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October 2014 update

PANORAMA COUNTRY RISK

OCTOBER 2014

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By Coface Group Economists



World trade stagnated in the first half-year 2014 and is struggling to recover nearly 6 years after the start of crisis. This is a radical change in trend after 30 years of unprecedented expansion: World exports are today 10 times higher than in 1980. Even during the past decade, marked by the 2008-2009 crisis, exports increased two and a half times. This raises the following question: is the slowdown in international trade since 2008 only a cyclical phenomenon or does it rather correspond to a lasting structural change? To answer this question, we first analyse the different negative effects of the crisis

on trade, both direct (weaker economic growth) and indirect (less demand for raw materials, increase in protectionism), before highlighting the role of the internationalisation of value chains in spreading the crisis to world trade. Regional trade, for its part, was unable to compensate for the detrimental effects of the crisis, since it grew little or not at all, Asia being the exception. With part of the recent slowdown in world trade linked to the economic slowdown, weaker growth potential in the major developed and emerging economies makes a return of international trade to its pre-crisis level (more than 8% p.a. on average between 2002 and 2008) unlikely in the short or medium term. But, in a context of timid pickup in world

growth in 2014 and 2015 and ongoing internationalisation of the value chains which sustains international trade, Coface nevertheless anticipates world trade to grow by nearly 5% in 2015, i.e. a higher level than that of the last two years. Besides its pace of growth, the structure of trade will change in the coming years. The tertiarisation of advanced and emerging economies is expected to be reflected in that of trade. This coming tertiarisation of international trade has a big advantage: It should make fluctuations less marked, variations of activity in the services sectors being generally less strong than those in industry. In the coming years, world trade growth will therefore be more moderate but also less volatile.

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FOR SAFER TRADE

OCTOBER 2014

WORLD TRADE: A SLUGGISH SPELL?

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INTRODUCTION

World trade stagnated in the first half-year 2014 ⁽¹⁾ and is struggling to recover nearly 6 years after the start of the crisis. The issue of its pace of growth is, however, of prime importance for several reasons. First, at the macro-economic level, trade is a key engine of growth in a good number of economies, both advanced and emerging, with exports representing 31% of world GDP. And on the micro-economic side, the trade dynamics have a direct effect on many businesses: in the OECD countries alone, over 3 million businesses import goods or services from foreign countries and over 2 million export them ⁽²⁾.

Before 2008, these businesses benefited from the exceptional surge in the international trade in goods and services, thanks, especially, to the strong growth of the emerging economies, to the trade liberalisation process and lower transport costs. Despite the recent slowing in trade, we must not overlook these 30 years of unprecedented expansion: world exports are today 10 times greater than in 1980 and nearly 6 times more than in 1990. Even during the last

decade, marked by the 2008-2009 crisis, they increased by two and a half times. International trade, therefore, played a major role in the world economy: the share of exports in GDP has increased by 13 points since 1990 (only 18% of GDP at the time). The post-2008 period nonetheless marks a radical change in trend, which raises the question of whether the slowdown in international trade observed since 2008 is only a cyclical phenomenon or whether it rather corresponds to lasting structural change?

To answer this question, we focus primarily on the consequences of the 2008-2009 crisis likely to have affected international trade. The trend decline in growth in the advanced economies and in the big emerging countries is one such consequence. The resulting end of the boom in raw materials is another. And the rise of protectionism, particularly in certain emerging countries, can also be partly attributed to this world crisis (*part 1*).

We then turn our attention to the role of the internationalisation of value chains in past and future fluctuations

in world trade. This is because the globalisation at work since the 1980s drastically transformed the way in which goods and services are produced and sold: there is increasingly less fragmentation between countries and industries but ever greater vertical fragmentation within the production lines of the same product. This internationalisation of the value chains, then, which had played an essential role in the trade boom before the crisis, came to a sudden halt with it. We wonder therefore what mechanisms led to its collapse following the crisis as well what its prospects are for the future (*part 2*).

Finally, we ask whether these adverse effects of the 2008-2009 crisis on trade could have been in part compensated for by increased regionalisation of trade (*part 3*). Indeed, in response to the recession observed in most of the advanced economies, which are the main destination for their exports, numerous emerging economies might be persuaded to redirect some of the goods sold abroad to markets closer to home.

(1) Up by only +0,8% seulement (source: CPB).

(2) Source: OECD (last available year: 2011).

1 WORLD TRADE DISRUPTED BY THE CRISIS

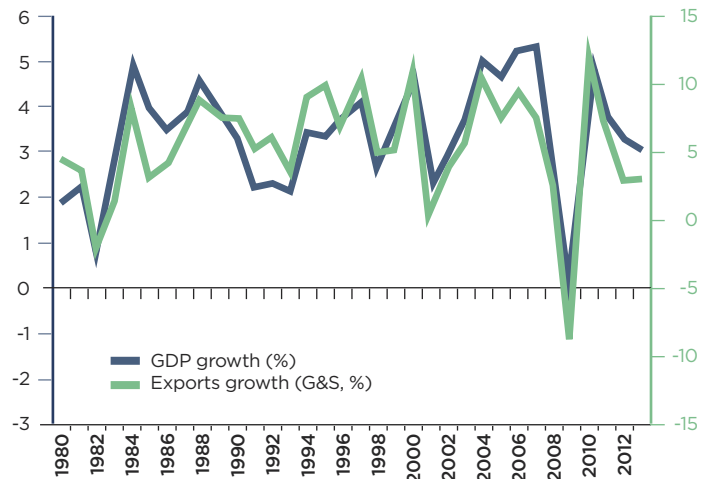
World trade is suffering from durably weaker growth

World trade dynamics are linked primarily to growth (see chart 1): if the GDP of two countries increases, so does the value of the goods and services that they exchange. The recent slowdown in growth is due first and foremost to that in world growth following the 2008-2009 global crisis.

In order to determine whether this recent slowdown in world trade is short- or long-lasting, we need first to answer the following question: Is the recent fall in world growth temporary or a trend? To do this, we have calculated the level of potential growth of the main advanced economies and how it has changed over the last ten years. The potential growth measures the maximum pace of economic expansion in the long term. Its level and its fluctuations depend on several factors: The accumulation of human and physical capital, as well innovation resulting in productivity gains. Here we have measured potential growth as the sum of the average annual growth of the working age population over the last 5 years⁽³⁾ and that of productivity⁽⁴⁾.

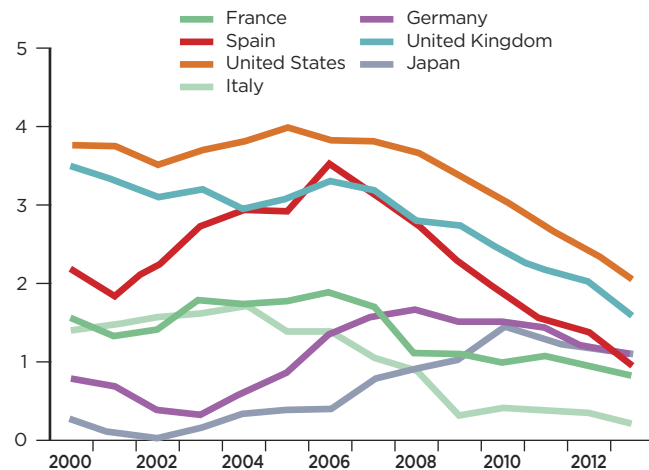
According to this measure, potential growth has diminished significantly in the main advanced economies since the beginning of the 2000s, falling from 3.8% in 2000 to 2.1% in 2013 in the United States, from 3.5% to 1.6% in the United Kingdom or again from 1.6% to 0.8% in France (see chart 2). Demographic ageing is one of the principal explanations for these lower long-term growth prospects. Lower productivity gains resulting from insufficient investment in research and development or again an ageing stock of machinery are another. In other words, GDP growth tends to decrease as the standard of living (i.e. GDP per capita) increases. Paradoxically, effective growth of advanced countries remained relatively high before the Lehman crisis despite these downward growth trends since the beginning of the 2000s. According to Larry Summers⁽⁵⁾, only very accommodating monetary conditions allowed the advanced countries to “appear” strong during the years preceding the Lehman crisis: they are the only reason why the advanced countries were able to defer this declining trend⁽⁶⁾.

Chart n° 1
GDP growth and world exports



Source: IMF

Chart n° 2
Potential GDP growth of advanced economies (%)



Sources: ILO, EC and Coface

This structural slowdown is, moreover, not specific to advanced economies: Growth is also trending downwards in large emerging economies. For example, Chinese growth reached “only” 7.7% in 2013. This is far from the 10.6%

(3) Source: International Labour Office

(4) Productivity is measured by the annual ten-year average of total factor productivity, which corresponds, in particular to the effects on growth of technological change. Source: European Commission, AMECO database.

(5) L. Summers (2014): “U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound”, Business Economics, Vol. 49, N° 2.

(6) But these also generated the formation of the bubbles at the origin of the global crisis of 2008-2009.

average per annum between 2000 and 2011. The trend is similar in the other BRICS: Coface's growth forecasts for 2014 will be lower than the average of the 2000s in India (5.5% in 2014 against 7.8% between 2000 and 2011), in Russia (Russia 0.0% against 4.8%), in Brazil (0.4% against 3.8%) and in South Africa (1.1% against 3.6%). The reasons for this slowdown are many.

It is in part cyclical, these economies having suffered from sluggish growth in most of the advanced economies. But the reasons seem also to be structural, i.e. resulting from problems of supply (infrastructure and business environment deficiencies...) ⁽⁷⁾. This slowdown of the BRICS also confirms the existence of "a middle income trap ⁽⁸⁾". This trend towards economic slowdown in the big emerging countries is all the more prejudicial to international trade given that for 20 years its expansion has been closely linked to that of the emerging countries: Their exports of goods and services have increased six-fold in value in the past 20 years and those of the advanced economies by "only" 2.2 times. Emerging country exports now represent 42% of the world total against only 27% in 1994.

The downward trend in GDP growth of advanced countries and the large emerging countries therefore has an impact on international trade dynamics. But it is not the only factor. Between 1990 and 2006, the annual growth in world exports of goods and services was twice as high of that of world GDP on average. But this ratio was only 1.2 ⁽⁹⁾ between 2011 and 2013. The variation in this ratio is admittedly partially due to cyclical factors: the downturn in activity being mainly linked to demand factors such as investment on which imports are highly dependent, trade is naturally affected by the slowdown in growth. But besides this explanation, the change in the level of this ratio also suggests that the fluctuations in world growth are not enough in themselves to explain the slowdown in trade.

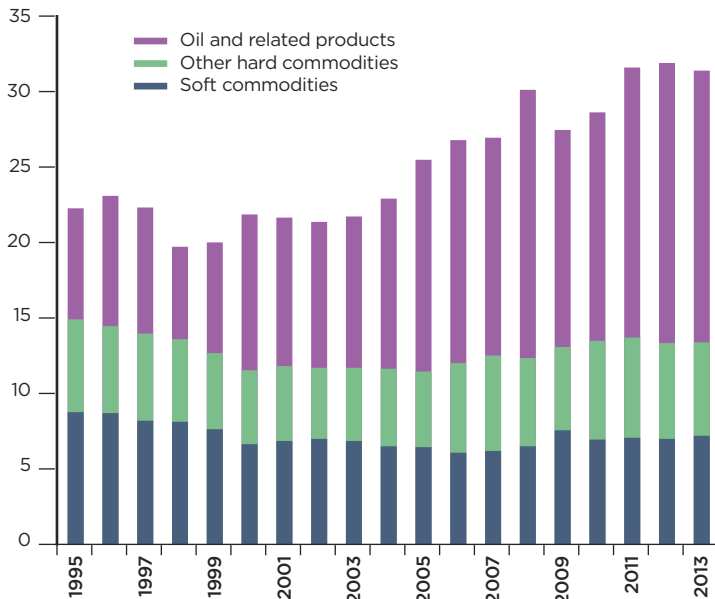
In the 2000s, the boom in trade and the boom in raw materials went hand in hand

The slowdown in world growth and particularly that of the emerging economies could also have a second negative effect on trade via raw materials. These largely contributed to the upsurge in world trade 20 years ago: The share of raw materials in world exports of good rose from 22 to 31% between 1995 and 2013. In other words, exports of raw materials grew more rapidly than others over this period. This is explained by the surge in oil exports: oil represents 57% of world raw materials exports and its share in the export of goods now totals 18% against only 7% in 1995 (see chart 3) - a rise, due partly to the net increase in the oil barrel price, which shot up from \$27 to \$96 between 2000 and 2013 ⁽¹⁰⁾.

This rise, then, results in large part from the emerging country boom over the same period, to the extent that their growth, driven by investment in infrastructure and capital, is a major consumer of raw materials. Insofar as this is now

Chart n° 3

Share of raw materials in world exports of goods (%)



Source: United Nations

Chart n° 4

Growth of Chinese GDP and of world raw materials export volume (%)



Sources: BNS, United Nations

(7) See Coface Panorama Country Risk, spring 2014: "Which emerging countries will take over from the BRICS?".

(8) After benefitting from a period of strong growth, associated with low labour costs and/or plentiful natural resources which allow it to go from being a low-income country to a middle income one, a country then suffers from a lasting reduction in its pace of growth. Higher wage costs makes it less competitive compared with low-income countries, without being in a position to compete with the high value added products of the advanced countries.

(9) Source: authors' calculations from IMF data.

(10) WTI price, source: US EIA.

expected to depend more on services and therefore less on raw materials, the volume of the trade in these could decline. A detailed look shows that this increase in trade in raw materials is linked to the rapid expansion of the Chinese economy, so much so that China today accounts for more than half of world demand for coal or nickel, more than 40% of that for copper or zinc and more than 10% of that for oil ⁽¹¹⁾. Chart 4 tends to confirm this: the acceleration of Chinese growth at the beginning of the 2000s coincides with strong growth in world exports of raw materials, including agricultural, oil and mining products. Conversely, the Chinese economic slowdown is likely to contribute to a slowdown in the raw materials trade, as Chinese needs are now growing less quickly. The volume of Chinese oil imports grew “only” by 5.8% p.a. on average between the beginning of 2012 and September 2013, namely by nearly 10 points less than over the period 2003-2011 (15.5% p.a. on average).

Recent international trade data for the major emerging countries show this declining trend in raw materials exports: among the main emerging countries, those with the strongest annual export growth in June 2014 sell mainly manufactured goods (Poland, Rumania, the Czech Republic, India, the Philippines). On the other hand, countries specialising in the sale of raw materials and of which China is a privileged trading partner generally figure at the other end of the scale (South Africa, Peru, Colombia, Indonesia, Chile).

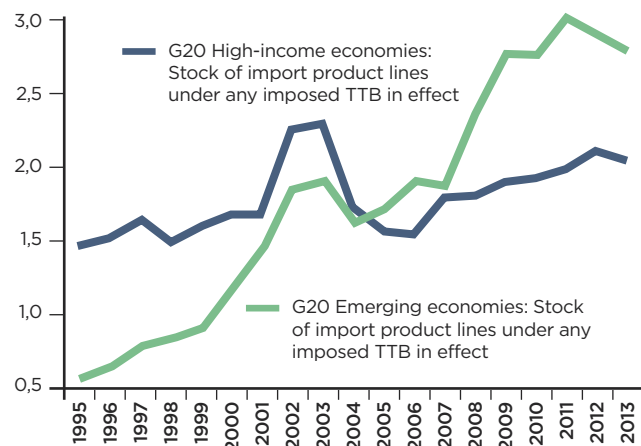
Rise of “emerging” protectionism since the crisis

These disappointing export performances of numerous countries and, more generally, the global crisis of 2008-2009 have aroused fears of a new wave of protectionism, exactly as happened in the 1930s after the 1929 crisis. Protectionism consists in a state policy aimed at protecting its businesses against competition from foreign firms. Concretely, the protectionist measures such as those listed by the World Bank, can take different forms: they include safeguard ⁽¹²⁾ and antidumping ⁽¹³⁾ measures, as well as subsidies and countervailing measures ⁽¹⁴⁾.

