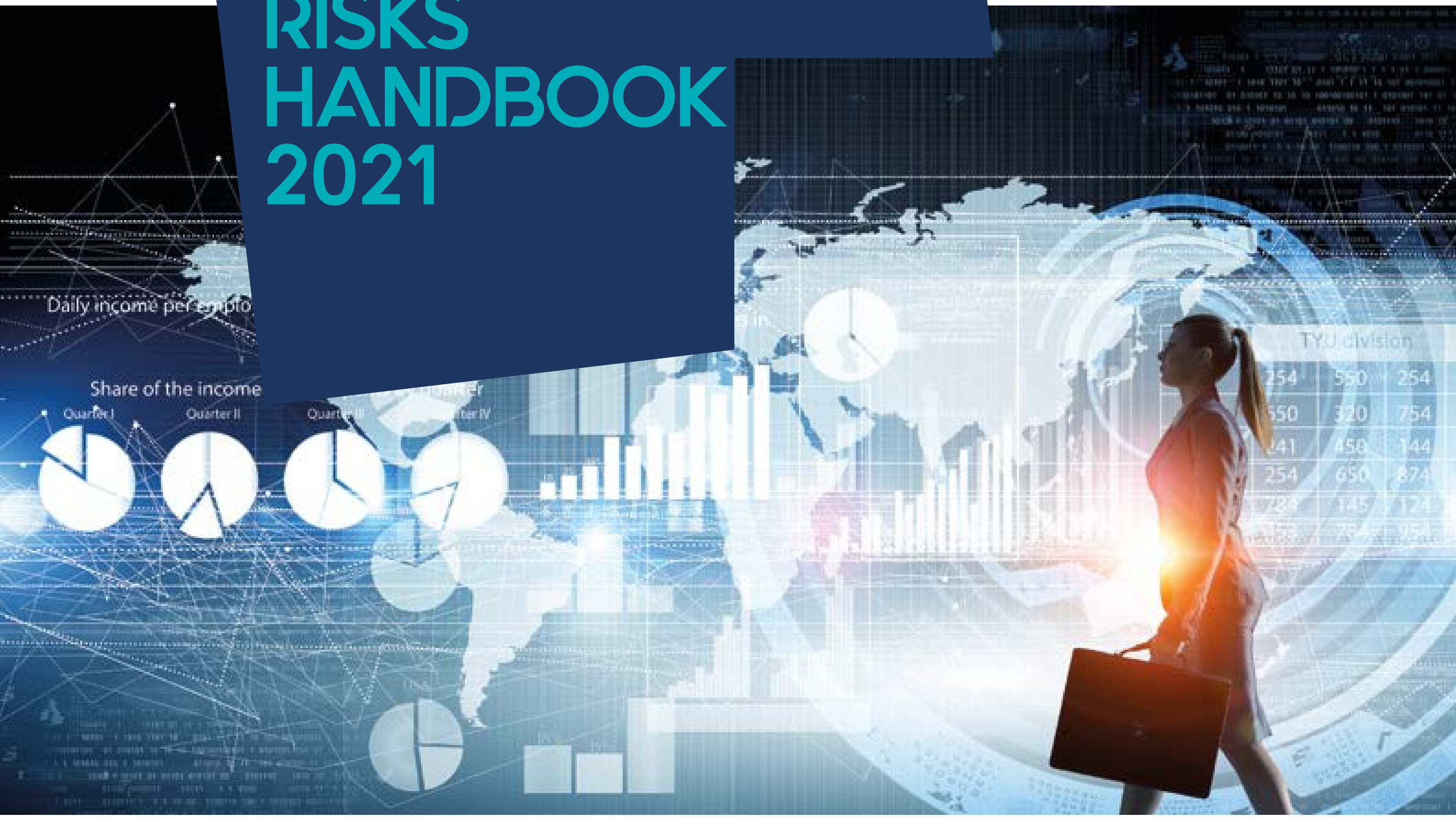
COFACE COUNTRY & SECTOR RISKS HANDBOOK 2021

MAJOR TRENDS OF THE WORLD ECONOMY



ANALYSIS AND FORECAST FOR 162 COUNTRIES AND 13 SECTORS

coface
FOR TRADE

This handbook is intended for:

— Corporate executives with decisions to make in terms of export, project launches, or investment in high risk countries;

— Managers of risk or international operations in banking, multilateral financial institutions, and insurance or reinsurance companies (acting in a private capacity or on behalf of government);

— Government managers concerned with country risk;

— Consultants and lawyers specialized in international business;

— Researchers, academics, and students interested in country risk.

