COFACE ECONOMIC PUBLICATIONS

OCTOBER 2023

BAROMETER

COUNTRY AND SECTOR RISKS BAROMETER - Q3 2023

By the Coface Economic Research team

Macroeconomics put to the test by microeconomic deterioration

The near-continuous fall in inflation over the last few months, against a backdrop of easing commodity prices, coupled with buoyant labour markets and a still solid wage dynamic, has rekindled hopes of a soft landing for the global economy. Now taken for granted, or almost, in the United States, such hopes are gaining ground in Europe, where the energy situation is far more reassuring than it was a year ago, and where finance bill drafts suggest - for the time being - only a (very) slight tightening of the fiscal screws. China, which prefers to take the longer route to purge the excesses of the past, will certainly slow significantly (+4% in 2024, after +4.5% this year) but will continue to be one of the main engines of a still convalescent world economy. In short, the spectre of recession is receding, as evidenced by the fact that yield curves in most developed economies are less and less inverted.

While the overall economic picture is undoubtedly better than a year ago, we do not endorse this highly optimistic reading of the situation. Over and above the risks that have already been mentioned many times, some of which continue to intensify (financial stability, social and political risks - which we are updating in this new edition of our barometer), we should bear in mind that the fight against inflation has not yet been won, or even entered its (painful) last mile: excluding energy, inflation remains well above the targets set by central banks, while the situation on the oil markets has (again) become tense following the attacks in Israel. Rather than trying to read the omens in yield curves, which have been rendered illegible by central bank intervention for nearly 15 years, we should also recognise that the sudden flattening of the yield curves observed recently has more to do with a correction of (poor) market expectations in terms of monetary policy (a pivot that is constantly moving further away) and a reassessment of sovereign risk in a context of record bond issuances than with a real appetite for risk motivated by a more favourable growth outlook. By the way, equity markets are sliding (by around 5% since the beginning of August on most markets) and corporate earnings are, overall, being revised downwards.

Herein lies the main risk to macroeconomics in the short and medium term: while high levels of corporate profitability and cash flow have enabled developed economies to weather the strong headwinds of recent quarters, the acceleration in insolvencies observed in recent months, amid shrinking cash positions, deteriorating margins and rising interest charges, is now threatening the virtuous circle of low claims, resilient employment, and household dissaving. Ultimately, this could have a greater impact than initially expected on final demand, and therefore on global growth. In other words, it is not companies that are dependent on the economic climate, it is the macroeconomy that derives from the microeconomy. The risks to our global growth forecasts for 2024 (+2.2%, after +2.4% this year - significantly lower than those of the consensus) therefore remain essentially bearish, particularly in the developed economies.

In this context, we have modified 7 country risk assessments (2 upgrades and 5 downgrades) and 33 sector risk assessments (17 upgrades and 16 downgrades), reflecting a degree of stability in our expectations over the next 18 months, in an environment that remains highly volatile and uncertain.

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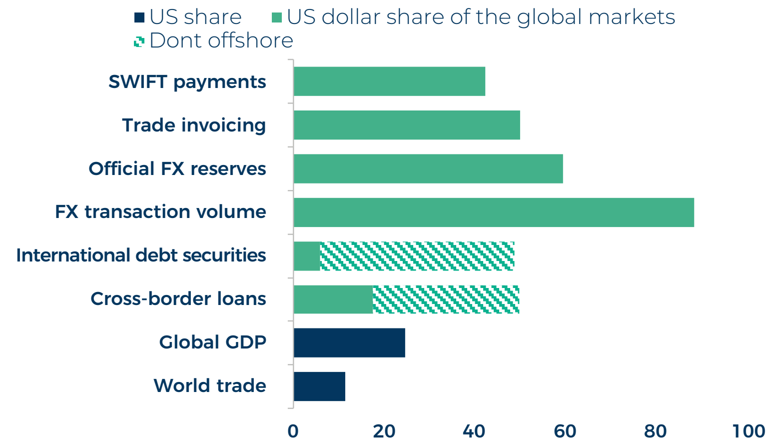
coface FOR TRADE

Towards a multipolar world (IFRI)

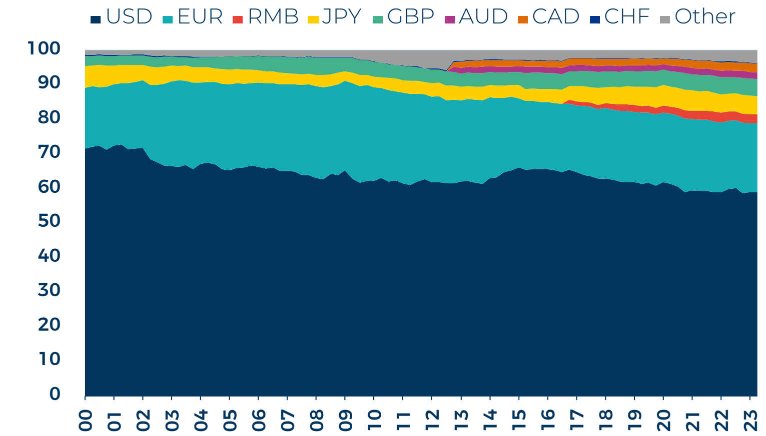
Beyond the persistence, and even intensification, of the Sino-American rivalry, several significant events in recent months have further upset the geopolitical landscape. These include the expansion of the BRICS group (Brazil, Russia, India, China, and South Africa) to include six new members (Saudi Arabia, Argentina, Egypt, UAE, Ethiopia and Iran), which some believe will mark the end of the predominance of the G7 and with it the post-war world order.

International role of the US dollar (%)



Sources: Bank for International Settlements, Coface

Composition of foreign exchange reserves
(% of total)



Sources: IMF, Coface

Reactions in the Western world have been split between alarmism and denial, with no real justification for either stance.

The desire of the emerging powers to challenge the hitherto dominant Western powers and to speak out by defending the interests of the countries of the so-called «global South» is undoubtedly a reality, and it is true that the BRICS+ group will now weigh more than the G7 in economic terms (in purchasing power parity only, with 32% of global GDP compared with 30% for the G7[1]). However, the ability of the BRICS+ to offer an alternative vision and take concrete steps to compete with the G7 is likely to remain limited. To begin with, while all the member countries undeniably have an interest in belonging to the group, their objectives are not always aligned, and there is no shortage of tensions within the group, as between China and India, for example.

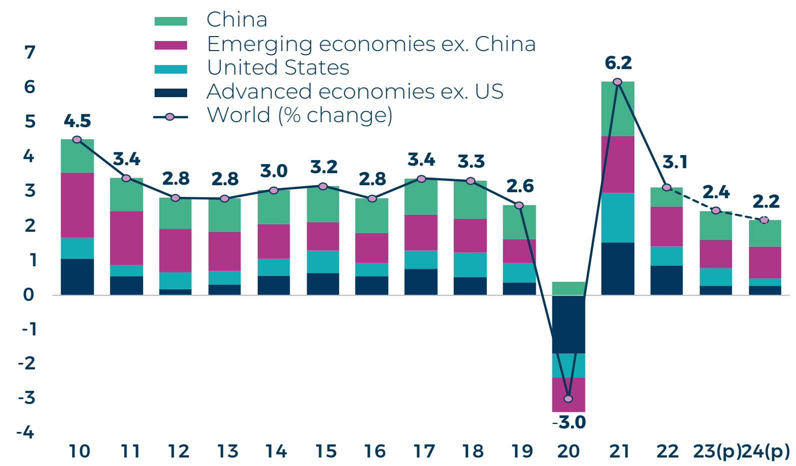
Furthermore, to date the BRICS have achieved little, apart from the creation of the New Development Bank, whose commitments remain modest. Likewise, plans to create a BRICS currency to replace the dollar have come to nothing. Enlargement, however, could change the situation. The group now includes some of the world's leading producers and consumers of oil and metals, and if trade between them could be conducted in currencies other than the dollar, the importance of the latter would mechanically diminish, paving the way for some form of «de-dollarisation» - a term which, at this stage, remains primarily a slogan. The creation of a framework to encourage investment and projects between members, and the definition of common standards, could also be contemplated.

