COFACE ECONOMIC PUBLICATIONS

FEBRUARY 2020

BAROMETER
COUNTRY AND SECTOR RISKS BAROMETER

2020 COUNTRY RISK CONFERENCE SPECIAL

By the Coface Economic Research team

World trade in the face of political and environmental change

The total number of protectionist measures implemented worldwide exceeded 1,000 in 2018 and 2019 according to *Global Trade Alert,* about 40% more than in the previous three years. That said, "only" 23% of all protectionist measures taken between 1st January 2017 and 15th November 2019 were taken by the United States or China. Therefore, protectionism is not exclusive to the world's two largest economies and the so-called "phase-one" deal to pause the trade war between them is unlikely to be sufficient to put an end to uncertainties related to trade tensions, which cut global GDP growth by around 3/4th of a percentage point in 2019 (**Chart 2**). Hence, Coface expects a pursuit of the global economic slowdown in 2020, with global GDP growth forecasted at 2.4%, down from 2.5% the previous year. Coface expects global trade growth to remain weak in 2020 (only +0.8% in volume terms), following a decline by 0.3% in Q3 2019 year-on-year, i.e. the slowest pace since the great crisis of 2008-2009.

Conversely, export oriented economies such as Germany (only 0.5% GDP growth expected in 2020), are hit hard by international trade contraction. International trade challenges are expected to continue to have a negative impact on products that are very integrated into the global economy, such as in the automotive or the metals sectors. The metals sector, notably steel activity, is often viewed as a barometer of global activity due to its use in several industrial activities, including construction, the automotive industry and consumer goods such as household appliances. It has recorded the highest number of sector risk assessment downgrades this quarter (5 out of 22, see from p.9). The global economic downturn is also expected to keep on showing a dichotomy between manufacturing sectors experiencing sound difficulties, and services being more resilient, notably in leading economies like the US. Coface anticipates a significant economic slowdown there, with GDP growth forecasted at 1.3% in 2020 down from 2.3% the previous year, in the context of the fading knock-on effect on companies' investments of the sizeable corporate tax cut (from 35% to 21%) put in place by the Trump administration in 2017, alongside the concerns of companies on trade uncertainties. China's economy is also forecasted to continue its slowdown, with a GDP growth expected at 5.8% in 2020, down from 6.1% last year, still impacted by both the trade uncertainties as well as challenges due to the on-going rebalancing of its economy towards a consumption led one rather than exports and investments driven.

In this context, corporate insolvencies are expected to rise by 2% globally in 2020 (similar to 2019) and in a majority of countries for which these forecasts are produced (21 countries out of 26) and in all regions considered (see **Chart 1** p. 4).

In this tricky and volatile environment in which economies face headwinds, 4 country assessments are downgraded (Colombia, Chile, Burkina Faso and Guinea), while 6 are upgraded (Turkey, Senegal, Madagascar, Nepal, Maldives and Paraguay).

It is worth noting that small, low per capita income economies, barely integrated with the global trade, are relatively less exposed to the above-mentioned developments. Despite their vulnerabilities, they have benefited from improved domestic macroeconomic policies, as displayed by the upgrades of Madagascar or the Maldives country risk assessments from D to C (see p.6) and to a lesser extent Senegal (from B to A4), of which the economy is expected to benefit from brighter prospects thanks to recent discoveries of oil and gas, on the back of solid growth performance since 2014 and a strong track record of political stability (see p.7).

Protectionists tensions are expected to continue in 2020 despite the "truce agreement" signing between the US and China...

In January 2020, the US and China signed the so-called "phase-one" deal to pause the trade war started in early 2018 by the US administration. The deal mainly includes a pledge by China to buy USD 200 billion-worth of American goods (particularly farm products) by 2021. Coface does not anticipate this "truce agreement" to put an end to trade tensions in 2020 for several reasons. First, the deal failed to address some of the biggest sources of tensions, including Chinese use of industrial subsidies. In addition, in this phase, the bulk of the tariffs remains in place and so do the negative knock-on effects on the global economy, as mentioned earlier. These will continue to have important knock-on effects on both economies, specifically on the automotive, ICT and agri-food[1] sectors as well as their respective global trends. Furthermore, the European Union is particularly concerned that this agreement, which de facto excludes its companies, does not comply with the rules of the World Trade Organisation (WTO) on certain points, thus opening the way for EU appeals to the WTO. Moreover, as described above, "only" 23% of all protectionist measures taken between 1st January 2017 and 15th November 2019 were taken by the United States or China. Therefore, protectionism is not exclusive to the world's two largest economies. The desire of many emerging countries to protect a large number of their industries, weakened by international competition, will continue to make them cautious about opening up to trade. In this context, despite the willingness of other countries to compensate the effects of the Sino-American trade war by signing new trade agreements, as mentioned previously, international trade in goods volumes in 2019 were lower than a year earlier for the first time in ten years. Last but not least, trade tensions between the US and Europe remain, with the US administration threatening to put tariffs on EU automotive sectors. The persistence of some of the US administration's concerns remain, such as the US trade deficit with Germany[2] (**see Chart. 3** p. 4); and the US tariffs imposed on EU agri-food sectors at the end of last year are still in force.

...Therefore contributing to fuel continued volatility on commodities prices notably oil ones, in a context of renewed geopolitical tensions

Uncertainties due to the protectionist environment contribute to volatility on commodities prices, notably agri-food, metal and oil prices. Moreover, renewed geopolitical tensions in the Middle East have put upward pressure on oil prices in particular, with increasing tensions between the US and Iran at the beginning of the year, following the decision by Trump's administration to order the elimination of the Iranian General Soleimani on January 3rd 2020, fearing that he was preparing an attack on US interests in the region. In retaliation, Iran launched missile strikes on two Iraqi air bases housing American forces five days later. While the escalation has stopped, Coface expects continued tense relations between the two countries, even though the risk of a degeneration into open conflict seems unlikely in the run up to the US presidential elections in November 2020. Coface forecasts oil prices at USD 60 per barrel on average for 2020, down from an average of USD 64 in 2019, in a context of high volatility and oscillations around this value throughout the year. This is due to the fact that the global economic slowdown is expected to sustain a weaker growth of global demand for crude oil, putting downward pressure on prices, despite the decision by OPEC+ oil-producing countries to further reduce oil supply by 1.7 million barrels per day (m b/d) in December 2019, up from the 1.2 million barrels reduction previously in effect. The deterioration

1 See Coface Economic Publications article , Global outlook for the agri-food sector within a protectionist Environment, E.Madelénat,P.Krause, S.N'Sondé, October 2019. https://www.coface.com/News-Publications/Publications/Global-outlook-for-the-agri-food-sector-within-a-protectionist-environment

2 See Coface Economic Publications, Barometer Article Q2 2019, Trade tensions return to the forefront of the global economy, July 2019 by Coface Economic Research team. https://www.coface.com/News-Publications/Publications/Trade-tensions-return-to-the-forefront-of-the-global-economy-Country-and-Sectors-risks-Barometer

in the manufacturing sector activity worldwide mentioned previously and declining freight volumes have weighed on liquid fuels use. As a consequence, oil demand growth has fallen to an average of just 0.65 m b/d in the 12 months to November 2019, the lowest since early 2012. In accordance with Coface's global economic scenario, slower growth, particularly in China and India (key drivers of incremental demand), will keep weighing on worldwide consumption in 2020.

At the current and expected level of oil prices, energy companies have difficulties making comfortable margins. In a context where they are already indebted and need to pursue significant investments, notably to comply with environmental regulations such as IMO 2020[3], implemented by the International Maritime Organization (IMO), which came into force in early 2020 and constrains refiners to review their processes, in order to produce crude oil containing less sulfur. As major oil and gas companies globally are from Europe and the US, the downgrade of the energy sector from "medium risk" to "high risk" in the US (see p. 15) is representative of the difficulties of the sector.

Noticeable social tensions in all regions worldwide

The end of last year was marked by several social tensions worldwide, with different levels in their intensity, reflecting the rise in political risk that Coface anticipated as per its latest political risk index results[4] in 2019, of which social fragility is an analyzed component. Lebanon experienced weeks of protests, leading to the government's resignation and a severe political crisis in the country. In Latin America for example, Chile and Colombia experienced social tensions. In Chile, a public transport fare increase decided by the government triggered massive strikes revealing the profound popular discontent regarding the country's large income inequalities, with negative impacts on its economy. Both aforementioned country risk assessments have been downgraded, from A3 to A4 for Chile and from A4 to B for Colombia (see p.7-8). Populations' rationales to show social discontent varied from a country to another, ranging from purchasing power claims to institutional contests and/or environmental concerns. The Hong Kong situation in Asia, or France in Europe, which just experienced the longest public transport strikes since the 1980's in numbers of days on the back of protests against a pension reform, are reflections of the diversity of situations.

