PANORAMA

OCTOBER 2016

Country Risk Barometer Q3 2016

Concern again focused on oil prices, the emerging market thermometer

COFACE ECONOMIC PUBLICATIONS

By Coface Group Economists

The beginning of the summer was on everyone's mind, and the idea that the United Kingdom could leave the European Union (EU) seemed unlikely. The Brexit shock of 23 June shook the global financial markets. All eyes then turned to the UK, but the British Prime Minister Theresa May has only just announced hat she will trigger Article 50 before the end of March 2017. The process of withdrawing from the EU will then begin, and will theoretically take two years, but in reality could prove much longer. Unsurprisingly, this shock has prompted us to revise our evaluation of the country down to A3, with significant uncertainty weighing on agents' confidence and a potentially worrying negative impact when the UK actually leaves the EU.

Beyond Brexit, a number of uncertainties continue to weigh on the global economy. Weak global trade is again at the centre of discussion, and a strong recovery is not expected. In addition, oil prices did not recover significantly and are barely over USD 50 per barrel for Brent, which has led to further downgrades of several countries whose activities are closely related to trends on the oil market and, more generally, to commodities (Nigeria, Oman, Mongolia, Trinidad and Tobago). The last OPEC meeting on 28 September led to an agreement on a production level of around 33 million barrels a day (Mbd). Called "historic", this agreement is however unlikely to threaten the existence of weak market fundamentals, and will only lead to a moderate rise in oil prices. This is all the more true since OPEC countries must still agree on their production targets on 30 November, and they must then respect them. This is no small challenge, with short-term needs often taking priority over long-term reason. In addition, at the end of the year, the focus will be on the Fed, which could raise rates at its monetary policy committee meeting in December.

There is however some relative good news from Brazil and Russia. Although these economies continue to face a very difficult situation, the low point in macroeconomic terms seems to be behind them, and these countries now look set to gradually enter a period of convalescence. This has not yet, however, been reflected in signs of improvement at company level.

October 2016

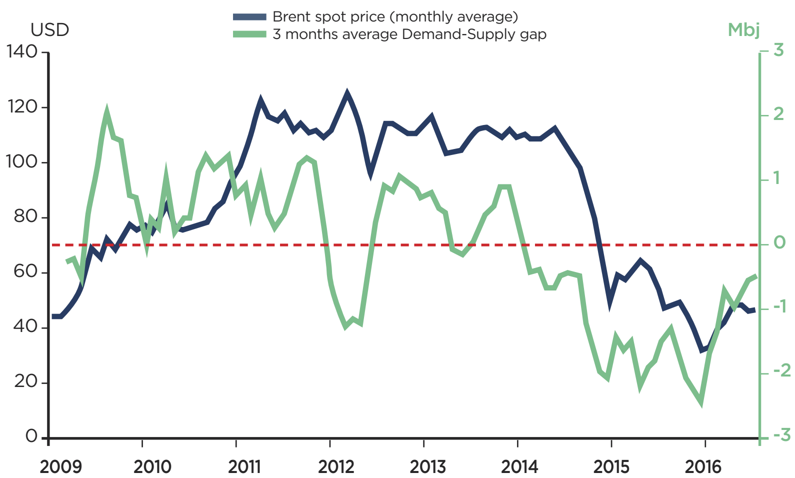
CONCERN AGAIN FOCUSED ON OIL PRICES, THE EMERGING MARKET THERMOMETER

After a summer start agitated by Brexit, a precarious calm has returned to the markets

The Brexit shock of 23 June triggered a fall on equity markets, Europe's in particular. The main stock market indices fell, and the Euro Stoxx 50 shed almost 9% in a day. These recovered however, before again being hit, to a lesser extent, by the publication of European banks stress tests on 29 July (fall of 2% on 2 August for the Euro Stoxx 50). Since then, a degree of calm seems to have returned, and several national stock market indices have returned to their pre-Brexit levels (this is not however the case in a number of more fragile countries, such as Italy or Greece).

In this uncertain environment, the BoE (Bank of England) and the BoJ (Bank of Japan) did not hesitate to ease their monetary policy. The bank of England, especially, cut its key interest rate to 0.25% on 4 August (the first reduction since 2009), decided to purchase good quality corporate bonds worth GBP 10 billion and to increase quantitative easing by GBP 60 billion to GBP 435 billion over six months. The Bank of Japan extended its exchange traded funds purchase programme at the end of July to JPY 6 billion, from JPY 3.3 billion previously, in order to stimulate the economy. Its statement is also increasingly less focused on achieving the less and less tenable 2% inflation target. The BoJ also announced in September that it was committed to continuing government bond purchases to maintain the 10-year sovereign rate at around 0%. As regards the raising of US interest rates, which remains a key issue, the probability of a rate hike in December was estimated at 57% on 5 October, according to the Fed fund futures trajectory. Thus, companies continue to operate in an environment of very low, if not negative rates, which has led to extremely advantageous financial conditions, but also a rise in the banking risk, which must be monitored *(see inset 1 on page 4)*.

Chart n° 1
Oil: Fundamentals still in surplus



Sources: EIA, Thomson Reuters, Coface calculation

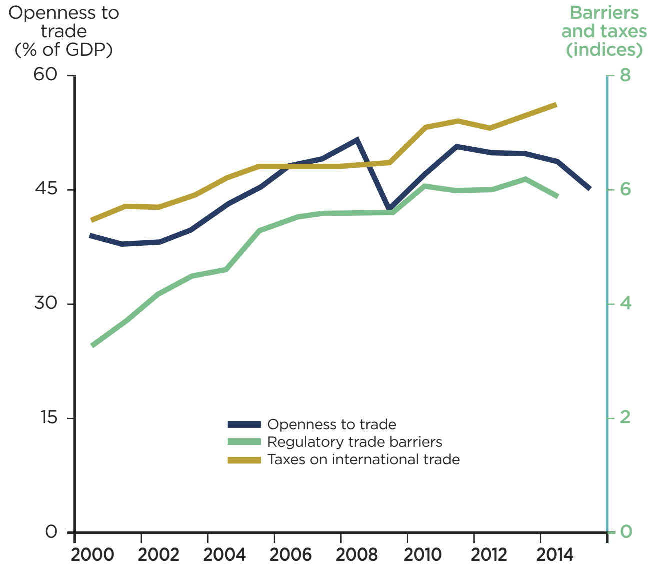
Downside risks on the global economy have thus increased. The UK's decision to leave the EU has made forecasts even more uncertain. It will have a negative impact on the confidence of private agents, and not just the British [1], although the final effect will of course depend on the conditions of the agreement between the UK and the European Union. The price of Brent is also not expected to rise sharply, according to our forecasts (USD 44 in 2016 and USD 51 in 2017), and this is despite the agreement in Algiers on 28 September on the OPEC production quota of 33 Mbd. In fact, even if this signal momentarily triggered a rally in prices on the markets, fundamentals remain weak *(see chart n°1)* and the rebalancing between supply and demand will not take place overnight: OECD stocks peaked at 32.5 Mb in July, and global demand is not likely to be particularly dynamic. Although non-OPEC supply is falling (for the moment, but it could recover if prices rise again), OPEC production is nearing or beating records (Kuwait, UAE, Saudi Arabia, Iran). Russia also raised the possibility of a freeze or a reduction of its production, but must prove itself. Production targets by country will be defined at the next OPEC meeting on 30 November, and this is likely to be a difficult exercise. Moreover, judging by past experience, it is not a foregone conclusion that countries will respect the quotas, as their short-term concerns often prevail over their compliance with the agreement.

(1) Coface Study "Will political risk "spoil the party" in 2017?" September 2016

Furthermore, global trade continues to disappoint, as evidenced by the strong downwards revisions of the latest growth forecasts from the World Trade Organization, which now publishes a range for 2017 (between +1.8% and +3.1% in 2017 after +1.7% in 2016) [(2)]. The downwards revision by more than a third to growth in global trade raises questions. According to the Bank of France [(3)], notwithstanding the fall in trading costs, the slowdown can be explained by the drop in demand in the eurozone, and the rebalancing of Chinese growth towards domestic demand (production responds more to the needs of domestic demand). The authors nevertheless consider that the unitary elasticity of global trade to long-term growth is not in question. Trade is therefore only likely to take off again gradually next year, as highlighted by two studies conducted by the French Economy and Finance Ministry (Treasury Dpt) [(4)] and the IMF [(5)], and its growth is unlikely to be sustainably stronger than that of global activity. Finally, as noted by the IMF and CEPII [(6)], there is an increased risk of protectionism, with an increasing number of measures in this regard, even though for the moment they are only likely to affect a limited portion of global trade. For example, the ratio of trade openness [(7)] fell by 6.6 pts of GDP between 2007 and 2015, and the number of taxes on trade as well as regulatory barriers have increased since the crisis *(see chart n°2)*.

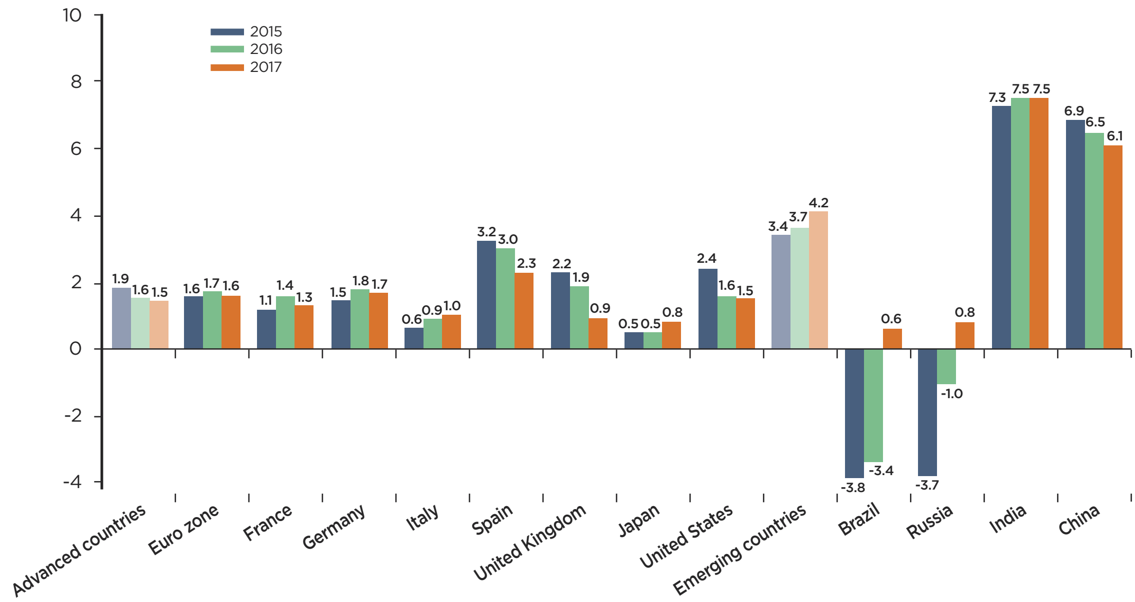
In this context, our growth forecasts remain fairly muted (+2.5% in 2016 and +2.6% in 2017), marked by stability in advanced countries (around 1.6%, as in the eurozone) and an improvement in emerging countries (+4.2%, then +3.7% in 2017), chiefly owing to the end of recession expected in Brazil and in Russia *(see chart n°3)*.

Chart n° 2
Global trade: Increase in protectionism



Sources: World Bank, Fraser Institute Economic Freedom of the World Index

Chart n°3
Growth rate (%)



Source: Coface

(2) WTO, "Trade in 2016 to grow at slowest pace since the financial crisis", press release, 27 September 2016. There have been marked downwards revisions in Latin America, Asia and the US.
(3) Banque de France, Rue de la Banque no. 30, "The role of China in the trade slowdown", September 2016
(4) DG Trésor , Trésor Eco no. 166, "How to explain the weakness in global trade?" April 2016
(5) Aslam et al, IMF, "Keeping the wheels of trade in motion", September 2016
(6) Sébastien Jean, CEPII, "Growth in global trade below WTO expectations. As forecast!" Note of 29 September 2016
(7) Calculated as the ratio of the sum of the value of exports and imports to GDP in dollars.

Inset n°1

What is the impact of negative rates on companies?

Which central banks are applying negative rates?

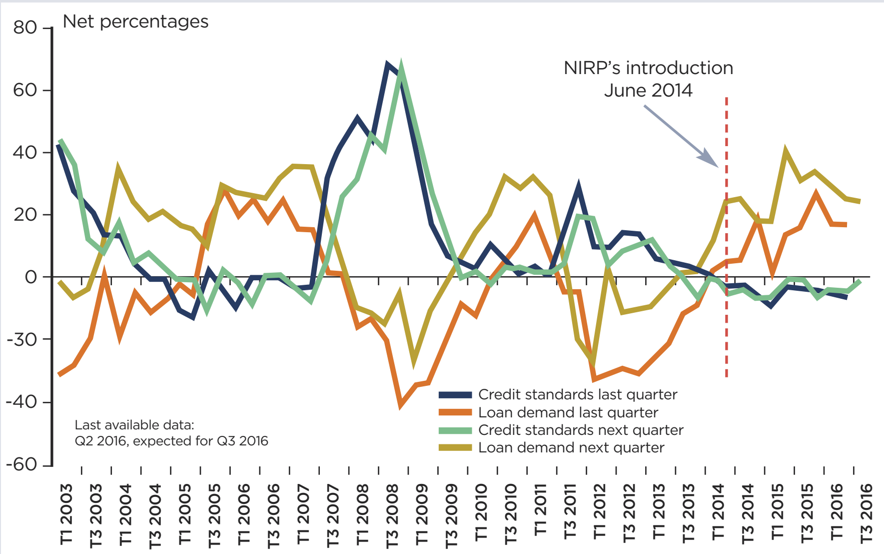
While economic theory has little room for the idea of negative interest rates, nine central banks currently have a negative interest rate policy (NIRP). Historically, Switzerland and Sweden had already crossed the Rubicon by temporarily applying a NIRP: in the 1970s for the former, in 2009 for the latter. Currently, the countries with a NIRP account for a quarter of global GDP. The Danish Central Bank (DNB) was the first to introduce it on a lasting basis in 2012. It was followed by the ECB in 2014, Switzerland (SNB), Sweden (SR) and Norway (NB) in 2015 and finally Japan (BoJ), Hungary (MNB), Bulgaria and Bosnia Herzegovina in 2016.

