

BAROMETER COUNTRY AND SECTOR RISKS BAROMETER

Q3 2018

By the Economic
Research team

A new deal of cards for emerging markets

The past quarter has been marked by a continued rise in oil prices¹ and capital outflows from emerging markets, fuelling the depreciation of their currencies (see **Graph 2**, p. 4).

The worsening currency crises in Argentina and Turkey this summer (which led us to downgrade their country assessments in the second quarter of the year) are emblematic cases. This trend began in a context of very positive dynamics in the United States' economy (growth of more than 4% in the second quarter; business confidence at its highest level in 14 years), which surprised both market participants and the US Federal Reserve, leading the latter to tighten its monetary policy more quickly than expected.

As we pointed out in our Q2 2018 Barometer, vulnerabilities specific to emerging countries also explain this trend. The Argentine and Turkish economies are characterised by their large external imbalances and therefore their dependence on external financing. A large part of their public and private debt is denominated in foreign currency. In both Argentina and Turkey, the acceleration in the

depreciation of their currencies last summer was aggravated by various factors.

For Argentina, President Mauricio Macri's decision on the 29th August to ask the IMF² to disburse funds in advance, out of the USD 50 billion loan granted under the country's program signed with the international financial organisation last spring, worried Argentine peso holders. This had the counterproductive effect of creating a panic for the Argentinean economy, which was already in crisis, with an expected annual average inflation rate of 30% for 2018. Following this announcement, the Argentine peso spiralled by about 13% in one day and the central bank was forced to increase its key rate by 1,500 basis points, to reach 60% per year. This rapid tightening of credit conditions is expected to push the Argentine economy into recession this year (-2.4% after +2.9% in 2017). The continued deterioration of the country's economy is reflected in our sectoral assessments with the downgrading of six out of thirteen sectors (see p. 9). At this stage, a majority of sectoral assessments for the country are classified as "High Risk" or "Very High Risk".

6
COUNTRY RISK
ASSESSMENT CHANGES

8
SECTORIAL RISK
ASSESSMENT CHANGES

¹ Coface Economic Research Team. (2018). Oil Prices: Towards a new cycle, but bearish factors remain. In *Country & Sector Risks Barometer Q2 2018: Feels like déjà vu* (pp. 5-6). Paris: Coface.

² International Monetary Fund



A “catalyst” element concerning Turkey was US President Donald Trump’s announcement of sanctions against the country, materialised by the doubling of customs tariffs on imports of metals from Turkey to 50% for steel and 20% for aluminium³, against a backdrop of tensions between the two countries⁴. Beyond the anticipated difficulties for the Turkish metal sector (see p. 11), the country’s tense relations with the United States, without any prospect of appeasement on the horizon, were likely to increase investors’ mistrust of the Turkish lira, whose value fell from 3.77 to the US dollar at the end of 2017 to 7.21 to the dollar on the 13th August 2018. As this article goes to press, the intervention of the Turkish Central Bank to increase its key interest rate by 625 basis points in early September confirming an 11.25% increase since last April and the announcement of a medium-term programme by the Turkish authorities to reduce the fragility of its economy, incorporating a major expenditure reduction plan of almost 2% of GDP for its 2019 budget could help to reduce the intensity of the crisis.

Regarding the other major emerging countries, South Africa, Brazil, India (downgraded from A4 to B in the second quarter), and Indonesia seem to be the most vulnerable to the risk of capital outflows. They share some similar characteristics with the Turkish and Argentine economies, such as developed and liquid domestic capital markets, current account deficits, and a political context likely to fuel investor distrust with elections by the end of the year or in 2019.

However, the risks of contagion in these countries are limited by two factors. First, the economies of India, Indonesia, South Africa, and Brazil are much less dollarised than the Turkish and Argentine economies. In other words, a sharp decline in the local currency would have a lesser transmission effect on the local economy. For example, the share of public debt denominated in foreign currencies is less than 10% in South Africa, Brazil, and India, while it is close to 70% in

Argentina. Second, these countries benefit from high levels of foreign exchange reserves overall. For example, Brazil’s ratio of foreign exchange reserves to external financing requirement in 2019 was 200%, compared to 50% in Argentina.