Through its temporary trade barriers database ⁽¹⁵⁾, the World Bank lists the different types of protectionist measures used in 25 countries since the mid-1990s. Besides the number of measures taken and the trend, these data make it possible to measure the share of imports affected by the protectionist policies used by each country. Chart 5 illustrates how this has changed since 1995 in the case of the G20 emerging countries and in high-income coun-

tries. It confirms a rise in protectionism since 2008. This rise is marked in the case of the emerging countries, but much less so in that of the developed economies, where the share of imports affected by these protectionist measures remains well below the peak reached in 2003.

Chart n° 5
G20 High-Income versus G20 Emerging Economies' Use of Temporary Trade Barriers (%)



Source: World Bank

A close look at the data suggests that this rise in protectionism in the emerging countries comes mainly from Russia, Argentina, or India, as is shown by the data from Global Trade Alert ⁽¹⁶⁾, which since 2008 has listed all the measures restricting trade as well as those which facilitate it. By subtracting the second from the first, it is possible to deduce a “net number” of protectionist measures applied in each country since that date. According to that indicator Argentina is the most protectionist country, closely followed by Russia and India. But these data do not take into account measures prohibiting imports of food products from the European Union, the United States, Canada and Australia introduced by the Russian government in early August 2014. Taking them into account would probably take Russia to the top of the list. Overall, Argentina, Russia and India have each introduced over 250 measures, or almost twice as many as the United States, Germany, France, the United Kingdom and Italy. It is, moreover, another emerging country which is the biggest victim of increased protectionism: China has been hit by over 1200 protectionist measures since 2008, or more than double those of any other country ⁽¹⁷⁾.

(11) Source: Standard Chartered

(12) Safeguard measures consist in prohibiting or temporarily restricting imports in order to protect a local industry in great difficulty.

(13) When an enterprise exports a product or a service at a price below that which applies on its domestic market, this is known as “dumping”, which can lead governments to decide on “antidumping” measures in order to protect their domestic enterprises.

(14) Subsidies and countervailing measures: some subsidies granted by a country to an enterprise or industry are considered as barriers to trade, in the same way as countervailing measures taken by countries whose enterprises have adversely affected by these subsidies.

(15) <http://econ.worldbank.org/ttbd/>

(16) <http://www.globaltradealert.org/>

(17) Next, in descending order, come the United States, Germany, Italy, France, the United Kingdom, South Korea, India and Thailand.

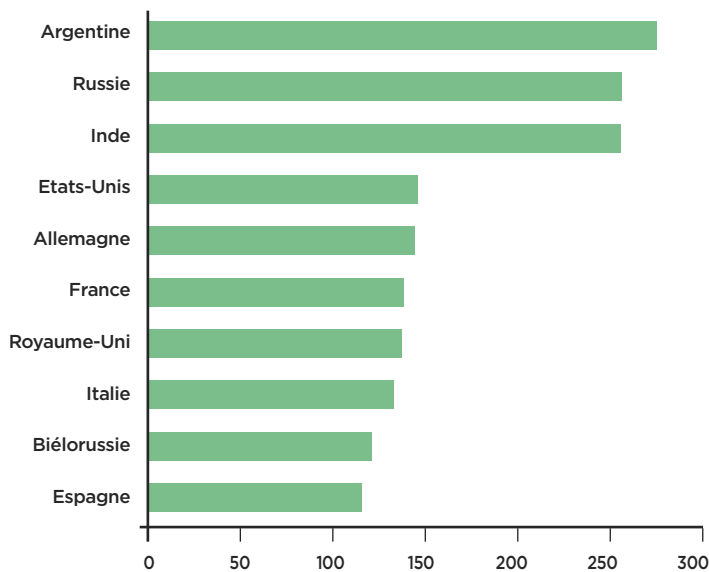
The causes of this protectionism are known: it is about a country maintaining jobs in the short-term by protecting a sector of the economy weakened by the slowdown in global demand and/or a deterioration in its competitiveness. This is, for example, true of many emerging countries, which have suffered a shock to growth linked to the 2008-2009 crisis and sharp fluctuations in their currencies. The recent rise in protectionism in several emerging countries is also

explained by their new growth strategies, which consist in favouring the expansion of sectors of activity geared to domestic demand. With this in mind, the protectionist measures are aimed at protecting these developing sectors. Finally, certain countries further restrict exports of their raw materials or agricultural products in order to contain prices on the local market and thus stimulate household consumption. This also makes it possible to reduce the production costs of local businesses lacking outlets because of the crisis.

But after this rise in protectionism in the emerging countries between 2008 and 2011, chart 5 page 5 also highlights the point that rather than continue to rise protectionism declined in 2013, both in the advanced economies and in the emerging ones. This change in trend, if confirmed, shows that the recent rise is to a large extent a temporary phenomenon linked to the crisis, as happened after the bursting of the Internet bubble in 2001. It is, therefore, more of a temporary and cyclical phenomenon than a structural barrier.

And finally, the important role of internationalisation in the productive processes during the last twenty years makes a lasting rise in protectionism even more difficult: to the extent that local enterprises are increasingly dependent on intermediate products imported from abroad for processing, any measure aimed at restricting these imports penalises these local producers. In this context, a country's authorities are less inclined to apply permanent protectionist measures.

Chart n° 6
Net number of protectionist measures between November 2008 and July 2014



Source: GTA

2 GLOBAL VALUE CHAINS: TRADE'S NEW BACKBONE

Globalisation has in effect transformed the way in which goods and services are produced and sold. The first wave, after the industrial revolution, enabled world trade to be structured according to the comparative advantages of each country: each country produces the goods for which it is the most competitive. Production was, therefore, geographically separated from consumption. Thus for the last twenty years or

« Globalisation has in effect transformed the way in which goods and services are produced and sold »

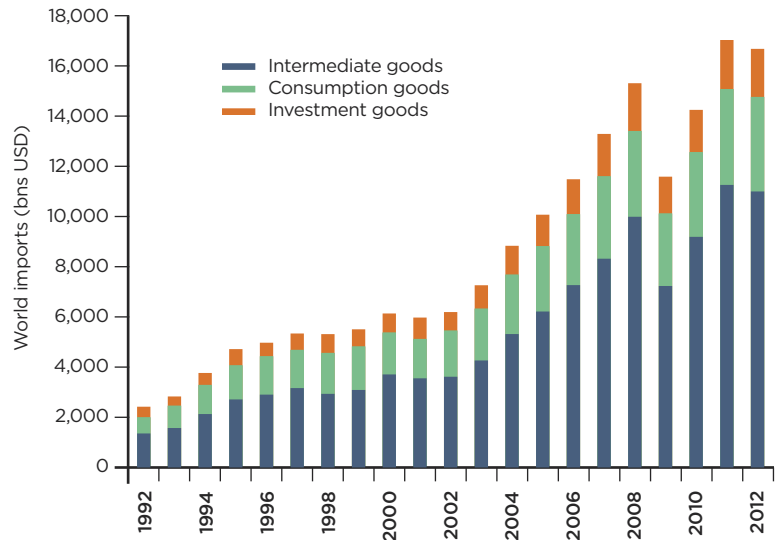
so, a second process of separation, very different from the first, has operated. According to Richard Baldwin⁽¹⁸⁾ there is less and less fragmentation across countries and industries and more and more vertical fragmentation within the production lines of the same product. So the various stages of a product's life cycle, from its conception to end-use (R&D, design, fabrication, marketing, and distribution, after sales service...) are implemented by different companies and, potentially in different countries. They are called "value chains" to the extent that at each stage when a certain amount of value is added.

(18) R.Baldwin (2009): "The Great Trade Collapse: What Caused It and What Does It Mean?", The Great Trade Collapse, VoxEU.

Value chains: A dominant role in trade fluctuations

This division of tasks is increasingly taking place on a global scale, especially thanks to the rapid progress of information and communication technology and also to the fall in trade and transport costs. These advances have led to a far-reaching change in companies' optimisation strategies (subcontracting this task, relocating another). Hence the rise of such global value chains (GVCs) played a dominant role in the strong growth of trade before the crisis. Intermediate goods (goods imported, transformed and re-exported), which are at the core of the value chains, have in effect been the main driver of this growth (chart 7), accordingly representing 66% of world imports in 2012.

Chart n° 7
Intermediate goods as driver of trade growth



Source: OECD African Economic Outlook 2014

Text box 1

A NECESSARY SHAKE-UP OF FORMER MEASURES OF INTERNATIONAL TRADE

Once this image of a world where trade in intermediate goods predominates is integrated, a problem rapidly appears concerning accounting systems. The same product will cross borders several times through the various stages of its production chain and will thus be accounted for multiple times. Traditional (gross) export data will therefore register not only the product's final value but also that of all the preceding stages. It is consequently necessary to separate the domestic value added from the foreign value added in order to have a more accurate image of what a country actually exports. Numerous

international organisations (the OECD in the lead) have tackled the task of measuring exports in terms of value added by tracing the value previously produced abroad and imported. For countries that export raw materials, the situation does not change fundamentally since the value comes directly from the material produced (Chile, Russia, Norway). For the United

States or Japan, the size of their economy enables them to have a large part of the value chain on their own territory. For a certain number of countries, on the other hand, (Malaysia, Ireland, and Thailand) the situation changes significantly. A substantial part of the value of their exports is deducted because it has been imported from abroad (chart 8).

Chart n° 8
Exports of value added vs. gross exports (% of GDP)



Source: OECD Tiva Database 2009

But conversely, such internationalisation of these production processes and the resultant greater interdependence between countries (i.e. the different links in the chain) are accelerating the transmission of shocks. The example of the 2008 crisis is a good example: trade collapsed more than 5 times as fast as GDP. During the crises of 1991 and 2001, trade also fell on average 5 times faster than GDP according to Caroline Freund⁽¹⁹⁾. But it was trade in intermediate goods that suffered most in 2009, pointing to the role of the GVCs in spreading the crisis to international trade. World exports of intermediate goods thus fell by 25% in 2009 (against “only” -21% for consumer goods and equipment) as shown by the example of China (chart 9): the scale of the fall in exports of intermediate goods was much bigger than that of

other types of export. An analysis of the dynamics of exports by sector of activity confirms this too: it is the automotives industry, highly integrated in GVCs, which was most affected, with world exports in this sector falling by 37% in 2009.

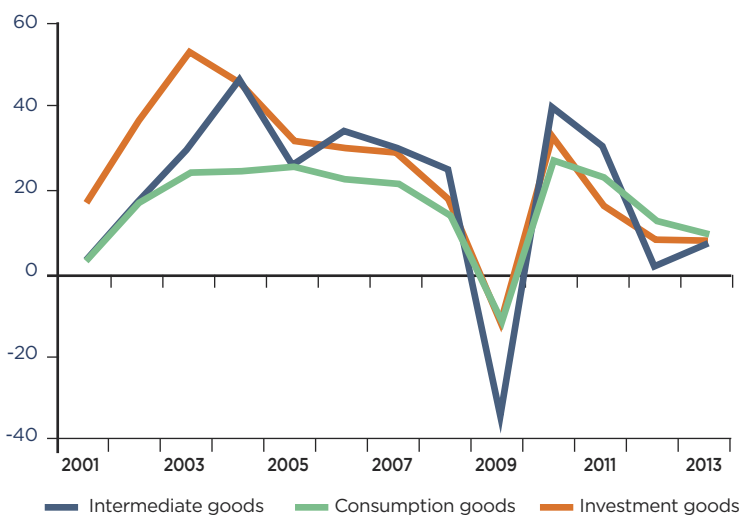
Recent academic research puts forward several possible explanations for this particularly strong reaction of the GVCs to the crisis. The composition effect⁽²⁰⁾ is one of them: world trade is composed both of trade in complex goods (more integrated into the GVCs) and of simple goods (such as food products). Complex goods are often durable goods, the purchase of which can be postponed (cars, televisions...). In times of crisis it is the consumption of these kinds of goods that is the first to be postponed.

The question of inventories (or “bullwhip effect”)⁽²¹⁾ is also important: the term “bullwhip effect” comes from a study by Proctor & Gamble on the value chain of its Pampers nappies. The study noticed that orders passed by wholesalers to its factories varied much more than the orders passed by retailers to the wholesalers, although household consumption of nappies remained stable. The bullwhip effect thus refers to magnified fluctuations in demand according to how far the consumer is along the value chain. This magnified effect can be attributed to the management of inventories but also to the asymmetries of information along the value chain (different demand forecasts), to receiving delays or again bulk purchasing to reduce costs. More concretely, during the 2008-2009 crisis, consumers first reduced consumption. Retailers' orders with wholesalers then fell more than the initial fall in demand because retailers first liquidated their stock before re-ordering from the wholesalers. The wholesalers thus cut back further on their orders relative to the negative shock registered by the final demand. Thus the further you are from the consumer, the greater the shock.

Value chains still have bright future

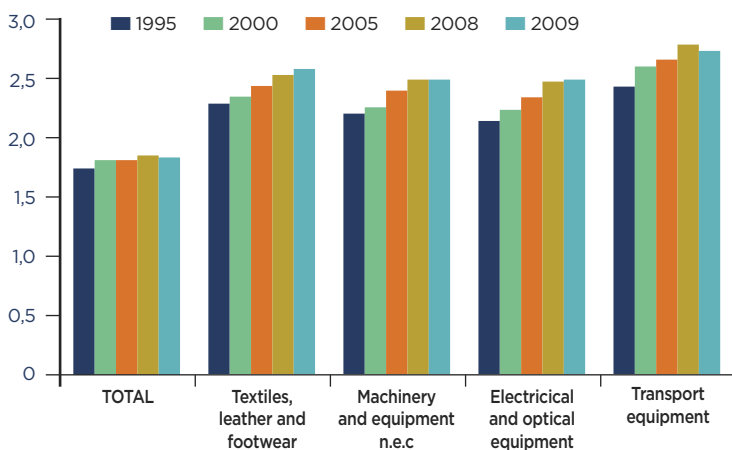
Despite the role played by GVCs in spreading the recent world crisis, they seem on the whole to have been pretty resistant. Although the fall in exports of intermediate goods was more marked, their recovery in 2010 and 2011 was also symmetrically more marked (see chart 9 in the case of China). Chart 10 illustrates this resilience: the number of production stages necessary to the production of goods did not fall (except in the automotives sector) in 2009 relative to 2008, despite the crisis. So, if the value chains had “disintegrated” with the crisis this number would be distinctly reduced.

Chart n° 9
Growth of Chinese exports by type of goods (%)



Source: UN Comtrade (WITS)

Chart n° 10
Length of the value chain (number of production stages)



Source: OECD TiVA Database

(19) C.Freund (2009): “The Trade Response to Global Downturns: Historical Evidence.” World Bank Policy Research Working Paper.

(20) Francois and Woerz (2009), “Follow the bouncing ball” in The Great Trade Collapse, VoxEU E-book

(21) Altomonte et al. (2012), “GVCs during the Great Trade Collapse: a bullwhip effect?”, ECB Working Papers

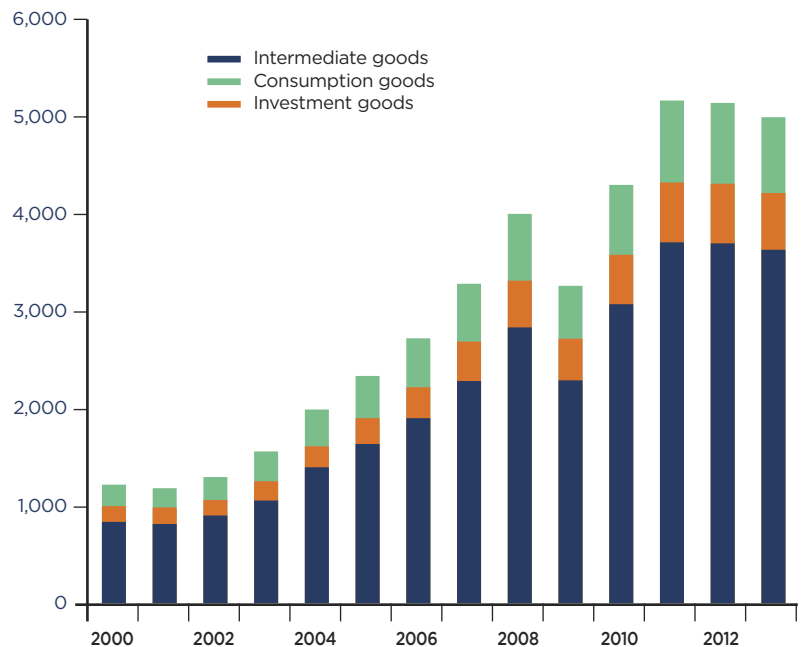
Apart from this apparent resilience of GVCs in the face of the crisis, several structural trends suggest that their growth prospects are favourable in the medium term. First of all, the share of these production stages performed internationally remains relatively small, despite the rise in value chains in the past decade: today only 12% of the production stages are carried out internationally. Even for the sectors closely integrated into the GVCs such as textile, clothing and automotives, this share amounts respectively only to 18 and 23%. There is, therefore, significant scope for improvement.

