PANORAMA

Country Risk Barometer Q1 2016

MARCH 2016

COFACE ECONOMIC PUBLICATIONS

By Coface Group Economists

Sluggish growth, absence of inflationary pressures, ever more expansionary monetary policies and increased volatility in financial markets; these are four elements characterising the global economy in early 2016. This phenomenon seems recent for all countries with one exception: Japan, which has been bogged down in this situation for about 20 years. The lessons from the Japanese "guinea pig" give little ground for optimism: although monetary policy has been highly expansionary for a long time, it has been insufficient to jump-start growth, as providing cheap credit to kick-start demand is of no use in absorbing the excess capacity on the supply side. And as time passes, its detrimental side effects are increasingly visible, as the excess liquidity it creates is giving rise to volatility in financial and real estate markets. So it seems very difficult for a country that has fallen into the stagnation trap to pull out of it. This is of small consolation for companies: despite the weak growth outlook, the fact that financing conditions remain very favourable enables them to survive in a "Japanised" economy. This is confirmed by the decline in company insolvencies in most advanced economies over the last few months, despite a moderate level of growth in activity.

In addition to this Japanisation trend, the global economy in early 2016 is still affected by the impacts of the erratic commodity price fluctuations on emerging countries. After Latin America and African countries, it is the turn of the Middle East and Asia to suffer, which has led Coface to assign a negative outlook to the A4 country rating for Saudi Arabia as well as to the A2 rating of Kuwait, to downgrade Oman to A4, Kazakhstan to C, Malaysia to A 3 and Armenia to D. Obviously not forgetting Japan, which is now in A2.

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FOR SAFER TRADE

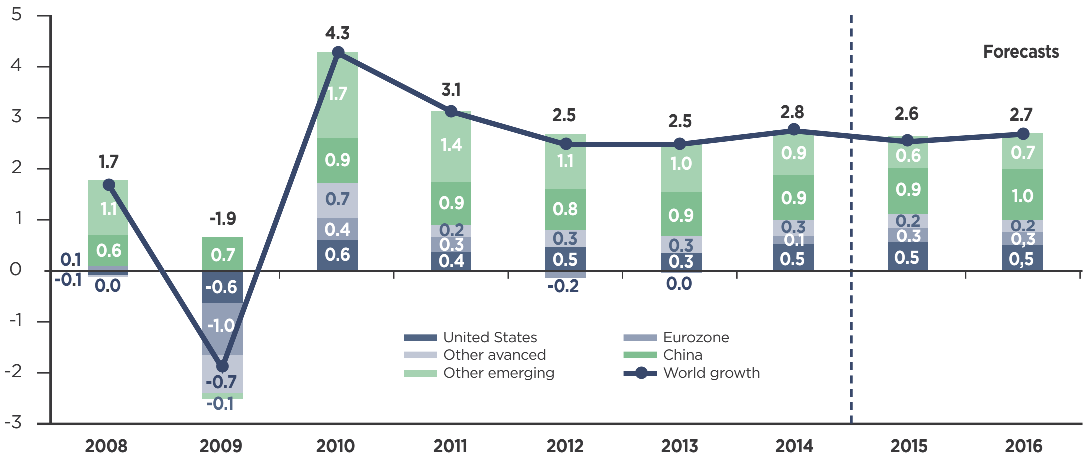
March 2016

THE GLOBAL ECONOMY IS "JAPANISING"

Global activity is unlikely to rebound significantly in 2016 (+2.7%, after +2.6%, *see charts n°1 and 2*), marked by the slight slowdown in advanced economies and the weak recovery in emerging countries. The beginning of the year has been marked by increased volatility in the markets, especially in financial markets with a fall in equity market indices as well as in the oil market, with the oil price falling below the USD 30/bbl threshold. Nevertheless, a certain lull seems to have returned since the mid-February low: financial markets have stabilised and the price of Brent has rebounded to close to USD 40 in mid-March *(see charts n°3, 4, 5 and 6)*.

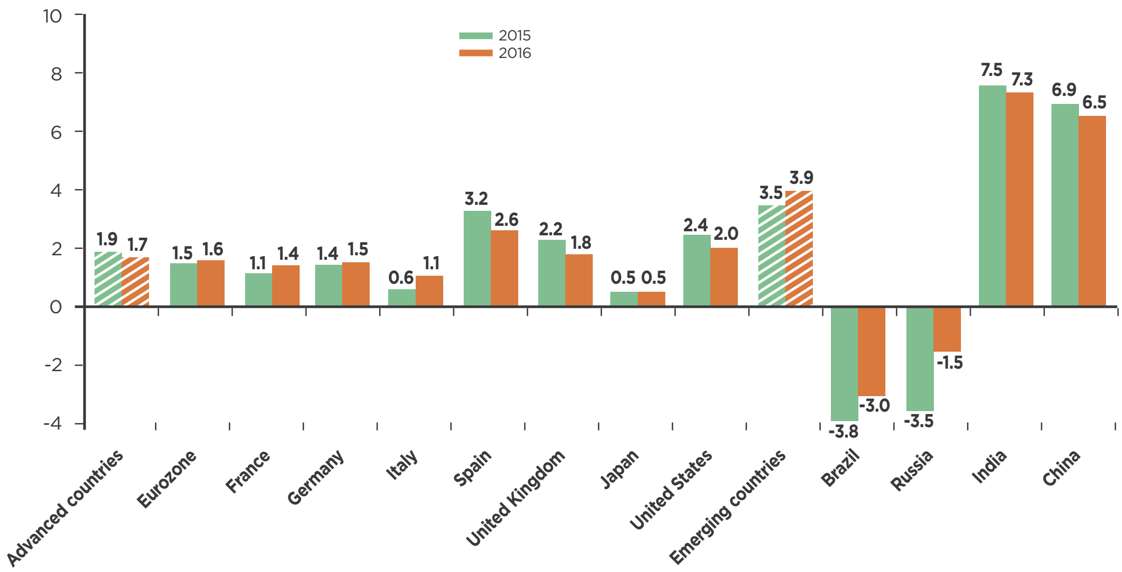
The risks weighing on the international scenario remain unchanged and on the downside: more pronounced slowdown than expected in Chinese activity, increasing political risk, commodity price trends. However, the risk of new episodes of financial turmoil seems to be increasing, particularly given the abundance of global liquidity, amplified by the ECB's recent monetary easing decision.

Chart n°1
Contributions to world growth (%)



Sources:
IMF, national statistics and Coface calculation

Chart n°2
Growth forecasts (%)



Source: Coface

1 ADVANCED ECONOMIES: FINANCIAL TURMOIL AND MONETARY ACTIVISM

In the United States, industry is running out of steam, but not services

Growth remains positive, but is expected to slow down slightly in the United States this year (2.0% after 2.4% in 2015). This is explained by the problems of energy sector companies facing low oil and gas prices, the expected slowdown in growth in the automotive sector, whose sales have now returned to their pre-crisis level, and more generally the slowdown in activity in the other manufacturing sectors that are negatively affected by the strong dollar.

The February employment report confirms this assessment: the US economy remains in good health overall, but some vulnerabilities are appearing. It still shows a high number of jobs created (242,000 in February after 172,000 in January). In detail, the mining sector unsurprisingly continues to destroy jobs (171,000 since the September 2014 peak!), while the balance has been zero on average in the manufacturing sector in the last three months. This sector remains negatively affected by the high level of the dollar and weak external demand. The rise in the employment rate (62.9% in February) is consequently driven by service sectors, with education, retailing and leisure topping the ranking.

All in all, household consumption and investment in construction will remain the main US growth drivers this year, underpinned by a low unemployment rate (stable at 4.9% in February) and modest purchasing power growth enabled by limited wage increases (+2.2% year-on-year last month) and inflation (+1.7% year-on-year [(1)]). But another effect of this wage growth, although it is moderate, is that it is hurting companies' earnings and therefore the outlook for corporate investment, since it exceeds the rise in productivity gains (+0.5% per year on average since 2010 for hourly per capita production).

In the United Kingdom, the risk of a Brexit is threatening the economy

The referendum on whether or not to keep the country in the EU will be held on 23 June. Its outcome is very uncertain, despite the fact that prime minister Cameron is likely to campaign for staying in the EU thanks to the agreement he has obtained with the European Council. This situation is also contributing to the markets' volatility at the start of the year: the pound sterling has depreciated slightly, i.e. by more than 4% against the dollar between the beginning of January and mid-march. In this context of uncertainty, companies will probably adopt a wait-and-see behaviour despite positive financial conditions (strong balance sheet, credit support) and the country's attractiveness is likely to decrease in the eyes of investors. Several confidence indices and surveys have also been weakening in the last few months.

In the event of a Brexit, the country will according to the Lisbon treaty have two years to actually exit the Union. There are numerous possible scenarios for an exit; the country should then have to establish new trade, legal and regulatory rules. That is likely to result in a loss of activity (and therefore to a deterioration in the public finance situation), a depreciation of the pound with an increase of inflationary pressures as well as a decline in FDI. The quantitative impact on growth is difficult to estimate and varies according to the scenarios considered. A study from the Centre for Economic Performance estimates that in the case of a small increase in costs linked to trade barriers, the loss of revenues would amount to 1.1% of GDP (*versus* 3.1% in the pessimistic scenario with a sharp increase in costs)[(2)].

(1) PCE index excluding food and energy prices
(2) Ottaviano et al., 2015, "Should we stay or should we go? The economic consequences of leaving the EU", CEPR

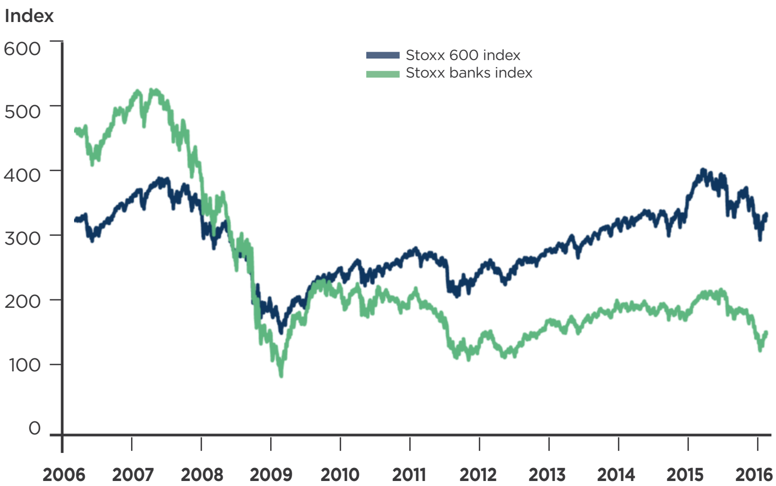
Japan: welcome to the negative interest rate club

The situation remains poor as indicated by the fall in activity in the fourth quarter (-0.3% in quarter-on-quarter terms) and economic indicators (business and household confidence, Nikkei...) are pointing down since the start of the year. The sluggishness of consumption is particularly worrying because of the lack of upswing in wages, while it seems a necessary condition to ensure a sustainable rebound in activity. Companies are still failing to redistribute their increasing profits. In addition, the steep depreciation of the yen against the dollar has not had any noteworthy positive impact on exports: the transmission to export prices has not functioned properly because companies have been rebuilding their margins[3]. Note nevertheless that the yen has appreciated by nearly 6% against the dollar since the beginning of the year, mainly explained by its safe haven status. More generally speaking, the impact of the measures implemented to boost activity (in addition to Abenomics, monetary policy easing with an unexpected switch to negative interest rates in January) will probably remain limited and we should not expect activity to improve significantly (+0.5% forecasted this year). Lastly, the lack of upward pressures on the oil price should not help the country reach its 2% inflation target, as reflected by the Bank of Japan's downward revision of its inflation forecasts (but also growth forecasts) in October 2015.

