COFACE
COUNTRY & SECTOR RISKS HANDBOOK 2019

ANALYSIS AND FORECAST FOR 161 COUNTRIES AND 13 SECTORS

coface
FOR TRADE

COFACE
COUNTRY & SECTOR RISKS HANDBOOK 2019

ANALYSIS AND FORECASTS FOR 161 COUNTRIES AND 13 SECTORS

THIS HANDBOOK IS INTENDED FOR:

— Corporate executives with decisions to make in terms of export, project launches, or investment in high risk countries;

— Managers of risk or international operations in banking, multilateral financial institutions, and insurance or reinsurance companies (acting in a private capacity or on behalf of government);

— Government managers concerned with country and sector risk;

— Consultants and lawyers specialized in international business;

— Researchers, academics, and students interested in country and sector risk.

With contributions from:

— **Coface Economic Research Department:**
Khalid Ait-Yahia, Eve Barré, Carlos Casanova, Bruno De Moura Fernandes, Dominique Fruchter, Seltem Iyigun, Patricia Krause, Fanny Labau, Melina London, Erwan Madelenat, Julien Marcilly, Eloi Mauratille, Ruben Nizard, Sarah N'Sondé, Elliot Shekell, Grzegorz Sielewicz, Sofia Tozy, and Pauline Weil.

— **Coface Information Department**

Coface cannot be held in any way responsible for opinions expressed by those who have contributed to the preparation of this Handbook.

CONTENTS

WORLD GROWTH IS ON A PATH FULL OF PITFALLS

XAVIER DURAND
CEO OF COFACE

On January 22, 2018, US President Donald Trump announced the imposition of tariffs on US imports of washing machines and solar panels. What might initially have been viewed as a secondary issue went on to set the tone for the whole year. The US federal government followed through on several of its trade protectionist threats, placing tariffs on imports of various products, including steel and aluminium in March (June for the EU, Mexico, and Canada; August for Turkey) as well as Chinese products (USD 50 billion in July and a further USD 200 billion in September). In the first three quarters of 2018, trade restrictions were placed on 12% of US imports, while 8% of US exports were hit by retaliatory measures.

Aside from the sudden burst of protectionism, 2018 brought the first signs of a cooling in global growth. But for once the impetus did not come from the United States: unlike in previous reversals, particularly those of 2000/01 and 2007/08, Western Europe weakened first this time. As we predicted a year ago, the number of business insolvencies stopped falling in several European countries in 2018, including the United Kingdom and France. These two countries perfectly illustrate the changes taking place in Western Europe. In the first, increased credit risk for companies mainly reflects persistent political uncertainties, specifically regarding the terms of Brexit. In the second, signs of cyclical reversal – such as mounting supply constraints (high production capacity utilisation rates, recruitment difficulties due to employability issues for long-term job-seekers) – are to blame. Meanwhile, the rise in oil prices, while admittedly gradual, has not done any favours to companies that use oil to produce.

In 2019, the end of the economic cycle and elevated political risk will be prime concerns for Europe. Five consecutive years of positive growth and a one-third reduction in the eurozone unemployment rate have not been enough to quell social unrest and stem the rise of anti-European parties in many countries in the zone. The scale acquired by these new political forces, which oppose European integration to varying degrees, could be the catalyst for a new euro crisis in the near future. For example, the European elections in May 2019 could see the return of very fragmented Parliament featuring numerous anti-European MPs. Given this, we should keep in mind that the Parliament wields some important powers. First and foremost, it approves the European Union's budget. Although eurosceptic MEPs from Central and Eastern Europe are unlikely to block a budget in which their countries are the main beneficiaries (in particular through structural funds), there is a risk of obstruction. Parliament also has the power to propose a motion of non-confidence in the European Commission, which is due to be renewed in October 2019. Here again, while the motion must have the support of two-thirds of MEPs to be adopted, and confirmation requires a majority of the votes cast, there is another risk of impediment.

The political situation in Italy is, of course, another risk that will need to be monitored in 2019. In 2018, the formation of a coalition government comprising two eurosceptic parties, and the ensuing tensions with the European Commission over the outlook for the government deficit began to produce effects that bring back bad memories: rising sovereign rates, falling business confidence, mounting concerns about the strength of local banks, and falling GDP. The size of Italy's economy adds to the uncertainty, since Italian debt accounts for almost a quarter of the eurozone's total public debt, and is almost seven times

"The effects of the Chinese slowdown on the rest of the emerging world should be a focus of attention this year" — Xavier Durand

higher than that of Greece. Speaking of which, the Greek parliamentary elections scheduled for September 2019 will also be an area to watch. Compounding the situation this year, these political risks, which are now the norm, will be coupled with the lowest economic growth since the eurozone emerged from recession in 2014.

In China, the end of 2018 marked a turning point: until that moment, the slowdown in the Chinese economy had reflected the difficulties of companies in sectors constrained by excess production capacity and high debt, especially construction and metals. Now, however, household consumption is beginning to show signs of faltering. For the first time in 20 years, car sales flatlined in 2018 – a sign of market maturity, but also an indication that household debt is increasing. Moreover, China's economic slowdown no longer only concerns state-owned companies involved in major infrastructure investment projects: it is now hitting small and medium-sized companies, which have been hurt by the authorities' desire to rein in the more lightly supervised and riskier shadow banking sector. In 2019, the propensity of the government to accompany the economic slowdown, which is now no longer confined to a limited number of sectors and company categories, will have to be surveyed.

While many emerging economies, notably Argentina and Turkey, suffered in 2018 from capital outflows related to the unexpected strength of US growth and its impact on US Federal Reserve monetary policy, the effects of the Chinese slowdown on the rest of the emerging world should be a focus of attention this year. A harder than expected landing for Chinese growth would affect many countries through one of a range of transmission channels, including direct trade links, China's international investments and loans, world commodity prices, or even a global confidence shock on the financial markets.

Every year brings its surprises, and 2019 will be no different. However, it is hard not to see a continued upsurge in worldwide trade protectionism on the horizon. From the second half of 2019 onwards, as the US President gradually gears into an electoral campaign for his possible re-election in November 2020, against a backdrop of more fragile American growth and a labour market that has stopped improving, a lull looks unlikely for the United States – especially since fundamental strategic differences remain with China over issues such as Taiwan, the South China Sea, and the race for innovation in key sectors. Meanwhile, we must not forget that protectionism is not the exclusive preserve of the world's two leading economies. Many emerging countries are keen to protect industries weakened by international competition, which will continue to make them cautious about trade openness. Fortunately, other countries will look to compensate for trade losses by signing new trade agreements, such as the recent one between Japan and the EU.

Finally, as every year, elections could accelerate political change, especially in countries where social frustration is fuelled by high unemployment, income inequality and large-scale corruption. This could be the case for Turkey, Algeria, India, South Africa, Ukraine and Argentina, to name but the main potential candidates.

These and many other economic, political, financial and sector risks are discussed within the twenty-third edition of this annual handbook published by Coface. I hope you enjoy reading it.

TOOLS FOR IDENTIFYING, ASSESSING AND MONITORING THE RISKS BUSINESSES ARE FACING

As a credit insurer, Coface's added value comes from its ability to proactively provide its clients with detailed risk analyses, allowing them to make the right decisions at the right time and prevent credit risks. Its analyses include country and business climate assessments for 161 countries, as well as sector risk, and company assessments. Regular economic publications supplement these assessments developed by Coface.

Country risk assessment*

The country assessment provides an insight into the average payment incident level presented by companies in a country in connection with their short-term trading transactions. More specifically, this assessment measures the way in which company payment behaviour is influenced by a country's economic, financial, and political perspectives, as well as by the business climate. It is based on three pillars: macroeconomic, financial and political analysis, business climate assessment by Coface's entities across the world, and Coface's payment behaviour experience as recorded in its worldwide database. The country risk assessment covers 161 countries on an 8-step scale: A1, A2, A3, A4, B, C, D, E, in order of increasing risk.

Business climate assessment*

This makes it possible to see whether company accounts are available and reliable, whether the legal system ensures fair and effective protection of creditors, whether the country's institutions provide a favourable framework for B2B transactions and whether the domestic market is easy to access. The assessments are based on data from international organisations, but also, and primarily, on the experience of Coface's entities across the world. This assessment, integrated in the country assessment, covers 161 countries on an 8-step scale: A1, A2, A3, A4, B, C, D, E, in order of decreasing business climate quality.

Sector risk assessment*

Every quarter, Coface reviews the assessments of 13 sectors throughout 27 countries (representing approximately 87% of global GDP) in 6 major regions of the world. In order to assess these risks, Coface relies on its own methodology based on four cornerstones: an estimate of corporate defaults (by country) payment periods recorded by buyers (aggregated by sector), financial results entreprises (aggregated by sector), and payment experience recorded by Coface for each sector. The sector risk assessment is on a 4-step scale: low, medium high, very high, in order of increasing risk (see p. 11).

Assessment of company default rate

The DRA (Debtor Risk Assessment) measures the default rate of companies all over the world. It is calculated on the basis of indicators such as financial soundness, profitability, solvency, as well as the company's environment and management. The assessment scale ranges from 0 (company in default) to 10 (best possible rating). The DRAs are made available to Coface clients on a dedicated website: Cofanet.

Economic publications*

Coface regularly publishes economic publications that deal with country risk, sector risk, and the risk of company insolvency.

* Assessments and studies available on http://www.coface.com/Economic-Studies-and-Country-Risks.

DEFINITION OF COUNTRY RISK ASSESSMENTS

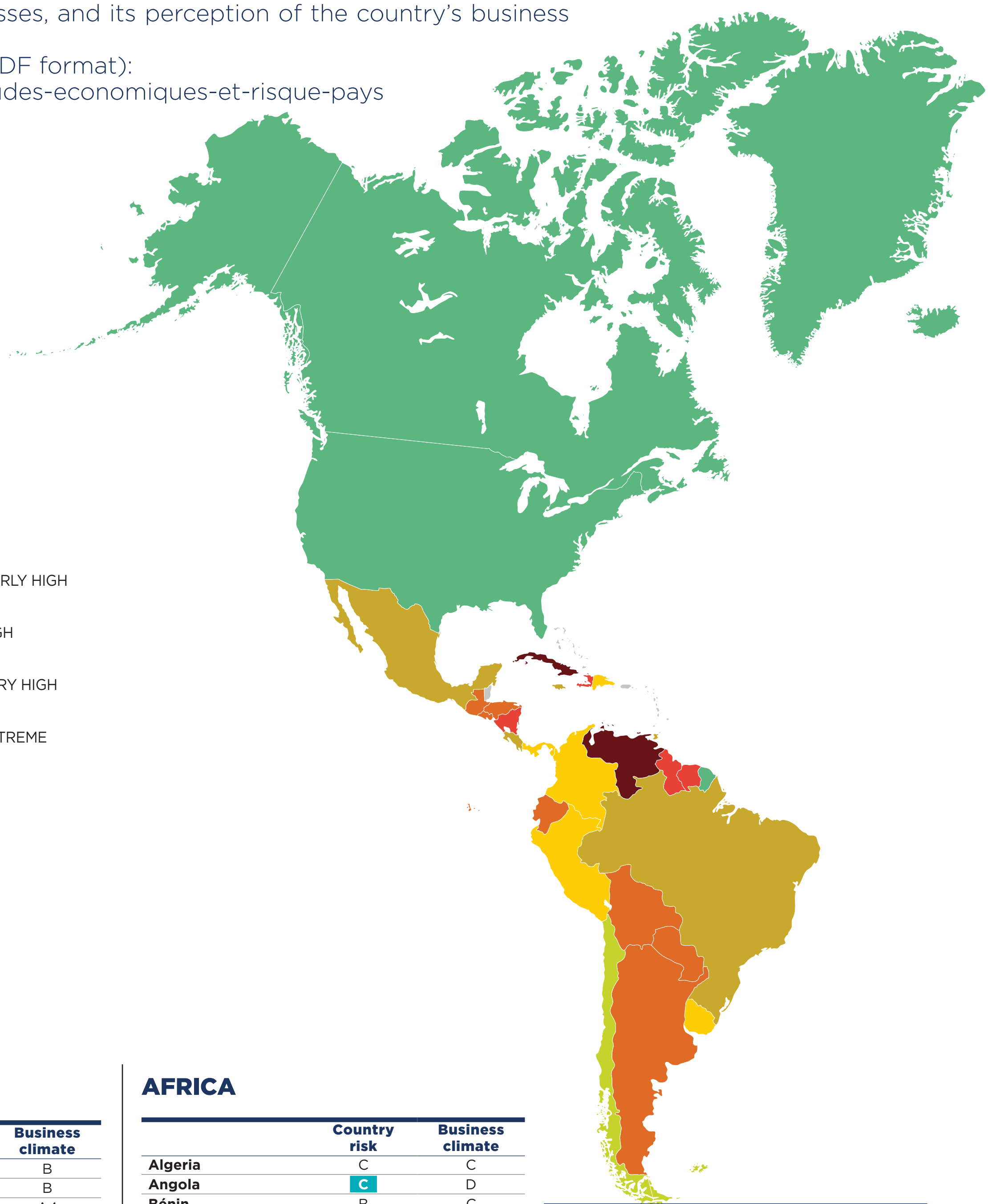
A1	Very good macroeconomic and financial outlook. Stable political context. Good quality business climate. This environment positively influences company payment behaviour. **The average probability of default is very low.**
A2	Good macroeconomic and financial outlook. Generally stable political context. Overall good healthy business climate. **The average probability of default is low.**
A3	Less favourable and/or volatile macroeconomic and financial outlook. Political context remains stable. Business climate may have some shortcomings. **The average probability of default is satisfactory.**
A4	Economic and financial outlook could be marked by some weaknesses. Political context could suffer from tension. Business climate may present significant deficiencies. **The average probability of company default is reasonable.**
B	Uncertain economic and financial outlook. Political context could suffer strong tensions. Business climate may present substantial deficiencies. **The average probability of company default is quite high.**
C	Very uncertain economic and financial outlook. Political context could be unstable. Business climate has substantial deficiencies. **The average probability of company default is high.**
D	Highly uncertain economic and financial outlook. Very unstable political context. Very difficult institutional and business climate. **The average probability of company default is very high.**
E	Extremely uncertain economic and financial outlook. Extremely unstable political context. Extremely difficult institutional and business climate. **The average probability of company default is extremely high.**

DEFINITION OF BUSINESS CLIMATE ASSESSMENTS

A1	Company reports are (generally) available and reliable. Effective debt collection. High quality institutions. Domestic market is almost perfectly open. **Very satisfactory business climate.**
A2	Company reports, when available, are reliable. Debt collection works reasonably well. Institutions generally perform well. Domestic market is widely open. **Business climate relatively stable but could be improved.**
A3	Company reports are not always available, but when they are, are relatively reliable. Debt collection and institutions can present some shortcomings. Domestic market is relatively open. **Safe business climate, but shortcomings can arise.**
A4	Company reports are not always available or reliable. Debt collection is not always effective and institutions have some inadequacies. Access to domestic market presents some constraints. **Business climate is acceptable but can pose problems.**
B	Reliability and availability of company reports vary significantly. Debt collection is often difficult. Institutions display weaknesses. Domestic market is not very accessible **Business climate is unstable and underperforms.**
C	Company reports are often unavailable and not very reliable. Debt collection is somewhat random. Institutions display numerous weaknesses. Difficult access to domestic market. **Difficult business climate.**
D	Company reports are often unavailable and unreliable. Debt collection is random. Institutions display significant weaknesses. Very difficult access to domestic market. **Very difficult business climate.**
E	Company reports are rarely available, and are rarely reliable when they are. The legal system makes debt recovery extremely uncertain. Critical institutional weaknesses. Nearly inaccessible domestic market. **Extremely difficult business climate.**

COUNTRY RISK ASSESSMENT MAP

Coface assesses the average credit risk of companies in a given country. To achieve this, Coface uses macroeconomic, financial and political data. Its originality is to take into account Coface's payment experience recorded for the country's businesses, and its perception of the country's business climate.
Download the map (in PDF format):
http://www.coface.fr/Etudes-economiques-et-risque-pays



BUSINESS DEFAULT RISK

- A1 VERY LOW
- A2 LOW
- A3 SATISFACTORY
- A4 REASONABLE
- B FAIRLY HIGH
- C HIGH
- D VERY HIGH
- E EXTREME

- DOWNGRADES IN 2018
- UPGRADES IN 2018

AMERICAS

	Country risk	Business climate
Argentina	C	B
Bolivia	C	B
Brazil	B	A4
Canada	A2	A1
Chile	A3	A3
Colombia	A4	A4
Costa Rica	B	A4
Cuba	E	E
Dominican Republic	A4	C
Ecuador	C	B
Guatemala	C	C
Guyana	D	C
Haiti	D	E
Honduras	C	C
Jamaica	B	A4
Mexico	B	A4
Nicaragua	D	C
Panama	A4	A4
Paraguay	C	C
Peru	A4	A4
Salvador	C	B
Suriname	D	C
Trinidad and Tobago	B	A4
United States	A2	A1
Uruguay	A4	A3
Venezuela	E	E

AFRICA

	Country risk	Business climate
Algeria	C	C
Angola	C	D
Bénin	B	C
Botswana	A4	A4
Burkina Faso	C	C
Burundi	E	E
Cameroun	C	D
Cape Verde	B	C
Central African Republic	D	E
Chad	D	E
Congo (Democratic Republic of the)	D	E
Congo (Republic of the)	C	D
Côte d'Ivoire	B	B
Djibouti	C	C
Egypt	B	B
Eritrea	E	E
Ethiopia	C	D
Gabon	C	C
Ghana	B	B
Guinea	C	D
Kenya	A4	B
Liberia	D	D
Libya	E	E
Madagascar	D	D

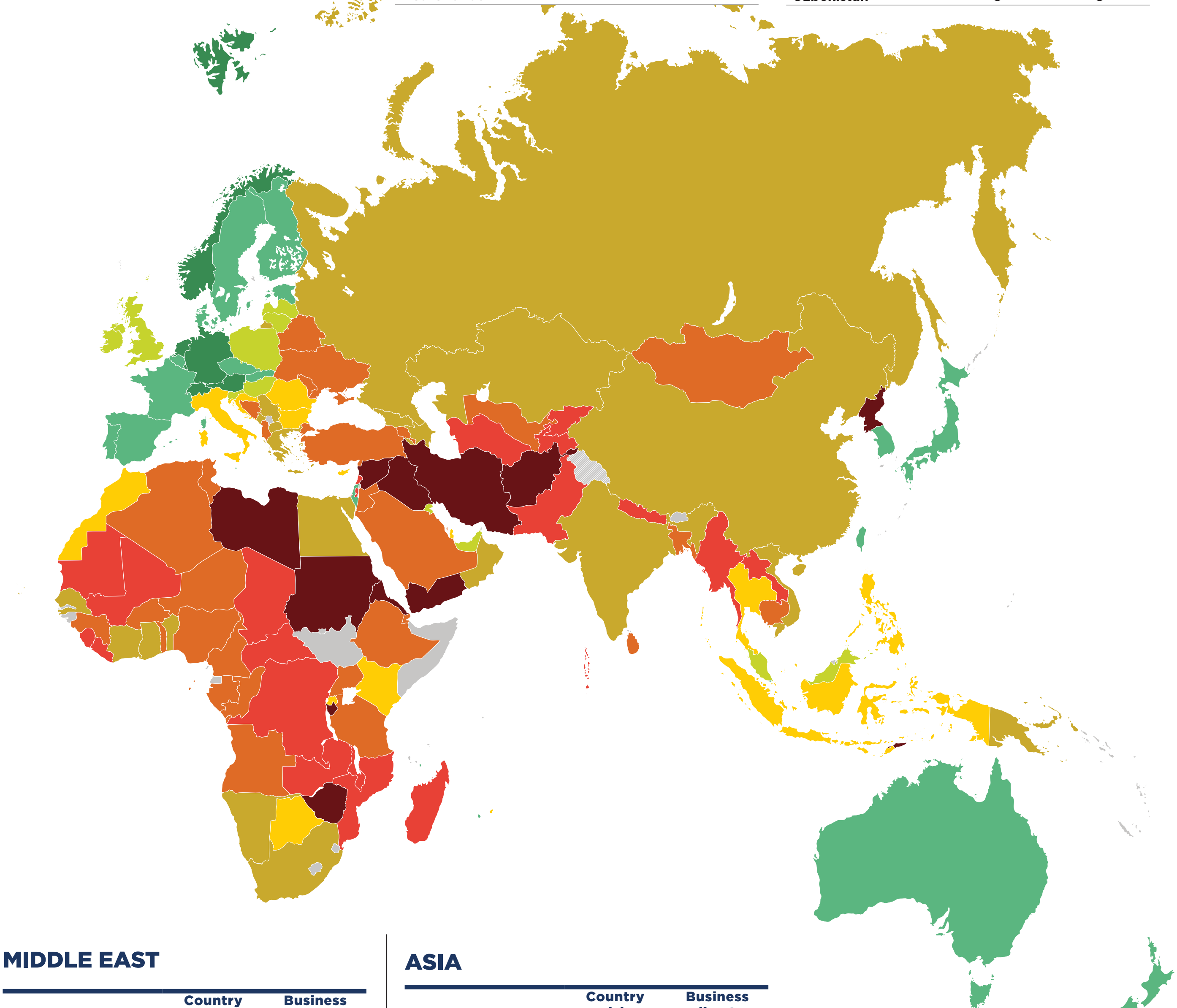
	Country risk	Business climate
Malawi	D	D
Mali	D	D
Maurice	A4	A3
Mauritania	D	D
Morocco	A4	A4
Mozambique	D	D
Namibia	B	A4
Niger	C	C
Nigeria	C	D
Rwanda	A4	A4
São Tomé and Principe	C	D
Senegal	B	B
Sierra Leone	D	D
South Africa	B	A4
Sudan	E	E
Tanzania	C	C
Togo	C	C
Tunisia	C	B
Uganda	C	C
Zambia	D	C
Zimbabwe	E	E

EUROPE AND CIS

	Country risk	Business climate
Albania	C	C
Armenia	C	B
Austria	A1	A1
Azerbaijan	B	C
Belarus	C	C
Belgium	A2	A1
Bosnia and Herze-govina	C	B
Bulgaria	A4	A3
Croatia	A4	A3
Cyprus	A4	A3
Czech republic	A2	A2
Denmark	A2	A1
Estonia	A2	A1
Finland	A2	A1
France	A2	A1
Georgia	B	A4

	Country risk	Business climate
Germany	A1	A1
Greece	B	A3
Hungary	A3	A3
Iceland	A2	A1
Ireland	A3	A1
Italy	A4	A2
Kazakhstan	B	B
Kyrgyzstan	D	C
Latvia	A3	A2
Lithuania	A3	A2
Luxembourg	A1	A1
North Macedonia (FYROM)	B	A4
Malta	A2	A2
Moldova	C	B
Montenegro	B	A4
Netherlands	A1	A1

	Country risk	Business climate
Norway	A1	A1
Poland	A3	A2
Portugal	A2	A2
Romania	A4	A3
Russia	B	B
Serbia	B	A4
Slovakia	A2	A2
Slovenia	A3	A2
Spain	A2	A1
Sweden	A2	A1
Switzerland	A1	A1
Tajikistan	D	D
Turkey	C	A4
Turkmenistan	D	E
Ukraine	C	C
United Kingdom	A3	A1
Uzbekistan	C	C



MIDDLE EAST

	Country risk	Business climate
Bahrain	C	A4
Iraq	E	E
Iran	E	D
Israel	A2	A2
Jordan	C	B
Kuwait	A3	A4
Lebanon	D	C
Oman	B	A4
Palestinian Territories	D	D
Qatar	A4	A3
Saudi Arabia	C	B
Syria	E	E
United Arab Emirates	A3	A2
Yemen	E	E

ASIA

	Country risk	Business climate
Afghanistan	E	E
Australia	A2	A1
Bangladesh	C	C
Cambodia	C	C
China	B	B
Hong Kong	A2	A1
India	B	B
Indonesia	A4	A4
Japan	A2	A1
Laos	D	D
Malaysia	A3	A3
Maldives	D	C
Mongolia	C	C
Myanmar	D	D
Nepal	D	C

	Country risk	Business climate
New Zealand	A2	A1
Pakistan	D	C
Papua New Guinea	B	C
Philippines	A4	B
Singapore	A2	A1
North Korea	E	E
South Korea	A2	A1
Sri Lanka	C	B
Taiwan	A2	A2
Thailand	A4	A3
Timor Leste	E	C
Vietnam	B	B

COFACE COUNTRY ASSESSMENTS

RISK ASSESSMENT HISTORY OF THE MAIN ECONOMIES

	2019 Jan.	2018 Sept.	2018 June	2018 March	2018 Jan.	2017 Jan.	2016 Jan.	2015 Jan.	2014 Jan.	2013 Jan.	2012 Jan.
A1											
Austria	A1	A1	A1	A1	A1	A1	A1	A1	A2	A2	A2
Germany	A1	A1	A1	A1	A1	A1	A1	A1	A2	A2	A2
Netherlands	A1	A1	A1	A1	A1	A2	A2	A3	A3	A2	A2
Norway	A1	A1	A1	A1	A1	A1	A1	A1	A1	A1	A1
Switzerland	A1	A1	A1	A1	A1	A1	A1	A1	A1	A1	A1
A2											
Australia	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A1
Belgium	A2	A2	A2	A2	A2	A2	A2	A3	A3	A2	A2
Canada	A2	A3	A3	A3	A3	A3	A2	A1	A1	A1	A1
Denmark	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2
France	A2	A2	A2	A2	A2	A2	A3	A3	A3	A2	A2
Hong Kong	A2	A2	A2	A2	A2	A3	A1	A1	A1	A1	A1
Israel	A2	A2	A2	A2	A2	A3	A3	A3	A3	A3	A3
Japan	A2	A2	A2	A2	A2	A2	A1	A1	A1	A1	A1
New Zealand	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A1
Portugal	A2	A2	A2	A2	A3	A4	A4	B	B	B	A4
Singapore	A2	A2	A2	A2	A2	A3	A1	A1	A1	A1	A1
Slovakia	A2	A2	A3	A3	A3	A3	A3	A3	A3	A3	A3
South Korea	A2	A2	A2	A2	A2	A3	A2	A2	A2	A2	A2
Spain	A2	A2	A2	A2	A2	A3	A4	A4	B	B	A4
Sweden	A2	A2	A2	A2	A1	A1	A1	A1	A1	A1	A1
Taiwan	A2	A2	A2	A2	A2	A3	A1	A1	A1	A1	A1
United States	A2	A2	A2	A2	A2	A2	A1	A1	A2	A2	A2
A3											
Chile	A3	A3	A3	A3	A3	A3	A3	A2	A2	A2	A2
Hungary	A3	A3	A3	A3	A3	A4	A4	B	B	B	B
Ireland	A3	A3	A3	A3	A3	A3	A3	A3	A3	A4	A4
Kuwait	A3	A3	A3	A3	A3	A3	A2	A2	A2	A2	A2
Malaysia	A3	A3	A3	A4	A4	A4	A2	A2	A2	A2	A2
Poland	A3	A3	A3	A3	A3	A3	A3	A3	A3	A3	A3
United Arab Emirates	A3	A4	A4	A4	A4	A4	A3	A3	A3	A3	A3
United Kingdom	A3	A3	A3	A3	A3	A3	A2	A2	A3	A3	A3
A4											
Botswana	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4
Bulgaria	A4	A4	A4	A4	A4	A4	B	B	B	B	B
Colombia	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4
Croatia	A4	A4	B	B	B	B	B	B	B	B	B
Indonesia	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4	B
Italy	A4	A4	A4	A3	A3	A3	B	B	B	B	A4
Morocco	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4
Peru	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4
Philippines	A4	A4	A4	A4	A4	A4	A4	A4	A4	B	B
Qatar	A4	A4	A4	A4	A4	A3	A2	A2	A2	A2	A2
Romania	A4	A4	A4	A4	A4	A4	B	B	B	B	B
Thailand	A4	A4	A4	A4	A4	A4	A4	A4	A3	A3	A3
Uruguay	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4	A4

	2019 Jan.	2018 Sept.	2018 June	2018 March	2018 Jan.	2017 Jan.	2016 Jan.	2015 Jan.	2014 Jan.	2013 Jan.	2012 Jan.
B											
Brazil	B	B	B	B	B	C	C	A4	A3	A3	A3
China	B	B	B	B	B	B	A4	A3	A3	A3	A3
Côte d'Ivoire	B	B	B	B	B	B	C	C	C	D	D
Egypt	B	B	B	B	B	C	C	C	C	C	C
Ghana	B	B	B	B	B	B	C	C	B	B	C
Greece	B	B	B	B	B	C	C	C	C	C	C
India	B	B	B	A4	A4	A4	A4	A4	A4	A4	A3
Kazakhstan	B	B	B	B	B	C	B	B	B	B	B
Mexico	B	B	B	B	B	B	A4	A4	A4	A4	A4
Oman	B	B	B	C	C	B	A3	A3	A3	A3	A3
Russia	B	B	B	B	B	C	C	C	B	B	B
Senegal	B	B	B	B	B	B	B	B	B	B	B
Serbia	B	B	B	B	B	B	C	C	C	C	C
South Africa	B	B	B	B	C	C	B	A4	A4	A3	A3
Vietnam	B	B	B	B	B	B	B	C	C	C	C
C											
Algeria	C	C	C	C	C	C	B	A4	A4	A4	A4
Angola	C	D	D	D	D	D	C	C	C	C	C
Argentina	C	C	C	B	B	B	C	C	C	C	C
Armenia	C	C	D	D	D	E	C	C	C	C	C
Bolivia	C	C	C	C	C	C	C	C	C	C	C
Cameroon	C	C	C	C	C	C	C	C	C	C	C
Gabon	C	C	C	C	C	C	C	B	B	B	B
Nigeria	C	C	C	C	D	D	C	C	D	D	D
Saudi Arabia	C	C	C	C	C	B	A4	A4	A4	A4	A4
Sri Lanka	C	C	C	B	B	B	B	B	C	C	C
Tanzania	C	C	C	C	C	C	C	B	B	B	B
Tunisia	C	C	C	C	B	B	B	B	B	A4	A4
Turkey	C	C	C	B	B	B	B	B	A4	A4	A4
Ukraine	C	C	C	C	C	D	D	D	D	D	D
Uzbekistan	C	C	C	C	C	D	D	D	D	D	D
D											
Haiti	D	D	D	D	D	D	D	D	D	D	D
Madagascar	D	D	D	D	D	D	D	C	C	C	C
Mozambique	D	E	E	E	E	D	C	C	C	C	B
Pakistan	D	D	C	C	C	C	D	D	D	D	D
E											
Iran	E	E	E	E	E	E	D	D	D	D	D
Iraq	E	E	E	E	E	E	D	D	D	D	D
Libya	E	E	E	E	E	E	D	D	D	D	D
Syria	E	E	E	E	E	E	D	D	D	D	D
Venezuela	E	E	E	E	E	E	D	D	C	C	C
Zimbabwe	E	E	E	E	E	E	D	D	D	D	D

The "E" rating was introduced into the Coface assessment scale in June 2016.

Upgrade
Downgrade

HOW TO USE THE HANDBOOK

YOUR COFACE HANDBOOK

2019 SECTOR PROFILES

SECTORS

AGRI-FOOD

Sector risk assessments

ASIA	MEDIUM
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	MEDIUM
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

+
- Strong demand from emerging countries (notably China and India)
- Organic market growth in advanced economies

–
- Sector highly exposed to weather events
- Considerable uncertainty around the ongoing trade war

FOOD PRICE INDEX
(100 = JANUARY 2018)

120
110
100
90
80
70
J F M A M J J A S

Food Price Index, Meat, Dairy, Cereals, Oils, Sugar

Source : FAO

RISK ASSESSMENT

The United Nations Food and Agriculture Organisation (FAO) food price index fell by about 6% between September 2017 and September 2018. The decrease mainly reflected the fall in vegetable oil and sugar price indices, which fell by 21% and 20% respectively over the same period, chiefly because of high sugar production and Chinese tariffs on imports of US soybeans. The cereal price index was the only one to increase (by 9%), owing to decreased rainfall (and therefore production) in Australia and Canada – the leading global players, accounting for 22% of global wheat exports in 2017. However, it should be borne in mind that the soybean benchmark used in the FAO price index is US soybeans, whose price is falling due to the ongoing trade war between the United States and China. The price of American soybeans is therefore moving in the opposite direction to Brazilian soybean prices, which are climbing on the back of growing demand from China owing to the tension with the United States.

The sector is expected to be affected by weaker growth in advanced economies, mainly in Europe, and will likely continue to suffer in the United States from the US-China trade war, with China imposing a 25% import tax on American soybeans in retaliation for US protectionist measures. As soybeans are used to feed livestock, the trade war will also impact market players indirectly, over and above the import taxes imposed on US pork imports by China and Mexico of 62% and 20% respectively. The pork market will be further affected by the cases of African swine fever in China (50 cases between August and November) and Europe (more than 1,200 cases between July and November, most of them in Romania).

The organic market is seeing significant growth, particularly in advanced economies, with the share of arable land used for organic farming rising from 0.3% in 2000 to 1.2% in 2016. This trend is expected to continue in the coming years.

IN 2019

DEMAND

Global economic growth across all sectors is expected to decline slightly in 2019 (3% according to Coface).
In Emerging Asia, growth in activity is expected to slightly decline in 2019 to 5.7%, compared with 6% in 2018. China's tariffs on US soybean imports should reduce China's external demand for soybeans for the 2018/19 season* by 11% compared with 2017/18. Chinese imports accounted for 62% of US exports in 2017, but China will source soybeans mainly from Brazil and Argentina in 2019. Its imports of US soybeans were already down 95% in September 2018 year-on-year.
The pork market has been hit by the recent cases of African swine fever: the highly contagious and deadly nature of the disease has forced Chinese farmers to slaughter a large proportion of their livestock to prevent the disease from spreading. If the epidemic is not brought under control quickly, China could be forced to increase its pork imports, which will fuel inflationary pressure in the segment at global level.
Strong growth in North America, despite the slight slowdown expected in 2019 (2.8% and 2.1% growth for the United States and 2.1% and 2% for Canada in 2018 and 2019 respectively), will boost regional demand in the sector. However, the US agri-food sector is expected to be adversely affected by the trade war with China: American agricultural products are among the most targeted by Chinese retaliation measures. With China now sourcing almost exclusively from Brazil and Argentina, the United States is trying to find other buyers to compensate for the shortfall. Europe, which has agreed to buy soybeans mainly from the United States, will not be able to offset the decline in Chinese demand for American producers.
Demand in the sector in Western Europe should be negatively impacted by poor growth prospects for 2018 and 2019, while in Eastern Europe, external demand, particularly for meat, will benefit the sector.
In Latin America, the sharp depreciation of the Argentine peso in 2018 and the increase in soybean exports to China will boost Argentine agricultural exports, but the dim growth outlook for 2018 and 2019 is likely to negatively impact the agri-food sector. Increased Chinese demand for Brazilian soybeans, although a boon for producers, is a challenge for domestic consumers, as higher prices linked to increased demand hurt local consumers as well as livestock producers.

SUPPLY

World cereal production is expected to decline, with the 2017/18 and 2018/19 harvests down 2% compared with 2016/17, mainly due to adverse weather conditions and the El Niño phenomenon (which started at the end of 2018) mainly affecting Latin American countries – such as Peru, Brazil and Argentina – as well as Oceania. The US Department of Agriculture (USDA) forecasts world pork, poultry and beef production to increase by 2%, 4% and 3% respectively in 2018 compared with 2017 and by 1%, 2% and 1% in 2019 compared with 2018.
In the United States, growth in food production slowed slightly in the second quarter of 2018 compared with the first, growing by 2.4% after 3.3%. Soybean producers, who must already deal with the tariffs imposed by China in retaliation for the trade war started by the Trump administration, are also facing crop failures at the beginning of the 2018/19 season, with rainfall and hurricanes resulting in poor quality production.
In Europe, the sector as a whole continues to be weakened by the Russian embargo on food products from the United States and the EU, which is expected to continue until the end of 2018.
In Latin America, droughts in Argentina have impacted the sector: soybean production in 2017/18 was 31% lower than the previous season. Production may also be affected by El Niño, which is leading to higher-than-normal rainfall in Argentina. The Brazilian soybean harvest was 5% higher in 2017/18 than in 2016/17. Producers benefited from higher prices linked to firmer demand. Soybean prices on the Brazilian market are expected to continue increasing on strong demand from China in connection with the trade war. Meanwhile, Brazilian pig farmers are also facing higher prices for soybeans, which are used as a source of protein for livestock.

*The beginning of a season varies according to the geographical location and the product under consideration. The global production of a season for a given commodity is obtained by summing the production of the seasons of the countries producing this commodity.

COFACE COUNTRY & SECTOR RISKS HANDBOOK 2019 .17

1 Sector name

2 Coface Regional Sector Risk Assessments

This assessment indicates the risk presented by companies in the sector in regions around the world as considered by Coface in its quarterly sector assessments.

3 Risk Assessment

This section contains an analysis of economic and financial developments, as well as the main risks in the sector in terms of global trends.

4 Analysis of Strengths/Weaknesses

A summary of the sector's global strengths and weaknesses.

5 Sector Chart

This graph highlights one or more key aspects of developments in the sector.

6 Supply and Demand in 2019

These two columns present Coface's analysis of global trends within the sector, in terms of global supply and demand for the coming year.

Every quarter Coface reviews the assessments of 13 sectors throughout 27 countries in 6 major regions in the world (representing approximately 87% of global GDP). In order to better assess these, Coface has implemented its own methodology relying on four main pillars:

- anticipated insolvencies (by country);
- observed payment periods (aggregated by sector and country);
- financial result forecasts (aggregated by sector and country);
- payment experience logged by Coface by sector and country.

This assessment scales on four steps in order of increasing risk:
Low, Medium, High or Very High

LOW | MEDIUM | HIGH | VERY HIGH

SECTORS	CENTRAL & EASTERN EUROPE	ASIA	LATIN AMERICA	MIDDLE EAST & TURKEY	NORTH AMERICA	WESTERN EUROPE
AGRI-FOOD	Medium	Medium	High	Medium	High	Medium
AUTOMOTIVE	Medium	High	High	High	High	Medium
CHEMICAL	Medium	Medium	High	Medium	Low	Medium
CONSTRUCTION	High	Very High	High	Very High	High	Medium
ENERGY	Medium	High	High	High	Low	Medium
ICT*	Medium	High	Medium	High	Medium	Medium
METALS	Medium	High	High	Very High	Medium	High
PAPER	Medium	Medium	Medium	Medium	Medium	High
PHARMACEUTICAL	Low	Low	Medium	Medium	Low	Low
RETAIL	Medium	Medium	Medium	High	High	Medium
TEXTILE-CLOTHING	Medium	High	High	High	Very High	High
TRANSPORT	High	Medium	High	Medium	Low	Medium
WOOD	Medium	High	Medium	High	Medium	Medium

*ICT: Information and Communication Technology.

SECTORS

COFACE SECTOR RISK ASSESSMENTS

AGRI-FOOD

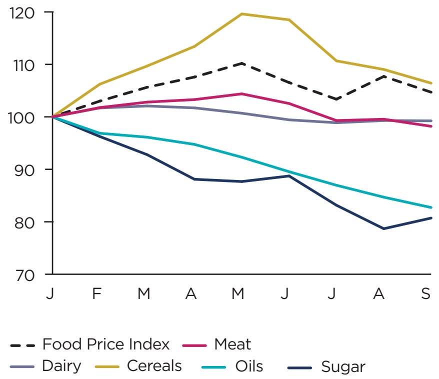
Sector risk assessments

ASIA	MEDIUM
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	MEDIUM
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

+
- Strong demand from emerging countries (notably China and India)
- Organic market growth in advanced economies

−
- Sector highly exposed to weather events
- Considerable uncertainty around the ongoing trade war

FOOD PRICE INDEX
(100 = JANUARY 2018)



Source : FAO

RISK ASSESSMENT

The United Nations Food and Agriculture Organisation (FAO) food price index fell by about 6% between September 2017 and September 2018. The decrease mainly reflected the fall in vegetable oil and sugar price indices, which fell by 21% and 20% respectively over the same period, chiefly because of high sugar production and Chinese tariffs on imports of US soybeans. The cereal price index was the only one to increase (by 9%), owing to decreased rainfall (and therefore production) in Australia and Canada – the leading global players, accounting for 22% of global wheat exports in 2017. However, it should be borne in mind that the soybean benchmark used in the FAO price index is US soybeans, whose price is falling due to the ongoing trade war between the United States and China. The price of American soybeans is therefore moving in the opposite direction to Brazilian soybean prices, which are climbing on the back of growing demand from China owing to the tension with the United States.

The sector is expected to be affected by weaker growth in advanced economies, mainly in Europe, and will likely continue to suffer in the United States from the US-China trade war, with China imposing a 25% import tax on American soybeans in retaliation for US protectionist measures. As soybeans are used to feed livestock, the trade war will also impact market players indirectly, over and above the import taxes imposed on US pork imports by China and Mexico of 62% and 20% respectively. The pork market will be further affected by the cases of African swine fever reported in 2018 in China (50 cases between August and November) and Europe (more than 1,200 cases between July and November, most of them in Romania).

The organic market is seeing significant growth, particularly in advanced economies, with the share of arable land used for organic farming rising from 0.3% in 2000 to 1.2% in 2016. This trend is expected to continue in the coming years.

IN 2019

DEMAND

Global economic growth across all sectors is expected to decline slightly in 2019 (3% according to Coface).
In Emerging Asia, growth in activity is expected to slightly decline in 2019 to 5.7%, compared with 6% in 2018. China's tariffs on US soybean imports should reduce China's external demand for soybeans for the 2018/19 season* by 11% compared with 2017/18. Chinese imports accounted for 62% of US exports in 2017, but China will source soybeans mainly from Brazil and Argentina in 2019. Its imports of US soybeans were already down 95% in September 2018 year-on-year.
The pork market has been hit by the recent cases of African swine fever: the highly contagious and deadly nature of the disease has forced Chinese farmers to slaughter a large proportion of their livestock to prevent the disease from spreading. If the epidemic is not brought under control quickly, China could be forced to increase its pork imports, which will fuel inflationary pressure in the segment at global level.
Strong growth in North America, despite the slight slowdown expected in 2019 (2.8% and 2.1% growth for the United States and 2.1% and 2% for Canada in 2018 and 2019 respectively), will boost regional demand in the sector. However, the US agri-food sector is expected to be adversely affected by the trade war with China: American agricultural products are among the most targeted by Chinese retaliation measures. With China now sourcing almost exclusively from Brazil and Argentina, the United States is trying to find other buyers to compensate for the shortfall. Europe, which has agreed to buy soybeans mainly from the United States, will not be able to offset the decline in Chinese demand for American producers.
Demand in the sector in Western Europe should be negatively impacted by poor growth prospects for 2018 and 2019, while in Eastern Europe, external demand, particularly for meat, will benefit the sector.
In Latin America, the sharp depreciation of the Argentine peso in 2018 and the increase in soybean exports to China will boost Argentine agricultural exports, but the dim growth outlook for 2018 and 2019 is likely to negatively impact the agri-food sector. Increased Chinese demand for Brazilian soybeans, although a boon for producers, is a challenge for domestic consumers, as higher prices linked to increased demand hurt local consumers as well as livestock producers.

SUPPLY

World cereal production is expected to decline, with the 2017/18 and 2018/19 harvests down 2% compared with 2016/17, mainly due to adverse weather conditions and the El Niño phenomenon (which started at the end of 2018) mainly affecting Latin American countries – such as Peru, Brazil and Argentina – as well as Oceania. The US Department of Agriculture (USDA) forecasts world pork, poultry and beef production to increase by 2%, 4% and 3% respectively in 2018 compared with 2017 and by 1%, 2% and 1% in 2019 compared with 2018.
In the United States, growth in food production slowed slightly in the second quarter of 2018 compared with the first, growing by 2.4% after 3.3%. Soybean producers, who must already deal with the tariffs imposed by China in retaliation for the trade war started by the Trump administration, are also facing crop failures at the beginning of the 2018/19 season, with rainfall and hurricanes resulting in poor quality production.
In Europe, the sector as a whole continues to be weakened by the Russian embargo on food products from the United States and the EU, which is expected to continue until the end of 2018.
In Latin America, droughts in Argentina have impacted the sector: soybean production in 2017/18 was 31% lower than the previous season. Production may also be affected by El Niño, which is leading to higher-than-normal rainfall in Argentina. The Brazilian soybean harvest was 5% higher in 2017/18 than in 2016/17. Producers benefited from higher prices linked to firmer demand. Soybean prices on the Brazilian market are expected to continue increasing on strong demand from China in connection with the trade war. Meanwhile, Brazilian pig farmers are also facing higher prices for soybeans, which are used as a source of protein for livestock.

*The beginning of a season varies according to the geographical location and the product under consideration. The global production of a season for a given commodity is obtained by summing the production of the seasons of the countries producing this commodity.

AUTOMOTIVE

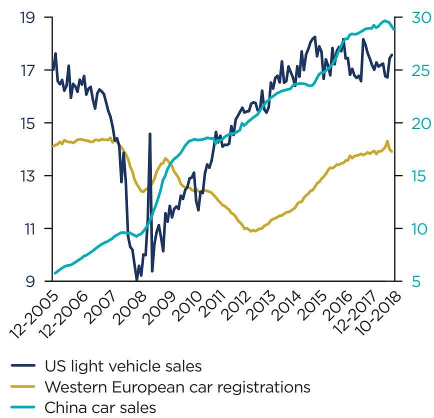
Sector risk assessments

ASIA	HIGH
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	HIGH
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

- Period of unprecedented innovation in the sector
- Car manufacturers are among the largest investors in R&D worldwide

- Deteriorated credit risk in several region across the world, including the United States and United Kingdom
- Increasingly restrictive anti-pollution standards requiring heavy investments
- High uncertainties notably due to knock-on effects of Brexit and the trade war on the global automotive supply chain
- Higher raw material prices impacting margins

VEHICLE SALES AND REGISTRATIONS IN CHINA, WESTERN EUROPE AND THE US



Sources: CAAM, Autodata and ACEA

RISK ASSESSMENT

Light vehicle sales in the United States dropped by less than 1% during the first 11 months of 2018, despite a strong emphasis toward light trucks (+9.8% year-on-year). The light trucks segment, which is holding up, is allowing carmakers to continue selling their production. Moreover, President Donald Trump threatened car and car parts imports with tariffs, which may pose a significant hurdle to foreign carmakers. It will also penalize domestic carmakers as a lot of specialized parts and steel products are made abroad.

Chinese car sales showed a tiny decrease (-0.1% year-on-year) at end November 2018. Chinese car sales are suffering from a sluggish consumer demand and a slowing economy. Competition between carmakers is also more intense, and might dent profitability. Moreover, Chinese authorities slashed duties on imported cars from 25% to 15%, which may foster foreign made cars sales.

Western Europe registrations experienced a tiny growth at end November 2018 (+0.8% year-on-year). Mixed results were posted across the region: +4.4% in France, +0.4% in Germany, -3.5% in Italy, +8% in Spain, and -6.9% in the UK. The European market is suffering from new testing rules, which have ignited bottlenecks in model homologations.

IN 2019

DEMAND

Demand around the world is less buoyant, with a contraction in the United States, gradual deceleration in China, and a slowdown in Europe. Consumer confidence has deteriorated since June 2018 as the current trade war, notably between the US and China, impacts economic prospects.

Accordingly, Chinese GDP growth is set to fall in 2019 (6.2%, from 6.6% in 2018). Lower online peer-to-peer lending, higher oil prices, and turbulences in the stock market have negatively impacted confidence. The causes of the current turmoil are unlikely to vanish in 2019, and are therefore likely to further push down consumer confidence. Electric vehicle demand is expected to hold in 2019, despite the government's to cut subsidies by 40%. A new scheme will start in 2019 giving credits to more appealing vehicle *via* better driving range.

In the United States, GDP growth is expected to slow to 2.3% in 2019, from 2.9% in 2018. Furthermore, raising interest rates in June 2018 have pushed up car loan borrowing costs to around 6%, and the average maturity length was nearly 66.5 months at end June 2018. Credit quality is declining, in part because new car prices are continuing their upward trend – the average cost of a new car was around USD 36,978 in November 2018, according to Cox Automotive –, exacerbating the loss of vehicles' residual resale value. With the deeply rooted shift toward expensive SUV and pickups, we expect new light vehicle prices to increase over time. Should the Trump Administration implement tariffs on car parts, information company Experian forecasts an additional cost per car ranging between USD 3,000 and USD 5,000.

Deteriorated economic prospects in the largest Eurozone economies, namely Germany, France and in Italy, together with political uncertainty in the UK; are likely to weigh on car registrations. Coface's GDP growth forecast for Europe is a drop to 1.8% in 2019 after 2.1% in 2018. Although the eurozone's unemployment rate has been constantly decreasing since 2016 (reaching 8.1% in October 2018, according to Eurostat), consumer confidence is contracting (-3.7 at end November 2018), notably due to deteriorated future global economic prospects. The risks ahead for auto industry, notably in Germany, is likely to have knock on effect on Central and Eastern Europe Region (CER) automotive sector. As Western Europe represents the bulk of CER auto exports, countries like Czechia, Slovenia, and Slovakia will bear the brunt of decelerating registrations. The new homologation (WLTP) is exerting downward pressure on registrations, and it will take time for the market to return to normal.

SUPPLY

The changing landscape is forcing automotive manufacturers to adapt. As they continue to face new regulations and competitors, doubts are growing over sales expansion in 2019.

New car sales in China decelerated at end November 2018 (-2%, year-on-year), and 2018 is the first year in decades to post a decrease in car sales. The market is highly dependent on government fiscal policies regarding vehicle tax, and despite predictions that the government will halve VAT on cars, as they have done in the past, slipping consumer confidence is likely to prevent a market comeback. The country is becoming a key player in terms of the production and sales of electric and/or hybrid vehicles, with the central government strongly encouraging these technologies through tax rebates, with the target 5% of all vehicles sales being New Electric Vehicles in 2019. Volkswagen's announcement to introduce 25 new electric models in the country between 2020 and 2025 and its plans to invest USD 12 billion through its joint-ventures reflects that perception.

Cox Automotives expects a 2.3% drop in light vehicle sales in 2019 in the United States. The shrinking market will enhance competition between carmakers, which is likely to shrink margins, as rising raw material and input prices (steel, aluminium, car parts, etc.) will continue to dent profitability. However, the fall in passenger cars sales is forcing them to close factories and redirect money to e-mobility R&D. Lastly the opening of investigation for national security motives, which is due to be completed by February 2019, is very likely to cause car prices to increase and reduce jobs as carmakers would protect already strained margins.

Registrations in Western Europe are likely to increase in 2019, but only by 1%, according to the market intelligence company, LMC Automotives. As per Coface's calculations, the net margin figures of leading carmakers and equipment manufacturers was relatively stable at the end of the third quarter of 2018 (5.8% vs 5.9 in the second quarter). However, the UK's departure from the EU, scheduled for March 2019, is likely to not only present risks for the UK car industry, but also lead to adjustments in European production organisation, due to the deep industrial interaction. Moreover, President Trump has threatened to implement extra duties on car imports if European allies do not proceed with commercial concessions. This "sword of Damocles" is impacting German carmakers, who are already suffering from blows traded between the US and China. A difficult market both at home and in China – a major contributor to European carmakers profits – will inevitably push them to take hard choices, when considering the huge investment need for e-mobility.

Sector risk assessments

ASIA	MEDIUM
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	MEDIUM
NORTH AMERICA	LOW
WESTERN EUROPE	MEDIUM

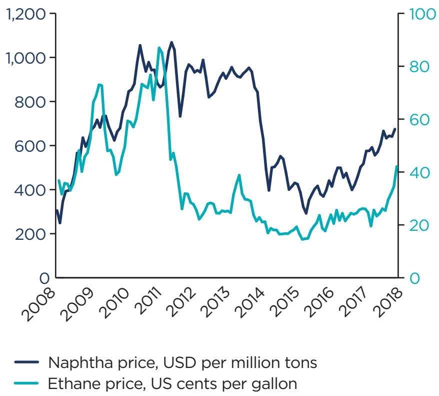
+

- Main input prices remain at historically low levels
- Robustness of US demand
- Specialty chemicals are less dependent on the economic situation

−

- Base chemicals performance strong dependence on the global economic cycle
- Overcapacity in China in some segments
- Increase in ethylene production capacity

NAPHTHA AND ETHANE PRICES



Source: Reuters

RISK ASSESSMENT

The prices of the main inputs for chemical production (natural gas, naphtha) increased throughout 2018, putting pressure on margins, despite naphtha reaching its lowest levels in the past eight years. The relative prices weakness for the principal raw material, naphtha, continues to offer some respite for European producers. As chemical activity is dependent on economic cycle evolution, it has been on the rise, but is expected to decelerate due to softening economic conditions in most regions globally.

US petrochemical producers continue to benefit from a relatively cheap natural gas access. Nevertheless, ethane prices in the United States are increasing (+115% at end September since the beginning of 2018) due to stronger demand from ethylene derived products.

Low naphtha prices are also helping Chinese producers. However, the development of olefins manufactured from coal, which was promoted by the Chinese government due to its cost advantage, comes at a heavy price for the environment due to higher pollution.

IN 2019

DEMAND

Global demand for chemical products is expected to increase in 2019, but at a slower pace due to slightly sluggish global economic prospects.

In Western Europe, activity in the chemical industry will expand slowly as a result of the moderate expected economic growth (1.9% in 2019 versus 2.2% in 2018). Turnover in the European chemical industry grew by 4% year-on-year at the end of August 2018, after growing by 7% a year earlier. Nevertheless, most subsectors of the chemical industry activity should remain steady, thanks the automotive sector despite its challenges.

The demand for chemical products in North America is expected to keep growing in 2019, despite Coface forecasts that US GDP growth will decelerate to 2.3% (from 2.9% in 2018). Both automotive sales and construction activity in the United States will have a negative impact on demand. Sales of new light vehicles in 2019 will likely experience a 1% drop, as a result of higher interest rates, higher car prices and less favourable credit conditions. Moreover, home builders are cautious about land access, rising input costs, and overall diminishing affordability. The FED is expected to continue raising rates in 2019, putting more pressure on car and home buyers and thus offering lower prospects for the chemical industry.

Demand in China for chemical products is likely to be restrained in 2019, with a lower GDP growth rate in 2019 (+6.2%) compared to 2018 (6.6%). Private sector debt in China amounted to 261% of GDP at the end of March 2018 according to the Bank of International Settlements. The construction sector is no exception and suffers from decreasing activity, which will continue throughout 2019. Moreover, the construction has the highest ratio of ultra-long unpaid amounts exceeding 2% of annual turnover, according to the Coface 2018 China Payment Survey. Another important client sector for the chemical industry in China, the automotive sector, is not performing well either, with vehicle sales decelerating: they reached only +0.6% at end September 2018, after hitting 4.46% a year earlier. The Caixin/Markit Manufacturing Purchasing Managers' Index (indicating China factories activities) at end September 2018 shows that growth in orders stalled as a result of a slowdown in export orders.

SUPPLY

Crude oil and natural gas prices evolutions, notably rising trends, may impact chemical producers' margins.

Lower European economic growth (+1.9% in 2019 after 2.1% during 2018) and higher expected average Brent price in 2019 (USD 75 per barrel) could adversely impact chemicals companies' margins. Monthly averaged naphtha prices at end September increased by 17% since the beginning of 2018 (USD 675 per ton *vs* USD 576/t). The aforementioned raw material price is strongly correlated to crude price since it is derived from it, and is widely used in the European petrochemical industry. European chemical producers' net profit margins reached 8.5% in 2018 (up from 7.7% a year earlier). However, petrochemicals fared better than their specialty chemical counterparts (products sold on the basis of their function rather than their composition), an indication that margins were spurred by low raw input prices, as with naptha. Furthermore, oil price volatility is high, which is translated into higher naphtha price volatility, adding complexity and risks to chemical companies' activities.