International trade should subsequently benefit from the growing integration of the emerging and developing countries in these global value chains. These countries imported 37% of world intermediate goods in 2013, whereas they imported only 24% in 2000. And the share of the trade between emerging and developing countries in world trade in intermediate goods rose from 6% in 2000 to 14% in 2013. This trend is expected to continue, in line with the growth of these markets. This is especially the case for Africa, whose share in GVCs is still very slight and which therefore has considerable opportunities for integration. Sustained salary growth in Asia (see part 3) is likely to favour the establishment on the African continent of companies whose production costs are highly dependent on the cost of labour (clothing and textiles for example). Moreover, the middle class in the emerging countries has also grown considerably and is continuing to expand. As these domestic markets grow, demand for the goods characteristic of the GVCs (cars, telephones...) will grow.

The services sectors also provide an example of these favourable prospects in respect of global value chains. The services industry represents both a completely separate sector and also a stage in any value chain. Advances in information and communication technology have enabled services to become increasingly marketable. Thus with the new value added accounting (see *text box 1*), it would appear that the share of services in exports came to 43% in 2009 against only 20% with traditional accounting. But though this ratio amounts to 54% for the European Union, it is only 29 and 37% respectively for China and Brazil. This gap is evidence of considerable potential in respect of exports of services, especially for emerging countries. India is a precursor and an example of this: services already account for 52% of its exports. This figure shows the key role played by exports of IT services, as well as business process and knowledge process outsourcing (BPO & KPO) in the Indian economy. This trade, moreover, proved resilient during the 2008-2009 crisis, thanks to the increased desire of the multinationals in diverse

« International trade should subsequently benefit from the growing integration of the emerging and developing countries in these global value chains »

Chart n° 11
Emerging and developing countries imports (bns USD)



Source: UN Comtrade (WITS)
Coface calculations using the BEC classification

and varied sectors of activity to cut their production costs⁽²²⁾. In this context, other countries such as the Philippines have followed India's lead in this area. Some countries in Central and Eastern Europe and Latin America are expected to follow.

But this trend towards participating in value chains essentially takes place directly at the global level, even though its regional dimension remains weak, except in Asia.

(22) See Gereffi and Fernandez-Stark (2010) in *The Global Value Chains in a postcrisis world*, The World Bank

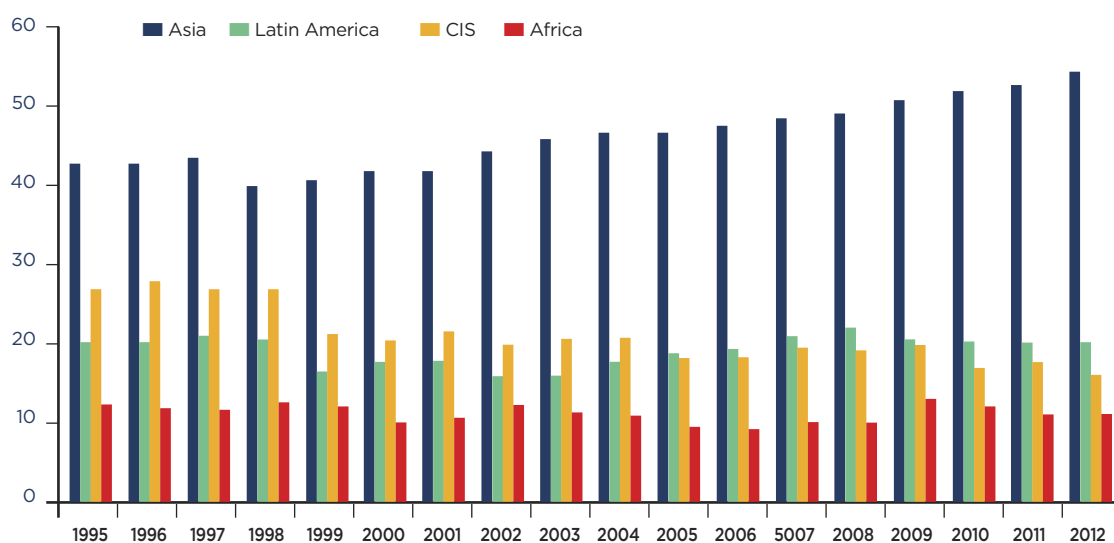
3 REGIONAL TRADE: A MISSING LINK, EXCEPT IN ASIA

Intra-regional trade is not growing despite the multiplication of regional agreements

The share of intraregional trade has grown little in recent years. According to the data in the 2013 UNCTAD report on trade in goods, intra-regional trade grew less quickly overall than extra-regional trade over the last 5 years. Accordingly, intra-European trade (including intra-EU trade) still accounts for about 65% of the euro zone's exports, whereas it represented over 70% of the total in the mid-1990s. In most of the emerging regions (South America, Africa, Middle East, CIS), the proportion of intra-regional trade is no longer as significant and remains weak: of the order of 11% for Africa, 20% for Latin America and 15% for the CIS. Asia is an exception in this respect: the share of intra-regional trade in exports from this region rose from 42% in 1990 to nearly 54% in 2012 (See chart 12).

Many countries have, however, sought to favour regional trade for the last twenty years, especially through regional agreements aimed at liberalising or facilitating trade on a regional scale (in the form of free trade areas or customs unions, for example). Their number has actually multiplied since the mid-1990s in response to economic and political concerns. The primary incentive for signing a regional agreement is the liberalisation of trade by abolishing at least lowering trade barriers (tariff and non-tariff barriers). Moreover, disappointment with the slowness of negotiations and of progress on liberalising multilateral trade (in the framework of the GATT and the WTO) has also encouraged certain countries to favour closer ties with some countries in their continent. More political motives can also be advanced, especially for developing countries wanting to join together so as to increase their international clout. Finally, tighter economic and trade links may be considered by certain governments as a means of favouring closer political and diplomatic relations with neighbouring countries.

Chart n° 12
Share of intra-regional exports in total exports (%)



Source: CNUCED

Text box 2

INTRA-AFRICAN TRADE HAMPERED BY STRUCTURAL OBSTACLES

Intra-African trade remains weak, barely exceeding 10% of the region's total trade, which is the lowest level among the main emerging regions (see chart 12 page 10). The official level of trade between the continent's countries is admittedly underestimated because of the failure to record informal trade between neighbouring countries, which escapes customs registration. But, apart from this accounting problem, there are real obstacles to the growth of intra-regional trade in Africa. The lack of complementarity between the countries' export and import profiles is one of the main impediments to this trade. African

exports remain concentrated on a few, chiefly primary, commodity products, with oil representing nearly a third of the value of such trade in 2012, compared with 25% in 2010. Conversely, African countries have to obtain processed products from outside the continent and are therefore less integrated into value chains than the countries in other regions. Intra-regional trade in Africa also suffers from the inadequacy of the infrastructures. The costs of transport between African countries (by road or air) are therefore higher than in other regions and rail links are few. So the average export cost⁽²⁴⁾ for sub-Saharan African coun-

tries is more than twice as high that of the OECD, of East Asian countries and of those of the Middle East and North Africa. It is 60% higher than that of Latin America. Finally the multiplication of regional trade agreements between African countries (14 in number) is more of a brake on the development of trade on the continent, because of the barriers (tariff and non-tariff barriers) imposed on trade relations outside these trading blocks.

But the real impact of these intra-regional trade agreements has proved disappointing, as shown by the example of Africa (see text box 2).

In this context the WTO⁽²³⁾ predicts that the long-term trend (up to 2035) could be downward for the share of trade carried out in the framework of the major regional trade agreements. In the different scenarios envisaged, intra-regional trade would at best remain stable. In a less optimistic scenario, it could decline in favour of trading relations between regional areas (in the framework of "mega-regional" agreements). Intra-European trade would be particularly affected: its share in world trade, which could plummet from 22% to 9%, even if it continued to increase in value. According to these projections, only intra-regional trade in Asia would retain important growth potential.

« Intra-regional trade grew less quickly overall than extra-regional trade over the last 5 years »

Asia is an exception

Since the beginning of the millennium, export activities from around the world have grown rapidly, recording an 8.6% annualized growth rate during the period. Although this figure is already impressive on its own, growth rates of trade related to Asia all surpass this level. Total merchandise exports from Asia to the world exploded, from US\$1.7 trillion in 2000 to US\$5.8 trillion in 2013, recording 10.1% annualised growth rate (see table 1).

Table n° 1
Export growth 2000-2013

		Exporting region	
		World	Asia
Importing region	World	8.58%	10.08%
	Asia	10.79%	10.77%

Source: WTO database 2013, Coface

During the period, fuels and mining products saw the fastest pickup (14.4% annualized growth), in line with global trends (see part 1 page 3).

(23) Lionel Fontagné, Jean Fouré and Alexander Keck (April 2014): "Simulating world trade in the decades ahead: driving forces and policy implications", WTO working paper.

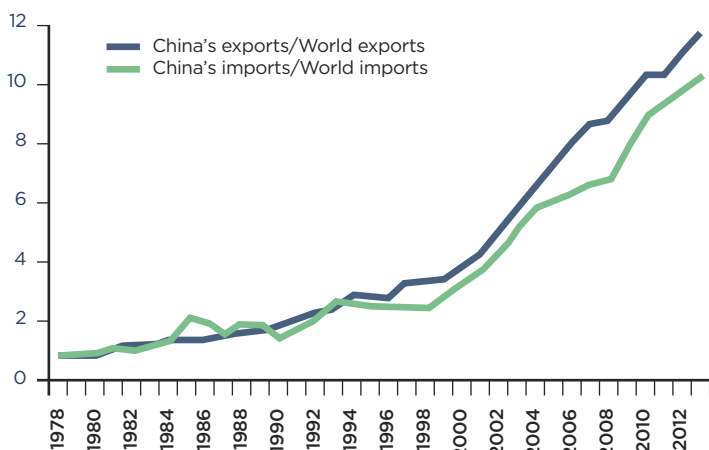
(24) The cost associated with all the procedures necessary for the export of goods. It includes the charges relating to documentation, administrative costs of customs clearance and technical checks, customs brokerage, handling fees at terminals and land transport. Source: Doing Business 2014.

China has been an active participant during the period. Since 1978, when China began to re-engage with the global economy, it has emerged as a key participant in the international and global supply chain. Indeed, as reflected in chart 14, compared to the situation in 1978 when China's exports and imports both represented 0.8% of the world's total, China's exports and imports now represent more than 11.7% and 10.3% respectively of the world's trading activities. As of the end of 2013, Chinese exports have multiplied by 226 since 1978, with a 16.8% annualized growth rate during the period.

manufacturing sectors rapidly and has earned the reputation as "the factory of the world" (25). Unsurprisingly, manufacturing products have become the country's main export items and represented some 95% of total exports in 2013, compared to 50% in 1980 (see Chart 14).

However, following a decade of rapid economic expansion during which businesses enjoyed a low-cost labour force, labour costs have risen quite significantly in China. Amongst various other factors, this is a result of the Foxconn Effect (26). Labour costs has risen by 59.6%, from RMB32,244/year in 2009 to RMB51,474/year in 2013. The double-digit wage hike has driven businesses away from China to neighbouring ASEAN economies, where wages remain low compared to those of developed countries - or even those of China. Yet, businesses in some of these ASEAN countries are also facing pressure from higher labour costs (27) as a result of social demand and inflation. As an example, the average monthly nominal wage for manufacturing workers in Indonesia increased to IND1,913,200 per month in 2014, compared to IND333,000 at the beginning of 2000).

Chart n° 13
Share of China in global trade



Source: CEIC, Coface

The rapid development of China's role in international trade can be attributed to its low non-tradable cost, most notably the cost of land and labour. Leveraging the advantage of low-cost resources available in the country, China developed its

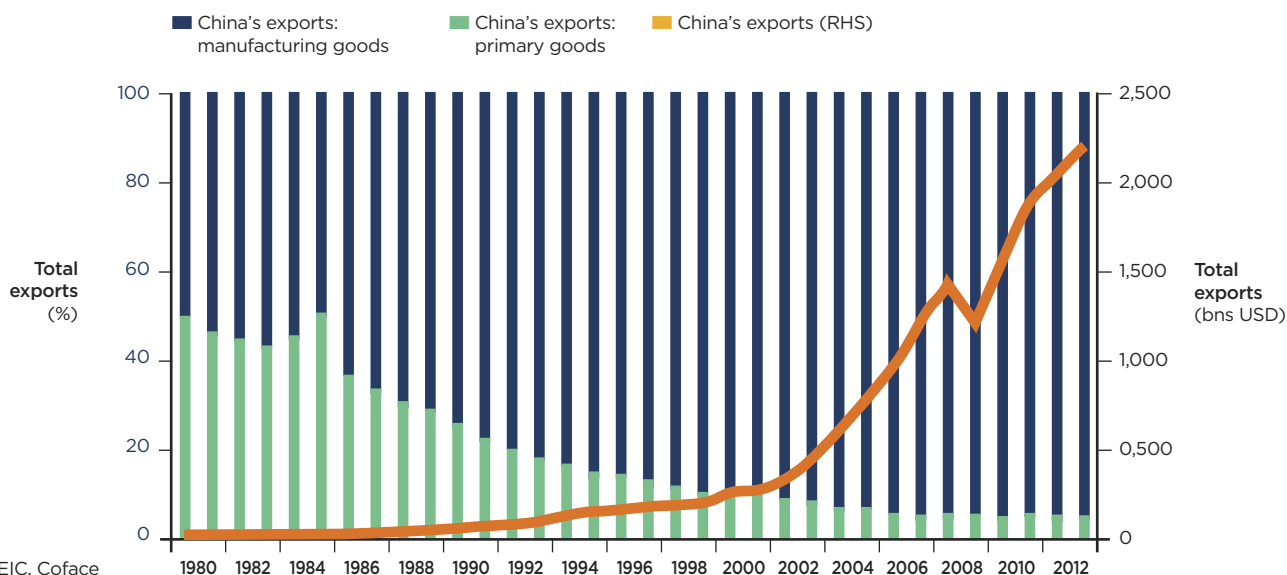
Table n° 2
Minimum wage levels in selected Asian countries

Country	Minimum monthly wage in US\$ (2005)	Minimum monthly wage in US\$ (2011)
China	71.9	184.3
Indonesia	47.8	98.3
India	38.2	56.4
Philippines	159.7	253.5
Thailand	112.9	177.4
Vietnam	22.0	38.6*

* 2010

Source: International Labour Organization

Chart n° 14
Breakdown of China's exports by product



Source: CEIC, Coface

(25) Chen, X (2007) "Is China the Factory of the World?", Ritsumeikan Asia Pacific University, RCAPS Occasional Paper N°.07-4

(26) A series of suicides by Foxconn employees in 2010 led to widespread pay rise in manufacturing industry

(27) ASEAN Briefing

Although rising wages may have a drag effect on the export advantage of these countries, on the other hand they should boost local demand. According to Coface, with the rise of the middle-class in Asia, it is expected that the region will become a more affluent consumer over time⁽²⁸⁾. This will also have a significant impact on the pattern of trade globally. With the rising consumer power of Asian economies, it is worthy of note that finished goods exported to Asia as a percentage of total exports in the world, have climbed steadily over the period. For example, according to Helble and Ngiang, East Asia's exports of consumer goods to the East Asia region have increased from 23.8% of the region's exports of these items in 1999/2000, to 27.2% in 2011/2012⁽²⁹⁾. During the same period, the region's export share to its traditional consumers of the EU and the United States has decreased from 58% to 42%. These trends indicate that end demand for the regions' production is shifting towards regional partners and becoming less dependent on the US and European countries.

