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By the Coface Economic Research team, in collaboration with Institut français des relations internationales (IFRI)

From excessive pessimism to excessive optimism?

The year 2023 starts with good news, at least on the macroeconomic front. Thanks to an autumn and early winter that were abnormal from a climatic point of view - which is the least good news - Europe has avoided a recession that looked long promised. Efficiency gains in all sectors and the slowdown in activity did the rest, allowing energy prices to fall sharply and thus leading to a welcome slowdown in inflation. The prospect of a strong rebound in China in the second half of the year, albeit very uncertain, also raises hopes that the global economy will get out of its current slump. This was enough for the financial markets to go wild, particularly in Europe: equities, bonds, credit, etc., all of which are now in the eyes of investors, who are rightly reassured by the fact that the worst-case scenario is now, for the time being, at bay.

While we fundamentally concur, we must be careful not to become complacent. The challenges facing the global economy last year remain relevant and the multidimensional crisis we are experiencing is not about to disappear: geopolitical fragmentation, the energy crisis, climate change, epidemic risks, etc. The transformation of the world is accelerating and generating risks, sometimes extreme, that are likely to derail the best-crafted scenarios and narratives.

In the short-term, the main risk lies in the continuity over time of the two main factors behind the current upswing in optimism. Given China's influence on commodity markets (oil and liquefied natural gas), reconciling the Chinese economic rebound with a concomitant, widespread and still immaculate fall in inflation seems relatively illusory. This is all the more true given that core inflation is decelerating only slightly or, in many countries, still rising. The expected pause at the turn of the summer in the monetary tightening process orchestrated by the main central banks could therefore only be ephemeral, as could the prevailing feeling of relief.

In this context, we have made few changes to our country (5 changes) and sector risk assessments (16 changes). In net terms, however, the trend remains towards downgrades (see page 16).

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IFRI's geopolitical viewpoint: a fragmented and unstable world

Despite his worn-out image and the hysteria of the national political debate, President Biden has started a real revolution in the country since 2021: his proactive industrial policy (Infrastructure Act, Inflation Reduction Act, Chips Act) signals the end of the liberal cycle started by Reagan 40 years ago, as well as a real turning point in the fight against climate change. However, the Europeans will have to obtain some easing of the IRA's protectionist measures. While a Manichean vision of the world allows it to support Ukraine and Taiwan against the Russian and Chinese regimes, the country's economic and financial intertwining with China complicates the administration's strategic calculations.

Although he is the undisputed leader of the Communist Party, Xi Jinping faces major economic and social challenges. The end of the «zero-COVID» policy and the reopening of the borders could be perceived as an opening. However, the hasty lifting of the draconian health measures introduced in 2020 could undermine public confidence in the Party, as well as that of foreign economic actors regarding China, which has become a risky market - all the more so as the new American measures to control semiconductor exports could weaken the Chinese innovation ecosystem. Moreover, the approach of Taiwan's presidential elections in January 2024 is unlikely to reduce Chinese military pressure in the Strait.

The Russian economy is surviving thanks to the policy of the Central Bank and the circumvention of sanctions with the confirmed or suspected complicity of some countries such as Turkey and China. However, the European oil embargo and the price ceiling threaten budgetary stability. In Ukraine, the stabilised frontline despite the battles of Bakhmut and Soledar could be shaken by a new Russian offensive and peace negotiations are out of sight. The dispatch of increasingly heavy weapons by the West generates risks of escalation. Unlikely in the short-term and by definition difficult to anticipate, a way out would be the departure, organised or forced, of Putin, who has been weakened in the eyes of the Russian elites by the errors of his strategy and the risks that the war poses for the country.

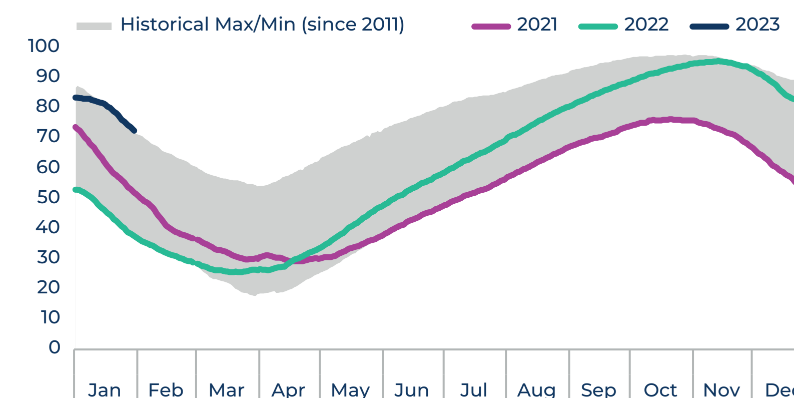
Regional competition continues in North Africa/Middle East against the backdrop of the US withdrawal. The regimes of oil and gas producing countries are taking advantage of the rise in prices linked to the Ukraine war, to consolidate their position (Algeria, Egypt) and embark on the green transition (Saudi Arabia, United Arab Emirates, Qatar). Climate stress is intensifying, and with it food insecurity and social unrest. The post-Arab Spring wars remain unresolved (Libya, Yemen, Syria), while the Israeli-Palestinian conflict and the Algerian-Moroccan dispute over the Sahara resurface. The contestation in Iran adds to the instability. The new Israeli team is creating anxiety that the Abraham Accords alone cannot dissipate, while Turkey is seeking to maximise its geopolitical advantage.

One of the few sources of relief is the easing of tensions in the energy markets at the end of 2022, which were not reignited by the oil embargo and the price cap on Russia. The continuation of the lull will depend on the recovery of China, the number of nuclear power plants restarted in Japan, stability in the Strait of Hormuz, and decisively, the weather. No matter what happens, Europe will have to continue saving energy.

Recession retreats, stagflation takes hold

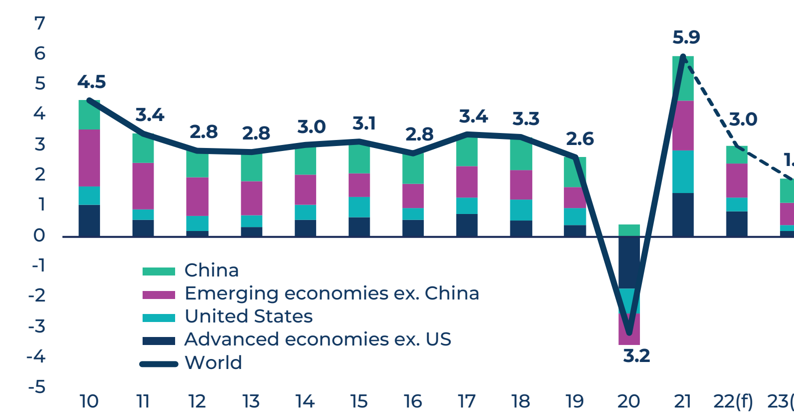
After starting off under the worst possible auspices with Russia's invasion of Ukraine and soaring commodity prices, the year 2022 ultimately ended on a positive economic, or rather meteorological, note. While, as mentioned in our previous Barometer[1], the extent of the energy crisis was largely dependent on the severity of autumn and winter in Europe, October was the mildest month on record[2], and November, December and the first half of January recorded temperatures above the average of the last thirty years. Consequently, and thanks to a remarkable filling rate at the beginning of the period - achieved by paying a high price for LNG (liquefied natural gas) imports - European countries had very high gas reserves at the end of January **(Chart 1)**, allowing to ward off the spectre of forced gas rationing in Europe this winter.

