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COFACE ECONOMIC PUBLICATIONS

BAROMETER

COUNTRY AND SECTOR RISKS BAROMETER 2024 Country Risk Conference Special (Q4 2023)

By the Coface Economic Research team

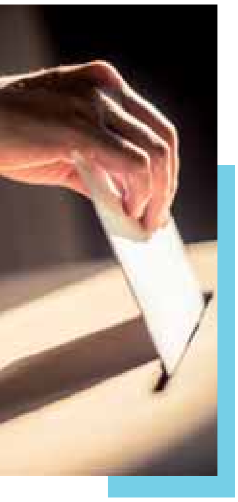
2024, a pivotal year

Busy, eventful, buzzing, decisive, crucial... there has been no shortage of adjectives to describe the year that has just begun. After a somewhat turbulent 2023, which ultimately turned out much better than expected, 2024 is shaping up to be as decisive as it is uncertain. As geopolitical tensions intensify internationally, against a backdrop of ever-worsening antagonisms and strategic rivalries, no fewer than 60 national elections - presidential and/or legislative - will shape the year, in a political and social environment that is deteriorating to say the least. While, as 2023 has shown, the worst is never certain, the end of history is a long way off and the victory of liberal democracies is far from being definitively sealed. To put it bluntly: the only certainty we can have, in the end, is that of being surprised.

In this context, the macroeconomic equation has clearly become a derivative of (geo)political balances. Consequently, our central scenario, which remains that of a prolonged but still soft landing for the global economy (+2.2% after +2.6% in 2023), is more akin to a ridge than a boulevard. There are many associated risks, some of them vertiginously bearish. After ending the year with a bang, the financial markets, still convinced that disinflation can be completely immaculate, have gradually come to their senses, albeit still far too complacent in our view. Without even mentioning the disruption of value chains, brought to the fore by the strikes in the Red Sea, or the ever-increasing risk of the Middle East conflict spreading, there is no guarantee at present that the battle against inflation has been won. Neither in the long-term, of course, nor even in the short-term, despite the ongoing slowdown in the global economy. With core inflation still twice the central bank target in most developed monetary areas, the challenge for 2024 will be to see whether the monetary tightening that has been underway for over 18 months is enough to go the 'last mile' and bring inflation back to 2%. And to keep it there.

Regardless, and barring an accident of course, the interest rate environment to which all agents - households, businesses, and governments - have become accustomed over the last fifteen years is now firmly in the past. While the volume of debt to be refinanced will gradually increase, there is every reason to believe that the pivot in terms of monetary policy will not be pivotal in terms of claims, and that the upward trend in insolvencies that we have witnessed for over a year will continue. This remains the main endogenous risk to our central scenario: that the virtuous circle that has hitherto combined low insolvencies, a resilient labour market and household dissaving will be replaced by a vicious circle combining accelerating insolvencies, rising unemployment, a marked slowdown in wages and, in this context, a rise in household savings. This ultimately would have an even greater impact on demand, despite the fall in inflation.

In the framework of our central scenario, we have adjusted 13 country assessments (12 upgrades and 1 downgrade) and 22 sector assessments (17 upgrades and 5 downgrades), reflecting a significant improvement in the outlook, albeit fragile, in an environment that remains highly unstable and therefore uncertain.

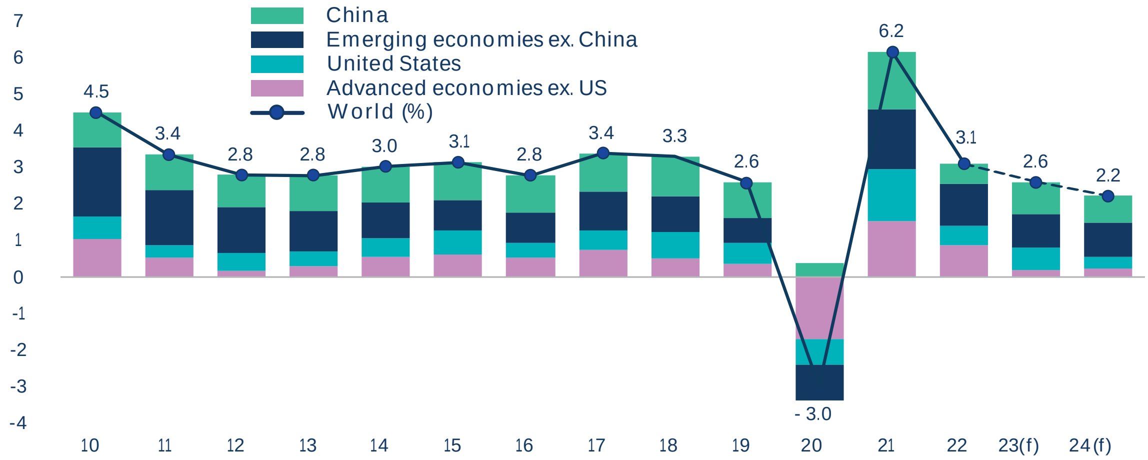


Global growth still bending but not breaking (yet)

In line with the last quarter of 2023, the global economy will be decelerating in the first few weeks of 2024, but with most regions escaping recession. As we anticipated in our previous Barometer[1], the indicators point to a marked slowdown in the United States, stagnation in the Eurozone and a still incomplete and disappointing recovery in China.

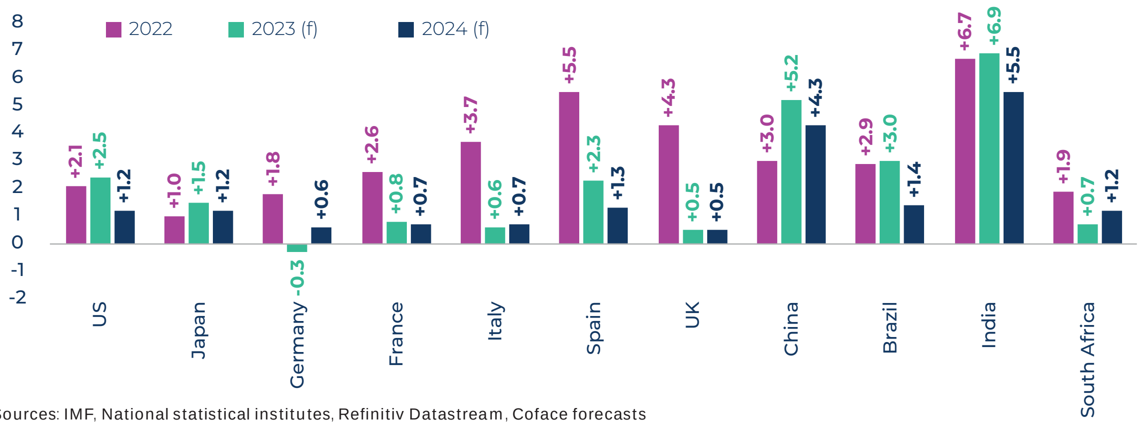
As a result, we are maintaining our growth forecast for the world economy in 2024 unchanged at 2.2% **(Chart 1)**, confirming the forthcoming slowdown for the third consecutive year. Excluding the pandemic and the financial crisis of 2008-2009, one must go back to 2002 to trace such a slowdown in global activity. While we have kept our forecasts unchanged for the major Eurozone economies, our (slight) upward revisions for the US and China are attributable rather to positive surprises in the past than to an improved outlook **(Chart 2)**. Given the lacklustre performance of these three markets, global growth will be driven mainly by the emerging economies. This trend is reflected in our changes to country assessments this quarter, since 9 of the 12 upgrades concern emerging economies. Conversely, we downgraded a single country this quarter (Israel). The balance is also positive in terms of sectoral assessment changes, with 17 upgrades, mainly in the automotive and energy sectors **(Box 1)**, and only 5 downgrades.

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



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

Chart 2
Real GDP growth (annual average, %)



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

1 Coface Barometer : Macroeconomics put to the test by microeconomic deterioration, 17 October 2023. URL: https://www.coface.com/news-economy-and-insights/country-and-sector-risk-barometer-q3-2023-macroeconomics-put-to-the-test-by-microeconomic-deterioration

Box 1:

SLIGHT IMPROVEMENT IN SECTOR ASSESSMENTS

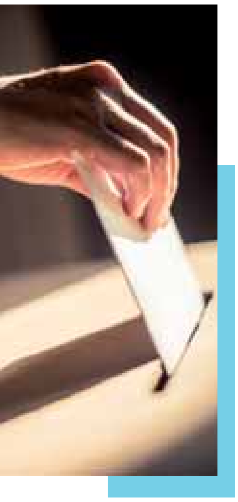
Changes in sector risk assessments were mainly in the automotive, energy and, to a lesser extent, retail and paper sectors.