In this new configuration, the role of Saudi Arabia is worth highlighting. Now a member of the BRICS+ and a central element in the India-Middle East-Europe economic corridor project launched on the sidelines of the G20 with the support of the United States, Saudi Arabia is emerging as a key player with every intention of pulling its weight on the world stage.

1 In current USD terms, however, the G7 is still far ahead with 43% of global GDP, compared with 29% for the BRICS+.

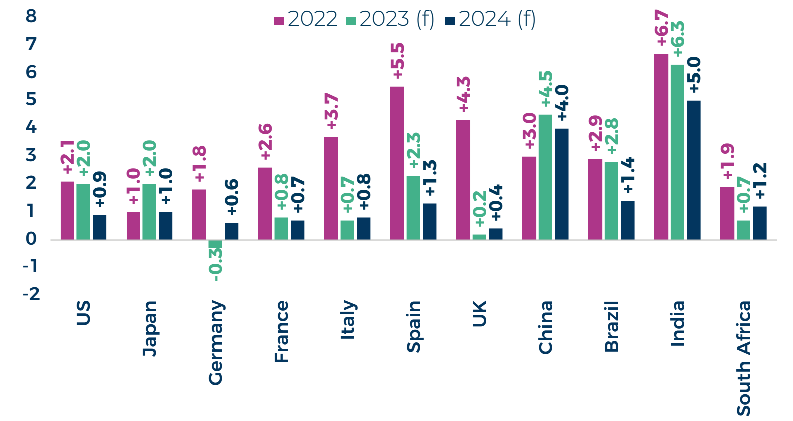
However, the Hamas attack on 7 October 2023 and Israel's bombardment of the Gaza Strip in response, as well as the risk of ground intervention by the Israeli army in the Palestinian enclave, cast doubt on the future of this regional development project. While the signing of the Abraham Accords seemed to confirm the marginalisation of the Palestinian question in favour of intensified economic cooperation between the countries of the region, this latest episode has returned it to centre stage. Now, the conflict has not merely pushed back the prospect of Saudi-Israeli normalisation, but could also influence relations between Israel and other allies such as Egypt.

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

Although these developments will certainly require time to be confirmed, and it will probably be complicated for the BRICS+ group to maintain coherence and become autonomous, the fact remains that the desire for emancipation is very real. The number of candidate countries also confirms the attractiveness of the scheme and the message it carries. It would therefore be irresponsible to underestimate the political message conveyed by the expansion of the BRICS and the increased activism of some emerging powers. Western-style global governance is no longer self-evident, and the multipolarity of the world is a reality with which everyone will have to come to terms.

The worst is not behind us

The good news at the start of 2023 quickly gave way to hints that the end of the year would be far less promising. As we mentioned in our previous Barometer[2], the full impact of monetary tightening had yet to be felt in the advanced economies, and there were major doubts about China's ability to act as a bridging engine for the global economy. These two risks have since been confirmed: all the leading indicators point to a sharp slowdown in activity in North America and the Eurozone towards the end of the year, and the recovery of the Chinese economy has rapidly collided with structural weaknesses and a lack of confidence among households and businesses.

We have therefore revised our growth forecasts for the global economy only marginally. While the better-than-expected health of the US economy in the first half of the year has prompted us to revise our global growth forecast for 2023 slightly upwards (+0.2 pp) **(Chart 1)**, we have lowered our forecast for 2024. This revision is attributable to Germany, whose industry is showing no signs of recovery despite the lesser tensions in the energy system, and above all to China **(see Box 1)**, for which we are cutting our forecast to 4% next year **(Chart 2)**.

2 Coface Barometer: Lost illusions and great expectations, 7 June 2023.
URL: https://www.coface.com/News-Publications/Publications/Lost-illusions-and-great-expectations-in-Coface-Barometer-for-Q2-2023

Box 1:

DISAPPOINTING - AND ALREADY OVER - RECOVERY IN CHINA

China's post-Covid recovery has been underwhelming, with economic data for both domestic demand and exports coming in soft. The widely-expected rebound in consumption has been relatively weak as households were cautious in their spending, and repaying loans in advance.

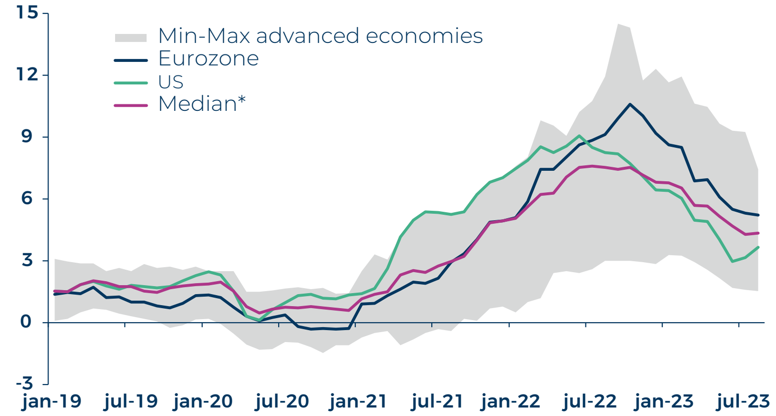
The end of the zero-Covid policy and the subsequent reopening of the Chinese economy only managed to provide an uneven boost to consumption patterns. Services such as catering, dine-in food services, and hospitality saw stronger growth, as demand returns to 'normal' levels. However, there were weakness in housing-related consumption, such as household appliances, furniture, building and decorative materials. For the first eight months of the year, retail sales of consumer goods grew at an annual average rate of 12%, far slower than the pre-pandemic level of around 29%. Consumer confidence stayed subdued amid uncertainty around future job and income security, and the debilitating impact on household wealth due to declining property prices. Central bank surveys showed that the majority of urban depositors (58%) preferred to save rather than consume or invest, reflecting persistent economic uncertainty.

Investment has also been less of a growth driver for China as the private sector remained cautious towards fixed capital expenditure. This weakness can be traced back to the real estate market, which continues to be concerning. Fixed asset investment (FAI) by private enterprises fell 0.7% YoY in the first eight months of this year, dragged by an 8.8% drop in real estate. This contrasted with a rise of 7.4% in FAI by state-holding enterprises, supported by increases in infrastructure investment, mostly in utilities and railway transportation. China's real estate climate index, a composite index of eight real estate indices, fell sharply, indicating levels consistent with a deep contraction, nearing the lows seen in 2015 when the housing sector struggled with a supply glut. Housing activities stayed weak, especially home sales, reflecting sluggish housing demand, which was brought about by weakness in property prices, high preference in savings, and job uncertainty.

Facing insufficient domestic demand, the Chinese authorities have announced a series of growth-stabilisation measures since August, which were increasingly extensive in scope, covering fiscal, monetary, housing, capital market, exchange rate, and private sector. The building momentum of policy support is a welcome step, but the aggregate impact will take time to be steadily fed through the real economy in the coming quarters, and likely be modest. Moreover, restoring confidence among the private sector and consumers remains essential to achieve a sustainable growth path, which will involve providing credible assurances of a stable and predictable regulatory environment.

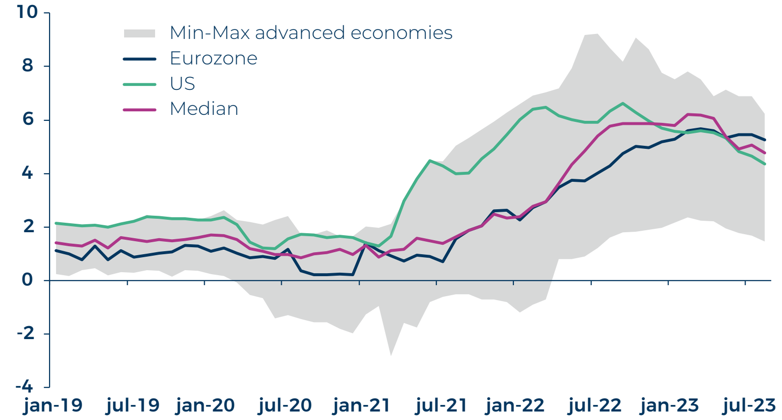
These deteriorating prospects over the coming quarters are reflected in our assessments, with 5 countries downgraded and only 2 upgraded (Belize and Mongolia). Except for Colombia and Niger, the downgrades mainly concern advanced economies, which are weakening under the weight of monetary tightening: Sweden, Finland and New Zealand (all downgraded to A3). In sectoral terms, the changes in assessments are more balanced: 17 upgrades, mainly in energy and agri-food (**see Box 2)**, and 16 downgrades, notably in paper and, again, construction.