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— **Coface Information Department**

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By Xavier Durand,
CEO of Coface

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GLOSSARY

An unequal recovery

— Xavier Durand —
CEO of Coface

Last year, we highlighted the many obstacles on the path to corporate growth that we foresaw for 2020: political and environmental risks, excessive indebtedness of many States in the emerging and developing world, to name but a few. However, we could not have imagined that the world economy would experience its deepest recession since the end of the Second World War because of a pandemic. In addition to its dramatic human consequences, this singular crisis has deeply disrupted the daily lives of people, let alone the functioning of businesses and the global economy.

On the bright side, governments quickly grasped the scale of the crisis by letting the automatic stabilisers operate fully and by responding both quickly and vigorously: guaranteed or subsidised loans, deferral and/or cancellation of taxes or social security charges, coverage of short-time working, etc. When aggregated globally, these measures amounted to around USD 11700 billion (12% of global GDP) as of September 2020. About half of these measures were spending increases or tax cuts, the other half being loans and liquidity support from governments or other public sector actors. Not to mention, of course, central banks' actions: new asset purchase programmes (including in some emerging countries for the first time), interest rate cuts and liquidity provision to banks.

This responsiveness of governments and central banks has limited the severity of last year's already historic recession, while reducing the number of jobs destroyed and corporate insolvencies. The strength of the recession is such that many paradoxes, seldom seen before, have been highlighted. For instance, many equity markets in mature economies ended the year in the green despite the deep downturn. The latter did not stop the number of corporate insolvencies from falling in many countries (particularly in major European countries thanks to temporary amendments to insolvency procedures).

However, these major global trends do not necessarily indicate that the economic consequences of the pandemic have been similar everywhere. Differences in performance between countries are even more pronounced today than before the crisis. For the 2020-2021 period taken as a whole, the fifteen economies with the highest GDP growth compared to 2019 are all in Asia or Africa, according to our forecasts. On the other end of the spectrum, half of the fifteen worst performers are in Latin America. Moreover, trajectories also differ within each region, notably owing to sectoral specialisations. Such is the case in Europe: the more service-oriented an economy is, the stronger the impact of COVID-19, with social distancing measures and the ability to telework being the main discriminatory factors. For most of these economies, the second quarter of 2020 was particularly bad, followed by a rebound in the third. Beneath this general trend, two groups emerge. The first recorded between 3 and 6 percentage points of decline in GDP at the end of the third quarter compared with the end of 2019. Among these countries are the Netherlands, France, Germany, but Italy as well. The shock for the second group is more significant, between -9 and -12 percentage points. Spain and Greece, where services (including tourism) account for a significant share of the GDP, are in the latter group. The United Kingdom, penalised until the last minute by the uncertainties concerning the modalities of exit from the European Union, is also part of the second group. These large differences in growth trajectories are also observable in Asia: China,

"The pandemic is a catalyst for pre-existing structural trends: rising inequalities and political risks, state and corporate indebtedness, digitalisation and energy transition." — Xavier Durand

Taiwan, Vietnam and South Korea are clearly in the lead, because they managed the health crisis well, but also because they enjoy comparative advantages in sectors that have been resilient in 2020, such as electronics. On the other end of the ladder are India, Indonesia and the Philippines, which will have experienced a deep recession in 2020. Malaysia and Thailand are between these two extremes.

Within each country, these differentiated rebound prospects conceal a rise in income inequality. China, ahead of the rest of the world in the recovery phase, illustrates this trend: the upturn in consumption since last summer is mainly driven by high-income households and benefits sectors such as automotive, luxury goods and tourism. The wealthiest households have drawn on their savings accumulated during the lockdown. Conversely, low-income households have had to incur more debt in order to cope with unemployment and maintain their lifestyle. According to World Bank estimates, 120 million people worldwide will have fallen below the poverty line in 2020 because of the economic consequences of the pandemic. Half of them will remain so after 2021, despite the expected recovery. This means that while countries are getting their economies back on track, they are not getting everyone on-board the recovery train. This rise in poverty and income inequality, coupled with public dissatisfaction with governments' handling of the pandemic, could lead to further social discontent. In fact, according to Coface's Index, the risk of political and social fragility was already at an all-time high globally before this crisis emerged.