US domestic demand in 2019 is unlikely to provide opportunities for US ethane-based producers, as was the case in the past, as they are losing competitiveness compared to those using naphtha. Ethane price evolution at Mont Belvieu in Texas was 42 US cents per gallon in September 2018, versus 19.55 US cents per gallon at the beginning of the year: a 115% increase). US petrochemical producers are losing parts of their competitive edge they gained compared to European producers due to large access to cheap ethane coming from shale hydrocarbons. In addition, piling up of ethylene production capacity due to abundance of shale gas in the United States is exerting pressure to look for buyers overseas, notably China. At the same time, the current trade war is impacting a large swath of chemical products: China is applying tariffs ranging between 5%-25% to the majority of ethylene related products. US ethylene products will therefore likely head toward other regions such as Europe, Latin America or Southern Asia, as Chinese traders would buy more products from the Middle East or Singapore.

Chinese chemical production was down 1.9% YOY at the end of September 2018. Coface forecasts that Chinese economic growth rates will decelerate from 6.6% in 2018 to 6.2% in 2019. After reaching 7.3% in 2018, the net profit margin for Chinese companies is still lagging behind European figures (*vs* 7.6% a year ago). Many sub-sectors are crippled by overcapacities, which hamper their profitability. This is the case for polyethylene (PVC), where the capacity utilisation rate is around 60%, and methanol. In the medium-term, the increase in production capacity in olefins, produced *via* coal, may continue to dent the profitability of producers. Moreover, this technology requires significant consumption of water and capital and, above all, has serious environmental impacts, a sensitive issue in China. However, central authorities seem to be reversing their former plan to foster this kind of technology due to polluting effects.

CONSTRUCTION

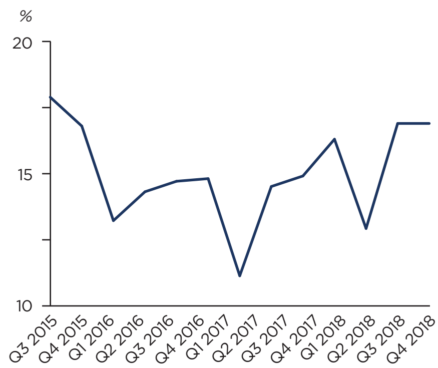
Sector risk assessments

ASIA	VERY HIGH
CENTRAL & EASTERN EUROPE	HIGH
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	VERY HIGH
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

- World population growth
- Continued increase in urbanisation
- Major infrastructure projects expected

- Increased credit risk for companies in the sector in China with high debt levels and overcapacity
- Household debt levels remain high in the United States, Western Europe and several large emerging economies
- Upward trend in global interest rates
- Increase in input production costs

NET DEBT* OF CONSTRUCTION COMPANIES IN CHINA



* (total debt - cash flow) / (total assets)

Source: Reuters

RISK ASSESSMENT

The economic outlook for the construction sector in 2019 is dimming to varying degrees around the world against a backdrop of slowing global economic growth. In the European Union, where economic activity is poised to cool, growth is expected to reach 1.7% in 2019 against 2% in 2018. Credit risk will remain particularly high in the sector in China, where the gradual deceleration in growth is being combined with a more restrictive monetary policy (to tackle the housing bubble) and continuation of the strategy to rein in production overcapacity. Chinese companies in the sector remain highly indebted. Construction is expected to be one of the riskiest sectors in 2019 according to the analyses for the 13 sectors for which Coface publishes assessments (see page 11).

The global setting, featuring a trade war and higher production costs due in particular to forecast price increases for certain metals and lumber, will present additional difficulties for companies in the sector.

In the United States, the outlook for the sector is deteriorating, as the country faces more downbeat economic growth prospects in 2019. Coface expects growth to reach 2.3% in 2019 compared with 2.9% in 2018. This is in a context where the effect of the tax stimulus initiated by the government at the end of 2017 is fading and is being largely offset by the Federal Reserve's rate hikes.

In Latin America, credit risk for companies in the sector is expected to remain high, following numerous corruption scandals in the award of public contracts in this area, and the currency crisis in Argentina, which has led to fiscal austerity measures and very significant increases in interest rates. In Turkey, as in Argentina, last year's severe currency crisis and the economic recession that is now taking hold are likely to sustain the contraction in demand in the sector.

Further out, the prospects are expected to improve and will continue to be supported by global population growth and thus sustained structural housing demand, as part of an international trend towards increased urbanisation. A 2018 study by HNY Research, a consultancy, indicates that global demand for construction equipment is set to surge over the next five years, thanks to a market segment that is expected to grow by about 8% per year through to 2023.

IN 2019

DEMAND

Global demand in the construction sector will be affected in 2019 by the interest rate increases expected in many advanced economies – a process that has already begun in the United States and the United Kingdom. In the eurozone, the European Central Bank expects to hike interest rates by the summer of 2019, while central banks in Central and Eastern Europe have already begun to exit their accommodative monetary policies, with Romania and Czechia starting to take these steps in late 2017. Some Asian countries, including Korea, Indonesia and the Philippines, are taking similar action. More generally, demand in the sector will be depressed by the slowdown in the global economy, which we expect to expand by 3% in 2019 compared with 3.2% in 2018.

In the EU, Coface expects economic activity to falter, with growth expected to reach 1.7% in 2019 compared with 2% in 2018. The British construction sector was hit hard by uncertainties related to Brexit in 2018, through a loss of consumer confidence and higher interest rates. New orders, both in terms of infrastructure and private commercial activities, fell by 6.6% in the third quarter of 2018 compared with the first quarter in the United Kingdom. In the United States, the outlook for the sector is deteriorating as the country faces a less positive economic growth forecast for 2019. Coface expects growth to reach 2.3% in 2019 compared with 2.9% in 2018, making for a situation that will likely contribute further constrain demand, at a time when the effects of the corporate tax cuts introduced at the end of 2017 have been offset by successive rate hikes by the Federal Reserve. In China, the gradual deceleration in expected economic growth (6.2% in 2019 compared with 6.5% in 2018) combined with the effects of the government's measures to tackle the housing bubble, should constrain demand.

Nevertheless, in the longer term, the global trend towards urbanisation coupled with the structural increase in the world population should limit to support demand in the sector.

SUPPLY

The construction sector around the world displays contrasting realities and varying prospects for 2019. The continued increase in production costs will have a negative impact on the sector's performance. The increase continues to be mainly due to higher prices for some metals that are widely used in the construction sector compared to historical trends, such as steel, as well as for lumber.

US indicators are deteriorating. Activity in the construction sector is contracting, with building permits and housing starts falling by 5.8% and 2.9% respectively year-on-year in October 2018. Both residential construction and spending project also showed signs of deterioration at the end of last year, and this trend is expected to continue in 2019.

One of the main risks for the US construction sector in 2019 will be related to the repercussions of the trade war started by the Trump administration. In particular, the administration has decided to introduce customs tariffs on a portion of steel (25%) and aluminium (10%) imports into the United States, which significantly increases production costs for construction companies. A development that could have a positive impact on construction in the United States would be the implementation of the major infrastructure projects proposed by President Trump during the presidential campaign. However, the scope and possible budgets of these projects remain uncertain at this stage. In Europe, the sector will be affected by the economic slowdown.

ENERGY

Sector risk assessments

ASIA	HIGH
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	HIGH
NORTH AMERICA	LOW
WESTERN EUROPE	MEDIUM

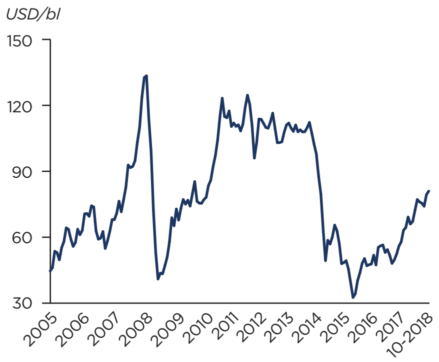
+

- Resilience to price fluctuations by leading diversified companies
- Continued dynamic demand overall expected in 2019, which may sustain oil prices averaging USD 75 per barrel
- Oil companies' efforts to streamline their production

−

- High debt levels, especially among shale oil companies
- High volatility in crude oil prices
- Overcapacity of some oil & gas services companies

MONTHLY AVERAGED BRENT SPOT PRICE: RISING TRENDS BUT STILL LOW BY HISTORICAL STANDARDS



Source: Reuters

RISK ASSESSMENT

Monthly averaged Brent prices at end October 2018 increased by 28% compared to end December 2017. Ongoing geopolitical concerns in the Middle East and in North Africa; coupled with higher consumption have caused prices to spike. The OPEC+ agreement on cutting oil production by 1.8 million barrel per day (mbpd) to rein in prices has been respected by members such as Russia and Saudi Arabia.

The number of active oil rigs in the United States was still growing at end October 2018 and stands at 870 (*versus* 741, +17.4% year-on-year). Accordingly, US Q3 crude oil and other liquids production increased by 24% YOY. The price hike has lured US oil producers to increase their cash flows.

US exploration and production bankruptcies rose in the first eight months of 2018: 22 filings, down from 15 in 2017. Moreover, the debt amount is up by 138% due to a high level of investment in shale basins. Nevertheless, US oil contractors saw their bankruptcy figures dropping: -70% for filings. The increased number of rigs alleviated the burden on them, who bore the brunt of low prices environment. Furthermore, global investment was up by 4% in 2017 in the upstream segment, according to the International Energy Agency (IEA): a slight rebound in an industry that saw its investments decreasing by 40% between 2014 and 2016.

IN 2019

DEMAND

According to the US Energy Information Agency (EIA), global oil demand should stand at 101.5 mbpd in 2019, a rise of 1.4% compared to 2018. Natural gas demand is expected to rise by 1.5% in 2019, around 3,886 billion cubic meters (bcm), stirred up by China, Thailand, Taiwan and Indonesia.

Demand in Europe is likely to stagnate in 2019, at almost 14.4 mbpd (+0.5%). Refineries benefitted from the steep fall in oil prices since June 2014 to improve their margins. European refineries capacity utilisation was stable in August 2018 y-o-y, but average Brent crack margins are losing momentum due to higher oil prices. Moreover, crude prices account for a significant proportion of their overall refining cost – up to 50% – and will add up with operational costs. In contrast, energy costs represent 28% of total expenditure for American refineries. Furthermore, competition from the Middle East will exert pressure on European refineries.

US demand for oil products should decelerate, with a 1.1% rise expected in 2019 due to soft economic prospects. Refinery margins should continue to decrease, after a peak of USD 24 per barrel in July 2015. September 2018 averaged USGC cooking margins reached USD 6.36/bl against USD 10.04/bl a month ago. President Trump's tax reforms aimed at reducing corporate taxes will help refineries, but higher oil prices and fluctuating demand will dent margins. Softening economic conditions in Latin America will not help US refiners.

Coface expects real GDP growth in the Chinese economy to reach 6.2% in 2019 due softening economic prospects abroad. As a result, annual Chinese energy consumption should grow at a slower pace (+3.4%), reaching 14.3 mbpd in 2019 from 13.8 mbpd, according to the EIA. Nonetheless, as the trade war is currently unfolding, Chinese trading companies are favouring Middle East crude over US's. Chinese refineries will continue to import crude from Iran despite US sanctions, due to the expansion of the Shanghai futures market, which provides contracts based on the renminbi – a currency not concerned by the US sanctions, which are only targeting US dollar based contracts. Moreover, the United States has granted temporary waivers to China when importing Iranian oil.

India will again be one of the main oil consumer countries in 2019 in terms of growth, but with a less steep rise in demand (up 4.6% in 2019 after 5.5% in 2018), bolstered by the growing numbers of automobiles. India will benefit from its time-limited Iranian oil imports waivers, granted by the US as the country is dependent on Iranian crude.

SUPPLY

According to the EIA, oil supply should rise by 2% in 2019 to 102 mbpd, after 2.4% in 2018. This is attributed to a better price environment for American shale producers, offsetting the OPEC+ production limitation agreement. Russia and Saudi Arabia are likely to agree on another production cut in 2019 to stabilise prices. EIA's investments estimates (+5% in 2018) in the sector are still below the pre-2014 levels. Oil companies are targeting less risky fields (two thirds of the capital expenditures amount), to compensate declining production wells. Natural gas supply is expected to rise in 2019 by 1.1% to 3,880 bcm, induced by greater US liquefied natural gas (LNG) production which is competing with Qatar gas.

According to the EIA, oil production in the United States should reach a record high of 12.08 mbpd in 2019, up from 10.09 during 2018 (+11%). Rigs number has doubled since mid-2016, reaching 864 (91% of which are horizontal drills). US production has been boosted by the higher wells' productivity (+20% production per rig at end June 2018 y-o-y). Prospects for shale oil investments will be limited by companies' financing requirements, as shown by the USD 50 billion of speculative bonds issued in the markets in 2018 (twice the 2016 total). According to a March 2018 Reuter's survey, nearly one third of respondents pledged to pay dividends in 2018 to attract investors, as oil prices edge upwards. Net margin for the US oil sector in 2018 Q3 stood at 6% against 1% a year ago, and this metric will likely reach 7% by the end of 2018.

Western Europe has seen an upturn in leading companies' financial results in 2018 after a dismal 2016. The E&P segment has benefited from the higher Brent prices: improved profits boosted prospects for European companies in 2018 Q3. Net margin reached 6.5%, a two percentage points increase YOY. European oil contractors are benefitting from higher oil prices, but the current levels are still too low to incentivise their customers to expand on expensive oilfields.

Chinese oil producers are lagging behind their Western rivals in terms of net margin: 2.4% at end 2018 Q3. Lower production volume and reserve write-downs have affected the sector. China's oil production in 2019 is expected to stagnate, according to the EIA: 4.8 mbpd versus 4.78 mbpd in 2018.

ICT (INFORMATION AND COMMUNICATION TECHNOLOGY)

Sector risk assessments

ASIA	HIGH
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	MEDIUM
MIDDLE EAST & TURKEY	HIGH
NORTH AMERICA	MEDIUM
WESTERN EUROPE	MEDIUM

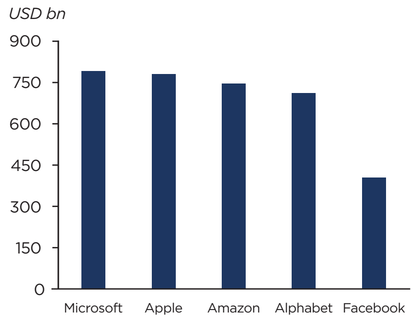
+

- Globalisation of internet access and market penetration opportunities, notably in developing economies
- Strong innovation, with AI having a growing impact on all sectors and upcoming 5G technology
- Exponential growth of connected goods

−

- Saturation of some hardware markets (tablets, smartphones, PCs) in advanced economies
- Long-term challenges in relation to rare mineral reserves
- Tougher regulatory environment ahead for ICT giants, notably in terms of taxes and data protection issues, particularly in the EU

MARKET CAPITALIZATION OF GLOBAL TOP 5 LEADING IT COMPANIES (DECEMBER 2018)



Source : Reuters

RISK ASSESSMENT

Coface's sector assessment methodology for the ICT sector incorporates several segments: telecommunication goods and services, electronics, white goods and a final segment comprising computers, software, and IT equipment. Empirically, the boundaries are increasingly blurred between the product and service ranges offered by ICT companies and the firms' traditional business activities.

ICT is a concentrated sector featuring fierce competition, particularly between the giant US and Chinese firms that dominate the market, including America's FAANG (Facebook, Amazon, Apple, Netflix and Google – specifically Alphabet, its holding company) plus Microsoft, and China's BATX (Baidu, Alibaba, Tencent and Xiaomi). Market capitalization for these companies, notably the US ones (see chart), are among the highest in the world. The global trade war is exacerbating the already highly competitive environment. Many governments in advanced economies, and particularly the United States, are worried about the "Made in China 2025 Strategy", which China is planning to use to become the global leader in ten critical economic sectors that include ICT products, such as robotics and semiconductor production. These new technologies, and notably the swift development of artificial intelligence (AI), are likely to bring significant changes to means of production.

Looking forward, one of the key challenges, particularly for FAANG, will be the tougher regulatory environment ahead for data protection.

ICT sector prospects will remain contrasted across regions in 2019, while overall business performances will depend on economic conditions. Coface expects global economic growth to slow somewhat to 3% in 2019 from 3.2% in 2018. This is expected to result in a contraction in demand for ICT goods and services overall.

Moreover, internet access continues to grow around the world. Cisco, a leading IT and network company, expects the volume of data exchanged to triple by 2020, when one person in every two worldwide will be an internet user.

IN 2019

DEMAND

Global demand for ICT products and services is likely to be impacted by the downturn in world economic growth prospects. In Europe, we expect the economy to cool, notably in the eurozone, where we expect GDP growth of 1.6% in 2019, compared with 1.9% in 2018. This will compound the fact that the Western Europe market is reaching maturity in selected ICT products. However, according to the International Data Corporation (IDC), despite the growing importance of innovative technologies, global sales of mobile phones and cloud computing continue to be the mainstays of ICT demand. In 2019 and further out, connected products – such as watches, and wristbands – could stimulate consumer interest, and according to IDC, the rise of smart wearables will not just be in mature markets, but also in emerging markets.
A key risk for FAANG lies in reputational issues, notably related to the protection of consumers' private data, following a string of scandals. One such case involved Facebook and the Cambridge Analytica scandal, when the company was accused of sharing the personal data of more than 71 million people. This data was then used to manipulate public opinion, notably during the 2016 US presidential campaign. These scandals raised awareness among users of the risks associated with the potential misuse of their personal data. The scandals also occurred at a time when time when governments, companies, and the public are growing more and more concerned about cybersecurity issues. Additionally, in some countries, the tech giants are increasingly viewed as channels through which governments can spy on people.
Moreover, in the EU, the major US ICT firms are widely perceived as not fulfilling their social responsibilities. In particular, they are criticised for making huge profits while not paying enough taxes or using legal tricks to avoid paying. EU institutions are holding discussions on ways of imposing higher taxes on FAANG.
Overall, governments around the world, including in the United States, are now considering tougher data protection rules. For example, the EU introduced the General Data Protection Regulation (GDPR) in 2018, which aims to strengthen individuals' rights and facilitate business operations in the digital age.

SUPPLY

ICT is a concentrated market that has long been dominated by the US FAANG tech giants, whose market caps are among the highest in the world (see chart). They operate in various segments – such as media, e-commerce, internet provision and telecommunications – but are increasingly being challenged by China's own BATX giants. In the context of the current trade war, and as governments gain awareness of the strategic importance of this sector, competition between the Chinese and US tech giants is heating up even more. The Trump administration has made it clear that the "Made in China 2025 Strategy", through which China plans to become a global leader, notably in ICT, is perceived as a threat to US strategic economic interests and leadership. An emblematic illustration of this position was President Trump's decision to block Singapore-headquartered Broadcom's attempt to take over Qualcomm, a US company, for USD 117 billion in January 2018.
The telecommunications industry is forecast to continue to grow. The main upcoming innovation will be the arrival and implementation of 5G technology from 2019, which will enable faster internet access.
Semiconductors remain key materials for most ICT products, particularly given the rise of supercomputing. For example, China imports more semiconductors than oil. In 2017, China's semiconductor imports totalled USD 260 billion, compared with crude oil imports of USD 162 billion. Semiconductors are critical to developing AI tools and robots. Schematically, AI can be described as set of several complex technologies that require a combination of powerful computers and efficient software to function. AI extends the limits of what is currently possible, allowing machines to carry out tasks and jobs that people have performed until now.

METALS

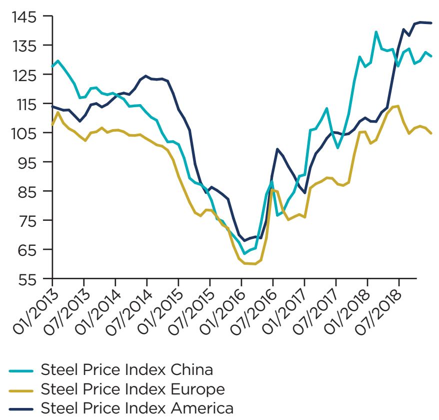
Sector risk assessments

ASIA	HIGH
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	VERY HIGH
NORTH AMERICA	MEDIUM
WESTERN EUROPE	HIGH

- On-going restructuring of key metal activities (nickel, copper, zinc, rare earths, aluminium)
- Lower production costs
- Products used in many industries across the world, notably a growing using of batteries

- Low production capacity rates across the world
- Increased pressure from the Chinese authorities to reorganise the steel and aluminium industries
- High dependence on Chinese economic policy
- Globally decreasing vehicle sales rates

STEEL PRICES INDICES IN CHINA, EUROPE, AND THE UNITED STATES



Source: SteelHome

RISK ASSESSMENT

The metal sector has been at the centre of the unfolding trade war. The United States' government has imposed import tariffs on steel (25%) and aluminium (10%) from several countries such as China – as well as on its allies (the European Union, Canada, Mexico, Japan). These extra tariffs, in addition to those already imposed, have sustained US steel prices. According to SteelHome, monthly US average steel prices increased by 31% between end-December 2017 and October 2018, while Chinese and European prices sent mixed signals (-5.9% and +2.2% respectively).

Elsewhere, on May 24, 2018, the European Commission (EC) opened an anti-dumping investigation into some Chinese steel products, after a complaint was lodged by EUROFER, the European Steel Association. In addition, European steelmakers fear the rerouting of steel products from the United States after the imposition of additional tariffs. However, the EC imposed safeguard measures, which took effect in July 2018. These measures affect imports above traditional levels by imposing extra customs duties.

Other base metals and alloys prices are experiencing mixed trends as well. Nickel grew by 6.6% over the December 2017-October 2018 period. Zinc, aluminium, cobalt and copper saw their prices shrinking (-16.5%, -2.5%, -16.8% and -9.3% respectively).

As steel is often viewed as a barometer of global activity due to its use in several industrial activities (including the construction sector, automotive and consumer goods such as household appliances), it is examined in further detail below.

IN 2019

DEMAND

Global steel product consumption is likely to stagnate by 0.2% in 2018, due to less buoyant and less synchronised economies. The metals for which consumption is set to increase in 2019 are aluminium (2.6%), copper (3.2%), nickel (5.7%), and zinc (3.5%). The fact that the US decision to impose tariffs on all steel and aluminium imported products came into force in June 2018 is likely to disadvantage client sectors, notably automotive and construction, the latter of whom has so far benefitted from low steel prices.

China's steel consumption is expected to decrease (-2.8%) in 2019 due to an anticipated softening of property investment growth this year, given the high level of indebtedness of companies in the sector (USD 55 billion of debt due during the year, according to Dealogic). A slowdown in real estate investment in the country's largest cities has led to deterioration in the corporate financial situation of the parties involved, as previously mentioned in Coface's March 2018 China Payment Survey. Moreover, car sales in 2019 are set to be sluggish compared to those of 2018. India's consumption of steel products is forecast to grow by 6% in 2018 due to strong public support for infrastructure projects, as well a manufacturing sector that has boosted domestic consumption, which is likely to continue in the medium -term.

Western Europe is set to experience a 1.2% growth in consumption in 2019. The forecast mixed results of the European car market are likely to threaten European steelmakers, despite being better positioned with their high added value steel products. Mixed trends in the European construction sector in 2019 are likely to impact the metal sector as well. Lower economic prospects for the eurozone will adversely impact demand for housing. Moreover, the expected end of the ECB quantitative easing will inevitably lead to an increase in interest rates. These developments will impact both the automotive and construction sectors, notably through the financing channel.

Steel consumption in the United States should grow by 1% in 2019. Players in the construction sector – the primary customer for the steelmaking industry – appear to be rather optimistic, despite being hit by hikes in steel product prices due to antidumping countermeasures and extra tariffs. 38,000 exemption demands were requested by US steel customers at end-August 2018, despite 17,000 objections from steel producers. The automotive sector in the United States is suffering from higher steel prices, which are denting profitability. The expected closures of some assembly plants associated with the tepid trends of the domestic car market are likely to weigh on steelmakers' bottom lines.

SUPPLY

Global steel production is set to contract marginally by 0.2% in 2019, following the heavy crackdown on polluting plants in China than a year ago. Also expected to grow is production of aluminium (2%), copper (2.6%), nickel (5.5%), and zinc (5%). Chinese production is likely to shrink in 2019 due to China's crackdown on pollution from its steel plants, as well as its decelerating economy. Chinese steelmaking mainly focuses on low added value products used in the construction sector, among others. In addition, it is largely decentralised and local provinces have little incentive to reduce this relatively major tax resource. However, decreasing domestic steel prices encourage local producers to produce less.

Steel production in Western Europe is forecast to grow by slightly more than 1% in 2019, compared to nearly 2% in 2018, impacted by lower economic prospects. The current environment of trade spats and tit-for-tat retaliatory measures has adversely affected investor confidence, among other factors. Nevertheless, the European steel sector should continue to benefit to a certain extent from the measures taken by the EC since August 2017, when they imposed customs tariffs on some Chinese products.

Some steelmakers in Central Europe, notably in Austria, will be able to manage the decelerating economy due to their positioning on high-value products, and their efficient production processes.

In the United States, steel production should grow by 4.3% in 2019, boosted by the Trump administration's measures to support the US steel industry *via* tariffs, but also by measures taken during former President Barack Obama's tenure to curb Chinese steel imports. According to the current trend, steel product prices are likely to hold up in 2019 and should encourage steelmakers to produce more. In addition, after their House takeover, the Democratic party seems willing to push for implementing an infrastructure program, which may benefit to domestic steel manufacturers.

PAPER

Sector risk assessments

ASIA	MEDIUM
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	MEDIUM
MIDDLE EAST & TURKEY	MEDIUM
NORTH AMERICA	MEDIUM
WESTERN EUROPE	HIGH

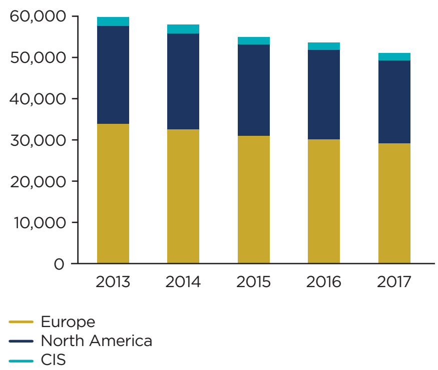
+

- Sustainable and recyclable
- Strong demand from Asia

−

- Demand for cardboard and packaging paper very closely linked to the economic situation
- Substitution of paper owing to increasing use of digital media

CONSUMPTION OF GRAPHIC PAPER (THOUSAND METRIC TONS)



Source : UNECE 2018

RISK ASSESSMENT

The production of paper and cardboard is divided into two categories: on the one hand, graphic paper (printing paper, newsprint, etc.) and on the other hand, cardboard as well as packaging paper. Paper and cardboard production declined by 0.4% in 2018 in the countries of the United Nations Economic Commission for Europe (UNECE), according to the Committee on Forests and the Forest Industry (COFFI) for the UNECE, which includes Europe, North America and the Commonwealth of Independent States (CIS). Overall, graphic paper production is decreasing due to the downward trend in consumption in favour of digital technologies, while cardboard and packaging paper production is increasing on higher demand reflecting greater access for people worldwide to computers and the internet, the rise of e-commerce and robust economic growth in recent years in most regions.

These aforementionned contrasting directions for paper and cardboard production are expected to continue in 2019. Paper and cardboard consumption in UNECE countries decreased by almost 1% in 2017 and by 0.5% in 2018; this decrease is expected to continue in 2019 as paper is gradually replaced by digital technology.

The sector is undergoing significant structural changes as digital technologies become firmly established, leading to decreased consumption and production of coated and plain paper in UNECE countries. In addition, consideration of environmental issues in production and consumption standards is reflected in strong growth in the share of recycled paper and in the need to innovate in production methods. In 2017, paper was the most recycled product overall: it was more than 70% recycled in Europe according to the Confederation of European Paper Industries (CEPI). This trend should benefit the sector in the long term because paper can be used as an alternative material to others, such as plastic: cardboard packaging is considered more environmentally friendly and lighter. It is also the focus of much innovation. Cardboard packaging is also benefitting from the strength of e-commerce and growing demand for "convenient" food packaging.

IN 2019

DEMAND

Paper consumption is on a downward trajectory overall, due to increasing use of digital technologies. The use of graphic paper fell by 15% in UNECE countries between 2013 and 2017 and by 4.8% between 2016 and 2017, with estimates indicating similar trends in 2018; the contraction in consumption is expected to continue in 2019. Economic growth prospects are weaker for 2018 and 2019 in Europe (1,7% in 2019 after 2.1% in 2018), so demand for packaging materials is expected to slow somewhat.

In North America, demand for graphic paper has been declining for many years and the trend continued, with demand shrinking by 0.8% in the second quarter of 2018 year-on-year in the United States. Meanwhile, demand for packaging materials has been on an upward trend over the same period.

For the CIS countries, paper and cardboard consumption remained stable in 2017 and 2018, declining by just 0.6% per year. Although consumption of graphic paper is expected to decrease as the use of digital technologies increases, consumption of cardboard and packaging paper is expected to benefit from stable growth in economic activity across the region: Coface forecasts 2.1% for the CIS in 2019, after 2.1% in 2018.

In China, paper and cardboard consumption increased by 4.6% in 2017 and is expected to be supported by robust growth in 2019 (6.2% after 6.6% in 2018). Consumption of graphic paper in India is the exception in the sector: as digitisation has not made much headway in India, the use of graphic paper is expected to increase in the short term. However, it will likely decline in the longer term with the development of digital technology. The growth of the Indian middle class and robust economic activity (forecast at 7.7% in 2019 after 7,3% in 2018) should buoy demand for cardboard and packaging paper.

Demand in South America seems to be moving in the same direction as in other regions of the world: while demand for cardboard is increasing with the recovery in economic activity, demand for graphic paper is decreasing.

SUPPLY

In Europe, paper production remained unchanged in 2018 and is expected to decline in 2019, partly due to lower economic growth. This contraction in paper production comes after several years of growth, mainly due to the increase in cardboard and packaging paper production as a result of the conversion of graphic paper machines. Closures and conversions of paper machines led to an overall decrease of 1.6% in the production of all graphic paper components (newsprint, coated and uncoated paper) in 2017. The process of closing and converting paper machines (mainly into cardboard machines) in response to the downturn in demand for paper and the upturn in demand for cardboard, driven in particular by the rise of e-commerce, is expected to continue in 2019, leading to a decline in paper production capacity, to the benefit of the cardboard sub-sector.

Graphic paper production in North America fell sharply in 2017, dropping by 6.5% following the conversion of machines to packaging, a higher-margin sector. This suggests that the decline in paper production will continue in 2019, due to lower paper demand, the development of e-commerce and continued robust GDP growth forecast for 2019 in North America, with Coface forecasting economic growth of 2.4% in 2019, after 2.7% in 2018 for the region as a whole.

Overall, the lower performing pulp, paper and cardboard mills are closing while the production of lower cost pulp, tissues and packaging is increasing. The outlook for graphic paper companies in the UNECE region in 2019 is gloomy: the higher prices caused by reduced supply may not be enough to offset the decline in demand and may even accelerate it by making digital media more attractive.

PHARMACEUTICALS

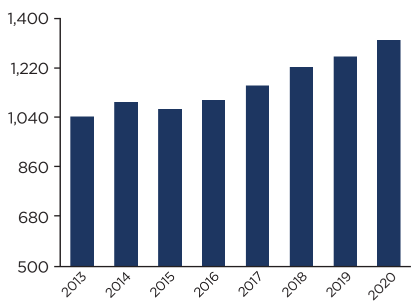
Sector risk assessments

ASIA	LOW
CENTRAL & EASTERN EUROPE	LOW
LATIN AMERICA	MEDIUM
MIDDLE EAST & TURKEY	MEDIUM
NORTH AMERICA	LOW
WESTERN EUROPE	LOW

- Development of health coverage systems globally
- Robustness of US demand
- Demographic and lifestyle changes
- Pressure for access to innovation

- Quality problems with certain active principles in India and China
- Payers increasingly demanding in terms of costs reduction and the real efficiency of new therapies

GLOBAL MEDICINE SALES (USD BILLION)



Source : Fitch

RISK ASSESSMENT

Agencies in charge of health care provision (particularly the reimbursement of drug prices) face the approvals of high-cost treatments, while having to manage deficits arising from demographic changes.

Western Europe spending on prescription-only drugs is constantly growing. However some governments, such as France are able to manage the deficit's level.

In the USA, drug prices are on a regular upwards trajectory, in particular those linked with specialty medicine. Local Pharma groups saw their profits rise by 43% according to the Census Bureau. The authorities made numerous proposals to curb this inflationary spiral by tying Medicare drugs prices to international average. The introduction of the Affordable Care Act (ACA or Obamacare) has led to increased healthcare spending, with the number of uninsured adults constantly falling.

The process of rebalancing the Chinese economy, prioritizing domestic consumption, places an increased focus on meeting households' health needs. The extension of the coverage for healthcare costs (still partial, but including some new cancer therapies) means the authorities need to keep a lid on costs, by promoting the use of generics.

IN 2019

DEMAND

The overall ageing population worldwide and lifestyle diseases are propping up the use of medicines in each of the six regions monitored by Coface. This situation has led authorities to pay greater attention to health spending and, in some cases, to rein in costs.

In 2019, the price control measures in force in Western Europe will still apply, despite growing demand. For instance, in France, the measures included in the Social Security Financing Act, implemented to limit spending growth (+2.5% for 2019), will likely continue to affect pharmaceutical companies *via* price cuts, and favour the emphasis on generics' use. Market access of expensive specialty drugs for smaller populations means regulators need to continue to make difficult decisions on reimbursement levels and access conditions. The English National Institute for Health and Care Excellence (NICE) rejected the reimbursement of Gilead Sciences' Yescarta due to its high cost. The cost of healthcare for an American family of four will still increase in 2019 by 4%, reaching USD 29,300; according to Coface calculations based on data from the Milliman consulting firm due to higher prescription drug costs and hospital services. Close to 42% of this amount is covered by the household, with only 58% by the "sponsor" (whether a private company, the federal state, or a local authority). The sales' approval of a number of specialty drugs over many years has driven this cost up: according to Milliman, the cost of medicine increased by 6% in 2018. While this rise was slower than the preceding two years, it is still high, notably for middle class. Moreover, there are disparities in insurance premia across states, as well as between urban and rural areas, due to varying levels of competition. This is notably the case for those insured under the ACA law, with rural inhabitants of Wyoming having to pays USD 700 a month *per capita*, while New Jersey premia are set to USD 290, according to data from the US Department of Health.

In China, since mid-2015, drug prices are no longer determined by public authorities, leaving it up to "market forces" to set the price levels. Nevertheless, these apparent free market rules mask a public determination (enshrined in law) to force providers to offer reasonable prices *via* negotiations. Similarly to last year, 2019 medicine prices are expected to continue on the same trends. The outcome of October 2018 negotiations between drug manufacturers and health authorities will come into force in 2019. This agreement plans to cut prices of expensive drugs up to 57%. Authorities in provinces are exerting pressure on pharmaceutical companies to reduce prices when bidding for drug procurement, making medicine affordable for hospitals.

SUPPLY

Research & Development spending in the sector increased around the world in 2018 by 4.2% and are likely to increase in 2019 (3.1%), according to Evaluate Pharma, who also expect drug sales to increase by 4.9% in 2019. This increase, which applies to all major world economies, will be a reflection of the expanding oncology market and orphan drugs for treating rare medical conditions.

In 2019, Coface estimates that spending on prescription drugs is set to grow by 2% for the top five Western EU countries, to reach almost €129 billion comparing to 126, last year. While the ever-increasing specialty drug prices will theoretically push health spending higher, reluctance from payers is likely to lower reimbursement prices. Moreover, with a lower expected growth in the region, health budgets will tighten, thus impacting sales prospects.

In the United States, the Federal Drug Agency (FDA) is thought to have approved almost 47 new molecular entities (NME) at end-October 2018, compared to 36 in 2017. The majority of these NME belong to the fields of oncology and orphan diseases, as well as treatment of cardiovascular diseases. Coface estimates that sales of medication will total USD 493 billion in 2019, *i.e.* a 5% rise compared with 2018 (USD 474 billion). The measures being implemented by health insurers, pharmacy benefit managers or the Federal State in the healthcare system, which aim to limiting the costs linked with the marketing of increasingly expensive drugs, should start to bear fruit. In addition, the launch in the market of biosimilars (the "generics" of biological drugs) should also contribute to somewhat slowing the increase in drug expenditure. The new Democrat-led House is likely to protect the future of the ACA from President Donald Trump's efforts to disband it.

Chinese spending on drugs stood at around USD 142 billion in 2018, according to Fitch. Coface estimates that sales should grow by 4% in 2019 to reach USD 148 billion. There are however two major risks to note: the lack of transparency during public tenders, and measures to control health spending in China. The health authorities would in fact like to limit prices of imported drugs (generally the most innovative ones), especially in oncology. Although 96% of the population has health coverage, this regime does not fully cover the most expensive treatments, as it depends on regional disparities and coverage scheme. In addition, public authorities have heightened their vigilance about the practices of foreign pharmaceutical companies.

RETAIL

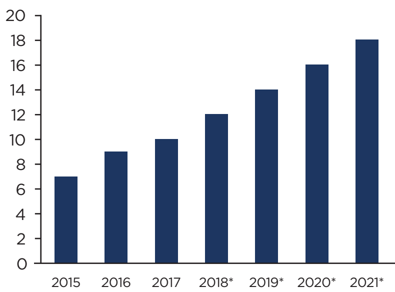
Sector risk assessments

ASIA	MEDIUM
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	MEDIUM
MIDDLE EAST & TURKEY	HIGH
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

- Sustained retail sales growth since 2010
- Growth of the Chinese middle class
- Rapid urbanisation in Asia and Africa is driving the sector

- Fierce competition in the sector
- Weak growth prospects for advanced economies
- Physical points of sale struggling to respond to the growth of online commerce

E-COMMERCE SHARE OF TOTAL GLOBAL RETAIL SALES (%)



* Forecast
Source : eMarketer

RISK ASSESSMENT

Household consumption, which is the retail sector's main driver, is expected to suffer overall from softer growth in most advanced economies, especially in Europe. However, the situation is different in large emerging economies, such as Brazil, China and India, whose growth prospects should remain positive albeit muted for 2019. Global retail sales, including online sales, continued to grow in 2018, rising 3.4% to just over USD 28 trillion, compared with around USD 26.8 trillion in 2017, driven by the continued momentum of e-commerce, whose share in total global retail sales is steadily increasing.

The market share of online consumer goods sales is expected to double over the next decade in the most advanced markets and make up 9% of the retail market in 2025. The emergence of this new source of competition is putting pressure on traditional players in the sector. To meet these challenges, traditional firms are being forced to rethink their strategies, notably to include greater segmentation of supply. One key shift in this respect is the rise of product premiumisation. Another is the trend towards tie-ups between online and traditional retailers.

IN 2019

DEMAND

Global economic growth is expected to decline slightly in 2019. Coface forecasts growth of 3% in 2019, which should support the sector as a whole. Household consumption patterns are undergoing major changes: in advanced economies, there is a greater appetite for online shopping, and the rise of the middle classes in emerging economies, particularly in China, is supporting demand in the sector.

Coface estimates that Chinese growth should reach 6.2% in 2019 compared with 6.6% in 2018. Demand in the sector is expected to remain strong and feed the country's rapidly expanding middle class.

In Latin America, Brazil's economic situation has improved, with Coface projecting growth of 1.8% in 2018 and 2.8% in 2019, after a 1% growth in 2017. A catch-up effect in household consumption has been observed after two years of recession, plus a return to low inflation. This resulted in an approximate 3% increase in sales in August 2018 compared with the previous year. In Argentina, the outlook for the sector is significantly worse: Argentina has experienced a severe currency crisis. Coface estimate activity to contract by 2.4% in 2018 due to the high level of inflation (31.2% year-on-year increase in July 2018) and high interest rates (72.5% in October 2018), which are making it harder for households and companies to obtain credit. These indicators are likely to negatively impact the health of the Argentinian retail sector.

In the United States, high consumer confidence and disposable income and historically low unemployment (3.7% in September 2018) enabled retail sales to grow by 4.4% between January and September 2018 compared with the same period in 2017. However, we anticipate that the substantial increase in the cost of credit will mainly affect the poorest households and impact their consumption. In addition, households' room for manoeuvre is particularly limited due to their debt level, which remains high (77.3% of GDP in the second quarter of 2018), and the decline in their savings rate over the past two years.

The eurozone environment is unsupportive of household consumption economic: growth is expected to be 1.8% in 2019 after 1,9% in 2018, and the household confidence index was -2.9 in September 2018, down from -1.2 in September 2017. Business confidence, while still positive, fell by 3.2 points in one year to 4.6 in September 2018. Meanwhile, consumers in the United Kingdom have had to cut spending, with the savings rate at a record low and real wages increasing slowly.

SUPPLY

The sector remains dominated by the US world leaders: according to the 2018 Deloitte Global Powers of Retailing Report ranking (based on 2016 revenues), Wal-Mart Stores Inc., Costco Wholesale Corporation and Kroger Co were the top three, with revenues of USD 486 billion, USD 118 billion and USD 115 billion respectively. Overall, companies are making significant changes to their offerings in advanced economies to meet changing consumer preferences, including developing concept/experience stores that combine online retailers and traditional stores.

In the United States, the sound financial health of one of the leader – Wal-Mart – masks a sector in great difficulty. Retail sales grew by 6% year-on-year over the three months to July 2018, mainly due to e-commerce, which increased by 8.9% year-on-year. The Sears bankruptcy in October 2018 demonstrated the fragile state of the sector's companies and their difficulty in competing with e-commerce firms, such as global online retail giant Amazon, whose sales increased by 19% in 2016 compared with 2015.

The Deloitte 2018 report names German groups Schwarz Unternehmenstreuhand KG and Aldi and French firm Carrefour as the three European leaders, with estimated revenues of around USD 99 billion, USD 85 billion and USD 84 billion respectively. Online sales competition is intense throughout the region, but the situation remains very mixed.

In the United Kingdom, industry players will likely be revising their expansion plans in light of Brexit. In addition, business insolvencies are on the rise in the sector, climbing 16.6% over one year in the second quarter of 2018 after climbing 7.8% in the first. If the UK leaves the EU without an agreement, Coface consider that retail will likely be one of the hardest hit sectors.

In Latin America, retail companies should benefit from the relatively better economic situation in Brazil. Carrefour continues to benefit from positive financial results in the country, recording 5.8% sales growth in the first half of 2018, despite the drop in food prices.

China's retail landscape is very dynamic, as are online sales, featuring Chinese and international giants such as Alibaba. However, the high level of indebtedness of Chinese companies, which reached 145% of GDP in 2016, remains a point to watch.

TEXTILE-CLOTHING

Sector risk assessments

ASIA	HIGH
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	HIGH
NORTH AMERICA	VERY HIGH
WESTERN EUROPE	HIGH

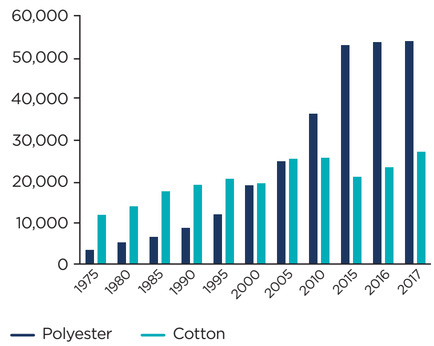
+

- Growth of the middle class in emerging countries
- Interest in "fast fashion", especially in Asian countries

−

- Product with high price elasticity of demand
- Structure of selling prices very sensitive to fluctuations in commodity prices

GLOBAL PRODUCTION OF POLYESTER AND COTTON (THOUSANDS OF METRIC TONS): THE GROWING IMPORTANCE OF SYNTHETIC FIBERS



Source : Industrievereinigung Chemiefaser, USDA

RISK ASSESSMENT

Cotton production accounting for 77% of world production of natural fibres in 2017, this commodity is at the centre of the development of the textile-clothing sector.

Reduced Chinese demand for cotton is expected to impact global cotton demand in the 2018/2019 season through two main channels: China's policy of limiting cotton imports in order to reduce domestic stocks (which accounted for 62% of world cotton stocks in 2014/2015), and the customs duties imposed by China on US cotton exports in retaliation for the customs duties imposed by the United States on China since the beginning of last year, which now stand at 25%.

Sales in the global clothing market are expected to slow slightly in 2019: the McKinsey Global Fashion Index forecasts clothing sales to increase by between 3.5% and 4.5% in 2019 after an estimated rise of between 4% and 5% in 2018. The slowdown would be due to both the global economic slowdown and ongoing trade tensions.

The textile sector is evolving: while cotton has traditionally been widely used, the industry is seeing an increasing use of synthetic fibres. For example, cotton accounted for only 43% of textile imports in the United States in 2016/2017, compared with 47% in 2011/2012, according to the USDA. Less expensive, easy to mix with other fibres, and with a smaller environmental impact than cotton, synthetic fibres are a focus for technical progress in the sector. The sharp rise in cotton prices (+60% between January 2016 and June 2018) has made synthetic fibres even more competitive in relation to cotton. However, cotton prices fell 11% between July and December 2018, which could slow the continued transition to synthetic fibres. However, cotton prices seem unlikely to decline further, due to the increase in Chinese import quotas and the decrease in world cotton production in 2018/2019.

The development of e-commerce is having a major impact on the clothing market, especially in advanced economies and China: the share of online sales is constantly increasing and is undermining brick-and-mortar shops. In the United States, for example, online sales represented 27.4% of total clothing sales in 2017, a 6.7 percentage point increase over 2015.

IN 2019

DEMAND

World cotton consumption in 2018/2019 is expected to increase by 2.8% to 28 million metric tons. China's decision to raise its cotton import quota by 0.8 million tonnes will likely push up its imports to 1.52 million tonnes in 2018/2019 to meet growing demand driven by the rise of disposable income, living standards, population and urbanisation. The customs duties imposed by China on cotton imports from the United States will reduce US exports, which will be good for India, the world's leading producer and second largest exporter. However, the United States has benefited for several years from rising demand from Vietnam and Bangladesh (which, together with China, are the three largest importers), whose cotton imports from the United States increased at an average annual rate of 30% and 26% respectively between 2012 and 2017.

World textile consumption is expected to be affected by cooling economic growth in advanced economies, particularly in Europe. In the United States, growth prospects – with an expansion of 2.3% forecast for 2019 after 2.9% in 2018 – and the historically low unemployment rate (3.7% in October 2018) will continue to support clothing demand, which had a robust start to 2018. However, President Donald Trump's imposition of customs duties on imports of a basket of Chinese goods, including clothing, will dampen US consumption of clothing goods, since China manufactures 41% of the clothing consumed in the US. In Central and Eastern Europe, the economic performance of textile companies depends largely on their exports, mainly to the EU. They are therefore expected to be hit by slower growth in their main partner.

The clothing market reached a turning point in 2018 as, for the first time, sales outside Europe and North America accounted for more than half of global sales. This gap is expected to grow: by 2025, 55% of sales will likely be made outside Europe and North America.

In addition, demand for textiles has been boosted by the craze on the Asian market for "fast fashion", where retailers produce and market new fashion collections quickly, generally at affordable prices. Responding to demand from an expanding middle class, the leading fast fashion brands, such as Uniqlo, Zara and H&M, are entering these markets in the mid-range segment. The sector is set to expand strongly, with average annual growth of around 9.5% until 2022 in Asia. Population growth in the region is expected to bolster this trend in the longer term.

SUPPLY

The total area of land under cotton cultivation worldwide in 2017/2018 is expected to remain stable in 2018/2019 according to the USDA. However, world cotton production is expected to decrease slightly in 2018/2019, contracting by 1.5% to 26.4 million tonnes, linked to a 2.3% decrease in yield to 798 kilograms per hectare. The contraction will be largely due to poorer US harvests expected in 2018/2019 compared with the 2017/2018 season, partly as a result of the drought in the South-eastern United States early in the season. The decrease in the US cotton supply will be accompanied by a deterioration in crop quality compared to the previous season owing to bad weather conditions in 2018: the share of crops rated "very good" or "excellent", according to the USDA, fell by 18 percentage points to 42% while the share rated "bad" or "very bad" increased by ten points to 25%.

The relative rise in labour costs in China and the sustainable development policies put in place have led many global textile manufacturers to look to other countries in the region to establish their production centres. Accordingly, Bangladesh and Vietnam became the world's second and third largest suppliers in 2017. Bangladesh is likely to overtake China in the European market by 2020, helped by its preferential status. Similarly, Vietnam, the United States' second largest supplier, is experiencing strong growth in textile exports to the United States, reporting a 17% increase in the first half of 2018 compared with the same period the previous year. However, exports from Cambodia, the fifth largest textile supplier to the EU, are exposed to the risk that the country may lose its preferential status with the EU due to human rights violations.

TRANSPORT

Sector risk assessments

ASIA	MEDIUM
CENTRAL & EASTERN EUROPE	HIGH
LATIN AMERICA	HIGH
MIDDLE EAST & TURKEY	MEDIUM
NORTH AMERICA	LOW
WESTERN EUROPE	MEDIUM

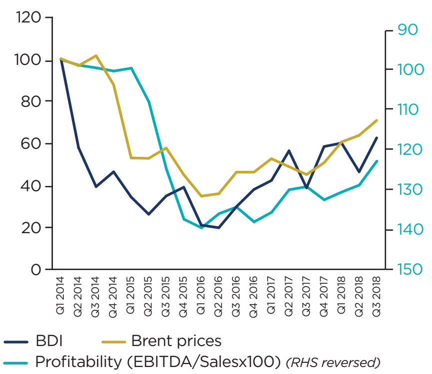
+

- Good growth prospects for the sector as a whole over the long term
- Increasing use of air transport in Asia, due to emerging middle classes
- Technical progress is reducing costs, particularly for air and maritime transport

−

- Sector dependent on oil price fluctuations
- Health of the sector closely tied to economic conditions

OIL PRICES, BALTIC DRY INDEX AND PROFITABILITY OF MARITIME AND AIR TRANSPORT COMPANIES (100 = Q1 2014)



Source: Reuters

RISK ASSESSMENT

Overall, the transport sector – including air, road, maritime, and rail – is expected to benefit from a positive outlook for 2019 and beyond, mainly due to the emerging middle classes in China and India and the lower costs associated with technological progress, particularly in air and maritime transport.

Global air traffic increased by 7% in 2018, slowing slightly compared with 2017 (8.1%) to reach its lowest growth rate since 2014. Air freight, measured in freight tonne kilometres, decelerated in 2018 compared with the five-year average, falling to 2.3% in September 2018 year-on-year compared with a five-year average of 5.1%. The container throughput index, which is an indicator of world maritime trade, rose by 1.5% in September 2018 year-on-year. This was its lowest increase since July 2016 and seems to indicate a stagnation in world maritime trade.

According to the International Air Transport Association (IATA), the long-term outlook for the sector is positive. The IATA forecasts that the number of air travellers will have doubled to 8.2 billion by 2037, mainly due to growth in the Asia-Pacific region, which is expected to account for half of the total number of passengers worldwide by that time.

In addition, companies in the maritime transport sector are using digitalisation processes to cut production costs.

IN 2019

DEMAND

After doubling over the last 12 years, the number of air passengers is expected to double once again by 2037, according to the IATA. This sector continues to benefit from the decline in ticket costs, which have halved in 20 years in real terms. However, the expected slowdown in economic activity (mainly in the Eurozone), the ongoing trade war between the United States and China, and higher oil prices are expected to dampen transport demand in 2019.
In the United States, the trade war with China is expected to dampen freight demand. However, the US economic growth, forecast by Coface to reach 2.3% in 2019 after 2.9% in 2018, should somewhat cushion the decline in demand due to tensions with China.
In Europe, the decline in GDP growth (2.1% in 2018 and 1.7% in 2019, after 2.7% in 2017) is expected to weigh down household consumption, and subsequently freight demand. However, bright economic prospects for the United States and China, the European Union's main trading partners, should support freight transport in the region. British airlines could experience a sharp drop in passenger numbers connected with the uncertainties surrounding Brexit. UK air transport could be affected both by a hard Brexit and by a decrease in household consumption linked to lower British GDP growth (Coface forecasts rate of 1.2% in 2019). Large companies, including Airbus, have stated that they need more certainty to continue investing, and that they may have to leave the UK if the country opts for a hard Brexit.
In Latin America, Brazil's economic recovery, with Coface forecasting GDP to grow by 2.8% in 2019 after 1% in 2018, should be beneficial to companies in the sector. Moreover, increased Chinese demand for Brazilian soybeans owing to trade tensions with the United States will lift freight demand directed towards Brazil.
In Asia, the emergence of middle classes is a boon for the air transport sector. For example, in China, the share of households earning more than USD 35,000 per year is expected to triple by 2022 and drive growth in the sector.

SUPPLY

Oil prices, are expected to remain high in 2019. Coface is forecasting an average price of USD 75 a barrel for Brent in 2019. This would force companies in the sector to cut their margins initially, and then put up their prices. The increase in oil prices is reflected in particular in the BDI, an indicator of the cost of maritime freight, whose average value between January and October rose by 32% between 2017 and 2018. Since the profitability of air and maritime transport companies moves in the opposite direction to oil and the BDI (see graph), increases for the BDI and Brent should lead to a decrease in the profitability of companies in the air and maritime transport sector at global level.
In North America, US carriers are being hurt by higher oil prices and higher customs tariffs on imports of Chinese steel (25%) and aluminium (10%), which impact machinery construction costs. The IATA expects airline profits to fall by 18% in 2018 after an 8% increase in 2017 across the region as a whole. Truck freight transport in the United States, which accounts for 70% of domestic freight, is doing well: the American Trucking Association (ATA) estimates that road freight volumes increased by 3.4% per year between 2018 and 2017 and reckons that this trend will continue until 2023.
In Europe, the sector is expected to suffer from the decline in domestic GDP growth. Many businesses in the sector struggled in 2018. Irish company Ryanair, for example, had to downgrade its profit forecasts because of higher oil prices and strikes by company employees. European company Air France – KLM also had a tough year, reflecting the difficulties linked to fierce competition in the air transport sector. The rail transport sub-sector may feature a merger between two international groups, one founded in France (Alstom) and the other in Germany (Siemens). At the time of writing, the European Commission seemed to be having reservations about this merger, which would *de facto* reduce competition in the sector in Europe.
The emergence of middle classes in India and China is good for airlines. In China, the increase in *per capita* income is boosting domestic air transport. India's aviation sector is booming, with the IATA estimating that the number of passengers will grow by 6.1% per year over the next 20 years. Also in India, air freight transport grew by 16.9% in 2017.
Latin American airlines performed well in 2018: passenger transport increased by 5.1% year-on-year from January to September, and air freight, measured in freight tonne kilometres, rose by 8.7% over the same period. In Argentina, the sector was hit by an increase in costs, which jumped by 45% between January and September 2018 on currency depreciation and higher oil prices.

WOOD

Sector risk assessments

ASIA	HIGH
CENTRAL & EASTERN EUROPE	MEDIUM
LATIN AMERICA	MEDIUM
MIDDLE EAST & TURKEY	HIGH
NORTH AMERICA	MEDIUM
WESTERN EUROPE	MEDIUM

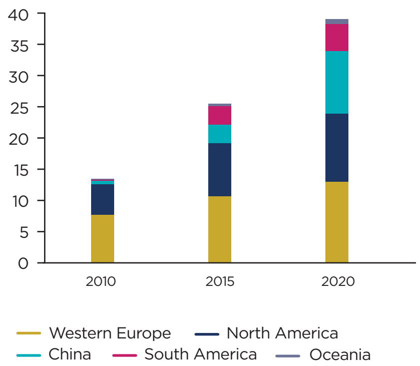
+

- Positive outlook for wood demand linked to growing interest in biomass energy
- Tax incentives in Europe (France, Germany, etc.) to invest in the sector

−

- Dependent on the state of housing and construction markets
- Constraints related to compliance with environmental standards
- Highly exposed to weather conditions (storms, forest fires) and retaliatory measures in the context of the trade war

GLOBAL PRODUCTION OF WOOD PELLETS (THOUSANDS OF METRIC TONS)



Source: Pöyry

RISK ASSESSMENT

Demand for wood fluctuates according to the health of the construction sector, which is expected to be affected in the short term by the decline in global economic growth and higher lumber prices (4.2% increase in 2018 and 0.5% in 2019 after a 10.5% decline between 2015 and 2017), but which stands to benefit further out from demand from emerging countries as well as from major infrastructure construction projects. Wood production for heating and energy purposes will remain dependent on the variation in oil prices, (Brent expected to average USD 75 a barrel in 2019, according to Coface), especially as wood is increasingly being used as an energy source. The price of unprocessed wood increased by 3.3% in 2018, according to the latest estimates, after falling sharply in 2016 and 2017. Prices are expected to continue growing at an average rate of 2.5% per year between 2019 and 2030 according to the World Bank.

