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PANORAMA

JUNE 2015

Global Country Risk Outlook

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By Coface Group Economists

In this panorama, we first set out a study examining the economic situation and outlook for Sub-Saharan Africa. After a long period of gloominess, the economic weather became more favorable despite the Lehmann Brothers bankruptcy in 2008 and the eurozone sovereign debt crisis. This part of the world has managed to benefit from structural reforms, public finances consolidation, significant foreign investments, abundant global liquidity and more stable political environments. The fall in global raw materials prices reshuffles the deck and the sky could turn grey. However, situations differ from one country to another. Some are suffering and will continue to suffer from the deteriorating weather while others, which already started to diversify their economies, should be protected from the storm.

With this issue we are also publishing our quarterly barometer of worldwide trends in country risk. We explain why we have upgraded our risk assessments for Portugal, the Czech Republic and Vietnam. We also explain why we give a negative assessment for the prospects for Algeria, Bahrain, Canada, Gabon, Madagascar, South Africa and Tanzania and why we have downgraded our assessment for China.

Readers will find updated reports for some of these countries setting out their economic situation in more detail at the end of the panorama. Readers will also find updated country analysis for Angola, Argentina and Egypt.

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RESEARCH PAPER
June 2015

SUB-SAHARAN AFRICA: SUNNY IN THE EAST, CLOUDY IN THE CENTRE

BY OUR ECONOMISTS

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INTRODUCTION

Most of the sub-Saharan [1] economies have been enjoying fine weather since 2008: growth in the region has reached nearly 5% p.a. on average since that date, despite the storms (Lehman Brothers collapse and sovereign debt crisis in the eurozone) or at best very cloudy weather (declining growth trend for the large emerging countries) in the rest of the world. The reasons for this fair weather are many: structural readjustment linked to a relatively low initial per capita wage level, high foreign investments in a context of abundant world liquidity, more stable political environments, as well as public finances in better order thanks to numerous debt cancellations. Among them were also the high prices of raw materials, on which the region is very dependent: oil, metals, minerals and foodstuffs account for 80% of exports. The sharp fall in global raw materials prices over the last year therefore means economic clouds are looming on the region's horizon. But has the weather worsened uniformly in all the countries? Which countries are coming out best in this unfavourable environment? Are there other sources of growth to protect these countries from the coming headwinds? To answer these questions, this study first identifies the countries for which the risk of darker economic clouds is particularly great, i.e. those which have been hardest hit by the recent fall in raw materials prices. To do this, we distinguish particularly the countries which export non-renewable raw materials (oil, metals and minerals) from those that export renewables (food and agricultural products), the prices of the first having fallen more than those of the second during the past year *(part 1)*. But, among the countries where the risk of bad economic weather is highest, some will stay 'dry' because they have an umbrella to protect them: these countries have begun to diversify their exports and, more generally, their economy allowing them to shelter from the adverse conditions *(part 2)*.

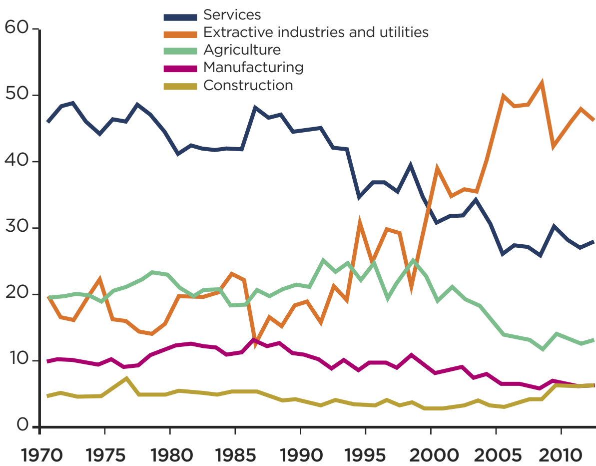
(1) 45 countries in all: South Africa, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape-Verde, Central African Republic, the Comoros, Democratic Republic of Congo, Ivory Coast, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea Bisau, Equatorial Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Sudan, Swaziland, Tanzania, Chad, Togo, Uganda, Zambia, Zimbabwe.

1 THE REGION IS STILL HIGHLY DEPENDENT ON RAW MATERIALS

A large part of added value still comes from the extractive industries and agriculture

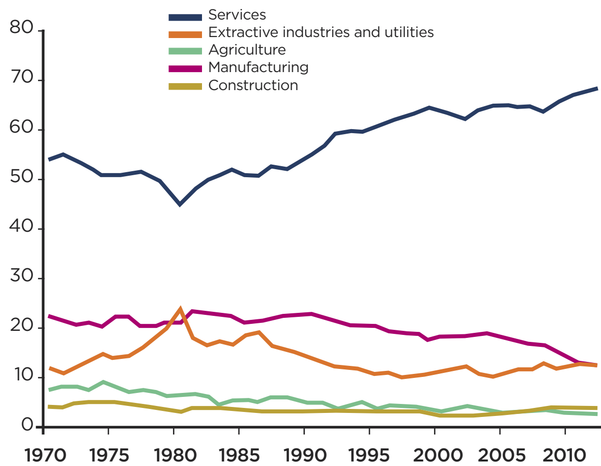
The importance of the agricultural sector and of that of the extractive industries and utilities (respectively 20% and 21% of total added value in 2012 [(2)]) underlines the dependence of Sub-Saharan African economies on commodities.
This general statement, however, masks some disparities. In Central Africa, which includes almost all the Sub-Saharan oil exporting countries (Angola, Cameroon, Gabon, Equatorial Guinea, Chad, Congo, with the exception of Nigeria), the importance of the extractive industries and utilities, which greatly increased in the 2000-2009 decade, stands at a much higher level than the African average (46% in 2012, *see chart n° 1*). At the same time, the proportion of agriculture has fallen to low levels. In southern Africa (essentially South Africa) where the importance of the extractive industries and agriculture is very slight, despite the abundance of natural resources, growth is, however, much less dependent on raw materials *(see chart n°2)*. Eastern Africa (Kenya, Ethiopia, Tanzania...) shares some similarities with southern Africa. However, the agricultural sector still has an important place there *(see chart n° 3)*. Western Africa (Nigeria, Ghana, Ivory Coast...), with some reservations concerning Nigerian statistics [(3)], occupies a middle position, the extractive industries, agriculture and services having about equal weight *(see chart n° 4).*

Chart n° 1
Central Africa: share of sectors in total added value (%)



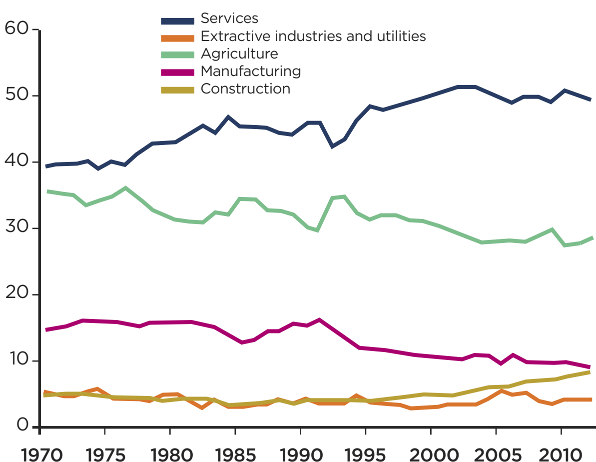
Source: UNCTAD

Chart n° 2
Southern Africa: share of sectors in total added value (%)



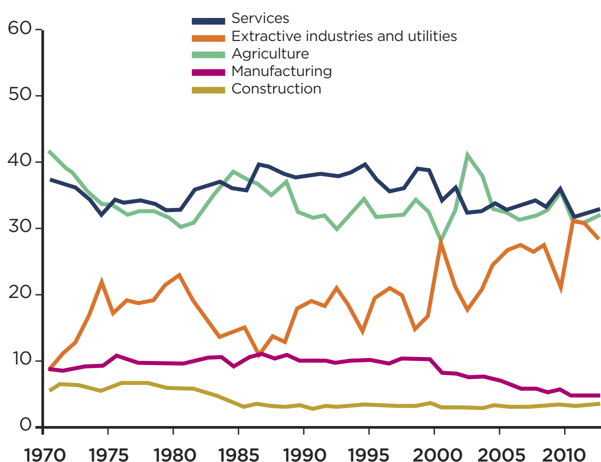
Source: UNCTAD

Chart n° 3
Eastern Africa: share of sectors in total added value (%)



Source: UNCTAD

Chart n° 4
Western Africa: share of sectors in total added value (%)



Source: UNCTAD

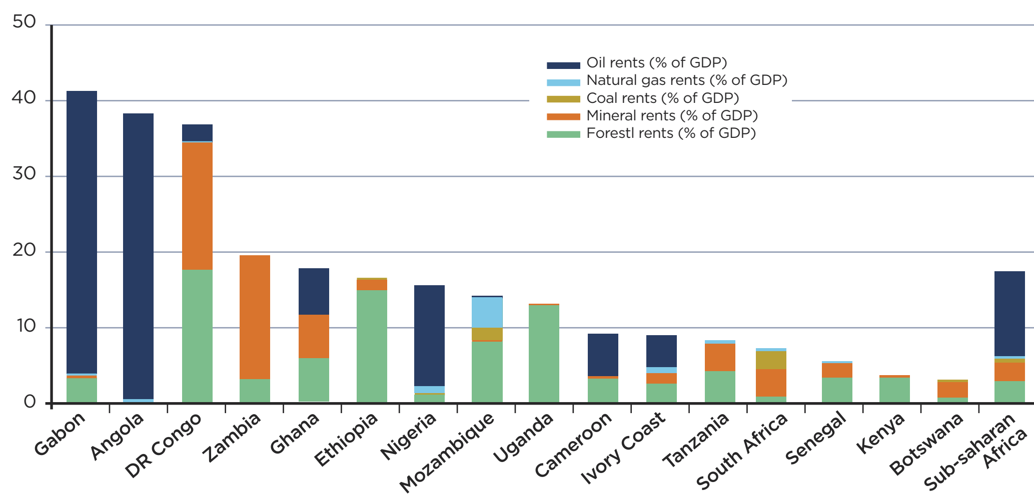
(2) Source: UNCTAD
(3) The UNCTAD figures do not take into account the recent change in the reference year used for calculating Nigerian GDP, which has resulted in an upward revision of the importance of services in GDP.

Among the natural resources exploited, oil occupies a central position

On which natural resources are the sub-Saharan economies most dependent? There are some indicators which allow a more detailed answer. The World Bank provides statistics on the contributions of oil, gas, coal, minerals and forests to GDP [4] by country. These show that sub-Saharan Africa remains strongly reliant on the rents [5] derived from oil, far ahead of those from mining or forestry *(see charts n° 5 and 6)*. After having peaked in 2008, the contribution of oil has slowly diminished, with production concentrated on a small number of countries, either on a stagnating (Angola) or falling trend (Gabon, Equatorial Guinea, Chad). Production remains, moreover, very erratic in Nigeria. Oil, thus alone accounts for nearly two thirds of the total contribution of natural resources to sub-Saharan GDP, oil rents representing 11% of the region's GDP in 2013.

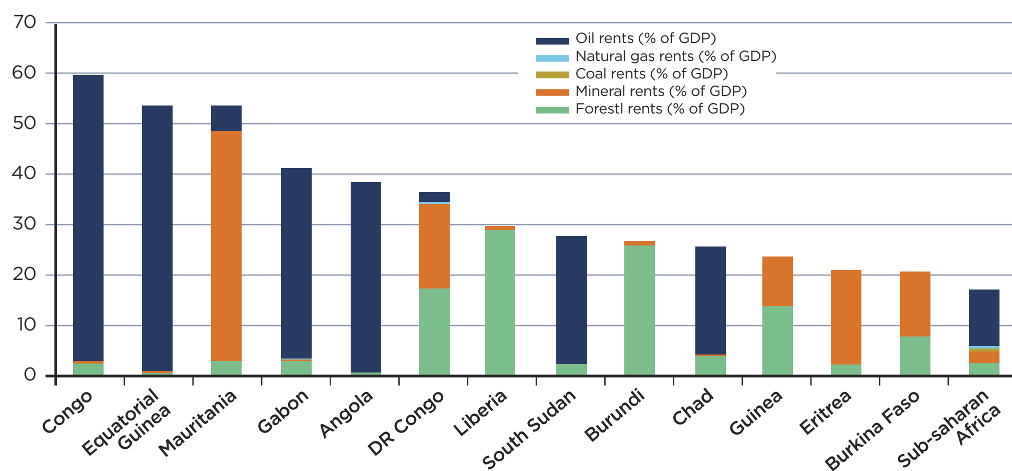
The degree of dependence, however, varies widely between countries. Thus, considering only the case of oil, the situation of Gabon and Angola cannot be compared with that of Cameroon or Nigeria, whose economies are more diversified *(see chart n° 5)*. Nonetheless, in almost all the net exporters of oil in the region, fuels represent the lion's share of export revenues.

Chart n° 5
Total natural ressources rents, 17 main economies (% of GDP in 2013)



Source: World Bank

Chart n° 6
Total natural ressources rents, most resource-dependent countries (% of GDP in 2013)



Source: World Bank

(4) World Bank data base - World Development Indicators
(5) Defined as the difference between the total cost of production and the value of production at world prices.

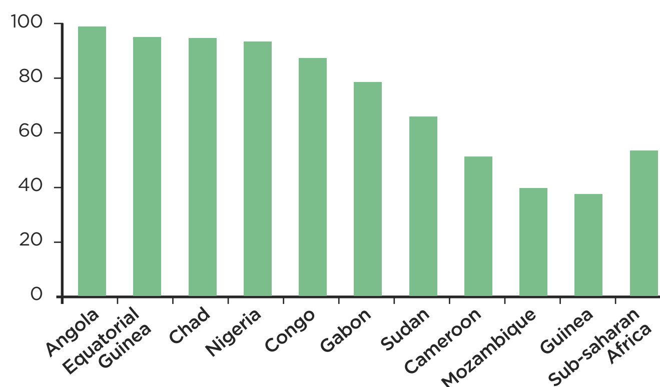
Commodities represent 80% of the region's exports of goods

An analysis of the share of commodities in exports of goods shows a more pronounced dependence of the region on raw materials than does that of the share of the different sectors in the economy. Fuels (essentially oil) account for more than half of sub-Saharan Africa's sales abroad 53% in 2013 [(6)], far ahead of minerals, metals and precious stones (17%), on the one hand, and food items and agricultural raw materials (11%) on the other. Revenues from the sale of commodities, dependent on movements in world prices, but also on the vagaries of climate, where agricultural products are concerned, thus represent in total 82% of the region's exports of goods.

If we list the countries most dependent on raw materials with regard to exports, then fuels represent between 60% and 100% of exports of Angola, Equatorial Guinea, Chad, Nigeria, Congo, Gabon and Sudan *(see chart n°7)*. As far as mining products are concerned, sub-Saharan Africa mainly exports, in order of importance, iron (ore, metal, cast iron), gold, copper (ore and metal), precious stones, silver (and platinum), base metal ores and aluminium. Between 60% and 90% of exports of Botswana (primarily diamonds), the Democratic Republic of Congo (copper), Zambia (copper), Mauritania (iron ore) and of Eritrea (gold) comprise this type of product *(see chart n° 8)*. As to food and agricultural products, the region exports chiefly cocoa, fruits, cotton, fish and coffee. These products represent between 60% and 100% of the exports of Guinea Bissau (fruits), Somalia (animals), the Seychelles (fish), Ethiopia (coffee, vegetables, oleaginous grains and fruits, animals), Sao Tome and Principe (cocoa), Cape Verde (fish) and Gambia (wood, fruits) *(see chart n° 9)*.

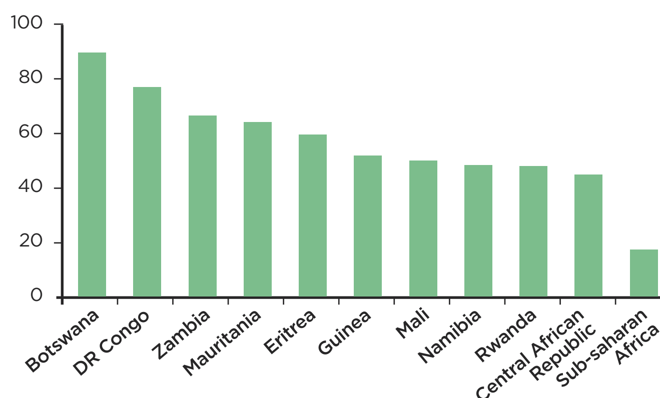
On the other hand, raw materials represent less than half of exports in South Africa, the Comoros, Lesotho, Malawi, Mauritius and Swaziland. Finally, countries such as Djibouti, Kenya, Madagascar, Niger, Uganda, Senegal, Togo and Zimbabwe occupy a middle position with percentages of between 50% and 65%.