Chart 3
Annual inflation (%)



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

Chart 4
Annual core inflation (%)



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

With growth slightly above the 2% threshold, well below the standards of the last decade, our forecasts reflect a prolonged (or almost prolonged) stagnation of the world economy. Against a backdrop of weak growth and persistently high inflation, social and political risks seem more acute than ever, as illustrated by our Coface index.

Inflation eases, but is not overcome

As anticipated in our previous Barometers, inflation has continued to recede «mechanically» in recent months, largely owing to energy and commodity prices below the peaks reached shortly after the invasion of Ukraine **(Chart 3)**. Goods disinflation, linked to the rebalancing of demand towards the consumption of services, and the return to normalcy of supply chains, is also ongoing. On the other hand, and as we also pointed out, the signs that inflation is well entrenched remain: core inflation, which excludes volatile components such as energy and unprocessed food, has been declining at a much slower pace in the advanced economies, notably in the Eurozone and the UK **(Chart 4)**.

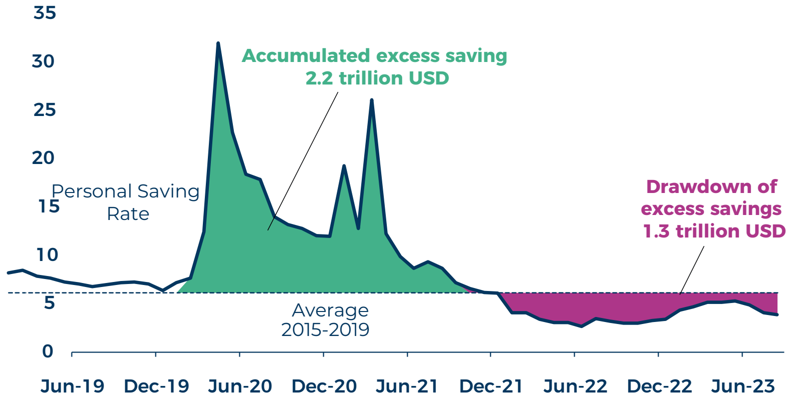
Moreover, the risks that we mentioned regarding the resurgence of inflationary pressures towards the end of the year seem to be materialising, with oil prices trending upwards since the beginning of the summer. While the very comfortable level of gas reserves in Europe means that - barring extreme weather conditions or a major incident at a gas production/liquefaction site - we can rule out the possibility of a shortage this winter and a further surge in prices, the main risk this time around comes from the price of crude oil and petroleum products.

After several months during which the pessimism of the oil markets about the outlook for global demand had outweighed the production cuts announced by OPEC+ in October 2022 and April 2023, prices started to rise towards the end of June, and then again at the beginning of September following the announcement by Russia and, above all, Saudi Arabia, of the extension of their production cuts until the end of the year[3].

3 Saudi Arabia and Russia have extended their production cuts by 1 million and 300,000 barrels a day respectively since July.

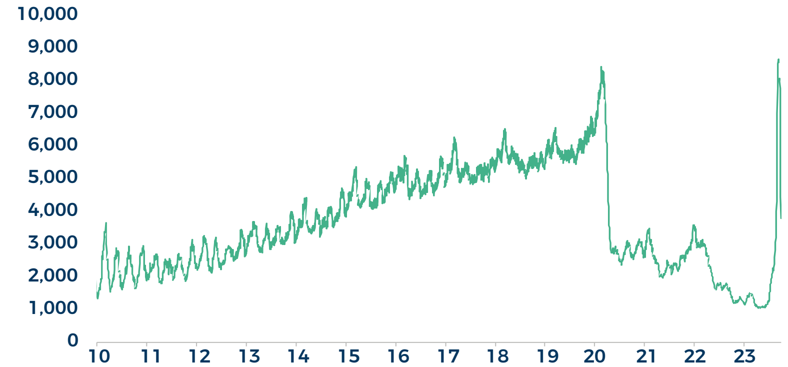
Given the level of stocks of crude oil and petroleum products (particularly middle distillates and diesel), oil prices are likely to remain high, fluctuating between USD 90 and USD 100/barrel over the coming months - probably until the end of the year. Barring an even sharper-than-expected slowdown in the global economy, tensions on the oil market are likely to persist next year, with the OPEC+ coalition looking both determined and capable of keeping prices relatively (but not too) high. Brent crude oil is expected to average USD 90 per barrel in 2024, after USD 85 per barrel this year. Consequently, our forecasts for energy prices still suggest a risk of rebounding inflation in the short-term and then, by the end of 2024, of a much slower decline than that observed this year.

Chart 5 - United States:
Household savings compared with the pre-COVID trend
(as a % of disposable income)



Sources : Refinitiv Datastream, Coface

Chart 6 - United States:
Payments to the Department of Education
(in billion dollars, rolling 30-day sum)



Sources : Refinitiv Datastream, Coface

Widespread monetary pause but no easing on the horizon

Against this backdrop, the main central banks are likely to keep their interest rates high for a longer period. In September, the rhetoric that followed the decisions by the ECB (25 bps hike), the Fed and the Bank of England (pause in rate hikes) all suggested that, while the tightening cycle may have ended, no rate cuts are expected in the coming months or even quarters.

While there is no consensus among economists as to how long monetary policy transmission will take - with estimates ranging from 9 to 18 months - the central banks all seem inclined to pause to assess the impact of the rate hikes implemented for over a year now. These hikes are now starting to be felt, with the slowdown in new lending to households and businesses and the (very) slight downturn in the labour markets.

In the United States, where the Fed initiated monetary tightening several months before the ECB, the slowdown in activity is likely to be particularly marked in the final quarter. US households, whose consumption has so far enabled the economy to remain resilient, have largely drawn on their excess savings inherited from the pandemic **(Chart 5)**. Meanwhile, the resumption of interest payments (1 September) and principal payments (1 October) on federal student loans, which had been suspended since the pandemic, will put further strain on the finances of many households. From August onwards, the Ministry of Education's revenues increased considerably as borrowers began to make their payments **(Chart 6)**.

In the Eurozone, where monetary tightening began in July 2022, the impact is already visible on the production of new bank loans, particularly to households, and should intensify in the coming quarters. More generally, while fiscal policies

Box 2:

ZOOM ON THE ENERGY, AGRI-FOOD AND PAPER SECTORS

The changes in sector risk assessments this quarter were mostly in Europe, mainly in the energy, agri-food and paper sectors.

We are upgrading the energy sector in all Western European countries (excluding Germany), mainly because of higher margins for hydrocarbon producers and refiners. The agri-food sector in the region is also enjoying more positive momentum, unlike the paper sector, which is recording the highest number of downgrades.

Hydrocarbon producers will continue to benefit from high oil prices, which is why we are upgrading the energy sector in most Western European countries, where many E&P and/or refining companies are headquartered **(Table p. 20)**. The operating profitability of European E&P oil and gas companies has in fact risen sharply since the spring of 2022 (+8pp to ~28% in Q2 2023 - **Chart 7**).

The agri-food sector is proving resilient overall, even if risk levels will continue to diverge from one region to another between now and the end of the year. Weather hazards, export restrictions and the efficiency of national agro-industrial systems will be decisive factors in assessing risk.

While cereal harvests in 2023 should be up by almost 1% worldwide according to the latest FAO forecasts **(Chart 8)**, weather risks are increasing in the Indo-Pacific region with the arrival of El Niño, particularly in India, where we are downgrading the agri-food sector from medium to high risk. As a major producer of rice, sugar and wheat, the fall in yields and production volumes in India will have very significant effects on the country's agri-food sector and, potentially, on agricultural commodity prices **(Chart 9)**.

