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# PANORAMA

JUNE 2016

## Country Risk Barometer Q2 2016

### China and the United States, two giants with feet of clay

COFACE ECONOMIC PUBLICATIONS

By Coface Group Economists



**G**ood growth figures in Europe, rebound in many emerging currencies and oil prices: there was an increasing number of signs of a lull in spring before the British referendum. But this calm is in appearance only, as many "micro" risks appear as soon as we scratch this "macro" surface. And the two largest economies in the world, the United States and China, whose country ratings have been downgraded respectively to A2 and B, perfectly illustrate this tendency. In China, the most widely followed economic indicators, such as GDP growth, retail sales and industrial production, show that growth is stabilising. But company insolvencies are growing sharply. In the United States, hidden behind the continuous fall in the unemployment rate, there are companies whose profitability is being eroded and which are investing less.

But the parallels between China and the United States stop there, as these "micro" vulnerabilities are different on the two sides of the Pacific. In China, companies are suffering from overcapacity and excessive debt, which will take time to reduce, while in the United States, companies' problems are more cyclical than structural: six years after the beginning of the recovery process they derived the full benefits from, the turnaround point has been reached and resulted in a rise in insolvencies in early 2016, for the first time since 2010.

If we add Japan (downgraded to A2 in March), it is therefore the three largest economies that are seeing their companies' credit risk increase in this first half of the year. Unsurprisingly, Asian countries are negatively affected by the Chinese slowdown (downgrading of South Korea, Hong Kong, Singapore and Taiwan).

Before the British referendum, Europe was - for a change - the herald of good news: the country assessments of France and Italy have actually been revised upwards (respectively to A2 and A3), under the effect of falling insolvencies, earnings that have stopped declining and ever more favourable lending conditions. Central and Eastern Europe is benefiting from the eurozone recovery: Romania, Slovenia, Lithuania and Latvia have been reclassified. In Europe, companies should therefore keep their positive growth momentum over the next few months, unless the consequences of the British referendum and other numerous political uncertainties spoil the party.

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FOR SAFER TRADE

June 2016

# CHINA AND THE UNITED STATES, TWO GIANTS WITH FEET OF CLAY

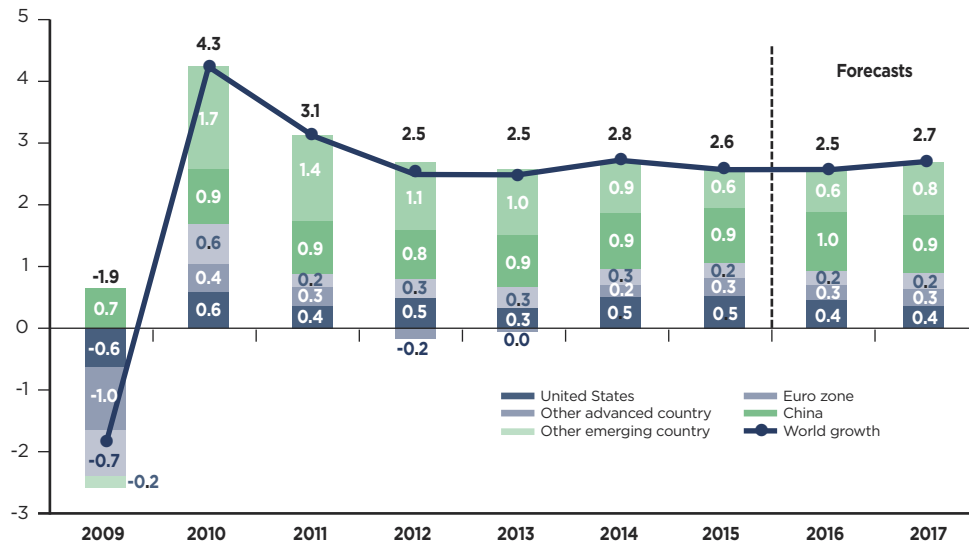
**The global economy remains stuck in a "Japanese-style" trap of sluggish growth, despite ever more expansionary monetary policies**

Unsurprisingly, global growth prospects have not improved since our latest update in March. They have even deteriorated slightly (global growth forecast revised downwards by 0.2 pp to 2.5%), particularly because of the United States (see *below*). Few improvements are expected for 2017, since we expect global growth to remain lower than 3% for the sixth year running, and therefore stuck in a "Japanese-style" trap of sluggish growth. Like in Japan since the middle of the 1990s, this lacklustre growth goes hand in hand with a low level of inflation: consumer prices are expected to rise only 2.9% worldwide on average this year according to the IMF, i.e. the lowest growth rate

since 1980<sup>(1)</sup>. For advanced economies only, inflation will probably be even lower than 1%, which is once again unprecedented.

This sluggishness is obviously not encouraging central banks to tighten their monetary policy: no rate hike is on the horizon for the ECB (see *inset 1*) or the Bank of Japan. The current slowdown in US growth is jeopardising the Federal Reserve's plan to raise its key interest rate. In the United Kingdom, the predictions of monetary tightening have been shelved and could even give way to expectations of rate cuts following the outcome of the British referendum (see *box n°3 page 7*).

Chart n°1  
Contributions to global growth



Sources: IMF, national statistics and Coface forecast

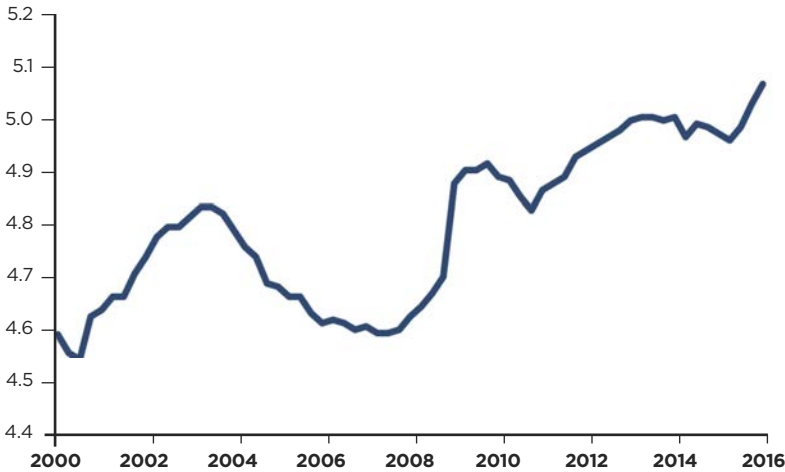
Companies are negatively affected by this environment: because of the listless growth they lack outlets, while the low inflation rate limits their pricing power. Against this backdrop, the company risk is increasing according to our country ratings, which measure their average credit risk in 160

countries. The global average of these ratings shows a marked increase in the risk level for companies worldwide. What is worse is that the current level is at a peak not seen since the early 2000s, the period when these country ratings were created (see *chart n°2 page 3*).

(1) The IMF does not provide this data for the years prior to 1980.

Chart n°2

Average country index risk worldwide  
(1 = country rating A1, low risk; 8 = country rating E, extremely high risk)



Source: Coface

### China: a short-lived respite

China partly explains this trend, as its country rating has been downgraded from A4 to B. Yet the first quarter briefly showed signs of a stabilisation of growth, thanks to vigorous credit growth encouraged by the central bank. The authorities continue to stimulate activity via accommodative monetary and fiscal policies, reflected by the stimulus measures that will increase the fiscal deficit to 3% of GDP in 2016 (versus 2.3% in 2015). Nevertheless, the efficiency of such stimulus is increasingly limited

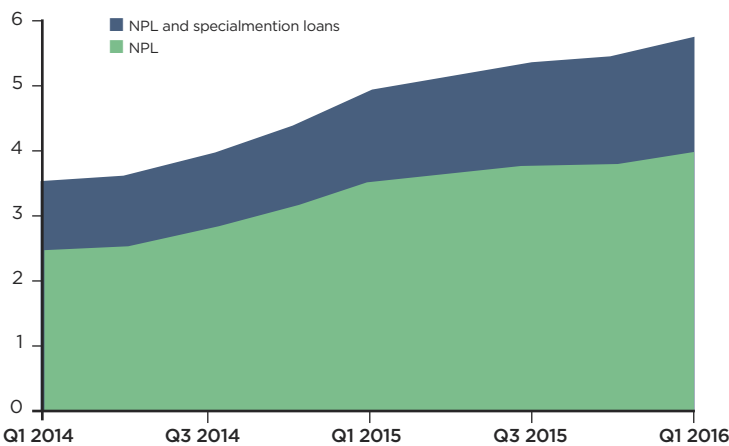
and worsens the credit risk. The reason is the overcapacity in many sectors (steel, cement, etc.). Moreover, Chinese companies' high debt level explains why an increasingly significant part of new financing is not allocated to investment, but is only used to refinance existing credit lines<sup>(2)</sup>. The IMF<sup>(3)</sup> estimates that 14% of the loans taken out by Chinese companies can be considered as risky<sup>(4)</sup>, the most vulnerable sectors being steel (39%), sales<sup>(5)</sup> (35%) and the mining sector (35%). And non-performing loans continue to grow: they were up 42% in the first quarter in year-on-year terms. When including "special mention loans", bad debt now accounts for 5.8% of total loans (see chart n°3).

The Chinese authorities are therefore gradually realising that this expansionary monetary policy is not sustainable. Besides, the most recent activity indicators show a slowdown in growth in the spring linked to a reduction in allocated loans (see country file page 12) and microeconomic signals such as the rapid rise in the number of defaults in the local corporate bond market are negative (see chart n° 4).

The rest of Asia also continues to feel this Chinese shock wave. The latest payment survey undertaken by Coface highlights growing problems for companies, as more than 80% of the entities questioned recorded late payments in 2015<sup>(6)</sup>. Actors in the construction sector are by far the most affected by this lengthening of payment periods. The most severely affected economies are Singapore, Hong Kong, Taiwan, South Korea and Malaysia.

Chart n°3

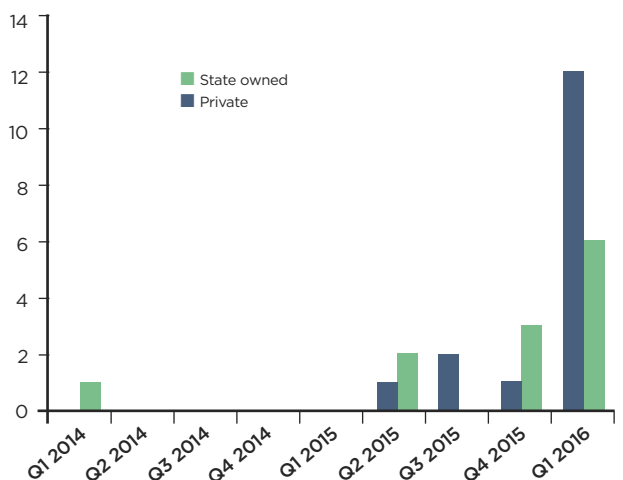
Non performing loan ratios (% of total)



Source: PBoC

Chart n°4

Number of corporate bond defaults in China



Source: Bloomberg

(2) In 2015, 44% of the bond issues were used to refinance existing programmes according to Wind Informations

(3) Global Financial Stability Report, FMI, April 2016

(4) When a borrower's coverage ratio is lower than 1, the debt is considered "risky". The coverage ratio is measured by the EBITDA /interest expenditure ratio

(5) Wholesale and retail sales

(6) "Asia Corporate Payment Survey", Coface Overview, May 2016. [www.coface.com/News-Publications/Publications](http://www.coface.com/News-Publications/Publications)

As they are very open and highly exposed to China<sup>(7)</sup>, they are facing a slowdown in their growth and a rise in companies' credit risk. The high level of household debt (particularly in South Korea, Malaysia, Thailand and Singapore) could also weigh on activity. Their country ratings have therefore been downgraded (see page 9). Conversely, the Philippines and Vietnam continue to post solid growth.

are therefore no longer included in the official figures. Other bad news: this employment report confirms that the energy and manufacturing sectors are no longer the only ones to destroy jobs. Sectors that until now have been in good shape, such as construction, seem to be running out of steam. Only job creation in the healthcare sector prevented the US economy from destroying jobs in May. Household consumption growth will be slightly less vigorous than usual over the coming quarters, especially as the recent rebound in inflation (particularly in services such as leisure, rents and healthcare) is limiting growth in American consumers' purchasing power.

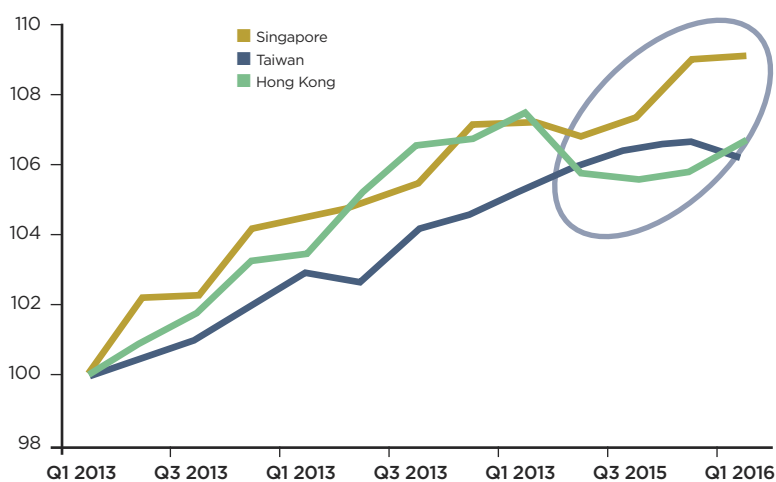
### Europe: investment is picking up, but political uncertainties are having a negative impact

While growth slowed down in the United States, it accelerated in the eurozone in the first quarter (+0.6% quarter-on-quarter), fuelled both by household consumption and private investment. This good start should enable it to reach 1.7% for the full year. The budgetary easing (especially in Spain) and, above all, the positive effects of the fall in the oil price on companies' margins as well as on household purchasing power are still at work. The ECB's low interest rate policy (see *Inset n°1*) is also positive for companies. The ECB's latest semi-annual survey on SME's financing conditions in the eurozone published in June also highlights this trend: European small and medium-sized enterprises are less worried than in the past about bank lending conditions. For the third half year in a row, they confirm that they are seeing an improvement in the supply of bank loans as well as a fall in the interest rates offered. And for the first time, this improvement is also benefiting very small businesses. The most marked progress was in Spain, Ireland and Slovakia, whereas only Finnish and Austrian SMEs did not benefit from this improvement, according to the survey<sup>(8)</sup>.