In the euro zone, concern in financial markets and ECB activism

On the whole, the eurozone maintained its pace of activity in the last part of 2015, as the good performances of domestic demand in relative terms offset the mixed performance of foreign trade. The zone posted a growth rate of 1.5% for the full year. The labour market and lending conditions improved in most countries. Accordingly, according to the January 2016 survey undertaken by the European Central Bank (ECB), compared with the situation seen during the fourth quarter of 2015, eurozone banks report that the easing of lending conditions and credit conditions continue. Furthermore, demand in all loan categories continued to increase, especially for business loans, mainly owing to the low level of interest rates. At the same time, the banks have significantly reduced their participation in the latest TLTROs (the ECB's targeted longer-term refinancing operations), to a large extent explained by the absence of funding constraints.

Chart n°3
European financial markets: European values



Source: Datastream
Last available data: 15 March 2016

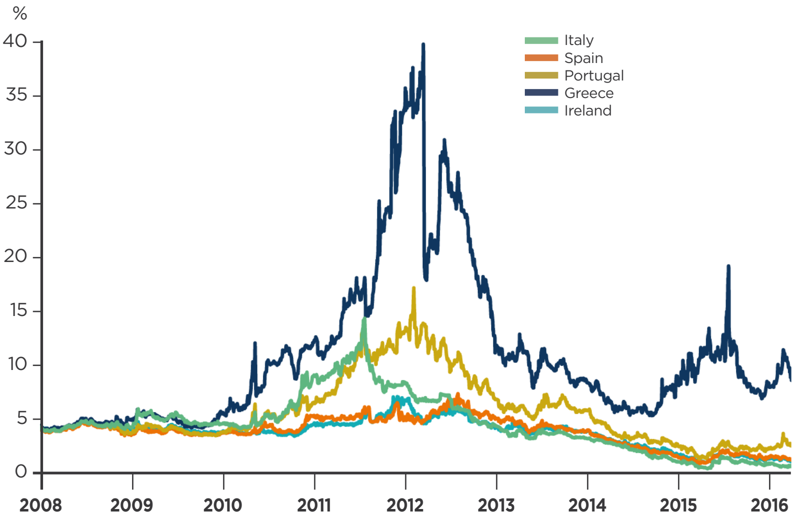
Some economic indicators are nevertheless pointing down, for example the PMI business confidence indices which have tended to deteriorate over the last few months (weaker economic growth for the last 13 months in February) and the deflationary pressures persist: consumer prices in the eurozone fell 0.2% in February. Against this backdrop, growth is expected to continue at a slightly more moderate rate than initially forecast in 2016, and GDP growth is unlikely to exceed 1.6%. We have revised our growth forecasts downwards, particularly for Germany due to less buoyant exports to emerging countries, and for Italy due to the noticeable reduction in carry-over growth at end-2015 (weak productive investment and slight slowdown in consumption).

2016 will remain under pressure as there are numerous sources of risk. Financial markets were very volatile in January-February *(see chart n°3)*. Equity markets fell markedly under the impact of the Chinese slowdown and the oil price slump, accentuated by the problems of Italian and Portuguese banks. Government bond yields for the most highly indebted southern eurozone countries have risen markedly, with a considerable surge in Greece (difficult negotiations with the international creditors over pension reform) and in Portugal (risk that the

(3) According to Ree, Hong, Shoi (2015), "Should Korea worry about a permanently weak yen?" and the IMF, the transmission of changes in the exchange rate to export prices occur over five years in Japan

austerity measures may be called into question, *see chart n°4*). The risk of political instability has now even reached Ireland (which, however, did not result in a rising risk premium) where, after Greece, Portugal and Spain in 2015, the outgoing government paid the price for the reforms and austerity in the February 2016 elections. As in other countries - and in the absence of a stable majority - it will now be more difficult to govern than in the past. There is no doubt that risk aversion in the euro zone (by also taking into account the threat of a British exit from the European Union) has increased. At this stage, however, wealth effects on households seem limited *(see Inset)* and the scenario of a slump in European growth will in all likelihood be avoided. Growth will remain resilient as long as domestic demand holds up. Barring an extended loss of confidence among households and companies, consumption should continue to be driven by the fall in unemployment and the low level of inflation. The low level of interest rates and the rebuilding of companies' margins should boost investment. Moreover, the ECB's recent decision in early March (cut in the three interest rates and extension of the securities purchase programme) send a mixed signal; and the impact on the real economy will probably be limited given notably the already abundant liquidity. Lastly, after the significant turbulence at the start of the year, a certain calm has returned to the equity markets and the sovereign bond market.

Chart n°4
Euro area periphery: 10 year government bond yields



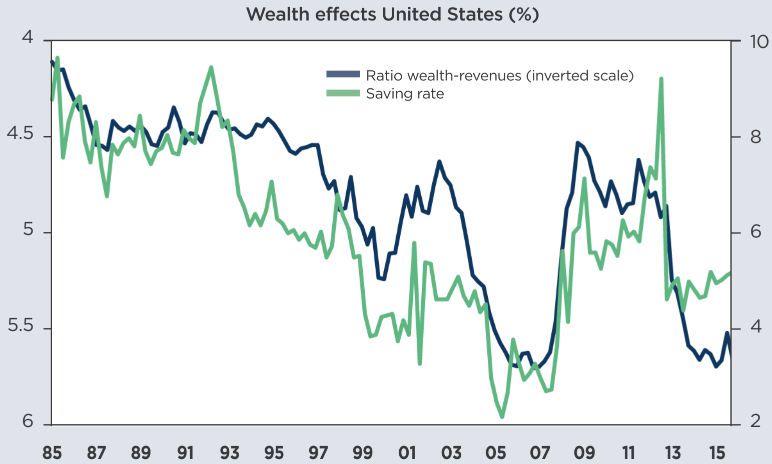
Source: Reuters
Last available data: 15 March 2016

Inset

Household consumption little affected by the recent fall in equity markets at this stage

Theoretically, when asset prices rise, households' wealth tends to increase because of an increase in expected revenues from assets (property and financial), increasing their consumption. This is what is called the wealth effect.

This effect has been observed empirically. Various studies have shown that the wealth effect was greater when it was due to a rise in property prices rather than in financial asset prices. This effect varies according to the country and according to the proportion of property and financial assets that households hold in their portfolios. The proportion of financial assets in household portfolios is 52% in the United States, 34% in Germany, 28% in France and 20% in the United Kingdom (source: OECD). The IMF estimates that, accordingly, the wealth effect is twice as strong in the United States as in Europe and Japan. However, the estimates of the magnitude of these wealth effects vary significantly.



Source: Bureau of Economic Analysis
Last available data: Q4 2015

Angrisani et al. (2015) [1] found an elasticity of household consumption to changes in financial wealth of 0.22. Case et al. (2013) estimated an elasticity of 0.02 and Caroll et al. (2011) of 0.04. In France, Chauvin and Damette (2010) [2] calculated an elasticity of 0.1. In a study from June 2015, the ECB [3] calculated small but significant wealth effects. A 1 euro change in household wealth is accompanied by a 0.8 to 1 cent change in consumption in France and a 5 cent change in the United States and the United Kingdom.

From end-December 2015 to mid-February 2016, the S&P 500 fell by 10%, the LSE by 19%, the CAC40 by 15% and the Nikkei by 17%. So by applying the ECB's estimates we find a per household decline in consumption of 50 euro in the United States, 100 euro in the United Kingdom and 15 euro in France during the period from end-December 2015 to mid-February 2016. Not enough to jeopardise the growth momentum at this stage.

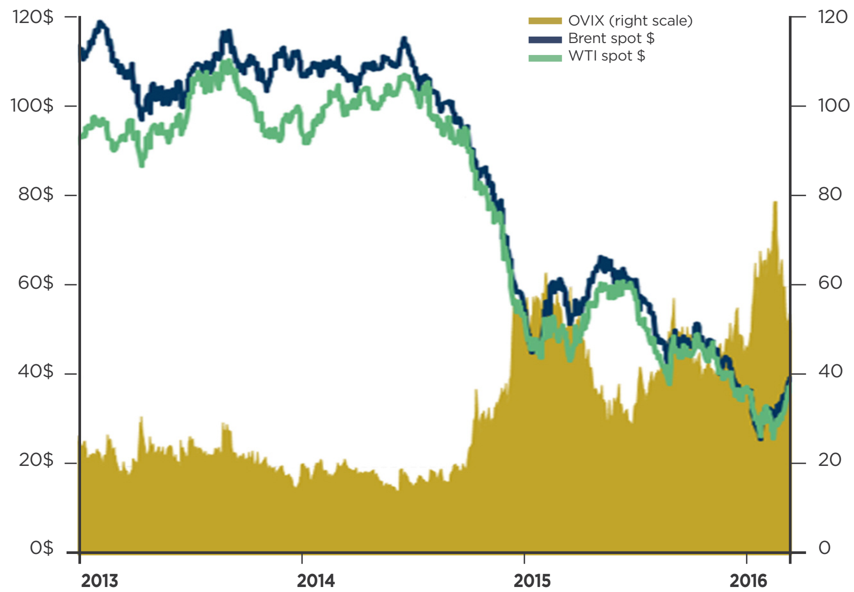
(1) Angrisani et al., 2015, « The effect of housing and stock wealth losses on spending in the great recession », RAND labor and population, Working paper 1101
(2) Chauvin et Damette, 2010, « Effets de richesse : le cas français », Economie et statistique n° 438-440
(3) Arrondel et al., 2015, « Wealth effetcs on consumption accross the wealth distribution: empirical evidence », ECB, Working paper series n° 1817

2 EMERGING COUNTRIES STILL CANNOT SEE THE END OF THE TUNNEL

In China, the government has announced a growth rate of between 6.5 and 7% this year (*versus* 6.5% for Coface) and continues to bolster growth, as shown by the fresh 50bp cut in the required reserve ratio and the fiscal stimulus package that is expected to generate a fiscal deficit of 3% of GDP this year (*versus* 2.3% last year). Moreover, net capital outflows tend to weaken and the country continues to learn in terms of market rules (another bond default by a Chinese company). However, that did not dissuade Moody's from putting the country on negative watch given its public debt dynamics, the fall in foreign exchange reserves and doubts over the implementation of reforms.

In the Middle East, oil-exporting countries continue to face the fall in the oil price with more or less difficulties. Their fiscal and current-account deficits are increasing and non-hydrocarbon activity is suffering from the negative externalities. While the latest banking results for 2015 still show relatively solid balance sheets in the Gulf countries, banking risk has nevertheless tended to increase in the zone (note, for example, a tightening of banking sector liquidity in Saudi Arabia): given the noteworthy deterioration in economic performances, lending could decrease, deposits slow down and non-performing loans increase, leading to a worsening of financial institutions' situation and negative spillover effects on activity. The consequences of the fall in energy prices in exporting countries are indeed considerable, as the IMF emphasises (4). According to the organisation, the fall in energy prices and the expected weakness of prices in the future are expected to have an impact of 2 ¼ percentage points of GDP on average on energy-exporting countries, and potential growth could be reduced by two-thirds of a percentage point. On a more positive note, the effective lifting of sanctions in Iran in January should pave the way for an upturn in activity (increase in exports and oil production and positive repercussions on the rest of the economy; return of investors), which nonetheless will be limited by the low oil price. The Brent price hit a low of USD 29 on 11 February, but a month later it had climbed to USD 40. Prices seem to have hit a floor because some producers may be willing to curb their production, and because of cuts in Iraq, Nigeria and the Emirates and also the fall in non-OPEC countries' production and the recent weakening of the dollar *(see chart n°5)*. Given the fundamental surplus

Chart n°5
Oil market: price and Oil VIX



Sources: Datastream, ICE, Coface
Last available data: 15 march 2016

(4) Aslam et al., (February 2016), IMF Working Paper, “Trading on their terms? Commodity exporters in the Aftermath of the Commodity Boom”

(high supply and stocks, muted demand), a rebound is unlikely in the short term (according to the futures curve, the oil price should be less than USD 40 on average this year).