Chart 1:
EU27 and UK: Gas stock filling rate (% of total storage capacity)



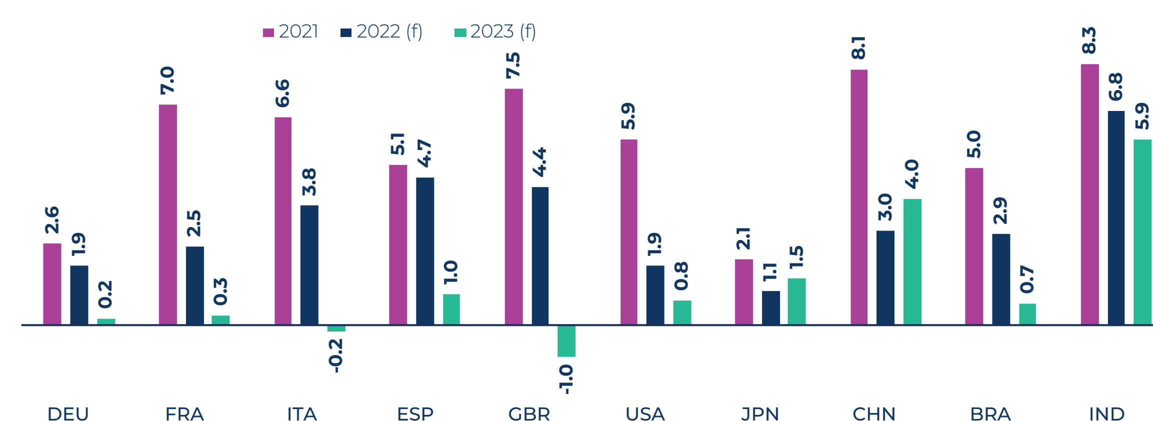
Sources : Gas Infrastructure Europe, Coface

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



Sources : FMI, IMF, National statistical institutes, Refinitiv Datastream, Coface forecasts

Chart 3:
GDP growth (selected countries, annual average, %)



Sources : IMF, National statistical institutes, Refinitiv Datastream, Coface forecasts

As a result, the European economies should avoid the worst-case scenario, and we have left our global growth forecast for 2023 unchanged at 1.9%, a marked slowdown from 2022 **(Chart 2)**. Given the confirmation of our scenario of stagflation in the advanced economies and the overall resilience of the emerging economies, we revised our growth forecasts for all major economies only by a small margin **(Chart 3).**

This continuity is also reflected in our assessments, with only 3 countries and 10 sectors downgraded this quarter, after 95 cumulatively[3] in June 2022 and over 50 in October. Meanwhile, we have also upgraded two country assessments, India and Burundi, and six

1 Coface Barometer: A cold chill on the global economy. 12 October 2022. URL: https://www.coface.com/News-Publications/Publications/A-cold-chill-on-the-global-economy-Barometer-Q3-2022

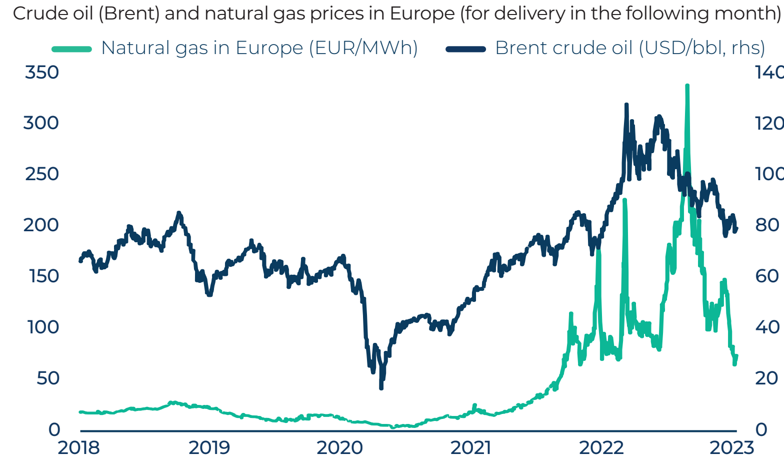
2 https://climate.copernicus.eu/2022-saw-record-temperatures-europe-and-across-world

sector assessments, mainly in the automotive industry (Middle East, Mexico, India), thanks to the (very) gradual easing of tensions in the supply chains.

Towards a (mechanical) decrease in inflation in the first half of 2023

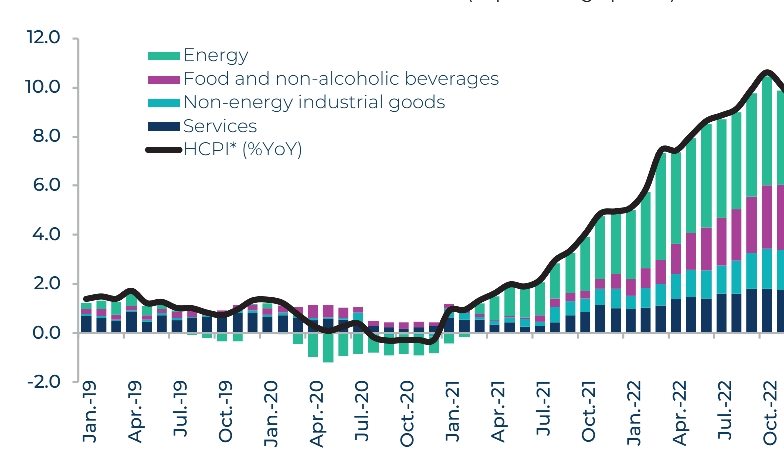
While fears of a looming global recession led to a sharp decline in commodity prices (metals, grains, oil) last summer, they have remained relatively stable since then, at levels significantly lower than in the first half of 2022 **(Chart 4).** Confirmation of the sharp slowdown in industrial activity at the end of 2022 and the headwinds that continued to slow the Chinese economy kept Brent crude oil prices at around USD 80 per barrel in December, compared with an average of USD 105 per barrel over the first six months of 2022. Concurrently, the easing of concerns about natural gas supply disruptions in Europe, combined with a sluggish Chinese economy, also led to a further drop in gas prices from mid-October. At EUR 64 per MWh (megawatt hour) on average in January 2023, they have returned to levels similar to those recorded before the onset of the war in Ukraine. While still three times higher than their average in 2018 and 2019, gas prices have thus been divided by two, if not three, compared with the rest of 2022.