Most of the changes this quarter are in the automotive sector, **upgraded in six countries** (India, Japan, South Korea, Poland, the Czech Republic, and the United Kingdom). In all upgraded countries, automotive production has returned to levels like those prior to Covid, as have exports. For the upgraded European countries and India, new vehicle registrations are also back to 2019 levels. As a result of this normalisation, in all European countries except the UK (high risk), the sector is returning to a medium level of risk. However, supply chains remain fragile. In North America, strikes had a major impact on regional production circuits in the fourth quarter. More generally, the recent events in the Red Sea and the announcements made by some manufacturers (see **Box 2**) also show that a degree of caution is still called for. Despite 6 upgrades this quarter, the sector remains at high or very high risk in the vast majority of countries assessed by Coface.

Energy has been upgraded in four countries, including three in Europe (Germany, Spain and Romania). The sector had already been upgraded during the previous exercise in almost all Western European countries, where it is now assessed at medium risk everywhere. Fears of supply disruptions, which had justified downgrades of the sector in Europe following the outbreak of the war in Ukraine, have been ruled out for this winter. The upgrade in Australia follows a different logic: the results of companies in the sector have been very positive, buoyed by coal and LNG exports. At the same time, the diversification of electricity sources has progressed rapidly, benefiting from a favourable regulatory framework and government incentives.

In Central Europe, positive retail sales figures, linked to strong disinflation and still buoyant labour markets, **justify the retail sector upgrades in the Czech Republic and Poland.**

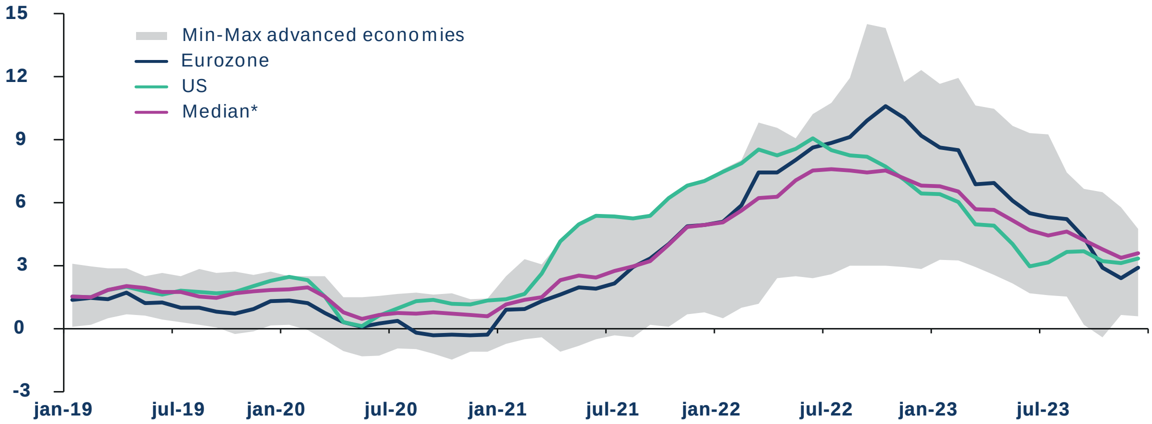
In terms of **downgrades, paper in the United Kingdom and the Netherlands** fell to very high risk, in addition to the downgrades carried out during the previous quarter in the rest of Western Europe. After benefiting from the Covid effect on e-commerce, demand for packaging paper is now in difficulty, with retail sales still suffering. Meanwhile, the replacement of design paper by digital media remains an adverse factor weighing on the sector's long-term prospects in the region.



Inflation: the last mile is always the hardest

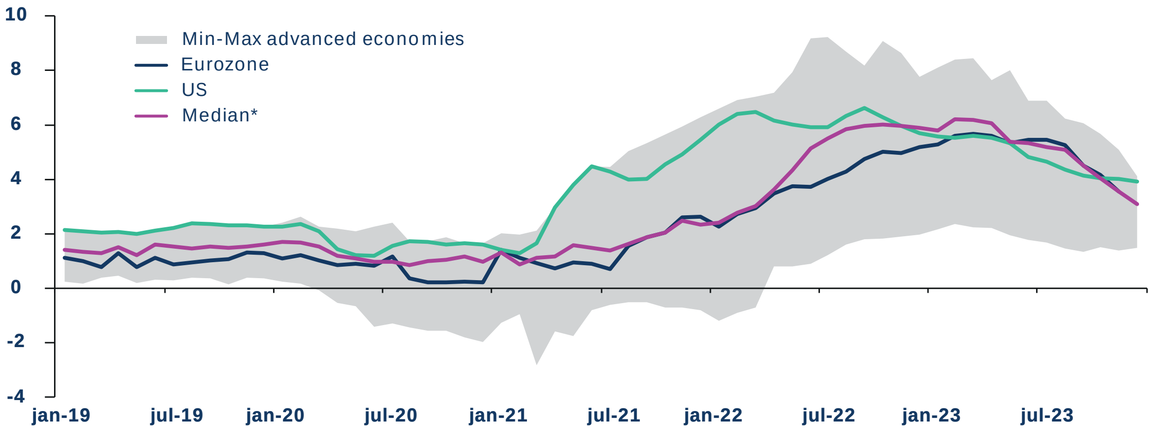
As expected, inflation continued to fall, almost «mechanically», in the final months of 2023, with energy and commodity prices remaining relatively stable, far from the peaks reached after the invasion of Ukraine **(Chart 3)**. Disinflation has also continued to be underpinned by goods, whose prices have slowed sharply or even fallen thanks to the - for the time being - return to normal of supply chains and, more broadly, to the rebalancing of household consumption towards services. While the slight rebound recorded in December in the United States and the Eurozone was expected, core inflation, which excludes volatile components such as energy and unprocessed food, remains well above the 2% target **(Chart 4)**.

Chart 3
Annual inflation (%)



* median among the world's 40 largest economies
Sources: Refinitiv Datastream, Coface

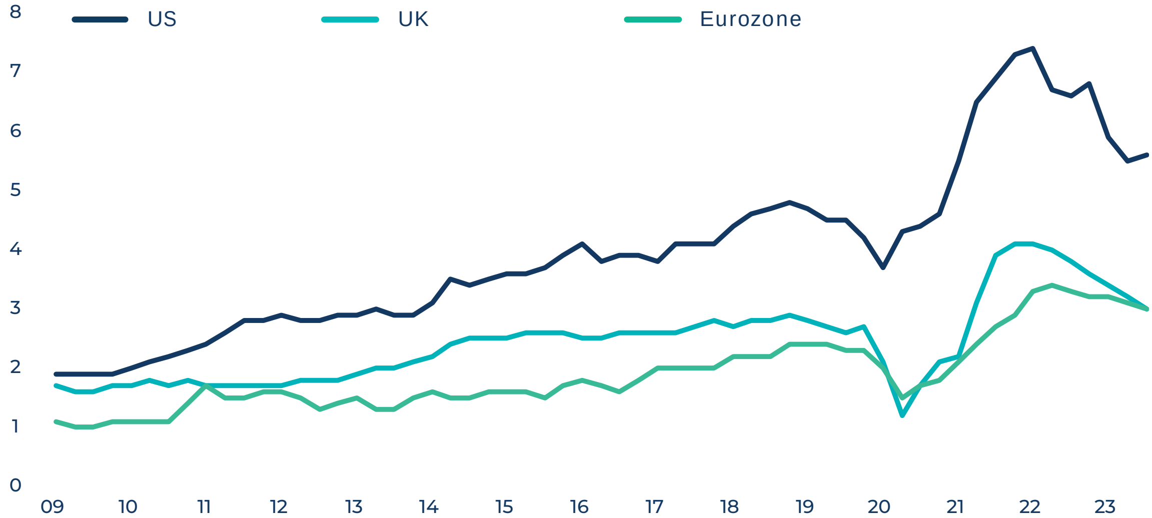
Chart 4
Annual core inflation (%)



* median among the world's 40 largest economies
Sources: Refinitiv Datastream, Coface

