased significantly in recent years (with a slight slowdown since November 2016, but still up by 9.8% year on year in July 2017) and household debt amounted to 88% of GDP at the end of 2016 (mostly mortgage debt). This credit growth has also raised concerns, particularly on the part of the Bank of England (BoE) (especially on the credit card and auto credit segments), which had decided to strengthen the controls over bank resilience (test conducted over seven years).

Companies are no better off, with the uncertainty related to Brexit still weighing on investment intentions. In addition, the negative effects on migration are already being felt: in March 2017, net immigration decreased by 25% year on year, due in particular to smaller numbers of European arrivals. In the event of a hard Brexit, we estimate this loss to be 136,000 people (decrease in the EU's gross immigration flow by 2/3 starting in 2019, and the reduction of emigration is doubled)^{7/}.

The recent publication of two position papers by the British government on managing the border with Northern Ireland and the arrangements in terms of customs barriers with the EU ultimately contribute only a few new elements, even though Theresa May wishes to introduce an interim period for customs. On 12 September, the House of Commons thus adopted (326 votes for and 290 against) the "Repeal Bill" or "EU Withdrawal Bill", allowing the European law to be repealed, a first legislative step aimed at allowing the country to operate at the end of March 2019. However, the difficulties with the EU (cost of the UK's exit bill, the border problem between Ireland and Northern Ireland, and the fate of European citizens living in the United Kingdom) clearly suggest coming delays in the negotiations. The implementation of Brexit seems to be extremely complex in the light of the remaining period until April 2019.

The United States could also disappoint.

Admittedly, annualised growth was +3% (quarterly rate multiplied by four) in the second quarter (after +1.2% in Q1), and company insolvencies continue to decline (-6% year on year in the first half, -4% expected this year), but profits of non-financial companies decreased in Q1 (-6.3% year on year) for most sectors (automotive, metals, petroleum and coal, wholesale), with the exception of retail, machinery, and electrical equipment. On the consumption side, the dynamic is not expected to be maintained, with the savings rate reaching 3.7% of gross disposable income in Q2 2017 (the prevailing level in Q1 2008). Wages are increasing less rapidly while household debt stands at 80% of GDP. This weakness of the wage dynamics might seem paradoxical, while the unemployment rate is particularly low, but this is explained in particular by globally low labour productivity and inflation.

Donald Trump's policies are increasingly lacking visibility. The president's popularity is undermined and low compared with past presidents. *FiveThirtyEight's* pollster ratings of 13 September indicate that 56% disapprove of the president's policies. The president has made no significant reforms since his arrival in power and has encountered difficulties (lack of concrete results on Obamacare reform). The implementation of a recovery plan aimed at developing infrastructure and reforms to lower the corporate tax rate from 35% to 15% and overhaul the personal tax system are increasingly being called into question. This situation contrasts significantly with the euphoria that characterised the financial markets when Donald Trump was elected. Republicans in particular, averse to a strong deterioration of public finances, are far from all sharing the president's position. Moreover, even if corporate tax reform would attract FDI^{8/} but also encourage domestic investment, the exorbitant cost that this measure would represent (2 trillion dollars over 10 years)^{9/} is particularly difficult to digest, especially since no true financing measures have been proposed. Nevertheless, taking such a reform too far could even have a negative impact according to Djankov et al. (2010)^{10/}: for very small enterprises and SMEs, if the tax rate drops by 10 percentage points, the gross fixed-capital formation/GDP ratio would increase by 2.3 percentage points over 2003-2005. However, beyond 3 percentage points, the negative effects can materialise, like a possible appreciation of the dollar against the euro and an increase in the trade



7/ Coface, "In the face of Brexit, are British businesses left to sink or swim?", May 2017

8/ Mooji and Ederveen show that a decrease in the taxation rate by 1 percentage point would increase the annual FDI inflow by 3.2%, 2003.

9/ Tax Foundation, https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF528_FINAL3.pdf, January 2017.

10/ "The Effect of Corporate Taxes on Investment and Entrepreneurship", Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho, and Andrei Shleifer, 2010

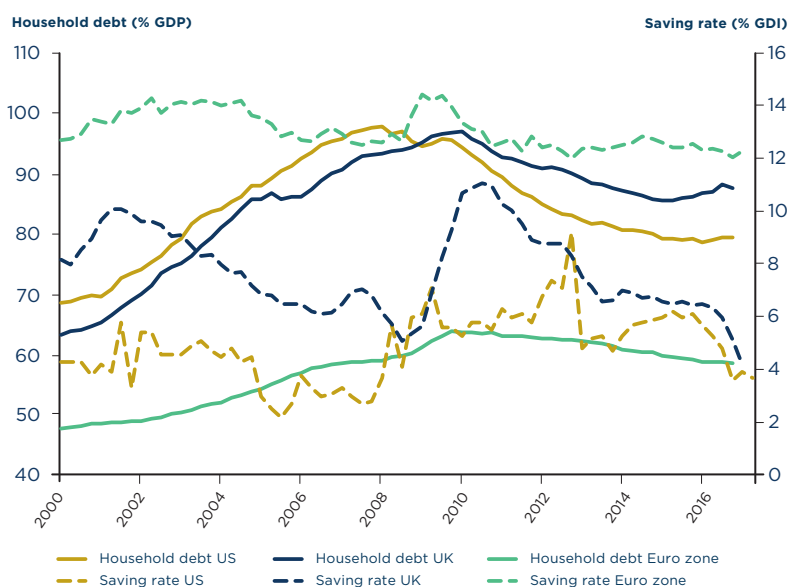
deficit, offsetting the beneficial effect on domestic investment. Regarding protectionism, Donald Trump is unlikely to put drastic measures in place. For now, only the termination of the Transpacific partnership and duties hike on Canadian softwood lumber exports have been visible. The renegotiation of NAFTA (and no longer withdrawal as originally mentioned) shows that the position is softening. As Erken, Marey, and Wijffelaars point out⁽¹¹⁾, for pragmatic reasons (WTO membership, risk of reprisals, integration into global value chains and automation), the President has in principle no interest in adopting a position that is too hard. In the event of a black scenario (20% increase in customs tariffs on all imports and, in response, imposition of a 20% tax on US imports by all the other countries), the loss of US GDP could amount to 4.5% over two years according to the Nigem model, thus driving the country into recession.

