OCTOBER 2024

COFACE ECONOMIC PUBLICATIONS

BAROMETER

COUNTRY AND SECTOR RISKS BAROMETER (October 2024)

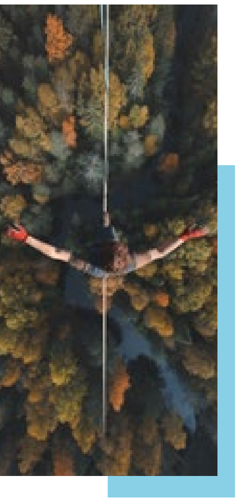
By the Coface Economic Research team

From monetary pivot to fiscal turnaround?

It is of course premature to take stock of a year that has only just entered the home stretch and which could still hold a few surprises – the situation in the Middle East far from stable and the US elections are as crucial as they are uncertain – but some initial takeaway points are already apparent. **First, the soft landing of the global economy is continuing fairly smoothly in the main, albeit very patchily or not at the same pace everywhere.** While the US is finally slowing down, albeit in small doses, Europe is undergoing a limited and uncertain recovery. China, for its part, continues to be mired in its structural problems and is struggling to get back on its feet... or even to decide to do so!

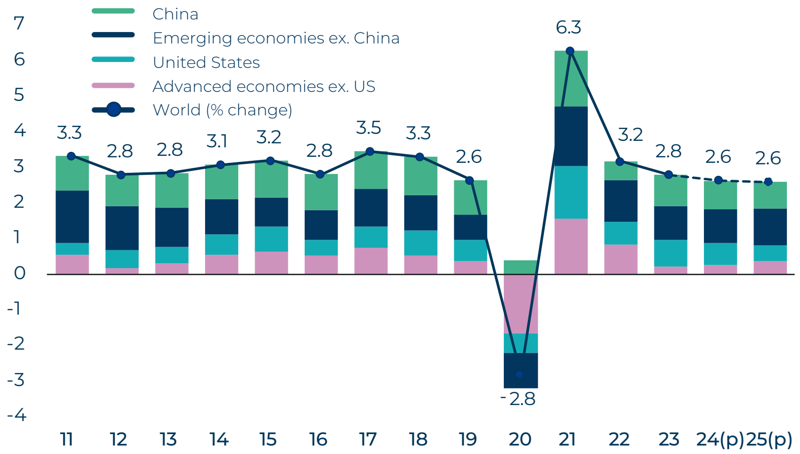
Second, the inflationary hydra seems on its way to being vanquished, at least temporarily, allowing central banks to loosen their grip, again at least for the time being. Whatever the reasons, disinflation appears well under way and the targets set by the major central banks should be reached during 2025. This is already the case in Europe, even if underlying inflation is still above 2%. **Finally, and most important, a new era looks to be dawning, one of fiscal consolidation, which is both regrettable and necessary, and marks a return to permanently tighter or less permissive financial conditions despite monetary easing.** This is already the case in Europe and in many emerging economies, whose public finances have been bled dry by a succession of crises over the past five years. In the US, on the other hand, the issue is completely absent from debate, with the market's capacity to absorb US Treasuries quelling the few alarm signals or doubts that are occasionally expressed on the subject.

While the fall in inflation is undoubtedly good news for consumers and, because of the lower interest rates it allows, for the most indebted companies, it is unclear whether the same is true for governments and therefore ultimately for taxpayers. Deficit and debt ratios will no longer benefit from the favourable impact of inflation on the denominators (GDP) or even, in the case of the former, on the numerators (budget balances). In fact, the latter are caught between the slowdown in revenue from many taxes (VAT, corporate tax, etc.) and the mechanical acceleration of many expenditure items, notably social protection, which are often indexed to the previous year's inflation. **While social and political risks remain extremely high, which has been confirmed by this quarter's update of our indicator, the main downside risk to our central scenario is now the ability of governments to implement orderly fiscal consolidation**. Although there is reason to hope that the lessons of the past have been learnt and that another sovereign debt crisis can be avoided, there is unfortunately every reason to believe that history is not just accelerating but is also tending to repeat itself.



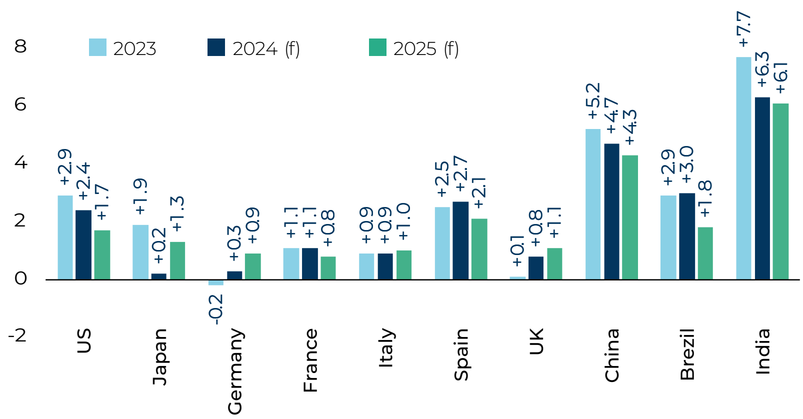
The autumn of 2024 has been a mixed bag. While disinflation has been confirmed in advanced economies (albeit for different reasons in the US and the Euro area), it also reflects less robust activity, particularly in industry, whose recovery will prove to have been short-lived. We have therefore (slightly) revised down our global growth forecast for 2025 to 2.6% (**Chart 1**), i.e., the same level as for this year. While we maintain our forecasts for a continued slowdown in the US and China, the slight tweak is mainly due to the Euro area, whose recovery in Germany looks increasingly uncertain (**Chart 2**). Weaker contribution from the world's three main economic centres should be offset by the acceleration in many emerging economies on the back of less restrictive financing conditions. Excluding China, emerging economies will account for 40% of global growth in 2025, i.e., the highest level since 2012 when the Euro area suffered a sharp recession (-0.9%) at the height of the sovereign debt crisis. While our central scenario is for global growth to stabilise in 2025, albeit at a lower level than potential but without major upheavals, most risks are on the downside, particularly given the restrictive fiscal legislation that may be adopted in the Eurozone by the end of the year and social and (geo)political risks, which are much higher than in the pre-Covid period.

Chart 1:
Global real GDP growth (annual average, %)



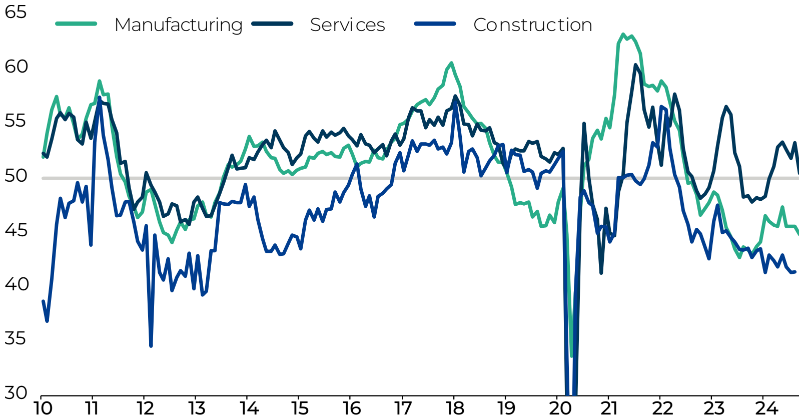
Sources: IMF, National Statistical Institutes, Refinitiv Datastream, Coface forecasts

Chart 2:
Real GDP growth (annual average, %)



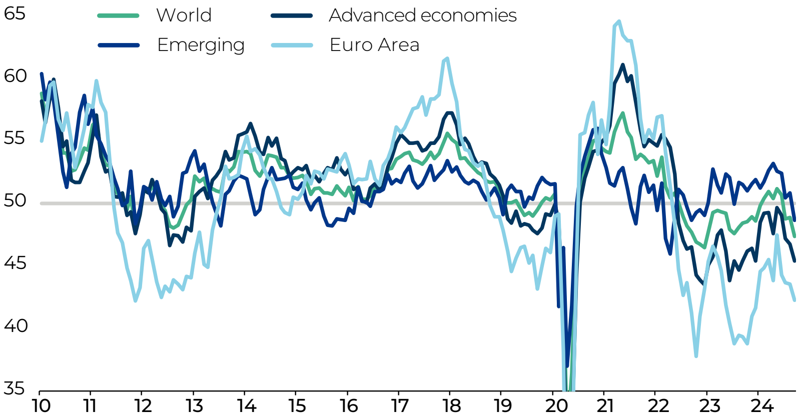
Sources: IMF, National Statistical Institutes, Refinitiv Datastream, Coface forecasts

Chart 3:
Eurozone: Purshasing Managers' Index (PMI)



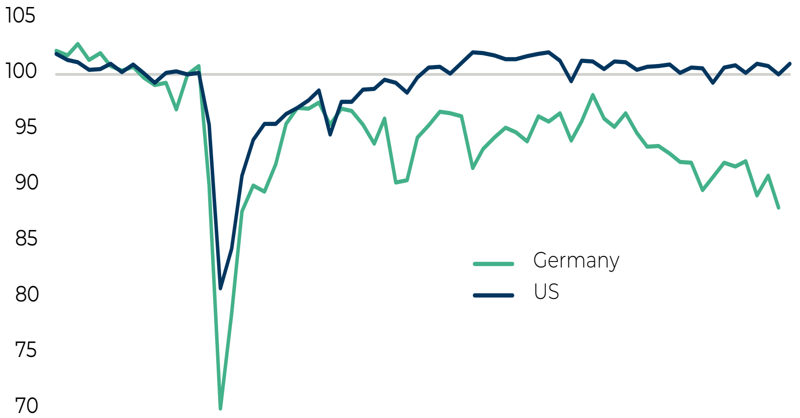
Sources : S&P Global, CPB, Bank of Korea, Macrobond, Coface

Chart 4:
Manufacturing PMI - New Orders (50 = expansion threshold)



Sources: S&P Global, Macrobond, Coface

Chart 5:
Manufacturing production (price- and seasonnally adjusted, Jan. 2020 = 100)



Sources: German Federal Statistical Office (Statistisches Bundesamt), Federal Reserve, Macrobond, Coface

This outlook is reflected in our changes to country risk assessments this quarter, with three emerging markets (Albania, Costa Rica and Rwanda) and Cyprus being upgraded. Conversely, we have downgraded only Israel, whose economy continues to be severely affected by ongoing conflicts. At the same time, we have made very few changes to sector ratings, with only 12 upgrades and five downgrades. Among the notable reclassifications, the ICT[1] sector in Japan was upgraded to low risk, in line with the US and South Korea in our previous Barometer, reflecting the recovery in the global electronics and semiconductor cycle. Also in Asia, we have upgraded agrifood in China, India and Australia, mainly owing to El Niño's diminished impact in the latter two countries.