The application of the NIRP however varies according to the rate targeted and the reason why this policy was put in place. In the case of the ECB, the BoJ and the DNB, the deposit rate was targeted, while the SR, in addition to the deposit rate, also put its key lending rate in negative territory. While a number of central banks adopted a NIRP in response to weak domestic demand and a lower inflation level than their target (ECB, BoJ, SR), others wished to limit the effects of the excesses associated with non-conventional monetary policies in order to limit the appreciation of their currencies that serve as safe haven currencies (DNB, SNB).

What are the transmission mechanisms?

In theory, the introduction of a NIRP triggers an increase in household consumption and private investment, and improves companies' price competitiveness. The first effect is explained by two transmission channels: the interest rate and the asset portfolio. The introduction of a NIRP indirectly affects credit. Growth in lending picks up through the fall in the interbank rate, which, then, triggers a decline in all rates and more favourable financing conditions in the bond markets. The second effect (assets portfolio) is due to the ECB's asset purchase programme (or those of the other central banks with a QE policy). The massive purchase of sovereign bonds lowers long-term rates and flattens the whole yield curve. With yields not sufficiently attractive for investors, they are switching to other assets, notably equities and real estate. The resulting wealth effect and the increase in lending thus have a positive impact on demand and investment. The gain in companies' price competitiveness is due to the exchange rates transmission mechanism. Faced with a particular country introducing a NIRP, and thereby discouraged from investing in that country's currency, investors will seek superior returns elsewhere. The currency of the country in question loses its appeal, weighing on the exchange rate, which depreciates, and thereby improves companies' price competitiveness.

Chart n° 4
Enterprises: conditions of credit and credit demand in the eurozone



Note: Blue and orange curves show the changes occured, whereas green and yellow curves shows the changes anticipated by the banks
Source: ECB

Have these effects really been seen?

According to the Bank Lending Survey (BLS) of July 2016 conducted by the ECB, lending conditions for companies have again improved, and demand for credit continued to rise in the second quarter of 2016 *(see chart n°4)*. Growth in lending to companies has thus picked up sharply since the introduction of the ECB's NIRP, from a contraction of 2.6% yoy at the end of May 2014 to an expansion of 1.3% at the end of July 2016. The ECB estimates that the NIRP has contributed approximately one percentage point to growth in lending to companies since July 2014 (Rostagno [(8)]). In addition, the survey on the access to finance for enterprises (SAFE) conducted by the ECB in June 2016 shows that the availability of external financing sources for PMEs is improving again and that banks are more prepared to grant them credit. The improvement in the macroeconomic environment in the eurozone and the introduction of the NIRP had a positive impact on several components of GDP. Growth in household consumption rose from 1.3% in the second quarter of 2014 to 2.1% in the first quarter of 2016, while growth in private investment rose from 1.7% to 3.8% in the same period. The impact on the euro/dollar exchange rate was also significant, with a depreciation of 18% from June 2014 to August 2016. The depreciation of the euro seems however to be of greater benefit to southern countries (Spain, Italy, Portugal), which have a lower range level than northern countries (Germany, the Netherlands).

Are banks heading for a fall in profitability?

A negative effect could however emerge if the negative interest rate environment continues for a long time, to the extent that lending to companies

(8) Rostagno and others., 2016, "Breaking through the zero line : the ECB's negative interest rate policy", Presentation at Brooking Institution "Negative interest rates: lessons learned… so far"), 6 June, available on: *https://www.brookings.edu/events/negative-interest-rates-lessons-learned-so-far/*

Inset n°1 (continued)

What is the impact of negative rates on companies?

and households depends on the profitability of lending transactions, which is falling. The introduction of the NIRP has flattened the interest rate curve. It is this phenomenon that reduces a bank's net interest margin [9] and which therefore leads to a fall in profitability. The loss in investor confidence and in banks' willingness to grant loans could trigger a slowdown in lending growth. The BLS shows in fact that 80% of banks questioned believe that the NIRP has contributed to the drop in their net interest income [10]. For example, Commerzbank has quantified the cost of the NIRP on its income from bank loans at EUR 161 million. The IMF estimates that even if the NIRP has up to now only had a weak impact on banks' net interest margin (a drop of 50 basis points in the interest rate would lead to a drop of seven basis points in the net interest margin), the threshold from which the NIRP becomes counter-productive is approaching. The ECB and other central banks have adopted a number of measures to limit the negative impact of the NIRP on banks' profitability: the increase in QE and the introduction of the TLTRO 2 by the ECB in March 2016; the introduction of a system that sets several levels of deposit rate (thereby only taxing surplus deposits) for the BoJ, the DNB and the SNB. In addition, the BoJ is committed to continuing its government bond purchase programme in order to maintain the 10-year sovereign rate at 0%. Commercial banks have been able to offset the negative impact of the NIRP up to now by increasing lending volumes, although they are still limited by regulation, the fall in interest expenditure and risk provisions, and capital gains.

Will the NIRP have other negative effects?

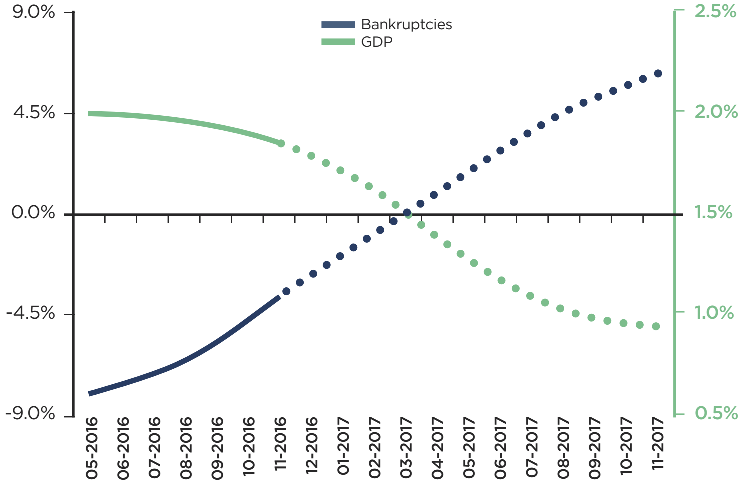
The weakness of interest rates has above all redistributed the resources of net savers to net borrowers. As net borrowers have a marginally superior propensity to consume than net savers, this supports consumption in the economy. However, this effect could conversely prompt certain savers to increase their savings to offset the loss in remuneration from their capital, thereby reducing their consumption. Finally, the NIRP could ultimately have an impact on financial stability. The banks could in fact wish to increase their exposure to risk by lowering the quality of requirements for a loan, or by increasing lending to SMEs (as the SAFE survey suggests) in order to generate more revenue. Historically, SMEs have recorded higher default rates than medium-sized and large companies. In addition, the risk relating to the emergence of "zombie" companies, whose activity can only be maintained through loans at artificially low rates, must also be monitored [11].

Beyond Brexit, banking and political risks still remain the causes for greatest concern in Europe

In the **UK**, Brexit is a determining factor. The growth performance was undoubtedly better than expected in the first half, owing to the resilience of private consumption, and this despite the lack of momentum in investment. Growth is expected to come in at 1.9% this year, according to our forecasts. The government has clearly indicated that it wishes to limit the negative impact of Brexit: even though no emergency budget has been passed, stimulus measures are likely to be introduced by the end of the year (budget statement) and the BoE reacted quickly through monetary easing. In light of these measures, associated with a central scenario of a favourable agreement with the EU, we forecast growth of around 0.9% next year, in line with the BoE's forecast (1.0%). For companies, a positive surprise may come from foreign trade, on the back of the sharp depreciation of sterling (at a 31 year-low against the dollar at the beginning of October), which could support exports but have a negative impact on consumption by triggering a rise in inflation. In addition, even with companies having adopted a wait-and-see attitude in relation to production and investments, the expected decline in growth may lead to a less significant drop in insolvencies this year and a rise next year (respectively -3.8% in 2016 versus -9.6% in 2015, and +6.3% in 2017 by our estimates, *see chart n°5*). Finally, the risk on the property sector should be monitored following the freezing of property funds this summer. 75% of SMEs use their commercial real estate assets as collateral, and the risk of transmission to the banking sector is significant: according to the BoE, a drop of 10% in commercial property prices is associated with a drop of 1% in global investment. Furthermore, the high level of household mortgage debt (132% of available income), as well as the overvaluation of prices by 34.6% according to the OECD, are causes for concern. The banking sector is, however, better capitalised than in the past.

(9) Difference between the interest rate at which a bank lends and the interest rate at which it refinances itself on the various capital markets.
(10) Measures a bank's profitability. Balance between loans and deposits.
(11) Banque de France, Rue de la Banque no. 29, "Are insolvent firms being kept afloat by excessively low interest rates?" September 2016

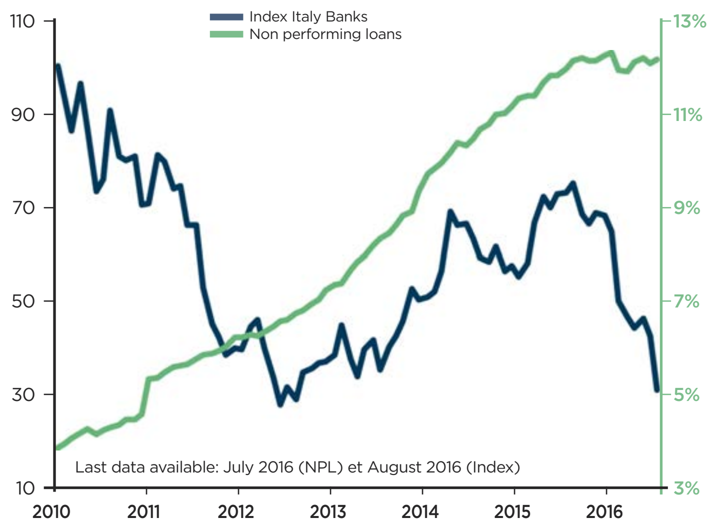
Chart n° 5
UK: heading towards an increase in insolvencies



Sources: Nationales statistics UK, Coface

In the **US**, after a blip in the first quarter, activity picked up again slightly in Q2 on an annualised quarterly basis (+1.4% after +0.8%). Consumption is less robust, the situation for companies has not improved, and improvement on the employment front is still being offset by less impressive job creation (less than 200,000 a month). **Japan** continues its usual strategy, with the extension of its policy mix, both monetary (cf. supra) and budgetary (announcement at the beginning of August of a stimulus package totalling USD 130 billion, i.e. 3% of GDP, mainly targeting infrastructure and deprived households), in order to offset the weakness in private investment, even though in May, it had decided to delay the new VAT hike to 2019. Despite these measures, the outlook is not expected to improve significantly in the short term.

Chart n° 6
Italy: Difficult banking situation



Sources: Central Bank of Italy, Datastream

Growth posted a modest performance **in the eurozone** in 2Q (+0.3% in Q2 after +0.6%), mainly owing to lacklustre domestic demand. The results were disparate, however: Germany and Spain held up well, and this year are expected to post growth rates slightly higher than expected previously, while France and Italy registered near-zero growth, and forecasts remain stable or have been cut.

Beyond the impact of Brexit, **concerns over the health of certain banks have grown**. In fact, while the results of stress tests released on 29 July show the good overall resilience of the 51 banks tested, they also highlight the difficulties of around a dozen of them, particularly in Italy. Their non-performing loans account for 12% of their portefolio, the Italian composite banking index fell *(see chart n°6)* and MPS (Monte dei Paschi di Siena), the country's third largest bank, would have a CET1 ratio of -2.2 % in a stressed scenario. However, the bail-out plan approved by the ECB, which will see the bank's capital increase by EUR 5 billion and EUR 9.2 billion in doubtful loans sold, has reassured investors. Other banks, notably Irish (RBS) and German (Deutsche Bank and Commerzbank), are among the lowest rated. The exercise was however limited in various ways. First, Greek and Portuguese banks were not included in the sample, and second, the Brexit risk and the low interest rate environment do not seem to have been taken into consideration. The IMF also states that banks are in a better situation in terms of capitalisation and liquidity, but highlights that Deutsche Bank represents one of the biggest systemic risks for the global financial system [12] (the markets were furthermore extremely nervous at the end of September, and the share price has fallen by more than 50% since the beginning of the year).

Moreover, **Italy also faces a rise in political risk**, relating to the referendum on constitutional reform intended to limit the Senate's power (in order to reduce obstruction), likely to be held before the end of the year. The latest opinion polls offer little visibility over the outcome, with 30.1% planning to vote "yes", 34.1% "no" and 35.8% "undecided" according to a survey conducted by EMG Acqua on 19 September. The latest statements suggest that Renzi would not necessarily resign in the event of a "no" vote, but if he did resign, this would trigger more uncertainty on the future of Europe, which is currently already being questioned. Political risk is also an issue in Spain, where the situation remains extremely delicate, as the country is still without a government. The resignation of the leader of the socialist party could however create more favourable opportunities. Nevertheless, this fragile political environment does not seem to be having a strong negative impact on Spain's economy for the moment, and the country was given an extension until 2018 to reduce its public deficit below the 3% of GDP threshold [13].