In addition, Donald Trump had thrown down the threat of a “government shutdown” on 22 August if Congress failed to approve the construction of the wall on the Mexican border, i.e., its funding is not included in the budget proposed in September (fiscal year beginning on 1 October). This threat now seems to be moving away, as the president has managed to reach an agreement with the Democrats and some Republicans. The agreement pertains to an increase in the debt ceiling as well as the funding of the federal government until mid-December, with the aim of supporting victims of Hurricane Harvey through emergency funds. Nevertheless, if a shutdown occurs, the entire administration would come to a halt (as was the case for two weeks in the era Obama in 2013: 800,000 civil servants were not paid for a month). Coface estimates that the effects would not be perceptible on growth until after three months in the order of 0.12 points of GDP.

The “safe heaven”⁽¹²⁾ status of the United States thus seems to be more questionable today.

A new paradigm seems to be taking shape gradually in the light of the divergent trends in the eurozone and in Anglosphere countries (see chart 4). Some indicators of a slowdown are also visible among companies: profits and investment appear a little less dynamic in the United Kingdom and the United States (however, the level of profits remains significant overall for these two countries and the eurozone). Lastly, the differentiated evolution of political risk in the broad sense described above adds to the preceding factors and points to an intensification of this divergence. This evolution can already be clearly perceived on the foreign exchange market, in view of the dollar’s sharp depreciation against the euro since April, and this new trend is not ready to reverse.

Chart n° 4
Financial markets: low volatility and high valuation



Sources: ECB, BEA and BIS for debt

11/ VOX, “Empty threat: why trump’s protectionist policies would mean disaster for the US”, H. Erken, P. Marey and M. Wijffelaars, 15 August 2017

12/ Safe haven status is given to countries considered safer by investors in case of a crisis.

3 REBOUND OF CAPITAL FLOWS, GOOD NEWS FOR EMERGING ECONOMIES

Over the first half of 2017, net capital flows in major emerging countries excluding China were up: 19 billion dollars in the first quarter of 2017 and 35 billion in the second. The Asia Pacific region remains the most popular destination, especially India. India's political stability and favourable business climate make the market attractive over the long term, which translates into an increase in FDI inflows. The European market is the second-best-performing region, particularly thanks to net inflows seen in Turkey (like in China and in Brazil – *Inset 2*).

Capital flows to emerging economies depend notably on economic performance, and the growth prospects are favourable for these countries (even though inflation in emerging countries reached a low point recently): +4.4% growth in 2017 and 2018, according to estimates. Russia and Brazil are still showing signs of recovery. In Brazil, growth entered positive territory in the second quarter (+0.3% year on year), confidence is widespread, inflation reached a low point in August (2.5% year on year), and monetary policy has relaxed considerably even though the rate is still high at 8.25% (versus 14.25% in October), which should stimulate consumption, despite the continued high unemployment rate (12.8% in July, but down slightly). The distribution and ICT sectors have thus been reclassified to medium risk. The trends of these indicators in Russia are the same with better growth performance (+2.5% year on year after +0.5%), but the unemployment rate is significantly lower (5.1% in July), which has led to a reclassification of the agri-food sector to low risk due to greater production and increased investment. In Brazil, there were fewer business insolvencies than last year (Chapter 11 procedures declined by 26% year on year over the period from January to July). However, problems persist with public finance and political situations, unlike in Russia (but the US adopted sanctions against this country this summer). The deterioration of sovereign risk should be a concern in the light of the major revisions of budgetary targets and taking into account the significant increase in public debt in recent years (+16 points in three years to more than 75% of GDP in 2016). The political situation also remains very difficult with repeated corruption scandals weighing on the economy, even if a certain weariness appears to be settling in and the questioning of existing practices is positive. In the end, growth amounts to only 0.4% this year (after -3.6% in 2016) in Brazil compared with 1.7% in Russia.

The economic performance of China still appears very positive (+6.7% in the first half) but continues to conceal major vulnerabilities.

The orientation of economic condition indicators is mixed, particularly in real estate, not foreseeing a strong rebound in the third quarter, especially since the policy mix should be less accommodating (monetary policy has already become more restrictive). In addition, the performances continue to conceal an increasingly strong credit risk, which should be closely monitored. The IMF's reassessment of the trajectory of Chinese private debt of non-financial

companies is unequivocal: private debt could reach nearly 300% of GDP in 2022 (versus 242% today) according to its estimation, which is enough to fuel concerns. Furthermore, a strong appreciation of the yuan against the dollar has been observable since July. The weakness of the dollar, economic indicators that are good overall, the desire to limit capital outflows, and the raising of the PBoC's reference rate against the dollar explain this movement. However, given the deterioration of the trade balance and a gradual deceleration of activity, which characterize our baseline scenario, the yuan should further depreciate over the long term. Furthermore, on the political front, the reshuffling of the Communist Party, operated every five years, will take place next October and is not expected to call into question the presidency of Xi Jinping.

India surprised on the downside by reaching a three-year low (+5.7% growth year on year after +6.1% in Q1 and +7% in Q4). The deterioration of the financial situation of banks and the demonetisation measures partly explain the slowdown in activity. The establishment of the single VAT, the tax on goods and services (GST), as well as the weakening of real rates (increase in inflation as a result of pressures on food prices related to a lack of rain) do not suggest a strong rebound in the short term. Consumption should also be less dynamic, hence a downgrading of the distribution sector to high risk.

South Africa and Nigeria are emerging from recession as best as they can, thanks in particular to recovery in the agricultural sector and, to a lesser extent, the extractive sector (a recovery in wholesale and retail activities as well for South Africa). South Africa's agrifood sector has also been reclassified to low risk (the harvest should be good). Nevertheless, in a context of moderate recovery of commodity prices and weaknesses on the domestic level, particularly from a political point of view, a significant rebound in growth in the two countries seems difficult to consider. More generally, throughout the rest of Africa, the summer election period was ultimately relatively quiet (*see Inset 1*), even though the holding of new elections in Kenya due to irregularities adds uncertainty, while providing some reassurance about the country's proper democratic operation.