In the wake of their rising economic importance, Asian countries appear to be trading more frequently with each other too. Total intra-Asia exports grew 10.8% per annum between 2000 and 2013 (see table 1 page 11), reaching US\$3.1 trillion in 2013. At the same time, intra-Asian exports, including those from Japan, have also increased as a percentage of total Asian exports - from 49.1% in 2000 to 53.4% in 2013. Even though the US and countries in the Eurozone will remain key consumers of finished goods produced in Asia, going forward intra-Asian trade will continue to represent a high level of trade activities in the region - and there will be room to grow from the existing level of 53.4% in 2013 (see Chart 15). With higher growth of economic activities in the region compared to the rest of the world, Asia should become a bigger consumer of its final products, while intra-regional trade of intermediate goods will also grow.

At the same time, while China should remain a key exporter in international trade, headwinds exist for the country which may challenge its traditionally strong export industries. Firstly, while average wage growth slowed to the lowest level in at least 12 years in 2013 (i.e. 10.1% YoY), the wage pressure will continue to weigh on businesses as margins remain thin. In addition, despite the slight depreciation against the USD this year, renminbi has appreciated more than 25% against the greenback since June 2005. Moreover, according to Coface, it is the government's intention to adjust its economic model and focus more on high-value added activities⁽³⁰⁾. Such developments would reduce the comparative advantage of Chinese exporters.

With these developments, countries with low wage structures (such as Indonesia and Vietnam, see table 2 page 12) are likely to benefit from offshoring from China. In addition, countries that have invested in infrastructure projects could become beneficiaries, by taking over some manufacturing orders. Countries such as Thailand, which have relatively higher scores in the Logistic Performance Index⁽³¹⁾ (LPI) compared to their peers, are countries that are likely to benefit, as they have more efficient infrastructures for trade-related activities.

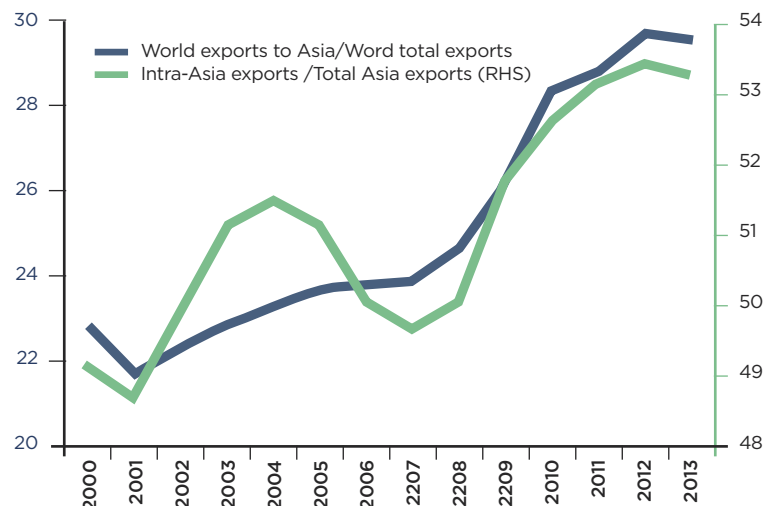
Table n° 3
Logistic Performance Index by country (LPI)

Country	LPI (2004/2008)	LPI (2009/2013)
China	3,49	3,52
India	3,12	3,08
Indonesia	2,76	2,94
Thailand	3,29	3,18
Vietnam	2,96	3,00

Source: World Bank

On the other hand, traditional exporters of raw materials - including Australia, Malaysia and Indonesia - would be hurt by the lower Chinese demand of those materials. These countries had ridden on the bloom of commodity demand in the last decade, but will see rising uncertainty from the economic restructuring of the Chinese economy toward sustainable development.

Chart n° 15
Share of Asia in global trade (%)



Source: WTO database 2013, Coface

(28) Carre, Marcilly and Tung (2013) Should we stake everything on Asian consumers, Coface

(29) Helble and Ngiang (2014) From Global Factory to Global Mall: East Asia's Changing Trade Composition. ADBI Working Paper 496. Tokyo: Asian Development Bank Institute.

(30) Tung (2013) Targets by 2020, Coface

(31) Logistics Performance Index, The World Bank

4 CONCLUSION

The 2008-2009 economic crisis had a number of negative effects on world trade. A direct effect first evident through lower GDP growth. And then indirect effects: The demand for and therefore the trade in raw materials were hit by the decline in activity. This was also the cause of the rise of protectionism, particularly in certain emerging countries, which hampers trade. The importance of the internationalisation of value chains in the course of the last two decades accelerated the spread of the crisis to trade. Finally, intra-regional trade has not compensated for these vulnerabilities. One might therefore have thought that emerging countries are benefitting from the recession in the advanced economies in order to trade more with the countries of their own region. But it turns out that intra-regional trade is growing little or not at all, Asia being the exception.

As the recent slowdown in world trade is in part linked to that of economic activity, the decline in the potential growth of the developed and emerging economies makes a return of the growth of international trade to its pre-crisis level (more than 8% p.a. on average between 2003 and 2008) unlikely. But the timid improvements in economic prospects nevertheless suggest a recovery in world trade in the next quarters. Coface expects world GDP growth to accelerate this year for the first time since 2010. This should also be the case next year, even if it does not reach its pre-crisis level. In addition to the increasing internationalisation of the value

chains, which will continue to sustain trade, these growth prospects lead Coface to postulate world trade growth of the order of 5% in 2015. This is admittedly below that of the pre-crisis years, but it is better than in the last two years.

Besides its pace of growth, the structure of trade will also be adversely affected. The tertiarisation of advanced and emerging economies is expected to result in the tertiarisation of trade. How fast this happens will depend particularly on the pace of technological progress. For example, innovations in communication and co-ordination, such as telepresence, are accelerating the internationalisation of value chains and trade in services, which currently represent only 20% of the total (14% in emerging countries). Conversely, rapid technological advances able to accelerate the process of automating repetitive and low-skill tasks will therefore eliminate these production stages in the industrial sector, thus reducing the trade in components.

This coming tertiarisation of international trade has a major advantage: it should render its fluctuations less marked - variations of activity in the services sectors being generally less marked than those in industry, as evidenced by the resilience of outsourcing activity in services during the 2008-2009 crisis. In the years to come, the growth of world trade will therefore be more moderate than in the 2000s, but also less volatile.

ARGUMENTAIRE

COUNTRY RISK ASSESSMENTS CHANGES AND ARGUMENTS

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

Country	Previous	New
Belgium	A3	A3↗
Netherlands	A3	A3↗
Spain	B↗	A4
Cambodia	D	D↗

• **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).

• **Business climate assessment** assesses overall business environment and more precisely whether corporate information is available and reliable and whether the legal system provides fair and efficient creditor protection.

Belgium : A3↗

- Return of growth (1% in 2014 and 1.5% in 2015)
- Capacity utilization back to historical average (close to 80%)
- Corporate and household investment back to positive territory
- Rising household consumption
- Good Coface payment experience
- Less insolvencies (-8,5% in the March-August period)
- Continued fiscal consolidation (2.5% public deficit in 2014)

Netherlands : A3↗

- Economic growth resumed in Q2 2014 (+0.7% q/q), after a temporary decline (climatic conditions), mainly driven by exports,
- Property prices have increased slightly since April 2014,
- Household debt levels are still high but payment defaults remain limited, in part due to large financial savings,
- Unemployment has been gradually decreasing (6.6% in August 2014),
- Bankruptcies started to fall in the 3rd quarter of 2013,
- Payment incidents recorded by Coface have decreased.

Spain : A4

- Economic growth has continued to strengthen in the second quarter of 2014 (+0.6% q/q); construction growth became moderately positive (+0.9% q/q); domestic demand gradually taking over from external demand,
- Advanced economic indicators (Markit PMI) remain among the highest in the euro zone,
- While still high, unemployment continues to decline (24.4% in August 2014),
- Corporations strongly increased their margins over the past six years (42.4% in Q1 2014),
- Bankruptcies decreased by 30% year-on-year in Q2 2014,
- Payment incidents recorded by Coface have significantly declined.

Cambodia : D↗

- Economic activity has been strong, with GDP growth above 7% since 2011. The country is benefitting from robust garment exports, helped by preferential access to the European Union, the US and Canada.
- FDI continues to grow thanks to factories relocating from China and Vietnam and public-private partnerships for energy infrastructures.
- GDP growth is also supported by the tourism sector, with an increasing diversification in geographical origin of travellers.
- Investment in infrastructure projects and rapid credit growth help sustain the construction sector.
- The fiscal position has improved and public and external debts remain low.

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

Country	Previous	New
Turkey	A4↓	B
Ghana	B↓	C
Russia	B↓	C
Lebanon	C	C↓
Sierra Leone	C	C↓
Venezuela	C↓	D

Turkey : B

- Rising external corporate debt
- Numerous claims in various economic sectors
- Dependence on foreign capital
- Political and social tensions
- Kurd issue has become more acute with conflict in Syria and Irak.

Ghana : C

- Ghana faces slowdown in economic growth and large domestic and external deficits.
- High inflation (15%) and high interest rates weigh on internal demand.
- Even though the government bond issue went well in September, the currency has experienced substantial depreciation (30% since January).
- Payment difficulties are noted for some companies.
- Ghanaian authorities have requested help from the IMF and a program of economic reforms is under discussion for fiscal consolidation. An agreement should be reached by early 2015, but the enforcement of any measures (cuts in subsidies for energy and slowdown of public wages will certainly be recommended) may be delayed by the risk of public discontent and the forthcoming election in 2016.
- However long-term economic prospects remain favourable (significant oil and gold reserves and a positive business environment).

Russia : C

- The Ukrainian crisis has had a negative impact on an already low growth level, due to a declining investment.
- High inflation (7,5%-8%), moderation in wage rises and growing household debt would weigh on private consumption

- Ruble depreciation led the central bank to gradually hike its key rate (from 5,5% to 8% between March and July). This will weigh down further on growth, by constraining further credit and investment.
- Effects of the sanctions imposed by the US and EU (including restriction on access to financing in USD for targeted companies) and of the embargo on some products is likely to exacerbate the slowdown.
- Risk of higher capital outflows, which reached 77 Bns \$ in the first 9 months of 2014 (63 Bns \$ for the year 2013).

Lebanon : C↓

- The Lebanese economy has been suffering from economic stagnation since 2011 and remains far from the growth path observed during the period 2007-2010. GDP stood at 2.5 percent in 2012 and decelerated to 1.5 percent in 2013. There will be no recovery perceived in 2014 and GDP growth will stand at 1.7%. A slow improvement is expected in 2015 and 2016 but this will depend on the outcome of the political crisis.
- Political instability: the Lebanese political class has been divided into two opposing camps - the March 8th, a Hezbollah-led pro-Syria's group and the March 14th, a Western-leaning coalition. These two divergent factions are failing to agree on a new president and have postponed legislative elections. Lack of political decisions in Lebanon will delay the establishment of responsible economic and military measures to resolve the current crisis.
- Spillover from Syria's civil war affects investment and private consumption. Syrian and Iraqi refugee influx continues to hang over the

Lebanese domestic market. Moreover, border closing with Syria affects Lebanese foreign exchanges, especially when Syria remains Lebanon's largest trade partner.

- The Islamic State of Iraq and Syria is still a threat in the eastern region of Bekaa, aggravating the whole country's security situation
- Real estate-related activity, construction and tourism, the traditional growth drivers, have been affected by increasing uncertainty and worsening security. Consumer confidence could be hurt by this degraded environment, as in 2013 where the consumer sentiment index reached its record lowest level.
- The large decrease in demand is leading to a reduction of prices, increased competition and higher pressure on profit margins. These combined effects are weakening Lebanese companies.
- Lebanon's public debt continues to swell and may reach more than 150 % of GDP in 2015. This uncontained increase could jeopardize the banking sector which holds 52% of this debt. Without coercive measures, that are hard to conceive in the tangled political environment, public debt may rise as far as its historical level of 2000.

Sierra Leone : C↓

- Economy is strongly affected by the consequences of the Ebola virus on the activities of agriculture, mining and trade.

Venezuela : D

- Very difficult business environment
- Recession and hyperinflation: respectively -2% and 64% in 2014
- Payment delays
- Falling foreign currency reserves (less than on month of imports)
- Political fragility
- Lower oil prices / Falling current account surplus: 2% in 2014 versus 7.7% in 2011
- Incapacity to raise oil production

BELGIUM

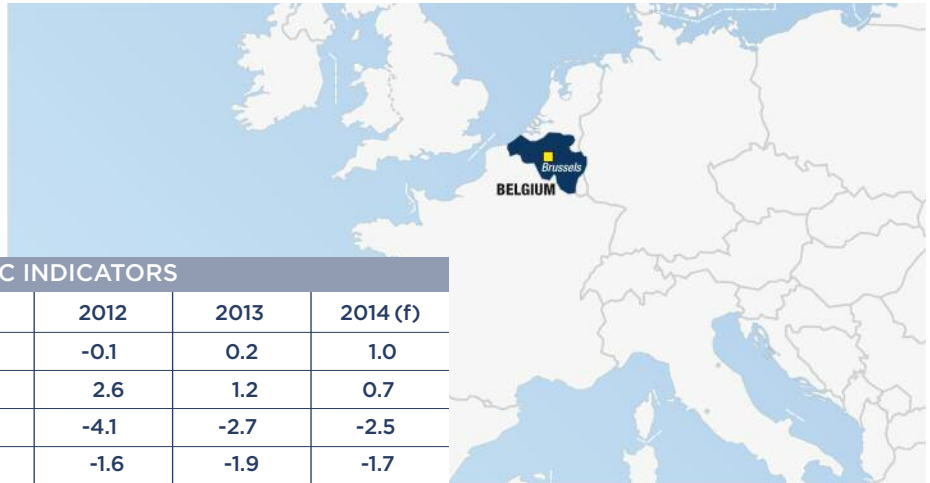
COFACE ASSESSMENTS

A3

Country risk

A1

Business climate



MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	1.8	-0.1	0.2	1.0
Inflation (yearly average) (%)	3.4	2.6	1.2	0.7
Budget balance (% GDP)	-3.8	-4.1	-2.7	-2.5
Current account balance (% GDP)	-1.1	-1.6	-1.9	-1.7
Public debt (% GDP)	98.0	99.7	101.5	102.0

(f) : forecast

RISK ASSESSMENT

Companies benefit as recovery gets going

The moderate recovery that started in the second quarter of 2013 is continuing and should strengthen towards the end of the year and in 2015. While it was initially mainly reliant on exports, it is now largely being sustained by domestic demand. Households, increasingly confident, are reducing their savings rate and increasing their consumption. Caution is however still the order of the day given the slow growth in employment and real disposable income, despite the indexing of wages, pensions and social allowances on the price index (excluding alcohol, tobacco and fuels). Company investments in capital equipment don't decrease any longer and are growing. The production capacity utilisation rate has returned to its historic average. Credit is inexpensive and profitability is rising. House building has picked up after a three-year decline. Public investment should in turn recover in 2015, but slowly, because the next municipal and provincial elections are still some way off, and the budget context is not promising. Exports, consisting to a large extent of intermediate products, machines and transport equipment, are taking advantage of the economic recovery in the United Kingdom and, to a lesser extent, in Germany, as well as the end of the recession in the Netherlands. Imports, driven by internal demand, are also rising but slightly less rapidly. As a result, the contribution of trade to growth remains mildly positive. In this more favourable environment, company failures declined by 8.6% in the period between March and August 2014, year-on-year. Companies are helped by the slow rise of their costs (raw materials, federal measures aimed at increasing competitiveness), whilst their levels of productivity should increase strongly with the growth in business activity.