US economy lands while Eurozone fails to take off

Although the beginning of 2024 could mark a turning point for the Eurozone, which is expected to elicit positive growth after two consecutive quarters of negative growth at the end of 2023, we warned in our last Barometer[2] of the uncertain nature of the recovery, particularly for industry. The downturn in the Euro area's manufacturing sector has been confirmed by the purchasing managers' index, which has been on a downtrend since June this year (**Chart 3**). The negative trend is part of a global decline in manufacturers' new orders, whose index has also fallen below 50 in emerging markets, which is the threshold for a rise or fall in new orders (**Chart 4**). The situation is particularly bleak in Germany, Europe's leading industrial powerhouse, where manufacturing output in July was still 12% below its pre-Covid level and well behind that of US industry (**Chart 5**).

1 Information and Communication Technologies
2 Coface Barometer: Turbulent times ahead? 18 June 2024.
URL: https://www.coface.com/news-economy-and-insights/country-and-sector-risks-barometer-turbulence-ahead

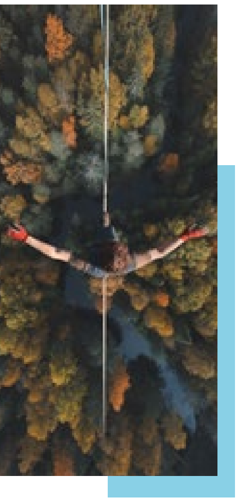
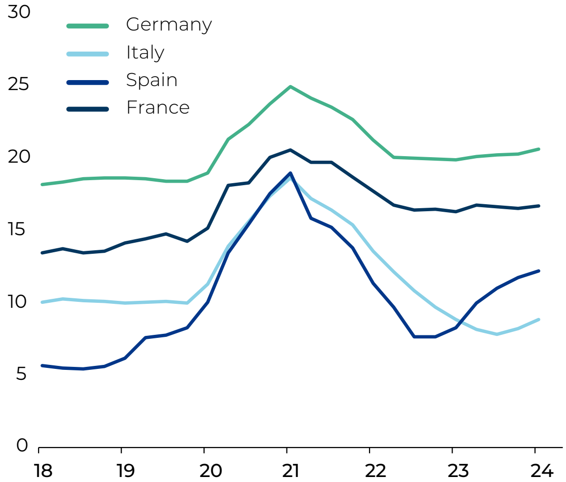
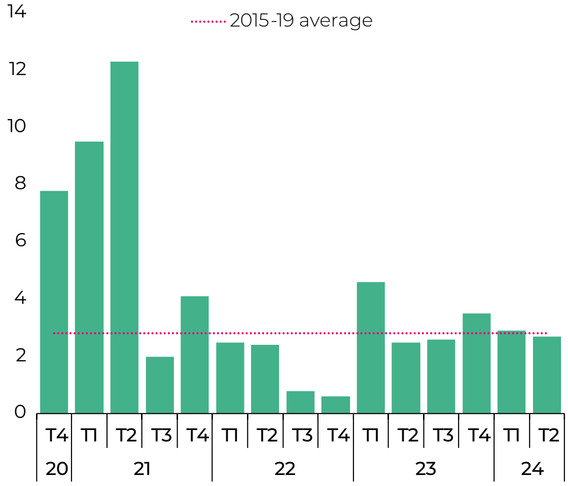


Chart 6:
Household savings ratio
(% of total disposable income)



Source: ECB (European Central Bank), Macrobond, Coface

Chart 7:
United States: Real final sales to private domestic purchasers % quarter-on-quarter growth, annualised rate

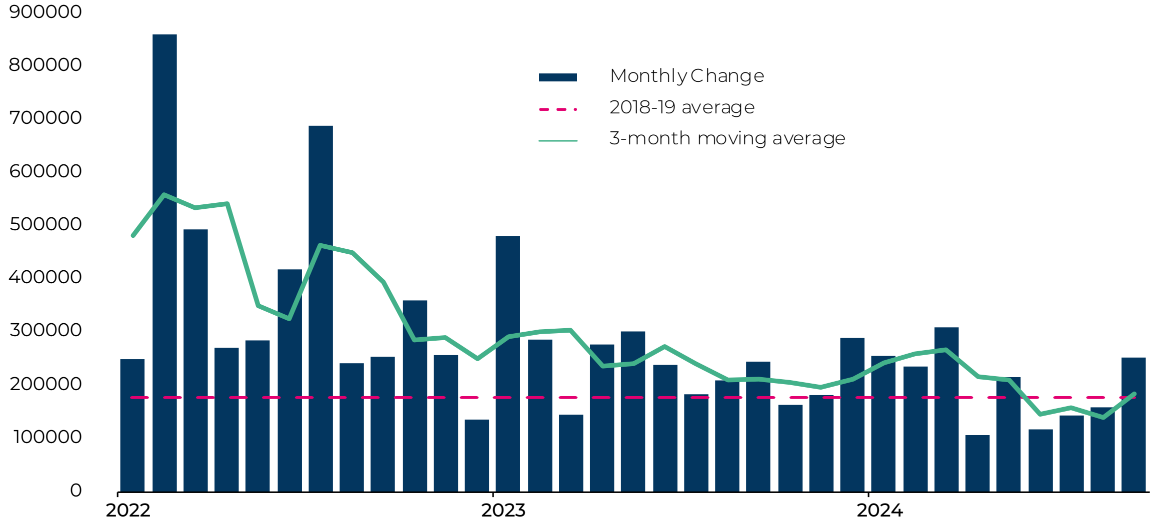


Source: US Bureau of Economic Analysis, Macrobond, Coface

With no sign of recovery in the construction sector, where activity appears to be stabilising at a very low level, Euro area economies will have to rely on services in the coming quarters. However, after a solid start to the year, notably thanks to tourism in Southern Europe, the services sector also seems to be ebbing, having slowed steadily since its peak in May, with the exception of August during the Olympic Games in France. Furthermore, far from loosening up on their saving behaviour, European households in most economies are continuing to save more than before the pandemic (**Chart 6**), raising doubts about the future use of the gains in purchasing power associated with real wage growth. While debate has not yet subsided on the reasons for the sustained increase in saving (real cash effect, precautionary saving, higher investment income and its distribution across income deciles, etc.), the current low level of household confidence in France and Germany against a background of political uncertainty on both sides of the Rhine makes it difficult to predict a strong recovery in consumption.

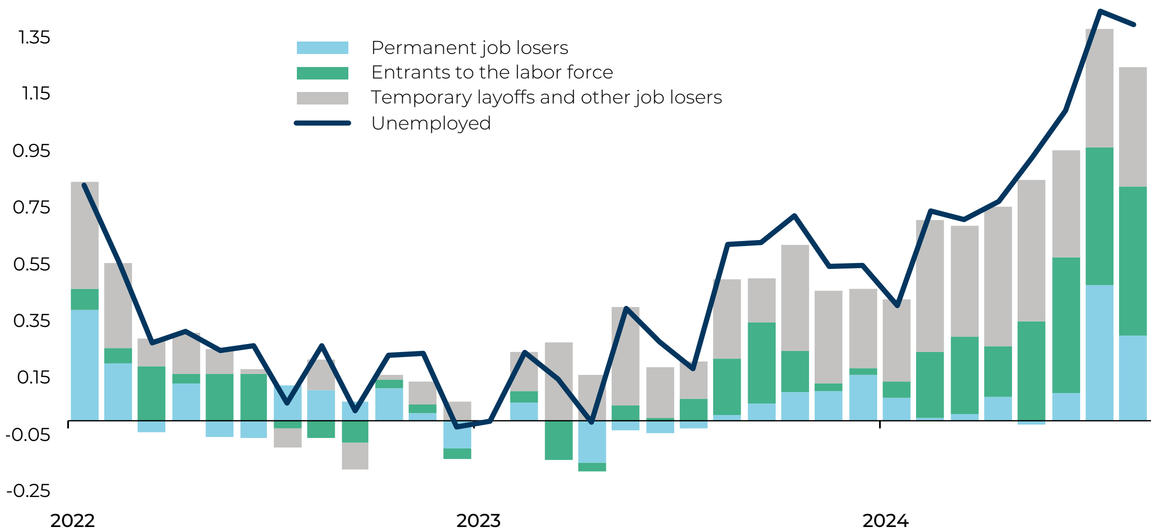
In the US, on the other hand, the soft landing scenario seems to be confirmed. GDP figures for the second quarter manifested the resilience of economic activity, showing growth of an annualised rate of 3% following a sharp slowdown in the previous quarter to "only" 1.6%. While the slowdown in the first quarter was mainly due to volatile components such as net exports and public spending, private domestic demand has remained remarkably solid since the start of 2023 (**Chart 7**), suggesting a very gradual slowdown. In addition, the resilience – and at time, strength - of US economic activity since the Covid recession has been reinforced by significant upward revisions to GDP and Gross National Income figures covering the past five years in September. As we pointed out in our previous Barometer, the signs of moderation are much less visible in GDP or household consumption figures than in employment figures. Job creation figures show a clear slowdown (**Chart 8**), as does the increase in the number of job seekers, which has so far been driven mainly by new entrants to the labour market (**Chart 9**).