The pandemic is accelerating other pre-existing structural trends. Indebtedness is one of them. Public debt will have increased by about 20 GDP points over the last year in mature economies, and by 10 in emerging and developing economies. While the magnitude of the increase is greater in the former, the latter will be more at risk this year, since they will not benefit (barring exceptions) from the contribution of their central bank to directly or indirectly finance the public deficit. Even before this crisis, a year ago, we were already emphasising the historically high level of public debt in emerging and developing countries, particularly in Latin America and Africa. The only good news is that awareness of the problem has resulted in emergency multilateral aid. Corporate indebtedness was already a concern; it is even more so today. For instance, the resumption of growth in China has been facilitated by a sharp rise in corporate debt. In the first three quarters of 2020, corporate debt was already at around two-thirds of the record level registered in 2009, which had led to significant overcapacity. The only difference this time around is that the sectors affected by excess debt are more diverse and that infrastructure-related industries are no longer the only concerned. Furthermore, the authorities now seem more inclined to allow some large companies to go bankrupt. The numerous defaults on the bond market by Chinese companies at the end of last year bear witness to this.

The list of structural changes that have been accelerated by this pandemic is extensive: in addition to rising inequality and therefore political risks, as well as debt, digitalisation, energy transition and the growing importance of the circular economy are also part of it.

As we enter 2021, the uncertainties are both large and numerous. To a considerable extent, they concern the singularity of this global crisis: how quickly will vaccines be distributed? What will households do with the savings they accumulated in 2020 during periods of lockdown? Have consumer preferences changed lastingly or is a gradual return to "pre-crisis" standards likely? Will the rise of teleworking bring sustained changes to the way we work and travel, thus to the structure of value chains and trade? Will sectors like air transport or real estate be profoundly changed? Should we expect a wave of social discontent arising from the population's dissatisfaction with governments' management of the health crisis?

This list is, of course, not exhaustive. The twenty-fifth edition of this guide, while attempting to answer these questions, discusses many other economic, political, financial, environmental and sectoral risks. I wish everyone an enjoyable reading of this guide, which Coface publishes every year.

How to use the handbook

SECTORS

1 Sector name

2 Coface Regional Sector Risk Assessments

This assessment indicates the risk presented by companies in the sector in regions around the world as considered by Coface in its quarterly sector assessments.

3 Analysis of Strengths/Weaknesses

A summary of the sector's global strengths and weaknesses.