Chart n° 7
Share of fuels in exports of goods (% 2013)



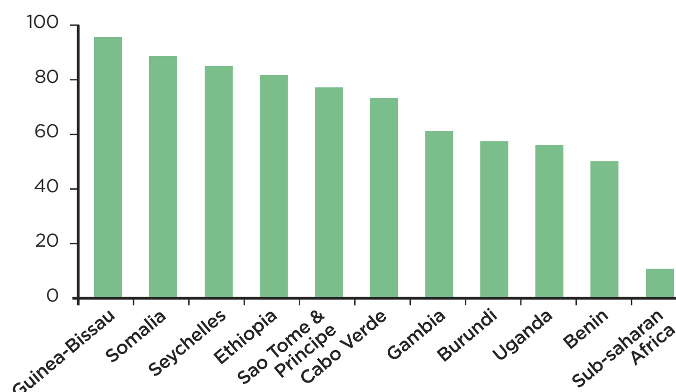
Source: UNCTAD

Chart n° 8
Share of ores, metals and precious stones in exports of goods (% 2013)



Source: UNCTAD

Chart n° 9
Share of food items and agricultural raw materials in export of goods (% 2013)



Source: UNCTAD

(6) Source : UNCTAD

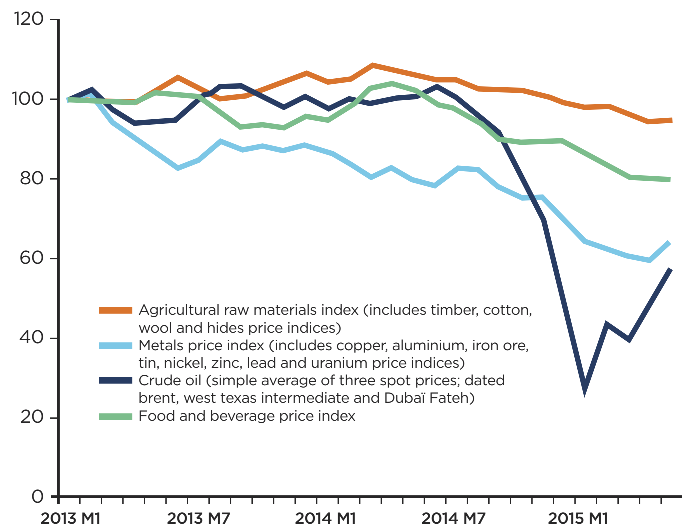
The current drop in raw material prices affects the countries of the region unequally

After the record highs reached in 2011, the prices of raw materials began to fall. The slide accelerated in the second half of 2014 but was uneven, depending on the raw materials concerned.

This means we can make a distinction between non-renewable products (crude oil and base metals) and renewable products (foodstuffs and agricultural raw materials). Prices for the first have fallen sharply (-35% for base metals and -40% for oil between January 2013 and May 2015) while there has been more limited decline for the second (-5% for agricultural raw materials and -20% for foodstuffs) *(see chart n° 10)*.

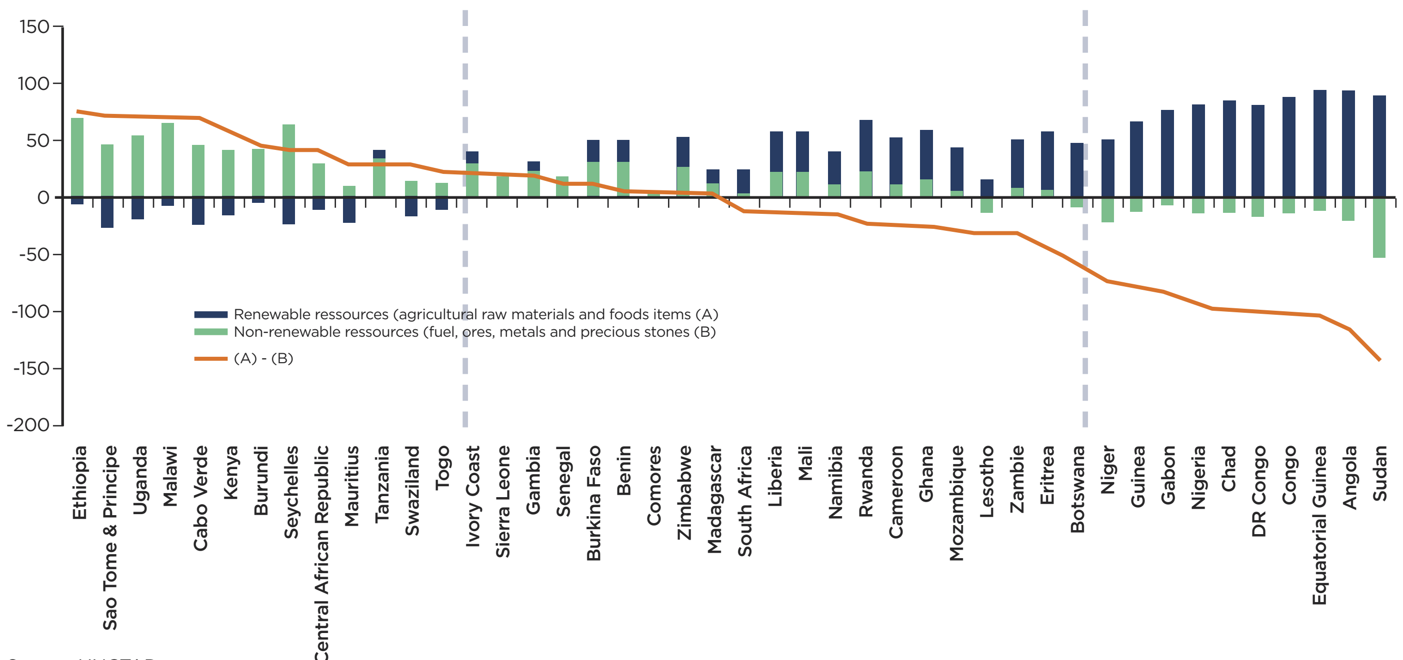
As we can see and given the structure of the exports from sub-Saharan Africa, the way the fall in raw material prices affects the region is very uneven *(see chart n° 11)*.

Chart n° 10
Index of commodity prices (January 2013=100)



Source: IMF

Chart n° 11
Share of net exports of non-renewable or renewable products in exports of goods (% 2013)



Source: UNCTAD

To measure this differentiated effect of the recent drop in raw material prices on the economies of sub-Saharan Africa, we first calculated for each country the difference between exports and imports of non-renewable raw materials (as a percentage of total exports) and that between the exports and imports of renewable raw materials. A positive (or negative) score indicates that the country in question is a net exporter (or importer) of these products. We then calculated the difference between these two scores, in order to classify the countries of the region according to their vulnerability to the recent movements in raw materials prices. This classification allowed us to distinguish three categories of countries:

- Countries that are very vulnerable to this differentiated fall in raw materials prices (on the right side of the chart n° 11): these are net exporters of non-renewable raw materials, and net importers of renewable raw materials. Their terms of trade are worsening sharply, as the price of their export products is falling by more

than that of the products they import. This shock is likely to affect both their external accounts (deterioration of the current account balance) and their public accounts, the more so since the latter have also deteriorated in recent years *(see box 1)*.

- Moderately affected countries (in the middle of the chart n° 11 page 6): these are net exporters of both renewable and non-renewable raw materials. They are therefore affected by the correction in world prices but to a lesser degree because the weight of exports of the second is less important than for the countries in the previous category.
- Countries relatively unaffected (on the left hand side of the chart n° 11 page 6): these are net exporters of renewable raw materials, and also net importers of non-renewable raw materials. The price of their exported products has fallen less than that of the products they import.

A fourth category could have been added: that of countries which are net importers of raw materials (both renewable and non-renewable), which would be the big winners from this external environment. But this analysis shows that sub-Saharan Africa has no such country.

Box 1

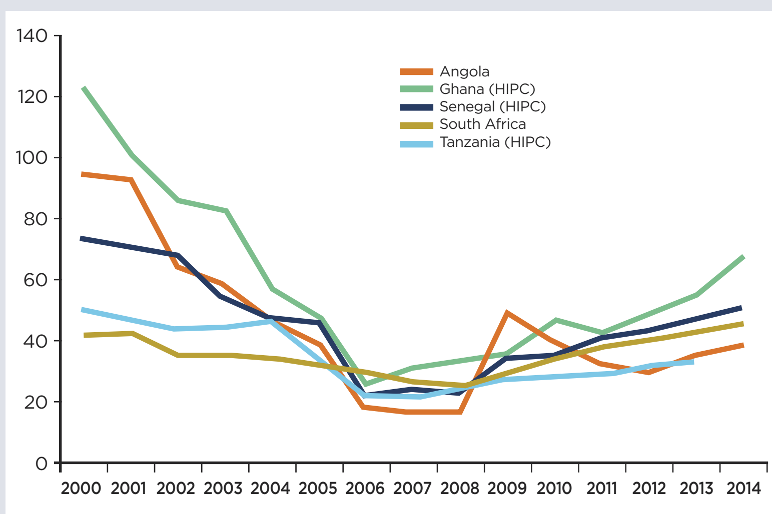
Sub-Saharan African debt is expanding again

The cancellation of the debt of nearly thirty African countries under the heavily indebted poor countries (HIPC) initiative since 2000 and the acceleration in growth have made it possible to bring the overall burden of sub-Saharan African debt within reasonable limits. Thus the region's public debt/GDP ratio dropped from 66.7% in 2000 to 23.6% in 2008, its lowest point for three decades. This cancellation took the form of relief initially granted by the official creditors of the Paris Club[7] (cancellation of a flow of maturities over a certain period), to which was added, at a second stage, after the HIPC completion point was reached, a reduction granted by the multilateral creditors (multilateral debt relief initiative or MDRI) and cancellation of the debt stock still owed to the Paris Club creditors.

Since 2009, there has been a process of re-indebtedness *(see chart n° 12)*, along with the reappearance of a budget deficit. Indeed, after five years of surpluses, the region's public accounts recorded a deficit of nearly 3% of GDP on average over the 2009-2014 period. Turning away from concessionary loans from multilateral institutions, numerous African countries, including some of those which benefitted from the HIPC initiative,[8] successfully tapped the international financial markets from 2007 (Ghana and Gabon opened the way). These eurobond issues were over subscribed at interest rates generally lying between 6 and 7%. Moreover, certain countries took out significant bilateral loans outside the Paris Club countries, from countries such as China.

The borrowers benefit from greater freedom in their borrowing policy, in a context where their infrastructure needs require the mobilisation of a significant amount of capital. Facilitated by the monetary easing applied in western countries and abundant liquidity, this renewal of debt has proceeded at a fast pace in certain countries and the cost of these new debts is higher than that of the loans obtained from the multilateral institutions or the Paris Club countries. This could again increase the region's vulnerability. So, the recovery in the United States and Europe and the fall in oil prices are already beginning to lead to a tightening of borrowing conditions, noticeable especially for oil-producing countries, Ghana and Zambia. Some countries will therefore be forced to scale down their bond issuance programme, which could delay their investment programmes and will not make it easy to refinance their existing debts. The depreciation of certain African currencies against the dollar (the currency in which eurobonds are denominated) is further complicating the task of the governments of the countries concerned, since it increases the value in local currency of repayments in foreign currencies.

Chart n° 12
Countries with access to capital markets and rapidly expanding debt
(public debt in % of GDP - source: IMF)



Source: IMF

(7) Informal group of public creditors essentially bringing together advanced countries, whose role is to find co-ordinated and lasting solutions to the payment difficulties of debtor countries (debt rescheduling or reduction in debt service obligations).
(8) Ivory Coast, Ghana, Uganda, Democratic Republic of Congo, Rwanda, Senegal, Tanzania, Zambia. The countries accessing the capital markets which have not benefitted from debt cancellation are South Africa, Angola, Gabon, Kenya, Mauritius, Namibia and Nigeria.

2 THE DRIVE TO DIVERSIFY THE ECONOMY IS UNDERWAY IN SEVERAL COUNTRIES

Some of the sub-Saharan African countries currently have assets, which means they are less exposed to the consequences of falling world raw materials prices. Greater economic diversification reduces their vulnerability to external shocks on the raw materials markets. We have identified two possible diversification strategies:

1 - expanding the manufacturing sector, in particular thanks to the upgrading of the agricultural sector favouring the agrifood industry;
2 - developing the relatively high value-added services sectors.

Expansion of the manufacturing sector and increased integration into the global value chains

When we study the share of the manufacturing sector in the GDP of sub-Saharan African countries, it seems that the contribution of manufacturing industry is generally fairly weak. The median value is in the order of 7.8%, with significant gaps between countries.

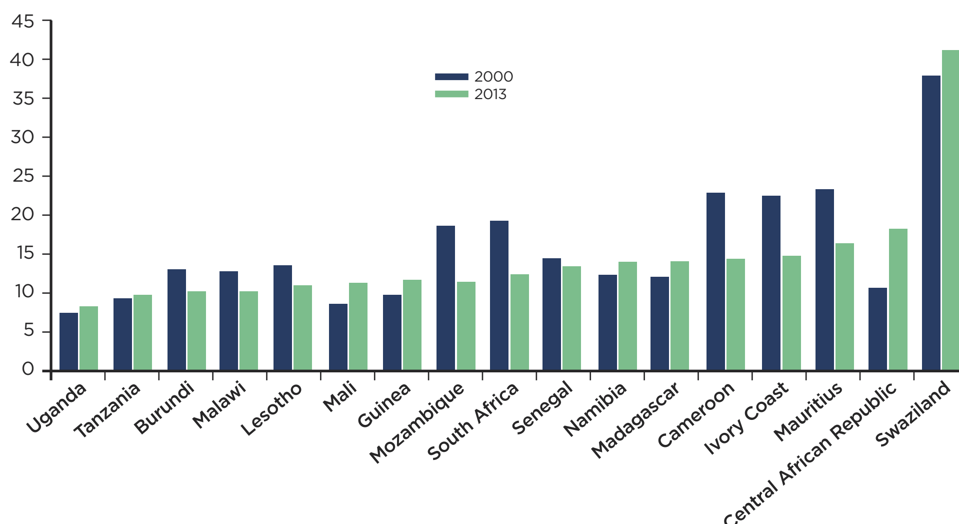
Among the economies where the production of manufactured goods contributes most (so which are situated above this median value, *see chart n° 13*), not all have increased the share of manufacturing industry in their GDP since 2000. This stability tends to suggest that the manufacturing sector could have difficulty in driving the economy in the long term, if production stagnates.

Admittedly some have seen this sector's share in the economy increase in the past ten years (Swaziland, Tanzania, Namibia, or Uganda for example). But this indicator of the manufacturing sector's contribution to the economy does not reflect the increased diversification of the manufacturing industry and therefore does not seem to be the most relevant for identifying the countries which could capitalise on this sector.

The success of the economic development of certain Southeast Asian countries has been based, at least partly, on the expansion of the manufacturing sector linked to successful integration into the global value chains. Analysis of the global value chains (GVC) is based on the study of the value added at each stage in the manufacture of a product, from its conception to its end use by the consumer. The integration of a country into a global value chain enables its businesses, by benefitting from their competitive advantages in a stage of the production process, to create added value by transforming goods imported from another country, thus also creating employment and wealth. Two main indicators can serve to assess a country's integration into GVCs:

- upstream integration which is used to measure the share of foreign added value in a country's exports and
- downstream integration which is used to measure the share of added value contributed by a country in the exports of other countries.

Graphique n° 13
Share of manufacturing industry in GDP (%)



Sources: BMI/World Bank

Specialisation, initially, in products with high labour intensity (because of low wage costs), followed by an increase in the added value content, is a development model which has enabled a number of countries, particularly in East Asia, to create bases for sustainable growth. Increased integration into GVCs seems to be a prior condition for initiating a virtuous circle of growth and structural transformation and for generating repercussions in terms of job creation and inclusive growth leading to genuine development.

The various existing studies [9] show that the integration of sub-Saharan Africa into GVCs is generally weak, because of the structure of exports, dominated by primary products and the poor diversification of the products exported. There is, however, potential for strengthening this integration through increased diversification of exports. Identifying the countries, whose export diversification is relatively high or increasing, could help pinpoint the sub-Saharan African economies likely to benefit from more sustainable growth, leading to higher rates of employment and greater wealth for the population.

The extent of this diversification can be measured thanks to the UNCTAD indicator regarding the number of products [10] *"of which the added value of exports is above USD 100,000 or represents more than 0.3% of the country's total exports"*. The more different products that a country exports, the more diversified its production structure and the better will be its integration into international trade. Thus the number of products exported by the oil-producing countries is generally much lower than that of non-hydrocarbon exporting countries. The diversification indicator is 36 for Equatorial Guinea, 70 for Chad and 82 for Angola, while it is above 250 for South Africa. Nigeria is, however, an exception with an index of 229.