INSET 1

Elections in sub-Saharan Africa: a nearly tranquil summer

Advantage for incumbents

During the summer of 2017, the citizens of the Republic of the Congo, Senegal, Rwanda, Mauritania, Kenya, and Angola were called to the polls. On a continent regularly characterised by political instability and where the democratisation process is following different trajectories, this concentration of electoral events was watched anxiously. In the end, the victory of the incumbents helped ensure a relatively peaceful electoral process.

Difference between continuity and stability

While continuity mostly prevailed this summer, this is not necessarily synonymous with stability. In the Congo (Brazzaville), the victory of the Congolese labour party (PCT) in the legislative elections of July 2017 has intensified the dominance of Denis Sassou N'Guesso, who has amassed 33 years in power over the past 38 years. However, one year after his controversial re-election, which revived the latent tensions in the Pool region, Sassou N'Guesso and his regime are in a precarious position. Already plagued by violence, the situation could even deteriorate, while activity, affected by falling commodity prices, is expected to tighten up for the second consecutive year in 2017.

In Angola, the withdrawal of José Eduardo dos Santos, after 38 years in power, in favour of his Minister of Defence, Joao Lourenço, is merely a change of face. Not only did the general elections confirm the domination of the MPLA⁽¹³⁾, but they still did not remove the dos Santos family from the spheres of power. José Eduardo will probably continue to exert his influence from the top of the MPLA, while his children, Isabel and José Filomeno, respectively presidents of the public oil company Sonangol and the sovereign wealth fund, should also weigh in the future of the country. This election also raised little hope of a break with the practices of corruption and predation of wealth that have plagued Angola.

Three is the magic number

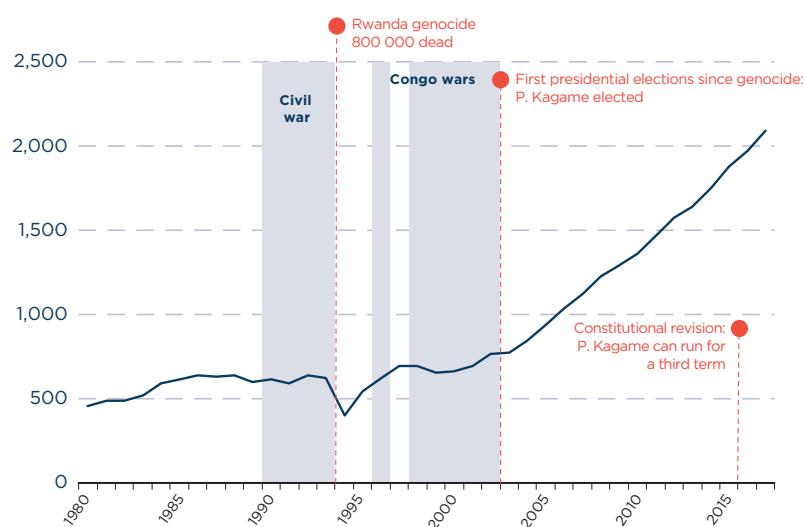
At the heart of the political crises in Burundi and the Democratic Republic of the Congo, the issue of compliance with presidential term limits was revived this summer: first of all, in Rwanda (see chart 5). Officially the winner with nearly 99% of the votes, Rwandan president Paul Kagame was awarded a third consecutive term, after removing constitutional obstacles. Muzzling all dissent, the regime of Paul Kagame and the FPR⁽¹⁴⁾, whose excesses were even denounced in July

in a report by Amnesty International, secured a smooth election: "August the 4th⁽¹⁵⁾, this is just a formality", he admitted. Able to rely on the support of flattering economic performance and rapid development, President Kagame is credited above all with the country's reconciliation after the genocide of 1994. However, President Kagame's critics stress that peace in "the land of a thousand hills" was achieved at the price of strong repression. An ingredient of Rwandan stability, fear may not be eternally sufficient.

In Mauritania, the constitutional referendum of 5 August revived the debate on term limits. According to the opposition, despite the denials of the leader concerned, this vote prepared the ground for President Mohamed Ould Abdel Aziz⁽¹⁶⁾ to serve a third term. Particularly with regard to the abolition of the Senate⁽¹⁷⁾, he seems, at the very least, to be augmenting the weight of the executive in the balance of powers. In addition to the content, the method has also been disputed: rejected by Parliament in March, this amendment of the basic law through a referendum has been denounced as a dash for power. The credibility of the 'yes' side's victory and the democratisation process has thus been chipped away after a tense campaign.

Chart n° 5

Rwanda: GDP per capita (US current prices, PPP)



Source: IMF

13/ People's Movement for the Liberation of Angola (*Movimento Popular de Libertação de Angola*).

14/ Rwandan Patriotic Front.

15/ 4 August 2017: date of Rwanda's presidential election.

16/ Mohamed Ould Abdel Aziz came to power in 2008 through a coup, was elected in 2009, and was re-elected in 2014 in an election boycotted by the opposition.

17/ The constitutional amendment also provides for establishing elected regional councils and combining the Islamic High Council, the Ombudsman of the Republic, and the Council for Fatwa and Grievances into one institution: the Supreme Council for Fatwa and Grievances. On a second ballot, changing the flag and the national anthem was proposed.

Mixed results for Senegal's legislative elections

Often hailed for its political stability, Senegal confirmed its reputation only partially in its legislative elections. Marked by the return of former president Abdoulaye Wade (2000-2012), the campaign was harsh, sometimes even violent. With 47 candidate lists (compared with 24 in 2012), this election uncovered divisions and launched a long campaign towards the presidential election. Amplified by the voting method and quickly tainted by accusations of fraud, the landslide victory of President Macky Sall's BBY⁽¹⁸⁾ coalition seems questionable. With no fewer than 14 parties represented in the National Assembly and the mayor of Dakar, Khalifa Salla, winning by fewer than 3,000 votes in Dakar, victory was far from being as overwhelming as the reading of the results suggests. The final rehearsal before the presidential elections in 2019, the election revealed tensions that could reappear in two years. Nevertheless, despite the organisational difficulties and the dispute, Senegal has managed to protect itself from a post-electoral crisis.