4 Risk Analysis Synthesis

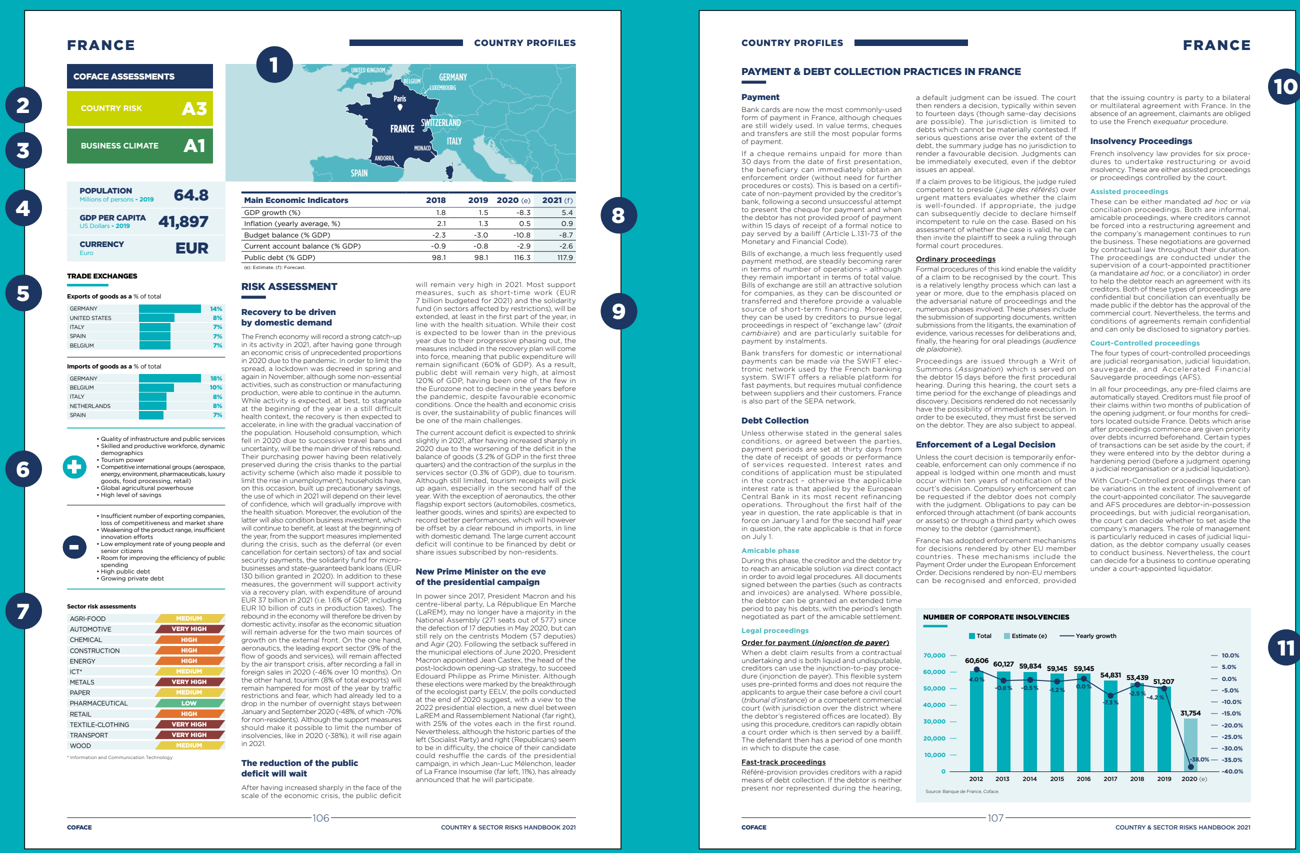
You will find in this section a synthetic analysis of economic and financial development in the markets as well as main risks in the sector in terms of global trends. It broadly summarizes insights presented in the Sector Economic Insights section.

5 Sector Economic Insights

This section presents Coface's in-depth analysis of the sector global trends including the outlook for supply and demand for the coming year.

6 Sector Chart

This graph highlights one or more key aspects of developments in the sector.



COUNTRY PROFILES

1 Country and location

A map allows you to locate the country.

2 Country risk assessment

"Country Risk" indicates the average risk presented by firms in a country as part of their short-term commercial transactions.

3 Business climate assessment

This assessment, which complements the country assessment, measures the quality of the country's business environment: overall reliability of company accounts, legal system, institutional and regulatory environment.

4 Population, GDP, and Local Currency

This box shows the population of the country in 2019, the GDP per capita in 2019, and the local currency as well as its ISO code.

5 Exports and imports

Distribution of exports (or imports) by country of destination (or origin). The sources used are IMF and UNCTAD statistics for 2019.

6 Analysis of strengths/weaknesses

A summary of the country's strengths and weaknesses.

7 Sector risk assessment

This assessment indicates the level of short-term risk for 13 sectors of the country's economy.

8 Economic indicators

At a glance, see the major macroeconomic aggregates essential to understanding the economic environment in a country as well as forecasted changes.

9 Risk assessment

In this section you will find a macroeconomic and microeconomic analysis of the country, as well as the most important prospective elements for the current year.

10 Payment and collection practices

This section is a valuable tool for corporate financial officers and credit managers. It provides information on the payment and debt collection practices in use in the country.

11 Business insolvencies

Total number of business insolvencies and its yearly growth rate.

TOOLS FOR IDENTIFYING, ASSESSING AND MONITORING THE RISKS BUSINESSES ARE FACING

As a credit insurer, Coface's added value comes from its ability to proactively provide its clients with detailed risk analyses, allowing them to make the right decisions at the right time and prevent credit risks. Its analyses include country and business climate assessments for 162 countries, as well as sector risk, and assessment of companies' default rate. Regular economic publications supplement these assessments developed by Coface*.

Country risk assessment*

The country assessment provides an insight into the average payment incident level presented by companies in a country in connection with their short-term trading transactions. More specifically, this assessment measures the way in which company payment behaviour is influenced by a country's economic, financial, and political perspectives, as well as by the business climate. It is based on three pillars: macroeconomic, financial and political analysis, business climate assessment by Coface's entities across the world, and Coface's payment behaviour experience as recorded in its worldwide database. The country risk assessment covers 161 countries on an 8-step scale: A1, A2, A3, A4, B, C, D, E, in order of increasing risk.