The construction sector development illustrates an unusual economic cycle

In order to support the global economic activity through the downturn cycle, leading central banks, both in advanced and large emerging economies, took actions last year by conducting accommodative monetary policies, notably materialized by interest rate cuts[5]. The knock-on effects of those measures are already visible in our country risk assessment for Turkey that we upgraded from C to B in this Barometer (see p. 7). Moreover, a sector that strongly benefited from those measures in our sector risk assessments is the construction sector. It recorded the highest number of upgrades (4 out of 8 in total). In the US, mortgage costs are lower compared to historical trends, benefiting from the US Federal Reserve's three interest rates cuts in 2019, while households benefit from rising wages (see **Chart 5** p.5), thanks to the dynamic labor market of the country.

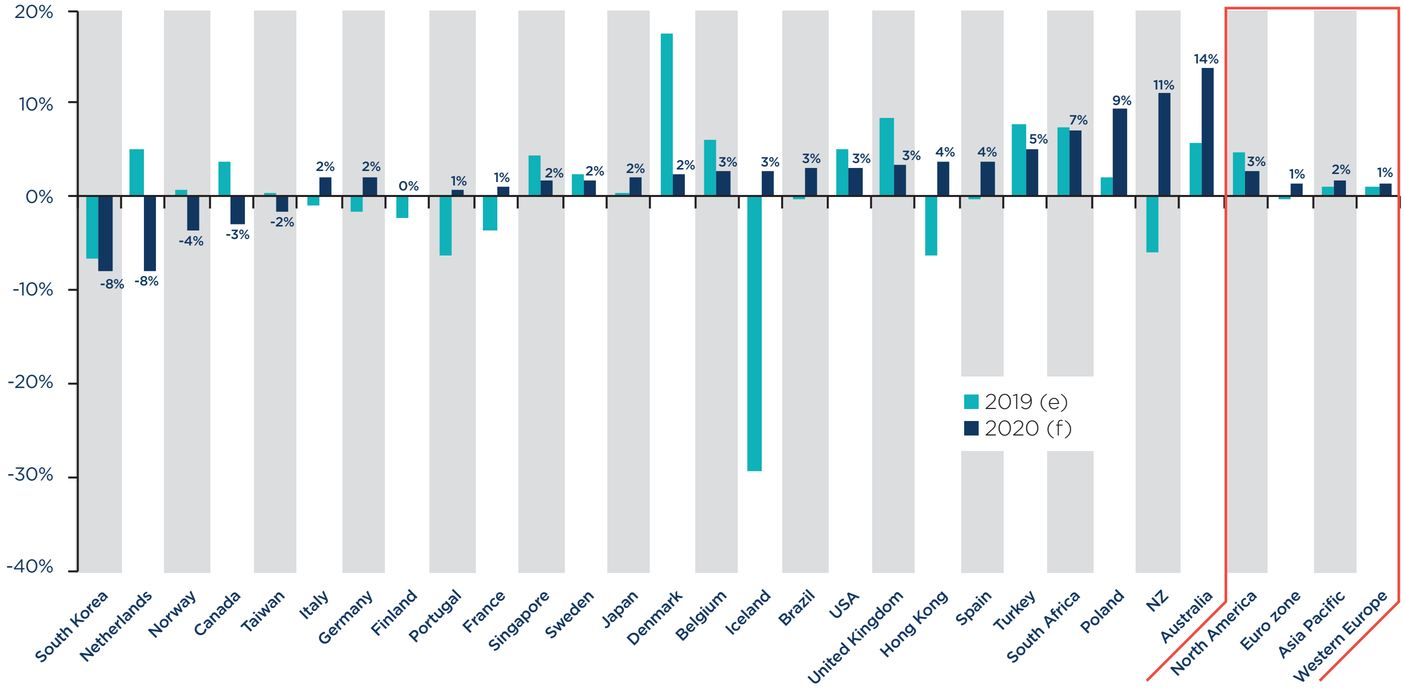
Despite persistent difficulties due to a still high level of households and companies indebtedness globally and the downturn of the economic cycle, the construction sector is also expected to benefit from large public plans to improve energy efficiency in building, put in place by public authorities, in order to respond to rising citizen concerns. An example of such plans is the EU's one to reach 'carbon neutrality in construction' by 2050. Since construction is usually a pro-cyclical sector, the above-mentioned developments illustrate the atypical character of the global economic cycle we are likely to go through this year.

3 As of 1 January 2020, as per IMO 2020, the limit on the sulphur content of fuel oil used on board ships operating outside designated ECAs (that already applied a more restrictive norm in this regards) was lowered to 0.5% m/m (mass per mass). IMO 2020 therefore replaces the 3.5% limit rule that was previously in force. This measure should therefore result in asignificant reduction in sulphur oxides (SOx) emissions from ships. IMO expects that this measure to reduce the amount of sulphur oxides emanating from ships, to have major health and environmental benefits for the world, particularly for populations living close to ports and coasts.
See also : <http://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution/Pages/Emission-Control-Areas-(ECAs)-designated-under-regulation-13-of-MARPOL-Annex-VI-(NOx-emission-control).aspx / http://www.imo.org/fr/mediacentre/hottopics/pages/sulphur-2020.aspx>

4 See Coface Economic Publications, Barometer Article, July 2019, *Trade Tensions Return to the Forefront of the Global Economy*,chart4 p.5 by Coface Economists: https://www.coface.com/News-Publications/Publications/Trade-tensions-return-to-the-forefront-of-the-global-economy-Country-and-Sectors-risks-Barometer and Coface Political Risk Model video, January 2020, Available at https://twitter.com/coface/status/

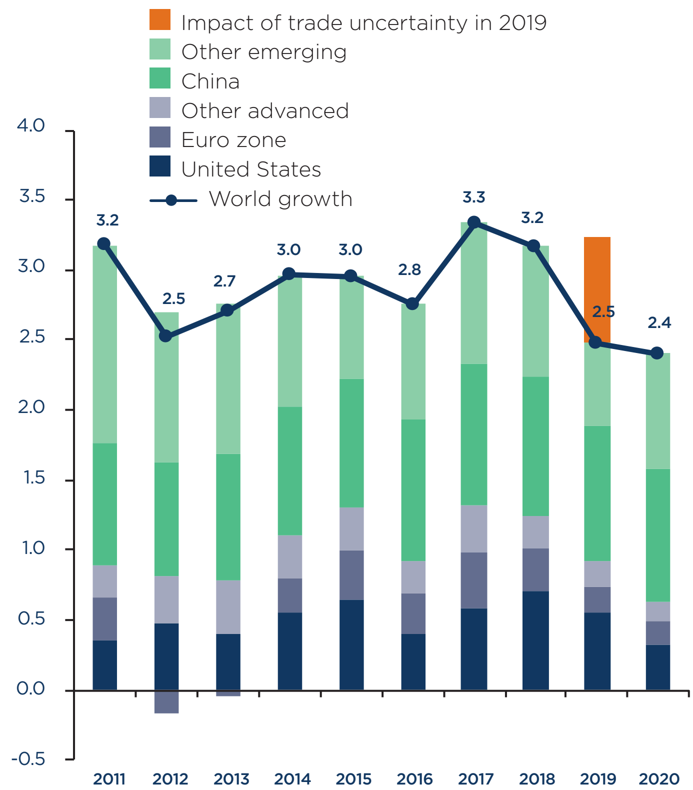
5 See Coface Economic Publications, Barometer Article, Global economy in 2020:general slowdown despite the action of central banks, October 2019 by Coface Group economists, https://www.coface.com/News-Publications/Publications/Global-economy-in-2020-general-slowdown-despite-the-action-of-central-banks

Chart 1:
Annual evolution of corporate insolvencies per country
(in %)