The Chinese agri-food sector has also been downgraded this quarter, due to the same meteorological risks, but also because of a drop in meat consumption (pork in particular). As a result, prices are sliding: in August, they were down by 23% year-on-year - with producer margins falling by 85% per animal.

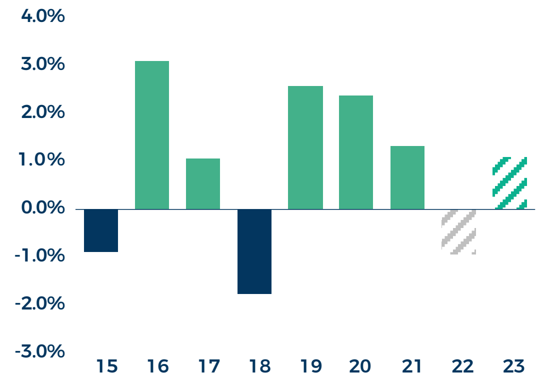
In Europe, while demand continues to be affected by inflationary pressures, the major producers of agricultural commodities (France and Poland, for instance) and agro-industrial products (such as Italy and France) are enjoying a more positive dynamic. Good cereal harvests and lower prices for mineral fertilisers (potash, phosphate) are contributing to a fall in production costs up the value chain and in the prices of basic foodstuffs. Lastly, weather conditions were less unfavourable than expected, adding to this positive momentum, particularly in France and Italy. We are therefore upgrading the sector risk assessment in these two countries from high to medium **(Table p. 20)**.

The paper sector is particularly at risk, recording the highest number of downgrades this quarter. Particularly in Europe, the sector continues to suffer from relatively high energy (gas, electricity) and input (wood pulp) prices. Companies, which were able to pass on higher production costs to their customers in 2022 and early 2023, must now contend with weak demand for packaging paper. We are therefore downgrading this sector in most countries in the region this quarter **(Table p. 20)**. In Germany, Austria, Spain, France and Italy, the sector is now considered very high risk.

Chart 7
Profitability and net debt ratio for European oil and gas exploration and production companies (EBITDA/Turnover, Net debt/Assets, in %)

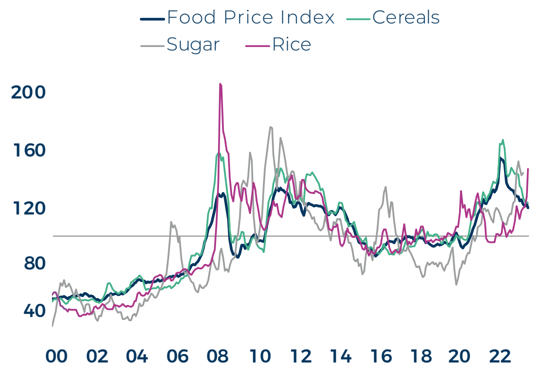
Sources: Refinitiv Worldscope, Coface

Chart 8
World cereal production
(annual growth, in %)



Sources: FAO, Coface

Chart 9
FAO food price index (World, 100=2014-2016)



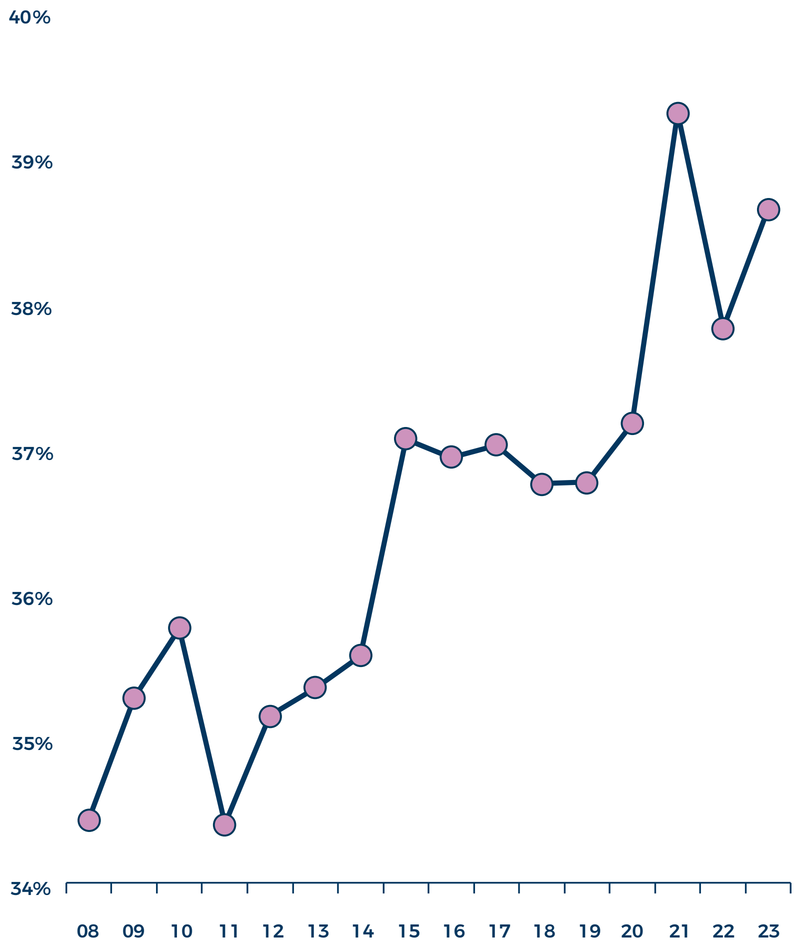
Sources: FAO, Coface

in France and Italy should ultimately be less restrictive than anticipated, the policy mix is likely to be much more restrictive across the Eurozone in 2024. In this context, corporate insolvencies - which are on the rise everywhere and are approaching, or sometimes well above, pre-pandemic levels - will continue to increase over the coming quarters.

Mounting social and political risk is confirmed

Last year, following Russia's invasion of Ukraine, Coface warned of the risk of increased social risks[4] due to rising prices for energy, basic goods and foodstuffs. When we updated our political risk indicator for 2022[5], we reiterated this warning. In this 2023 edition of the political risk indicator, our concerns are growing. The erosion of people's living conditions has given rise to new sources of frustration, while reinforcing those inherited from the pre-COVID-19 period.

Chart 10:
Coface political risk index (Risk scale from 0 (lowest risk) to 100% (highest risk))