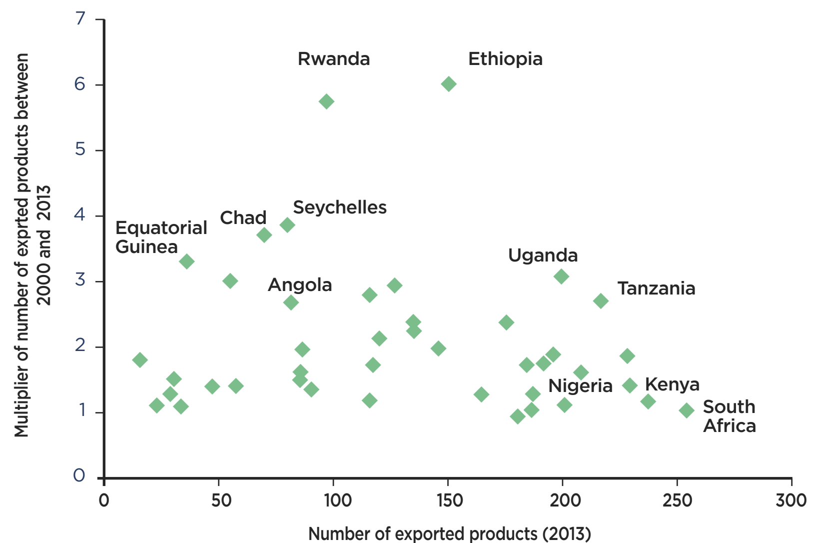
Not surprisingly, South Africa has the biggest number of products exported from the region. It is also one of the Sub-Saharan African countries most integrated into the GVC, in particular, thanks to is automotive production sector. Several major vehicle manufacturers have indeed set up assembly plants there following the government's decision in the mid-1990s to reduce customs duties on the import of vehicles and spare parts. The vehicles are mainly sold on the African continent but also in Asia.

In Kenya, the diversification of the economy is not new either. It concerns, in particular, the agricultural processing sector, floriculture, textiles and the leather industry, as well as tourism and services.

Other countries, whose diversification efforts are more recent, have seen the number of their products exported grow very rapidly over the last ten to fifteen years.

By using a criterion for the increase in export diversification, measured by the multiplier factor of the number of products exported between 2000 and 2013 (higher than 3), together with a criterion of the level of diversification in 2013 (at least a hundred exported products), three countries stand out: Uganda, Ethiopia and Rwanda *(see chart n° 14)*. For these economies, diversification can be a key factor for long-term growth.

Chart n° 14
Export diversification



Source: UNCTAD

- In **Uganda**, the increase in the number of products exported since 1995 is explained in part by the manufacture and export of agrifood products and beverages (beers produced particularly by the brewer, SabMiller, from locally produced sorghum), as well as horticultural products.

- **Rwanda**, a third of whose GDP comes from the agricultural sector, has also begun the local production of liquors from coffee and lemons produced locally, converted into syrup to which imported alcohol is added. The drink, of which the production began at the beginning of 2015, is at present distributed only locally, but the producer is aiming at the East African market. This experiment is supported by the government in the framework of the special economic zones (SEZ) created to offer favourable conditions to companies which set up there, particularly regarding energy supply (electricity, water).

(9) In particular the report on "global value chains and Africa's industrialisation " published in 2014 by the AfDB, the OECD and the UNEP and the IMF's "Regional Economic Development Prospects" for sub-Saharan Africa of April 2014 (chapter III)
(10) According to the SITC classification

The textile sector has also benefitted from measures to promote its expansion and is contributing to the country's gradual integration into the GVC. C&H Garment Company, a Chinese clothing manufacturer has, for example, recently chosen to set up in Rwanda, in view of a rather favourable business environment and low labour costs. The company is located in one of the SEZs and its production is intended for export.

- The case of **Ethiopia** is also emblematic, being to do with the expansion of the clothing/footwear sector. In 2012, the Chinese Huajian Shoes company set up a factory there for the manufactures of shoes and, in 2013, the Swedish ready-to-wear clothing chain H&M decided to get its supplies from Ethiopian suppliers in order to benefit from lower labour costs. The Ethiopian government has announced an annual investment of USD 1 billion over the next ten years for setting up a specialised industrial park, aimed specifically at textile production, leatherwork, agrifood industry and other sectors requiring a large labour force. The programme is half financed by the Ethiopian state. Major foreign companies have confirmed their interest in establishing production in Ethiopia in this special zone (Phillips-Van Heusen Corp, owner of Tommy Hilfiger and Calvin Klein and the European distributor, Hennes & Mauritz AB).

In Uganda, Rwanda and Ethiopia, two sectors stand out as having contributed to the diversification of the economy: agricultural product processing and textiles. Agribusiness makes it possible to exploit the agricultural resources of the countries in which the primary sector is highly developed. This strategy makes it possible not only to increase local production of agricultural produce and thus support employment in the primary sector, on which a large part of the population depends for a living, but also to create jobs in activities with higher added value. Initially, the aim is to distribute the processed products locally, before targeting the regional market. The agri-industry is in fact the one which seems best integrated at the regional level in Sub-Saharan Africa.

Meanwhile, the textile, leather and shoe sectors are often privileged by the governments of emerging countries, which, through special economic zones, as in Ethiopia, encourage foreign investors to establish production in their countries. Apart from access to plentiful and relatively cheap labour, foreign businesses can benefit from advantages in terms of access to the export markets offered by the preferential treatment agreements concluded by numerous African countries with the European Union and/or the United States (African Growth Opportunity Act - AGOA).

African investors are also active in these sectors according to the United Nations report on world investments. With the products traded at the regional level being mainly manufactured products (and not primary products as with industrialised partners), the strengthening of regional integration, particularly through intra-regional investment, is of real interest. For the smaller countries and especially Rwanda (but also Benin, Burkina Faso, Guinea-Bissau, Lesotho and Togo), investments from other African countries represent at least 30% of total foreign direct investment. Uganda also receives significant FDIs from African countries, in particular South Africa.

The agrifood and textile sectors, as is generally the case with the production of labour-intensive, low added value products, can be only a first step towards the diversification of the economic structure and of exports. If improved integration of Sub-Saharan African countries is achieved via the manufacturing sector, this means that highly labour intensive manufactured products must be gradually replaced by products with greater added value. For the country this means either moving more up-market in the labour intensive sectors (like Kenya in the textile sector), or succeeding in manufacturing more high-tech articles.

In Uganda, where exports are increasingly diversified, higher value-added manufacturing industry is beginning to grow and the country is exporting more high-tech goods, such as metallurgical products and those from the chemicals sector (plastics). While "products manufactured with intermediate skill and technology intensity"[11] represented only 1% of its exports in 2000, they accounted for 7% in 2013. As for products manufactured with high skill and technology intensity, their share in total exports rose from less than 1% in 2000 to 10% in 2013.

Similarly, the share of labour-intensive manufactured products in Ethiopian exports, which accounted for 9% of total exports in 2000, fell to 7% in 2013 in favour of products manufactured with intermediate skill and technology intensity (3% in 2013, while this type of product was not exported in 2000.)

Finally the East African countries (Uganda, Kenya, Ethiopia) seem to be moving towards diversification and more up-market in their industrial production and exports. This is true of Rwanda too, but this change of direction is more recent and is not yet visible in the data.

On the other hand, some African countries have placed their bets on their services sector to drive their economies, following the growth model pursued by several countries in East Asia and by developed countries, which have relied on the tertiary sector to increase their higher value-added trade and thus progress up the GVCs.

(11) According to the UNCTAD classification

Focusing on services: a specific development model or destined to fail?

The services sector is dominant in Africa's economy and has been for many years. It grew 5.2% on average for the whole of sub-Saharan Africa over the 2000-2013 period (5.1% for agriculture and 3.5% for industry) and therefore contributed strongly to the region's annual GDP growth.

Moreover, a certain number of African countries have revised the calculation of their GDP in order to take better account of their services activity. This is the case particularly for Nigeria, Ethiopia, Ghana, Mozambique and Kenya.

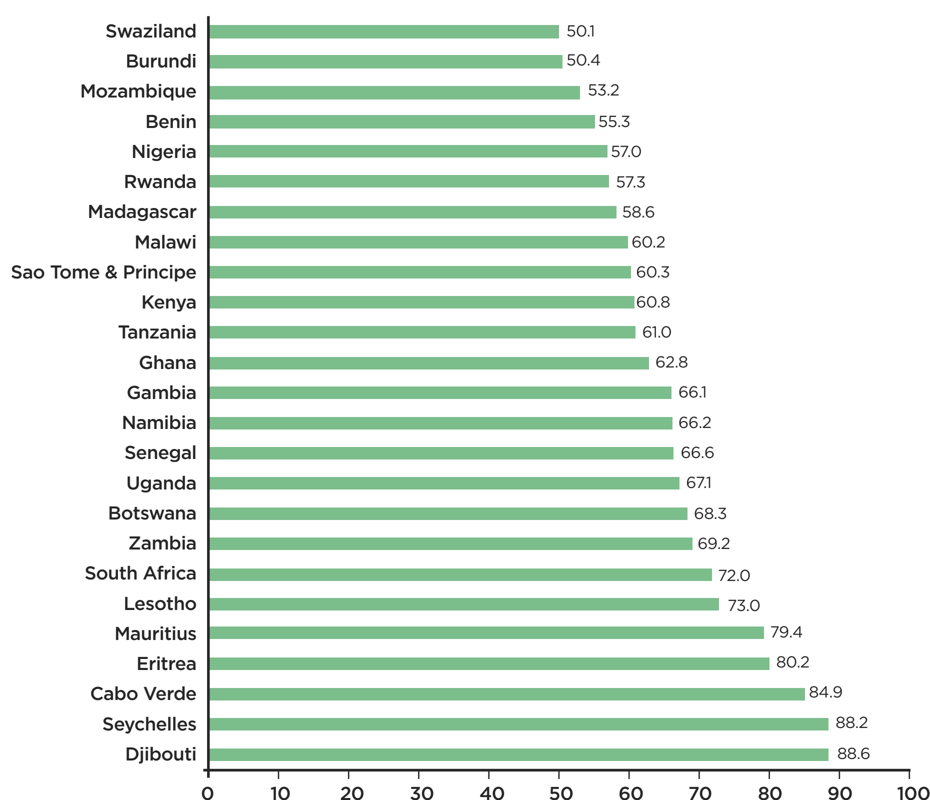
In more than half of the sub-Saharan countries services account for more than 50% of GDP *(see chart n° 15)*. Among the countries in which the weight of the tertiary sector is below the average, are, on the one hand, countries that are very rich in natural resources (Angola, Mauritania, DRC and Guinea) for which the extractive sector remains dominant, and, on the other hand, those where agriculture remains fundamental (Burundi, Liberia and Central Africa). Nigeria, Africa's largest oil producer, is an exception with a services sector which reached 57% in 2013.

A development model based on services is fairly unusual insofar as, as a general rule, this sector does not act as a driver in the early phases of development. However, certain countries have been able to increase their level of development thanks to the tertiary sector, by focussing their efforts on high value-added services. This is particularly the case of India, thanks, in particular to the expansion of activities in the information technology sector (software) and business services (call centres in particular). The lasting quality of economic growth and the positive impact in terms of development can thus be achieved by a model based on services, provided, however, that the services provide high added value.

Now the dominant sub-sectors in the sub-Saharan economies remain trade and public services. Trading activities are particularly developed and underestimated in the statistics, as a significant part carried out by the informal sector eludes national accounting. For nearly two thirds of sub-Saharan African countries, the contribution of trade services to GDP is above 10%. There is wide variation in the growth of formal trade in the poorest countries. The contribution to the country's economy is particularly high in Cameroon (oil producing country) and in Sao Tome (a country classed as weak by the IMF, despite a relatively high per capita GCP).

On the other hand, it seems that the share of trade in GDP is on a stagnating or even falling trend in the richest countries. With the exception of Angola, trade's contribution to the national economy was lower overall in 2013 in the countries with the highest per capita GDP. Conversely the share of trade grew in the poorest economies, the cases of Burundi and Malawi being particularly illustrative. The trade sector, essentially retail, is, however, an activity with low productivity and low added value.

Chart n° 15
Countries for which the share of services in GDP is above 50% (2013)



Source: BMI

The weight of public services (health, education, administration) is high, in particular in countries where the tertiary sector dominates the country's economy *(see chart n° 16)*. The four countries in which public services account for more than 15% of GDP are also those for which the weight of services in the economy is among the highest. In Lesotho, Namibia, South Africa and Mauritius, services account for more than 2/3 of GDP. Public services are not very productive but are sources of employment and thus of steady income for the population. Moreover, good performances in terms of education and health are contributors to development.

The services sub-sectors which predominate in African countries, in particular retail trade and public services (services to individuals) are therefore essentially non-commercial, in part informal and of low productivity.

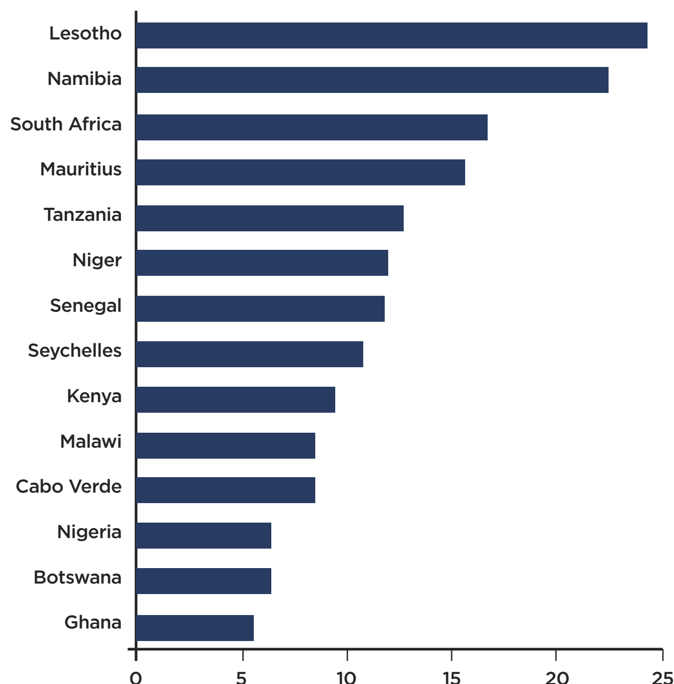
The contribution of transport and communications activities, considered as having higher added value, is above 10% of GDP (in 2013) in only about 15 sub-Saharan African countries *(see chart n° 17)*. This contribution has, moreover, been growing very slow since 2000, except for Nigeria (+13 percentage points) and Uganda (+10). It is, however, interesting to try to make a distinction between the two sub-sectors: transport, on the one hand, and communications on the other.

In the majority of sub-Saharan African countries transport is relatively underdeveloped, reflecting a lack of infrastructures. According to the World Economic Forum's Global Competitiveness Report, the leading sub-Saharan African country (South Africa) is ranked 32nd in the world out of the 151 countries on the indicator for the quality of transport infrastructure. Fewer than ten sub-Saharan African countries figure in the top half of the list.

The transport sector is often driven by activities linked to tourism. This is the case, for example, in Cabo Verde and Madagascar, for which the high share of the "transport and communications" sector's contribution (nearly 20% of GDP) is explained by the development of its airlines, as well as by the efforts made to support maritime transport. At the same time, internal means of transport remain underdeveloped.

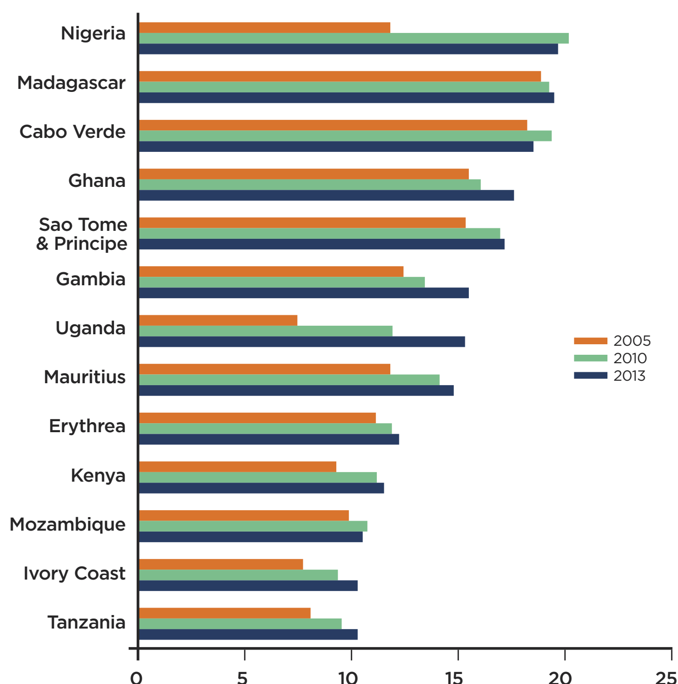
Despite the fairly limited availability of data, it is possible to identify some countries in which activities related to communications seem to be making an increasingly important contribution to the economy. According to the United Nations' classification registry, the "communications" sub-sector comprises relatively diversified activities: publishing, film and television production, telecommunications and information technology, etc.