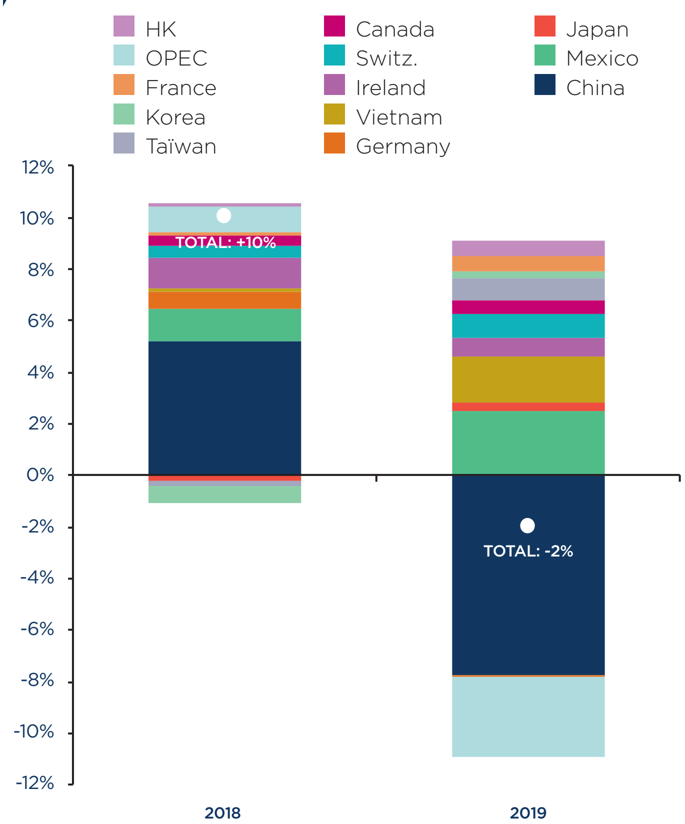
Source: Coface, National Sources (e: estimate / f: forecast)

Chart 2:
World Economy and Impact of Trade Uncertainty
(GDP evolution, %)



Source: Coface, IMF, VoxEU.org

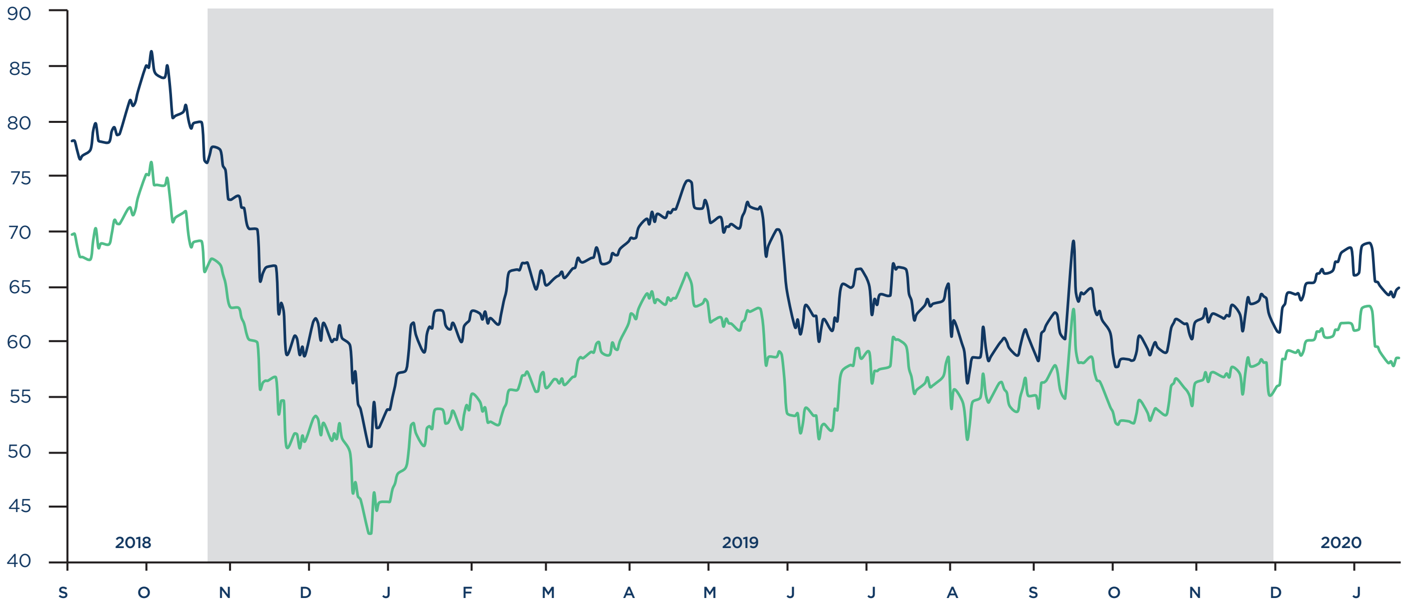
Chart 3:
Contribution to US trade deficit



Source: US Census Bureau

Chart 4:
Crude oil prices
(In U.S. Dollars per barrel)

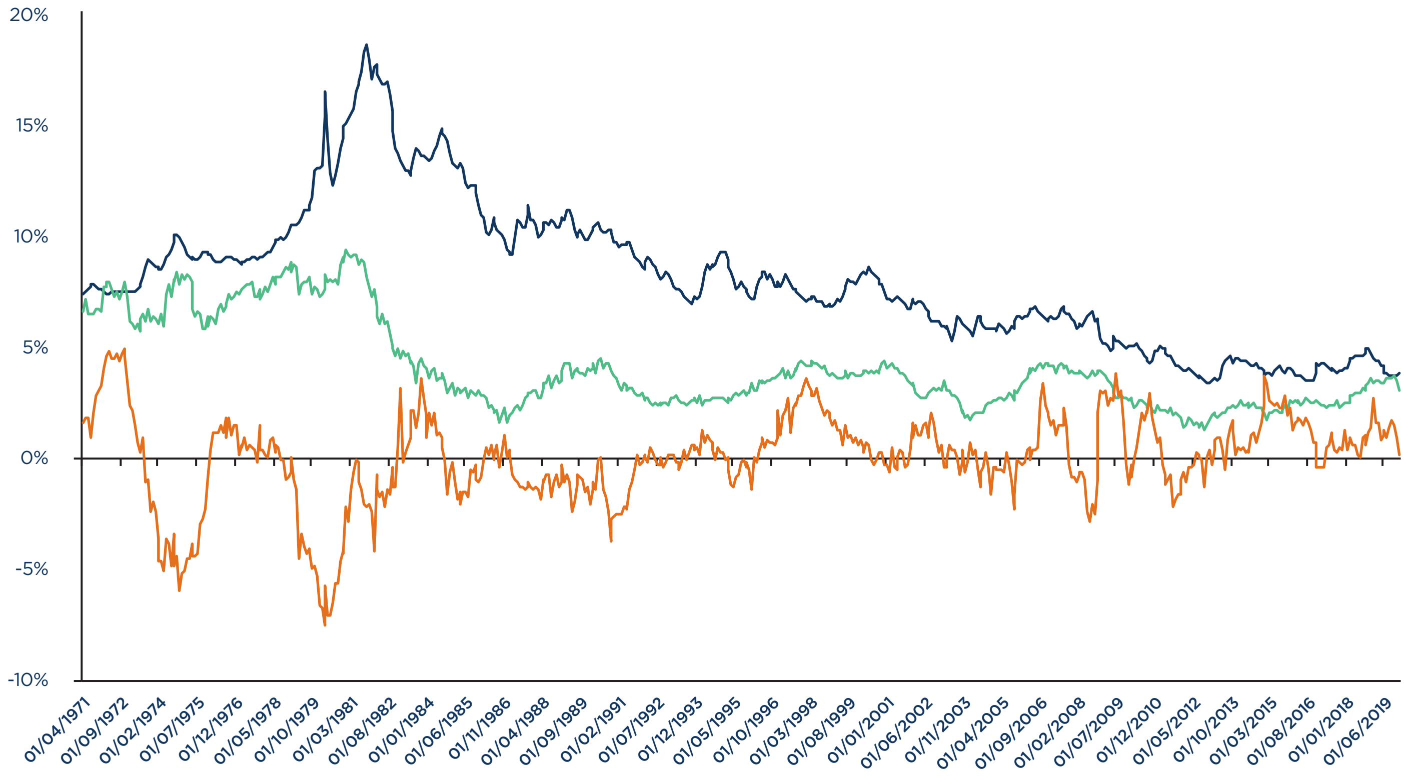
Brent
WTI



Sources: ICE, NYMEX, Coface (WTI : West Texas Intermediate)