Overall, the market is evolving with the arrival of new producers – emerging economies are gaining market shares long held by countries of the United Nations Economic Commission for Europe (UNECE) – and changes in markets and demand.

IN 2019

DEMAND

Sawn wood consumption in UNECE countries is estimated to have increased by 1.9% in 2018, driven by the strength of wood pellet consumption, but is projected to soft in 2019 by 1%, according to the Committee on Forests and the Forest Industry (COFFI). In Europe and North America, environmental concerns are being reflected in changes to legal frameworks and buying habits that are encouraging the use of wood products in construction and as an energy source. In 2017, wood accounted for one third of all renewable energy. Two main sub-markets exist, with the European Union acting as the main driver of demand in each case: industrial-scale generation of bioenergy, and electricity and heating production at a residential or commercial level.

In Europe, consumption of wood-based products is expected to be affected by the slowdown in economic activity – Coface forecasts 1.7% in 2019 compared with 2.1% in 2018 – and softer demand for real estate. The region's demand for firewood is expected to continue to increase as the appetite for renewable energy grows.

In North America, the decline in demand for housing permits in the United States at the end of 2018 is expected to affect demand for wood in the country. China's tariffs on imports of US wood will also have a significant impact on external demand directed towards US wood producers, given that in 2017 Chinese imports accounted for 33% of US exports in the sector. However, President Trump's infrastructure renovation plan would be a boon for the domestic wood market, as wood is widely used for construction. It should be noted, however, that at the time of writing, we have no certainty about whether this project is actually going to be implemented or about its scale if it does go ahead.

Japan, China and India remain key markets for European and North American wood exporters. In China, demand for wood is closely linked to the real estate market and is therefore expected to decline as a result of the gradual deceleration in economic growth (6.2% in 2019 compared with 6.5% in 2018) and the effects of the government's measures to tackle the housing bubble. In Japan, demand for wood is expected to increase in 2019 in connection with construction of infrastructure for the Tokyo Olympic Games in 2020.

SUPPLY

Global wood production exceeded pre-crisis levels in 2017, and sawn timber production in UNECE countries, driven by export growth, particularly to China, is expected to grow by 2% in 2018. In the United States, production of wood-based products was brisk at the beginning of 2018 (5% increase year-on-year between May and July 2018 compared with 3.1% in the first quarter of 2018), but the retaliatory tariffs imposed by China on imports of US wood-based products in August 2018, in connection with the ongoing trade war, particularly between the two countries, could hurt US producers.

Wood pellet producers will benefit from growing interest in renewable energy production, since energy production is the main use of wood pellets: global wood pellet production is expected to reach 39 million tonnes in 2020, an increase of more than 50% between 2015 and 2020, half of which would be due to increased Chinese production, while energy production from wood pellets is set to double between 2018 and 2020 in Europe. In addition, the European Union aims to increase the share of renewable energy used in energy production to 32% by 2030. Moreover, the share of round wood production used as an energy source in UNECE was 17% in 2017, or 224 million m^3, a 9% increase on 2013. Wood pellet production in UNECE countries rose by 4% between 2017 and 2018 and is expected to increase by 6% between 2018 and 2019 according to the Food and Agriculture Organisation (FAO).

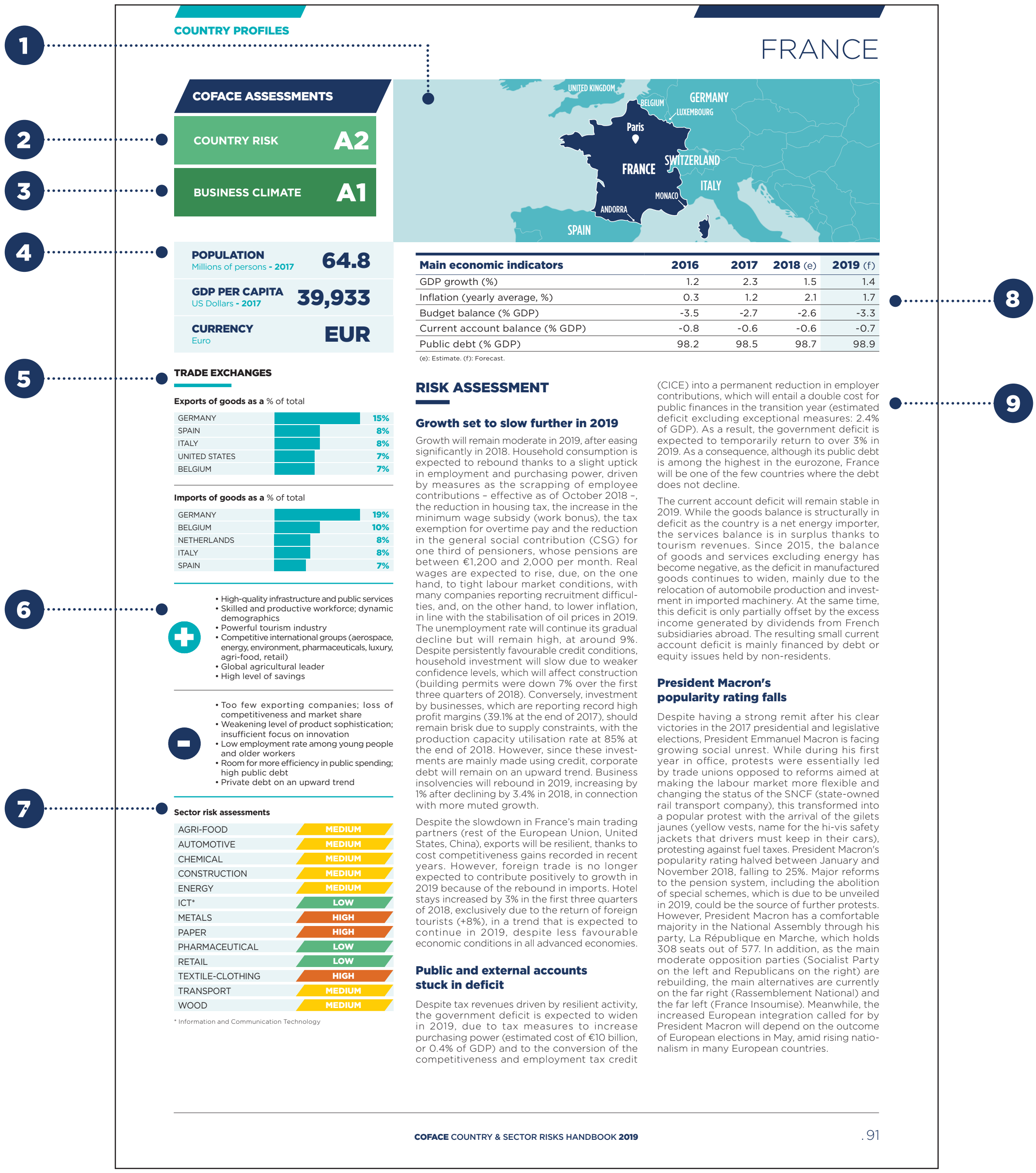
Growth in fibreboard production will slow to 1% in 2018 from 2% in 2017 in UNECE countries. The United States has a large trade deficit in this product, and half of its imports come from China. Russia, which holds a quarter of the world's forest resources, is pursuing investment projects to capture more value added in the sector.

In Latin America, Argentina, which has lost competitiveness since 2005 and suffered a severe currency crisis last year, is trying to recover its past levels of timber exports: the latest estimates are 83,814 tonnes for 2018, 56% higher than in 2016 but still far from the 216,696 tonnes in 2005. In addition, very high inflation (47.5% in 2018 and projected at 32% in 2019 according to the International Monetary Fund) and high logistics costs are hampering the competitiveness of companies. However, the devaluation of the Argentine peso should allow timber exporters to regain some export price competitiveness. In Brazil, we expect a much better situation to continue in 2019: wood product production increased by 5.4% between September 2017 and September 2018, while wood panel consumption and exports increased by 5% and 2.3% respectively between January and September 2018 year-on-year.

In Asia, Japan, one of the largest plywood-importing countries, which sources mainly from Indonesia and Malaysia: two thirds of imports are tropical plywood and 93% of tropical plywood imports came from Malaysia and Indonesia in 2017. The increase in Malaysian and Indonesian plywood prices and the devaluation of the yen since April 2018 are encouraging substitutions in favour of locally produced conifer-based plywood.

YOUR COFACE HANDBOOK
2019 COUNTRY PROFILES

This reference guide for the analysis of country risks in the world allows you to consult 161 country assessments. It contains information that is particularly useful in the today's complex and changing economic environment. These assessments are a global analysis of corporate behaviour and business practices on a country-by-country basis.



COUNTRY PROFILES

FRANCE

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	64.8
GDP PER CAPITA US Dollars - 2017	39,933
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.2	2.3	1.5	1.4
Inflation (yearly average, %)	0.3	1.2	2.1	1.7
Budget balance (% GDP)	-3.5	-2.7	-2.6	-3.3
Current account balance (% GDP)	-0.8	-0.6	-0.6	-0.7
Public debt (% GDP)	98.2	98.5	98.7	98.9

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	15%
SPAIN	8%
ITALY	8%
UNITED STATES	7%
BELGIUM	7%

Imports of goods as a % of total

GERMANY	19%
BELGIUM	10%
NETHERLANDS	8%
ITALY	8%
SPAIN	7%

\+
- High-quality infrastructure and public services
- Skilled and productive workforce; dynamic demographics
- Powerful tourism industry
- Competitive international groups (aerospace, energy, environment, pharmaceuticals, luxury, agri-food, retail)
- Global agricultural leader
- High level of savings

\-
- Too few exporting companies; loss of competitiveness and market share
- Weakening level of product sophistication; insufficient focus on innovation
- Low employment rate among young people and older workers
- Room for more efficiency in public spending; high public debt
- Private debt on an upward trend

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	MEDIUM
CONSTRUCTION	MEDIUM
ENERGY	MEDIUM
ICT*	LOW
METALS	HIGH
PAPER	HIGH
PHARMACEUTICAL	LOW
RETAIL	LOW
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Growth set to slow further in 2019

Growth will remain moderate in 2019, after easing significantly in 2018. Household consumption is expected to rebound thanks to a slight uptick in employment and purchasing power, driven by measures as the scrapping of employee contributions – effective as of October 2018 –, the reduction in housing tax, the increase in the minimum wage subsidy (work bonus), the tax exemption for overtime pay and the reduction in the general social contribution (CSG) for one third of pensioners, whose pensions are between €1,200 and 2,000 per month. Real wages are expected to rise, due, on the one hand, to tight labour market conditions, with many companies reporting recruitment difficulties, and, on the other hand, to lower inflation, in line with the stabilisation of oil prices in 2019. The unemployment rate will continue its gradual decline but will remain high, at around 9%. Despite persistently favourable credit conditions, household investment will slow due to weaker confidence levels, which will affect construction (building permits were down 7% over the first three quarters of 2018). Conversely, investment by businesses, which are reporting record high profit margins (39.1% at the end of 2017), should remain brisk due to supply constraints, with the production capacity utilisation rate at 85% at the end of 2018. However, since these investments are mainly made using credit, corporate debt will remain on an upward trend. Business insolvencies will rebound in 2019, increasing by 1% after declining by 3.4% in 2018, in connection with more muted growth.

Despite the slowdown in France's main trading partners (rest of the European Union, United States, China), exports will be resilient, thanks to cost competitiveness gains recorded in recent years. However, foreign trade is no longer expected to contribute positively to growth in 2019 because of the rebound in imports. Hotel stays increased by 3% in the first three quarters of 2018, exclusively due to the return of foreign tourists (+8%), in a trend that is expected to continue in 2019, despite less favourable economic conditions in all advanced economies.

Public and external accounts stuck in deficit

Despite tax revenues driven by resilient activity, the government deficit is expected to widen in 2019, due to tax measures to increase purchasing power (estimated cost of €10 billion, or 0.4% of GDP) and to the conversion of the competitiveness and employment tax credit (CICE) into a permanent reduction in employer contributions, which will entail a double cost for public finances in the transition year (estimated deficit excluding exceptional measures: 2.4% of GDP). As a result, the government deficit is expected to temporarily return to over 3% in 2019. As a consequence, although its public debt is among the highest in the eurozone, France will be one of the few countries where the debt does not decline.

The current account deficit will remain stable in 2019. While the goods balance is structurally in deficit as the country is a net energy importer, the services balance is in surplus thanks to tourism revenues. Since 2015, the balance of goods and services excluding energy has become negative, as the deficit in manufactured goods continues to widen, mainly due to the relocation of automobile production and investment in imported machinery. At the same time, this deficit is only partially offset by the excess income generated by dividends from French subsidiaries abroad. The resulting small current account deficit is mainly financed by debt or equity issues held by non-residents.

President Macron's popularity rating falls

Despite having a strong remit after his clear victories in the 2017 presidential and legislative elections, President Emmanuel Macron is facing growing social unrest. While during his first year in office, protests were essentially led by trade unions opposed to reforms aimed at making the labour market more flexible and changing the status of the SNCF (state-owned rail transport company), this transformed into a popular protest with the arrival of the gilets jaunes (yellow vests, name for the hi-vis safety jackets that drivers must keep in their cars), protesting against fuel taxes. President Macron's popularity rating halved between January and November 2018, falling to 25%. Major reforms to the pension system, including the abolition of special schemes, which is due to be unveiled in 2019, could be the source of further protests. However, President Macron has a comfortable majority in the National Assembly through his party, La République en Marche, which holds 308 seats out of 577. In addition, as the main moderate opposition parties (Socialist Party on the left and Republicans on the right) are rebuilding, the main alternatives are currently on the far right (Rassemblement National) and the far left (France Insoumise). Meanwhile, the increased European integration called for by President Macron will depend on the outcome of European elections in May, amid rising nationalism in many European countries.

COFACE COUNTRY & SECTOR RISKS HANDBOOK 2019 .91

1 Country and location

A map allows you to locate the country.

2 Country risk assessment

"Country risk" indicates the average risk presented by firms in a country as part of their short-term commercial transactions.

3 Business climate assessment

This assessment, which complements the country assessment, measures the quality of the country's business environment: overall reliability of company accounts, legal system, institutional and regulatory environment.

4 Population, GDP, and Local Currency

This box shows the population of the country in 2017, the GDP per inhabitant in 2017, and the local currency as well as its ISO code.

5 Exports and imports

Distribution of exports (or imports) by country of destination (or origin). The sources used are imf and unctad statistics for 2017.

6 Analysis of strengths / weaknesses

A summary of the country's strengths and weaknesses.

7 Sector risk assessment

This assessment indicates the level of short-term risk for 13 sectors of the country's economy.

8 Economic indicators

At a glance, see the major macroeconomic aggregates essential to understanding the economic environment in a country as well as forecasted changes.

9 Risk assessment

In this section you will find a macroeconomic and microeconomic analysis of the country, as well as the most important prospective elements for the current year.

10 Payment and collection practices

This section is a valuable tool for corporate financial officers and credit managers. It provides information on the payment and debt collection practices in use in the country.

11 Business insolvencies

Total number of business insolvencies and its yearly growth rate.

COUNTRY PROFILES

FRANCE

PAYMENT & DEBT COLLECTION PRACTICES IN FRANCE

10

Payment

Bank cards are now the most commonly-used form of payment in France, although cheques are still widely used. In value terms, cheques and transfers are still the most popular forms of payment.

If a cheque remains unpaid for more than 30 days from the date of first presentation, the beneficiary can immediately obtain an enforcement order (without need for further procedures or costs). This is based on a certificate of non-payment provided by the creditor's bank, following a second unsuccessful attempt to present the cheque for payment and when the debtor has not provided proof of payment within 15 days of receipt of a formal notice to pay served by a bailiff (Article L.131-73 of the Monetary and Financial Code).

Bills of exchange, a much less frequently used payment method, are steadily becoming rarer in terms of number of operations – although they remain important in terms of total value. Bills of exchange are still an attractive solution for companies, as they can be discounted or transferred and therefore provide a valuable source of short-term financing. Moreover, they can be used by creditors to pursue legal proceedings in respect of "exchange law" (*droit cambiaire*) and are particularly suitable for payment by instalments.

Bank transfers for domestic or international payments can be made *via* the SWIFT electronic network used by the French banking system. SWIFT offers a reliable platform for fast payments, but requires mutual confidence between suppliers and their customers. France is also part of the SEPA network.

Debt Collection

Unless otherwise stated in the general sales conditions, or agreed between the parties, payment periods are set at thirty days from the date of receipt of goods or performance of services requested. Interest rates and conditions of application must be stipulated in the contract – otherwise the applicable interest rate is that applied by the European Central Bank in its most recent refinancing operations. Throughout the first half of the year in question, the rate applicable is that in force on January 1 and for the second half year in question, the rate applicable is that in force on July 1.

Amicable phase

During this phase, the creditor and the debtor try to reach an amicable solution *via* direct contact in order to avoid legal procedures. All documents signed between the parties (such as contracts and invoices) are analysed. Where possible, the debtor can be granted an extended time period to pay his debts, with the period's length negotiated as part of the amicable settlement.

Legal proceedings

Order for payment (injonction de payer)

When a debt claim results from a contractual undertaking and is both liquid and undisputable, creditors can use the injunction-to-pay procedure (*injonction de payer*). This flexible system uses pre-printed forms and does not require the applicants to argue their case before a civil court (*tribunal d'instance*) or a competent commercial court (with jurisdiction over the district where the debtor's registered offices are located). By using this procedure, creditors can rapidly obtain a court order which is then served by a bailiff. The defendant then has a period of one month in which to dispute the case.

Fast-track proceedings

Référé-provision provides creditors with a rapid means of debt collection. If the debtor is neither present nor represented during the hearing, a default judgment can be issued. The court then renders a decision, typically within seven to fourteen days (though same-day decisions are possible). The jurisdiction is limited to debts which cannot be materially contested. If serious questions arise over the extent of the debt, the summary judge has no jurisdiction to render a favourable decision. Judgments can be immediately executed, even if the debtor issues an appeal.

If a claim proves to be litigious, the judge ruled competent to preside (*juge des référés*) over urgent matters evaluates whether the claim is well-founded. If appropriate, the judge can subsequently decide to declare himself incompetent to rule on the case. Based on his assessment of whether the case is valid, he can then invite the plaintiff to seek a ruling through formal court procedures.

Ordinary proceedings

Formal procedures of this kind enable the validity of a claim to be recognised by the court. This is a relatively lengthy process which can last a year or more, due to the emphasis placed on the adversarial nature of proceedings and the numerous phases involved. These phases include the submission of supporting documents, written submissions from the litigants, the examination of evidence, various recesses for deliberations and, finally, the hearing for oral pleadings (*audience de plaidoirie*).

Proceedings are issued through a Writ of Summons (Assignation) which is served on the debtor 15 days before the first procedural hearing. During this hearing, the court sets a time period for the exchange of pleadings and discovery. Decisions rendered do not necessarily have the possibility of immediate execution. In order to be executed, they must first be served on the debtor. They are also subject to appeal.

Enforcement of a Legal Decision

Unless the court decision is temporarily enforceable, enforcement can only commence if no appeal is lodged within one month and must occur within ten years of notification of the court's decision. Compulsory enforcement can be requested if the debtor does not comply with the judgment. Obligations to pay can be enforced through attachment (of bank accounts or assets) or through a third party which owes money to the debtor (garnishment).

France has adopted enforcement mechanisms for decisions rendered by other EU member countries. These mechanisms include the Payment Order under the European Enforcement Order. Decisions rendered by non-EU members can be recognised and enforced, provided that the issuing country is party to a bilateral or multilateral agreement with France. In the absence of an agreement, claimants are obliged to use the French *exequatur* procedure.

Insolvency Proceedings

French insolvency law provides for six procedures to undertake restructuring or avoid insolvency. These are either assisted proceedings or proceedings controlled by the court.

Assisted proceedings

These can be either mandated *ad hoc* or *via* conciliation proceedings. Both are informal, amicable proceedings, where creditors cannot be forced into a restructuring agreement and the company's management continues to run the business. These negotiations are governed by contractual law throughout their duration. The proceedings are conducted under the supervision of a court-appointed practitioner (a *mandataire ad hoc*, or a conciliator) in order to help the debtor reach an agreement with its creditors. Both of these types of proceedings are confidential but conciliation can eventually be made public if the debtor has the approval of the commercial court. Nevertheless, the terms and conditions of agreements remain confidential and can only be disclosed to signatory parties.

Court-Controlled proceedings

The four types of court-controlled proceedings are judicial reorganisation, judicial liquidation, sauvegarde, and Accelerated Financial Sauvegarde proceedings (AFS).

In all four proceedings, any pre-filed claims are automatically stayed. Creditors must file proof of their claims within two months of publication of the opening judgment, or four months for creditors located outside France. Debts which arise after proceedings commence are given priority over debts incurred beforehand. Certain types of transactions can be set aside by the court, if they were entered into by the debtor during a hardening period (before a judgment opening a judicial reorganisation or a judicial liquidation).

With Court-Controlled proceedings there can be variations in the extent of involvement of the court-appointed conciliator. The sauvegarde and AFS procedures are debtor-in-possession proceedings, but with judicial reorganisation, the court can decide whether to set aside the company's managers. The role of management is particularly reduced in cases of judicial liquidation, as the debtor company usually ceases to conduct business. Nevertheless, the court can decide for a business to continue operating under a court-appointed liquidator.

Source: Banque de France, Coface.

11

92.

COFACE COUNTRY & SECTOR RISKS HANDBOOK 2019

COUNTRIES

ECONOMIC ASSESSMENT AND 2019 OUTLOOK FOR 161 COUNTRIES

AFGHANISTAN

COFACE ASSESSMENTS

COUNTRY RISK	E
BUSINESS CLIMATE	E

POPULATION Millions of persons - 2017	35.5
GDP PER CAPITA US Dollars - 2017	570
CURRENCY Afghan afghani	AFN

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.2	2.7	2.3	2.5
Inflation (yearly average, %)	4.4	5.0	3.0	4.0
Budget balance (% GDP)*	0.1	-0.6	-0.5	-0.8
Current account balance (% GDP)**	7.3	5.0	5.3	-1.1
Public debt (% GDP)	7.8	7.0	6.8	6.4

(e): Estimate. (f): Forecast. *Including grants. **Including official transfers.

TRADE EXCHANGES

Exports of goods as a % of total

PAKISTAN	44%
INDIA	35%
UNITED ARAB EMIRATES	11%
IRAN	3%
IRAQ	2%

Imports of goods as a % of total

IRAN	21%
CHINA	20%
PAKISTAN	14%
KAZAKHSTAN	11%
MALAYSIA	5%

- Financial and military support from the international community
- Prospects for extraction of raw materials (gas, oil, minerals, etc.)

- Unstable security and geopolitical situation
- Poverty
- Corruption and weak governance
- Reliant on international aid
- Fragile banking system and low distribution of credit
- Heavily reliant on the agricultural sector

RISK ASSESSMENT

A worrying security situation in a more uncertain political environment

The Taliban made a push across Afghanistan in 2018, carrying out deadly attacks throughout the country. The offensive on the capital of Ghazi province, which is home to a largely Hazara population (Shia minority), was repelled by government forces and their American allies in August, but Taliban forces still managed to seize part of the province. Control of this region is a key challenge for the Taliban, as controlling a non-Sunni region would prove their credentials as a political force that is capable of governing. Ghazi is also strategically located on the main road linking Kabul to the Taliban-run southern provinces, including Kandahar. The offensive reflects the weak position of the Kabul government, which in reality controls only 30% to 50% of the country. The Taliban has so far refused to negotiate directly with the government, but progress could be made through Russian diplomatic efforts. While the Taliban had agreed to sit at the negotiating table with the United States, the recent announcement by Donald Trump to pull about half of the 14,000 US troop in the country is likely to trigger domestic political realignments and further destabilise the country. The presence of the Islamic State is also becoming more visible, with deadly attacks targeting Shia localities and neighbourhoods in particular. The parliamentary elections in October 2018 saw a further upsurge in violence, with several hundred people killed and wounded according to a UN report. As the national results are yet to be announced, the lower house of parliament is likely to be particularly fragmented given the high number of independent candidates. The presidential elections scheduled for April will be the main challenge in 2019, increasing the uncertainty in this difficult security environment. Delays related to vote counting for the 2018 parliamentary elections could lead to a postponement of the elections for a few months, allowing for the emergence of new challengers to President Ashraf Ghani who stands for re-election. While the candidacy of Abdullah Abdullah, the Chief Executive under the government agreement in place since 2014, is still uncertain, former security adviser, Mohammad Hanif Atmar, has already announced his participation. Relations with Pakistan will remain strained, as the Kabul government accuses its neighbour of supporting the Taliban insurgency.

A persistently fragile agricultural economy

Growth is expected to remain weak in 2019, constrained by the difficult security situation. The effects of the severe drought that hit the country in the second half of 2018 are expected to start easing. However, the lack of seeds for future harvests may well have long-term consequences for the agricultural sector, which employs more than 80% of the workforce. With 2.2 million people affected, poor weather conditions displaced more people in 2018 than the conflict with the Taliban. Opium cultivation is expected to continue to fuel the illegal economy and is present in 30-50% of villages depending on the region (up to 85% in the southern provinces). Industry and services are also expected to grow moderately pending a mining sector development strategy, again constrained by the lack of infrastructure and the security situation. Private consumption will remain highly dependent on remittance flows from emigrants. Inflation is expected to rise as food prices increase due to adverse weather conditions. Political uncertainties and the security issue will all weigh on investor confidence, limiting the flow of private capital into the country.

Total dependence on international aid to finance twin deficits

With 51% of the state's revenue coming from grants, the balance of public finances is largely dependent on international aid, without which the government deficit would exceed 10% of GDP. As part of an IMF Extended Credit Facility, the government has been undertaking reforms to improve tax revenue collection since 2016. However, worsening security problems in connection with the upcoming elections is likely to dampen the extent of these efforts. As part of the partnership with the IMF, the government is also expected to boost its investment, particularly in the development of health and education infrastructure. However, the proportion of budget expenditures earmarked for civil servant salaries (48% in 2017) will squeeze the resources available for these investments, which will still be mainly covered by international donors.

The trade balance will remain largely negative (at 30% of GDP) in view of the country's low exports. This deficit will be financed by international donations. International assistance will also continue to support the country's foreign exchange reserves, which amounted to ten months of imports in mid-2018.

ALBANIA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

POPULATION Millions of persons - **2017**	**2.9**
GDP PER CAPITA US Dollars - **2017**	**4,545**
CURRENCY Albanian lek	**ALL**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.4	3.8	4.0	3.8
Inflation (yearly average, %)	1.3	2.0	2.3	2.7
Budget balance (% GDP)	-1.8	-1.4	-2.0	-1.8
Current account balance (% GDP)	-7.6	-6.9	-7.0	-7.0
Public debt (% GDP)	73.2	71.8	71.0	69.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	70%
KOSOVO	8%
NORTH MACEDONIA	3%
CHINA	3%
MONTENEGRO	2%

Imports of goods as a % of total

EURO AREA	53%
TURKEY	8%
CHINA	8%
SERBIA	4%
SWITZERLAND	2%

+

- Candidate for EU membership
- Mineral (oil, chromium, copper, iron-nickel, silicates, coal) and hydroelectric potential
- Coastline with several ports
- Abundant and inexpensive labour
- Strength of the lek against the euro

-

- Large informal economy (30% to 40%)
- Poverty (GDP per capita: 30% of the European average); low priority given to education (3% of GDP)
- Dependent on rainfall: agriculture (25% of GDP for 45% of jobs) and hydropower (95% of electricity)
- Ineffective and politicised court system and administration
- Corruption and organised crime, in some cases linked to drug trafficking

RISK ASSESSMENT

Growth supported by domestic demand

Despite decelerating slightly since the second half of 2018, growth is expected to remain high in 2019. Household consumption will again receive support from falling unemployment, including among young people (from 34% to 22% since 2015), as well as from a rising participation rate linked to the decline in the informal economy and increased employment for both women and men. Economic activity will continue to benefit from ongoing foreign investment in infrastructure, particularly in energy with the continued construction of the TAP to transport Azeri gas to Italy, and the second plant (Moglice) of the Devoll river hydroelectric complex. As would be expected, the electricity grid is being developed to ensure internal and external distribution of the additional power that is expected to be generated. These facilities will take over from local oil production, which peaked in 2014. Conversely, local investment, including the building or upgrading of roads and railways (Tirana-Durres line), will be constrained by fiscal consolidation and prudent lending by banks. Banks, most of which are subsidiaries of Turkish (one third of assets), Italian, and Austrian groups, will continue to lower the percentage of doubtful loans in their portfolios (13% in August 2018 compared with 21% two years earlier), while also reducing the share of the euro (about half) in their deposits and loans. Under these circumstances, growth in corporate credit should remain low while the average interest rate on loans in lek and euro is expected to remain relatively high. Despite the strength of the lek and the stabilisation of energy prices, inflation is set to rise, fuelled by strong domestic demand. This would prompt the central bank to raise its key interest rate, which was lowered to 1% in June 2018 in order to ease the upside pressure on the currency. While all sectors are expected to perform well, electricity production, which is reliant on rainfall, is difficult to predict.

Fiscal consolidation necessary to reduce the debt burden

After a hiatus linked to the June 2017 elections, fiscal consolidation will slowly resume in 2019. The stakes are all the higher as the debt burden, while decreasing, remains high. Despite recent issues, including the EUR 500 million 7-year eurobonds with a coupon of 3.55% issued in October 2018, which are aimed at extending the maturity and lowering the cost of debt, two-fifths of the debt is still short-term. Moreover, 60% of the debt is held by local banks and makes up 25% of their assets. Refinancing the debt is estimated at 20% of GDP (2018). Adding to the debt burden, the state is responsible for up to €1 billion under contracts carried out in partnership with the private sector in areas ranging from roads and health to education. The objective is to achieve a primary surplus (*i.e.* excluding interest) sufficient to provide debt relief. The cost of the electricity sector to the state is expected to decrease with the installation of meters, infrastructure upgrades and the phase-out of subsidised prices. Pension and territorial administration reforms should also help in this regard. Tax collection is benefiting from the reduction of the informal sector and computerisation, while improved investment management has made it possible to eliminate arrears of payments to suppliers.

Large trade deficit financed by FDI

Goods trade will continue to show a large deficit (22% of GDP in 2018), despite a smaller increase in imports due to the completion of major energy projects. This reflects the narrow production base (textiles, footwear, oil, minerals, electricity, construction materials), which means the country has to import many capital and consumer goods. Half of Albania's exports are destined for Italy. In addition, the balance is sensitive to rainfall, which can cause hydroelectric power sales to fluctuate. The services surplus (9% of GDP) is expected to increase thanks to tourism and outward processing arrangements in the clothing sector. Remittances from emigrants (8%) could suffer as a result of poor economic conditions in Italy. The current account deficit is largely financed by FDI, which means that infrastructure-related imports are self-financing. Despite the importance of non-debt-generating financing, external debt represented 67% of GDP at the end of June 2018. It is denominated in euros, much of it is long-term (80%), and it is primarily due to public creditors or connected with FDI.

Reforms are set to continue

Prime Minister Edi Rama and the Socialist Party obtained an absolute majority in the June 2017 elections. Structural reforms will continue with a view to EU membership, despite tension with the opposition. This is a condition not just for EU membership but also for encouraging foreign investment. Much remains to be done to improve the effectiveness of administrative and court systems, make local agencies accountable and fight corruption, organised crime and smuggling between Albania and Italy. The legislation is there and prosecutions are taking place, but this is not yet borne out in convictions. In addition, hydroelectric projects are increasingly opposed for their environmental impact.

ALGERIA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	41.5
GDP PER CAPITA US Dollars - 2017	4,034
CURRENCY Algerian dinar	DZD

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.3	1.6	2.5	2.3
Inflation (yearly average, %)	6.4	5.5	6.5	6.7
Budget balance (% GDP)	-13.6	-9.0	-6.9	-5.8
Current account balance (% GDP)	-16.7	-12.8	-8.8	-7.2
Public debt (% GDP)	29.3	23.9	31.3	34.9

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	55%
UNITED STATES	9%
BRAZIL	6%
TURKEY	4%
UNITED KINGDOM	4%

Imports of goods as a % of total

EURO AREA	38%
CHINA	18%
TURKEY	4%
UNITED STATES	4%
SOUTH KOREA	4%

+

- Significant oil and gas reserves
- Renewable energy and tourism potential
- Strong external financial position (very low external debt, large foreign exchange reserves)

-

- High dependence on hydrocarbons and problems in using this income
- Fault lines separating those in power from the people
- High youth unemployment rate
- Overly large public sector
- Red tape, financial sector weaknesses and problematic business environment

RISK ASSESSMENT

Moderate growth to continue in 2019

Higher oil prices allowed the Algerian economy to recover in 2018. Revenues from hydrocarbon exports, which represent 93% of exported volumes, have risen, easing the pressure on budget revenues and allowing the government to keep providing support to activity. However, export volumes shrank over the year due to the decline in production, which remains hobbled by the lack of investment and the maturity of the fields. To meet these challenges, the government is expected to put in place a new oil law that will be effective in 2019, aimed at attracting foreign investment. The second proposed course of action is to diversify production sources and methods with the development of offshore activities and the exploitation of non-conventional hydrocarbons. Sonatrach, an Algerian SOE formed to develop the country's hydrocarbon resources, has announced that shale gas drilling is expected to begin in 2019, which should give the sector a new lease of life. Despite a favourable oil market for hydrocarbon exporters, Algeria's economic activity is set to slow slightly in 2019. The government should have additional budgetary leeway, but on the eve of the 2019 presidential elections, this is expected to be put towards social measures. Social transfers are thus expected to increase, which should support household consumption, but public investment spending will slow. The economic slowdown outside the hydrocarbon industry, especially in sectors that are heavily reliant on public spending, coupled with an unfavourable business climate will be a drag on private investment. Inflation is expected to stabilise, but at a high level. The non-conventional financing policy (including the use of monetary creation) put in place in September 2017 will be continued to meet the government's financing needs.

Substantial twin deficits

Despite the government's expansionary fiscal policy, the improvement in the oil market led to a slight reduction in the government deficit in 2018. This trend is expected to continue in 2019 but the deficit remains significant. The Finance Act, which is based on a relatively conservative oil price forecast of USD 50, anticipates a slight increase in government revenues. Fiscal revenues should also benefit from the depreciation of the Algerian dinar, whose administered exchange rate is estimated to be DZD 118 per USD 1, compared with DZD 115 per USD 1 in 2018. The government does not plan to introduce new taxes and duties, and the budget allocated to subsidies, which represents 8% of GDP, will probably remain unchanged. Recurrent expenditure and social transfers (especially those in support of families) are expected to increase at the expense of capital expenditure. As in 2018, the government deficit will likely be financed directly by borrowing from the central bank. Public debt will increase accordingly, but will remain predominantly domestic. For the time being, the public authorities are ruling out the use of external debt.

The current account deficit narrowed significantly in 2018. Import control measures combined with an upturn in export earnings have led to a decline in the large trade deficit, which is expected to continue in 2019 despite a slight increase in imports. The import bans on a list of 851 products were replaced in September 2018 by a new tariff system. The provisional additional safeguard duty (DAPS), which will probably continue to be applied in 2019, sets additional customs duties ranging from 30% to 200% on a product list drawn up by an inter-ministerial commission. Foreign exchange reserves, which were equivalent to 16 months of imports in 2018, continue to shrink, but at a slower pace. Inward FDI should nevertheless increase, notably thanks to the new law on investment in the oil sector.

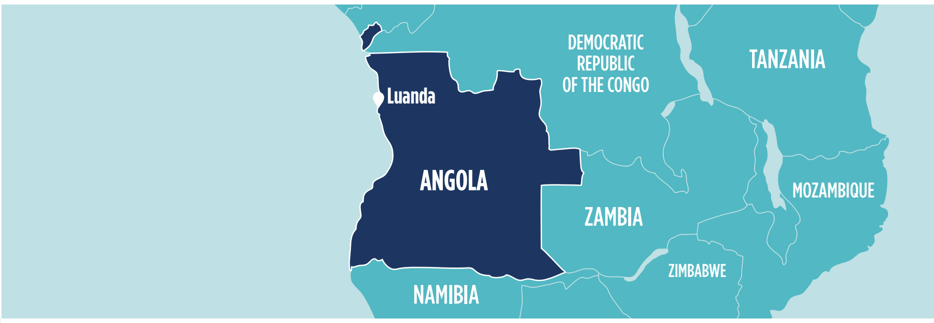
Presidential elections in 2019

Campaigning for the presidential elections in April 2019 appeared to already be underway in 2018, although the political *status quo* does not look to be under threat. While he has yet to reveal his intentions, and despite poor health, President Abdelaziz Bouteflika will likely run for a fifth term. He will continue to be supported by a large swathe of the political class, which is calling for him to stand for re-election. Backers include his party, the Front de libération nationale (FLN, formerly the sole party), and its main allies: the Rassemblement national démocratique (RND), the Islamist Rassemblement de l'espoir de l'Algérie (TAJ) party, and the UGTA trade union. For now, the current head of state does not seem to have any opposition, but Algeria's period of slow growth is beginning to have social repercussions. Despite the implementation of a distributive policy at the expense of fiscal consolidation, protests are on the rise.

ANGOLA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	D



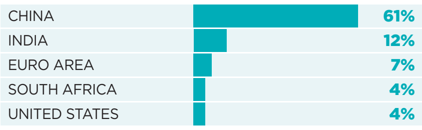
POPULATION Millions of persons - **2017**	**28.3**
GDP PER CAPITA US Dollars - **2017**	**4,466**
CURRENCY Angolan kwanza	**AOA**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-2.6	-2.5	-1.1	2.2
Inflation (yearly average, %)	30.4	30.4	19.6	15.9
Budget balance (% GDP)	-4.5	-5.8	-1.9	-1.2
Current account balance (% GDP)	-3.1	-0.5	-0.9	-0.7
Public debt (% GDP)	71.9	71.0	73.5	69.9

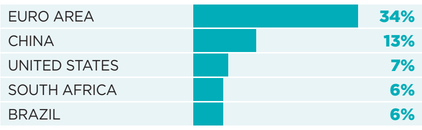
(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total



Imports of goods as a % of total



+

- Significant oil production and liquefied natural gas producer
- Significant economic potential: diamonds, iron, gold, leather, agriculture, fisheries, hydropower
- International financial support

−

- Vulnerability to an oil price reversal
- High unemployment, high social inequalities and regional disparities
- Deficient infrastructure
- Fragile banking sector
- Conflict with separatists in the Cabinda enclave

RISK ASSESSMENT

A mild recovery after a long recession

After three years of contracting GDP, precipitated by falling oil prices and prolonged by declining production at mature oil fields, the country is expected to return to muted growth in 2019. The first of the two floating oil production and storage units for the Kaombo project was brought onstream in July 2018, and the second is expected to start up in summer 2019, which should help to stem the decline in crude production. As a result, oil exports, which make up more than 90% of the total, are expected to be less of a dampener on external trade's positive contribution to growth. External support, including China's new oil-backed credit facility, is expected to shore up public investment. In particular, the funds will be used to finance infrastructure projects (transport, water, communication, electricity) targeted in the 2018-2022 National Development Plan. Measures taken to reform the business climate, such as new laws preventing anti-competitive practices and ending local partnership requirements, could attract the interest of private investors. However, weak infrastructure, slow and inefficient institutions, and corruption will continue to constrain the private sector's contribution to gross fixed capital formation. Private consumption is expected to recover modestly as households and businesses benefit from the improved availability of liquidity following kwanza depreciation. However, inflation, which remains high, and the introduction of a VAT in July 2019 will continue to be a drag on household purchasing power.

Risk of over-indebtedness still significant

In 2019, continued fiscal consolidation efforts are expected to result in a reduction in the deficit. While oil revenues are set to increase slightly, it is mainly higher non-oil revenues that contribute to the deficit reduction, thanks in particular to the introduction of VAT. Expenditure will remain dominated by debt service, which is poised to absorb almost 50% of the revenues generated. Capital investment, after significant cuts in recent years, should be maintained. Expenditures on health, education, and agriculture is expected to increase at the expense of defence spending. Bilateral (China and Portugal in particular) and multilateral financing should make it possible to finance the deficit. Plans for full or partial privatisations, including of the oil company Sonangol, could also contribute to the financing. After peaking in 2018, mainly due to the depreciation of the kwanza, public debt – which is more than 50% denominated in foreign currency – is expected to decline in 2019. Nevertheless, the risk of over-indebtedness remains substantial.

In addition, the banking sector remains in precarious health, as the quality of assets has deteriorated after years of low activity.

The current account deficit should stay relatively stable in 2019, reflecting the small change in the trade surplus, as the moderate increase in export earnings is partially offset by imports of capital goods. The service and income deficits, largely related to oil activity, could shrink slightly, in line with activity levels in the sector, which remain moderate. Remittances by foreign workers based in Angola are expected to continue to contribute to the transfer deficit. A recovery in FDI and the use of foreign exchange reserves – which are still sufficient to cover more than six months of imports, despite falling by half between 2013 and 2018 – should make it possible to finance the current account deficit. Both the more flexible exchange rate system introduced by the central bank in January 2018 and the kwanza's more than 40% depreciation have helped to ease the pressure on the external accounts. The official and parallel market rates for the kwanza are expected to continue converging in 2019. The depreciation of the official rate and foreign exchange inflows (thanks to the oil sector) should allow foreign exchange reserves to be replenished in 2019.

Despite reforms, socio-economic challenges remain

Following the general elections of August 2017, unsurprisingly won by the Popular Movement for the Liberation of Angola (MPLA), João Lourenço became President, taking over from José Eduardo dos Santos, who had spent 38 years at the helm of the country. Also succeeding Mr dos Santos as head of the MPLA in September 2018, former Defence Minister Mr Lourenço initiated numerous reforms aimed at reducing the influence of the dos Santos family on the economy, improving the perception of the business climate and getting the country out of the crisis. However, while judicial investigations targeting the former President's children, Isabel and José Filomeno dos Santos, have sent a strong signal in the fight against corruption, the country will struggle to shake off its reputation for corruption. More generally, major socio-economic challenges remain. High inflation, the expected increase in VAT and the protracted economic crisis will continue to be sources of social unrest within a population suffering from poverty, persistent inequalities, and poor access to housing, education and health services. Economically, despite the reforms, the business environment remains extremely challenging, as evidenced by the country's 173rd place (out of 190) in the 2019 Doing Business ranking. In particular, insolvency proceedings remain time-consuming and cumbersome. Externally, the issue of refugees from the Kasai region will continue to affect relations with the Democratic Republic of the Congo.

ARGENTINA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	B

POPULATION Millions of persons - 2017	**44.1**
GDP PER CAPITA US Dollars - 2017	**14,463**
CURRENCY Argentine peso	**ARS**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-1.6	2.9	-2.4	-1.0
Inflation (yearly average, %)	41.0	25.7	34.3	32.0
Budget balance (% GDP)	-5.8	-6.0	-5.6	-3.3
Current account balance (% GDP)	-2.7	-4.8	-4.4	-1.2
Public debt (% GDP)	50.9	55.1	86.3	76.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

BRAZIL	16%
EURO AREA	12%
UNITED STATES	8%
CHINA	7%
CHILE	4%

Imports of goods as a % of total

BRAZIL	27%
CHINA	19%
EURO AREA	14%
UNITED STATES	11%
MEXICO	3%

+
- Agricultural, energy and mineral resources
- Education level higher than the regional average
- Improvement in the business environment
- Return of the country onto international financial markets

−
- Weak current and fiscal accounts, with high FX financing needs
- Dependency on agricultural commodity prices and weather conditions
- Sticky inflation with high anticipations
- Bottlenecks in infrastructure

Sector risk assessments

AGRI-FOOD	HIGH
AUTOMOTIVE	VERY HIGH
CHEMICAL	HIGH
CONSTRUCTION	HIGH
ENERGY	MEDIUM
ICT*	VERY HIGH
METALS	MEDIUM
PAPER	HIGH
PHARMACEUTICAL	MEDIUM
RETAIL	VERY HIGH
TEXTILE-CLOTHING	VERY HIGH
TRANSPORT	HIGH
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Economy set to remain in recession on the back of tight policy

Despite a strong improvement in GDP in 2017, the rebound was not sustained in 2018. The negative spillover effects of the worst drought in 50 years began to take a toll on agricultural activity in March 2018. Then, at the end of April, the country was hit by a change in foreign investors' mood towards emerging markets, which led to a long and massive sell-off of the peso during the following months. This latter move raised inflation pressures, leading the central bank to strongly raise interest rates. Moreover, the government had to speed up the pace of fiscal consolidation as part of its agreement with the IMF. These events had a clear impact on domestic demand, which manifested as a sharp decline in household consumption and in investments.

In 2019, the recovery of agricultural activity and a stabilising macroeconomic environment marked by some improvement in inflation (allowing the central bank to somewhat cut policy rates) should contribute to a relatively better economic performance. Exports should register stronger growth, driven by primary goods (thanks to a good crop) and stronger manufacturing exports to Brazil. Nonetheless, it is unlikely to sufficiently protect Argentina from a second consecutive year of recession, as domestic demand will remain weak due to still tight monetary and fiscal policies. Downside risks to this scenario are related to a possible new escalation in investors' fears towards emerging markets and to the domestic political landscape. Unfavourable market dynamics could arise, if there is a perception that the commitment with the IMF plan could be jeopardized after presidential elections.

Large twin deficits that triggered the currency crisis are expected to narrow

The economic recovery of 2017 raised the imbalance in current account as imports started to increase at a much faster pace than exports. This became particularly evident in 2018, when foreign sales figures started to be impacted by the weakening in agriculture exports. In parallel, the government took advantage of the then-abundant international liquidity to finance its large fiscal deficit. These two fundamentals were decisive for the run on the peso currency triggered in April 2018. The latter was only contained after the IMF approved the recalibration of Argentina's stand-by arrangement, bringing its total amount to USD 57 billion in end September 2018 (from the USD 50 billion agreed in July 2018). At that time, changes in economic policies were announced, such as the substitution of inflation targets by a monetary base target (set at zero growth from October 2018 to June 2019) and an exchange rate policy creating a non-intervention zone (ARS 34-44/USD).

The large twin deficits are expected to narrow in 2019. From the foreign account perspective, the decline in imports (due to the currency depreciation and weak internal demand) and the recovery of agricultural exports will contribute to reduce the imbalance in current account. On the fiscal front, the government is expected to deliver the challenging zero primary fiscal balance (before interest payments) set for this year. The bulk of this adjustment will come from the temporary re-introduction of export taxes (2019/20). In addition, policymakers also agreed to cut public investments by 80% in real terms as well as subsidies.

President Macri will struggle to be re-elected in October 2019

Pro-business President Mauricio Macri of the centre-right Cambiemos coalition faced a perfect storm in 2018, as Argentina started to face the headwinds of a more challenging global environment. While the economic reform plan aims to protect the most vulnerable people (*i.e.* through expanding the coverage of the government universal child allowances and of health plans for lower income), the episode was clearly not without consequences for Mr Macri's popularity. Moreover, his Cambiemos coalition does not hold a majority in Congress (108 out of 257 seats in the Lower House; 25/72 in the Senate). However, in mid-November 2018, the government was able to get the 2019 budget approved in Congress, which targets a zero primary deficit for the year. The approval also gave a signal to both investors and the IMF that the administration is committed to steep spending cuts. Mr Marci will run for re-election in 2019, when one third of the Senate and half of the Lower House will also be renewed. The ruling party task will however not be easy, as activity will further shrink. To Mr Macri's benefit, however, no opposition leader has so far been able to capitalize on this hardship. Indeed, his main opponent, former President Cristina Kirchner, is now facing a battery of corruption allegations. However, the apparition of a credible moderate Peronist candidate could represent a risk to President Macri's plans.

ARGENTINA

PAYMENT & DEBT COLLECTION PRACTICES IN ARGENTINA

Payment

The most common payment instruments in local commercial transactions are:

- cash (for low-value retail transactions);
- bank transfers;
- cheques (ordinary cheques, deferred payment cheques or other types).

In case of default, these cheques represent an executable legal document which facilitates a fast track legal proceeding.

For international commercial transactions, the most common payment instrument is Bank transfer *via* SWIFT. Currently there are no restrictions on foreign exchange and fund transfers from Argentina.

Debt Collection

Amicable phase

Out-of-court settlement negotiations are focused on the payment of the principal, plus any contractual default interest that may be added. Argentine regulations provide alternative dispute resolution methods, such as mediation, which is mandatory prior to commencement of any judicial process. At this stage, it is advised to obtain a notarised acknowledgement of debt signed by the debtor, or notarized payment plan agreement signed by both parties. Under amicable negotiation fees payable only apply to recoveries obtained.

Legal proceedings

Argentina is a federal republic with 24 independent judicial systems and national judicial system. The highest court in the country is the National Supreme Court.

Regarding debtors abroad, Argentine courts only have jurisdiction when debtors have assets in Argentina (in which case insolvency proceedings will only involve such assets) or when their principal place of business is in Argentina.

The Argentine Civil and Commercial Code classifies proceedings into two types: ordinary proceedings (*juicio ordinario*) and executory or fast-track proceedings (*juicio ejecutivo*). Ordinary proceedings usually last between one and four years. If applicable, an appeal may be filed for the Court of Appeals to hear the case.

Executory processes are simplified and prompt proceedings that mainly consist of claimants' request for the execution of debtors' assets to obtain payment of a debt. They apply when creditor has documents known as enforceable instruments (*titulos ejecutivos*), such as public instruments, private instruments signed by the concerned party (debtor or guarantor) and legally acknowledged, bills of exchange, checks or credit invoices. Contrary to ordinary proceedings, it is not necessary to provide proof of the debt. The judgment is delivered between approximately six months and two years.

Costs include a court tax (3% of the amount in dispute to be paid by claimants upon commencing proceedings), and lawyers' fees. The prevailing party is entitled to recover its costs, including attorneys' fees (subject to court approval).

All documents (original or notarised copies) submitted to the court must be (i) apostilled (for member countries of the 1961 Hague convention, which includes Argentina), and (ii) authenticated by the Argentine consulate in the issuing country. All non-Spanish documents must be translated by a certified translator registered in Argentina.

Enforcement of a Legal Decision

For local judgments, final decisions are initially considered enforceable. However, if a decision has been appealed, it can be partially enforceable in relation to the part of the judgment that is final. In principle, any of the debtor's assets can be seized (including but not limited to property, trademarks, and accounts receivable from third parties and shares).

Insolvency Proceedings

There are three insolvency proceedings:

Out-of court reorganization

Acuerdo preventivo extrajudicial (APE) is a proceeding in which the debtor and a majority of unsecured creditors enter into a restructuring agreement. This agreement must be submitted by the debtor to an Argentine court for it to become enforceable. In practice, out-of-court agreements provide a series of conditions that must be complied with, including a minimum threshold of consenting creditors.

Reorganization

Concurso preventivo is a reorganisation proceeding that can be initiated voluntarily by an individual or entity, who must submit proof of their inability to pay their debts. Debtors must file a petition to the court requesting relief under bankruptcy law. The court will appoint a trustee. All creditors must file evidence of their proof of claim with the trustee (*verificación de créditos*). Debtors must submit a proposal for reorganization and must obtain creditors' approval during an "exclusive period" of 90 days, with the possibility of an extension. If the proposal is approved by the majority, the judge reviews the terms of the plan prior to approving it. Upon homologation by the court, the reorganization plan becomes effective to all unsecured creditors (even those who have not agreed to it). A special payment offer can only be proposed and approved for secured creditors. If the proposal is not approved by the required majority (51%), debtor bankruptcy may follow. The process generally takes between one and two years, depending on the volume and nature of debt being renegotiated and the size of the debtor.

Bankruptcy

Quiebra is initiated when a reorganization proceeding fails, either voluntarily (by the debtor) or involuntarily (by the debtor's creditors' request). The petitioner must show that the company is insolvent or that it has entered into a "suspension of payments" status. In case of an involuntary bankruptcy, after the petition has been filed with the relevant court and all necessary evidence is presented, the court will summon the debtor to provide an explanation of the reasons why payments of the obligations in favour of the petitioning creditor have not been made and to prove that the debtor is solvent. If the debtor is unable to do so, the court will declare the debtor bankrupt. Unlike reorganization, bankrupt debtors lose control of the administration of their assets. A trustee is appointed in order to preserve and administer the debtor's property. As a result, all payments to creditors and debtor must be made through court. All claims and proceedings against the debtor are automatically stayed as from the date of the order that determines debtor's bankruptcy. All creditors must submit their proof of claims for payment. Once the assets available and the amounts owned to each creditor are determined, the trustee liquidates the assets and proceeds with the distribution of repayment to creditors.

ARMENIA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	B

POPULATION Millions of persons - 2017	3.0
GDP PER CAPITA US Dollars - 2017	3,857
CURRENCY Armenian dram	AMD

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	0.2	7.5	5.3	4.3
Inflation (yearly average, %)	-1.4	1.0	2.9	4.0
Budget balance (% GDP)	-5.6	-4.8	-2.7	-2.2
Current account balance (% GDP)	-2.3	-2.8	-3.8	-3.8
Public debt (% GDP)	56.7	58.9	56.9	55.4

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

RUSSIA	24%
EURO AREA	14%
BULGARIA	13%
SWITZERLAND	12%
GEORGIA	7%

Imports of goods as a % of total

RUSSIA	28%
EURO AREA	17%
CHINA	11%
TURKEY	5%
IRAN	4%

- Major mining resources (molybdenum, zinc, copper, gold)
- Significant financial support from international organisations and the diaspora
- Comfortable foreign exchange reserves and relative flexibility of the dram's exchange rate
- Member of the Eurasian Economic Union (EAEU) and partnership agreement with the EU

- Geographical isolation aggravated by a lack of infrastructure
- Highly dependent on Russia (trade: 20% of exports and 30% of imports, FDI, credit, migrant remittances)
- Highly dollarised economy (60% of bank deposits)
- Persistently high level of unemployment
- 30% of the population below the poverty line
- Conflict with Azerbaijan over Nagorno-Karabakh and an uneasy calm on the border with the Azeri enclave of Nakhchivan

RISK ASSESSMENT

Brisk growth but dependent on external factors

Armenia's Velvet Revolution had little impact on growth in 2018. Despite low agricultural yields (16% of GDP), which depressed activity, domestic demand continued to be strong. Investment, as well as consumption, which benefited from expatriate remittances, remained buoyant. Exports were lifted by the increase in copper prices (28% of exports in 2017). Although still robust, activity is expected to decelerate in 2019. The stabilisation of the political situation and the central bank's continued accommodative monetary policy should encourage private investment. Despite the reassuring signals sent by the new government to promote foreign investment, particularly in the mining sector (50% of exports and nearly 10% of GDP, with copper accounting for one half of the total), the campaign by environmental protection groups since June 2018 to shut down the Amulsar gold mine could constrain FDI inflows.

Armenia also remains dependent on Russia, both for exports (a quarter go to Russia) and for expatriate remittances (more than 15% of GDP, including 70% from Russia). Accordingly, even modest growth in Russia, combined with favourable terms of trade, should boost exports and encourage household consumption. Despite the increase in wages, however, the impact of higher disposable income is expected to be mitigated by the unemployment rate, which remains close to the level reached at the time of the 2009 crisis (18.5%), as well as by rising inflation driven by higher food and energy prices.

Further fiscal consolidation; current deficit maintained

The new government is set to continue the fiscal consolidation efforts undertaken since 2016. Budgetary revenues are expected to continue to benefit from a favourable economic environment and improved tax collection following the implementation of the new Tax Code in 2018. The code has already boosted tax revenues by around 0.7 percentage points of GDP and may eventually raise revenues by the equivalent of 2 percentage points of GDP. The fight against tax evasion, which is one of new government's priorities, and the 38.5% reduction in the budget allocated to the Presidency of the Republic in 2019, should also help to narrow the deficit. However, public spending is expected to go up by 12% in 2019, mainly due to the increase in the military budget, which is expected to rise by 25% to reach a quarter of total expenditure. The increase will also go towards financing civil servants' salaries, major structural reforms and the coverage of losses associated with certain state-owned companies in the energy (electricity) and water sectors.