(12) IMF GFSR, April 2016
(13) Coface Study "Will political risk "spoil the party" in 2017?" September 2016

Mixed news on emerging markets

Brazil shows signs of improvement, although it is still mired in a difficult economic situation. In fact, activity is still slowing, with growth of -0.6% qoq in Q2 (after -0.4% in Q1), but at a much slower pace than last year (an average of -1.5% per quarter). Nevertheless, the situation remains fragile, as evidenced by the most recent industrial production index to be published, which declined by 3.8% mom in August, the heaviest fall since January 2012 and a much more negative figure than anticipated by consensus. The political environment is gradually becoming clearer with the approval by Congress on 31 August of the impeachment of Dilma Rousseff. Former president Lula is also set to stand trial in connection with the Petrobras corruption scandal. Thus, the outlook seems to be improving slowly, with an upturn in financial indicators since the beginning of the year (exchange rate, stock market, spreads), and a fall in inflation that suggests that the key interest rate will be cut soon, hence a slight rise in growth can be expected next year (growth of +0.6% in 2017, following 3.4% in 2016 according to our estimates). **Russia** also seems to have reached a low against a backdrop of oil price stability in the last six months and, consequently, the rouble, too.

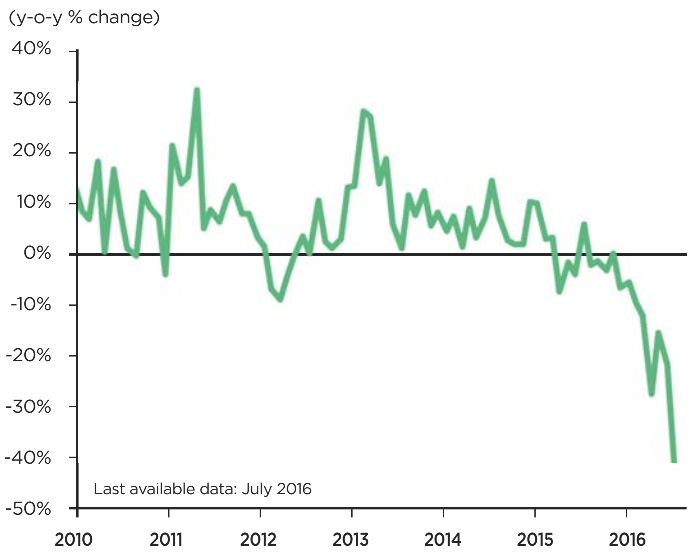
In **Turkey**, besides more attacks, the attempted coup triggered a purge, and the tourism industry (around 4% of GDP and accounting for more than 16% of job creation over the years 2009-2013) was significantly affected by the heightened insecurity. Tourism arrivals fell 40% in July *(see chart n°7)*. Private consumption, the growth driver of the economy, now seems to be showing signs of weakness (retail sales down 2.7% yoy in July, the month of the attempted coup). This has prompted us to revise down our growth forecasts to 3.0% both for 2016 and 2017. With the country facing a significant external financing requirement, exchange rate trends should be monitored (all the more so against a backdrop of a possible tightening in US monetary policy). The decline of the institutional environment and the business climate is likely to begin to affect investment. However, the lira did not collapse against the dollar during the attempted coup, and the ongoing reconciliation with Russia, Egypt and Israel is likely to boost trade. The recent downgrade of Turkey's sovereign rating by Moody's in September to speculative status is cause for concern.

Turning now to Asia, in **China**, the economic situation stabilised in the first half (growth of +6.7%), but the imbalances have still not been corrected, notably in terms of continued lending growth. In this context, the BIS's latest report in September confirms our fears regarding the banking situation: the report highlights the country's financial overheating, with a credit to GDP gap of 30.1, i.e. a very high level of risk (the highest of the 23 countries studied), with a level of 10 indicating that a banking crisis is probable in the next three years. This level is also high compared for example with Japan (4.1) and other emerging countries, such as Brazil (4.6).

In **India**, the situation also remains delicate and is to be monitored, although the latest BIS report does not indicate a high risk. Banking reform is a positive factor, and should clean up balance sheets. The first law on bankruptcies adopted in May 2016 should help creditors in this process, because it authorises the banks to take control of insolvent companies. The risk weighing on companies is solely related to large public companies, particularly in the infrastructure and commodities sectors. SMEs could however suffer more as a result of the situation, because even if their balance sheets are healthier, they may do business with large firms.

Nigeria was in recession in the first half of the year. The situation remains extremely delicate for the country in view of the importance of oil and gas to export revenues (90% of the total) and budget receipts (75% of the total). Growth in the country is therefore expected to be nega-

Chart n° 7
Turkey: Tourist arrivals



Source: Turkstat

tive, impacted by both the fall in oil prices per barrel and its stabilisation at a low level on the one hand, and a sharp drop in oil production relating to tensions with the Movement for the Emancipation of the Niger Delta (MEND) on the other. Its decision to introduce more flexibility into its exchange rate in June led to a fall in the naira, but the spread with the exchange rate on the parallel market persists, notably as a result of ongoing foreign exchange controls. This explains our decision to downgrade the country.

Conversely, the outlook for **Central Europe** remains more positive than in other zones. Growth is expected to come in at 3% this year and next, notably owing to favourable economic factors but also the absence of significant imbalances *(see inset n°2 page 8)*.

Inset n°2

Such a good performance for Central Europe?

Central Europe compares favourably to the eurozone and other emerging regions

Growth in central European EU member states (3.4% in 2015) compares favourably with that of the eurozone (1.6%), Latin America (-0.7%), Arab countries (2.6%) and Sub-Saharan Africa (3.0%), but is well below that of emerging Asian countries (6.6%). The regional public deficit is close to that of the eurozone (2.4% of GDP versus 2%), but was weaker than in other emerging regions (3.7% in emerging Asian countries, 7% in Latin America, 11.2% in Arab countries, and 4.1% in Sub-Saharan Africa). Its public debt (50.2% of GDP) was much lower than that of the eurozone (93.2%) and close to those of other emerging regions (46.4% in emerging Asian countries, 56.4% in Latin America, 37.6% in Arab countries and 38.4% in Sub-Saharan Africa). Its current account balance recorded a surplus of 0.6% of GDP, which is better than Latin America (-3.6%), Arab countries (4.5%), Sub-Saharan Africa (5.9%), but below the eurozone (3%) and emerging Asian countries (2%).

High growth in Central Europe: domestic demand combines with exports

Household consumption is strongly supported by the rise in wages, increasing employment, tax cuts, and possibly, new social benefits. Private investment offset the decline in public investment due to the transition between two European funding programmes, thanks to subsidised loans and tax cuts (Hungary, Romania), foreign direct investment (Slovakia) and a recovery effect (Bulgaria). Accommodative budgetary and monetary policies are facilitated by weak or negative inflation, as well as moderate budget deficits. Sales on western European markets have held up well. The countries strongly integrated in the German production chain such as the Czech Republic, Hungary and Slovakia are benefiting from the strength of German household consumption and the satisfactory performance of German exports. Owing to the strong presence of the automotive industry, these countries, along with Romania, are benefiting from the boom on the European passenger car and commercial vehicle market. Exports performed well on overseas markets, thanks to the weak euro with which local currencies, for the countries that are not yet part of the eurozone, fluctuate in tandem.

Close integration in the European manufacturing industry, particularly in the German one

With generally more than 50% of exports heading towards the eurozone and more than 25% to Germany, and exports representing nearly 50% of GDP for Poland and Romania, but double in Slovakia, Hungary and the Czech Republic, dependence on the western European economy is high. The links are particularly developed in the automotive and household appliance sector, where integration in the German production chain is evident. The presence of western Europe is also strong in the retail sales and banking sectors. European manufacturers are attracted by the region's geographical and cultural proximity, as well as a well-trained workforce that makes it more competitive. Furthermore, EU cohesion funds will represent an average of 2.7% of regional GDP over the next seven years. Against this backdrop of close integration, the anti-European sentiment in numerous central and eastern European countries, fuelled by the migration crisis and exacerbated by the Brexit vote and the populist and nationalist discourse of local politicians, is a bad sign for investors. The reform of the European asylum system and the directive on posted workers are being vigorously opposed in most countries, while the European Commission is criticising the rule of law in Poland and in Hungary. However, the risk of being fined or of losing the right to vote, not to mention the exclusion of a closer union on the one side, and the importance of the region for European manufacturers (German) on the other, could lead to compromises.

But economic policy will not be able to support domestic demand indefinitely

If continued, tax and social giveaways could lead to a deterioration in the budgetary situation, and call into question the progress made since the crisis. This risk was highlighted by the IMF in particular in the case of Romania and Poland, where the deficit is nearing 3% of GDP, the level above which it is considered excessive by the EU. According to the EU's growth and stability pact, the European Council may therefore decide on a fine and a partial suspension of European funding. The regional accommodative monetary policy is enabled by the recent drop in energy prices, as well as the stances of the Fed and the ECB. If one of these two factors changes, the local monetary policy authorities will probably tighten policy again in order not to see their currencies depreciate against the euro, to maintain inflows and to hold inflation in check.

BAROMETER

October 2016

COUNTRY RISK ASSESSMENTS CHANGES

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

COUNTRY	Country risk new
United Kingdom	A3
Oman	B
Trinidad and Tobago	B
Mongolia	D
Nigeria	D

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 ofthe country, Coface payment experience and business climate assessment. This evaluation has 8 grades: A1, A2, A3, A4, B, C, D, E This scale included so far only 7 notches. An eighth category has been created to add granularity in analyzing country risk: some of the countries belonging to the category D are now included in this new category E synonymous with extremely high credit risk.

United Kingdom: A3

- The exit of the UK from the European Union (Brexit) will have a negative impact on activity, even if its magnitude will depend on the exit process. In our central scenario, growth should only reach 0.9 % next year.
- The lack of details on these exit modalities brings some uncertainty, which will lead to the report of consumer and investors' decisions and drag on growth.
- Authorities are worried about the Brexit impact on activity as highlighted by the decrease in the BoE key rate to 0.25 % for the first time since 2009 and the extension of the quantitative easing program. Stimulus measures are expected before the end of the year.

Oman: B

- External shock due to the drop in oil and gas prices: Omani economy slowed considerably in 2016. The sultanate, heavily dependent on the hydrocarbon sector (35 % of GDP) is impacted by the low prices. Oman managed to maintain high growth rate in 2015 thanks to large public investment which have limited the initial shock. However, public spending increased amid contractions in oil revenues generated significant public deficit in 2016 (around 17 % of GDP). The decrease in spending has led to budget cuts on some infrastructure projects which had a negative impact on non-oil sector.
- In 2017, the economy should continue to slow. Consumer confidence is weakening, investment growth is expected to moderate with lower public expenditures. Moreover, twin deficits are expected to remain significant, constraining the government ability to tap on international debt markets.

Trinidad and Tobago: B

- The contraction in activity that began in 2014 in the wake of the collapse in oil and gas prices continues to deepen in 2016.
- The sharp price decrease strongly affected the energy sector (oil and natural gas production), the key driver of the economy (approximately 40 % of GDP, 50 % of fiscal income and more than 80 % of merchandise exports).
- Production of natural gas and crude petroleum fell by 11.6 % and 9.5 % respectively in January-May 2016 year on year, driven primarily by maintenance and upgrade of energy companies.
- This trend is expected to continue given the maturing oil fields, maintenance activity by the companies in the sector, and also the impact of lower international energy prices.

Mongolia: D

- The country is highly impacted by the drop in commodity prices and the Chinese economic slowdown (more than 90 % of Mongolian exports are directed toward China). GDP growth came from 17.3 % in 2011 to 2.3 % in 2015 (0.5 % expected in 2016).
- Macroeconomic fundamentals continue to deteriorate and the authorities have acknowledged that public debt is significantly higher that what older figures showed.
- The currency has sharply depreciated and the country, on the verge of a balance of payment crisis, requested IMF's intervention.

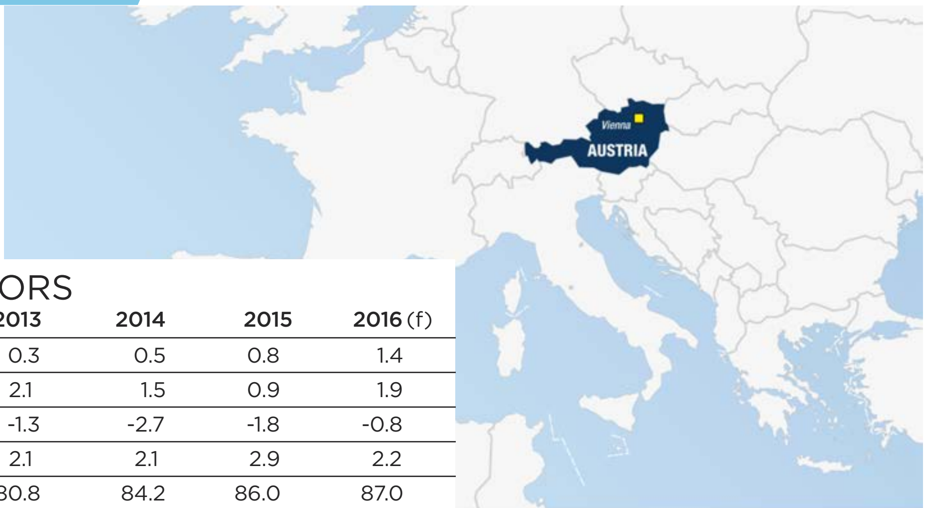
Nigeria: D

- Nigeria's GDP is set to shrink on an annual basis in 2016.
- Fiscal revenues (around 75 % coming from the oil and gas sector) are hit by the slump in oil price and decrease in oil production, hindered by sabotages of oil facilities in Niger Delta.
- Since June 2016, when the Central Bank of Nigeria introduced some flexibility in exchange rate, the naira has lost more 35 % of its value against the dollar.
- The reduction in oil exports (90 % of the total), consequence of the combined effect of decrease in volume and price, led to shortage of foreign currencies with severe impact on industrial production.

