

BAROMETER COUNTRY AND SECTOR RISKS BAROMETER

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Country Risk
Conference
Special

By Coface
Economic
Research team

Global economy: industry is stalling

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Despite the many obstacles in its path (diverse and varied political risks, high volatility of commodity prices, supply constraints in advanced economies, to name but a few), world growth in 2018 managed to sustain its 2017 rate (3.2%). However, the multiplication of these pitfalls began to slow growth down by the end of the year, to the point of darkening the outlook for the year ahead (Coface forecast: 3.0%). Although the extent of this decline seems modest, it is sufficient for business credit risk to increase: Coface anticipates that the number of corporate insolvencies will increase in 24 of the 39 countries for which this data is available, which account for 65% of global GDP (**Graph 1**). This is five and nine more countries respectively than in 2018 and 2017. The United States has yet to be part of this, even though its peak growth rate also seems to have been exceeded.

Unsurprisingly, industry provides the impetus for the economy, notably the automotive sector, whose Coface assessment of corporate credit risk has deteriorated in eight countries this quarter (including seven in Europe). This has impacted growth prospects: growth is unlikely to exceed 1.4% in Germany and France in 2019, 2.2% in Spain, and 0.5% in Italy. In this environment, world trade is not spared: Coface expects its growth to reach

only 2.3% this year – 1 and 2 percentage points lower than in 2018 and 2017 respectively, but still higher than the low point of 2016.

However, slowing growth in advanced economies – particularly in the United States – has at least one positive effect: by reducing expectations of further key interest rate hikes by the US Federal Reserve, the risks of capital outflows from emerging markets are limited.

Coface anticipates that the price of a barrel of Brent crude oil will reach an average of USD 75 in 2019, a level similar to that of 2018 – even if this forecasting exercise is all the more difficult due to the significantly increasing price volatility since the beginning of the fourth quarter of 2018. This level is sufficient to prevent many oil-exporting countries from having to cut public spending to compensate for lower commodity revenues. In this contrasting context, Coface is upgrading its country risk assessments of economies dependent on this raw material: Angola (up to C), Azerbaijan (B), Canada (A2), the United Arab Emirates (A3), and Trinidad and Tobago (B). The assessments for Montenegro (B), Mozambique (D), the Dominican Republic (A4) and Rwanda (A4) have also been upgraded. In contrast, Lebanon has been downgraded to D.