Elsewhere, in addition to these large emerging countries, some smaller ones should be monitored in this context of high volatility of global capital flows. Thus, after having lowered Sri Lanka’s country assessment in June, this quarter we are doing the same for Pakistan (from C to D), as well as for Nicaragua (from C to D) due to the political crisis. However, not all emerging countries are seeing a rise in risks: country risk assessments are improving in Central Europe and in countries from the Commonwealth of Independent States, as illustrated by the reclassifications of Slovakia (from A3 to A2), Croatia (from B to A4), and Armenia (from D to C). The improvement in emerging business risk is also visible through changes in our sector assessments, such as transport in Mexico (partly due to successful trade negotiations with the United States). Finally, in the context of rising oil prices, growth is picking up in many countries that export oil, particularly those of the Gulf Cooperation Council.

Apart from emerging economies, uncertainties regarding the terms of Brexit are becoming increasingly pronounced (see **Brexit - next steps**, p.5) and continue to weigh on the British economy. In addition, the conduct of the Italian government’s budgetary negotiations with the European institutions by the end of the year, and the implementation or not of the economic programmes presented by the League and the 5-Star Movement during the election campaign⁵, are also likely to create mistrust on the capital markets (**Graph 3**, p.5). At the same time, US protectionist measures^{6,7}, whose direct effect is limited at this stage, continue to worry businesses whose confidence is eroding in Western Europe and Asia⁸.

3 The measure taken by the US administration concerning all imports of steel and aluminium into the country, which came into force last June, plans an increase in all tariffs on imports of steel and aluminium into the United States by 25% for steel and 10% for aluminium.

4 Tensions are due to disagreements of both countries on many issues, including geopolitical ones (such as the Syrian case), the fact that the United States refuses to extradite Fethullah Gülen (the Turkish Muslim businessman and preacher accused by President Recep Tayyip Erdogan of being behind the 2016 attempt coup d’état against him), and the question of the American pastor detained in Turkey who the US government wants to see freed.

5 Those include the establishment of a universal income, a fixed income tax and pension reform; the total cost could amount to EUR 33 billion.

6 Coface Economic Research Team. (2018). Protectionism risk – more to come. In *Country & Sector Risks Barometer Q1 2018: Beyond the peak of global growth* (pp. 6-8). Paris: Coface.

7 Coface Economic Research Team. (2018). The United States vs. the Rest of the World: Trade War is Here. In *Country & Sector Risks Barometer Q2 2018: Feels like déjà vu* (pp. 7-8). Paris: Coface.

8 London, M., & Marcilly, J. (2018). *US Trade Protectionism: what are the knock-on effects on global value chains?* Paris: Coface.



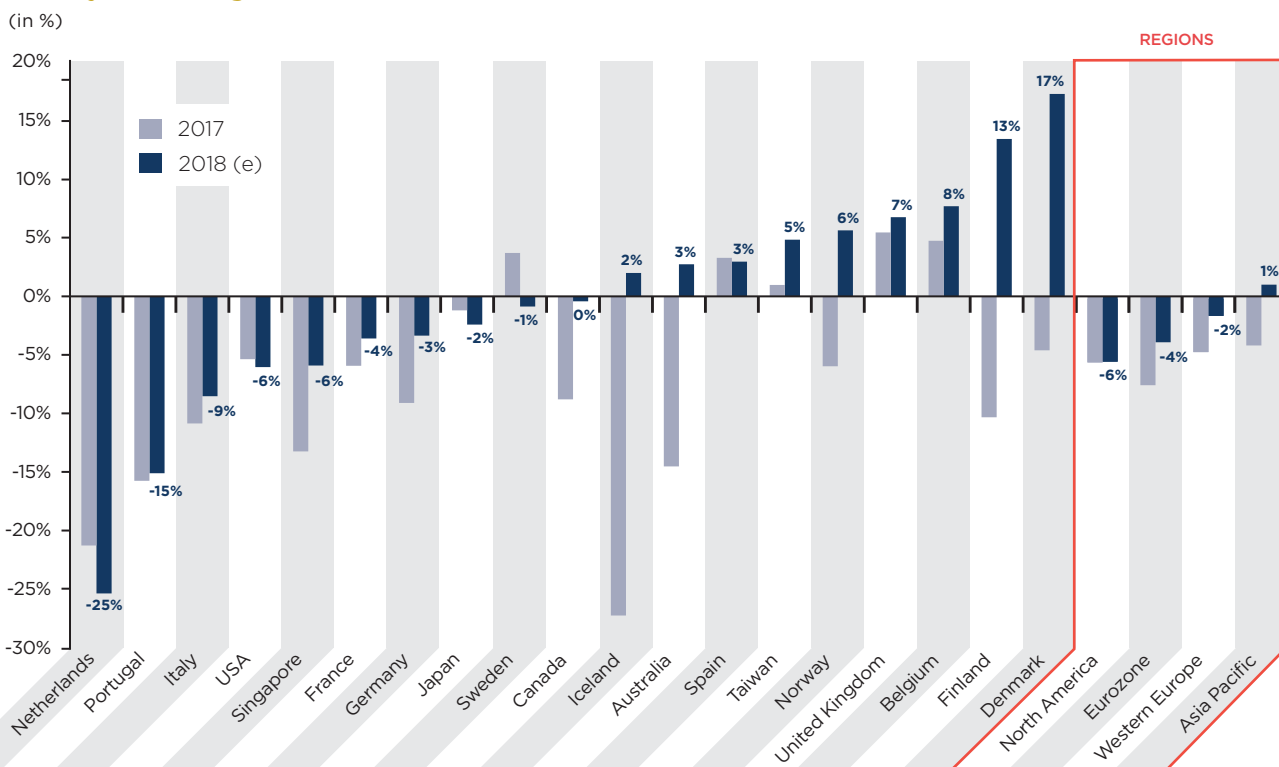
**COUNTRY AND SECTOR RISKS
BAROMETER Q3 2018:**