Measured path towards a balanced budget

The path towards a balanced budget, as defined in the 2014-2017 stability plan, is intended to lead to a structural surplus of 0.75% of GDP in 2017, representing an improvement of 2.7% of GDP compared with 2013. The average annual effort required is predicted at the equivalent of 0.7% of GDP. Despite the increase in revenues linked with the recovery, the budget deficit will not decline by much in 2014 - 2015 and the public debt, equal to 100% of GDP, not at all. Despite the increase in revenues with the economic upturn, there will be only a very small reduction in the budget deficit in 2014 and public debt, at 100% of GDP, will scarcely move. Any improvements will become much more apparent as of 2015. The country has also had to pay a very high cost to rescue three of the country's leading banks. On top of this there is also the 43 billion euro guarantee supplied by the Belgian State as part of the orderly resolution of Dexia, whose role, so far, has been limited to holding the under-valued or non-liquid assets (loans to local government and sovereign bonds) until maturity. Any worsening in the economic climate in Europe could lead to this guarantee being called on. An aging population and the strain on the transport infrastructure will also require additional expenditure in the medium term.

A small and shrinking current account deficit

The trade in goods, which dropped into deficit with the crisis in 2008, will improve with the growth in exports. The rate of improvement will be gradual as the country has seen a more than decade long decline in its competitive-cost position and has lost market share in Europe, although there is now a surplus with the rest of the world which, currently, takes one-third of its exports. The trade in services will remain in surplus thanks to the revenues from goods transport and trade. Thanks to its location at the heart of Europe, with its ports acting as gateways to the markets, Belgium is a major player in the re-exporting of goods shipped to or from its neighbours. The country's balance of trade, currently recording a small deficit, could return to its surplus of the pre-crisis era.

The Flemish Nationalist Party is the largest party but does not have a majority

Federal and regional elections were held in May 2014. The Nieuw-Vlaamse Alliantie (N-VA), the Flemish nationalist alliance, conservative, became by far the largest party in Flanders, and was confirmed in its place as the largest at the federal level. The party's policy objectives include, in particular, the abolition of the Brussels-Capital Region and the marginalisation of the Federal government. A change, as radical as this, would seem unlikely given the reticence of the majority of the population, even in Flanders. The 6th state reform package nevertheless came into effect in July 2014. This sees the transfer to the Communities and the Regions of responsibility for family benefits, long-term health care, control of the labour market, hospital infrastructures, housing benefits, as well as the associated resources. In this context the Federal level retains, in addition to the Royal elements, the majority of social expenditure with pensions and sickness, or around half of all public expenditure. The precise allocation of the efforts in re-establishing budgetary health, however, remains vague.

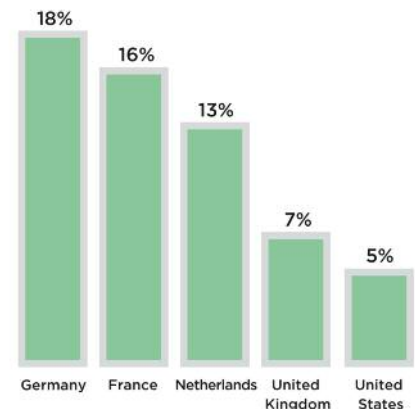
In October 2014, a coalition of center-right, high Dutch dominant and composed of the N-VA, two other Dutch parties (liberal Open VLD and Christian Democrat CD & V) and Liberal Francophone Reform Movement agreed on a program aimed at fiscal consolidation and formed a new government. It will be led by the head of the reformist party Charles Michel. It is notable that the first francophone party, the Socialist Party of former Prime Minister Elio di Rupo is left out.

Strengths

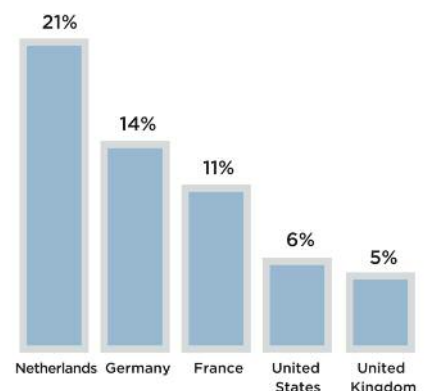
- Presence of European institutions, international organisations and world groups
- The ports of Antwerp (2nd largest in Europe) and Zeebrugge, the canals, and motorways make it a key access point
- High household savings rate (15% of disposable income) low household debt (56% of GDP)
- Highly qualified workforce thanks to vocational education
- Net external creditor position

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Political, social and financial tensions between Flanders and Wallonia
- Complex division of powers between the regions, linguistic communities and the Federal government
- Exports concentrated on intermediate products and European Union
- Loss of industrial competitiveness reason for disappearance of the current account surplus
- Some weaknesses in the banking system
- Slow demographic growth

CHILE

COFACE ASSESSMENTS

A2

Country risk

A2

Business climate

LOW RISK

Medium term

MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	5.9	5.4	4.2	2.0
Inflation (yearly average) (%)	3.3	3.0	1.8	4.3
Budget balance (% GDP)	1.4	0.6	-0.6	-1.1
Current account balance (% GDP)	-1.2	-3.4	-3.4	-1.9
Public debt (% GDP)	32.8	33.1	33.5	34.0



(f) : forecast

RISK ASSESSMENT

Slowing of growth confirmed

The slowdown continues and growth in 2014 is expected to be at its lowest level since 2009. Consumption (64% of GDP) continues to slow as wage growth feels the negative effects of the increasing rate of inflation. Investment (22% of GDP) is declining, especially in the mining sector. As a result of their concerns about the intentions of the new government and uncertainties on how copper prices, which have been sliding since the end of 2011, will move; private companies remain reluctant. This trend also applies in construction, which may be no bad thing following the overheating of recent years. The contributions from foreign trade however should be positive. Imports are contracting with the depreciation of the peso whilst the increased output of copper is partly offsetting the drop in the price and contributing to the growth in exports. In the light of the slowdown, the authorities have relaxed their economic policies. Despite the depreciation in the peso, the Central Bank started loosening its monetary policy in October 2013. Its policy interest rate was 3.5% in September (4% at mid-April). Bearing in mind the increased cost of imported goods inflation is above the mid-point of the target rate (2 - 4%). Budgetary policy is likely to be more accommodating. In order to demonstrate its determination to implement its electoral promises, the government needs to increase social and educational expenditure. It will also have to fund the cost of rebuilding the homes destroyed by the huge fire in Valparaiso. The fire did not however have too great an impact on business, port operations and the historic central areas were not involved.

An economy vulnerable to external shocks but with healthy public finances

With its exports accounting for one third of GDP, of which unprocessed or unfinished primary products (half of which is copper) amount to 73%, and a banking system that is 40% owned by foreign companies (mainly Spanish), Chile has a high level of exposure to the world economy. Its main trading partner is China (26% of sales and 50% of the ore). Its trade in goods is traditionally in surplus, although this surplus has collapsed since 2011 with the fall in copper prices and is expected to reach a low point in 2014 (1.9% of GDP). Despite tourist income, there is a small deficit in the trade in services because of the cost of freight, insurance, licences and royalties. This deficit is offset by remittances from expatriates. The balance of payments runs at a deficit (4% of GDP) because of the scale of the repatriation of dividends by foreign companies. The level of the current account deficit echoes fluctuations in the balance of trade and can be easily covered by foreign investments. These do however tend to be irregular in nature because they are generally associated with mining projects, and are in part offset by Chilean investments abroad. There is only a small deficit in the public accounts. Public debt reflects this and amounts to just 34% of GDP (13% for the central

government). Opposite this, sovereign fund investments and currency reserves are in equivalent amounts. Given this state of good health, the public sector can finance itself at low rates on the domestic market. Budget revenues however only amount to 20% of GDP, half of which comes from VAT. The State uses public service concessions and partnerships with the private sector to offset the low levels of public investment (4% of GDP).

A favourable business environment, but tensions on the issues of education and the environment

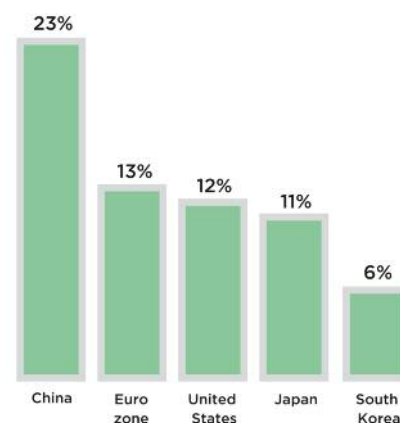
Michelle Bachelet, President between 2006 and 2010, was re-elected at the end of 2013. Thanks to the majority held by her Nueva Mayoría centre-left coalition in both chambers of Chile's Congress, she intends to implement measures to improve the poor quality of primary and secondary schooling, provide free higher education, improve pensions and boost the powers of Unions in wage negotiations. With the aim of finding the funding for this, without undermining the public finances, Congress has voted to raise corporation tax from 20 to 25%. These new revenues amount to around 3% of GDP. In the longer term, the aim is to increase revenues derived from copper, currently 2% of GDP. A review is underway into increasing the resources available to the national mining company, CODELCO, now become a necessity in order to sustain production.

Strengths

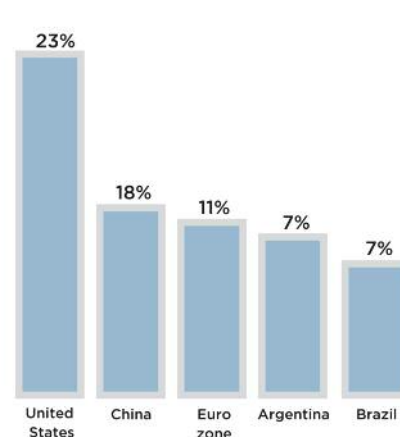
- Mining (leading copper producer), agricultural, fishery and forestry resources
- Climatic diversity and seasonality opposite to that of developed countries
- Numerous free-trade agreements
- Satisfactory budget situation
- Freely floating currency
- Favourable business situation and political and institutional stability
- International companies operating in distribution, air transport and paper
- Member of the OECD and the Pacific Alliance

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Small and open economy, vulnerable to external shocks
- Dependence on copper and Chinese economy
- Persistent external deficit
- Vulnerability of the road network and electricity grid, and high energy prices
- Exposure to climatic and earthquake risks
- Income disparity and poor education system
- Relatively high level of private company indebtedness

COFACE ASSESSMENTS

A3

Country risk

B

Business climate

LOW RISK

Medium term



MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	9.3	7.7	7.7	7.4
Inflation (yearly average) (%)	5.4	2.7	2.6	3.0
Budget balance (% GDP)	-1.3	-2.2	-1.9	-2.0
Current account balance (% GDP)	1.9	2.3	2.1	2.2
Public debt (% GDP)	28.7	26.1	22.4	20.2

(f) : forecast

RISK ASSESSMENT

Slight slowdown in growth in 2014

The slowdown in Chinese economic growth has continued in 2014. The authorities have decided to introduce the reforms necessary for rebalancing growth in favour of consumption and a more efficient economy, giving a bigger role to the market. This rebalancing was confirmed at the beginning of 2014: disposable income growth is catching up with GDP growth, credit is increasingly going to small companies and the tertiary sector expanding faster than the industry. However, these reforms will only have a positive impact on growth sustainability in the medium term and could at first adversely affect some sectors. The sectors most affected will be those for which there is sizeable overcapacity and where State-owned enterprises are dominant, like steel, cement, aluminium, shipbuilding, glass manufacture, and photovoltaic. In order to come closer to the official GDP growth target (7.5% for 2014), the authorities took from April to June a series of actions, like starting infrastructure projects earlier than planned, or cutting the required reserve ratio for banks which have allowed large loans to SMEs and rural borrowers. However, without a larger stimulus, the target will be hard to reach.

Indeed, the property market begins to cool down: real estate investment, although the main growth driver in 2013, is now declining. Moreover, the recent downward trend in the growth of real estate prices could affect negatively both construction investment and household consumption. The latter is expected however to keep growing and wage increases continue. Chinese exports, following on from the poor figures for the beginning of 2014, started to improve as of May. However, both the expected appreciation of the yuan - following the authorities' decision to continue internationalisation of the currency - and the wage rises will adversely affect Chinese export competitiveness. Indeed, despite the government-led depreciation of the beginning of the year, the yuan started moving upwards since May 2014. In addition, the expansion of credit has slowed sharply. The expansion of the Shanghai free trade zone should however help boost FDI receipts.

Uncertainties over local authority and private sector debt

Given the expansion of "shadow banking" as an alternative source of finance (estimated at 30% of total financing), it is difficult to assess precisely the level of private sector debts. Nevertheless, private sector debt is currently estimated at 200% of GDP, while in 2008, it was only 129% of GDP. At the same time, although the level of public debt is sustainable, local authority debt is substantial and lacks transparency. The national audit of the end of 2013 reported this debt to have reached Rmb17.9 Mds, i.e. about a third of China's GDP. Moreover, bank loans represent no more than 56% of new finance granted during the second quarter of 2014.

Hence, although the level of non-performing loans in the banking system remains stable at 1% of total loans, this does not take into account all source of financing. In March 2014, China experienced its first ever default with the photovoltaic firm Chaori. However panic risks have been contained since the firm's problems were well-known and a bail-out from the government was consequently not expected. The introduction of a real risk of bankruptcy is inevitable and will reduce the moral hazard induced by the recurrent government interventions. In contrast, in January 2014, one of the largest investment trusts, China Credit Trust, had benefited from a last minute bail-out. Another sign of financial tensions was reflected in the rumours in March 2014 concerning the bankruptcy of a small rural bank - Jiangsu Sheyang - that triggered the start of a bank run. However, the run has remained localized and contagion has been avoided thanks to the authorities' early intervention. Bearing in mind the economic slowdown, the solvency of the more exposed players needs to be watched.

Major reforms are planned but there are still shortcomings in the business environment

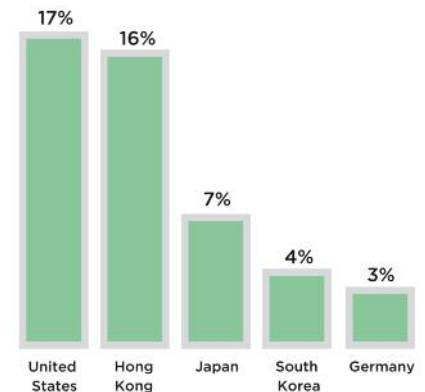
Politically, the transition from the previous administration was made with an emphasis on continuity. The Xi Jinping - Li Keqiang tandem is facing both social tensions (which remain acute because of growing inequalities between rural and urban area) and ethnic tensions (deadly attacks in the mostly-Uighur Xinjiang region). Nevertheless, at the November 2013 Plenum, the leadership announced a number of emblematic reforms. The one-child policy will be relaxed, re-education-through-labour camps will be abolished and inequalities between rural and urban workers will be reduced. Finally major governance shortcomings persist, especially with regard to access to companies' balance sheets and legal protection for creditors.