The current account deficit is expected to remain in place in 2019. Increased imports linked to sustained domestic demand and continued high oil prices will be offset by higher export revenues and expatriate remittances. The deficit is financed by FDI, government debt and FDI-related borrowing. Given its largely concessional nature, servicing the public external debt (half of total external debt estimated at 90% of GDP) does not represent a heavy burden.

The Velvet Revolution gets electoral confirmation

Massive peaceful demonstrations in April and May 2018 forced Prime Minister Serge Sarkissian to relinquish the power he had held since 2008. People were unhappy that he had circumvented the two-term limit on presidential terms of office by taking advantage of the switch from a presidential regime to a parliamentary system, which was adopted at the end of 2015 after a referendum, to hold onto power by running for the post of Prime Minister. Following the "Velvet Revolution", in June, the leader of the protests, former journalist Nikol Pachinian, was placed at the head of a new government comprising representatives of the opposition and qualified individuals. After he resigned in order to trigger snap parliamentary elections, his "My Step" coalition, which includes the Civil Contract Party that he leads, won an overwhelming victory, taking 70% of the votes and allowing Mr Pachinian to secure a sufficiently large majority in Parliament (88 out of 132 deputies) to make constitutional changes. The coalition's programme focuses on fighting corruption and the informal economy, addressing the porous boundaries between the business world and politics, and ending the monopolies controlled by people close to the former leader. Mr Pachinian has secured the benign neutrality of Russia, which has a military presence in the country (on the Turkish and Iranian borders) as well as an economic presence, by providing assurance that foreign policy will stay unchanged. He will have to manage an expectant population that is impatient for change. This is especially true among young people, for whom the unemployment rate is four times higher in urban areas than in rural areas and whose overall employment rate is twice as high as that of the rest of the population.

On the geopolitical level, the armed conflict with Azerbaijan persists over the self-proclaimed independent enclave of Nagorno-Karabakh, which is officially Azeri but overwhelmingly populated by Armenians, and the adjacent Azeri territories occupied by Armenian-backed independence fighters. The ceasefire on the border with the Azeri enclave of Nakhichevan is fragile, with security in the region primarily dependent on the balance between the combatants maintained by Russia, and, to a lesser extent, Turkey and Iran.

AUSTRALIA

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	24.8
GDP PER CAPITA US Dollars - 2017	55,693
CURRENCY Australian dollar	AUD

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.5	2.2	3.0	3.0
Inflation (yearly average, %)	1.3	1.9	2.1	2.3
Budget balance (% GDP)	-2.6	-0.5	-1.0	-0.8
Current account balance (% GDP)	-2.6	-2.6	-2.8	-3.0
Public debt (% GDP)	39.0	40.8	40.5	40.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	33%
JAPAN	15%
SOUTH KOREA	7%
INDIA	5%
HONG KONG	4%

Imports of goods as a % of total

CHINA	23%
EURO AREA	13%
UNITED STATES	11%
JAPAN	8%
THAILAND	5%

+

- Proactive economic policy and exchange rate flexibility
- Geographic proximity to booming economies in Asia
- Attractive quality of life with immigration contributing to population growth
- Rich endowment of mineral resources
- Moderate levels of public debt
- High tourism potential

-

- Exposed to commodity price volatility (specifically iron ore and coal)
- Economy remains dependent on Chinese demand
- Substantial household debt (185% of gross disposable income)
- Shortage of infrastructure relative to the country's vast territory
- Disparity between federated states

RISK ASSESSMENT

Growth close to long-term average

Activity is expected to remain stable in 2019, remaining close to Australia's long-term average of 3%. The decline in mining investment has bottomed out, while the construction of public infrastructure will continue to contribute to growth. This should help to offset the sharp slowdown in real estate investment and housing construction activity, with house prices now clearly falling in most cities. A decline in housing prices was brought about by tougher rules imposed by the Australian Prudential Regulation Authority, a slowdown in immigration, and weaker capital inflows from China. Risks are palpable in the financial sector, as 50% of bank credit is linked to residential property. The increase in domestic consumption is set to be more gradual than expected owing to stagnant wage growth. Household debt levels remain very high, which should further drag on consumption. For this reason, retail trade will continue to perform poorly (highest level of bankruptcies). The sector is also subject to other headwinds, including increased competition from online retailers. In order to mitigate the impact of headwinds to domestic consumption, the Reserve Bank of Australia (RBA) is likely to keep monetary policy accommodative throughout 2019, leading to a wider interest rate differential with the United States and the Australian dollar's depreciation. This could lead to higher inflation, although the latter is expected to remain below RBA's target (2-3%). A weaker Australian dollar would boost Australia's terms of trade. Mineral exports (gas, coal and iron ore) will also benefit from completion of several LNG terminals, and fiscal stimulus in China, Australia's largest export market. The moderation in domestic consumption and real estate investment will put pressure on imports, leading to a wider trade surplus.

Low public deficit and moderate current account deficit

The authorities are aiming for fiscal equilibrium for the whole Commonwealth, states, and local authorities by 2020/21. Equilibrium is also the aim for the structural balance, *i.e.* smoothed out for cyclical effects. They expect to achieve this while developing infrastructure, investing on education and training (especially for the indigenous communities) and encouraging SMEs to invest. This should enable the economy to transition from one focused on commodities to one that is diversified, with better labour market participation rates and productivity. Moreover, the government plans to invest USD 30 billion in defence over the next ten years. An increase in commodity prices helped to cushion the widening of the deficit and keep public debt levels moderate, with gross government debt reaching 40% of GDP in 2017.

The current account balance traditionally shows a moderate deficit, which, despite growing diversification, varies primarily in line with the price and demand for commodities, especially Chinese demand. While there was a narrow trade surplus in 2018, the trade in services reflected a deficit. Tourism income and registration fees paid by foreign university students, especially from Asia, do not match spending by Australian economic agents abroad. The income balance is more significant than the trade balance, and is in deficit largely due to dividend repatriation by mining companies and interest payments on external debt, mostly private (mining companies, banks, property sector) and denominated in Australian dollars. The net international investment position equated to -54% of GDP in 2017 according to figures by the IMF, but most liabilities are denominated in Australian dollars.

Political turmoil remains a threat

2018 was a politically volatile year. Former Prime Minister Malcolm Turnbull was defeated during a second leadership spill on August 24, paving the way for Scott Morrison to become leader of the Liberal Party and new Prime Minister. Some factors point toward a continuation of political instability going forward. In particular, Prime Minister Morrison's stance towards a series of issues surrounding immigration and offshore detention facilities in the Island of Nauru are bound to drive the existing divide within the Liberal Party even wider. If the Wentworth by-election is reflective of broader trends, it is possible that the Liberal Party might lose seats during the next Australian federal elections in 2019, leading to a minority government and further political fragility.

Externally, Australia's policy is to align itself economically more closely with the Asia-Pacific region (especially China) and Europe, with which it has signed trade agreements while maintaining preferential relations with the United States. The authorities are paying greater attention to Chinese investments in the country, given the sectors concerned, as well as to immigration, which is not considered to sufficiently benefit the economy.

PAYMENT & DEBT COLLECTION PRACTICES IN AUSTRALIA

Payment

Payment methods include:

- cash: Personal cheques and bank cheques: used for domestic and international transactions;
- credit cards;
- electronic transactions: includes point-of-sale (POS) electronic transactions, as well as mobile apps, electronic funds transfer (EFR) and internet transactions;
- EFT electronic funds and SWIFT bank transfers: the most commonly used payment method for international transactions. The majority of banks are connected to the SWIFT electronic network;
- the Australian dollar (AUD) is now also part of the Continuous Linked Settlement System (CLS), an interbank transfer system for processing foreign exchange transactions simultaneously.

Debt Collection

Amicable phase

Parties are encouraged to negotiate and take "genuine steps" to settle commercial disputes prior to commencing certain proceedings in the Federal Court and Federal Circuit Court. Examples of such steps include settlement nego-tiations and informal settlement conferences with the other party.

Legal proceedings

If the amicable phase fails, proceedings will commence. The New South Wales (NSW) Supreme Court has a special list for commercial disputes, where it will proactively manage them to ensure an efficient resolution. Similar lists also operate for commercial disputes in the Supreme Courts of Victoria (Vic), Western Australia (WA) and Queensland (Qld).

If a corporate debt is overdue, uncontested, and over AUD 2,000, the creditor may issue a creditor's statutory demand for payment of debt demanding payment within 21 days. Unless payment or an application to set it aside is made to the Court in this time, the company is presumed insolvent. The creditor may lodge a petition for winding-up of the debtor's company. The presumption of insolvency lasts for three months following service of the statutory demand. For individuals, the process is similar, but proceedings are required to be commenced in the Fed Circuit Court or Fed Court.

In NSW, in debt recovery proceedings, a statement of claim must be personally served on the debtor, who must then pay the debt, or file and serve a defence on the creditor within 28 days (NSW), failing which default judgment may be entered against the debtor. There are different time frames for different states. If the debtor does not pay the debt and files a defence, orders will be made by the court to prepare the matter for hearing including discovery and the preparation and exchange of evidence that will be relied upon at the hearing.

During this phase, the parties may request and exchange particulars of the claim or defence made by the other party in the form of documents referred to in the claim or defence (*e.g.* copies of the relevant unpaid invoices and statements of account). If discovery is ordered, the parties will be required to exchange all documents that are relevant to their case. Otherwise, all documents which the parties wish to rely upon at the hearing must be included in their evidence. Before handing down judgment, the court will hold an adversarial hearing in which the witnesses of each party may be cross-examined by the other parties' lawyers. Typically, straightforward claims may be completed within two to four months but disputed claims may last more than a year.

If a party is not satisfied with the judgment awarded by the court, it may appeal the decision. Appeals lodged against Supreme Court decisions are heard by the Court of Appeal in that state/territory. Any further appeal thereafter is heard by the High Court of Australia. The party seeking to appeal must seek leave and persuade the Court in a preliminary hearing that there is a special basis for the appeal, as the High Court will only re-examine cases of clear legal merit.

Local Courts or Magistrates Courts (depending on the state/territory) hear minor disputes involving amounts up to a maximum of AUD 100,000 (NSW, Vic, South Australia (SA), Northern Territory (NT), WA, and Tasmania (Tas)), AUD 150,000 (Qld) or AUD 250,000 (Australian Capital Territory (ACT)). Beyond these thresholds, disputes involving claims up to AUD 750,000 in NSW, WA, SA or Qld are heard either by the County Court or District Court. There is no County Court or District Court in Tas, NT or ACT.Claims greater than AUD 750,000 in NSW, Qld, SA, and WA are heard by the Supreme Court of each State. The Victorian County Court and Supreme Court have an unlimited jurisdiction. In the other states and territories, the Supreme Court hears claims greater than: AUD 100,000 in the NT; AUD 250,000 in AC; and AUD 50,000 in Tas.

Enforcement of a Legal Decision

A judgment is enforceable as soon as it is entered by the court. The plaintiff has up to fifteen years following the entry of judgment to pursue enforcement of an Australian judgment through Examination Notices, Garnishee Orders or Writs of Execution. Examination Notices force the debtor to provide information on its financial situation and assets, helping to establish a recovery strategy. The Garnishee allows the creditor to recover its debt (with interest and costs) directly from the debtor's bank account or salary as well as from the debtor's debtors,. Finally, the Writ orders a sheriff to seize and sell the debtor's property in payment of the debt (together with interest and costs) owing to the creditor. As for foreign awards, enforcement in Australia is governed by statutory regimes (Pt 6 of the Service and Execution of Process Act 1992 (Cth) for judgments given in Australia and Foreign Judgments Act 1992 (Cth) for judgments given outside Australia) and common law principles. Recognition depends on whether a reciprocal recognition and enforcement agreement exists between Australia and the issuing country.

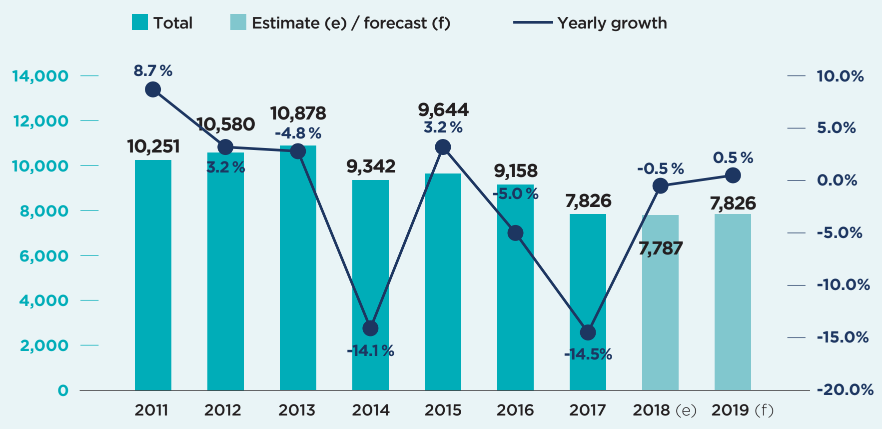
Insolvency Proceedings

Administration: a debtor company can be placed into administration by its directors, or by creditors that are owed money. The admi-nistrator will take full control of the company, and investigate and report to creditors as to the company's business, property, affairs, and financial circumstances. There are three options available to creditors: end the administration and return the company to the director(s); approve a deed of company arrangement through which the company will pay all or part of its debts; or wind up the company.

Receivership: a receiver is appointed by a secured creditor who holds security or a charge over some or all of the company's assets to collect the company's assets to repay the debt owed to the secured creditor. If the process fails, a liquidation procedure may be initiated.

Liquidation: creditors or a court may wind up a company, and appoint a liquidator who collects, protects, and realises the company's assets into cash, keep the creditors informed about the company's affairs and distribute any proceeds of sale of company assets. Upon completion of the liquidation, the company is then deregistered.

NUMBER OF CORPORATE INSOLVENCIES



Source: Australian Securities and Investment Commission, Coface.

AUSTRIA

COFACE ASSESSMENTS

COUNTRY RISK	A1
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	8.8
GDP PER CAPITA US Dollars - 2017	47,347
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.5	2.6	2.7	2.0
Inflation (yearly average, %)	1.0	2.2	2.1	2.1
Budget balance (% GDP)	-1.6	-0.8	-0.3	0.0
Current account balance (% GDP)	2.1	2.1	2.0	2.2
Public debt (% GDP)	83.6	78.3	74.5	71.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	29%
UNITED STATES	6%
ITALY	6%
SWITZERLAND	5%
SLOVAKIA	5%

Imports of goods as a % of total

GERMANY	42%
ITALY	6%
SWITZERLAND	6%
CZECHIA	4%
NETHERLANDS	4%

+

- Industrial and tertiary diversification; high added value
- Comfortable current account surplus and balanced government budget
- More than 30% of energy sourced from renewable supplies
- Major tourist destination (12th in the world)
- High public expenditure on R&D (3% of GDP)

−

- Dependent on the German and Central/Eastern European economies
- Banking sector exposed to Central, Eastern, and South-Eastern European countries
- Multiple layers of power and administration (federation, Länder, municipalities)

Sector risk assessments

AGRI-FOOD	LOW
AUTOMOTIVE	MEDIUM
CHEMICAL	LOW
CONSTRUCTION	MEDIUM
ENERGY	MEDIUM
ICT*	MEDIUM
METALS	MEDIUM
PAPER	LOW
PHARMACEUTICAL	LOW
RETAIL	MEDIUM
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Growth weakened by the external environment

Austrian economic growth is expected to mark time in 2019. Domestic demand will remain robust, thanks to lively private consumption, which will benefit notably from the increase in household disposable income resulting from a tax cut for families (Familienbonus, or "the family bonus"), as well as the resilience of investment, linked to sustained levels of business confidence and high production capacity utilisation (88.7% in the third quarter 2018). Nevertheless, external demand is expected to be more sluggish, which will affect manufacturing industry. This export-oriented sector could suffer, in particular, from the expected growth slowdown in Germany, the destination of 30% of Austrian exports. In this context, a possible escalation in protectionism would also hinder export growth. However, the services sector is expected to be more resilient, relying more heavily on domestic demand. The same will apply to construction, also helped by immigration, which will continue to boost Austrian real estate. Following the bank bailout that ended in October 2016, with the restructuring of HETA's debt, the banking sector will continue to recover, notably thanks to tighter capital and asset quality rules. Bank profitability should improve further in 2019, lifted by swelling demand for corporate financing and household mortgages.

In 2019, inflation is expected to remain stable, close to the ECB's 2% target and the European average. Domestic demand will continue to exert upward pressure on the price level, while the stabilisation of oil prices should limit the increase.

Improving public and external accounts

The government will maintain its policy of improving the public accounts and is expected to achieve its objective of a balanced government budget in 2019. In fact, expenditure is not expected to increase significantly and its GDP share is forecast to decline. This will be achieved *via* limited growth in the public sector wage bill and efficiency gains within government, among other methods. Nevertheless, spending on research and development and technological equipment is set to increase. At the same time, revenues, mainly from taxes (27% of GDP in 2017), are expected to increase by more, leading to a further reduction in the public debt burden.

The current account surplus is expected to increase slightly in 2019 on the back of tourism revenues, evidenced by the surplus in the balance of services (2.8% of GDP in 2017). While the income surplus could improve, the goods balance – which was slightly positive in 2018 – will be hurt by domestic demand (which favours imports) and slower export growth. Imports and exports alike will remain concentrated in the same sectors, namely machinery, transport and chemicals. However, the current account surplus will be absorbed by foreign investments, especially in the form of portfolio investments (net flow equivalent to 5% of GDP in 2017).

Austria continues its shift to the right

The Austrian People's Party (ÔVP) – a conservative, Christian democrat party – won the October 2017 parliamentary elections with more than a third of the seats in the Nationalrat. Following these elections, President Alexander Van der Bellen appointed Sebastian Kurz, former Minister of Foreign Affairs and leader of the ÔVP, as Chancellor. At the age of 32, Mr Kurz leads his government, a coalition between the OVP and the Freedom Party of Austria (FPÔ). The rapprochement with this nationalist party and the rightward shift in immigration policy, in particular by cutting benefits for asylum seekers, are resonating in a country that saw substantial inflows of migrants during the 2015 migration crisis. Austria's tightening of migration policy has led to disagreements with many EU countries. A new law (which is set to enter into force in 2019) to index family allowances to the standard of living in workers' home countries if they have left their children behind could create tensions, because it would contravene European law. However, the government remains pro-European and has ruled out a referendum on leaving the Union. Austria also held the Presidency of the European Council in the second half of 2018.

PAYMENT & DEBT COLLECTION PRACTICES IN AUSTRIA

Payment

SWIFT and SEPA (within the EU) transfers are commonly used for domestic and international transactions and offer a cost-effective, quick, and secure means of payment.

Bills of exchange and, to a lesser degree, cheques are most commonly used as a means of financing or payment guarantee. Nevertheless, neither are widely used nor recommended, as they are not always the most effective means of payment., bills of exchange must meet relatively restrictive mandatory criteria to be valid, which deters business people from using them. In parallel, cheques need not be backed by funds at the date of issue, but must be covered at the date of presentation. Banks normally return bad cheques to their issuers, who may also stop payment on their own without fear of criminal proceedings for misuse of this facility.

Debt Collection

As a rule, the collection process begins with the debtor being sent a demand for payment by registered mail, reminding him of his obligation to pay the outstanding sum plus any default interest stipulated in the sales agreement or terms of sale.

Where there is no interest rate clause in the agreement, the rate of interest applicable semi-annually from August 1, 2002 is the Bank of Austria's base rate, calculated by reference to the European Central Bank's refinancing rate, marked up by eight percentage points.

Fast-track proceedings

For claims that are certain, liquid and uncontested, creditors may seek a fast-track court injunction (*Mahnverfahren*) from the district court *via* a pre-printed form. The competent district court for this type of fast-tract procedure expedites the requisite action for ordinary claims up to €75,000 (previously €30,000).

With this procedure, the judge will issue an injunction to pay the amount claimed plus the legal costs incurred. If the debtor does not appeal the injunction (*Einspruch*) within four weeks of service of the ruling, the order is enforceable relatively quickly.

A special procedure (*Wechselmandatsverfahren*) exists for unpaid bills of exchange under which the court immediately serves a writ ordering the debtor to settle within two weeks. However, should the debtor contest the claim, the case will be tried through the normal channels of court proceedings.

If the debtor has assets in other EU countries, the creditor may request the Vienna Commercial Court to issue a European Payment Order for undisputed debts, enforceable in all EU countries (except Denmark).

Ordinary proceedings

Where no settlement can be reached, or where a claim is contested, the last remaining alternative is to file an ordinary action (*Klage*) before the district court (*Bezirksgericht*) or the regional court (*Landesgericht*) depending on the claim amount or type of dispute. Defendants have four weeks to file their own arguments.

With regards to the regional courts, defendants are expected to put forward their own arguments in response to the summons, and are allowed four weeks to do so.

A separate commercial court (*Handelsgericht*) exists in the district of Vienna alone to hear commercial cases (commercial disputes, unfair competition lawsuits, insolvency petitions, etc.).

During the preliminary stage of proceedings, the parties must make written submissions of evidence and file their respective claims. The court then decides on the facts of the case presented to it, but does not investigate cases on its own initiative. At the main hearing, the judge examines the written evidence submitted and hears the parties' arguments as well as witnesses' testimonies. An enforcement order can usually be obtained in the first instance within about ten to twelve months. The Civil Procedure Code provides that the winning party at issue of the lawsuit is entitled to receive full compensation from the losing party of all necessary legal fees previously incurred.

Enforcement of a Legal Decision

A judgement becomes enforceable when it becomes final. If the debtor does not respect the court's judgement, the court can issue an attachment order or a garnishment order. Alternatively, the court can seize and sell the debtor's assets.

For foreign awards, circumstances may vary depending on the issuing country. For EU countries, the two main methods of enforcing an EU judgment are the European Enforcement Order or under the provisions of the Brussels I regulations. For non-EU countries, judgments are recognized and enforced provided that the issuing country is party to an international agreement with Austria.

Insolvency Proceedings

Out-of Court proceedings

Out-of court restructuring efforts and negotiations are usually antecedent to insolvency proceedings. They constitute a means to obtain recapitalization loans in exchange for a secured creditor status.

Restructuring

A pre-requisite for a restructuring proceeding is that the debtor files for the opening and at the same time submits a restructuring plan. This proceeding is either self-administrated or administrated by an administration. For self-administrated restructuring, the debtor must file an application of self-administration complemented by qualified documents and a restructuring plan that provides a minimum quota of 30%.

Liquidation

Liquidation proceedings aim to equitably realise the various creditors' rights. The proceedings are led by a trustee in bankruptcy which takes control of the business, sells the assets, and divides the proceeds among the creditors.

Retention of Title

Similar to Germany, Retention of Title is a written clause in a contract, which states that the supplier will retain the ownership over the delivered goods until the buyer made full payment of the price. This usually takes one of three forms:

- **simple retention**: the supplier will retain the ownership over the goods supplied until full payment is made by the buyer;
- **expanded retention**: the retention is expanded to further sale of the subsequent goods; the buyer will assign the claims issued from the resale to a third party to the initial supplier;
- **extended retention**: the retention is extended to the goods processed into a new product, and the initial supplier remains the owner or the co-owner up to the value of its delivery.

AZERBAIJAN

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	9.8
GDP PER CAPITA US Dollars - 2017	4,141
CURRENCY Azerbaijan manat	AZN

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-3.1	0.1	1.5	3.5
Inflation (yearly average, %)	12.4	13.0	3.5	3.5
Budget balance (% GDP)*	-1.2	-1.5	3.7	1.2
Current account balance (% GDP)	-3.6	4.0	6.6	8.1
Public debt (% GDP)	50.7	54.1	48.4	46.0

(e): Estimate. (f): Forecast. *Including transfers from SOFAZ.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	38%
TURKEY	12%
ISRAEL	6%
RUSSIA	5%
CZECHIA	5%

Imports of goods as a % of total

RUSSIA	18%
EURO AREA	15%
TURKEY	15%
CHINA	10%
UNITED STATES	8%

+

- Well-endowed sovereign wealth fund thanks to oil production
- Significant gas potential in the Caspian Sea
- Increased prospect of gas exports to Turkey, then Europe
- Link in the connection between China and Europe; development of rail corridors with Iran, Turkey and Georgia
- Favourable business environment (25th in Doing Business 2019)

-

- Heavily dependent on hydrocarbons; limited non-oil sector
- Declining oil production (25% reduction over the last six years)
- Weak banking system
- Risk that the armed conflict with Armenia could worsen
- Governance problems (corruption, repression, offshore money laundering)

RISK ASSESSMENT

Dependent on hydrocarbons, but diversification efforts are underway

Growth, driven by the performance of the hydrocarbon sector (44% of GDP and 76% of industrial production), should benefit from high oil prices and the development of gas production. In 2019, the country should also be rewarded for its diversification efforts with a more than 3% expansion in its non-oil and gas economy. The resulting increase in income should have a positive impact on households, whose consumption (52% of GDP) will continue to increase vigorously. Public investment (2/3 of the total) will be directed towards the energy sector (Shah Deniz gas field in the Caspian and completion of the Trans Anatolian TANAP pipeline) and economic diversification (cotton, tourism, fruit and vegetables, as well as automotive with Iran Khodro), as favourable economic conditions set the stage for significant public spending thanks to increased revenues. The revival of credit should also allow growth in private investment, which will remain mainly foreign (FDI). The contribution of trade to growth is expected to be slightly negative. Additional gas exports will only partially offset the decrease in oil exports due to well depletion, but together they will remain the main export item (90%). Imports will increase more rapidly, reflecting more positive trajectories for consumption and investment.

Current account and government surplus due to hydrocarbons

The transfers from the sovereign wealth fund (SOFAZ) will more than cover the initial deficit of 2.5% of GDP. Revenue growth since 2016, first through the development of the non-oil sector, then through the recovery in hydrocarbon prices (57% of budget revenues) and the expansion in gas production, is expected to slow (3% increase). Against this backdrop, a new fiscal rule has been adopted to reduce dependence on the oil cycle by controlling spending when prices are high. Specifically, the government has set the threshold above which additional revenue can be spent at USD 60, which is USD 5 more than in 2018. Even so, spending will continue to grow at a sustained rate in 2019 (15%). This is particularly true of investment spending, which will represent one third of total expenditure, with current expenditure increasing to a lesser extent (under 6%). After increasing because of assistance provided to state-owned companies struggling in the wake of major devaluations – in particular the International Bank of Azerbaijan (IBA) –, public debt is expected to be reduced, but remains vulnerable owing to its high sensitivity to external shocks (fall in oil prices, depreciation) and guarantees granted by the state. IBA's troubles are not unique in the banking sector, which continues to be affected by numerous bank closures, non-performing assets (25%), and low profitability. Despite all this, credit is expected to rebound slightly: banks – 80% of whose deposits are in US dollars – are only willing to lend in that currency in order to protect themselves against exchange rate risk. Accordingly, borrowers prefer to use informal credit, even if the rates are usurious. The policy of interest rate cuts (from 15% to 9.75%) initiated by the central bank in 2018 might continue, but will be tightened if there is pressure on the exchange rate, since currency stability is its main objective.

The current account should still be largely positive thanks to the structural trade surplus (20% of GDP) linked to hydrocarbons, despite the continued services deficit (8%) and income deficit (6.5%, but improving), which reflect the presence of foreign companies in the hydrocarbon sector. With the central bank's reserves dwindling to the equivalent of four months of imports over recent years, SOFAZ provides the central bank (the two had combined reserves of USD 45 billion at the end of 2018, an increase of 9% in one year) with sufficient funds to service the external debt of the company in charge of the TANAP pipeline and the state oil company (SOCAR). The country's total external debt, half of which is public, represents 45% of GDP.

A well-established regime

In April 2018, President Ilham Aliyev was re-elected for a fourth term, this time for seven years, taking 86% of the vote in an election marked by irregularities and an opposition boycott. He has reappointed his wife as Vice-President. The Parliament, dominated by the President's Party (YAP), plays a secondary role vis-à-vis the executive. With growth resuming and despite deep inequalities, stability is expected to persist. The political opposition is weak, and the authorities are not afraid to use repressive measures. Despite some progress, governance as measured by the World Bank ranking remains poor. Some freedoms are actually being curtailed, which is not facilitating relations with the EU. Conversely, the country's business environment has improved dramatically, jumping 40 places in the Doing Business ranking. Finally, the risk of an escalation in the armed confrontation with Armenia over Nagorno-Karabakh and other adjacent Azeri territories occupied by Armenian forces is contained by the strong joint influence of Russia, Turkey and Iran over the region. However, Nakhchivan – an Azeri enclave trapped between Armenia and Iran, which had seemed calmer – has seen a resurgence of Azeri military activity coinciding with the political upheaval in Armenia.

BAHRAIN

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	A4

POPULATION Millions of persons - 2017	**1.5**
GDP PER CAPITA US Dollars - 2017	**24,326**
CURRENCY Bahraini dinar	**BHD**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.2	3.9	3.2	2.6
Inflation (yearly average, %)	2.8	1.4	3.0	4.8
Budget balance (% GDP)*	-17.6	-14.3	-8.9	-8.2
Current account balance (% GDP)	-4.6	-4.5	-2.5	-2.3
Public debt (% GDP)	81.3	88.5	88.4	91.7

(e): Estimate. (f): Forecast. *Including grants.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED ARAB EMIRATES	22%
SAUDI ARABIA	14%
UNITED STATES	11%
OMAN	8%
CHINA	7%

Imports of goods as a % of total

EURO AREA	16%
CHINA	13%
UNITED ARAB EMIRATES	10%
UNITED STATES	7%
SAUDI ARABIA	7%

- Oil and gas potential
- Diversification efforts (petrochemicals, financial services, tourism)
- Policy to attract foreign companies (Ikea, Mondelēz International)
- Financial support from GCC countries
- Discovery of hydrocarbon deposits that could compensate for depleting oil reserves
- Presence of the main American naval base in the area (5th Fleet of the US Navy)
- Low unemployment rate

- Economy and public finances exposed to hydrocarbon price fluctuations
- Acute sociopolitical tensions between the ruling Sunni minority and the majority Shia population fuelled by the regional context featuring tension with Iran and the embargo on Qatar
- Dependent on foreign labour
- Public debt, particularly external debt, is very high

RISK ASSESSMENT

Slower growth despite robust investment

Despite exploration for offshore oil and gas deposits estimated at 80 billion barrels, oil sector growth – which was negative before 2018 – is expected to remain weak in 2019, and will not be sufficient to prevent a further slowdown in overall growth. However, ongoing international assistance, particularly from the GCC, should enable the government to maintain a significant investment drive. In October 2018, this led to completion of a pipeline to transport oil from Saudi Arabia to Bahrain Petroleum Company refinery, the country's national oil company. This infrastructure should lead to an increase in Bahrain's processing capacity. In addition, the favourable tax regime will continue to attract private investment. In 2019, aluminium production is expected to rebound thanks to the launch of a new potline by Aluminium Bahrain. This should boost exports, since aluminium is the second largest export after oil (24% of exports in 2017). Nevertheless, the political and social context could constrain demand.

Household consumption (43% of GDP in 2017) is expected to be hampered by further fiscal austerity measures. Rising inflation, fuelled by the introduction of a GCC-wide VAT, as well as rising house and food prices, is also expected to have a dampening effect.

Difficult to reduce the public balance

As part of its five-year fiscal programme (2018-2022), the government will pursue a policy of fiscal consolidation. The programme includes balancing the accounts of the Electricity and Water Board, reducing current expenditure, introducing a voluntary pension scheme for civil servants, and increasing non-oil revenues. To this end, a 5% VAT will be introduced in January 2019. These efforts will also be undertaken to receive the USD 10 billion in aid over five years promised by Saudi Arabia, Kuwait, and the United Arab Emirates. However, a further reduction in subsidies (18% of expenditure) and in the wage bill (38% of expenditure) – which will have to be introduced if the government intends to achieve its objective of a balanced budget by 2022 – will not be easily accepted in the tense social climate. In addition, public finances depend mainly on the oil sector, which generates 75% of revenues. The rise in oil prices in 2018 thus played a major role in curbing the government deficit. Nonetheless, since the price required for a balanced budget is USD 113 per barrel, the deficit will remain substantial. In order to finance it, the kingdom will continue to rely on debt. The increase in public debt, which is divided between domestic and foreign creditors and which has doubled in the space of four years, coupled with the downgrade in Bahrain's sovereign rating to speculative grade have pushed up the cost of debt. At the same time, the decline in investor confidence will remain limited due to the intervention of other GCC members to maintain the dinar's dollar peg and debt sustainability.

A stable current account deficit but the external financial situation remains fragile

In 2018, the current account deficit narrowed considerably, due to the rise in the price of oil, which accounted for more than half of export earnings. In 2019, the trade balance, which has been slightly positive since 2018, is expected to decline slightly, while the services surplus (10% of GDP in 2017), linked to tourism and insurance activity, is set to grow significantly. However, profit repatriation by foreign companies and transfers by foreign workers are expected to put more pressure on the current account deficit. The increase in that deficit following the fall in oil prices in 2014 resulted in a decline in foreign exchange reserves, which stood at only three weeks of imports in September 2018. The expected rise in US policy rates will increase the speculative pressure on the dollar peg. In addition, external debt, which is mainly private (76% of the total), has increased sharply, climbing from 154% in 2014 to 179% in 2017.

Internal sociopolitical tensions exacerbated by the regional environment

Tensions between the predominantly Shia population and the Sunni ruling elite will remain high. The political and social marginalisation felt by the Shia community is at the root of the unrest. The situation is exacerbated by the rivalry between Saudi Arabia, which supports the kingdom, and Iran, which is accused of supporting Shia opposition groups (al-Wefaq and Waad). Legislative and municipal elections held in December 2018 handed victory to independent candidates loyal to the king. In fact, many Shia militants heeded the call from al-Wefaq to boycott the elections, meaning that the opposition will remain weak. The tense social context has had a negative impact on the business environment, which has been quite favourable until now, thanks to efforts to attract foreign investors and develop the private sector.

BANGLADESH

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	163.2
GDP PER CAPITA US Dollars - 2017	1,603
CURRENCY Bangladeshi taka	BDT

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	33%
UNITED STATES	12%
UNITED KINGDOM	9%
CANADA	3%
POLAND	2%

Imports of goods as a % of total

CHINA	22%
INDIA	15%
SINGAPORE	6%
EURO AREA	5%
JAPAN	4%

+

- Competitive garment sector, thanks to relatively cheap labour
- Substantial remittances from expatriate workers, mainly living in the Gulf States
- International aid helping to cover financing needs
- Moderate level of national debt
- Favourable demographics: 35% of Bangladeshis are under 15
- Improving financial inclusion thanks to microfinance and mobile services

−

- Economy vulnerable to changes in global competition in the textile sector and to developments in the GCC States
- Very low per capita income and low female participation despite progress
- Recurring and growing political, religious, and social tensions
- Business climate shortcomings and lack of infrastructure
- Recurring natural disasters (cyclones, severe floods, landslides) resulting in significant damage and harvest losses

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)*	7.1	7.1	7.0	7.0
Inflation (yearly average, %)	-3.4	5.6	6.0	6.1
Budget balance (% GDP)	5.6	-3.3	-4.3	-4.5
Current account balance (% GDP)	0.6	-2.0	-3.2	-2.7
Public debt (% GDP)	33.0	33.0	33.4	33.7

(e): Estimate. (f): Forecast. *Fiscal year 2019 from July 1 2018 – June 30 2019 (Budget balance includes grants).

RISK ASSESSMENT

Growth will remain strong in 2019

GDP will continue to grow fast in 2019, mainly driven by private consumption and gross fixed investment. Consumption (around 70% of GDP) is increasing fast (around 10% annually) from a low base, and thanks to increasing real wages. It relies on the sizeable expatriate remittances and on the performances of the manufacturing and agricultural sectors. It will not be weighed on by the high inflation, which is due to demand-side pressures, poor harvests, and global commodity prices. The external sector's output is limited by infrastructure shortcomings and low value added productions. The ready-to-wear clothing segment (nearly 70% of exports) should benefit from the disruption in global value chains caused by the trade wars, as Bangladesh is a good substitute for Chinese export industries, especially thanks to the availability of cheap labour force. However, good performances in the export sector will not contribute to GDP growth, as import will grow faster than exports (because of higher oil prices and imports related to infrastructure projects). FDIs remain very low (below 1% of GDP each year), although the government intends to attract more, along with international aid via a PPP program and investment agreements (no or low interest loans and grants). The National Development Plan (NDP) will continue to oversee these investments to target shortcomings in transport, education, water, and energy, such as the Dhaka subway, financed by Japanese development aid and the Bangladeshi government. Development will also benefit from growing domestic financial inclusion, via bank account dissemination but also the arrival of PayPal in the country. However, the banking sector is challenged by the high share of NPLs (above 10% of all loans in FY 2018), with the share being much higher in state-owned banks.

Widening but sustainable twin deficits

The budget deficit will continue to widen as spending over investment programs increases quicker than revenue. The income tax base is narrow (fiscal revenues below 10% of GDP) and most of the government revenue comes from indirect taxes (customs and excise duties). Expenditure will be allocated to strengthening trade policies, recapitalising the publicly-owned banks, and ongoing investments in infrastructure – such as the Rooppur nuclear plant, the Padma railway project or the Dhaka subway. International aid represents 17% of revenues or 31% of the deficit (2017-2018), but the reliance on aid is moderate as it only represents 2% of GDP. The public debt level remains sustainable; approximately one third of it is externally held and denominated in foreign currency. High growth and a small primary deficit (*i.e.* excluding interests) explain its steady ratio to GDP.

The current account deficit will continue to deteriorate because of growing trade imbalances linked to imported inputs for infrastructure investments, as well as rising energy imports, such as LNG (compensating for declining national production) and oil imports that are not offset by the rise in oil and gas exports. Moreover, the deficit of the primary income balance will increase with profit repatriation by foreign investors, while the secondary income balance will show a strong surplus thanks to remittances. The current account deficit will remain financed by FDIs and public debt. Foreign exchange reserves offer a satisfactory safety net, equalling around 6.5 months of imports, in a global context of monetary tightening that is raising capital flight risks.

Vulnerable political stability even if continuity at the head of the state is ensured

The country endured several military coups since the creation of the state in 1971. Political stability is vulnerable to tensions between the Awami League (AL), the ruling party since 2009 and the Bangladesh Nationalist Party (BNP). These could translate into religious frictions between the Islamic majority of the population and minority religious groups, while risks of labour strikes and terrorist attacks remain. The AL is associated with the independence and a more secular ideology than the BNP, connected with the heritage of the military dictatorship and with a stricter traditional Islamic stance. The leader of the BNP, Khaleda Zia, is currently in prison on corruption charges. The AL won 288 out of 300 seats in the Parliamentary elections of December 2018. International observers, as well as the BNP, contested the fairness of the electoral process given the lack of freedom for political campaigns for the opposition and questioning election results. The elections took places in a very tense climate, as violent outbreaks between opposing factions caused over a dozen deaths. The enduring risk of social unrest in the country contributed to the erosion of the business climate in Bangladesh (176/190 in the World Bank's 2019 Doing Business ranking).

Poverty and development remain the major governance challenges. Moreover, the Rohingya refugee crisis will remain a challenge. Internationally, Bangladesh will continue to concentrate on relations with China and India, even if claims over the Teesta River and migration issues will weigh on relations with the latter.

BELARUS

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

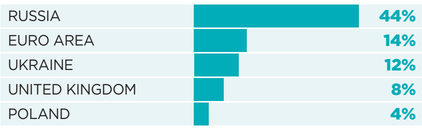
POPULATION Millions of persons - 2017	**9.5**
GDP PER CAPITA US Dollars - 2017	**5,727**
CURRENCY Belarussian ruble	**BYR**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-2.5	2.4	3.3	2.5
Inflation (yearly average, %)	11.8	6.0	5.0	6.0
Budget balance (% GDP)	-1.7	-0.3	-2.4	-3.0
Current account balance (% GDP)	-3.5	-1.7	-2.5	-4.0
Public debt* (% GDP)	53.5	53.4	56.0	57.0

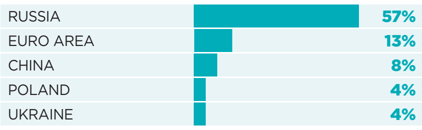
(e): Estimate. (f): Forecast. *State-Owned Enterprises debts guarantees included.

TRADE EXCHANGES

Exports of goods as a % of total



Imports of goods as a % of total



- Strategically located between Russia and the European Union with a well-developed transport network
- Relatively well trained and skilled workforce
- Large industrial sector
- Low inequality and rare poverty

- High energy, economic and financial dependence on Russia
- Sensitive to the price of oil and its derivatives
- State plays a massive role in the economy (56% of value added, 70% of GDP); exchange controls
- Poor governance (high corruption, weak legal system)
- Shrinking labour force
- Geographically isolated between NATO and Russia

RISK ASSESSMENT

Moderate growth

After peaking in 2018, growth is expected to revert to a moderate level in 2019. Household consumption, which accounts for 55% of GDP, could be less robust: while wage increases are set to continue, they will be partly offset by inflation fuelled by higher food prices, as well as by higher service prices resulting from wage growth. In addition, regulated prices are likely to rise again. As a result, retail trade may be less driven by economic conditions. Exports (63% of GDP) of chemicals (potash fertilizers, plastics), agri-food products (dairy, beef and veal), agriculture (livestock and cereals), steel, trucks and construction machinery are also likely to flag. While Russian demand is likely to stay the same, demand in the eurozone, Ukraine and Poland could well be less buoyant. Furthermore, poor harvests will automatically affect sales to Russia, which is by far Belarus' largest trading partner.

A massive and inefficient public sector

Public debt has steadily increased to represent more than half of GDP, with 89% of the total amount denominated in foreign currencies. Guarantees from central or local government to state-owned companies (which account for one third of GDP) and banks (which hold 66% of banking assets) are equivalent to 10% of GDP. The agricultural sector (8% of GDP) is almost entirely state-controlled. The public commercial sector has to cope with inefficiency and government instructions that are not always relevant. Consolidation of the public sector will be difficult due to budgetary constraints, especially with the government continuing to wield its influence, notably by directing credit. Privatisation and reorganisation projects, potentially costly in terms of employment and popularity, have been shelved, delaying the conclusion of a financial programme with the IMF. The government's attitude has been facilitated by the return to growth and rapprochement with Russia after the deep recession of 2015/16.

External accounts influenced by Russia

After Belarus refused to recognise the annexation of Crimea and to have a Russian military base, Russia used the pretext of the establishment of the Eurasian Economic Union in 2015 to raise the price of gas and then reduce its oil deliveries. An agreement was finally reached in early 2017, ending a costly dispute for the Belarus economy. Russia has granted an increase in oil deliveries allowed for re-export, refinanced gas arrears and granted new loans. As a result, Belarus was able to issue euro bonds, both to replenish its reserves, which stood at 2.4 months of imports and 75% of short-term debt as of June 2018, and to consolidate its external debt service (70% of GDP). This debt results from a recurring current account deficit, mainly related to the payment of debt interest. The deficit in trade in goods (5.3% of GDP in 2017) is offset by the surplus in services linked to the transit of goods and gas between Russia and Western Europe. The current account deficit is financed by foreign direct and portfolio investment. The deficit is likely to widen, not only because of increased debt interest, but also because of the change in Russia's approach to hydrocarbon taxation from 2019. By 2023, customs duties on hydrocarbon exports will be phased out, offset by an increase in the tax collected at the extraction level. As Belarus's imports of Russian petroleum products are exempt from these customs duties, the switchover could prove costly for the country. In the absence of adjustments, which are currently under negotiation, the cost would amount to USD 300 million (0.5% of GDP) for 2019 alone. Conversely, the forthcoming completion by Rosatom of the Astraviets nuclear power plant, one of whose two reactors will come online at the end of 2019, should be accompanied by a decline in imports of gas and capital goods. The Belarus rouble, which operates under a managed float against a basket of currencies (the rouble, the US dollar and the euro), is not immune to weakness, particularly against the Russian rouble.

A president maintaining the balance between Russia and the West

President Alexandr Lukashenko, in power since 1994, was re-elected for the fifth time in 2015. The political opposition is anaemic. However, the social climate, which deteriorated following the economic crisis of 2015/16 caused by the dispute with Russia, could become tenser again if an agreement is not reached to mitigate the negative impact of Russia's new approach to taxing hydrocarbons. The question of sharing revenues with Russia from the export of petroleum products processed using oil sold below market prices is the subject of regular disputes, while souring relations between Russia and the West may complicate Belarus's balancing act. China's growing use of the country as a production and export base under its Belt and Road initiative, along with increased use of Chinese financing, offer a way for Belarus to diversify its partners.

BELGIUM

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	11.4
GDP PER CAPITA US Dollars - 2017	43,488
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.5	1.7	1.5	1.3
Inflation (yearly average, %)	1.8	2.2	2.3	2.1
Budget balance (% GDP)	-2.4	-0.9	-1.0	-1.0
Current account balance (% GDP)	-0.4	0.9	1.2	1.1
Public debt (% GDP)	106.1	103.4	102.3	100.6

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	17%
FRANCE	15%
NETHERLANDS	12%
UNITED KINGDOM	8%
ITALY	5%

Imports of goods as a % of total

NETHERLANDS	17%
GERMANY	14%
FRANCE	9%
UNITED STATES	7%
UNITED KINGDOM	5%

+

- Optimal location between the United Kingdom, Germany and France
- Presence of European institutions, international organisations and global groups
- Ports of Antwerp (second largest in Europe) and Zeebrugge, canals and motorways
- Well-trained workforce through vocational education, multilingualism

−

- Political and financial tensions between Flanders and Wallonia
- Complex institutional structure and multiple administrative levels
- Highly dependent on the Western European economy (exports of goods and services = 82% of GDP)
- Exports concentrated on intermediate products
- High structural unemployment
- Heavy public debt
- Tight housing market
- Saturated transport infrastructure

RISK ASSESSMENT

Growth to mark time in 2019

Belgium's economic expansion faltered slightly in 2018, echoing the performances of other eurozone countries. Domestic demand remained buoyant, driven by resilient household consumption and increased investment. Unlike in 2017, exports made a small contribution to activity. Growth is expected to stagnate again in 2019, with domestic demand still the main driver. A less supportive European environment and weaker business confidence are expected to cause private investment to moderate. At the same time, the increase in public investment observed following the 2018 municipal elections is expected to be temporary and this will be only slightly compensated for by the measures contained in the Investment Pact. Following the government's collapse in December 2018, some of the investments announced by Prime Minister Charles Michel will likely be withdrawn. Indeed, the caretaker government will only be enabled to deal with projects that have been approved by the former coalition, such as the completion of the RER rail project. However, consumption is expected to take over. Household disposable income is poised to continue growing, boosted by a buoyant labour market and tax cuts for households. However, consumption could be somewhat depressed by continued high inflation resulting from increased domestic production costs due to tight labour market conditions, on the one hand, and from energy prices, which refuse to go down, on the other. External demand is expected to make a less robust contribution due to the slowdown of Belgium's main eurozone partners. At the same time, export competitiveness will likely continue to fall due to the rise in domestic wages and euro appreciation against the US dollar.

Slight deviation from the medium-term budgetary objectives

After falling in 2017, the government deficit stabilised in 2018. Budgetary expenditures and revenues fell by 0.3 and 0.2 percentage points of GDP respectively. The drop in revenues is attributable to the slight slowdown in activity but also to the reduction in compulsory levies as part of the tax shift. Increases in capital expenditure at the municipal level were offset by a larger than expected decrease in federal spending. However, the structural balance declined compared with 2017 to reach 1% of GDP. The government deficit is expected to stabilize in 2019. The fall of Charles Michel's government and the appointment of a caretaker government will likely cancel the reforms planned in the 2019 budget. In fact, as the prerogatives of the new government are limited, the state's budget is divided into provisional twelfths, *i.e.* one-twelfth of the previous year's budget for each month of the financial year. As nominal growth is expected to remain higher than interest rates, public debt should continue to decline in 2019, despite an unchanged primary balance.

The current account should remain in balance. The trade surplus is expected to fall slightly under import pressure. Services will remain in surplus thanks to IT, telecommunications, royalties, transport and trading.

Government falls on the eve of an election year

Given that the country has just entered an election year, the political crisis that shook Belgium in December 2018 is likely to lead to a long period of political uncertainty. Following a disagreement over the ratification of the Marrakech Global Migration Pact, the Nieuw-Vlaamse Alliantie (N-VA), the main Flemish majority party, left the government. The new government of Charles Michel, a minority government, had only 52 deputies out of 150 in the House of Representatives and was forced to rely on Parliament to endorse its decisions. Faced with the risk of a motion of no confidence from the opposition (socialist and ecologist), Charles Michel submitted his resignation to King Philippe on December 18, 2018. The King ruled out the possibility of holding early elections but asked the Prime Minister to lead a caretaker government until the next election deadline. Federal parliamentary elections are expected to be held on May 26 together with regional and community (elections of representatives of regional and community parliaments) and European elections. As supporters of confederalism begin to make their voices heard, it is highly likely that the federal elections will lead to a fragmented Parliament that reflects the divisions that are undermining the country. Acting as a test, the communal and provincial elections confirm two trends that were already perceptible: on the one hand, the gap between Flemish and Walloon people is widening, and on the other hand, the major political parties are weakening in favour of more radical movements. Thus in Wallonia, the Socialist Party was unable to limit the breakthrough of the Belgian Labour Party (PTB), a radical left-wing formation, and in Flanders, the N-VA recorded a slight decline in the cities where the far right is making progress.

PAYMENT & DEBT COLLECTION PRACTICES IN BELGIUM

Payment

Bank transfers (SEPA & SWIFT) and electronic payments are the most frequently used methods of payment for businesses.

Cheques are seldom used and only in certain sectors (*e.g.* transport, fruit and vegetable wholesale). As cheques no longer benefit from a guarantee from the issuing bank, the cheque issuer's account needs to contain sufficient funds in order to be for the cheque to be cashed. Issuing a cheque with insufficient funds is a criminal offence.

Bills of exchange are no longer used for payment in Belgium, except in certain sectors and in international transactions.

Payment defaults are no longer recorded in the *Moniteur belge* (MB, Belgian Official Journal), but they can be consulted on the National Chamber of Bailiffs' website, where data is available to banks and professional organisations.

Debt Collection

Amicable phase

There are no special provisions for out-of-court debt recoveries between businesses. Creditors should attempt to gain payment from debtors by sending written reminders. Before beginning legal action against a debtor company, it is often worthwhile asking a lawyer to check the database of seizures.

Legal proceedings

Judgments are normally delivered within 30 days after closure of the hearings. A judgment is rendered by default in cases where debtors are neither present nor represented during the proceedings.

Fast track proceedings

This procedure is rarely used in business-to-business cases, and cannot be implemented when the debt is disputed. A 2016 law implemented a new set of procedural rules, creating an out-of-court administrative procedure for non-disputed debts. When an order of payment has been issued, the debtor has a month to pay the amount. If the debtor refuses, the creditor can request a bailiff to issue a writ of execution. Moreover, under the new rules, lodging an appeal against a judgment will no longer suspend the enforceability of this judgment. Consequently, even if the debtor starts appeal proceedings, the creditor will be able to pursue the recovery of the debt.

Retention of title clause

This is a contractual provision stipulating that the seller retains title of goods until receipt of full payment from the buyer. Unpaid creditors can make claims on goods in the debtor's possession. It therefore follows that the retention of title clause is enforceable in all situations where creditors bear losses arising from insolvencies, whatever the nature of the underlying contract. When goods sold under retention of title are converted into a claim (after a sale), the seller-owner's rights referring to this claim (the selling price) are known as real subrogation.

Ordinary proceedings before the commercial court

All disputes between companies can be tried by the Commercial Court in Belgium. In cases of cross-border claims using European legislation, a European execution for payment proceedings can be enabled. Claimants also have recourse to European small claims proceedings.

Summon on the merits

The bailiff assigns the debtor a court date for the introduction of the case. If discussions do not take place, judgement will follow within four to six weeks. If there are discussions pending, parties need to put their intentions in written conclusions. After judgement, there is a possibility to appeal – if no appeal is filed, the execution will follow through the bailiff.

Attachment procedure

This judicial proceeding is conducted for the benefit of only one party (*ex parte*). There are three essential conditions to proceed with an attachment:

- urgency of the measure;
- prior authorisation of the judge is required to lay a conservatory attachment;
- the debt must be certain, collectable and liquid.

A debtor may request the cancellation of the attachment if it has been unjustly imposed. However, once an attachment has been imposed, it remains valid for a period of three years. Subsequently, a conservatory attachment may be transformed into an execution order.

Enforcement of a Legal Decision

A judgment becomes enforceable once all venues of have been exhausted. If the debtor refuses to execute payment, a bailiff can attach the debtor's assets or obtain payment through a third party (Direct Action).

Foreign awards can be recognised and enforced in Belgium, provided that various criteria are met. The outcome will vary depending on whether the award is rendered in an EU country (in which case it will benefit from particularly advantageous enforcement conditions), or a non-EU country (for which normal *exequatur* procedures are applied).

Insolvency Proceedings

Bankruptcy proceedings

Debtors can file for bankruptcy when they have ceased making payments for some time, or when the creditor's confidence has been lost. If bankruptcy is granted, creditors must register their claims within the time prescribed in the court's insolvency declaration. Failure to do so on the part of a creditor will result in the cancellation of their priority rights. The court then appoints a trustee, or official receiver, to verify the claims. The retention of title clause can be cited by the creditor, in order to claim his property.

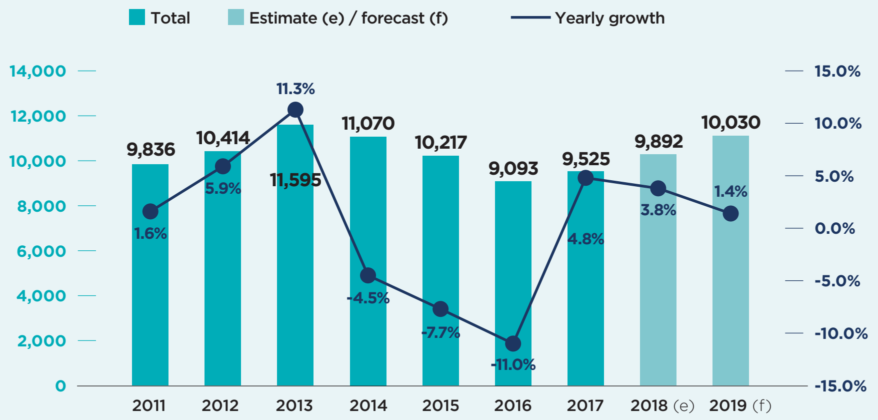
Since 2017, submissions of claims where bankruptcy procedures are involved must be made electronically, *via* the Central Solvency Register (www.regsol.be), which records all bankruptcies over the last 30 years.

Judicial restructuring process

The judicial restructuring process (*reorganisation judiciaire*), designed to reorganise a company's debts with its creditors, can be granted by the court upon request of any debtor facing financial difficulties that threaten its continued business in the short- or medium-term. The debtor makes a reasoned application to the Registry of the Commercial Court in order to be granted an extended period to pay the debt. This extended period is normally set at six months, during which the debtor must propose a reorganisation plan to all of its creditors.

Outstanding creditors (those whose claims arose before the commencement of the extended period) cannot begin any execution procedure for the sale of real or personal property of the debtor, but can request enforcement of their retention of title clause. Nevertheless, the extended period does not prevent the debtor from making voluntary payments to any the outstanding creditors. In addition, the extended period does not benefit co-debtors and guarantors, who are still required to meet their commitments.

NUMBER OF CORPORATE INSOLVENCIES



Source: Statistics Belgium, Coface.