A new deal of cards
for emerging markets

CHARTS AND INFOGRAPHICS



Chart 1:
Running out of steam: the favourable decline in corporate insolvencies observed at the beginning of the year is losing momentum

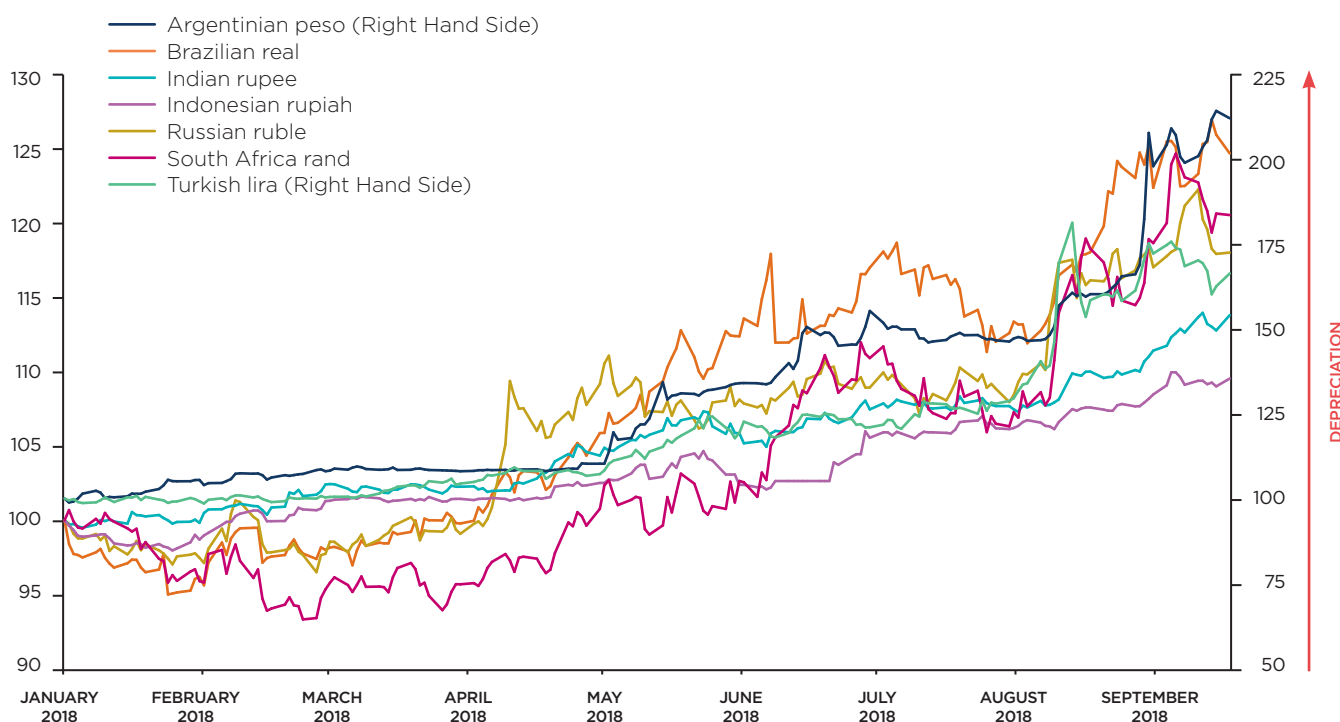


(e): estimate

Source: Coface, national sources

Chart 2:
Emerging market currencies are tumbling

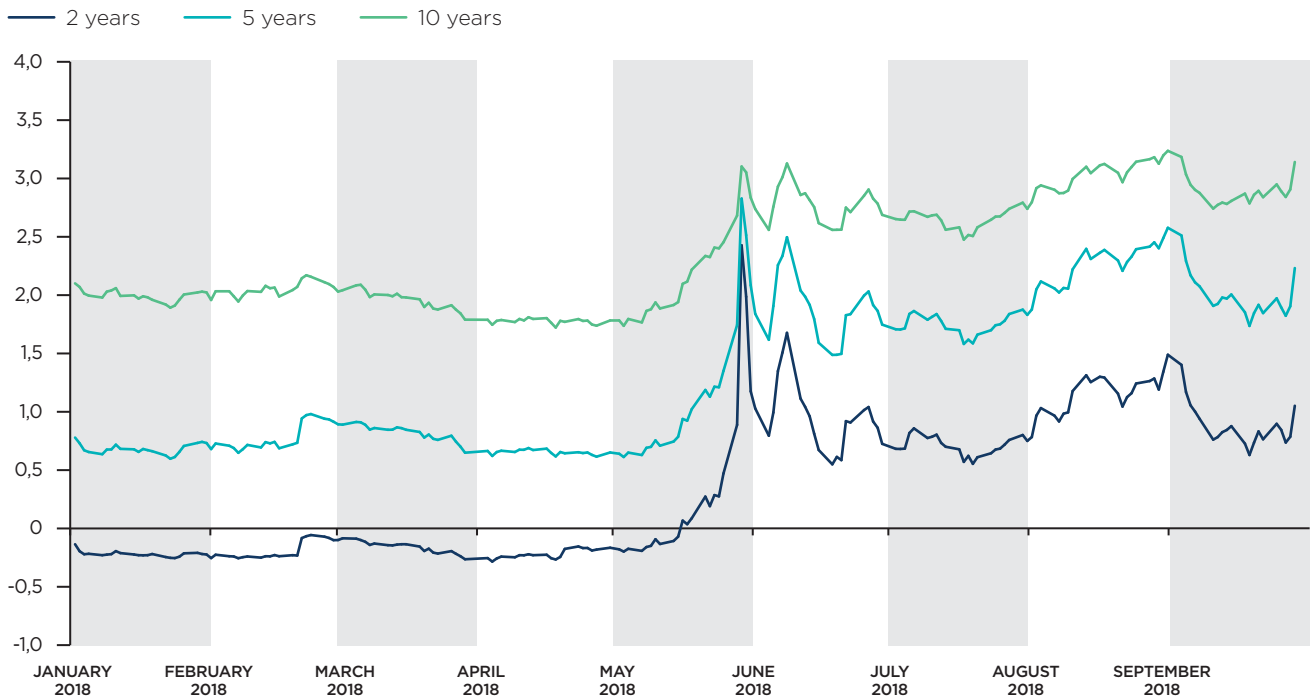
(01/01/2018 = 100)



Source: Datastream

Risk to Monitor in Europe: Financial market reaction to Italian sovereign bonds during the Italian government's discussions on its budget with the European Commission, from now until the end of the year

Chart 3:
Italy Sovereign Bond Yields



Source: reuters



Deep uncertainties about the outcome of an agreement between The United Kingdom and the European Union regarding Brexit*

BREXIT - NEXT STEPS*

In the scenario of an agreement, both the British and EU parliaments would then have to vote for or against the agreement.

2018

2019













Negotiations for signing an agreement of terms and conditions of departure between the United Kingdom and European Union.

The United Kingdom leaves the European Union (with or without agreement). If an agreement is reached, a transition period will begin, lasting until December 2020.

*According to information available at the time of writing.

Country Risk Assessment Changes

COUNTRY	Previous Assessment		Current Assessment
ARMENIA 	D		C
CROATIA 	B		A4
SLOVAKIA 	A3		A2
NICARAGUA 	C		D
PAKISTAN 	C		D

Armenia (Upgrade from D to C)

- Clear recovery in growth: 7.5% in 2017 and 3.8% in 2018.
- Comfortable foreign exchange reserves; financial support from the diaspora.
- Benefiting from the recovery in Russia (25% of exports).
- Rise in ore prices (copper, gold, molybdenum), which has contributed to recovery in industrial activity.