Chart 8:
US: Nonfarm payroll growth
(number of jobs)

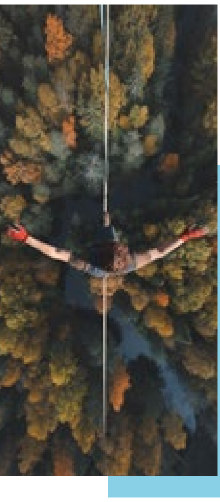


Source: U.S. Bureau of Labor Statistics (BLS), Coface, Macrobond

Chart 9:
US: Contributions to the change in unemployment
(millions of persons, vs Jan. 2023)



Source: U.S. Bureau of Labor Statistics (BLS), Coface, Macrobond

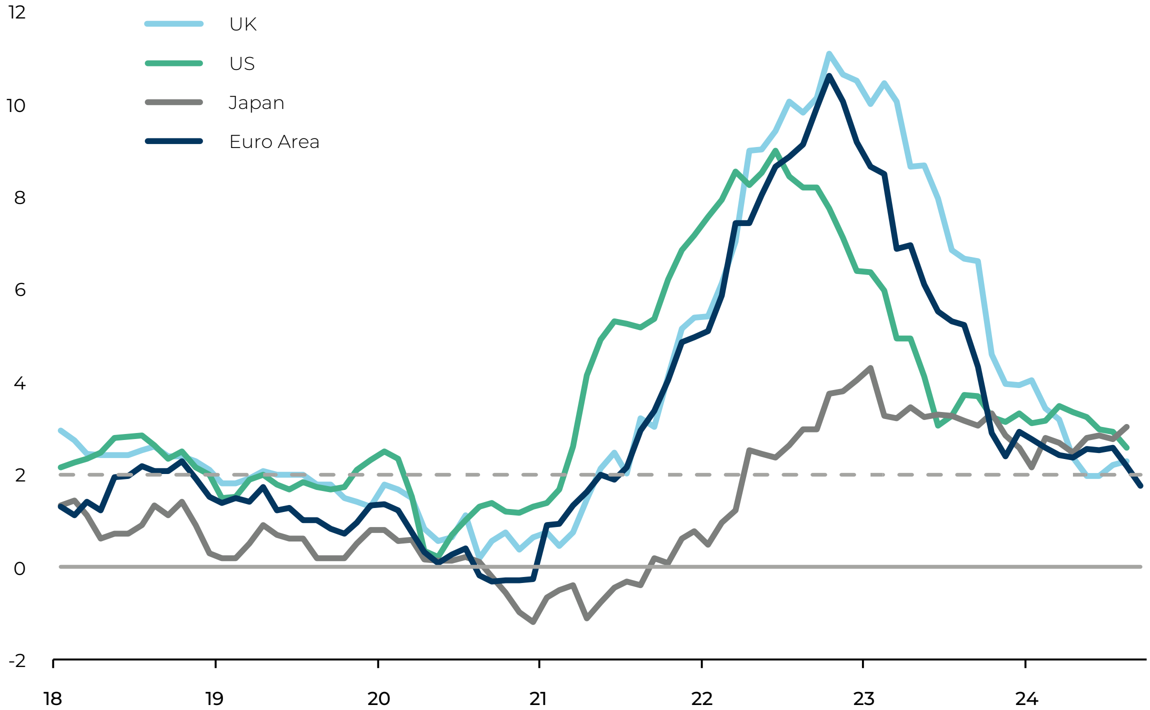


Solid disinflation in the US and corporate weakness in the Euro area

The fight against inflation is where we should look for good news this autumn, with the confirmation of disinflation in both Europe and the US (**Chart 10**) having largely been made possible by the moderation in commodity prices, especially energy prices. Oil prices fell sharply in the third quarter of 2024. After the price of Brent (the international benchmark) reached almost $87 per barrel, it ended the quarter at $72/bbl and even briefly fell below $70/bbl in early September, a first since December 2021. The drop in oil prices is partly related to the downward revision of the global demand outlook, with demand expected to grow by less than 1 million barrels per day (Mb/d) in 2024. Weak indicators in global industrial activity have not reassured the market, but the main concern is demand in China, whose role as a driver of global oil demand could be challenged by its economy's structural slowdown and the acceleration of its energy transition (notably mobility).

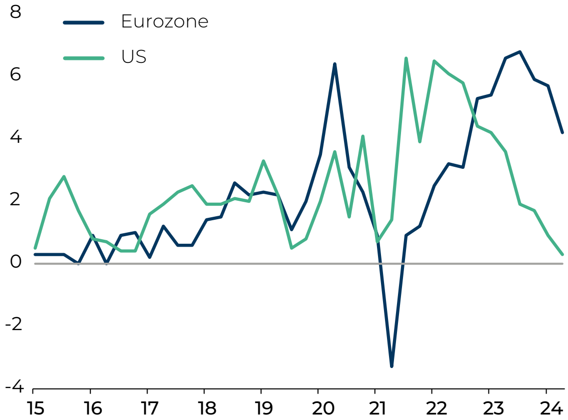
At the same time, oil supply remains on an upward trajectory, ensuring good supply to the market. In 2025, in addition to US shale, offshore projects in many non-OPEC+ countries (Brazil, Guyana, Norway, Senegal) will continue to add to global supply. If OPEC+ maintains most of its quotas, the phasing-out of voluntary cuts by eight of the group's members (including Saudi Arabia and Russia), will contribute to oversupply and the prospect of lower prices. In addition, maintaining OPEC+ discipline will become increasingly difficult with record spare capacity of over 5 mb/d. Spare capacity, more than half of which could be mobilised in less than three months, has helped to protect the oil market from higher price peaks despite major geopolitical risks in the Middle East.

Chart 10:
Inflation - Advanced economies (CPI, YoY, %)



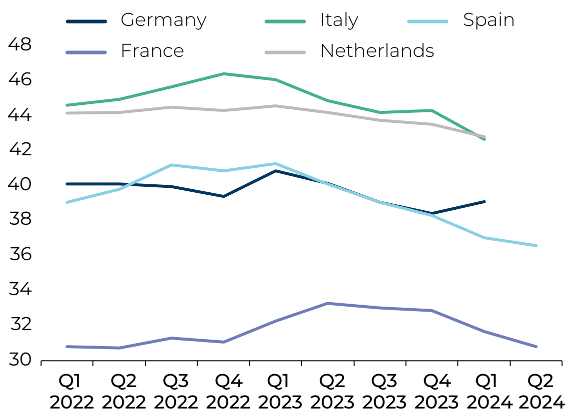
Sources: U.S. Bureau of Labor Statistics (BLS), U.K. Office for National Statistics (ONS), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Eurostat, Macrobond, Coface

Chart 11:
Unit labour costs (%, YoY change, based on hours worked)



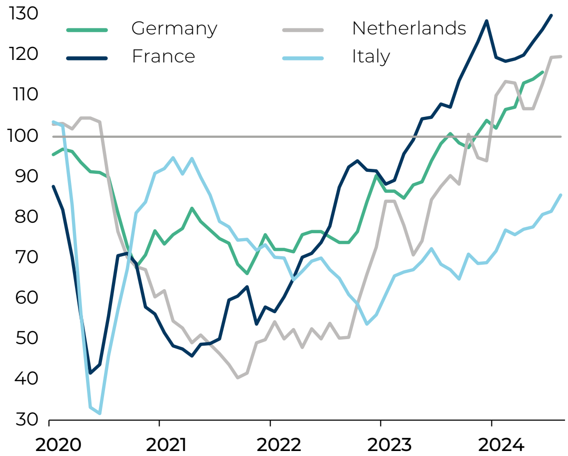
Sources: Eurostat, U.S. Bureau of Labor Statistics (BLS), Macrobond, Coface

Chart 12:
Profit share of non-financial companies (%)



Sources: Eurostat, INSEE, Macrobond, Coface

Chart 13:
Business insolvencies (% of the same period in 2019)

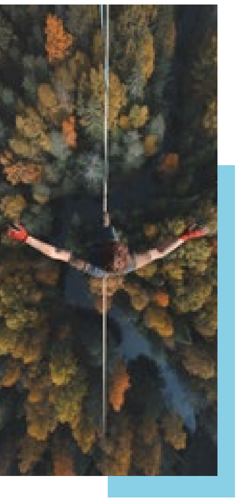


Sources: Banque de France, German Federal Statistical Office, Italian Chamber of Commerce of Marche, Statistics Netherlands, Macrobond, Coface

As a result, our price forecast for 2025 is $75/bbl, down from 2024, when the price should average just over $80/bbl. However, as highlighted by the first week of October, a resurgence of tensions between Israel and Iran is a significant upside risk, notably if it were to lead to strikes on Iranian oil infrastructure or even to disruptions in the Strait of Hormuz, through which over 20% of the world's oil transits.

However, beyond commodity prices, disinflation can be explained by different factors on both sides of the Atlantic, as illustrated by the diverging trends in unit labour costs (**Chart 11**). In the US, they have continued to decelerate sharply in recent months as a result of the cooling of the labour market, so that they rose by only 0.3% year-on-year in the second quarter of 2014. In the Euro area, on the other hand, unit labour costs continued to rise strongly (+4.2%), despite weaker negotiated wage increases (+3.5% year-on-year in the second quarter, after 4.8% in the first). Against this backdrop, the reconciliation of a rise in unit labour costs of more than 4% and a return to 2% inflation was achieved at the cost of lower operating margins for non-financial corporations. After peaking in the first half of 2023 in all Euro area countries, the margin rate has fallen by almost two percentage points in Germany and the Netherlands, and by twice as much in Spain and Italy (**Chart 12**).