Rematch

Unlike Senegal, the history of political instability in Kenya, where memories of

the post-election violence⁽¹⁹⁾ of 2007 are still alive, generated particular concern as the general elections of 8 August 2017 approached. Despite the relatively quiet elections in 2013, suspicions of fraud had raised doubts about the impartiality of the judiciary and created apprehension, maintained by a divisive 2017 campaign, often conducted on ethnic lines. After the announcement of Uhuru Kenyatta's re-election and, above all, after the electoral commission's results were rejected by Raila Odinga, the failed candidate in 2007 and 2013 and the main opposition candidate, riots and the violent police response raised fears of the worst-case scenario. Nevertheless, the clashes ultimately remained relatively localised and eventually died out after Raila Odinga stated that he would use legal avenues to contest the results. In a surprise move, on 1 September, the Supreme Court annulled the results of the elections and called for a new vote to be held within 60 days. Although celebrated by the opposition as a victory for democracy in Kenya, this court decision extends for the short term a risky political sequence weighing on the economic climate. Kenya's GDP is thus expected to continue to suffer from the wait-and-see attitude of foreign investors. The next government will also

need to bear the cost of an election that already ranks among the most expensive in Africa and the world in terms of cost per capita⁽²⁰⁾. Not spared by economic difficulties – large twin deficits, high inflation, food insecurity for more than 2 million people – Kenya is imposing on itself a new tense vote that could nevertheless strengthen the credibility of the electoral process and the institutions often blamed for the endemic corruption that gnaws at them. Postponed to October, the Kenyan election will coincide with the presidential election in Liberia. Liberia, which must choose who will succeed Ellen Johnson Sirleaf, president since 2006, will be particularly monitored, while indecision is the only winner of opinion surveys a few weeks from the vote.

18/United for the same hope (in Wolof: "Benno Bokk Yaakaar") won 125 of the 165 seats in the National Assembly.

19/ The post-election violence in 2007, aggravated by ethnic divisions, claimed at least 1,200 victims and displaced 600,000 people.

20/ According to a pre-election economic and fiscal report, the total cost of the elections of August 2017 is estimated at 500 million dollars, or 10.30 dollars per capita.



Overall, these better prospects for global growth should translate into an increase in net capital inflows,

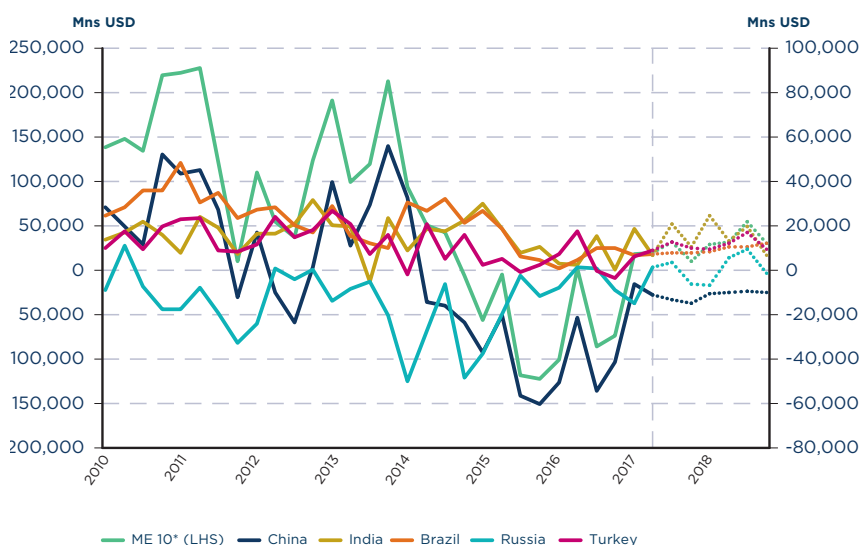
which should thus increase by 35% in 2017 compared with 2016, according to the IIF, and 2018 would be the best year since 2014 (see chart 6). These good prospects bode well for companies in emerging economies⁽²¹⁾, since capital flows are an important means of transfer of technological and managerial know-how, but, foremost, an essential source of capital in order to compensate savings shortfall, particularly through foreign direct investments (FDI), which make it possible to increase investment in emerging economies: an increase in FDI by 1 dollar would result in an increase of 0.79 dollars in the total investment for these countries⁽²²⁾.



21/ "FDI as a Catalyst for Domestic Investment in Developing Countries: New Evidence from Firm-level Data", Alessia A. Amighini, Margaret McMillan, Marco Sanlippo, January 15, 2015

22/ "Effect of Foreign Direct Investments on the domestic investments of developing countries: a dynamic panel data analysis", I. Göcer, M. Mercan, O. Pekern, August 2013

Chart n° 6
Net capital flows, millions of US dollars



*Emerging markets 10 : China, India, Indonesia, Brazil, Mexico, Chile, Russia, Turkey, Poland, South Africa

Source: IIF - Last data: Q4 2018



However, certain risks are weighing on the outlook. The first concerns the effects of changes in monetary policies of developed countries⁽²³⁾, particularly the Fed, on emerging economies. Monetary tightening significantly influences capital flows to emerging markets for two reasons: (i) During the monetary expansion period, investors were inclined to take more risks. Therefore, the end of flexible monetary policies could lead to a rise in volatility; (ii) A rise in interest rates in developed economies could lead to a redirection of flows to these markets.

23/ "The volatility of capital flows in emerging markets: measures and determinants", IMF Working paper, M. Sole, S. A. Hannan, February 2017

Lastly, political risks, whether they are internal to emerging markets or specific to developed countries, influence financial markets and therefore capital flows to emerging markets. For example, a continued increase in political uncertainty in the United States would significantly decrease capital inflows to emerging markets, with investors turning to safer markets, such as Japan and the Eurozone. Tensions between the United States and North Korea or the uncertainties around the Trump administration's policy could thus weigh on capital flows intended for emerging markets, particularly China, even though investors remain very sensitive to the domestic situation and, in particular, the laws that concern them. Also in Brazil, although some political fatigue seems to be appearing (see Inset 2) and is not causing a collapse of net capital flows, FDIs are much smaller than before the crisis.