AUSTRIA

COFACE ASSESSMENTS

A1	Country risk
A1	Business climate



MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	0.3	0.5	0.8	1.4
Inflation (yearly average) (%)	2.1	1.5	0.9	1.9
Budget balance (% GDP)	-1.3	-2.7	-1.8	-0.8
Current account balance (% GDP)	2.1	2.1	2.9	2.2
Public debt (% GDP)	80.8	84.2	86.0	87.0

(f): forecast

Population *(millions of persons-2014)*	8.5
GDP per capita *(US dollars-2014)*	51,433

RISK ASSESSMENT

Confirmation of the recovery in 2016

While growth is expected to be modest, it will be twice as fast as in 2015. Its main driver will be mostly private consumption and investment. Income tax reform implemented in January 2016 will allow Austrians to save up to 5 billion euro (a relief of around 1000€ per worker or retired), thus consumption will strongly increase in the coming months if individuals do not save their extra income. The increase in other taxes intended to finance this reform is expected to have a weak recessive effect. Besides, refugees and their integration will also give a boost to the domestic demand and in fine to growth. Investment, which has become positive in 2015, is likely to increase slightly again even though this forecast is based on uncertain climate linked to presidential election in December, moderate growth of the euro zone following the Brexit announcement and, eventually, challenges faced by the Austrian banking sector. Public expenditures will continue to increase due to the ongoing banking sector restructuring, although it is evolving along the right path. Exports of industrial equipment, construction machinery, automotive parts and vehicles (these three sectors alone making up 40% of the total), chemicals and agro-food products, but also tourism, IT and financial services are expected to benefit from more robust demand on European markets and from the weak euro, which will offset the sluggishness on distant emerging markets. However, with imports increasing in line with domestic demand, trade's contribution to growth is likely to be zero.

Fiscal consolidation pending

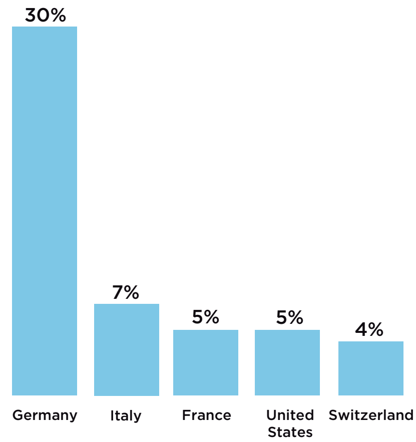
Fiscal policy will be neutral in 2016. The reform of income tax involving the creation of three new tax brackets and the cut in the rate on low incomes will cost the equivalent of a bit more than 1% of GDP. The presence of refugees will result in estimated additional spending between 0.1 and 0.2%. This is expected to be offset by the fight against tax evasion, an increase in the median VAT rate from 10 to 13% on entertainment, hotels… and in the tax on capital income from 25 to 27.5%. The objective of achieving structural budgetary equilibrium (i.e. excluding cyclical effects) from 2016 set out in the 2012 fiscal package is in jeopardy, as the expected deficit will nearly reach 1%. However, from 2017, the country will be obliged under its European commitments to make an effort representing annually 1.25% of GDP aimed at bringing its debt down to the 60% threshold over twenty years. Savings on pensions and health insurance (gradual raising of the retirement age, tougher eligibility criteria for incapacity benefits) will be limited. The involvement of the Länder and the many municipalities (1/3 of public spending) could disappoint, given that they draw most of their resources from federal taxation. Nonetheless, subsidies, especially on transport, which represent 4% of GDP, are a potential source of saving. Consolidation will be a major issue for the Grand Coalition of social democrats from the SPÖ and conservatives from the ÖVP until the next elections in 2018. The problem is that neither party is able to agree on how to proceed: the SPÖ are in favour of increasing contributions, while the ÖVP would prefer to cut spending. The restructuring is conditioned by the assumption that the bank rescue programme, at the origin of 25% of the debt, is coming to an end. The position of the banks, whose assets in Central and Eastern Europe represent 33% of GDP, has greatly improved. Against a background of a cyclical upturn, their activity in Central and Eastern Europe is again profitable overall. 90% of their outstanding loans are covered by local deposits. Nonetheless, 37% of their regional assets are located in countries classified as speculative. Moreover, while their situation is very favourable in the Czech Republic, Slovakia and Poland, it remains mediocre in Hungary, Rumania, and Croatia and poor in Russia, where they have considerable assets and high levels of non-performing loans.

Robust trade in services surplus and fragile trade surplus in goods

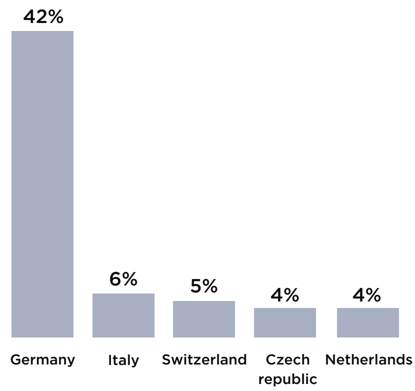
The modest current account surplus covers a robust and significant surplus on trade in services (3% of GDP) and a weak, probably temporary, surplus on trade in goods. In recent years, businesses have been confronted with an erosion of their productivity while labour costs have been rising. Moreover, they are faced with service costs made relatively high by the lack of available labour and competition. This is likely to affect their price competitiveness and result in several German clients, especially in the automotive sector, going to countries in Central and Eastern Europe for their supplies. At the moment, their technological edge, proximity to Germany, low energy and credit costs, as well as the depreciation of the euro is protecting them. This was reflected in a 5% decrease in company insolvencies in 2015, which might slightly level up in 2016 if the trend of the first half rolls on.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Central position in Europe and attractive standard of living
- Industrial and tertiary sector diversification
- Non-price competitiveness thanks to family companies and niche products
- Low household and corporate debt
- High rate of employment and low youth unemployment (role of apprenticeships and 'flexicurity')
- 30% of energy consumed is renewable
- Tourism assets

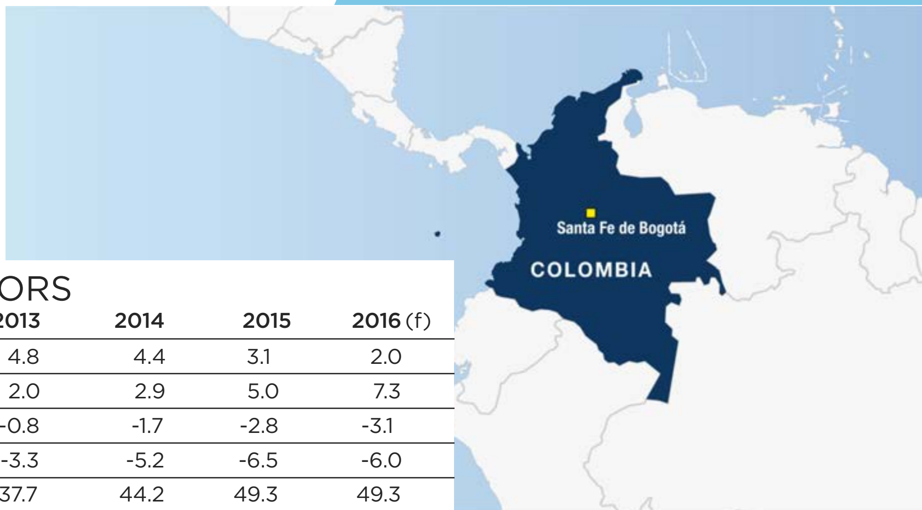
Weaknesses

- Dependence on German and central/eastern European economic cycles
- Banking sector very exposed to countries of central, eastern and south-eastern Europe
- Lack of risk capital and insufficient R&D
- Multiple levels of government and administration (Federal State, Länder, municipalities)
- Low employment rate of older people with effective retirement age under 60
- Low demographic growth with insufficient birth rate

COLOMBIA

COFACE ASSESSMENTS

A4	Country risk
A4	Business climate
MODERATE RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	4.8	4.4	3.1	2.0
Inflation (yearly average) (%)	2.0	2.9	5.0	7.3
Budget balance (% GDP)	-0.8	-1.7	-2.8	-3.1
Current account balance (% GDP)	-3.3	-5.2	-6.5	-6.0
Public debt (% GDP)	37.7	44.2	49.3	49.3

(f): forecast

Population *(millions of persons-2014)*	47.7
GDP per capita *(US dollars-2014)*	7,928

RISK ASSESSMENT

Slowdown in activity in 2016

In 2016, activity is expected to suffer again from the weakness in commodity prices, oil prices in particular, and the slowdown in private consumption. The country's economic performances are effectively closely tied to hydrocarbon exports (nearly 50% of the country's exports) and to a lesser extent mining and agricultural activity. The weak price of hydrocarbons, which generates about a third of state revenues, is likely to curtail public investment while household consumption is affected by the rising inflation and unemployment that affects their purchasing power.

Private investment primarily intended for the energy sector is expected to remain sluggish due to weak oil prices and rates hikes by the central bank for ten times, after the increase decided in September 2015. The increase in production capacity of the largest refinery of the country should however help to increase industrial production. The tourism sector is also expected to benefit from progress on the peace deal with the FARC.

Inflation is expected to increase, particularly affected by rising food prices due to the drought that has gripped the country in the first half of this year, caused by El Niño.

Budget and current account deficits still large

The public deficit deepened in 2015, hit by the fall in oil prices, which represent almost a third of State income. This trend is set to continue in 2016 due to the persistent weak of hydrocarbon prices.

Despite an expected reduction in investment spending, the anticipated increase in current spending because of higher transfers to the regional governments, stipulated under the constitution, is likely to reduce the central government's room for manoeuvre. Colombia, with a reputation for fiscal rigour and an orthodox economic policy, is committed to respecting the law on budgetary equilibrium adopted in 2011, which provides for the return of the central government's structural deficit to 1% of GDP by 2022. The plan to abolish net worth tax and the financial transactions tax, which had been postponed to 2018-2019, could, therefore, be cancelled.

Regarding foreign trade, the current account deficit is expected to decline thanks to the reduction in imports of consumer goods, affected by the depreciation of the local currency. Imports of oil derivatives are also expected to reduce given the increase in production of the refinery Refica (in Cartagena). However, oil exports should remain low affected by both lower prices and lower US demand. Exports of minerals, especially coal are also affected by the weak prices.

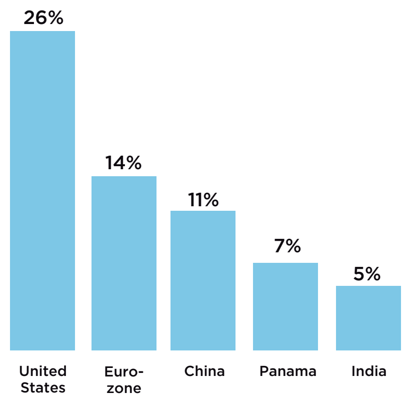
Important advances in peace negotiations with the FARC

On June 2016, the Colombian government and the Revolutionary Armed Forces (FARC) took a further step in the peace process with the signing of a historic ceasefire and disarmament agreement of the rebellion. This is an important step in the negotiations initiated by President Santos since 2012. This agreement will be subject to approval of the people through a plebiscite scheduled for October 02th.

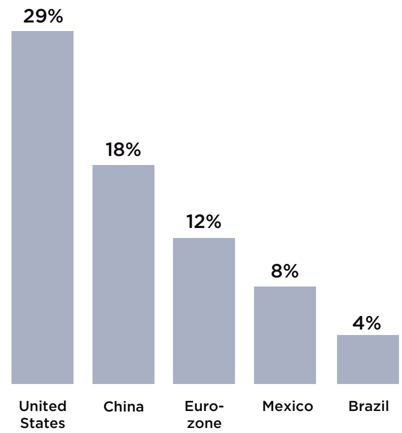
The desire of both sides to put an end to the conflict bodes well and is a major step forward for Colombia. The Colombian authorities are talking of a peace deal being signed in March 2016 and believe that an improvement in the security climate could have a positive impact on the economy of somewhere between 1 and 2% of GDP. A positive outcome to the peace talks does not mean that Colombia will be free of its internal problems such as drug trafficking and crime. The guerrillas are only indirectly linked to drug trafficking and to the drug traffickers and emerging criminal bands (BACRIM), which are also involved in the trafficking of narcotics. In the long term, however, the peace deal should strengthen the institutional framework, help boost investment and the country's social development.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Access to two oceans
- Large population (nearly 50 million)
- Abundant natural resources (agricultural and mineral)
- Considerable tourism potential
- Prudent economic policy
- Institutional stability
- Sound banking system

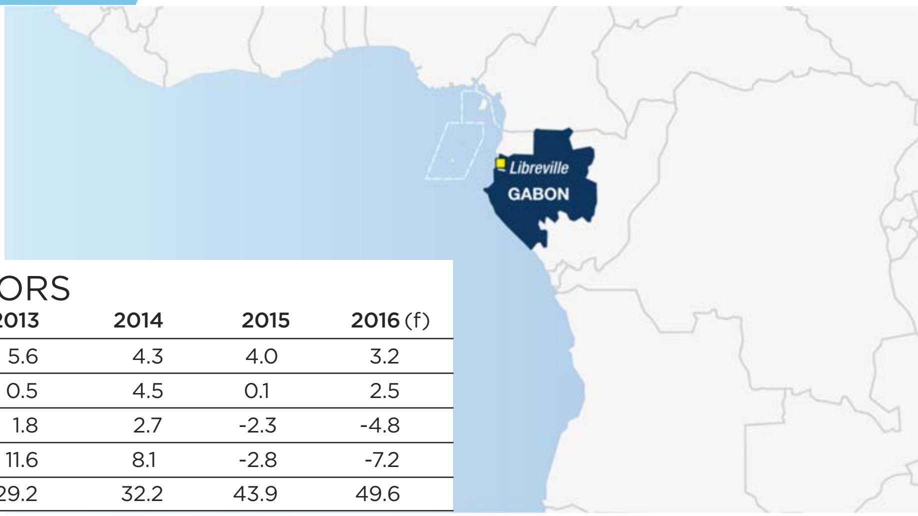
Weaknesses

- Sensitive to raw materials prices and the American economic cycle
- Road and port infrastructure deficiencies
- Problematic security situation linked to drug trafficking
- Educational and healthcare shortcomings
- Large informal sector (60% of jobs)
- Lack of skilled labour and low productivity
- Legislative, judicial and administrative delays, corruption
- Structural unemployment, poverty and inequality