Growth is expected to stabilise in 2017, amid a resurgence of inflation that is not offset by equivalent nominal wage growth, with unemployment levels that remain high in most eurozone countries, despite the slight decline in their level recently. And the risks linked to political uncertainties will also have to be monitored in the second half of 2016 and in 2017. They are likely to weigh on growth, as they will lead households and companies to postpone certain consumption and investment decisions. Various studies confirm this. In 2011, Aisen and Vaiga concluded that a higher degree of political uncertainty (measured by the number of changes of government) is associated with a lower per capita GDP growth, after studying the statistical relationship between these two

Chart n°5

GDP of Singapore, Taiwan and Hong Kong (100 = first quarter of 2013)



Source: National statistics

### United States: rise in insolvencies in the first quarter for the first time since 2010

Growth is slowing down in the United States, where it is unlikely to exceed 1.8% this year and 1.5% next year. Companies are already feeling the effects of this contraction: the number of insolvencies increased slightly in the first quarter (+0.3%), for the first time in six years! The decline in their earnings is another tangible signal of the growing fragility of US companies: -6% year-on-year in the first quarter of 2016, after an 11.5% fall in the fourth quarter of 2015. The fall in corporate earnings in the energy sector is, admittedly, not a surprise, but it does not explain everything: excluding the energy sector, earnings keep falling (-7.9% year-on-year in the fourth quarter).

Companies are not the only ones to tread water: job creation hit the lowest level in six years in May (at 38,000). And the decline in the unemployment rate (to 4.7% of the labour force) is misleading, insofar as it went hand-in-hand with a fall in the employment rate. In other words, the unemployment rate has fallen despite the small number of jobs created, as more discouraged job seekers who have stopped looking for a job

(7) Asia suffering from the ordeal of the Chinese slowdown, Coface, September 2015 [www.coface.com/News-Publications/Publications](http://www.coface.com/News-Publications/Publications)

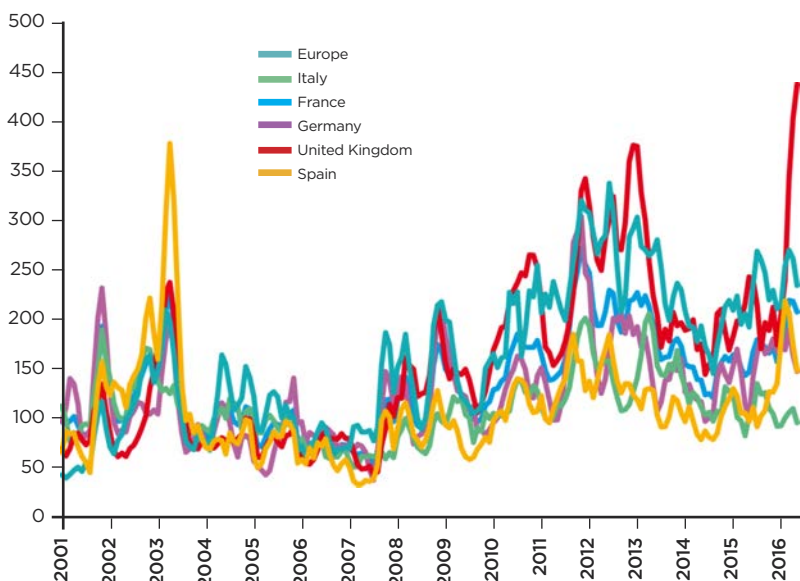
(8) <https://www.ecb.europa.eu/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201606.en.pdf?c96d449e601cbe6c87d2e67d54e68c70>



variables in 169 countries between 1960 and 2004<sup>(9)</sup>. These results confirm those of Alesina (1996)<sup>(10)</sup>, according to which GDP growth in 113 countries between 1950 and 1982 was significantly lower when the probability of the collapse of a government was high.

However, the EPU (Economic Policy Uncertainty) indicator<sup>(11)</sup>, which aims to measure the degree of uncertainty in terms of economic policy, confirms that this uncertainty is at a high level. While it did not exceed 100 on average between 2001 and 2007, it has fluctuated between 150 and 200 since 2008 (see chart n°6). It even exceeded 400 in the United Kingdom in April and May, in the context of the campaign for the referendum on whether or not the country should remain in the European Union. Because of the outcome of the referendum in UK (see box n°3 page 7), it is unlikely that the degree of uncertainty will fall significantly in Europe in the coming quarters all the more since the political agenda is busy: political consequences of the Spanish general elections in June, continuation of the Greek programme (see inset 2 page 6), regional elections in Germany in September 2016 and then May 2017, constitutional referendum in Italy (autumn of 2016), general elections in the Netherlands in the first quarter of 2017, presidential elections and general elections in France in the spring of 2017 and, lastly, parliamentary election in Germany in September 2017. Not to mention the fact that the migrant crisis has not been solved, despite the agreement signed with Turkey at the start of the year, and this will probably continue to have an influence on the

Chart n°6  
Political uncertainty index in Europe



Source: www.policyuncertainty.com

Box n°1

**New ECB measures to boost inflation and investment in the eurozone**

On 8 June 2016, the European Central Bank (ECB) launched its corporate bond purchase programme (CSPP). This measure comes on top of five other measures that Mario Draghi announced on 10 March 2016: (i) 0.05 percentage point cut in the refi rate to 0% and (ii) cut in the marginal lending facility rate to 0.25%; (iii) 0.1 percentage point cut in the deposit rate to -0.4%; (iv) €20 billion increase in the monthly purchases to €80 billion; (v) introduction of a new TLTRO (4-year loans to banks at very low interest rates).

The implementation of these new measures was justified by the lack of growth dynamism and the low level of inflation. The inflation rate, currently in negative territory (-0.1% year-on-year in May 2016), is expected to rebound to above 1% towards the end of 2016

thanks to favourable base effects as well as the recent slight rise in oil prices. Coface expects the oil price to be close to \$50 per barrel on average during the second half of 2016 (i.e. around \$45 per barrel for the full year). Core inflation (excluding food and energy prices) remains at a low level (0.8% year-on-year in May 2016).

The purpose of the CSPP is to buy investment grade quality bonds issued by non-financial corporations headquartered in the eurozone. The maximum stock of bonds eligible for this programme is estimated at between €400 and 800 billion. Until now, the ECB has not announced the monthly amount of private-sector assets it intends to buy, but the consensus estimates it at €5 billion (i.e. 6.3% of the monthly purchase flows of €80 billion). French companies are

likely to be the main beneficiaries of the CSPP, ahead of Dutch, German, Italian and Spanish companies. The ECB will operate in the secondary market, and even in the primary market, and its objective is to reduce companies' funding costs so they can finance new investment projects. By pushing down bond yields, the ECB hopes to drive investors to riskier market segments and to SMEs, which traditionally raise financing in the banking market. This measure could, however, become less efficient if investors, discouraged by the low yields that safe companies provide, switch to companies outside the eurozone. And companies could be tempted to launch M&A transactions or to buy back their own shares rather than investing.

(9) Aisen A. and Vaiga F. (2011): "How Does Political Instability Affect Economic Growth?", Working Paper no. WP/11/12 of the International Monetary Fund.  
 (10) Alesina, A. and Perotti, R. (1996). "Income distribution, political instability, and investment." *European Economic Review* 40, 1203-1228.  
 (11) The EPU indicator is based on the occurrence of articles dealing with economic uncertainties in the press, budgetary provisions and discrepancies of GDP growth forecasts between economists. See www.policyuncertainty.com

## Box n°2

## The viability of the Greek debt depends on significant relief

Despite the debt cancellation granted in 2012 by private creditors (exchange transaction for public debt securities at a discounted price) and the fact that the eurozone and IMF creditors have granted new grace periods and repayment schedules as well as a reduction in the interest rates on their loans (stand-by arrangement for the IMF, the first lending facility to Greece and loans from the European Financial Stability Facility - EFSF - for European creditors), the Greek public debt remains very high. As of end-2015 it stood at €311.5 bn, i.e. 176.7% of GDP, of which two-thirds are due to the European partners (excluding ECB). On average, the European loans have grace periods and repayment schedules of respectively 15 and 40 years. The average variable interest rate is around 1.2%.

During the discussions on the first review of the ESM programme (European Stability Mechanism, a fund that has succeeded the EFSF), which were completed on 16 June 2016, the eurozone ministers of finance undertook to reduce the Greek debt if certain conditions are met. The IMF has for a long time defended this promise of debt relief.

However, we are not talking about an immediate restructuring (which can take place to only in 2018), which the IMF would have wanted. Also, it is not a question of reducing the amount of nominal debt, but relief measures such as a partial early repayment of the first lending facility and a reprofiling of the EFSF loans. The Europeans will agree to this restructuring only if the commitments made under the bailout plan are kept. In the short term, however, i.e. before the end of the third bailout plan (2018), measures will be implemented to smooth the profile of the repayments to the EFSF and to reduce interest rates.

According to the viability analysis of the Greek public debt carried out by the IMF (23 May 2016), without restructuring, the debt ratio, after initially decreasing (160% of GDP in 2030), will start growing again and reach around 250% in 2060. The IMF's forecasts in the budgetary field are nonetheless less optimistic than those of the European Commission (primary surplus of 1.5% of GDP in the long term, versus 3.5% for the Commission, a point that remains to be clarified). The IMF has revised the long-term growth assumptions

downwards to 1.25% due to the low level of potential growth. The IMF's analysis suggests that to permanently lower the debt ratio, the government financing needs will have to be maintained below the threshold of 10% of GDP until 2040 and increase to only 20 % in 2060, which will require a substantial reprofiling of the European loans. The IMF therefore proposes a combination of three measures:

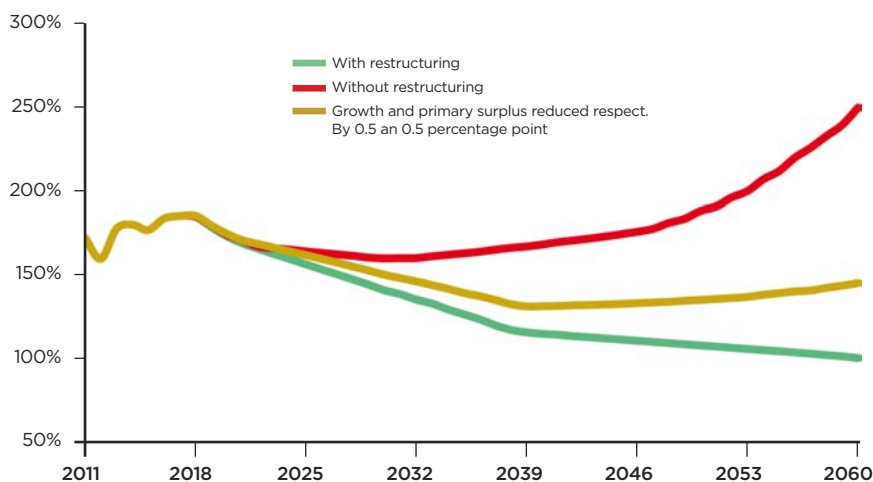
- An extension of the repayment schedule of 30 years for the lending facility to Greece, of 14 years for the EFSF loans and of 10 years for the ESM loans;
- An extension of the grace period, ranging from 6 years for the ESM to 17 and 20 years for the EFSF and the lending facility to Greece, as well as an extension of the interest payment deferral on these loans;
- A reduction in the interest rates (replacement of variable rates with fixed rates not exceeding 1.5% until 2040).

These measures as a whole would reduce the debt ratio to 100% of GDP in 2060.

The fact remains, however, that even after restructuring, the debt dynamics will remain very sensitive to shocks. So if growth stabilised at 1% in the long term (-0.25 percentage points compared with the core scenario), accompanied by a lower primary surplus (1% of GDP i.e. -0.5 percentage points), the debt would no longer be viable.

The IMF must ensure by end-2016 that the measures suggested by the Europeans, many of which are not quantified, will actually make it possible to bring the debt back to a viable long-term trajectory. The Europeans have, however, accepted the methodology it has proposed (based on fixing the government borrowing requirement) to adjust the debt relief.

Chart n°7  
Greek public debt (sustainability scenarios)



Source: IMF (DSA of May 2016)

## Box n°3

## United Kingdom: What's next after the vote?

On Thursday 23<sup>rd</sup> of June, the UK has voted to leave the European Union. 52% has voted to leave and 48% to remain. In this context, Prime Minister David Cameron announced he will step down. Shockwaves have spread across financial markets on June 24, as both short-term and long-term uncertainties are high. The GBP plunged to its lowest since 1985. Global equity markets have fell too. Oil, gold and the euro also reflect this surge in volatility and global risk aversion.