Business climate assessment*

This makes it possible to see whether company accounts are available and reliable, whether the legal system ensures fair and effective protection of creditors, whether the country's institutions provide a favourable framework for B2B transactions and whether the domestic market is easy to access. The assessments are based on data from international organisations, but also, and primarily, on the experience of Coface's entities across the world. This assessment, integrated in the country assessment, covers 161 countries on an 8-step scale: A1, A2, A3, A4, B, C, D, E, in order of decreasing business climate quality.

Sector risk assessment*

Every quarter, Coface reviews the assessments of 13 sectors in 28 countries (representing approximately 88% of global GDP) in 6 major regions of the world. In order to assess these risks, Coface relies on its own methodology, which is based on three pillars and eight criteria, and has been strengthened with more quantitative criteria. The first pillar focuses on data relative to Coface's expertise on corporate payment behaviour worldwide, in the various sectors under consideration. The second pillar concerns forecasts of processed financial data. The last pillar brings together key multifactorial criteria (evolution of commodity price forecasts, risks linked to structural changes that may occur in a sector, and country risk assessments, which have an impact on the risk assessment of a given sector in a particular country).

The criteria included in the first two pillars are summarised below.

Coface's expertise regarding payment experience:

- Unpaid ratio level for companies of the same sector in a given country.
- Forecasts on changes in default amounts in a given sector at the global level.
- Sector risk assessment from Coface's underwriting services.

Pillar regarding the use of corporate financial data:

- Daily Sales Outstanding (DSO).
- Analysis of quantiles for forecasts in financial data (net debt, profitability).

The sector risk assessment is on a 4-step scale: low, medium high, very high, in order of increasing risk (see p. 11).

Assessment of company default rate

The DRA (Debtor Risk Assessment) measures the default rate of companies all over the world. It is calculated on the basis of indicators such as financial soundness, profitability, solvency, as well as the company's environment and management. The assessment scale ranges from 0 (company in default) to 10 (best possible rating). The DRAs are made available to Coface clients on a dedicated website: Cofanet.

Economic publications*

Coface regularly publishes economic publications that deal with country risk, sector risk, and the risk of company insolvency.

* Assessments and studies available on http://www.coface.com/Economic-Studies-and-Country-Risks.

DEFINITION OF COUNTRY RISK ASSESSMENTS

A1	Very good macroeconomic and financial outlook. Stable political context. Good quality business climate. This environment positively influences company payment behaviour. **The average probability of default is very low**.
A2	Good macroeconomic and financial outlook. Generally stable political context. Overall good healthy business climate. **The average probability of default is low**.
A3	Less favourable and/or volatile macroeconomic and financial outlook. Political context remains stable. Business climate may have some shortcomings. **The average probability of default is satisfactory**.
A4	Economic and financial outlook could be marked by some weaknesses. Political context could suffer from tension. Business climate may present significant deficiencies. **The average probability of company default is reasonable**.
B	Uncertain economic and financial outlook. Political context could suffer strong tensions. Business climate may present substantial deficiencies. **The average probability of company default is quite high**.
C	Very uncertain economic and financial outlook. Political context could be unstable. Business climate has substantial deficiencies. **The average probability of company default is high**.
D	Highly uncertain economic and financial outlook. Very unstable political context. Very difficult institutional and business climate. **The average probability of company default is very high**.
E	Extremely uncertain economic and financial outlook. Extremely unstable political context. Extremely difficult institutional and business climate. **The average probability of company default is extremely high**.