GABON

COFACE ASSESSMENTS

C	Country risk
C	Business climate
RATHER HIGH RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	5.6	4.3	4.0	3.2
Inflation (yearly average) (%)	0.5	4.5	0.1	2.5
Budget balance (% GDP)	1.8	2.7	-2.3	-4.8
Current account balance (% GDP)	11.6	8.1	-2.8	-7.2
Public debt (% GDP)	29.2	32.2	43.9	49.6

(f): forecast

Population *(millions of persons-2014)*	1.6
GDP per capita *(US dollars-2014)*	11,484

RISK ASSESSMENT

Growth hit by oil price collapse

Growth declined sharply in 2015 under the impact of falling oil prices and the significant drop in oil output as a result of strikes and the rehabilitation of a number of wells. There was then the impact of cuts in investment spending which the government was obliged to make to keep the public finances under control. Growth is expected to continue to decline in 2016 to 3.2%. However, the rise in spending to ease social tensions before the presidential election should boost private consumption, and foreign loans should reinforce investment projects in agriculture and value added industry. Public sector wage hikes in 2014-2015 fuel the increase in prices, therefore inflation should increase in 2016. Inflation should increase in line notably with the rise of the wage bill. The discovery of new oil deposits did not compensate for the gradual depletion of older wells and the country has to deal with a decline in its oil production. Low oil prices prospects and the decrease in oil production are the source of the slowing down in public investment, thus efforts to diversify and modernise the economy, undertaken by the authorities as part of the Plan Stratégique Gabon Émergent (PSGE), could be impeded.

Despite the country's oil wealth, poverty (30% of the population live below the poverty line) and unemployment levels remain high (19.7% in 2014). This wealth did not translated into a real improvement in living conditions of the population as a result of large number of obstacles to development such as inadequate infrastructure, in particular transport, shortages of skilled labour and poor business climate, constraints that could one day be overcome if the objectives of the PSGE are achieved.

Public and external accounts into the red

On the fiscal front, the fall in oil receipts, which provided over 45% of government revenues in 2014, forced the government to cut public spending as of 2014. The reduction reached 14% in 2015 but should be much smaller in 2016, as a result of the upcoming elections. Capital spending in particular has been regularly revised downwards although the government stated that it does not want to cut this too heavily in priority areas (transport and information and communication technologies). The budget surplus narrowed in recent years as a result of the huge increase in public investment resulting from the launch of the PSGE. With the fall in oil prices and the downward trend in oil production, this surplus turned into a deficit in 2015. Government debt has more than doubled since 2012, from 20% to 44% of GDP in 2015 (exceeding the 35% of GDP debt ceiling). Furthermore, Gabon has to deal with higher borrowing costs on the bond markets.

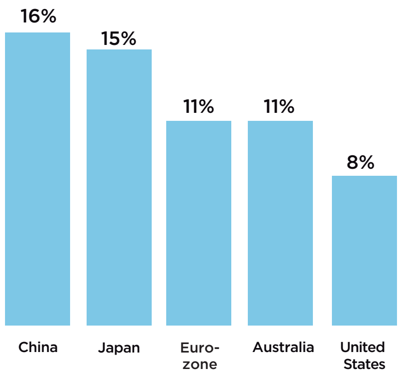
In 2015 the country recorded its first current account deficit since 1999 as a result of the sharp decline in oil exports (80% of sales of goods abroad until 2014), and this despite the fall in imports associated with reduced public demand and global prices for basic products. Exports are expected to keep declining, still affected by low oil prices and lower oil production, offsetting the growth of manganese and wood exports. Thus the current account deficit should widen even if imports could dip due to the fall in real incomes. The deficit in the balance of invisibles would slightly diminish as the slowdown in activity will reduce the demand for service imports.

Deteriorating political situation since the August 2016 presidential election

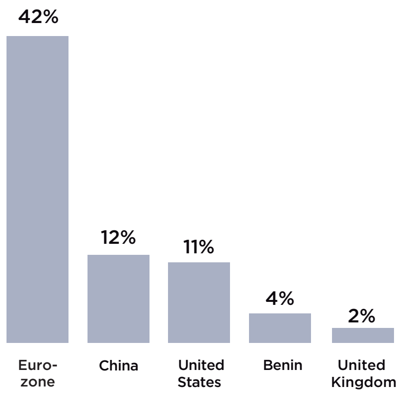
The disputed re-election of Ali Bongo, in August 2016, triggered violent clashes between supporters of the opposition candidate and security forces in several cities across the country. The Constitutional Court, however, confirmed the victory of the incumbent President on September 23. This decision was coldly received by the international community, to which the opponent Jean Ping appealed. The European Union election observation mission regrets that the Court was not able to rectify the "obvious anomalies" observed during the counting of votes. Restoring public confidence in the country's institutions will not be easy. The political situation is all the more volatile given that parliamentary elections are planned for December 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"

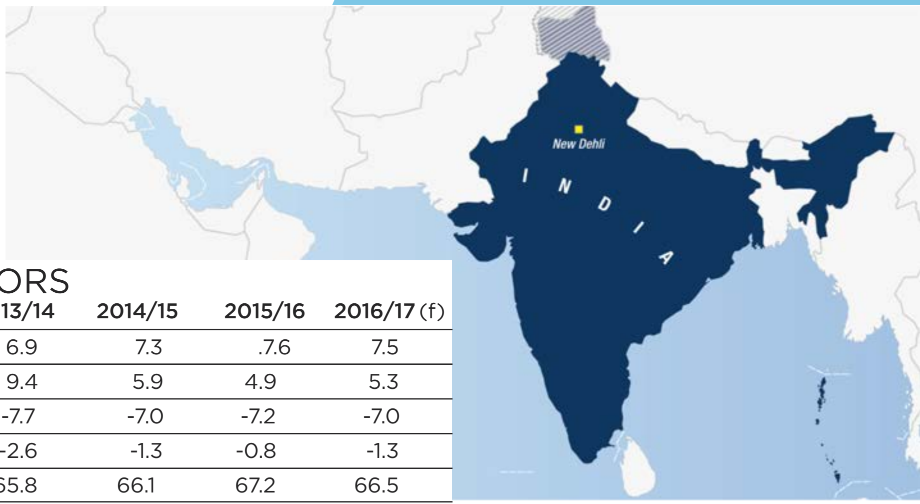
Weaknesses

- Economy highly dependent on the oil sector
- Re-emergence of budget and current account deficits
- High cost of production factors linked to infrastructure inadequacy (transport and electricity)
- High unemployment and widespread poverty
- Fragile political environment

INDIA

COFACE ASSESSMENTS

A4	Country risk
B	Business climate
FAIRLY LOW RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013/14	2014/15	2015/16	2016/17 (f)
GDP growth (%)*	6.9	7.3	.7.6	7.5
Inflation (yearly average) (%)	9.4	5.9	4.9	5.3
Budget balance (% GDP)**	-7.7	-7.0	-7.2	-7.0
Current account balance (% GDP)	-2.6	-1.3	-0.8	-1.3
Public debt** (% GDP)*	65.8	66.1	67.2	66.5

(f): forecast * Takes into consideration changes in GDP calculation method introduced in February 2015
** Includes federal public debt and debt for local authorities. Fiscal year: April – March

Population *(billion of persons-2014)*	1.3
GDP per capita *(US dollars-2014)*	1,608

RISK ASSESSMENT

Growth will again be driven by consumption

Activity is likely to remain vigorous during the fiscal year 2016/17. The Indian economy will continue to benefit from the low level of commodity prices and the effects of the initial reforms Narendra Modi's government has undertaken, aimed at promoting the Indian manufacturing sector, attracting FDI and reducing the constraints that are weighing on the economy.
Household consumption, the main driving force of activity, will probably remain buoyant. It will benefit from an increase in wages paid to federal civil servants and the improvement in the financial integration of the lowest-income households. In addition, in 2016-2017, agricultural production will be boosted by above average monsoon rains, which should maintain low prices and, thus, support consumption. Furthermore, despite the accommodating monetary policy conducted by the central bank (RBI), with the key interest rate lowered by 150 basis points to 6.5% since January 2015, private investment struggle to take off. Indeed, RBI's reform encouraging banks to record their non-performing loans (between 7% and 8% of total outstanding credit) on their balance sheet with a 100% provisioning by March 2017, as well as overcapacity will weigh on investment. However, the infrastructure development programme, particularly in the areas of roads, railways and electricity would enable important public investments. Nevertheless, the budgetary constraints and the delays relating to the land reform will slow the progress of these projects. Moreover, exports are likely to continue to suffer from a lack of competitiveness and from the sluggishness of global demand, even if the services sector, especially the high-technology, will continue to post good performances.
Inflation will remain under control in 2016-2017, thanks in particular to the moroseness of commodity prices, first and foremost food, oil and gold.

Public finances remain fragile, but external accounts are under control

Despite the determination of the authorities aided by low energy prices reducing the burden of subsidies, the fiscal deficit and the public debt remain significant. Authorities recapitalized public banks (75% of banking assets) up to 3.4 billion dollars in July 2016, but the pursuit of the banks' balance sheet cleaning desired by the new governor of RBI, Urjit Patel, may take an additional effort. The potential implementation in 2017 of a federal VAT, substituting to a pile of local taxes, may require compensations from the federal budget to the benefit of aggrieved federated states. In this context, the sale of frequency to telecom operators and further privatizations could help control the deficit.

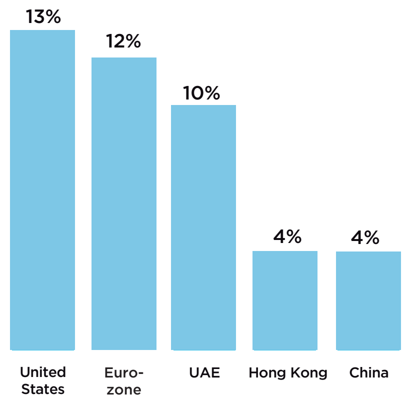
The current-account is expected to remain under control despite the slowdown in exports. Indeed, the low level of commodity prices should make it possible to keep a lid on imports cost. Helped by comfortable foreign exchange reserves (almost 9 months of imports in 2016) and the rise in FDI and portfolio investments fostered by regulations easing, this should contribute to maintain the stability of the rupee.

Conflictual relations with Pakistan and fizzling reforms

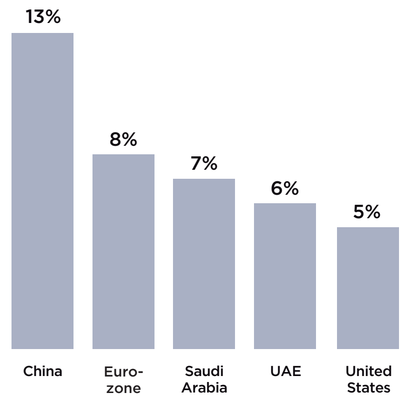
Following the general elections in May 2014 which gave a resounding victory to the BJP (Bharatiya Janata Party), N. Modi was appointed prime minister and his party holds the absolute majority in the lower house of parliament. Elections that have been held in several important states have initially confirmed the BJP's popularity, but the party has subsequently had several electoral setbacks, notably in Delhi and in the state of Bihar, and is threatened in Gujarat. The main opposition party, the National Congress, continues to dominate the upper chamber, delaying the reforms expected by the business community, which reacted very favourably to the election of Mr Modi.
The relationship with Pakistan remains tense due to the Kashmir issue, a region disputed by the two countries. Violent confrontations between demonstrators and the police in the Indian Kashmir have stopped discussions between the two governments, already undermined by the attack of an Indian base, in the state of Punjab, in January 2016.
Finally, despite the undertaken reforms, with, in particular, the modernization of bankruptcy law and the forthcoming introduction of a federal VAT, the business environment will continue to suffer from persistent gaps. The opening to FDI in pharmaceuticals, civil aviation and single brand retail encounters strong difficulties of application. Some key measures promised by the Prime Minister, such as the relaxation of rules on land expropriation and the labor market, are blocked by the Parliament.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Diversified growth drivers
- Sound fundamentals: high level of savings and foreign investments
- Effective private sector in services
- Moderate external debt and satisfactory foreign exchange reserves

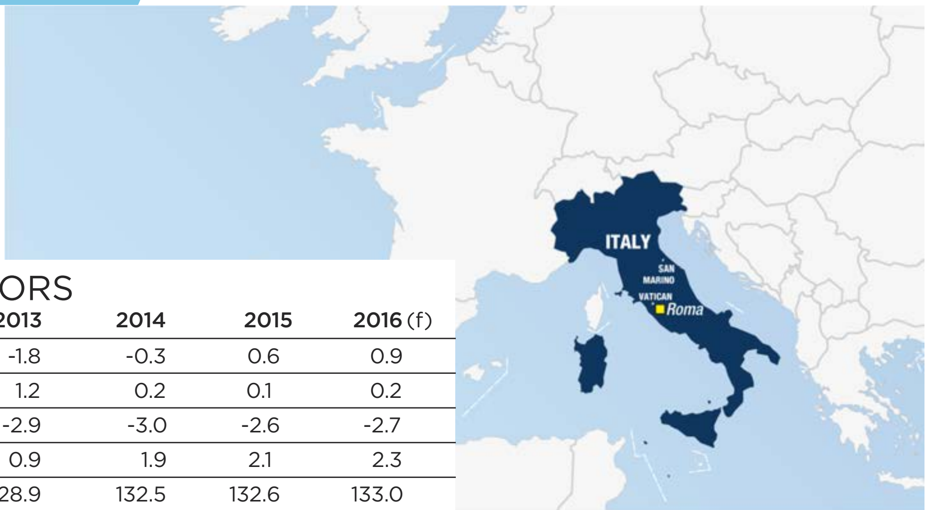
Weaknesses

- Lack of infrastructure and shortcomings in the education system
- Cumbersome bureaucracy and persistent political deadlocks
- Net importer of energy resources
- Rising debt of private companies
- Weak public finances
- Persistent uncertainties over the Kashmir issue