The outlook in Latin America is still difficult, at least in the short term. In Argentina, the country could face a recession this year after the depreciation of the peso and the reduction in electricity-related subsidies, measures decided by the new government. Moreover, the agreement reached in February by president Macri with the vulture funds (payment of USD 4.6 bn) marks a historical turning point and indicates that the country in the near future will return to international capital markets, an access it has not had since its 2001 default. Investor confidence will therefore probably gradually return. Venezuela is struggling to survive. It succeeded in meeting its latest repayments, but the country is on the brink of the abyss. Despite the opposition's victory in the general elections in end-2015, the president has decreed a state of "economic emergency", which led him to devalue the bolivar against the dollar by 58% and the gasoline price has been increased to 6 bolivars from 0.097 bolivars, while remaining extremely low. Inflation is explosive. The IMF even estimates that it should reach 720% this year. The Brazilian situation is hardly improving as illustrated by the fall in activity in the fourth quarter (-1.4% in quarter-on-quarter terms and 3.8% year-on-year) and the two-notch downgrade by Moody's of the Brazilian rating to Ba2 (speculative category) with negative outlook.

We also note that concerns have increased in South Africa: the country's fiscal credibility could be called into question given the ambitious objectives of the new budget for fiscal year 2016/2017, amid increased risk of recession, which would lead to another downgrade by the rating agencies, all the more as political unrest (weakening of president Zuma) and social unrest (particularly because of the rise in unemployment and inflation) is gathering momentum.

Chart n°6
Emerging markets: MSCI
100 = january 2013

Sources: MSCI, Datastream
Last available data: 15 march 2016

BAROMETER

March 2016

COUNTRY RISK ASSESSMENT CHANGES

ASSESSMENT EITHER DOWNGRADED, OR REMOVED FROM POSITIVE WATCH LIST OR PLACED UNDER NEGATIVE WATCH LIST

country	Country risk previous	Country risk new
Armenia	C	D
Japan	A1↘	A2
Kazakhstan	B	C
Kuwait	A2	A2↘
Malaysia	A2↘	A3
Oman	A3	A4
Saudi Arabia	A4	A4↘

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 7 grades: A1, A2, A3, A4, B, C, D and can be watch listed (positive, ascending arrows in the table; negative descending arrows).

Armenia: D

- The economy suffers from Russia's recession. According to the Central Bank of Armenia, remittances fell by 35.8% in 2015, as the number of Armenians working in Russia felt by 5%.
- Increase in the political and social risk: Serzh Sargsyan's second term as president is marked by a significant degree of political instability. Social situation is deteriorating due to growing frustration linked to corruption, country's poor economic performance and crackdown on protesters.

Japan: A2

- The economy doesn't succeed to recover and take away the deflation risk, in a context of low oil price, China's slowdown and weak wage growth.
- Leading indicators (industrial production, business confidence, retail sales, Nikkei...) don't point to a rebound in the coming months.
- Ineffective economic policies so far: Abenomics fail at boosting GDP growth so far and the additional monetary easing of the BoJ (the key interest rate is now negative) is unlikely to have a significant impact on the real economy.

Kazakhstan : C

- Growth is hampered by the slump in oil price and delays at the offshore Kashagan oilfield.
- Exports are hit by the downturn in China's growth, recession in Russia and low price of oil.
- The central Bank announced in August introduction of free floating of the tenge, leading to a 20% depreciation against the dollar, followed by a further 20% depreciation between August and November, weighing on companies and banks that are highly indebted in foreign currency.

Kuwait : A2↘

- Even though oil market downturn has a lesser impact on Kuwait economy than in other GCC countries (low breakeven price), an increase in short term risk is expected. Indeed, public finances should be eroded by low oil prices. This will result in additional expenditure and capital spending cuts which remain a key driver of growth.

Malaysia: A3

- The Malaysian economy relies on external demand and is affected by the economic slowdown observed in China and the US. The economy is also impacted by the drop in commodity prices notably oil prices.
- Household demand remains sustained but is slowing down, in a context of high household debt (level and debt service).
- Despite reforms initiated by the government (GST at 6 % since April 2015, cut in subsidies), public debt is still high.
- Political risk is increasing and investor confidence is hurt by the scandal related to the sovereign fund 1MDB.

Oman: A4

- As the economy is highly vulnerable to the sharp decline in oil prices. GDP growth is likely to slow significantly this year ; non-oil growth is expected to slow over 2016-2017.
- Oil and gas revenue, which roughly accounts for 85% of total fiscal revenue, decreased by 36.3% in 2015. With one of the highest breakeven oil prices in the GCC (Gulf Cooperation Council), Oman is likely to record a sizeable fiscal deficit (20 % in 2016). The current account is also exposed to oil export contraction and should suffer from a wide deficit (close to 17%).
- To offset the drop in oil prices, the government of Oman has ramped up oil production, pushing its output to record levels but the effect should be limited as production capacities are close to their peak, and extraction costs require constant investment to remain low.
- The strong US dollar and the persistence of low oil prices pose risk to the sustainability of the peg.

Saudi Arabia: A4↘

- In 2016, 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) reached a low point in January (53.9) before picking up slightly in February (54.4) but it remains well below its long-run average (58.8).
- The sizeable fiscal deficit registered in 2015 is expected to increase significantly in 2016 on the back of low oil prices.
- Falling foreign reserves have led to the issuance of Saudi Arabia's first sovereign bonds since 2007.

ARGENTINA

COFACE ASSESSMENTS

C	Country risk
C	Business climate
VERY HIGH RISK	Medium term

MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	2.9	0.5	1.7	-0.5
Inflation (yearly average) (%)	26.0	23.9	30.0	38.0
Budget balance (% GDP)	-3.7	-5.4	-7.1	-5.5
Current account balance (% GDP)	-0.8	-1.0	-2.1	-2.3
Public debt (% GDP)	40.2	45.2	52.1	55.0

(f): forecast

Population *(millions of persons-2014)*	42.7
GDP per capita *(US dollars-2014)*	12,735

RISK ASSESSMENT

The policy adjustment should lead to the contraction of activity in 2016

Private consumption should be particularly affected by the first results of the internal policy adjustment managed by the new president Mauricio Macri. It should slow under the impact of the peso's depreciation, which affects the purchasing power of households that depends on many imported goods because of the weakness of local production. The reduction in subsidized tariffs on electricity (the price could reach up to 700%), gas and transport should also contribute to the decline in the purchasing power. On the public consumption side, a revival of activity by the government seems already compromised: local authorities are committed to reduce public spending in order to redress public accounts. The wait-and-see approach of investors should continue, despite the signing of a historic agreement in principle with the "vulture funds" in February 2016 that should enable the country to regain access to international capital markets in the first half of this year. Investors should expect a more favorable legal framework, notably the reform of the judicial system that was already mentioned by the president, but has not been yet debated in Congress. External trade, the manufacturing industry in particular (especially cars) should also be affected by the Brazilian economic crisis, the largest trading partner of Argentina. By contrast, agricultural exports should grow at least in volume due to the lifting of taxes on agricultural exports (except for soybeans), but remain affected by low commodity prices. Finally, inflation is expected to increase in line with the recovery in energy prices. Its progress will also depend on the ability of the government to gradually remove the indexation of wages and restore the operational independence of the central bank.

Public and current account deficits will not be eliminated in the short term

In 2015, there was a widening in public deficit under the effect of increased spending prior to the election. The government, fearful of the repetition of social unrest, increased the budget for energy subsidies, as well as wages and remuneration for a range of jobs. In 2016, the government will likely apply tightened fiscal and monetary policies. The first measures already taken were to remove capital controls for commercial transactions and let the peso fluctuate freely, leading to a sharp depreciation (30%) of the largely overvalued local currency, and also to remove taxes on agro products (except for soya) and industrial exports. Bringing the growing deficit under control will not be an easy task given the important share of subsidies. The previous government was paying huge subsidies on energy and transport prices, sectors neglected by private investors because of the lack of protection offered by the legal system. The country continues to be excluded from the international markets and will have to continue making use of bilateral financing, mainly from China, to finance its public deficit. The government will likely work to solve the dispute between Argentina and the 'Vulture Funds' during 2016 in order to regain access to external private finance and avoid recourse to issuing money to finance the deficit. The lack of a majority in the Congress will, however, be an additional obstacle as any decision relating to any agreement must be submitted to that body.

In terms of foreign trade, the country remains extremely dependent on energy imports because of investment shortfalls in the sector, despite its abundance of natural resources (oil and gas). Agricultural exports (soya, maize and wheat), which account for almost 60% of all export sales, should rise as a result of the depreciation of the peso and the removal of taxes, but harvests could be reduced because of weather events associated with the "El Nino" phenomenon. Exports of manufactured goods (in particular automotive) are likely to decline, hit by the slowdown in demand in Brazil (the leading export market). As a result, the current account deficit should rise slightly in 2016. The resolution of the conflict with vulture funds should nevertheless allow the country to borrow on international markets at a cheaper price and be able to finance its current account deficit in absence of sufficient level of FDI.

The arrival of the Right to power marks the end of 'Kirchnerism'

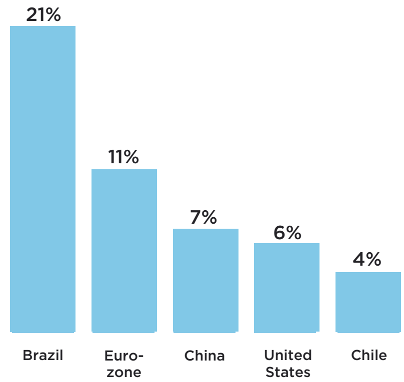
Elected in November 2015 with 51.4% of the votes, the new President, Mauricio Macri, a Liberal, led the Right to power for the first time in twelve years. The President, who is part of the "Cambiemos" coalition, is not, however, supported by a majority in Congress and will have to form alliances to get his reforms through. He is facing a number of challenges, in particular that of restoring an economy shaped by populist policies and State interventionism. He can already boast of an important victory in resolving the conflict with the vulture funds. He hopes to be able to restore the relations with the country's trading partners and rebuild the confidence among investors that was undermined by commercial protectionism, nationalisations and the failure to comply with the rulings of the International Centre for Settlement of Investment Disputes (ICSID) in the context of the policies implemented by the previous administration. These changes are, however, going to encounter resistance from the powerful trade unions and Peronist factions still leading the Congress.

Strengths

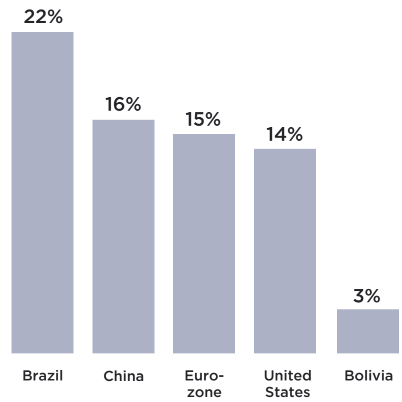
- Natural, agricultural, energy and mineral resources
- Education level higher than the regional average
- Qualified labour

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Dependency on the prices of agricultural commodities
- Budgetary policy not very rigorous
- Mediocre business environment
- Insufficient investment in energy and transport
- The State has had no access to international financial markets since 2001

COFACE ASSESSMENTS

A4	Country risk
B	Business climate
LOW RISK	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 * Comprising central and local debt (excl. financing vehicles)

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

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 companies with large overcapacities and with high levels of debt. 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, 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 of a slower rise in disposable incomes, 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 order to reduce the financial costs for local government and kick-start infrastructure developments, the government has implemented a swap programme that allows the conversion of short term credits into long term bonds.

In addition, corporates are highly indebted and the expansion of shadow banking makes it very difficult to evaluate. In June 2015, the debt of companies accounted for 201% 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 under-estimated because of the scale of shadow banking. The official ratio of non-performing loans reached 1.59% at the end of the third quarter 2015, its highest level since 2009. The credit risk has increase significantly, highlighted by the growing number of defaults on the Chinese bond market. Thus, in April 2015, China has experienced its first SOE default with the photovoltaic company Baoding Tianwei. These events have not, so far, led to any signs of panic. 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.