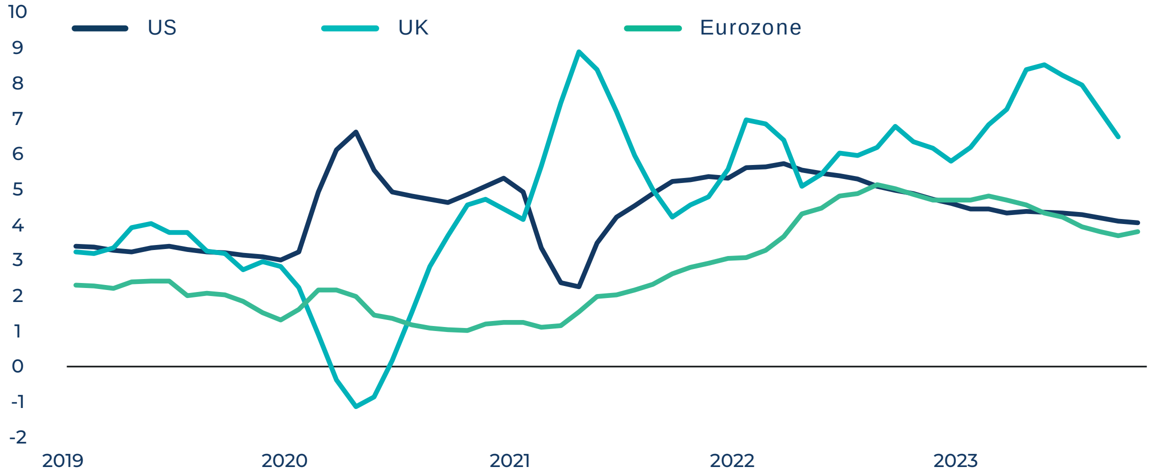
Thus, the last few miles to bring inflation back to target will probably be the hardest. This is all the more true given that, despite a very slight deterioration in 2023, labour markets remained tight at the end of the year, with job vacancy rates still historically high **(Chart 5).** While wages have slowed in recent months, they have continued to grow at an annual rate of around 4% in the US and the Eurozone, and even faster in the UK **(Chart 6)**, raising the prospect of inflation remaining above 2% over the medium-term. This is compounded by the risk, in the short-term, of a surge in sea freight costs in the event of a significant and sustained escalation of tensions in the Red Sea **(Box 2)**.

Chart 5
Annual change in the job vacancy rate (%)

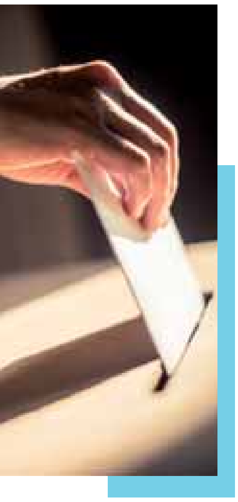


Sources: Refinitiv Datastream, Coface

Chart 6
Annual wage growth (three-month rolling average, %)



Sources: Refinitiv Datastream, Coface



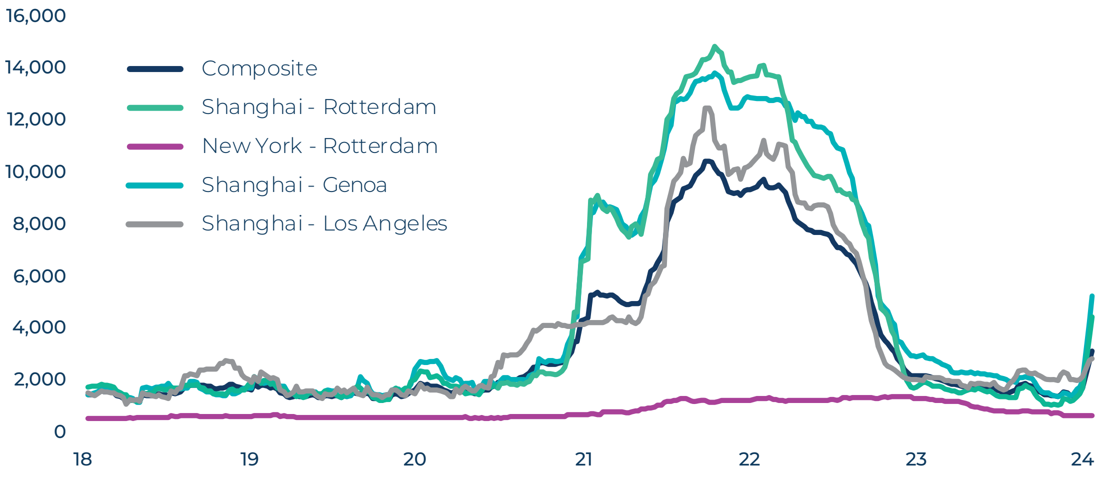
Box 2:

ESCALATING TENSIONS IN THE RED SEA, THE COST OF MARITIME TRANSPORT SOARS

Since the start of the war between Israel and Hamas on 7 October 2023, the Houthi rebels, an Iranian-backed Yemeni militia that controls part of the country, have launched several missile and drone attacks against ships in the Red Sea, threatening commercial traffic on this strategic route. The Houthis are among the members of the «Axis of Resistance», an informal grouping of politico-military groups coalescing around Iran and claim to be acting in retaliation for Israel's war against their Palestinian allies of Hamas. In response to the repeated attacks, on 19 December 2023 the United States announced the formation of an international coalition of more than 20 countries, Operation Prosperity Guardian. In a further escalation of tensions in the region, the US and UK bombed several Houthi targets in Yemen in January.

Instability in the Red Sea region is a major threat to maritime traffic. This trade route provides access to the Suez Canal, the fastest sea route linking Europe (notably Rotterdam or London) to Asia. Around 12% of world trade and 30% of world container traffic passes through it. Given the threat in the region, most shipping companies are already avoiding the Suez Canal and opting for the Cape of Good Hope, which takes them around the African continent and adds over ten days to the journey time. This entails additional costs, particularly for fuel. To offset these costs, carriers are redirecting their ships to European and Mediterranean trade routes, which reduces the space available for goods travelling on transpacific and North-South routes, also resulting in higher fares. Furthermore, Red Sea extras are applied by operators. Despite increases in freight rates which have more than doubled from Shanghai, and even tripled on some routes to Europe **(Chart 7)**, they are still, on average, below their record levels of early 2022.

Chart 7
Drewry world container index (in dollars per 40-foot container)



Sources: Macrobond, Coface

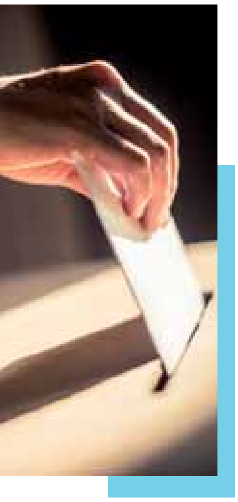
Box 2:

In addition to higher prices, the redirection of trade and longer journey times are threatening supply chains in new ways. Delays in delivery can disrupt production because of insufficient components imported from Asia. This is the case for Tesla and Volvo, which announced in January that they were temporarily halting vehicle production. Other companies have already reported delivery delays (Target, Tractor Supply). While most companies said in mid-January that they were not affected by the trade disruption or that it was having only a minor impact (Ikea, Volkswagen), they did say that they were prepared to use alternative means of transport if the situation persisted (Danone). The crisis in the Red Sea comes at a time when traffic in the Panama Canal has also been disrupted by drought for several months. These disruptions could benefit the air transport segment, with some companies announcing that they would use it as an alternative. However, this solution is more expensive.

Furthermore, the crisis in the Red Sea is threatening energy supply. Around 8% to 10% of global oil transport by sea passes through the Strait of Bab-el-Mandeb, near the southern tip of the Arabian Peninsula. While Brent crude, the international benchmark, briefly exceeded USD 80 per barrel on 12 January in the wake of the US and UK strikes, oil prices have, broadly speaking, fluctuated in a narrow band between USD 75 and 80 in recent weeks. For the time being, oil traders seem to have relegated tensions in the Middle East to second place, while the fundamentals suggest an oil market that is balanced, if not slightly in surplus. However, the risks to oil supply appear tangible. The International Association of Independent Tanker Owners (Intertanko) has advised its members to «stay away» from the Strait. A further rise in international oil prices could threaten the progress made in the fight against inflation and complicate the task of central banks. However, the risk of a surge in crude prices remains mitigated by the relatively sluggish outlook for global demand and OPEC+'s large overcapacity, estimated by the International Energy Agency at more than 5 million barrels per day (including more than 3 million b/d for Saudi Arabia alone).