ITALY

COFACE ASSESSMENTS

A3	Country risk
A2	Business climate



MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	-1.8	-0.3	0.6	0.9
Inflation (yearly average) (%)	1.2	0.2	0.1	0.2
Budget balance (% GDP)	-2.9	-3.0	-2.6	-2.7
Current account balance (% GDP)	0.9	1.9	2.1	2.3
Public debt (% GDP)	128.9	132.5	132.6	133.0

(f): forecast

Population *(millions of persons-2014)*	60.8
GDP per capita *(US dollars-2014)*	35,335

RISK ASSESSMENT

Companies continue to struggle

After a prolonged recession, the Italian economy returned to moderate growth. However, the recovery remains weakened by the subdued world growth, as well as the rise of uncertainty and financial market volatility on the back of the UK vote to leave the European Union (EU). Economic growth is expected to be around 0.9 % in 2016. Despite sluggish activity in the second quarter and the damage from the earthquake that struck central Italy on August 24, the main vector for this will be domestic demand which benefits from growing confidence. With low inflation and easier credit, household consumption should be boosted by the improving jobs situation and the unemployment rate, below 12% in 2016, in step with the reforming of the labour market (the Jobs Act in 2015) Investment is also expected to record a slight growth, on average, for the year as a whole. However, banking issues could limit the investment recovery, unless there is a strengthening of banks and companies balances sheets. The moderate growth in European demand, the weakness of the euro and the fall in imported oil and gas prices should offset the rise in imports, consequent on strengthening domestic demand, and the depressed state of emerging markets, helping to produce a small positive contribution from trade. Insolvencies have decreased by 30% on the first quarter of 2016 compared to the previous year. Nevertheless company profitability will remain weak, especially among the smaller companies that form the basis of the economic fabric. These continue to be subject to a high level of tax and charges, an ineffective public sector, in particular in the centre and south of the country, and the unwillingness to lend by the banks. Despite reforms, the legal system is slow (taking up to seven years for liquidation).

Massive public debt and delayed budgetary reform

The government is focusing on recovery ahead of fiscal consolidation. Moreover the European Commission has allowed more budgetary flexibility; this represents a budgetary margin of 0.85% of GDP in 2016. In addition, the Commission has granted a margin of 0.1 point for the security costs and to manage the migratory crisis. The public debt is likely to remain high and reach 133 % of GDP this year, thus constraining the government's ability to manoeuvre. The government is looking to increased growth and lower rates to boost receipts and limit interest payments on the debt, currently running at 4% of GDP. The country will remain vulnerable to a loss of confidence by the market and a change in European monetary policy, although the relatively long term maturity of the debt and the fact that residents hold 53% of it, limit the risk.

A current account surplus

Despite the energy deficit equal to 2.5% of GDP, trade in goods and services is in surplus by 3% of GDP. This performance relies on famous brands, a top-end positioning and niche products in a variety of sectors as diverse as industrial and electrical equipment, clothing, leather goods, optics, jewellery, food products, home wares, automotive vehicles and medicines. Tourist income is significant thanks to the extensive tourism heritage, but this is offset by a sizeable deficit in terms of transport. The balance of trade surplus easily covers debt interest payments and the remittances of foreign workers.

A current account surplus

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A weakened banking system

Non-performing loans represent a high level of the portfolio 18% (EUR 360 billions). Some banks in particular are at risk: from January to July 2016, the Italian bank stock index has lost 50% of its value. Deeply affected, Monte dei Paschi di Siena has recorded a loss of 80% of its stock price over the past year. The ECB approved the rescue plan, involving the sale of 9.2 billion euros of non-performing loans and to raise capital worth of 5 billion. Unsurprisingly, the stress test results, issued on July 29th, underscored the weakness of the bank (in the sample MPS is viewed as the most at risk).

Reforms to solve the problem of governmental instability and legislative inertia

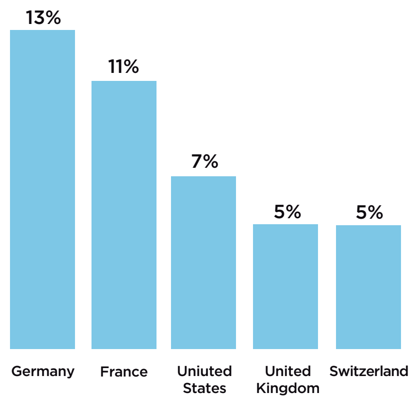
The reforms of the Prime Minister, Mr. Renzi, depend on a fragile centre-left coalition between the Partito Democratico (PD) and Nuovo Centro Destra (NCD) parties, as well as occasional allies. The improvements in the economic situation and the impossibility of winning a clear majority with the current proportional voting system discourage political formations from seeking fresh elections. The dispersal of the right and the divergences between its leaders, S. Berlusconi for Forza Italia and M. Salvini for Lega Nord, are not likely to encourage the NCD to join them. This could all change in July 2016 with the entry into force of the new electoral law, known as Italicum, which includes a majority bonus system, then followed in the autumn 2016 with the holding of the referendum on the ending of the bicameral system that would turn the Upper House into a consultative chamber. However, the Italicum may be amended. Moreover, Mr Renzi weakened his position by personalizing the referendum. If he does not succeed, he is at risk of being overturned. Currently (September 2016), the populist Five Star Movement, which won the municipal elections in Roma and Turin a short time ago, is catching up with the PM's party in the polls for the parliamentary elections (normally due in 2018).

Strengths

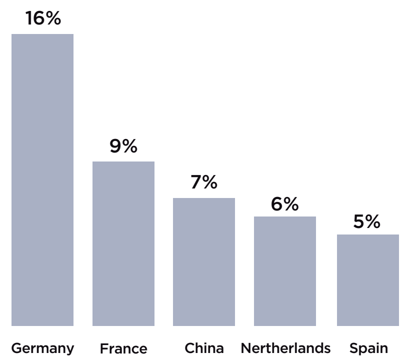
- Relatively high economic weight of industry
- High-end products (fashion, home wares, food products, mechanical engineering)
- Moderate debt levels of private sector; high savings capacity
- Variety of tourism assets

TRADE EXCHANGES

Exports of goods, as a % of total



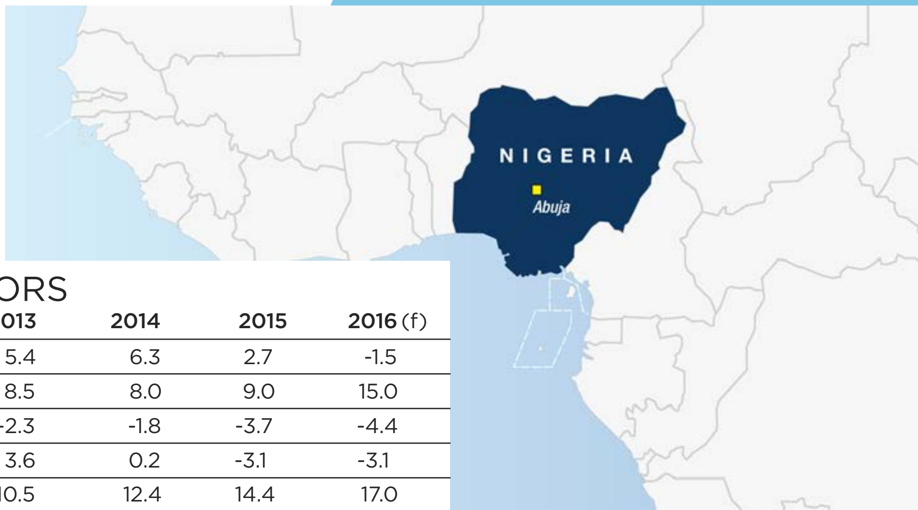
Imports of goods, as a % of total



Weaknesses

- Weak profitability of small companies and banks
- Inadequate private and public investment
- High level of structural unemployment (9%), particularly among the young (40%)
- Low participation rate of women / lack of facilities for early childhood
- Sizeable informal economy (20%)
- Inefficient public sector
- Backward Mezzogiorno region

NIGERIA



COFACE ASSESSMENTS

D	Country risk
D	Business climate
FAIRLY HIGH RISK	Medium term

MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	5.4	6.3	2.7	-1.5
Inflation (yearly average) (%)	8.5	8.0	9.0	15.0
Budget balance (% GDP)	-2.3	-1.8	-3.7	-4.4
Current account balance (% GDP)	3.6	0.2	-3.1	-3.1
Public debt (% GDP)	10.5	12.4	14.4	17.0

(f): forecast

Population *(millions of persons-2014)*	174.9
GDP per capita *(US dollars-2014)*	3,300

RISK ASSESSMENT

Activity in the non-oil sector will not to compensate for slump in oil activity

Activity in construction, traditionally dynamic in Nigeria, is dampened by the postponement of public capital expenditure program. Activity in the manufacturing sector could furthermore, be limited by erratic electricity supply as well as currency controls restricting the importing of 41 types of goods. Oil production is likely not to increase in 2016, owing, both, to attacks on petroleum infrastructures by rebels (Niger Delta Avengers) in the Niger Delta, producing the majority of Nigerian oil, and low prices. Furthermore, the lack of a legal framework (negotiations between executive and legislative for the adoption of the Petroleum Industry Bill expected since 2008 are suspended) discourage investment in the sector. Overall, investment, already affected by insecurity and administered prices is likely to decline because of weak domestic demand and the interest rate of the central bank (CBN) increased from 12 to 14 % in July 2016. With oil production value dropping by a third, the contribution made by net exports to growth should be slightly negative. Private consumption is expected to remain limited by the high level of inflation. Price increase is expected to be fuelled by the pass-through of imported goods inflation related to the sharp devaluation of the naira, triggered by the dropping of its peg to the US dollar, but above all by the rise in administrated prices. In the end, 2016 growth is expected to be negative, a first since 1984.

The budget deficit would worsen, but the current account deficit would stabilize

Despite the drop in its revenues, with around 75% coming from the oil and gas sector, the widening of the public deficit should be limited because the devaluation leads to an increase in the naira equivalent of oil receipts in dollar which is only partly consumed by the effect of the rise in inflation on expenditure. Either way the government decided to increase expenses, notably in infrastructures, which the country lacks. However, the budget being adopted more than four months after the beginning of the year, the enforcement of the investment program lags behind.

The cut in the heavy subsidies on food and fuel prices is slowed down by legislators' reluctance and legal recourse.

The current account deficit that emerged in 2015 is not expected to widen. The reduction in oil exports (90% of the total), attributed to the combined effect of volume and price, is likely to be offset by the fall of imports due to higher import prices and decline in investment. Moreover, repatriation of dividends will be less important.

Downward pressure on the naira pushed the CBN to introduce measures during 2015 prohibiting the purchasing of currencies for the importing of certain goods, with the aim of protecting its reserves (approximately 5 months of imports). The situation becoming unbearable the CBN had to put an end to the dollar peg and to let the naira float on June 20th 2016. Between this date and mid-September, the naira lost more than 35 % of its value against the dollar. Despite the implementation of a flexible exchange rate regime, CBN reserves the right to intervene on the markets and maintains foreign exchange control measures enforced in summer 2015 on about 40 products, thus maintaining the existence of a parallel market.

The banking sector, heavily exposed to the oil and gas sector (around a quarter of all loans) is feeling the ramifications of lower oil prices, as well as the problems of accessing foreign currency met by some companies. As a result of persistent mistrust of foreign investors and local actors shortage of foreign currencies is likely to last.

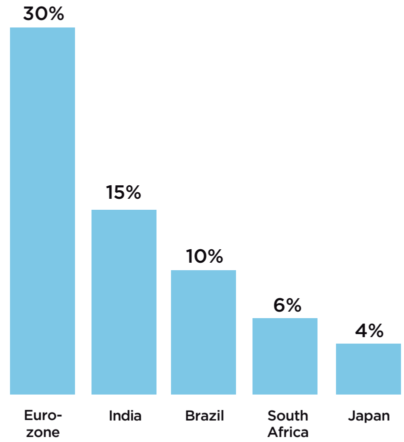
Confrontations with Boko Haram jihadists and sabotages in the petroleum area

The victory of Muhammadu Buhari and his newly created All Progressive Congress party in the 2015 elections represents a real change of power after the domination of the People's Democratic Party since 1999. The new President has made fighting corruption one of his priorities (Nigeria was in 194th place out of 215 in 2014 in the World Bank classification). Considerable efforts will be needed within the administration of the 36 federated states, which have adopted bad habits when oil wealth was abundant. Expectations within the population are huge with regard to the new President, particularly in this area. An overly slow implementation of reforms, but also a too fast reduction in subsidies in the context of sluggish growth, could give rise to increased social tensions and instability.