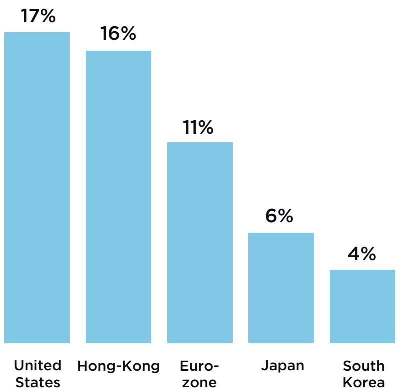
Following a rise of more than 110% between November 2014 and June 2015, the Chinese stock markets recorded a significant correction during summer 2015. Shares lost more than 43% in less than 3 months before firming up slightly. Since the beginning of 2016, volatility is high on the FX and stock markets and the stock market reference index has lost more than 17%. Admittedly this market correction can be seen as a healthy development after such a sharp rally disconnected from corporates' fundamentals, volatility and equity price deflation 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

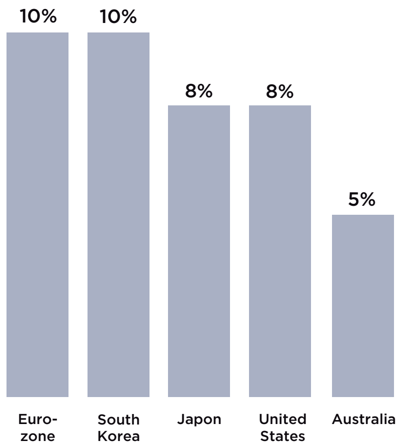
Whilst reaffirming the supremacy of the Chinese Communist Party (CCP), the Central Committee session of the CCP in October 2014 concluded with decisions relating to an improvement in the state of law. In addition, the 5th plenum of the Communist Party, which was held in October 2015, ended the one child 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.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



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

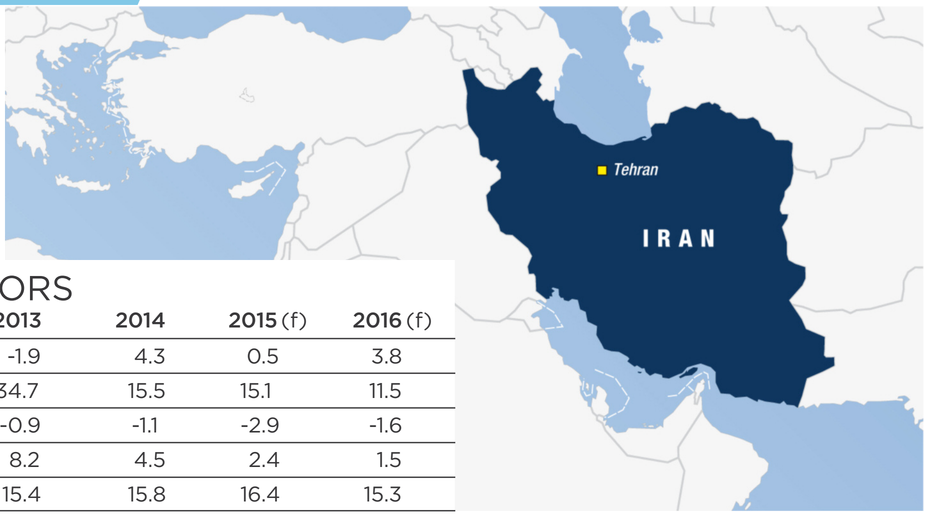
Weaknesses

- 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
- Government's strategy is ambiguous on arbitrating between reform and growth
- Environmental problems

IRAN

COFACE ASSESSMENTS

D	Country risk
C	Business climate
VERY HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	-1.9	4.3	0.5	3.8
Inflation (yearly average) (%)	34.7	15.5	15.1	11.5
Budget balance (% GDP)*	-0.9	-1.1	-2.9	-1.6
Current account balance (% GDP)	8.2	4.5	2.4	1.5
Public debt (% GDP)	15.4	15.8	16.4	15.3

(f): forecast * Tax year starting on 21 March

Population *(millions of persons-2014)*	77.8
GDP per capita *(US dollars-2014)*	5,353

RISK ASSESSMENT

Recovery expected after the lifting of sanctions

After a slowdown in 2015, the lifting of sanctions following the entry into force of the Joint Comprehensive Plan of Action (JCPOA) in January 2016 should lead to an economic recovery notably trough a rebound of exports. Iran's return to the global market will mainly benefit to oil exports. UE embargo has significantly hindered Iranian's oil production, estimated at 3 Mb/d in 2015. According to the IAE it should increase to 3.7Mb/d in 2016 and 4.4 Mb/d in 2020 thanks to the revival of oil sector. The non-oil economy will also benefit from the lifting of sanctions. The production of non-oil sectors will take advantage from the increase of households and businesses' confidence. However, the positive impact of sanctions' removal could still be limited by the weakness of oil price that should constrain export revenues and postpone new investments in the sector. Following an observable slowdown in 2015, key sectors such as automotive and construction should experience a gradual recovery in 2016. In the medium term, structural rigidities including high inflation and a downward trend in capital productivity will continue to weigh on growth.

Public finances adversely affected by the low price of hydrocarbons

The Iranian authorities have gradually diversified their financing sources under the sanction. Also, the fall in hydrocarbon prices has had a less negative impact on public accounts than in other oil-producing countries. Nevertheless, the cumulative effects of the fall in activity in 2015 and in commodity prices have driven up the fiscal deficit. While the sluggishness of the oil market is likely to continue in 2016, the budget balance will probably improve. The expected recovery following the lifting of sanctions should increase non-oil revenues. Likewise, oil revenues will increase thanks to growth in export volumes. Investment could nevertheless weigh negatively on public finances. It is expected that the lifting of sanctions will enable the government to implement a set of infrastructure projects under the sixth five-year development plan. The Iranian debt remains low and is predominantly owed to state-owned banks. The government should also benefit from its assets frozen abroad.

Resilient external accounts

The current account should remain positive under the cumulative effect of the lifting of the restrictions and a fall in transaction costs for exports. Nevertheless, the positive repercussions of the lifting of sanctions could be limited. First, Iranian exports remain highly dependent on the hydrocarbon sector and industrial sectors dependent on oil production. Also, the low oil prices are likely to curb the growth in oil export revenues in spite of increasing volumes. Second, exports could be constrained by an appreciation of the exchange rate resulting from capital inflows. FDI should increase without necessarily returning to their pre-2012 levels.

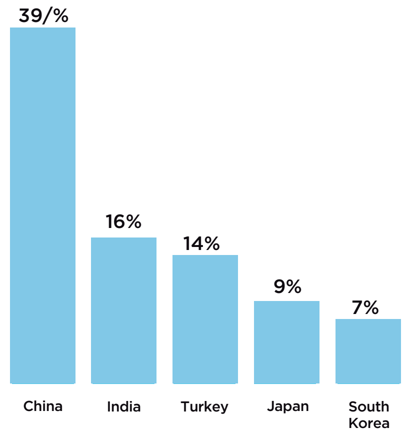
The Iranian banking system suffered from structural weaknesses already before the tightening of the sanctions. The state-owned banks play an important role and remain under-capitalised. The exclusion of Iranian banks from SWIFT has increased this vulnerability by freezing Iranian banks' assets abroad and by limiting foreign-currency deposits. The central bank, in agreement with the IMF's recommendations, intends to recapitalise troubled banks and to overhaul the banking system in accordance with international prudential legislation.

Towards international opening

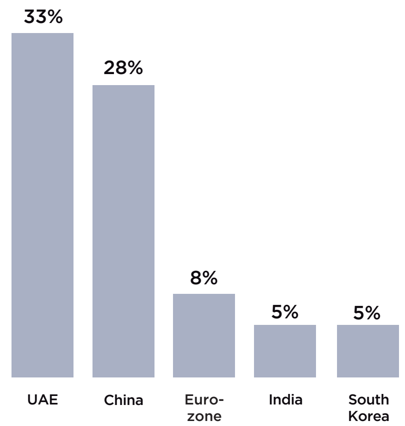
On January 16, 2016, after the Atomic International Agency approved the report on Iranian nuclear program, sanctions against Iran were lifted. Sanction removal was one of the main issue of the February (2016) elections which had to determine the members of the new parliament (Majlis) and the assembly of experts (clerical body that appoints the Supreme Leader). These elections have been a success for President Rohani's supporters. The participation rate stood at 62% and the hard liners were mainly defeated. The new parliament is expected to favour reforms but mainly economic ones.
Furthermore, Iranian market wills stay difficult to access because of an unfavourable climate business that should limit foreign investment. Iran is still under other international sanctions regime (financing of terrorism and the violation of human rights).

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Substantial reserves of oil and gas (second and fourth in the world respectively)
- Very low external debt
- Strategic position in the sub-region

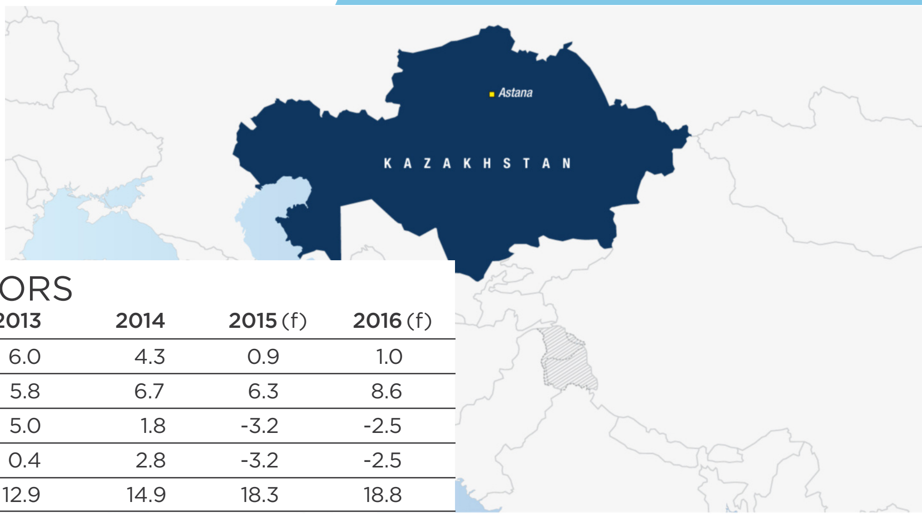
Weaknesses

- Sanctions broadly maintained by the UN, the United States and the EU because of the Iranian nuclear programme
- High inflation
- Social tensions
- Unfavourable business climate

KAZAKHSTAN

COFACE ASSESSMENTS

C	Country risk
B	Business climate
MODERATE RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	6.0	4.3	0.9	1.0
Inflation (yearly average) (%)	5.8	6.7	6.3	8.6
Budget balance (% GDP)*	5.0	1.8	-3.2	-2.5
Current account balance (% GDP)	0.4	2.8	-3.2	-2.5
Public debt (% GDP)	12.9	14.9	18.3	18.8

(f): forecast * Including Oil Fund transfers (NFRK)

Population *(millions of persons-2014)*	17.4
GDP per capita *(US dollars-2014)*	12,400

RISK ASSESSMENT

Growth curbed by the oil price collapse

Activity, which slowed sharply in 2015, is expected to remain very weak in 2016. Industrial output, dominated by the oil sector, has hardly grown. The start of operations at the offshore Kashagan oilfield is still being hit by severe delays and may not happen before the end of 2016. The start of production may allow a speed up of growth from 2017.
Major investment projects, especially work on the EXPO-2017 international exhibition are expected to sustain activity in construction and services. Consumption, the main growth driver, will be limited (as will investment) by the squeeze on credit as well as by rising prices. Exports are likely to suffer from the economic slowdown in China and the recession in Russia, but primarily from the weak oil price.
Inflation, fuelled by the effect of the tenge against the dollar, could exceed the upper limit of the target range (6-8 %) set by the central bank (NBK). Price controls on certain foodstuffs could be lifted, increasing upward price pressure. In this context, the central bank is expected to keep interest rates high (16% in October 2015) to limit inflation.