Source: Coface

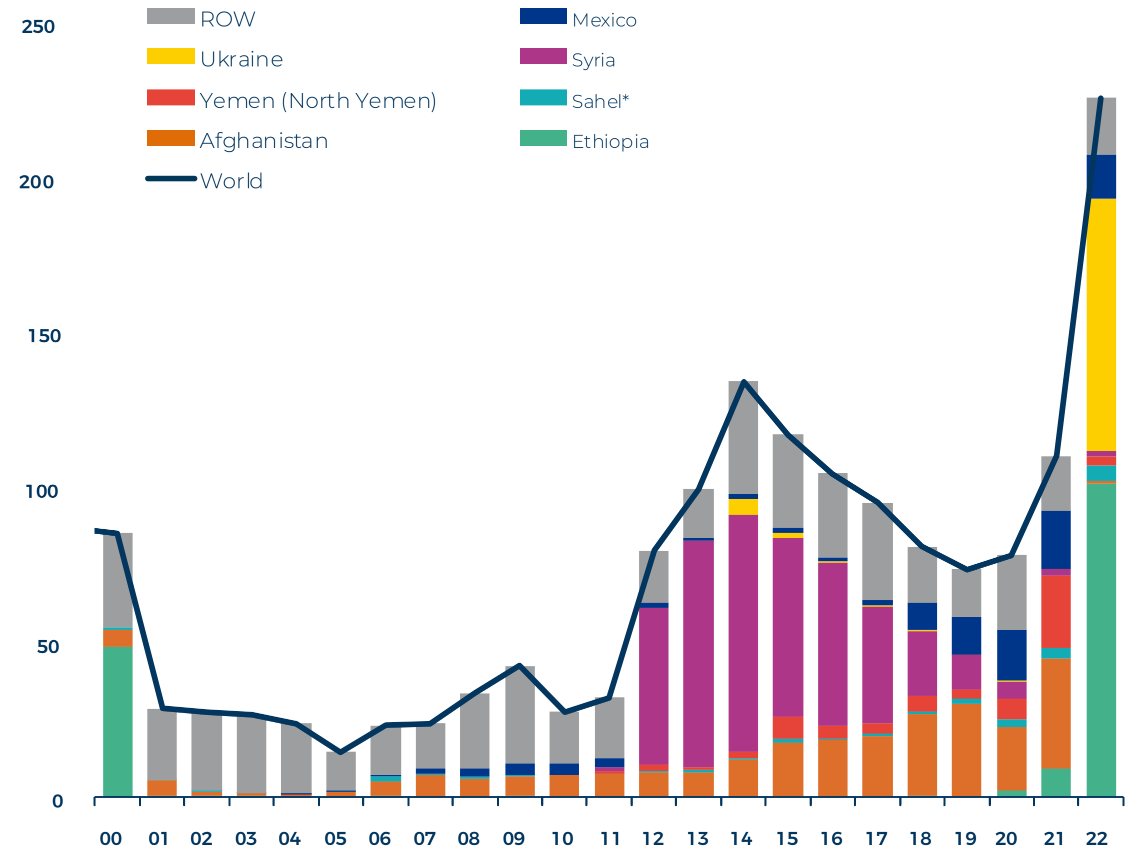
To assess political risk, Coface has its own index, launched in March 2017 and updated annually. In the 2023 edition of our indicator, the global average score increases and remains at a higher level than before the pandemic **(Chart 10)**. The dip observed last year, linked to the improvement in economic conditions after the pandemic, will thus have been short-lived, as we feared. With the exception of the peak immediately after the COVID-19 crisis, this is in fact a record level for our index. As we pointed out last year, the slowdown in the post-pandemic recovery, rising inflation and a deteriorating security environment, particularly with the war in Ukraine, immediately took over from the economic and human impacts of the health crisis. In almost two-thirds of countries (101 out of 160 analysed), political risk is higher than in 2022, and also exceeds pre-pandemic levels (for 97 of them).

In recent years, political risk in its various forms - rising populism, social unrest, conflict, terrorism, protectionism - has been a recurring theme in the news. However, against a backdrop of heightened socio-economic pressures, there have been numerous manifestations of this risk, ranging from Sri Lanka and Argentina to Niger and Gabon. The contestation of the judicial reform in Israel and the pension reform in France have also confirmed that advanced economies are not spared from these risks, even if their shape and scale are not necessarily disruptive to economic activity. Social and political risk seems to be on the rise in a world that is becoming increasingly uncertain and unstable because of the reshaping of the global playing field and the increasingly perceptible urgency of climate change.

Regarding security risks, the number of conflicts increased in 2022, with a particularly high death

4 Coface. « War in Ukraine: Many (big) losers, few (real) winners ». 3 May 2022. https://www.coface.com/News-Publications/News/War-in-Ukraine-Many-big-losers-few-real-winners
5 Coface Barometer, « A cold chill on the global economy», Q3 2022

Chart 11:
World - Deaths in conflicts (in thousands)



*Sahel: Burkina Faso, Mali, Mauritania, Niger and Chad
Sources: Uppsala Conflict Data Program, Coface

toll **(Chart 11)**. Of course, the war in Ukraine, whose human toll we are including in our index for the first time since the Russian invasion in February 2022, is no stranger to this observation. What's more, while some conflicts have calmed down (relatively speaking) over the past year (Afghanistan, Yemen), others have emerged or become more intense. A case in point is the intensification of the recurring clashes in Nagorno-Karabakh, which highlights the persistent border crisis between Armenia and Azerbaijan, which experienced a new episode in September. However, one of the main developments in our conflict index is linked to Ethiopia, where the war in Tigray took a deadlier turn before the peace agreement signed between the Ethiopian federal government and the rebel forces in November 2022. The number of casualties topped the 100,000 mark, making it the deadliest conflict of the past year. Although the situation has eased over the past year, the peace remains fragile.

Looking beyond Ethiopia, the security situation in Africa has deteriorated since 2010. The number of active conflicts (state and non-state) on the continent has almost tripled since then. This trend is particularly linked to the fight against jihadist groups operating in Burkina Faso, Mali, Niger, Chad and Nigeria, for example. They thus contribute to particularly high conflict risk scores. This aggravated security context in the Sahel, and the difficulties in containing the Islamist insurgency since 2020, has also played a role in the recent political upheavals in the region. After Mali and Chad in 2021, and Burkina Faso (twice) last year, Niger experienced a coup d'état this summer **(see Box 3)**.

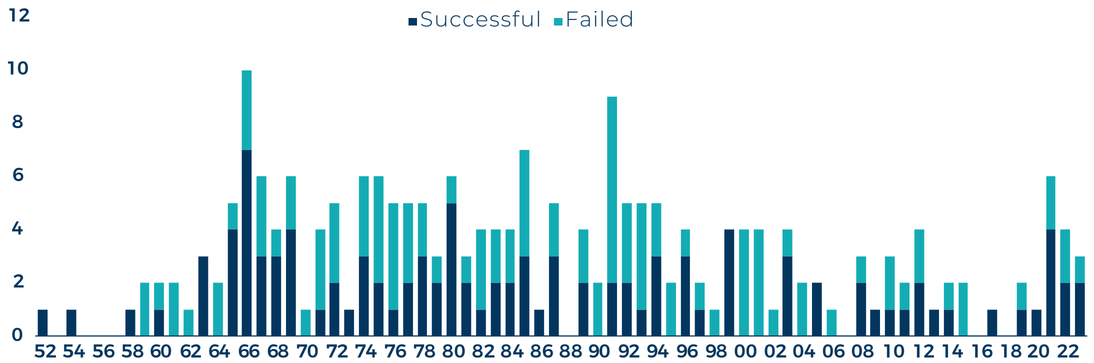
Box 3:

THE MULTIPLICATION OF COUPS D'ÉTAT IN CENTRAL AND WEST AFRICA: A NEW ERA?

In just one month, two coups d'état occurred on the African continent. On 26 July 2023, Niger's presidential guard, backed by the army, overthrew the democratically elected president, Mohamed Bazoum. In Gabon, on 30 August 2023, just after the announcement of Ali Bongo's victory in the presidential election that would mark the start of his third term in office, a military junta announced its intention to dissolve the existing institutions.

Historically, the African continent has seen many coups d'état: of the 491 attempted coups d'état recorded worldwide[1] since 1952, almost half (217, of which 107 were successful[2]) have occurred in 44 countries on the continent. Nevertheless, the trend in attempted coups d'état on the African continent from 1952 to the present day shows a period of relative calm over the last two decades, which precedes a resurgence since the turn of the 2020s **(Chart 12)**. Another striking fact since the start of the decade is that attempted coups d'état have a higher success rate (64%) than in previous decades (41% between 2000 and 2019). Finally, recent coups d'état have particularly affected the French-speaking countries of Central and West Africa. Since 2020, 10 of the 14 attempted coups, including 8 of the 9 successful ones, have taken place there. This is not completely new, as since 2000, out of a total of 26 successful coups in Africa, 15 have been in French-speaking countries[3].

Chart 12:
Africa - Attempted coups (successful and failed)



Data available until August 2023
Sources: Coface - Data by Jonathan M. Powell and Clayton L. Thyne

The deterioration of our security risk indicators in the Sahel zone signalled an increased risk. The inability of governments to curb the terrorist threat was a major factor in fuelling mistrust towards them, and probably encouraged the armed forces to intervene. Distrust of political elites, disenchantment with the democratisation process, the prevalence of poverty and the quality of governance are also explanatory factors.