Chart 5:
Mortgage and wages evolutions in the United States

30-Year fixed rate mortgage
Nominal hourly wage (yoy growth)
Real hourly wage (yoy growth)



Source: US Bureau of Labour Statistics & Federal Reserve Bank of St. Louis

Country Risk Assessment Changes

COUNTRY	Previous Assessment		Current Assessment
MADAGASCAR	D	↗	C
MALDIVES	D	↗	C
NEPAL	D	↗	C
PARAGUAY	C	↗	B
SENEGAL	B	↗	A4
TURKEY	C	↗	B
BURKINA FASO	C	↘	D
CHILE	A3	↘	A4
COLOMBIA	A4	↘	B
GUINEA	C	↘	D

BUSINESS DEFAULT RISK

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

Madagascar ↗
(Upgrade from D to C)

- Economic growth is forecasted to remain strong in 2019 (5.0%) and 2020 (5.2%), driven by agriculture and government investment.
- Private investment is also expected to rebound after elections in 2018 (presidential) and 2019 (legislative, municipal).
- While public investment is expected to contribute to wider budget and current account deficits, resulting in a buildup in public debt, the risk of debt distress remains very limited considering the low level of debt (less than 40 % of GDP) and that it is essentially on concessional terms.

Maldives ↗
(Upgrade from D to C)

- Growth was strong in 2019, and should remain at high levels in 2020, in spite of an economic slowdown (from 6.5 to 6.0%).
- Although reliance on tourism is still a major problem, the country has known a relative diversification in the recipient countries: the number of tourists coming from India has doubled, and Chinese tourists are one of the most dynamic demographics for the sector. This is somewhat breaking with the recent past where tourists in the Maldives mainly came from Europe.
- A new government has been democratically elected in September 2018; with a 74% majority in parliament obtained in April 2019, Mohamed Solih's government has solid foundations to legislate. Reforms are planned regarding the rule of law, press freedom and economic diversification. Although the construction and tourism sectors remain at the center of policymaking, a shift towards stimulation of SMEs and agriculture has been announced. The government aims at a rapprochement with India, which is expected to somewhat counterbalance China's influence on the country and provide new funding, critical for debt sustainability.
- Although the public deficit has increased further, the government has managed to muster support from new bilateral creditors (e.g. India) and is establishing a sovereign fund aimed at managing short term debt. Current account deficits are contracting (from -25,3% in 2018 to an expected -15,7% in 2020.

Nepal ↗
(Upgrade from D to C)

- Growth remained dynamic in 2019, and is expected to reach 7%, buoyed by reconstruction work following the 2015 earthquake as well as higher remittances from overseas expatriates, which is benefitting domestic demand.
- Nepal has diversified its economy, with the share of services increasing gradually over time on the back of higher tourism numbers. Political transformation should be supportive of foreign direct investments into the manufacturing sector going forward. Nepal will also benefit from higher investment from China and India, as both countries have a vested interest in developing infrastructure levels there.
- The country remains exposed to adverse weather conditions. Moreover, twin current account and budgetary deficits make the country more vulnerable to a change in investor sentiment.

Paraguay ↗
(Upgrade from C to B)

- The country has had a prudent approach to its public finances for years. Public debt stood at 22.6% of GDP in October 2019.
- The fiscal deficit is likely to increase going ahead, as the government attempts to stimulate the economy through infrastructure investment. Nevertheless, it should still remain at a low level. The lower house has given its final approval to a bill that lifts to 3% for this year the current cap of 1.5% of GDP on the fiscal deficit set in the 2013 Fiscal Responsibility Law (LRF). With the economy falling into recession in Q2, the government led by President Benítez proposed amending the LRF allowing for the doubling of the deficit cap in the event of a national emergency, and/or national or international economic crisis.
- The current account deficit is estimated to end the year at 0.1% of GDP and should be easily covered by expected FDI of 1% of GDP. International reserves of USD 8 billion (around 20% of GDP) cover roughly 7 months of imports.
- Although GDP dropped in the first half of (H1) 2019, it is now recovering and should grow by 0.2% in 2019 and 4% in 2020. Economic activity rose by 2.7% in Q3 of 2019, reversing falls of 2.9% and 3.4% in the first and second quarters of the year. Activity should be led by agriculture and hydropower production increases, and infrastructure spending supporting employment in construction. Activity in the agriculture and hydropower industries fell 11.6% and 12% respectively in H1 2019 due to a major drought, but are expected to surge with normalizing rainfall in 2020. The low inflation (at 1.9% YoY) has also allowed the central bank to cut interest rates (Nov 2019: 4%, from 5.25% in end 2018).

Senegal ↗
(Upgrade from B to A4)

- The country has recorded solid growth performances since 2014, supported by the implementation of the Emerging Senegal Plan. GDP is expected to continue growing above 6.0% in both 2019 (6.1%) and 2020 (6.5%)
- The prospects for oil and gas development, of which the commercial production could begin in 2021 and 2022 respectively, will attract private investment.
- Despite persistent social tensions, political stability was not tested by the February 2019 presidential elections.

Turkey ↗
(Upgrade from C to B)

- Turkey is undergoing a process of macroeconomic rebalancing. The country's current account deficit neared zero, inflation dropped close to 12% from a peak of 25% in 2018, which allowed the central bank to cut its rates from 24% to 11.25% between September 2018 and January 2020. The fall in interest rates is expected to support domestic demand, which would help the economic expansion to continue during 2020. Coface's GDP forecast for the Turkish economy is at 3% for 2020, up from an estimate of 0,2% last year. The lira has been less volatile recently, which helps to restore the confidence among businesses and consumers, yet this is a very slow process. Risks of currency devaluation in case of geopolitical tensions persist.

Burkina Faso ↘
(Downgrade from C to D)

- The security situation has worsened in recent quarters, as a result of increased activity by islamist terrorist insurgencies and militia organized according to different ethnic groups.
- Attacks on gold mines have increased in frequency, as demonstrated by the deadliest attack in three years on a convoy heading to the Bongou mine in November (40 deaths), threatening an industry that contributes more than 10% to GDP.
- The agriculture sector is also exposed to the security crisis with close to 500,000 individuals who have been forced to flee because of violence.

Chile ↘
(Downgrade from A3 to A4)

- Activity has strongly decelerated since October 2019, when the social unrest was triggered in the country. GDP is estimated to have grown by 1% in 2019, down from 4% in 2018. The unexpected strong impact on activity should also lead to a deterioration in payment experience.
- GDP is expected to remain weak in the medium term. The loosening of the labor market, the expected spillover of FX depreciation to inflation and the strong decline in consumer confidence will keep household consumption at low levels. Alongside, the political uncertainty and historically low business confidence will also play negatively to gross fixed investments. In a context where President Piñera had 10% approval rating as of January 2020, according to the latest survey conducted by the Chilean pollster company Cadem. This is an historically low approval rating. Moreover, the level of the population 's disapproval towards him reached 82%, after three months of protests that have shaken the country.

- The expected loosening of the fiscal policy (related to the USD 5.5 billion fiscal package and the possible changes in the new constitution to be written) represents a risk to the sovereign assessment trajectory. The government has formally given up reducing the structural balance to 1% in 2022 (the revised 2020 deficit is now at 3% of GDP up from the previous 1.7% estimate). Moreover, policymakers now see debt stabilizing at roughly 38% of GDP by 2024, up from the 30% forecasted before.

