COFACE ECONOMIC PUBLICATIONS

JULY 2019

BAROMETER
COUNTRY AND SECTOR RISKS BAROMETER
Q2 2019

By the Coface Economic Research team

Trade tensions return to the forefront of the global economy

The first part of 2019 was marked by the decline in world trade, which will decrease in volume over the year as a whole according to our forecasts (-0.7%), despite a slight recovery expected in the second half of 2019 (**Graph 2, p. 4**). At the same time, however, global economic growth is expected to slow by "only" half a percentage point this year (from 3.1% in 2018 to 2.7% in 2019) before remaining stable in 2020. And while corporate insolvencies will increase in two-thirds of countries this year (**Graph 1**), in most cases the starting point was low. How can this apparent dichotomy between growth and trade be explained? While the former is still supported by the resilience of service activities (less traded internationally), the latter continues to be driven down by the negative dynamics of the manufacturing sectors that we have already mentioned in recent quarters.

The automotive sector alone summarizes the current vulnerabilities of the global economy. Indeed, it is penalised by the negative effects of 1) the cyclical slowdown observed in many regions, 2) political risks (in this case trade protectionism) and 3) structural changes linked to innovations and/or changes in consumption behaviour (high level of equipment for Chinese households and the implementation of new, more stringent anti-pollution regulations accelerating the transformation of regional production chains in Europe). Coface is therefore downgrading its automotive sector risk assessment in 13 countries (for the second time in six months for many of them). This sector alone accounts for almost half of this quarter's sector assessment downgrades.

Other sectors affected by negative changes include distribution and textile-clothing in South Africa, which have been penalised by the sluggishness of household consumption. Risks are also on the rise for energy in the United States and Canada, in a context of high inventories combined with a reduction in the number of operating wells in recent months.

Regarding country assessments, given the rising risks in the automotive sector, Coface is downgrading the country assessments of Germany (from A1 to A2), which is vulnerable to the decline in world trade, as well as three economies that are dependent on it: Czechia and Slovakia (both from A2 to A3), as well as Austria (from A1 to A2). The business risk also increases in Iceland (downgraded to A3). On a more positive note, companies in Uzbekistan (from C to B) and Kyrgyzstan (from D to C) are benefiting from continued relative political and economic liberalisation. And on the sectoral side, four sectors have improved, including the Canadian metal sector, which is benefitting from the elimination of US tariffs on steel and aluminium imports.

The trade war between the United States and China is intensifying...

Trade tensions between China and the United States began in the first half of 2018[1], with a series of protectionist measures taken by the Trump administration, which then gave rise to reprisals by the Chinese authorities. For example, last May, the US authorities banned China's leading supplier of information and communication technology (ICT) solutions and equipment, Huawei, and its subsidiaries from purchasing parts and components from US companies without its prior approval. This is likely to cause significant disruptions in Huawei's supply chain, as approximately 16% of its components came from US companies in 2018[2]. In addition, following last year's measures on metal imports[3], the Trump administration set a 10% customs duty on imports of a list of Chinese products in the summer of 2018, representing a total amount of around 200 billion US dollars. In this particular case, the escalation took the form of the announcement of a 10% to 25% increase in customs duties on these Chinese products. The US President also threatened to impose tariffs of 25% on all remaining imports from China (about USD300 billion more). China has retaliated by applying tariffs on a USD60 billion list of US export products. Chinese reprisals target a very wide range of products, particularly in the agri-food and textile-clothing sectors.

...and continues to have a negative impact on the global economic outlook

In this context, Coface anticipates a slowdown in the US economy, with economic growth estimated at 2.5% for this year and only 1.3% in 2020, compared with 2.9% in 2018. The US economy is also expected to suffer from a slowdown in domestic demand. At this stage, Chinese companies have not yet offset the cost of the Trump administration's customs duties to US companies. As a result, both US companies and consumers will likely to bear most of the cost in the coming months (although some sectors, such as the agri-food sector, receive subsidies to offset the impact of Chinese retaliation measures). In China, the direct impact of the trade war remains manageable so far, although Chinese exports to the United States fell by 10% year-on-year in the first four months of the year[4]. These effects are particularly noticeable in the country's ICT sector, which Coface assesses to be Very High risk (see p. 9), and remains in difficulty. It is the main target of US customs duties: 51% of the 200 billion US dollars of Chinese imports subject to 25% customs duties are electronic products, of which about 23% are mobile phones.

More generally, uncertainties concerning the outcome of the ongoing negotiations between the Chinese and US governments and the climate of tension generated by this trade war continue to weigh on business confidence. Business confidence indicators in China, as in many countries around the world, have declined over the past year, particularly in the manufacturing sectors. In this context, Coface expects global economic growth to reach 2.7% in 2019 compared to 3.1% last year, as accompanied by an increase in corporate insolvencies in a majority of countries (**Graph 1, p. 4**).

In addition to ICT, the metals sector is also affected by American protectionism. The climate of uncertainty and rising protectionist risk feeds the volatility of prices of the main base metals. Copper prices are particularly sensitive to these development, as it is a raw material used in almost all manufacturing processes. An example of the volatility of world copper prices[5] is their 40% increase between January 2018 and May 2019, with various variations during this period.

The automotive sector and the German economy are facing several simultaneous shocks

The automotive sector alone summarizes the current vulnerabilities of the global economy, related to cyclical slowdown, political risks (in this case protectionism) and structural industrial changes, in a context of enhanced antipollution regulations regarding antipollution.

This increase in risks in the automotive sector has been particularly rapid in Europe, where the implementation of new and more stringent WLPT[6] emission regulations is accelerating the transformation of regional production chains. At the centre of these is, of course, Germany, where the first IG Metal union took place in June for the creation of a fund to help those suppliers of components to major car manufacturers who would be put in difficulty by these rapid changes. Automotive production went from an annual increase of 5% in February 2017 to a 12% decline year-on-year in April 2019. This weakness in the automotive sector has contributed to the economic slowdown. Although GDP growth was positive in the first quarter, it was mainly due to the resilience of the service and construction sectors, which

1 Coface Economic Research Department. (April 10, 2019). *Barometer Q1 2018: Beyond the peak of global growth*. Coface. Available at: http://coface.com/News-Publications/Publications/Country-and-sector-risks-barometers-Q1-2018-Beyond-the-peak-of-global-growth

2 Weil, P. & Casanova, C. (May 21, 2019). *From copycat to early bird: taking stock of China's 5G ambitions.* Coface. Available at: https://www.coface.com/News-Publications/News/From-copycat-to-early-bird-Taking-stock-of-China-s-5G-ambitions

3 Coface Economic Research Department. (October 9, 2018). *Barometer Q3 2018: A new deal of cards for emerging markets*. Coface. Available at: https://www.coface.com/News-Publications/Publications/A-new-deal-of-cards-for-emerging-markets

4 This decline is particularly beneficial to other Asian economies, such as Vietnam.

5 The Coface Economic Research team's calculated the return on monthly averaged London Metal Exchange copper spot prices before computing the 12-month rolling standard deviation

6 Worldwide harmonized Light vehicles Test Procedures

continue to benefit from favourable household consumption dynamics, still supported by a low unemployment rate and low inflation. On the other hand, companies in the manufacturing sectors remain concerned about future prospects, as evidenced by the various benchmark confidence indicators (ifo at its lowest level for five years in June, same downward trend for ZEW[7] and PMI[8]). The annual growth of industrial production has remained negative for months, going (on yearly average) from 6% in November 2017 to -2% in April 2019. Growth in Germany is not expected to exceed 0.8% this year, down from 1.5% in 2018. New orders are also down. In this second quarter of the year, Coface is therefore downgrading its country risk assessment for Germany from A1 to A2 as well as its sectoral assessments for four sectors in the country: automotive, ICT, metals, and pharmaceuticals (see p. 14).