Chart n° 16
Share of public services (excl. defence) in GDP (% 2013)



Source: BMI

Chart n° 17
Share of transport and communications in GDP (% 2013)



Source: INCTAD

The weight of this subsector has been particularly significant in Nigeria since the change in the reference year (2010 and no longer 1990) for the calculation of its GDP, decided in April 2014. This statistical modification has resulted in Nigeria robbing South Africa of its position as the leading sub-Saharan economic power in GDP terms, but it has, above all, enabled the country to identify the diversification of the Nigerian economy, which seems to be dominated by services. Telecommunications and also film production ("Nollywood") contribute to the weight of these activities, which exceeds 10% of GDP.

With the exception of Nigeria, the weight of communications activities remains low in sub-Saharan Africa, below 5% of GDP in most of the countries for which statistics are available. However, the dynamics are positive in certain economies, which are, once again, mostly located in the east of the continent, like Uganda and Kenya.

The expansion of mobile telephone networks has been very rapid in Africa, whereas fixed line telephony is underdeveloped. Mobile phone access is expected to continue to grow. According to the association of mobile phone operators, GSMA, nearly 40% of the population of sub-Saharan Africa had access to mobile telephony in 2014 and the penetration rate could reach 50% by 2020. However, progress is uneven across countries. Six countries, which, themselves alone account for half of subscribers, dominate the market: Nigeria, South Africa, Tanzania, Ethiopia, Kenya and the DRC.

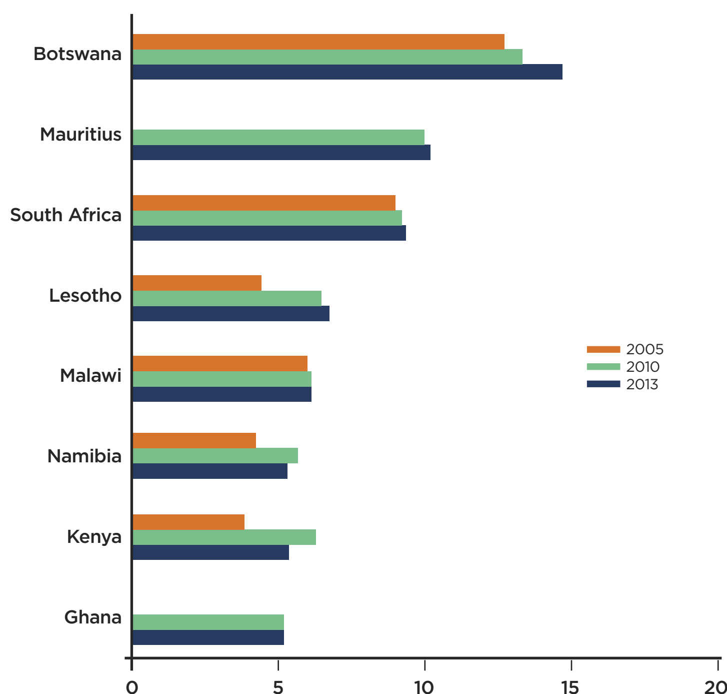
The expansion of telecommunications, more precisely of the use of mobile telephone networks is in tandem with the growth of financial services. Sub-Saharan Africa is the leader in the transfer of money via mobile phones. "Mobile banking" was born in Kenya and allows those who do not have access to the formal banking sector to carry out financial operations using their mobile.

Financial services remain the privilege of a small number of countries. Only eight have a weighting of these activities in their GDP of more than 5% *(see chart n° 18)*. With the exception of Malawi (a fragile country), they are among the countries with the highest levels of GDP per capita and are classed as middle-income countries by the IMF. Botswana, Mauritius and South Africa perform particularly well and have a financial system which contributes to a share of GDP considerably higher than that observed in the other countries. But this share is growing in some less developed economies where the financial sector is still underdeveloped, such as Kenya.

The growth of the financial sector is driven by foreign investment flows, particularly from other African countries. While the majority of the investment inflows come from industrialised countries and are directed on the African continent towards the extractive sector (hydrocarbons, mines), big foreign companies are also beginning to invest in innovative sectors. The United Nations World Investment Report 2014 mentions particularly the creation by in late 2013 of IBM Research's first African research facility in the vicinity of Nairobi. This interest of the American firm reflects the potential of the Kenyan market, the world leader in mobile phone payments. Microsoft has also announced partnerships and Google has invested in start-ups in Nigeria, Kenya and South Africa. The largest African investors on the continent remain South Africa (especially telecommunications), Angola and Nigeria (especially active in financial services).

Services to businesses are also an important sub-sector to the extent that they are tradable. Even though this development concerns a relatively limited number of countries, the development of high-value-added services can enable certain countries to construct an endogenous model of growth capable of also driving other economic sectors. Improving transport and telecommunications infrastructures, supporting the development of the financial system will have a positive impact on the industrial sector and even on the agricultural sector.

Chart n° 18
Share of financial services in GDP (%)



Source: BMI

India's experience thus clearly serves as a model for certain countries because of the positive effect on their economy of activities related to information technology and communications, as well as information management. Several countries, such as South Africa, Kenya, Mauritius and also Uganda, seek to support these sectors related to the outsourcing of business services. Kenya thus hosts an IT data capture centre, launched by the company, Digital Divide Data, which benefits from a cheap labour force. In return the training of employees enables the country to increase its range of services.

The development of certain services is a trump card favouring integration into global value chains and thus more generally supporting the economy. With regard to this, the level of telecommunications services is, according to the study by the BafD, closely linked to increased integration within global value chains. So, according to the WTO, the share of services in exports is over 40% and is growing strongly in Uganda and Kenya, countries in which communication activities are particularly dynamic *(see chart n° 19)*.

Chart n° 19
Share of exports of services (total % of exports)

Source: WTO

Box 2

Interview with Jean-Christophe Batlle,

Africa manager, Coface

Has the recent fall in raw material prices, particularly that of oil, affected the activity of businesses in the region?

The fall has affected the raw material exporting and importing countries differently. Gabon and Angola, for example, have suffered directly with regard both to their budget balances and to their foreign exchange reserves. Investment programmes may therefore be frozen or delayed and providers of services and materials may find themselves faced with payment delays. On the other hand, for importing countries, especially oil importers, this can have a beneficial effect on public spending as well as on inflation and allow them to reallocate the sums saved to productive investment.

Are there other risks currently limiting the expansion of businesses?

Several risks remain. First of all, Western Africa has been affected by the Ebola epidemic, which, although it has now been brought under control, has reduced the region's level of foreign trade with the rest of the world. The second risk, even though it is much reduced, remains political instability. 2015 is an election year in several countries (Ivory coast, Burkina Faso, Togo, Tanzania...), which still remains a source of concern, even if the recent elections in Nigeria have shown that a political changeover can proceed peacefully. Finally, the business environment is still far from perfect. Some countries, however, are taking this matter very seriously. As of 2014, there are five African countries among the ten countries which achieved most reforms in this area: Benin, Ivory Coast, the DRC, Senegal and Togo. Even if these countries are still at the bottom of the ranking, these results are encouraging.

Which are the most promising sectors in the medium term in the region?

Let us first remember that Africa has growth prospects of 4.4% in 2015 and 4.7% in 2016. The region will benefit from a slight acceleration in world growth, leading to a strengthening of African domestic demand. This is because the continent is now more resilient to external shocks as its economic activity is driven more by domestic demand (private consumption and public investment in infrastructure). Let us also remember that Africa has become an attractive area for foreign direct investment. The sectors which will remain buoyant in the coming months are still construction, agriculture, services and, to a lesser extent, manufacturing industry.

CONCLUSION

This study aims to identify the countries with both low exposure to the recent fall in world raw materials prices and which have already begun a process of economic diversification. In other words, the countries for which the risk of bad economic weather is low (effects of the fall in world prices), and, even if it should occur, those which have an umbrella to protect them (relative diversification of the economy).

13 countries are today little affected by the fluctuations of world prices. They are in effect both net exporters of renewable raw materials and net importers of non-renewable raw materials. The drop in the price of their exported products is therefore less than that of their imported products *(see part 1)*.

To measure the diversification of the economy through the manufacturing sector, we have selected the countries the number of whose exported products more than tripled between 2000 and 2013. These are Uganda, Rwanda and Ethiopia. And, to identify the countries having advantages in the field of services, we have considered those

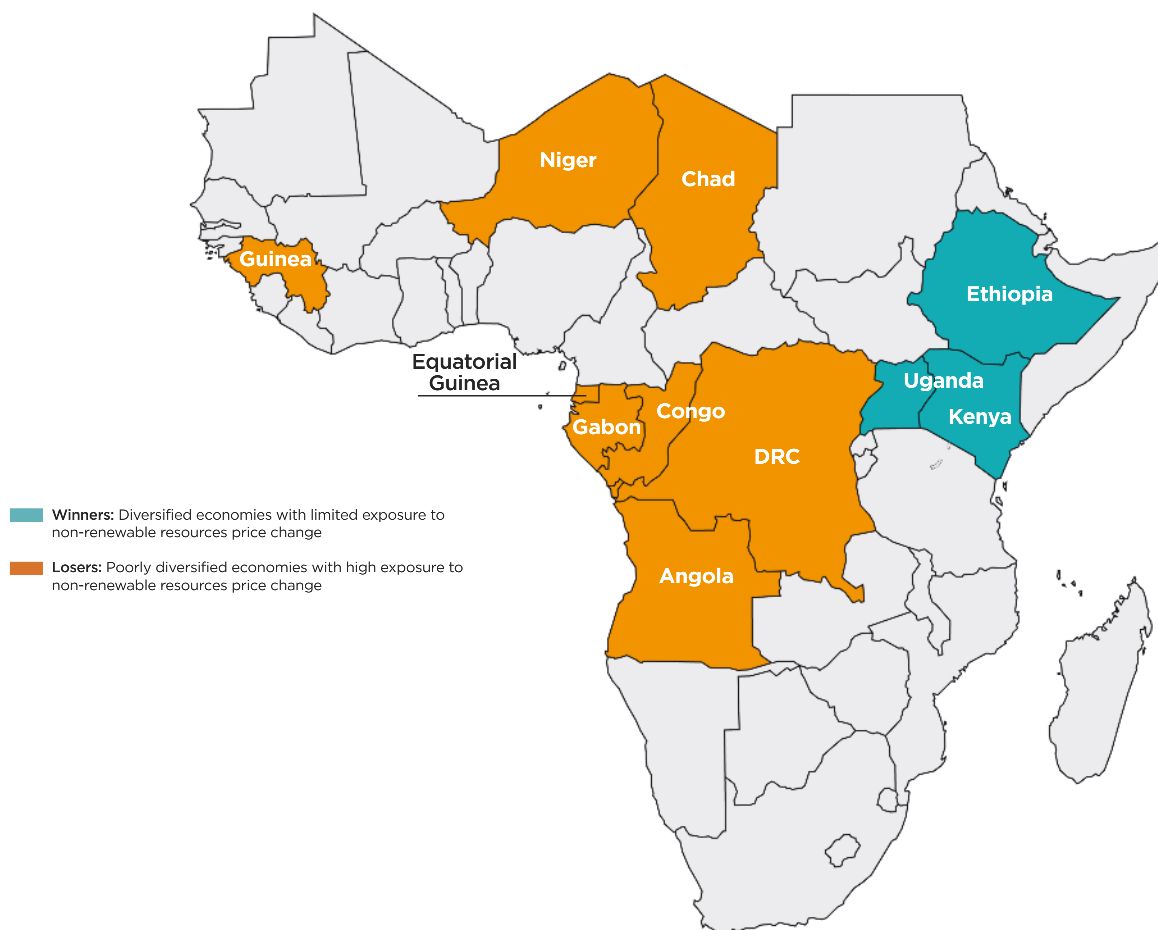
1 - where the share of transport and communications services in GDP is above 10% and has increased since 2005;

2 - where the share of financial services in GDP is above 5% and has increased since 2005;

3 - where the share of exports of services is over 40% of total sales abroad and has increased since 2000. Only one country benefits both from the increase in the weight in exports of these services sectors with relatively high added value and from that of services in general: Kenya *(part 2)*.

Finally, several countries meet none of these criteria: they are very exposed to the fall in the price of oil, which is their main export. And this gift of oil has hardly encouraged them to undertake reforms with a view to diversifying their economy. Angola, Gabon and the Congo, for example, are among them. Not all the countries which are net exporters of non-renewable raw materials are among them. Rwanda and, to a lesser degree, Nigeria are benefitting from the current process of economic diversification, which lessens the effects of their worsening trade terms. Other economies are, however, not very vulnerable to these recent fluctuations in raw materials prices, but are poorly diversified. Among them are Togo, the Central African Republic and Malawi. These are particularly economies with low per capita income.

Finally, three countries are emerging as the big winners because they meet all these criteria: Kenya, Ethiopia and Uganda. They therefore have all the advantages necessary for achieving long-term growth without being penalised in the short term by the fall in raw materials prices. The recent figures confirm this: GDP growth there reached nearly 7% on average in 2014. However, these favourable prospects with regard to short-term growth do not mean the total absence of risk and vulnerability. The recent terrorist attacks in Kenya demonstrate, for example, risks to political stability in the region. The lack of infrastructure is also a well-known vulnerability as is a high current account deficit (more than 7% on average expected in 2015). And as in the region as a whole, the level of public debt is moderate (33% of GDP on average) but is on a rising trend. Despite all these risks, perspectives for growth are particularly favourable in both the short and medium term in these three countries. That is already a lot.



BAROMETER

June 2015

COUNTRY RISK ASSESSMENT CHANGES

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

Country	Country risk previous	Country risk new
Czech Republic	A4↗	A3
Portugal	B↗	A4
Vietnam	C↗	B

Country risk assessmentss

Czech Republic: A3

- We expect the Czech economy to register fair and accelerating growth both for this year and 2016 (respectively 2.5 and 2.8%). Order books are expanding.
- Internal demand should be buoyant, in particular household consumption, which will be sustained by rising employment and salaries, as well as moderate and temporary fiscal loosening which the decent fiscal situation makes feasible.
- Public consumption and investment growth are robust. Authorities have hastened the use of European funds before they expire, leading to a rise in public investment in transportation infrastructures. Moreover, military expenses will grow temporarily in 2015.
- Exports will benefit from the economic recovery in Western Europe which absorbs 80% of exports and, particularly, from the European automotive market recovery given a strong presence of the Czech industry in the European manufacturing chain. Moreover, the Koruna anchorage to the euro is solid, and the depreciation of euro will keep exports competitive.
- Despite partial defection from Russian tourists tourism remains strong, contributing to the surplus of the services balance.
- Local banks, which for the most part are subsidiaries of foreign groups, are solid, with low non-performing loans, and largely financed by local deposits.

- **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).

Portugal: A4

- The exit from the bailout plan is a success: no recourse to a precautionary credit line in June 2014, early repurchase of one quarter of the IMF credit in March 2015.
- The fiscal stance is improving and external accounts are rebalancing.
- The economy is recovering: growth is likely to reach 1.5 % this year and next year.
- The recovery is confirmed by corporate indicators: higher corporate margins, decline in bankruptcies in 2014 and satisfactory Coface payment experience.

Vietnam: B

- The economic performance has improved with 6% GDP growth in 2014 and inflation is now under control.
- The country enjoys large FDI inflows, especially related to high value products such as smartphones.
- Private consumption is now accelerating thanks to low inflation and improved consumer confidence.
- The external risk has declined: there is a current account surplus and international reserves have increased.

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

Country	Country risk previous	Country risk new
Algeria	A4	A4↘
Bahrain	A4	A4↘
Canada	A1	A1↘
China	A3↘	A4
Gabon	B	B↘
Madagascar	C	C↘
South Africa	A4	A4↘
Tanzania	B	B↘

Country risk assessments

• **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).

Algeria: A4↘

- The country is facing a drop in oil and gas prices: considering the high dependency on oil and gas prices developments, the country should record an economic slowdown in 2015. The fall of oil and gas prices since June 2014 is going to hit growth, and a strong rebound in activity is unlikely if the oil and gas prices don't recover.
- It will have an adverse effect on public accounts, while the country experienced a significant public deficit in 2014 that reached 6.2% of GDP (oil revenue accounts for more than 70% of total public revenues and 33.2% of GDP in 2014). Besides, the decision of the authorities to support the private sector thanks to tax relief and to maintain social expenses may increase the public deficit in 2015.
- Current account will also register a significant deficit due to a combined fall in export receipts and an increase in imported goods.