In the short-term, uncertainty and volatility is likely to prevail on financial markets. Its impact on business and consumer confidence in both the UK and in the rest of the world will depend on the magnitude of the correction on financial markets and on political developments in the coming weeks.

In the UK, if business and consumer confidence is affected by financial market volatility and political uncertainties, private consumption related sectors will be affected by the increased household precautionary savings and higher inflation. Business investment will take a hit as well. And the construction sector could be impacted by higher prices of imported inputs. Hence, the paradox is exporting sectors are not the most at risk ones in the short-term, as they could benefit from the lower level of the GBP. All in all, this could push the BoE to cut rates by the end of the year. And this leads us to revise down our GDP growth forecast (to 1.2% this year instead of 1.8%, and 1.1% next year).

Domestic political uncertainties add to this risk, as a conservative leadership election could take several months. The UK's vote to leave may lead to calls for another Scottish referendum, as Scotland voted to remain in the EU. Northern Ireland's case could be an issue too, all the more since the region has borders with an EU country, the Republic of Ireland.

In the rest of the world and more specifically in the EU, the magnitude of spill-over effects in the short-term will mostly depend on coming political developments and central bank actions. The main ones have already announce they are ready to provide banks with ample liquidity.

As a reminder, the political situation in Spain could bring further uncertainty on to the future of the European project. Later this year, a referendum in Italy on the constitution reform is expected and the resignation of PM Renzi is at play. Then elections are scheduled in the Netherlands, in France and in Germany in Q1, Q2 and Q3 2017 respectively.

Higher volatility and uncertainty in the short-term will be driven by long-term challenges and unknowns resulting from the outcome of the referendum. In this regard, the key issue is of course the negotiation of a trade agreement between the UK and the EU. The trickiest point is the access to the single market that ensures free movements of goods, services, capital and people (and makes it possible for firms of the financial sector based in the UK to operate easily in the whole EU without having to comply with local regulations). According to Article 50 of the Treaty on EU, the UK has to formally announce its intention to leave the EU during the European Council (the next one is on the 28th of June). The UK will then have two years to negotiate a new agreement with the EU, which seems nonetheless unlikely due to the very long period usually required to negotiate trade agreements: it took seven years for Canada and the EU to settle one (and it is still not ratified). The two-year countdown could therefore be prolonged. Three types of agreements are conceivable: (i) EEA membership, like Norway, which implies full access to the single market but loosing voting rights on regulatory framework and EU decisions; (ii) a

"customized" bilateral agreement, like Switzerland, which establishes access to the single market for specific sectors and (iii) WTO rules, with existing custom tariffs and no access to the single market.

The agreement will largely depend on political choices of the future PM, as there is a trade-off to be done between economic benefits resulting from the access to the single market and political/regulatory constraints. As one of the leaders of the 'Leave' camp is very likely to be the next PM, a Norway-style agreement is less likely and the negotiation process with the EU will be tricky. And defaulting to WTO rules means higher custom tariffs and no access to the single market. In this worst case scenario, the long-term economic cost of the Brexit would be higher:

- 1) In the UK, usual competitive exporting sectors being linked to the EU through supply chains (pharmaceutical and automotive are notable examples) will suffer from higher custom tariffs on their exports to the EU in the long-term. But on the other hand, the government could also decide to impose higher import tariffs, especially to help sectors currently suffering from foreign competition (metal industry). The long-term effect on the financial sector (8% of GDP, i.e. twice higher than the OECD average) is an unknown at this stage (see above).
- 2) In the EU, countries having the strongest links (in terms of trade and investment) with the UK and comparatively small domestic markets are most exposed: Ireland is by far the most at risk in this regard, followed by the Netherlands, Belgium, Denmark and Sweden, where the impact will be smaller.

## BAROMETER

June 2016

# COUNTRY RISK ASSESSMENTS CHANGES

## UPGRADES

Country	Country risk new
France	A2
Italy	A3
Lithuania	A3
Slovenia	A3
Latvia	A4
Roumania	A4
Ivory Coast	B

## Country risk assessments

**Country risk assessment** assesses the average risk of payment defaults by companies in a given country. This evaluation combines economic and political prospects of the country, Coface payment experience and business climate assessment. This evaluation has 8 grades: A1, A2, A3, A4, B, C, D, E. This scale included so far only 7 notches. An eighth category has been created to add granularity in analyzing country risk: some of the countries belonging to the category D are now included in this new category E synonymous with extremely high credit risk.

These countries are:

Afghanistan, Armenia, Central African Republic, Cuba, Eritrea, Iran, Iraq, Libya, Sudan, Syria, Timor-Leste, Venezuela, Yemen and Zimbabwe.

### France: A2

- Higher corporate margins in 2016 helped by the growth of the activity and by a government support reform (CICE).
- Highest non-financial private investment since 2012 during the first quarter (+2,3%).
- Recovering of the construction sector (5% of the French GDP).
- Decreasing business insolvencies (-3,2% expected in 2016)

### Italy: A3

- Economic growth has recovered since Q1 2015. Activity is expected to strengthen in 2016 and 2017, driven mainly by private consumption, itself supported by rising real household income. The firmness of consumption, waning spare capacity and the expected increase in corporate margins should lead to a strengthening of investment. However, imports are expected to continue to grow faster than exports.
- Employment continued to rise, unemployment has been declining since the end of 2014.
- Bankruptcies started to decrease in 2015. This trend continued in Q1 2016.

### Ivory Coast: B

- Economic growth remains one of the most dynamic of the continent. The implementation of new major building projects, the marked improvement in the business climate, private sector support measures, subdued inflation and improving living standards should continue to boost economic activity in 2016 and in the medium term.
- Macroeconomic imbalances have been curtailed.
- After two record years, cocoa production could decrease slightly this year. However, exports should continue to benefit from the high price of this commodity.
- Political stability emerged stronger from the smooth re-election of Alassane Ouattara in October 2015.
- Security has overall been restored despite the jihadist attack in Grand-Bassam in January 2016.



## DOWNGRADES

Country	Country risk new
United States	A2
Canada	A3
South Korea	A3
Finland	A3
Hong Kong	A3
Koweït	A3
Qatar	A3
Singapore	A3
Taiwan	A3
United Arab Emirates	A4
Malaysia	A4
Namibia	A4
Saudi Arabia	B
China	B
Algeria	C
Angola	D
Mozambique	D

## Country risk assessments

### Singapore: A3

- Singapore, which is trade-reliant, is exposed to China's structural slowdown.
- Weaker than expected external demand from the US, Japan and Europe also affects the manufacturing sector dominated by export-oriented industries.
- The shock on commodities (including oil) is also impacting Singapore's activity (fall in exploration, activities of trading).

### Saudi Arabia: B

- Saudi Arabia's economy has begun to feel the negative effects of the decline in oil prices: non-oil activity moderates, the fiscal deficit increases and the decrease in deposits of the banking system, especially government ones, weigh on the banking system and the economic activity.
- Leading indicators point to a slowdown of the non-oil economy: ATM transactions, business confidence and private sector credit growth, have all been slipping since the beginning of the year. Saudi Purchasing Managers' Index (PMI) remains well below its long-run average.

- The sizeable fiscal deficit will remain high and falling foreign reserves have led to the issuance of Saudi Arabia's first sovereign bonds since 2007.
- The Program Saudi Vision 2030 released in April 2016 presents a program to reduce Saudi dependency to oil. The implementation may allow Saudi economy to move beyond oil in the long term but may not have an effect on the economic slump in the short term.

### Algeria: C

- Algerian economy is deeply reliant on oil and gas sector. The impact of the oil shock on economic activity has been limited so far, with fiscal policy remaining expansionary through 2015, but growth is expected to slow because of the needed fiscal consolidation. The country experienced in 2016 a second year record high public deficit that will reach 15 % after a deficit closed to 16 % in 2015 according to the IMF. The Fonds de Régulation des Recettes (FRR), Algeria's oil saving fund, tends to decline.
- The current account deficit widens as hydrocarbon exports fell almost by half. Inflows of foreign direct investment remain weak at 1 percent of GDP. Foreign exchange reserves decline but remain substantial.

### Mozambique : D

- Outlook for growth worsened following the disclosure that the government had concealed USD1.4bn debt. IMF and WB have temporarily suspended their facilities waiting for clarification.

Public debt may reach 90% of GDP in 2016. Probability of default on sovereign debt increases. Investment deterred by lack of confidence in government's reliability and on its ability to fix debt issues.

- Worsening political situation with revival of opposition of RENAMO against the ruling FRELIMO.

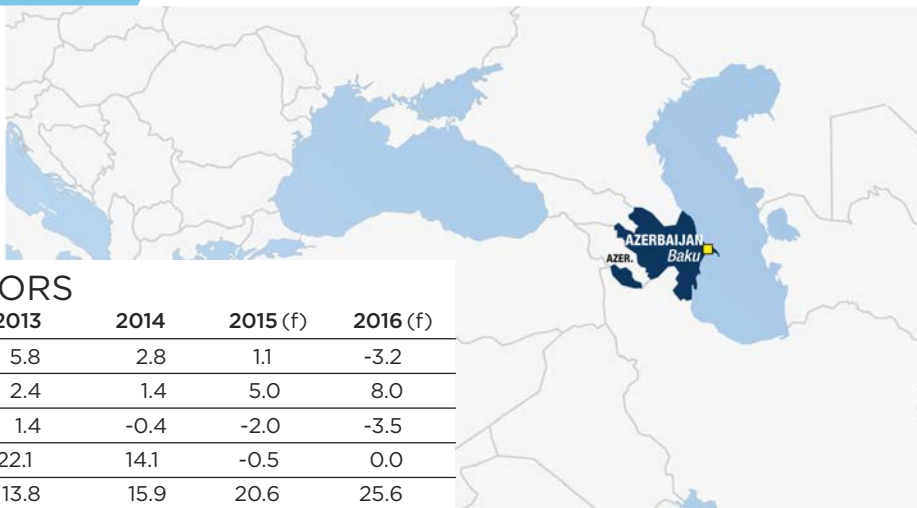
### Zambia: D

- Collapse of the kwacha in 2015 (lost near 50% of its value against the dollar), mainly due to slowdown in China and impact of slump the copper prices. The currency may be weakened further by dollar strength.
- Mining companies have announced plans to downscale their operation. The country will continue to suffer from low prices and also decrease in production. Fiscal deficit (about 8 % in 2015) will not improve in 2016. Public debt more than doubled between 2012 and 2015, reaching 53 % of GDP in 2015 (58 % forecasted for 2016).

# AZERBAIJAN

## COFACE ASSESSMENTS

<b>C</b>	Country risk
<b>C</b>	Business climate
<b>MODERATE RISK</b>	Medium term



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	5.8	2.8	1.1	-3.2
Inflation (yearly average) (%)	2.4	1.4	5.0	8.0
Budget balance (% GDP)	1.4	-0.4	-2.0	-3.5
Current account balance (% GDP)	22.1	14.1	-0.5	0.0
Public debt (% GDP)	13.8	15.9	20.6	25.6

(f): forecast \* Transfers from oil Fund SOFAZ included

## RISK ASSESSMENT

### Azerbaijan's growth might experience in 2016 its first recession in twenty years

Growth, hit by lower oil prices, is expected to be negative in 2016. The hydrocarbon sector (40% of GDP), especially the gas sector, will continue to dominate the economy. Gas production should increase strongly, thanks to the launch of the second stage of the Shah Deniz project, although gas deliveries are not expected before 2018-2019. Activity in services (30% of GDP) and construction, sustained by public investment in recent years, may decline due to a more restrictive fiscal policy.

Consumption is not likely to be much more dynamic in 2016 than in 2015, given a fiscal policy which is set to be only modestly expansionary and a high inflation rate.

Furthermore, persistence of low hydrocarbon prices and high interest rates (raised from 5% to 7% in March 2016) would weigh on investments (except in infrastructure projects already launched and supported by the State, like pipelines construction). Finally, export contribution may be limited by slow production increase and hydrocarbon price lower in 2016 than in 2015.

Consumer price rises are set to continue, fuelled by the ongoing impact of the depreciation of the manat against the dollar observed in 2015.

### Worsening public deficit but stabilisation of the current account

Despite the fiscal consolidation effort announced in 2015, the government would not be able to forgo an increase in social spending, even moderate, in order to limit the decline in real incomes. However, the prioritising of public investment projects could be revised. The cut in spending may be not sufficient to offset the higher than expected drop in oil and gas income (50% of State revenues). Moreover, non-hydrocarbon revenues might be severely hit by the decrease in activity. In this context, the government amended its budget project in February 2016, now based on an oil price of 25 \$/bl (conservative assumption).

The amount of assets accumulated in the sovereign fund SOFAZ, estimated at nearly USD 34 billion (over 50% of GDP) as the end of 2015, gives the State comfortable room for manoeuvre.

After the sharp worsening observed in 2015, the external accounts are expected to stabilise in 2016. The devaluations in 2015 allowed Azerbaijan to recover a degree of competitiveness against Russian products whose prices have fallen steeply following the collapse of the rouble. However, exports, highly reliant on hydrocarbons (95% of the total), are unlikely to grow much due to low oil and gas prices and with production unlikely to increase strongly in the short term. Imports

are expected to increase weakly, due to the moderation in demand and in public investment. FDI flows will remain considerable, especially for projects in the hydrocarbons sector (Trans-Anatolian and Trans-Adriatic pipelines - TANAP and TAP).