However, in the case of the US, it is worth noting that the Fed's preferred measure of inflation, the PCE index[2], stood at 2.6% in December, significantly closer to the target. While annual core inflation measured by the PCE is slightly higher (2.9%), the moderate monthly figures over the past six months signal that a (sustainable) return to the 2% target could be within reach. While the soft landing appears to be on track in the US, economic activity is likely to continue to decelerate in the first half of the year in the wake of household spending, especially as support from the stockpile of excess savings accumulated during the pandemic, which is now largely depleted, will continue to dwindle. The progress towards the inflation target and the expected moderation in activity should nevertheless allow the Fed, as suggested at its last meeting in 2023, to begin a cycle of rate cuts. Although the markets are anticipating up to 6 rate cuts (of 25 basis points), with the first in March, this seems a little early for the Fed, which will not want to declare victory in its battle against inflation too quickly. Furthermore, if economic activity remains robust, the US central bank would have no reason to cut rates so quickly - especially as financial conditions have already eased significantly. We therefore expect the first rate cuts to take place in the middle of the year.

2 For the methodological differences between the CPI and the PCE, see: https://www.bls.gov/opub/btn/archive/differences-between-the-consumer-price-index-and-the-personal-consumption-expenditures-price-index.pdf or https://fredblog.stlouisfed.org/2023/12/watching-cpi-and-pce-inflation-in-fred/

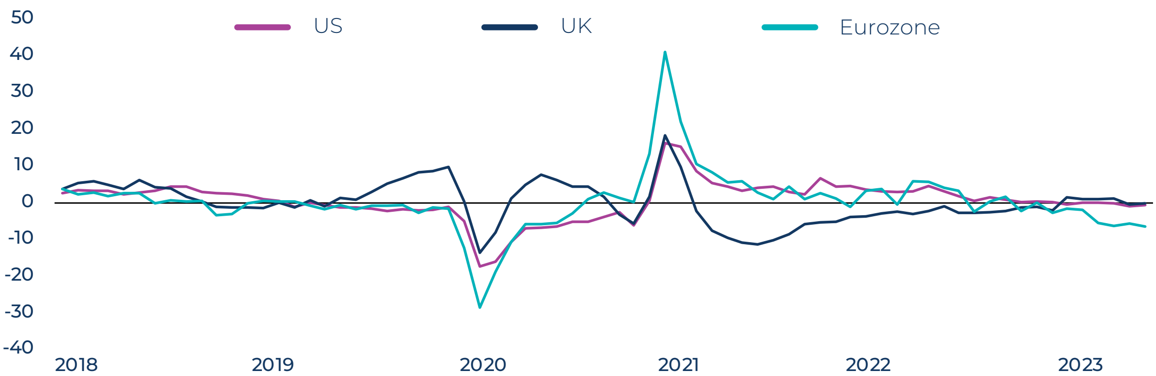


In Europe, manufacturing continues to be the main drag on activity. With costs still high and, above all, external demand still sluggish, industrial production was still falling sharply in the Eurozone in November **(Chart 8)**, particularly in Germany, Italy and the Netherlands. Furthermore, in the light of new orders and confidence indicators **(Chart 9)**, the prospects for recovery still seem remote. With the industrial sector having struggled for over a year, it comes as no surprise that services fell into the red in the second half of 2023, after buoying activity in the first half of the year **(Chart 10)**. Against this backdrop, (near) stagnation is expected in the Eurozone in H1 2024.

Despite the weak momentum in activity, core inflationary pressures still above 2% should not allow the ECB - and the Bank of England - to begin monetary easing before, at best, the summer of 2024 and, barring any accidents, very gradually. Consequently, in our central scenario, interest rates would remain at high levels throughout the year in all the advanced economies.

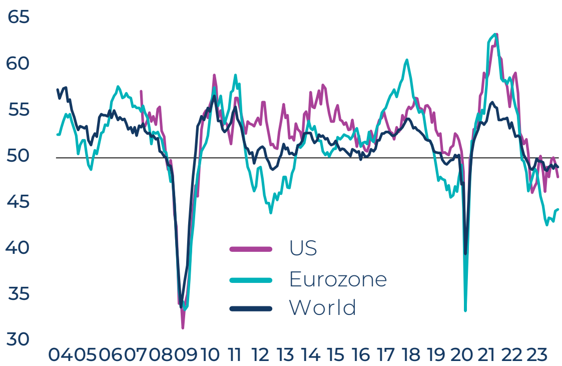
Japan will remain the exception in 2024, embarking on a phase of monetary policy tightening, albeit a very relative one. Core inflationary pressures are likely to pave the way for the Bank of Japan (BOJ) to begin normalising its monetary policy, ending

Chart 8
Industrial production (annual growth)



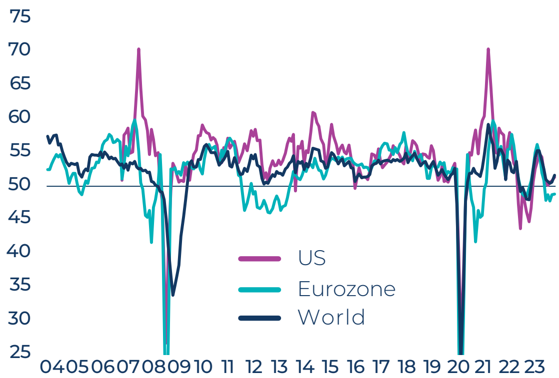
Sources: Macrobond, Coface

Chart 9
Purchasing Managers' Confidence Index (PMI)
in the manufacturing sector
(50 = expansion threshold/reduction in activity)



Sources: Refinitiv Datastream, Coface

Chart 10
Purchasing Managers' Confidence Index (PMI)
in services
(50 = expansion threshold/reduction in activity)



Sources : Refinitiv Datastream, Coface

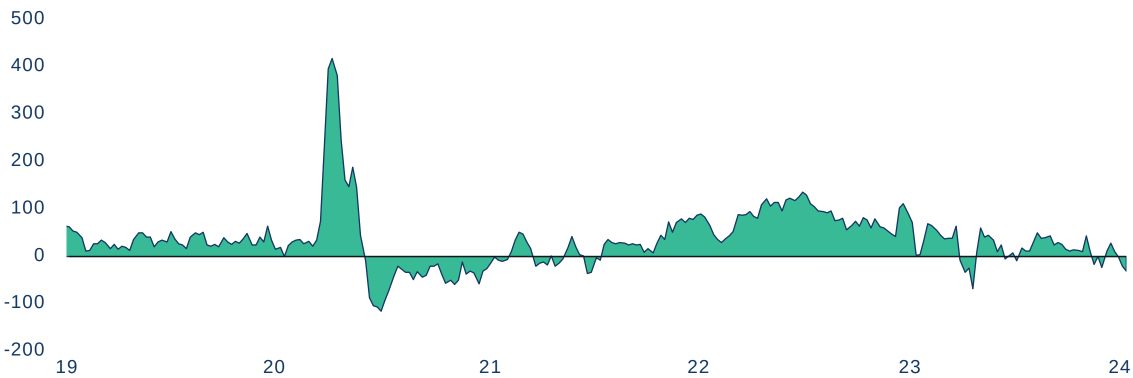
its negative interest rate policy, and abandoning its yield curve control (YCC) policy. Nevertheless, the BOJ will probably stick to a gradual approach to limit the negative impact on the Japanese and, potentially, global financial system.

More generally, the Japanese economy will remain solid thanks to buoyant consumption, driven by rising real wages, slowing inflation and improving consumer confidence. The continuing recovery in tourism will also be a growth factor. Borrowing costs will continue to be favourable, supporting Japanese companies' investment plans to meet structural challenges such as labour shortages and decarbonisation.