Chart 4:
Crude oil (Brent) and natural gas prices in Europe (for delivery in the following month)



Sources: Refinitiv Datastream, Coface

Chart 5:
Contribution to annual inflation in the Eurozone (in percentage points)



*HCPI : Harmonised consumer prix index
Sources: Eurostat, Coface

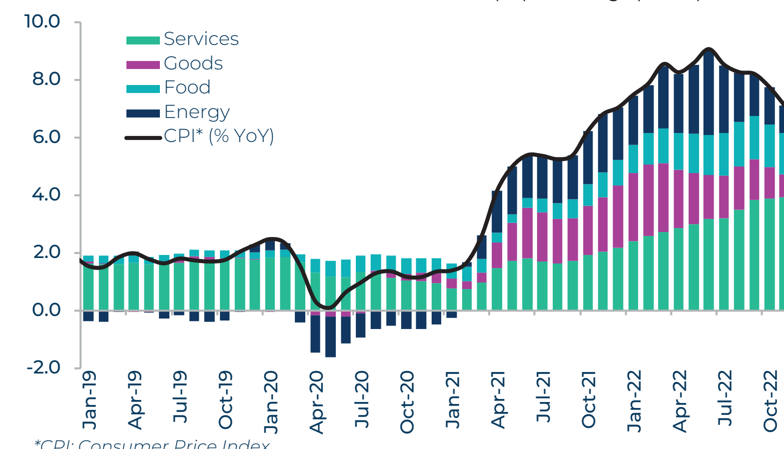
While the surge in energy prices was at the root of the spike in consumer prices in the advanced economies, their moderation led to a mechanical decline in inflation by the end of 2022. This is particularly true in the Eurozone, where the acceleration in inflation at the end of 2021 was initially attributable exclusively to energy prices. Conversely, in November and December 2022, the decline in inflation was mainly due to a smaller contribution from energy **(Chart 5).** Meanwhile, core inflation (excluding energy and fresh food) continued to rise (5.2% year-on-year in December 2022, after 5% in October and November).

Inflation seems to have peaked in the Eurozone, and certainly has in the United States, where prices have slowed steadily since June (when inflation reached 9.1%) to 6.5% in December. While the moderation in commodity prices has also contributed to the fall in inflation, it is also attributable to the lower contribution of goods **(Chart 6).** These goods[4], whose contribution was zero or slightly negative before the COVID-19 pandemic, were the source of inflationary pressures in the second quarter of 2021 due to massive consumer support measures, in a context of supply difficulties.

The slowdown in inflation recorded at the end of 2022 in both advanced and emerging countries **(Chart 7)** should therefore continue in the first half of 2023 simply due to base effects, insofar as commodity prices will remain below the levels recorded the previous year.

3 In the June 2022 Barometer, we downgraded 19 countries and 76 sectors.
4 Durable goods in particular.

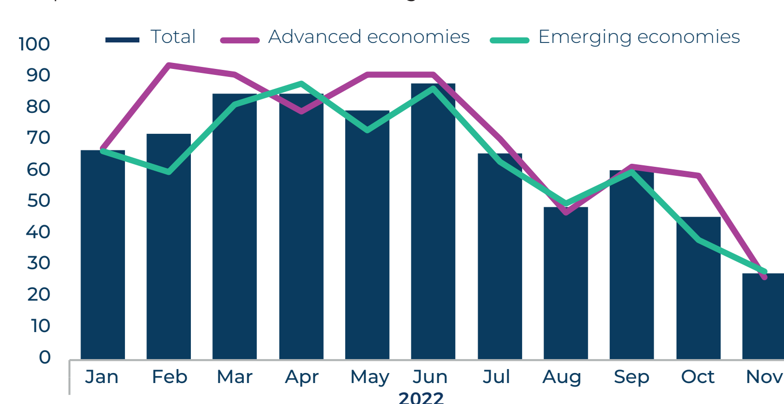
Chart 6:
Contribution to the annual inflation rate in the US (in percentage points)



*CPI: Consumer Price Index

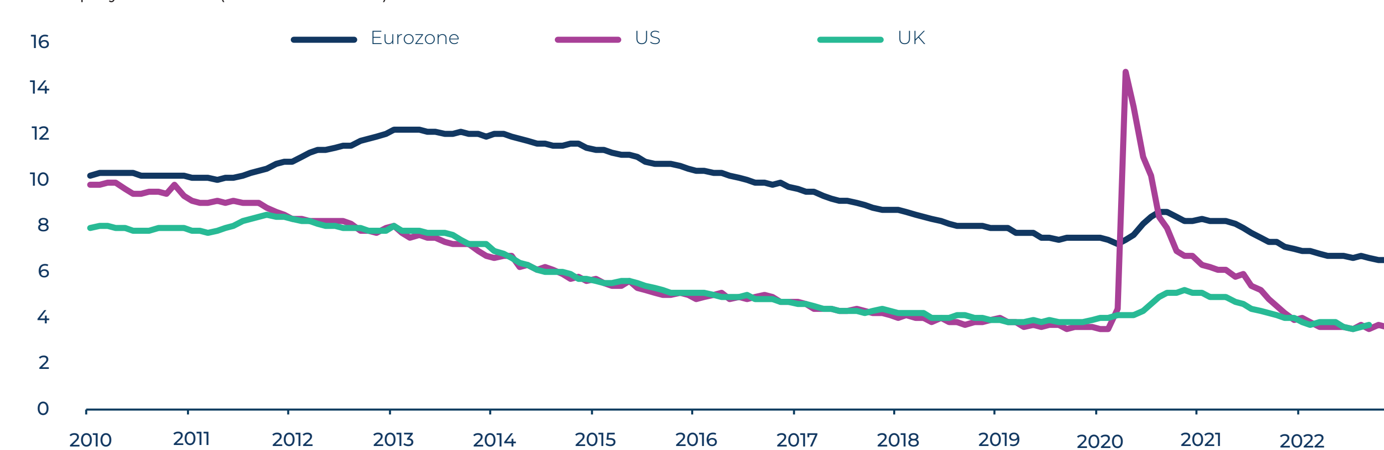
Sources : Bureau of Labor Statistics, Refinitiv Datastream, Coface

Chart 7:
Proportion of countries* with accelerating inflation



* Out of 94 economies: 34 advanced, 60 emerging
Sources: National statistical institutes, IMF, World Bank, Coface

Chart 8:
Unemployment rate (% of labour force)



Sources: Refinitiv Datastream, Coface

Against this backdrop of relative resistance in activity, labour markets continue to show resilience, with unemployment levels still historically low **(Chart 8).** Despite the observed slowdown, the unemployment rate has even continued to decline in the closing months of 2022 in the Eurozone, while remaining at its lowest level for over 50 years in the US (3.5%), and has risen only slightly (from 3.5% to 3.7%) in the UK. This resilience could continue in the first part of 2023, as companies, having faced historically high recruitment difficulties in 2022, may be tempted to keep their employees in spite of sluggish demand, while waiting for activity to pick up.

Towards a rebound in the second semester?

While the worst-case scenario, particularly in Europe, has been avoided in the short-term, the outlook for the global economy remains bleak for 2023, in an environment that remains both risky and uncertain. The main source of concern is obviously the inflation trajectory, since it will condition part of the economic

Chart 9:
United States - Annual inflation measured by the consumer price index, 1972-1986, Year-on-year change, %.