Strengths

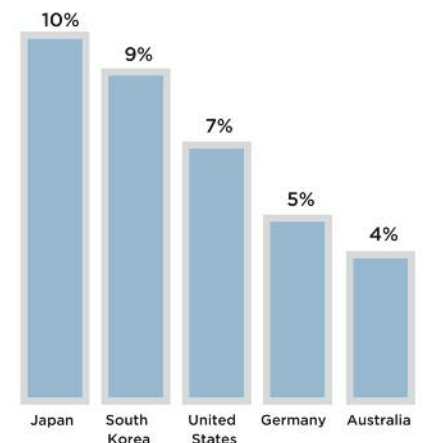
- External accounts benefitting from competitiveness and industrial diversification
- Limited risk of external indebtedness thanks to high level of foreign exchange reserves and a current account surplus
- Sovereign risk contained: public debt is mainly domestic and denominated in local currency
- Gradual move up-market
- Infrastructure development boosted by the stimulus plan

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Social tensions linked to rising inequality
- Share of consumption in GDP remains weak: rebalancing the Chinese growth model remains a medium term challenge
- Aging population and pool of abundant cheap labour gradually drying up
- Overcapacities certain sectors
- Chinese banks weak, considering the credit dynamism, uncertainties over the level of non-performing loans and shadow banking
- Environmental problems

CROATIA

COFACE ASSESSMENTS

B

Country risk

A3

Business climate

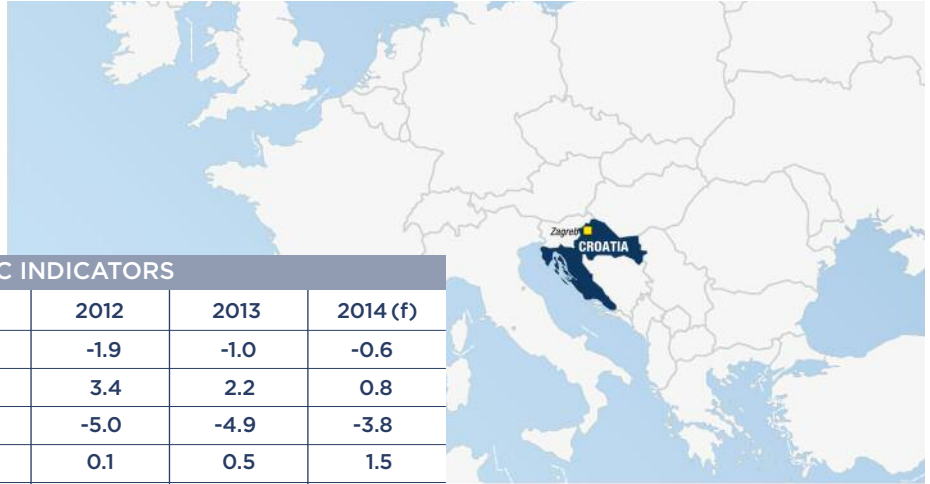
**RATHER
HIGH RISK**

Medium term

MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	-0.2	-1.9	-1.0	-0.6
Inflation (yearly average) (%)	2.3	3.4	2.2	0.8
Budget balance (% GDP)	-4.5	-5.0	-4.9	-3.8
Current account balance (% GDP)	-0.9	0.1	0.5	1.5
Public debt (% GDP)	47.4	55.5	67.1	69.0

(f) : forecast



RISK ASSESSMENT

The recession continues in 2014

The Croatian economy contracted in 2014, for the sixth year in a row. The sustained level of external demand from the EU has however helped support exporting companies. Tourism-related businesses (catering, hotels, and transport) continue to be the most dynamic and generate almost 20% of GDP. Private domestic demand however remains weak as households reduce their debt levels. The country is also suffering under the effect of adverse demographic trends. Unemployment extends to almost 17% of the active population. There is also a trend towards Croats withdrawing from the labour market by stopping looking for jobs and leaving to go and work elsewhere in the European Union. The only positive contribution to growth comes from the country's net exports of goods and services, which increased in the middle of the year. Given the low level of competitiveness of the economy (high labour costs and low productivity) and a difficult business climate, growth is expected to languish in 2015. The economy is struggling with a low rate of inflation, a result of weak internal demand. Following a drop in inflation in 2013, the country went through a period of deflation between February and July 2014 which saw prices drop by an average of 0.3% year-on-year.

Brussels insists on fiscal consolidation

Its successive recessions are behind the significant worsening in the country's public sector finances. The attempts at consolidation in recent years have been less stringent than in other Central and Eastern European countries. In this context, the State has begun the privatisation of the subsidised energy and transport sectors, a total of more than 500 companies. Despite this, public debt continues to grow and is currently approaching 70% of GDP. Further budget reduction measures would therefore seem necessary in order to comply with the requirements of the excessive deficit procedure initiated by the European Commission at the end of 2013. This means that the country's budget policy is being closely monitored by the Commission. The deficit, although still high, should gradually fall between now and 2015.

The country's current account balance is now in surplus, at the same as the weakening in domestic demand. The balance of trade however continues to run a significant deficit. Croatian companies remain highly dependent on Italy and the Balkan states, in particular Bosnia-Herzegovina (2% growth in 2014) and Slovenia (0.6% growth in 2014). Unlike its neighbours, the country is insufficiently focused on the faster growing economies such as Germany (which currently accounts for only 10% of Croatian exports). On top of this there have not been the necessary wage adjustments and thus its price competitiveness has declined. The balance of payments surplus in services, mainly because of strong tourist sector earnings, has however made up for the trade in goods deficit.

In terms of the banking sector, although solid, it is suffering from the continued existence of non-performing loans and a high degree of euroisation. The exchange rate is closely monitored by the Central Bank, under the direction of Brussels, with the aim of maintaining the stability of the kuna against the euro. The result is that the Croatian Government has very limited room for manoeuvre in its use of exchange rates.

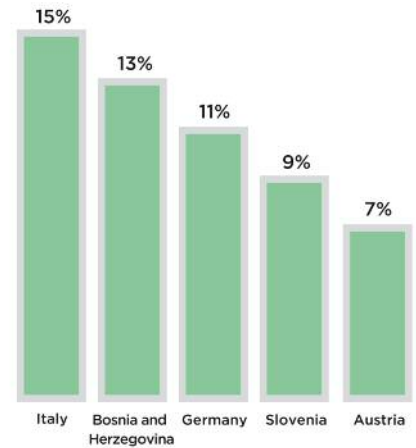
Membership of the European Union yet to bring clear benefits

The country became the 28th Member State of the EU as of 1 July 2013. Its membership has meant the aligning of the country's legislation with the common standards to produce a more conducive environment for business and investment. The entry conditions to the Union have also had a negative impact. The need to comply with European austerity has impacted on certain industries. These have seen their output suffer significantly as a result of the restructuring and privatisation processes and the ending of state subsidies, most notably in the area of shipbuilding.

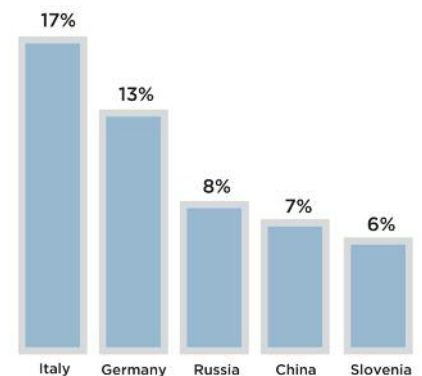
In political terms, the governing coalition is in trouble. Its Minister of Finance was dismissed on 6 May 2014 because of a corruption scandal. On top of this, the May 2014 European elections resulted in a victory for the centre-right opposition. The next challenge will be the campaign for the Presidential elections in 2015. There is currently a high level of disenchantment with the two main traditional parties among voters, even though these parties remain the favourites. With the approach of the elections, it is unlikely that any significant reforms will be implemented between now and 2015.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Growth potential reinforced by joining EU
- Progress on economic convergence with the EU
- Quality of infrastructures
- Tourist attractiveness

Weaknesses

- Low savings rate
- High private foreign debt
- Dependence on foreign capital
- High unemployment rate

COFACE ASSESSMENTS

C

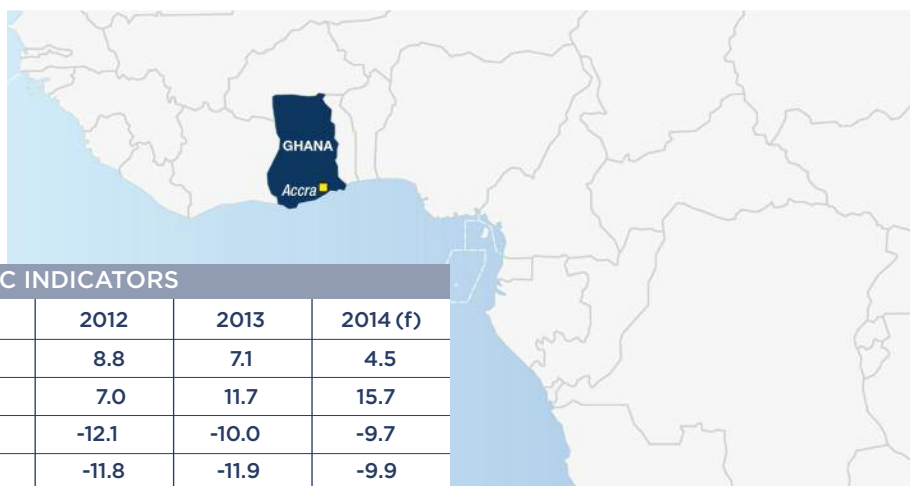
Country risk

B

Business climate

RATHER
HIGH RISK

Medium term



MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	15.0	8.8	7.1	4.5
Inflation (yearly average) (%)	7.7	7.0	11.7	15.7
Budget balance (% GDP)	-5.2	-12.1	-10.0	-9.7
Current account balance (% GDP)	-9.0	-11.8	-11.9	-9.9
Public debt (% GDP)	42.6	49.8	55.6	65.3

(f) : forecast

RISK
ASSESSMENT

Slowing growth in context of deficit reduction

The growth of the Ghanaian economy is likely to slow in 2014 and it is unlikely to rebound in 2015. The economy will continue to be powered by the oil and gas sector, despite a slower than hoped for increase in production from the Jubilee field because of recurring technical problems. The start of gas production from Atuabo in December 2014 should help further improve electricity supplies and boost manufacturing sector output. As for services (financial, telecommunications), they remain positive elements in the economy.

Nevertheless, household consumption has suffered under the impact of the slowdown in the growth of social spending, in the framework of public deficit reduction. Purchasing power has been reduced as the cutbacks in subsidies push energy and transport costs up. High interest rates continue to limit access to credit and investment. Companies seem to be holding up in this less promising environment, although we are seeing an increase in the frequency of payment arrears. The ongoing efforts to control the budget in 2015 will continue to be a drag on purchasing power and the level of activity.

Inflationary pressures increased in 2014. Whilst the weakening in household demand has slowed price rises, inflation has been propelled by the raising of controlled prices and the rising cost of imported goods due to the substantial depreciation in the cedi. Inflation is likely to remain high in 2015.

The banking sector, in particular the public sector banks (20% of assets), remains fragile. Weaknesses in terms of regulations and inadequate supervision could lead to an increase in the level of non-performing loans.

A worrying deterioration of public finances and the current account deficit

Despite the commitments made by the government, the levels of the budget deficit and public debt, which rose above the 60% of GDP mark in 2013, are worrying. Fiscal receipts are static because of the weakness of economic growth and the ongoing technical problems limiting oil production. The government is likely to continue slowing down the rise in public expenditure and in particular wages. Moreover, the mounting cost of servicing the public debt, linked to the rise in interest rates and the depreciation of the cedi (44% of the public debt is denominated in dollars) is increasing the pressure to improve the budget balance. In August 2014, the government made the decision to ask the IMF for aid, prior to raising 1 billion dollars through a third Eurobond issue. The high rate of return on those bonds (8.25%) will imply an increase in the debt burden.

The need to import the capital goods required for the development of the infrastructure (particularly for oil and gas) continues to impact the current account balance. With three-quarters of export earnings coming from cocoa, gold and oil, the relatively unfavourable outlook for the prices of the latter two will make any

improvement in the balance of trade more difficult to achieve.

Doubts on the ability of the government to deal with the deterioration in its public finances and the current account balance resulted in significant capital withdrawals, leading to a major devaluation of the cedi. The currency has lost almost 30% of its value since the beginning of 2014 despite the vigorous efforts of the Ghana Central Bank. The announcement of the IMF programme, which should be implemented at the beginning of 2015, has however helped reassure investors and should slow down or put an end to the depreciation.

The political situation remains stable despite high social expectations

Following the discovery of sizeable oil deposits in the maritime border zone between Ghana and the Ivory Coast, and the failure of the bilateral negotiations, Accra decided in September 2014 to refer the matter for arbitration before a United Nations tribunal.

In domestic matters, John Dramani Mahama, who took over as President after the death of President Atta Mills in July 2012, was elected in December of that year and his party (Democratic National Congress, DNC) won the majority of Parliamentary seats. The stability of the Ghanaian political scene gives the country an image of solid democracy in the region.

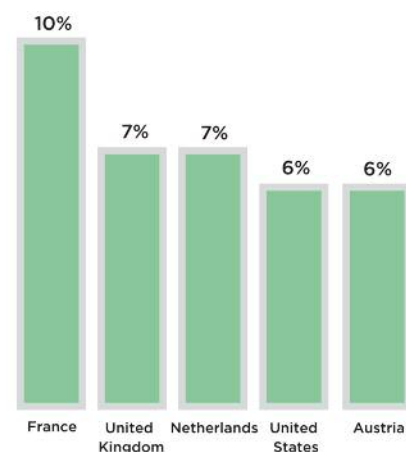
The start of oil and gas exploration and the management of the resulting flows represent, however, new challenges. With the discovery of oil, the expectations of the population have increased and are finding expression in the form of strikes and demonstrations that have not threatened so far the social stability of the country. Yet, the success of Mahama's government will be measured in particular by its ability to reduce existing economic imbalances without causing too much social unrest. The reforms needed - especially in the public sector - will undoubtedly be painful and could prove costly to the NDC in the 2016 elections. In addition, the business environment (access to credit, administrative procedures) continues to improve.

Strengths

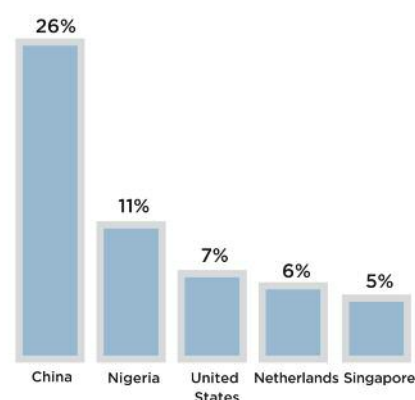
- Substantial mining (gold), agricultural (cocoa) and now oil resources
- Democracy installed, political and social stability
- Attractive business environment favourable to direct foreign investment
- Support from multilateral (IMF, World Bank, EU...) and bilateral (United States, Russian Federation, China)

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Infrastructure shortcomings (energy, transport)
- Dependence on raw materials prices (gold, oil, cocoa)
- Rapid increase in the deficit and in public debt
- Weak public banks, which affects the whole banking sector

NETHERLANDS

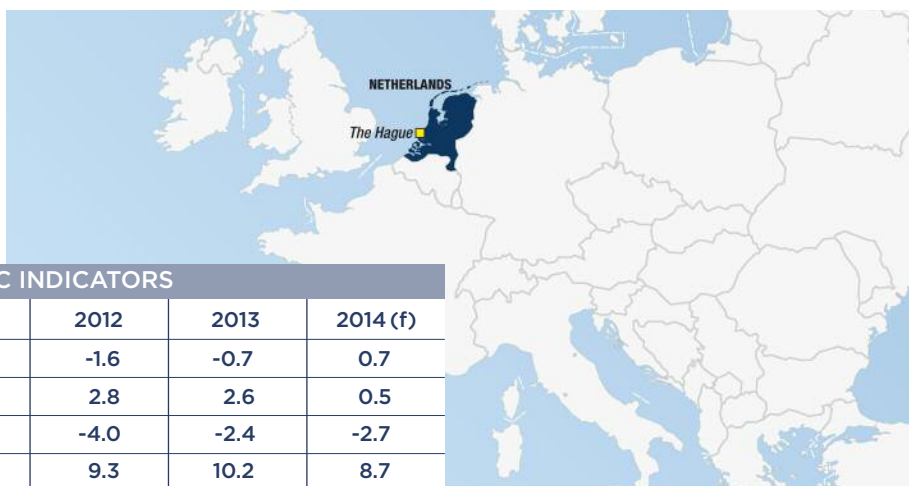
COFACE ASSESSMENTS

A3

Country risk

A1

Business climate



MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	1.7	-1.6	-0.7	0.7
Inflation (yearly average) (%)	2.5	2.8	2.6	0.5
Budget balance (% GDP)	-4.3	-4.0	-2.4	-2.7
Current account balance (% GDP)	9.5	9.3	10.2	8.7
Public debt (% GDP)	65.7	71.2	73.4	74.2

(f) : forecast

RISK ASSESSMENT

Growth returns but remains fragile

Following a misstep at the beginning of the year, associated with weather conditions, growth returned in the second quarter of 2014, giving rise to hopes of a GDP growth of 0.7% this year. The labour market has been improving slightly since May 2014. The economy is however, at this stage, mainly driven by exports of goods and services, making up for the sluggishness of consumption and investment. Given how open the economy is, growth will to a large extent remain dependent on changes in external demand in the coming quarters. The confidence indicators (corporates and consumers) have improved significantly since 2013 but faltered in September 2014. The upturn in productive investment could thus be more limited than forecast whilst private consumption should remain contained because of ongoing household deleveraging. Private consumption should then start to feel the benefits of the gradual recovery in the property market and the reduction in tax and social contributions. In addition, the budget deficit having dropped to less than 3% in 2013 should stay at that level in 2014 even though efforts to cut costs have been continued, in particular in the health care sector. Public debt (73.5% of GDP in 2013) is still below the Eurozone average (92.6%). Finally, inflation, easing in 2014 because of the fading of the impact of higher energy prices and VAT, the moderate levels of wage rises and the existence of production overcapacities, should strengthen in 2015 as growth firms up.