Croatia (Upgrade from B to A4)

- Tourism represents 25% of GDP and the leading source of exports in the country – is booming, with good growth rates (3% in 2018; 2.5% in Q1; 3% in Q2).
- Household consumption is boosted by dynamic employment, real disposable income growth, credit recovery, and remittances from a growing number of expatriates.
- The orderly resolution of the Agrokor case (the agri-food conglomerate) has contributed to renewed confidence among companies, who are registering record profits, thanks to an increase of European funds, tax reduction, and streamlined administrative procedures. As a result, these companies are more willing to invest.
- Croatia's economy notably benefits from a contraction sector that has been dynamic, with the building of new hotels, the bridge linking southern Dalmatian coast with the rest of the country and shopping centres.
- The country is now out of EU procedures for excessive deficit, and has recorded a small surplus, despite expansionary fiscal policy. The monetary policy is in line with that of the European Central Bank.
- The country has also recorded a current account surplus thanks to tourism, significant FDI, and a comfortable external position.

Slovakia (Upgrade from A3 to A2)

- Accelerating GDP growth expected both this year and next (3.9% in 2018 and 4.2% in 2019 after 3.4% in 2017).
- Household consumption remains the main growth driver, supported by solid real wage growth and historically low unemployment.
- Accelerating investments thanks to projects in the automotive industry, with a Jaguar Land Rover production plant expected to start operations in autumn 2018. Buoyed public infrastructure projects, such as the Bratislava ring road.
- The general government deficit narrowed to 1.0% in 2017, i.e. its lowest level in history. Further fiscal improvement is expected.
- Company insolvencies decreased by 27% in 2017 with further contraction expected.

Nicaragua (Downgrade from C to D)

- Intensification of the sociopolitical crisis that has taken hold since April 2018, raising uncertainty. The violent repression by government forces has led to hundreds of deaths despite international pressures, and sparked massive migration flows towards neighbour countries.
- The economic cost of the crisis has been rising as roadblockages and protests limit firms' activity. The tourist sector is experiencing the greatest decline, according to latest economic activity data, as tourists stay away from the country. Coface has revised its GDP forecasts to a contraction of the economy in 2018 (-0.9%, 4.9% initially) after the economic activity strongly declined in May and June. For 2019, we forecast 3% growth, mainly thanks to base effects.

BUSINESS DEFAULT RISK

A1

Very Low

A2

Low

A3

Satisfactory

A4

Reasonable

B

Fairly High

C

High

D

Very High

E

Extreme



Upgrade



Downgrade



- Investments have dried up, fuelling the ongoing depreciation of the cordoba, the national currency, against the US dollar as US interest rates rise. The economy is heavily dollarised, with 70% of bank assets and 90% of bank deposits denominated in US dollars. The continuous depreciation of the cordoba could make it harder for firms without dollar income stream to service their debt.
- A depreciated currency and lower FDIs, in a context of higher oil prices, could further weaken the external accounts of the country, leading to the depletion of international reserves (four months of imports in mid-August 2018)
- The United States sanctioned three top officials in July 2018. Further sanctions can be expected if the country's political situation does not improve. There is a risk that US Congress passes the Nicaraguan Investment Conditionality Act, which would block any US loan before the organisation of free and fair elections.

Pakistan ↘ (Downgrade from C to D)

- Pakistan's economy has been grappling with elevated and widening fiscal and current account deficits, which are expected to come in at -5.0% of GDP and -5.5% of GDP respectively in 2018. Compounded with low foreign exchange reserves and debt maturities coming up this year, Pakistan is at risk of defaulting. The authorities are currently discussing a USD 12 billion bail out with the IMF.
- The current account deficit is expected to widen. The rupee depreciated by 12% against the US dollar in the first half of 2018, leading to a steeper import bill and higher inflation. Imports are also expected to increase on the back of higher oil prices and increased imports from China for infrastructure investments related to the China-Pakistan Economic Corridor.
- Pakistan will also have to navigate an uncertain political landscape. Imran Khan claimed victory in a divisive parliamentary election, but it remains unclear whether he will have enough support to implement the necessary economic reforms to avert a crisis.