In addition, the highly international production chains of automotive companies accelerate the spread of shocks at its various links. Just this once, corporate credit risks are therefore expected to increase in the economies most dependent on the German economy **(Graph 3**). These include Czechia and Slovakia (whose country risk assessments have increased from A2 to A3, see p. 6), which export many automotive components to their neighbours. Austria (A1 to A2) is also exposed to the slowdown in Germany, although the products sent there concern more sectors (chemicals and pharmaceuticals in addition to the automotive sector). This downward trend in the automotive sector is not specific to Europe: Coface is downgrading its assessments for the automotive sectors in Japan and India from Medium to High Risk (see p. 9), with the latter experiencing very strong growth until recently. The automotive sector in India is now experiencing a 17% drop in demand for new vehicles year-on-year in April (the largest monthly decline in eight years).

Emerging economies are not spared

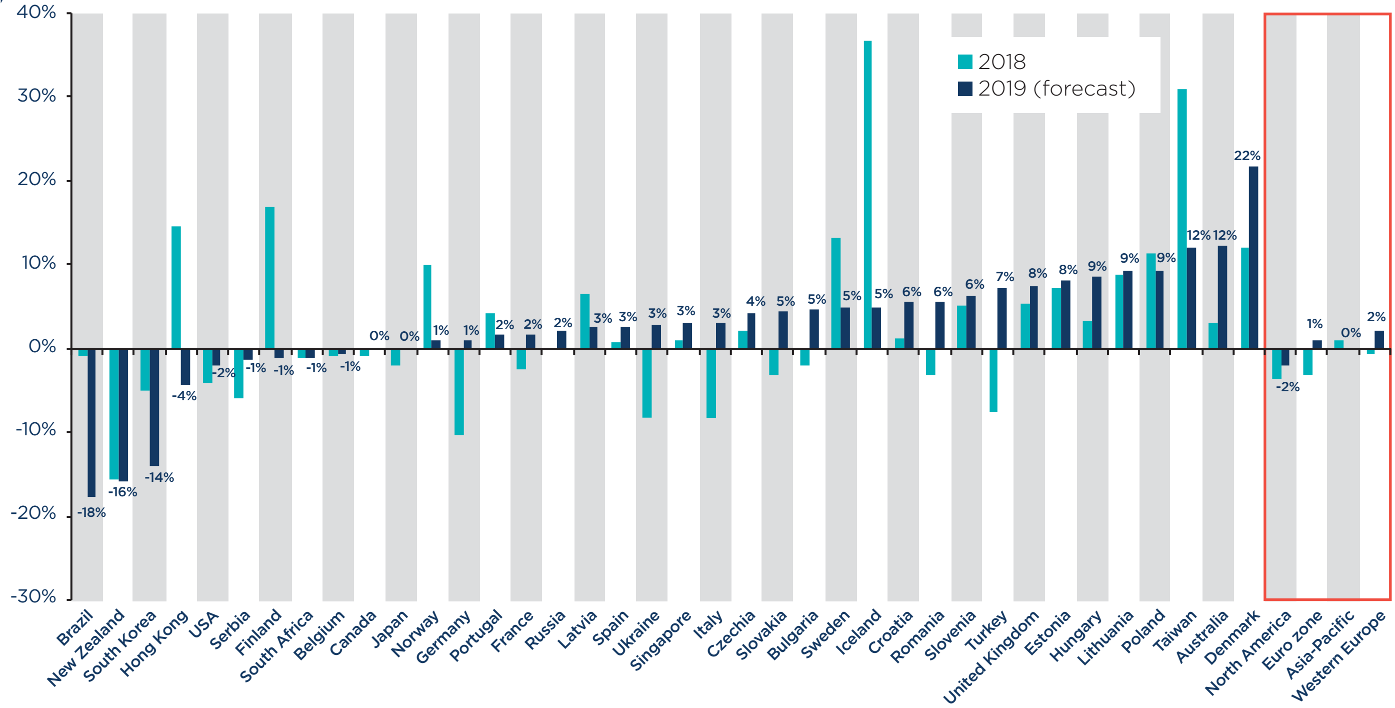
The trade war between the United States and China is also having an impact on the emerging world. In the first five months of 2019, growth was at its highest since 2015, according to estimates by the International Finance Institute (3.3% at an annual rate, almost three points less than a year earlier). In addition to the Central and Eastern European economies affected by the slowdowns of the German economy and its automotive sector (**Graph 5**), the upsurge in concerns about the Sino-American trade dispute coincided with a decline in business confidence and capital outflows from emerging markets in May. The external environment of emerging economies therefore seems less favourable today, especially since the main export opportunities for emerging countries' companies will grow less rapidly this year (slower growth in the United States, the eurozone and China).

In this context, where their growth is no longer benefiting from a favourable external environment, the structural weaknesses holding them back are more visible. This includes excessive corporate debt, and in particular the vulnerability of large public companies that can have a significant impact on growth and public finances (such as Eskom in South Africa or Pemex in Mexico). The risk of social dissatisfaction remains high, as evidenced by the recent threats of new strikes in the road transport sector in Brazil and Mexico, and especially the Coface political risk index updated annually (**Graph 4**), which remains at a historically high level. On the positive side, however, it should be noted that several major electoral events did not give rise to significant uncertainties that could have further hampered growth in India or South Africa.

7 The Zentrum für Europäische Wirtschaftsforschung (ZEW) indice is an indicator of economic sentiment in Germany. It is published by the ZEW- Leibniz economic research institute.

8 The Purchasing Manufacturer Index (PMI) is an indicator of the economic health and performance of the manufacturing sector, which covers several sectors mainly linked to industrial production. The PMI is based on fi ve major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The purpose of the PMI is to provide information on current business conditions within several industrial sectors, based on purchasing managers' confidence and plans.

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



Source: Coface, domestic sources

Chart 2:
World trade
(quarter-on-quarter % change, Coface forecast)