Exports are likely to continue feeling the benefits of the recovery in advanced economies

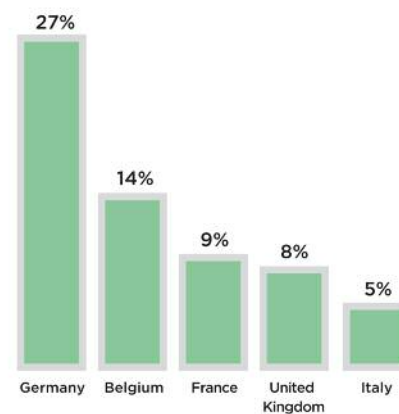
The economy of the Netherlands is very open (foreign sales of goods and services represent almost 80% of GDP) and the country is among the leading 10 exporters in the world, supplying mainly refined oil products, natural gas, automobiles, electrical equipment and computer hardware. Half of these sales are re-exports as the country acts as a transit point to the rest of Europe. It should therefore benefit from the recovery in advanced economies even if the rate of the recovery has been revised downwards in the Eurozone (60% of exports of goods with 25% for Germany alone). Despite unit labour costs starting to rise again in 2013, the competitiveness gains achieved between 2008 and 2012 helped the country win market share in Europe. The contribution of foreign trade to growth should nevertheless decline in 2014 and 2015 as domestic demand slowly picks up.

Improving situation for banks and corporates

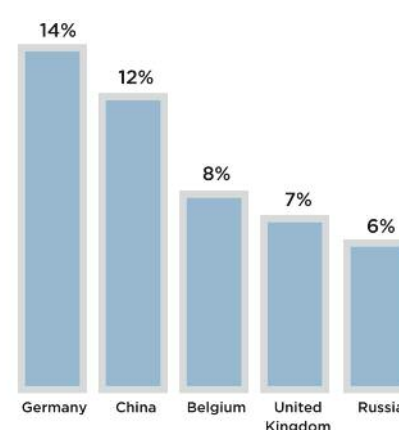
Struck by the 2007-08 financial crisis, the deterioration in the local property market and the decline in activity, banks had to cut back on credit and call for help from the State in the form of capital injections, nationalisations and the granting of guarantees. The level of concentration in the banking sector has increased and the banks have refocused on their home market. The conditions for access to liquidity are now back to normal and the solvency of banks has improved. On the other hand, the quality of loan portfolios has declined slightly. The default rate of households, whose debt level - resulting mainly from housing loans - is very high (245% of gross disposable income in the fourth quarter of 2013), nevertheless remains contained thanks in part to significant financial savings. Mortgage loans are also, to a very large extent, covered by a public guarantee. In addition, property prices, after dropping 20% from their record levels of August 2008, have been rising slowly since April 2014. The situation for companies is gradually improving following a difficult period. The level of bankruptcies, which had reached a record level in 2012-2013, with a concentration in the construction and retail sectors, started to fall in the third quarter of 2013. Finally, payment incidents recorded by Coface, which peaked in 2012, have been decreasing.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Important port sector (Rotterdam, leading European port)
- Strong competitiveness indicators
- Diversified exports and external account surpluses
- Quality infrastructure

Weaknesses

- Economy dependent on the European economy
- Convalescent banking sector
- Significant household mortgage debt
- Ageing population, high health care costs

COFACE ASSESSMENTS

C

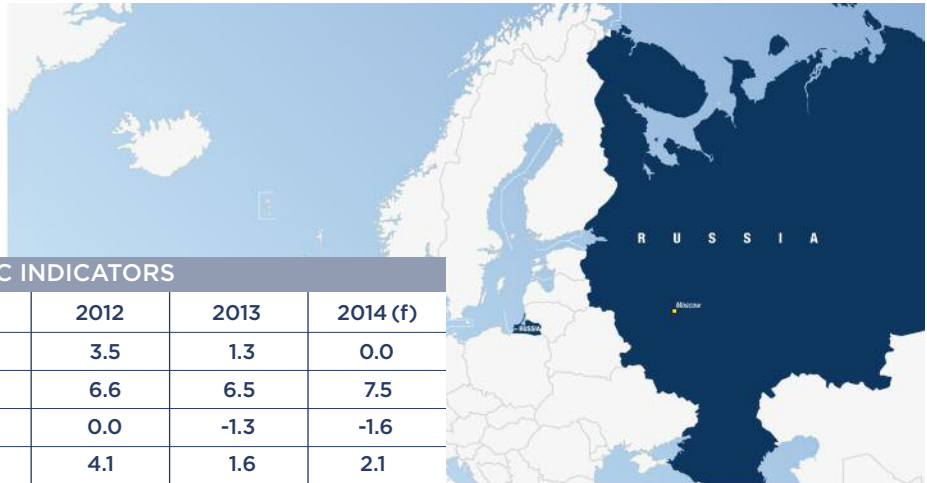
Country risk

B

Business climate

RATHER
LOW RISK

Medium term



MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	4.3	3.5	1.3	0.0
Inflation (yearly average) (%)	8.4	6.6	6.5	7.5
Budget balance (% GDP)	1.6	0.0	-1.3	-1.6
Current account balance (% GDP)	5.3	4.1	1.6	2.1
Public debt (% GDP)	9.8	11.8	10.8	11.6

((f) : forecast)

RISK
ASSESSMENT

Slowdown in growth worsens in 2014

Growth rates in the first and second quarters of 2014 (respectively 0.9% and 0.8% year-on-year) confirmed the slowdown taking place in the Russian economy. Household consumption, the main driving force, held up in the first quarter, thanks largely to the strong job market (unemployment is at an historic low of 5%), but could slowdown in the second quarter, under the combined impact of some easing in the wage increases, high inflation and increasing household debt.

Investment, flat in 2013, dropped off sharply (-2.5%) in the first eight months of 2014 and is likely to remain very restrained. On top of the lack of confidence among businesses in a very uncertain environment, investment could remain on hold as a result of western sanctions which include among others, restrictions on foreign currency financing. The series of increases in the rate of interest, taking it from 5.5% to 8% between March and July 2014 will also impact on credit. Inflation will remain high in 2014. Rises in public service prices and the depreciation of the ruble, making imported goods more expensive, will increase the upwards pressure on prices. The embargo imposed by Russia on imports of certain agricultural and food products will also drive inflation higher and it will exceed the 6% - 6.5% ceiling set by the CBR for 2014.

A worsening of the situation in Ukraine and the extension of sanctions will worsen the downward pressure on the ruble (which dropped 17% between January and the end of September 2014), as well as capital outflows which were already around USD 75 billion in the first half of 2014 (63 billion for 2013 as a whole).

Balancing the budget will be difficult in 2014, but the current account balance is improving

The small budget deficit recorded in 2013 is unlikely to be corrected in 2014. Oil and gas revenues (50% of the total) will not increase and the weakness of activity will reduce non-oil and gas revenues. On top of this defence spending will rise and the government has announced subsidies for the agriculture sector in order to try and increase production to substitute for imports. Finally, transfers to Crimea and eastern Ukrainian areas will also be an additional burden on the budget. A sharp deterioration in the Ukraine situation and new sanctions could widen the deficit taking into account the impact of the economic slowdown in tax revenue. Nevertheless, Russian public finances still remain solid with a public debt of around 12% of GDP, leaving the government with room for manoeuvre.

The current account surplus increased in 2014 thanks to the fall in imports, in particular of agricultural and food products under the embargo imposed by Moscow. Export earnings, largely dominated by oil and gas (2/3 of export income), are suffering under the combined impact of unfavourable market prices and

world demand. Non-oil and gas exports are also being held back by the weakness of the recovery in external demand and the poor competitiveness, which even the depreciation of the ruble cannot offset.

A fragile political and social situation and poor business environment

V. Putin's popularity at the national level was strengthened with the Russian intervention in Crimea. Local elections held in September 2014 in twelve Russian regions (including Crimea) served to confirm the predominance of the presidential party, United Russia (UR). There is, however, discontent within the population and support for the foreign policies of V. Putin is not unanimous, as was revealed by the demonstrations in Moscow and a number of other cities in September calling for an end to military operations in Ukraine.

The social situation could deteriorate in the context of the economic slowdown and increasing inflation, as well as because of the clampdown by the regime which includes specifically increased control by the State over the media and internet, which will significantly limit the ability of the opposition to organise and express itself.

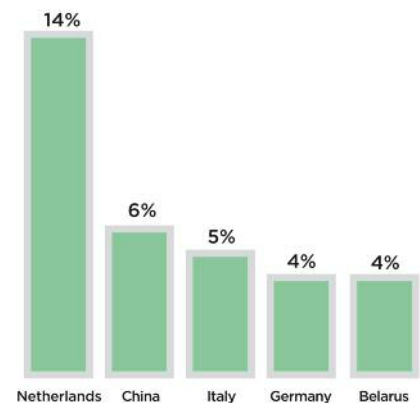
The discrepancies with regard to protecting property rights, the weakness in governance and the lack of corporate transparency (particularly in terms of shareholders) greatly weaken the business environment. Russia is ranked in 176th place (out of 215) in terms of control of corruption according to the World Bank Governance indicators, which remains a recurring weakness.

Strengths

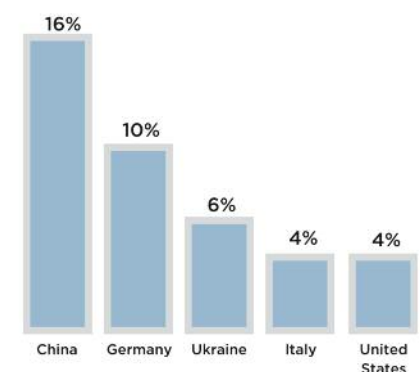
- Abundant natural resources (oil, gas and metals)
- Skilled labour force
- Low public debt and comfortable foreign exchange reserves
- Assertion of regional and energy power

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Increased rentier character of the economy
- Lack of competitiveness in the industrial sector
- Weak private banking sector
- Weak infrastructures
- Declining population
- Persistent shortcomings in the business environment

SWEDEN

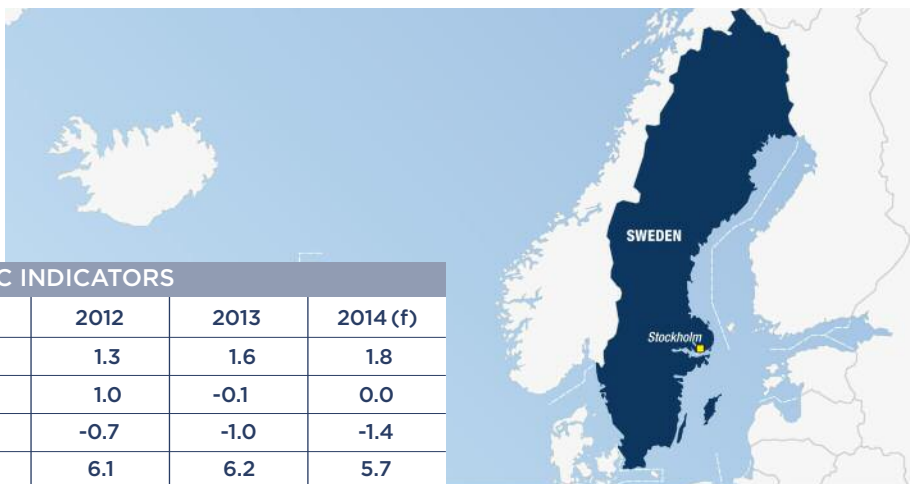
COFACE ASSESSMENTS

A1

Country risk

A1

Business climate



MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	2.9	1.3	1.6	1.8
Inflation (yearly average) (%)	3.0	1.0	-0.1	0.0
Budget balance (% GDP)	0.0	-0.7	-1.0	-1.4
Current account balance (% GDP)	6.0	6.1	6.2	5.7
Public debt (% GDP)	38.6	38.3	40.3	41.7

(f) : forecast

RISK ASSESSMENT

Swedish economy stalls

Since the second quarter of 2013 the country GDP growth rate has been slackening due to the simultaneous slowdowns in the other Nordic region economies and in its domestic demand. Except the fourth quarter of 2013 (up 1.6% on a quarterly basis), the quarterly growth rate for the Swedish economy has been very sluggish (0.2% in the second quarter of 2014). The economy did however benefit in the second quarter from a budgetary stimulus package (lower income and corporation taxes coupled with measures to counter unemployment), ahead of September's parliamentary elections. Consumption figures were relatively good as a result. In July 2014 the Central Bank also announced a 50 bp reduction in its policy rate (0.25%). This was announced as part of the campaign to try to head-off the danger of deflation and to encourage investment and consumption. It provided relief for those households with variable rate mortgages (approximately 60% of current debt). Unemployment in 2013 reached 8% of the active population, but has fallen slightly since mainly thanks to the creation of public sector jobs. In April 2014 the government presented its expenditure plan for jobs and education.

House building investment is continuing to grow because of the shortage of homes in Sweden and property prices are rising (up 7% year-on-year in Stockholm and Goteborg at the end of June 2014). As for companies, the production capacity utilisation rate reached its highest level since 2009 (89%) in the second quarter. This means that investment in new capital equipment will be needed and this should have a positive impact on growth between now and the end of the year.

Sweden's foreign trade grows in 2014

Swedish exports account for half of its GDP and are essentially shipped to Europe (70%), with Germany, United Kingdom, Denmark and Finland alone taking a quarter of these. With the recovery in Europe, there has been a boost in the consumption of Swedish products and an increase in exports. The successive reductions of the main policy interest rate in Sweden have resulted in a depreciation of its currency against the euro and the dollar. Between 2009 and 2013 there was a 25% appreciation in its currency in real terms, but since March 2013, this has slipped back by 9%. This improvement in competitiveness since 2013 has favoured its export-led sectors such as engineering, electronics, automotive and chemical products. In terms of imports, the improvement in the purchasing power of Swedish households and any increase in investments will lead to a rise in imports. Coface is therefore indicating a slight decline in the current account surplus for 2014. The country is however proving attractive for foreign investments and these will help boost economic growth.

Risks remain for the banking system

Despite being very solidly capitalised, there are risks that could undermine Sweden's banks. The size of the banking sector and its degree of concentration makes it vulnerable. The assets of the banks equal 400% of GDP with 85% of these spread between just four banks. Of the debt, 80% is held in Sweden and its neighbouring countries (Denmark, Finland and Norway). The level of lending amounts to 200% of deposits which means the banks need to obtain foreign funding, with the majority of this denominated in foreign currencies (euro, dollar). The high level of household debt (180% of disposable income), mainly in connection with mortgage loans and the low interest rates, remains a risk for the banking system. The authorities are focused on strengthening the prudential requirements to avoid the risk of default by households and the lending banks.

A fragile coalition

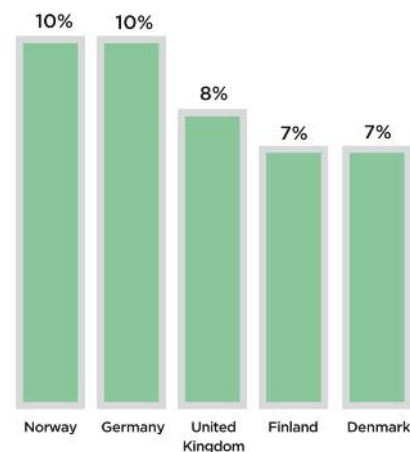
The parliamentary elections in September 2014 were won by the Social-Democrats (centre-left). The new Prime Minister, Stefan Löfven, has formed a precarious coalition with the Ecologist Party and other minority parties with a range of divergent ideologies. The three centre-left parties have just 158 out of the 349 seats in the parliament (45%). The centre-right party that was in power for 12 years suffered an historic defeat with a one-third drop in its vote. Opinion polls have highlighted the perceived decline in wellbeing felt by Swedes as the main reason for the change. The far-right Swedish Democrats party increased its share of the vote following its anti-immigration campaign and will have 49 elected members. Sweden is one of the countries in Europe with the highest rate of immigrants (at around 10 per 1,000 inhabitants compared with four in France and an average of six for all European Union member states, according to Eurostat). Given the fragility of the coalition majority, governing the country will be difficult and early elections could be held in 2015.