Companies still facing an adverse environment

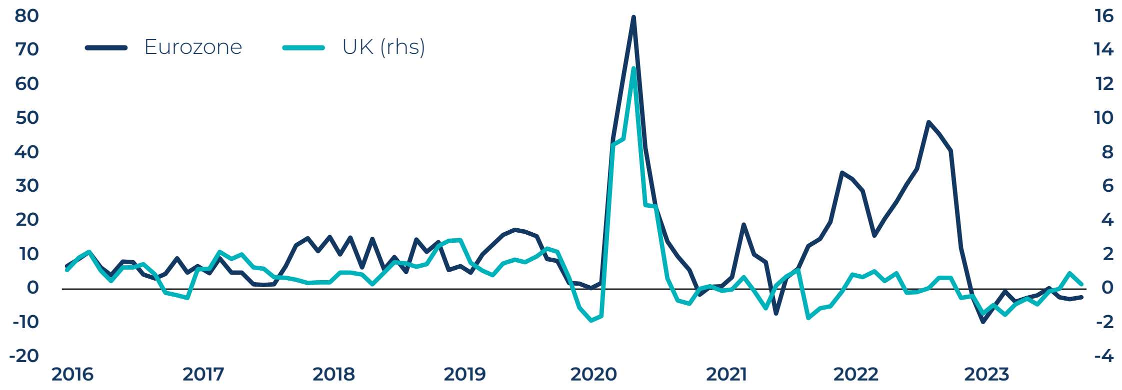
In line with the situation at the end of 2023, when new loans to businesses slowed sharply in the US **(Chart 11)** and even declined in Europe **(Chart 12)**, due to increasingly restrictive access conditions, the monetary and financial environment will therefore remain unfavourable for businesses in 2024. High financing costs will be compounded by buoyant wages and, in most European countries, the ongoing repayment of state-guaranteed loans granted during the pandemic - as in France, where over EUR 50 billion of SGLs (out of a total of EUR

Chart 11
United States: Weekly net lending flows (USD billion), 4-week moving average

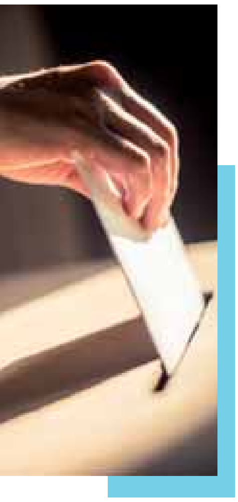


Sources: Federal Reserve, Refinitiv Datastream, Coface

Chart 12
Monthly net lending to businesses (EUR and GBP billion, 3-month rolling average)



Sources: Refinitiv Datastream, Coface



143 billion) have yet to be repaid, mainly by VSEs and SMEs. As a result, margins are expected to fall sharply in 2024, and corporate insolvencies will follow the upward trend observed in 2023 in virtually all economies **(Charts 13 and 14)**. With corporate insolvencies already (at least) back to pre-COVID levels by the end of 2023, they should be well above them in 2024. As we pointed out in our last Barometer, a sharp acceleration in insolvencies is one of the main endogenous downside risks to our central scenario.

China's recovery remains fragile

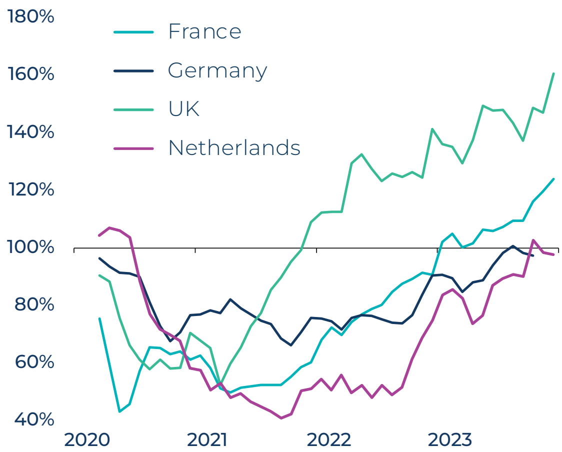
The Chinese economy appears to have regained its footing in the second half of 2023, ending the year with GDP growth of 5.2%, slightly above the official growth target. However, recent data point to a mixed and unbalanced outlook. We therefore expect growth to be significantly lower in 2024 (4.3%).

The rebound in consumption remains fragile, in the absence of any concrete support beyond official rhetoric. Although supported by tax breaks and subsidies for the purchase of electric vehicles, retail sales were disappointing. Restaurants were the main driver of Chinese household consumption, while retail sales of goods were modest, dragged down by housing-related sales (household appliances, furniture, decoration, and construction materials). Concerns about the property market correction, the resolution of local government debt and deflationary pressures continue to weigh on private investment and consumer sentiment.

The initial effects of the support measures for production and investment were reflected in industrial performance and growth in fixed capital investment. Industrial output grew by 5% in 2023, supported by an acceleration in manufacturing output towards the end of the year. Investment in manufacturing and infrastructure also accelerated in December, while investment in real estate continued to decline.

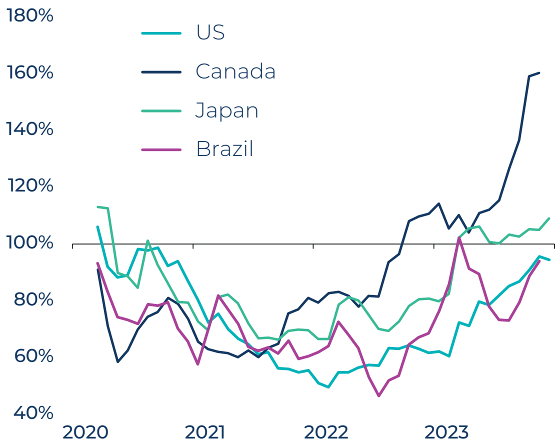
Faced with persistent headwinds, political action has intensified in a more coordinated fashion since last August, driven by fiscal measures, complemented by monetary support. For example, the national budget deficit for 2023 has been revised upwards with the issue of special Treasury bonds. In addition, the resumption of the Pledged Supplementary Lending (PSL) programme is likely to provide low-cost funding to facilitate «three major projects» (urban village renewal, affordable public housing, emergency public facilities) to partially offset the collapse in commercial property investment. A larger-than-usual 50bp cut

Chart 13
Europe: Corporate insolvencies
(as a % of the same period in 2019, rolling 3-month sum)



Sources: Refinitiv Datastream, Ellisphère, Coface

Chart 14
Rest of the world: Corporate insolvencies
(as a % of the same period in 2019, rolling 3-month sum)



Sources: Refinitiv Datastream, Coface

of reserve ratio requirements (RRR) for banks to inject CNY one trillion of long-term liquidity in early February would help to accommodate the rising fiscal or quasi-fiscal financing needs.

Emerging economies driving global growth, but still very heterogeneous

In 2024, the emerging countries will be the main drivers of the global economy, contributing 1.7 percentage points to the 2.2% growth in world GDP. Emerging economies will therefore account for three quarters of global growth, the highest since 2013.

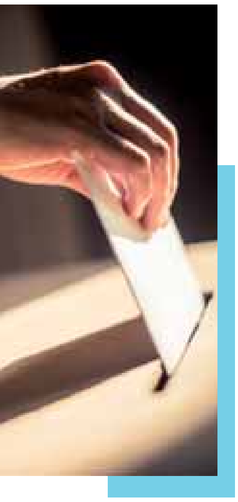
South-East Asia will once again be one of the most dynamic regions, with growth of 4.6%, after 4% last year. The recovery in the global electronics sector will benefit Singapore, Vietnam, and Malaysia, which are important links in the regional supply chain. The continuing recovery in tourism will also benefit most countries in the region, particularly Thailand and the Philippines because of the sector's preponderance in their GDP. In Indonesia, where economic activity is based mainly on domestic demand, household consumption will remain solid. However, the slowdown in global growth will limit the dynamism of exports from the region's economies.

The poorest and most indebted countries will face greater difficulties. While the launch of the Fed's monetary easing cycle during the year will be welcome, interest rates will remain high throughout the year. With the dollar set to remain strong, there is every reason to fear a resurgence in sovereign defaults. This will be all the more the case given that the volume of debt reaching maturity in 2024 and 2025 has risen sharply, due to the increase in public debt over the last fifteen years, but also, more recently, to the issue of bonds with shorter maturities. Some countries are already in default or near default, such as Sri Lanka, Ghana, Ethiopia, Malawi, Pakistan, and Laos. In parallel, many countries are currently experiencing major difficulties in refinancing their debt or accessing foreign currency. On the African continent[3] this is particularly true of Egypt and Tunisia, which are restricting imports to limit the use of foreign currency. For its part, in a U-turn interpreted by the markets as an ominous sign, Kenya, after announcing that it would bring forward the repayment of part of the USD 2 billion in bonds maturing in 2024, has finally backtracked.

In Latin America, despite the passing of a law authorising the sale of gold reserves to convert them into foreign currency in April, Bolivia's foreign currency reserves continued to plummet in 2023. While the country will face limited debt maturities in 2024, restrictions on imports are to be expected. Argentina, despite concluding an agreement with the IMF that will just about enable it to repay the latter in the coming months, is still facing one of the most precarious situations. Despite the recent 54% devaluation and drastic budget cuts, foreign exchange reserves, currently negative in net terms by USD 10 billion, should just about return to 0 by the end of the year, according to government forecasts. Thus, despite the abolition of import authorisation requirements, access to foreign currency remains staggered over time depending on the type of goods, effectively limiting imports. With inflation now over 200%, a deep recession is inevitable, for the second year running.