Sector Risk Assessment Changes

REGIONAL SECTOR RISK ASSESSMENTS

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

ASIA

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

* Information and Communication Technologies
Source: Coface

CENTRAL & EASTERN EUROPE

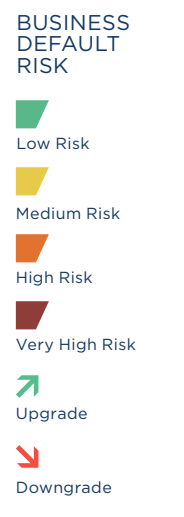
	Central & Eastern Europe	Czech Republic	Poland	Romania
Agri-food	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Automotive	Low Risk	Low Risk	Low Risk	Low Risk
Chemical	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Construction	High Risk	Medium Risk	High Risk	High Risk
Energy	Medium Risk	Medium Risk	Medium Risk	Medium 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
Pharmaceutical	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

LATIN AMERICA

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

* Information and Communication Technologies
Source: Coface



ARGENTINA

Automotive ↘ (Medium Risk to High Risk)

• While vehicle production remains robust due to strong exports (represent roughly 52% of total output), vehicle sales have started to slowdown since June 2018. Year-to-date, the indicator still shows an expansion of 1.9% until August 2018, nevertheless the tendency is clearly to the downside. Vehicle registration dropped in June 18, July 18 and August by, respectively, 17.5%, 16.8% and 25.2% YOY.

- Automotive sector actors seem to be switching their focus to foreign sales, as the weakened peso makes Argentine automobile exports more price competitive in international markets (71% of exports in 2018 went to Brazil).
- A change in focus from domestic market to external could help local automakers to try to keep their profitability. However, the risk related to car dealers will remain high.



Chemical ↘**(Medium Risk to High Risk)**

- Based on figures from INDEC, the national statistical institute, industrial production of chemicals dropped by 3.8% YOY in the first half of the year. Moreover production of rubber and plastic products also shrunk by 3.1% in the same period.
- Capacity utilization of chemical substances and products production stood at 50.8% in July.
- According to CIQyP, the local chemical class association, the chemical and petrochemical industries are impacted by the increase in tariffs on gas and electricity. Some segments are between 35% and 40% electro intensive. In 12 months accumulated until July 18, the prices of the group represented by housing, water, electricity, gas & other fuels rose by 47% YOY versus a general inflation of 31.2% in the same period.
- Industry is also affected by fluctuation in the exchange rate (the spot peso exchange rate versus the US dollar depreciated by roughly 100% against the USD from January to August 2018).

ICT ↘**(High Risk to Very High Risk)**

- High exchange rate depreciation year-to-date impacts the prices of imported products.
- High inflation (31.2% YOY in July 18) is expected to accelerate further, thus impacting purchasing power, that will mechanically have negative knock on effect on the demand for this type of products.
- Credit conditions have worsened: the Argentinian benchmark interest rate seven-day Leliq is now at 60% per annum.

Paper ↘**(Medium Risk to High Risk)**

- High production costs (labour, energy, etc.) and competitiveness problems (market oversupplied by Chinese competition), have negatively impacted sales volumes and profit margins.

Textile ↘**(High Risk to Very High Risk)**

- Textile production dropped by 7.4% YOY in the first seven months of the year.
- The sector is affected by very high costs, strong tax pressure, and severe competition from abroad.
- Demand will likely decline in the upcoming months in accordance with deteriorating purchasing power.

Transport ↘**(Medium Risk to High Risk)**

- The sector will likely be impacted the expected strong decline in economic activity. Due to the strong competition from the airlines and the war of offers launched, the buses have already reduced their supply of services by 40%. The most affected routes were those of 1,000 km between large cities, also covered by air at lower prices.

- Sector with high costs and strong tax pressure. For instance, cargo transport costs climbed 3.82% in August 2018, accumulating a rise of 40.3% in the last 12 months. Decrease in subsidies also affects the sector.

CHILE**ICT** ↗**(High Risk to Medium Risk)**

- Chile's telecom sector is among the most developed in Latin America, with a modern infrastructure supporting a range of services in the fixed-line and mobile sectors.
- The telecommunications regulator Subtel has opened a public consultation for the 5G National Plan for Chile in order to gather proposals and relevant information on the development of this technology in the country. The information collected will be used to draw up a definitive plan for the development and technical standards.
- From January to June 2018, sales of information and communications equipment in specialised stores rose by 3.7% YOY.