In the Euro area, disinflation is therefore going hand in hand with a weaker corporate sector, as evidenced by the continued rise in insolvencies in recent months (**Graph 13**).



Time for widespread monetary easing... and austerity?

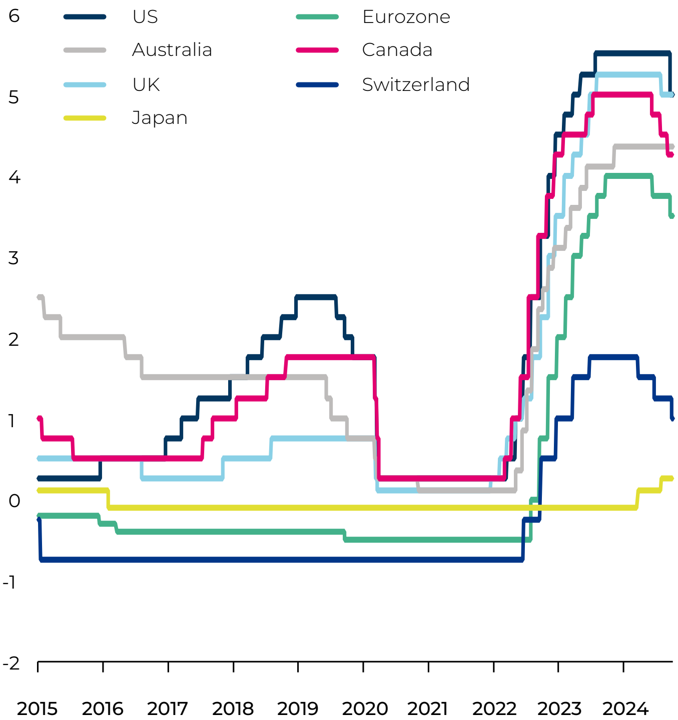
As expected, the confirmation of disinflation paved the way for the Fed's first rate cut on 18 September. The size of the cut – 50 basis points – underscores the importance, if not the priority, that the Fed now places on its full employment mandate (**Chart 14**). At the same time, the European Central Bank (ECB), which had started to ease monetary policy in June, made a second cut of 25 basis points in September 2024. Although the Bank of England decided to leave its interest rate unchanged in September after an initial cut in August, it is expected to make at least one more cut before the end of the year. Of all the central banks of major advanced economies (with the exception of Japan), only the Reserve Bank of Australia (RBA) has not started yet to ease monetary policy, with the first cut expected in early 2025 as inflation remains around 4%.

Barring a new energy shock (see above), central banks should continue to gradually ease rates in 2025 and bring rates down to their "neutral" level estimated around 3% for the Fed and 2% for the ECB. In the US, the outcome of the presidential election in November could also have a significant impact on inflationary pressures, public finances and economic activity judging by the two candidates' platforms (**see Box 1**).

While the forthcoming period of monetary easing is without a doubt good news, it should be borne in mind that monetary policy works with a lag (usually estimated at between 12 and 18 months) that is even longer when the majority of loans are at fixed rates, which is the case in Germany and France (>80%). In addition, although interest rates on new business loans will continue to fall (**Chart 15**), they will remain well above the levels seen during the last decade, as policy rates will be higher over the long term, barring a severe recession.

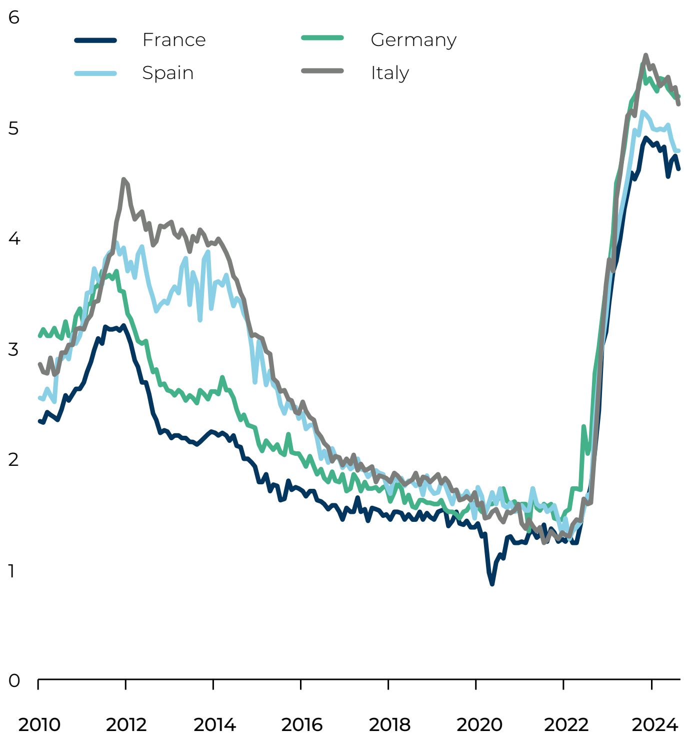
Moreover, while monetary policy will be more accommodative (or at least less restrictive) next year, fiscal policy will be less supportive in the vast majority of countries, particularly in the Euro area. After turning a blind eye to the issue in the

Chart 14 :
Central banks' policy rate (%)



Sources: Federal Reserve, ECB, Bank of England, National Bank of Switzerland, Reserve Bank of Australia, Bank of Canada, Bank of Japan, Macrobond, Coface

Chart 15 :
Interest rates on new loans to businesses (%)



Sources: ECB, Macrobond, Coface

Box 1:

AMERICAN ELECTIONS: 2024, A CROSSROADS FOR THE US AND THE REST OF THE WORLD

In a global election year as busy as 2024, the various elections have often been described as "decisive", "undecided" or "with twists". If there is one election for which these terms do not seem overworked, it is the election (or rather the elections[3]) to be held in the US on 5 November to decide on the next president of the United States. The inevitable return of a duel between the last two presidents, Donald Trump and Joe Biden, which appeared to be one of the few certainties of this election, was swept away by the withdrawal of the current occupant of the White House in favour of Kamala Harris. The launch of the current vice-president's campaign undeniably saw a resurgence of hope for the Democratic camp that had been dashed by Joe Biden's performance in the debate on 27 June.

Nevertheless, there is still a great deal of uncertainty about the outcome. Perhaps this is the inescapable consequence of the significance of this US election for the next four years and beyond. Increasingly pressing geopolitical, climatic and economic challenges are confronting two policy options that, while often converging in their goals, are diametrically opposed in their approaches. The global resonance of the issues at stake contrasts with the fact that the outcome will be decided on the basis of local dynamics in a very small number of swing states (seven this year[4]). This paradox, inherent to the US' status on the international stage and to its electoral system, is nothing new, but it is particularly acute this time around.

From an international standpoint, Kamala Harris's candidacy appears to be a guarantee of continuity as opposed to a Donald Trump who is more unpredictable and, in some respects, more radical than during his first term at the White House (2017-2021). For the US' traditional partners, particularly in Europe, a Trump presidency raises specific concerns about the future of NATO, support for Ukraine and a trade policy that would defy the foundations of the international system. However, it is simplistic - and maybe even naive - to suggest that a Harris presidency would be synonymous with stability in the global environment given current escalating geopolitical tensions and the dissatisfaction of many emerging economies with the world order.

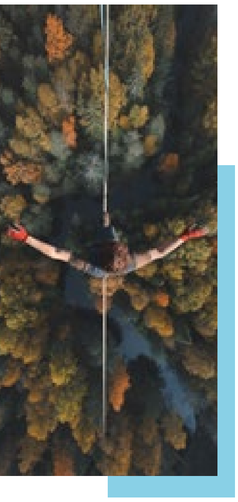
On the economic front, the inflation of recent years has made the fight against the high cost of living the core of the candidates' platforms. In her response, Kamala Harris has focused on regulating "price gouging" for groceries and on measures to reduce housing costs, notably by helping first-time home buyers and stimulating construction. Meanwhile, Donald Trump, who has made the cost of living one of his campaign slogans («Make America Affordable Again»), has vowed to stimulate energy production and cut taxes to reduce the cost of living.

Tax policy is also an important issue and neither candidate is advocating fiscal prudence. Donald Trump is promising major tax cuts by extending the measures of the Tax Cuts and Jobs Act (TCJA, 2017) that were adopted during his presidency and which are due to expire at the end of 2025, and by reducing the corporate tax rate. Kamala Harris aims to cut taxes for the most modest households by extending the child tax credit. Like Joe Biden in 2020, she has pledged not to raise taxes on those earning less than $400,000 (which could mean a partial extension of the TCJA) and proposes to raise the corporate tax rate from 21% to 28%.

In both scenarios, therefore, the economic programmes are likely to add a record federal budget deficit that is projected to exceed 6% of GDP over the next 10 years. On paper, the fiscal and inflation risks appear greater in the case of a Trump presidency, with the deficit widening by at least twice as much (see **Table**). However, the Trump hypothesis is subject to a high degree of uncertainty as the financing of his programme relies heavily on higher tariffs and faster economic growth. The impact on fiscal revenues, inflation and economic activity of Donald Trump's protectionist trade policy, which threatens to impose tariffs of 60% on Chinese imports and of 10-20% on imports from the rest of the world, is uncertain but the risks of such a policy would be to raise costs for the US consumer, and exacerbate trade and diplomatic relations.

3 In addition to the Presidential election, the House of Representatives will undergo a complete change, while a third of the seats in the Senate will be up for grabs. In addition, a dozen states and territories will elect their governors, and numerous local elections will be held on 5 November.

4 Arizona (11 electoral college votes), Georgia (16), Michigan (15), Nevada (6), North Carolina (16), Pennsylvania (19) and Wisconsin (10). By way of reminder, a candidate must obtain 270 of the 538 Electoral College votes to be elected President.