INSET 2

China and Brazil: a rebound of capital flows in disguise?

Chinese double-dealing

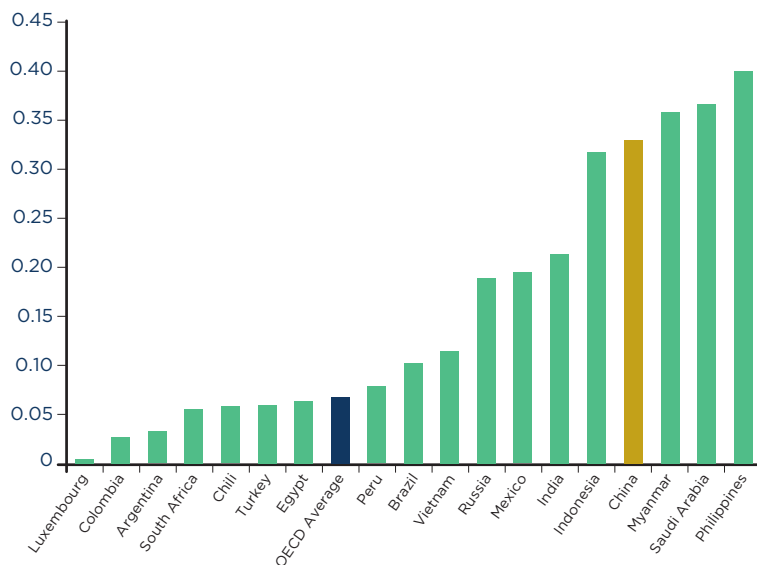
In 2015 and 2016, the slowdown of activity and the yuan's depreciation against the dollar increased capital outflows. China's financial account was in deficit (647 billion

US dollars in 2015; 640 billion in 2016) and did not reach a surplus until the first quarter of 2017 (37 billion dollars) under the effect of the depreciation of the US currency. For several quarters, the Chinese authorities

seem to have wanted to facilitate FDI inflows with new measures to ease capital flows (reduction of the list of commercial activities prohibited for foreign investors, establishment of Bond Connect). In parallel with this apparent openness, capital controls remain significant, and the surplus in the first quarter of 2017 is explained above all by the measures put in place by the authorities to curb capital outflows⁽²⁴⁾. The OECD's FDI regulatory restrictiveness index for China (see chart 7) was 0.327 in 2016 (0.067 for the average of OECD countries) and is one of the highest:

Lastly, the more restrictive US monetary policy could lead to a further increase in capital outflows and, thus, to further downward pressure on the yuan. The increase in capital inflows into China should therefore remain moderate for the coming quarters.

Chart n° 7
FDI regulatory restrictiveness index*



* FDI restrictiveness (0 = open ; 1 = closed) measures the restrictiveness of a country's FDI rules by looking at foreign equity restrictions, discriminatory screening or approval mechanisms, restrictions on key foreign personnel and operational restrictions.

Source: OCDE 2017

24/ COFACE Focus, J. Wong, "RMB depreciation, capital flows measures and new monetary stance - What are the implications for Chinese corporates", March 2017.





Political risk in Brazil

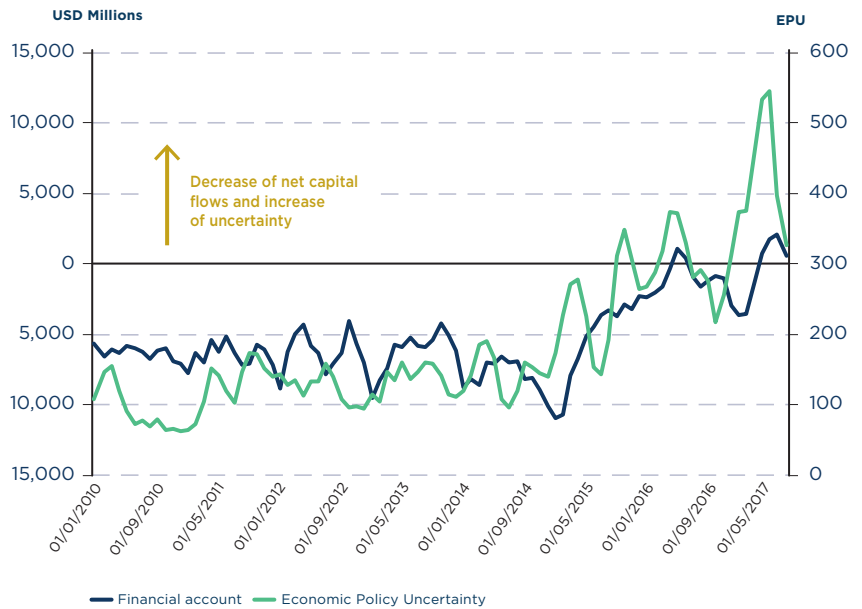
There is a link between capital flows and political uncertainty⁽²⁵⁾: the more the latter increases, the more capital flows are likely to decline (see *chart 8*). Flows notably dropped with the first demonstrations for the dismissal of former president Dilma Rousseff in March 2016, and then starting in spring 2017 after the revelations about current president Michel Temer's involvement in various cases of corruption. Political shocks therefore have effects on flows, but these impacts have been relatively moderate compared with the magnitude of the political crises, as the political factor is only one of the determinants of flows.

Despite the significant weakening of capital flows in recent years, Brazil remains an attractive destination in the eyes of investors, considering the size of the market (the country is characterized by a very low investment rate at 18% of GDP) and thanks to the appreciation of the Brazilian real against the US dollar. Besides, the country was ranked 6th in the ranking of FDI recipients last year⁽²⁶⁾. For the coming quarters, the reforms announced by the Temer government and investors' perception of the commitment to the fight against corruption should promote inflows, especially since political risk decreased after the parliamentarians voted against Temer's dismissal on 2 August 2017.