BENIN

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	C

POPULATION Millions of persons - **2017**	**11.1**
GDP PER CAPITA US Dollars - **2017**	**831**
CURRENCY CFA franc (BCEAO)	**XOF**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.0	5.6	5.9	6.1
Inflation (yearly average, %)	-0.8	0.1	0.8	1.1
Budget balance (% GDP)	-6.0	-5.9	-4.7	-2.7
Current account balance (% GDP)	-9.4	-11.1	-10.8	-9.2
Public debt (% GDP)	49.5	54.6	56.8	55.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

BANGLADESH	23%
INDIA	11%
UKRAINE	9%
CHINA	8%
NIGER	7%

Imports of goods as a % of total

EURO AREA	21%
THAILAND	18%
INDIA	16%
CHINA	7%
TOGO	6%

\+

- One of the most stable democracies in Africa
- Significant financial support from donors (ODA, HIPC, MDRI)
- Strategic position (access to the sea for hinterland countries)

\-

- High poverty
- Narrow and volatile export base (dependence on cotton price fluctuations)
- Erratic electricity supply
- Governance gaps
- Impact on activity and tax revenues of Nigeria's economic policy decisions
- Terrorist threat (Boko Haram) from neighbouring Nigeria

RISK ASSESSMENT

The "Revealing Benin" program is boosting growth

Growth in 2019 is set to continue on its favourable trajectory, supported in particular by the continued implementation of the "Revealing Benin" development plan, which foresees investments worth USD 15 billion over five years (2016-2021). Flagship projects, such as the new international airport of Glo-Djigbé or the extension of the port of Cotonou, will continue to drive public investment. Private sector participation in investment is also set to be enhanced *via* the adoption of a PPP law (2017) and reforms to improve the business environment, such as the restructuring of the Investment and Export Promotion Agency and a new Investment Code (2018). Cotton production, which accounted for more than 50% of export earnings in 2017, is expected to continue to increase in 2019, benefiting from reforms in the sector, efforts to improve yields, and favourable international prices. More generally, higher agricultural yields are expected to continue to boost export flows, which should also continue to benefit from the (modest) recovery of neighbouring Nigeria. In addition, the flow of expatriate workers from Nigeria, also expected to increase, will likely maintain the momentum of private consumption. Another contributing factor is low inflation: despite a likely increase in the price of imported products, forecasts indicate it will remain below the 3% threshold set by WAEMU.

Approaching compliance with the WAEMU convergence criteria

In light of the WAEMU deficit convergence criteria of 3% of GDP, the government is likely to continue its efforts to reduce the budget deficit in 2019. Fiscal consolidation efforts should be continued in line with the Benin authorities' commitments under the ECF programme provided by the IMF in April 2017. These efforts include the further rationalisation of current expenditure, to enable the government to continue to support economic growth through capital investment spending. However, these will be accompanied by a programme to improve the efficiency of public investment, which is expected to continue in 2019. The elimination of certain fiscal exemptions and the modernisation of the tax administration should improve revenue collection. Fiscal consolidation should also help to curb the rapid increase in public debt, particularly in the regional market, which has been used to finance public investment in recent years.

The current account deficit is expected to continue to decline in 2019, supported by a reduction in the large trade deficit. Exports are expected to continue to grow thanks to the rapid increase in cotton production and dynamic external demand, particularly from China. Nevertheless, the trade balance is expected to remain in deficit, burdened by a large import bill due to demand for capital goods. The transfer balance is also expected to contribute modestly to this reduction in the current account deficit: remittances from expatriate workers are expected to increase in line with the more favourable economic situation in Nigeria. Concessional borrowing will continue to finance the deficit, but FDI flows, through efforts to stimulate investment, and portfolio investment, buoyed by interest on Beninese debt, could also play a larger role in financing the external deficit.

Social and political tensions are increasing in the run-up to the parliamentary elections

In March 2016, businessman Patrice Talon won the presidential elections through distinguishing himself by his commitment to addressing issues of corruption and ineffective governance. Despite the implemented reforms, which aimed to improve the business environment, the popular discontent is rising, as evidenced by the numerous demonstrations and strikes by civil servants in 2018. Slow progress in the fight against poverty and unemployment, especially among young people, is also a recurrent grievance against Mr Talon and could lead to an erosion of support for the President in the March 2019 parliamentary elections. The controversy surrounding an electoral code that tightens the conditions for standing as a candidate in legislative and presidential elections is worsening a tenser political and social climate. The 2019 legislative elections could thus provide the first tangible indications of the popularity of the government's and the President's actions before the 2021 presidential elections.

BOLIVIA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	B

POPULATION Millions of persons - 2017	**11.1**
GDP PER CAPITA US Dollars - 2017	**3,413**
CURRENCY Boliviano	**BOB**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.3	4.2	4.3	4.1
Inflation (yearly average, %)	3.6	2.8	3.2	4.1
Budget balance (% GDP)	-7.2	-7.8	-7.5	-7.0
Current account balance (% GDP)	-5.7	-6.3	-5.3	-5.1
Public debt (% GDP)	44.9	49.0	50.6	52.6

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

BRAZIL	18%
ARGENTINA	16%
EURO AREA	9%
SOUTH KOREA	8%
UNITED STATES	7%

Imports of goods as a % of total

CHINA	22%
BRAZIL	17%
ARGENTINA	13%
EURO AREA	8%
UNITED STATES	8%

+

- Substantial mineral resources (gas, oil, zinc, silver, gold, lithium, tin, manganese) and agricultural resources (quinoa)
- World's 15th largest exporter of natural gas
- Member of the Andean Community and associate member of Mercosur
- Tourist potential
- Currency pegged to the US dollar

–

- Economy is under-diversified and dependent on hydrocarbons
- Private sector is underdeveloped; high dependence on public sector
- Landlocked country
- Large informal sector
- Insecurity, drug trafficking, corruption
- Risk of social unrest

RISK ASSESSMENT

Stable, demand-driven growth

Domestic demand will drive growth again in 2019, thanks in particular to maintained high public spending. Public investment should continue growing under the nation's broad investment plan, the *Plan Nacional de Desarrollo Económico y Social*. Worth USD 48.6 billion over 2016-2020 (116% of GDP in 2018), the plan was introduced in 2015 as part of a counter-cyclical recovery strategy in response to weaker commodity prices. Focused on developing infrastructure and state-owned companies in the energy sector, the programme targets the gas sector, which accounted for 35% of Bolivia's exports in 2017, and refining. Meanwhile, to reverse the downturn in hydrocarbon production due to insufficient private investment in recent years, since late 2017 the government has signed several memoranda of understanding with foreign oil companies for hydrocarbon exploration and exploitation, including Repsol, Shell and Pan American Energy (USD 900 million), Petrobras (USD 700 million), Kampac Oil (USD 500 million), Milner Capital (USD 2 billion) and Gazprom (USD 1.2 billion). However, these investments will not translate into an effective increase in production until 2020 or even 2021. Although President Evo Morales has stressed that these private investments point to an improving environment, the business climate remains problematic (Bolivia placed 152nd in the Doing Business 2018 ranking, with a high risk of nationalisation and discrimination of private investors in favour of state-owned companies) and continues to influence investment decisions in the country. Agriculture, which accounts for 27% of jobs, is expected to remain strong, barring adverse weather conditions. Private consumption is set to slow as inflation rebounds. At the same time, inflation should remain measured thanks to the boliviano's peg to the dollar US. The failure to pay end-of-year bonuses in the public and private sectors (conditional on GDP growth of 4.5%) will limit the increase in purchasing power. Moreover, despite the strong increase in imports due to investment projects, external trade should make a positive contribution to growth, with exports expected to pick up on continued high hydrocarbon prices. Brazil and Argentina, which receive 98% of Bolivia's gas exports, will remain the main markets for hydrocarbon sales.

Twin deficits still substantial despite slight improvement

The government deficit should continue to shrink gradually in 2019 on strong energy-related revenues, but it will remain substantial as the government pursues its accommodative fiscal policy under its five-year investment plan. President Morales has also announced the introduction of universal social security in 2019 (0.7% of GDP). Generally speaking, in an election year, spending on civil servants' salaries and social programmes (29% and 21% of public spending respectively in 2017) is unlikely to go down. Public debt will thus continue to grow, while remaining sustainable (external share equivalent to 24% of GDP in August 2018).

The current account deficit will remain substantial despite a slight improvement. The balance of goods and, above all, services is in deficit because of the intermediate goods needed for investment projects. However, strong exports – chiefly of gas, gold and minerals such as zinc – should help to narrow the trade deficit, which will be partially offset by remittances from expatriate workers (4% GDP in 2017). Unless FDI accelerates sharply (2% of GDP in 2017), the government will finance the deficit by continuing to draw on foreign exchange reserves (nine months of imports in September 2018, compared with 12 in 2016 and 14 in 2015).

2019 general elections: President *vs* former President

President Evo Morales of the Movimiento al Socialismo (MAS) party, who has been in power since 2005, will stand for a fourth term in the October 2019 elections. Despite being rejected in the February 2016 referendum – 51.3% of people said they were against unlimited re-election – the two-term limit enshrined in the constitution was abolished by Bolivia's constitutional court in November 2017. Mandatory primary elections for political parties, initially planned for 2024, will now take place in January 2019. The incumbent's main opponent may be Carlos Mesa, President between 2003 and 2005. Because the new law prevents candidates from running without a party, Mesa is representing Comunidad Ciudadana, a centre-left coalition. Mr Mesa, who had been accused of unduly expelling a Chilean company during his term of office, was pardoned by President Morales in exchange for support in the case brought by Bolivia against Chile over access to the sea, which was rejected by the International Court of Justice in October 2018. While the election result is uncertain, polls conducted a year before Bolivians place their votes show Mr Morales and Mr Mesa, at 29% and 27% respectively, far ahead of the rest of the opposition, which includes Óscar Ortiz, of the centrist coalition Bolivia dice No.

BOSNIA AND HERZEGOVINA

COFACE ASSESSMENTS

COUNTRY RISK **C**

BUSINESS CLIMATE **B**

POPULATION Millions of persons - **2017** — **3.5**

GDP PER CAPITA US Dollars - **2017** — **5,181**

CURRENCY Bosnia and Herzegovina convertible mark — **BAM**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.2	3.0	3.2	3.5
Inflation (yearly average, %)	-1.1	1.2	1.4	1.7
Budget balance (% GDP)	0.3	2.1	1.5	0.2
Current account balance (% GDP)	-4.9	-4.8	-5.7	-6.2
Public debt (% GDP)	44.0	39.4	39.0	38.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	51%
CROATIA	12%
TURKEY	4%
HUNGARY	2%
SWITZERLAND	2%

Imports of goods as a % of total

EURO AREA	40%
CROATIA	10%
CHINA	7%
RUSSIA	5%
TURKEY	4%

+

- IMF financial assistance
- Large transfers from expatriate workers
- Stabilisation and Association Agreement with the EU with pre-accession funds
- Potential for tourism (11% of employment and 9.6% of GDP) and hydroelectricity, which already accounts for 34% of electricity produced

-

- Institutional, regulatory, ethnic, economic and regulatory fragmentation
- Lack of public investment (transport, education, health)
- Low diversity and low value added of exports
- Inappropriate targeting of social protection
- Large informal sector, low labour force participation (43%) and high youth unemployment

RISK ASSESSMENT

Activity supported by consumption

Despite a low-quality institutional and political environment, economic activity is expected to remain strong in 2019. Higher wages, strong remittances from expatriates (9% of GDP), and more visitors from neighbouring countries are set to increase revenues, boosting household consumption. Reported employment will likely increase as the informal sector shrinks and jobs are created across all sectors. Credit will continue to grow vigorously, with doubtful loans (9% of outstanding loans) declining further. Retail trade will benefit from this positive trajectory. Conversely, exports of ores, wood, metals, chemicals, and footwear could slow as their main markets cool. However, agri-food and electricity sales stand to benefit from trade liberalisation with the EU and Russia. Public investment in infrastructure and administration will depend on the IMF releasing additional financing under the ECF, and, in turn, on the EU (€315 million over 2018-2020) and the EBRD (€700 million over 2018-2020 in partnership with the private sector). Payment of these funds is conditional on progress in implementing the Reform Agenda adopted in 2015, but also on institutional and administrative performances. This money will boost construction by supporting continued construction of the Corridor Vc motorway, which will cross the country between the Croatian border in the north and the Adriatic, as well as in the energy sector. Private investment, both domestic and foreign, will remain modest as low labour costs fail to offset persistent institutional weaknesses and a mediocre business environment.

Public accounts are in adequate shape, but the current account deficit is high

Bosnia-Herzegovina is expected to continue loosening fiscal policy slightly, while maintaining a balanced budget in 2019. Revenues, a 40% share of which is attributable to VAT, represent 43% of GDP and are growing in line with activity. Salary expenditures are contained, although this is less true for the Serbian entity. This balance, along with moderate growth, will be sufficient to stabilise the share of the country's modest public debt, which is mainly denominated in euros (86%) and the local currency, the mark, which is pegged to the euro. Foreign creditors, half of which are multilateral public bodies, hold 68% of this debt. The debt is divided roughly equally between the country's constituent Bosnian-Croat and Serb entities, but, taking into account the respective GDPs, the Serbian public debt is higher (60% of GDP). While the public accounts look to be in acceptable shape, the way that their management is fragmented between the central government and the two entities, the future cost of pension and health systems and poor governance at state-owned companies could cause nasty surprises going forward.

The current account deficit may widen further in 2019. However, the trade deficit is expected to fall below a quarter of GDP. Expatriate remittances and the services surplus (7% of GDP) related to tourism and transport will, as usual, partially offset the trade deficit. International financing and FDI (2% of GDP) will help to bring the balance of payments into equilibrium, while maintaining foreign exchange reserves at the comfortable level of seven months of imports. Despite the reduction in bank debt, external debt accounts for 53% of GDP, divided equally between public and private debtors.

Ethnic divisions and the coexistence of three governments

The 1995 Dayton Agreements divided Bosnia and Herzegovina into two distinct autonomous entities: the Bosnian (Muslim) and Croat-dominated federation of Bosnia-Herzegovina and the Serb Republic of Bosnia, plus the district of Brčko managed by the central government. The central government is led by a collective presidency representing the three "constituent peoples", which rotates every eight months. The constitution assigns very few powers to the central government, which is responsible for foreign and monetary policy, customs duties, VAT, transport and defence. Even these powers are difficult to manage, since each ethnic component has a blocking minority in the central Parliament. Muslim Bosnians are trying to strengthen the role of the central government, while Croats, who want their own autonomous entity, and Serbs, who are tempted to join Serbia, hope to derail the legislative processes. The October 2018 presidential and parliamentary elections again played out along ethnic lines, putting nationalist parties in control of the assemblies. The only surprise came when Zeljko Komsic of the Democratic Front beat his rival Dragan Covic of the Croatian Nationalist Party (HDZ) to win the position reserved for Croats in the collective presidency. Lengthy negotiations are expected to be required to form government coalitions, which will slow down the adoption of reforms needed for the resumption of multilateral financing and the process of applying to join the EU. The country's institutional complexity does not make it any easier to deal with judicial deficiencies, regulatory disparities, corruption, oppressiveness and low administrative efficiency.

BOTSWANA

COFACE ASSESSMENTS

COUNTRY RISK	A4
BUSINESS CLIMATE	A4

POPULATION Millions of persons - 2017	2.3
GDP PER CAPITA US Dollars - 2017	7,584
CURRENCY Botswana pula	BWP

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.3	2.4	4.6	3.6
Inflation (yearly average, %)	2.8	3.3	3.8	4.0
Budget balance (% GDP)*	0.7	0.2	-3.7	-3.0
Current account balance (% GDP)	13.7	12.3	8.7	7.7
Public debt (% GDP)	15.6	14.0	13.2	13.5

(e): Estimate. (f): Forecast. *Last fiscal year from April 2019 to March 2020.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	23%
INDIA	19%
UNITED ARAB EMIRATES	15%
SOUTH AFRICA	10%
SINGAPORE	8%

Imports of goods as a % of total

SOUTH AFRICA	64%
CANADA	9%
NAMIBIA	7%
EURO AREA	4%
INDIA	4%

+

- Abundant natural resources (especially diamonds)
- Low public and external debt
- Substantial currency reserves
- Political stability and level of governance put the country in the top tier of sub-Saharan African countries in international business environment rankings
- Member of the Southern Africa Custom Union (SACU)

-

- Dependent on the diamond sector (more than 80% of exports)
- Insufficient infrastructure (production and distribution of water and electricity)
- Inequality and high unemployment. Poverty stuck at a relatively high level

RISK ASSESSMENT

Growth driven by the mining industry and public investment

Although set to slow, growth will reach a comfortable level in 2019, mainly driven by the extractive industries (20% of GDP), which are expected to perform well thanks to new initiatives. In this regard, Canadian company Lucara Diamond (which operates the Karowe diamond mine), and the state-owned Morupule coal mine have announced production increases. Conversely, agriculture, could have a dampening effect on economic activity, after the severe drought of 2018. Other sectors of activity, including infrastructure construction, will be supported by public investment, the second largest driver of the economy.

The government aims to pursue its policy of economic diversification and will continue to spend on education, health and the construction of roads and electricity infrastructure. As part of this, Botswana Railways (BR), a state-owned company, is to build an additional 520 km of rail network in the country (to improve connections with South Africa and Zambia), while the Botswana Power Corporation (BPC), which is also state-owned, will extend its power lines to the northeast of the country.

Private investment will continue to be supported by an accommodative monetary policy, including a borrowing rate that has been at a record low 5% since 2017. Household purchasing power, however, could be affected by the uptick in inflation on higher commodity prices, but especially by substantial unemployment (18% in 2017), which will impact private consumption.

Fiscal imbalance and current account surplus

The public accounts will still show a deficit in 2019, owing to the continuation of an expansionary fiscal policy. However, mining-related revenues (about one third of total revenues) will increase with production and exceed the decline in customs revenues paid by the SACU (also equivalent to one third of the total), resulting in a lower government deficit than in the previous year. Rather than raise tax collection to balance the budget, the government will allow its deficit to persist until the 2019 general elections, so as not to lose popularity.

Turning to the external accounts, the structural current account surplus is expected to decline due to a larger trade deficit. Diamond exports are set to increase at a slower pace (due to cooler US demand) than capital goods imports. The trade deficit is the only negative contribution to the current account and will be largely offset by the surplus in the balance of tourism-related services (4.5% of GDP in 2017) and SACU transfers (6.3% of GDP). Because of this favourable situation, Botswana boasts substantial foreign exchange reserves (more than ten months of imports in 2017). The remaining reserve surplus, after the central bank has withdrawn what it needs for its activity, is transferred to the Pula Fund, a sovereign wealth fund created in 1994. The Pula Fund is used to finance a large part of the budget deficit. As a result, Botswana will continue to make limited use of domestic and foreign debt: the country's debt – and its external portion (15% in 2017) – should therefore remain low.

Awaiting the October 2019 general elections

President Mokgweetsi Masisi, who came to power in April 2018 following the resignation of Ian Khama, will represent the Botswana Democratic Party (BDP) in the general elections scheduled for October 2019. Although the BDP has been in power since the country's independence in 1966, support for the government seems to have been waning for several years. This trend has become more pronounced since the 2016 closure of the state-owned company Bamangwato Concessions Limited (BCL), which employed a significant proportion of the local population. In a context of high poverty and persistent unemployment, this move revived criticism of the government for making insufficient headway in economic diversification, which was supposed to address these two chronic problems. However, the opposition, represented by the Collective for Democratic Change (UDC), a coalition of four parties (BNF, BCP, BPP and BMD), is plagued by internal conflicts and struggles to offer a credible alternative to the BDP. The disorganisation of the opposition, the increase in pre-election budget spending and President Masisi's stated resolve to boost job creation could favour the BDP and offset the ruling party's declining popularity.

Botswana is consistently well placed among its sub-Saharan African peers in international rankings (86th out of 190 countries in the World Bank's Doing Business ranking). However, progress still needs to be made in terms of improving the business environment and supporting private sector development.

BRAZIL

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	A4

POPULATION Millions of persons - 2017	207.7
GDP PER CAPITA US Dollars - 2017	9,896
CURRENCY Brazilian real	BRL

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-3.3	1.1	1.3	2.5
Inflation (yearly average, %)	8.7	3.4	3.7	4.2
Budget balance (% GDP)	-9.0	-7.8	-7.1	-6.0
Current account balance (% GDP)	-1.3	-0.5	-0.8	-1.2
Public debt (% GDP)	70.0	74.0	77.2	78.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	22%
EURO AREA	14%
UNITED STATES	12%
ARGENTINA	8%
JAPAN	2%

Imports of goods as a % of total

CHINA	18%
EURO AREA	18%
UNITED STATES	17%
ARGENTINA	6%
SOUTH KOREA	3%

+

- Varied and rich mineral resources and agricultural harvests
- Well-diversified industry
- Improving institutional transparency following recent corruption scandals
- Strong foreign exchange reserves (import coverage of roughly 26 months)

–

- Very sensitive fiscal position
- Infrastructure bottlenecks
- Low level of investment
- High cost of production (wages, energy, logistics, credit) harming competitiveness
- Shortages of qualified labour; inadequate education system

Sector risk assessments

AGRI-FOOD	HIGH
AUTOMOTIVE	MEDIUM
CHEMICAL	HIGH
CONSTRUCTION	HIGH
ENERGY	MEDIUM
ICT*	MEDIUM
METALS	HIGH
PAPER	MEDIUM
PHARMACEUTICAL	MEDIUM
RETAIL	MEDIUM
TEXTILE-CLOTHING	HIGH
TRANSPORT	HIGH
WOOD	HIGH

* Information and Communication Technology

RISK ASSESSMENT

Activity expected to gain some strength

The economy registered a second year of mild recovery in 2018. Household consumption contributed positively to GDP, as inflation remained well anchored, the policy rate reached historical minimum, and the unemployment rate continued to improve (despite remaining high). Moreover, exports benefited from better terms of trade (oil and manufacturing prices). Nevertheless, a strong rebound in gross fixed investments failed to materialise, as idle capacity remained elevated, and political uncertainties were high in light of the October 2018 presidential elections. Activity was also hit by a 10-day lorry drivers' strike, which paralysed the economy in the last days of May.

A relatively higher economic momentum is expected in 2019, as political uncertainties dissipate and job market recovery continues (supporting stronger household consumption). Inflation will remain close to the central bank's target (4.25% for 2019). Some monetary tightening might be implemented in the second half of the year, as advanced economies (notably the United States) raise their policy rates. Downside risks are related to an escalation of the US-China trade war, the latter the main destination of Brazil's exports. Moreover, the continuing crisis in Argentina (Brazil's third-largest export partner) will continue to hamper the performance of manufacturing exports in 2019. Domestically, a failure to address the pension system reform this year could jeopardise the stronger economic momentum.

Sound foreign positions diverges from the challenging fiscal stance

In 2018, the country's current account deficit reported a marginal widening, underpinned by a large trade surplus. FDI (mainly in manufacturing industries like coke, oil derivatives and biofuels, automotive, and food) cover more than three times the external deficit. In 2019, although the current account deficit is likely to further deteriorate as economic activity improvement raises imports, the worsening should be moderate.

The framework is much different when it comes to the fiscal stance. The country has registered primary fiscal deficits (before interest payments) for the last five years in a row. This imbalance is mainly attributed to social security expenses, which have increased exponentially, reaching a deficit of roughly 2.8% of GDP. The new government, which took office on January 1, 2019, will focus on a social security reform. Nevertheless, even if the fiscal deficit is expected to narrow in 2019, the government's campaign promise to reduce the imbalance to zero this year is not feasible.

A far-right President takes office

As widely anticipated, the far-right candidate Jair Bolsonaro from the Social Liberal Party (PSL) won the race runoff presidential elections at the end of October 2018. Mr Bolsonaro is a former military officer that has been a member the Chamber of Deputies since 1991, and was the most-voted congressman in the state of Rio de Janeiro in 2014. He will need to deal with a much polarised country that is facing a rising violence, and where the scars of the deep 2015/16 recession – when GDP dropped by 7% – remain visible (there are still roughly 12 million unemployed people in the country). Moreover, he won the presidential elections with the highest rejection rate since Brazil came back to democracy (approximately 39%). This pushback against Mr Bolsonaro among part of the population – and even outside the country – is underpinned by the controversial speeches that have marked his political career.

The initial economic response to his victory has been positive, mainly due to Paulo Guedes, who took office as the new Minister of the Economy. Mr Guedes is a well-known Brazilian liberal economist who defends the formal independence of the central bank, the privatisation of state-owned companies (using the resources to reduce public debt), and proposes a capitalisation system for social security. In terms of foreign policy, Mr Bolsonaro intends to focus on bilateral trade deals, as well as making Mercosur more agile and allowing its members to negotiate free trade agreements bilaterally. It is worth nothing, however, that this honeymoon with the financial market could prove short-lived if the new administration fails to address the social security reform. The new economic team committed to this task will need to prove its ability to negotiate in a highly fragmented Congress and create coalitions. Although PSL registered a stronger than expected showing in the legislative elections (52/513 seats in the Lower House and 4/81 in the Senate), it failed to reach majority. Constitutional amendments (such as the pension reform) require 308 votes in the Lower House and 49 in the Senate to be approved.

PAYMENT & DEBT COLLECTION PRACTICES IN BRAZIL

Payment

Bills of exchange (*letra de câmbio*) and, to a lesser extent, promissory notes (*nota promissória*) are the most common form of payment used in local commercial transactions. The validity of either instrument requires a certain degree of formalism in their issuance. The use of cheques is relatively commonplace – often post-dated in practice and thus transformed into credit payment instruments – and their issuance requires comparable formalism. Although the use of the above credit payment instruments for international settlements is not advisable, they nonetheless represent, an effective means of pressure in case of default, constituting an extra-legal enforcement title that provides creditors with privileged access to enforcement proceedings.

The *duplicata mercantil*, a specific payment instrument, is a copy of the original invoice presented by the supplier to the customer within 30 days for acceptance and signature. It can then circulate as an enforceable credit instrument.

Bank transfers, sometimes guaranteed by a standby letter of credit, are also commonly used for payments in domestic and foreign transactions. They offer relatively flexible settlement processing, particularly *via* the SWIFT electronic network, to which most major Brazilian banks are connected. For transfers of large sums, various highly automated interbank transfer systems are available, *e.g.* the STR real time Interbank Fund Transfer System (*sistema de transferência de reservas*) or the National Financial System Network (*rede do sistema financeiro nacional,* RSFN).

Debt Collection

Amicable Phase

Creditors begin this phase by attempting to contact their debtors *via* telephone and email. If unsuccessful, creditors must then make a final demand by a registered letter with recorded delivery, requesting that the debtor pay the outstanding principal increased by past-due interest as stipulated in the transaction agreement. In the absence of an interest-rate clause, the civil code stipulates use of the penalty interest rate imposed on tax payments, which is 1% per month past due. When creditors are unable to reach their debtors by phone and/or email, a search of the company's contacts, partner businesses, and owners is conducted. If there is still no contact, this leads to an investigation of assets, an on-site visit, and an analysis of the debtor's financial situation so as to ascertain the feasibility of taking legal action. Considering the slow pace and the cost of legal proceedings, it is always advisable to negotiate directly with defaulting debtors where possible, and attempt to settle on an amicable basis, taking into consideration that a repayment plan may last for up to two years.

Legal proceedings

The legal system comprises two types of jurisdiction. The first of these is at the state level. Each Brazilian state (26 states, plus the *Distrito Federal of Brasilia*), notably including a Court of Justice (*Tribunal de Justiça*) whose judgments can be appealed at the state level. Legal costs vary from state to state. The second type of jurisdiction involves the Federal Courts. There are five regional Federal Courts (*Tribunais Regionais Federais*, TRF), each with its own geographic competence encompassing several states. For recourse on non-constitutional questions, TRF judgments can be appealed to the highest court of law, the *Superior Tribunal de Justiça* (STJ) located in Brasilia.

Monitory Action

The *ação monitória* is a special procedure that can be filed by any creditor who holds either a non-enforceable written proof, or any proof that is considered as an extrajudicial instrument recognized by the law as enforceable (even if it does not comply with all the legal requirements). If the debtor's obligation is deemed certain, liquid and eligible, the Municipal Courts usually render payment orders within fifteen days. If the debtor fails to comply within three days, the order becomes enforceable. In cases of appeal, the creditor has to commence formal ordinary legal action. The difference between this procedure and the Enforcement Proceeding lies in the legal requirements and in the possibility of questioning the merit of the obligational relationship by the debtor over the course of the suit. The ação monitória is slower than a regular Enforcement Proceeding: if the debtor presents an objection in the court, the merits of the commercial relation will be thoroughly discussed in the same fashion as a Standard Lawsuit. The estimated period of this lawsuit is on average two years.

Ordinary proceedings

Ordinary proceedings are presided over by an interrogating judge (inquisitorial procedure), and require examination of evidence submitted by each party in conjunction with study of any expert testimony. The creditor must serve the debtor with a registered Writ of Summons, which the debtor must answer within 15 days of receipt. The initial proceedings encompass an investigation phase and an examination phase. The final step of the process is the main hearing, during which the respective parties are heard. After this, a judgement is made by the court. The tribunal may render a default judgment if a duly served writ is left unanswered. It takes two to three years to obtain an enforceable judgment in first instance.

Enforcement of a Legal Decision

On average and within the main states, it takes a year for a judgement to be made following the initiation of legal proceedings.

Court Decision

A final judgment is normally automatically enforced by Brazilian Courts. Since the reforms in 2005 and 2006, attachment of the debtor's assets is possible if the latter fails to obey a final order within three days. In practice, execution can prove difficult, as there are very few methods for tracing assets in Brazil.

Foreign awards can be enforced if they meet certain conditions: the homologation has to be concluded by the Superior Court to be enforced in Brazil, the parties have be notified, and the award has to comply with all the requirements for enforcement (such as being translated from Portuguese by a public sworn translator).

Extrajudicial Instruments

The enforcement of extrajudicial instruments is a legal type of enforcement granted to the creditor in order to allow him to claim his rights against the debtor. This is the most direct and effective court vehicle to recover credits in Brazil. This lawsuit does not require prior guarantees from foreign creditors (as the bond in the monitory suit for example). Moreover, Brazilian legislation renders some documents enforceable. These are separated in two main categories: Legal enforcement titles (including judgments made by a local Court recognizing the existence of a contractual obligation, and court-approved conciliations and arbitral awards) and extra-legal enforcement titles, which includes bills of exchange, invoices, promissory notes, *duplicata mercantil*, cheques, official documents signed by the debtor, private agreements signed by debtor, creditor and two witnesses (obligatory) as an acknowledgement of debt, secured agreements, and so on. It is obligatory to submit the original versions of these documents – copies are not accepted by the court.

Insolvency Proceedings

Out of Court restructuring

Debtors can negotiate a restructuring plan informally with their creditors. The plan must represent a minimum of 60% of the total debt amount. This plan must be approved by the court.

Judicial Restructuring

Debtors make a restructure to the request to the court, or request the conversion of a liquidation request to the court from their creditor(s). If the plan is accepted by the court, debtors typically have 60 days to present a list with all debts from creditors, and a payment plan. A judge then schedules two creditors' meetings, with the second only occurring if the first one does not take place. During these meetings, the proposed plan must be accepted by a majority of creditors. Once accepted, payments start as decided in the approved plan. The estimated period of this lawsuit is between 5 and 20 years.

Liquidation

The principal stages of liquidation are as follows:

- liquidation can be requested by either debtors (*auto-falência*), or any of their creditors if the debt totals more than 40 times the minimum wage;
- the initiating party must prove the existence of a net obligation, overdue and defaulted by presenting protested enforceable title (*special protest* – personal notice of debtor);
- upon analysis of a debtor's financial situation, the judge can decide that the company must be liquidated.

All of the company's assets have to be sold and the obtained amount is shared equally between creditors, respecting eventual privileges. The estimated period of this lawsuit is between 7 and 20 years.

BULGARIA

COFACE ASSESSMENTS

COUNTRY RISK	A4
BUSINESS CLIMATE	A3

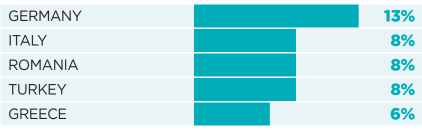
POPULATION Millions of persons - 2017	7.1
GDP PER CAPITA US Dollars - 2017	8,077
CURRENCY Bulgarian lev	BGN

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.9	3.8	3.6	3.4
Inflation (yearly average, %)	-1.3	1.2	2.5	2.5
Budget balance (% GDP)	1.6	1.1	0.8	0.6
Current account balance (% GDP)	2.6	6.7	2.9	1.0
Public debt (% GDP)	27.4	23.9	23.3	22.6

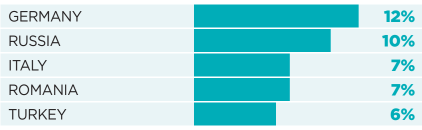
(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total



Imports of goods as a % of total



- Diversified productive base
- Low public debt
- Tourism potential
- Low production costs and good price competitiveness

- Corruption and organised crime
- Inefficient public services and judicial system (influence of the business community)
- Unstable government and fragmented political landscape
- Lack of skilled labour
- Declining and relatively poor population (GDP per capita = 50% of the EU average)
- Informal economy (estimated at 20% of GDP)

RISK ASSESSMENT

Domestic demand will remain the chief growth driver

After a slight slowdown, Bulgarian growth is expected to stabilise in 2019. As in the past, domestic demand will remain the main driver of growth – even if it will increase less vigorously than in 2018. It will benefit from the high level of household confidence and rising wages in both the public and private sectors, against a backdrop of skill shortages. The historically low unemployment rate (5.3% in July 2018) and the 10% increase in the minimum wage planned for 2019 will also have a positive impact. Despite their low absorption rate, European Structural Funds, together with increased capacity utilisation (77% in the third quarter of 2018), will stimulate investment (21% of GDP in 2017). In addition, consolidation of the banking sector – which began in the wake of the 2014 banking crisis – will continue, with a reduction in non-performing loans and an increase in credit. The textile sector (10% of exports) will continue to expand, helped by the competitiveness of the Bulgarian workforce. However, exports could suffer from more muted growth in some European Union countries (65% of exports) and Turkey (8%).

After increasing in 2018, partly due to higher energy and fuel prices, inflation is expected to hold steady in 2019, again supported by household consumption.

Public and external accounts still in balance

The small government surplus is expected to change only slightly in 2019. However, expenditure is set to surge due to increases in the minimum wage and in public sector salaries. More spending is also ahead for social policies (50% more than in 2018), as well as in health and defence. With the help of European Structural Funds, the implementation and continuation of infrastructure projects will lead to an increase in public investment. This is not expected to lead to a significant reduction in the government surplus, as revenues will also go up: as revenues are mainly derived from taxes (62% of revenues in 2017), collection will be favoured by lively economic activity. Despite the bank rescue in 2014/15, the burden of public debt remains moderate and is expected to continue to decline in 2019, thanks to the preservation of the government surplus.

Nevertheless, the country's external situation is not as robust. The current account surplus is set to shrink once again. Although it will be offset by the surplus in services (6.2% of GDP in 2017), linked to tourism and road transport, the trade deficit (2.4% of GDP in 2017) is expected to widen in 2019, as domestic demand stimulates imports. The balance of transfers will remain in surplus (2.5% of GDP in 2017), thanks to European subsidies and expatriate transfers. The current account surplus and inward foreign investment (other than FDI) will make it possible to build up foreign exchange reserves, which are equivalent to nearly nine months of imports. These reserves are needed to maintain the credibility of the lev's peg to the euro.

Fragile political stability

Following early parliamentary elections in March 2017, which allowed the Bulgarian Socialist Party (BSP) to double its seats in Parliament, Prime Minister Boiko Borissov of the centre-right Citizens for the European Development of Bulgaria Party (GERB) was forced to form a coalition in order to maintain a parliamentary majority. He concluded an agreement with the United Patriots, itself an alliance of three nationalist political parties, allowing him to obtain 122 of the 240 seats in the legislative body. Since then, the opposition has tried to overthrow the government through motions of censure, all of which have been rejected, in a sign of relative political stability. However, this stability is likely to be further weakened by tensions within the coalition, particularly between the three parties forming the United Patriots alliance.

In August 2018, the government approved a reform programme with a view to joining the European Exchange Rate Mechanism 2 (ERM II) and the European Banking Union by the end of summer 2019, in order to prepare the country for entry into the euro area. These reforms relate, in particular, to the procedures to be followed in the event of company bankruptcies, the management of state-owned companies and the independence of the National Bank of Bulgaria. Although the country was removed from the list of nations with excessive economic imbalances in March 2018, and although the ECB and the European Commission confirmed that – with the exception of ERM II accession – Bulgaria fulfilled the Maastricht criteria, its social progress seems less clear-cut. The country has one of the highest poverty rates and the highest level of income inequality in the European Union.

BURKINA FASO

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	**19.2**
GDP PER CAPITA US Dollars - 2017	**655**
CURRENCY CFA franc (BCEAO)	**XOF**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	5.9	6.4	6.0	6.0
Inflation (yearly average, %)	-0.2	0.4	1.3	2.0
Budget balance* (% GDP)	-3.4	-7.7	-5.0	-3.1
Current account balance (% GDP)	-7.1	-7.9	-8.6	-7.5
Public debt (% GDP)	38.3	38.3	41.0	41.3

(e): Estimate. (f): Forecast. *Grants included.

TRADE EXCHANGES

Exports of goods as a % of total

SWITZERLAND	44%
INDIA	14%
SOUTH AFRICA	10%
COTE D'IVOIRE	7%
EURO AREA	6%

Imports of goods as a % of total

EURO AREA	20%
CHINA	13%
COTE D'IVOIRE	10%
UNITED STATES	8%
THAILAND	8%

- Major producer of gold (4th in Africa in 2017) and cotton (2nd in Africa in 2018)
- Member of the West African Economic and Monetary Union (which ensures the stability of the CFA franc, fixed parity against the euro)
- Supported by the international financial community (one of the first countries to have benefited from the HIPC initiative)

- Economy highly exposed to weather events
- Size of the informal sector
- Vulnerable to movements in cotton and gold prices
- Heavily dependent on foreign aid
- Weak electricity infrastructure
- Demographic pressures, high poverty rate, very weak human development index

RISK ASSESSMENT

Public investment is fueling growth with little diversification

The third year of implementation of the National Economic and Social Development Plan (PNDES) is expected to foster dynamic growth in 2019 through public investment, aimed at addressing the infrastructure deficit. The gold sector, another economic driver of the country (12% of GDP and more than 60% of exports), will experience an increase in its production in 2019, in particular thanks to the launch of commercial production at the Boungou mine in September 2018. Largely financed and operated by foreign private investors (Canadian SEMAFO for Boungou), the sector could, however, suffer from the fragile security environment (frequent kidnappings from mines), as well as from possible gold price fluctuations in 2019. Cotton production (the second largest export) is expected to increase by about a third (200 thousand tonnes), after the country lost its status as the leading African producer (to Mali) in 2018 due to harsh weather conditions. The sector is expected to benefit from higher prices resulting from lower production and rising global demand, as well as from the quality of its (GMO-free) cotton fibre. PNDES investments also aim to develop the agri-food and textile sectors with the aim of moving the country's economy, mainly production-oriented, towards the processing of agricultural raw materials, with a processing target of 25% by 2020. With this in mind, the artisanal cotton processing plant in Bobo-Dioulasso is expected to open in 2020, thanks to the mobilisation of a PPP. This method of financing responds to the government's desire to increase the contribution of private investment to growth in 2019. The increase in agricultural income (80% of the working population), as well as inflation control, should allow private consumption (more than half of GDP) to grow.

The desire to consolidate the public accounts in the face of cyclical risks

The budget deficit is expected to continue to decline in 2019 in order to move closer to the WAEMU convergence criteria, which sets a maximum of 3%. The slight increase in the amount of tax revenue will be due to the increase in certain taxes (tobacco, beverages), the increase in the tax burden rate to 20.2% presented in the budget, and the introduction of more efficient collection methods, among other measures. However, the high level of investment and current expenditure linked to the economic situation (fight against terrorism, social crisis) generates a high level of public expenditure (around 28% of GDP, IMF estimates for 2019) despite an expected slight decrease, jeopardising compliance with budgetary commitments.

The increase in gold and cotton production, as well as the increase in the latter's price, should offset the rise in oil prices (15% of imports), leading to a reduction in the trade deficit, which is highly dependent on commodity prices. At the same time, the services deficit (-7.2% of GDP in 2017) and remittances from expatriates (3.5%) are expected to remain at levels broadly similar to those of 2018. As a result, the current account deficit is expected to improve slightly, partly financed by the extended credit facility of €135 million granted by the IMF in March 2018. The improvement in the current account and the increase in grants should allow a slight reduction in the external public debt (24% of GDP).

A fragile security context and a tense social situation

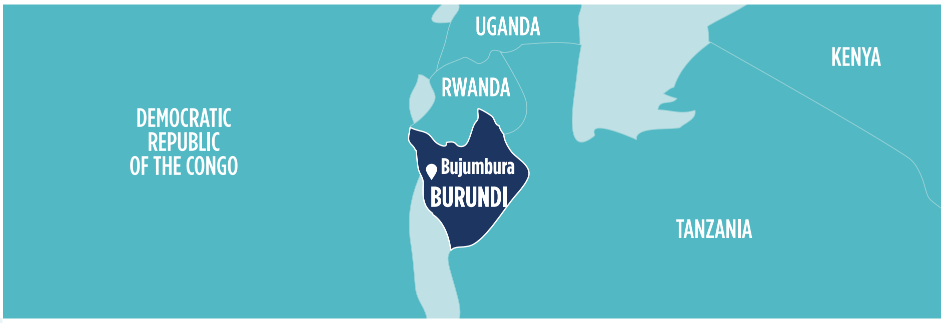
Security will remain the main challenge facing President Kaboré and his government in 2019. The year 2018 saw an increase in attacks by Islamist terrorists, including that of Ouagadougou on March 2, which killed 30 people. The slow establishment of the G5 Sahel force, and its difficulty in financing, suggest that the unrest will not be resolved in 2019. In 2017, the government launched the Sahel Emergency Plan, which will run until 2020. The objective of this program, which costs around €700 million, is to provide a social response by developing public infrastructure (schools, administration, etc.) in the regions affected by terrorism, which are the poorest. In addition, the country has launched a new business environment steering and monitoring committee to improve poor performance (151st in the "Doing Business", down three places compared to 2018) and the government hopes to see the first benefits as early as 2019.

With this hostile situation, the constitutional referendum of March 2019, which includes an amendment to limit the length of a presidential term to two consecutive terms of five years (10 years in total), will constitute a full-scale test for the executive as the next presidential elections in 2020 approach, when Roch Marc Christian Kaboré will run for his own succession. In addition, in May 2018, the country definitively severed its diplomatic ties with a historical ally: Taiwan. As a result, China reopened its embassy in Ouagadougou, which has been closed for 24 years. This augurs an increase in "political, diplomatic and economic" relations according to the Minister of Foreign Affairs, starting with an increase in trade and the release of funding for the G5 Sahel force.

BURUNDI

COFACE ASSESSMENTS

COUNTRY RISK	E
BUSINESS CLIMATE	E



POPULATION Millions of persons - 2017	10.9
GDP PER CAPITA US Dollars - 2017	312
CURRENCY Burundi franc	BIF

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-0.6	0.5	1.9	2.3
Inflation (yearly average, %)	5.5	16.1	10.3	11.4
Budget balance* (% GDP)	-6.9	-4.5	-3.8	-4.4
Current account balance (% GDP)	-11.5	-11.3	-10.1	-8.6
Public debt (% GDP)	48.4	51.7	58.4	63.5

(e): Estimate. (f): Forecast. *Grants included.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED ARAB EMIRATES	25%
CONGO DR	16%
EURO AREA	12%
PAKISTAN	9%
SWITZERLAND	5%

Imports of goods as a % of total

INDIA	14%
CHINA	14%
EURO AREA	12%
SAUDI ARABIA	9%
TANZANIA	7%

+

- Natural resources (coffee, tea, gold)
- Member of the East African Community (EAC)
- World's second largest nickel reserve with 6% of the total

-

- Entrenchment of the political crisis that began in 2015
- Suspension of international aid following the political crisis
- Border tensions with Rwanda
- Poorly diversified economy; vulnerable to external shocks
- Geographically isolated
- Activity hampered by lack of infrastructure and limited access to electricity
- Decrease in the labour force as the political crisis has forced people to flee the country

RISK ASSESSMENT

Fragile and undiversified growth

Despite the ongoing political crisis, which has now spread to the social sphere, in 2019 Burundi is expected to experience its highest growth rate since 2014, the year before the difficulties began. With favourable weather conditions, higher agricultural yields will allow the primary sector to expand. The population, which is largely dependent (90% of jobs) on agriculture (30% of GDP), will then benefit from the resulting increase in incomes, generating a positive growth contribution from private consumption (83% of GDP), although this will be mitigated by high inflation. Exports of tea and coffee, the main outlets for agriculture, are expected to grow on the back of increased production, but at a slower pace than in 2018 as a result of softer world prices. Inflation in the price of imports, mainly manufactured products and oil, will push up the import bill, which could lead trade to contribute negatively to growth. Prompted by its determination to do a better job of harnessing Burundi's mining potential, particularly in nickel, the government has taken positive measures, such as granting operating licences, to encourage private investment that will make up for the shortfall in public investment due to lack of resources. The positive effects observed in 2018 are expected to continue, albeit on a smaller scale, with investment growth of 5.3% in 2019 (down from 11.7% in 2018) forecast by the World Bank. However, political instability will continue to be a cause of concern for investors, and the strong growth in investment over 2018/19 is largely the result of a correction after two years of drastic decline after the onset of the political crisis in 2015.

Large public and current account deficits despite efforts

According to the Finance Act passed by Parliament in June 2018, the budget deficit is expected to decrease over 2018/19 compared with 2017. The increase in expenditure, particularly current expenditure, but also capital expenditure to a much smaller extent, is expected to be less significant than that of revenue, particularly tax revenue. As the country has no access to international capital markets, the government will finance itself through the central bank and on the domestic market, by issuing treasury bills and bonds (more than 80% of the total), which will fuel inflation. In 2018, 70% of public debt was domestic debt, comprising 40% from the central bank and the rest from commercial banks, while the other 30% was external debt, 77% of which was from multilateral partners.

The current account deficit is expected to continue to shrink in 2019, despite the decline in expatriate and official remittances. Structurally in deficit due to large imports of manufactured products (60% of the total) and oil (20%), the trade balance has deteriorated owing to depreciation of the currency and its impact on import prices. This deterioration will be contained by an uptick in mining and agricultural exports. The low level of external aid will be insufficient to finance the current account deficit. Increased FDI, thanks to government support, should also contribute to the financing while reducing the use of the central bank's foreign exchange reserves (1.5 months of imports), which will continue to decline despite everything, accentuating the depreciation of the Burundian franc and the lack of liquidity in the economy.

Fading hopes of resolving the political and diplomatic crisis

President Pierre Nkurunziza's announcement that he would not run for a third term in 2020 – a move that would not have been authorised by the constitution – failed to ease the tensions created when he announced his candidacy in 2015. The UN, which had called for talks between the government and the opposition in order to organise the 2020 elections in a transparent manner, had its Human Rights Mission expelled from Burundi at the end of 2018 at the request of the government. This will further complicate the country's relations with the international community, which has already expressed its concerns about the fate of political opponents. The International Criminal Court (ICC), from which the country withdrew in 2017, is investigating alleged crimes against humanity, including murder and torture, and there have been media reports of torture camps for opponents of the regime. Burundi also refused the African Union's request to send human rights observers and military experts to the country. Negotiations orchestrated by the East African Community (EAC) ended in failure after President Nkurunziza pulled out of the Arusha Summit, citing timing issues. Since the crisis began in April 2015, nearly half a million Burundians have fled the violence and economic stagnation in Burundi. The political crisis has undermined efforts to improve the business environment (168th in Doing Business 2019) and governance, which remains among the weakest in the world according to World Bank indicators, particularly in the areas of political stability (201st) and the rule of law (194th).

CABO VERDE

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	0.5
GDP PER CAPITA US Dollars - 2017	3,301
CURRENCY Cabo Verde escudo	CVE

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.7	4.0	4.2	4.0
Inflation (yearly average, %)	-1.4	0.8	1.0	1.6
Budget balance (% GDP)	-3.1	-3.0	-2.1	-1.9
Current account balance (% GDP)	-2.4	-6.2	-9.1	-10.0
Public debt (% GDP)	127.6	125.8	129.9	130.5

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	95%
TURKEY	1%
UNITED STATES	1%
OMAN	0%
AUSTRALIA	0%

Imports of goods as a % of total

EURO AREA	76%
CHINA	5%
BRAZIL	3%
JAPAN	1%
THAILAND	1%

\+

- Growth of tourist activity
- Fishery reserves
- Efficient banking and telecommunications services
- Stable, independent political institutions
- Exchange rate cooperation agreement with Portugal, guaranteeing convertibility and a fixed rate with the euro, and a credit facility

\-

- Very high level of public debt
- High unemployment (15%; 28.6% among young people)
- Poor infrastructure quality; lack of maintenance
- Food and energy wholly imported
- Dependent on external shocks, international aid, the diaspora and tourism
- Exposed to climate change, volcanic and earthquake events, and cyclones

RISK ASSESSMENT

Comfortable growth linked to external demand

Cape Verdean growth is expected to stabilise at a comfortable level in 2019 thanks to a favourable external environment. Economic activity is mainly linked to the supply of services (73% of GDP in 2017), and more specifically to tourism activity, which is expected to continue amid strong demand from European countries. In addition to providing the country's main source of tourists, European countries are also Cabo Verde's principal trading partners. The strength of tourism could spread to other sectors of the economy, especially industry (20% of GDP), where foreign investment looks set to increase (construction of new hotels), providing a channel for construction and creating jobs. Conversely, public investment is expected to remain weak due to the restrictive fiscal policy still in place, which could have negative effects on growth, but should be offset by rising domestic consumption thanks to better access to credit. Agriculture (10% of GDP), which contracted in 2018 due to a severe drought, could recover if weather conditions are favourable. Inflation is expected to slightly accelerate in line with rising energy and food prices, but should remain under control.

Continuation of the fiscal consolidation required by the exchange cooperation agreement with Portugal

Controlling debt sustainability, particularly its external share (75%), remains the government's priority and justifies continuation of the restrictive fiscal policy. Fiscal consolidation will take the form of a reduction and improvement in the allocation of expenditure. With this in mind, the government plans to reform the management of state-owned enterprises, particularly the three making the heaviest losses: TACV (airline), IFH (real estate) and Electra (water and electricity). This will lead to some operations being reassigned to other more efficient state-owned enterprises, a renegotiation of debts to creditors to reduce them by half (TACV's debts alone represent 6% of GDP), and, eventually, the privatisation of these companies. As a result, the budget deficit is expected to decline, and debt should stabilise while remaining at a high level. Nevertheless, the risk of default remains under control, with much of the debt in the form of concessional loans from international organisations and long-term loans. Interest payments on the debt represented 3% of GDP in 2017.

Regarding the external accounts, the current account deficit is expected to widen due to increased imports of capital goods, driven by the start and continuation of construction projects, while fish and shellfish exports are expected to remain stable. The increase in the services surplus (17% of GDP in 2017), thanks to the growth in tourism, and the surplus in the balance of transfers (15% of GDP) will not offset the trade deficit (37% of GDP). Increased FDI (6% of GDP in 2017) from European countries will likely finance the current account deficit.

In the absence of pressure on prices and the exchange rate, the monetary authorities plan to maintain an accommodative policy and, with comfortable foreign exchange reserves (six months of imports in 2017), will manage to maintain the fixed rate between the euro and the national currency.

Structural reforms to foster sustainable and inclusive growth

Cabo Verde is an established democracy. The country is among the top-ranked countries in sub-Saharan Africa according to World Bank governance indicators, particularly in the fight against corruption (44th out of 214 countries).

The Movimiento para a Democracia (MDP) won the March 2016 parliamentary elections, and its candidate, Jorge Carlos Fonseca, was re-elected as leader of the country for a second term in the first round of the presidential elections on October 2, 2016. Aware of the country's exposure to exogenous shocks, inequality, poverty and unemployment, the government aims to implement structural reforms in line with the Strategic Plan for Sustainable Development (2017/21) to foster more sustainable and inclusive growth. The programme's objectives include transforming the country into a hub for air and maritime transport, improving access to basic public services (health, education, housing, water and electricity), making the labour market more flexible and conducting administrative reforms that promote transparency. The country has one of the best business climates in sub-Saharan Africa, but still suffers from inadequate infrastructure, particularly electrical, and a lack of insolvency regulations, resulting in a drop of two places in the World Bank's Doing Business ranking (131 out of 190 countries).

With regard to its foreign policy, the country will continue to maintain its ties with China, whose investment in the country is constantly increasing and is expected to be concentrated in the tourism sector, infrastructure and the construction of a special economic zone. The Africa-China Development Fund is the main tool being used to take this cooperation forward.

CAMBODIA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	**16.0**
GDP PER CAPITA US Dollars - 2017	**1,379**
CURRENCY Cambodian riel	**KHR**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	7.0	6.9	6.9	7.0
Inflation (yearly average, %)	3.0	3.0	3.0	3.3
Budget balance (% GDP)	-2.9	-1.8	-3.9	-4.7
Current account balance (% GDP)	-8.7	-8.5	-10.8	-9.9
Public debt (% GDP)	33.0	30.4	31.7	33.8

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	28%
UNITED STATES	21%
UNITED KINGDOM	9%
JAPAN	8%
CHINA	7%

Imports of goods as a % of total

CHINA	34%
SINGAPORE	13%
THAILAND	13%
VIETNAM	10%
JAPAN	4%

+

- Vibrant textile industry
- Dynamic tourism sector with strong potential
- Offshore hydrocarbon reserves (oil and gas)
- Financial support from bilateral and multilateral donors
- Integrated into a regional network (ASEAN)
- Young population (65% of the population under 30)

-

- High share of agriculture in employment and GDP makes the economy vulnerable to weather conditions
- Underdeveloped electricity and transport networks
- Lack of skilled workforce
- Dependent on concessional finance due to weak fiscal resources
- Significant governance shortcomings, high levels of corruption
- Poverty rate still high; low levels of spending on health and education

RISK ASSESSMENT

Growth is expected to remain dynamic in 2019

Growth is expected to continue to benefit from lively domestic demand supported by increased public spending and rapid wage growth (thanks to increases in the minimum wage), with private consumption representing 75% of GDP. Household disposable income will increase, even if the agriculture sector, which employs a quarter of the workforce, is still likely to suffer from weak agricultural commodity prices. Inflation will remain contained as the economy is largely dollarised, thus somewhat indirectly shielded from imported inflation in addition to inflation being moderated by US monetary policy tightening. Public investment will mainly target education, agriculture and infrastructure. Private investment is higher than public. China will remain a major investor in the country through PPP, but also fully Chinese projects. Other FDI are expected to continue to grow, especially in the textile sector, but to subsequently lose momentum in the medium-term because of rising wages and competition with neighbouring countries (especially Bangladesh and Myanmar) and uncertain access to the European Single Market. Manufacturing exports (over 90% of total exports), especially clothes and shoes, will continue to grow steadily. However, the external sector's contribution to growth will be negated by the surge in imports. The services sector will continue to expand, thanks notably to the strong growth of the tourism sector and the casino gaming industry. The construction sector will also contribute to growth, thanks to Chinese investments, the booming property market, and the development of tourism infrastructure.

Substantial deficits, generating a dependence on external financing

The budget deficit is expected to widen because of higher spending. It will not be offset by revenues growth associated with the dynamism of the economy and the gradual improvement of tax collection. With the ruling party holding all seats in Parliament, the budget expansion was voted unanimously. It plans to expand the defence budget by 10% and social spending by 16%. The increased spending will largely rely on external financing; bilateral grants and concessionary loans, mainly from China and Russia, represent around 8% of public revenue. Consequently, the public debt burden will continue to increase. Almost completely externally held (half of it is owed to China) and denominated in foreign currency, it will remain sustainable in 2019 as it is largely based on concessional terms. Foreign exchange reserves are adequate, covering around six months of imports, or almost all of the external debt level.

Credit continues to grow rapidly, especially for real estate and construction. Meanwhile the banking sector remains weak because of inadequate supervision and a concentration of risks in the property sector. At the same time, the economy is highly dollarised with foreign currency accounting for almost all deposits, significantly exposing banks to exchange rate risks.