Box 1:

Table
Estimated fiscal impact of the main campaign pledge of Donald Trump and Kamala Harris

Candidate	Measure	Estimated impact over 10 years (USD billions)	Average annual impact (% GDP)
Donald Trump	Extension of the TCJA relating to personal income tax	-3 400	-1,2 %
	Extension of the TCJA relating to business tax	-1 200	-0,4 %
	Elimination of tax on social security benefits	-623	-0,2 %
	Lowering the corporate tax rate to 15%.	-595	-0,2 %
	Increase in customs duties China and the rest of the world *	+2 750	+1,0 %
	Net effect on primary deficit (-) or surplus (+)	**-3 068**	**-1.1 %**
Kamala Harris	Extension of the child tax credit (CTC) to $3,000/$3,600 and creation of a $6,000 CTC for newborns	-1 794	-0,6 %
	Extension of the Earned Income Tax Credit (EITC)	-126	-0,05 %
	Extension of the increased tax credit on insurance premiums	-225	-0,1 %
	Home purchase assistance for first-time buyers	-138	-0,05 %
	Corporate tax rate raised to 28	+1 100	+0,4 %
	President Biden's budget FY2025 **	+1 229	+0,4 %
	Partial extension of the TCJA (households, less than 400k/year) **	-1464	-0,5 %
	Net effect on primary deficit (-) or surplus (+)	**-1 418**	**-0,5 %**

* The simple analysis probably overestimates the revenue generated as it does not take account of dynamic budgetary effects
** Measures suggested but not officially announced by the Kamala Harris campaign
Sources: Penn Wharton Budget Model, PIIE, Coface

aftermath of the Covid pandemic, European institutions now appear determined to monitor more closely the public accounts of member states. In July, the European Commission opened an “excessive deficit procedure” against no less than seven countries: Belgium, France, Hungary, Italy, Malta, Poland, and Slovakia.[5] France, in particular, is likely to realise significant structural budgetary efforts, when the potential political instability is a major source of uncertainty. At the same time, lack of consensus in Germany on the reform of the «debt brake» is an obstacle to any possibility of significant fiscal support in a pre-election context.

China struggles to recover, but other emerging markets are picking up the slack

China’s economy has continued to slow in recent months despite the stimulus measures announced. Its economy continues to bear the brunt of an ongoing decline in property investment and sluggish consumption of manufactured goods. In the absence of sufficient domestic demand (and still relatively weak external demand), the manufacturing PMI has consistently posted readings below 50 since May 2024. In a further attempt to achieve the 5% growth target, the People’s Bank of China (PBoC) announced additional support measures on 24 September. The main measures include even deeper interest-rate cuts and lowering the reserve requirement ratio (RRR) for banks to inject more liquidity into the market. In addition, in order to stabilise the housing market, the PBoC plans to cut the interest rate on outstanding mortgage loans, reduce the minimum downpayment for second homes and expand the scope of loans to local governments to purchase unsold homes for conversion into public housing.

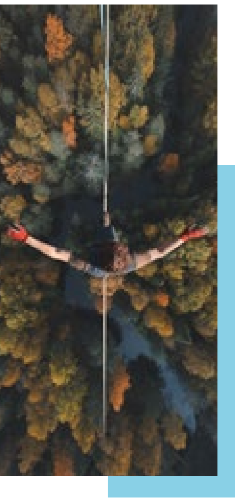
While cutting interest rates on outstanding mortgages will provide households with some extra income, the Chinese consumer will likely continue to save unless its confidence in the future improves. The same uncertainty surrounds the effectiveness of additional liquidity injections in light of weak demand for credit in the private sector. Last, although the initiative to reduce the stock of unsold homes was a step in the right direction, local authorities had visibly made very little use of it at the end of the second quarter (4% of the soft loans made available). This is probably because rental yields may not be sufficient to cover the below-market interest rate of 1.75%. In any case, even if local governments were to use all of the RMB 300 billion (around USD 42 billion) in soft loans, we estimate that this would represent only around 10% of the unsold stock.

On the fiscal front, given the persistent imbalance between supply and demand, recent measures have focused more on consumption than investment. For example, since July, 30% of the RMB 1,000 billion in very long-term Treasury bonds, which were originally intended to support infrastructure investment, has been used to subsidise household consumption of durable goods and business equipment. These efforts initially boosted car sales in September, but ongoing momentum will depend on continued fiscal support, which could intensify as monetary conditions ease. In the absence of concrete details on further fiscal support and given the uncertainty surrounding the impact of monetary policy, we are maintaining our forecast that the Chinese economy will slow in 2024 and 2025.

Despite this slowdown in China, the contribution of emerging markets to global growth will remain unchanged in 2025, thanks mainly to an acceleration of activity in Gulf states and South America. This is despite the fact that we expect growth in Brazil to weaken after two years at around 3% thanks, in particular, to good harvests and sharp monetary easing between August 2023 and May 2024. After being one of the first central banks to cut its key lending rate, Brazil’s central bank again already raised it by 25 basis points in September due to a shift in inflation expectations following a rise in energy and food prices, although the latter were mainly due to climatic events.

The recovery in South American growth in 2025 is therefore expected to be led by Argentina, after two

5 Additionally, the excessive deficit procedure has remained open for Romania since 2020



years of recession. Although the country's situation remains extremely fragile, with international reserves so low that capital controls are unable to be lifted, the Argentinian economy is expected to grow by 3.5% next year. However, this possible recovery, which is largely due to a base effect in the spring when activity bottomed out – with industrial production falling by almost 20% and construction by more than 40% – still depends on the (so far resilient) population's acceptance of fiscal austerity measures and a financing agreement with the IMF.

More generally, the prospect of Fed rate cuts in 2025 is good news for emerging markets' central banks which will be able to ease monetary policy without fear of a sharp depreciation of their currencies. This is particularly the case in Southeast Asia, which will continue to be the most robust region in 2025 – the average ASEAN growth rate is expected to be 4.5%. Within ASEAN, the Philippines and Indonesia actually started to cut interest rates this summer. Over and above domestic factors, many countries in the region are big winners in the ongoing rebalancing of global trade and are becoming strategic hubs to capture market share in Sino-American supply chains[6].

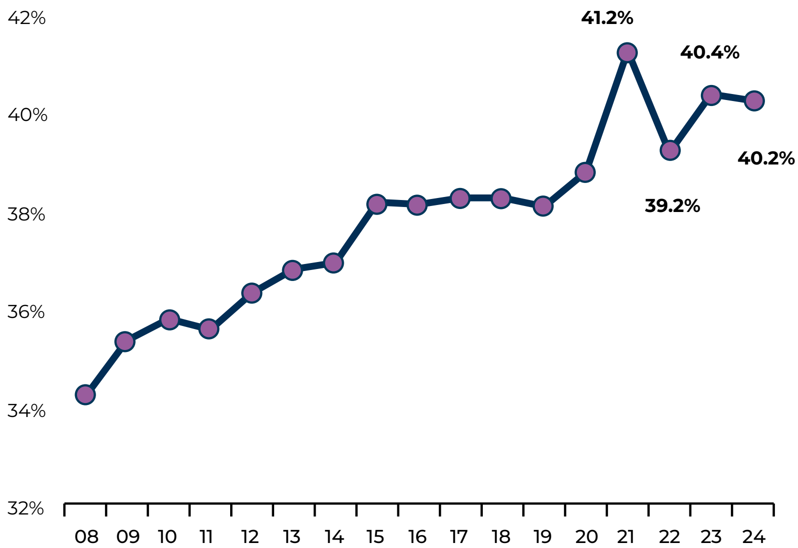
Coface Political Risk Index remains high and above pre-pandemic levels

Armed conflicts, coups d'état, escalating diplomatic tensions, fierce political and social unrest, the rise of populism; the list is long. In 2024, it seems almost pointless to remind readers that the political risk outlook is complex and alarming in the context of a busy electoral calendar. As we described at the same time last year, this observation is reflected in the latest results of the Coface Political Risk Index, launched in March 2017 and updated annually (**see Box 2**). In the wake of volatility during the post-Covid years, the 2023 edition of our indicator settled at a higher level than those observed before 2020. In addition to a deteriorating security environment, inflationary pressures were noted as a source of political and social tensions, thereby contributing not only to higher scores in many countries compared to the 2022 version, but also to the scores recorded between 2015 and 2019.

For the 2024 edition, we expected that disinflation would mechanically lead to a decrease in our political risk index compared to 2023. However, although the global score has fallen, the decline is almost imperceptible (**Chart 16**). Coming in at 40.2%, 2024's score is only marginally lower than that for 2023 (40.4%). In addition, nearly half of the countries covered by our index (71 out of 166) have seen their risk levels increase, which casts doubt on any notion of a significant reduction in political and social risks. As a result, the global index remains well above its pre-pandemic level (+1.3 points compared to the 2015-2019 period). As was the case last year, the political risk index in 2024 of more than two-thirds of countries (112) is higher than the levels recorded before 2020. Hence, social and political risks remain elevated in a world undergoing major transformation. A crucial factor contributing to higher index levels in recent years is the gradual shift in the global fragility index. The latter index has continuously worsened since 2014 and rose by 1.6 points over the period to reach 54.6% globally in 2024. This reflects the erosion of the rule of law and civil liberties in various parts of the world, which creates fertile ground for political and social unrest.