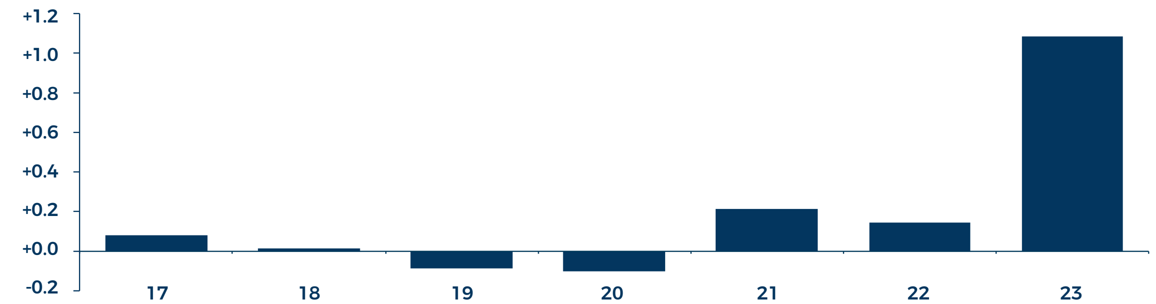
While Gabon does not face the same security challenges, our Political and Social Fragility Index indicated a particularly high political and social risk. With a score of 69.4% in the 2023 edition, the central African country ranked 12th in our hierarchy of the riskiest countries. Gabon has had an elevated risk score for many years, and this risk even manifested itself in 2019 with an attempt to overthrow Ali Bongo. Our Political and Social Fragility Index also warns of similar levels of risk in Cameroon (67.4%) and the Republic of Congo (69.7%). After Gabon, attention is now turning to neighbouring countries which, in addition to their socio-economic similarities that could lead to such events, are led by the continent's longest-serving sitting presidents[4], another factor favouring coups d'état.

1 According to the latest data (updated to August 2023) from American political scientists Jonathan M. Powell and Clayton L. Thyne.
2 When the putschists seize power and hold it for at least a week.
3 Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Gabon, Niger, Senegal, and Togo.
4 Teodoro Obiang Nguema Mbasogo, president of Equatorial Guinea since 1979, Paul Biya, president of Cameroon since 1982, and Denis Sassou N'Guesso, president of the Republic of Congo from 1979 to 1992, and since 1997, are currently the longest-serving presidents on the African continent.

After decreasing in almost 90% of countries between 2021 and 2022 (141 out of 160), political and social fragility rises again in 2023. The index shows an increase in around 80% of countries (130 out of 160). In 116 countries, the score is above the five-year average prior to the pandemic. Globally, the average score rose by 1.4 percentage points to 48.2 %. This upturn confirms our intuition of last year: the fall in our indicator was indeed deceptive. The socio-economic risks associated with rising living costs have been confirmed, with inflation emerging as a major source of variation in the social pressures incorporated into our risk indicator **(Chart 13)**.

The hierarchy of scores for the political and social fragility indicator continues to be dominated by Iran **(Table 1)**. A year after the death of Mahsa Amini and a wave of large-scale protests, the risk of renewed political unrest remains high. The reasons for challenging the regime are still very much present, although the number of demonstrations

Chart 13: World
World - Contribution of inflation to the change in score of the Coface index of political and social fragility (in percentage points)



Source: Coface

Table 1:
10 riskiest countries in the Coface index of political and social fragility, 2023

Country	2023 score	Evolution 2023 vs. 2022	2023 vs. 5 years pre-pandemic
IRAN	84.2%	-0.2 pp	+3.8 pp
SYRIA	77.9%	+0.1 pp	+2.8 pp
SUDAN	76.3%	-0.1 pp	-1.1 pp
LAOS	75.0%	+4.5 pp	+6.6 pp
AFGHANISTAN	74.7%	+4.2 pp	+6.8 pp
ERITREA	72.5%	+0.8 pp	+1.9 pp
DJIBOUTI	72.1%	+2.2 pp	+4.5 pp
LIBYA	71.7%	+5.7 pp	+4.5 pp
REPUBLIC OF CONGO	69.7%	+1.0 pp	+1.9 pp
VENEZUELA	69.7%	+0.2 pp	+0.4 pp

has fallen in response to increased surveillance and repression by the authorities. The podium of our indicator is completed, as it has been since 2017, by Syria and Sudan, still in the grip of conflict.

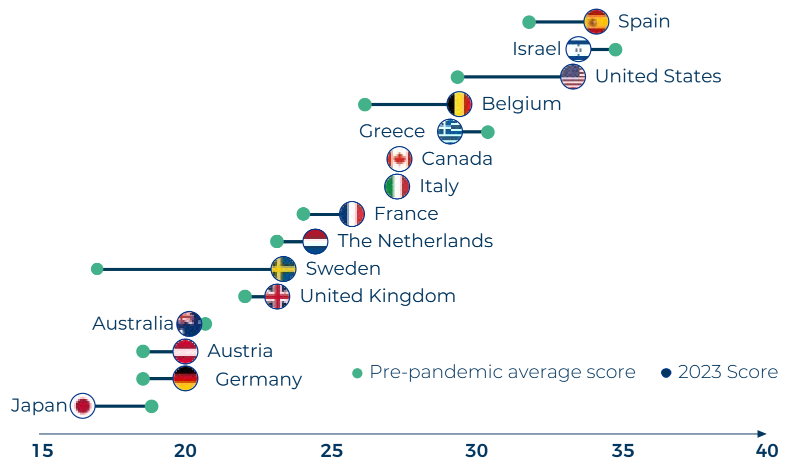
In Sri Lanka, which recorded one of the largest increases in its score **(Table 2)**, economic difficulties led to a major political crisis. Among the countries whose scores rose the most were Ukraine, but also Libya, still mired in a political impasse, and Afghanistan, where the political situation remains worrying since the Taliban took over the reins of power. The evolution of the score in Laos, which places the country in 4th position in our hierarchy, also raises concerns. Although the control of the Lao People's Revolutionary Party remains virtually unchallenged, it signals increased vulnerability in a context of high inflation (over 25% in August 2023) and high sovereign risk - which should force the government to make major budget cuts. Given the significant change in its score, Senegal will also be one to watch in a presidential election year (25 February 2024). Although generally regarded as one of the most stable countries in West Africa, the sentencing of opposition politician Ousmane Sonko to two years imprisonment and his removal from the electoral roll have strained the political climate. More generally, still-high commodity prices and the persistent weakness of their currencies against the US dollar will continue to fuel discontent in 2023-24 in some countries, particularly in the emerging world.

As far as the advanced countries are concerned, risks will remain. There is a new upsurge in workers' demands, motivated both by pressure on their purchasing power and by changes in the labour market resulting from the COVID-19 pandemic. Consequently, the political and social fragility scores of most advanced economies are now higher than they were before the pandemic **(Chart 14)**. These recent trends combine with older political and social tensions, and notably a growing defiance of public institutions, generated by the perception of stagnating or even eroding living standards and social protection. Next year's European elections, scheduled for June, could confirm the rise of populist and/or illiberal parties, at the expense of the traditional parties.

Table 2:
10 countries with the highest increase in the Coface index of political and social fragility in 2023

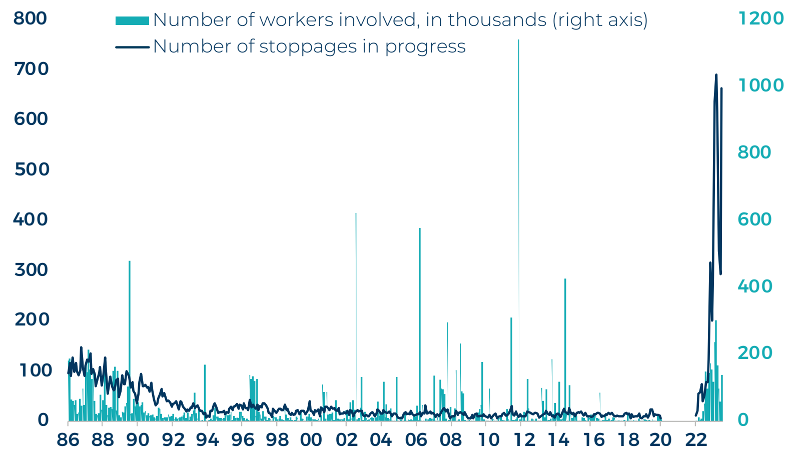
Country	Progression	2023 score	2023 rank (Progression vs. 2022)	
UKRAINE	+7.3 pp	56.2%	58	(+22)
SRI LANKA	+6.9 pp	53.3%	67	(+25)
LIBYA	+5.7 pp	71.7%	8	(+10)
LAOS	+4.5 pp	75.0%	4	(+2)
AFGHANISTAN	+4.2 pp	74.7%	5	(+7)
SENEGAL	+3.9 pp	47.8%	91	(+9)
BURKINA FASO	+3.1 pp	52.0%	74	(+8)
CAMBODIA	+2.9 pp	58.0%	51	(+5)
NICARAGUA	+2.8 pp	62.8%	33	(+10)
ESTONIA	+2.7 pp	29.5%	132	(+8)