While the «Global South» will be the main driver of the world economy, it remains marked by profound heterogeneity.

3 Coface Focus, Debt sustainability in Africa under the spotlight again, 12 July 2023. URL: https://www.coface.com/news-economy-and-insights/debt-sustainability-in-africa-under-the-spotlight-again



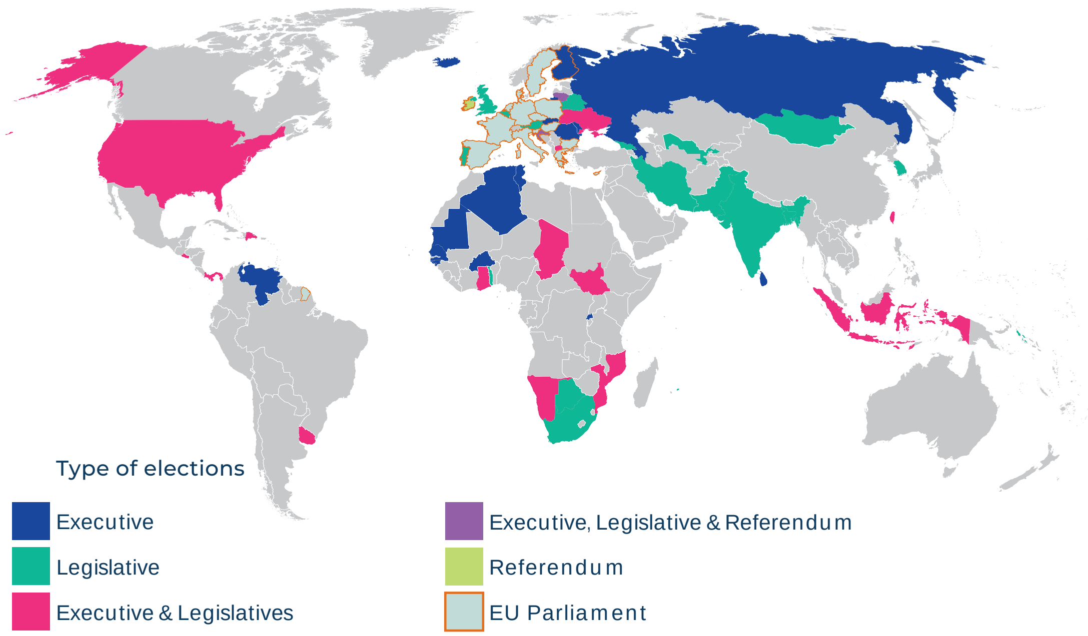
Box 3:

THE GLOBAL ECONOMY TESTED BY A CROWDED ELECTION CALENDAR

In our last Barometer, when our political risk indicator was updated and once again on the rise, we reiterated our warning that political and social risks had increased since the start of the decade. In 2024, this warning takes on added significance. In more than 70 countries (see **Chart 15**), home to half the world's population and representing around 55% of global GDP, voters will be going to the polls. In more ways than one, elections can act as a trigger for, or reveal, political and social tensions. The risks will be at least as numerous as the electoral dates, but there are some trends to watch out for in particular.

In an uncertain international environment, the 2024 elections will help to reshuffle the cards of the global order. This will obviously be the case for the US elections, which are often surrounded by geopolitical issues, but which are taking on a whole new dimension in the current context and in view of the divergent world views offered by Joe Biden and Donald Trump, the most likely candidates to date. Following the Taiwanese elections on 13 January, fears of an escalation of Cross Strait tensions will remain strong, particularly after the presidential victory of Lai Ching-te (or, under his English name, William Lai), who is often decried by mainland China for his stance on the island's status. For many countries in the «South», such as India and Mexico, the question of their place in the international community will not determine the outcome of the election but will be an inevitable corollary of a changing international environment.

Chart 15
2024 elections map

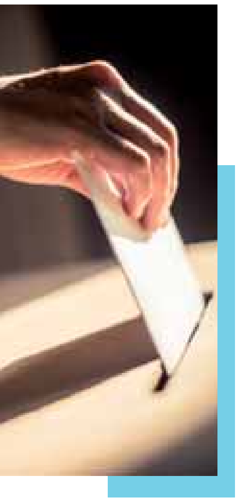


Source: IFES, The Economist, Coface

Box 3:

Furthermore, the elections open the prospect of numerous political shifts, which will be a factor of uncertainty for the different economic players. The feeling of dissatisfaction with the current leaders, largely fuelled by the rise in the general level of prices, and a growing distrust of traditional institutions and parties linked to the perception of an inability to respond to social demands, could lead to changes in government. This context is likely to polarise the political environment, slowing down policymaking. It also encourages the rise of populist movements, whose radical and/or imprecise positions can contribute to uncertainty about the course of public policy. The rise of Eurosceptics will be a central theme of the European Parliament elections.

Frustration with those in power and with the socio-economic situation are also likely to create the conditions for social unrest and political instability during election periods. Unrest of varying nature and scale could erupt, particularly in countries with a young democratic experience and a fragile institutional framework. In this regard, and given some examples of unrest during election periods, the focus will be on elections on the African continent. The risk of unrest will for example be monitored in Mozambique, where President Nyusi is still vague about a third term in office. Although Senegal and South Africa have a more solid record of stability, political tensions in the former and social tensions in the latter could lead to an increase in the frequency of demonstrations. On the Asian continent, we will be keeping a close eye on the elections in Pakistan, Bangladesh and Sri Lanka, where our political and social risk indicators have deteriorated significantly in recent years.



Country Risk Assessment Changes

AREA	Previous Assessment		Current Assessment
ALBANIA	D	↗	C
ARMENIA	C	↗	B
BARBADOS	D	↗	C
BELGIUM	A3	↗	A2
CROATIA	A4	↗	A3
DENMARK	A2	↗	A1
GEORGIA	C	↗	B
ISRAEL	A2	↘	A3
KYRGYZSTAN	D	↗	C
MAURITIUS	B	↗	A4
NAMIBIA	C	↗	B
ROMANIA	B	↗	A4
SWITZERLAND	A2	↗	A1

BUSINESS DEFAULT RISK

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

Armenia:

(Upgrade from C to B) ↗

- Despite a slowdown in 2023, growth has remained dynamic (estimated at 8% in 2023), inflation has fallen sharply (2.5% in 2023), and public debt as a % of GDP has been reduced. Furthermore, Armenia and Azerbaijan are negotiating over the Nagorno-Karabakh conflict, which should reduce Armenia's political risk.

Croatia:

(Upgrade from A4 to A3) ↗

- The economy is expected to grow at a sustained pace, supported by increasing private consumption amid rising real wages and investments enhanced by efficient use of allocated EU funds (only disbursements made under the Recovery and Resilience Facility to Croatia took a 4.3% share in country's GDP). Croatia's accession to the euro area and the EU's border-free Schengen zone boosted tourism, which accounts for 19% of GDP (about 80% of tourists come from the Schengen area and some 60% from the euro area), and supported trade dynamics and the inflow of investments.

Georgia:

(Upgrade from C to B) ↗

- Despite a slowdown in 2023, GDP growth has remained above its pre-pandemic level. Growth is forecast to remain solid in 2024 (5%). Macroeconomic indicators have improved and should continue to do so in 2024, with inflation remaining at around 3%.

Kyrgyzstan:

(Upgrade from D to C) ↗

- Growth has returned to its pre-pandemic level and should remain stable in 2024 (forecast at 4.3% in 2024). Macroeconomic indicators should improve in 2024: inflation will fall and the current account deficit will be much lower.

Romania:

(Upgrade from B to A4) ↗

- After being solid in 2023, GDP growth is expected to accelerate in 2024. Activity is driven by investments and household consumption. Positive annual dynamics of retail sales, decreasing unemployment and rising wages. Effective usage of allocated EU funds (disbursements made under the Recovery and Resilience Facility to Romania amounted to EUR 9.2 bn and took a 3.2% share in the country's GDP).