Colombia ↘

(Downgrade from A4 to B)

- The country has been running large twin deficits, making it vulnerable to a global downturn. The external account imbalance has widened to 4.5% of GDP in Q3 2019, from 4% in 2018, as internal demand strengthened and oil and coal exports declined. Net-direct investment covers around two-thirds of the deficit. Finally, international reserves of roughly USD 53 billion (17% of GDP), provide 12 months of import coverage.
- Total general government gross debt (which includes central government + local governments) has also increased in the last decade, from 35% of GDP in 2009 to 55% in 2019. Most of the increase has been driven by higher holdings from non-residents (notably non-banks), who increased their participation ratio from 38% of total debt in 2009 to 44% in 2019. Alongside, taking into account the central government debt (which represents roughly 91% of the general government gross debt) , the share of foreign currency debt rose from 28% (2009) to 33% (2019), while the local currency debt held by non-residents increased from 6% (2009) to 28% (2019).
- Moreover, the now uncertain fate of the tax reform represents a further risk. Tax reform: in mid-October 2019, the Constitutional Court ruled that the 2018 financing law failed to meet part of the required procedural steps, and would become invalid at the start of 2020. That way, the government had to return the bill to Congress (to retain the planned revenue stream). Although the bill was approved in early December 2019 after a first debate in the legislative (it will now pass to a plenary session), it entered the crosshairs of the National Strike Committee, who demanded the government to withdraw it from the floor of Congress. It remains to be seen how President Duque will manage to overcome the aforementioned important challenges in order to pass this fiscal bill.
- Social unrest was triggered on November 20 2019. Overall, the common point encompassing protesters is the dissatisfaction with the incumbent government (according to the December 2019 survey led by Datexco consultant company, President Duque's positive image within the population stands at only 23%). People went on the streets to protest against the failure of president Ivan Duque's right-wing government (Democratic Centre party) to comply with promised higher resources for public education, the weak implementation of the FARC peace agreement, the labor and pension reforms (not yet presented), the tax reform and the killing of social leaders.

Guinea ↘

(Downgrade from C to D)

- The slowdown in Chinese demand is exposing the country's bauxite exports.
- Tensions related to the presidential election scheduled for October 2020 erupted after President Alpha Condé launched a consultation paving the way for a constitutional reform that would allow him to run for a third term.
- Guinea's political crisis threatens international support on which the country relies to finance infrastructure projects under the National Development Plan.

Sector Risk Assessment Changes

REGIONAL SECTOR RISK ASSESSMENTS

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

* Information and Communication Technologies
Source: Coface

ASIA-PACIFIC

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

AUSTRALIA

Pharmaceutical ↘

(Low Risk to Medium Risk)

- Profitability ratios have remained in negative territory, while there has been a pickup in debt ratios as R&D plays a critical role, i.e. a critical aspect of the pharmaceutical sector performances.
- In 2016, 17 types of medication were removed from the Pharmaceutical Benefit Scheme, including Panadol, aspirin, iron/folic supplements, electrolytes, and laxatives. Other medications include medication for reflux, skin allergies, antacids, urine test strips, and Vitamin B12 injections. The change was implemented in order to reduce the medical expenditure bill, which is equivalent to 10% of GDP in Australia, and savings were expected to reach approximately USD 87 million a year. Similar actions are possible as the current government plans to deliver a budget surplus for the first time in 2020 and Medicare is a big cost center. High levels of household debt may constrain private spending, and this includes products like non-critical drugs in case these are not subsidized by the state.
- That said, demographics and high income levels are supportive of this sector in the long term. The pharmaceutical industry is estimated at USD 25 billion. Australia is the largest exporter of codeine and thebaine in the world and has a sizable, skilled pharmaceutical workforce with a set path to market through the federal body Therapeutic Goods Administration (TGA), which administers Good Manufacturing Practices (GMP) certifications.

INDIA

Chemicals ↘

(Medium Risk to High Risk)

- Weaker demand is expected to ebb production and weaken profitability for manufacturers. India's GDP growth slowed considerably to 4.7% in the quarter ending September 2019; due to a decline in manufacturing; with industrial production contracting for a third consecutive month to -3.9% YOY in October. While chemical production has not registered as sharp a decline as other sectors, the weakness in other industries will eventually catch up with the chemical sector, which is pro-cyclical by nature. This is especially true for the automotive and construction sectors, which constitute the largest source of final demand for chemical products.
- Profitability may also be impacted by higher supply. The government has identified that the chemical sector is a key sector for India and capacity expansions between now and 2025 are expected to result in a USD 300 billion market, up from 160 billion now. In the long-run, these can help India to win a larger global market share. However, higher supply and weaker demand will exert pressure on prices and profitability in the short-term.
- The government has announced plans to ensure the robust market size by the implementation of a new policy upon the sector so that domestic production could be strengthened and imports be curbed. In November 2019, the government revealed that a larger number of 72 chemicals and petrochemicals would be covered by mandatory certification in 2020, as a means to reduce excessive dependence on imports. Caustic soda was the first chemical to be covered under this certification in April 2018, resulting in severe disruptions to the supply chain.

JAPAN

Retail ↘

(Medium Risk to High Risk)

- The retail sector globally is struggling from weaker demand, and Japan is no exception. Weak external demand stemming from uncertainties surrounding the US-China trade war and a contraction in manufacturing activity have had negative implications on domestic sentiment, which remains subdued. Moreover, the contraction in exports has led to weaker manufacturing activity, which has spill-over effects on consumption, as households prepare for a potential increase in unemployment. While we do expect unemployment figures to pick up in Japan, the jobless rate will remain low compared to other OECD countries, below 3%, due to demographics.
- Adding to existing pressures, Japan implemented a 2% sales tax hike in October 2018. Japanese consumers have been grappling with deflation and stagnant wage growth for decades, making them extremely sensitive to price changes. The sales tax is not included in prices on labels, so the fact that the new level of 10% is easier to calculate may also have an impact on consumer psychology, with sentiment remaining low as a result of a worsening global macro environment. In October, retail sales dropped the most since the 2015 sales tax hike, reaching -7.1% YOY. Domestic consumption experienced two consecutive quarters of negative growth following the sales tax hike in 2015. We expect that this will be the case too through the beginning of the year, albeit the contraction will be less pronounced than in 2015, thanks to preemptive measures that have been put in place (for example, some online transaction and basic goods are exempt from higher taxes).
- Domestic demand is expected to rebound again in H2 2020, on the back of higher tourist arrivals and coinciding with Tokyo 2020 Olympics.

BUSINESS DEFAULT RISK

Low Risk

Medium Risk

High Risk

Very High Risk

↗ Upgrade

↘ Downgrade

Decoding the WORLD ECONOMY

4th quarter 2019

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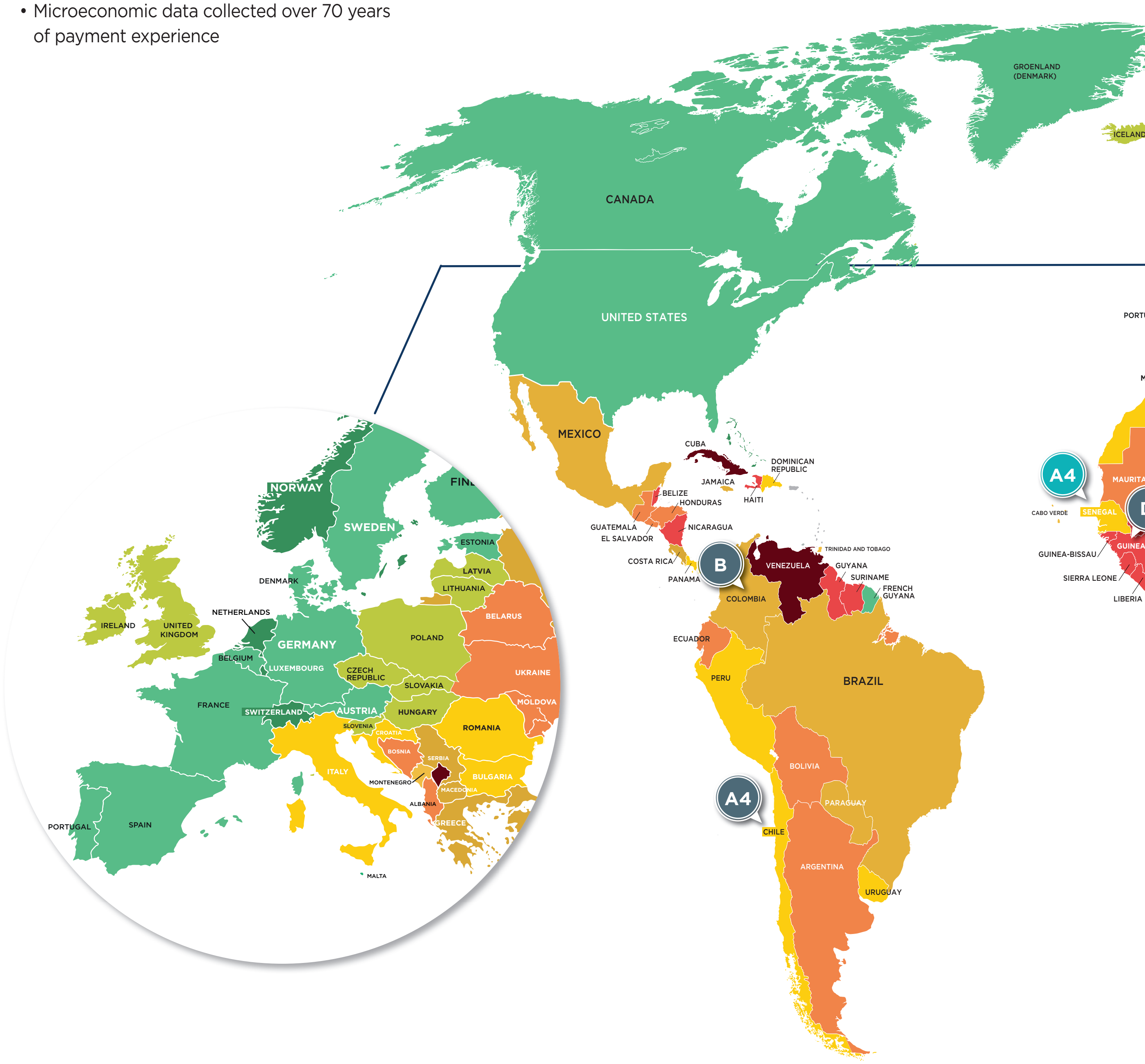
BUSINESS DEFAULTING RISK