Despite the ongoing wars in Ukraine and the Middle East, the contribution of the "conflict" component of our Political Risk Index decreased in 2024. This is due to the number of deaths in global conflicts halving in 2023 compared to the 300,000

Chart 16 :
World - Coface political risk index (Risk scale from 0 (lowest risk) to 100 (highest risk))



Source: Coface

6 Focus Coface: A less global village? World trade in an era of geopolitical fragmentation, 1 October 2024. https://www.coface.com/news-economy-and-insights/a-less-global-village-world-trade-in-the-age-of-geopolitical-fragmentation

Box 2:

METHODOLOGICAL OVERVIEW OF COFACE'S POLITICAL RISK INDEX

Coface's political risk model is a synthetic indicator of political risk on a scale from 0% (zero risk) to 100% (maximum risk). It is based on two major risk categories:

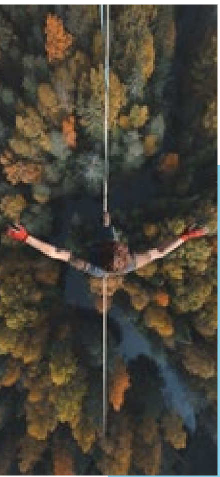
- **Security risk**, based on the observation of conflicts (between states or between factions of a given territory) throughout the world. They are measured using a synthetic index that considers the occurrence of fighting, the intensity of the conflict and the number of associated victims.

- **Risks associated with political and social fragility,** which is the combination of three distinct indices:

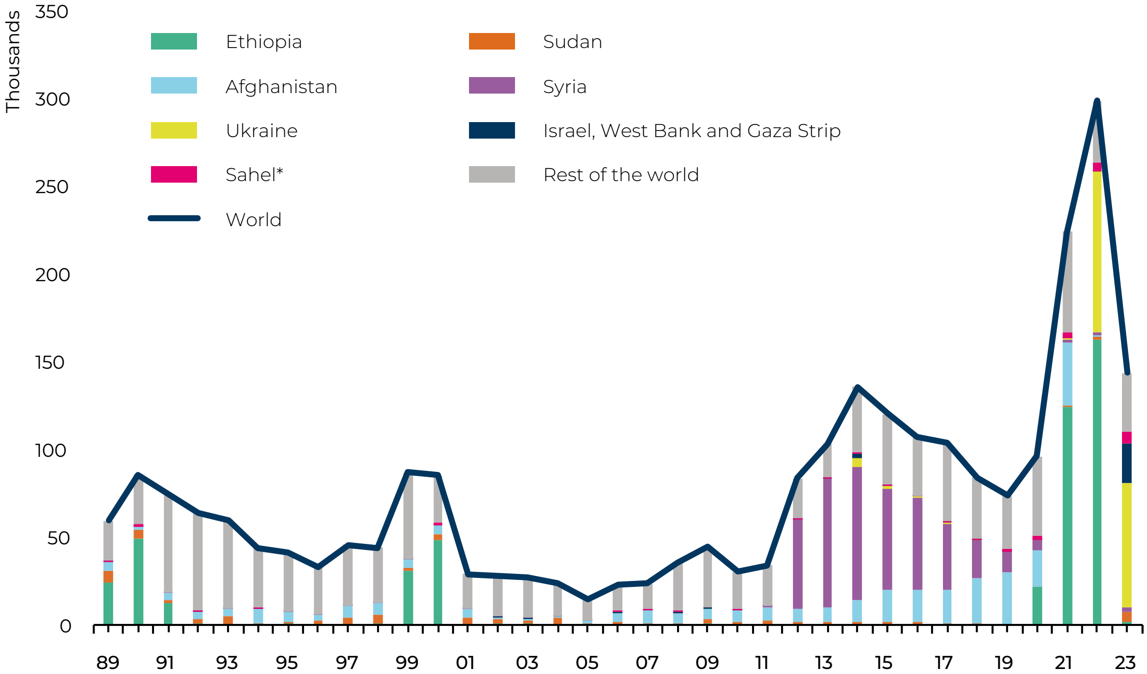
1. **Social risk index:** this integrates two categories of variables. First, *pressures for change* (1) which measures the degree of social frustration by taking into account socio-economic factors: inflation, the unemployment rate, income inequality measured by the Gini coefficient, GDP per capita (level and change), the perception of corruption, the population's ability to express itself and the homicide rate. Secondly, *instruments* (2) to express these socio-economic frustrations: the rate of enrolment in higher education, the adult literacy rate, internet access, the proportion of young people in the population, the fertility rate, the urbanisation rate and the rate of female participation in the labour market.

2. To identify cracks in the foundations of the political system, Coface has also created a **fragility index** based on the nature of the political system, ethnic and linguistic fractionalization, as well as the degree of political freedom and civil rights that populations enjoy.

3. **Populism index:** specific variables taken from the Manifesto Project database, constructed from textual analysis of the content of political parties' electoral programmes and meant to capture the rise of populism to better understand the rise of social frustration in some democracies.



Graph 17:
World - Fatalities from conflict (in thousands)



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

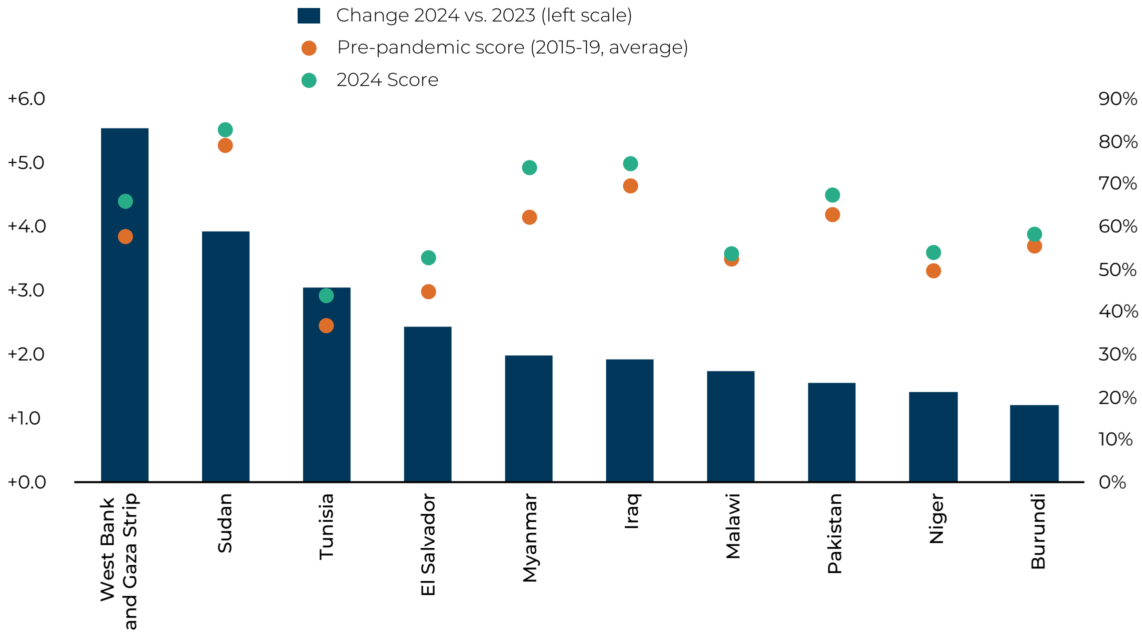
victims of global conflicts in 2022 (**Chart 17**). The trend can be largely attributed to a reduction in the number of casualties in the Tigray war (Ethiopia) following the November 2022 ceasefire agreement. Despite these developments, the number of conflicts and associated casualties remained high by recent historical standards. Moreover, ongoing conflicts in Ukraine, the Middle East and Sudan (to name a few) will continue to put pressure on this component of our Index, the levels of which are likely to remain high in future editions.

At the same time, the “political and social fragility” component at the global level has also fallen slightly. The drop in the social risk score (-0.3 points compared to 2023) is the main cause, although it remains higher than pre-pandemic levels. As expected, disinflation has played a key role in the decrease by reducing the contribution of the “pressures for change” component. However, the easing of social risk was mitigated by changes in the variables that make up the “instruments of mobilisation” score. Not only is the score 0.2 points higher in 2024 than in 2023, but it is more than 3.7 points higher than pre-pandemic levels.

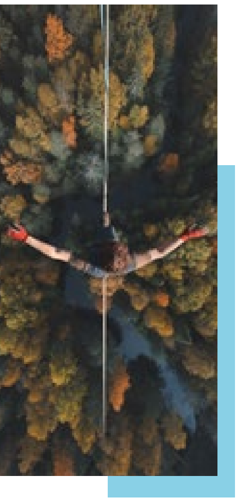
Given the relative stability of the index between 2023 and 2024, the risk hierarchy has remained stable overall. The seven countries with the highest political and social fragility scores remained the same, as did the top 20 rankings. However, some adjustments are worth noting. Among the 10 countries whose political and social fragility score increased the most (**Chart 18**) between the 2023 and 2024 editions are countries traditionally with the highest risks such as Sudan, Iraq, Niger and Myanmar that appear in 2024's "Top 10". For these countries, as for Pakistan and Malawi, the decline in 2024 was due to the rapid deterioration in their already precarious socio-economic conditions. In the light of current events, the presence of the Palestinian territories and Sudan at the top of the list of countries with the greatest deterioration is unsurprising.

In short, after several years of post-pandemic volatility, the relative stability of political and social risk observed this year has confirmed that a new chapter is beginning. The normalisation of this risk at a higher level is hardly surprising given the succession of crises and social events that have shaped the news in recent years. It also highlights the fact that political risk has become a permanent reality especially given that additional factors such as climatic and geopolitical crises will further exacerbate the trend.

Chart 18:
Ten countries with the greatest increase in the Coface index of political and social fragility in 2024 compared with 2023



Source: Coface



Country Risk Assessment changes

Countries		CRA changes		
ALBANIA		C	↗	B
COSTA RICA		B	↗	A4
CYPRUS		B	↗	A4
ISRAEL		A3	↘	A4
RWANDA		B	↗	A4

BUSINESS DEFAULT RISK

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

Albania:
(Upgrade from C to B) ↗

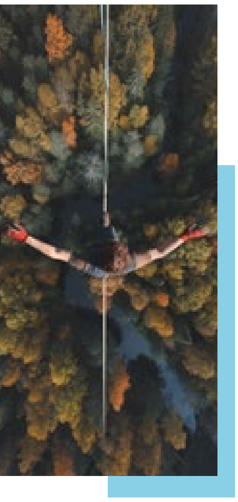
- Albania GDP growth has recorded strong growth and it is set to remain robust (2024: 3.3%, 2025: 3.5%), making the country among the best economic situation in its region. The activity is driven by a dynamic domestic and external demand. Household consumption is benefiting from higher wages and low inflation. Moreover, the tourism sector is showing strong performance and has now reached new heights (in 2023) by becoming increasingly popular and cost competitive tourist destination. Moreover, Albania shows strong political stability. The current government is led by the Socialist Party of Albania, which has won an unprecedented third consecutive parliamentary election in 2021 and still lack of credible opposition. The polls maintain a dominant position for the SPA in the next elections in 2025.