Budget and current account deficits which appeared in 2015 unlikely to narrow in 2016

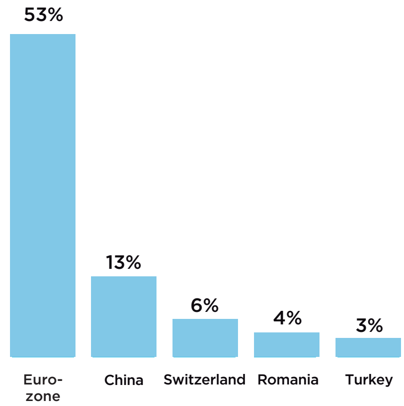
Budgetary receipts, over half of which derive from the oil sector, are likely to be affected by only marginal growth in hydrocarbon production and low oil prices. The depreciation of the currency could, however, offset the drop in oil revenue in dollar terms as it is denominated in tenge in the budget. Non-oil tax receipts will increase slightly. Public sector wage rises, initially planned for 2015, have been announced for 2016. The infrastructure projects, moreover, are likely to be maintained. However, this spending is likely to be financed mostly by the oil fund (NFRK) and pensions funds, limiting its impact on the budget, although the State is expected to continue to support indebted public companies (in particular the national energy company, KazMunaiGaz).
Oil exports (75% of total) are unlikely to increase, given the production difficulties and low oil prices. Demand is also expected to remain sluggish on Kazakhstan's main markets: the EU, China and Russia. Imports are expected to be constrained by a low internal demand.
After the NBK decided to introduce a floating exchange rate system in August 2015, triggering a more than 20% slide in the tenge, the currency continued to weaken and lost almost 50% against the dollar during 2015. The downward pressure is expected to last until 2016,and the volatility of the exchange reate will remain high.
The country remains exposed to external shocks, with most bank and corporate debt denominated in foreign exchange. However, foreign exchange reserve levels (5 months of imports, excluding gold) and the assets of the NFRK (USD 63 billion at the end 2015, i.e. about 30 % of GDP) mean there is some leeway in liquidity terms.
The banking sector is very weakened by the impact of the depreciation on bank debt and the worsening quality of the portfolio. The weigh of deposit (more than half) and loans (around 30%) demonimated in foreign currency is a source of vulnerability of the sector.

The issue of President Nazarbayev's succession remains a source of uncertainty

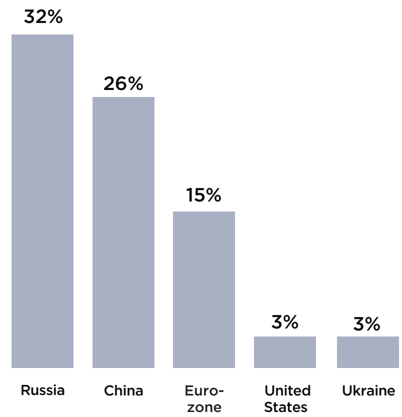
Since 1991, the country has been led by Nursulatan Nazarbayev and his party (Nur Otan), which holds a big majority of seats in the Assembly. Nursulatan Nazarbayev was re-elected for a fifth term in April 2015 with 98% of the votes cast. In January 2016, President Nazarbayev announced early Parliamentary elections in March 2016 (initialy scheduled in 2017). If there is little doubt about the result due to the lack of real opposition, the speeding up of the electoral timetable may be justified by the president's desire to obtain a new legitimacy. There is still uncertainty as to the country's political stability due to the risk of conflict which could break out between the different government factions, if the president's (74 yers-old) succession had to be rushed in the event of his being unable to remain in power.
There is growing popular discontent over low wages, rising prices and corruption. Organised mass protests are, however, still unlikely especially since the security measures, tightened in response to fears of terrorism and religious extremism, limit the opportunities for large-scale protests.
Despite real progress, the business climate is greatly hampered by State interference in the economy, ineffective institutions and corruption.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Expected increase in oil exports thanks to exploitation of Kashagan oil field
- Abundant foreign direct investments
- Strategically positioned between Asia and Europe

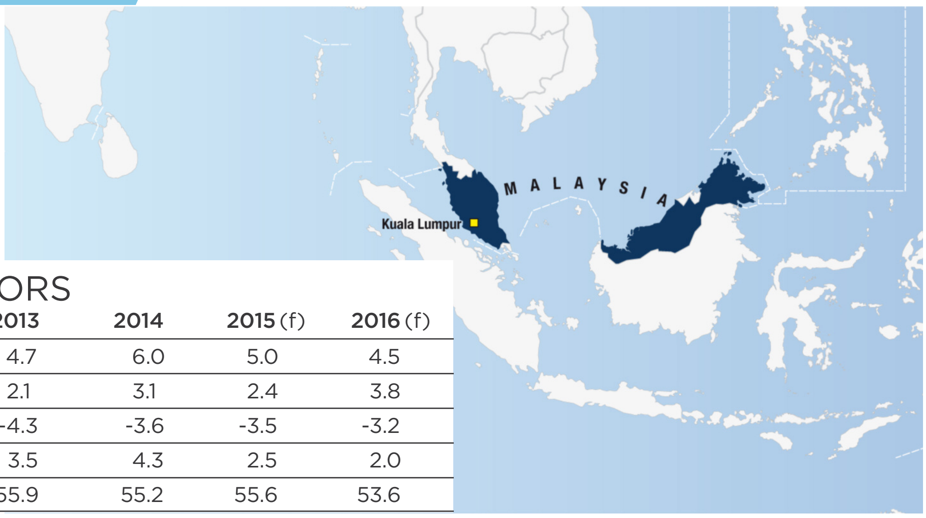
Weaknesses

- Economy reliant on commodities (oil, gas, uranium and iron)
- Fragility of the banking system
- Persistent shortcomings in legal and institutional framework
- Risk of political instability if succession to President Nazarbayev is rushed

MALAYSIA

COFACE ASSESSMENTS

A2	Country risk
A3	Business climate
LOW RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	4.7	6.0	5.0	4.5
Inflation (yearly average) (%)	2.1	3.1	2.4	3.8
Budget balance (% GDP)	-4.3	-3.6	-3.5	-3.2
Current account balance (% GDP)	3.5	4.3	2.5	2.0
Public debt (% GDP)	55.9	55.2	55.6	53.6

(f): forecast

Population *(millions of persons-2014)*	30.6
GDP per capita *(US dollars-2014)*	11,049

RISK ASSESSMENT

Sluggish global demand should continue to weigh on activity

After having been less dynamic in 2015, activity should continue to slow in 2016. Low commodity prices will continue to drag on exports of hydrocarbons. Nonetheless, diversification of the economy should mitigate the shock on growth. The country also exports high value-added manufactured products. However exports of electronic goods have been hit by China's slowdown. And demand from the United States is expected to remain lively but should suffer the economic slowdown in the US. Besides, despite high debt levels, household consumption is expected to remain robust: unemployment is likely to remain contained, the poorest households will benefit from social transfers, social contributions have been lowered and inflation is likely to remain modest, despite the ringgit's depreciation, due to declining food prices.
Meanwhile, the ripple effects of the Economic Transformation Programme will continue to be positive for private and public investment with, in particular, the construction of a high speed rail link connecting Singapore to Kuala Lumpur.
Finally, the sectors linked to tourism are expected to continue to suffer from the effects of the two Malaysian Airlines disasters which occurred in 2014, and the worsening security context in Borneo. Nevertheless the government has eased conditions for entry of tourists coming from China. Manufacturing, moreover, is likely to continue to be hit by a lack of competitiveness.

The budget balance is improving, despite the weakness of hydrocarbons prices while the external position remains sound

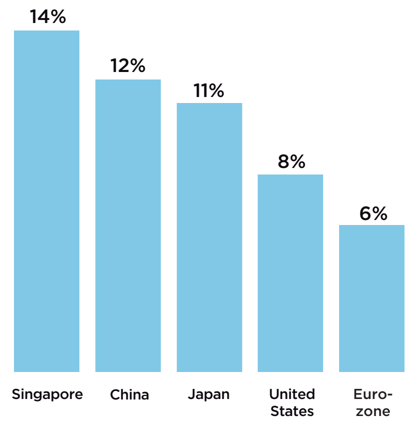
In 2016, the budget deficit is likely to keep declining. The government introduced VAT at a rate of 6%, extended the property tax and reduced subsidies for electricity, sugar and petrol. These measures will help offset the fall in fiscal revenues linked to low hydrocarbon prices. The improved budget balance should enable the public debt to be reduced, which, however, will remain at a high level. Moreover, the Malaysian State is also exposed through contingent liabilities which could represent 15% of GDP.
Meanwhile, the current account surplus is likely to slightly decrease because of the worsening trade balance, which is explained by low commodity prices and the slowdown in Chinese demand.
Even if the high level of foreign exchange reserves (close to 6 months of imports) ensures Malaysia has a good capacity to resist sudden flights of capital, the ringgit is under pressure in a context of global financial turmoil because of the drop in oil prices and the political scandal linked to the sovereign fund 1MDB and affecting the Prime Minister. Nevertheless, the US Federal Reserve should delay the tightening of its monetary policy which should enable to contain capital outflows.
Finally, the banking sector is still adequately capitalised and liquid. Nevertheless, high household debt levels and the banks' exposure to foreign assets are a risk.

The prime minister has been weakened by the 1MDB scandal

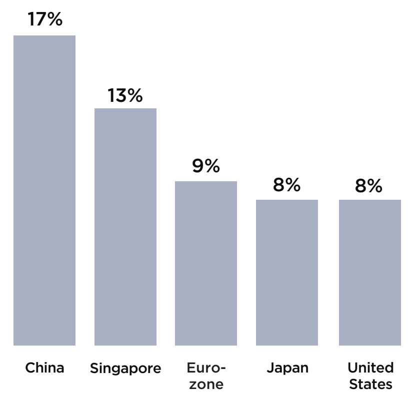
Despite the victory of the Prime Minister's party, Barisan Nasional (BN), the general elections of May 2013 confirmed a redistribution of political forces and the rise in power of the opposition initiated during the 2008 elections. Nonetheless the legitimacy of Prime Minister, Najib Razak, was confirmed by his victory during the party's internal elections in October 2013. However, suspicions of corruption, of embezzlement and poor management of the 1MDB public investment fund have weakened the prime minister since July 2015. The attorney general has cleared Najib Razak but the anti-corruption agency appeled against this decision and foreign jurisdictions are also investigating the case. A former prime minister called for the resignation of Najib Razak who dismissed his deputy and the former attorney general. However, he continues to benefit from his party's support. Internal elections within the prime minister's coalition will not take place until after the 2018 parliamentary elections. Despite these scandals, the country is expected to continue benefitting from a business climate made favourable in particular by the quality of its regulations.
Lastly, the NB is keen to use its One Malaysia programme to end the New Economic Policy introduced in 1969 - positive discrimination measures favouring the Bumiputra (indigenous Malays) - and seen, in particular, as a disincentive to foreign investment. However, community tensions remain below the surface due to religious and ethnic diversity.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Diversified exports
- Dynamic services sector
- Good infrastructures, high level of R&D
- Investment supported by development of local financial market and broader access to foreign direct investments