DEFINITION OF BUSINESS CLIMATE ASSESSMENTS

A1	Company reports are (generally) available and reliable. Effective debt collection. High quality institutions. Domestic market is almost perfectly open. **Very satisfactory business climate**.
A2	Company reports, when available, are reliable. Debt collection works reasonably well. Institutions generally perform well. Domestic market is widely open. **Business climate relatively stable but could be improved**.
A3	Company reports are not always available, but when they are, are relatively reliable. Debt collection and institutions can present some shortcomings. Domestic market is relatively open. **Safe business climate, but shortcomings can arise**.
A4	Company reports are not always available or reliable. Debt collection is not always effective and institutions have some inadequacies. Access to domestic market presents some constraints. **Business climate is acceptable but can pose problems**.
B	Reliability and availability of company reports vary significantly. Debt collection is often difficult. Institutions display weaknesses. Domestic market is not very accessible. **Business climate is unstable and underperforms**.
C	Company reports are often unavailable and not very reliable. Debt collection is somewhat random. Institutions display numerous weaknesses. Difficult access to domestic market. **Difficult business climate**.
D	Company reports are often unavailable and unreliable. Debt collection is random. Institutions display significant weaknesses. Very difficult access to domestic market. **Very difficult business climate**.
E	Company reports are rarely available, and are rarely reliable when they are. The legal system makes debt recovery extremely uncertain. Critical institutional weaknesses. Nearly inaccessible domestic market. **Extremely difficult business climate**.

For further information

The sector assessments are proposed on a scale of four levels: low, medium, high or very high, in ascending order of risk.

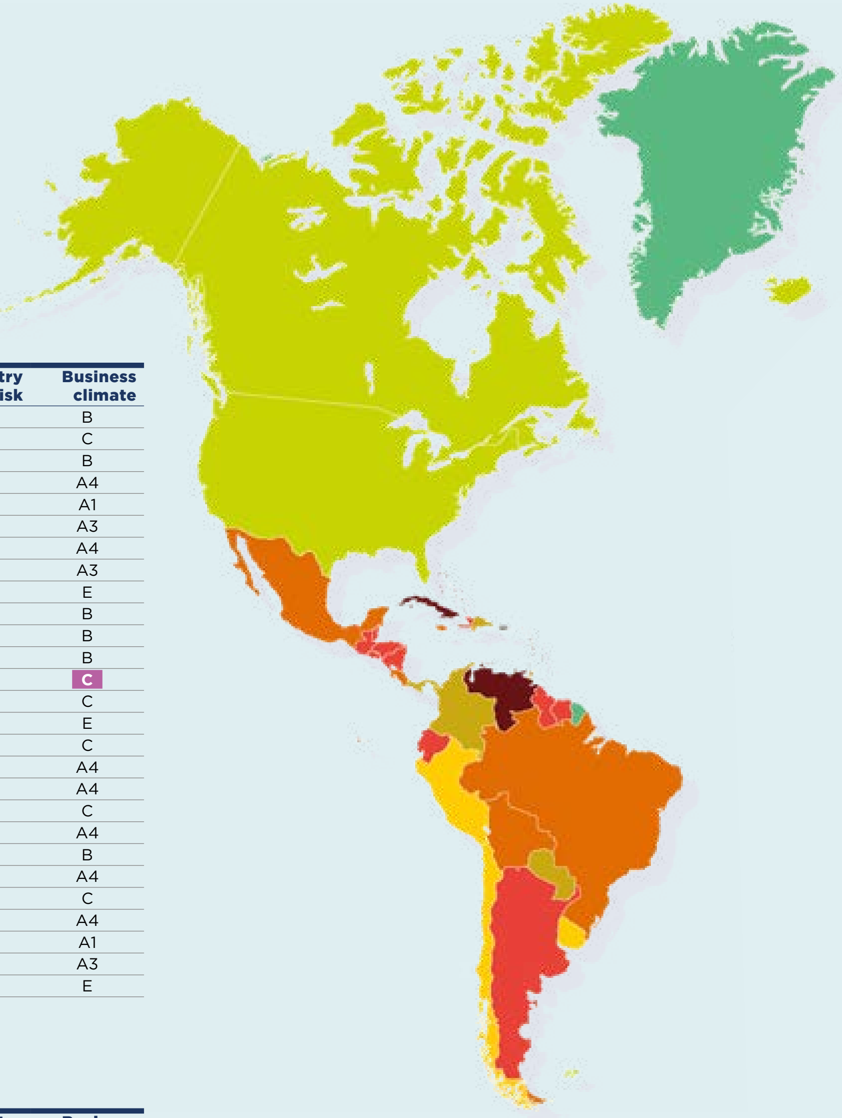
— You can find them on page 14

COUNTRY RISK ASSESSMENT MAP

Coface assesses the average credit risk of companies in a given country. To achieve this, Coface uses macroeconomic, financial and political data.
Its originality is to take into account Coface's payment experience recorded for the country's businesses, and its perception of the country's business climate.