Costa Rica:
(Upgrade from B to A4) ↗

- Costa Rica has recorded robust growth in recent years (GDP growth forecast for 2024: 4%, 2025: 3.5%) supported by strong private consumption (it holds one of the highest GDPs per capita in the region) and external demand (mainly from the US). In addition, it is also well positioned to benefit from nearshoring, due to its favorable business environment, its skilled workforce and various free trade agreements. The country also has pursued fiscal consolidation, with the support of the IMF through the Extended Fund Facility and the Resilience and Sustainability Facility, concluded in March 2021 and November 2022 respectively. Finally, a solid balance of payments has allowed foreign currency reserves to increase from USD 5.5 billion in 2022 to USD 13.4 billion in July 2024 (equivalent to over 7 months of imports).

Cyprus:
(Upgrade from B to A4) ↗

- Cyprus has recorded robust growth in recent years, and GDP growth forecasts remain high for the coming years (2024: 2.8%, 2025: 2.9%). Growth will be supported by household consumption, whose purchasing power continues to improve, and by the tourism sector, which, despite having been strongly impacted by the drop in visitors from Russia and Ukraine, returned to pre-pandemic levels this summer thanks to the increase in the number of visitors from Western Europe (mainly the UK). By the summer of 2024, Cyprus had received only 22% of the €1.2 billion in approved stimulus funds (€1 billion in grants and €200 million in loans), so the bulk of the money should be paid out in 2025-2026. The robust growth and increase in tourism revenues that have enabled the country to post positive budget results since 2022 should continue on this trend, with forecasts of a budget surplus of over 2% of GDP in 2024 and 2025. Moreover, the economy has been little affected by the war in Ukraine in terms of energy costs due to its low exposure to Russian energy supplies.



Israel:

(Downgrade from A3 to A4) ↘

- Production capacity remains under pressure due to the war conducted against Hamas since October 2023. Business investments declined around 5.5% in the past 4 quarters. Monetary policy remains tight despite slow economic recovery. Annual inflation is expected to increase in the beginning of 2025 and then moderate. The central bank said as long as the uncertainty around the war carries on, it's difficult for it to be able to lower interest rates. This will keep elevated funding cost for business in an already risky business environment. Upward pressures on the budget deficit's widening will continue due to the armed conflicts related uncertainties.

Rwanda:

(Rwanda from B to A4) ↗

- One of the most dynamic economies globally, Rwanda is expected to continue growing at around 8% in the medium-term (8.2% in 2023 and 2024). With the aim to become a large service (transport, logistics, finance, etc.) hub in Eastern Africa, as well as a high-end tourist destination, and with economic policies geared towards it, the country has one of the most favourable business environments on the continent, including political stability and sound governance. The authorities are expected to continue their diversification strategy, which should stimulate both public and private investment in infrastructure, notably in transport and energy. While the structural twin deficits will have to be dealt with appropriately in the longer-term, Rwanda still has access to concessional financing, and enjoys both bilateral and multilateral support.

Sector Risk Assessment Changes
(OCTOBER 2024)

REGIONAL SECTOR RISK ASSESSMENTS

Sector	Asia-Pacific	Central & Eastern Europe	Latin America	Middle East & Türkiye	North America	Western Europe
Agri-food	High Risk ↗ Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	High Risk
Automotive	High Risk	Medium Risk	High Risk	High Risk	High Risk	High Risk
Chemical	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk
Construction	Very High Risk	Very High Risk	High Risk	Very High Risk	High Risk	Very High Risk
Energy	High Risk	High Risk	High Risk	Medium Risk	Medium Risk	Medium Risk
ICT*	Medium Risk	High Risk	High Risk	High Risk	Low Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Paper	Medium Risk	High Risk	Medium Risk	Medium Risk ↘ High Risk	High Risk	High Risk
Pharmaceuticals	Low Risk	Low Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Retail	Medium Risk	Medium Risk	High Risk	High Risk	High Risk	High Risk
Textile-Clothing	High Risk	Very High Risk	Very High Risk	Very High Risk ↗ High Risk	Very High Risk	Very High Risk
Transport	Medium Risk	Very High Risk	High Risk	Medium Risk	High Risk	High Risk
Wood	High Risk	Very High Risk	High Risk	High Risk	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

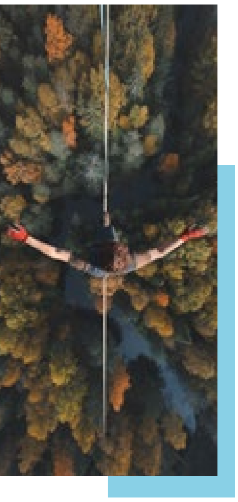
ASIA-PACIFIC

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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



CENTRAL & EASTERN EUROPE

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

LATIN AMERICA

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

* Information and Communication Technologies
Source: Coface

MIDDLE EAST & TÜRKIYE

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

** Information and Communication Technologies*
Source: Coface

NORTH AMERICA

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

** Information and Communication Technologies*
Source: Coface

BUSINESS DEFAULT RISK

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

WESTERN EUROPE

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

* Information and Communication Technologies
Source: Coface

OTHER COUNTRIES

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

Decoding the WORLD ECONOMY

October 2024

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COUNTRY RISK ASSESSMENT MAP

160 COUNTRIES UNDER THE MAGNIFYING GLASS

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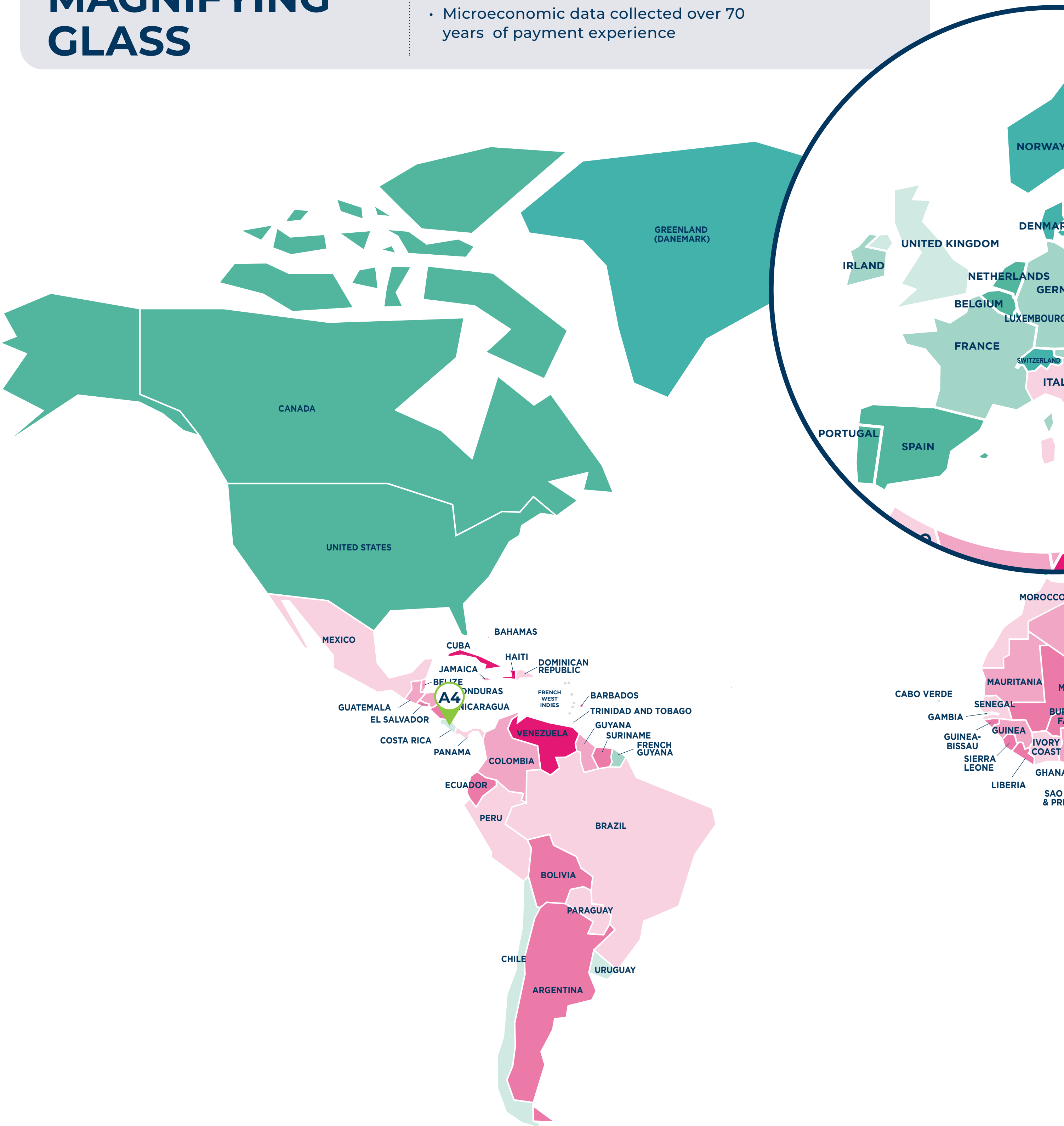
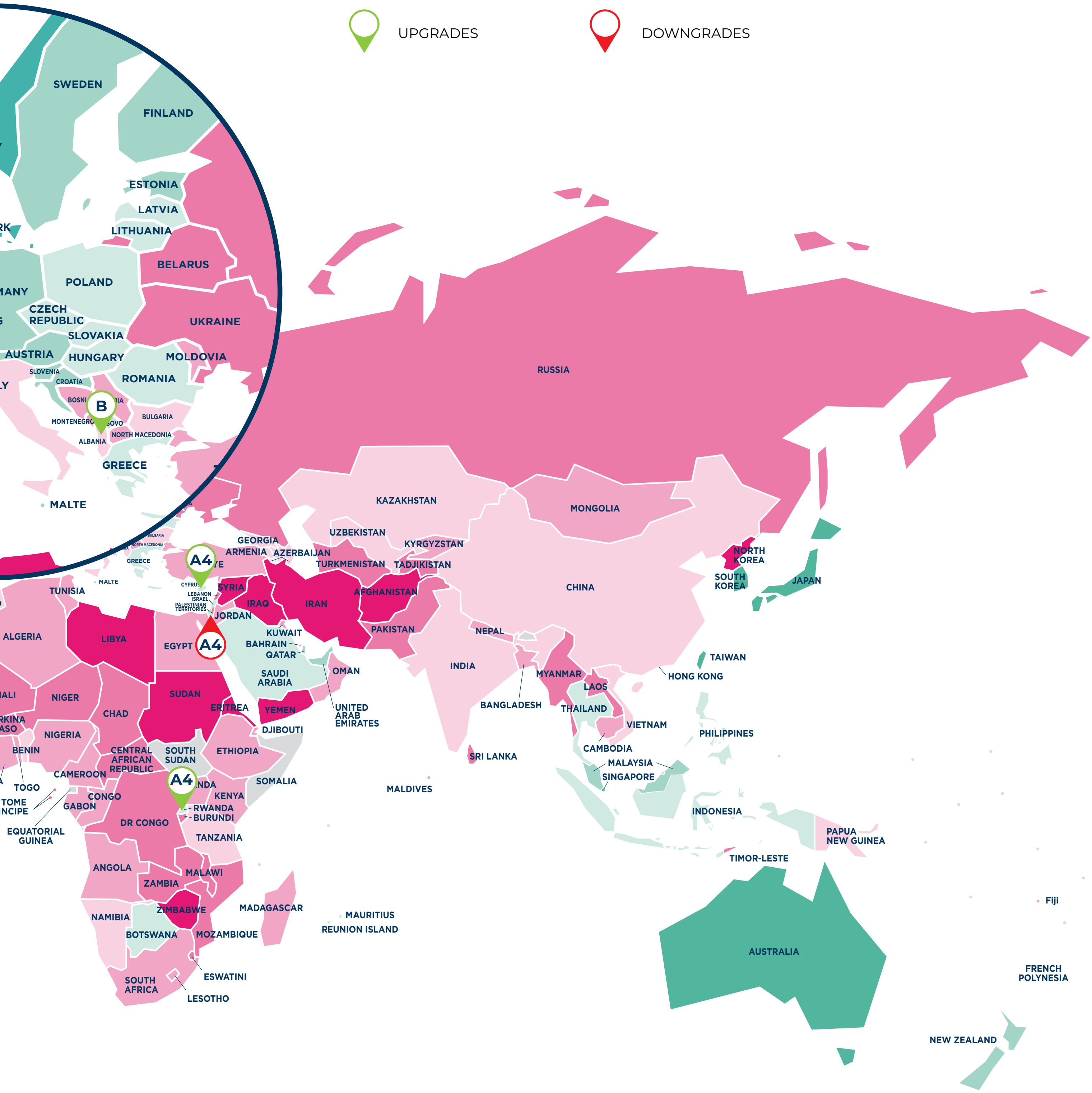
- Comprehension of the business environment
- Microeconomic data collected over 70 years of payment experience