25/ Political uncertainty is measured here by Economic Policy Uncertainty (EPU).




26/ UNCTAD, "Global Investment Trends Monitor", February 2017.

Chart n° 8
EPU and financial account



Source: Banco central do Brazil, PolicyUncertainty.com
Last data available: July 2017

Country risk assessments changes

COUNTRY		Country risk previous		Country risk new
BELARUS		D		C
CYPRUS		B		A4
FINLAND		A3		A2
HUNGARY		A4		A3
OMAN		B		C

BUSINESS DEFAULT RISK



Belarus

(upgrade from D to C)

- The country is benefiting from its high dependence on Russia (B) which is doing better.
- Timid growth is back: 0.9 and 1.5% expected for 2017 and 2018 (from -3% in 2016).
- Household consumption and exports to Western and Eastern Europe will perform better.

Cyprus

(upgrade from B to A4)

- Growth remains vivid (respectively 3.5 and 3.2% expected for 2017 and 2018).
- Tourism is thriving thanks to security problems in neighbouring countries. This is favouring household consumption and construction.
- The banking sector is now on a sound footing and public finances have returned to a sustainable path.

Finland

(upgrade from A3 to A2)

- After longer lasting macroeconomic problems with shrinking GDP and low growth (+0.3% in 2015), the Finnish economy entered a growth path in 2016. Growth prospects for this year and the next are quite stable at rates of 1.3% this year and even better in 2018 at 1.7%.

- The economy is benefiting from the better external environment. Negative consequences of trade restrictions with Russia have diminished significantly and the export industry is supported by the more favourable outlook for the global economy.
- The better macroeconomic environment is also reflected by the faster decrease in insolvencies this year. Up to the second quarter, bankruptcies fell by almost 19% year-to-date. In 2016, insolvencies went down by more than 6%.

Hungary

(upgrade from A4 to A3)

- GDP growth is expected to strengthen from 2.0% in 2016 to 3.6% in 2017 and then reach 3.4% in 2018.
- The economic activity is supported by increasing household consumption thanks to the contraction of unemployment rate (4.3% in June 2017), strong growth of wages (including a substantial rise of minimum wages) and high consumer sentiment.
- A strong rebound of fixed asset investments supported by easing lending conditions, increasing loan growth and an accelerating inflow of EU funds in the current EU budget programme.

- The lowest corporate tax in the EU (at a rate of 9%) which enhances companies' profits and partly offsets growing employees' compensations.
- Integration within the European production chain with manufacturing taking a benefit of export dynamics.
- Improving financial sector with a gradual decline of the banking tax and stabilizing non-performing loans.

Oman

(downgrade from B to C)

- GDP growth is expected to contract in 2017 on oil production cuts and relatively low prices.
- Limited than expected capacity to address structural vulnerabilities to a weak oil price environment.
- High dependence on oil in terms of budget revenues (nearly 90%) and exports (60%). 63% of its GDP comes from oil.
- Fiscal breakeven oil price will remain close to \$80 per barrel over 2017-18, while external breakeven price stands at \$75 per barrel. The latter means that current account deficits will remain wide and financing will rely heavily on foreign portfolio inflows.
- Despite some gradual fiscal consolidation, high fiscal deficits (around 10% of GDP) should continue until 2020.

Sectorial risk assessments changes

SECTOR RISKS ASSESSMENTS OF THE REGIONS

	Latin America	North America	Central and Eastern Europe	Western Europe	Emerging Asia	Middle East + Turkey
Automotive	High risk	Medium risk	Low risk	Low risk	High risk	High risk
Agrofood	High risk	Medium risk	Medium risk	Medium risk	Medium risk	High risk
Chemical	High risk	Low risk	Medium risk	Medium risk	High risk	High risk
Construction	High risk	Medium risk	High risk	Medium risk	Very high risk	High risk
ICT*	High risk → Medium risk	Medium risk	Medium risk	Medium risk	High risk → Medium risk	High risk
Energy	High risk	High risk	Medium risk	High risk	High risk	High risk
Metals	High risk	High risk	Medium risk	High risk	High risk	Very high risk
Paper	Medium risk	High risk	Medium risk	High risk	High risk	Medium risk
Wood	High risk	Medium risk	Medium risk	Medium risk	High risk	High risk
Pharmacy	Medium risk	Low risk	Low risk	Medium risk → Low risk	Low risk	Medium risk
Retail	High risk → Medium risk	High risk	Medium risk	Medium risk	Low risk	High risk
Textile	High risk	High risk	Medium risk	High risk	High risk	High risk
Transport	High risk	Medium risk → Low risk	High risk	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

LATIN AMERICA

	Latin America	Mexico	Argentina	Chile	Brazil
Automotive	High risk	High risk	High risk → Medium risk	Low risk	High risk
Agrofood	High risk	High risk	High risk	High risk	High risk
Chemical	High risk	High risk	Medium risk	Medium risk	High risk
Construction	High risk	High risk	High risk → Medium risk	High risk	High risk
ICT*	High risk → Medium risk	Medium risk	High risk	High risk	High risk → Medium risk
Energy	High risk	Very high risk	High risk	Medium risk	High risk
Metals	High risk	High risk	High risk → Medium risk	Medium risk	High risk
Paper	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Wood	High risk	High risk	Medium risk	Medium risk → High risk	High risk
Pharmacy	Medium risk	Low risk	Medium risk	Low risk	Medium risk
Retail	High risk → Medium risk	Medium risk	High risk	Medium risk	High risk → Medium risk
Textile	High risk	High risk	High risk	Medium risk	High risk
Transport	High risk	High risk	Medium risk	Medium risk	High risk

* Information and Communication Technologies
Source: Coface

BRAZIL

ICT ↗

(High risk to Medium risk)

In the last three months, the sector started to rebound. Sales (in volume) increased by 4.5%, 5.1% and 12.9%, respectively, in April, May and June 2017. Gradual recovery has been driven by: 1) strong

decline in inflation (2.5% in August 2017 down from the peak of 10.7% in January 2016); 2) as a consequence of two years of decline in consumption;





3) thanks to the FGTS (Brazilian workers' severance indemnity fund) resources and 4) unemployment fell to 12.8% by July 2017, down from the peak of 13.7% in the quarter to March 2017.