The current account deficit will remain large, mainly due to the continued rise in the trade deficit as the cost of imports of capital and intermediate goods and oil products increases faster than export prices. Tourism growth will help maintain a surplus in the balance of services. High levels of international aid and remittances by expatriate workers will offset the repatriation of dividends by foreign companies. Steady FDI inflows, especially from China and Japan, will make it possible to finance the current account deficit.

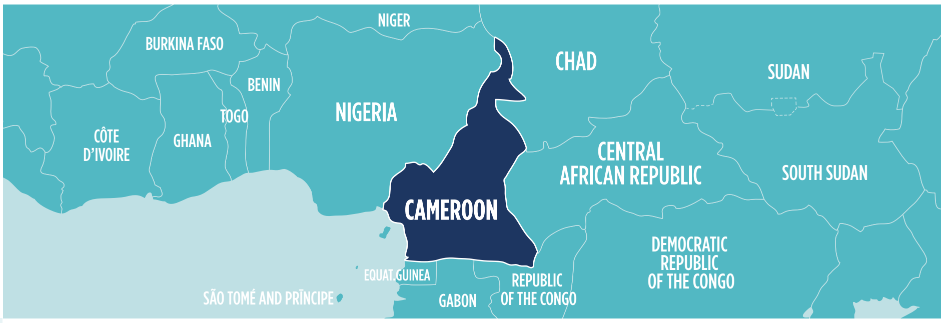
Ruling party wins all parliamentary seats in a sham of democracy and stability

Following the parliamentary elections of July 2018, the ruling Cambodian People's Party (CPP) regained all seats in Parliament. The elections were largely perceived by international monitors, the United States and European countries, as unfair and anti-democratic. The opposition had benefited from a weariness regarding Hun Sen's reign (Prime Minister since 1998) and acute social tensions over expropriations and poor working conditions in the textile sector. However, before the election, the government had dissolved the National Cambodia Rescue Party (CNRP), the main opposition party, banned 118 of its members from politics for five years, and imprisoned its leader on treason charges. Repression also targeted the media and NGOs. Later in 2018, Prime Minister Sen liberated some members of the opposition in a move that was perceived as a concession to critiques of the regime's values – but even so, the EU announced a revision of Cambodia's preferred access to the Single Market. Meanwhile, ties with China are strengthening, with the country becoming as a diplomatic ally and major investor in Cambodia.

CAMEROON

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	D



POPULATION Millions of persons - **2017**	**24.3**
GDP PER CAPITA US Dollars - **2017**	**1,441**
CURRENCY CFA franc (BEAC)	**XAF**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.6	3.5	3.9	4.4
Inflation (yearly average, %)	0.9	0.6	1.0	1.2
Budget balance (% GDP)	-6.1	-4.6	-2.7	-2.4
Current account balance (% GDP)	-3.3	-2.7	-3.2	-3.0
Public debt (% GDP)	33.3	38.2	38.7	39.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	54%
CHINA	12%
INDIA	7%
VIETNAM	3%
BANGLADESH	2%

Imports of goods as a % of total

EURO AREA	28%
CHINA	17%
THAILAND	6%
TOGO	5%
NIGERIA	5%

- Agricultural, oil, gas and mineral resources
- Diversified economy compared with those of other oil-exporting countries
- Ongoing modernisation of infrastructures

- External and public accounts dependent on hydrocarbons
- Growth not very “inclusive”; difficult business environment
- Heightened political risk: insecurity in the Far-North of the country and increasing tensions between the English-speaking minority and the regime (mostly French-speaking)

RISK ASSESSMENT

Gas supports the pick-up in activity

Growth is expected to increase in 2019, thanks in particular to the ramp-up of liquefied natural gas (LNG) production at the floating liquefaction unit (Hilli Episeyo) off Kribi. LNG production is expected to offset the gradual decline in crude oil production, due to lower investment in new projects since 2014. The secondary sector should also benefit from the strong performance of construction, driven by investments in projects such as the extension of the deep-water port of Kribi and the construction of the Nachtigal dam. Nonetheless, after the country was stripped of its role as host of the 2019 African Cup of Nations (CAN) football tournament, some investments are expected to be delayed, although road and sports infrastructure projects will likely continue in order to organise the tournament in 2021. Progress in electricity supply, thanks to the commissioning of several hydroelectric dams (Lom-Pangar, Memve'ele), should support manufacturing industries, particularly wood processing and agro-industry. The latter will in turn support agricultural production, which is also set to benefit from efforts to improve the sector's productivity. Nevertheless, weak protection of land rights and limited access to credit, will continue to weigh on primary sector growth. Coffee and cocoa production, which is concentrated in the English-speaking regions, will likely continue to suffer from political instability. It is also expected to dent consumer and business confidence in these regions, constraining service sectors, which are otherwise likely to remain dynamic in 2019.

Persistent fiscal challenges

Cameroon is expected to continue lowering its budget deficit in 2019, thanks to efforts to improve the collection of non-oil revenues. Collecting property taxes through electricity bills and reducing tax exemptions appear to be key priorities as the country seeks to generate additional revenue. Increased LNG production could also support an increase in government revenues. The authorities additionally plan to continue reducing government spending. Measures to improve budget execution, including legislation establishing a code of transparency and good governance, could help to contain recurrent budget overruns. Security spending related, in particular, to the ongoing conflict in the English-speaking regions should nevertheless continue to put pressure on the budget. Low tax revenue generation and the use of non-concessional external debt to finance some projects have worsened the debt risk profile.

The current account deficit will persist in 2019. In particular, imports of capital goods needed to carry out projects will continue to affect the trade balance, which will remain negative despite the expected progress in LNG and wood exports. The deficit in the services account, is expected to continue to be impacted by technical services. The income account will also show a deficit, due to interest payments on the debt. The surplus in the balance of transfers will depend largely on fluctuations in remittances from expatriate workers. Despite FDI flows, debt will likely still be needed to finance the current account deficit. IMF support under a USD 666 million ECF is also helping to address external financing needs. The IMF's agreements with the majority of CEMAC countries, coupled with the rise in oil prices, have helped to ease pressure on foreign exchange reserves at the regional level.

The “Sphinx” faces a crisis in English-speaking regions

In power since 1982, Paul Biya was re-elected for a seventh consecutive term in the presidential elections of October 7, 2018, securing more than 71% of the vote. Despite accusations of fraud and disputed results, Mr Biya, nicknamed the “Sphinx of Etoudi” for his discreet public profile, retains his grip on power. Even so, the drop in voter turnout to less than 54%, 14 points lower than in 2011, reflects the country's growing fragmentation: for example, fewer than 10% of voters cast their ballots in the English-speaking regions in the Southwest and Northwest of the country. The low turnout is the result of the deteriorating political and security situation in these regions since the end of 2016. Clashes between separatists and the army intensified in 2018 and continue to be a source of destabilisation in the country. Stability is also being undermined by the activity of Boko Haram, an Islamist terrorist group, in the Far-North. The withdrawal of the 2019 CAN, due to these growing security concerns and delays in the preparation work, furher undermines, both domestically and internationally, the image of Paul Biya.

The business climate suffers from a cumbersome and complex institutional and regulatory environment, as evidenced by the country’s 166th place (out of 190) in the Doing Business 2019 ranking, and the prevalence of corruption.

CANADA

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	36.7
GDP PER CAPITA US Dollars - 2017	45,095
CURRENCY Canadian dollar	CAD

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.5	3.0	2.1	2.1
Inflation (yearly average, %)	1.4	1.6	2.3	2.0
Budget balance (% GDP)	-1.1	-1.1	-0.8	-0.9
Current account balance (% GDP)	-3.2	-2.9	-3.1	-3.0
Public debt (% GDP)	97.8	93.8	93.0	92.8

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	76%
CHINA	4%
EURO AREA	4%
UNITED KINGDOM	3%
JAPAN	2%

Imports of goods as a % of total

UNITED STATES	52%
CHINA	13%
EURO AREA	9%
MEXICO	6%
JAPAN	3%

+

- Abundant and diversified energy and mineral resources
- Fifth largest oil and gas producer in the world
- Strong, well-capitalised, and well supervised banking sector
- Serious budgeting
- Close proximity to large US market
- Developing trade relations with multiple partners (CETA with the EU)

-

- Dependent on US economy (1/2 of FDI stock, integration of the two countries' automotive industries) and energy prices
- Loss of competitiveness of manufacturing companies due to low labour productivity
- Insufficient R&D expenditure
- Decrease in the labour force, just slowed down by largescale selective immigration
- High household debt (170% of disposable income); house prices very high, although stabilising
- Energy exports weakened by inadequate supply pipelines to the coasts and the US, and by the US's own resources

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	LOW
CONSTRUCTION	HIGH
ENERGY	MEDIUM
ICT*	MEDIUM
METALS	VERY HIGH
PAPER	MEDIUM
PHARMACEUTICAL	LOW
RETAIL	HIGH
TEXTILE-CLOTHING	HIGH
TRANSPORT	LOW
WOOD	HIGH

* Information and Communication Technology

RISK ASSESSMENT

Growth still solid

Growth is expected to remain solid in 2019, despite the slowdown in domestic demand. Household consumption will show resilience thanks to the fall in the unemployment rate (5.8% in October 2018, the lowest in four decades) and the substantial wage increases boosted by growing recruitment difficulties. However, the wealth effect associated with the recent surge of house prices will be mitigated by their subsequent stabilisation. In addition, credit will continue to become dearer, reflecting the increase in the central bank's key interest rate (1.75% in October 2018, compared with 1% at the end of 2017), which is set to converge towards its neutral long-term level of between 2.5% and 3.5% amid almost full employment. As a result, residential construction, also affected by recent prudential rules aimed at limiting the risks associated with real estate loans, is expected to remain sluggish. Despite growing supply constraints, business investment will slow after a particularly dynamic 2018. It may even stagnate in the energy sector, particularly after the courts froze the USD 5.8 billion Trans Mountain pipeline expansion project on the west coast. As fiscal policy is less accommodative, the contribution of public consumption will be significantly reduced. Conversely, the contribution of foreign trade to growth should become positive. On the one hand, imports will follow investment in slowing. On the other, exports are expected to accelerate with the signing of the USMCA deal (renegotiated NAFTA) in September 2018, which ended uncertainty about future trade relations with the United States – a crucial partner, since it accounts for 76% of total exports. Conditions will remain unchanged for most sectors, with the exception of dairy products, where Canada has opened up 3.6% of its market to the United States. Despite this agreement, the United States' decision to maintain customs duties on imports of steel (25%) and aluminium (10%) will continue to affect metallurgy in 2019, even though the sector will benefit from the safeguard measure (import control) that came into force in October 2018. Timber exports will also remain constrained by the 20% customs duties applied by the United States in January 2018. Other export sectors, such as energy, agriculture and automotive, are expected to rebound, despite the slowdown in the United States.

Prudent fiscal policy and significant current account deficit

The government will continue its prudent fiscal policy in 2019, despite it being an election year. The additional measures to promote business competitiveness are of limited scope (CAD 5.2 billion, or 0.2% of GDP). Meanwhile, revenues will remain supported by brisk activity. As a result, public debt will continue to decline slightly. Although higher than 90% of GDP, public debt (two thirds of which is provincial or local) is sustainable, particularly thanks to its low cost linked to the country's AAA rating. Excluding the assets held by the Canada and Quebec Pension Plans, net public debt is only 28% of GDP. The most indebted provinces are Ontario and Quebec (49% and 30% of total net provincial debt respectively). However, when compared against their economic weight, this debt remains limited (38% and 47% of GDP respectively).

The current account will remain in deficit in 2019, although less so than in 2018, thanks to the smaller trade deficit. For several years, the balances of goods, services and income have been consistently in deficit. Excluding periods of soaring oil prices, as in 2014, energy exports only partially cover the substantial trade deficit in other commodities (4% of GDP), due to the sharp appreciation of the real exchange rate in the 2000s, which has been only partially corrected since. The current account deficit is financed by large foreign portfolio investments. The substantial external debt (105% of GDP in June 2018) is mainly contracted by banks (43% of the total) and companies (38%).

Prime Minister Trudeau expected to be re-elected

Justin Trudeau, who has been Prime Minister since the 2015 parliamentary elections, in which his centre-left Liberal Party won an absolute majority (184 seats out of 338), will stand for re-election in October 2019. With less than a year to go before the elections, polls indicate a pattern relatively similar to 2015: just under 40% of the votes for the Liberal Party, which should have a good chance of maintaining an absolute majority. His main opponent will be Andrew Scheer, elected in May 2017 as leader of the right-wing Conservative Party, which governed between 2006 and 2015 and whose support in the polls remains at around 30%. The left-wing New Democratic Party, led since October 2017 by Jagmeet Singh, is expected to remain the third largest political force on 15% of the votes after losing a little ground to the Green Party. Prime Minister Trudeau is therefore the favourite to win, even though his popularity rating has fallen during his time in office and stood at 48% in October 2018 compared with 64% two years earlier. At the regional level, growing differences with the United States have led to stronger ties with other countries, including the EU nations, with the CETA trade agreement signed in late 2016.

PAYMENT & DEBT COLLECTION PRACTICES IN CANADA

Payment

A single law governs bills of exchange, promissory notes and cheques throughout Canada; however this law is frequently interpreted according to common law precedents in the nine provinces or according to the Civil Code in Quebec. As such, sellers are well advised to accept such payment methods unless where long-term commercial relations, based on mutual trust, have been established with buyers.

Centralised accounts, which greatly simplify the settlement process by centralising settlement procedures between locally based buyers and sellers, are also used within Canada.

SWIFT bank transfers are the most commonly used payment method for international transactions. The majority of Canadian banks are connected to the SWIFT network, offering a rapid, reliable and cost-effective means of payment, notwithstanding the fact that payment is dependent upon the client's good faith insofar as only the issuer takes the decision to order payment.

The Large Value Transfer System (LVTS) –introduced by the Canadian Payments Association in February 1999 – is a real time electronic fund transfer system that facilitates electronic transfers of Canadian dollars countrywide and can also handle the Canadian portion of international operations.

The letter of credit (L/C) is also frequently used.

Debt Collection

Canada's Constitution Act of 1867, amended in April 1982, divides judicial authority between the federal and provincial Governments. Therefore, each province is responsible for administering justice, organizing provincial courts and enacting the civil procedure rules applicable in its territory. Though the names of courts vary between provinces, the same legal system applies throughout the country, bar Quebec.

Within each province, provincial courts hear most disputes of all kinds concerning small claims, and superior courts hear large claims – for example, the Quebec superior court hears civil and commercial disputes exceeding CAD 70,000 and jury trials of criminal cases. Canadian superior courts comprise two distinct divisions: a court of first instance and a court of appeal.

At federal level, the Supreme Court of Canada, in Ottawa, and only with "leave" of the Court itself (leave is granted if the case raises an important question of law), hears appeals against decisions handed down by the provincial appeal courts, or by the Canadian Federal Court (stating in appeal division), which has special jurisdiction in matters concerning maritime law, immigration, customs and excise, intellectual property, disputes between provinces, and so on.

The collection process begins with the issuance of a final notice, or "seven day letter", reminding the debtor of his obligation to pay together with any contractually agreed interest penalties.

Ordinary proceedings

Ordinary legal action – even if the vocabulary used to describe it may vary within the country – proceeds in three phases.

Firstly, the "writ of summons" whereby the plaintiff files his claim against the defendant with the court, then the "examination for discovery", which outlines the claim against the defendant and takes into account the evidence to be submitted by each party to the court and, finally, the "trial proper" during which the judge hears the adverse parties and their respective witnesses, who are subject to examination and cross-examination by their respective legal counsels, to clarify the facts of the case before making a ruling.

Enforcement of a Legal Decision

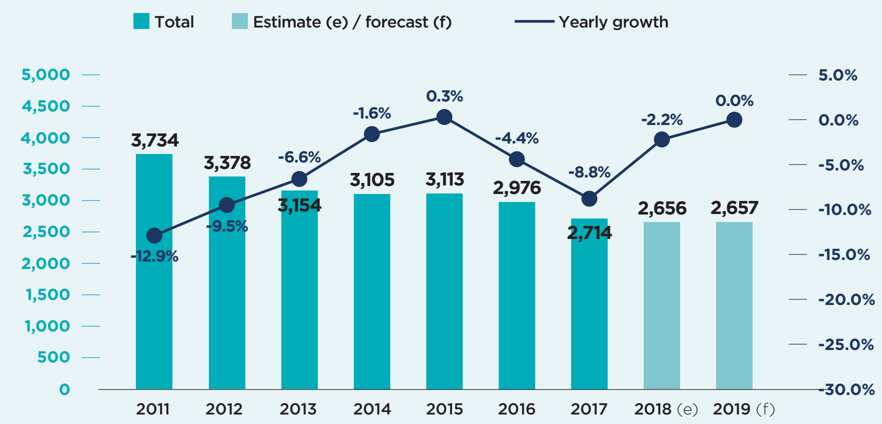
In most cases, except when the judge decides otherwise, each party is required to bear the full cost of the fees of his own attorney whatever the outcome of the proceedings. As for court costs, the rule stipulates that the winning party may demand payment by the losing party based on a statement of expenses duly approved by the court clerk.

The change precisely concerns institution of a standard "originating petition" (*requête introductive d'instance*), with the payment of judicial costs joined, introducing a 180-day time limit by which the proceedings must be scheduled for "investigation and hearings" (*pour enquête et audition*), delivery of a judgement on the content within a timeframe of six months after the case was heard and encouragement of the parties to submit to a conciliation stage during legal proceedings, with the judge presiding over an "amicable settlement conference" (*conférence de règlement à l'amiable*).

Insolvency Proceedings

The two primary pieces of insolvency related legislation in Canada are the Companies' Creditors Arrangement Act (the CCAA) and the Bankruptcy and Insolvency Act (the BIA). The BIA is the principal federal legislation in Canada applicable to bankruptcies and insolvencies. It governs both voluntary and involuntary bankruptcy liquidations as well as debtor reorganisations. The CCAA is specialized companion legislation designed to assist larger corporations to reorganise their affairs through a debtor-in-possession process.

NUMBER OF CORPORATE INSOLVENCIES

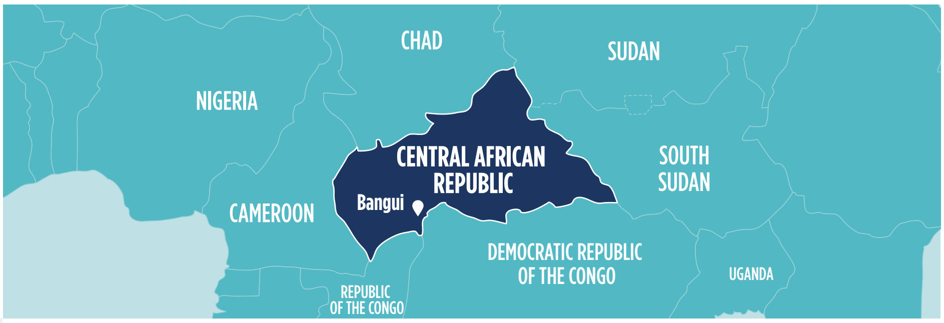


Source : Statistics Canada (CANSIM), Coface.

CENTRAL AFRICAN REPUBLIC

COFACE ASSESSMENTS

COUNTRY RISK	D
BUSINESS CLIMATE	E



POPULATION Millions of persons - 2017	**5.0**
GDP PER CAPITA US Dollars - 2017	**389**
CURRENCY CFA franc (BEAC)	**XAF**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.5	4.3	4.3	5.0
Inflation (yearly average, %)	4.6	4.1	4.0	3.4
Budget balance (% GDP)*	1.6	-1.1	0.9	0.7
Current account balance (% GDP)*	-5.5	-8.4	-8.9	-8.4
Public debt (% GDP)	56.0	53.4	48.6	44.4

(e): Estimate. (f): Forecast. *Including grants.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	39%
BURUNDI	15%
CHINA	11%
CAMEROON	9%
VIETNAM	4%

Imports of goods as a % of total

EURO AREA	33%
UNITED STATES	12%
INDIA	11%
CHINA	8%
SOUTH AFRICA	7%

+
- Agricultural (cotton, coffee), forestry and mining (diamond, gold, uranium) potential
- Substantial international financial support

−
- Extreme poverty (75% of the population lives below the poverty line)
- Vulnerability of the economy to external shocks
- Weak transport infrastructure and energy production capacity
- Geographically isolated
- Unstable political and security situation (presence of many foreign armed rebel groups)

RISK ASSESSMENT

Growth hampered by the security situation

After stabilising in 2018, growth is expected to pick up again, driven by forestry, agriculture and mining. It will also be supported by the international aid mobilised for infrastructure projects, particularly in the water and communications sectors. The CAB project, which will enable the country to have a fibre optic network in 2022 and which is mainly financed by the AfDB, is a prime example. However, the country remains one of the world's poorest, and still bears the scars of the 2013 humanitarian and security crisis. Growth will suffer in this fragile context, with the agricultural sector – which accounted for 42% of GDP in 2017 – affected by regular outbreaks of violence in rural areas. Despite this, the wood sector is expected to continue its development, generating nearly half of exports, ahead of gold, coffee and cotton. Diamond exports are expected to continue recovering, thanks to the partial lifting of the embargo in 2016. Domestic demand will remain weak, affected by the large numbers of people fleeing the country.

While staying above the CEMAC's 3% target, inflation is expected to continue to decelerate in 2019. It will again be fuelled by oil prices, which are set to remain high, and occasional supply disruptions connected with the security situation. As the CFA franc is indexed to the euro, inflation will also remain impacted by movements in the euro-US dollar exchange rate.

Public finances bolstered by international aid

The country, which is committed to the IMF under an Extended Credit Facility, is striving to push on with fiscal reforms. These efforts led to the disbursement of the fourth loan tranche by the IMF in July 2018 and are expected to result in a small budget surplus once again in 2019. Revenues are expected to go up, driven by both domestic revenues and budget support, as the country remains dependent on international assistance from the IMF, AfDB, EU and others. The ratio of public debt to GDP is expected to decline further as arrears are paid off, but the country remains exposed to a high risk of over-indebtedness.

Despite remittances from international partners and expatriates, which together accounted for 10% of GDP in 2018, the current account, mainly linked to the trade deficit (16% of GDP in 2018), is still expected to show a large deficit. The expected increase in exports will be offset by growth in imports, which will be exacerbated by high oil prices. In addition, exports will suffer as insecurity impacts their supply. Subsidised loans from international organisations, whether project-related or not, will finance the current account deficit. In addition, foreign exchange reserves, pooled among CEMAC countries, have begun to rebuild, reducing the risk of a balance of payments crisis.

A president faced with a tense security and political context

President Faustin-Archange Touadéra is struggling to manage the country's ethnic and religious conflicts, despite his initial vow to build a united republic. The country remains unstable, with ongoing clashes between the Seléka militia, a majority Muslim armed group, and the mainly Christian Anti-Balaka militia. Many other armed groups are taking advantage of this instability to try to impose themselves on the political scene. As of June 2018, the country had more than 600,000 internally displaced persons, representing nearly 13% of the population, and almost as many refugees in neighbouring countries, including Cameroon, Chad, the Democratic Republic of the Congo and the Republic of the Congo. The United Nations, which is present in the country as part of its Minusca peace mission, appears to lack sufficient resources and is suffering losses in its ranks. In addition, the President also faces dissension within his own political circles: in July 2018, the President of the National Assembly, Abdoul Karim Meckassoua, was accused of planning a *coup d'État*.

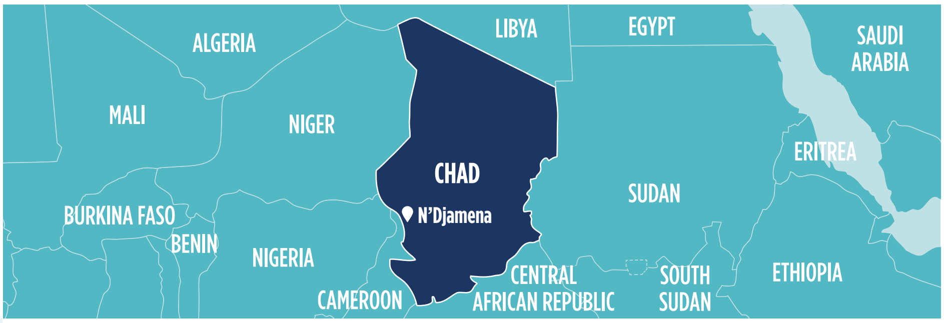
Against this backdrop, Bangui is maintaining close ties to Moscow. In August 2018, the two countries signed a military agreement, including the training of Central African soldiers. Russia also provides security for President Faustin-Archange Touadéra and has delivered weapons to the national army after obtaining an exemption from the UN embargo, an exemption that has been denied to China. This position allows the Kremlin to consolidate its influence in the region and reflects its interest in Central African mining resources.

As a result of this unstable environment, the business climate will remain mediocre. The Central African Republic is one of the lowest placed countries in the Doing Business ranking, coming 183th out of 190 countries.

CHAD

COFACE ASSESSMENTS

COUNTRY RISK	D
BUSINESS CLIMATE	E



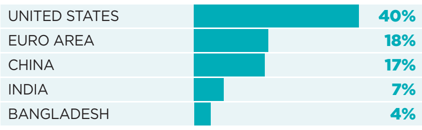
POPULATION Millions of persons - 2017	12.2
GDP PER CAPITA US Dollars - 2017	810
CURRENCY CFA franc (BEAC)	XAF

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-6.4	-3.1	3.5	3.6
Inflation (yearly average, %)	-1.1	-0.9	2.1	2.6
Budget balance (% GDP)	-2.0	-0.2	1.3	0.6
Current account balance (% GDP)	-9.2	-5.6	-4.2	-5.5
Public debt (% GDP)	52.4	52.5	49.2	45.4

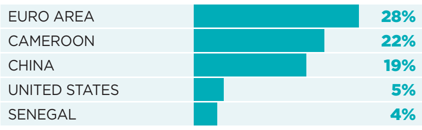
(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total



Imports of goods as a % of total



+
- Exploitation of new oil fields
- Development potential of the agricultural sector (50% of GDP)

−
- Very high poverty rate (40% of the population in 2019 according to the World Bank)
- Over-reliant on oil (about 20% of GDP and 60% of exports)
- Business climate not conducive to thriving private sector; high level of corruption
- Geographically isolated
- Worsening security conditions at both national and regional levels (role of Boko Haram)
- Worrying drought of Lake Chad, with negative effects on cotton, fishing and the environment.

RISK ASSESSMENT

Growth and structural efforts

Chad experienced a series of positive events in 2018, the benefits of which should continue to be felt in 2019 with the consolidation of the economic recovery. The high price of oil, which the country exports, will continue to contribute to growth in 2019. Looking to take advantage of the upbeat economic conditions and the extra fiscal leeway gained in 2018 through the rescheduling of the debt owed to the Glencore mining company, the country has decided to maximise the sector's potential by financing seven new oil projects in addition to those already underway, including the Rig-Rig refinery, which should start production in 2019. To restore its public finances, as requested by the IMF, the government has agreed to sell CotonTchad, a state-owned cotton company in serious financial difficulty, to Olam International, a Japanese Singaporean company. The purpose of this sale is also to revive a flagging sector whose production hit a 75-year low in 2017 (25,000 tonnes of seed cotton), with a target of 300,000 tonnes in 2023. The cotton sector and, more generally, agriculture, which has been affected by the rapid drying-up of Lake Chad, are at the heart of the Five-Year Development Plan (2017-2021). Increased agricultural production and yields are expected to contribute to the recovery of the economy through private consumption channels (75% of the working population works in agriculture and 85% of the total population depends on it) and exports, which are expected to expand for a second year, thanks in particular to the slight improvement in the Nigerian economy, which has boosted external demand.

Debt rescheduling and IMF financial assistance are helping to ease fiscal pressure

For the second year running, the public accounts will show a surplus in 2019, again providing debt relief. Oil revenues are expected to increase, benefiting from global economic conditions and rising production. These revenues, which until now have been 90% used to service the debt (USD 1.36 billion) owed to Glencore, may be used to finance investment, notably thanks to the debt rescheduling obtained in early 2018. Shortly after the rescheduling, the IMF, reassured by the easing of fiscal pressure, decided to release disbursement of the next stage of funding under the ECF negotiated with the country in 2017. In return, the government was asked to continue fiscal consolidation reforms, including better management of the wage bill, which resulted in the sale of CotonTchad.

The current account is expected to deteriorate slightly. Although the trade balance is structurally slightly positive thanks to oil, livestock and cotton exports, it is largely offset by the deficit in services (particularly oil-related), which is much larger, at close to 20% of GDP. The deterioration in the current account balance should be mitigated by the continued high level of transfers (10% of GDP in 2017), mainly by expatriates, and by the positive impact on the income balance of the debt rescheduling with Glencore. A strong performance from net FDI (4% of GDP) should ensure that financing is provided for this small deficit. Foreign exchange reserves, while continuing to increase, will remain at the low and potentially risky level of about 2.5 months of imports.

Fighting insecurity is the top priority

The parliamentary elections, which were due to be held in November 2018, after being cancelled in 2017 due to lack of financial resources, were again postponed to May 2019.

The social and security situation remains extremely fragile. The terrorist group Boko Haram, which rebuilt itself after its military defeat, remains very active in the west of the country, killing 17 farmers in June and six in September 2018. These attacks have triggered internal population movements, in addition to inflows of migrants from surrounding conflict-struck countries, including Sudan and the Central African Republic. The country has therefore decided to step up in the fight against terrorism by participating in the G5 Sahel force and by making insecurity a central theme of its presidency of the CEMAC from 2017 to 2022. Increased security spending, combined with demands for IMF budgetary efforts, have led to delays in payment of civil servants' salaries, resulting in strikes and protests in 2018. The situation could therefore continue to worsen in 2019 if budgetary pressure returns.

These uncertainties about the social and security situation are having a significant impact on the business environment, with the country coming 181th out of 190 in the Doing Business 2019 ranking.

CHILE

COFACE ASSESSMENTS

COUNTRY RISK	A3
BUSINESS CLIMATE	A3

POPULATION Millions of persons - 2017	18.4
GDP PER CAPITA US Dollars - 2017	15,068
CURRENCY Chilean peso	CLP

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.3	1.5	3.8	3.5
Inflation (yearly average, %)	3.8	2.2	2.5	3.0
Budget balance (% GDP)	-2.7	-2.8	-1.9	-1.7
Current account balance (% GDP)	-1.4	-1.5	-2.1	-2.4
Public debt (% GDP)	21.1	23.6	24.8	26.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	28%
UNITED STATES	14%
EURO AREA	11%
JAPON	9%
SOUTH KOREA	6%

Imports of goods as a % of total

CHINA	24%
UNITED STATES	18%
EURO AREA	13%
BRAZIL	9%
ARGENTINA	4%

+

- Mining (leading copper producer), agricultural, fishery and forestry resources
- Numerous free-trade agreements
- Flexible monetary, fiscal and exchange rate policies
- Favourable business climate; political and institutional stability
- Member of the OECD and the Pacific Alliance

-

- Small, open economy vulnerable to external shocks given the dependence on copper and Chinese demand
- Exposure to climate and earthquake risks
- Weak budgetary resources: 20% of GDP
- Inadequate research and innovation
- Vulnerability of the road network and electricity grid; high energy price / stretched country
- Income disparity and poor education system

Sector risk assessments

AGRI-FOOD	HIGH
AUTOMOTIVE	LOW
CHEMICAL	HIGH
CONSTRUCTION	HIGH
ENERGY	LOW
ICT*	MEDIUM
METALS	MEDIUM
PAPER	MEDIUM
PHARMACEUTICAL	LOW
RETAIL	LOW
TEXTILE-CLOTHING	MEDIUM
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Still fair, but decelerating, growth in 2019

After having reported an average annual growth rate of only 1.7% through the 2014/17 period, GDP observed a sharp improvement in 2018. The stronger performance was mainly underpinned by relatively higher copper prices and the rebound in business confidence since the election of the business-friendly President Sebastián Piñera. These factors also contributed to a rebound in investments after four consecutive years of contraction. A low inflation level and an accommodative monetary policy have also contributed to boosting household consumption. In 2019, while investments should remain robust, household consumption could observe some deceleration. This is in part due to the side effects of inflation moving back to the 3% target (driven by a low comparison base and by recent exchange rate depreciation), and the central bank implementing a tightening monetary cycle (a first hike was announced in end October 2018: 25 basis points to 2.75%). Moreover, employment figures have disappointed in light of a growing labour force. Downside risk to the activity outlook comes mainly from an escalation of the US-China trade war, which could hurt global growth as well as copper prices. China and the United States represent the main destinations of Chile's exports, representing 28% and 14% respectively of total exports in 2017. Additionally, copper accounts for 10% of the country's GDP, 25% of its fiscal revenues, and 50% of its export earnings.

Two deficits expected to remain moderate and manageable

The current account deficit widened in 2018. The relatively weaker outcome is mainly explained by the trade balance, as imports (driven by higher energy prices) rose at a faster pace than exports (copper prices lost momentum along the year due to the global trade protectionist rhetoric). As copper and energy prices should remain at similar levels in 2019, no big changes in balance are expected. It is worth noting that despite the relatively higher current account deficit, foreign direct investments are enough to ensure the external balance. In addition, the country holds foreign exchange reserves worth roughly 14% of GDP, or seven months of import coverage, in addition to sovereign wealth funds estimated at around 9% of GDP. However, Chile is not totally immune to shifts in foreign investors' mood towards emerging economies. The country holds an external debt of 60% of its GDP, over 70% of which is owed by the private sector (21% banks and financial institutions, 79% non-financial institutions). In late 2018, Congress approved a general banking law to move towards the Basel III standard. Regarding the fiscal balance, the robust initial position of the public finances has helped mitigate the negative impact of sluggish activity in 2014/17. In the wake of rebounding activity, the government was able to reduce the fiscal deficit in 2018. In 2019, fiscal consolidation is expected to gain further momentum, in line with the goal of reducing the structural deficit by 0.2 percentage point per year, until reaching a deficit of 1% in 2022.

With no majority, the government is trying to pass more reforms

The incumbent President Sebastián Piñera from the centre-right Chile Vamos alliance took office in March 2018. Mr Piñera was elected thanks to his pledges to reduce mining regulations, to make adjustments to President Michelle Bachelet's (2014/18) labour reform, to simplify tax rules, to reduce some corporate taxes, and to narrow the fiscal deficit. Nonetheless, neither his party nor the main opposition holds a congressional majority (hence the necessity to build consensus to pass reforms), and he will struggle to find support among the opposition for measures such as reducing labour unions' strength and mining regulations.

In early June 2018, Mr Piñera announced that he would not cut the corporate tax rate that Mr Bachelet's government raised to 27% – a step back on a campaign promise. He argued that maintaining the rate would help solve the fiscal imbalance and fund social reforms needed for the education, health, and pension systems. Subsequently, at the end of October 2018, Mr Piñera presented a pension reform. The country holds a highly privatised pension system that was introduced in the 1980s under the Pinochet dictatorship. Nevertheless, over the years, the combination of an ageing population, insufficient pension contribution rates, poor-paying jobs and high unemployment rates have contributed to low pay-outs. Although the proposal goes in direction of the opposition in some areas, the government might need to make some adjustments to the initial proposal in order to pass the bill through Congress.

PAYMENT & DEBT COLLECTION PRACTICES IN CHILE

Payment

Promissory notes, cheques and bills of exchange are frequently used for commercial transactions in Chile. In an event of default, it offers creditors some safeguards, including access to the summary proceeding (*Juicio Ejecutivo*). Under a *juicio ejecutivo*, based on his appraisal of the documents submitted, a first instance judge (*Juzgado Civil*) may order a debtor to pay at the moment of the notification – if the debtor fails to do so, his property will be seized. These documents may need to be validated by court before becoming legally enforceable.

Bills of exchange that are guaranteed by a bank are widely accepted, though somewhat difficult to obtain. They limit the risk of payment default by offering creditor additional recourse to the endorser of the bill.

Cheques, which are used more often than bills of exchange or promissory notes, offer similar legal safeguards under *Juicio Ejecutivo* in the event of unpaid for a cause (*protesto*), uncovered cheques, or closed accounts. Checks and the other mentioned documents, if not paid on time, can be reported to a Credit Report Company called *Boletin Comercial*.

The same is true of the promissory note (*pagaré*), which – like bills of exchange and cheques – is an instrument enforceable by law and, when unpaid, may also be recorded at *Boletín Comercial* (see below). The promissory note needs to be validated (protestada) by a public notary or in a judicial trial.

The *Boletín Comercial* is a company dedicated to conducting financial risk analysis. It provides to other information companies (such as Dicom, SIISA) information about the debts registered at national level for all kind of debtors. Boletín Comercial is the official and most important company, on this matter, at national level under the authority of the Santiago Chamber of Commerce (*Cámara de Comercio de Santiago*). Both, Companies and individuals, can be registered as debtors in the *Boletin Comercial*. The register provides key financial information that can be consulted by anyone who is interested in obtaining a picture of the financial behaviour of a Company or individual.

Electronic transfers *via* the SWIFT network, widely used by Chilean banks, are a quick, fairly reliable, and cheap instrument.

Debt Collection

Amicable phase

Collection begins with an amicable collection process where parties can agree on a payment settlement or other payment plan. The length of this amicable phase depends on the predefined term of the documents supporting the debt (cheque, invoice, promissory note, bill of exchange). A formal notice is sent by a recorded delivery letter inviting the debtor to pay.

If the parties did not include any specific clauses in the commercial contract, the applicable rate for delays on the payment is the conventional interest rate as defined by the central bank of Chile on a periodical basis.

Ordinary proceedings

When a settlement agreement cannot be reached with the debtor, the creditor will initiate a legal collection process ruled by local civil procedure.

Aside from the *Juicio Ejecutivo* creditors who are unable to settle with their debtors out of court may enforce their right to payment through the corresponding legal action ruled by the civil procedure. According to the local procedural laws, there are two kinds of judicial collection procedures; i), ordinary proceedings (*Juicio Ordinario*); ii) and abbreviated proceeding (*Juicio Sumario*) depending on the value of the sued amount and the type of documents that support the debt.

The claimant needs to explain the basis for their legal action and enclose all supporting documents (original copies) and evidence. After the first presentation in court, the judge will decide whether the legal action has basis or not. If the judge considers there are enough arguments and evidence, he will give course to the process.

All judicial action needs the presence of a barrister or solicitor (lawyer), whether taking place in front of a minor court (*Juzgados – primera instancia*) or superior court (*Corte Apelaciones o Suprema – segunda instancia*).

Debtors can dispute ruling with motivated arguments that law contains at the *Código de Procedimiento Civil* (Civil Procedure Code, defences) such as payment of debt, prescription, compensation, etc. Judges will consider these arguments and will accept or reject the defence. It is important to note that, while the defences of the debtor are discussed by the parties in the trial, the steps relating to seizure of assets are not stayed. The idea of this is that the debtor cannot delay the procedure unnecessarily.

Trials can last from six months up to two years, depending on the document, the debtor's defence, and if an appeal is filed following the initial judgement.

Enforcement of a Legal Decision

Domestic judgments are enforceable when all appeals have been exhausted. If the debtor fails to comply with the decision, the court can order an auction of the debtor's assets. Collection from a third party owing to the debtor is not possible.

Foreign judgments may be enforced if the Supreme Court validates these through an *exequatur* proceeding. Chilean law only recognises foreign judgements on a reciprocity basis: the issuing country must have an agreement with Chile regarding recognition and enforcement of legal decisions. Proceedings can last from between one to two years and the amounts to recover decrease because it is not possible to request the restitution of taxes paid to the treasury, which national companies can require.

Insolvency Proceedings

Out-of court proceedings

Extra-judicial reorganization

The 2014 bankruptcy law recognizes agreements between creditors and debtors that are reached outside of a bankruptcy proceeding, whereby a court approves the agreement that was developed outside of the bankruptcy court. In order to be approved, two or more creditors whose claims represent at least 75% of the total claims corresponding to their respective group must accept the plan.

Chilean law distinguishes different categories of creditors during a bankruptcy process, *e.g.* employees owned money, creditors that have a mortgage (usually banks), etc. Creditors in these categories have preference for payment over others. If creditors do not meet the criteria to be part of these categories, they do not receive have any kind of preference for payment.

While considering the approval of said plan, the court stays the procedure and the legal actions against the debtor. However, during this time also, the debtor is prohibited from disposing of any of its assets. After approval, the plan has the same effect as a judicial reorganization.

Restructuring proceedings

Restructuring processes carried out without a formal bankruptcy process are also carried out through a court trial at the request of the creditor(s). In the event that the debtor is not able to reorganize his debt through any agreement or negotiation, creditors may request the liquidation of the company.

Judicial reorganization

These agreements are more formal than extra-judicial agreements, and can only be filed by debtors, as they have to declare their insolvency to the court. The proceedings apply to both secured and unsecured creditors. Once debtors enter the judicial reorganization process, they must subsequently propose a reorganization plan, which requires the approval of at least two thirds of the total number of creditors.

Liquidation

Liquidation is organized through a single procedure initiated upon demand of the debtor or creditors. The latter can file for bankruptcy when a debtor defaults without appointing an administrator for its business. Once bankruptcy is declared, a trustee is given responsibility for the debtors' business and assets.

CHINA

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	B

POPULATION Millions of persons - 2017	1,390.1
GDP PER CAPITA US Dollars - 2017	8,643
CURRENCY Yuan Renminbi	CNY

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	6.7	6.9	6.6	6.2
Inflation (yearly average, %)	2.1	1.6	2.3	2.5
Budget balance (% GDP)	-3.0	-3.7	-3.7	-4.0
Current account balance (% GDP)	1.7	1.3	0.8	0.3
Public debt (% GDP)	44.3	47.0	50.0	54.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	19%
HONG KONG	12%
EURO AREA	12%
JAPAN	6%
SOUTH KOREA	5%

Imports of goods as a % of total

EURO AREA	11%
SOUTH KOREA	10%
JAPAN	9%
TAIWAN	8%
UNITED STATES	8%

+

- Sovereign risk contained as public debt remains mainly domestic and denominated in local currency
- Reduced risk of external over-indebtedness thanks to the high level of foreign exchange reserves
- Gradual move up global value-chains as part of China 2025
- Dynamic services sector, led by e-commerce trends
- Good level of infrastructure

-

- High corporate indebtedness to impact growth potential
- Current account surplus expected to narrow and eventually turn into deficit
- Exposure of banks to rising corporate debt levels
- Government strategy is ambiguous on arbitrating between reform and growth
- Ageing population; gradual depletion of cheap labour pool
- Environmental issues
- Weight of SOEs in the economy

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	HIGH
CHEMICAL	MEDIUM
CONSTRUCTION	VERY HIGH
ENERGY	HIGH
ICT*	HIGH
METALS	HIGH
PAPER	MEDIUM
PHARMACEUTICAL	LOW
RETAIL	MEDIUM
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	HIGH

* Information and Communication Technology

RISK ASSESSMENT

Gradual deceleration in 2019

China's economic growth is set to slow to around 6.5% in 2018. This moderation will likely continue into 2019. This weaker activity has been brought about by policies aimed at curbing both financial vulnerabilities and asset bubble risks. Corporate indebtedness remains the main risk in the Chinese economy. Adding to these headwinds, an escalation of trade tensions between the United States and China is expected to start to affect growth in 2019. Tariffs on USD 250 billion worth of Chinese exports were implemented in 2018, and it is possible that more will come in 2019. Moreover, the effects of a cooling property sector are expected to impact the real economy in 2019. Household consumption, which accounts for two-thirds of GDP, has remained on target, supported by relatively low inflation and rising wages. Signs are less positive on the private investment front, as it is set to slow as a result of lower business sentiment and lower earnings – however, this decline will be offset by higher public spending. Fiscal policy will turn expansionary in 2019 to buffer the economy from external risks. The People's Bank of China (PBOC) maintains a "prudent" stance. Monetary policy will arbitrate between accommodation and tightening in 2019, with the goal to manage the gradual slowdown and trade war impact.

Current account surplus to deteriorate

Exports in CNY terms increased by 7.9% year-on-year in the first nine months of 2018, compared to an expansion of 10.8% year-on-year in 2017. This is consistent with a softening in global trade. Slower external demand is set to continue in 2019. US tariffs will likely add to existing pressures. For these reasons, exports will likely expand at a slower rate going forwards. Although the yuan's significant depreciation in 2018 helped to improve China's terms of trade, it also led to a decline in foreign exchange reserves. Policymakers will likely intervene in forex markets to avoid overshooting depreciation expectations, as these could trigger outflows once again; even if capital controls remain firmly in place. While the current account returned to a surplus in the second quarter of 2018, lower export and faster import growth will likely result in a narrowing of China's current account, which shall nevertheless remain in surplus. FDI increased, but will likely decline once headwinds to growth begin to blow.

Overall indebtedness in the Chinese economy remains extremely elevated (more than 260% of GDP). Most of the debt is owed by corporations, a large proportion of which are State-Owned Enterprises (SOEs). Many of these are "zombie" enterprises: those that are struggling with high levels of debt and overcapacity, but are kept afloat because they generate employment and output. In addition, corporate debt is difficult to assess due to the expansion of shadow banking. Moody's estimates that shadow banking assets peaked at 87% of GDP in 2016, although they fell to 73% at the end of June 2018. The figure could be higher when taking into account other types of financial intermediation by banks, including Wealth Management Products (WMPs). The government has been trying to curb this type of lending, leading to overall higher levels of loans on bank's balance sheets. This is positive from a macro-prudential standpoint. However, curbing shadow banking activities has had a negative impact on the financial conditions of SMEs. Finally, public debt may be higher than reported if the surge in local government financing through local government financing vehicles (LGFVs) is factored into the calculation.

Entering unchartered territory

During the 19th National Congress of the Communist Party of China (CPC) in October 2017, all members of the Politburo Standing Committee – excluding President Xi Jinping and the Premier Li Keqiang – retired. The new line-up includes Li Zhanshu, Wang Yang, Wang Huning, Zhao Leji and Han Zheng. Xi Jinping did not announce a successor – he instead abolished presidential limits, paving the way for an extended tenure, and consolidating even more power under a series of executive bodies directly under his supervision. "Xi Jinping Thought", a political theory, was also written into the constitution, setting a clear departure from previous party consensus, which favored decentralisation of power. On the foreign policy front, fears of a fully-fledged US-China trade war have materialised. This is expected to have an impact equivalent to at least 0.5% of GDP, although this could be as much as 1% if the United States forges ahead with 25% tariffs on all Chinese imports. External threats are sizeable enough to justify an appropriate policy response. This raises questions as to what direction policy will take following the annual plenary sessions of the People's Congress and the Chinese People's Political Consultative Conference in March 2019.

PAYMENT & DEBT COLLECTION PRACTICES IN CHINA

Payment

Cash payment is usually used for face-to-face domestic retail transactions. Due to tight capital controls imposed by the authority, an indilival can only purchase up to USD 50,000 each year. Furthermore, when a Chinese company makes an international payment in a foreign currency, the company must submit a foreign currency payment application with the local bank, along with suporting documents like sales contracts and invoices. The whole process can be quite lengthy and it is possible that the bank will reject the transaction.

Commercial Acceptance Drafts (CAD) and Bank Acceptance Drafts (BAD) are both common methods of payment for Chinese companies. These are two negotiable instruments: whereas CAD is issued by companies to entrust the payer to unconditionally pay the specified amount to the beneficiary on the date, BAD is issued by the acceptance applicant, entrusting the acceptance bank to make unconditional payment of a certain amount of money to the payee or bearer on the designated date. In pratice, BAD is regarded as safer and therefore more accepted than CAD.

Letter of credit and cheques are also used, but are less popular in China. The use of letters of credit is typically confined to big companies; and cheques are used infrequently by both individuals and companies.

SWIFT bank transfers are also among the most popular means of payment as they are rapid, secure, and supported by a developed banking network, both internationally and domestically.

Debt Collection

Amicable phase

The creditor makes phone calls and sends letters of collection to chase the debtor for payment. If debtor is responsive and acknowlegdes the debt, the two parties will negotiate payment plans to try to have payment settled. In the existence of a dispute, both parties need to come to an agreement or offer discount on debt amount.

Legal proceedings

The Chinese court system is complex. It is divided into multiple tribunals at different levels. The basic People's Courts are at the lowest level with the County People's Courts or Municipal People's Courts. The basic People's Courts have jurisdictions over most cases of first instance. Intermediate People's Courts handle certain cases in first instance, such as major foreign-related cases, as well as appeal proceedings brought against decisions rendered by the basic People's Courts. At the Higher level, the High People's Courts decide on major cases in first instance. The Supreme People's Court is at the highest level, which handles interpretation issues, and has jurisdiction over cases which have a major impact nationwide.

Fast-Track Procedure

If the debt is purely monetary, there are no other debt disputes between the creditor and the debtor, and the repayment order can be served on the debtor, the creditor can apply for a repayment order against debtor with the court. The debtor has 15 days to repay the debt after the order is issued; otherwise, he must submit a defence before the payment deadline. If debtor fails to do either, the creditor can apply for enforcement. However, if debtor's written defence or objection is approved by the court and the ruling for terminating the debt payment order is issued, the debt payment order will be invalidated and the creditor can choose to pursue legal action. In practice, creditors do not usually use the fast-track procedure and will immediately initiate legal proceedings when the amicable phase fails.

Ordinary Procedure

Legal proceedings commence with the creditor lodging the case and submitting statement of claims with the court with corresponding jurisdiction. Once the case is accepted, court summons will be delivered to parties involved. Usually within one month, the first hearing will be arranged and the court will make a final attempt to reach a payment agreement between creditor and debtor *via* mediation. If no agreement can be reached, the litigation continues with several rounds of hearings, before a judgement is rendered by the court.

In theory, a first instance ruling could be rendered within six months after the case's acceptance, but in practice, proceedings can last longer as the complexity of the case increases (for example, when there is more than one creditor, or when a foreign party is involved). In some cases, the whole process can last to one to two years. Furthermore, appeal proceedings must be terminated within three months after appeal acceptance.

Enforcement of a Legal Decision

Domestic judgments, once obtained, can be executed by, for example, seizing the debtor's bank accounts, property, or by a transfer of rights. The creditor can apply for enforcement with the People's Court or with an enforcement officer.

For foreign judgments, the recognition and enforcement is based on the provisions of an international treaty concluded or acceded to by both China and the foreign country or under the principle of reciprocity. In practice, enforcing foreign arbitral awards is easier than enforcing foreign court decisions in China, because over 150 countries including China have signed and ratified the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, June 10, 1958).

Another method of enforcement is the "Arrangement on Reciprocal Recognition and Enforcement of judgments in Civil and Commercial Matters" (REJA) between China and Hong Kong. There are similar arrangements between mainland China and Macao, as well as between mainland China and Taiwan. It provides a legal basis for Chinese courts to enforcement judgments from Hong Kong, Macao, and Taiwan. It allows creditors to use courts from Hong Kong, Macao, and Taiwan for cases in mainland China.

Insolvency Proceedings

Parties may agree debt restructuring arrangements without going to court. However, such arrangements must not jeopardize the interests of any other creditors – otherwise, they may subsequently be declared invalid in any court bankruptcy proceedings.

The 2007 Chinese enterprise bankruptcy law sets out three types of formal bankruptcy proceedings: bankruptcy, reorganization and reconciliation.

Restructuring proceedings

This can prevent a company with plentiful assets while experiencing cash flow difficulties from entering bankrptcy. Either debtor or creditor can apply with the court for Restructuring, which allows debtor to manage its properties under an administrator's supervision. A restructuring plan should be approved by a majority of creditors in each voting class (secured, creditors, employees...) at creditor's meetings, then sent to the court for approval within ten days from the date of adoption.

After the implementation of the restructuring plan, the administrator will supervise and submit report on debtor's performance with the court. The administrator or debtor must file an application to the court for approval within ten days from the date of adoption.

Reconciliation

This procedure allows the company to settle its liabilities with its creditor prior to the court declaration of debtor' s bankruptcy. The debtor directly submits a payment proposal to the court and upon receiving court's approval on compromise payment proposal, the debtor will recover its properties and business from the administrators. The administrator will supervise debtor's performance and report to the court. If the debtor fails to implement the compromise proposal, the court will terminate this procedure and declare debtor bankrupt as requested by the creditors.

Bankruptcy

The procedure has the purpose to liquidate an insolvent company and distribute its assets to its creditors. The bankruptcy request should be applied with the court and the request can be sent both in the name of debtor and a creditor. Once accepting the bankruptcy petition, the court will appoint an administrator from the liquidation committee and debtor will be notified within five days and is required to submit financial statement to court within 15 days. The administrator will verify the claims and distribute the assets to creditors. After the final distribution is completed, the court will receive administrator's report and decide whether to conclude the proceedings within 15 days.

COLOMBIA

COFACE ASSESSMENTS

COUNTRY RISK	A4
BUSINESS CLIMATE	A4

POPULATION Millions of persons - 2017	49.3
GDP PER CAPITA US Dollars - 2017	6,380
CURRENCY Colombian peso	COP

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.0	1.8	2.7	3.3
Inflation (yearly average, %)	7.5	4.3	3.2	3.4
Budget balance (% GDP)	-4.0	-3.6	-3.1	-2.7
Current account balance (% GDP)	-4.3	-3.3	-3.0	-2.7
Public debt (% GDP)	46.0	47.4	47.6	47.1

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	29%
EURO AREA	12%
PANAMA	8%
CHINA	5%
MEXICO	4%

Imports of goods as a % of total

UNITED STATES	26%
CHINA	19%
EURO AREA	12%
MEXICO	8%
BRAZIL	5%

- Ports on two oceans
- Large population (almost 50 million)
- Plentiful natural resources (coffee, oil and gas, coal, gold)
- Significant tourism potential
- Institutional stability

- Sensitivity to raw material price movement; the US economic situation
- Relatively undiversified economy (in terms of manufacturing)
- Shortcomings in road and port infrastructures, due to historically low levels of investment
- Problematic security situation due to drug trafficking
- Structural unemployment, poverty and inequality; deficient educational and health care systems

RISK ASSESSMENT

Activity is expected to gain some further strength in 2019

After three years of decelerating activity due to the collapse in oil prices since mid-2014, GDP improved in 2018 thanks to a rebound in prices. Growth was also underpinned by an improvement in exports and household consumption due to the deceleration in inflation and an expansionary fiscal policy. Nevertheless, investments disappointed, with infrastructure investments suffering from some delays due to challenges in achieving financial closure.

The forces present in 2018 should persist in 2019. Private investments should also report higher momentum with the end of the electoral period (pro-business President Ivan Duque took office in August 2018) and with the rise observed in capital goods imports. Nonetheless, possible downside risks are related to the possibility of an escalation in protectionist global trade war and a deepening of the recent sell-off in emerging markets. Moreover, the relatively higher global risk aversion in 2018 prompted some depreciation of the Colombian peso (a movement that is likely to persist in 2019). As inflationary pressures arise from the improvements in domestic demand, some tightening to the monetary cycle will likely be observed this year.

While external deficit narrows, fiscal account remains under close watch

After hitting its worst point in 2016 in the wake of the collapse in oil prices, the current account deficit has since narrowed. In parallel, while oil prices registered a strong improvement during part of 2018, the positive spillover effect on the external account was partly offset by higher imports and by the widening of income deficit (higher profits registered by foreign energy companies). Moreover FDI have comfortably covered this deficit. Nevertheless, there are some risks to be monitored in case of a strong shift in investors' mood toward emerging markets. Colombia counted with an external debt of 37% of GDP as of July 2018. Moreover, foreign capital funds are major holders of the domestic public debt bonds (for instance it held roughly 27% of the TES bond by the end of 2017). In this regard, in order to contain this contagion risk as well as the risk associated with the possible end in 2020 of the IMF Flexible Line Agreement of USD 11.4 billion, the government announced in September 2018 a program of buying dollars to improve reserves (sit at roughly 15% of GDP in October 2018). The fiscal deficit has slightly improved in the last two years, following a tax reform in December 2016 and rebounding oil prices (oil revenues, which represented 3.3% of GDP in 2013, dropped to roughly 0.6% in 2016, and are estimated to reach 1.2% of GDP in 2019). While the country should be able to continue reducing its deficit in 2019, the long term sustainability of public debt is subject to a new tax reform.