Strengths

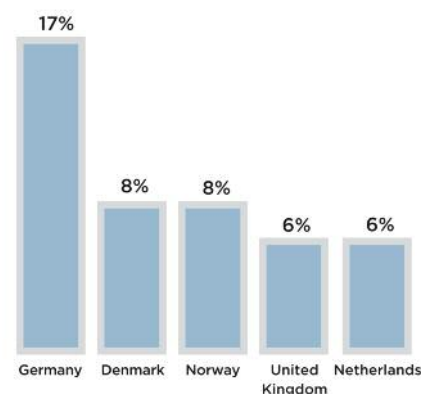
- Open, diversified and competitive economy
- Specialisation in high-tech products and green economy
- Solid public finances
- Political consensus around the Scandinavian model
- Tax-cutting programme
- Resilient banking sector

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- High youth unemployment
- Aging population
- Significant household debt

COFACE ASSESSMENTS

B

Country risk

A4

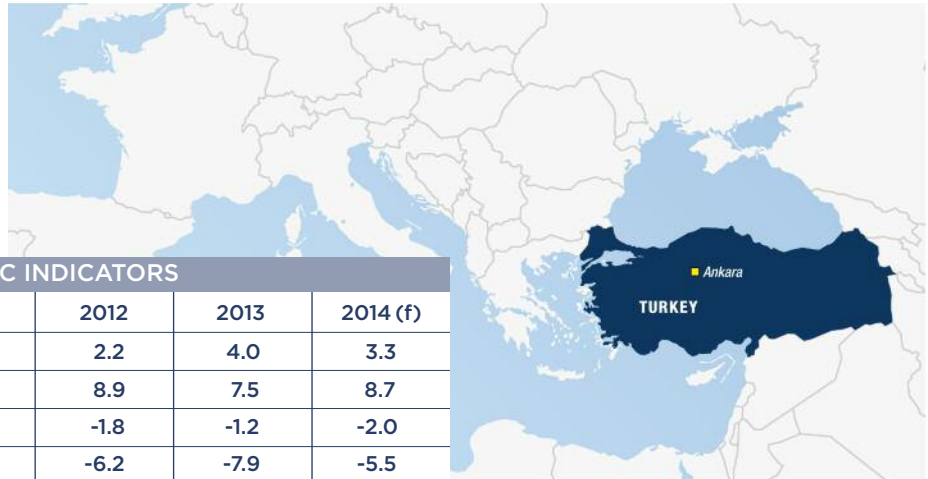
Business climate

MODERATE
RISK

Medium term

MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	8.8	2.2	4.0	3.3
Inflation (yearly average) (%)	6.5	8.9	7.5	8.7
Budget balance (% GDP)	-0.6	-1.8	-1.2	-2.0
Current account balance (% GDP)	-9.7	-6.2	-7.9	-5.5
Public debt (% GDP)	39.1	36.2	36.3	34.1



(f) : forecast

RISK
ASSESSMENTRate of growth suffering from weakening
in internal demand

In 2014, household consumption, the leading driver for growth (70% of GDP), suffers under the effects of the depreciation of the Turkish lira, high inflation (9.5% in August) and high interest rates. This context of slowing economic growth has made it difficult to achieve a decline in unemployment which stood at 9.1% of the active population in June. The Turkish lira continued to depreciate (-11.8% year-on-year in September and -22.7% since January 2013). Whilst this depreciation is contributing strongly to rising inflation, it is also benefiting the high value-added export led sectors and services associated with tourism, a sector that recorded its best performance for a year in June. With the upturn in external demand, in particular from Western Europe (40% of its exports of goods), the increase in exports in the first two quarters of 2014, together with the decline in imports have helped cut the current account balance by half in less than a year. The banking sector remains adequately capitalised and with a level of non-performing loans at less than 3% of all loans. Interest rates, even if they have been reduced on three occasions in 2014, remain high and are having a negative impact on private investments, as well as on the availability of credit for households.

A vulnerable exchange rate

The management of the public finances remains conservative, with a primary balance (excluding debt interest payments) in surplus. The level of public debt is not a worry, is falling and should not be endangered by the budget deficit, lower than had been expected by the government. And although this normally deepens at the year end, the 2% target should be achieved in 2014. Despite recent improvements, the current account balance remains high and the country is vulnerable to the volatility of capital, upon which the financing of the economy to a large extent depends. The Turkish authorities will remain especially watchful of the gradual monetary tightening by the US Federal Reserve (QE3 comes to its end in October 2014), which has already resulted in recent significant capital withdrawals. The Turkish lira is thus under pressure and the exchange rate is likely to remain highly volatile between now and end of 2014 because of the sensitivity of the Turkish lira to the high level of the external deficit and above all the lack of visibility in terms of the timetable for the next round of US rate rises. The central bank, which cut its rate three times in 2014, despite high inflation, is expecting to continue with its aim of achieving price stability but will also be trying to protect growth. The depreciation of the lira can be helpful for foreign

trade, helping boost the currency reserves which are currently up to USD 112 billion (excluding gold) following a deterioration at the end of 2013. These are now at a satisfactory level with cover for imports for just over 5 months.

A fragile political context

Despite the enduring social tensions, the former Prime Minister, Mr. Erdoğan, was elected President in the first round under universal suffrage, receiving 52% of votes cast on 10 August 2014. The current limited powers of the President are set to be extended by means of a constitutional amendment so that Mr. Erdoğan can retain a degree of control over the government. These changes could however revive the tensions within the population. The AKP confirmed its dominant position on the Turkish political scene, after having previously won the local elections at the end of March 2014.

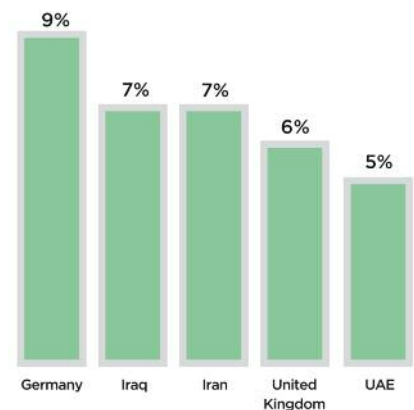
The internal political scene remains tense, with purges within the police and the court system, the actions of the Gülen Movement and the precarious peace process with the Kurdistan Workers Party (PKK). In the electoral context, Mr. Erdoğan has made increasingly conciliatory gestures towards the Kurdish electorate to ensure the changes to the constitution, but there are continuing doubts on this reconciliation given the tensions in the region. On 23 September 2014, Turkey for instance stated its willingness to play a military and/or logistical role in the international coalition against ISIS. Ankara is however fearful that any alliance with the Kurdistan Regional Government (KRG), in northern Iraq, would provide sustenance for the demands for independence among the local Kurdish population and could eventually strengthen the PKK. The country also has to find solutions for the 1.4 million refugees from Syria and now Iraq, turning this border zone into an extremely unstable area.

Strengths

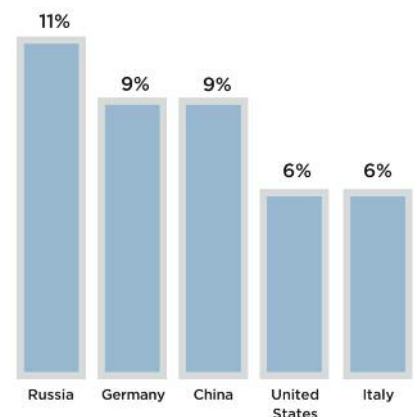
- Public finances under control
- Resilient banking sector
- Demographic vitality and highly skilled workforce
- Positioned as a regional hub, which reinforces attractiveness of the Turkish market

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Insufficient domestic savings, substantial current account deficit and heavily dependent on foreign capital
- Rising corporate foreign debt which increases companies' exposure to exchange rate risk
- Recurrent political tensions
- Kurdish issue remains a source of social and political instability
- Geopolitical stability tested by the Syrian and Iraqi conflicts

VENEZUELA

COFACE ASSESSMENTS

D

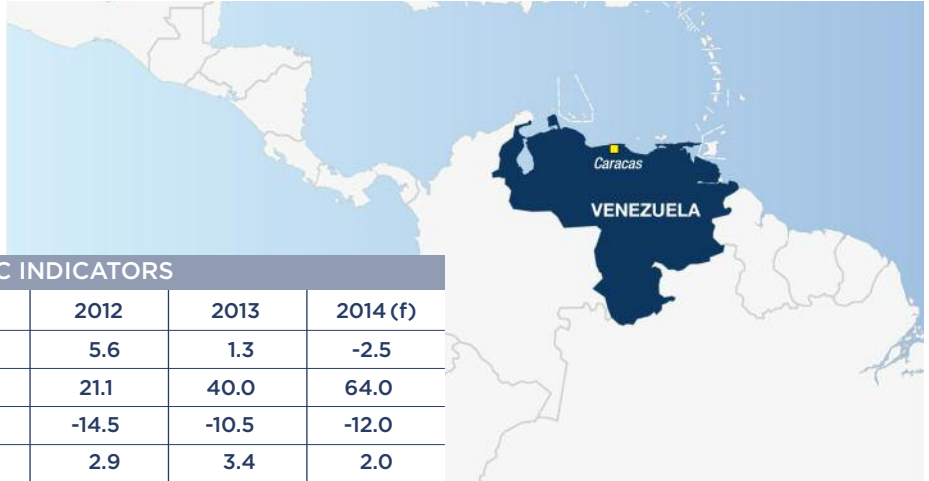
Country risk

D

Business climate

VERY
HIGH RISK

Medium term



MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014 (f)
GDP growth (%)	4.2	5.6	1.3	-2.5
Inflation (yearly average) (%)	26.1	21.1	40.0	64.0
Budget balance (% GDP)	-11.5	-14.5	-10.5	-12.0
Current account balance (% GDP)	7.7	2.9	3.4	2.0
Public debt (% GDP)	43.3	46.0	47.0	48.0

(f) : forecast

RISK ASSESSMENT

Recession and hyperinflation

The weak growth recorded in 2013 has given way to recession. Despite wide-ranging social assistance and fixed prices for many consumer goods and household items, household consumption is falling. With the electoral period over, public expenditure has been slowed. The decline in investments by companies continues. The deterioration of the economic, as well as political and social situation does not encourage households to spend, or companies, whether local or foreign, to invest. Inflation will remain very high and is being stoked by goods shortages (automobile sector, hygiene products and basic foodstuffs) resulting from the state of disrepair of the agricultural and industrial sectors, retail price controls, the difficulty in obtaining foreign currency for imports, as well as the monetary financing of the public deficit.

High budget deficit funded by the creation of money and oil

The budget deficit will remain significant. Most of it is financed by the creation of money by the Central Bank and the rest through loans from private local banks and partner countries like China. Public expenditure, one-third of which is taken up by subsidies, in particular on the price of petrol, will remain high. Income on the other hand, with one-third coming from the operating profits of PDVSA, is hugely deficient. The financing by the national oil and gas company, PDVSA, of certain social expenditure items is further masking part of the reality of the public finance situation. In trying to get a clear picture of the level of public debt, we need to take into account part of the liabilities of PDVSA. The use of the resources of PDVSA, without which any new drilling project cannot take place, is harming its investments and the development of future production, on which a quarter of the economy is dependent.

A declining current account surplus that no longer covers capital outflows

The current account surplus is significantly reduced. Oil exports (90% of all exports) are in decline because of increased home market consumption, the fall in oil prices and the increasing volume allocated to reimburse Chinese loans. Against this, the exchange and import controls are not reducing fast enough the imports of consumer and capital goods, as well as of refined oil products, a consequence of the sorry state of the non-oil sector and the lack of refining capacity. Payments to foreign service providers, both for extraction and shipment, are expensive. Any increase in oil production in the Orinoco Belt and the development of offshore gas fields in cooperation with Trinidad will require even greater use of foreign partners. Whilst new foreign direct investments are much reduced, foreign involvement in the oil and gas partnership companies implies the repatriation of profits. Lastly, despite the strict currency controls, there is a large-scale leaking of capital facilitated by the extent of corruption and encouraged by the financial repression and expectations of inflation. The bond issues by PDVSA on the international market and recourse to bilateral loans are

not enough to achieve the balance of payments, such that the country has to use its reserves which are now much reduced. The fall in the price of gold, which forms the main part, has also had an impact.

Very difficult business environment

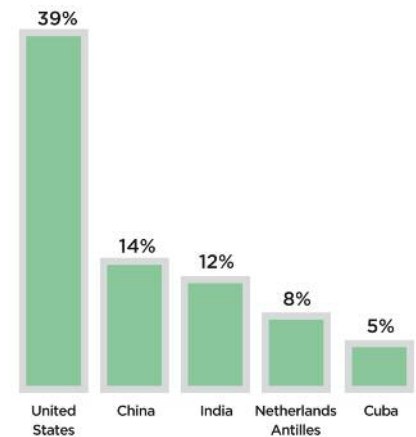
The April 2013 Presidential election was won by a narrow margin by Nicolas Maduro, the PSUV (Partido Socialista Unido de Venezuela) candidate and former Vice-President to the late Hugo Chavez. However, at the beginning of 2014 there were demonstrations by students in the west of the country against the high level of crime. The hard repression of these, resulting in a high number of deaths and a large number of arrests, lead to radicalisation and the spread of the movement to other regions and other groups of the population also dissatisfied with the shortages, corruption, nepotism, patronage and control being exerted by the government over the media. Part of the political opposition supported the movement, hoping that the worsening of the situation would force the President to resign. However, the government has retained the support of its popular electoral base, which have benefited from the reduction in extreme poverty, improvements in health and hygiene, and increased employment in the public sector. Although, demonstrations have lost in frequency and intensity, the situation will remain precarious until the legislative elections in September 2015. Suppliers to the State and the oil sector are reporting significant delays in payment. Importers are finding it extremely difficult to get hold of currency. Foreign companies located in the country are experiencing the same problem when it comes to repatriating their profits. As a result of the hyperinflation, currency controls and the flow away from the bolivar, an enormous gap has emerged between the official rate, contrived despite episodic devaluations, and the parallel market rate, itself conversely significantly under-valued. The essential goods that can be imported at the official rate are then subject to intense trafficking which further worsens the shortages. Despite the level of social discontent that this would cause, the authorities could opt, following the September 2015 elections, to tighten the budget policy and to apply an exchange policy closer to the reality.

Strengths

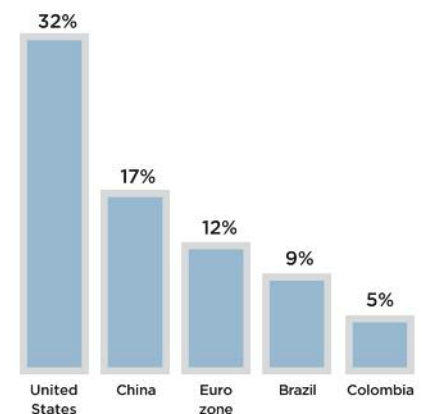
- Significant oil reserves in the Orinoco river oil belt and potential offshore gas
- Geographic proximity to the United States, Venezuela's biggest oil export market
- Influence in the Caribbean thanks to the Petro Caribe initiative
- Assets (including in the United States) of the national oil company, PDVSA
- Improved social indicators
- Growing active population

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Weaknesses

- Economy heavily dependent on hydrocarbons
- Ineffectiveness of the national oil and gas company PDVSA
- Opaque and arbitrary management of oil and gas revenues
- Interventionism, corruption and insecurity
- Shortages of currencies and goods
- Payment arrears in current trade
- Polarisation of politics

RESERVATION

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