Sources : Bureau of Labor Statistics, Refinitiv Datastream, Coface

Box 1 :

CHINA - TOWARDS A FAREWELL TO THE ZERO-COVID POLICY?

Following the 20th Congress of the Communist Party of China (CPC) in October, China took a first concrete step towards easing its «zero-COVID» strategy on 11 November 2022, by announcing 20 measures. The announcement also warned against using a «one-size-fits-all approach and excessive policy measures» in the containment response to COVID-19. About a month later, on 7 December 2022, the authorities took an additional step towards reopening by announcing 10 new measures that paved the way for a general relaxation of the zero-COVID policy. Three weeks later, the National Health Commission (NHC) notified that the COVID-19 risk management level was being scaled down, emphasising the prevention of severe cases rather than the prevention of infections. Finally, on 6 January 2023, the NHC published the 10th edition of its protocol for the diagnosis and treatment of COVID-19, endorsing this change in approach.

China's reopening was sooner and faster than expected, which gives hope that the expected recovery of Chinese economic activity will positively impact the global economy. While a first peak of new infections was reached in mid-January, a second peak is expected in March in rural areas. The reopening should have a positive but gradual impact on consumption, as the COVID-19 restrictions are not the only reason for the moderation in consumer spending. Indeed, disposable income is slow to recover, savings levels remain high (40.3% of GDP in Q3 2022), and net wealth is declining. Moreover, the still high unemployment rate will continue to weigh on consumption. Finally, the level of household debt should also be considered: it has doubled compared with the previous decade (62% of GDP in 2022 compared with 30% in 2012), limiting the possibilities of consumption by leverage.

scenario, in all developed countries and more particularly in Europe. While a disinflationary trend seems to be underway, a crucial question remains: where will inflation land (and, incidentally, over what horizon)? While the ideal scenario of a permanent return to the 2% target set by the main central banks in the advanced economies cannot be totally ruled out, the possibility of inflation stabilising at a higher level is looming. The disinflation expected in the first part of the year could be interrupted before it reaches the levels targeted by the monetary authorities, and a resurgence of inflation in the second half of the year cannot be excluded. Although historical comparison has significant limitations, the example of the 1970s and 1980s in the US at least provides a warning. After an initial peak of 12.2% in November 1974, inflation receded, briefly falling below 5% two years later, before surging again to a post-war high of 14.8% in March 1980, following the second oil shock **(Chart 9).** It is this risk that central banks are now seeking to avert, declaring their readiness to act vigorously and/or over time if necessary (unlike in the 1970s).

In the current context, several factors could generate rising inflation. First, the outlook for energy prices suggests further inflationary pressures. With the constraints on oil and gas supply and logistics (exacerbated by the war in Ukraine) set to remain, energy prices could again support headline inflation, particularly in the second half of the year.

While the first waves of EU sanctions against Russia largely spared the energy sector in order to avoid supply disruptions, the situation has changed somewhat. Since 5 December, the European Union has banned imports of crude oil by sea and, since 5 February, the exclusion also applies to imports of derived products, starting with diesel. Furthermore, these embargoes are supplemented by price-cap mechanisms that prohibit companies from the G7 countries[5] and Australia from providing the services to transport Russian oil products by sea above a specific ceiling (USD 60 per barrel in the case of crude oil). This mechanism aims to limit Russian revenues from oil sales to third countries, while preserving this crucial supply (about 12% of global production). Consequently, according to various estimates (Russian authorities, OPEC, International Energy Agency, etc.), Russian crude oil production could be reduced by 5 to 15% (i.e. between 0.5 and 1.5 million barrels per day) in 2023.

Simultaneously, the Organisation of the Petroleum Exporting Countries and its allies (OPEC+), including Russia, is expected to maintain its production quotas, ensuring a relatively high floor for crude prices. After a decade during which the cartel's influence on oil markets suffered from the shale oil boom in the US, OPEC+ appears to be in a position to exert pricing power again. Caution on the part of US investors (notably the return to shareholder strategies), the drying up of financing flows (monetary conditions, ESG standards, etc.), the slowdown in productivity in some basins (shale plays) and labour shortages are all factors that will lead to a modest increase in US production volumes over the coming years.

China's recovery, a source of uncertainty

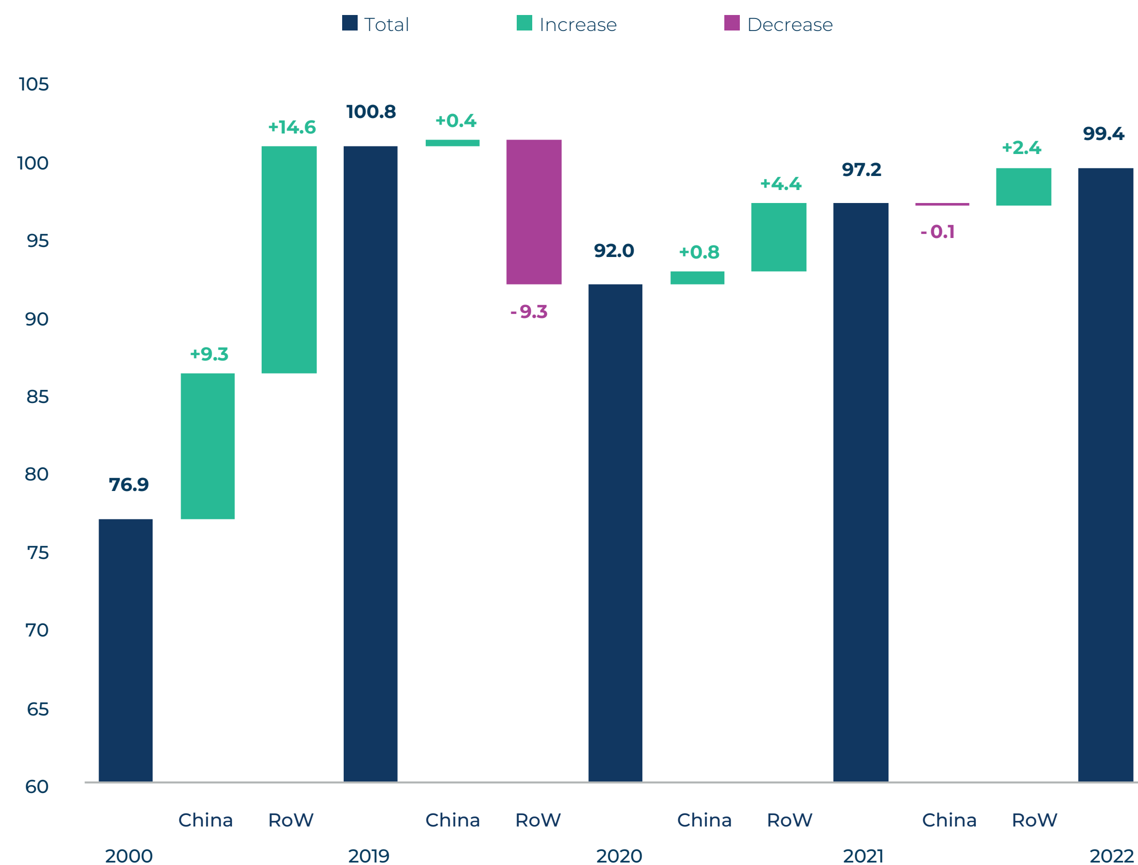
China, where the authorities have ended the "zero-COVID" strategy (see **Box 1**), could add fuel to the inflationary fire. The easing of restrictions aimed at containing the transmission of COVID-19 is an unexpected turnaround that should lead to a recovery in Chinese consumption. As the sudden reopening was accompanied by a surge in infections, the rebound should be gradual. Based on epidemic projections, normalisation of activity could start at the end of the first quarter of 2023. A firmer recovery is expected in the second half of the year, creating the perfect conditions for a new storm on the energy front and, hence, on inflation. Responsible for around 40% of the increase

5 Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and the European Union.

in marginal oil demand between 2000 and 2019 **(Chart 10),** a rapid normalisation in the second quarter would exacerbate the imbalance between supply and demand, propelling prices higher yet again.