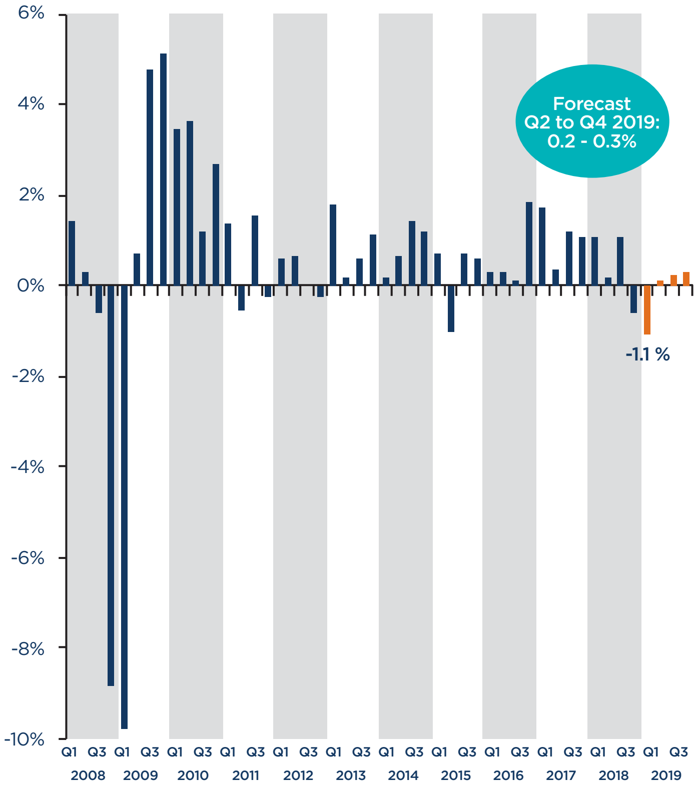
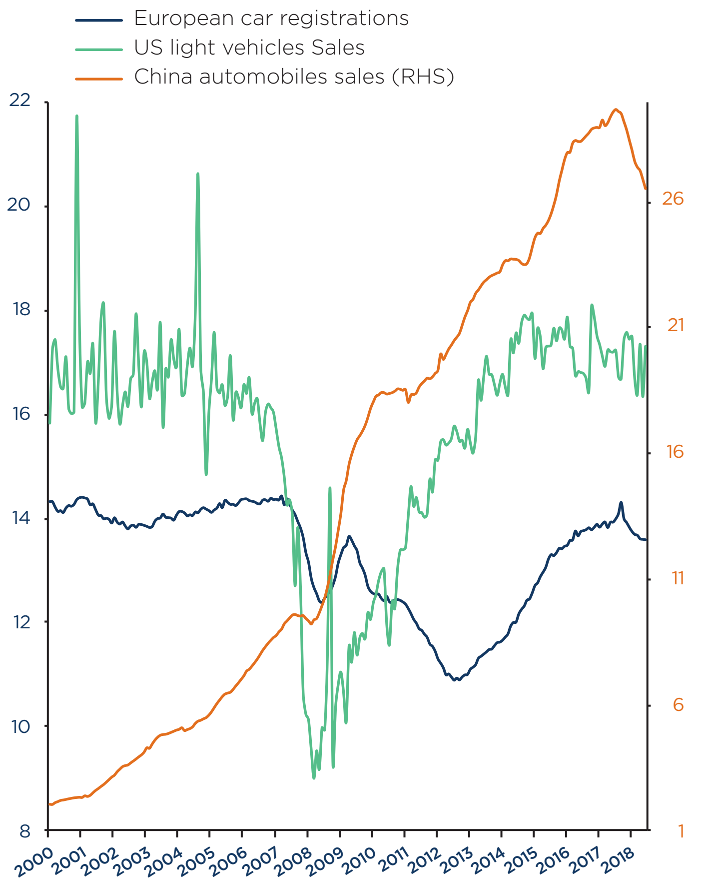
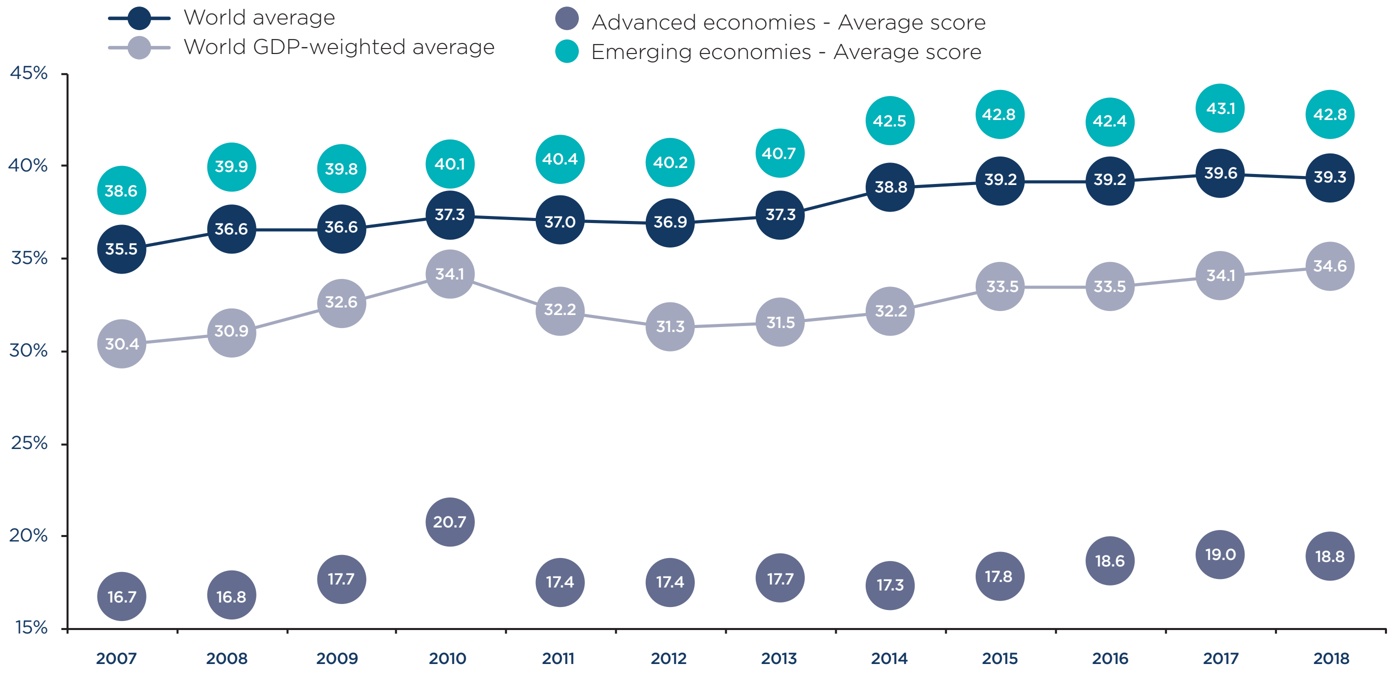


Chart 3:
Evolution of vehicle sales and registrations in China, Europe and the US, in millions of units



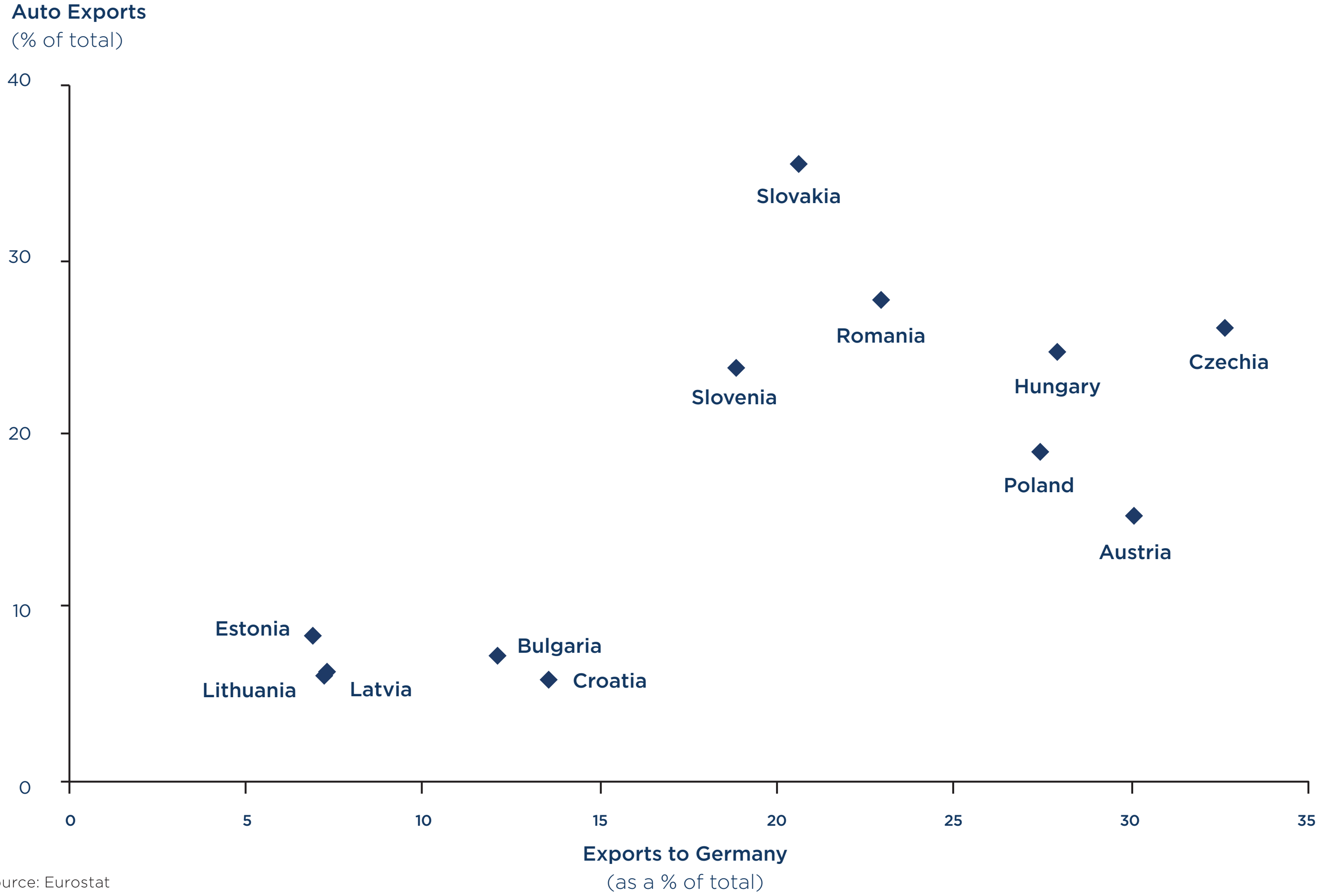
Sources: ACEA, BEA, CAAM

Chart 4:
The new normal of higher political risk since 2014 remains, despite a slight decline in 2018 (in %)