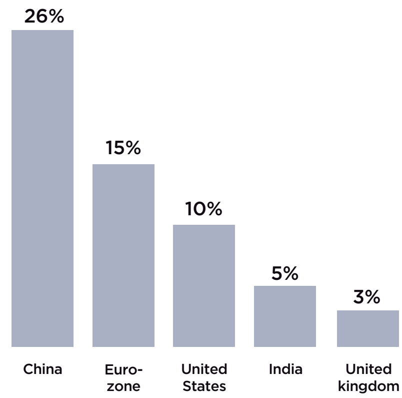
The security situation remains very unstable in the north-east of the country under attacks from the Boko Haram radical Islamist movement. In the Niger area, the greatest provider of oil, rebels ask for a better distribution of resources and sabotage oil installations. The president being a Muslim from the north doesn't make negotiations any easier.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- The leading African power in terms of GDP and the country with the largest population in Africa
- Significant hydrocarbon resources and large agricultural potential
- Low level of public and external debts

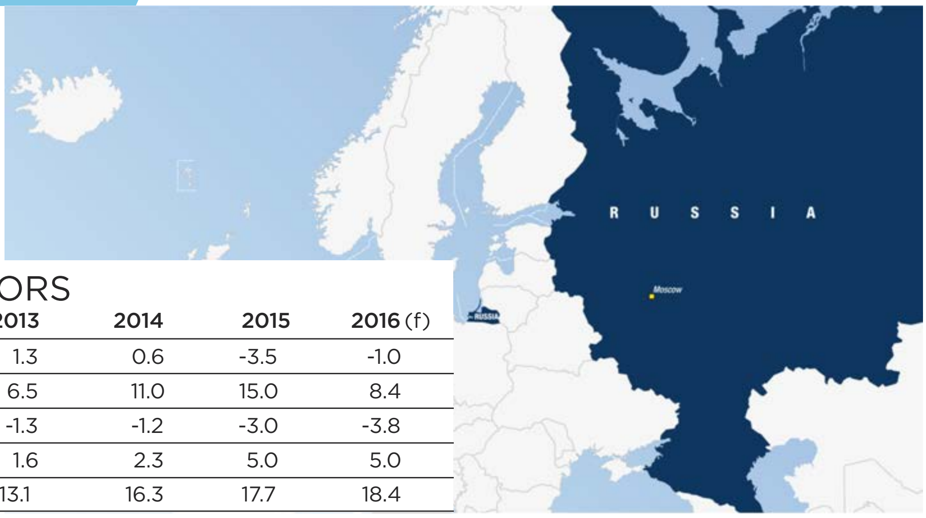
Weaknesses

- Highly dependent on oil revenues (90% of exports and 75% of tax revenue)
- Low fiscal receipts: 6% of GDP
- Insufficient refining, gas and electrical capacities due to price control
- Ethnic and religious tensions
- A negative impact on the business climate from insecurity and corruption

RUSSIA

COFACE ASSESSMENTS

C	Country risk
C	Business climate
MODERATE RISK	Medium term



MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	1.3	0.6	-3.5	-1.0
Inflation (yearly average) (%)	6.5	11.0	15.0	8.4
Budget balance (% GDP)	-1.3	-1.2	-3.0	-3.8
Current account balance (% GDP)	1.6	2.3	5.0	5.0
Public debt (% GDP)	13.1	16.3	17.7	18.4

(f): forecast

Population *(millions of persons-2014)*	**146.3**
GDP per capita *(US dollars-2014)*	**12,718**

RISK ASSESSMENT

Economy to shrink again in 2016

The recession in Russia is expected to continue but will be less severe in 2016. Growth decreased by 1.2% in the first quarter 2016 and 0.6% in the second (year on year). Private consumption, the main growth driver, is likely to remain constrained by a slower increase than in the past of nominal revenues, a relatively restrictive fiscal policy and the preference of households, noted at the beginning of the year, for deleveraging instead of consuming. Investment will remain limited by the lack of business owners' confidence, high interest rates (10% in September 2016), as well as by ongoing restrictions on financing in foreign currency imposed as part of western sanctions, extended for six months (to the end of January 2017). Budget constraints will limit the support for public investment. Spending increase in the hydrocarbon sector and defence may slow down.
Inflation could slow, mainly due to the strengthening of the ruble, but the consequences of the embargo placed on the purchase of certain products in Europe and Turkey, extended to the end of 2017, may keep the prices of imported goods, especially food, relatively high.

Worsening fiscal and current account balance

The fiscal deficit is expected to slightly deepen in 2016. Low oil prices are likely to continue to put pressure on hydrocarbon revenues (50% of total), while weak activity will curtail non-oil revenues. The draft 2016 budget, based on an oil price of $ 50/barrel, includes a slow increase in pensions (4%) and a freeze on public sector wages, with a view to limiting the deterioration in the public finances and State indebtedness. The defence budget is, nonetheless, likely to continue to rise moderately. However, the State has comfortable foreign exchange reserves to cover this thanks to (reserve and sovereign) funds already called on in 2015, but still totalling almost USD 105 billion (9% of GDP) in August 2016. The government launched early July 2016 the privatisation program with the sale of 11% in the diamond company Alrosa but suspended the sale of participation of the oil producer Bashneft and the shipping company Sovcomflot on September 2016...
The current account surplus is expected to stabilise in 2016. Exports, largely dominated by hydrocarbons (2/3 of revenues), are likely to remain constrained by low export prices. The weak competitiveness of Russian products could, moreover, limit non-oil exports, despite the fall of the rouble. However, depressed domestic demand, the maintenance of sanctions and embargos on certain European and Turkish products, should keep imports in check. FDIs are not likely to rebound in the absence of a real improvement in the situation in Ukraine and in governance.

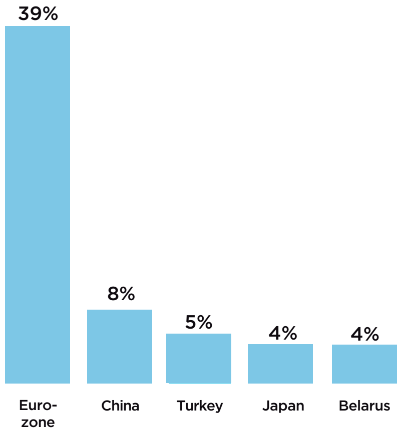
The stubbornly low oil price (to which the rouble exchange rate is strongly correlated) and due dates for external debt repayments (about USD 47 billion in the second half of 2016), are expected to maintain downward pressure on the rouble, the volatility of which has increased since the introduction of a floating exchange rate regime since the end of 2014. Russia's external debt (90% bank and business debt) is sharply lower (-20% between end 2014 and end 2015) and the high level of foreign exchange reserves (about 12 months of imports in August 2016) limits the risks of default, without ruling this out for some businesses and/or banks.
The banking sector's solvency and liquidity risk has increased significantly as a result of the worsening quality of the portfolio in a context not only of an economic crisis, but also the high cost of financing associated with the international sanctions which stop the major banks from accessing the financial markets.

A political situation expected to remain stable and persistent shortcomings in the business environment

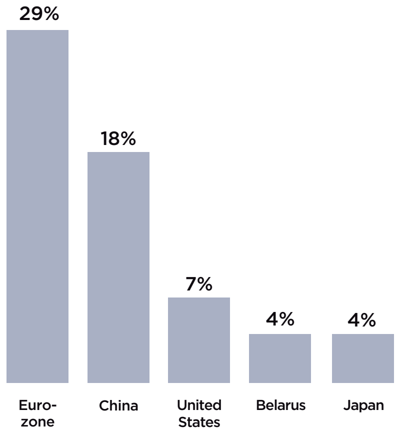
Vladimir Putin's popularity nationally increased with the Russian intervention in Crimea in March 2014. There is however, discontent within the population and the tensions could rise further in a context of economic downturn. The regime's increasingly tough stance reflected, notably, in the State's increased control of the media and the Internet, nonetheless significantly limits opposition movements' ability to organise and express themselves. The parliamentary elections held in September 2016 confirmed the dominance of the presidential party, United Russia (54% of the votes) but with a weak turnout (48% down from 60% in 2011).
Shortcomings relating to the protection of property rights, weak governance and lack of corporate transparency significantly weaken the business environment. Despite some progress, Russia is ranked 168th (out of 215) on the World Bank's governance indicator, the corruption perceptions index, which is a recurrent weakness.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

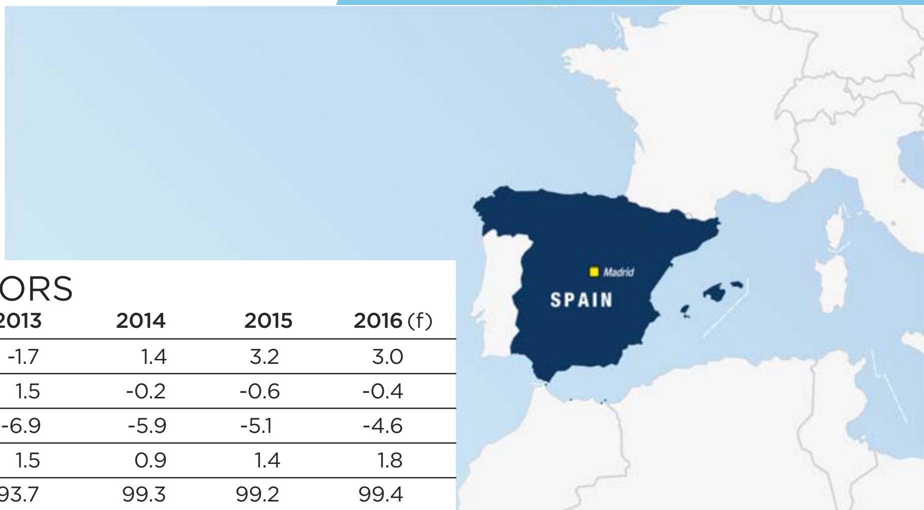
- Abundant natural resources (oil, gas and metals)
- Skilled labour force
- Low public debt and comfortable foreign exchange reserves
- Assertion of regional and energy power

Weaknesses

- Increased rentier nature of the economy
- Lack of competitiveness of the industrial sector
- Weak private banking sector
- Weak infrastructures
- Declining demography
- Persistent deficiencies in the business climate

COFACE ASSESSMENTS

A4	Country risk
A1	Business climate



MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	-1.7	1.4	3.2	3.0
Inflation (yearly average) (%)	1.5	-0.2	-0.6	-0.4
Budget balance (% GDP)	-6.9	-5.9	-5.1	-4.6
Current account balance (% GDP)	1.5	0.9	1.4	1.8
Public debt (% GDP)	93.7	99.3	99.2	99.4

(f): forecast

Population *(millions of persons-2014)*	46.5
GDP per capita *(US dollars-2014)*	30,272

RISK ASSESSMENT

Domestic demand continues to drive growth

Spanish economic activity recovered strongly in 2015, partly reflecting the depth of the recession following the financial crisis. Growth was driven by domestic demand, which was underpinned by an improvement in the labour market and restored consumer confidence, combined with lower oil prices and looser credit conditions. Deleveraging in the private sector had only a limited impact on domestic demand (corporate and household debt decreased from 218% to 169% of GDP between Q2 2010 and Q1 2016). Although unemployment remains high, the rate has declined significantly since 2013 to 19.6% in July 2016. The property market rallied from early 2014 onwards, while company bankruptcies began to decrease from Q2 2013. The political parties' failure to form a new government since December 2015 has so far not affected the recovery. GDP increased from 0.8% in Q2 2016, extending similar gains recorded over the three preceding quarters. Despite the likelihood of a slowdown beginning during the second half year, growth should reach 3% in 2016. Private consumption (almost 58% of GDP) should remain the leading growth driver, while investment should continue to benefit from favourable financing conditions and satisfactory export growth. However, confidence among business managers and consumers has trended lower since peaking in 2015.
The current account, which has been positive since 2013, continues to show a surplus. This is due to the fall in oil prices, lower debt servicing costs and healthy exports, notably of services (tourism and business services), amid heightened competiveness resulting from reduced labour costs and a moderate recovery in export markets, including the euro zone, which absorbs 50% of sales.

Healthier companies and banks but heavy public debt

Exporting companies managed to fare well during the crisis. Companies more dependent on the domestic market have started to recover, including in the construction sector. Lower labour costs and the disappearance of loss-making companies have led to a recovery in corporate profitability.
A significant number of measures were taken to rescue the banking sector, which was heavily impacted by a property bubble bursting and the recession. In January 2014, Spain successfully exited the European bailout package which had enabled the recapitalisation of the sector, which saw its solvency reinforced and the quality of its asset portfolio improved. Weak lending activity and persistently low interest rates are nonetheless weighing on its profitability. Furthermore, the privatisation of certain banks was delayed and Spain's "bad bank" continues to post losses. Moreover, Banco Popular Español S.A. is one of the five European financial institutions which scored the worst results during the stress tests carried out by the European Banking Authority in July 2016.

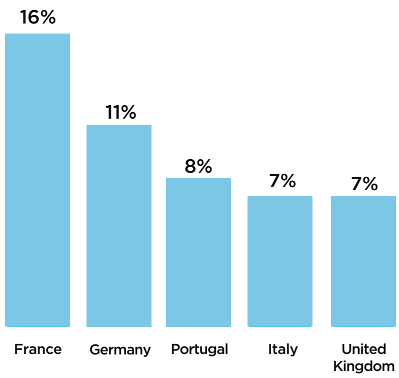
Sovereign risk remains significant despite improving, as illustrated by the continued fall in borrowing costs on the bond market, where 10-year rates eased to 0.9% on 22 September 2016. In August 2016, the European authorities, that ultimately decided not to fine Spain for failing to respect its objectives, granted two extra years for the deficit to be reduced to below 3% of GDP (i.e. 2018). Although the public debt ratio has stabilised, it remains at a high level (almost 100% of GDP).