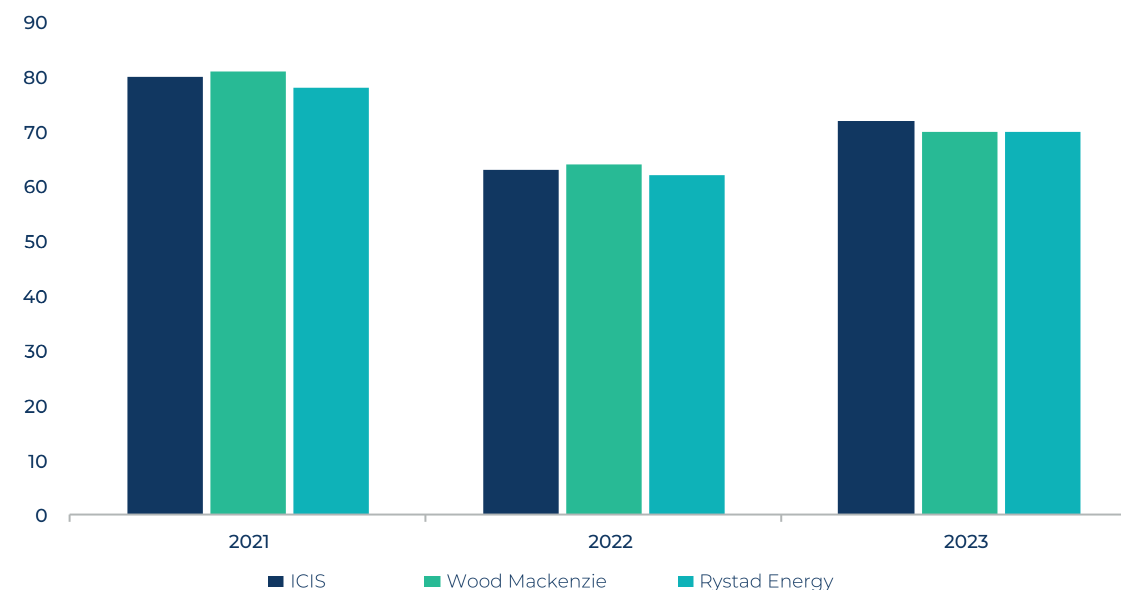
These renewed price pressures would also affect gas. Last year, in a difficult economic environment, Chinese industry officials reported that total gas demand fell for the first time in 20 years, while LNG purchase volumes fell by around 20% after the peak in 2021 **(Chart 11).** This benefited European countries, allowing them to replenish their stocks and, with the help of mild temperatures, avoid supply disruptions in the winter of 2022-2023. While pipeline flows from Russia to Europe are likely to remain at near zero, increased Chinese competition is likely to again drive up gas prices in European and Asian markets, with a significant risk of a global supply shortfall. Indeed, the new liquefaction capacities coming on stream in 2023 (Gulf of Mexico in particular) will not be able to fully meet the increase in global demand, especially if China were to rebound more vigorously than currently anticipated, despite the efficiency gains observed, the increase in the share of nuclear

Chart 10:
Contribution of China to the evolution of world oil consumption between 2000 and 2022
Millions of barrels per day



RoW: Rest of the World
Sources: Energy Information Administration, Refinitiv Datastream, Coface

Chart 11 :
China - LNG Demand Volume Estimates, 2021-2023
Million tonnes per year



Sources: ICIS, Wood Mackenzie, Rystad Energy, Reuters, Coface

power in the electricity mix of certain countries (Japan, South Korea, France for instance), etc. Additionally, the recovery of industry and the construction sector in China will affect the prices of other commodities, notably base metals.

Central banks' dilemma intensifies

While the reopening of the Chinese economy will be positive for global growth, it will also carry upside risks for inflation. Furthermore, the persistent threat of COVID-19 will need to be monitored. New waves of infections and/or future containment measures could once again prove problematic for global supply chains, sustaining inflationary pressures on goods.

However, the inflation outlook in 2023 is likely to be driven mainly by the evolution of services prices. Although they initially contributed little to the rise in inflation in the advanced economies, their importance has grown over the months **(Charts 5 & 6).** This trend, which is particularly visible in the United States, reflects the generalization of inflationary pressures. The rebalancing of demand from goods to services that began in 2022 should continue in 2023, thereby keeping inflation high. Given their weight in the consumption basket in advanced countries[6], if services inflation stabilises at a level higher than those prevailing before 2020, core inflation will necessarily remain high.

In addition to the rebalancing of consumption, such a scenario could occur if a price-wage loop takes hold. For companies, labour costs are a decisive factor in the cost structure, particularly in services. In the US, although their growth rate seems to have slowed somewhat in recent months, wages are rising faster than before the pandemic. The same is true of the UK, where wages could continue to expand considerably in 2023. The minimum hourly wage will be raised by around 10% on 1 April 2023 and the many social movements, particularly in the public services, could lead to a more widespread increase. In the

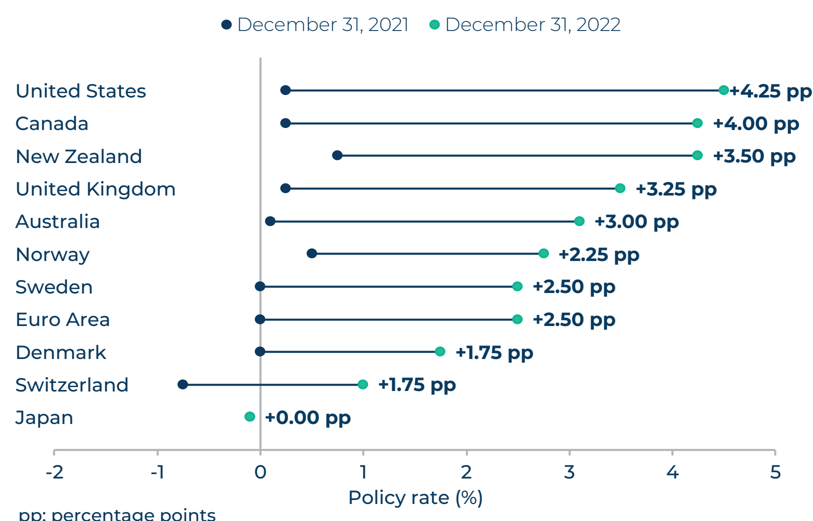
6 Services account for 40-60% of the consumption basket in Europe and the US

rest of Europe, nominal wage growth was somewhat more sluggish (see **Box 2**), but has recently accelerated, fuelling concerns among monetary authorities. Several countries, such as Germany and the Netherlands, have already increased their minimum wages.