Source: Coface Political Risk Model 2019

Chart 5:
Central and Eastern Europe: Exports
(as a % of total exports, 2018)



Source: Eurostat

Country Risk Assessment Changes

COUNTRY	Previous Assessment		Current Assessment
KYRGYZSTAN	D	↗	C
UZBEKISTAN	C	↗	B

COUNTRY	Previous Assessment		Current Assessment
AUSTRIA	A1	↘	A2
CZECHIA	A2	↘	A3
GERMANY	A1	↘	A2
ICELAND	A2	↘	A3
SLOVAKIA	A2	↘	A3

BUSINESS DEFAULT RISK

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

Kyrgyzstan ↗

(Upgrade from D to C)

- Recent exchange rate flexibility is enabling inflation-targeted monetary policy.
- The economy is benefitting from remittances and transfers from expatriates (37% of GDP).
- Launch of structural reforms to fight poverty (USD 3,726 per capita, PPP), corruption, and underground economy (31% of GDP).

Uzbekistan ↗

(Upgrade from C to B)

- Economic opening up since 2017: foreign exchange liberalization, average customs duties halved, increased relations with neighbouring countries.
- Progress towards greater sophistication of the economic structure: inflation-targeted monetary policy, increased tax base (despite prevalent underground economy) matched by lower rates, VAT introduction, progressive alignment of utilities tariffs on market prices, and less policy-guided lending from a credit system dominated by state-owned banks.
- Continued reforms of agriculture modernisation (27% of jobs and 30% of GDP) and agro-processing: structural reforms for cotton and wheat, liberalization of prices, irrigation modernization aimed at reducing the impact of regular draught and salinization.
- Continued development of gold production and export (number one export).
- Increased spending on social programs (education, health), is expected to have a positive knock-on effect, as the GDP per capita is low. Moreover, the governments invests to modernize transportation, housing, power generation, mining and manufacturing.

Austria ↘

(Downgrade from A1 to A2)

- As the Austrian economy is strongly linked to that of Germany (more than 30% of exports), it is vulnerable to the latter's current weaker economic activity .
- Although industrial production dynamics are currently positive, they have been weakening. The PMI indicator for Czechia fell to its lowest level in almost a decade, with a sharp contraction in new export orders, according to a report from July 1, 2018. According to the latest (26th June 2019) PMI report, both domestic and external demand weakened, especially related to the automotive sector. Export orders fell at accelerated pace that was the sharpest since October 2012.
- On the political front, Austria is in a period of uncertainty. The scandal caused by a video of the Vice Chancellor offering state contracts in return for campaign funds led to a no-confidence vote for Chancellor Sebastian Kurz's government and acting new provisional government. Elections are expected in September.

Czechia ↘

(Downgrade from A2 to A3)

- The economy is very open (exports of goods and services to GDP ratio reached 79% in 2018), with a strong dependence on the German market (one-third of Czechia's exports). Slower global trade dynamics and weaker economic activity in Germany will limit the growth of the Czech economy.
- The deterioration of the automotive sector is a concern for the whole economy. Automotive production accounts for 6% of gross value added and nearly 12% of the country's industrial output.
- Growth of industrial production in 2019 has so far been weak, with a strong deterioration of manufacturing PMI indicators. The latter reached 46.6 in April with a strongest decline since 2012. According to the 3rd June 2019 PMI report, new export orders fell strongly.

Germany ↘

(Downgrade from A1 to A2)

- The German economy, while still benefiting from some positive macroeconomic fundaments such as good household consumption and a dynamic labour market overall, has been facing headwinds since the beginning of the year. Coface's current estimate for German GDP growth for this year is 0.8% down from 1.5% last year.
- German industry is indeed on a steep downward trend. Sentiment indicators, including ifo business climate and Markit PMI, show clear signs of increasingly pessimistic business expectations. Coface does not expect the industry economic activity to improve in the short to medium term. The yearly rate of industrial production has been negative for months, falling from around +6% in November 2017 to -2% last April. New orders, are negative too.
- The German automotive industry is the main driver behind this slowdown. Car production has fallen from a yearly rate of 5% in February 2017 to around -12% in the spring of 2019. From August 2018 onwards, production, new orders and exports figures (on yearly basis) are negative.
- Politically, the big people's parties are in turmoil, especially the Social Democratic Party (SPD). The SPD had very low results in both the European and regional (Bundesländer) elections. Therefore, SPD leader Andrea Nahles stepped down from office, which brings the Grand Coalition into risk, as the SPD is the main partner of Angela Merkel's CDU. With low poll results for both big people's parties and higher results for opposition parties; the party system is changing significantly, leading leading to an increase in political uncertainty.

Iceland ↘

(Downgrade from A2 to A3)

- The MFRI (Marine & Freshwater Research Institute of Iceland) has implemented a fishing quota of 0% for capelin - with capelin being a key export product for Iceland, this quota will reduce their overall marine product exports.
- Coface expects the global economic downturn to impact tourism in Iceland in 2019.
- Business confidence has decreased: in March 2019, two of Iceland's largest airlines went bankrupt. In this context, many companies who were remaining afloat thanks to the very good growth dynamic will now face serious solvency problems.
- The outlook for Iceland's economic activity has deteriorated significantly in recent months. After years of GDP growth rates around 4% YOY, the most recent data available indicates that the Icelandic economy could grow only slightly, or even deteriorate in 2019.

Slovakia ↘

(Downgrade from A2 to A3)

- With the exports of goods and services to GDP ratio reaching 97% in 2018, the economy is highly open. However, given its high dependence on the German market, the slower global trade dynamics and weaker economic activity in Germany will limit the growth of the Slovakian economy.
- As with Czechia, the struggles of the automotive sector are worrying for Slovakia's economy: automotive production accounts for nearly 5% of gross value added and 13% of the country's output.

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

** Information and Communication Technologies*
Source: Coface

BUSINESS DEFAULT RISK

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

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	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	High Risk
Chemical	Medium Risk	Low Risk	Medium Risk	Medium 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	Medium 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	Low Risk	Low Risk	Low Risk	Medium Risk ↗ Low Risk
Retail	Medium Risk	High Risk	Medium Risk	High Risk	Medium 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

INDIA
Automotive ↘
(Medium Risk to High Risk)

- Domestic passenger vehicle sales rose by only 2.7% YOY in the 2019 financial year, according to data released by the Society of Indian Automobile Manufacturers (SIAM). This is a sign of cooling demand in one of the world's fastest growing car markets. The decline reached 17% YOY in April, the sharpest monthly decline in eight years, as dealers did not take more stock owing to poor demand and higher inventory pile-up from the previous months. The last time passenger vehicle sales dipped significantly was in October 2011-12 (20% YOY).
- The sector is dominated by large players, with manufacturers such as Tata Motors and Mahindra & Mahindra controlling more than 50% of the market. These companies have faced pressures on the earnings front in Q1 2019. This is worrisome in the context of higher levels of stress in debt service for firms such as Tata, which could have repercussions on payment behaviors along the supply chain.
- Products in the sector are facing the risk of potential US tariffs: US President Donald Trump threatened to impose 25% tariffs on all imports of foreign automotive components.

JAPAN
Automotive ↘
(Medium Risk to High Risk)

- While the domestic market remains stable, Japanese auto makers are exposed to risks from international economic environment. Passenger vehicle sales are set to slow in North America, following the trend observed in China and Europe. This will drag on the profitability of the two large automakers, Toyota and Honda. Weaker sales have already led to a contraction in earnings for Toyota in Q1. Honda has more exposure to the US market, but it seems probable that sales will slow following regional activity contraction.
- Moreover, an impending sales tax hike in October will certainly drag on the domestic demand for auto sales in Q4 and 2020.
- The sector remains subject to protectionist risks, as President Trump has threatened to impose 25% tariffs on all imported vehicles and auto components.