Albania:

(Upgrade from D to C) ↗

- The government adeptly addressed rising living costs, imposing a fuel price cap. Public sector wage reforms, approved in May 2023, anticipate an increase in the average gross monthly salary to €900 in 2024 - more than double from a decade ago in real terms. Proactive energy diversification initiatives, backed by the EU grants, bolster energy security, including the development of the country's first large-scale solar plant. EU accession process creates strong incentives for structural reform. The continued strength of the ruling Socialist Party of Albania (SPA) and the weakened position of the Democratic Party of Albania (DPA) due to internal strife contribute to political stability.

Mauritius:

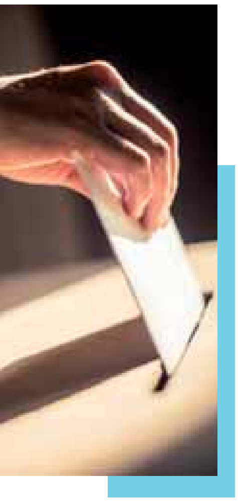
(Upgrade from B to A4) ↗

- The economic imbalances caused by the pandemic seem to be receding. GDP growth is returning to its pre-pandemic level. High inflation is now on a downward trajectory, tourism is approaching its 2019 level and the unemployment rate is falling. Furthermore, some policies to diversify the economy have been implemented, notably in the sugar sector, but also in textiles and financial services (removal from the FATF and EU lists of tax havens at the end of 2021).

Namibia:

(Upgrade from C to B) ↗

- Growth will remain stable and will be underpinned by diamond, gold and uranium mining and exports, driven by global demand and high prices, as well as robust tourism (10% of GDP). Inflationary pressures should ease as a result of monetary tightening. Despite increased social spending during the 2024 election year, the public deficit, albeit large,



should remain stable thanks to the government's fiscal consolidation efforts. Finally, in the longer term, substantial FDI is expected in oil and gas exploration, and in the development of green hydrogen production.

Barbados:
(Upgrade from D to C) ↗

- After several shocks in recent years, the economy is now experiencing a solid recovery, mainly driven by a rebound in tourism. Tourist arrivals are estimated at 90% of pre-pandemic levels. Fiscal consolidation is moving ahead effectively, exceeding the targets set under the IMF agreement. With a primary surplus of 2.5% of GDP in 2022/23, the public debt, which remains very high (115% of GDP in 2023), is on a downward trajectory. In addition, foreign exchange reserves have increased, reaching 8 months of imports in September 2023.

Denmark:
(Upgrade from A2 to A1) ↗

- After a fall in private consumption during 2022, it has slowly started to recover in 2023 and with inflation below 2 % at end-2023, and stable nominal wage growth in 2024, it is expected to continue to rebound. This will be supported by a stable labour market. While key export markets are weakening, Danish exports are still growing, and strong government finances will allow further spending. Lastly, insolvencies in active companies are decreasing – along with liabilities affected – after an uptick in 2021-22, supporting the gradual recovery we expect in 2024.

Belgium:
(Upgrade from A3 to A2) ↗

- Since Q1 2021, the GDP in Belgium has been constantly growing. Maybe not with the same push than before the pandemic, but constantly without any decrease. The main reason for that is the automatic indexation of wages to inflation, which kept the purchasing power in balance. In 2023, inflation development was milder than in the other Eurozone countries.

Switzerland:
(Upgrade from A2 to A1) ↗

- Inflation rate is since June 2023 below the 2-percent target of the SNB (Swiss National Bank). The SNB therefore only increased the interest rates (relatively) mildly to 1.75% and kept it unchanged it since June 2023. Luxury and pharma products that are the main exporting products are independent of the business cycle.

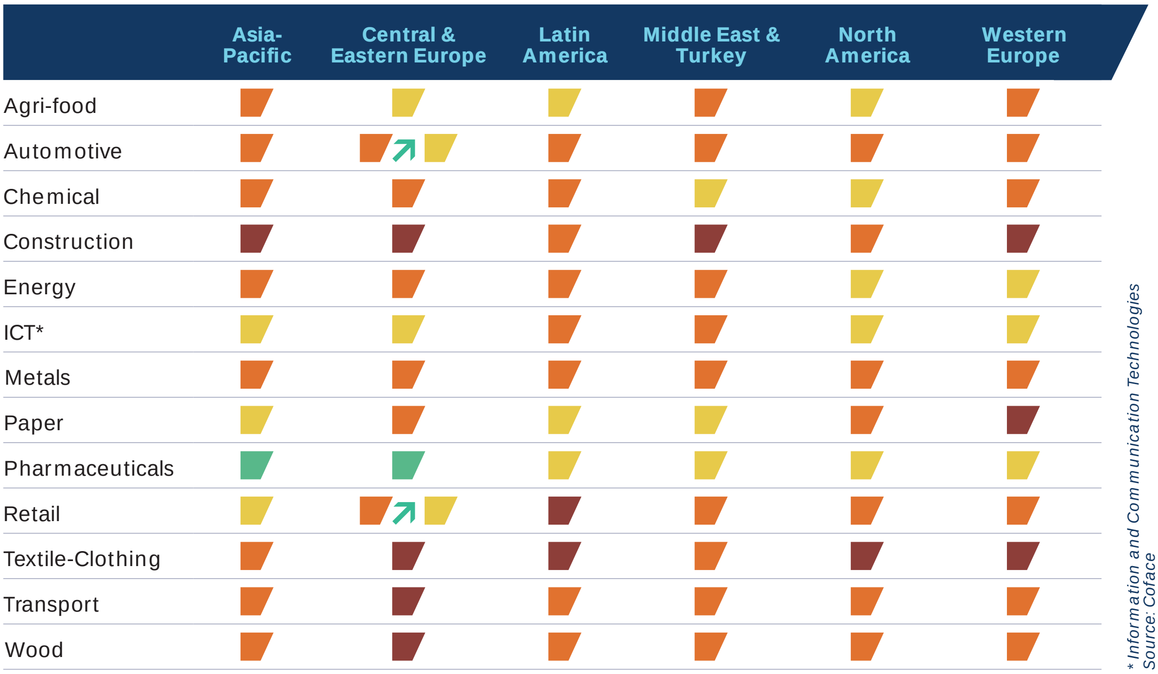
Israel:
(Downgrade from A2 to A3) ↘

- Before the war, there were already signs of weakening in the economy due to the high interest rates and elevated inflation, which have trimmed purchasing power of households and corporate profit margins. The government's efforts to pass a judicial reform without a broad consensus has created mass protests taking out a part of foreign investors and creating concerns for checks and balances' system. While the impact of the war was mostly felt in Q4 2023, supply chain disruptions and staff shortages will likely persist in some sectors.

Sector Risk Assessment Changes

(Q4 2023)

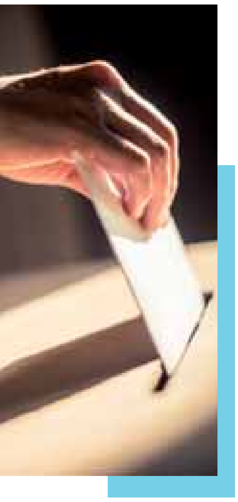
REGIONAL SECTOR RISK ASSESSMENTS



* Information and Communication Technologies
Source: Coface

ASIA-PACIFIC

* Information and Communication Technologies
Source: Coface



CENTRAL & EASTERN EUROPE

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

* Information and Communication Technologies
Source: Coface

LATIN AMERICA

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

MIDDLE EAST & TURKEY

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

** Information and Communication Technologies*
Source: Coface

NORTH AMERICA

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

WESTERN EUROPE

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

* Information and Communication Technologies
Source: Coface

OTHER COUNTRIES

	Russia	South Africa
Agroalimentaire	High Risk	High Risk
Automobile	Very High Risk	High Risk
Chimie	Very High Risk	High Risk
Construction	Very High Risk	Very High Risk
Énergie	High Risk	Very High Risk
TIC*	Very High Risk	Medium Risk
Métallurgie	Very High Risk	High Risk
Papier	Very High Risk	High Risk
Pharmaceutique	Medium Risk	Medium Risk
Distribution	Very High Risk	High Risk
Textile-Habillement	High Risk	Very High Risk
Transport	Very High Risk	High Risk ↘ Very High Risk
Bois	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