Therefore, these risks should justify the continuation of a cautious stance by monetary authorities throughout the year. In 2022, the race against inflation was similar to a sprint, with major central banks hiking rates at a record pace in the span of 12 months **(Chart 12).** In the first part of 2023, as inflation declines, they are expected to slow down. The US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England, for example, downshifted with 50 basis point (bp) hikes in December, and are expected to further slow rate hikes in 2023. The ECB and the Bank of England raised their key rates by another 50 bp on 2 February. For its part, at its first meeting of the year, the Fed delivered a 25 bp hike, suggesting that its current monetary tightening cycle may soon be coming to an end. As the effects of monetary policy changes are not immediate, the authorities may pause from next spring. Nevertheless, this will mean that interest rates will remain at restrictive levels.

Uncertainty and risks to the inflation outlook make the direction of monetary policy much more unpredictable in the second half of the year. Markets, anticipating a significant economic slowdown, have started to bet on rate cuts by the Fed and, to a lesser extent, the ECB before the end of the year. However, if inflation were to stabilise above their targets, rate cuts would not be on the agenda, according to their latest communication. On the contrary, if inflation picks up again in the second semester, a new round of tightening cannot be ruled out. Such a scenario would have a negative and long-lasting impact on activity and employment. In the battle against inflation, the last rounds could prove to be the most difficult.

Chart 12:
Change in key central bank interest rates in 2022
In percentage points



pp: percentage points

Sources: National central banks, Refinitiv Datastream, Coface

For emerging economies, some pockets of resilience, but risks are plenty

Beyond the advanced economies, inflation and tighter monetary conditions should also result in a slowdown in activity, albeit less pronounced in emerging and developing countries. After 3.5% in 2022, we expect GDP growth of 3.3% in 2023. This relative resilience, compared with the advanced economies, is due in particular to the two largest emerging economies, China and India. As mentioned above, the reopening of the Chinese economy will indeed allow it to rebound. While India's growth will slow from 6.8% to 5.9%, it is expected to build on the momentum of the second half of 2022 to remain robust, thanks to the resilience of its domestic market. This momentum, coupled with less downward pressure on the rupee, justifies our upgrading of the country from C to B.

Box 2 :

THE IMPOVERISHMENT OF THE EUROPEAN HOUSEHOLD IN 2021-2022

How does the 2021-2022 inflation wave compare with previous crisis periods in Europe? To draw this historical parallel, it is useful to look at the evolution of real household disposable income **(Chart 2.1).** In Spain and Italy, households become poorer at the same annualised rate in 2022 as in 2012 (-5.4% and -3.4%, respectively). German and French households, on the other hand, are experiencing impoverishment from which they had been spared overall in 2012 (-4.7% and -1.8%). During the Great Recession (2008-09) and the Eurozone Crisis (2010-12), the impoverishment of households was explained by the surge in unemployment. In 2022, unemployment was at an all-time low in the Eurozone (6.5%), but the rise in nominal wages, although historically high, was insufficient to compensate for soaring inflation **(Chart 2.2).** While transfer income had mitigated the impact of the crisis on real income during the Great Recession and the pandemic, the absence of an equivalent automatic stabiliser for inflation, despite the measures taken to protect vulnerable populations (such as the bonus sociali in Italy), limits the cushioning effect of transfers in the current context.

Thus, despite the resilience of activity, the loss of household purchasing power is greater than during previous crises. Moreover, with consumer confidence in free fall since February 2022, the resilience of consumption (+2.3% year-on-year in Q3 2022) can only be explained by the cushioning role of the savings accumulated during the pandemic, to the extent that when these surpluses deplete, a sudden drop in consumption cannot be ruled out. The loss of purchasing power could also worsen the social and political climate.

Chart 2.1:
Real household income (annual growth)

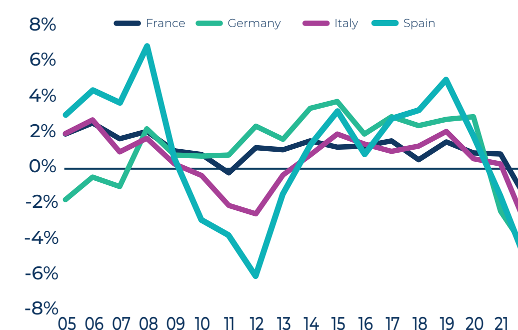
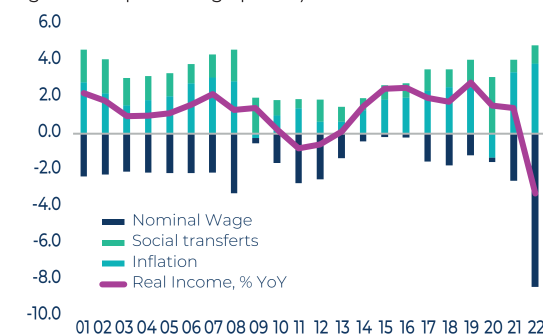


Chart 2.2:
Eurozone - Real household income (contribution to growth in percentage points)



Real household income is the sum of wage income and social transfers
Sources: European Commission AMECO, autumn 2022 forecast, Coface.

Commodity exporting countries, starting with energy, will benefit from still comfortable price levels. While prices will fall from their 2022 peaks, GDP growth will remain strong, at 3.8% in 2023 for the energy exporters of the Gulf Cooperation Council (GCC). Metal exporters should also benefit in the second half of the year from increased demand in Chinese industry and construction. Growth in Africa is thus expected to remain stable at around 3.5%, similar to the years before the pandemic.

For many emerging markets, currency volatility and rising borrowing costs will increase the burden of public debt, which has reached record levels following the COVID-19 pandemic. Not only may this mixture raise concerns about the sustainability of sovereign debt, but it will limit the fiscal space of many governments. To mitigate the impact of rising food and energy prices on households and businesses, governments have implemented costly measures (subsidies, loans, trade measures, etc.), most of which will be difficult to sustain. As a result, inflation, particularly in countries where food and energy dominate the consumer basket, is likely to remain high.

As we signalled at the end of the third quarter of 2022, with governments struggling to respond to households' difficulties, political and social challenges are likely to be exacerbated and will be a key theme in 2023. This will be all the more the case as the electoral calendar for the next 12 months is full of important events in emerging and developing countries. At the end of February, Nigeria will decide on the succession of President Muhammadu Buhari. Also on the African continent, the risk of public unrest will be high with elections in Libya, Zimbabwe and the Democratic Republic of Congo. In Latin America, elections could be on the agenda as early as this year in Peru, where political unrest is expected to continue following the impeachment of President Pedro Castillo in December. Despite strong economic fundamentals, this source of instability has led to a downgrade of Peru to B this quarter. Given the situation in Argentina, President Alberto Fernandez and the centre-left alliance Frente de Todos will face an uphill battle for re-election. Meanwhile, President Reçep Tayyip Erdoğan will attempt to extend his 20-year tenure as head of state in Turkey and, more importantly, retain a majority in Congress despite an unstable economic environment. Finally, on the Asian continent, the elections in Pakistan and Thailand will be hot spots to watch.