SOUTH KOREA
Pharmaceutical ↗
(Medium Risk to Low Risk)

- Pharmaceuticals remains a promising and upcoming sector in South Korea. This is due to an increase in demand for pharmaceutical products and services, owing to demographic factors.
- The pharmaceutical sector also enjoys good profit margins relative to other sectors, and benefits from sound intellectual protection rights, which are needed to promote expensive R&D efforts by private firms[1]. A total of eight new drugs have indeed been approved by the US' FDA, and nine new drugs have also been approved by EMA as of March 2018. Notably, Korea's Hearticellgram-AMI (Pharmicell) is the world's first stem-cell therapy product to gain approval for marketing.
- South Korea is also one of the ten biggest beauty markets around the world (representing 3% of the global market with a turnover of USD 12 billion in 2017). The market is expected to continue expanding at a compounded annual growth rate of 3.5% between 2019 and 2023, with local products accounting for approximately 85% of the total market.

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

1 New drugs have been authorized by the American Food & Drug Administration (FDA) and the European Medicines Agency (EMA): public agencies that are responsible, among other things, for authorizing the marketing of new drugs.

CENTRAL & EASTERN EUROPE

	Central & Eastern Europe	Czechia	Poland	Romania
Agri-food	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Automotive	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Low 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	Medium 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

CZECHIA
Automotive ↘
(Medium Risk to High Risk)

- The Czech automotive sector is closely linked to that of Germany. It is also highly dependent on demand for vehicles in Western Europe.
- On the domestic market, vehicle sales have recorded decreased sales. New passenger car registrations dropped by 10.4% YOY in the first four months of 2019.

POLAND
Automotive ↘
(Medium Risk to High Risk)

- The Polish automotive sector is both strongly dependent on demand for vehicles in Western Europe, and closely linked to its German counterpart.
- Domestic vehicle sales have been weaker compared to previous years. New passenger car registrations increased by only 0.9% YOY in the first four months of this year (compared to 16.9% in 2017 and 9.4% in 2018).

ROMANIA
Automotive ↘
(Low Risk to Medium Risk)

- Despite fair sales dynamics of new cars domestically, as well as demand for Dacia cars abroad, eurozone slowdown and weaker automotive demand will gradually begin to affect local companies of the sector.