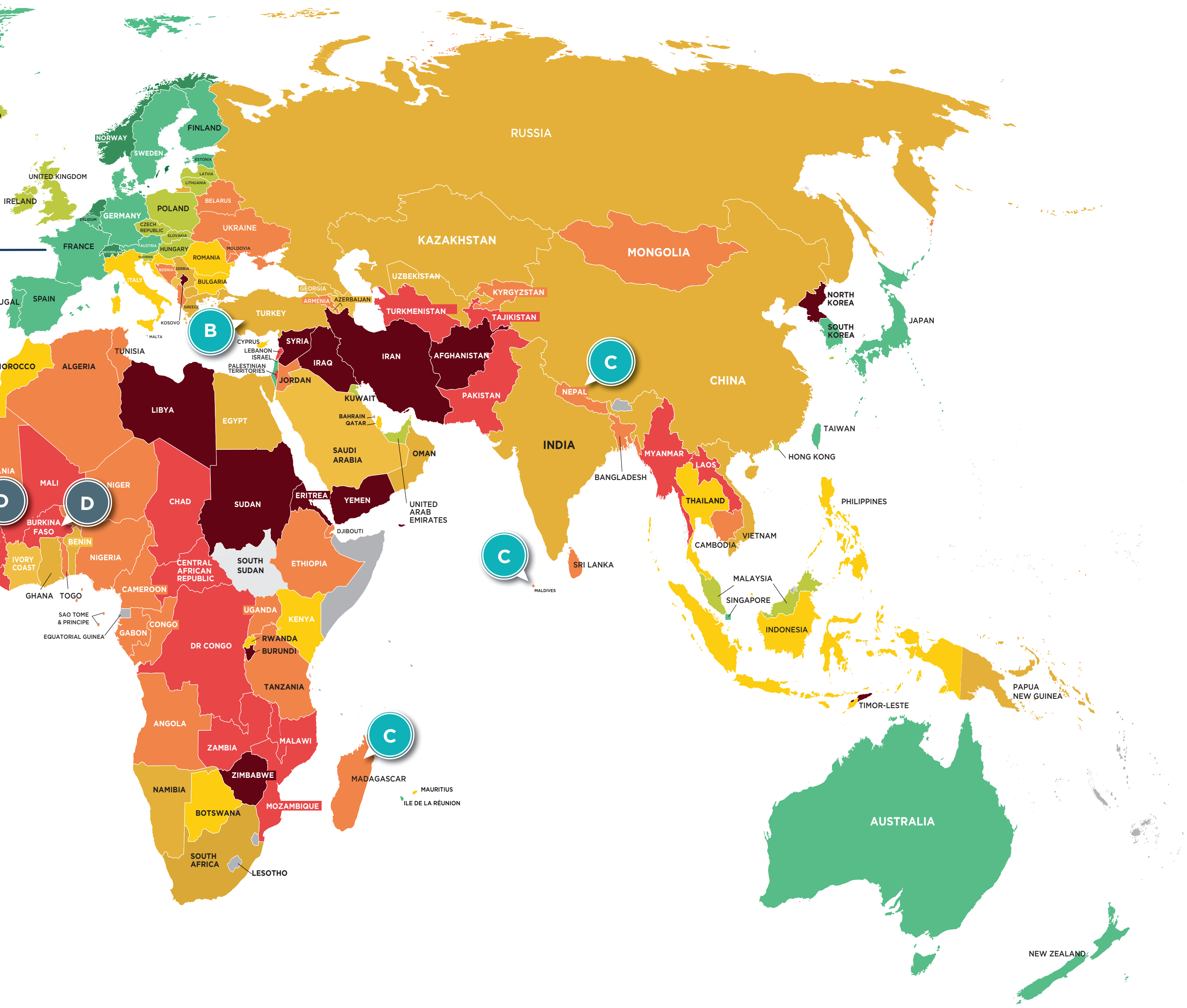
UPGRADES

DOWNGRADES



SK ASSESSMENT MAP

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



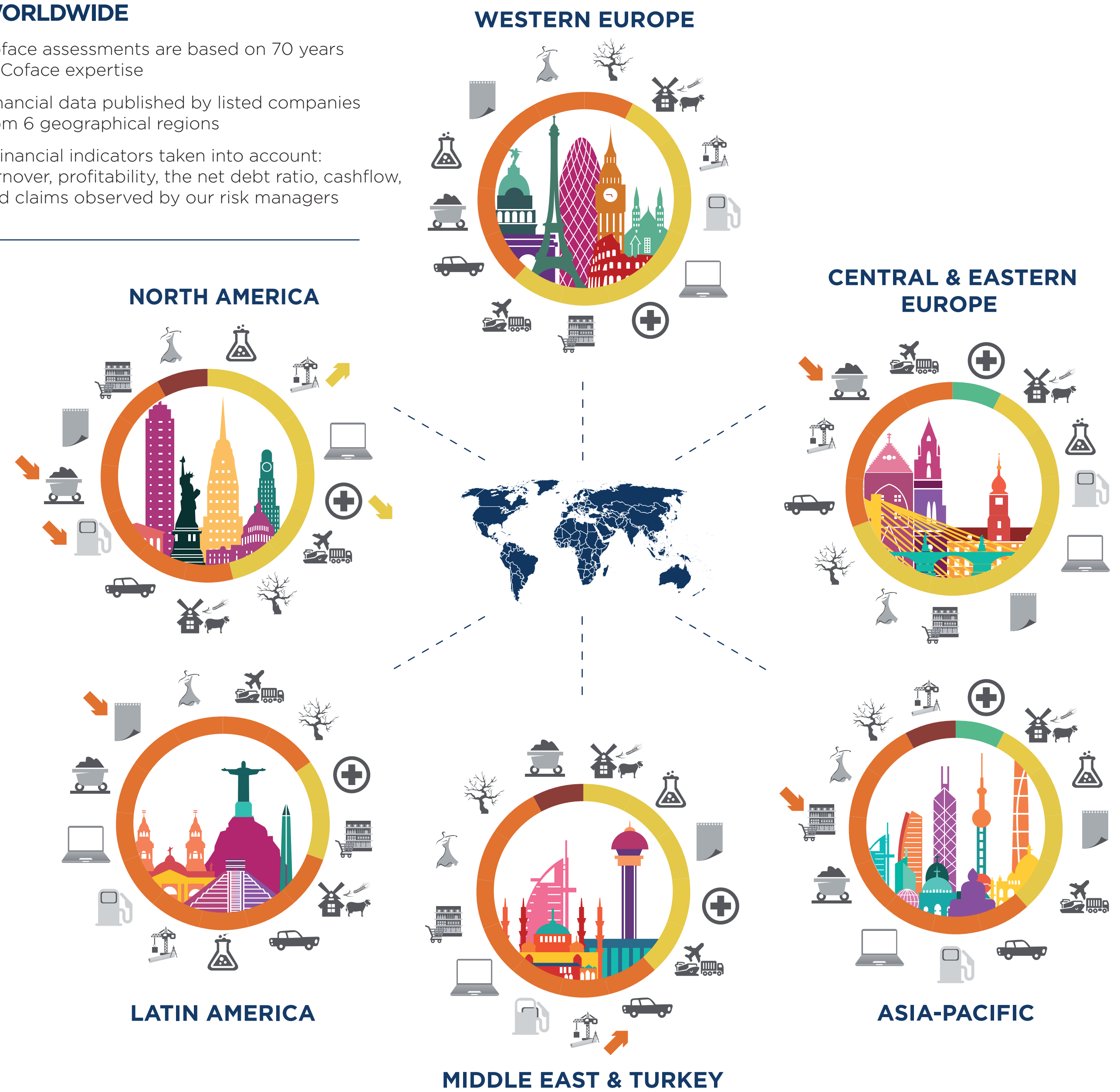
SECTOR RISK ASSESSMENTS
4th quarter 2019