BRAZIL

Retail ↗

(High risk to Medium risk)

Similar to the case of the ICT sector. Retail sales increased by 1.9%, 3% and 2.6% in the last three months until June 2017.

ARGENTINA

Construction ↗

(High risk to Medium risk)

Recovery has been driven by the rebound of economic activity, new public works plans, credits availability for the purchase of properties and of loans for construction.

According to National Statistical Institute INDEC, construction activity index ISAC rose by 8.9% in first 7 months of 2017 YoY.

Metals ↗

(High risk to Medium risk)

Production of basic metals increased by 3.4% yoy between January-July 2017 (steel production +4.5% yoy).

The good performance of the steel sector is linked to the higher level of activity of several related sectors (such as construction mentioned above).

Among them are the construction of gas pipelines and investments in the energy sector in the Vaca Muerta zone, increased agricultural machinery and increased demand for sectors associated with agriculture, and the increase in the manufacturing levels of certain white goods (refrigerators, etc). The continuity of the public works allows maintaining a good level of production.

Automotive ↗

(High risk to Medium risk)

In the first seven months of the year, the automotive industry registered a 5.8% increase compared to the same period of 2016. Vehicles destined to the foreign market show a growth of 11.2% over the same period of 2016.

The main destination of exports is the Brazilian market, which in the first seven months of the year has participated with the 61% of the external placements of domestic cars and utilities. Sales to Brazil, measured in units in the period January-July 2017, fell by 11.6% compared to the same period last year, while there were higher shipments of domestic cars and utilities to other countries, mainly to Central America, followed by Peru and Chile.

CHILE

Wood ↘

(Medium risk to High risk)

Production of wood and furniture decreased by 3.9% yoy in Q2 2017.











































**BUSINESS
DEFAULT
RISK**

-  Low risk
-  Medium risk
-  High risk
-  Very high risk

 Upgrade

 Downgrade

NORTH AMERICA

	North America	Canada	USA
Automotive			
Agrofood			
Chemical			
Construction			
ICT*			
Energy			
Metals			
Paper			
Wood			
Pharmacy			
Retail			
Textile			
Transport	 	 	 

* Information and Communication Technologies
Source: Coface

CANADA

Transport ↗

(Medium risk to Low risk)

Good performances thanks notably to large public investments.

USA

Transport ↗

(Medium risk to Low risk)

Good performances thanks notably to large public investments and air sector good financial performances.



EMERGING ASIA

	Emerging Asia	India	China
Automotive	High risk	Medium risk	High risk
Agrofood	Medium risk	Medium risk	Medium risk
Chemical	High risk	High risk	High risk
Construction	Very high risk	High risk	Very high risk
ICT*	High risk Upgrade	Medium risk	High risk Upgrade
Energy	High risk	High risk	High risk
Metals	High risk	Very high risk	High risk
Paper	High risk	Medium risk	High risk
Wood	High risk	Medium risk	High risk
Pharmacy	Low risk	Low risk	Low risk
Retail	Low risk	Medium risk Downgrade	Low risk
Textile	High risk	High risk	High risk
Transport	Medium risk	Medium risk	Medium risk

* Information and Communication Technologies
Source: Coface

CHINA

ICT

(High risk to Medium risk)

While fragmentation is a concern in particular among small distributors, expanding middle classes and digitalization trends should support the sector going forward. The launch of the new iPhone 8 is also expected to boost sales across the supply chain, much of which is in China.

INDIA

Retail

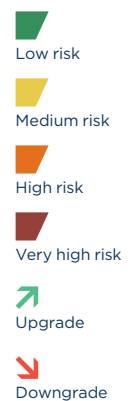
(Medium risk to High risk)

Small retailers currently account for 90% of the retail

market share in India and are directly impacted by the e-commerce development. Small retailers are additionally negatively affected by significant investments in wholesale and department stores.

On the economic front, GDP figures for the second quarter came in lower than expected at 5.7%. Moreover, lingering effects of demonetization could have acted as a drag, which will in turn affect consumption. Finally, the performance in Q2 was weak despite higher sales. This is because firms offered large discounts ahead of the implementation of India's goods and services tax on July 1, so we expect a downturn in the remainder of the year, as the situation normalizes and the effect of the taxes kick in.

BUSINESS DEFAULT RISK



MIDDLE EAST + TURKEY

	Middle East + Turkey	Turkey	UAE	Saudi Arabia
Automotive	High risk	Medium risk	High risk	High risk
Agrofood	High risk	High risk	High risk	High risk
Chemical	High risk	High risk	High risk	High risk
Construction	High risk	Very high risk	High risk	High risk
ICT*	High risk	High risk	High risk	High risk
Energy	High risk	High risk	High risk	High risk
Metals	Very high risk	Very high risk	High risk	Very high risk
Paper	Medium risk	Medium risk	Medium risk	Medium risk
Wood	High risk	Medium risk	High risk	High risk
Pharmacy	Medium risk	Low risk	Medium risk	Medium risk
Retail	High risk	High risk	High risk	High risk
Textile	High risk	High risk	High risk	High risk
Transport	Medium risk	Medium risk	Medium risk	Medium risk

* Information and Communication Technologies
Source: Coface



CENTRAL AND EASTERN EUROPE

	Central and Eastern Europe	Romania	Czech Republic	Poland
Automotive	Low risk	Low risk	Low risk	Low risk
Agrofood	Medium risk	Medium risk	Medium risk	Medium risk
Chemical	Medium risk	Medium risk	Medium risk	Medium risk
Construction	High risk	High risk	High risk	High risk
ICT*	Medium risk	Medium risk	Medium risk	Medium risk
Energy	Medium risk	Medium risk	Medium risk	Medium risk
Metals	Medium risk	High risk	High risk	Medium risk
Paper	Medium risk	Medium risk	Medium risk	Medium risk
Wood	Medium risk	Medium risk	Medium risk	Medium risk
Pharmacy	Low risk	Low risk	Low risk	Low risk
Retail	Medium risk	Medium risk	Medium risk	Medium risk
Textile	Medium risk	Medium risk	Medium risk	Medium risk
Transport	High 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