The central bank (BCA) abandoned the peg of the manat to the dollar at the end of 2015 after the currency loss about 50% against USD. The managed floating exchange arrangement introduced since then is devised to mitigate the impact of persistent low oil prices on budget revenues and preserve foreign currency reserves. The manat exchange rate strengthened in early 2016 and may stabilise with the assumption oil price would not slump again strongly.

The banking sector, highly dollarised, has been hit by the depreciation, which has weakened balance sheets.

### Political stability, which does not exclude social tensions

President Ilham Aliyev, in power since 2003, was re-elected for a third term in October 2013. His party (New Azerbaijan Party - NAP) won the November 2015 parliamentary elections, boycotted by most of the opposition parties.

While the government has managed to maintain a degree of social and political stability to date, thanks to significant oil resources, growing inequalities and the strong economic slowdown are heightening popular discontent. The risks of repression and the weakness of the opposition are, however, limiting any protests.

Meanwhile, despite some progress, performance on governance remains less good overall than that of the other CIS countries, especially regarding the fight against corruption (ranked 172<sup>nd</sup> in 2014 while Russia is in 168<sup>th</sup> place and Kazakhstan 155<sup>th</sup>).

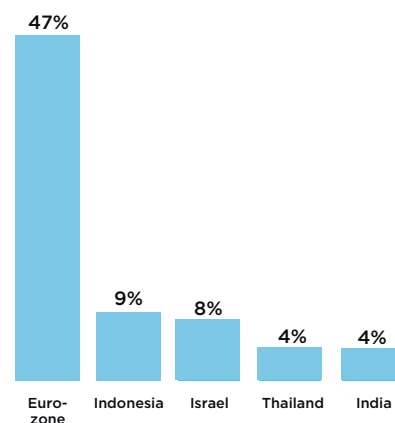
Finally, the risk of regional political instability remains high due to tensions with Armenia over the status of Nagorno-Karabakh, as evidenced by the resumption of fighting early April 2016. No scenario for resolving the conflict seems to be in sight, in the short term.

Population (millions of persons-2014) **9.3**

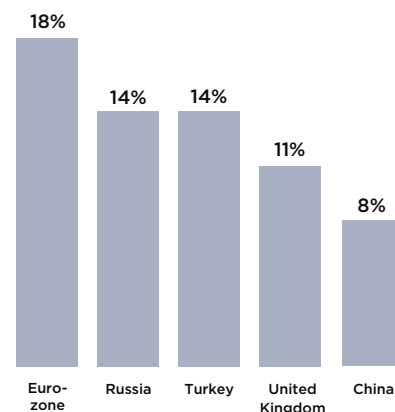
GDP per capita (US dollars-2014) **7,936**

## TRADE EXCHANGES

### Exports of goods, as a % of total



### Imports of goods, as a % of total



### Strengths

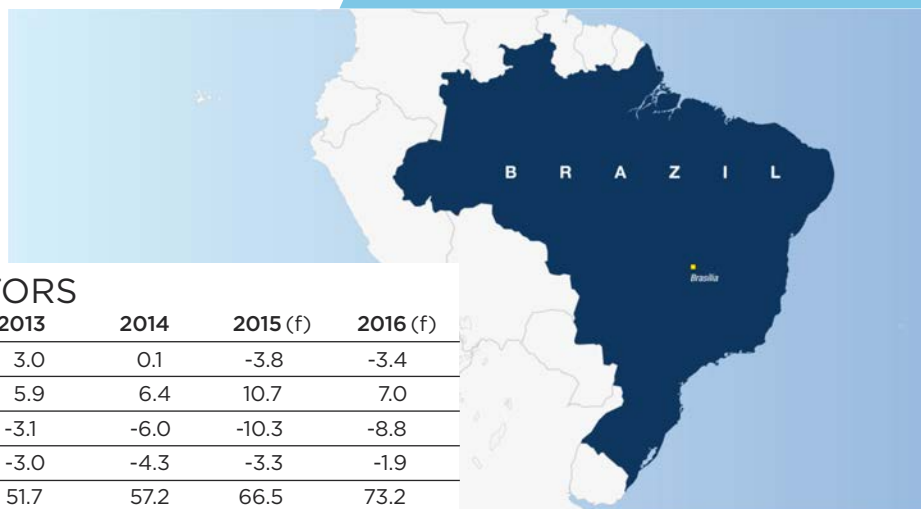
- Abundant oil and gas resources
- Development of new energy transit routes to the EU
- Skilled labour force

### Weaknesses

- Inadequate economic diversification
- Risk of armed conflict with Armenia
- Governance problems and high level of corruption

## COFACE ASSESSMENTS

<b>C</b>	Country risk
<b>A4</b>	Business climate
<b>MODERATE RISK</b>	Medium term



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	3.0	0.1	-3.8	-3.4
Inflation (yearly average) (%)	5.9	6.4	10.7	7.0
Budget balance (% GDP)	-3.1	-6.0	-10.3	-8.8
Current account balance (% GDP)	-3.0	-4.3	-3.3	-1.9
Public debt (% GDP)	51.7	57.2	66.5	73.2

(f): forecast

## RISK ASSESSMENT

## Recession is expected to continue in 2016

Despite a moderation of GDP contraction in the first quarter 2016 compared to the previous quarters, the outlook for the Brazilian economy seems grim. Internally, household consumption, the main growth driver, should still suffer from the high cost of credit, lower real wages due to the still high inflation and the rise in unemployment rate (around 11% in April 2016). The rise in unemployment also affects the bank credit supply: the banking sector, exposed to household debt, is expected to face an increase in non-performing loans which contributes to reduce the supply of credit. Private and public investment should continue to contract due to the weakness of domestic demand and the pursuit of a fiscal austerity policy. Foreign trade would be affected by the slowdown in Chinese demand and its impact on prices of minerals. Export competitiveness should still be affected by weak transport infrastructure and rigid labor regulations, despite the gains related to the continued depreciation of the real against the dollar. Finally, inflation should decline in line with the weakness of domestic demand. It should nevertheless remain above the target set by the central bank (4.5%) due to the depreciation of the Brazilian currency. Rising unemployment and slowing consumer prices should lead to the easing of monetary policy towards the end of 2016.

## A primary deficit higher than expected in 2016

The adjustments to fiscal policy begun in 2015, shortly after the re-election of President Dilma Rousseff, are having trouble achieving their aims: inflation and public deficit have continued to rise. The lack of a majority in Congress and the recession have impacted the adjustment in public finances, which in turn led to the decision by three rating agencies to downgrade the country to speculative grade.

The new interim government that took office in May 2016 has already announced a higher than expected primary deficit estimated at nearly 72 billion BRL, or 2.8% of GDP. This increase is explained mainly by the lower tax revenues expected during this year, but also by the release of deferred payments under various programs funded by the federal state. The new government is now working on a fiscal adjustment plan that should be subject to the approval of Congress before next summer. Proposals such as the reform of the social security system or the tax increases are considered. A widening budget deficit should result in worrying public debt dynamic which could reach 73.4% of GDP in 2016 from 66.5% of GDP in 2015 according to the government.

## Improvement in the current account deficit driven by lower imports

In 2016, the current account deficit is expected to improve thanks to weaker imports on the back of slower private consumption and investment, as well as the depreciation of the Brazilian real which made imports more costly. On the other hand, depreciation of the local currency would also help to boost export competitiveness but exports will continue to be hit by low commodity prices. Trade in services and income balance (tourism, dividends, interest) will also remain in deficit.

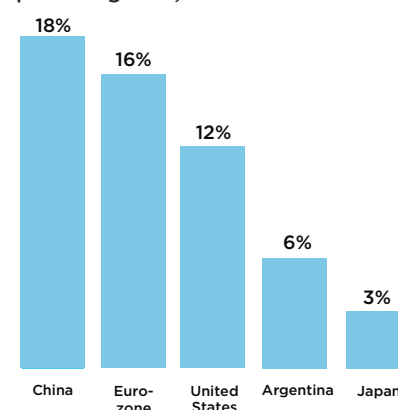
## The challenges of the Michel Temer's new administration

In May 2016, Brazilian Senate voted in favour of the opening of the impeachment's proceedings against the President Dilma Rousseff with 55 votes in favour, 14 more votes than the majority required. This is her Vice President Michel Temer, which now assumes the role of interim president, while waiting the final decision of the Senate that should be held in August 2016. Barring unforeseen circumstances, two thirds of the votes in the Senate necessary for revoking definitively the President should be achieved. Michel Temer is expected to remain in power until the next elections in 2018, but he will face to several challenges, including ensuring political stability due to his lack of legitimacy (he was not elected democratically). The success of his government will mainly depend on its ability to pass economic reforms to bring the country out of the crisis and to restore credibility.

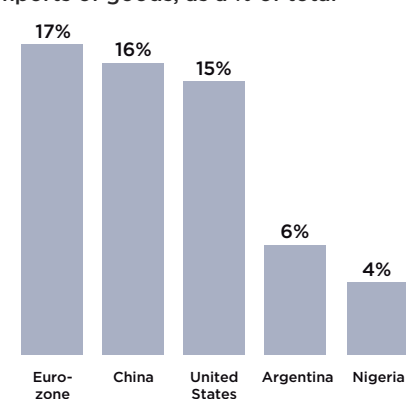
Population (millions of persons-2014) **203.0**GDP per capita (US dollars-2014) **11,573**

## TRADE EXCHANGES

## Exports of goods, as a % of total



## Imports of goods, as a % of total



## Strengths

- 6<sup>th</sup>-largest economy worldwide
- Growing active population
- Varied and abundant mineral and agricultural resources
- Advanced manufacturing industry: aerospace, chemicals, pharmaceuticals and oil engineering
- Resistance to external shocks: creditor external position, considerable reserves

## Weaknesses

- Lack of qualified labour/incomplete educational system
- Shortcomings in infrastructure (transport, energy)
- Insufficient investment
- High production costs (wages, energy, logistics and credit)
- Public expenditure high and inefficient
- Importance of corruption and inequalities

## CHINA

## COFACE ASSESSMENTS

<b>B</b>	Country risk
<b>B</b>	Business climate
<b>LOW RISK</b>	Medium term



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	7.7	7.3	6.9	6.5
Inflation (yearly average) (%)	2.6	2.0	1.5	1.8
Budget balance (% GDP)	-1.1	-2.1	-2.3	-3.0
Current account balance (% GDP)	2.5	1.7	2.4	3.3
Public debt (% GDP)*	39.4	41.1	43.2	46.0

(f): forecast \* Including central and local debt (excl. financing vehicles)

## RISK ASSESSMENT

## Further slowdown in 2016

The Chinese economy is expected to continue slowing in 2016. The authorities are implementing reforms needed to rebalance growth in favour of consumption and services. This is however hitting the profits of weak companies. Despite the ongoing monetary easing since November 2014 and the expansionary budget measures, investment is likely to remain limited in 2016. As companies are heavily indebted and several sectors are facing large overcapacities, the monetary relaxation is proving ineffective and the volatility of the financial markets could undermine confidence levels of among investors and consumers. In this context, disposable income should rise slowly and household consumption is likely to slacken somewhat. Despite the very rapid expansion in online sales, retail sales are losing momentum.

Although there was a rise in property prices in the main cities in 2015, the construction related sectors are likely to remain flat because of high inventory levels. A collapse in the housing market is however not very likely, as the authorities have the capacity to intervene in the event of a severe shock. The growth of the services sector, in particular financial, is also continuing.

Exports are however expected to continue suffering the weakness of global demand. Nevertheless downward pressures on the yuan could improve the competitiveness.

## The credit risk of companies is increasing

Although the level of public debt is sustainable, that of local municipalities is high (at around a third of GDP) and remains opaque.

In addition, corporates are highly indebted and the expansion of shadow banking makes it very difficult to evaluate. In September 2015, the debt of the private sector accounted for 205% of GDP. On top of this and despite the monetary policy easing, SMEs frequently have to rely on shadow banking at exorbitant rates, given their difficulty in securing financing.

In this context there has been a gradual decline in the quality of banking assets which are also underestimated because of the scale of shadow banking. The official ratio of non-performing loans reached 1.75% during the first quarter 2016, its highest level since 2009. Together with "Special mention loans", this ratio reached 5.76%. The credit risk has increase significantly, highlighted by the growing number of defaults on the Chinese bond market. While China experienced its first default in 2014, 24 companies (a third of State owned enterprise's) defaulted on the bond market during the first quarter 2016. The introduction of real bankruptcy risk is inevitable and will reduce moral hazard generated by government interventions. In the context of the economic slowdown, the solvency of more fragile borrowers will still need to be monitored in 2016.

Following a rise of more than 110% between November 2014 and June 2015, the Chinese stock markets recorded a significant correction during summer 2015. Stock exchanges lost more than 43% in less than 3 months. In the beginning of 2016, the benchmark index lost 17% before stabilizing. Volatility is also high on the foreign exchange market. Admittedly this market correction can be seen as a healthy development after such a sharp rally disconnected from corporates' fundamentals, volatility have generated additional risks. The heavy use of margin finance (investors borrow money to buy shares) has increased the credit risk and could worsen the downwards spiral.