BUSINESS DEFAULT RISK

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

Decoding the WORLD ECONOMY

2nd quarter 2019

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COUNTRY RI

161 COUNTRIES UNDER THE MAGNIFYING GLASS

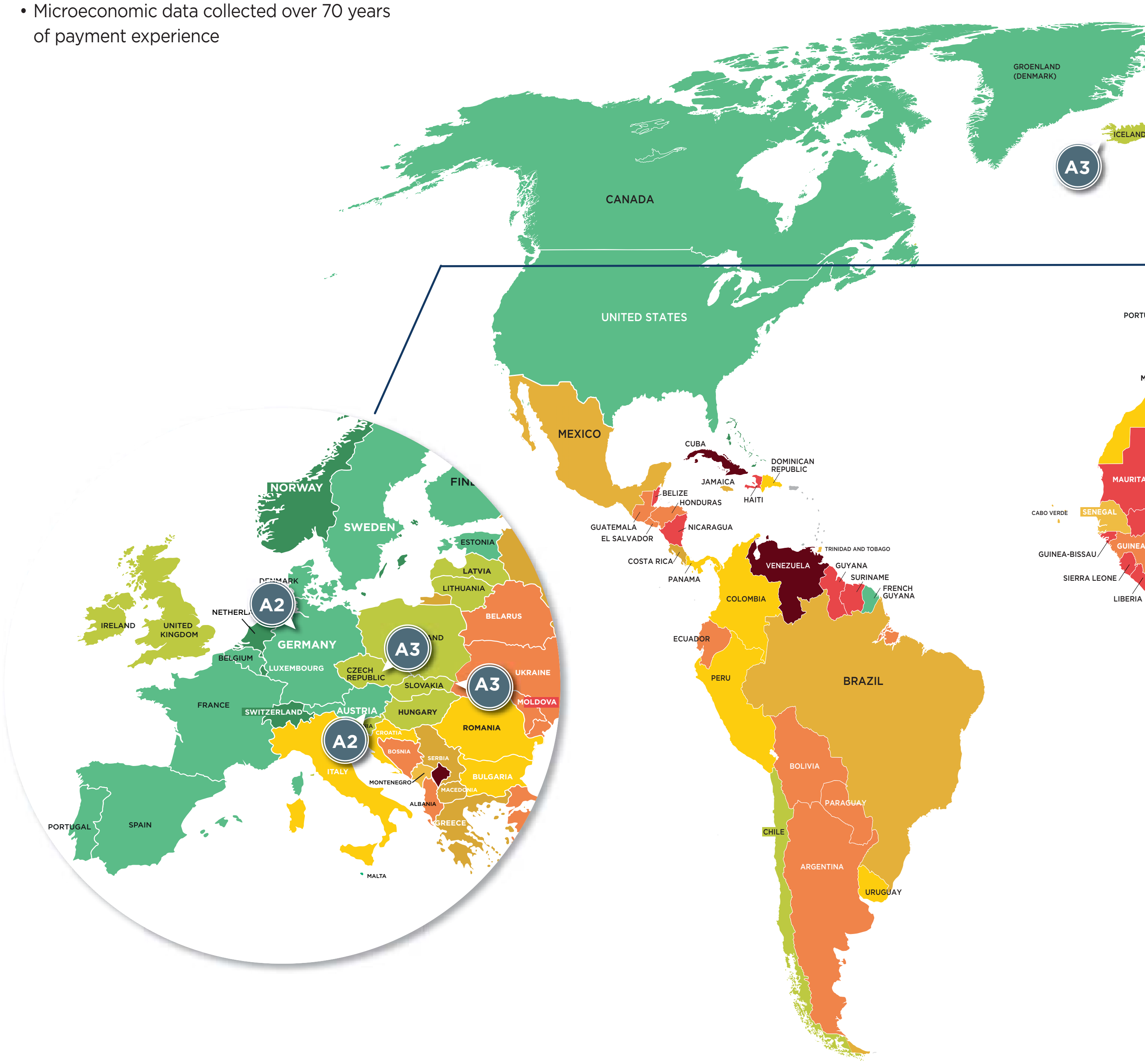
BUSINESS DEFAULTING RISK

UPGRADES

DOWNGRADES

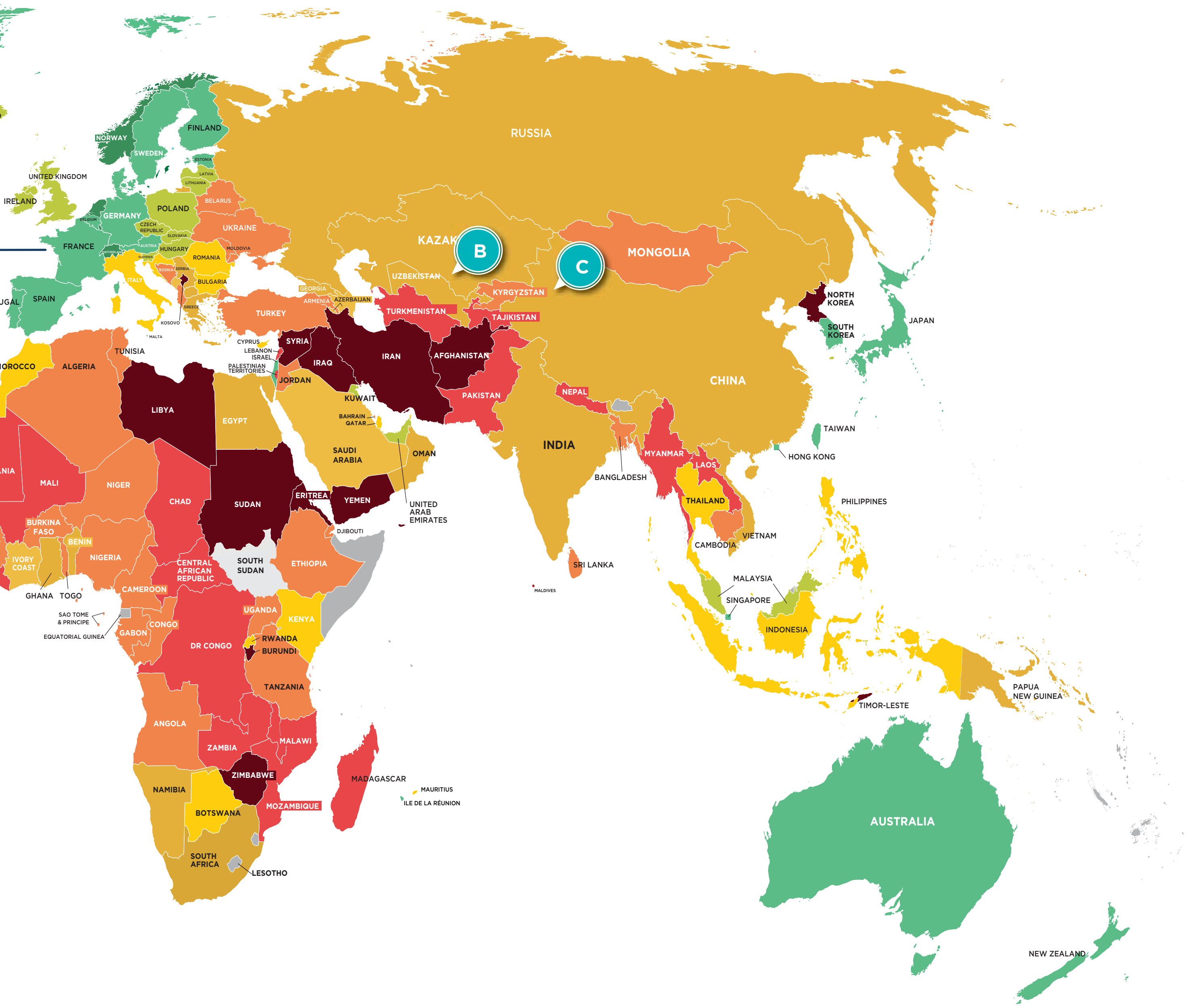
A UNIQUE METHODOLOGY

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



SK ASSESSMENT MAP

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



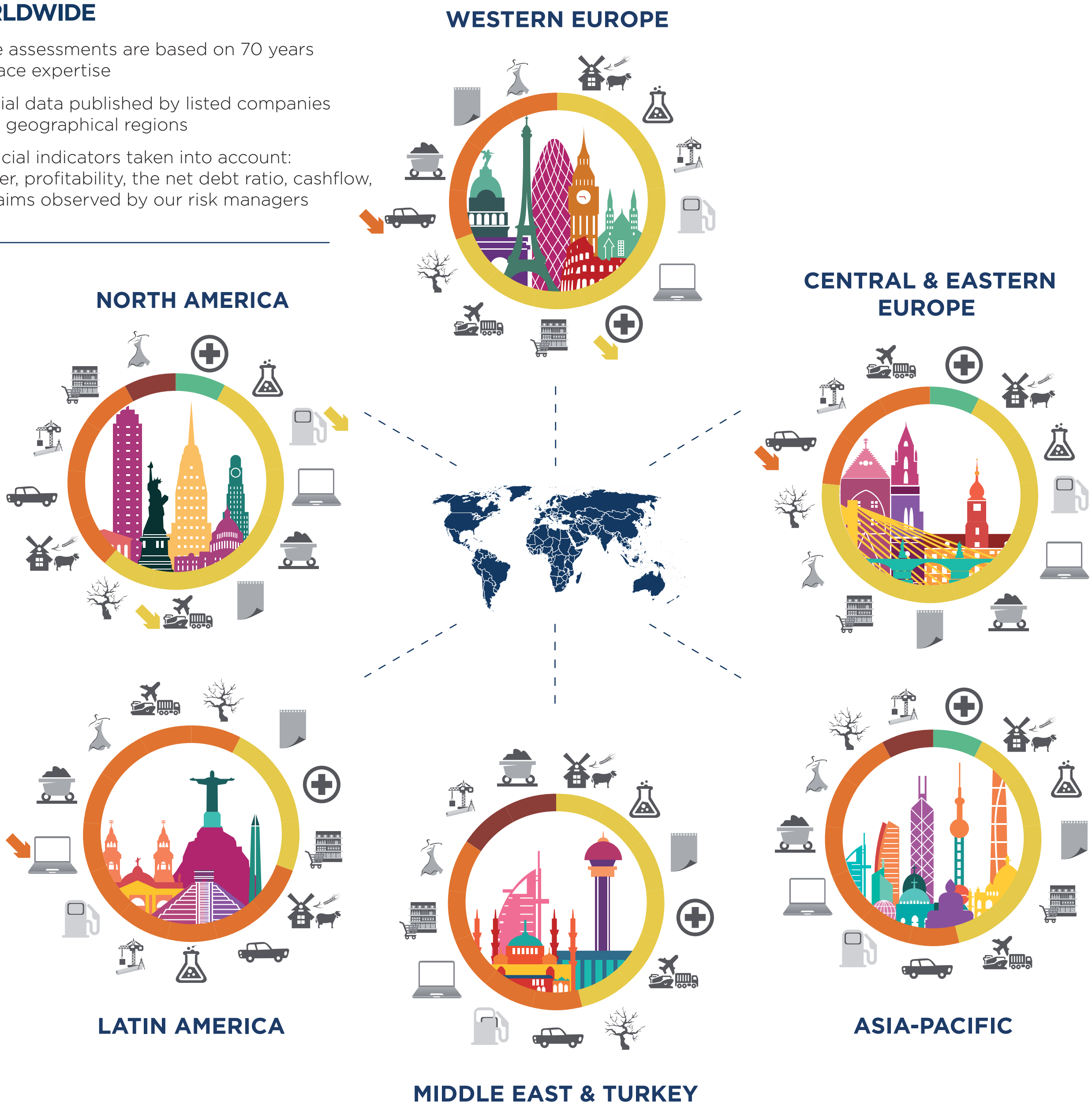
SECTOR RISK ASSESSMENTS
2nd quarter 2019

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

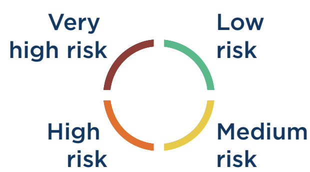


agri-food	ICT*	textile-clothing
automotive	metals	transport
chemical	paper	wood
construction	pharmaceuticals	
energy	retail	

Upgrade

Downgrade

* Information and Communication Technologies



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

* Information and Communication Technologies
Source: Coface

ARGENTINA

Metals ↘
(Medium Risk to High Risk)

- The sector has been impacted by the currently weak domestic market, which is in turn mainly due to the economic recession.
- Sectoral activity figures have trended downwards: according to local entity Acero Argentina, crude steel production dropped by 12% YOY in 1Q19 (reaching 1.5 million tonnes in Q1).
- Global steel oversupply at lower prices is making Argentine products uncompetitive.
- Utilization capacity in the non-metallic mineral products stood at 62.4% in March this year, down from 76.1% in March 2018.

MEXICO

Pharmaceutical ↘
(Low Risk to Medium Risk)

- Government efforts to centralise purchasing and distribution has caused medication shortages. The crisis in the supply of medicines in public hospitals due to the delay in the execution of the budget and the consolidated purchases is already affecting the pharmaceutical sector. According to data from the Mexican Chamber of the Pharmaceutical Industry (Canifarma), sales to public institutions represent 26% of the total, while in volume they reach 60%.
- While reforms aimed at reducing corruption and improving efficiency are positive steps for the the long term, cost control measures and reform implementation will pose risks to pharmaceutical firms in the short term.
- In May 2019, Mexico signed an agreement with the UN to assist the country in the purchase of medicine.