13 MAJOR SECTORS ASSESSED WORLDWIDE

Coface assessments are based on 70 years of Coface expertise

Financial data published by listed companies from 6 geographical regions

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

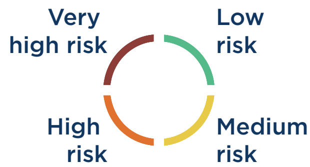


agri-food	ICT*	textile-clothing
automotive	metals	transport
chemical	paper	wood
construction	pharmaceuticals	
energy	retail	

* Information and Communication Technologies

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

** Information and Communication Technologies*
Source: Coface

POLAND

Metals ↘

(Medium Risk to High Risk)

- Perspectives for the metals sector are deteriorated as a result of decreased demand from the automotive and partly construction sectors.
- The sector suffers from high commodities prices, increasing costs of CO_2 emission and price-attractive imports from non-EU producers who do not have to apply to strict EU regulations.
- The metals sector in Poland suffers from overcapacities. One of the biggest producers has recently announced that it has to suspend its production in the biggest plant till an undefined future.

BUSINESS DEFAULT RISK

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

LATIN AMERICA

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

BRAZIL

Construction ↗
(High Risk to Medium Risk)

- The improvement in construction has been driven by the real estate sector, offsetting the weak performance of the infrastructure sector due to low public investment.
- According to CBIC (a public body that deals with construction issues in the country), in the first three quarters of 2019, the volume of real estate launches reached 82,000 units, which represents an increase of 17% YoY. This is accompanied by a 10% rise in sales (totaling 94,000 units), while inventory run-off time continues to shrink, reaching 11.6 months in 12 months (12.8 in Q3 2018).
- By 2020, performance will continue to be driven by self-construction and renovations, but residential and other segments are expected to grow. Infrastructure works should maintain a slow pace of recovery.
- According to data from the construction sector association for the state of Sao Paulo Sinduscon, the sector production is estimated to have grown by 2% in 2019 YoY, ending a series of drops between 2014 and 2018 when the sector's production retracted by 30%. The number of people working in construction grew by 1.59% in the first ten months of 2019 YoY. At the end of October 2019 the sector employed 2.41 million workers. For 2020, projections point to a construction output growth of 3% higher than 2019.

Paper ↘
(Medium Risk to High Risk)

- According to the national statistical institute, IBGE, production of paper, pulp and paper products dropped by 3.1% YoY in the last 12 months until Oct 2019.
- The global scenario of high inventory and decelerating economic activity have taken a toll on the sector. Hence, the pressures on pulp prices, coming mainly from China and Europe, have taken export prices down, limiting pulp producers' margins.
- From Jan to Nov 2019 pulp exports dropped by 5.5% YoY mainly driven by lower average exports prices in the period (-7.8% yoy).

CHILE

Automotive ↘
(Medium Risk to High Risk)

- In the midst of the social tension in the country, the sale of new vehicles fell by 27.6% YoY in November, with a total of 24,272 units (from -24.5% in Oct 19), which corresponds to its lowest level since February 2017, according to figures from the National Automotive Association of Chile (ANAC). After the result of November, a total of 341,788 new units were sold in the first eleven months of 2019, which is equivalent to a 10.5% drop with respect to the same period of the previous year.
- Although the sector´s performance has deteriorated rapidly since the protests began on October 18 2019, it is important to note that it was already falling before (dropped by 7% between Jan-Sep 2019 YoY). Chile's automotive industry association ANAC is now predicting sales of almost 367,000 vehicles for 2019, down from the estimated 388,000 days before the protests. Sales will, therefore, be 12% lower in 2019 compared to 2018.
- Although part of the contraction should be transitory, an expected weakening of the labor market (unemployment rate currently at 7%) and falling consumer confidence to historic lows in November (28.3 points in November, down 17pp in twelve months and well below the neutral threshold) will probably imply in weak consumption data in the coming months.

Paper ↘
(Medium Risk to High Risk)
- Pulp companies in Chile have been impacted by lower international prices and are not expecting a price upturn, reflecting a negative international scenario since late 2018.
- Cellulose, paper and printers output dropped by 0.3% YOY in Q3 2019, after -2.7% in Q2 and 0.9% in Q1 2019.
- Moreover, exports dropped by 22% YoY between Jan - Nov 2019.

Retail ↘
(Medium Risk to High Risk)
- Sector highly impacted by the social unrest taking place in the country since mid-October 2019.
- Retail sales (including car sales) fell 12.1% YoY (-1.1% in September) in October 2019.
- Although part of the contraction should be transitory, an expected weakening of the labour market (unemployment rate currently at 7%) and falling consumer confidence to historic lows in November (28.3 points in November, down 17pp in twelve months and well below the neutral threshold) will probably imply weak consumption in the coming months.

Transport ↘
(Medium Risk to High Risk)
- Sector has been highly hit the current protests. According to the national institute of statistics (INE), vehicular traffic dropped by up to 62% on interurban routes on certain days after the outbreak of social protests on 18 October 2019. In October, traffic levels dropped by 9.9% compared to the same month in 2018. This result marks the lowest level seen in 15 months. Interurban routes that connect to the Santiago region saw a 12% drop in traffic in October 2019. Road concessionaires confirm that between 40 and 50 tollbooths were vandalized but despite this, motorways have remained open.
- Moreover, in light of the damage caused by the recent social protests and rioting, the Metro service has to face greater costs to repair its infrastructure. The state-run company has to invest USD 380 million to relaunch services. In addition to this greater cost, the company saw a 50% drop in demand for its services over the last month due to the social crisis, which has affected company revenue.
- Finally, according to figures provided by the Civil Aviation Authority of Chile (JAC), the number of passengers travelling on airlines dropped by 6% YoY in October 2019.

BUSINESS DEFAULT RISK

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

MIDDLE EAST & TURKEY

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

* Information and Communication Technologies
Source: Coface

TURKEY

Retail ↗
(Very High Risk to High Risk)
- Retail sales increased YoY in September and October 2019 after having decreased for 12 months in a row. Wages increase (5% in real term YoY in Q3 2019 against -4% a year earlier) and lower interest rates (12.5% in October, down from 22.5% in January 2019) will support household consumption.

Construction ↗
(Very High Risk to High Risk)
- The sector is expected to benenfit from the Bank of Turkey accomodative monetary policy.

ICT ↗
(Very High Risk to High Risk)
- The stabilization of the Turkish lira and the government's stimulus measures are expected to support household demand for this type of imported products.

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

NORTH AMERICA

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

* Information and Communication Technologies - Source: Coface

CANADA

Textile-Clothing ↘
(High Risk to Very High Risk)

- Clothing production stagnated (0% YoY in Q3 2019) and textile output contracted (-4%). Furthermore, textile output is well below its pre-crisis level (-30% vs 2007). On the demand side, clothing and clothing accessories store sales continued to slow down from +1.6% to +0.9% YoY in Q3 2019 (+6% in Q3 2018, steady deceleration since then).

Wood ↘
(High Risk to Very High Risk)

- Wood production fell further: -8.3% YoY in Q3 2019 (after already -7.6% in Q2). The industry is struggling with numerous mill closures and layoffs amid the US tariffs on lumber (21%), depressed prices from lower international demand and supply issues in Canada related to forest fires and pest infestations. The five-member NAFTA panel of Canadian and American representatives says there is no evidence that Canada's softwood industry has harmed United States softwood producers.