## Business climate continues to suffer shortcomings

Whilst reaffirming the supremacy of the Chinese Communist Party (CCP), the Central Committee session of the CCP in October 2014 concluded with decisions relating to an improvement in the state of law. In addition, the 5th plenum of the Communist Party, which was held in October 2015, ended the one child policy and reaffirmed the desire on the part of the authorities to develop the social protection system. However, the national security reform project has caused concern among some NGOs and foreign investors. Despite a seamless transition from the previous administration, President Xi Jinping wields unprecedented authority over the CCP, particularly following the anti-corruption campaign which targeted the highest-ranking party dignitaries. However, the Xi Jinping - Li Keqiang administration is facing both social and ethnic unrest. The country has seen an increasing level of worker activism which caused the authorities to publish a guide on the development of "harmonious work relations". Finally, major shortcomings in term of governance persist, particularly concerning access to company balance-sheets and legal protection for creditors.

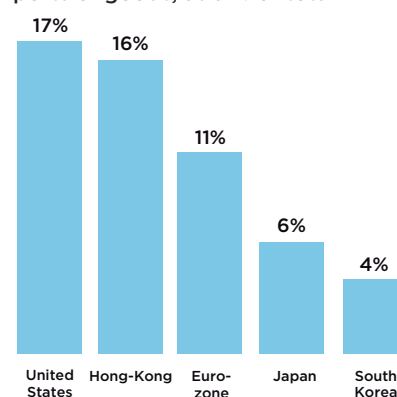
## Strengths

- External accounts benefitting from industrial competitiveness and diversification
- Sovereign risk contained: public debt mainly domestic and denominated in local currency
- Gradual move up-market
- Development of services
- Infrastructure development

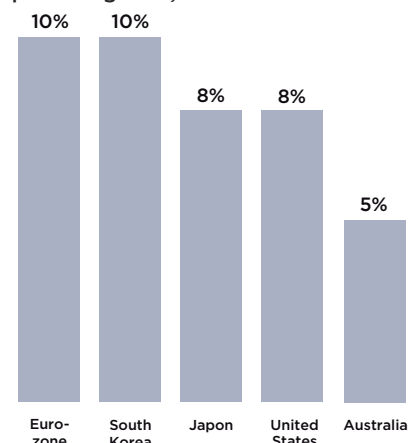
Population (billion of persons-2014)	1.4
GDP per capita (US dollars-2014)	7,572

## TRADE EXCHANGES

## Exports of goods, as a % of total



## Imports of goods, as a % of total



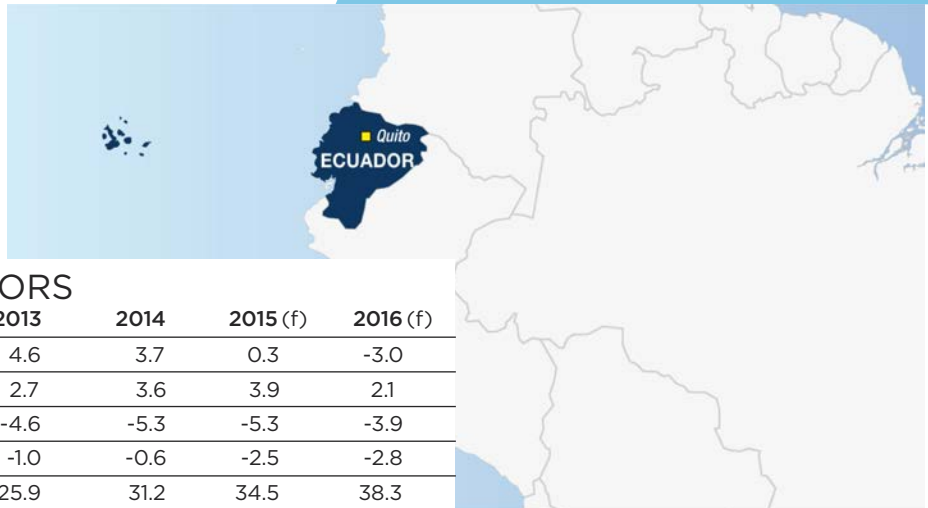
## Weaknesses

- High volatility in the stock market
- Social tensions linked to rising inequality
- The share of consumption in GDP remains weak: rebalancing the Chinese growth model remains a challenge in the medium term
- Aging population and gradual drying up of the pool of cheap and abundant labour
- Overcapacities in certain industries and high debt level of corporates
- Fragile Chinese banks (sharp increase in credit growth and deterioration of asset quality)
- Government's strategy is ambiguous on arbitrating between reform and growth
- Environmental problems



## COFACE ASSESSMENTS

<b>C</b>	Country risk
<b>B</b>	Business climate
<b>HIGH RISK</b>	Medium term



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	4.6	3.7	0.3	-3.0
Inflation (yearly average) (%)	2.7	3.6	3.9	2.1
Budget balance (% GDP)	-4.6	-5.3	-5.3	-3.9
Current account balance (% GDP)	-1.0	-0.6	-2.5	-2.8
Public debt (% GDP)	25.9	31.2	34.5	38.3

(f): forecast

## RISK ASSESSMENT

**Activity will be strongly affected by low oil prices and the earthquake in early April**

The Ecuadorian economy, largely dependent on public spending from oil revenues, felt the negative impact of falling oil and gas prices and moved into recession in the second semester of 2015. After Venezuela, Ecuador was the country in Latin America the most severely impacted by the fall in crude oil prices. In 2016, activity is expected to suffer again with the persistence of low oil prices and the loss of competitiveness of its non-oil exports, as a result of the strengthening of the US dollar against the Colombian peso and Peruvian sol (main trading partners in the area). The earthquake in early April should deepen further economic recession and would cost 3.3 billion dollars (0.3 % of GDP). The epicenter was located near Pedernales, Ecuador's center for shrimp farming (world's biggest exporter), which should curtail aquaculture production. The government's lack of resources is also likely to lead to a reduction in public investment whilst private investment will also suffer from the decline in the availability of credit as the banks provide funding in priority to the public sector. Household consumption is likely to remain weak, under the effect of rising unemployment, freezing wages and the increasing of some taxes and import restrictions. The slowdown in domestic demand should however lead to a reduction of inflationary pressures in 2016.

**Further budget cuts after earthquake**

Low oil price, responsible for over one-third of budget receipts, forced the government to instigate measures to limit the rise in the public deficit (freeze on public sector wages, higher taxes and duties on imports, cut subsidies). The April earthquake has increased further the State financing needs. The country intends to cover these requirements through additional loans from China, as well as from multilateral institutions (IMF, World Bank). A series of new measures was also announced to finance a part of the rebuilding effort (new receipts estimated at one billion dollars): VAT rate will be increased by 2 percentage points for one year (at 14 %), corporate tax will rise by 3 percentage points (at 25 %), some employees will temporarily pay an addition tax of their income and an additional exceptional contribution on wealth tax. President Correa announced his intention to privatize new assets by end 2016 in order to meet its financing needs. The country could also tap international markets, but only at a higher cost. The public debt is therefore set to reach 38 % of GDP, just below the legal threshold of 40 % provided by the Constitution. The majority is held by China, with loans guaranteed by the granting of mining concessions, oil revenues and future electricity production.

**Current account continues to suffer from falling oil and gas exports**

The current account deficit should continue to grow in 2016, as a result of the worsening balance of trade due to lower oil prices and the appreciation of the dollar (Ecuador is a dollarized economy). The trade in petroleum and related products represents almost 50% of the country's exports and 20% of its imports. Despite the appreciation of the dollar which is making imports cheaper, these should also fall, given the increase in import taxes and duties applied as of March 2015, as well as because of the slowdown in domestic demand. The balance of services will remain in deficit, the costs of freight and services paid to foreign companies will exceed tourist income. The income balance is feeling the impact of the significant capital withdrawals and FDI, which are declining, will not be enough to finance the current account deficit.

**The President Rafael Correa renounces to be a candidate in the next presidential elections**

The next presidential and parliamentary elections in Ecuador are scheduled for February 2017. The President, Rafael Correa, of the Alianza Pais (PA) party expressed his wish to not be a candidate. Although the Constitutional amendment allowing him to stand as many times as he wants has been voted, the reform will not go into effect until 2021. The likely candidate expected to succeed him seems to be his former vice president, Lenin Moreno. Maintaining the power of the PA is however uncertain because government has to deal with divisions that have emerged within his ruling majority and the decline in the government popularity.

The business climate is likely to remain mediocre despite the adoption of the reforms, tax incentives, aimed at attracting private investment. The lack of recourse to international arbitration courts, State interventionism, as well as the ongoing fall in commodity prices are all reducing the attractiveness of the country.

## Strengths

- Significant mineral, oil and gas potential
- Almost energy self-sufficient thanks to hydro-electricity
- Tourism potential (flora, fauna, cultural heritage)
- Climatic diversity, enabling numerous types of crop
- Marine wealth: world's biggest exporter of prawns

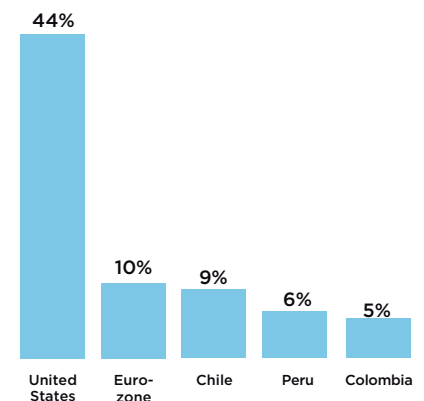
## Weaknesses

- Poorly diversified economy, dependent on oil
- Inadequate infrastructures (roads, dams) and poorly qualified work force
- History of sovereign default
- Weak private, domestic and foreign investment
- State interventionism
- Credit expensive and still underdeveloped
- Opposition of indigenous populations and ecologists to the development of primary resources

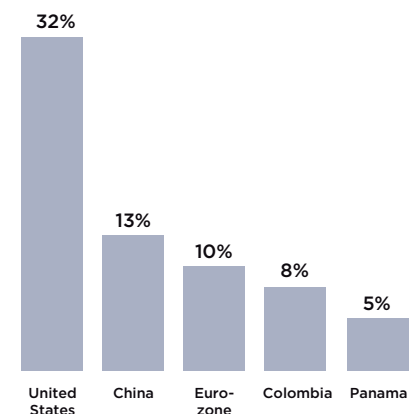
Population (millions of persons-2014) **16.0**GDP per capita (US dollars-2014) **6,273**

## TRADE EXCHANGES

## Exports of goods, as a % of total



## Imports of goods, as a % of total

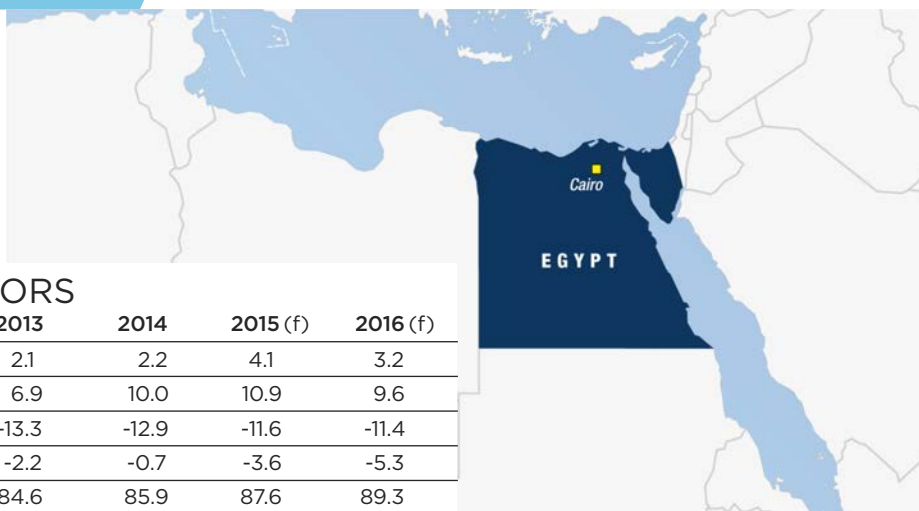




## EGYPT

## COFACE ASSESSMENTS

<b>C</b>	Country risk
<b>B</b>	Business climate
<b>HIGH RISK</b>	Medium term



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	2.1	2.2	4.1	3.2
Inflation (yearly average) (%)	6.9	10.0	10.9	9.6
Budget balance (% GDP)	-13.3	-12.9	-11.6	-11.4
Current account balance (% GDP)	-2.2	-0.7	-3.6	-5.3
Public debt (% GDP)	84.6	85.9	87.6	89.3

(f): forecast Fiscal year from July to July

## RISK ASSESSMENT

## A vigour that is running out of steam in 2016

In 2016, Egypt's economy shows signs of slowdown. The tourism sector already weakened by the attack on the Russian aircraft in October 2015 would continue to contract following the latest incident of civilian plane from the national company on May 2016. The number of tourists decreased by 25% over the first 9 months of the fiscal year 2015/2016 and is expected to weaken in the second half 2016. Tourists nights fell also by 38.5% during the same period. The growth drivers are expected to be the public sector, the distribution and agriculture.

Inflation will remain high and will continue to put pressure on production costs. Moreover persistence of input supply issues, power cuts and lack of foreign currency would continue to plague the sector's prospects. However, Egyptian authorities should continue to support the economy throughout several projects as the Canal of Suez economic zone as outlined in the first speech of Prime Minister Ismail Sherif.

A total of 12 projects have been identified and are scheduled to be implemented in 2016 in different sectors (electricity, desalination, and mining). In the medium term, the repercussions of the Sharm el-Sheikh conference on investment and the development of the gas field discovered by ENI should help increase the potential growth.