What conclusions can be drawn from the results of our sector risk assessments for this barometer?

There are three key developments in our Q4 2022 results. The first, as mentioned earlier in the article, is that there are few changes in our sector assessments compared with last year's Barometers (six upgrades compared with none in Q3 2022 and 10 downgrades compared with 49 in Q3 2022): downgrades are fewer and upgrades are back.

This reflects the relative improvement in our economic scenario outlined above. The upgrades are notably in the Middle East automotive sector, which we are upgrading in Saudi Arabia and the United Arab Emirates, where demand remains strong. In India, the upgrades are in line with the overall improvement in the country's economic situation, which has led to the upgrading of the country risk assessment. This improvement is illustrated by the upgrade (from very high to high risk) of some cyclical sectors, such as construction and automotive.

The second lesson is that some companies in two sectors previously considered resilient - ICT and pharmaceuticals - are experiencing difficulties. These two sectors combine the highest number of downgrades **(Tables from p.17).**

Finally, compared with the other five regions for which we produce sector risk assessments, Western Europe is once again the region with the highest number of downgrades (5 out of 11 downgrades in total, **Table p.20**). While the near-term outlook appears less bleak, it is clearly not yet time for upgrades.

The structural issues facing pharmaceutical companies in Europe are becoming more pronounced, partly as a result of increasing pressure on government finances

The various public health insurance systems on the continent are very similar and are funded by public entities (such as public agencies or «payers» in the industry's jargon). In the current less favourable economic environment, payers tend to put more pressure on pharmaceutical companies to lower the price of drugs, which is likely to reduce their profitability levels **(Chart 13).**

For instance, in the UK, an agreement between the government and the pharmaceutical industry introduced in 2019 requires pharmaceutical companies to pay 15% of their revenues to the government if the overall drug bill of the UK's public health system (NHS) increases by more than 2%. Under the agreement, UK drugmakers[7] will have to pay almost GBP 3.3 billion to the government this year. Furthermore, last December, the government expanded the list of drugs covered by the tax.

Pharmaceutical wholesalers are another segment of the pharmaceutical sector that we analyse. These companies are also likely

Chart 13:
Profitability of European pharmaceutical companies by segment (EBITDA/Turnover, %)

Sources: Refinitiv Worldscope, Coface

7 These are manufacturers of branded medicines, which are distinct from generics.

to suffer from increased price pressures from governments, in a context of higher fixed costs (storage, transport of goods). These are the reasons for the downgrades of the pharmaceutical sector in Austria, the UK and Italy **(Table p.20).**

ICT companies are «caught up» by the global economic situation...

Coface's sectoral analysis methodology for ICT includes different segments: telecommunications, media, a segment including computers, software and other IT equipment, and an electronics segment. Semiconductors are included in the electronics segment.

The equipment segments of ICT are being affected by the slowdown in global demand. This has led to the sector being downgraded to medium risk in South Korea and Japan. The production of electronic parts in Japan fell at the end of 2022 due to a significant drop in the production of electronic chips and this trend will intensify in the coming quarters. In Japan, companies insolvencies in the ICT sector rose by 16% in 2022 compared with the previous year. The situation is similar in South Korea, which has led to the downgrading of the ICT sectors in both countries.

...and remain at the heart of trade tensions between China and the US

2022 was marked by the adoption of various US laws aimed at both national security issues and curbing the development of advanced technologies in China (which had announced in 2018 its ambition to be the global leader in new technologies by 2025, fuelling trade tensions with the Trump administration).

For example, the US administration prohibited its companies from selling advanced semiconductors to China last October. A month later, the US government banned the import of telecommunications and video surveillance equipment from China. In the long run, the telecommunications industry in both countries could suffer from this measure, given the interdependence of the two markets.

The ban on the sale of high-tech semiconductors to Chinese companies may hinder innovation in the country in the short and medium term. In the long-term, however, we believe that it will not prevent China from achieving its high-tech semiconductor development goals. For instance, several Chinese digital giants and state-owned research institutes have joined the RISC-V, a global consortium that provides open source technology for collaboration and access to knowledge of advanced semiconductor technologies. Moreover, China has been investing massively in research in this field (among others), via various funds, for many years. This funding is estimated to total over USD 150 billion between 2014 and 2030. When compared in annual terms, the level of investment by the Chinese authorities is roughly equivalent to US funding plans.

Indeed, China is not alone in its emphasis on funding research and production of high-tech semiconductors. The global competition is on. Last year, the US and the EU passed legislation to increase funding for semiconductor research and production on their soil and reduce their dependence on Asia in this area (Chips Act). The European plan provides for EUR 11 billion of investment by 2030 vs. 52.7 billion over 5 years for the US plan.

Country Risk Assessment Changes

AREA	Previous Assessment		Current Assessment
BURUNDI	E	↗	D
GHANA	B	↘	C
HAITI	D	↘	E
INDIA	C	↗	B
PERU	A4	↘	B

BUSINESS DEFAULT RISK

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

Sector Risk Assessment Changes

(Q4 2022)

REGIONAL SECTOR RISK ASSESSMENTS

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

* Information and Communication Technologies
Source: Coface

ASIA-PACIFIC

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

CENTRAL & EASTERN EUROPE

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

* Information and Communication Technologies
Source: Coface

MIDDLE EAST & TURKEY

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

LATIN AMERICA

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

* Information and Communication Technologies
Source: Coface

NORTH AMERICA

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

WESTERN EUROPE

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

* Information and Communication Technologies
Source: Coface

OTHER COUNTRIES

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

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

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

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FOR TRADE

COUNTRY RISK ASSESSMENT MAP

162 COUNTRIES UNDER THE MAGNIFYING GLASS

A UNIQUE METHODOLOGY

- Macroeconomic expertise in assessing country risk
- Comprehension of the business environment
- Microeconomic data collected over 70 years of payment experience

BUSINESS DEFAULTING RISK

VERY LOW | LOW | SATISFACTORY | REASONABLE | FAIRLY HIGH | HIGH | VERY HIGH | EXTREME

GROENLAND (DENMARK)
ICELAND
CANADA
UNITED STATES
MEXICO
CUBA
BAHAMAS
E
DOMINICAN REPUBLIC
JAMAICA
HAITI
BELIZE
HONDURAS
GUATEMALA
EL SALVADOR
NICARAGUA
COSTA RICA
PANAMA
BARBADOS
TRINIDAD AND TOBAGO
VENEZUELA
GUYANA
SURINAME
FRENCH GUYANA
COLOMBIA
ECUADOR
B
PERU
BRAZIL
BOLIVIA
PARAGUAY
CHILE
ARGENTINA
URUGUAY