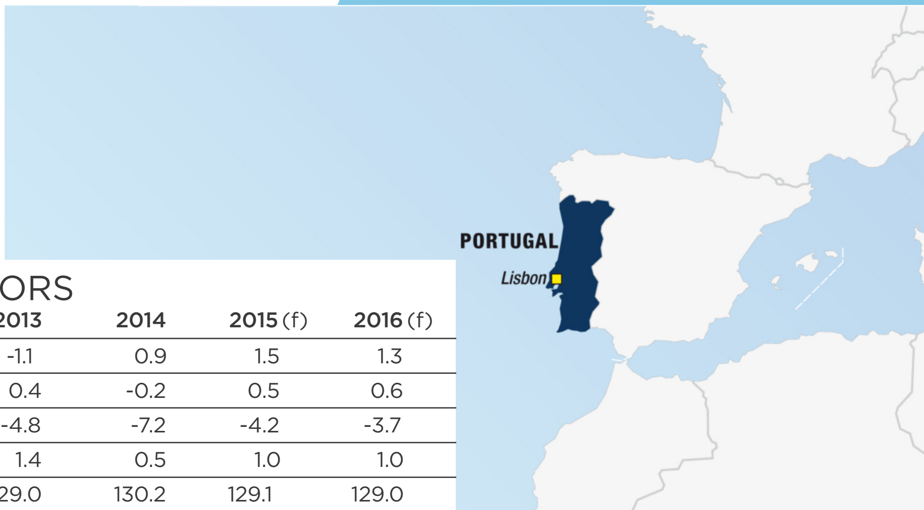
Weaknesses

- Economy dependent on external demand
- Budgetary revenues heavily reliant on performance of gas and oil sector
- Very high stock of bank credit to private sector
- Erosion of economy's price competitiveness linked to high labour costs
- Persistent regional disparities

PORTUGAL

COFACE ASSESSMENTS

A4	Country risk
A2	Business climate



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	-1.1	0.9	1.5	1.3
Inflation (yearly average) (%)	0.4	-0.2	0.5	0.6
Budget balance (% GDP)	-4.8	-7.2	-4.2	-3.7
Current account balance (% GDP)	1.4	0.5	1.0	1.0
Public debt (% GDP)	129.0	130.2	129.1	129.0

(f): forecast

Population *(millions of persons-2014)*	10.4
GDP per capita *(US dollars-2014)*	22,123

RISK ASSESSMENT

Recovery lacks dynamism

After a deceleration in activity in the second half of 2015, the economic climate indicator of the national institute of statistics remained hesitant in early 2016. Growth is less vigorous than in Spain and remains below the euro area average. The recovery, initially export-driven, has spread to the domestic market but it lacks dynamism mainly due to a slowdown in job creation and a significant private debt. The unemployment rate has declined but tended to stabilize late last year and early this year (at 12.2%). The lack of vitality of the labour market should persist and consumption slow slightly in 2016 despite a more expansionary fiscal policy and an increase in the minimum wage. Corporate deleveraging and a less favorable external environment should also limit investment growth. Foreign trade contribution to growth would remain slightly negative due to rising imports.

Corporate debt remains high and the rise in non-performing loans is hitting bank profitability

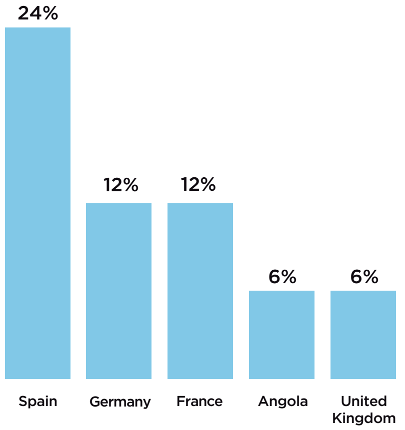
Corporate margins began to improve from summer 2009 onwards thanks to wage restraint and employment restructuring. However, insolvencies, recorded notably in construction and trade sectors, rose slightly in 2015 after falling significantly in 2014. The numbers had more than tripled between 2007 and 2013.
Whilst slightly lower, corporate debt remains high (118% of GDP at the end of September 2015) and is a drag on investment. Overall, the banking sector has improved its solvency since 2012 and is benefiting from better financing terms, but the growth in non-performing loans is undermining its profitability and limiting its ability to lend to viable companies. Two issues continue to weight on the sector: the failure of Banif in 2015 and the sale, expected by the summer of 2017, of Novo Banco, established in 2014 at the time of the rescue of Banco Espírito Santo.
The international €78bn bailout plan (by the EU and the IMF) implemented in May 2011 has reached a positive conclusion. Portugal's access to bond markets was fully restored before the expiry of the plan (June 2014) without having to rely on a precautionary credit line (it is currently subject to a post-program monitoring). Economic activity has recovered, the public accounts alleviated and the imbalance in the external accounts reduced. However, whilst the government was able, in March 2015, to make an early repayment on some of the IMF loans, the burden of public debt and the scale of the financing needs of the government continue to pose significant risks for the viability of this debt, with a dynamic that remains highly sensitive to macroeconomic shocks. The debt market remains volatile as evidenced by the temporary but notable rise in sovereign interest rates in February 2016 linked to the risk of a fiscal loosening.

An increasingly fragile political context

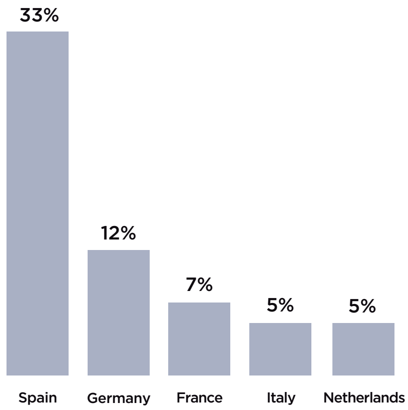
The Social-Democrat Party (SDP) won the parliamentary elections on 4 October 2015 but without an absolute majority. After negotiations lasting a number of weeks, the President, Anibal Cavaco Silva (SDP) confirmed the Prime Minister, Pedro Passos Coelho (SDP), in office. However the left (Socialist and Communist Parties and the left block) united for the first time in 40 years and placed a censure motion before Parliament, leading to the fall of the government on 10 November.
On 24 November, after asking the Socialist Party (SP) for guarantees on the stability of a future government as well as clarifications on compliance with the country's budgetary commitments, the President was obliged to name the leader of the SP, Antonio Costa, as Prime Minister. However, the parliamentary left-wing coalition does appear fragile, with the allies of the SP calling for the end of the austerity policies. By the way, the left-wing members of the Parliament have adopted a high-rik budget in February 2016 which plans to loosen the grip of budget rigor while reducing deficits. Moreover, the Communist Party will not abandon the idea of restructuring the country's debt.
Finally, Portugal will be weakened by structural limitations (low level of investment, high level of debt and bottlenecks) that make it necessary to continue with reforms. Although progress has been made in this area, Portugal continues to lag behind relative to its peers in terms of labour flexibility and internal competition. The efficiency and the discipline of the public sector in terms of payments needs improving, as well as the operation of the insolvency process and the procedures for restructuring corporate debts.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Quality infrastructure
- Tourist attractiveness
- Sector and geographic diversification initiated, research and innovation capacities
- Declining labour unit costs and reforms

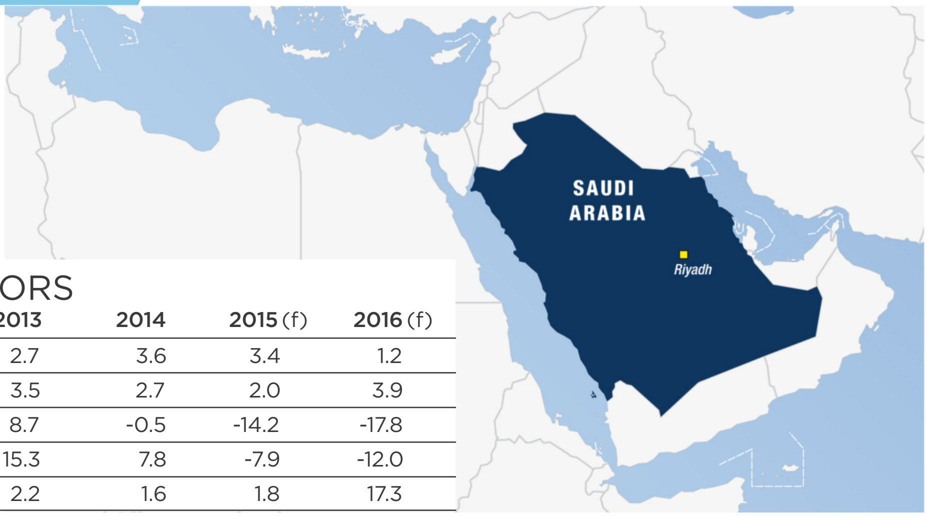
Weaknesses

- Limited scale of the manufacturing industry, specialisation in sectors with low added value (textile-clothing. mineral products and metal ores. metals. food products)
- High level of public and corporate debt
- Rigid labour market and limited domestic competition, low investment
- Deteriorating bank asset quality and profitability

SAUDI ARABIA

COFACE ASSESSMENTS

A4	Country risk
B	Business climate
LOW RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	2.7	3.6	3.4	1.2
Inflation (yearly average) (%)	3.5	2.7	2.0	3.9
Budget balance (% GDP)	8.7	-0.5	-14.2	-17.8
Current account balance (% GDP)	15.3	7.8	-7.9	-12.0
Public debt (% GDP)	2.2	1.6	1.8	17.3

(f): forecast

Population *(millions of persons-2014)*	**30.8**
GDP per capita *(US dollars-2014)*	**24,252**

RISK ASSESSMENT

An economy that is suffering from the repercussions of the fall in hydrocarbon prices

After decreasing in 2015, Saudi Arabia's growth will decline further in 2016. Early in 2016, oil price has reached its lowest level since 2009 and this trend will continue to weigh negatively on the Saudi oil industry. Moreover, the agreement between oil-producing countries including Saudi Arabia and Russia to freeze their oil production in order to weigh on the market supply will induce a stagnation of the local hydrocarbon sector growth in 2016, limiting the sector's prospects oil prices stay low. The petrochemical industry marked by the decline in value added in the hydrocarbon sector should also suffer from the weakness of the oil market. Non-hydrocarbon growth which has made it possible to curb the economic slowdown is likely to worsen in 2016. The significant government spending that has been undertaken has been a support factor for activity particularly via the increase in civil servant pay. These measures have had a significant effect on household consumption given the weight of the public sector in the labour force. Without any significant austerity measures, the 2016 budget announced a shift in economic policy stimulus. Social spending should be maintained with an increase in the education budget, but public investment should decrease. The CEDA (Council for Economic and Developmental Affairs) in charge of economic policy will have to approve all public investments in excess of SAR 100 million. Household consumption will remain robust, but will probably suffer from the repercussions of the wage stagnation. in particular among civil servants. With a shortfall of 1.25 million housing units, the outlook for the construction sector remains positive even though there are still administrative obstacles preventing a real upswing in activity.
Inflation is expected to surge in 2016 due to an increase of domestic oil prices following the 2016 budget reform. These should have effects on the prices of other groups of goods such as transport or construction.

Increase in the fiscal deficit but improvement in the current account balance

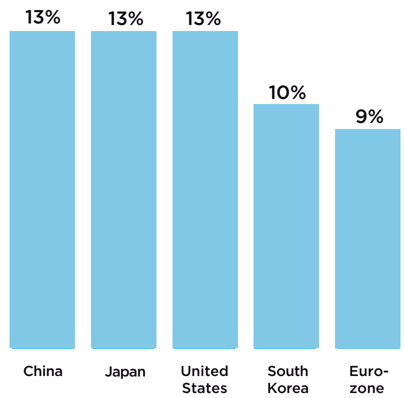
Growth in domestic demand for hydrocarbons will also reduce oil revenues. Non-oil revenues will shrink as activity slows down. Customs duties can be expected to be adversely affected by the slowdown in imports. Government spending will weaken only partially in 2016. Current expenditure will remain constrained by the size of the public payroll and by the policy of hiring young Saudi graduates. However, investment spending will be given priority and certain projects could be postponed. Energy subsidies have also been revised downwards further to the increase of the oil price at the pump of 50 %. Besides, the framework of the five years development plan presented with the 2016 budget will include a set of structural reforms in order to rationalize the public spending, the accent being put on a bigger synergy between the public and private sector an increase of the number of privatizations as well as a modernization of public services. To offset the decline of oil revenues, the authorities should encourage the use of SAMA's financial reserves and the recourse to external debt after that an increase in government domestic debt that has led to tightening liquidity in the banking in 2015. Saudi Arabia is expected to borrow $ 10 billion in 2016.The current account deficit will continue to rise sharply. The slowdown of imports will hardly offset the effects of low price on crude oil exports. FDI may also slowdown due to a weaker investor confidence following the country's downgrade by several rating agencies.