## Consolidation of government spending

In 2016, the public deficit will remain high as current spending as well as investment spending are expected to grow in order to boost activity. The welfare programmes targeting education and healthcare presented as part of the 2014/2019 five-year development strategy are scheduled to be launched in 2016. The authorities are planning to finance this spending increase through an increase in mandatory contributions associated with a broadening of the tax base. A reform completing the introduction of VAT should be ratified by the new Parliament in 2016. The accumulation of public deficit will keep the debt at a record high level. The return to political stability and the positive signals the authorities have sent to the financial markets have made it easier to obtain external borrowing. A euro-denominated bond issue of \$1.5 billion was launched in April 2015.

## The external accounts remain in the red

The current account deficit is likely to persist in 2016 because of a fall in tourism revenue that will erode service balance surplus. Net transfers have also decreased. However, trade balance deficit should contract slightly due to a decrease of imports. The greatest improvement should come from higher FDI inflows that increased by 78% from July to December 2015.

Facing a shortage of foreign reserves, Egypt allows its currency to fall. In order to limit the expansion of black market, The Egyptian central bank decided in March 2016 to devalue the pound by 14%. Despite this devaluation, difference between the official exchange rate (8.83 pounds for a dollar) remains above the exchange rate on the black market. In June, Egypt's government approved prison sentences for traders selling foreign currency outside the official exchange rate. However the central bank recently observed a slight improvement in its foreign currency reserves which have exceeded 17 billion.

## General elections marked by consensus

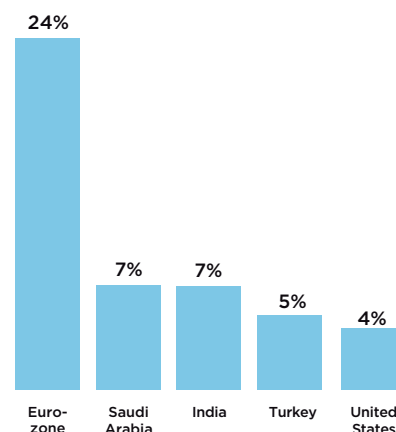
Despite a more peaceful climate overall, the upcoming period promises to be challenging for the country. The protests repressed by the police and the army but also the trial against several journalists reinforce latent climate of tension. Egypt, which has based its foreign policy on the fight against terrorism, must cope with the growing threat of jihadists on its own territory in the Sinai in particular, where the Islamic State claimed responsibility for the attack on the Russian civil aircraft, but also on the Libyan border where jihadists movements are gathering strength as a result of the political vacuum in Libya.

Population (millions of persons-2014) **86.7**

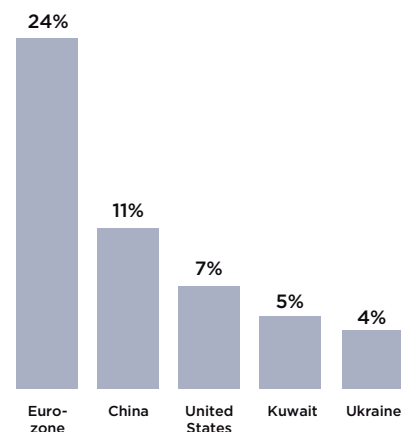
GDP per capita (US dollars-2014) **3,304**

## TRADE EXCHANGES

## Exports of goods, as a % of total



## Imports of goods, as a % of total



## Strengths

- Tourism potential
- Manageable external debt
- Political and financial support from the Gulf monarchies and western countries

## Weaknesses

- Poverty (40% of the population) and high unemployment
- Twin deficits
- Low level of foreign exchange reserves
- Banking system subject to sovereign risk

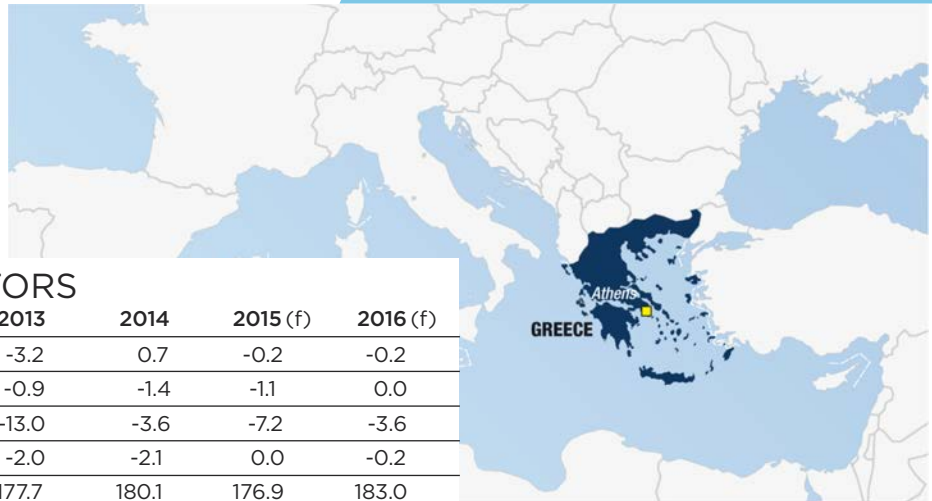
## COFACE ASSESSMENTS

C

Country risk

A3

Business climate



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	-3.2	0.7	-0.2	-0.2
Inflation (yearly average) (%)	-0.9	-1.4	-1.1	0.0
Budget balance (% GDP)	-13.0	-3.6	-7.2	-3.6
Current account balance (% GDP)	-2.0	-2.1	0.0	-0.2
Public debt (% GDP)	177.7	180.1	176.9	183.0

(f): forecast

## RISK ASSESSMENT

**Economic activity is expected to recover in the second half of 2016**

After having been hit again by the recession in 2015, due to uncertainties generated by Syriza's rise to power and the introduction of capital controls, in the middle of the year, the country should gradually return to growth in the second half of 2016 thanks to increased confidence generated by the easing of tensions with the international financial community. The expected completion of the first review of the European Stability Mechanism program following the agreement reached in May 25, 2016 by the euro area and the implementation, in early June, of additional measures, should lead to the resumption of European disbursements and pave the way for debt relief at the end of 2018. Renewed confidence linked to these latest developments should help lift capital controls and encourage investment recovery. Drawings on European loans should, inter alia, allow the government to pay its arrears and thereby re-inject money into the economy.

The unemployment rate should continue to decline slightly in 2016 due to the reforms of recent years and the recovery in economic activity. However, it remains very high (24.4% of the workforce in Q4 2015).

**Major reforms have been passed in May 2016**

The third bailout package, following those in 2010 and 2012, approved by the Eurogroup in August 2015, involves the provision of 86 billion euros in exchange for the implementation of significant reforms. The Greek parliament has approved a number of these reforms between the summer and the end of 2015, including regulations governing property seizure. In May 2016, it adopted the controversial pension and tax reforms, as well as new austerity measures (indirect tax increases and the creation of a new state privatisation fund, an independent public revenue authority and a contingency mechanism designed to cut spending if the country fails to meet fiscal targets). This was also the case, at the beginning of June 2016, after much procrastination, for the additional measures (phasing out of a benefit for pensioners, privatisation of an electric operator, lifting of restrictions on selling nonperforming loans guaranteed by the state).

**Progress have been achieved on budget but public debt can be brought down to a sustainable path only if it benefit from a substantial relief**

The more limited than expected decline in activity, the fiscal adjustment effort made in the second half of 2015 and one-off factors have enabled the country to achieve a slight primary surplus (excluding interest

payments and the support to the banking sector) last year, exceeding what had been agreed. However Bank recapitalisation, completed by year's end, temporarily increased the total public deficit to over 7% of GDP. Reforms and measures taken in 2016 should generate new savings and ensure that the deficit will remain limited to around 3.6% of GDP this year. With the resumption of financial assistance, payment default by the government should once again be avoided. Moreover, if commitments under the rescue plan are met, Greece should benefit at the end of 2018 from a major debt relief thanks to a reprofiling of the European loans. However, even after restructuring, debt dynamics will remain highly sensitive to economic and fiscal shocks.

**Banking sector is convalescing**

Banks experienced a severe crisis marked by a lack of access to international capital markets, deposit flights, a long-lasting recession and losses caused by the forced restructuring of Greek sovereign debt in 2012. Banks have been recapitalised and consolidated in 2014 and recapitalised again late 2015. However, their profitability and the quality of their assets have strongly deteriorated (nonperforming loans account for nearly 35% of total loans). Moreover, if the introduction of capital controls helped stem deposit withdrawals, these have not replenished. The situation in the sector should remain weak in 2016 although efforts are undertaken to address the problem of bad loans.

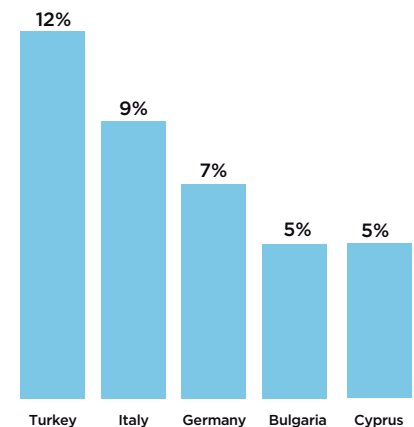
**Country's politics continue to be impacted by the financial and economic crisis**

Greece has experienced in recent years a strong political instability (five elections and a referendum in seven years), all governments having been torn between donor requirements and the need to prevent a social explosion. The current government, led by the party of the radical left "Syriza", that emerged victorious from new early legislative elections (September 2015), now only has a two-seat majority in Parliament and thus remains fragile. Moreover, the country has found itself in the front line of the migrant crisis.

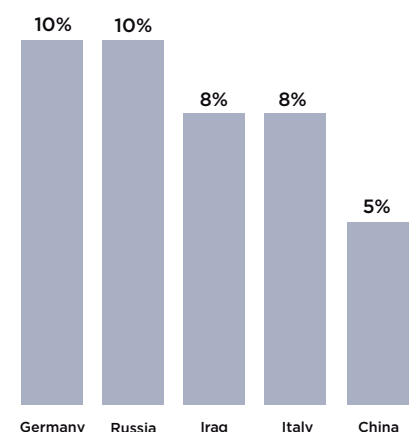
Population (millions of persons-2014) **11.0**GDP per capita (US dollars-2014) **21,648**

## TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



## Strengths

- Support from the international financial community, possibility of a debt relief at the end of 2018
- World's leading shipowner
- Tourist attractiveness

## Weaknesses

- Very high public debt
- Quality of banks' portfolios very degraded
- Weak public institutions. high tax evasion
- Limited industrial base, low technological content of exports (foodstuffs, chemical products, metals, refined oil)
- Social tensions fostered by fiscal austerity and massive unemployment

# HUNGARY

## COFACE ASSESSMENTS

A3

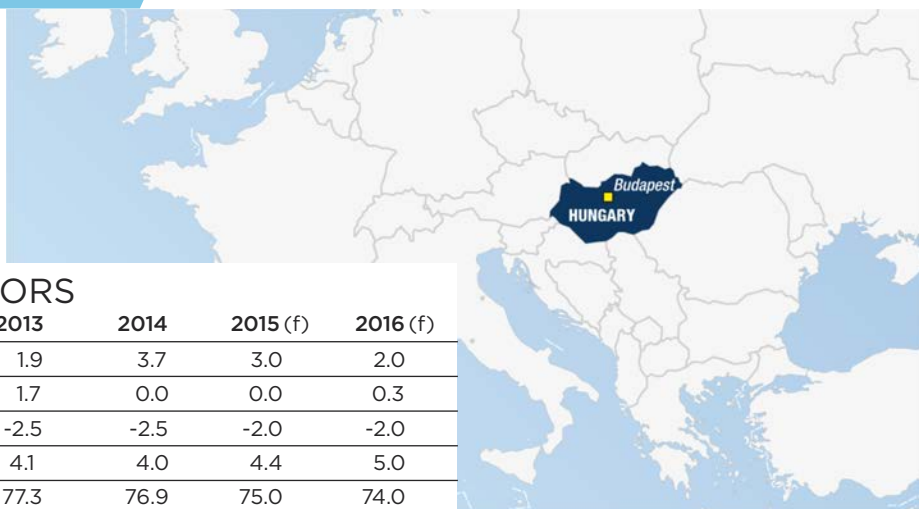
Country risk

A2

Business climate

MODERATE  
RISK

Medium term



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	1.9	3.7	3.0	2.0
Inflation (yearly average) (%)	1.7	0.0	0.0	0.3
Budget balance (% GDP)	-2.5	-2.5	-2.0	-2.0
Current account balance (% GDP)	4.1	4.0	4.4	5.0
Public debt (% GDP)	77.3	76.9	75.0	74.0

(f): forecast

## RISK ASSESSMENT

### Activity sustained by private consumption

Growth is expected to significantly decrease in 2016. This fall is linked to the expected decline in public investment due to the fact that we are between two campaigns of European funding. This temporary decline in EU structural funding will also weigh on private investment, although SMEs (a vital component of the economy) will benefit, for the last year, from the Funding for Growth Scheme, which consists in making loans worth up to about 2% of GDP available at a maximum interest rate of 2.5%. At the same time, a new funding for growth scheme (FGS+) will take over to encourage the banks to lend to SMEs at market based rates by offering them various advantages, in particular a cut in the tax on their assets from 0.53 to 0.31% and partial management of interest rate risk. Household consumption should be the major contributor to growth. Employment should continue to grow, thanks, in particular, to increased hiring under the public employment scheme to which all the unemployed are required to belong in order to receive welfare benefits. Agriculture and public services are the major employers of this cheap workforce. Households will benefit from the cut in the flat income tax rate from 16% to 15%, higher welfare benefits and the lowering of VAT on certain products (new housing, pork products). Moreover, average wages should continue to increase more rapidly than prices, which should rise moderately. Because of Hungarian industry's close involvement in the European production chain and of a recovery in demand, exports should remain dynamic. Sales of vehicles and automotive parts (5% of GDP) could, in addition, continue their progression.