WESTERN EUROPE

	Western Europe	Austria	Switzerland	Germany	France	United Kingdom	Italy	Spain
Automotive	Low risk	Low risk	Low risk	Low risk	Low risk	Medium risk	Low risk	Low risk
Agrofood	Medium risk	Low risk	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Low risk
Chemical	Medium risk	Low risk	Low risk	Low risk	Medium risk	Medium risk	Medium risk	Medium risk
Construction	Medium risk	Medium risk	Medium risk	Low risk	Medium risk	High risk	Very high risk	Medium risk
ICT*	Medium risk	Medium risk	Low risk	Low risk	Medium risk	Medium risk	Medium risk	Medium risk
Energy	High risk	Medium risk	Medium risk	High risk	High risk	High risk	High risk	High risk
Metals	High risk	Medium risk	High risk	Medium risk	High risk	Very high risk	Very high risk	Medium risk
Paper	High risk	Low risk	High risk	High risk	High risk	High risk	High risk	Medium risk
Wood	Medium risk	Medium risk	High risk	Medium risk	Medium risk	High risk	High risk	Medium risk
Pharmacy	Medium risk	Low risk	Low risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Retail	Medium risk	Medium risk	Medium risk	Medium risk	Low risk	High risk	Medium risk	Low risk
Textile	High risk	High risk	High risk	High risk	High risk	High risk	High risk	Medium risk
Transport	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Low risk

* Information and Communication Technologies
Source: Coface





GERMANY

Pharmacy ↗
(Medium risk to Low risk)

Upgrade is related to the solid and profitable situation among the production companies. In the first half of 2017, production of pharmaceuticals increased by 3.5% in seasonally adjusted terms. Furthermore, the large producers of pharmaceuticals are highly profitable. This could increase their EBITDA margin on average over the course of the last years up to more than 21% in 2016. For this year, profits could be a bit lower but still remain on a very high level.

Among producers, insolvencies are a very rare phenomenon. Between January and May 2017, there were only 3 bankruptcies.

Pharmaceutical wholesale trade is more medium risk due to intense competition and therefore high pressure on profit margins.

FRANCE

Pharmacy ↗
(Medium risk to Low risk)

Sales in pharmaceutical products increased by 2.1% in 2016 in France, despite of government willingness to reduce public spending, including in health expenses. This favorable sales trend is expected to continue in the forthcoming quarters, given that many innovative and costly therapies (mainly geared toward oncology) got their breakthrough approval for improving patients with severe illnesses living. The law passed in 2016 on pharmaceuticals could offset this trend. It is likely to put some pressure on pharmaceutical and biotech companies; as it seeks to strongly cap reimbursements per patients.

Pharmacies witnessed a slight increase last year (+0.1%), which was also the case for exports (+0.8%).

ITALY

Pharmacy ↗
(Medium risk to Low risk)

The pharmaceutical industry recovered its pre-crisis Italian peak in 2016. This has been supported on the one hand, by a resilient domestic demand, despite the constraints to healthcare public expenditure imposed by fiscal consolidation and on the other hand, by an increase in export sales. Italian Pharmaceutical companies realize 70% of their total turnover abroad. They have gained significant market shares in foreign markets: exports increased by 77% in value between 2007 and 2016.

This positive trend have had positive impact across all companies, regardless of their size. In 2016, production grew (by 2.3%), driven by exports (+6.8%), investments (+3.3% in 2016, and more than 20% in 3 years) as well as the pursuit of 2015 recovery and the rise in employment (+0.8%); especially in production related functions and research. This trend strengthened in the first quarter of 2017 (+2%).

BUSINESS
DEFAULT
RISK

Low risk

Medium risk

High risk

Very high risk

Upgrade

Downgrade





OTHER COUNTRIES

	South Africa	Russia	Japan
Automotive			
Agrofood			
Chemical			
Construction			
ICT*			
Energy			
Metals			
Paper			
Wood			
Pharmacy			
Retail			
Textile			
Transport			

* Information and Communication Technologies
Source: Coface

BUSINESS
DEFAULT
RISK

- Low risk
- Medium risk
- High risk
- Very high risk
- Upgrade
- Downgrade

SOUTH AFRICA

Agrofood
(Medium risk to Low risk)

The agrofood sector in South Africa confirmed its recovery in Q2 2017 and was the main driver of the exit from recession over the period.

The 2016/2017 season will deliver a bumper harvest, probably the best since 2013/2014. The sector is stabilizing after the El Niño climatic shock.

According to figures from the Ministry of Agriculture, maize production, the main crop in the country, is expected to double compared to the previous season.

The Agbiz/IDC Agribusiness Confidence Index indicates that optimism will still prevail in the sector in Q3 2017. It contrasts with business confidence in the broader economy, which is lower.

RUSSIA

Agrofood
(Medium risk to Low risk)

Output is increasing: sector is benefiting from Russian counter-sanctions which limit competition.

Investment is increasing in milk, cheese, meat industries thanks to government support which is eager to reduce dependence on imports.



RESERVATION

This document is a summary reflecting the opinions and views of participants as interpreted and noted by Coface on the date it was written and based on available information. It may be modified at any time. The information, analyses and opinions contained in the document have been compiled on the basis of our understanding and interpretation of the discussions. However Coface does not, under any circumstances, guarantee the accuracy, completeness or reality of the data contained in it. The information, analyses and opinions are provided for information purposes and are only a supplement to information the reader may find elsewhere. Coface has no results-based obligation, but an obligation of means and assumes no responsibility for any losses incurred by the reader arising from use of the information, analyses and opinions contained in the document. This document and the analyses and opinions expressed in it are the sole property of Coface. The reader is permitted to view or reproduce them for internal use only, subject to clearly stating Coface's name and not altering or modifying the data. Any use, extraction, reproduction for public or commercial use is prohibited without Coface's prior agreement. Please refer to the legal notice on Coface's site.

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