New sovereign for a new political era

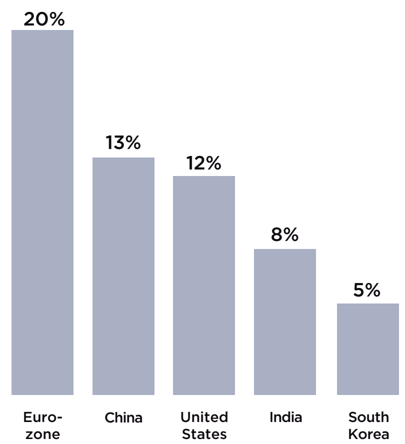
The country's recent political history has been marked by the death of king Abdallah in January 2015. Crown prince Salman ben Abdelaziz Al Saoud was made king of the Saudi kingdom on 23 January 2015. This change of sovereign has led to a change in Saudi policy in both domestic and external terms. From a domestic policy viewpoint, king Salman has carried out a significant reshuffle by appointing Prince Mohammed Ben Nayef, a former minister of the interior. as crown prince instead of his half-brother prince Mokrin. Likewise, the son of King Salman Mohamed bin Salman has been appointed second in line to the throne. He also kept his functions as minister of defence and became president of the CEDA. The concentration of power within this triumvirate has enabled the sovereign to bypass certain rigidity in the monarchy and impose measures that had been suspended until now. such as the opening of the stock market to foreign investors. Nevertheless, criticism has been voiced against the new order. especially after the two accidents that affected Mecca in September 2015 and which cost the life of more than 800 pilgrims. At the external level, the kingdom has involved itself directly in the Yemenite political crisis by leading a coalition of Arab countries made up of its allies. The stalemate of the conflict in Yemen is creating a risk not only for internal security but for Saudi public finances.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- A quarter of global oil reserves and largest OPEC producer
- Predominant regional economic and political role
- Economy going through a diversification process and more open since joining the WTO end-2005
- Solid financial situation
- Robustness of the banking system

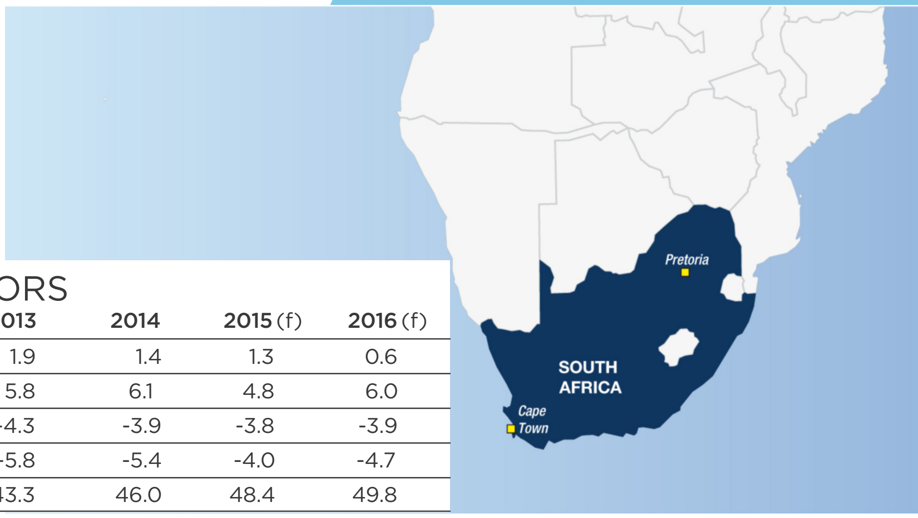
Weaknesses

- Significant dependence on the hydrocarbon sector where there is little job creation, and growing domestic energy consumption
- High unemployment rate among Saudi nationals
- Governance weaknesses hampering the business climate
- Unstable geopolitical environment

SOUTH AFRICA

COFACE ASSESSMENTS

B	Country risk
A4	Business climate
MODERATE RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	1.9	1.4	1.3	0.6
Inflation (yearly average) (%)	5.8	6.1	4.8	6.0
Budget balance (% GDP)	-4.3	-3.9	-3.8	-3.9
Current account balance (% GDP)	-5.8	-5.4	-4.0	-4.7
Public debt (% GDP)	43.3	46.0	48.4	49.8

(f): forecast Fiscal year : April to May

Population *(millions of persons-2014)*	54.0
GDP per capita *(US dollars-2014)*	6,483

RISK ASSESSMENT

Sharply slowing economy

Growth in the South African economy is likely to keep on slowing in 2016. Industrial output will continue to be handicapped by persisting power supply problems and low mining sector prices. Agriculture, which was badly hit by droughts in 2015, could again suffer as a result of El Niño in 2016. Services activity (finance, retail) will remain dynamic.
Household consumption is expected to be held in check by debt, high inflation, as well as the near stagnation in wages and social spending. Private investment is likely to remain low, limited by high interest rates (raised to 6.25% in November 2015), and the lack of vitality in demand (internal and external) and reduced margins, in particular because of more costly inputs due to the depreciation of the rand. The government however should be continuing with its infrastructure projects. Finally, exports are likely to struggle given the weakness in demand, thus limiting their contribution to growth.
Inflation could increase in 2016. Higher electricity prices, the cost of food (as a result of the drought) and other products more heavily taxed (drinks, fuel, tobacco), as well as the ongoing depreciation of the rand are likely to boost inflationary pressures, despite low oil prices. The relative weak level of internal demand, combined with strict monetary policy, could however prevent it going above the ceiling set by the central bank (6%).

No room for manoeuvre in terms of the budget and persisting current account deficit

The South African government is looking to bring its budget deficit under control and stabilise its debt in order to avoid any further decline in its credit rating, resulting in the loss of its "investment grade" rating. The challenge is not inconsiderable given the feebleness of economic activity which is dragging down tax receipts. The budget announced in February 2016 provides for new tax rises, following that of 2015 (on the revenues). Savings could be made thanks to freeze in public sector wages. However, the infrastructure expenditure commitments would be difficult to revise, given the scale of the country's needs (electricity production), and the cost of repaying the debt is growing. Support for certain state-owned companies, in financial difficulties (Eskom), could also be a burden on public finances, even though some of the spending is expected to be funded by the sale of State shareholdings (for instance in Vodacom). The debts of these companies will increase the already high level of public debt, although the structure of this (mainly local and long term) helps to mitigate the risk of overindebtedness.

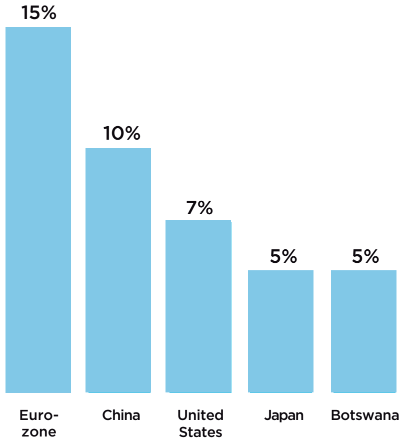
The current account balance could deteriorate in 2016. Higher US interest rates but above all uncertainties concerning the economic and political situation of the country, could, by increasing the rate of capital withdrawals, weigh on the current balance and on the the exchange rate for the rand which already dropped 25% against the dollar in 2015. Exports are likely to be held in check by weak external demand, whether in China (the leading trading partner) or the EU, the lack of competitiveness of its industry and low prices for minerals (over 50% of exports, particularly gold and platinum), despite some recovery. A contraction in imports, due to the lack of vitality in internal demand, could however more than make up for the export situation.
The banking sector, impaired by the concentration of loans to already heavily indebted households, could continue to suffer with the slowing of the economy.

Ongoing political tensions and worsening business climate

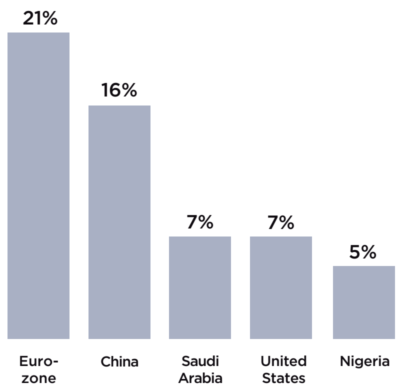
Despite the comfortable victory of the ANC in the May 2014 elections, doubts remain concerning the political and social development of the country. J.Zuma's authority seems to be more and more challenged, after allegations of misappropriation and the removal of the Finance Minister and hesitation for appointing his successor at the end of 2015. has to compromise with the other at the same time as his authority is being increasing questioned, which Lack of legitimacy, growing internal divisions inside the ANC and between different members of the ruling alliance (COSATU, Communist Party) are reducing the ability of the government to define and implement reforms. The continuing failure to satisfy people's expectations in terms of overcoming unemployment, poverty and corruption, remains a source of social instability. Strikes and demonstrations, which were mostly focused on the industrial sector (mines, metallurgy, etc.) are spreading (students in October 2015), and are evidence of growing general discontent.
South Africa has modern legal and financial systems and its ranking by certain World Bank indicators in terms of governance (rule of law, voice and accountability) tends to improve. Failings in terms of training, criminality and corruption are however handicapping the business climate.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Economic and political power
- Natural resources (gold, platinum, coal, chromium, etc.)
- Developed services sector (in particular financial)
- Legal system provides protection for investors

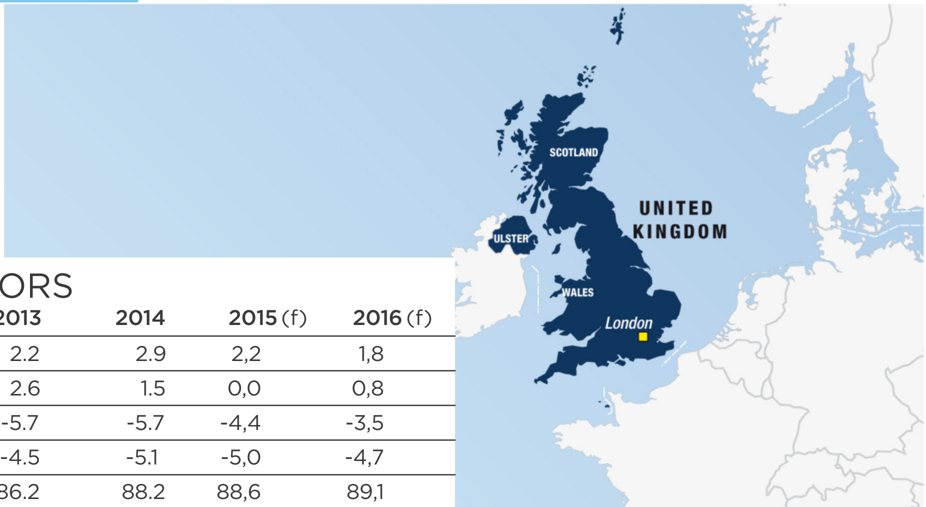
Weaknesses

- Poverty, inequalities, sources of social risks (crime, demonstrations)
- High level of unemployment and shortages of skilled labour
- Infrastructure shortcomings (transport, energy)
- Dependence on volatile foreign capital flows

UNITED KINGDOM

COFACE ASSESSMENTS

A2	Country risk
A1	Business climate



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	2.2	2.9	2,2	1,8
Inflation (yearly average) (%)	2.6	1.5	0,0	0,8
Budget balance (% GDP)	-5.7	-5.7	-4,4	-3,5
Current account balance (% GDP)	-4.5	-5.1	-5,0	-4,7
Public debt (% GDP)	86.2	88.2	88,6	89,1

(f): forecast

Population *(millions of persons-2014)*	64.5
GDP per capita *(US dollars-2014)*	45,729

RISK ASSESSMENT

Growth based on solid foundations

After reporting better performances than many of major advanced economies in 2015, UK growth should decline in 2016 against the backdrop of rising uncertainty linked to a possible "Brexit" (leaving the European Union) which could way on business and household confidence. It will still be sustained by private consumption, associated with wage growth (the minimum wage increased by 3% at the end of 2015) and the ongoing improvement of the labour market situation (unemployment rate around 5% at end 2015), all of this in a favourable context of low borrowing costs and lower savings rate. However, these drivers will weaken slightly, given the expected slight inflation rebound. The rise in property prices in 2015 (almost 8%) could continue in a context of still limited supply, which will sustain consumption but limit opportunities for first-time buyers and will not help bring down the high level of household debt (125% of GDP). The risk of a property bubble therefore needs watching. Investment on the other hand will be supported by the solid financial position of businesses and advantageous financial conditions. The Funding for Lending Scheme will, meanwhile, be extended until January 2018 and the amount which banks can borrow will gradually be reduced. However it should be hampered by the weakening business confidence. Investors could indeed adopt a wait-and-see approach due to the "Brexit" risk. Large infrastructure projects remain however a priority for the authorities (£100 billion in spending by 2020 announced, i.e. 5% of GDP in 2015), especially with a view to achieving a recovery in productivity, which remains a key issue. External trade will continue to penalize activity with higher wage costs limiting competitiveness gains, so exports will rise only slightly due to the modest euro zone recovery. This trend is unlikely to offset the liveliness of imports, buoyed by domestic demand.
Inflation struggled to stay in positive territory in 2015, in particular because of the drop in commodity prices and the appreciation of the pound sterling against the euro. In 2016, it is expected to slightly rise, as the drop in energy prices comes to a halt, wages rise, reduction in spare capacity and less upward pressure on the pound against the euro. Monetary policy is unlikely to be tightened by the end of this year.