### Stabilization of public deficit at a moderate level, but still high debt

Despite the cost of converting household loans from the Swiss franc to the forint (less than 1% of GDP) and income tax cuts, the public accounts are expected to report a stable deficit of 2% in 2016. The State is relying on an increase in VAT income thanks to remote monitoring of cash registers and intends to privatise a large portion of the agricultural land it owns. The accumulation of previous budget deficits left a significant debt burden (75% of GDP at the end of 2015), but whose weight should start to ease. A third of the debt (against 50% end-2011) is denominated in euros and the share held by non-residents fell to 50%, because of incentives from the central bank to commercial banks and households to invest in forint-denominated Treasuries.

### Comfortable trade surplus, but foreign investors are cautious

The current account surplus is expected to increase in 2016, helped by the recovery in Europe and still moderate energy bill. Thanks to vehicles and automotive parts, household electronics, household appliances, agrifood, medicines, medical devices, services to businesses and households (medical services, tourism), trade in goods and services has been reporting increased surpluses since 2009. Together with European funding and expatriate remittances, these surpluses make it possible to deal with the repatriation of income by foreign investors and investments by Hungarian households abroad. New foreign direct investments are no longer expected to decline and will post modest growth. The favourite sectors for FDIs, such as automotive, electronics and pharmaceuticals have mostly been spared from State interventionism. By contrast, telecommunications, energy, banking and media remain under pressure from the State, which has taken steps (taxes, price impositions...) in respect of large companies, generally foreign, which reduce their profitability and encourage them to disinvest in favour of public, as well as private Hungarian actors. Meanwhile, the external debt burden (excluding debt linked to FDIs) is declining (75% at end 2015 compared with 115% of GDP end 2011), mainly as a result of deleveraging by banks and businesses. The percentage held by the State and the central bank (58% of the total) is stable.

### Prime Minister Viktor Orban maintains his nationalist and interventionist positioning

Viktor Orban and the Fidesz, a nationalist, centre right party, in partnership with the Christian Democratic People's Party were re-elected to govern in April 2014. Faced with electoral competition from Jobbik, an extreme right-wing party, which caused him to lose his two-thirds majority (needed to amend the constitution) during a by-election, Viktor Orban stressed his nationalist discourse, in particular towards refugees. This has maintained tensions with his European partners, already sharpened by Hungary's understanding attitude towards Russia over Ukraine and the institutional reforms which have hemmed in the mechanisms of checks and balances and freedoms. Despite State interventionism and a number of corruption scandals, the business climate remains satisfactory, worse than in Poland and Slovakia, but much better than in Romania and Bulgaria. The overall payment behavior is good.

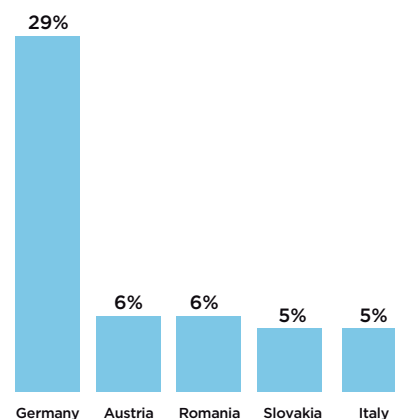
### Strengths

- Trade surplus
- Good infrastructures thanks to efficient use of EU funds
- Diversified economy
- Skilled workforce
- Inclusion in the European production chain
- Good payment behaviour

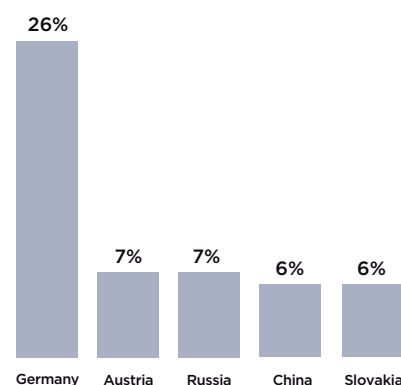
Population (millions of persons-2014) **9.9**GDP per capita (US dollars-2014) **13,870**

## TRADE EXCHANGES

### Exports of goods, as a % of total



### Imports of goods, as a % of total



### Weaknesses

- Aging population and low participation rate to active population
- Education and training gaps
- Little room for manoeuvre on budget
- High external debt and exposure to exchange rate risk
- Weak banking sector
- Energy dependency: 50% of needs imported, 40% from Russia alone
- Insufficient innovation and R&D
- Drift towards authoritarianism and interventionism
- Poor targeting of social policy

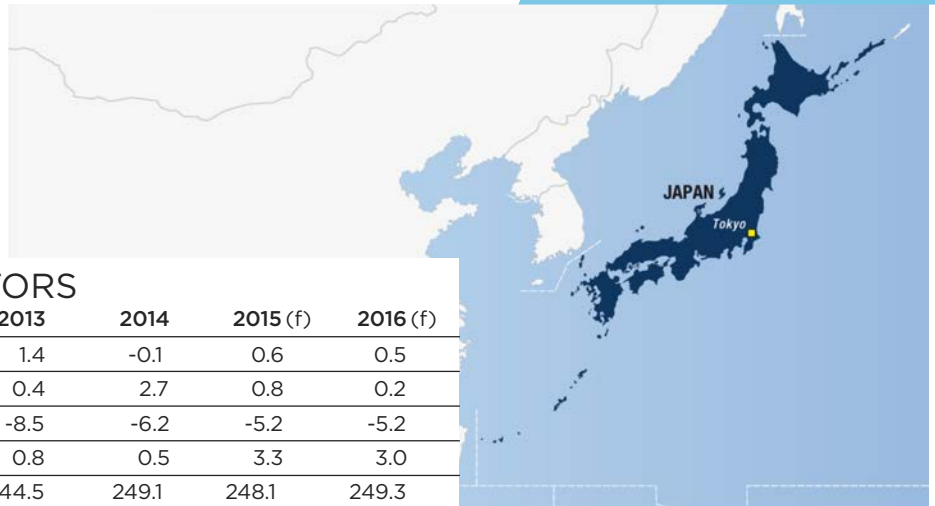
## COFACE ASSESSMENTS

A2

Country risk

A1

Business climate



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	1.4	-0.1	0.6	0.5
Inflation (yearly average) (%)	0.4	2.7	0.8	0.2
Budget balance (% GDP)	-8.5	-6.2	-5.2	-5.2
Current account balance (% GDP)	0.8	0.5	3.3	3.0
Public debt (% GDP)	244.5	249.1	248.1	249.3

(f): forecast

Population (millions of persons-2014) **127.1**GDP per capita (US dollars-2014) **36,222**

## RISK ASSESSMENT

## Growth would not be able to take off in 2016

Growth remained subdued in 2015, driven by foreign trade and public consumption. In the first quarter of 2016, growth in the economy has been resilient, but the Abenomics have not given the expected results: the deflation risk persists and the public debt is still very high. All in all, growth prospects remain limited this year.

Although private consumption should sustain activity thanks to a slight upturn in wages (+2.2% after the negotiations in the spring of 2015, the largest increase in 17 years) and the emergency plan announced in November which provides minimum wage increase of 3% and stimulus measures (extension of access to unemployment insurance, aid to pensioners). Nevertheless, the dynamics should remain subdued, as evidenced the Prime Minister's decision to postpone, for the second time, the hike in VAT rate from 8% to 10%, to October 2019 (initially scheduled for October 2015 then April 2017). The unemployment rate should stay low around 3%, wage growth could still be held back by companies' tendency to not redistribute their profits to a sufficient extent, as well as the rigid structure of the Japanese labour market (low mobility and pronounced duality). Private investment is not expected to pick up significantly in 2016, dampened by companies' wait-and-see behaviour given the uncertainties weighing on the global recovery as well as the pressure on the yen's appreciation. However it is likely to be stimulated by the tax cuts, the good financial conditions and the progress in terms of governance.

Inflation would struggle to remain positive in 2016, despite oil price is no longer falling (the drop in the price curbed the rise in inflation in 2015, but inflation excluding food and energy is struggling to stay in positive territory) It will in all likelihood stay far below the central bank's 2% target.

A Chinese hard landing and a failure of wages to rebound are the main downward risks to growth. Beyond the current asset purchase programme (JPY 80,000 billion per year), the central bank introduced a negative interest rate at 0.1%, in January 2016. Nonetheless, even if a new drop cannot be ruled out this year, the positive impact of this monetary easing would be moderate given the massive liquidity that has already been provided.

## Consolidating public finances remains a crucial challenge

The fiscal deficit will probably stabilise at a high level in 2016. The increase in welfare spending (healthcare) weighs heavily on the State budget while revenues are insufficient. However the government has decided to postpone the new rise of the VAT rate to 2019 and to continue the corporate tax reform (tax cut and broad-

ening of the tax base). Following the earthquake in Kyushu, in April 2016, 780 billion of yen would be added to the budget to help with the rebuilding (though the government reports a neutral budgetary cost with compensation via debt service reduction) Furthermore, a stimulus plan is scheduled and could amount between JPY 5,000 billion to JPY 10,000 billion. Fiscal consolidation remains a key challenge for the country, and although the government reasserted its determination to reach a primary surplus by 2020, greater efforts will be required to reach this objective. The current-account surplus should be maintained in 2016 owing to a trade deficit, still limited, by the reduced energy bill. Nevertheless the exports could be affected by the appreciation of the yen against the dollar at the beginning of the year. Related in particular with this appreciation, Toyota anticipates a 35% net profit fall, for the fiscal year 2016/2017. The services balance should improve under the effect of an increase in tourism (because of the easing of rules on granting visas in Asia), with FDI remaining stable on the whole.

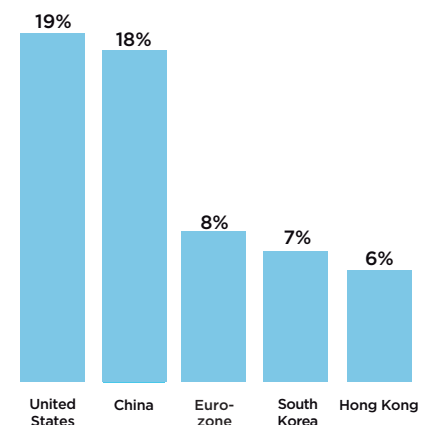
## Shinzo Abe was re-elected, but his popularity is declining

In September 2015, Shinzo Abe was re-appointed as head of the LDP (the Liberal Democratic Party currently in power). The opposition' role remains weak. Senate elections are scheduled for July 2016. In the event of a victory, Shinzo Abe could remain in power until 2018. Nevertheless, the lack of results of Abenomics and the earthquake in Kyushu could once again reduce his popularity rating. In July 2016, half the seats in the House of Councillors will be renewed. This vote will therefore represent a test for the ruling party.

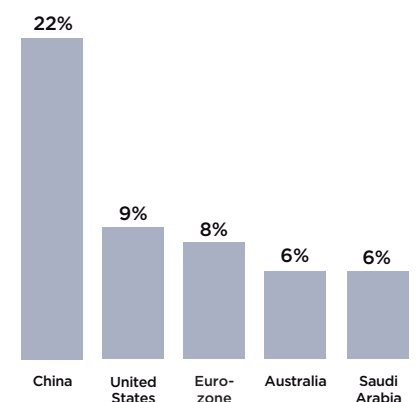
Concerning the business environment, the authorities announced a simplification of procedures to encourage SMEs to invest in the emergency plan in November. Moreover, an agreement in principle was concluded in October 2015, concerning the Trans-Pacific Partnership for free trade (12 countries involved). The challenge is to harmonise standards by reducing customs tariffs and to counterbalance China's growing influence.

## TRADE EXCHANGES

## Exports of goods, as a % of total



## Imports of goods, as a % of total



## Strengths

- Advantageous geographic situation in a dynamic region
- Very high national savings level (around 23% of GDP)
- 90% of public debt held by local investors

## Weaknesses

- Difficulties to consolidate public finances and goes out of deflation
- Reduction of the active population and growing proportion of workers without job security
- Governmental instability
- Low productivity of small and medium-sized enterprises



# MOZAMBIQUE

## COFACE ASSESSMENTS

<b>D</b>	Country risk
<b>C</b>	Business climate
<b>VERY HIGH RISK</b>	Medium term

## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	7.4	7.4	6.3	3.0
Inflation (yearly average) (%)	4.2	2.3	3.5	15.0
Budget balance (% GDP)	-8.1	-15.4	-11.0	-13.8
Current account balance (% GDP)	-40.0	-34.7	-41.0	-45.3
Public debt (% GDP)	52.2	57.5	75.0	90.0

(f): forecast

## RISK ASSESSMENT

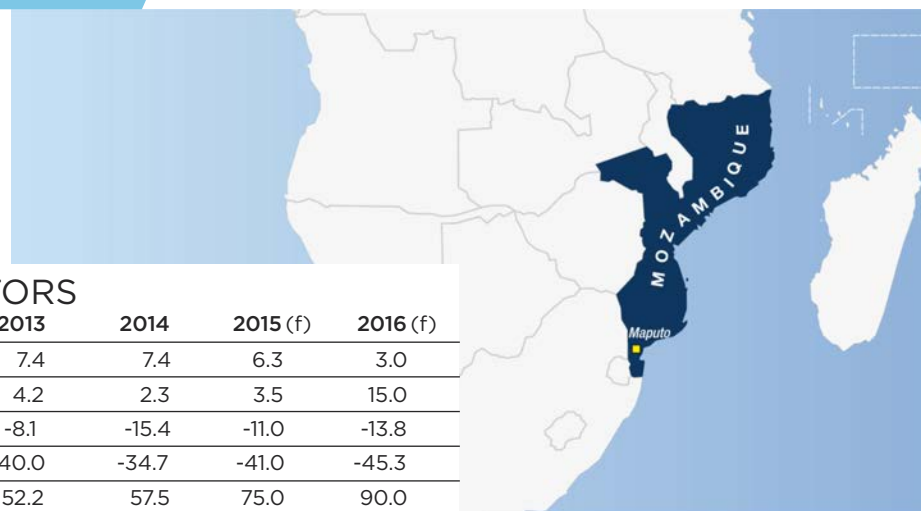
### Significant decline in growth expected in 2016

Growth is expected to lower in 2016. The agricultural sector would suffer particularly from dry weather triggered by the climatic phenomenon El Niño. Industrial activity, most notably coal production, may feel the benefits of the new rail line linking the mines in the centre of the country with the port of Nacala, commissioned in mid-2015. But the recent disclosure of a huge amount of debt concealed by the government to multilateral institutions, will severely impact direct investments and financial flows. Expected reduction in public capital spending would weigh on the construction sector, traditionally a strong one in the Mozambican economy. Furthermore, the weak external demand and low price of the leading commodities exported by Mozambique (aluminium and coal) would limit export contribution to growth. Finally, consumer demand may be held back by surging inflation, fuelled by the impact of drought on food prices, hike in some public tariffs (specifically electricity) and the effects of the depreciation of the metical.