The new right-wing President should assure the pro-business environment in the country

Iván Duque, from the centre-right Democratic Center, took office on August 7, 2018. Business-friendly, Mr Duque is a US-educated lawyer who previously worked at the Inter-American Development Bank, and also served as a Senator for Bogotá. He is politically affiliated to former President Álvaro Uribe (2002-10), who is one of the loudest critics of the peace agreement signed between the Colombian government and the former guerrilla group Revolutionary Forces of Colombia (FARC). Mr Duque has inherited several challenges, including bringing economy back to potential growth, leading on the necessary fiscal consolidation, fighting a record level of cocaine production and rising crime rates, as well as a fragile peace process with the FARC. He must also deal with the wave of Venezuelans fleeing from the crisis in their country: UN figures indicate that over 1.6 million Venezuelans have migrated to Colombia since 2015. According to Colombian figures, this wave costs the country roughly 0.5% of its GDP per year.

Mr Duque has pledged to focus on structural reforms, notably for taxes and pensions. In mid-December 2018, after weeks of discussion, Congress approved a revised version of the tax reform. The approved project will increase revenue by COP 7.8 trillion (approximately 0.7% of GDP), almost half of the COP 14 trillion (1.3% of GDP) needed to cover the budget deficit of 2019. In this way, the government will need to freeze spending to meet its fiscal target for 2019. The leaner reform makes it more likely that another tax overhaul will be needed in the coming years.

PAYMENT & DEBT COLLECTION PRACTICES IN COLOMBIA

Payment

The invoice is the security title most frequently used for debt collection in Colombia. When a sale has been made, the seller ought to issue one original invoice and two copies. The original must be kept by the seller to be used for legal issues. One copy is then handed to the buyer, and the other is kept by the seller for accounting records.

Other payment methods used in Colombia are bills of exchange, cheques, promissory notes, payment agreements, bonds, bills of landing, or waybills. They are commonly used in domestic business transactions, and tend to be considered as debt recognition titles that can facilitate access to fast-track proceedings before the courts.

Bank transfers are rapidly developing in Colombia. SWIFT bank transfers are becoming a very popular payment method for international transactions. For transactions of high value, payments are made through a national interbank network called SEBRA (Electronic Bank of the Republic) It uses a system of real time settlement. SEBRA turns use two systems CEDEC (Check Clearing System) and CENIT (National Electronic IntTerbank Compensation). For low-value payments, cash and cheque are primarily used.

Debt Collection

Amicable phase

The amicable phase is a recommended alternative to formal proceedings. Under Colombian law, conciliation or mediation hearings before commencing formal proceedings are mandatory. Pre-trial mediation must also be conducted in administrative litigation.

The creditor begins the amicable recovery process by reminding the debtor of the debt owed over the telephone. If this is unsuccessful, through an email or a registered letter the creditor subsequently requests immediate payment of the debt. If the debt is paid, the debtor will not bear the penalty interest, charges nor legal fees.

Legal proceedings

Fast-track proceedings

When the debt is certain and undisputed (such is the case for a bill of exchange), the creditor can initiate summary proceedings to obtain a payment order. The debtor must comply with the decision within 10 days or submit a defence.

Ordinary proceedings

The debtor must be notified through a writ that the judge has authorized the proceedings. The debtor must then answer the claim within 20 days. If the debtor fails to do so, the judge can render a default judgment depriving the defendant from their right to appeal. Otherwise, the court will invite the parties to attend a mediation proceeding in order to reach an agreement. If an agreement cannot be reached, the parties will present their arguments and evidences. Afterwards, the court will render a decision.

In principle, first instance decisions ought to be rendered within a year, while Courts of Appeal will render these within an additional six months period of time. Nevertheless, in practice, Colombian courts are unreliable, and it can take up to five years to obtain a first instance ruling and ten years for a full disputed lawsuit.

Enforcement of a Legal Decision

Domestic judgments become enforceable when all venues of appeal have been exhausted. Compulsory enforcement occurs through the seizure and auctioning of the debtor's assets. Nevertheless, collection of the debt from a third party is possible through a garnishment order.

For foreign awards, domestic courts will normally enforce them provided that they have been recognized by the Supreme Court through the *exequatur* procedure. Colombian courts will not recognize foreign decisions issued in countries which do not recognize Colombian decisions.

Insolvency Proceedings

Insolvency proceedings in Colombia are ruled by the 2006 Colombian Insolvency Act, which sets out reorganizations proceedings and judicial liquidation proceedings.

In cases of insolvency or bankruptcy, the process must be filed with the Superintendencia de Sociedades with the requirements of the law 1116 of 2006. The case will then be assigned to an agent or liquidator, according to the situation of the debtor company.

Out-of Court proceedings

Debtors may discuss debt restructuration agreements with their creditors before becoming insolvent. The final agreement must be validated by an insolvency judge.

Reorganization

The proceedings start by filling of a petition by the debtor, one or more of the creditors, or by the Superintendent. If admitted, the debtor is deemed insolvent and all enforcement claims are stayed. The reorganization plan is submitted by the debtor, and the creditors and the judge must approve it. The court may designate a "promoter" in order to manage the business.

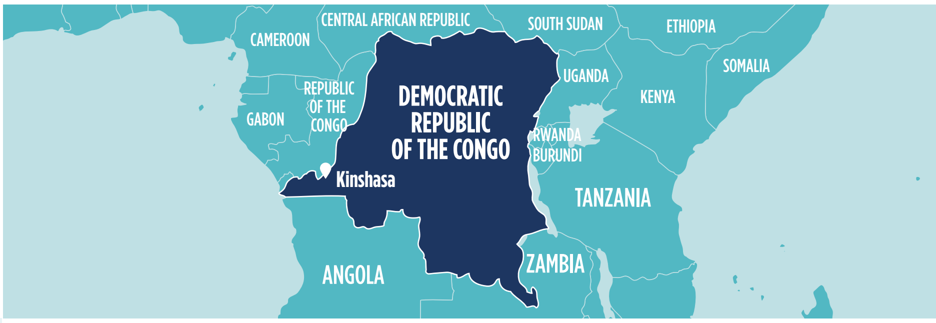
Liquidation

This occurs as a result of a failure to reach a reorganization compromise, or when the debtor has failed to abide by the negotiated terms. It can be requested by the debtor and the creditors. A liquidator is appointed to establish a list of creditors' claims and to manage the estate's liquidation.

CONGO (DEMOCRATIC REPUBLIC OF THE)

COFACE ASSESSMENTS

COUNTRY RISK	D
BUSINESS CLIMATE	E



POPULATION Millions of persons - 2017	86.7
GDP PER CAPITA US Dollars - 2017	478
CURRENCY Congolese franc	CDF

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.4	3.7	3.8	4.1
Inflation (yearly average. %)	5.9	40.8	23.2	13.5
Budget balance (% GDP)	-0.9	0.4	-0.2	0.3
Current account balance (% GDP)	-3.6	-3.1	-3.0	-2.8
Public debt (% GDP)	19.3	18.2	20.9	19.9

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	35%
SOUTH AFRICA	31%
UNITED ARAB EMIRATES	9%
SOUTH KOREA	6%
TANZANIA	6%

Imports of goods as a % of total

CHINA	23%
SOUTH AFRICA	18%
EURO AREA	11%
ZAMBIA	7%
TANZANIA	5%

- Abundant mineral resources (copper, cobalt, diamond, gold, tin)
- Significant hydroelectric potential
- International involvement and regional cooperation in resolving conflicts in the Great Lakes re-gion
- Debt relief under the HIPC and MDR initiatives

- Tensions in the east of the country, where there are many armed groups, including Forces Dé-mocratiques de Libération du Rwanda, Allied Democratic Forces and the Mai-Mai militia
- Precarious humanitarian situation in the Kasai region, leading to tensions with Angola
- Unsolved political crisis since the Supreme Court's decision to postpone the 2016 presidential elections
- Extremely dependent on commodity prices
- Weak infrastructure (transport, energy, telecommunications)
- Poor governance and weak institutions
- High level of poverty

RISK ASSESSMENT

The mining sector masks weakness in domestic demand

Growth is expected to continue to increase in 2019, mainly driven by the mining sector. Ore exports, particularly copper and cobalt, should continue to grow, in line with production trends. However, the temporary closure of the Kamoto mine, due to problems with uranium content in the cobalt hydroxide produced by the facility, will likely limit production gains in 2019. At the same time, the shut-down should support cobalt prices, which have fallen from a record high in March 2018. The mining sector should also continue to attract private investment, although implementation of a new mining code, which is of concern to firms in the sector, could dampen investments. Among other things, the new code increases taxes and royalties, requires at least 10% of mining companies' capital to be held by Congolese citizens, and prohibits, unless otherwise agreed, the export of unprocessed minerals under new mining permits. Thanks to the increase in mining revenues, but also thanks to external financing under the National Strategic Development Plan, public investment, particu-larly in infrastructure development, should also increase. A severe deterioration in the political and security situation in the country following the elections could, however, have an impact on external financing. The contribution from private consumption is expected to remain sluggish due to the many conflicts, the Ebola epidemic in the east, and persistently high inflation, in a country where nearly 75% of people live in poverty.

A fragile external position

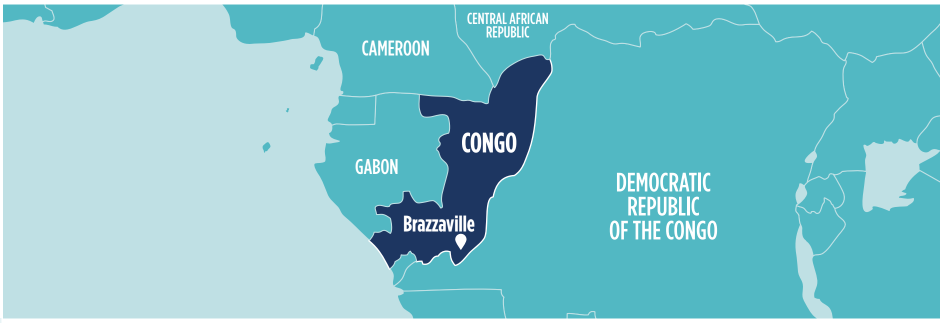
After being burdened by the organisation of elections in 2018, the budget balance is expected to return to a small surplus in 2019. Still largely dominated by a heavy wage bill, spending is set to increase, particularly in security, health (to contain Ebola), and infrastructure. The increase in taxes and royalties in the mining sector (about 30% of total revenues) should nevertheless make it possible to absorb this increase in expenditure. As debt is still at a low level and largely concessional, the risk of over-indebtedness remains limited.

The current account is expected to remain in deficit, pulled down by the services and income balances, which remain in deficit owing to mining services and profit repatriation respectively. The current account deficit is expected to narrow slightly, supported by the increase in the trade surplus, thanks to mining exports, and with import growth limited by weak domestic demand. FDI, which is mainly directed towards the mining sector, finances the deficit, but remains exposed to any deterioration in the security and political situation, or to a drop in commodities prices. Foreign exchange reserves, which represent just over a month of imports, would be insufficient to prevent a sharp depre-ciation of the Congolese franc.

A critical political, security and humanitarian situation

After two years and a week of heated postponements, following Joseph Kabila's (in power since 2001) refusal to resign from the presidency at the end of his second and constitutionally last term, the presidential, legislative, and provincial elections were finally held on December 30, 2018. Marked by numerous dysfunctions and the postponement of the vote in some constituencies (Béni, Butombo and Yumbi), the results of the election – supposed to be the first peaceful transfer of power since the country's independence (1960) – have yet to be delivered at the time of writing. Emmanuel Ramazani Shadary, designated as heir apparent by Mr Kabila (who does not intend to withdraw from political life and could run again in 2023), and opponents Martin Fayulu and Félix Tshisekedi have all declared themselves winners. Given that UN assistance and certain international observers were rejected prior to the vote, the electoral commission is already accused of favouring Mr Shadary. Suspicions of fraud were reinforced by the authority's decision to cut off the internet after the vote. In an already critical security and humanitarian context in some parts of the territory, this chaotic electoral process could increase fears of a period of instability and an outbreak of violence, particularly if Mr Shadary is announced as victor. The situation in Kasai, where the Kamwina Nsapu insurgency against the central government had plunged the region into violence in 2016 and 2017, could flare up again. In addition, the many armed groups in the eastern part of the country (Kivu) are continuing their exactions. Already fragile due to violence and population displacements, these regions are also affected by the Ebola virus, which has been responsible for more than 300 deaths, and is difficult to contain due to the aforementioned conflicts. Despite the work of the UN Mission for the Protection of Civilians (MONUSCO), conflicts continue to displace people. The many conflicts in the border areas are also generating regular tensions with its neighbours, particularly Angola, Rwanda, and Uganda. These many sources of political and security instability – along with corruption, weak governance and poor infrastructure – contribute to the country's extremely deteriorated business climate (184th out of 190 countries in the Doing Business 2019 ranking).

CONGO (REPUBLIC OF THE)



COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	D

POPULATION Millions of persons - **2017**	**4.3**
GDP PER CAPITA US Dollars - **2017**	**2,005**
CURRENCY CFA franc (BEAC)	**XAF**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-2.8	-3.1	2.0	3.7
Inflation (yearly average, %)	3.6	0.5	1.6	1.8
Budget balance (% GDP)	-19.4	-7.6	7.1	7.9
Current account balance (% GDP)	-54.1	-13.1	4.2	5.4
Public debt (% GDP)	98.7	117.9	102.1	98.3

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	37%
EURO AREA	21%
ANGOLA	7%
CAMEROON	6%
UNITED STATES	4%

Imports of goods as a % of total

EURO AREA	22%
AUSTRALIA	10%
NAMIBIA	9%
ANGOLA	7%
CHINA	6%

+
- Abundant natural resources (oil, iron ore, potassium, phosphates, wood) and agricultural potential
- Potential for economic diversification with the opening of free trade zones

−
- Highly dependent on oil and China
- Lack of infrastructure; insufficient progress in poverty reduction
- Unsupportive business environment and weak governance
- Lack of transparency on debt levels; uncertainty about interest payments

RISK ASSESSMENT

Recovery strengthens thanks to the oil sector

After two years of recession, the Congolese economy returned to growth in 2018. Higher oil prices, coupled with an increase in production, supported a rebound in oil GDP. Growth in the non-oil sector, meanwhile, remained weak after being hit hard by the public finance crisis that followed the 2014/15 oil shock. The financing difficulties encountered by state-owned companies and arrears owing to Chinese companies in particular have caused several projects to be shelved. Despite a favourable oil market environment in 2019, fiscal consolidation efforts are expected to put a dampener on investment and consumption. Non-oil growth is likely to remain moderate, but this should be offset by an increase in oil GDP. Oil and gas production is set to increase in 2019, driven by the ramp-up of the Nene Marine (operated by Eni, an Italian oil and gas multinational company) and Moho (managed by French group Total) offshore fields, making the Republic of the Congo the third largest oil producer in sub-Saharan Africa. As the government prepares to launch a new call for tenders for deep-sea exploration licences in 2019, the improved security situation in the Pool region and the conclusion of an agreement with the IMF in 2019 should encourage foreign investors to return, even though the business environment remains challenging. Inflation is expected to be relatively stable in 2019, staying below the 3% target set by the Bank of Central African States.

Despite improvement in public accounts, debt remains unsustainable

The rise in oil prices led to a marked improvement in public finances in 2018, allowing the government to post a budget surplus. The surplus is expected to be maintained in 2019, despite the increased public spending provided for by the Finance Act. Even so, the country's financial situation remains critical. Between 2014 and 2016, Congo – which had embarked on a major infrastructure investment programme – maintained a high level of public spending, despite the sharp drop in its revenues. The subsequent accumulation of deficits led to a significant increase in the debt ratio. After a temporary default on Eurobonds in July 2017, in September of the same year the credit rating agency Standard & Poor's revealed the existence of hidden debts linked to significant arrears owed to the Swiss trading companies Glencore and Trafigura. After the IMF included these debts in its estimates, Congo's adjusted debt ratio jumped from 77% to 110%. The Congolese government is also involved in a dispute with Commisimpex, a construction company that is claiming USD 1.1 billion (16% of GDP) for unpaid infrastructure work. So far, the Paris Court of Appeal has ruled against seizure of the bank accounts of Congo's diplomatic representation in France, but has upheld the seizure in favour of the complainant of claims due by French companies operating in the country. Despite the hidden debt scandal, China, which remains Congo's largest creditor (40% of the debt), continues to support the country in its negotiations with the IMF. In 2017, the Congolese government asked the IMF for three-year assistance, but the fund made its support conditional on public debt restructuring and a prior agreement with private creditors. A year of negotiations was necessary to reach a technical agreement, which will also involve an additional €135 million in aid from France.

Increased oil revenues, which represent 75% of exports, have generated a current account surplus that is expected to continue in 2019. However, the country remains vulnerable to a downturn in the oil market.

Tensions ease in the Pool region

The peace agreement signed between Pastor Ntumi's Ninja Nsiloulou militiamen and the Congolese government in December 2017 defused the escalation of violence in the Pool region south of Brazzaville. The rebels had taken up arms in April 2016 to challenge the re-election of President Denis Sassou Nguesso. Clashes between armed militias and Congolese forces led to the closure of the railway link between Brazzaville and Pointe Noire in November 2016, disrupting part of the country's economy. Although the peace agreement appears to have been respected and the disarmament of militias continues, the situation remains precarious, with 138,000 people living in difficult humanitarian conditions. Despite the challenge from the Pool region, President Sassou Nguesso, who has been in power since 1997, emerged stronger from the 2016 presidential and July 2017 legislative elections. His Congolese Labour Party continues to hold a majority in the National Assembly, while the opposition is still fragmented, despite negotiations to unite in the run-up to the 2021 elections. The financial crisis, which has resulted in significant delays in paying civil servant wages, continues to fuel a very tense social climate.

COSTA RICA

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	A4

POPULATION Millions of persons - 2017	5.0
GDP PER CAPITA US Dollars - 2017	11,729
CURRENCY Costa Rican colon	CRC

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.2	3.3	3.2	3.3
Inflation (yearly average, %)	0.0	1.6	2.4	3.0
Budget balance (% GDP)	-5.3	-6.3	-7.1	-6.9
Current account balance (% GDP)	-2.3	-2.9	-3.3	-3.5
Public debt (% GDP)	44.9	48.9	53.7	57.6

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	41%
EURO AREA	19%
PANAMA	5%
NICARAGUA	5%
GUATEMALA	5%

Imports of goods as a % of total

UNITED STATES	38%
CHINA	13%
EURO AREA	8%
MEXICO	7%
GUATEMALA	3%

+

- Democratic institutions (since 1949)
- Best social indicators in the region: education and health
- Services and cutting-edge industries (pharmaceuticals, microprocessors) attractive to FDI
- Diversified trade, thanks to multiple trade agreements
- Tourism resources: hotels, national parks

−

- Unsustainable public accounts
- Exposed to natural disasters
- Inadequate transport infrastructure
- Dependent on the United States, both economically (FDI, exports) and financially (banks)
- Lack of skilled workforce; unreported work
- High income inequalities

RISK ASSESSMENT

Growth supported by domestic demand but still below its potential

Growth in 2019 will be driven mainly by vibrant private consumption (64.2% of GDP in 2017), which will benefit from reduced political uncertainty following the presidential election in February 2018 and the vote on the first phase of the public accounts reform in December 2018. However, renewed opposition to the fiscal reform could undermine consumer confidence. Alternatively, failure to go ahead with further reforms would cause the colón to depreciate sharply, pushing up inflationary pressures. However, action by the central bank should make it possible to contain inflation within the target range (2%-4%), with the adoption of a tighter monetary policy (the key interest rate was hiked in October 2018 from 5% to 5.25%). Success will depend on the de-dollarisation of the economy (27% of bank loans in US dollars, 17% of GDP in mid-2018). Public consumption is expected to continue to be constrained by the size of the deficit. The fragile public finances will also be a drag on investor confidence. In addition, the government's heavy dependence on domestic financing is expected to prolong the crowding-out effect on private investment, as the bond market is still largely dominated by government bonds (USD 21.7 billion in October 2017). In addition, the financial system remains very fragile, lacking a comprehensive legal framework and a liquid secondary market for government bonds. Tourism and construction are set to attract new investment, mainly in private residential and non-residential projects, while other services, particularly telecommunications, will also grow briskly. Finally, the agricultural sector should get a lift from the recovery in banana production, which was hard hit by weather conditions in 2018, as well as in other agricultural products in response to rising external demand from the likes of China, Chile, and Peru.

Public finances in an alarming state that could affect the external accounts

The public accounts feature a very large structural deficit. Revenues are insufficient to finance the sharply increasing expenditures, with an ever-growing share going towards servicing the country's exploding public debt. The social security system is especially fragile. Without reform, revenues will be lower than total expenditure from 2023 onwards, making it necessary to tap into reserves that will run out by 2030. After many previous attempts foundered due to the lack of political agreement, a much contested initial tax reform was approved in December 2018. The new law introduced a 13% VAT to replace the sales tax of the same amount, along with a lower rate for basic necessities. A reform of capital taxation, eliminating exemptions, and caps on wage increases for civil servants were also introduced. Under the new fiscal rule, increases in current expenditure will be linked to changes in the debt-to-GDP ratio, and no project will be approved without financing. However, broader reforms remain necessary to ensure the sustainability of public debt on a long-term basis.

The external accounts are in better shape. Exports are expected to perform strongly on increased external demand for capital goods (particularly medical devices) and agricultural goods (pineapples, bananas). However, this increase will not offset the growth in imports (trade deficit equal to 8.5% of GDP in 2017) driven by demand for capital goods and commodities (notably hydrocarbons). The balance of services, which shows a surplus thanks to tourism revenues (surplus of 9% of GDP in 2017), will not be enough to balance the current account, which will remain in deficit owing to the repatriation of corporate dividends. The country's external financing remains secured by FDI. Nevertheless, the weak public accounts constitute a risk that is exerting downward pressure on the colón (the currency's value fell by 9% between August and November 2018), prompting the central bank to draw on its foreign exchange reserves (4.9 months of imports in the first half of 2018) to provide support.

A fragmented political landscape amid the need for reform

Carlos Alvaro Quesada, representing the Partido de Acción Ciudadana (PAC), won the presidential elections of February 2018, beating out evangelical candidate Fabricio Alvaro of the Partido de Restauración Nacional (PRN). Given how fragmented the Parliament is (seven parties sharing the 57 seats and the PAC holding just ten), he will have to compromise to carry out any legislative projects. In this context, the fight against crime and money laundering rings linked to drug trafficking, as well as the reform of public finances, will remain priorities for the government.

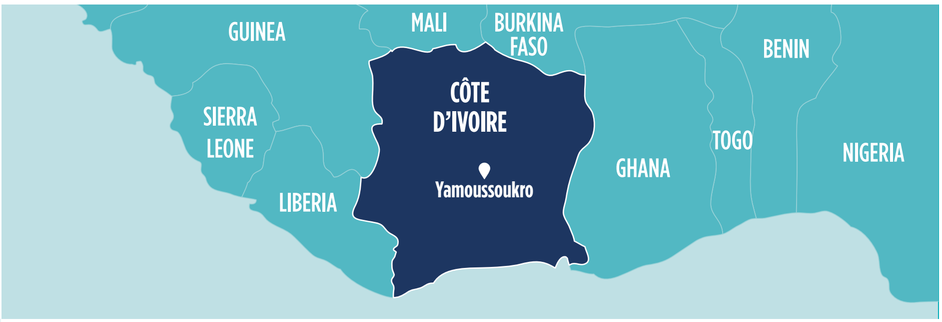
The business environment will continue to be affected by infrastructure deficiencies (transport and telecommunications in particular) and relatively high energy costs (electricity).

In terms of international relations, the priority will continue to be OECD membership, as well as the establishment of free trade agreements with China and South Korea.

CÔTE D'IVOIRE

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	B



POPULATION Millions of persons - 2017	25.0
GDP PER CAPITA US Dollars - 2017	1,621
CURRENCY CFA franc (BCEAO)	XOF

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	8.2	7.8	7.4	7.0
Inflation (yearly average, %)	0.7	0.8	0.6	1.4
Budget balance (% GDP)	-3.9	-4.2	-3.8	-3.2
Current account balance (% GDP)	-1.1	-2.1	-2.7	-3.1
Public debt (% GDP)	47.0	46.8	48.3	47.3

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	38%
UNITED STATES	8%
BURKINA FASO	5%
INDIA	4%
MALI	4%

Imports of goods as a % of total

EURO AREA	28%
NIGERIA	15%
CHINA	11%
UNITED STATES	4%
INDIA	4%

+

- Diversity of resources: hydrocarbon, ores (gold, copper, iron, manganese, bauxite) and agricultural wealth (world's largest producer of cocoa, coffee, sugar, and cashew nuts)
- Infrastructure undergoing modernisation
- Improving business climate and governance
- Strengthening political stability

-

- Economy vulnerable to weather-related hazards and cocoa price evolution (main export product)
- Gaps remain in public finance management, infrastructure, and business environment
- Slow development of national reconciliation

RISK ASSESSMENT

Robust growth, despite a gradual decline

As the post-political crisis catching-up effect of 2011 fades, growth is expected to continue to decline in 2019. Nevertheless, it will likely remain strong, thanks to investments. The construction, transport, and energy sectors are expected to continue to grow robustly, driven by public investment in major infrastructure works under the Second National Development Plan (PND 2016-2020), such as the expansion of the autonomous port of Abidjan, which will continue. Improvements in the business climate and increased use of PPPs should help support private investment, particularly in transformative industries (notably agro-industry) and services (telecommunications). Growth in the tertiary sector will also be driven by private consumption, which, although declining, is expected to remain vigorous. Despite the likely progress in industrial exports, the contribution of the trade balance is expected to suffer from the difficulties of the cacao sector, whose revenues represent more than 40% of total exports. Indeed, after two difficult seasons in the wake of the fall in cacao prices in 2016-2017 and marked by the judicial liquidation of one of the country's main exporters (SAF-Cacao), the fight against the cacao swollen shoot virus and the policy of cutting down sick cacao trees will likely result in a drop in production during the 2018-2019 cacao season.

Further fiscal adjustment, deterioration of the current account deficit

In 2019, continued adjustment efforts to reach the WAEMU convergence criterion level of 3% of GDP in 2019 should allow for a reduction in the budget deficit, which notably widened in 2017 due to difficult socio-economic conditions (lower cacao prices, bonus payments to meet social demands). Achieving this objective will require, in particular, increased mobilisation of tax revenues; the gradual withdrawal of tax exemptions, the reinstatement of the cocoa registration fee, the introduction of a tax on cashew nuts, and increasing VAT revenues are some of the measures undertaken to achieve this. The acceleration of tax and customs administration reforms should also improve tax revenues. These measures would be accompanied by efforts to contain the wage bill and public investment, including the incorporation of PPPs in the public investment programme from 2019. Tax system reforms will continue to be supported by the IMF through the three-year Extended Credit Facility (ECF) and Extended Fund Facility (EFF) programmes in which the country has been engaged since late 2016. The level of public debt remains moderate – below the WAEMU standard of 70% – and sustainability and liquidity indicators point to a moderate risk of over-indebtedness.

The current account deficit is expected to deteriorate in 2019 in the wake of the deterioration in the trade surplus. The latter is expected to suffer mainly from a decline in cacao exports and, above all, from the growth of consumption and investment imports, driven by dynamic domestic demand. Relatively stable deficits in the service, transfer, and income accounts will continue to tip the current account into the red. Despite this deterioration, project loans and FDI should make it possible to finance this deficit.

The political scene mobilized by the 2020 presidential elections

While the smooth re-election of President Alassane Ouattara in 2015 showed some normalisation of the political climate after the violence that followed the 2010 election, the country's political stability is showing some signs of fragility as the 2020 elections approach. Ambiguous statements about Mr Ouattara's intentions to run for a third term (which is in principle prohibited by the 2016 Constitution) have provoked strong reactions and are fuelling tensions around the President's succession, despite the subsequent denials. The withdrawal of the Parti démocratique de Côte d'Ivoire and its leader, former President Henri Konan Bédié (1993-1999) from the Rassemblement des houphouëtistes pour la démocratie et la paix, the unified party launched in July 2018 by Alassane Ouattara in view of the presidential elections, notably highlights the intensification of political infighting. In August 2018, the release of Simone Gbagbo, Vice President of the Front Populaire ivoirien and wife of former President Laurent Gbagbo (2000-2010; still in ICC custody at the time of writing), revived her party's ambitions, meaning the 2020 presidential elections will effectively be a battle between the three political forces that have been fighting for power for the past three decades. At the same time, while part of the population considers that they are not receiving the dividends of the country's robust growth since 2012, army mutinies and the numerous civil servants' strikes that broke out in 2017 indicate that the social climate is tense. The events of recent years are reminders that post-2011 national reconciliation is still ongoing.

CROATIA

COFACE ASSESSMENTS

COUNTRY RISK **A4**

BUSINESS CLIMATE **A3**

POPULATION 4.1
Millions of persons - 2017

GDP PER CAPITA 13,271
US Dollars - 2017

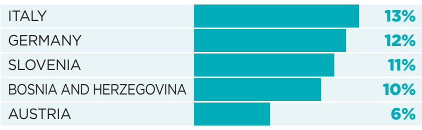
CURRENCY HRK
Croatian kuna

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.5	2.8	2.8	2.7
Inflation (yearly average, %)	-1.1	1.1	1.6	1.6
Budget balance (% GDP)	-0.8	0.8	0.2	0.0
Current account balance (% GDP)	2.6	3.9	2.8	2.5
Public debt (% GDP)	82.3	77.8	74.0	71.0

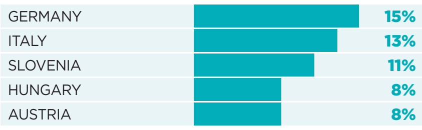
(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total



Imports of goods as a % of total



\+

- 50% of electricity produced by dams; 20% imported
- Tourism appeal and long coastline
- Oil and gas potential
- Kuna pegged to the euro (60% of bank deposits in euros), with a view to participating in ERM II
- High-quality infrastructure

\-

- High private and public debt
- Inefficient administration and justice system; inadequate regulation
- Weak industrial development; lack of competitiveness
- High long-term and youth unemployment
- Emigration taking away skilled workforce

RISK ASSESSMENT

Activity supported by domestic demand

The economy is expected to record a fourth consecutive strong year in 2019, driven by domestic demand. Because of the labour shortage, household consumption (58% of GDP) will continue to benefit from wage growth, the impact of tourism (25% of GDP, one in ten jobs), expatriate remittances, and the VAT reduction from 25% to 13% on food products on January 1. In addition, inflation is expected to remain low, with energy prices evening out and the pending arrival of a discounter in the food retail sector. When combined with the stability of the kuna, this should allow the central bank to maintain an accommodative policy. Investors, meanwhile, will be heartened by the resolution of the Agrokor case and credit growth, particularly for SMEs. Work on the Peljesac bridge – which will span Bosnia's maritime access to provide a road connection between the north and south of the Croatian coastline – resumed in the summer of 2018. Implementation of European funds is also set to increase, benefiting construction. Exports will get a boost from market share gains in the EU, particularly in the oil, food, medical, lingerie, and control instruments segments. Tourism revenue should remain on a positive trend, although competition from Turkey, Egypt and Tunisia may cast a shadow. However, as imports will be boosted by domestic demand at the same time, trade's contribution to growth should remain slightly negative.

Fiscal consolidation to continue

The public accounts are expected to be in balance in 2019, and might even show a surplus if interest on debt is excluded. The improvement is based largely on the beneficial effect of growth in revenues, notably from consumption *via* VAT and employment *via* social security contributions. Reduced debt service linked to low interest rates and better use of European funds are also playing a part. However, the contribution of economic conditions to performance puts the good result in perspective – a fact that is corroborated by the persistence of the structural deficit, which ignores this aspect. Government wage and procurement bills remain high (18% of GDP between them). Similarly, social transfers (which are not sufficiently targeted), pensions, defence and healthcare spending will continue to weigh heavily on the budget. However, the primary surplus, growth, and low interest rates will be sufficient to provide some relief on the debt, 70% of which is denominated in euros and much of which is held by domestic banks, which are predominantly (90%) subsidiaries of Austrian and Italian groups. The authorities will have to consider the future of the struggling Uljanik shipyards, whose state guarantees are equivalent to more than 1% of GDP and whose 4,500 jobs might justify intervention. State-owned companies, with assets representing 80% of GDP and employing 5% of the labour force, are often low-profit or unprofitable operations, with revenues equivalent to 15% of GDP.

Tourism's essential role

The current account has been in surplus since 2013. This covers a large deficit (18% of GDP in 2018) in the trade of goods offset by tourism income (19%). In addition, the sum of remittances from expatriates and European funds (about 4% of GDP) exceeds net outgoing dividend and interest payments. Nevertheless, the decline in the current account surplus that began in 2018 is expected to continue in 2019. Strong export and tourism performances are being outweighed by vigorous imports due to the difficulties faced by local industry in meeting demand and the high import content of exports. FDI (3% of GDP in 2018) meets the development needs of tourism and energy resources and compensates for the reduction in external debt. Mostly denominated in euros, external debt (75% of GDP at the end of 2018) represents a risk for non-financial companies (51% of the outstanding amount, including one third for intra-group loans under FDI), the state (39%) and banks (10%). However, the risk is mitigated by the central bank's tight control of the kuna/euro exchange rate. The bank's interventions to counter kuna appreciation have increased foreign exchange reserves to more than a year of imports.

Fragile government and opposition to reforms

Less than a year after the previous elections, early elections in September 2016 handed power back to the coalition formed by the centre-right Democratic Union (HDZ) and the reformist MOST (The Bridge) Party. This coalition soon broke up over the reform agenda. Prime Minister Andrej Plenkovic, who leads the HDZ, has managed to form a new one with liberals from the People's Party (HNS). With 78 seats (including 61 for the HDZ) out of 151, it is weakened by disagreement between the Prime Minister and the nationalist wing of the HDZ. The reform programme is opposed, not only by the main opposition, the Social Democratic Party (SDP), but also within the HDZ. At the international level, relations with Serbia are tense. It is also worth noting the Croatia's refusal to accept the Permanent Court of Arbitration's ruling that Slovenia should have access to the sea through the Bay of Piran.

CUBA

COFACE ASSESSMENTS

COUNTRY RISK	E
BUSINESS CLIMATE	E

POPULATION Millions of persons - 2017	11.5
GDP PER CAPITA US Dollars - 2017	-
CURRENCIES Cuban peso	CUP
Convertible peso	CUC

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	29%
VENEZUELA	18%
RUSSIA	8%
LIBAN	6%
INDONESIA	4%

Imports of goods as a % of total

EURO AREA	31%
CHINA	22%
RUSSIA	5%
BRAZIL	5%
MEXICO	5%

- Tourism and mining sectors (nickel, cobalt), agricultural potential (sugar, tobacco)
- Opening up to the individual and cooperative private sector of agriculture, trade, catering and construction (more than 200 trades)
- Qualified and inexpensive labour force
- Quality medical and educational sectors
- Relatively satisfactory social indicators
- Low crime; fight against corruption
- Dialogue and cooperation agreement with the European Union since the November 1, 2017, which has already lead to FDI

- External vulnerabilities (climate, raw material prices, Venezuelan aid)
- Low productivity in the public sector and agriculture
- Low investment and poor infrastructure
- Cumbersome administrative process; still very recent trade regulations
- State control over wholesale trade, credit, foreign trade, and foreign investment
- Subsidies on commodities (those listed in the libreta or ration book) weighing on public expenditure
- Reduced access to external funding
- Distance from the real conversion rate that maintains the dualism of the economy, the black market, the rationing economy and the informal sector
- Lack of statistical transparency

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-0.9	1.6	1.3	1.1
Inflation (yearly average, %)	4.5	5.2	5.9	5.0
Budget balance (% GDP)	-6.3	-8.6	-8.3	-7.8
Current account balance (% GDP)	0.9	0.6	0.7	0.6
Public debt (% GDP)	42.5	48.2	51.2	52.1

(e): Estimate. (f): Forecast.

RISK ASSESSMENT

The bet of FDI to revive growth at half mast

The country's already weak growth is likely to be impacted in 2019 by poor performance in the agricultural sector and lower growth in tourism from the United States. The former, heavily impacted by Hurricane Irma in September 2017, is struggling to recover, with particularly poor sugar harvests in 2018 (a 30% drop from the previous year). From a tourism perspective, the return of tensions with the United States, since Donald Trump came to power, will continue to weigh on the sector. The fallout from the hurricane will also continue to impact the activity. 2018 was a year of slower growth after the 2017 record (-24% for tourists from the United States in the first half of 2018) with the return of some American restrictions. The vitality of the cruise sector is not expected to reverse the trend in 2019. New President Miguel Diaz-Canel has relaunched reforms to attract foreign investment. New administrative simplification measures have been put in place, while foreign companies have been granted permission to operate the rail network. This decision fulfils a dual objective of modernising infrastructure and increasing the country's attractiveness for FDI. However, these efforts are unlikely to generate the targeted USD 2.5 billion per year needed to boost growth. To date, most foreign investment remains concentrated in the Port of Mariel's special economic zone (totalling USD 10.7 billion of investments), while foreign investors remain constrained by US sanctions. In terms of domestic demand, public consumption will likely be driven by investment in infrastructure, mainly around post-hurricane reconstruction. Private consumption will continue to be supported by expatriate remittances and tourism revenues. In addition, Venezuela's economic downturn will continue to impact exports of refined products (drop in crude oil supply at low prices). This decline, in addition to lower sugar exports, should lead to a negative contribution of net exports to growth.

Public and current accounts subject to external conditions

The currently weak public accounts are expected to continue to improve as a result of lower financing needs for post-hurricane reconstruction. The lowest deficit observed in 2018, thanks to an increase in revenue collected from private companies (11% of revenues), suggests that the deficit will be further reduced in 2019. However, the absence of Venezuelan aid will continue to weigh on the public accounts, and the expenditure structure (50% for social spending) will likely limit the extent of the reduction. As a result, public debt is expected to continue to increase, although data detailing its structure is lacking. Following an agreement with the Paris Club in 2015, Cuba obtained a waiver of interest arrears, a staggered payment of the principal of the original debt over 18 years and a grace period for the payment of new interest until 2020. However, access to external financing will remain constrained.

From a current account perspective, the trade balance will remain largely in deficit, due to high import dependence. Nevertheless, imports should decrease following the controls imposed by the government in response to the shortage of foreign exchange. Exports will continue to be impacted by the decline in oil revenues (drop in Venezuelan crude oil deliveries), as well as by the decline in sugar production in a context of low prices. The dynamism of nickel exports, with prices increasing, will likely only partially offset these two effects. The balance of services should remain positive thanks to tourism, as should the income balance, thanks to remittances from expatriates. The current account will therefore remain in surplus, despite a downward trend. Elsewhere, little progress has been made on the project to unify the two exchange rates: the convertible peso aligned on the US dollar (dedicated to tourists and remittances) and the domestic peso (CUP 24 per USD), in which wages and locally produced goods are denominated.

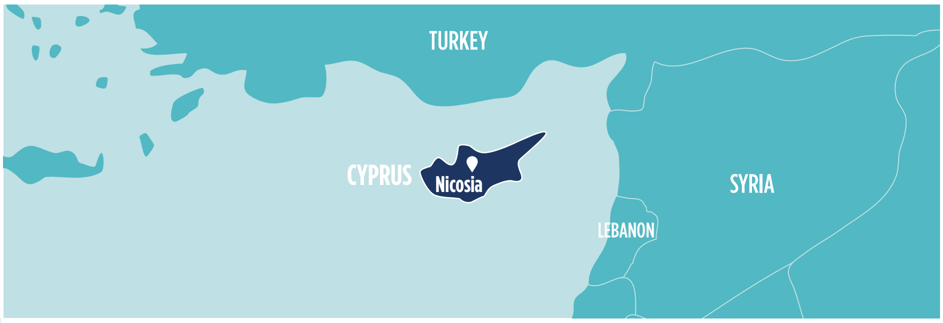
Renewal but little change

2018 was marked by a renewal of the Cuban political class, as Miguel Diaz-Canel succeeded Raoul Castro as president. The electoral cycle that framed the transition was marked by the absence of dissent. However, few changes are to be anticipated with the retention of Mr Castro as leader of the Cuban Communist Party until 2021, and a still significant influence of the army in various domains. The constitutional reform launched in spring 2018 will bring about very few transformations, limited to normalising past reforms, particularly in terms of the existence of a private sector under state control. This reform is expected to be ratified by referendum at the beginning of 2019. Relations with the United States will likely remain tense under the presidency of Donald Trump, pushing the island to seek other diplomatic partners to deal with the fall of its Venezuelan ally – such as Russia (rail investment projects under way).

CYPRUS

COFACE ASSESSMENTS

COUNTRY RISK	A4
BUSINESS CLIMATE	A3



POPULATION Millions of persons - 2017	0.9
GDP PER CAPITA US Dollars - 2017	25,380
CURRENCY Euro	EUR

Main economic indicators*	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.8	4.2	3.9	3.5
Inflation (yearly average, %)	-1.2	0.7	0.8	1.5
Budget balance (% GDP)	0.3	1.8	2.8	2.5
Current account balance (% GDP)	-5.1	-8.4	-8.0	-9.0
Public debt (% GDP)	105.5	96.1	106.0	99.0

(e): Estimate. (f): Forecast. *Territory controlled by Turkish Cypriots excluded.

TRADE EXCHANGES

Exports of goods as a % of total

LIBYA	9%
GREECE	8%
NORWAY	7%
UNITED KINGDOM	6%
GERMANY	4%

Imports of goods as a % of total

GREECE	19%
ITALY	8%
CHINA	7%
SOUTH KOREA	7%
GERMANY	7%

- At the crossroads of Europe, Africa and Asia; eurozone member
- Services sector: tourism, international business and financial hub, maritime transport and transhipment
- Skilled, English-speaking workforce
- High-quality transport and telecommunication infrastructure
- Offshore gas potential

- Island divided (since 1974); strained relations with Turkey
- Small domestic market, isolated, remote and outside the centre of Europe
- Poor economic diversification (tourism, real estate, finance) and limited foreign customer base (United Kingdom and Russia)
- High levels of debt among all economic actors; dependent on external financing
- Massive and highly concentrated banking sector burdened by non-performing loans
- Slow legal process, poor enforcement of contracts

RISK ASSESSMENT

Growth remains strong but is slowing

Private consumption (69% of GDP) is contributing strongly to growth, driven by falling unemployment, more jobs, low inflation, higher wages, and the recovery in housing prices, which fell by 35% after 2010. Growth will likewise be supported by spending by the island's three million foreign visitors (more than three times the size of the local population). The construction of tourist facilities (marinas, golf courses, ports, and luxury residences) and offices will remain on track, thanks to foreign investment encouraged by the Citizenship-by-Investment scheme. Despite sustained public investment in infrastructure, particularly for health and education, national investment will remain weak because – with household and corporate debt levels equivalent to 100% and 120% of GDP respectively (excluding offshore special purpose entities) – banks will be inclined to exercise caution. However, households, given their creditor position, will be able to draw on their savings. In addition, the export performances of tourism, shipping, and financial services could lose some of their lustre amid increased competition from alternative destinations, a decline in the number of Russian and British visitors, and a downturn in international trade. Meanwhile, imports will remain strong, in line with domestic demand. As a result, trade should again make a negative contribution to growth.

A convalescent banking sector

Efforts to restructure the Bank of Cyprus and liquidate Laiki (the number-one and number-two banks respectively) in 2013 proved insufficient, and Cyprus Co-operative Bank (CCB), the replacement number-two, was liquidated in turn in 2018, with its good assets and deposits being transferred to Hellenic Bank, now the new number-two. This time, the rescue was done at the expense of the state, which owned 77% of CCB following its bailout in 2013. The sector, which has become even more concentrated, is still a huge presence, representing 350% of GDP at the end of 2017, excluding offshore banks. Non-performing loans (NPLs) continued to make up 30% of outstanding loans and 80% of GDP at the end of September 2018. A full 90% of these loans are to households and SMEs, and one third of them have already been restructured. The authorities are hoping that 2018 amendments to insolvency and foreclosure legislation, and the 2019 launch of the ESTIA programme, through which the state will provide financial assistance for household debt restructuring, will help to process bad loans faster. Dealing with NPLs is made harder by an inaccurate land register and difficulties in valuing assets. Neither households nor developers have any incentive to repay their loans, while banks are reluctant to engage in lengthy procedures, preferring to wait for house prices to rise.

High levels of public and private debt

Vigorous economic activity will keep budgetary revenues high (40% of GDP in 2018). Moreover, despite the gradual loosening of curbs on wages, the cost of launching ESTIA and the National Health Programme, fiscal policy will remain restrictive and the budget surplus will persist. The primary surplus, *i.e.* excluding interest (5.5% of GDP), combined with growth and the decline in interest rates after credit rating agencies re-rated Cyprus "investment grade", should lead to a reduction in debt, of which 73% is due to non-residents (65% public). This debt, which is still very high, has temporarily increased following the CCB rescue.

Although competitiveness remains good, the current account deficit could widen slightly, in line with the decline in the services surplus (21% of GDP in 2017) related to tourism and financial services. Poor manufacturing diversification (cheese, medicines, and electronics) generates a goods deficit (24%), while outgoing dividend and interest payments, as well as transfers from foreign workers, show a negative balance (5%). FDI in real estate, tourism, and gas exploration make it possible to finance the current account deficit, while allowing the country (especially banks) to deleverage. Gross external debt still represents five times GDP, with 45% owed by non-financial companies, 16% by banks, and 15% by the state, while 24% corresponds to intra-group FDI commitments. A full 60% of the private sector's debts correspond to commitments of Special Purpose Vehicles (SPVs) intended to finance ship-owners or companies with no real local activity. A quarter of the total is short-term, contributing to an external financing requirement equivalent to 150% of GDP.

A minority government

Although talks between the governments of the island's Greek and Turkish communities failed to end the country's division, the economic recovery was enough for President Nicos Anastasiades of the conservative Democratic Rally Party (Disy) to be re-elected in February 2018 with 56% of the vote, beating the representative of the left-wing Progressive Workers' Party (Akel). Since the May 2016 parliamentary elections, Disy has held just 18 of the 56 seats. Given that Akel has 16 seats, the President and his government need to build majorities by working with the nine MPs of the centrist Democratic Party (Diko) and the members of five smaller parties.

PAYMENT & DEBT COLLECTION PRACTICES IN CYPRUS

Payment

Bills of exchange are used by Cypriot companies in both domestic and international transactions. In the event of payment default, a protest certifying the dishonoured bill must be drawn up by a public notary within two working days of the due date.

Although cheques are still widely used in international transactions, in the domestic business environment they are customarily used less as an instrument of payment, and more as a credit instrument, making it possible to create successive payment due dates. It is therefore a common and widespread practice for post-dated cheques to be endorsed by several creditors. Furthermore, issuers of dishonoured cheques may be liable to prosecution provided a complaint is lodged under both civil and criminal procedures.

Instead of promissory letters or notes, which are not usually used as a security or payment method in Cyprus, a written acknowledgement of debt may be obtained, which can be used as essential evidence during the hearing trials in a later stage to the court.

SWIFT bank transfers, well-established in Cypriot banking circles, are used to settle a growing proportion of transactions, and offer a quick and secure method of payment. In addition, SEPA bank transfers are becoming more popular as they are fast, secure, and supported by a more developed banking network.

Debt Collection

Amicable phase

Before initiating proceedings in front of the competent court, an alternative method to recover a debt is to try to agree with the debtor on a settlement plan. Reaching the most beneficial arrangement is usually achieved by means of a negotiating process.

The recovery process commences with the debtor being sent a final demand for payment by recorded delivery mail, reminding him of his payment obligations, including any interest penalties as may have been contractually agreed – or, failing this, those accruing at the legal rate of interest.

Interest is due from the day following the date of payment stipulated in the invoice or commercial agreement at a rate, unless the parties agree otherwise, equal to the European Central Bank's refinancing rate, plus seven percentage points.

Legal proceedings

Introduced in 2015, cases with small claims (no more than €3,000) can follow a simplified and faster procedure. To engage such a procedure, the creditor must possess a written document substantiating the claim underlying his lawsuit, such as a Statement of Account, an acknowledgement of debt established by private deed, the original invoice summarising the goods sold and bearing the buyer's signature and stamp certifying receipt of delivery, or the original delivery slip signed by the buyer.

For all other claims, the usual procedure is followed. The creditor files a claim with the court, who serves the debtor within twelve months. The hearing would be set at least eighteen months later. Cypriot law allows the court to render a default judgment if the respondent fails to file a defence. The ruling issued by the judge allows immediate execution subject to the right granted to the defendant to lodge an objection. To obtain suspension of execution, the debtor must petition the court accordingly.

Enforcement of a Legal Decision

Enforcement of a domestic decision may begin once the final judgment is made. If the debtor fails to satisfy the judgment, the latter is enforceable directly through the attachment of the debtor's assets.

For foreign awards rendered in a European Union member-state, Cyprus has adopted advantageous enforcement conditions, such as EU Payment Orders or the European Enforcement Order. For decisions rendered by non EU countries, they will be automatically enforced according to reciprocal enforcement treaties. In the absence of an agreement, *exequatur* proceedings will take place.

Insolvency Proceedings

Restructuring proceedings

This procedure aims to help debtors restore their credibility and viability, and continue their operations beyond bankruptcy, by aiming to negotiate an agreement between the relevant debtors and creditors. During this procedure, claims and enforcement actions against the debtor may be stayed, but the court will appoint an administrator to control the debtor's assets and performances. The reorganization process starts with the debtor's submission of a plan to the court, which conducts a judicial review of the proposed plan, while a court-appointed mediator assesses the creditors' expectations.

Liquidation

The procedure commences with an insolvency petition either by the debtor or its creditors. The court appoints an administrator as soon as the debts are verified. In addition, a Pool of Creditors (three members representing each class of creditors) will be given the responsibility of overseeing the proceedings, which terminate once the proceeds of the sale of the business' assets are distributed.

CZECHIA (CZECH REPUBLIC)

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A2

POPULATION Millions of persons - 2017	10.6
GDP PER CAPITA US Dollars - 2017	20,402
CURRENCY Czech koruna	CZK

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.5	4.3	2.9	2.9
Inflation (yearly average, %)	0.6	2.4	2.1	2.2
Budget balance (% GDP)	0.7	1.5	1.5	0.9
Current account balance (% GDP)	1.1	0.5	0.1	0.2
Public debt (% GDP)	36.8	34.7	33.8	32.9

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	33%
SLOVAKIA	8%
POLAND	6%
FRANCE	5%
UNITED KINGDOM	5%

Imports of goods as a % of total

GERMANY	30%
POLAND	9%
CHINA	7%
SLOVAKIA	6%
NETHERLANDS	5%

+

- Central geographic location at the heart of industrial Europe
- Tightly integrated in the international, especially German, production chain
- Preferred destination for FDI in Central Europe
- Significant industrial potential
- Robust public accounts and banking system

-

- Small, open economy: exports account for 80% of GDP
- Dependent on European demand: 65% of exports are to the eurozone, one third to Germany
- Automotive sector occupies a large share of the economy
- Lack of rapid transport links with the rest of Europe
- Ageing population and shortage of skilled labour

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	MEDIUM
CONSTRUCTION	MEDIUM
ENERGY	MEDIUM
ICT*	MEDIUM
METALS	HIGH
PAPER	MEDIUM
PHARMACEUTICAL	LOW
RETAIL	MEDIUM
TEXTILE-CLOTHING	MEDIUM
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Dynamic economic activity

The Czech economy is expected to keep a fair rate of growth in 2019. As in previous years, the economic activity is strongly supported by growing household consumption, which benefits from increased consumer confidence thanks to growing wages and decreasing unemployment. The jobless rate remains at the lowest level in the EU, reaching 2.3% in September 2018. Whereas the situation on the labour market is positive for households, companies are concerned: the talent pool is limited and the number of job vacancies has soared to the highest level in the EU. Facing labour cost increases, further strong wage pressures, and higher input prices, companies' profitability has barely increased. The Czech labour market will still be challenging for businesses in the coming years, especially as the supply of labour will suffer from aging population. Private investment continues its recovery and remains the second-most important contributor to growth because of the high capacity utilisation ratio and the surge of public investments supported by EU funds. Despite this, investments are likely to be less robust in 2019 than in 2018, mostly due to moderating public investment.

Since August 2017, the Czech central bank has been gradually raising its interest rates, further worsening the tensions on the koruna that have been in force since the bank decided to abandon the cap on koruna/euro exchange rate in April 2017. This had led to the domestic currency's appreciation, although this was not amplified by recent interest rate hikes. Nevertheless, higher rates temper inflationary pressures. Inflation in 2019 is likely to exceed the Czech National Bank's target of 2%, but drop below it the following year.

As a small open economy, Czechia is highly dependent on the external sector. The automotive sector – which accounts for 28% of industrial production, 20% of exports of goods and 10% of GDP – is expected to grow fairly. Western European demand is crucial in this regard, but the inclusion of Czech companies in global production chains (not only in the automotive sector) makes them vulnerable to weaker global trade dynamics.

Solid fiscal position and trade balance surplus

Despite some easing, the government's fiscal policy remains cautious, helping keep the public accounts to similar levels as last year and still generating a budget surplus. The increase of public wages and higher indexation of pensions are expected to be compensated by rising revenues, thanks in part to the improved tax collectability. Public debt will remain on its alleviating path.

The trade balance shows a structural surplus (5.0% of GDP in 2017) thanks to close integration in the European – especially German and automotive – production chain. However, the previous appreciation of the koruna, as well as robust domestic demand, limits the trade surplus. Moreover, weaker external demand will contribute to slowing the growth of exports. At the same time, imports are likely to record lower dynamics in line with moderating investments, which have relatively high import content.

Formation of a minority government, weakened by allegations concerning the new Prime Minister

The ANO 2011 (centre-right) movement led by Andrej Babis won the October 2017 elections by a large margin, obtaining 30% of the votes cast and 78 out 200 seats in Parliament. Nevertheless, the traditional parties refused to enter into a coalition with this party, whose leader has been charged with the fraudulent use of European funds. The traditional parties received a historically low share of the votes, with the Social Democratic Party (CSSD), to which the outgoing Prime Minister belongs, relegated to sixth place (only 7% of the votes). Conversely, the rival parties have made significant progress with the Czech Pirate Party (10.8%) and the extreme-right Freedom and Direct Democracy Party (10.6%), who were able to profit from distrust of migrants and Euroscepticism. With nine parties represented, the fragmented Parliament made it impossible to form a majority government. The government won confidence votes in July 2018 and again in November 2018. The Communist party supported the minority coalition between Ano and the CSSD. Although the Communists remain outside the government, their deal with Mr Babis brought them the closest they have been to power since 1989.

PAYMENT & DEBT COLLECTION PRACTICES IN CZECHIA

Payment

Czech law limits cash payments to a maximum of CZK 270,000 (approximately EUR 10,000). Purchasers who wish to make payments that exceed this limit must pay the entire sum *via* wire or bank transfer. Bank transfers are by far the most widely-used means of payment. The SWIFT system is fully operable in the Czechia, and provides an easier, quicker and cheaper method for handling international payments. The Czechia is part of the SEPA system, simplifying bank transfers inside the European region.

Cheques for domestic transactions are not widely used. Bills of exchange and promissory notes are commonly used as a security instrument, which present the purchaser with the option to access a fast-track procedure for ordering payment by court (under certain legal conditions). Electronic invoices are widely accepted.

Debt Collection

To ensure the recovery of a debt in case of default, creditors should keep all documentation related to the transaction. This includes the original (written) contract, any documents related to the transaction (*e.g.* invoices and confirmed delivery notes), individual orders, and any other relevant documentation and/or correspondence. The main factors influencing effectiveness in debt collection are the age of the debt (the earlier the start of collection, the larger the chance for a successful recovery) and the reason for non-payment.

Amicable phase

Amicable debt collection is recommended, because it remains cheaper for creditor compared to legal proceedings. Amicable settlements are also enforceable in court.

Legal proceedings

Fast-track procedure / Order to pay

Platební rozkaz is a practical and rather short procedure, outlined in sections 172-175 of the Code of Civil Procedure (*občanský soudní řád*, CCP). The judge, convinced of the merits of the claim and without hearing the case, issues a payment order which is served to the defendant, who may either accept it or file a statement of opposition against it within fifteen days of its service. If the debtor opposes the debt, then the process continues as standard court proceedings.