Bahrain: A4↘

- Bahrain's growth outlook has deteriorated since the end of last year, due in particular to falling oil price.
- The fall of global oil prices is putting significant pressure on the country public finances. Reduced public resources will negatively impact public investment that traditionally supports the non-oil sectors. Moreover, the public debt that already represents more than 43 % of the GDP should increase at 54 % of GDP in 2015.
- The external risk is strengthening. The current account surplus should turn to a deficit of 2 % and external debt should rise significantly.
- Moreover, private sector activity will suffer from further erosion in consumer and business confidence, already weakened by the persistent uncertainty of Bahrain's political environment.
- However, the impact of the oil price slump may be cushioned by macroeconomic and financial assistance from the rest of the Gulf.

Canada: A1↘

- Oil price drop hampers Canada's growth. For the first time since Q2 2011, GDP contracted by -0,1 % QoQ in the first quarter of 2015. Despite Canadian dollar depreciation, current account deficit widened due to the US economic slowdown and oil price weakness.
- The oil and gas industry, as well as support activities, are facing difficulties. Investment in energy will therefore be postponed.
- Canada's housing bubble remains a major issue. Speculative pressure remains high in the real estate sector. But given the current growth slowdown and its impact on household income, the construction sector outlook could deteriorate in the quarters to come, all the more since household debt is comparatively high (as a % of disposable income).
- Canada's manufacturing export recovery will allow a rebalancing of the economy. Despite oil and gas industries' difficulties, Canada's diversified economy should provide new avenues of growth in the coming year. Exports should benefit from the Canadian dollar depreciation and will favor a gradual rebalancing of the economy toward the manufacturing sector. However, Canada's economic recovery will depend on the US economy rebound.

China: A4

- The high level of private sector debt is a source of concern. Given the expansion of shadow banking, it is difficult to assess precisely the level of private sector debt, but the IMF estimates it stood at around 207 % of GDP in early 2014 (compared to 130% of GDP in 2008). This level is substantially beyond the levels observed in emerging economies and particularly in the other BRICS. Moreover, non-performing loans are rising.
- Consequently, bearing in mind the economic slowdown, the solvency of the more exposed players needs to be watched. Sectors most affected will be those experiencing sizeable overcapacities and low profitability, such as cement or steel sectors linked to the construction sector. Indeed the property market situation remains deteriorated: real estate investment is slowing and property prices are declining.

Gabon: B↘

- The country is affected by the sharp in oil price:
- The country still relies on oil, which accounts for around 35% of GDP, 52% of fiscal revenues and 77% of good exports, although the non-oil sector has driven growth in recent years, due to the implementation of a major public investment programme,
- The decline in oil prices, in addition to a steady downward trend in production, will thus affect current account and fiscal balances which will turn to deficits in 2015. Moreover, the country does not have a large fiscal buffer and public debt has already been rising for some years,
- In the end, falling prices should lead to an economic slowdown, with growth declining to around 4% in 2015 (after 5.4% in average in the past 3 years).

Madagascar: C↘

- The political crisis lead to a vote by the National Assembly end of May to impeach the President elected in December 2013. The recurring political instability weighs on investment, and delays reforms needed in order to reduce deficits. In this context, there is a risk that international aid flows will be suspended again (the International community suspended grants after the coup in 2009 but resumed flows after the presidential election end of 2013).

South Africa: A4↘

- The growth slowdown should continue. It is due, among others, to shortages in electricity production and distribution which may worsen during the winter season. Unemployment is increasing and inflation remains high, despite lower price of imported energy.
- Twin deficits and public debt are increasing and the more restrictive fiscal policy will weigh further on demand.
- The rand exchange rate remains volatile.
- Political and social situation remains fragile in the context of ongoing wage negotiations in the mining sector.

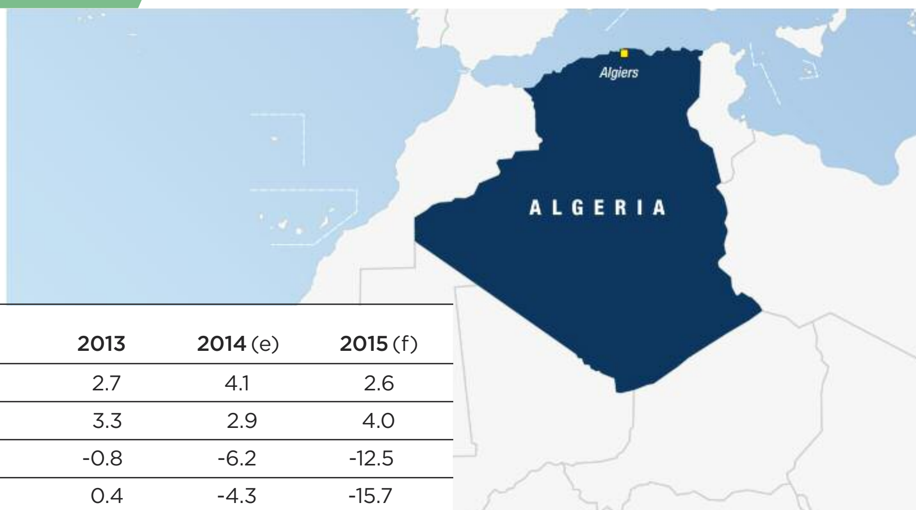
Tanzania: B↘

- Activity is slowing, and public deficit is increasing.
- The depreciation of the shilling against the US is a source of concern (17 % between January and May 2015 following 8 % in 2014), on the back of increasing current deficit and reduced inflows of aid, after the decision of main donors to suspend grants following corruption scandal. A stronger US dollar and nervousness ahead of the October 2015 election may increase pressure on the shilling. Moreover, low supply of foreign currencies and recurring public payment arrears have impact on public and private companies.

ALGERIA

COFACE ASSESSMENTS

A4	Country risk
B	Business climate
FAIRLY LOW RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	3.3	2.7	4.1	2.6
Inflation (yearly average) (%)	8.9	3.3	2.9	4.0
Budget balance (% GDP)	-4.1	-0.8	-6.2	-12.5
Current account balance (% GDP)	5.9	0.4	-4.3	-15.7
Public debt (% GDP)	10.0	8.3	8.8	13.6

(e): estimate (f): forecast

RISK ASSESSMENT

A slowdown in growth due to weak oil & gas prices

Growth in Algeria should see a net slowdown in 2015. Lower oil & gas prices during the second half of 2014 directly affect the domestic economy, as the energy sector represents over 36 % of GDP and 97 % of exports. After having returned to positive growth in 2014, the oil & gas sector is expected to contract in 2015. Hydrocarbons exports fell sharply, by 23.7 % during Q4 2014. Despite a slight rally in the oil price since February 2015, exports should continue to contract over 2015. The non-oil sectors are also expected to be weighed down by the decline in public investment. Household spending should nonetheless remain firm, partly on account of the consumer credit reform for domestic products, and will remain one of the main growth levers. Faced with the risk of a prolonged slowdown, the Algerian authorities intend to introduce a number of measures aiming to limit the impact of falling oil & gas prices, including social public spending and a corporate tax reform in the private sector.

A challenging budgetary situation and a deteriorating current account

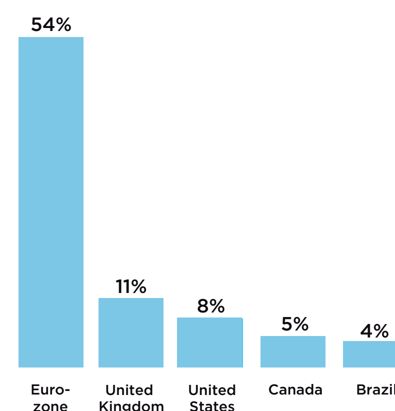
The public deficit is expected to deepen in 2015 due to the combined effect of continued budgetary spending during the first half of the year and an estimated 10 % drop in annual revenues. In response to the decline in oil revenues, the authorities plan to rationalise public spending whilst continuing to support the private sector by reducing corporate tax. Although public debt increased in 2015, it remains at a sustainably low level. The trade balance should also be impacted by the decline in export revenues, aggravated by the fall in oil & gas prices and the contraction in export volumes. In parallel, goods imports continued to increase in 2014, particularly industrial capital goods and food products. However, to offset the decline in export revenues, the authorities plan to introduce import licences on products which weigh the most heavily on the trade balance (cement, vehicles). The country can nevertheless rely on its abundant currency reserves (equal to almost three years of imports).

Cabinet reshuffle in May 2015

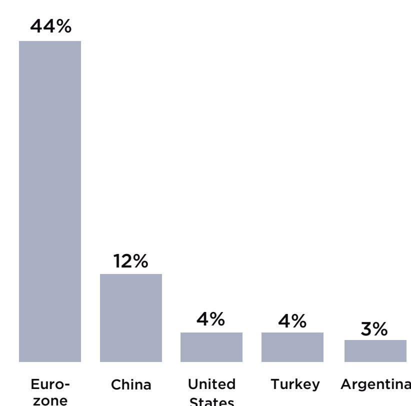
After fifteen years as Head of state, President Abdelaziz Bouteflika, aged 77, was re-elected in mid-April 2014 for a fourth five-year term. Following the election, a first government was formed under Prime Minister Abdelmalek Sellal. However, in a challenging economic context, President Abdelaziz Bouteflika largely reshuffled the cabinet in May 2015, nominating a dozen new ministers including some key posts, such as Finance, Energy and Higher education. The president also made changes at the head of major companies and public institutions including Sonatrach and in the management of the Customs & Border Services, Air Algérie and Banque Nationale Algérienne. Furthermore, restrictions on imports and foreign investments were reintroduced in order to support and promote national industries. Bye-laws for limited companies were also streamlined however, in order to promote new businesses.
National security seems to have improved relatively, although radical Islamic activism and instability have intensified at the Eastern and Southern desert borders due to the resurgence of the Libyan conflict.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Abundant oil and gas reserves.
- Strong potential from renewable energies and tourism.
- Robust external balance sheet (very low foreign debt, strong currency reserves).

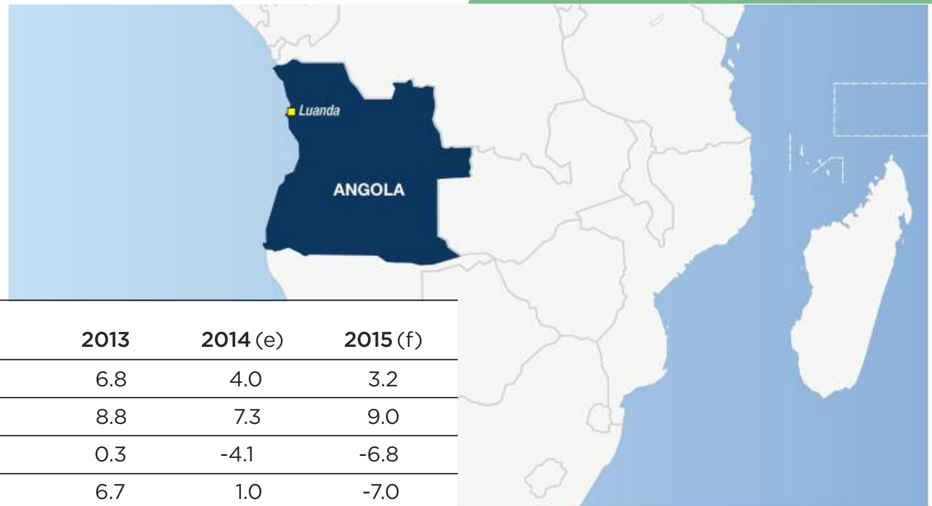
Weaknesses

- Heavy dependence on oil & gas and problems with exploiting revenues.
- High youth unemployment.
- Excessive public sector weighting.
- Heavy bureaucracy, weak financial sector and governance issues.

ANGOLA

COFACE ASSESSMENTS

C	Country risk
D	Business climate
RATHER HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	5.2	6.8	4.0	3.2
Inflation (yearly average) (%)	10.3	8.8	7.3	9.0
Budget balance (% GDP)	4.6	0.3	-4.1	-6.8
Current account balance (% GDP)	12.0	6.7	1.0	-7.0
Public debt (% GDP)	29.6	34.6	38.4	47.0

(e): estimate (f): forecast

RISK ASSESSMENT

Slower growth in 2015 due to the fall in the oil price

Despite several new wells coming on line and the launch of new oil fields, oil production (45% of GDP) will progress only marginally in 2015 and the fall in the price of crude will limit the contribution of oil & gas exports to GDP.
Furthermore, the sharp downward revision in public spending will affect domestic demand and economic activity. The postponement of a number of public investment programmes will have a negative impact on the construction sector, which usually drives the economy. Private investments will be handicapped by high interest rates. Household spending will also be curbed by budgetary spending cuts and higher prices.
Inflation will accelerate in 2015 and should reach the ceiling limit set by the central bank (9%) driven by fuel prices following a reduction in petrol subsidies. Inflationary pressure will also be exacerbated by the depreciation of the kwanza. After hiking base rates by 25bps in March 2015 (to 9.25%), the central bank now enjoys only limited leeway given the slowdown in growth.

Worsening budget deficit and deteriorating current account balance

The budget deficit recorded in 2014, the first since 2009, will deepen in 2015. Given the weight of oil revenues (three quarters of total), the moderate increase in production and lower crude prices will significantly reduce state revenues. Tax revenues excluding oil & gas will also be limited by the slowdown in economic activity. In order to attempt to stem the deterioration in public finances, the parliament adopted a revised budget proposed by the government in February 2015, based on an oil price of $40/barrel (compared to $81 previously). The progressive withdrawal of petrol subsidies, decided at the end of 2014 and which should be effective by September 2015, will also contribute to a decrease in expenditure, but will not prevent the deficit from worsening.
The current account balance is also expected to post a deficit in 2015 under the combined effect of lower oil export revenues (more than 90% of total) and higher import costs, due the depreciation of the national currency. Despite the expected decline in imports (capital goods and consumer goods) due to weaker domestic demand, the country effectively remains highly dependent on imports for its food products, which means that a proportion of its imports cannot be reduced.

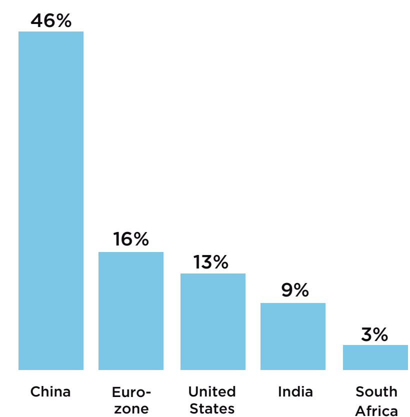
The depreciation of the kwanza observed in 2014 continued into 2015. The national currency lost almost 6% of its value between January and the end of April. In order to preserve the country's reserves, the Angolan authorities decided to allocate currencies primarily towards the payment of certain transactions (particularly oil and food products). These measures have meant longer payment delays for companies which are not involved in these priority industries.
The lack of currency liquidity and the economic slowdown could weigh on the banking system. which is highly dependent on the oil sector. An increase in doubtful loans already triggered intervention by the Angolan state in 2014 to support Banco Espírito Santo Angola (BESA), the subsidiary of the Portuguese bank BES. Although this incident does not jeopardise the stability of the banking system, it highlights its fragility.