### A worsening of public finances and current account deficit difficult to avoid

Since the major deterioration in the budget balance recorded in 2014, the government has implemented budget consolidation measures, especially in the framework of the agreement reached with the IMF in October 2015. The outcome of the scandal linked to an undisclosed debt may undermine these efforts as main donors (IMF, World Bank among others) have suspended their financial support, whereas grants account for about 10 % of budget revenues. Nevertheless, the deterioration of the fiscal balance may be limited by measures aimed at extending the tax base and improving tax collection.

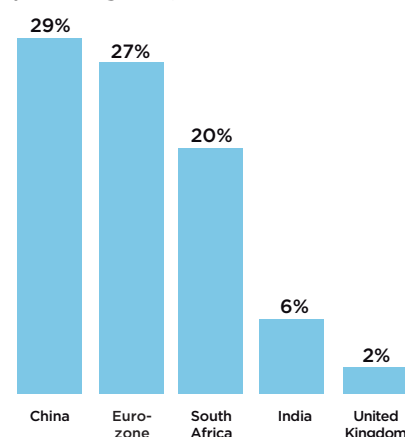
The level of public debt (mainly external debt) has increased drastically and conditions of loans, less and less concessional, make the debt repayment burden heavier. The depreciation of the metical against dollar is increasing State debt, more than 80% denominated in foreign currencies. Finally, the government has to deal with its obligations arising from sovereign guarantees granted on the debts of major public companies.



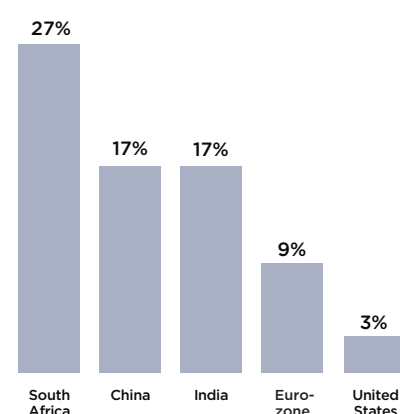
Population (millions of persons-2014)	<b>26.5</b>
GDP per capita (US dollars-2014)	<b>630</b>

## TRADE EXCHANGES

### Exports of goods, as a % of total



### Imports of goods, as a % of total



Then, the debt relating to the USD 850 MN bond issued by EMATUM, a state-owned fishing company, has been exchanged against state bonds and the additional USD 1.4 bn guaranteed obligations is now included in official debt statistics. Risk on public debt distress is now high. The structural current account deficit, linked with the country's huge need for imports of capital goods and services for the construction of its infrastructures (gas, transport) will not be eliminated in 2016. Exports of mining product are not going to increase given the weak growth in external demand and the still low commodity prices. Capital inflows will dwindle due to the loss of investor's confidence in the ability of the country to deal with its substantial indebtedness.

Then, the downward pressures on the metical are likely to continue and the depreciation against the dollar in 2016 may be as high as in 2015 (30 %) while foreign exchange reserves have declined to barely USD 2 bn (around 2 months of import).

### A continuing fragile political situation and weaknesses in governance

Frelimo has led the country since independence (1975). Its representative, Filipe Nyussi, has been President since January 2015, after he won the elections in October 2014. Tensions with Renamo, the leading opposition party which fought against Frelimo during the civil war, are mounting. The social situation is also unsettled as a result of growing discontent among the population with the slow pace of progress in terms of the fight against poverty and reducing unemployment, alongside continuing political uncertainties that are off-putting for foreign investors.

The business climate in Mozambique remains difficult. Its performances as measured by the World Bank's governance indicators are generally below those of its neighbours (with the exception of Zimbabwe). The country has dropped down the classifications, most notably for its control of corruption (151<sup>st</sup> out of 215 countries in 2014 compared with 124<sup>th</sup> in 2010), rule of law (164<sup>th</sup> compared with 129<sup>th</sup>) and above all political stability (down 49 places since 2010 to 141<sup>st</sup> place in 2014).

### Strengths

- Favourable geographic location: long coastline, closeness to South African market
- Considerable mineral (coal), agricultural and hydroelectric potential
- Major gas reserves discovered off-shore (2010)

### Weaknesses

- Limited diversification; dependence on raw material prices (aluminium, coal)
- Poor transport and port infrastructure seriously limiting its ability to export its raw materials
- High dependence on international aid and the South African economy
- Poor governance



## COFACE ASSESSMENTS

A4

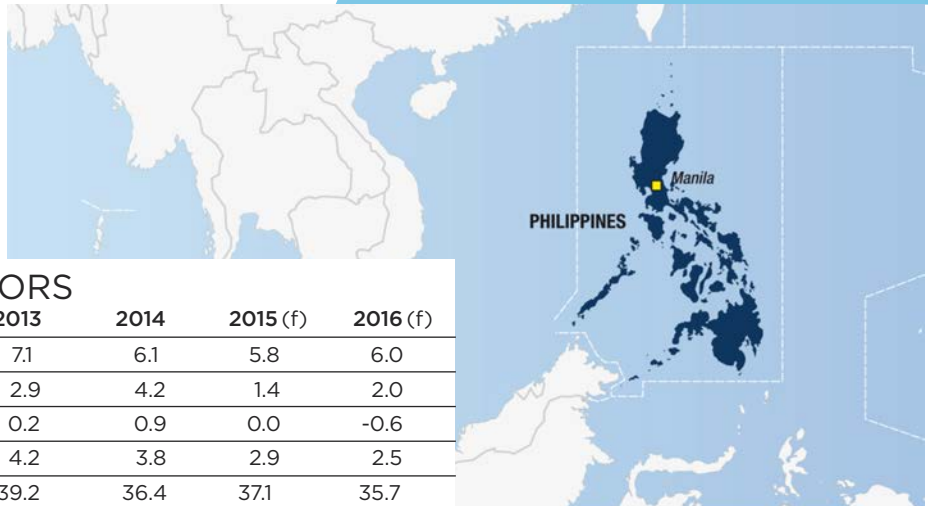
Country risk

B

Business climate

MODERATE  
RISK

Medium term



## MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	7.1	6.1	5.8	6.0
Inflation (yearly average) (%)	2.9	4.2	1.4	2.0
Budget balance (% GDP)	0.2	0.9	0.0	-0.6
Current account balance (% GDP)	4.2	3.8	2.9	2.5
Public debt (% GDP)	39.2	36.4	37.1	35.7

(f): forecast

RISK  
ASSESSMENT

## Growth should remain strong

The economy, in 2016, should remain vigorous with household consumption still the main driving force (70% of GDP). This will continue to benefit from substantial remittances from abroad, the rapid expansion of credit. Besides, the low level of energy prices helps to sustain purchasing power. Inflation, despite a slight upturn, should remain reasonable and within the central bank target range (2%-4%).

Although China is the 3rd largest buyer of Philippine exports, the country is likely to be relatively unaffected by the slowing Chinese economy. Exports of electronic goods should remain strong, benefiting from booming smartphone sales. The business process outsourcing (BPO) sector, which represents 25% of exports, should also remain dynamic.

In addition, despite the government experiencing problems in budgetary execution and with public spending below the forecasts for 2015, these are set to pick-up this year. Indeed, public spending has been strong during the first quarter because of the Presidential election in May. The Public Private Partnership programme initiated by President Aquino is also starting to bear fruit and should help boost infrastructure improvements. Investors nevertheless remain cautious as Rodrigo Duterte, who was elected in May and is due to take office on June 30, is very controversial. However he should continue the policy implemented by his predecessor and may work with members of his team. Finally, the country will still be suffering from infrastructure inadequacies, in particular for electricity. The construction sector should therefore see rapid growth.

## The financial situation of the country remains very sound

The macroeconomic fundamentals of the Philippine economy have improved significantly over recent years. Although the budget balance is likely to deteriorate in 2016, following increased spending for the reconstruction and development of infrastructures as well as tax exemptions allocated to certain sectors. However, the public debt should continue to shrink if the measures decided by the elected President are in line with those from his predecessor.

In terms of its external accounts, the Philippines should maintain its current account surplus in 2016. Remittances from its expatriates (accounting for more than 7% of GDP in 2015) have proven particularly resilient during the crisis and this trend should continue.

Nevertheless, the trade balance should worsen due to the rapid rise in imports stimulated both by household consumption and the input needs for industry. Exports of services (particularly the outsourcing of company services) have experienced an upward trend over the past few years. In this context, its currency reserves should remain at a very comfortable level (more than 10 months of imports in 2016).

## A new controversial president will lead the country

The Constitution from the Philippines does not allow a second term of office thus B. Aquino, elected in 2010, couldn't stand for reelection during the May 2016's presidential campaign. As expected according to surveys, Rodrigo Duterte won and will take office on June 30. He has been a very controversial candidate because of his violent declarations during the campaign and because of the explosion of extrajudicial killings during his terms as the mayor of Davao. He has promised to tackle criminality. Despite strong economic performance during Aquino's term, Filipinos have chosen an anti-establishment candidate. Indeed growth has not been inclusive enough and poverty is still high in the country. He knows little about foreign policy and has no economic policy. Thus he should follow advises from skilled counselors. He will push to rewrite Constitution and change for a federal system of government. He also declared that policies in force in Davao will be implemented nationwide (including a late-night drinking ban and a curfew for unescorted minors).

Besides, tensions remain high in the territorial dispute between the Philippines and China. This disagreement is scheduled for consideration by an international Tribunal. Furthermore, a peace agreement was negotiated, in October 2012, with the armed rebel group which has claimed the creation of an independent Islamic State on the Island of Mindanao for the last 40 years. This was subsequently confirmed in August 2014 with an agreement on the framework law about autonomy for this region. However, this agreement has not been confirmed by the Congress so far.

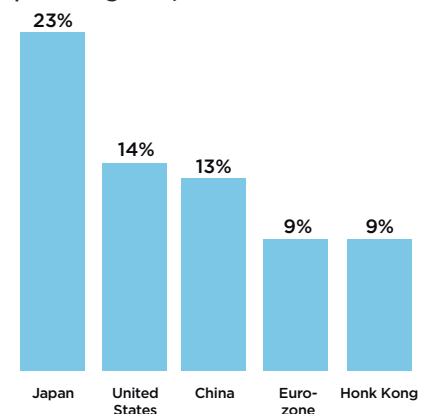
Finally, in spite of ambitious targets to improve governance set by President Aquino, the country still suffers from major shortcomings concerning corruption (the country is ranked at 126th out of 215 by the World Bank). Shortcomings also persist concerning respect for the rule of law and the quality of regulations.

## Strengths

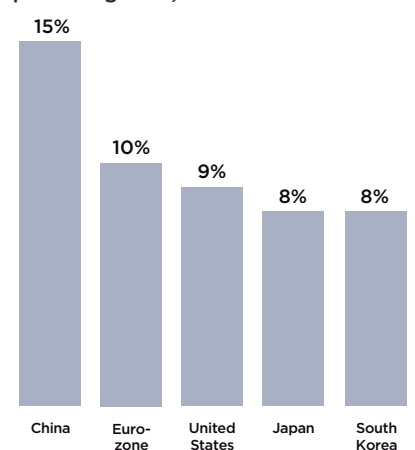
- Economy reputed for its electronic industry (more than 40% of exports).
- The proportion of the country's exports to other emerging Asian economies is constantly growing.
- Household consumption and external accounts are benefiting from expatriate's workers remittances.
- Thriving business process outsourcing (BPO) sector

Population (millions of persons-2014) **99.4**GDP per capita (US dollars-2014) **2,862**TRADE  
EXCHANGES

## Exports of goods, as a % of total



## Imports of goods, as a % of total



## Weaknesses

- Low level of investment, particularly in infrastructure.
- Governance shortcomings
- Inequalities and strong demographic growth are impacting economic performances

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**RESERVE**

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**COFACE SA**

1, place Costes et Bellonte  
92270 Bois-Colombes  
France  
[www.coface.com](http://www.coface.com)