MEXICO**Transport** ↗**(High Risk to Medium Risk)**

- Since the beginning of 2018, Mexico has seen an upward trend in the income of companies that offer services related to transportation, mail and storage
- Mexico's road freight sector is expected to continue growing steadily, expanding by 2.8% in 2018 and by 2.9% in 2019. This will be a modest acceleration from the current five-year average of 1.8%.
- On the 30th September, Canada agreed to join a trade agreement between the United States and Mexico, reached on the 27th August, to revamp the trilateral North American Free Trade Agreement (NAFTA). This is good news for the Mexican transport sector, as it should reduce uncertainties related to foreign trade. Moreover, exports grew by 11.5% YOY from Jan to July 2018 YOY.

Wood ↗**(High Risk to Medium Risk)**

- During the last semester, it has shown a significant turnover growth and by the end of the year an increase of approximately 10% is expected.
- Furniture production rose by 9.1% YOY in June 2018 after rising by 4.7% YOY the month before.

**BUSINESS
DEFAULT
RISK**

MIDDLE EAST & TURKEY

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

* Information and Communication Technologies
Source: Coface

TURKEY

Automotive (Medium Risk to High Risk)

- Domestic sales continue to fall due to higher taxes, reduced domestic demand, higher interest rates, and a weaker Turkish lira, which push up prices of imported vehicles. In the first half of the year, total production fell 3% compared with a year earlier, domestic sales dipped 11% while exports increased 4%.
- According to preliminary data, plunge in domestic sales widened to 21% in January-August period from a year earlier. Under these conditions, export revenues may not be enough to meet production and operational costs of automotive producers.

Energy (High Risk to Very High Risk)

- The profitability of distribution companies in the sector remains low. Although gasoline sales are rising, there are some factors that limit profits such as price caps, the limitation of dealership contracts by five years and the interdiction of any promotion other than related to the services in gas stations.
- Energy prices remain volatile, which affects the profitability of business plans.
- The sector carries high foreign exchange risk as a result of huge energy investments. Therefore, the increase in exchanges puts high pressure on companies which are in the process of investing.

Metals (High Risk to Very High Risk)

- The recovery in steel prices has allowed producers to inch up their sale prices. However, significant risks persist, notably linked to the ongoing international trade war, including protectionist measures from the United States. These will continue to have a significant impact on the sector's development in the coming months.
- An abrupt decline in metal prices would harm companies' profitability and cash flows.
- There is a strong plunge in other domestic sectors that are key clients for the metals sector, such as construction and automotive, as well as the durable consumption goods segment. This will significantly drag down sales and profitability.

Paper (Medium Risk to High Risk)

- Producers may be negatively affected if domestic demand suffers widely from high interest rates and inflation.
- Production costs have skyrocketed. Moreover, the sector is totally dependent on imported raw materials - the lira's weakness therefore makes it significantly difficult for producers to obtain their materials.

Wood (Medium Risk to High Risk)

- Biggest risk is related to longer payment periods and low profit margins.
- Due to the decline in domestic demand, sales and profits are expected to fall, especially for furniture producers.

BUSINESS DEFAULT RISK



NORTH AMERICA

	North America	Canada	United States
Agri-food			
Automotive			
Chemical			
Construction			
Energy			
ICT*			
Metals			
Paper			
Pharmaceutical			
Retail			
Textile-Clothing			
Transport			
Wood			

* Information and Communication Technologies
Source: Coface

CANADA

Paper
(High Risk to Medium Risk)

- Both paper (from +0.3% in Q1 to +3.3% YOY) and wood production (from +0.9% to +4.7% YOY) rebounded in the three months to May. However, paper output remains around 20% below its pre-crisis level.
- Containers and packaging are among the segments most likely to benefit from the growth of the e-commerce retail sales, which rose by +16% YOY in June in nominal terms.

UNITED STATES

Agri-food
(Medium Risk to High Risk)

- Food, beverage, and tobacco production decelerated slightly in the three months to July: +2.4% YOY after +3.3% in Q1. On the demand side, food and beverage store sales accelerated from +3.3% in Q1 to 4.2% YOY in the three months to July (in nominal terms).
- A 25% tariff on US soybean imports into China came into effect on the 6th July 2018. As US farm products are among the most targeted by Chinese and European retaliatory tariffs, the perspective is negative.