Social tensions and shortcoming in the business environment

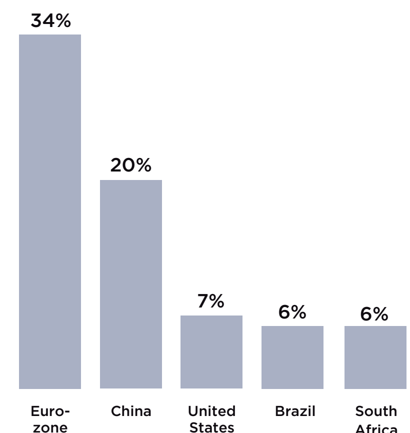
The country has been governed since independence by President José Eduardo dos Santos and his party (MPLA), with its supremacy again reaffirmed in the 2012 parliamentary elections. The opposition, despite gaining in strength, nevertheless remains too weak to be an alternative. The biggest area of uncertainty is the successor for the current president. The constitution was amended to allow him to remain in office until 2022. His age and rumours of his state of health mean that there could well be a change before that date. Given the extent of the political, and economic grip of the president and his party, a disorderly succession could prove destabilising for the country. Furthermore, popular discontent regarding inequalities and poverty has been fuelled by the economic slowdown and the increase in the rate of inflation.
The Angolan market contains significant investment opportunities but also considerable risks given the ubiquity of corruption (Angola ranks 153 out of 175 in the Transparency International classification) and the poor business environment.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Major oil producer
- Start of liquefied naturel gas production
- Significant economic potential: diamonds. copper. iron. gold. agriculture. hydraulic resources
- International backing

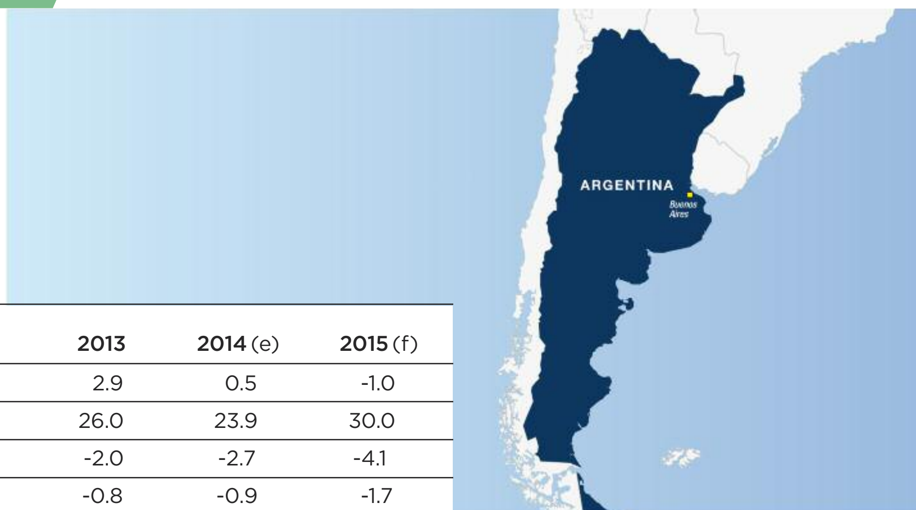
Weaknesses

- Vulnerability to oil price volatility
- High unemployment (26%). extreme social inequality and regional disparities
- Lack of infrastructure
- Fragile banking sector
- Political and economic control held by small elite

ARGENTINA

COFACE ASSESSMENTS

C	Country risk
C	Business climate
VERY HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	0.9	2.9	0.5	-1.0
Inflation (yearly average) (%)	23.0	26.0	23.9	30.0
Budget balance (% GDP)	-2.4	-2.0	-2.7	-4.1
Current account balance (% GDP)	-0.2	-0.8	-0.9	-1.7
Public debt (% GDP)	37.3	40.2	48.6	49.5

(e): estimate (f): forecast

RISK ASSESSMENT

Towards a recession in 2015

According to official data, the country recorded growth of 0.5% in 2014. In 2015, economic activity should contract due to a drop in household spending power, impacted by a decline in real salaries as inflation rises, and due to a fall in exports towards Brazil (the main trade partner). Industrial goods exports are likely to be weighed down by a contraction in the Brazilian economy, particularly lower sales in the automotive sector. Agricultural exports on the other hand should progress, at least in terms of volume, as soya and corn harvests are expected to be better this year, but should nonetheless be weighed down by relatively weak commodities prices and possible export restrictions in favour of the domestic market. Investment remains depressed by import controls and the difficulty of securing currencies. Inflation should remain at a high level.

Deeper public deficit

Although the country's budgetary revenues are among the highest in the region, the public deficit should deepen further due to higher government spending. The state budget includes a significant rise in subsidies for industry, energy and public transport and also an increase in investment into nuclear power plants, satellites (Arsat) and telecommunications. Furthermore, pressure from the powerful union lobby has forced the government to concede salary hike of almost 27% for metallurgy and construction sector employees. Ahead of the presidential elections in October 2015, the state effectively fears a revival of social unrest among the population triggered by a loss of spending power due to rising real inflation. In order to stem the public deficit, the government is obliged to rely on the domestic market for funding and also borrow from the social security retirement pension funds and the central bank. The country is still unable to secure external financing despite recent efforts to regain access to the international financial markets (agreement with the Paris Club public creditors and compensation for the Spanish oil company Repsol following its nationalisation).

Fragile exterior balance

The current account deficit continues to worsen under the increasing weight of energy costs and a weaker trade surplus. Argentina effectively harbours great potential from shale oil and gas, particularly from the Vaca Muerta field in the Southwest of the country, but cannot become self-reliant on account of the low level of energy investment. Agricultural exports remained weighed down by weaker commodities prices, whereas manufactured goods sales (primarily the automotive sector) have been slowed down by weaker demand from Brazil. Despite strict import controls in order to stem capital outflow, the trade surplus is diminishing constantly (-17% in 2014) and can no longer offset the services deficit. The risk of a crisis following currency depreciation seems limited in the short term and devaluation is now less likely, since a currency swap agreement with China has stabilised the erosion of reserves, supported by strict control of capital outflow (imports, repatriation of foreign corporate profits).

Holdout funds: no agreement expected before the October 2015 elections

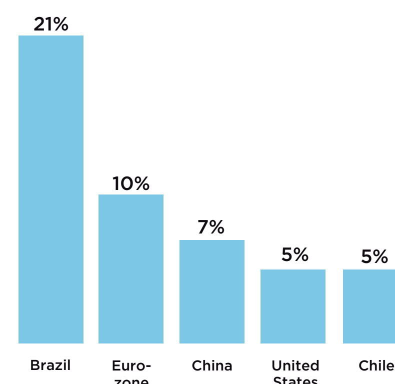
Following the breakdown in negotiations with holdout funds, Argentina has been in selective payment default since July 30th 2014 (solely for debt issued in foreign currencies). The draft law enabling the exchange of part of the foreign-denominated debt into new domestic-currency bonds is doomed to fail due to the legal constraints involved. The expected agreement between the government and holdout funds in early 2015, upon the expiry of the RUFO clause, did not occur and the chances of a fresh agreement before the October 2015 presidential elections now seem less likely. The country therefore remains excluded from external financing which increases the pressure on its reserves.

Uncertain elections amid social tensions

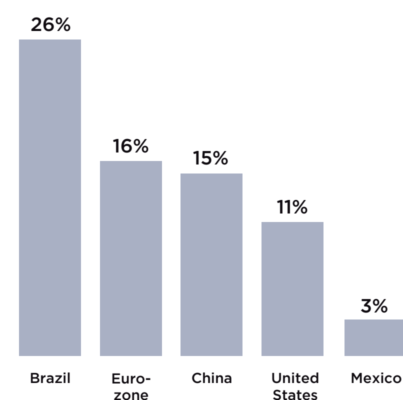
Although the ruling party won the recent provincial elections, the outcome of the presidential elections, which should be held in October 2015, remain uncertain. Corruption scandals have seriously tarnished the government's image and the Nisman affair, following the suspicious death of a federal prosecutor involved in the enquiry into the presidency, continues to shake the country. Economic difficulties, particularly the drop in spending power, have fuelled popular discontent to the benefit of the Peronist opposition. Faced with galloping inflation, the country's leading unionists have stepped up their salary demands and announced further strikes in June, despite some progress in negotiations. Finally, the International Centre for Settlement of Investment Disputes ruled in April that Argentina should repay 405 million dollars to Suez having unilaterally reneged upon its contracts with the company in 2006.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

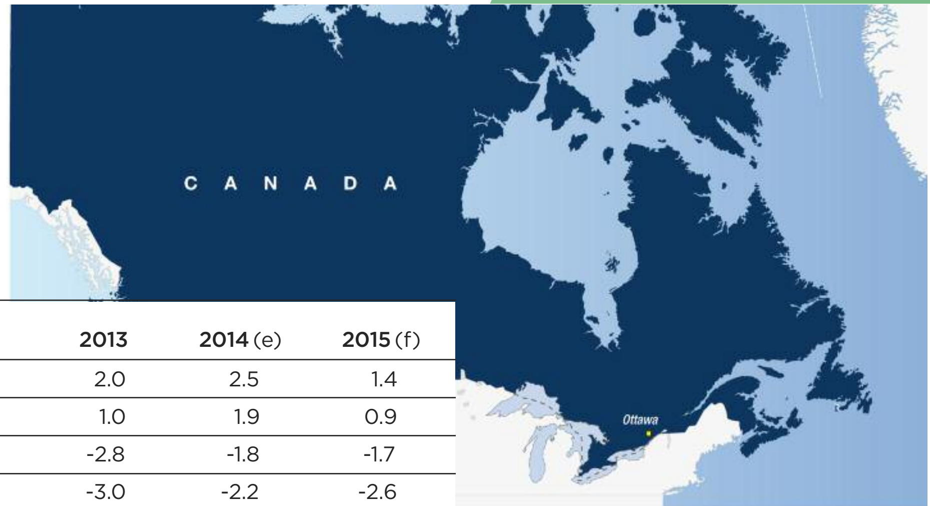
- Natural, agricultural, energy and mineral resources
- Education level greater than the regional average
- Qualified labour
- Democratic political system

Weaknesses

- Dependency on the prices of agricultural commodities
- Budgetary policy not very rigorous
- Mediocre business environment
- Insufficient investment in energy and transport
- The State has had no access to international financial markets since 2001

COFACE ASSESSMENTS

A1	Country risk
A1	Business climate



MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	1.9	2.0	2.5	1.4
Inflation (yearly average) (%)	1.5	1.0	1.9	0.9
Budget balance (% GDP)	-3.1	-2.8	-1.8	-1.7
Current account balance (% GDP)	-3.3	-3.0	-2.2	-2.6
Public debt (% GDP)	87.9	87.7	86.5	87.0

(e): estimate (f): forecast

RISK ASSESSMENT

Weaker oil prices are weighing on Canadian growth

During the first quarter of 2015, and for the first time since 2011, the Canadian economy contracted (GDP 0.1%). Consumer spending, which traditionally drives the economy, increased only marginally (+0.1%), whereas investments in non-residential construction and equipment dropped by 2%. Unemployment remained stable at 6.8% in April. Despite Canadian dollar depreciation, current account deficit widened due to the US economic slowdown and oil price weakness, as oil represent 27% of total exports. Oil price weakness is also affecting oil and gas companies as well as support activities for oil and gas extraction. Investment in energy will therefore be postponed. Besides, the economic situation of Western provinces, which are particularly dependent on the oil rent, could deteriorate. On the other hand, federal public finances, which are less dependent on oil sales, should continue to improve towards equilibrium by 2016, in line with government objectives. Falling oil prices should boost disposable income among Canadian households, although part of the revenues generated are likely to be used to pay down household debt, which represented almost 165% of disposable income in 2013. Furthermore, the fall in oil and gas share prices should also feed through to household wealth, as retail financial assets represent almost 25% of the country's financial assets. Inflation, which stood at 1.9% in 2014, fell to 0.8% during the first quarter of 2015. To counter deflationary trends, the Central Bank of Canada cut its base rate by 25 basis points in January 2015 to 0.75%. The Canadian property market appears heavily overpriced and remains dynamic. Canadian economic difficulties, more specifically the fall in consumer spending, are therefore jeopardising the dynamism of the property sector.

The recovery in manufacturing exports will restore growth balance

Despite the preponderance of the energy sector, the Canadian economy remains broadly diversified and can draw on its dynamic manufacturing sector. Despite oil and gas industries' difficulties, Canada's diversified economy should therefore provide new avenues of growth in the coming year. Exports should benefit from the depreciation of the Canadian dollar and restore more balanced growth in favour of the manufacturing industry. However, Canada's exports recovery will depend on the US economy rebound.

The Canadian banking system will remain strong

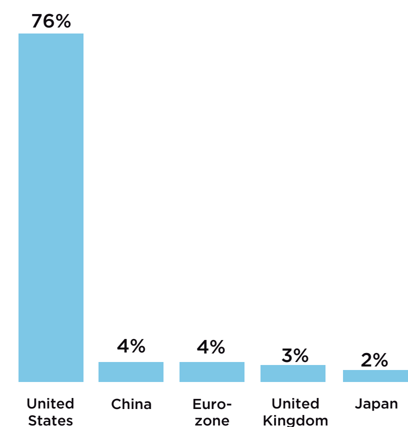
The capital adequacy ratios of Canada's banks are above the regulatory requirements. Moreover, they remain profitable despite the low interest rates. At the time of the 2008 world financial crisis, the Canadian banks remained strong and had no need of a bailout. Despite the burden of private debt and the risks related to property, the banks have sufficient equity to absorb any losses resulting from a sharp property market correction.

Uncertain elections

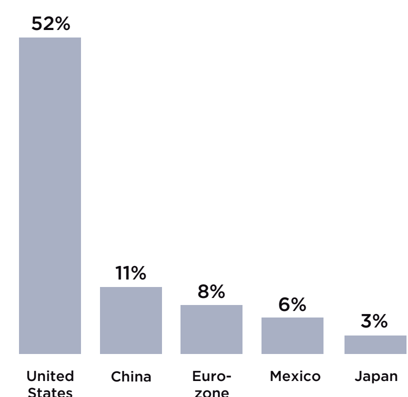
According to the opinion polls conducted at the end of 2014, the governing conservative coalition could lose the October 2015 elections to the more moderate liberals. Domestically, the western part of Canada benefitted most from the election of the conservatives. A change of majority could swing the balance back to the east.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Abundant and diversified energy resources
- Prudent management of the public finances
- Low level of external debt
- Dynamic demography (migratory flows)
- Strong, well-capitalised and strictly supervised banking sector

Weaknesses

- High degree of openness and heavy dependence of the economy of the United States
- Weakening energy exports due to falling prices and U.S. natural gas reserves
- Insufficient R&D spending
- Manufacturing industry's loss of competitiveness linked to rising power of emerging competitors
- High household debt
- Weakening of energy exports (natural gas resources in the United States)
- Inadequate gas distribution infrastructures

CHINA

COFACE ASSESSMENTS

A4	Country risk
B	Business climate
LOW RISK	Medium term

MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	7.7	7.7	7.4	7.0
Inflation (yearly average) (%)	2.6	2.6	2.0	1.2
Budget balance (% GDP)	0.2	-1.1	-1.1	-1.9
Current account balance (% GDP)	2.6	1.9	2.0	3.2
Public debt (% GDP)*	37.3	39.4	41.1	43.5

(e): estimate (f): forecast
* Comprising central and local debt (excl. financing vehicles)

RISK ASSESSMENT

Continued economic slowdown in 2015

After a slowdown in 2014, the Chinese economy should decelerate further in 2015. The authorities have implemented the necessary reforms to ensure a more even balance in growth and now seem to be inclined to let the economy slowdown in order to enable a further shift towards consumer-driven expansion. This process is continuing in 2015. Disposable incomes are rising almost at the same rate as GDP growth and the service sector portion of the GDP is now greater than that of industry. However, corporate profits are being affected in the short term in sectors hit by heavy overcapacity, particularly infrastructure and construction. The property market is showing signs of weakness, with a drop in prices, while stocks are at all-time highs and investments are declining. A prolonged fall in prices could impact the construction sector, which represents 15% of GDP, and banks due to their property exposure. A collapse in the property market is unlikely however, as the authorities have the capacity to intervene in the event of a major crisis. Beijing has tended to focus its interventions on easing the regulations implemented in 2010 and 2011, when property prices surged as cut in interest rate. However, the central bank maintains tight control over credit growth.
Household spending should remain firm due to the healthy jobs market. However, a slowdown in disposable income is perceivable, as retail sales growth slowed during the first quarter of 2015.
Furthermore, growth in Chinese exports should stabilise due to the strength of the US economy and the slight economic improvement in Europe. However, the renminbi should continue to be driven higher by its internationalisation which will weigh on the competitiveness of exports as well as salary increases.

Private sector and local authority debt jeopardising the financial system

Although the level of public debt is sustainable, local authorities have a high level of debt which remains opaque. At the end of 2013, a national audit revealed local authority debt to be RMB17.9bn, i.e. one third of GDP.
Given the development of a shadow banking industry as an alternative source of financing (estimated at 30% of total funding), it is difficult to accurately assess the level of debt in the private sector. However, the IMF estimated debt at 207% of GDP at the beginning of 2014 compared to 130% in 2008. Whereas most private companies have deleveraged, debt ratios have continued to progress among public companies and property and construction groups. Furthermore, SMEs frequently have to rely on shadow banking at exorbitant rates, given their difficulty in securing financing.

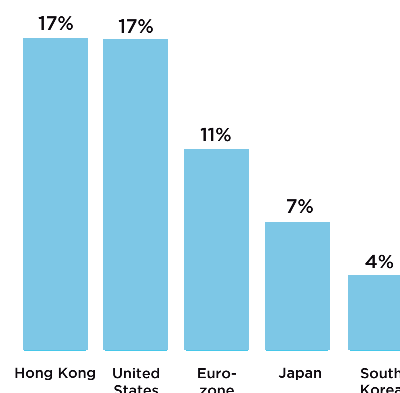
Moreover, the quality of banking assets is deteriorating although the shadow banking industry remains underestimated. The non-performing loans ratio reached 1.25% at the end of 2014, its highest level in several years. In April 2015, China experienced its first SOE default in the domestic bond market with the solar energy group *Baoding Tianwei* which failed to pay a USD14m coupon and debt holders requested reimbursement from the parent company. Although this credit event did not cause panic, the market is nonetheless awaiting the reaction of the parent company. The introduction of real bankruptcy risk is inevitable and will reduce moral hazard generated by government interventions. The solvency of more fragile borrowers will have to be scrutinised in the context of an economic slowdown.