Fragmented political landscape and persistent separatist tensions

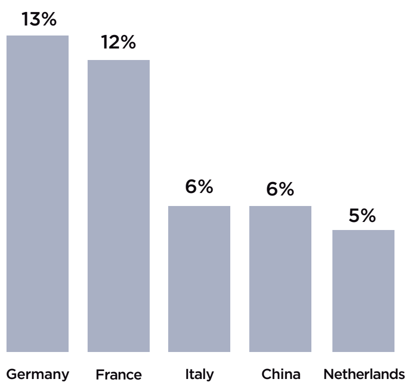
The December 2015 legislative elections marked the end of bipartisan politics. The parliament was finally dissolved after four and half months of unsuccessful negotiations between the four major political parties (PP, PSOE and two new parties, Podemos and Ciudadanos). Fresh elections were held in June 2016, leading once again to a hung parliament. The members of parliament refused to back the conservative leader Mariano Rajoy in forming a government, whereas the socialist party is unable to muster a left-wing majority. If the MPs fail to nominate a government by the end of October 2016, a third election will have to be held in December 2016. Final rounds of talks regarding the national parliament may take place following the result of the regional elections in the Basque region on 25 September and a confidence vote in the Catalonian parliament on 29 September (which reinforces the unity of the separatist ranks). It is far from certain that they will succeed however.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Reform efforts (labour market, banking sector, insolvency, ...)
- Improved competitiveness and strengthened export sectors
- Improved financial situation of businesses
- High-quality infrastructure
- Significant tourism potential

Weaknesses

- Still high level of private and public debts, very negative net external position
- Duality of labour market, high level of structural unemployment
- Large number of relatively unproductive small companies
- Fragmented political landscape, national unity weakened by the rise in separatism

TURKEY

COFACE ASSESSMENTS

B	Country risk
A4	Business climate
MODERATE RISK	Medium term

MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	4.2	2.9	4.0	3.0
Inflation (yearly average) (%)	7.5	8.9	7.7	7.7
Budget balance (% GDP)	-1.3	-1.5	-1.3	-1.6
Current account balance (% GDP)	-7.7	-5.5	-4.5	-4.9
Public debt (% GDP)	36.1	33.5	32.9	32.0

(f): forecast

Population *(millions of persons-2014)*	76.9
GDP per capita *(US dollars-2014)*	10,381

RISK ASSESSMENT

Growth likely to decrease in 2016, weakened by the fall in tourism activity

Growth is likely to decrease in 2016. Indeed, foreign tourism activity which represents almost 10% of GDP will halve. Moreover, the troubled political context both internal (conflict between the power and Kurdish rebels, terrorist attacks, attempted coup) and external (war in Syria and in Iraq) will continue to weigh on internal and external demand. However, household consumption would remain the main driver, supported by rising wages (minimum wage increased by 30% on January 1st) and employment, as well as several measures aimed at encouraging credit and partially compensate for the loss of tourism revenues. Private investment already affected by the less favourable financial situation for companies which, particularly in the manufacturing sector, have seen the cost of their imported inputs and debt service increase due to the depreciation of the lira, could suffer from degraded context,. External trade should contribute negatively to growth, owing to the lasting impact of Russian sanctions on exports and the disaffection of foreign tourists.
Inflation will probably remain high in 2016, well above the central bank's 5% target, mainly as a result of rising food prices fostered by the weakening of the currency, bottlenecks in agriculture and the lack of competition in retailing. The central bank could be constrained to end the downward cycle in rates in order to not weaken the lira and promote imported inflation. In the case of new deterioration in the political situation, the central bank might even tighten its policy.

Solid public finances, but still fragile external accounts

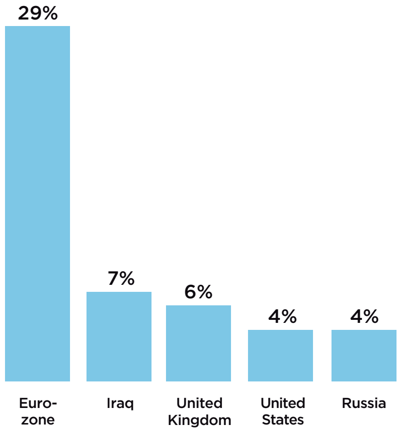
The weight of public debt should remain low and the fiscal deficit modest despite subsidized air transport to bolster tourist arrivals, increased public payroll in tourist regions in order to reduce unemployment, and monthly allowance of 100 lira disbursed to companies for each wage under 2250 lira to partly offset the increase of the minimum wage. The payment of 3 billion euro scheduled in the agreement reached with the EU for refugee management, if held, would slightly offset expenses incurred.
Despite two years of decline the current account deficit remains high. It might rise again. The increase in sales on the European market, driven by the lira depreciation, and the reduction in the energy bill could be largely offset by the Russian sanctions lasting impact on food sales and construction contracts (sanctions adopted following the destruction of a Russian military jet by Turkish artillery on November 2015, but officially lifted in August 2016), as well as the free fall in the number of foreign visitors. Managing this current deficit will remain a major challenge: due to the weakness of FDI and the lack of domestic savings, the country depends on foreign portfolio investment whose volatility is potentially increased by the deterioration of the political situation. The currency is especially high for Turkish companies as they have a high level of short-term debt in foreign currencies. The country's foreign exchange reserves could prove to be insufficient in the event of sudden capital outflows.

Strengthening of the President in a difficult regional environment

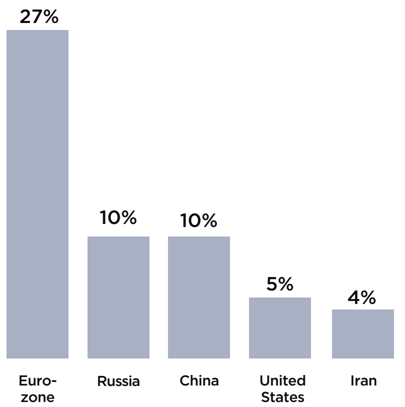
Ironically, the attempted coup of July 15th 2016 could strengthen, at least in the short term, President Recep Erdoğan's position. He ordered massive opponents arrests, thousands of soldiers, magistrates, journalists and teachers suspected of involvement in the coup and/or connivance with Fethullah Gülen, who is himself charged with the instigation of the coup. The state of emergency was declared for 3 months from the 27th of July, allowing the president to govern through decrees which, after being approved by the Parliament dominated by the Islamic-conservative party of the president (AKP), will be exempted from the Constitutional Court control. Nevertheless, the political polarisation of the society, the Kurdish question and the Syrian conflict spillovers onto the national stage (terrorism, refugees) remain major issues, while the army is weakened.
Despite signs of brightening (normalisation of relations with Israel, reconciliation with Russia and Egypt, lifting of international sanctions against Iran), the Turkish foreign policy will remain complicated. There is the concern to curb the strengthening of the Kurds in Syria, supported by Western countries in their fight against ISIS, while Turkey is also combating ISIS, and to maintain its NATO member obligations despite the recent deterioration of relations with the United-States and the European Union about Syria and the rule of law.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Healthy public finances
- Demographic vitality and qualified labour force
- Key regional position
- Market with 75 million inhabitants and rising middle class
- Healthy and robust banking sector since the 2002 reforms

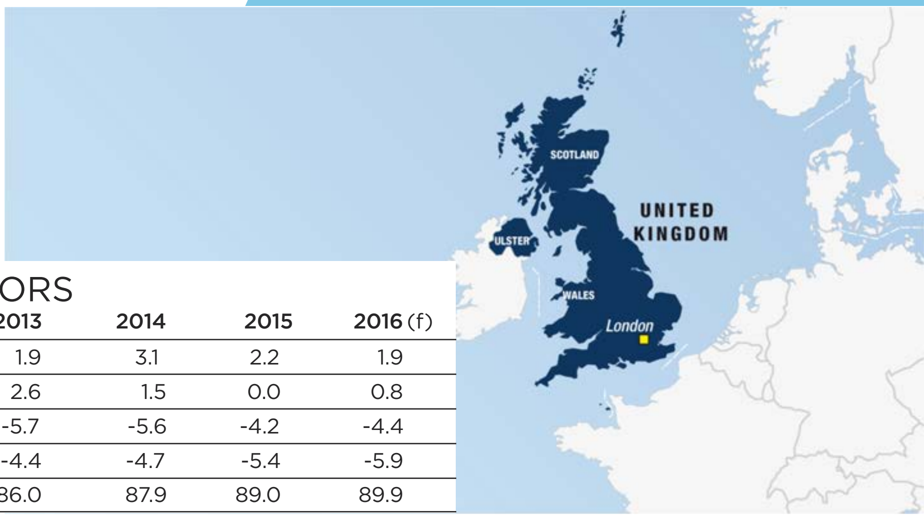
Weaknesses

- Substantial current account deficit and insufficient domestic savings
- Dependence on foreign capital, notably portfolio investment
- Foreign-currency debt among companies and banks, accentuating their exposure to currency risk
- Significant share of the informal economy
- Delicate external and domestic political situation (Kurdish question, Syrian and Iraqi conflicts, coup attempt)
- Authoritarian drift of the executive

UNITED KINGDOM

COFACE ASSESSMENTS

A2	Country risk
A1	Business climate



MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016 (f)
GDP growth (%)	1.9	3.1	2.2	1.9
Inflation (yearly average) (%)	2.6	1.5	0.0	0.8
Budget balance (% GDP)	-5.7	-5.6	-4.2	-4.4
Current account balance (% GDP)	-4.4	-4.7	-5.4	-5.9
Public debt (% GDP)	86.0	87.9	89.0	89.9

(f): forecast

Population *(millions of persons-2014)*	64.5
GDP per capita *(US dollars-2014)*	45,729

RISK ASSESSMENT

Uncertainties related to “Brexit” will weigh on short term growth

Growth has been resilient during the first half. Nevertheless, on June 23th, the UK voted in favour of leaving the EU (52% has voted to leave. 48% to remain), calling into question the continuation of this trend. In the short term uncertainty and volatility are likely to prevail on financial markets. In this context consumer and business confidence has already deteriorated sharply, which could weigh on private consumption, moreover penalized in the future by the gradually increasing inflation (through the depreciation of the sterling against the dollar and the euro). Nonetheless, the “Brexit” shock will essentially impact private investment which has already shown weak performances since the beginning of the year. The lowering of interest rate by the Central bank (BoE) in August to 0.25% for the first time since 2009 and the bond purchase programme aim to prevent the expected activity slowdown. Moreover, this confidence shock might imply a price correction on the real estate market, notably commercial. Early July, a number of British property funds have frozen their transactions. The risk of transmission to the banking sector is high due to the number of SMEs which rely on real estate as collateral to secure their borrowings. The risk is however subdued by a strong capitalization of the banks. Furthermore, household indebtedness is important (125% of GDP) and the risk of a housing bubble burst needs to be monitored, despite of less deteriorated real estate indicators. A positive point, the exporting sectors should benefit from the sterling depreciation to gain in price competitiveness.

Fiscal consolidation, a government priority in the past years, could be questioned

The government is still on a programme of fiscal consolidation, even if the deficit is reduced slower than expected. This is being carried out through spending cuts (public sector wage moderation. cuts in health spending). On the revenue side the budget includes tax cuts on investments as well as lower corporate tax (lowered to 15% after the vote).

If for the time being no emergency plan has been announced, a deterioration of public finances is likely to happen considering the economic slowdown, and stimulus measures could be implemented before the end of the year.

The current account deficit hit a record high in 2015 and should not significantly improve this year: import prices should increase with the sterling depreciation which reached a low point against the dollar in July. However in a second step this depreciation should help to gain in price-competitiveness and therefore boost exports, and imports should decrease with the internal demand slowdown.

Strong uncertainties over UK’s future

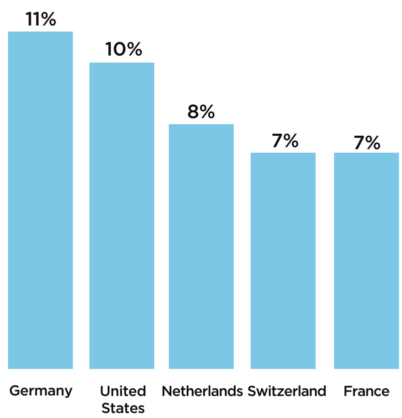
David Cameron announced his resignation the day after the vote, replaced by Theresa May, former Home Secretary, in July 2016. Article 50 of the Lisbon treaty. which regulates the process of withdrawal from the EU, should not be activated by the beginning of 2017. May announced her willingness to negotiate a new deal before invoking the article. Three types of agreements are possible: (i) EEA membership, like Norway, with a full access to the single market but loosing voting rights on regulatory framework and EU decisions –the most likely scenario-; (ii) a “customized” bilateral agreement, like Switzerland, which establishes access to the single market for specific sectors and (iii) WTO rules with existing custom tariffs and no access to the single market.

Moreover Scotland announced its wish to remain in the EU (in accordance with its vote) and a new referendum could take place with the risk of leaving the UK. Northern Ireland’s case could be an issue too.

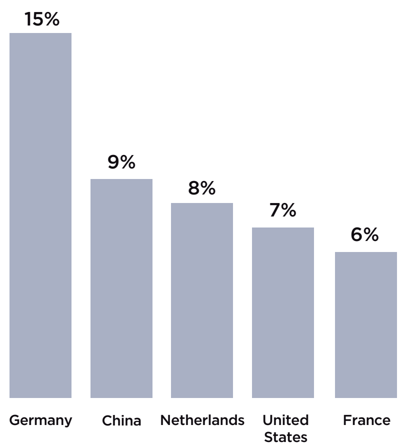
The country has gained two places in the *Doing Business* rankings and is in first place among the G7 countries. The business climate is improving: it takes only 4.5 days to set up a business (compared with an average of 20 in other countries), with a cut in corporation tax and increased exemptions on social security payments helping to improve the country's attractiveness.

TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



Strengths

- Oil and gas production covering three-quarters of energy needs
- High-tech sectors (aeronautics. pharmaceuticals)
- Low corporate tax

Weaknesses

- Uncertainties about consequences on the EU leave decision
- Dependence of the economy on financial services
- High levels of debt and public deficit
- High level of private debt

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