NORWAY
SWEDEN
FINLAND
ESTONIA
LATVIA
LITHUANIA
DENMARK
IRELAND
UNITED KINGDOM
NETHERLANDS
BELGIUM
LUXEMBOURG
GERMANY
POLAND
BELARUS
UKRAINE
CZECH REPUBLIC
SLOVAKIA
FRANCE
SWITZERLAND
AUSTRIA
HUNGARY
SLOVENIA
CROATIA
MOLDOVA
ROMANIA
BOSNIA
SERBIA
MONTENEGRO
BULGARIA
NORTH MACEDONIA
ALBANIA
ITALY
GREECE
PORTUGAL
SPAIN
MALTA

RUSSIA
KAZAKHSTAN
MONGOLIA
UZBEKISTAN
KYRGYZSTAN
TURKMENISTAN
TAJIKISTAN
GEORGIA
ARMENIA
AZERBAIJAN
TURKEY
CYPRUS
LEBANON
ISRAEL
PALESTINIAN TERRITORIES
SYRIA
IRAQ
IRAN
AFGHANISTAN
PAKISTAN
JORDAN
KUWAIT
BAHRAIN
QATAR
SAUDI ARABIA
UNITED ARAB EMIRATES
OMAN
YEMEN
NORTH KOREA
SOUTH KOREA
JAPAN
CHINA
TAIWAN
HONG KONG
NEPAL
INDIA
B
BANGLADESH
MYANMAR
LAOS
THAILAND
CAMBODIA
VIETNAM
PHILIPPINES
SRI LANKA
MALDIVES
MALAYSIA
SINGAPORE
INDONESIA
TIMOR-LESTE
PAPUA NEW GUINEA
AUSTRALIA
NEW ZEALAND
FIJI

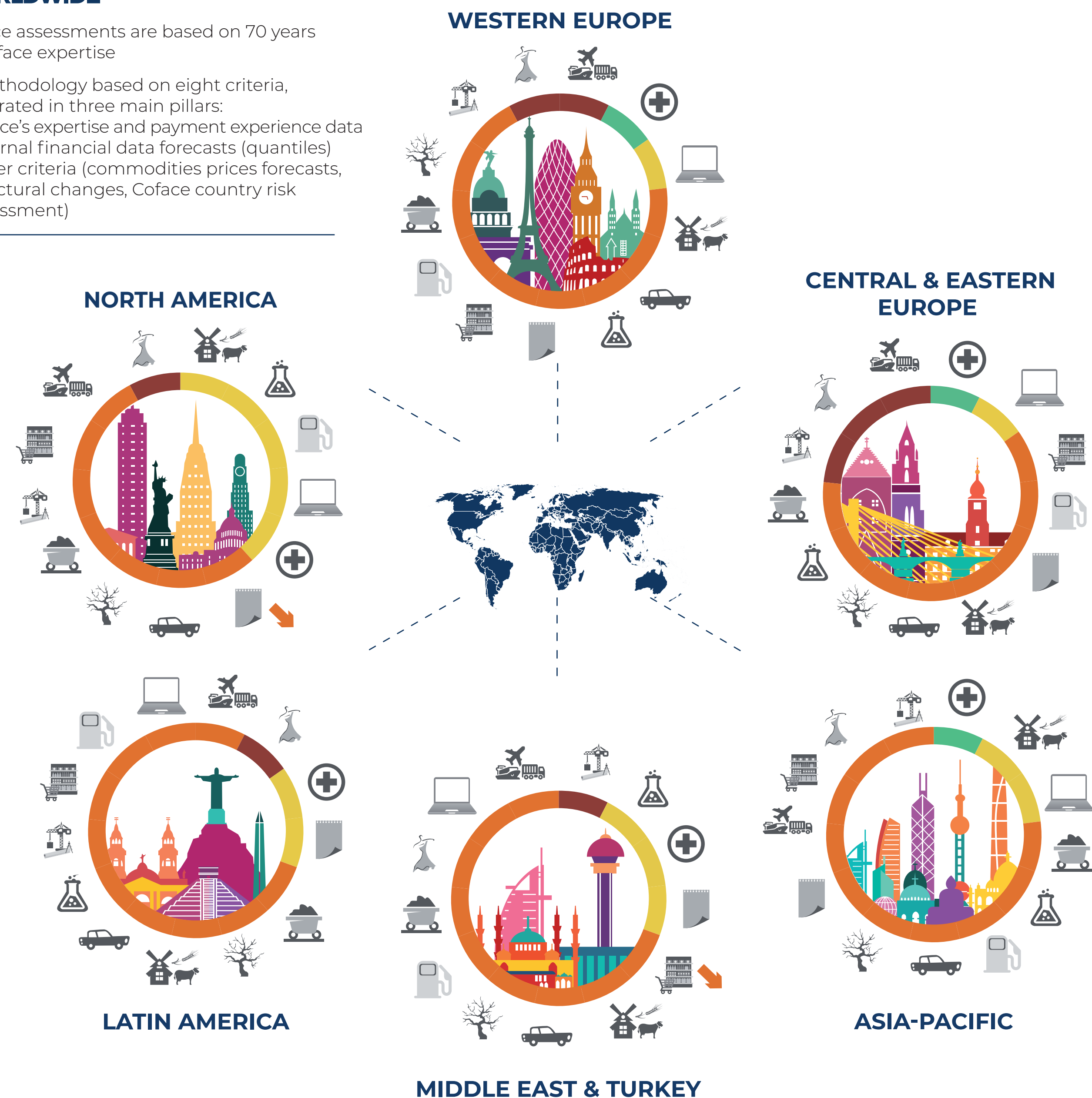
MOROCCO
ALGERIA
TUNISIA
LIBYA
EGYPT
MAURITANIA
MALI
NIGER
CHAD
SUDAN
ERITREA
DJIBOUTI
CABO VERDE
SENEGAL
GAMBIA
GUINEA-BISSAU
GUINEA
C
SIERRA LEONE
LIBERIA
IVORY COAST
GHANA
TOGO
BENIN
NIGERIA
CAMEROON
CENTRAL AFRICAN REPUBLIC
SOUTH SUDAN
ETHIOPIA
SAO TOME & PRINCIPE
EQUATORIAL GUINEA
GABON
CONGO
D
UGANDA
KENYA
RWANDA
BURUNDI
TANZANIA
ANGOLA
ZAMBIA
MALAWI
ZIMBABWE
MOZAMBIQUE
NAMIBIA
BOTSWANA
SOUTH AFRICA
ESWATINI
LESOTHO
MADAGASCAR
MAURITIUS
ÎLE DE LA RÉUNION

SECTOR RISK ASSESSMENTS
4e quarter 2022

13 MAJOR SECTORS ASSESSED WORLDWIDE

Coface assessments are based on 70 years of Coface expertise

A methodology based on eight criteria, integrated in three main pillars:
- Coface's expertise and payment experience data
- External financial data forecasts (quantiles)
- Other criteria (commodities prices forecasts, structural changes, Coface country risk assessment)



agri-food	ICT*	textile-clothing	Upgrade
automotive	metals	transport	Downgrade
chemical	paper	wood	
construction	pharmaceuticals		
energy	retail		

* Technologies de l'Information et de la Communication

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