ICT ↘
(Medium Risk to High Risk)

- According to the 2017 ICT Development Index (IDI), a connectivity index, Mexico stands at 17th place, out of 35 American countries in terms of telecommunications development (stable from the outcome of 2016), with around 83% mobile penetration and less than 60% of inhabitants using internet (just below Venezuela).
- Doubts about ongoing and planned projects could prove a burden to the country's digital future. Two large projects involving a 25,000km fibre-optic network, planned as public-private partnerships for which the government will provide existing infrastructure, have raised doubts within the private sector. Critics are unsure about the quality and compatibility of the infrastructure offered.
- Since taking office, President AMLO has publically discussed his view that the domestic internet and telecommunications companies have so far failed to expand connectivity across Mexico. The government has therefore announced the creation of a new public entity that will use the publicly-owned electricity utility company, Comision Federal de Electricidad's (CFE) infrastructure to expand the fibre optic network and increase the coverage of broadband services.

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	Low Risk	High 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	Very High Risk	Very High Risk	High Risk
Energy	High Risk	Medium Risk	Medium Risk	Very High Risk	Medium Risk
ICT*	High Risk	Medium Risk	High Risk	Very High Risk	High Risk
Metals	Very High Risk	Medium Risk	Very High Risk	Very High Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Pharmaceuticals	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Retail	High Risk	High Risk	High Risk ↗ Medium Risk	Very 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	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk

* Information and Communication Technologies
Source: Coface

SAUDI ARABIA

Retail ↗

(High Risk to Medium Risk)

- High levels of fiscal spending are boosting household incomes, while price levels have stabilised following the introduction of a value-added tax (VAT).
- The increasingly dynamic economic growth of the country will start supporting retailers.
- Overall, the consumer purchasing power outlook for Saudi Arabia is a lot better than at the same time last year, which can be seen in the strong growth in credit.

TURKEY

Automotive ↘

(High Risk to Very High Risk)

- Domestic sales continue to fall due to higher taxes, slowdown in domestic demand, higher interest rates and weaker lira ; which push up prices of imported vehicles.
- In January-April 2019, the fall in total production accelerated to 13% compared with a year earlier; domestic sales fell 40%, while exports declined 8%.
- Total automotive sales are expected to fall to around 400,000 units in 2019 from 620,000 units in 2018.
- Export sales may decline further due to weak economic growth in Europe, which would make it more difficult for automotive companies to compensate their losses in domestic market though export revenues. Car dealers notably are in a very difficult financial situation.

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

* Information and Communication Technologies - Source: Coface

CANADA

Chemical ↘
(Low Risk to Medium Risk)

- Chemicals production is decelerating sharply: +3% YOY in Q1 2019 (from +6.3% in Q4). The sector is affected by the slowdown in construction and automotive sector.

Energy ↘
(Medium Risk to High Risk)

- Energy production slew down markedly: only +0.2% YOY in Q1 2019 (+3.9% in Q4). This declining trend is driven by non-conventional oil production: +2.2% YOY in Q1 2019 (+10% in Q4). In some provinces, such as Alberta, the non – conventional bituminous oil available is indeed costly to extract and refine. Petroleum refinery output contracted further (from -2% to -5.7% YOY). Moreover, investment is expected to stagnate, notably due to stricter regulatory environment due to environmental concerns.

Metals ↗
(Very High to High Risk)

- Two heterogeneous trends within the sector: while fabricated metal products remained buoyant (+6.1% YOY in Q1 2019 after +5.9%), primary metals output decreased sharply (-4.8% YOY after +0.1% in Q4). In addition, sector output remains well below its pre-crisis level (-9%). However, the outlook is improving: on May 17, Canada and the US reached an agreement to eliminate US tariffs on steel (25%) and aluminum (10%).

UNITED STATES

Energy ↘
(Low Risk to Medium Risk)

- US crude oil output reached a record 12.3 million barrels per day. Energy production rose by 5.8% YOY in the three months to April (after +8.7% in Q4 and +10% in Q3 2018). While primary energy growth decelerated but remained remarquable (from +12.8% in Q4 to +9.5% YOY), converted fuel production is much less buoyant (+3.6% after +3.2%). Nevertheless, oil and gas drilling is slowdown sharply (+6.9% YOY after +19.3% in Q4) following a strong rebound in 2017 (+45%). The oil price volatility is affecting new drilling decisions, so production is expected to slow down in H2 2019.

Transport ↘
(Low Risk to Medium Risk)

- The punitive tariffs on steel (25%) and aluminium (10%) sharply increased production costs, affecting the automotive, construction and transport industries. In addition, the high fuel price is leading to higher costs. However, aerospace and miscellaneous transportation equipment output growth remained solid (+4.4% YOY after +4% in Q4).
- The Boeing 737 Max was grounded globally in March after a fatal Ethiopian Airlines crash, that followed a crash of a Lion Air jet in Indonesia in October 2018. Despite Boeing's statement that it had completed a software update, the Federal Aviation Administration (FAA) and other regulators need to certify the 737 Max to fly again before airlines can resume use of the planes (no timeline has been given). Moreover, according to a FAA investigation released in June, more than 300 Boeing 737 jets, including the Max, don't meet strength and durability standards. Although Boeing has 4,400 orders for this model, it paused deliveries and cut production from 52 to 42 per month.

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	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Low Risk	High Risk ↘ Very High Risk
Chemical	Medium Risk	Low Risk	High Risk	Medium Risk	High Risk	Medium Risk	Medium Risk	Low Risk	High Risk
Construction	Medium Risk	Medium Risk	Medium Risk	Low Risk	Very High Risk	Medium Risk	Medium Risk	High Risk	Very High Risk
Energy	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	High Risk	Medium Risk	High Risk
ICT*	Medium Risk	Medium Risk	Low Risk	Low Risk ↘ Medium Risk	High Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	Medium Risk	High Risk	Medium Risk ↘ High Risk	High Risk	Medium Risk	Medium Risk	High Risk	Very High Risk
Paper	High Risk	Low Risk ↘ Medium Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk
Pharmaceuticals	Low Risk ↘ Medium Risk	Low 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	High Risk	Medium Risk ↘ High Risk	Medium Risk	High Risk
Transport	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk	Medium Risk
Wood	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	Medium Risk	Medium Risk	High Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

AUSTRIA

Automotive ↘
(Medium Risk to High Risk)

- The Austrian automotive sector is highly dependent on demand for vehicles in Western Europe, and is closely linked to the German automotive sector.
- Moreover, vehicle sales have decreased on the domestic market vehicle. New passenger car registrations dropped by 7.8% YOY in the first four months of this year.

FRANCE

Automotive ↘
(Medium Risk to High Risk)

- The sector is decelerating: car registrations continued to struggle in the first four months of 2019 (-0.3% YOY), after decreasing markedly between September and December (-7.4% YOY) due to the new and tighter rules on fuel economy. Companies are also notably affected by consumer confidence, which is at its weakest level. Moreover, passenger car orders decreased by 1.9% YOY in the 4 months of 2019 (-6.6% in April). As a consequence, insolvencies soared in this period (+5.1% YOY). Both car maintenance and car trade registered higher insolvencies during this period. Automotive output rebounded slightly in Q1: +1.8% YOY after -5.6% in Q4. However, auto parts production continued to struggle (-2.4% after -10.5%).

GERMANY

Automotive ↘
(Medium Risk to High Risk)

- After the problems with the WLTP[2] test procedure and adapting production to meet the new standards, the expected turnaround in the German automotive sector has not manifested. Instead, production has decreased further into the negative territory, where it has been for more than nine months (year-over-year, 3-month-moving average).
- Orders are still declining (year-over-year). With driving bans for older diesel cars in some city centres and the realistic possibility of more to come, consumers are uncertain of when to buy a car. Although e-mobility is becoming a large part of public discussion, a lack of infrastructure and very high prices prevent it from being an adequate alternative to conventional cars. Therefore, many drivers are waiting with their buying decision, leading to a decrease in new car registrations are going down. Furthermore, the demand from abroad, especially China, is on hold or even declining. As a result, the yearly rate of exports has been in the deep negative territory since August 2018.
- In terms of investment, taking into account environmental consideration, German car producers are almost solely focussing on e-mobility: they doubled their investments into this technology from 2017 to 2018. Nevertheless, in total terms, investment into car production went down.

