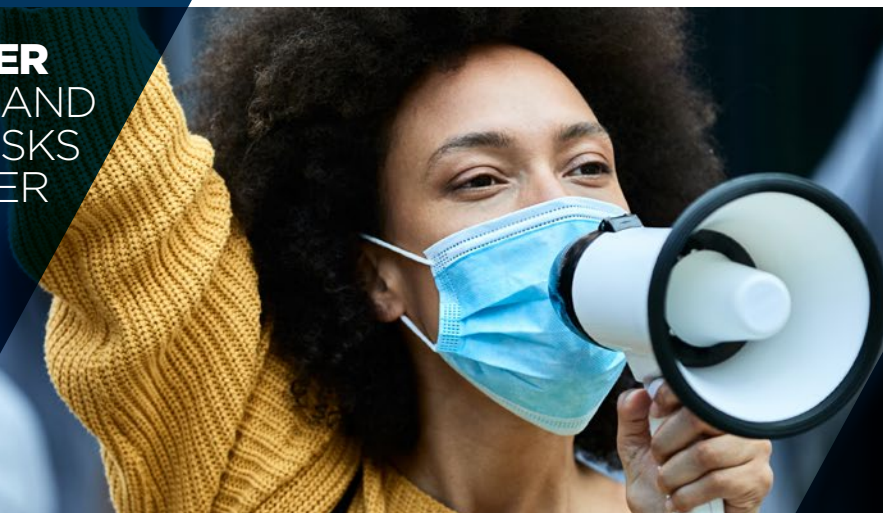


BAROMETER COUNTRY AND SECTOR RISKS BAROMETER

Q3 2020



By the Coface
Economic
Research team

In spite of a gradual recovery, political risks are on the rise

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Similar to last quarter, the uncertainties surrounding the forecasts presented in this barometer are very high. They are primarily linked to the global health situation: since June, the pandemic has continued to gain momentum. While waiting for a vaccine and/or a treatment, businesses and households have postponed spending and investment projects, both out of constraint (during the containment period) and as a precaution. Overall, Coface anticipates a global growth rate of -4.8% in 2020, followed by a 4.4% rebound in 2021. According to these forecasts, GDP in the Eurozone and in the United States at the end of 2021 would remain 3.5 points and 2 points below the 2019 levels, respectively. This means that at least 3 years would be required to return to pre-crisis levels of production. The observation is similar regarding world trade: the rebound anticipated next year (+3.5% in Q4 2021 compared to Q4 2020) will be far from offsetting the drop expected for this year (-13%).

This trend is not homogeneous: according to our forecasts, among the 20 economies that would achieve the strongest cumulative growth in these two years (at least 5 percentage points higher than in 2019),

about half are in Asia (including China and Vietnam). The other half is composed exclusively of African countries. At the other end of the spectrum, among the 15 worst performing economies (i.e. with a 2021 GDP at least 7 percentage points lower than in 2019), 7 are in Latin America. South Africa and Nigeria are also in this group. This sustained lower level of economic activity compared to pre-crisis levels is expected to have consequences on employment and corporate insolvencies. Therefore, it is also likely to foster a rise in social discontent.

The annual update of Coface's Political Risk Index, published in this barometer, highlights a dual trend: on the one hand, a decrease in the risk of conflict at a global level, but on the other, an increase in the risk of political and social fragility. Iran and Turkey are among the countries whose level of social risk increased the most. Given the unique context this year, we have constructed an exposure indicator to the COVID-19 crisis, in order to identify the most affected populations who are more likely to turn against their governments. This analysis shows that several Latin American countries (Brazil, Mexico, Peru, Colombia), as well as South Africa, have both a high political and social risk, and a high exposure to the COVID-19 crisis.