DOWNGRADES IN 2020

UPGRADES IN 2020



AMERICAS

	Country risk	Business climate
Argentina	D	B
Belize	D	C
Bolivia	C	B
Brazil	C	A4
Canada	A3	A1
Chile	A4	A3
Colombia	B	A4
Costa Rica	C	A3
Cuba	E	E
Dominican Republic	B	B
Ecuador	D	B
El Salvador	D	B
Guatemala	D	C
Guyana	D	C
Haiti	D	E
Honduras	D	C
Jamaica	C	A4
Mexico	C	A4
Nicaragua	D	C
Panama	B	A4
Paraguay	B	B
Peru	A4	A4
Suriname	D	C
Trinidad and Tobago	B	A4
United States	A3	A1
Uruguay	A4	A3
Venezuela	E	E

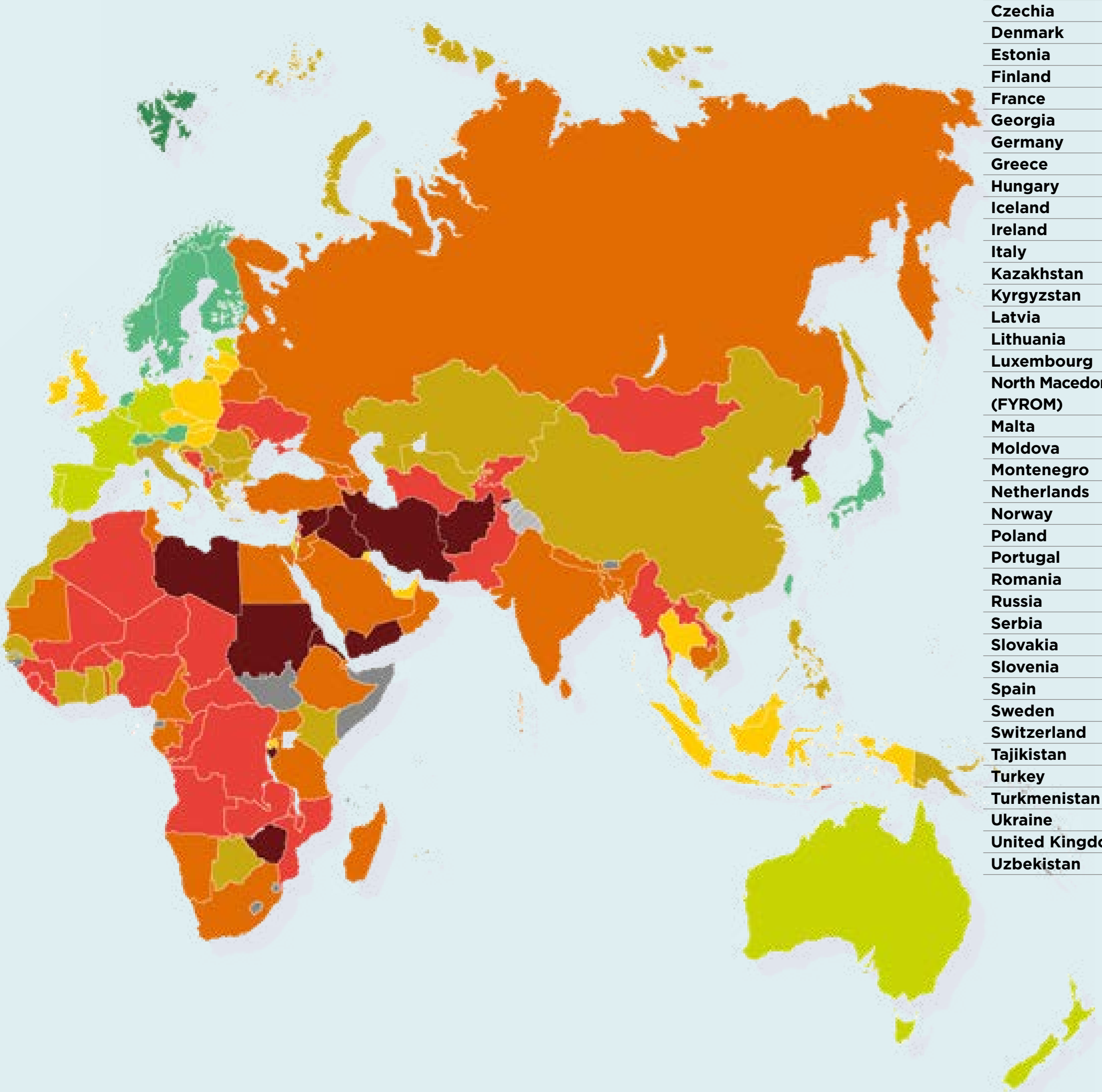
AFRICA

	Country risk	Business climate
Algeria	D	C
Angola	D	D
Benin	B	C
Botswana	B	A4
Burkina Faso	D	C
Burundi	E	E
Cameroon	C	D
Cabo Verde	C	B
Central African Republic	D	E
Chad	D	E
Congo (Democratic Republic of the)	D	E
Congo (Republic of the)	D	D
Côte d'Ivoire	B	B
Djibouti	C	C
Egypt	C	B
Eritrea	E	E
Ethiopia	C	D
Gabon	C	D
Ghana	B	B
Guinea	D	D
Kenya	B	A4
Liberia	D	D
Libya	E	E

	Country risk	Business climate
Madagascar	C	C
Malawi	D	D
Mali	D	D
Mauritius	B	A3
Mauritania	C	C
Morocco	B	A4
Mozambique	D	D
Namibia	C	A4
Niger	D	C
Nigeria	D	D
Rwanda	A4	A4
São Tomé and Príncipe	D	D
Senegal	B	B
Sierra Leone	D	D
South Africa	C	A4
Sudan	E	E
Tanzania	C	C
Togo	C	B
Tunisia	C	B
Uganda	C	C
Zambia	D	C
Zimbabwe	E	E

BUSINESS DEFAULT RISK

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



EUROPE AND CIS

	Country risk	Business climate
Albania	D	C
Armenia	D	B
Austria	A2	A1
Azerbaijan	C	C
Belarus	C	B
Belgium	A3	A1