Chart 14:
Selected advanced economies - Coface political and social fragility index score, five-year average before the pandemic vs. 2023 (index from 0 (minimum risk) to 100% (maximum risk))



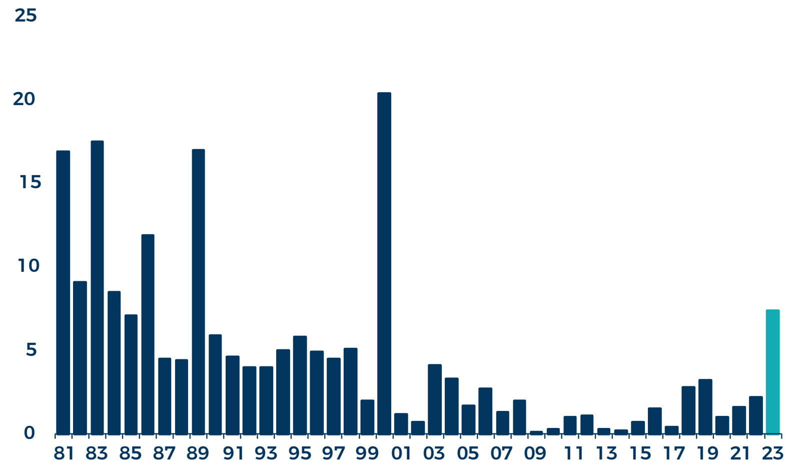
Source: Coface

Chart 15a:
United Kingdom - Social conflicts



Sources: ONS, Refinitiv Datastream, Coface

Chart 15b:
United States: Days out of work due to social conflicts (in millions)



The 2023 data end in August
Sources: Bureau of Labor Statistics, Refinitiv Datastream, Coface

Stronger demands are already reflected in an increase in social conflicts across Europe, particularly in the UK, as well as in the US **(see Charts 15a & 15b)**. On the other side of the Atlantic, the workers' strike in the automotive industry is a recent and emblematic example, and follows those of scriptwriters and actors. Furthermore, the political and social climate in the US is likely to remain tense with a year to go before the presidential election. The dividing lines between the Democratic and Republican camps, as well as within the two main parties themselves, are deepening. With 14 months to go before the election, the Republicans in the House of Representatives have launched an impeachment enquiry against President Joe Biden, who is standing for re-election. In another recent symbol of these divisions, Republican Kevin McCarthy was removed from his post as speaker of the House of Representatives, where his party has a majority, marking a historic first. The tensions surrounding the debt ceiling last spring, as well as the recent threat of another government shutdown, have also highlighted these divisions, as well as their potential economic repercussions.

The results of our 2023 political risk indicator therefore tend to extend our warnings about the rise in political and social risks. The deterioration in the security situation and the growing number of protests bear witness to this. In the longer term, in addition to the current geopolitical reshuffle, the climate issue could be an aggravating factor behind this rise in political risk. The climate marches in many parts of the world confirm higher expectations vis-à-vis the authorities to respond to the challenges of climate change. It also threatens to intensify competition for access to and control of resources, starting with water, and could thus contribute to an increase in conflicts in the medium-term.

Country Risk Assessment Changes

AREA	Previous Assessment		Current Assessment
BELIZE	D	↗	C
COLOMBIA	B	↘	C
FINLAND	A2	↘	A3
MONGOLIA	D	↗	C
NIGER	C	↘	D
NEW ZEALAND	A2	↘	A3
SWEDEN	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

Belize
(Upgrade from D to C) ↗

- Belize's GDP surpassed pre-pandemic levels, in the wake of the recovery of the tourism sector. Tourism receipts notably exceeded 2019 levels by 17%. Meanwhile, inflation has eased considerably, falling from a peak 7.4% in August 2022 to 2.8% in July 2023. A narrowing current account deficit, as well as foreign investment and loans, is expected to ensure stable foreign exchange reserves. Belize's fiscal outlook is optimistic, marked by fiscal consolidation and reduced deficits compared with pre-pandemic levels. Public debt as a share of GDP is projected to fall. While debt servicing costs are still high, sovereign risk has diminished since the late 2021 debt restructuring.

Mongolia
(Upgrade from D to C) ↗

- The economy has recovered thanks to the gradual lifting of most of restrictions at China borders in 2022. This has allowed Mongolia's exports to climb, with the quasi-totality of them being shipped to its Chinese neighbor. The resumption of trade between the two countries has also helped the country rebuild its foreign exchange reserves and stabilize the Mongolian currency, the tugrik. Alongside fiscal consolidation efforts, this has lowered risk of default on its public debt.

Sweden
(Downgrade from A2 to A3) ↘

- The Swedish economy is a small open economy, usually very sensitive to a slowdown in global trade. Consequently, Swedish exports are expected to experience a slowdown in 2023 and 2024. At the same time, private consumption and investments are responding to the high interest rates as floating rates are very common for both households and companies in the country. Swedish banks are highly exposed to real estate, both commercial and residential, which is affected by falling prices. Unemployment is starting to increase slowly. Insolvencies are rising in the country as the economy is adjusting to the high interest rate environment.

Finland
(Downgrade from A2 to A3) ↘

- The Finnish economy is experiencing a continuous weakening after entering a technical recession in the last quarter of 2022. Private consumption and investments are falling, affected by high interest rates. At the same time, global trade is also having an effect on Finnish exports. The new government is promising more fiscal prudency in the coming years. After low levels in 2020 and 2021, and a normalisation in 2022, insolvencies are now rising faster.

New Zealand
(Downgrade from A2 to A3) ↘

- The economy fell into technical recession in the first quarter of this year. New Zealand's outlook remains gloomy amid persistently high inflation and continued restrictive monetary policy from the Reserve Bank of New Zealand, weighing on both consumer and business sentiment. Furthermore, the property market struggles to recover after a downturn started in late 2021.

Colombia
(Downgrade from B to C) ↘

- The Colombian economy has surprised negatively through Q2 23, and activity weakness is expected to persist in the coming quarters. The combination of high real interest rates and sticky inflation should remain in the short-term, bringing private consumption and gross fixed investment down. Risks associated with El Niño and higher domestic fuel prices could put further pressure on inflation and keep interest rates higher than previously expected.