BUSINESS DEFAULTING RISK

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

UPGRADES DOWNGRADES



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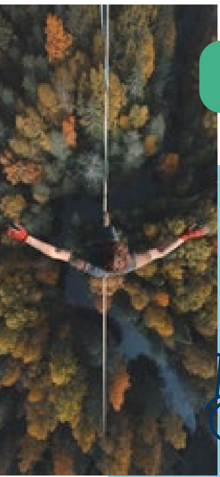
Coface's country risk assessment map gives you a unique overview of its risk assessment in 160 countries worldwide. **Coface assesses the average credit risk of companies in a country.** To do this, it uses macroeconomic, financial and political data.

SECTOR RISK ASSESSMENTS

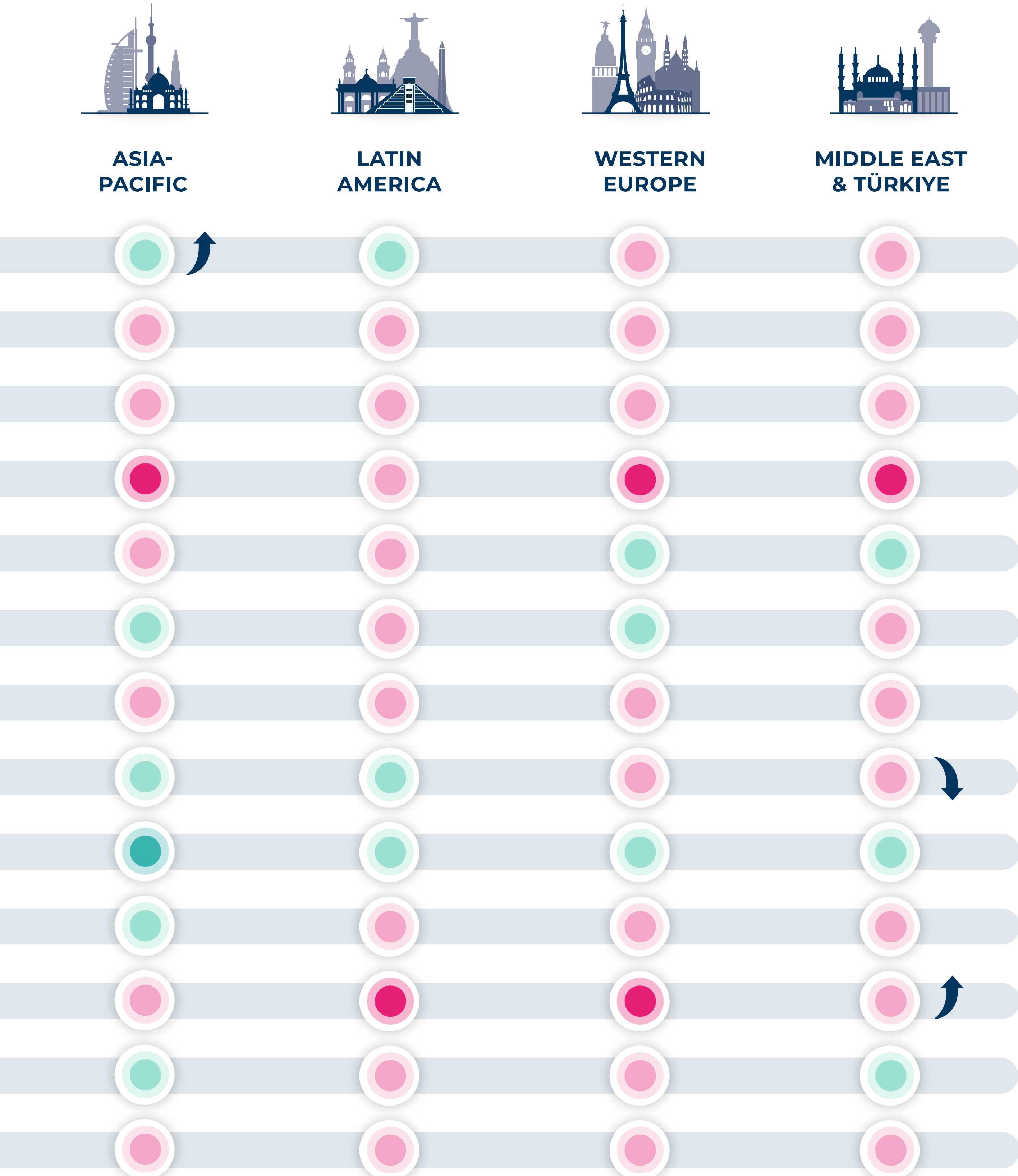


October 2024

Low Risk · Medium Risk · High Risk · Very High Risk · Upgrades · Downgrades

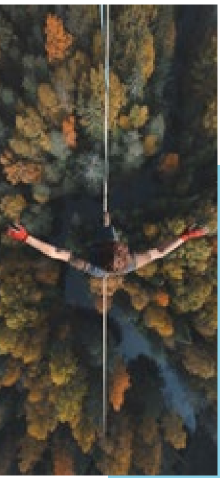
	NORTH AMERICA	CENTRAL & EASTERN EUROPE
AGRI-FOOD	Medium Risk	Medium Risk
AUTOMOTIVE	High Risk	Medium Risk
CHEMICAL	Medium Risk	High Risk
CONSTRUCTION	High Risk	Very High Risk
ENERGY	Medium Risk	High Risk
ICT*	Low Risk	High Risk
METALS	High Risk	High Risk
PAPER	High Risk	High Risk
PHARMACEUTICALS	Medium Risk	Low Risk
RETAIL	High Risk	Medium Risk
TEXTILE-CLOTHING	Very High Risk	Very High Risk
TRANSPORT	High Risk	Very High Risk
WOOD	High Risk	Very High Risk

* Information and Communication Technologies



Visit our websites for Coface's detailed sector risk analyses

Every quarter, our economists **assess 13 sectors from six geographical regions** based on our expertise and financial data published by over 6,000 listed companies. Our credit risk statistical indicator simultaneously synthesizes the evolution of five financial indicators (changes in revenue, profitability, the net debt ratio, cashflow, and claims observed by our network).



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