Persistent shortcomings in terms of governance

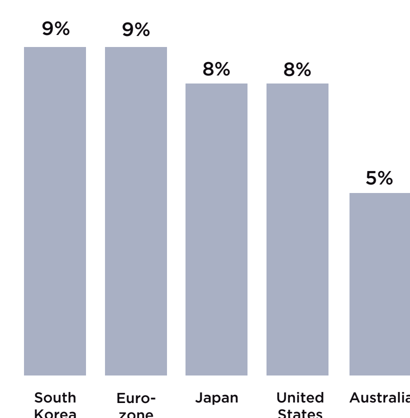
Whilst reaffirming the supremacy of the Chinese Communist Party (CCP), the annual central committee session in October 2014 concluded with decisions relating to an improvement in the state of law. However, the national security reform project has caused concern among some NGOs and foreign investors. Despite a seamless transition from the previous administration, President Xi Jinping wields unprecedented authority over the CCP, particularly following the anti-corruption campaign which targeted the highest-ranking party dignitaries. However, the Xi Jinping – Li Keqiang administration is facing both social and ethnic unrest. The country has seen an increasing level of worker activism which caused the authorities to publish a guide on the development of "harmonious work relations". Furthermore, pro-democracy demonstrations in Hong Kong last year were a challenge for the Chinese government. Finally, major shortcomings in term of governance persist, particularly concerning access to company balance-sheets and legal protection for creditors.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- External accounts benefitting from industrial competitiveness and diversification
- Sovereign risk contained: public debt mainly domestic and denominated in local currency
- Gradual move up-market
- Infrastructure development

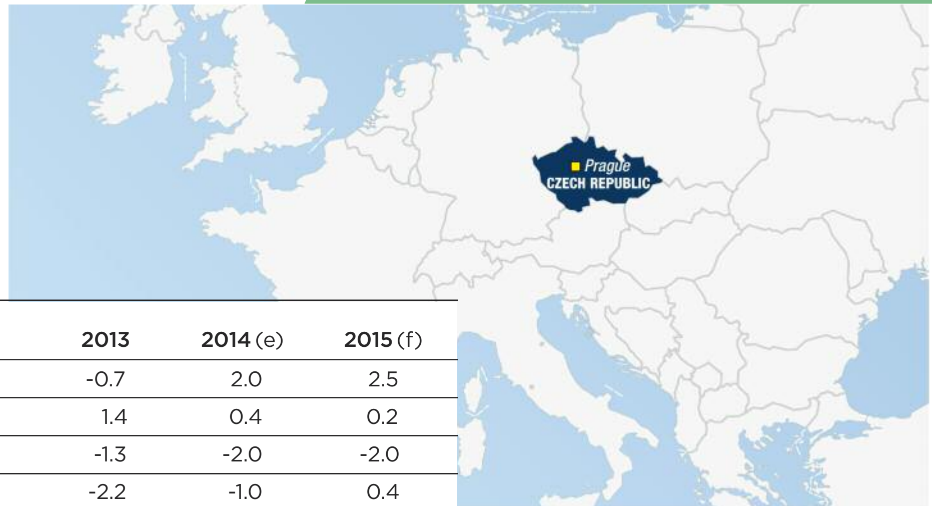
Weaknesses

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

CZECH REPUBLIC

COFACE ASSESSMENTS

A3	Country risk
A2	Business climate



MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	-0.8	-0.7	2.0	2.5
Inflation (yearly average) (%)	3.5	1.4	0.4	0.2
Budget balance (% GDP)	-3.9	-1.3	-2.0	-2.0
Current account balance (% GDP)	-2.2	-2.2	-1.0	0.4
Public debt (% GDP)	45.0	45.0	43.0	42.0

(e): estimate (f): forecast

RISK ASSESSMENT

The country has returned to growth

The country came out of recession in 2014 thanks to a recovery in exports and public investment. Growth should steadily accelerate in 2015 and 2016, driven by internal and external demand. Household consumption will be boosted both by increasing employment and wages, as well as the support measures in the budget, equal to 0.5% of GDP. With the Central bank policy interest rate at close to zero, the cost of credit is low and favourable for the property market in the major cities such as Prague and Brno. Investment will primarily be focused on a faster use of the European funds allocated for the period 2007-2013 (the end date for their use is June 2015) for the construction of roads and rail lines, military expenses, and, then, the increase in capacities in the exporting industries. Exports of motor vehicles, and to a lesser extent, of machines and electronic devices (the three represent over half of all sales) will feel the benefits of the acceleration in western European demand (80% of exports) and the low level of the koruna for which the central bank (CNB) set a floor against the euro in November 2013 (CZK 27 to 1 euro). This CNB target has proven its credibility as the bank has not had to intervene to achieve it. However, given that at the same time imports have been sustained by internal demand, the contribution of trade to growth will be moderate.

Sound budget situation despite a temporary loosening

The previous government was punished in the October 2013 elections for its austerity policies. A new centre-left coalition consisting of Social-Democrats, Christian-Democrats and a new party, ANO, founded in 2011 by the businessman, Andrej Babis, as a response to ongoing corruption scandals, took over the reins of government under the lead of the social-democrat, Bohuslav Sobotka, from the right-wing coalition. Whilst euro-scepticism is not a prerequisite, membership of the euro is still not on the agenda, at least for the short term.

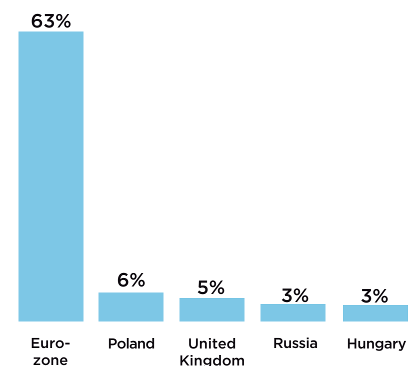
As the new government decided to loosen the budgetary constraints, the budget deficit has slightly increased. Allowances for families with more than one child are going to be increased, alongside wages in the public sector. A reduced rate of VAT will be brought in for healthcare purchases, books and products for infants. The State's contribution to sickness insurance for the elderly, students and the unemployed will increase. Finally, the indexing of pensions will be reintroduced. The level of the deficit, even given these measures, will still remain below the 3% of GDP mark and the public debt close to 40%. This is a medium term debt, 80% denominated in the national currency. Moreover, the authorities have adopted a modest medium-term fiscal program designed to reduce the structural deficit to 1% in 2018 (against 1.6 % at present), notably by improving tax collection, which should be enough to put the debt a downward trend.

Large trade surplus

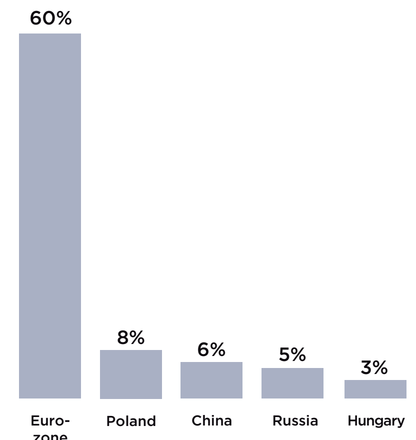
The previous low account deficit will turn into a slight surplus. The country's trade runs a large surplus. Its exports are fully benefiting from the upturn in automobile demand in Europe. Despite the partial defection of Russian visitors, tourist revenues also make a large contribution to the services surplus. These two surpluses cover the dividend repatriations from foreign owned companies, with Skoda, the local Volkswagen subsidiary, in first place. An increasing proportion of these sums (almost a third in 2015) are now reinvested in place, which helps to consolidate the position of Czech industry in the European, and in particular, German, production chain, and ensures the managerial autonomy and technological contribution of the local subsidiaries. Its external debt is limited (67% of GDP) and 80% of it is owed by the private sector. The external debt held by the local banks represents 27% of the total, which is a reflection of the domination of European banking groups. The local subsidiaries, however, have a base of local deposits that easily cover their loans, and have not suffered in the crisis.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Central geographic location, at the heart of industrial Europe
- Highly integrated into the German production chain
- Significant industrial potential (38% of GDP)
- Significant local added-value (55% of the value of its exports)
- Cultural links with Western European economies

Weaknesses

- Aging population
- Small, very open economy, with exports accounting for 84% of GDP
- High degree of geographic and sector specialisation of its exports
- Insufficient R&D and transport infrastructure
- Lack of competition and skilled personnel / slow productivity gains

EGYPT

COFACE ASSESSMENTS

C	Country risk
B	Business climate
HIGH RISK	Medium term

MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	2.2	2.1	2.2	4.0
Inflation (yearly average) (%)	7.1	9.5	10.1	9.8
Budget balance (% GDP)*	-10.6	-13.7	-13.8	-11.8
Current account balance (% GDP)	-3.9	-2.4	-0.8	-3.3
Public debt (% GDP)	78.9	89.0	90.5	90.5

(e): estimate (f): forecast
* Fiscal year 1 July to 30 June

RISK ASSESSMENT

Economic recovery in 2015

After several years of stagnation, the Egyptian economy seems to have resumed growth. The national growth rate increased during the second half of 2014 driven by the manufacturing sector and a recovery in the tourist industry. The energy mining industry will remain depressed due to the fall in oil & gas prices and should record a negative growth rate. This will be largely offset however by strong performances in the construction sector and higher revenues from the Suez Canal. Investments increased, compared to 2013/2014, due to a recovery in private investment. Consumer spending should continue to support economic activity particularly given the high level of public expenditure and increased household consumption. This improvement has been confirmed by a stronger consumer confidence index. The PMI index which gauges corporate confidence also reflects an improvement in the economic climate.

No sign of improvement in the public finances

Despite signs of an economic recovery, Egyptian public finances should remain strongly in deficit in 2015. In spite of increased revenues stemming from financial aid provided by the Gulf States and new corporate taxes, the budget deficit should remain above 10 % on the year. Spending will continue to increase under planned stimulus policies. This increase should be offset by a reduction in energy subsidies which began in July 2014. Despite these measures, spending on subsidies will continue to weigh on the budget as it represents almost 5.1% of GDP. The significant deficits recorded 2011 have resulted in a substantial increase in public debt. Mainly domestic, it is held by the banks. The reforms aimed at cutting subsidies and attracting joint funding for future major investment projects will help gradually bring down the debt.

External accounts and Egyptian pound still under pressure

The 2011 Egyptian crisis had major repercussions on the external balance sheet. Since 2013, Egypt has been a net importer of oil & gas and remains highly dependent on grain and energy imports. The trade balance deficit is likely to exceed 9 % of GDP in 2015, although it will be offset by a slight trade surplus in services thanks to a stabilisation of transfers from expatriates and an increase in the number of tourists. The current account excluding grants should also remain negative and worsen in 2015. The deficit will be only partially covered by direct foreign investments and financial aid from the GCC. External debt should remain at a manageable level (around 20% of GDP).
In this context, it will be difficult to keep the Egyptian pound informally pegged to the dollar. The devaluation of the pound in January 2015 from 7.14 to 7.53 per dollar and restrictions introduced aiming to combat a shadow forex market should limit downside pressure.
Following fresh aid from the Gulf States, Egyptian reserves should reach 20 billion dollars in 2015, which is the highest level in four years.

Completion of political transition

Egypt has regained a degree of political stability following the election of President Abdel Fatah El Sissi in June 2014. The Egyptian president presents himself as the country's new strong man. His policies are based on two areas: reviving the Egyptian economy and an unrelenting war on terrorism. Despite a generally calmer atmosphere, the near future is likely to be difficult for the country. The Egyptian authorities have not succeeded in bringing about a consensual transition and Egyptian society remains deeply divided between the different revolutionary movements (Islamists and left-wing secular parties). Moreover, the regime's repression of the Muslim Brotherhood, an organization declared a terrorist group by the government, increases the risk of a violent response by its members. These tensions have been exacerbated since the former president Mohamed Morsi was condemned to death in April 2015.
With regard to the economy, the international marketing campaign led by the President since his election (visit to the countries of the Gulf Cooperation Council, presence at Davos) seems to be bearing fruit. The International Egypt Economic Development Conference held on 13 March 2015 in Sharma El Sheik resulted in the signing of $36 billion in contracts, which could, in future, help revive the Egyptian economy.

Vulnerable banking sector

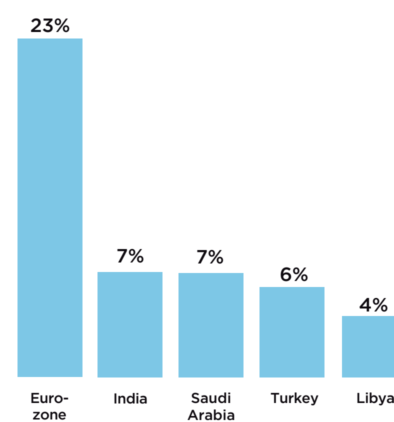
Egypt's banking system remains inefficient and highly exposed to sovereign risk. Holding almost 95% of the public debt, it hardly involves the private sector, which suffers from a crowding out effect. Moreover; the bank account penetration rate (10 %) is very low compared to other MENA countries. However, though weakly capitalised, Egypt's banks are still fairly profitable and the ratio of non-performing loans is declining.
A new reform has been introduced to facilitate and therefore encourage investment in Egypt. This reform has reduced a number of constraints including the abolition of manager criminal liability and decreased customs levies on capital goods.

Strengths

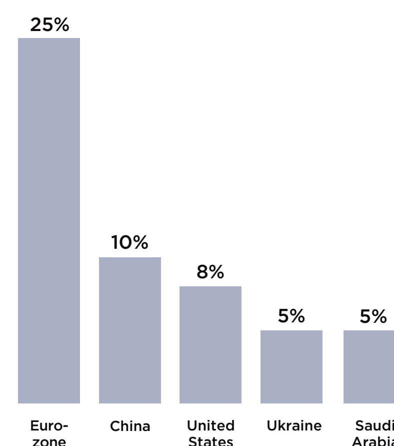
- Tourism potential
- Manageable external debt
- Political and financial support from the Gulf monarchies and western countries

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total

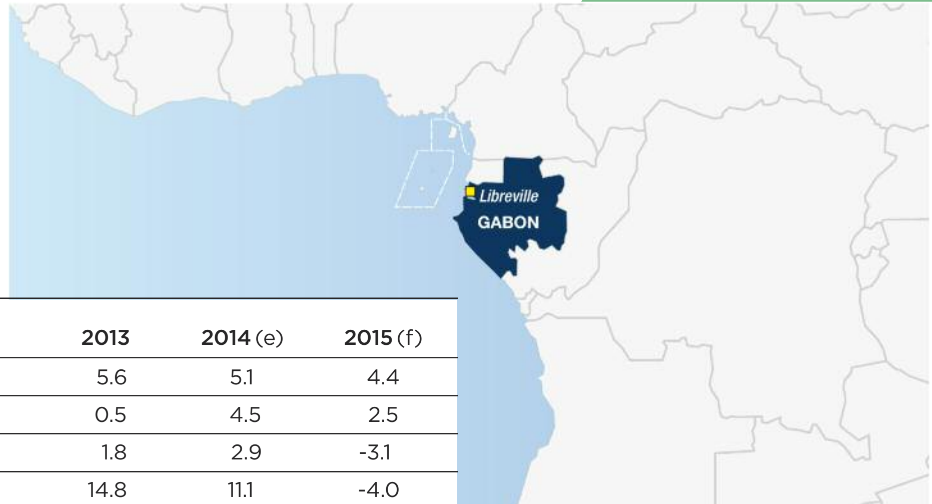


Weaknesses

- Poverty (40% of the population) and high unemployment
- Twin deficits
- Low level of foreign exchange reserves
- Banking system subject to sovereign risk

COFACE ASSESSMENTS

B	Country risk
C	Business climate
RATHER HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	5.5	5.6	5.1	4.4
Inflation (yearly average) (%)	2.7	0.5	4.5	2.5
Budget balance (% GDP)	2.6	1.8	2.9	-3.1
Current account balance (% GDP)	21.3	14.8	11.1	-4.0
Public debt (% GDP)	21.1	26.9	27.7	34.4

(e): estimate (f): forecast

RISK ASSESSMENT

Growth prospects have deteriorated due to the fall in oil prices

Economic activity slowed slightly in 2014 as public spending was reduced, after several years of rapid growth in capital expenditures, in response to the fall in oil revenues. Growth should decelerate more sharply in 2015 due the further fall in oil prices and the refurbishing of several oil wells. Economic activity should nonetheless pick up gradually from 2016 onwards, driven by public investment, the natural resources sector (food, gold and manganese mines, and wood processing) and services. The country remains highly vulnerable to instability in oil prices, and is also faced with a decline in oil production due to the gradual depletion of its reserves. The authorities have nonetheless made a major effort to diversify and modernise infrastructures under the *Plan Stratégique Gabon emergent* (PSGE). The project is beginning to bear fruit and should limit the impact of the collapse in oil prices. The success of the government's strategy will depend on improved investment efficiency however and many obstacles remain in place for the long-term development of the economy (insufficient electricity supply, lack of skilled labour, doubtful contract security and poor governance).