Decoding the WORLD ECONOMY
4e quarter 2023

coface FOR TRADE

COUNTRY RI

162 COUNTRIES UNDER THE MAGNIFYING GLASS

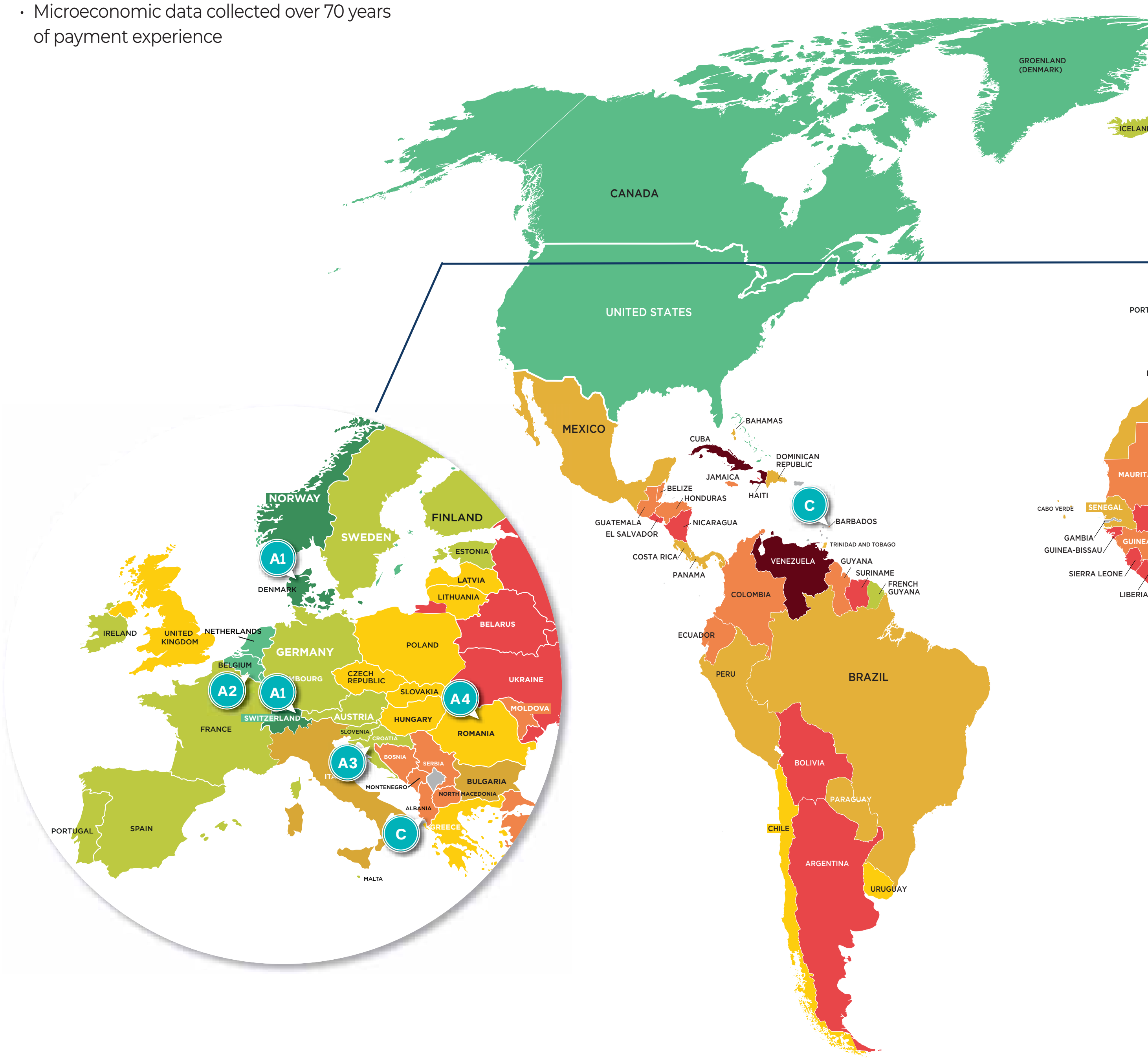
A UNIQUE METHODOLOGY

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

BUSINESS DEFAULTING RISK

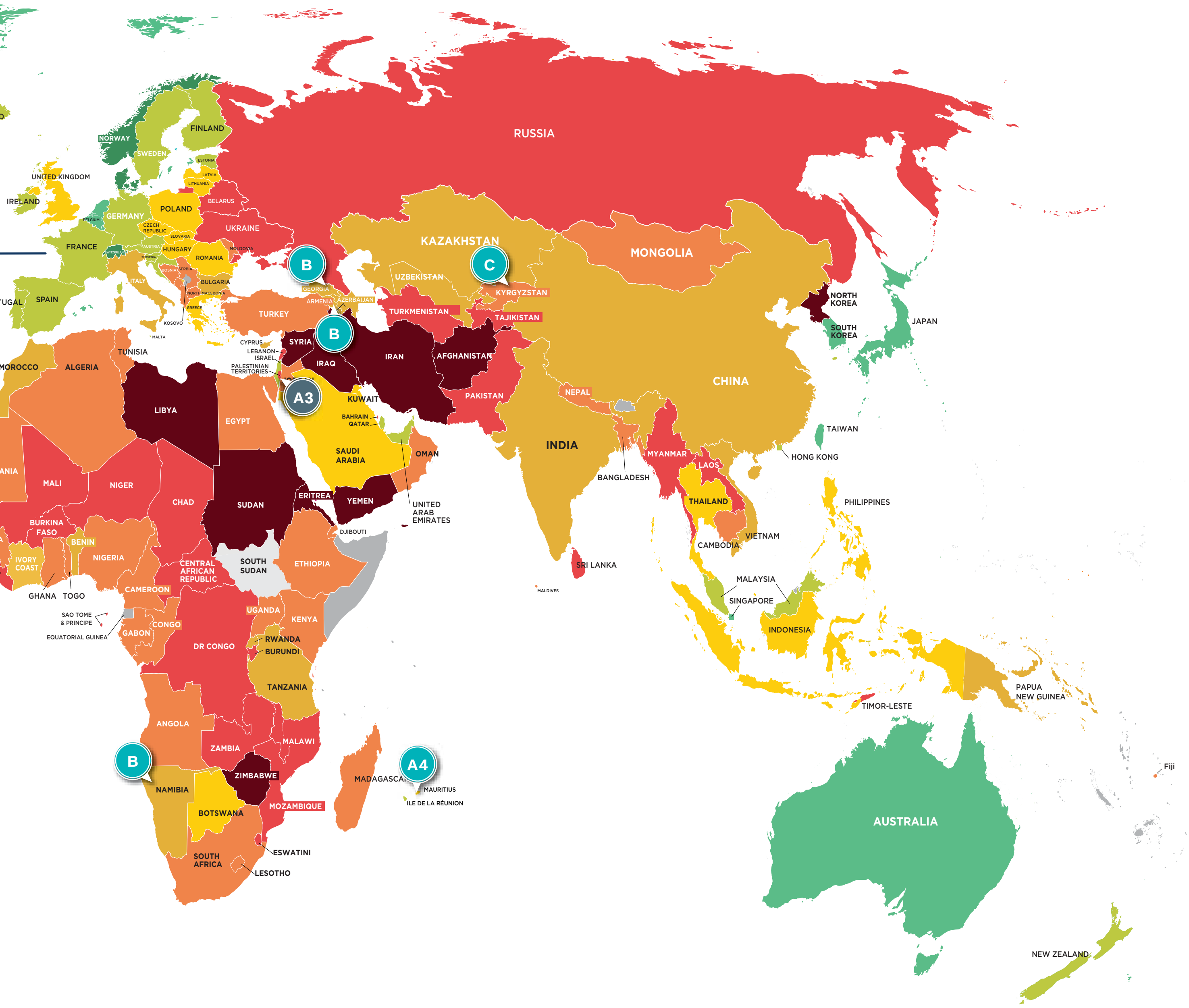
UPGRADES

DOWNGRADES



SK ASSESSMENT MAP

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



NORTH AMERICA

CENTRAL & EASTERN EUROPE

ASIA-PACIFIC

LATIN AMERICA

CTOR RISK ASSESSMENTS
4e quarter 2023

WESTERN EUROPE

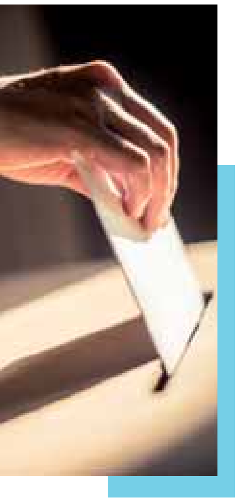
MIDDLE EAST & TURKEY

Low risk | Medium risk | High risk | Very high risk

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

* Information and Communication Technologies

Upgrade
Downgrade



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