Niger
(Downgrade from C to D) ↘

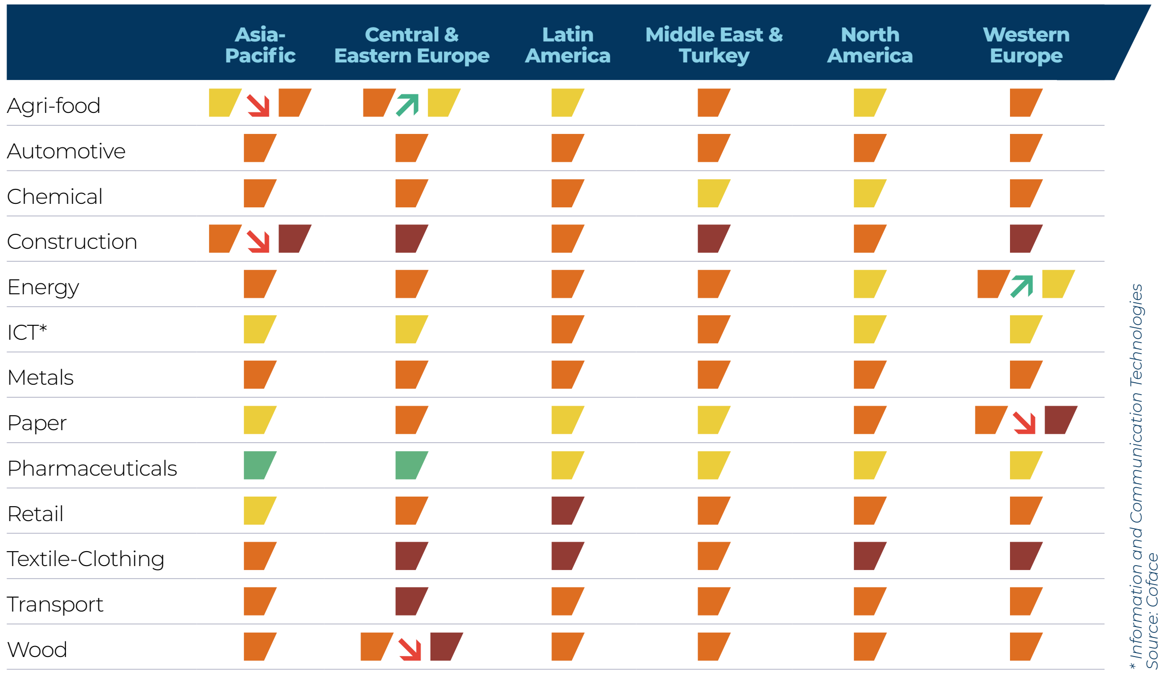
- As a consequence of the end of July 2023 military coup, economic sanctions have been applied against Niger by other member countries of the regional organizations: ECOWAS and WAEMU. Except for humanitarian aid, trade and financial transactions are suspended. Public Nigerien assets are frozen by the regional bank, the BCEAO, making cash shortages common. Nigeria and Benin, the main entry-exit points for the landlocked country, closed their land

borders. Nigeria slowed its electricity deliveries, which represent 70% of Niger's power supply. Moreover, international partners have suspended their development aid and budget support. A quarter of Nigerien public expenses are financed by international aid which, otherwise, represents 9% of GDP. Finally, the delivery in Q4 2023 by China National Petroleum Corporation (CNPC) of the pipeline linking its dozen oil fields in the Nigerien Agadem region to the Benin coast could be affected, and the associated economic boom put into question.

Sector Risk Assessment Changes

(Q3 2023)

REGIONAL SECTOR RISK ASSESSMENTS



ASIA-PACIFIC

CENTRAL & EASTERN EUROPE

	Central & Eastern Europe	Czechia	Poland	Romania
Agri-food	High Risk ↗ Medium Risk	High Risk ↗ Medium Risk	High Risk ↗ Medium Risk	High Risk
Automotive	High Risk	High Risk	High 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
ICT*	Medium Risk	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	High Risk	High 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	High Risk ↘ Very High Risk	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	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	Very 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	High Risk ↗ Medium Risk	High 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	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	Medium 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	High Risk ↗ Medium Risk	High Risk	High Risk ↗ Medium Risk	High Risk	High Risk	High Risk	High Risk
Automotive	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	Very 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	Medium Risk ↘ High Risk	Very High Risk
Energy	High Risk ↗ Medium Risk	High Risk ↗ Medium Risk	High Risk ↗ Medium Risk	High Risk	High Risk ↗ Medium Risk	High Risk ↗ Medium Risk	Very High Risk ↗ High Risk	High Risk ↗ Medium Risk	High 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	High Risk ↘ Very High Risk	High Risk ↘ Very High Risk	High Risk ↘ Very High Risk	High Risk ↘ Very High Risk	High Risk ↘ Very High Risk	High Risk	High Risk ↘ Very High Risk	High Risk	High Risk
Pharmaceuticals	Medium Risk	Medium 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	High Risk	Very 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	High Risk	High Risk ↘ Very High Risk	High Risk	Medium Risk ↘ High Risk	High Risk	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

OTHER COUNTRIES

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

COUNTRY RISK ASSESSMENT MAP

coface FOR TRADE

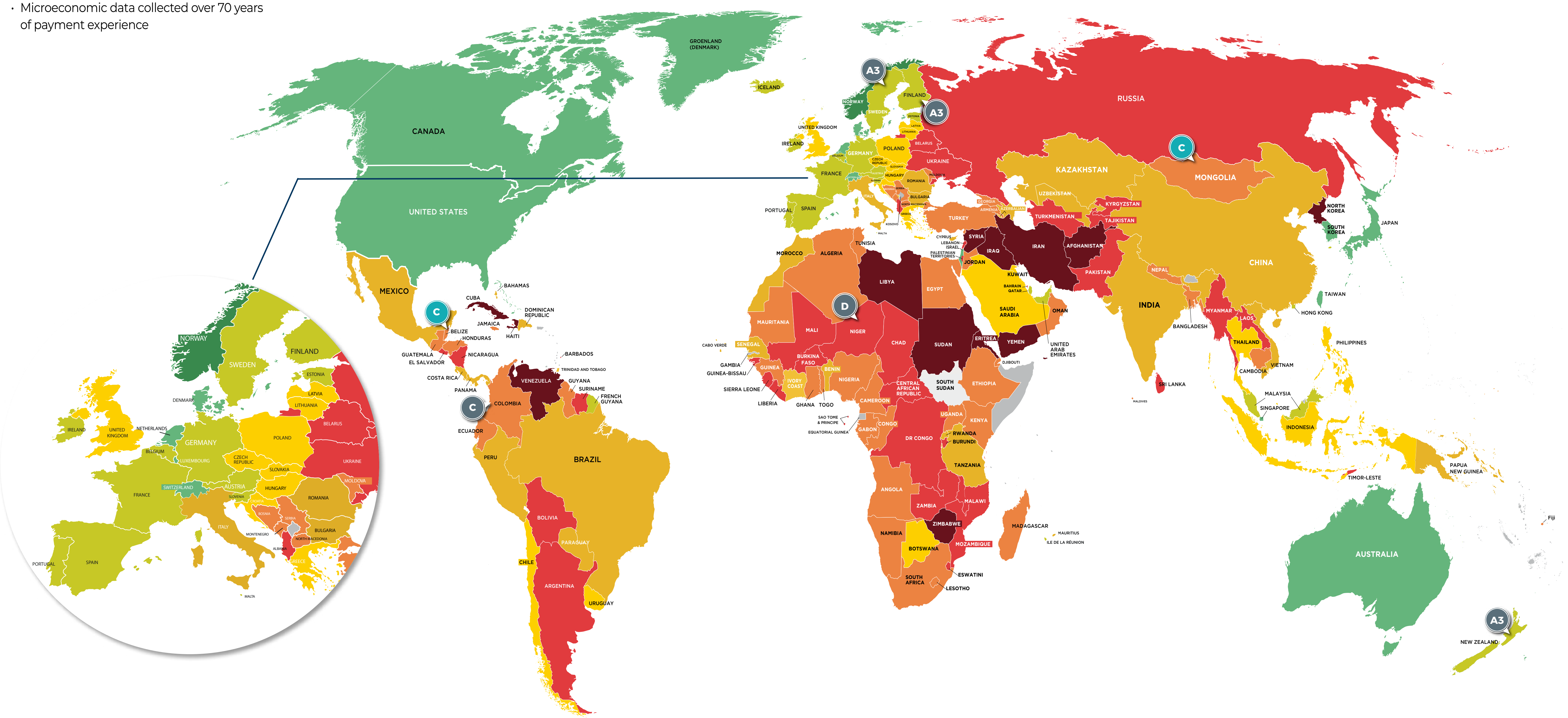
162 COUNTRIES UNDER THE MAGNIFYING GLASS

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

UPGRADES DOWNGRADES



SECTOR RISK ASSESSMENTS
3e quarter 2023

NORTH AMERICA

CENTRAL & EASTERN EUROPE

WESTERN EUROPE

MIDDLE EAST & TURKEY

ASIA-PACIFIC

LATIN AMERICA

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

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

Upgrade

Downgrade

* Information and Communication Technologies

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