Public and external accounts should dip into red territory in 2015

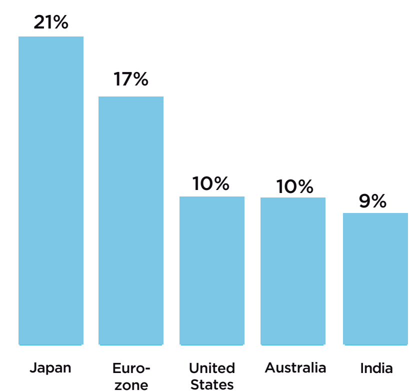
The country's financial situation remains heavily dependent on oil, which represents almost 80% of exports and more than half of fiscal revenues.
The drop in production and the fall in crude prices during the second half of the year drove oil exports down in 2014, which an increase in wood and manganese exports failed to offset. Meanwhile, imports excluding the oil sector increased slightly. The trade surplus decreased, while the invisible deficit remained at a high level (reflecting the cost of freight and insurance, the purchase of technical services abroad and profit repatriation). This caused further contraction of the current account surplus, which should tip into deficit in 2015 given the steeper decline in oil sales, despite the fact that imports should decrease due to the global decline in commodity prices and weaker public demand. Current accounts will only move towards balance in 2016 if oil prices recover slightly, while non-oil exports are expected to continue to increase.
The public account surplus has dwindled over the past few years due to a huge increase in public investments under the PSGE. The fall in oil prices which began in 2014 has led to the authorities adopting a budget amendment. Capital goods expenditure has been revised sharply lower compared to the initial budget, which has increased the budgetary surplus and enabled the government to purge part of its arrears. The 2015 budget includes a much lower level of oil revenues and forecasts a fall in spending on goods and services, a further decline in fuel subsidies and a stabilisation of public investments. Despite this, the public deficit should be approximately 3% of GDP in 2015. Public debt remains relatively low but the country has rapidly built up new debt since an early repayment of debt in 2008 to the Paris Club. Furthermore, the cost of borrowing on the bond markets has risen since the end of 2014 for oil producing countries.

The presidential and legislative elections should be more closely contested than in the past in 2016

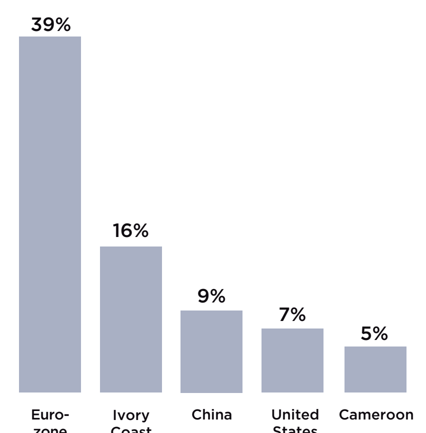
The presidential party continues to dominate the political scene. However, social discontent is growing and the legitimacy of the Head of state Ali Bongo is persistently being challenged. Furthermore, the opposition has regained some of its strength in 2014 with the emergence of a new alliance, although there is no guarantee that it will be able to agree on a single candidate for the presidential election. Following the senatorial elections in December 2014, which the ruling party won outright, like the municipal elections in December 2013 and the legislatives in December 2011 (boycotted by the opposition), the presidential and legislative elections promise to be more closely contested than in the past in 2016.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- 5th largest oil producer in Sub-Saharan Africa; 2nd largest African timber producer; aiming to be the world's leading manganese producer
- Economic diversification efforts undertaken under the "Plan Gabon Emergent"
- Public debt reduced in 2008 thanks to early repayment to the Paris Club

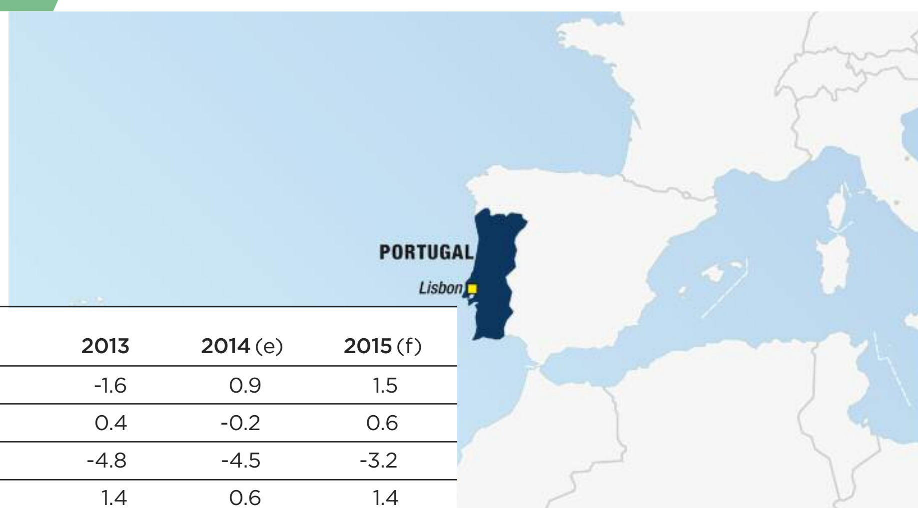
Weaknesses

- Economy highly dependent on the oil sector
- High cost of production factors linked to infrastructure inadequacy (transport and electricity)
- High unemployment and widespread poverty

PORTUGAL

COFACE ASSESSMENTS

A4	Country risk
A2	Business climate



MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	-4.0	-1.6	0.9	1.5
Inflation (yearly average) (%)	2.8	0.4	-0.2	0.6
Budget balance (% GDP)	-5.6	-4.8	-4.5	-3.2
Current account balance (% GDP)	-2.1	1.4	0.6	1.4
Public debt (% GDP)	125.8	129.7	130.2	126.3

(e): estimate (f): forecast

RISK ASSESSMENT

Resurgent growth

After three years of recession, Portugal recorded fresh growth in 2014. The recovery has been driven by domestic demand. Consumer spending has increased, investment in the construction industry has continued to decline but the increase in investments in equipment, which began to recover in 2013, has accelerated. However, as goods and services imports have increased more rapidly than exports, foreign trade has contributed negatively to growth. The recovery continued in the first quarter of 2015 as imports fell, because of lower energy prices, and exports accelerated. The contribution from domestic demand has remained positive although decreasing slightly. Despite a restrictive fiscal policy, the current decline in credit and political uncertainty ahead of legislative elections this year, growth should reach about 1.5% in 2015 and maintain approximately the same rate next year. After increasing slightly between the end of 2014 and early 2015, the unemployment rate (13.7% in Q1 2015) should fall back over the next few quarters which, combined with a slight rise in disposable household income (lower energy costs, income tax deductions), should continue to support consumer spending. The increase in the production capacity utilisation rate, accommodating monetary policy and a lower corporate tax rate should stimulate corporate investment (in April 2015, the industrial confidence indicator reached its highest level since February 2008). Exports should accelerate in 2015 and 2016, benefitting from firm demand from major trade partners such as Spain, Germany and the UK, and from a gain in competitiveness due to the depreciation of the euro. However, the contribution of external trade to growth should be weak, given the expected rise in imports.

Corporate debt remains high and an increase in doubtful loans is weighing on bank profitability

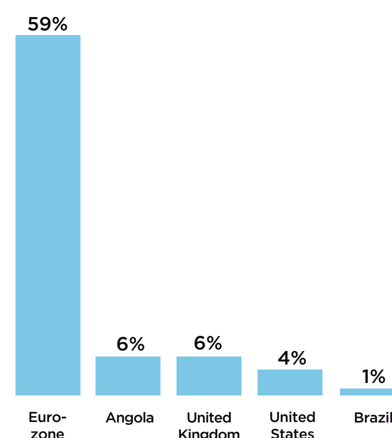
Company margins started to recover from summer 2009 onwards driven by wage moderation and employment restructuring. Moreover, the number of bankruptcies, which had mainly hit SMEs as they are geared primarily towards the domestic market, declined in 2014, after having almost quadrupled between 2007 and 2013. Furthermore, payment incidents recorded by Coface, which had peaked in early 2012, declined sharply. However, despite decreasing slightly, corporate debt remains too high (128% of GDP at the end of 2014), which is weighing on investment. The banking sector has improved its solvency and benefits from better financing conditions. However, the increase in non-performing loans is impacting its profitability and restricts its capacity to grant loans to creditworthy companies. The second half of 2014 saw the bailout of Banco Espirito Santo while Banco Comercial Português failed the ECB stress tests.

A successful exit from the bailout plan although many challenges lie ahead

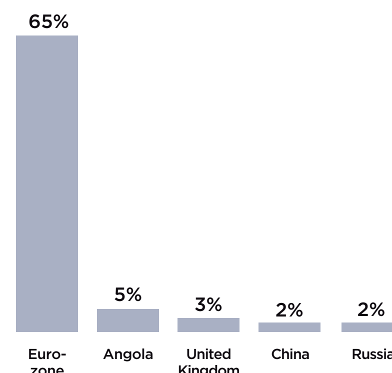
The international €78bn bailout plan (by the EU and the IMF) implemented in May 2011 has reached a positive conclusion. Portugal's access to bond markets was fully restored before the expiry of the plan (June 2014) without having to rely on a precautionary credit line. Economic activity recovered, public finances have improved and the imbalance in external accounts has been reabsorbed.
A growth shock and improved competitiveness have helped to correct the country's external deficits but unemployment and underemployment have risen sharply. A recovery in growth without ultimately deteriorating the current account balance remains an important challenge. The persistence of significant handicaps (low investment, high level of debt and structural bottlenecks) means that further reforms are necessary. Although Portugal has made progress in this area, it is lagging behind its peers in terms of job flexibility and domestic competition. Effectiveness of central and local administrations and public sector payment discipline need to be improved, along with the functioning of insolvency and corporate debt restructuring procedures. Finally, although the authorities were able to pay back part of the loans from the IMF ahead of schedule, in March 2015, the government's sizable debt burden(130% of GDP) and financing needs continue to pose significant risks to debt sustainability. Debt dynamics remain highly sensitive to macroeconomic shocks.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Quality infrastructure
- Tourist attractiveness
- Sector and geographic diversification initiated, research and innovation capacities
- Declining labour unit costs and reforms

Weaknesses

- Limited scale of the manufacturing industry, specialisation in sectors with low added value (textile-clothing. mineral products and metal ores. metals. food products)
- High level of public and corporate debt
- Rigid labour market and limited domestic competition, low investment
- Deteriorating bank asset quality and profitability

VIETNAM

COFACE ASSESSMENTS

B	Country risk
C	Business climate
FAIRLY HIGH RISK	Medium term

MAIN ECONOMIC INDICATORS	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	5.2	5.4	6.0	6.0
Inflation (yearly average) (%)	9.1	6.6	4.1	2.5
Budget balance (% GDP)	-6.8	-5.9	-5.9	-6.5
Current account balance (% GDP)	6.0	5.6	4.1	3.4
Public debt (% GDP)	48.5	52.1	52.1	54.0

(e): estimate (f): forecast

RISK ASSESSMENT

Economic activity will remain firm in 2015

Economic growth accelerated in 2014, buoyed by an increase in foreign direct investments (FDI) and exports, particularly mobile phones. In 2015, economic growth should remain dynamic and exports will continue to benefit from the strength of the economy in the US, which is Vietnam's main trade partner. The country's exports have moved upmarket thanks to DFI. Electronic exports are progressing and the country has become a hub for tablet and smartphone production by Korean companies. FDI inflow remains at a high level due to delocalisation as Asian companies set up production units in Vietnam. Inflow should continue to progress in 2015, provided that public companies continue opening their capital.

In the agricultural sector, the country benefitted from favourable weather conditions in 2014 and growth in exports of fish and prawns. Rice exports should also continue to progress.

However, domestic investment remains weighed down by the weakness of the banking system, which has a particularly high level of non-performing loans. Despite regular easing of monetary policy since 2012, which continued in 2014 with a 50-point cut in the base rate in March, and liquidity injections, credit growth struggled to take off (14% in 2014). However, consumer spending recovered in 2014 which is a sign of improved consumer confidence encouraged by moderate inflation. This trend should continue in 2015. Tourism will remain weighed down by the anti-Chinese rioting in May 2014.

The inflation rate slowed in 2014 and should remain modest in 2015 due to moderate credit growth and flat commodities prices. However, if monetary policy is relaxed significantly, a steep increase in inflation cannot be ruled out.

Persistent financial weaknesses

After heavy capital outflow forced the authorities to devalue the dong six times between 2008 and 2011, the country's exterior balance has since stabilised. Exports proved resilient despite the unfavourable international economic climate. However, the current account surplus will be reduced in 2015 due to stronger imports required to meet domestic demand and lower revenues from tourism. Although the central bank devalued the dong by 1% in January and also in May in response to pressure on the trade balance, the currency stabilised and foreign exchange reserves have progressed and now represent 3 months of imports. The dong will remain exposed to currency fluctuations and global risk aversion, particularly as the markets anticipate a tightening of US monetary policy.

In 2015, the budget deficit and public debt will continue to increase and sovereign risk will remain high. In addition to a lack of transparency in public accounts, public debt remains highly vulnerable to currency risk as almost 50% is denominated in foreign currencies. Furthermore, contingent commitments could jeopardise the sustainability of public debt in the medium term in the event of public company defaults.

Moreover, the banking system remains fragile as it is undercapitalised and heavily exposed to the dollar. Despite the creation of a defeasance vehicle, credit risk remains high and underestimated. Furthermore, the public banks' heavy exposure to opaque public companies is a further cause of weakness. However, measures have been taken, with ten pilot banks selected to implement supervision along the same lines as Basel II. They have until the end of 2015 to put in place an indicative approach, prior to the implementation of a standardised approach by 2018.

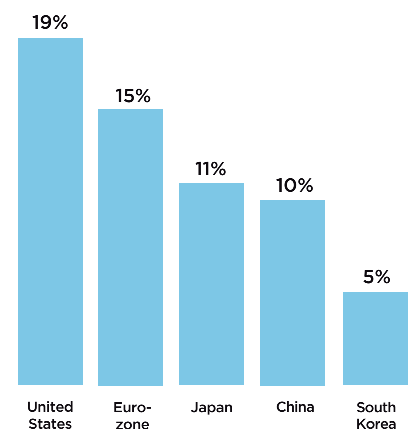
Increasing geopolitical tensions and persistent shortcomings in the business climate

The sovereignty dispute in the South China Sea between Vietnam and China was reawakened in May 2014 following the installation of a Chinese oil rig in waters claimed by Vietnam. This generated serious anti-Chinese feelings in Vietnam, resulting in demonstrations and acts of violence against Chinese interests in the country. China in the end dismantled the rig in July under pressure from the United States, and ASEAN countries decided to draw up a code of conduct with China covering this question. Vietnam is likely to further strengthen its links with the United States and Japan in 2015, whilst the underlying frictions with China will remain.

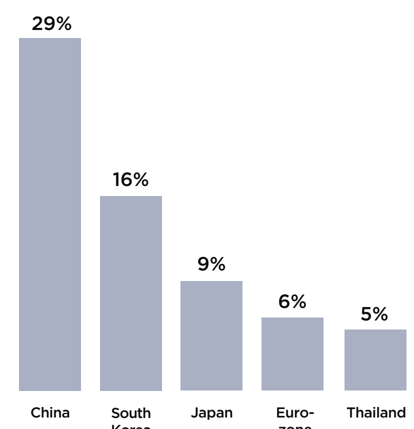
The quality of governance remains an issue in attracting foreign investors. The key shortcomings are in terms of the rule of law and control of corruption, which remains, despite the reforms carried out, very widespread within the political and economic milieus. Finally, the Communist Party still controls the country's entire political, economic and social life.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Skilled and low cost labour
- Solid agricultural potential and natural resources
- Development strategy based on economic openness and diversification

Weaknesses

- Shortcomings in the business climate.
- Lack of infrastructures
- Incomplete public sector reforms
- Widening inequalities
- Weak banking system

RESERVATION

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