2 Worldwide harmonized Light vehicles Test Procedures

ICT ↘
(Low Risk to Medium Risk)
- Competition is very tight. Confidence levels of both consumers and companies, already at a record low, are worsening. The ifo business climate index for ICT fell to 0 from around 30 points. The sub-indicator for foreign orders is constantly in the negative area. Many companies are seeing their business situation deteriorate, although their business expectations remain positive. Furthermore, the production of computer and electronical products has been decreasing year-over-year for almost six months.
- The 5G auctions in Germany have reached bids over EUR 6 billion, one of the highest results in recent years. With such high licence costs, there will be less financial liquidity left to invest in the actual network.

Metals ↘
(Medium Risk to High Risk)
- The German metal industry is highly connected with the German automotive industry. Many input products for cars are produced in Germany. The length widespread reduced demand for motor vehicles from German producers is hurting the metal industry as well. This development can be seen in the sentiment indicator for the metal industry, which has been in the negative territory since the beginning of 2019. At the same time, new orders are down and have been in the negative territory since 2018. The production of the metal sector has gone down as well, and has been negative since November 2018. Here, the production of iron and steel has a markedly negative impact on total production.

Pharmaceutical ↘
(Low Risk to Medium Risk)
- The pharmaceuticals industry, whose performance was sound until recently, is slowly suffering from Germany's economic slowdown.. The decreasing growth dynamic in German manufacturing has some impact on pharmaceuticals, although the total effect is milder than in other sectors. The ZEW sentiment indicator came down from around 43 points at the beginning of 2018 to 0 in the spring of 2019. Although in the aforementioned ifo survey the assessment of the current situation is still good, the outlook of business expectations went down from around 10 points in early 2018 to 0 this spring. This development can also be observed in the numbers of orders for basic pharmaceutical products and their production: in both segments, numbers have been coming down year-on-year for several months now.
- Furthermore, high profile German pharmaceutical groups - such as Bayer, Merck and Boehring Ingelheim – are struggling with intense competition, especially as many licences for specific medical "blockbuster"-products are running out, and cheaper generic drugs are on the market.

ITALY

Automotive ↘
(Medium Risk to High Risk)
- Production in the automotive industry has been on a negative trend since mid-2018, and has further contracted at the beginning of the year: year-on-year production fell by 7.5% in January, 2.4% in February and 9.8% in March. All in all, car production, of which 53% is exported, fell by 18.5% in Q1, while components and accessories for vehicles fell by 7.1% in Q1. Weak prospects for order books in domestic and export markets should maintain this negative trend.
- The number of car registrations has been falling since November 2018, and the decline has been even more pronounced at the beginning of the year (-4.6% in March and -5% in April in 3-months moving average).
- In a context of political uncertainty, consumer confidence continues to decline: the Italian National Institute of Statistics' (Istat)consumer confidence index fell for the fourth consecutive time in April), which weighs on the consumption of durable goods (-2.2% year-on-year in April).
- The Italian automotive market is highly connected to the French and German markets (second and third destination for Italian car exports), therefore a deterioration in the automotive sector in these economies should have a knock-on effect on the Italian sector.

NETHERLANDS (THE)

Automotive ↘
(Medium Risk to High Risk)
- The Dutch automotive sector is small but highly connected with those of Germany and the United Kingdom. With a lower demand in the former and a looming Brexit for the latter, the sentiment in the automotive industry is not good.
- In the Netherlands, the number of car sales went down by 14% YOY in the first quarter of 2019, with private car registrations falling by -33%. This is largely due to the new WLTP emissions test procedure, which is so sensitive that the CO_2-emission numbers of the cars have increased. However, in the Netherlands there is a special tax on motor vehicles that is dependent on CO_2-emission numbers. Therefore, the tax went up abruptly after the introduction of the WLTP. Now that the stock of cars with older emission tests has reduced, prices for new cars have gone up and consumers are shying away from buying new cars.

SPAIN

Automotive ↘
(Medium Risk to High Risk)
- Production in the automotive sector has been on a negative trajectory since October 2018, which has continued in the first quarter of 2019 (-6.3% in January,-4.3% in February and -2.4% in March YOY).
- A decline in confidence in the automotive industry, and pessimistic companies' expectations regarding their order books, export order books, production, employment and selling price are expected to maintain this sluggish momentum.

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

- Registrations have been falling since November 2018 and this trend continues at the beginning of the year (-8% in February and -1% in April - YOY).

Textile-Clothing ↘
(Medium Risk to High Risk)

- Textile industry production has been declining since November 2018, and continued on this negative path at the beginning of the year (-6% YOY in March). The confidence indicator in the textile industry is falling, as are the prospects for order books.
- On the other hand, the three-month moving average of consumer confidence indicator declined for the eleventh consecutive month in April 2019 to -6.1 (from -4.9 a year earlier), one of its lowest levels in over two years.
- The higher wages induced by the increase in the minimum wage and public sector pensions may therefore have only a moderate impact on household consumption and are more likely to sustain precautionary savings. Household consumption is therefore expected to slow down, which could have a negative impact on household purchases of textile products.

UNITED KINGDOM

Automotive ↘
(High Risk to Very High)

- The trend is very negative, with all indicators deteriorating: car registrations fell by 3% YOY in the first 4 months of 2019 and car production decreased by 21%. While car production for domestic market fell by 14%, car production for exports contracted even more sharply (-23% YOY) in the first 4 months of 2019. Used car sales also continued to contract in Q1 (-0.6% YOY).
- As 53% of the UK's automotive exports are geared toward the European Union, Brexit negotiations are crucial. Uncertainty around these negotiations is affecting components suppliers and car manufacturers' investment that dropped in 2016 and even more in the first half of 2017. Major companies, including Jaguar Land Rover and BMW have said they need greater certainty to continue to invest and that they may be forced to leave the UK if the country pursues a "hard Brexit", because of its effect on cross-border supply chains. Honda, Nissan and Ford announced the closure of their plants in the UK, mentioning however that their decision was not related to Brexit.

BUSINESS DEFAULT RISK

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

OTHER COUNTRIES

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

* Information and Communication Technologies
Source: Coface

RUSSIA

Wood ↗
(High Risk to Medium Risk)

- Lumber export level is high. Moreover, exports grew 4% in first two months of 2019, mostly due to strong Chinese demand for lumber.
- Authorities intend to get wood industry to represent 1% of GDP in 2030, from 0.5% currently.
- Illegal logging and exports to China remain common in Siberia.

SOUTH AFRICA

Retail ↘
(Medium Risk to High Risk)

- Retail sales continued slowing in Q1 2019 after growth rates in the sector had normalized in 2018 after the highs reached in 2017. Quarter-on-quarter, retail sales contracted by 0.7% in Q1 2019.
- The sector is structurally under pressure, notably because of very high unemployment (27.6% at the end of Q1 2019), widespread poverty and inequality.
- Higher utility prices, particularly electricity tariffs hike and the introduction of a Carbon Tax, are expected to put further pressure on consumer spending. Recent weakness in the currency (South African rand) is also likely to push prices higher.

Textile-Clothing ↘
(Medium Risk to High Risk)

Textiles, clothing and footwear slumped in the first quarter of 2019. The segment was the main contributor to the negative performance of household final consumption expenditure (-12.7% quarter-on-quarter, seasonnally-adjusted at an annualised rate and contributing -0.8 of a percentage point).

- The pressure on the retail sector is expected to particularly weigh on the clothing segment because households are likely to prioritise spending at the expense of the sector.
- Output growth has been on a downward trend and has continue to slump in Q1 2019.

BUSINESS DEFAULT RISK

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

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