Fiscal consolidation remains a government priority

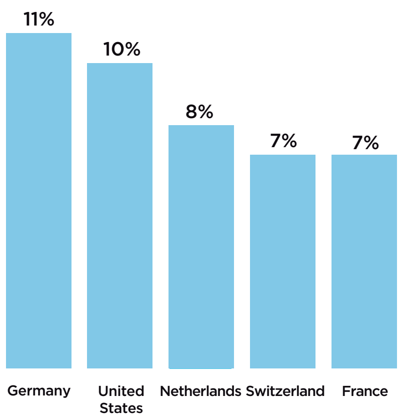
The government is still on a programme of fiscal consolidation, even if the deficit is reducing more slowly than expected. This is being carried out through spending cuts (public sector wage moderation, cuts in health spending). On the revenue side, the budget includes tax cuts on investments as well as lower corporation tax (down from 20% to 18% by 2020), and the gradual abolition of the levy on banks' balance sheets, which will, however, be replaced by an 8% levy on banks' profits. The budget deficit will accordingly come down in 2016.
The current account balance will improve slightly in 2016, on the back of the modest euro zone recovery, which will permit a reduction in the income deficit and increased exports of financial services (London still being the world's leading financial centre) and goods. Coupled with lively imports, the trade balance should ultimately remain stable overall.

Risk of "Brexit" cannot be ruled out

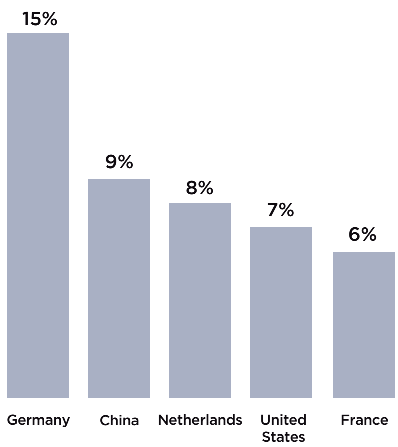
The Conservative Party won a majority in the May 2015 Parliamentary elections, bringing to an end five years of coalition with the Liberal Democratic Party and also strengthening the fiscal consolidation policy conducted by the Chancellor, George Osborne. The Labour Party has been weakened as a result. The referendum on Britain's membership of the EU will take place on June 23. If the country decides to leave the EU, it will be forced out two years afterwards according to the Lisbon treaty. The magnitude of the effect will depend on the definition of the new rules in terms of trade, legal and regulation. According to a Centre for Economic Performance study , a small increase in trade cost could reduce income by 1.1% of GDP (against 3.1% in case of strong increase).
The country has risen two places in the *Doing Business* rankings and is in first place among the G7 countries. The business climate is improving: it takes only 4.5 to set up a business (compared with an average of 20 in other countries), with a cut in corporation tax and increased exemptions on social security payments helping improve the country's attractiveness.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Oil and gas production covering three-quarters of energy needs
- High-tech sectors (aeronautics, pharmaceuticals)
- Low corporation tax

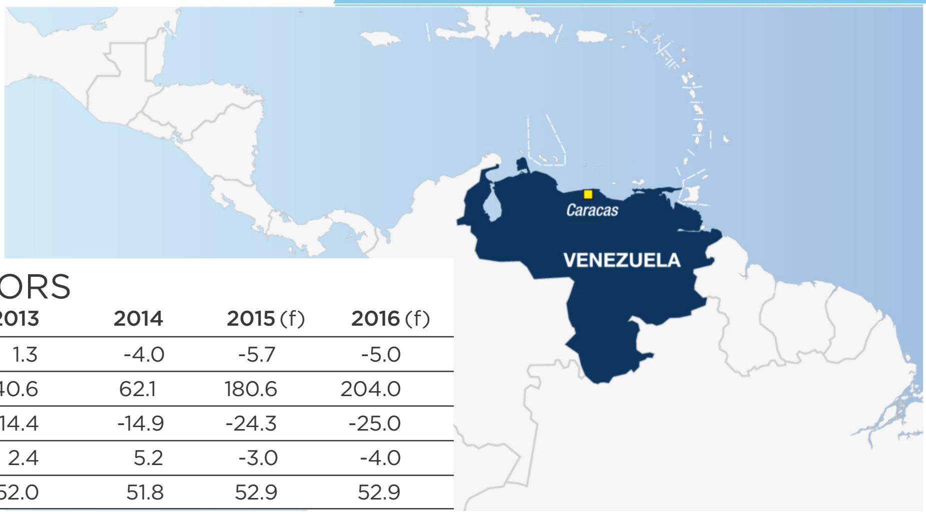
Weaknesses

- Dependence of the economy on financial services
- High levels of debt and public deficit
- High level of private debt
- Risk of EU exit

VENEZUELA

COFACE ASSESSMENTS

D	Country risk
D	Business climate
VERY HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015 (f)	2016 (f)
GDP growth (%)	1.3	-4.0	-5.7	-5.0
Inflation (yearly average) (%)	40.6	62.1	180.6	204.0
Budget balance (% GDP)	-14.4	-14.9	-24.3	-25.0
Current account balance (% GDP)	2.4	5.2	-3.0	-4.0
Public debt (% GDP)	52.0	51.8	52.9	52.9

(f): forecast

Population *(millions of persons-2014)*	30.4
GDP per capita *(US dollars-2014)*	6,772

RISK ASSESSMENT

Economic activity set to continue shrinking in 2016

Economic activity in Venezuela is expected to continue shrinking in 2016. On the one hand, it is still affected by the erosion of household purchasing power due to the rising inflation and, secondly, by the persistent decline oil prices which limits public spending on various social benefits for the disadvantaged. Industrial activity will continue to be held back because of the backlog in terms of production capacity and the low level of diversification associated with the difficulties of obtaining imported capital equipment and intermediate products. The productive capacities of the agriculture sector, suffering from insufficient investment and neglect in favour of the oil sector, will also slow any upturn in activity. The stalling in private investment should continue despite the likely gradual removal of import and currency restrictions. Caution among local and foreign investors because of legal uncertainty is also likely to lead to further outflow of capital from the country. Inflation is likely to remain high, fuelled by the rapid expansion in the money supply and the bolivar's strong depreciation faced to the dollar.

Very worrying fiscal and external vulnerabilities

In 2016, the fall in the price of oil - which is responsible for almost half of budget revenues, will be the main challenge facing the public finances. Continually weak oil prices will seriously limit the government's room for manoeuvre and make the danger of a Venezuelan default on foreign debt increasingly plausible. The country narrowly avoided a default in 2015 thanks to Chinese loans and once again, managed to honor its debt deadline in February 2016 (USD 1.5 billion). The two most important settlements (around 4.8 billion USD) are scheduled for October and November of this year. The chaotic economic situation associated with the arrival of opposition into power during the legislative elections, which took place on December 2015, has obliged the president to operate a tighter fiscal policy.

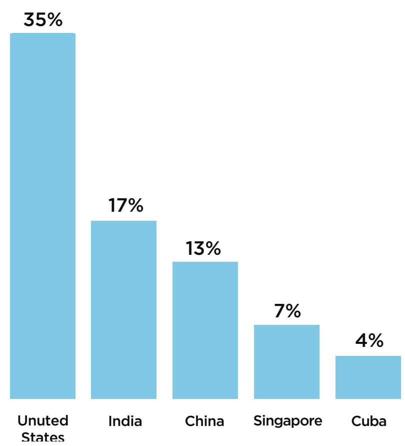
In terms of foreign trade, oil accounts for 96% of Venezuelan export earnings. Persistently low oil prices together with declining production, a result of low investment, are going to continue to impact on the current account balance in 2016. In addition, the volumes delivered to China (subject to opaque contracts) are also likely to increase, at the same time as the outstanding Chinese loans these volumes are used to repay. Paradoxically, oil products are also the second largest item in Venezuelan imports because of the inefficiencies of its local refineries. The lack of competitiveness of the almost non-existent manufacturing sector is another factor inhibiting the growth of non-oil exports. FDI is at a very low level because there is uncertainty about the country's legal framework and recourse to bilateral loans cannot restore the balance of payments, leading to a decline in its reserves and the soaring of US dollar on the parallel market.

No economic strategy from right's party in Venezuela

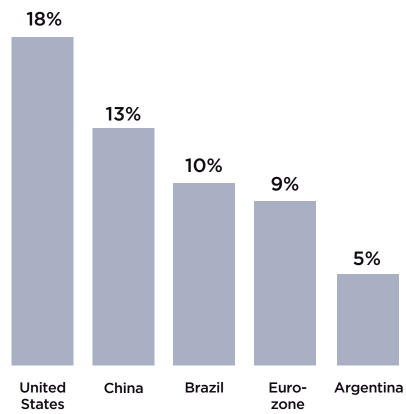
The MUD (Mesa Unitaria Democratica) coalition of 25 opposition parties won a majority of seats in the December 2015 parliamentary elections, bringing to an end the left dominated movement created by former President Hugo Chavez sixteen years ago. Despite the enthusiasm for this victory, the opposition seems not to have an alternative strategy to redress the country's economic and political crisis in which it is immersed. Opposition seems more interested in reforming constitution which aim is to revoke the President Nicolas Maduro's mandate. This benefits the current president who decided to enact an "emergency economics' plan" in January 2016 for a period of 2 months renewable (the President can dictate economic, political and social's measures during this period). One of the first steps was to increase the price of oil (oil super now costs 6 bolivars per litre against 0,097 bolivars), a first for almost 20 years (although the price remains particularly low). It also authorized a devaluation of 58% of one of the three rates of exchange prevailing in the country, used for the purchase of essential goods, which aim would be to boost local production. While necessary, these measures seem still insufficient to redress the economic situation of the country which depends heavily on the evolution of oil prices.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Considerable reserves of oil along the Orinoco river and offshore gas potential
- Geographical proximity with the United States, the primary export market for Venezuelan oil
- Influence in the Caribbean region through the PetroCaribe initiative
- Assets (including in the United States) belonging to the national oil company PDVSA
- Growing active population

Weaknesses

- The economy is extremely dependant on oil and gas as well as Chinese loans
- Runaway inflation
- Incompetence of the national oil company PDVSA
- Opaque and discretionary management of oil revenue
- Shortage of foreign currency and goods
- Delays in payment for current trade

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