Bosnia and Herzegovina	D	B
Bulgaria	B	A3
Croatia	B	A2
Cyprus	A4	A3
Czechia	A4	A2
Denmark	A2	A1
Estonia	A3	A1
Finland	A2	A1
France	A3	A1
Georgia	C	A3
Germany	A3	A1
Greece	B	A2
Hungary	A4	A3
Iceland	A3	A1
Ireland	A4	A1
Italy	B	A2
Kazakhstan	B	B
Kyrgyzstan	D	D
Latvia	A4	A1
Lithuania	A4	A1
Luxembourg	A2	A1
North Macedonia (FYROM)	C	A4
Malta	A2	A4
Moldova	C	B
Montenegro	C	A4
Netherlands	A2	A1
Norway	A2	A1
Poland	A4	A2
Portugal	A3	A2
Romania	B	A3
Russia	C	B
Serbia	B	A4
Slovakia	A4	A2
Slovenia	A4	A1
Spain	A3	A1
Sweden	A2	A1
Switzerland	A2	A1
Tajikistan	D	D
Turkey	C	A4
Turkmenistan	D	E
Ukraine	D	C
United Kingdom	A4	A1
Uzbekistan	B	B

For further information

To download the map (in pdf format): https://www.coface.com/Economic-Studies-and-Country-Risks

MIDDLE EAST

	Country risk	Business climate
Bahrain	D	A4
Iraq	E	E
Iran	E	D
Israel	A3	A2
Jordan	C	B
Kuwait	A4	A3
Lebanon	D	D
Oman	C	A4
Palestinian Territories	D	D
Qatar	A4	A3
Saudi Arabia	C	B
Syria	E	E
United Arab Emirates	A4	A2
Yemen	E	E

ASIA-PACIFIC

	Country risk	Business climate
Afghanistan	E	E
Australia	A3	A1
Bangladesh	C	C
Cambodia	C	B
China	B	B
Hong Kong SAR	A4	A1
India	C	B
Indonesia	A4	A4
Japan	A2	A1
Laos	D	D
Malaysia	A4	A3
Maldives	C	C
Mongolia	D	C
Myanmar	D	D
Nepal	C	B
New Zealand	A2	A1
Pakistan	D	C
Papua New Guinea	B	C
Philippines	B	B
Singapore	A3	A1
North Korea	E	E
South Korea	A3	A1
Sri Lanka	C	B
Taiwan	A2	A1
Thailand	A4	A3
Timor-Leste	D	C
Vietnam	B	B