UNITED STATES

Construction ↗
(High Risk to Medium Risk)

- The sector seems to be bouncing back since August, due to three consecutive interest rate cuts from the Fed between July and October 2019. Building permits and housing starts rose respectively by 14% and 9% in October 2019 (at an annualized rate). Residential construction returned to positive growth in Q3 (+1.2% QOQ), after declining for six quarters in a row. The main shadows on the board are the punitive tariffs on steel (25%) and aluminum (10%) and on Canadian lumber imports (20%) that increased the production costs in the sector. According to ISM November 2019 report: "Activity is still up in all areas, but primarily in commercial construction."

Energy ↘
(Medium Risk to High Risk)

- The trend is negative: Energy production continued to slow down from +3.9% YoY in Q2 2019 to +1.3% in the three months to October (after +9% in 2018). While primary energy growth decelerated but remained resilient (from +10% in Q2 to +5% YoY), converted fuel production is declining (-3%) and oil and gas drilling is falling down (-14% YoY after -3% in Q2). The oil price volatility is affecting new drilling decisions in a challenging environment. According to the ISM November 2019 report: "Slowdown in business has us revising our 2020-21 capital spend."

Metals ↘
(Medium Risk to High Risk)

- Both primary metals (-1.5% YoY in October 2019 after +0.4% in Q2) and fabricated metal products (-0.1% YoY after +1.6%) decreased, in a very challenging environment of lower prices and demand from automotive industry. In an ISM November 2019 report, fabricated metal products industry businesses indicated that the order book was continuing to shrink below their forecast levels. The month after, their concerns were reinforced as they reported that the anticipated large export orders did not materialize, so as a result, expected U.S. production has decreased. The positive impact of the tariffs on steel (25%) and aluminum (10%) in order to protect the US steel industry is fading.

Pharmaceutical ↘
(Low Risk to Medium Risk)

- Pharmaceuticals production grew slowly in the three months to October 2019 (+0.9% YoY after +0.3% in Q2). In addition, on the demand side, pharmacies and drug store sales decelerated in Q3 2019 (from +4% in Q2 to +2.1% YoY). Early last December, Senate Finance Committee Chairman and ranking Democrat unveiled a revamped version of their bipartisan drug price bill that is backed by President Donald Trump. It would make changes to Medicare by adding an out-of-pocket maximum for beneficiaries and capping drug price increases at the rate of inflation, among other measures.

BUSINESS DEFAULT RISK

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

WESTERN EUROPE

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

* Information and Communication Technologies
Source: Coface

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

AUSTRIA

Metals ↘
(Medium Risk to High Risk)
- Perspectives for the metals sector are deteriorated as a result of decreased demand from the automotive sector, especially since the Austrian automotive sector is widely integrated into the German one.
- The pressure coming from protectionism measures poses a risk.

Transport ↘
(Medium Risk to High Risk)
- A global slowdown and weaker economic activity of the main trading partner Germany have started to affect the Austrian transport sector.
- The sector has a strong exposition to Germany and it provides transport services to the automotive sector, both suffering from the slowdown.

ITALY

Construction ↗
(Very High Risk to High Risk)
- Though this sector remains in a difficult situation, there has been a small rebound with respect to the slump of 2019. We saw a short-lived boost in growth during Q2, and then modest but sustained growth during the rest of the year. Precarious, but not as bad as it has been in recent times.

Metals ↘
(High Risk to Very High Risk)
- The sector is feeling the impact of tariffs and the slowdown of the automobile sector, with sustained and strong degradations in confidence and production. The recent conflict between ArcelorMittal and the government over the takeover of the country's largest steel plant can pose durable supply-side problems.

Textile-Clothing ↘
(High Risk to Very High Risk)
- Sector is showing an acute downturn over the last two quarters, with 6% YoY contractions in production month after month.
- Confidence and order prospects are at their lowest since the end of the Eurozone crisis in 2013, leverage has shot up significantly over the last 2 years and profits have continued to erode.

THE NETHERLANDS

Metals ↘
(Medium Risk to High Risk)
- The sentiment in the metals sector decreased in the last months from 5.4 points in March 2019 to -0.5 points in November. The main reason for this decrease was the sub-indicator for expected activity, which went down into the negative area.
- The "hard data" for the metal sector support this view with a negative yearly growth rate of production since April 2019 (last value is September). Capacity utilization for basic metals dropped further in Q4 to 74.9%, the lowest level since Q3 2010. The capacity utilization of metal products went down in Q4, too.
- Exports in iron steel have had negative yearly growth rates since May, while the yearly growth rates for sales of manufactured metal products remained volatile. The decrease of global trading activity, especially in the field of investment goods, and a further contagious effect of the automotive-sector on the Dutch metal sector, should dampen export growth in the metal sector in the coming months.

Paper ↗
(High Risk to Medium Risk)

- The producer sentiment in the paper and packing industry has recovered from the low level in the summer of 2019 of 0.5 points to a more positive sentiment of 6.5 points in November. The sub-indicator for new orders and the stocks of finished products reached double-digit levels in September/October. The indicator for expected activity turned positive in October and remained there in November.
- The yearly growth rate of production went negative in Q2 2019 and stayed there in Q3, but is not far in the negative territory. However, the capacity utilization in the sector increased in the fourth quarter to the highest value in three years and hints at a strong recovery at the end of the year.
- While the yearly growth rates for sales of paper products are quite volatile since this summer on the domestic and on the foreign market, the demand should remain strong, as the online shopping market is constantly growing, this year with double digit growth rates. As private consumption should remain the main column of economic growth next year, the demand for online-shopping products should increase further.
- The insolvency numbers of paper/packaging production dropped by 18% between January and November this year compared to the same time period of last year.

SWITZERLAND

Wood ↘
(Medium Risk to High Risk)

- Forest owners benefited from the impact of a cooler fall that halted the development of the bark beetle. Nevertheless, prices were depressed due to both lower wood quality and a ‘volume effect’ with more wood having to be felled.

This is in a context where forest owners are only just beginning to recover from the difficulties linked to declining Chinese demand.

OTHER COUNTRIES

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

** Information and Communication Technologies*
Source: Coface

BUSINESS DEFAULT RISK

Low Risk

Medium Risk

High Risk

Very High Risk

Upgrade

Downgrade

RUSSIA

Automotive ↘

(Medium Risk to High Risk)

- Registrations and production are decreasing due to households' eroding real disposable income. Moreover, manufacturers will be confronted with the planned increase in the disposal levy (up to 2%) and the announced abolition of the refund of import duties on motor vehicle components. Authorities want to increase the local content, as 60% of components are imported. Local producers are to perceive subsidies equalling the amount of disposal levy.

Transport ↗

(High Risk to Medium Risk)

- Road and rail are the twin pillars of Russian transportation. While road costs are about 30%-45% higher than rail, the transit time is up to 60% faster. Rail is managed by the state, the road market is for 80% in private hands, half of them foreign. Volume of cargo is increasing fast with the development of trade with China.

SOUTH AFRICA

Paper ↘

(Medium Risk to High Risk)

- Weakness in the manufacturing sector is reflected by a decline in demand for packaging paper.
- Driven by digitalization, there is a declining consumption of printing and writing paper, weighing on the sector.
- After a bump in H2 2018, paper and paper products output has been on a clear decreasing trend.

COFACE GROUP ECONOMISTS

Julien Marcilly
Chief Economist
Paris, France

Sarah N'Sondé
Head of Sector Analysis
Paris, France

Bruno De Moura Fernandes
Economist, UK, France, Belgium, Switzerland and Ireland
Paris, France

Carlos Casanova
Economist, Asia-Pacific
Hong Kong

Christiane von Berg
Economist, Northern Europe
Mainz, Germany

Dominique Fruchter
Economist, Africa
Paris, France

Erwan Madelénat
Sector Economist and Data Scientist
Paris, France

Grzegorz Sielewicz
Economist, Central & Eastern Europe
Warsaw, Poland

Khalid Aït-Yahia
Sector Economist and Statistician
Paris, France

Marcos Carias
Economist, Southern Europe
Paris, France

Patricia Krause
Economist, Latin America
São Paulo, Brazil

Ruben Nizard
Economist, North America
Paris, France

Seltem Iyigun
Economist, Middle East & Turkey
Istanbul, Turkey

With the help of **Aroni Chaudhuri**
Coordinator
Paris, France

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COFACE SA
1, place Costes et Bellonte
92270 Bois-Colombes
France

www.coface.com

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