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	Medium Risk	Medium Risk	Low Risk (Downgrade)	Medium Risk	High Risk
Automotive	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	High Risk
Chemical	Medium Risk	Low Risk	Medium Risk	Low Risk	Medium Risk	Low Risk	Medium Risk	Low Risk	Medium Risk
Construction	Medium Risk	Medium Risk	Low Risk (Downgrade)	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 (Upgrade)	High Risk	Medium Risk	High Risk
ICT*	Medium Risk	Medium Risk	Low Risk	Low Risk	High Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	Medium Risk	High Risk	Medium Risk	High Risk	Medium Risk	Medium Risk	High Risk	Very High Risk
Paper	High Risk	Low Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk	High Risk
Pharmaceutical	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk
Retail	Medium Risk	Medium Risk	Low Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk	High Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	Medium 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	High Risk	Medium Risk (Upgrade)	High Risk

* Information and Communication Technologies
Source: Coface

FRANCE

Construction (Low Risk to Medium Risk)

- The construction sector is decelerating: company insolvencies continue to fall (-8% YOY in the 12 months to July) but less markedly than in 2017 (-12.8%).
- Construction output continued to decrease: -1% YOY in Q2 2018 after -1.5% in Q1. Building permits and housing starts fell respectively by 3.5% and 3.6% YOY in the first half of 2018.
- After peaking in 2017, the sector is expected to slow down over 2018 due to the anticipated gradual recovery in long-term interest rates and lower consumer confidence, as well as the rise in construction costs linked to metal prices and production bottlenecks.

NETHERLANDS (THE)

Energy (High Risk to Medium Risk)

- The sector in the country is comprised of large global oil companies such as Royal Dutch Shell, who benefit from higher oil prices, similar to other companies in the energy sector in Europe. The prices of refined products are common to various companies in the region. The Dutch energy sector is also comprised of parapetroleum companies who benefit from this favourable environment.

SPAIN

Agri-food (Low Risk to Medium Risk)

- The agri-food sector is running out of steam. Production in the sector has stagnated since the beginning of the year. Average growth was close to zero in the first half-year. While stocks are buoyant, orders are declining.
- Businesses are more pessimistic: the confidence indicator in the agri-food sector was negative in July. The confidence indicator for food retailers fell sharply in July after five consecutive months of increase.
- Agri-food exports, which represent 15% of Spain's total exports, fell by 1.5% YOY due to the poor performance of the olive oil and meat segments.

SWITZERLAND

Wood (High Risk to Medium Risk)

- Increased development of wood use in the country's construction and energy sectors, which is expected to continue.

BUSINESS DEFAULT RISK

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

OTHER COUNTRIES

	Russia	South Africa
Agri-food		
Automotive		
Chemical		
Construction		
Energy		
ICT*		
Metals		
Paper		
Pharmaceutical		
Retail		
Textile-Clothing		
Transport		
Wood		

* Information and Communication Technologies
Source: Coface

RUSSIA

Pharmaceutical
(Medium Risk to High Risk)

- Investments in the distribution segment of the sector have been made too rapidly. Involvement from authorities (eager to diminish dependence on imports) and the presence of individuals and entities (both private and public) who are close to the government could deteriorate business operations in the sector. This is all in a context of high competition and reduced margins in this segment.

SOUTH AFRICA

Agri-food
(Low Risk to Medium Risk)

- Agriculture has been one of the main causes of the recession registered by South Africa.
- Agricultural output declined markedly in the first half of 2018 following a bumper harvest last year. The decline in output was exacerbated by drought conditions in the Western Cape and hail damage in the Mpumalanga region in late May.
- Uncertainty surrounding the land reform, particularly regarding the issue of expropriation without compensation, could dent investment in the agricultural sector and unsettle farmers.

BUSINESS
DEFAULT
RISK

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

COFACE GROUP ECONOMISTS

Julien Marcilly
Chief Economist
Paris, France

Sarah N'Sondé
Head of Sector Analysis
Paris, France

Bruno De Moura Fernandes
Economist, North America, France,
and the United Kingdom
Paris, France

Carlos Casanova
Economist, Asia-Pacific
Hong Kong

Dominique Fruchter
Economist, CIS, the Balkans,
and Switzerland
Paris, France

Erwan Madelenat
Sector Economist and Data Scientist
Paris, France

Grzegorz Sielewicz
Economist, Central & Eastern Europe
Warsaw, Poland

Khalid Aït-Yahia
Sector Economist and Statistician
Paris, France

Patricia Krause
Economist, Latin America
São Paulo, Brazil

Ruben Nizard
Economist, Sub-Saharan Africa
Paris, France

Seltem Iyigun
Economist, Middle East & Turkey
Istanbul, Turkey

Sofia Tozy
Economist, Euro zone periphery
& North Africa
Paris, France

With the help of **Elliot Shekell**
Operations & Editorial Coordinator
Paris, France

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COFACE SA

1, place Costes et Bellonte
92270 Bois-Colombes
France

www.coface.com