If the legal action duly described and substantiated the creditor's claim, the court can issue an order to pay, even if the creditor has not requested such an order. It takes on average three months for a decision to be made, ranging from a minimum of two months to a maximum of six months.

Ordinary procedure

Ordinary proceedings takes place after the defendant has disputed the claim during the *platební rozkaz* or by filing a dispute directly *via* the courts. Ordinary proceedings are partly in writing (parties filing submissions accompanied by all supporting case documents), and partly oral (both creditors and debtors present their cases during the main hearing). In practice, ordinary proceedings typically last from one to three years before the court renders a final and enforceable judgement.

On July 1, 2009 (Act No. 7/2009 Coll.), the CCP was amended to introduce more digital options in the justice process, so as to lessen the burden of judges and ensure the prevention of delays in proceedings. Since this amendment, all correspondence from Czech authorities to legal entities is delivered electronically *via* registered data boxes with special legal regulations (Act No. 300/2008 Coll., effective as of July 1, 2009).

Enforcement of a Legal Decision

Judicial enforcement is reserved only for matters specifically listed in the law. Monetary claims stemming from business relationships are enforced by a judicial executor (*soudní executor*) under Act No. 120/2001 Coll. (*exekuční řád*, the Execution Act). Enforcement by judicial executor is considered to be more effective, because the executor is a private-sector entity whose fees depend on a successful enforcement. A specific fees schedule applies based on the amount concerned by the execution.

As part of the EU, enforcement of foreign awards issued by an EU member state will benefit from advantageous enforcement conditions, such as the EU Payment Order or the European Small Claims procedure. Foreign awards rendered by non-EU countries can be recognized and enforced, provided that they have gone through the exequatur procedure under the Czech Private International Law and Procedure Act.

Insolvency Proceedings

An insolvency petition can be lodged by either debtors themselves or their creditors, but a creditor must provide unambiguous evidence to support its claim, with one of the following:

- an acknowledgement of debt (with the certified signature of the debtor or its representative);
- an enforceable judgement;
- an enforceable notary act;
- an enforceable executor´s act;
- confirmation of auditor or expert witness or tax advisor.

The creditor must in addition prove the existence of other creditors. Creditors are liable for damages caused by filing a bankruptcy petition where the conditions of insolvency were not met.

All insolvency petitions are recorded in an insolvency register (*insolvenční rejstřík*) kept by the Ministry of Justice, where all important information on insolvency proceedings is published. This also allows for insolvency proceedings to remain transparent.

Insolvency

The insolvency act introduces new methods and faster process, with single proceedings where the court decides on three particular solutions:

Reorganization

Reorganization is a method of resolving insolvency that aims to preserve the debtor's business, while granting satisfaction to creditors. Insolvent debtors may initiate proceedings, but debt restructuration proposals must be approved by the court, with periodical inspection of its fulfilment by the creditors. The management retains the right to manage the business.

Bankruptcy

Bankruptcy is a court-ordered method of resolving insolvency, whose aim is to monetize all assets of debtor and thus obtained yield to distribute between creditors who have lodged their claims into the proceedings. The authorization to dispose of debtor´s assets and to sell those assets is granted to a bankruptcy trustee who is appointed by court. At this point; the business declared bankrupt is no longer allowed to conduct business operations independently.

Debt clearance

Used mainly by individuals (non-entrepreneurs), this is a method of resolving insolvency which presents an alternative to declaring bankruptcy. The Insolvent debtor clears the debt, but under Court control he is obliged to pay only a reduced percentage of total debts.

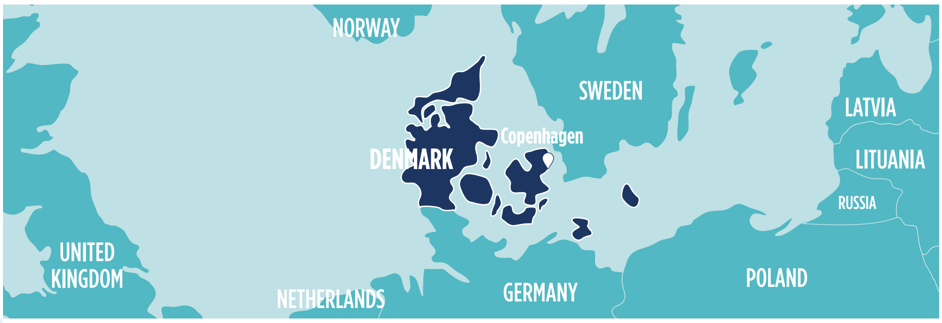
Liquidation

The liquidation procedure begins once it is decided that a company is to be wound up. Either the management or the court appoints a liquidator in charge of liquidating the company's assets and collecting receivables. Creditors must register their claims within 90 days following publication of the court's decision, in order to get satisfaction during the liquidation proceedings. All claims of creditors must be fully satisfied in liquidation proceedings. It is important to note that liquidation proceedings are not considered as a method of insolvency in Czech law: in the event that the liquidator finds there are not enough assets to satisfy all claims during liquidation, he is obliged to file a petition for insolvency. At this point, the liquidation turns into insolvency; a separate proceeding.

DENMARK

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1



POPULATION Millions of persons - 2017	5.7
GDP PER CAPITA US Dollars - 2017	56,631
CURRENCY Danish krone	DKK

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.0	2.3	1.6	1.8
Inflation (yearly average, %)	0.3	1.1	0.9	1.4
Budget balance (% GDP)	-0.4	1.1	-0.7	-0.3
Current account balance (% GDP)	7.3	7.6	7.2	7.0
Public debt (% GDP)	37.9	35.3	34.7	33.9

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	15%
SWEDEN	12%
UNITED KINGDOM	8%
UNITED STATES	8%
NORWAY	6%

Imports of goods as a % of total

GERMANY	21%
SWEDEN	12%
NETHERLANDS	8%
CHINA	7%
NORWAY	6%

\+

- World's fifth largest shipping operator
- Energy self-sufficiency (oil in the North Sea and Greenland); net energy exporter
- Niche industries (renewable energy/biotechnology)
- Well managed public finances
- Large current account surplus
- Krone pegged to the euro

\-

- Small open economy sensitive to external demand
- Government instability related to the fragmentation of Parliament
- Very high household debt (272% of disposable income)
- Public sector constitutes a significant part of the country's employment (30% of employees in August 2018)
- Tensions over housing in some cities

RISK ASSESSMENT

Growth still dynamic, driven by domestic demand

Growth will remain resilient in 2019 thanks to strong private consumption and investment. Household consumption will continue to be driven by a buoyant labour market, characterised by full employment (unemployment rate at 3.9% in September 2018), and the resulting increase in wages. Between three and four million homeowners will receive property tax refunds in 2019, due to the reduction in the tax base, in line with the reform of the property valuation system. Inflation will accelerate slightly but is expected to remain moderate. As a result, the central bank should maintain an accommodative monetary policy in 2019, in line with that of the ECB. In addition to this particularly favourable financial environment – the key interest rate is at a record low 0% –, households will benefit from the wealth effect linked to rising house prices. However, although household debt has been falling since 2014, it remains the highest in the OECD, coming in at 272% of disposable income in 2017. In parallel, investment will be supported by supply constraints, with production capacity utilisation rates and recruitment difficulties at their pre-2008 crisis levels. Shipping, which accounts for 50% of exports of services, will be affected by the slowdown in world trade, and the impact will be even greater if protectionist measures are increased. Although house prices have softened in Copenhagen, residential construction is expected to remain brisk thanks to the improvement in the financial situation of households. The energy sector (oil and gas) will benefit from continued high prices. The slowdown in the main partner countries will affect exports and reduce external trade's growth contribution, which could turn negative.

Prudent fiscal policy and a substantial current account surplus

The government will maintain its prudent fiscal policy and is not expected to increase public spending, in order to avoid a risk of overheating given the low unemployment rate. The few increases will be concentrated in the social sector (healthcare, early childhood, the elderly) and the environment, but will be very limited (less than 0.1% of GDP). The government deficit and public debt, which are both already well below the thresholds set by the European Stability and Growth Pact (3% and 60% of GDP respectively), will continue their downward trend.

Denmark will continue to run a large current account surplus in 2019. The trade balance will still generate a significant surplus (over 6% of GDP), although imports, driven by domestic demand, are expected to be more dynamic than exports. Exports will be hurt on the one hand by cooler growth in the EU and the United States, and on the other hand by Brexit, which will reduce demand from the United Kingdom. Exports of agricultural products, including pork and dairy products, which account for 20% of exports to the UK, would be particularly affected if the country leaves without an agreement, as they are subject to substantial customs duties (up to 40% depending on the product). However, exports to the UK have diversified significantly in recent years, with the share of machinery and equipment increasing from 20% to 40% of the total between 2015 and 2017. The income balance is also in surplus, thanks to the income of Danish companies abroad. External debt remains considerable, at around 150% of GDP in the second quarter of 2018, but has been gradually declining since 2013. The Danish financial sector, which is interconnected with its Nordic counterparts, accounts for two thirds of this debt.

The left slightly ahead in the polls

Prime Minister Lars Lokke Rasmussen leads a centre-right government coalition composed of his own Liberal Party, the Liberal Alliance (LA) and the Conservative People's Party (KF). This minority coalition (53 MPs out of 179) depends on the support of the far-right Danish People's Party (DF), which has 37 MPs, but which did not wish to participate in the government. The Prime Minister's term of office, which will end no later than June 2019, has been marked by significant disagreements between the coalition parties, compounded by the demands of the DF. The outcome of the 2019 parliamentary elections – which will be affected by the scandal over money laundering involving the Estonian subsidiary of Danske Bank, Denmark's leading bank, between 2007 and 2015 – remains uncertain: at the end of October 2018, polls showed 51% support for the left against 49% for the right-wing parties, including the DF. According to the polling data, the balance of power has changed little since the 2015 elections: the Social Democratic Party (SD), led by the former Minister of Employment and then Justice, Mette Frederiksen, is predicted to win, followed by the Liberal Party and the DF in a neck-and-neck race for second.

With local elections confirming Greenland's desire to gradually move towards independence (the Arctic being a region potentially rich in mineral, oil and gas resources), Denmark will inevitably have to address this issue in the medium term.

PAYMENT & DEBT COLLECTION PRACTICES IN DENMARK

Payment

Denmark is in the process of becoming a cashless society. Bank transfers are the most commonly used means of payment. All major Danish banks use the SWIFT network, as it is a rapid and efficient solution for the payment of domestic and international transactions. Denmark has also implemented the Single Euro Payments Area (SEPA) in order to simplify bank transfers in euros.

Cheques and bills of exchange are now seldom used in Denmark. Both are seen as an acknowledgement of debt.

Unpaid bills of exchange and cheques that have been accepted are legally enforceable instruments that mean that creditors do not need to obtain a court judgement. In cases such as these, a judge-bailiff (*Fogedret*) is appointed to oversee the enforcement of the attachment. Prior to this, the debtor is summonsed to declare his financial situation, in order to establish his ability to repay the debt. It is a criminal offence to make a false statement of insolvency.

Debt Collection

Amicable phase

The amicable phase begins with the creditor, or his legal counsel (e.g. attorney, licenced collection agency, etc.), sending the debtor a final demand for payment by post, in which he is given 10 days to settle the principal amount, plus any penalties for interest provided for in the initial agreement.

Once the 10 days from the date of the letter of demand have expired, the creditor's legal counsel can charge the debtor for out of court collection costs (based on an official tariff) and present the debtor with a debt collection letter which gives them 10 further days to pay. If this payment deadline is not respected, the debtor can be sent a warning notice which sets out the date and time of a visit. A third reminder can be sent and calls can be made.

When no specific interest rate clauses have been agreed by the parties (maximum of 2% per month), the rate of interest applicable to commercial agreements contracted after August 1, 2002 is either the Danish National Bank's benchmark, or the lending rate (*udlånsrente*) in force on January 1 or July 1 of the year in question, plus an additional 8%.

Legal proceedings

<u>Fast-track proceedings</u>

Since January 1, 2008, overdue payments which do not exceed DKK 50,000 or €6,723 and are uncontested are handled via a simplified collection procedure (*forenklet inkassoprocedure*), whereby the creditor submits an injunction form directly to the judge-bailiff for service on the debtor. If there is no response within 14 days, an enforcement order is issued.

<u>Ordinary proceedings</u>

If a debtor fails to respond to a demand for payment, or if the dispute is not severe, creditors can obtain a judgement following an adversarial hearing or a judgement by default ordering the debtor to pay. This usually takes three months.

In the case of a judgement by default, the debtor can be ordered to pay the principal amount plus interest and expenses (including court fees and, where applicable, a contribution to the creditor's legal costs) within 14 days.

All cases, whatever the size of the claim and level of complexity, disputed or not, are heard by the court of first instance (Byret). The court is presided over by a panel of three judges, or one judge assisted by experts, who consider both written and orally-presented evidence.

Appeals on claims which exceed DKK 10,000 are heard by one of two regional courts – either the *Vestre Landsret* in Viborg (for the Jutland area) or the *Østre Landsret* in Copenhagen (for the rest of the country). Exceptional cases that involve questions of principle can be submitted directly to the appropriate regional court.

These proceedings involve a series of preliminary hearings, during which the parties present written submissions and evidence, and a plenary hearing, in which the court hears witness testimonies and arguments from both parties. Court costs depend on the value of the claim. The losing party generally bears the legal costs.

Denmark only has commercial courts in the Copenhagen area. These comprise a maritime and a commercial court (*Sø-og Handelsretten*) which are presided over by a panel of professional and non-professional judges. These judges are competent to hear cases involving commercial and maritime disputes, competition law, insolvency proceedings and cases involving international trade.

Enforcement of a Legal Decision

Domestic judgements become enforceable when all appeal venues have been exhausted. If the debtor fails to comply with the judgment within two weeks, the creditor can have it enforced through the bailiff's Court. Enforcement can take the form of a payment arrangement, or a seizure of the debtor's assets. Payment plans are normally agreed in court and the debtor's assets that can be seized are normally agreed at the same time. Courts normally accept payment plans of up to ten to twelve months depending on the amount.

As concerns foreign awards, the scenario can be more difficult if the decision is issued by an EU member, as Denmark does not adhere to the EU regulations on European Payment Order procedures. Decisions issued by non-EU members can be recognised and enforced, provided that the issuing country is part of a bilateral or multilateral agreement with Denmark.

Insolvency Proceedings

Out-of-court proceedings

Non-judicial restructuring can take place through formal composition agreements, whereby the debts owed to the creditors are acknowledged and payment instalment agreed upon, without having recourse to a judge. Nevertheless, the efficiency of the Danish court system means that out-of-court proceedings tend to be used as informal negotiation tools.

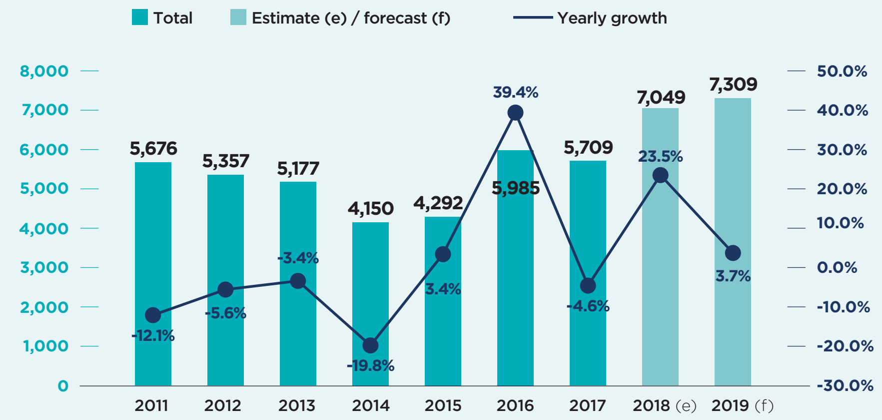
Restructuring proceedings

Restructuring procedures are based on decisions handed down by the bankruptcy court. The court examines the possibility of a compulsory composition and/or a business transfer. These proceedings can be initiated by the debtor, in cases of insolvency, or by the creditor (but only with respect to legal entities). The court then appoints a restructuring administrator. The debtor maintains control of his assets during the procedure but is not allowed to enter into transactions of material significance without the consent of the restructuring administrator. The outcome of the procedure depends on the administrator's proposal.

Liquidation

Liquidation procedures are based on bankruptcy orders issued by the Court, either at the request of the debtor or a creditor. The debtor must be insolvent. The Court appoints a trustee who is authorised to act in all matters on behalf of the bankrupt estate. His primary objectives are to liquidate the debtor's assets and distribute the proceeds between the creditors. Creditors need to file their claims with the trustee for assessment.

NUMBER OF CORPORATE INSOLVENCIES

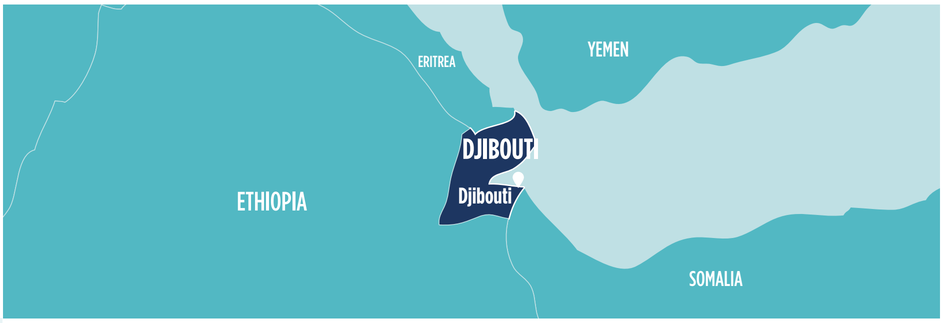


Source: Statistics Denmark, Coface.

DJIBOUTI

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C



POPULATION Millions of persons - 2017	1.0
GDP PER CAPITA US Dollars - 2017	1,989
CURRENCY Djiboutian franc	DJF

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	6.5	6.7	6.7	7.0
Inflation (yearly average, %)	2.7	0.7	1.0	2.5
Budget balance (% GDP)	-11.5	-6.1	-4.4	-2.1
Current account balance (% GDP)	-30.4	-26.0	-19.9	-17.3
Public debt * (% GDP)	86.6	88.1	87.5	89.0

(e): Estimate. (f): Forecast. *Debt guaranteed by the State included.

TRADE EXCHANGES

Exports of goods as a % of total

ETHIOPIA	39%
SOMALIA	18%
BRAZIL	9%
QATAR	7%
YEMEN	5%

Imports of goods as a % of total

UNITED ARAB EMIRATES	23%
EURO AREA	21%
CHINA	10%
SAUDIA ARABIA	9%
ETHIOPIA	6%

- Geostrategic position at the entrance to the Red Sea; supported from the international community
- Emergence as a regional hub for trading, logistics and military
- Substantial FDI inflows
- Ongoing efforts to modernise infrastructure

- High risk of over-indebtedness
- Increasingly dependent on Ethiopia and China
- Large informal economy: endemic poverty and unemployment
- Dry climate
- Difficult business climate

RISK ASSESSMENT

Investments support non-inclusive growth

In 2019, growth will likely be strong, continuing to be driven by many new investments (25% of GDP), most of which will be foreign, as well as by the effects of previous government investments aimed at making the country the main logistics hub in the region, thanks to its strategic geographical location. The biggest initiative is the Chinese-financed Djibouti Free Trade Zone, inaugurated in 2018 and set to become the largest in Africa. With more than 20 companies (mainly from China) planning to set up bases, growth should be boosted from 2019 onwards, with more than 12,000 jobs created in the near term and over 300,000 further out. However, the pace of investment growth could soften due to investor concerns, particularly over the government's unilateral decision to terminate DP World's management of the new container terminal at the Port of Doraleh, and nationalise the company's shares (one third) pending a financial arrangement. The Chinese government, which is the country's largest investor, voiced its official concerns after President Guelleh said that China might lose its monopoly over management of the free trade zone, which could threaten Chinese investments, including those intended for the construction of two cargo airports. However, these developments are not expected to hinder the expansion of port activity, which has been strengthened by the new Djibouti-Addis Ababa railway line, which came into service in 2018. Djibouti is currently Ethiopia's only access to the sea, and the strategic partnership between the two allows 90% of Ethiopian exports to pass through the country. The remaining investments will be aimed at developing salt production, fisheries, renewable energies, and tourism, and will be largely provided by the private sector. As the state is already heavily indebted, public investment could decline. For this reason, 2019 could see a widening of the gap separating the modern portion of the economy – which is focused on services (the tertiary sector represents 77% of GDP), particularly transport, logistics and construction, which benefit from trade – and the archaic informal portion (60% of companies, mainly individual and service firms). The population is largely dependent on the latter, reflecting the fact that growth remains non-inclusive. However, people should benefit from the job creation resulting from investment. The unemployment rate of almost 50% is therefore expected to decline, which, combined with moderate inflation (the Djibouti franc is pegged to the US dollar), will stimulate private consumption, which accounts for almost 60% of GDP.

Risk of over-indebtedness despite fiscal efforts

Fiscal consolidation efforts are expected to continue in 2019. The financing of infrastructure projects in recent years has had a big impact on the public accounts and, given the high risk of over-indebtedness, reducing the deficit is a priority. While investment spending is expected to decline, the increase in current expenditure will decelerate. The benefits of previous investments, along with improved collection of tax revenues, should make it possible to increase the government's revenues, but not by enough to get the budget back into balance. The large current account deficit is expected to shrink in 2019. Exports of goods and especially services will continue to grow, while imports (mainly of capital goods) are set to slow, since the largest investments have now been completed. The structural trade deficit (25% of GDP) is therefore expected to improve. Conversely, the increase in income paid abroad, resulting from investments, will reduce the income surplus generated by the presence of foreign military bases. Massive inward FDI in 2019, which will finance the current account deficit, will play a part in transforming the country into a regional logistics centre. Public debt, including non-concessional debt from EximBank China, will remain at an excessively high level, and debt service (11% of revenues in 2017) will weigh heavily on the public accounts.

Developments in international relations with uncertain consequences

President Ismail Omar Guelleh, who has been in power since 1999 and was re-elected in 2016, confirmed his hold on the local political scene when his party won the February 2018 legislative elections, taking 57 seats out of 65. The opposition – some of whose members boycotted the election, claiming it to be non-transparent and rigged – appears to be marginalised. Despite Djibouti's desire to transform itself, the business environment remains poor (99th in the Doing Business ranking). Governance remains mediocre, particularly in terms of corruption, where the country ranks 148th according to the World Bank. These two indicators, combined with the country's high debt, will worry Chinese investors and could make for cooler trade and diplomatic relations with China, Djibouti's main creditor. Relations with China, which peaked in 2017 with the establishment of a Chinese military base, could suffer from new port competition, from Somalia or Eritrea for example, on this strategic trade route. The resumption of diplomatic relations between Eritrea and the other countries of the Horn of Africa could, paradoxically, have a negative impact on Djibouti's prospects if Ethiopia were to negotiate agreements to free itself from its trade dependence on Djibouti.

DOMINICAN REPUBLIC

COFACE ASSESSMENTS

COUNTRY RISK	A4
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	10.2
GDP PER CAPITA US Dollars - 2017	7,478
CURRENCY Dominican peso	DOP

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	6.6	4.6	6.4	5.0
Inflation (yearly average, %)	1.6	3.3	4.3	4.2
Budget balance (% GDP)	-2.8	-3.0	-2.7	-2.6
Current account balance (% GDP)	-1.1	-0.2	-1.6	-2.1
Public debt (% GDP)	34.6	37.2	36.7	36.1

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	50%
HAITI	9%
CANADA	8%
INDIA	6%
EURO AREA	6%

Imports of goods as a % of total

UNITED STATES	44%
CHINA	13%
EURO AREA	9%
MEXICO	5%
BRAZL	3%

\+

- Leading Caribbean tourist destination
- Remittances from its diaspora
- Free-trade agreement with the United States (CAFTA-DR)
- Free zones (51% of exports in 2018)
- Political stability

\-

- Dependent on US economy
- Dependent on gold prices
- Sporadic electricity shortages
- Deficiencies in education and health care systems
- High levels of poverty and inequality
- Drug traffic-related crime
- Widespread corruption

RISK ASSESSMENT

Economic growth dependent on the US economy

Post-Hurricane Maria reconstruction efforts boosted the economy in 2018, but growth is expected to be slower in 2019, although still high. After being driven by the favourable economic situation in the United States in 2018, the country's growth may be affected as the US economy gradually cools. This may impact inflows of tourists, which should nevertheless remain high. Tourism revenues and strong growth in expatriate remittances will act as the drivers for household consumption, which is the main contributor to growth, accounting for 70% of GDP. Relatively healthy economic conditions in the United States should continue to boost exports, and hence sugar and gold production, despite uncertainties about the price of gold. Inward FDI, particularly from the USA, is set to continue thanks to the presence of free zones and strong performances of the construction and tourism sectors. The rising price of oil, of which the country is an importer, should put inflation in the central bank's target zone of 3-5%. Thanks to the country's comfortable foreign exchange reserves, the central bank is able to pursue a fairly accommodating monetary policy focused on supporting growth and controlling inflation.

Reverse trajectories for the twin deficits, which remain relatively low

The 2019 budget, which has been presented to and approved by Parliament, shows a slight decrease in the government deficit. The objective is to increase state revenues by 14%, notably *via* more efficient tax and customs collection and continued strong growth. This increase is expected to slightly exceed the 13% growth in public spending, more than two thirds of which is made up of current expenditures, chiefly in health and education. Capital expenditure (13% of total expenditure) and debt interest (17%) are the fastest growing areas (14% and 23% respectively), but their share remains significantly lower. The improvement in the budget balance could be much smaller than the one targeted by the government (deficit of 1.7% of GDP) because of possible additional current expenditures (weather-related risk, fight against trafficking) during the year.

The trade deficit, which stands at more than 11% of GDP, is set to widen further in 2019 on higher imported oil prices and a possible decline in gold prices. In addition, past depreciation of the local currency, although good for export competitiveness, is pushing up the price of imports. The balance of services (about 7% of GDP in 2017) will continue to improve and remain strongly positive thanks to tourism, which is expected to grow by almost 5% in annual terms, as will the balance of transfers (slightly above 7% of GDP in 2017), driven by remittances from the diaspora. Due to the many active FDI projects in the country, the income balance will remain very negative. All of this is expected to translate into a slight deterioration in the current account. The current account deficit is expected to be largely financed by FDI supported by the existence of numerous free zones. The latter are growing rapidly and account for nearly 60% of FDI in the Caribbean region.

Apparent political stability masks a fragile situation

The political landscape is largely dominated by President Danilo Medina's Partido de la Liberacion Dominica, which holds a majority in both houses of the national legislature. The President will end his second term in 2020. However, although he enjoys good ratings, popular protests are on the rise. Since 2017, *Marcha Verde* demonstrations have been organised, including one in August 2018 that was attended by nearly a million people, to denounce corruption and call for the conviction of 12 current or former political leaders accused of taking bribes from Odebrecht, a Brazilian company. Taxes on petroleum products coupled with the rise in the price of oil have also fuelled discontent. At the same time, at the end of 2018, the country launched a new border security plan with Haiti to combat arms and drug trafficking and illegal immigration by Haitians, who account for 87% of all immigrants. In addition, the country broke off diplomatic relations with Taiwan in 2018, a move that has led to the opening of a Chinese embassy in Santo Domingo and the development of trade relations, the effects of which should be felt as early as 2019. Chinese investments are expected to increase in a country where the business environment is ranked 102nd in the Doing Business 2019 ranking.

ECUADOR

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	B

POPULATION Millions of persons - 2017	**16.8**
GDP PER CAPITA US Dollars - 2017	**6,217**
CURRENCY US dollar	**USD**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-1.2	2.3	1.0	0.7
Inflation (yearly average, %)	1.7	0.4	-0.2	0.5
Budget balance (% GDP)	-8.2	-4.5	-4.0	-2.8
Current account balance (% GDP)	1.4	-0.3	-0.5	-0.7
Public debt (% GDP)	43.2	45.4	48.6	50.7

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	32%
EURO AREA	15%
VIETNAM	8%
PERU	7%
CHILE	6%

Imports of goods as a % of total

UNITED STATES	23%
CHINA	15%
EURO AREA	12%
COLOMBIA	9%
PANAMA	6%

+

- Significant mineral, oil and gas potential
- Tourist potential (flora, fauna, heritage)
- Diverse climate allows for a wide range of crops
- Marine resources: number-one exporter of shrimp
- Low inflationary risk due to fully dollarised economy

−

- Oil-dependent economy
- Competitiveness subject to dollar movements due to fully dollarised economy
- Large informal sector and low-skilled workforce
- Legacy of sovereign default
- State interventionism
- Low levels of domestic and foreign private investment

RISK ASSESSMENT

Growth remains hobbled by the decline in public support

Growth will continue to slow in 2019, held back by continued fiscal consolidation and persistently sluggish domestic demand. As financing conditions for the deficit grew tighter, the government was forced to draw up a fiscal consolidation plan in 2018 to reassure the markets. Under this plan, the government will slash investments and eliminate civil servant positions in 2019. In addition, interventionism and a lack of competitiveness (high cost of public services, rigid labour market), exacerbated in recent years by dollar appreciation, have lessened the draw for private investors.

Household consumption is expected to remain constrained by the weak growth in purchasing power linked to the wage freeze and the rise in the unemployment rate, which will nevertheless remain low. Moreover, with the informal sector accounting for 45% of employment, many households do not receive the minimum wage and full social benefits.

After a period of deflation due to the appreciation of the US dollar and the wage freeze, prices will rise slightly again in 2019, driven by reduced fuel subsidies and stabilisation of the dollar. In addition, oil sales should benefit from firm prices, even if production is unchanged at Petroamazonas, the national company that accounts for 78% of national production. Conversely, cocoa producers will be hard hit by the entry into force of a European standard imposing a maximum content level for cadmium, a substance which is very present in local cocoa. Other agricultural products, including bananas, shrimp, canned fish and flowers, will be hurt by cooler European and North American markets. Manufacturing sectors will continue to be penalised by their lack of competitiveness outside the dollar zone. However, at the same time, imports will be sluggish, in line with domestic demand, allowing external trade to make a slightly positive contribution to growth.

Fiscal consolidation to control soaring debt

President Lenín Moreno has launched a fiscal consolidation plan that will generate estimated total savings of USD 1 billion, or 1% of GDP. The aim is to reduce the deficit sufficiently to contain the country's debt, which has risen sharply since 2012, exceeding the statutory limit of 40% of GDP. Measures include the obligation to use tenders for public contracts (USD 400 million in savings), the phase-out of public jobs through mergers of state-owned entities (USD 350 million) and the removal of subsidies on premium gasoline (USD 150 million).

At the same time, the current account is expected to remain slightly in deficit. The trade balance will be impacted by expensive imports of petroleum products, due to insufficient refining capacities to meet growing domestic demand. The balance of services will also continue to show a small deficit, with freight and oil services paid abroad exceeding strong tourism revenues. In addition, growing debt interest and profit repatriation will exceed expatriate remittances from the United States and Spain. With weak FDI (0.6% of GDP in 2017) insufficient to cover the deficit, the government will have to resort to external debt, as in January 2018 (USD 3 billion). The authorities have limited room for manoeuvre, as reserves are very low (less than two months of imports in June 2018). However, the resumption of relations with the IMF since President Moreno came to power offers an additional option for lower-cost financing, at the cost of accelerated fiscal consolidation.

The President's popularity wanes despite a successful referendum

President Moreno emerged stronger from the February 2018 referendum in the struggle with his predecessor Rafael Correa for control of their party, Allianza Pais (AP). An average of 68% of voters in the referendum backed a series of measures that set a limit of two presidential terms (a return to the pre-2015 situation that prevents Mr Correa from standing again in 2021), strip those convicted of corruption of their civil rights, reform the Consejo de Participacion Ciudadana y Control Social, the body that decides on judicial appointments and that was controlled by Correa's supporters, and restrict oil drilling in Yasuni Natural Park. Despite this victory, President Moreno's approval rating has declined steadily since peaking at 77% in August 2017, falling to 45% one year later, mainly due to the worsening economic situation. He also holds a slim legislative majority (74 seats out of 137), which is undermined by internal party dissensions.

The business environment remains weak, with significant difficulties in investor protection, default resolution and taxation. As a result, Ecuador came 118th out of 190 in the World Bank's Doing Business 2018 ranking.

PAYMENT & DEBT COLLECTION PRACTICES IN ECUADOR

Payment

Cheques are still a frequently used means of payment for commercial transactions in Ecuador. Nevertheless, the use of cheques is declining, due to a growing preference for electronic payments for transactions of all values.

Credit transfers are used for both high-value and low-value payment transactions. High-value and urgent inter-bank transfers are usually cleared *via* the Banco Central Ecuatoriano (BCE). Inter-bank transfers can include capital, money and foreign exchange market transactions, as well as public sector and commercial payments. Transfer instructions can be submitted *via* paper-based instructions or through online systems such as SWIFT.

Cash is frequently used, particularly for low-value transactions.

Debt Collection

Ecuador's judicial system comprises courts, administrative bodies, autonomous bodies and subsidiary bodies. The jurisdictional bodies responsible for administering justice are the National Court, regional courts, law courts, law tribunals and Justice of the Peace courts.

The Judicial Council is the governing body responsible for the administration, supervision and discipline of the judicial function. The judicial system also encompasses subsidiary bodies, such as notaries, auction services, foreclosure services, legal custodians and other bodies, as determined by law.

The Código Orgánico General de Procesos (COGEP), a new legal code in force since May 2017, should help to speed up procedures.

Amicable phase

Amicable negotiations are a crucial step in successful debt collection management. These negotiations are highly detailed and cover aspects including the number of instalments, write-offs, guarantees, collateral, grace periods and interest.

Legal proceedings

Under the new legal code, trials can be in the form of Executive Judgments or Ordinary Judgments.

Executive Proceedings

Executive proceedings are initiated by filing a written complaint with the Court. Supporting documents (such as the *pagaré* or *letra de cambio*) should be attached to the claim. Cases are assigned to a judge who then has 45 working days to decide whether the claim is complete. The judge then hands down precautionary measures within the following 90 days. The judge orders a single audience 120 days later, during which he delivers a sentence.

Ordinary Proceedings

Ordinary proceedings are initiated by filing a written complaint with the Court. The case is then assigned to a judge who has 60 working days to decide whether the claim is complete. The judge then issues a writ ordering the serving of the written complaint to the debtor. The debtor has 90 days to respond with a written defence. The judge then orders a single audience during which he will deliver a sentence.

Enforcement of a Legal Decision

A domestic judgment becomes final and enforceable after any appeals have been exhausted. The judge of the court of first instance is responsible for enforcing judgments and issues a writ of execution ordering the relevant party to comply with the judgment within five working days. If the order is not complied with within the five-day period, the judge orders the seizure of the debtor's assets in order for them to be auctioned off.

The Ecuadorian Civil Procedure Code sets out the requirements for the enforcement of foreign judgments, in accordance with the appropriate treaties, international conventions and Ecuadorian law. The approval procedure begins with a phase of knowledge gathering (for ordinary trials) that is performed in the defendant's domicile court before admitting the execution. Ecuador has signed and ratified a number of international treaties for the recognition and enforcement of foreign judgments, including the Inter-American Convention on Extraterritorial Validity of Foreign Judgments and Arbitral Awards.

Insolvency Proceedings

There are two phases in Ecuador's insolvency proceedings.

Conciliatory phase

The objective of this phase is to ensure that the debtor company can continue to operate, by putting into place signed agreements with all of its recognised creditors.

Bankruptcy

Bankruptcy proceedings entail the sale of the debtor company and its assets, with profits from the said sales being used to pay its debts to creditors.

EGYPT

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	B

POPULATION Millions of persons - **2017**	**94.8**
GDP PER CAPITA US Dollars - **2017**	**2,495**
CURRENCY Egyptian pound	**EGP**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.3	4.2	5.3	5.6
Inflation (yearly average, %)	10.2	23.3	21.6	14.0
Budget balance (% GDP)	-12.5	-10.9	-9.8	-8.5
Current account balance (% GDP)	-6.0	-6.6	-3.2	-3.0
Public debt (% GDP)	96.6	98.4	88.7	87.9

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

EURO AREA	27%
UNITED ARAB EMIRATES	11%
UNITED STATES	8%
UNITED KINGDOM	6%
TURKEY	4%

Imports of goods as a % of total

EURO AREA	20%
CHINA	8%
SAUDI ARABIA	6%
UNITED ARAB EMIRATES	5%
RUSSIA	5%

+
- Tourism potential
- Manageable external debt (30% of GDP including 17% public)
- Political and financial support from the Gulf monarchies and Western countries
- IMF Support Programme
- Large gas reserves

−
- Poverty (40% of the population) and high unemployment
- Recurring security issues in the Sinai region
- Twin deficits
- Banking system vulnerable to sovereign risk
- Weak manufacturing exports

RISK ASSESSMENT

Pace of activity to quicken in 2019

Egyptian growth strengthened in 2018. Investment, along with more competitive exports of goods and services, were again the main drivers of activity. Economic reforms undertaken since 2016 with IMF support have restored investor confidence, especially in the energy sector. Activity is expected to continue to pick up in 2019, buoyed by the recovery in tourism, continued strong export growth and sustained public and private investment. Following Eni's (an Italian multinational oil and gas company) discovery of the giant Zhor field in 2015, Egypt aims to become a major hub for the gas industry in the Mediterranean. Natural gas production, which covers 65% of the country's energy needs, is expected to rebound significantly in 2019. The authorities have announced the end of LNG imports following completion of Phase Two of the West Nile Delta project in the deep waters north of Alexandria, which is expected to increase production by 700 million cubic meters per day. To boost investment in the sector, the government is preparing a new contract model based on a more attractive compensation package for oil companies. Growth in the hydrocarbon sector is expected to benefit the manufacturing sector, which showed signs of improvement in 2018. Consumption is likely to rise further but at a more moderate pace, hampered by higher energy prices and the phase-out of fuel and electricity subsidies in 2019.

Ongoing fiscal consolidation

Fiscal consolidation efforts under the IMF programme have led to a gradual reduction in the government deficit. The VAT hike, moderation of the wage bill, increased customs duties, and a reduction in subsidies have enabled the authorities to achieve a primary surplus, despite a bigger-than-expected rise in oil prices. The government deficit is projected to decline further in 2019, but the government's target remains very optimistic. The aim is to get the deficit to 8.4% and the primary surplus to 2%. Strong growth combined with better tax collection should certainly favour an upturn in budgetary revenues in 2019, thus leaving more room for manoeuvre to boost investment expenditure (+40%). The increase in expenditure, which also includes some concessions made to civil servants, should be partly offset by subsidy cuts and steps to open up the capital of some state-owned companies. The abolition of fuel subsidies in 2019 and electricity subsidies by 2020/21 is expected to exert a negative effect on inflation. The Egyptian central bank could be forced to hike interest rates, mechanically raising the cost of servicing the debt, which remains largely domestic. In addition, the increase in external debt has resulted in higher exposure to currency risk at a time of stress on the emerging foreign exchange market.

Following a period of adjustment, the external accounts situation has improved significantly. The gain in competitiveness linked to depreciation of the pound has given a lift to exports (mainly oil). Tourism is expected to continue recovering, notably following resumption of the air link between Russia and Egypt, which was suspended in 2015. The increase in gas production should also help the government to contain the energy import bill despite the rise in oil prices. The current account deficit will continue to be financed by the surplus in the financial account, which is benefiting from increasing FDI and portfolio investment. As Egypt has a floating exchange rate regime, it is no longer shielded from pressures on emerging currencies that could affect the stability of the pound.

Sissi re-elected for another four years

In April 2018, Marshal Abdel Fattah al-Sissi was re-elected as head of Egypt, winning the presidential election with 97% of the vote. Without any real opposition, he faced only one challenger, Moussa Mostafa Moussa, who is actually a supporter of the President. Poor turnout, at around 41%, reflected the fact that the election was a forgone conclusion. Nevertheless, the President should now be able to continue the economic and security policies pursued during his previous terms. The regime is tightening its grip and silencing protests, justifying its actions by citing the need to stabilise the situation in Sinai and on the Libyan border. Although often criticised for failing to uphold human rights, the Egyptian regime remains a pivotal factor in regional stability and the fight against terrorism. President Sissi wants to restore the country's leading role in the Middle East by maintaining close relations with Europe and the United States on the one hand, while strengthening ties with Russia on the other. At the same time, the country intends to rely on its backers in the dispute with Ethiopia over the Nile River dam project, which would deprive Egypt of some of its water resources.

EL SALVADOR (REPUBLIC OF)

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	B

POPULATION Millions of persons - 2017	6.4
GDP PER CAPITA US Dollars - 2017	3,895
CURRENCY US Dollar	USD

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.4	2.3	2.3	2.3
Inflation (yearly average, %)	0.6	1.0	1.7	1.9
Budget balance (% GDP)	-3.4	-2.5	-2.2	-2.7
Current account balance (% GDP)	-2.2	-2.5	-3.4	-3.4
Public debt (% GDP)	69.5	70.6	70.1	70.3

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	46%
HONDURAS	14%
GUATEMALA	14%
NICARAGUA	7%
COSTA RICA	5%

Imports of goods as a % of total

UNITED STATES	37%
GUATEMALA	10%
CHINA	9%
MEXICO	7%
HONDURAS	7%

+
- Relative economic diversification
- Free trade agreements with Central America and the United States (CAFTA-DR), as well as with Mexico and the EU; entry into the customs union with Guatemala and Honduras
- Financial support from multilateral institutions
- Strong demographics

−
- High crime and insecurity linked to drug trafficking
- Lack of natural resources
- Climate and seismic vulnerability
- Inadequate infrastructure and investment
- Dependence on the United States (48% of exports)
- Structural fragility of public and external accounts
- Significant inequalities and poverty

RISK ASSESSMENT

Structural obstacles to growth

In 2019, El Salvador's growth is set to continue to be the lowest among Central American countries, constrained by a lack of investment and the need for structural reforms. The vitality of activity in the United States will support exports, particularly textiles and clothing, but also electronic components (cables, chips). The decrease in unemployment among the Latin American community in the United States will support the sending of remittances from the 2 million Salvadoran immigrants to the United States (20% of the country's population), supporting domestic demand. The end of the TPS (Temporary Protected Status), decided by the Trump administration (due in September 2019), should have limited consequences on foreign exchange flows, as only 200,000 migrants are concerned, and a significant proportion should be regularised. However, a potential tightening of US migration policy could pose a risk to the Salvadoran economy, which is highly dependent on these currency flows (18% of GDP). Private consumption will also be boosted by low inflation, contained by the total dollarisation of the economy. On the supply side, the agricultural sector will continue to be characterized by poor performance in a context of low sugar and coffee prices (the country's main agricultural product). Private investment will likely remain very insufficient, constrained by a significantly high crime rate and a still deficient business environment, despite recent progress. The *maquilas*, production areas dedicated to exports, will continue to concentrate the bulk of foreign investment and manufacturing production, particularly in the textile and clothing sector.

Fragile fiscal and external situations

Despite recent fiscal adjustments that generated a primary surplus in 2017 and 2018, interest payments on debt are expected to further weaken the public accounts in 2019. Savings from the 2017 pension reform are not expected to increase revenues substantially in the absence of further reforms, delayed by the lack of agreement between political parties. After a partial default on its debt in early 2017, the country faced further difficulties in autumn 2018 in financing the payment of interest due in 2019: the majority opposition in Parliament has blocked the government's desired bond issue in the absence of further budgetary reforms. The legislative deadlock is expected to continue until the end of the current President's term in June 2019. In this context, public debt (including the debt of non-financial public companies), is expected to increase slightly. Its relatively high level presents a risk in the context of a fully dollarised economy like El Salvador.

On the external accounts side, the current account deficit is expected to remain stable compared to 2018. The trade balance will remain in deficit (-20% of GDP) due to the dynamism of imports of intermediate goods (particularly those dedicated to the textile sector). The income balance deficit will likely further widen with the repatriation of dividends from foreign companies in a context of rising key rates in the United States. The growth in discount flows, which is less dynamic than in the past, should only partially offset these deficits. FDI will still be insufficient to balance this need for external financing. The government is therefore likely to use market-based financing through bond issuance and international donors.

Towards the end of a political blockade?

In power since 2014, President Salvador Sanchez Cerén (Frente Farabundo Marti para la Liberacion nacional, FMLN) is currently enduring a low level of popular support due to the high crime rate in the country and the lack of a real project to fight poverty. In the March 2018 parliamentary elections, the opposition party (Arena) won the majority of seats in parliament, leading to a situation of legislative deadlock, preventing any reform. Given this difficult political context for the FMLN, the February 2019 presidential battle will mostly oppose Carlos Calleja, Arena's candidate, and Nayib Bukele, from the Gran Alianza por la Unidad Nacional (GANA) party. A victory from Bukele would be a major break from the historical bipartisanship of the Salvadoran political system. Regardless of the winner, the next president will have to face the challenges of fighting crime and corruption, as well as addressing migratory and poverty issues.

From the point of view of diplomatic relations, beyond the leading partnership with the United States, El Salvador's foreign policy remains oriented towards the sub-region with the entry, in 2018, into the customs union formed by Guatemala and Honduras. A rapprochement with China was also initiated following the end of diplomatic relations with Taiwan in August 2018 and a stated desire to increase economic cooperation between the two countries.

ERITREA

COFACE ASSESSMENTS

COUNTRY RISK	E
BUSINESS CLIMATE	E

POPULATION Millions of persons - **2017**	**5.9**
GDP PER CAPITA US Dollars - **2017**	**980**
CURRENCY Nakfa	**ERN**

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	62%
SOUTH KOREA	28%
PHILIPPINES	2%
YEMEN	2%
VIETNAM	2%

Imports of goods as a % of total

EURO AREA	20%
UNITED ARAB EMIRATES	16%
CHINA	12%
SAUDI ARABIA	12%
TURKEY	5%

+
- Extensive mineral resources (potash, copper, gold, silver, zinc)
- Strategic position on the Red Sea

−
- Large public and external deficits
- Critical level of debt
- Country has become an international pariah state
- Worrying human rights record
- Very difficult business climate

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.8	5.0	4.2	3.8
Inflation (yearly average, %)	9.0	9.0	9.0	9.0
Budget balance (% GDP)	-11.6	-11.3	-10.1	-9.8
Current account balance (% GDP)	-2.1	-2.4	-1.6	-2.3
Public debt (% GDP)	132.8	131.2	129.4	127.3

(e): Estimate. (f): Forecast.
NB: The most recent official data was published in 2006. The availability of reliable economic data is also limited by the absence of relations with international institutions.

RISK ASSESSMENT

Growth dependent on the extractive industry

Economic activity is expected to be moderate in 2019, being driven by the performance of just one sector: the extractive industry. The Bisha mine (copper, zinc, gold) remains the main contributor to growth, and its acquisition by a Chinese company planning new exploration activities will delay the end of operations, which was initially scheduled for 2021. The Colluli potash mine will gradually take over from the Bisha facility, and assuming there are no further postponements, it will start production in 2019. Until now, the mining sector has been the only area attracting the country's few foreign investments, most of which have come from China. However, the recent resumption of peaceful relations with Ethiopia opens up new opportunities by placing the country in a strategic position on the Horn of Africa. In this context, the United Arab Emirates (UAE) will start building an oil pipeline linking the Eritrean port of Assab on the Red Sea to the Ethiopian capital. DP World, a multinational port company from the UAE, is reportedly considering building infrastructure in Assab, as is Russia, with whom negotiations are underway on the construction of a logistics hub at one of Eritrea's ports. However, private investment and the potential increase in cross-border trade are unlikely to have a significant impact on growth in the short term, since they remain constrained by the severe lack of infrastructure. Public investment in development does not look to be on the cards, as the government has not taken any official initiatives in this direction. In addition, the government's dominant presence in other areas of activity will continue to hamper the development of the private sector. In a setting featuring an almost non-existent labour market, extreme poverty, and household dependence on a rudimentary agriculture sector plagued by frequent droughts, private consumption will remain sluggish. Inflation, meanwhile, is expected to stabilise at a high level, supported by elevated food prices.

Persistent deficits

In 2019, the government deficit could be slightly reduced as mining revenues hold up, coupled with a probable reduction in military spending following the end of the war with Ethiopia. Some of this expenditure could eventually be redirected towards rehabilitating roads and upgrading the port of Assab, as reportedly planned by the government. The deficit will continue to be financed by monetary creation, fuelling inflation. Although relations with the international community have improved very slightly, the country remains excluded from access to donor support, meaning that Eritrea's substantial and mainly domestic public debt is not expected to benefit from relief under the HIPC initiative.

Turning to the external accounts, the current account deficit may increase as a result of the widening trade deficit. Exports, mainly of agricultural products and minerals, are expected to remain low, while the country remains dependent on imports of food, capital goods, which are increasing with construction projects, and oil, whose rising price will amplify the deterioration in the deficit. Monetary policy will continue to focus on maintaining the dollar peg of the nafka, which will remain overvalued given the lack of foreign exchange. This should maintain the gap between the official exchange rate and that of the parallel market.

A gradual return to the international scene

The political landscape is dominated by the Popular Front for Democracy and Justice, the only legally authorised party, which has been led by President Isaias Afwerki since 1993. The total absence of democracy and fundamental freedoms, along with the regime's totalitarian excesses, are widely acknowledged and make Eritrea one of the most closed countries in the world.

However, in July 2018, the President signed a peace declaration with Ethiopian Prime Minister Abiy Ahmed, agreeing to end 20 years of war, reopen borders and restore trade, transport and telecommunications links between the two countries. Originally due to an armed conflict over disputed borders, the situation with Ethiopia, coupled with accusations over the funding of al-Shabab armed groups in Somalia, had excluded Eritrea from the international community and led to UN sanctions (arms embargo, travel bans, asset freeze). These sanctions were lifted in November 2018 by the UN Security Council to welcome the peace efforts made, which also extended to relations with Somalia, with the reopening of embassies in the respective capitals of the two countries, and Djibouti. Although these developments may restore investor confidence somewhat and represent Eritrea's first diplomatic steps forward, the country remains characterised by recurrent human rights violations, forced labour and indefinite periods of military service, as well as a wave of migration as people flee the regime. This will continue to hamper development. The business environment remains very poor, with Eritrea coming second-last in the World Bank's Doing Business ranking.

ESTONIA

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	1.3
GDP PER CAPITA US Dollars - 2017	19,735
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.5	4.9	3.5	2.8
Inflation (yearly average, %)	0.8	3.7	3.5	3.3
Budget balance (% GDP)	-0.3	-0.4	0.6	0.5
Current account balance (% GDP)	1.8	3.3	3.5	3.2
Public debt (% GDP)	9.2	8.7	8.1	7.4

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

FINLAND	16%
SWEDEN	13%
LATVIA	9%
GERMANY	7%
RUSSIA	7%

Imports of goods as a % of total

FINLAND	14%
GERMANY	11%
LITHUANIA	9%
SWEDEN	9%
LATVIA	8%

- Public accounts in surplus and low debt
- Eurozone and OECD member
- Close trading, financial, and cultural links with Scandinavia
- Virtually energy self-sufficient thanks to oil shale
- Development of high value-added sectors (electronics, IT services)
- Very favourable business environment
- Digitisation of administrative procedures
- Flexible economic policy

- Small open economy sensitive to external shocks
- Declining labour force; shortage of skilled labour
- Lack of land connections to the rest of the EU
- Income inequalities and persistent poverty, especially in the predominantly Russian-speaking eastern regions

RISK ASSESSMENT

Growth driven by domestic demand

Lively investment (25% of GDP in 2017) will continue to contribute to growth in 2019. Private investment will be supported by sustained business confidence and the high capacity utilisation rate, which stood at 77% in the third quarter of 2018. In addition, companies enjoy a tax exemption on reinvested profits. Public investment, boosted by European funds, will benefit the development of infrastructure, particularly in transport and education. However, growth is expected to slow in 2019. Private consumption – the traditional driver of growth – should continue to expand, but its contribution will be limited by a smaller increase in the employment rate. Wage growth, fuelled by the shortage of skilled labour as a result of emigration and population decline, is also expected to be lower. Nevertheless, slower inflation will boost household demand.

The industrial sector will remain concentrated around telephony, furniture and the automotive sector. With nearly 70% of industrial production being exported, the sector will benefit from its good level of competitiveness. However, cooler European growth could impact external demand, which is largely driven by neighbouring countries. This would have a severe effect on the country's economy, with industry generating 24% of GDP. At the same time, rail and road transport are benefiting now that the transit of capital goods to Russia has resumed. In addition, a transport cooperation agreement was signed in December 2017 to improve the train line between the two countries.

Comfortable financial situation

In 2018, growth in consumption and employment enabled public finances to show a surplus. This financial situation is expected to continue, with a fiscal strategy plan for 2019/22 that forecasts a government surplus in 2019, as well as a balanced structural balance (excluding cyclical effects). However, the local government surplus is expected to decline as a result of higher investment, with public spending by local government set to increase, particularly in the area of health (5.7% of GDP in 2019), and in promoting digitisation and innovation (4.4% of GDP in 2019). Revenues are expected to go up, even though the increase in excise duty on alcohol initially planned for 2019 was scrapped and consumption is forecast to slow.

Although it will show a slight decline, the current account surplus will remain comfortable. The decrease is mainly due to the widening trade deficit (3.8% of GDP in 2017), driven by increased imports. However, it will remain largely offset by the surplus in services, particularly related to IT and tourism (8.3% of GDP in 2017). Dividend repatriations by Swedish, Finnish and Dutch investors – who are very active in finance, real estate, supermarkets and industry – exceed the income from Estonian investments abroad, leading to an income deficit (2% of GDP in 2017). Large foreign direct investments (net inflows of 3% of GDP in 2017) are matched by portfolio investments made abroad by Estonian pension funds and insurance companies. External debt (83.5% of GDP in 2017), which is mainly private, is more than offset by the assets of residents held abroad.

The coalition is expected to be renewed after the parliamentary elections

After a vote of no confidence in 2016, Taavi Rõivas and the Reform Party gave way to a coalition formed around the leader of the Centre Party, Jüri Ratas, and including the Social Democrats (SDE) and Pro Patria Conservatives. This unprecedented coalition was made possible by the change of leadership within the Centre Party and the political representation of the Russian-speaking minority, who make up one quarter of the population and whose previous leader was considered pro-Russian and anti-NATO. In October 2018, the defection of a Pro Patria MP caused the coalition to lose its majority, as it now holds only 50 of the 101 seats. However, power is not expected to change hands, and things should remain as they are until the March 2019 election. The Reform Party and its new leader, Kaja Kallas, and the Centre Party of Prime Minister Ratas are neck and neck in the polls. The Reform Party's programme includes simplifying the tax system, promoting innovation and reducing state intervention in the economy. The eurosceptic Conservative Party (EKRE) is third in the polls, reflecting the rightward shift in the political landscape. Despite the stable political system, divisions between the Estonian ethnic majority and the Russian ethnic minority in the country remain a major challenge.

The business environment is quite good, although insolvency settlement can be a laborious process. The country could be hurt by a money laundering scandal involving Danske Bank. At the heart of the case is the Danish bank's Estonian subsidiary, which allegedly transferred money of dubious origin that came from its portfolio of non-resident customers. A large part of this portfolio, estimated at €200 billion, is believed to be involved.

ETHIOPIA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	D

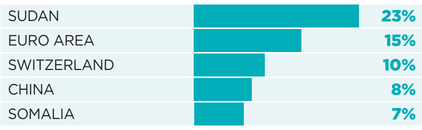
POPULATION Millions of persons - 2017	**92.7**
GDP PER CAPITA US Dollars - 2017	**873**
CURRENCY Ethiopian birr	**ETB**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)*	8.0	10.9	7.5	8.3
Inflation (yearly average, %)	7.3	9.9	13.2	9.8
Budget balance (% GDP)*	-2.4	-3.3	-3.7	-3.5
Current account balance (% GDP)*	-9.0	-8.1	-6.2	-6.6
Public debt (% GDP)*	53.2	54.2	59.5	59.9

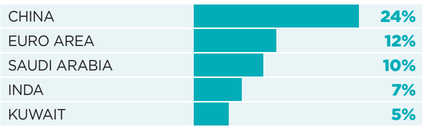
(e): Estimate. (f): Forecast. *Fiscal year from 8th July - 7th July. 2019 data: FY18/19.

TRADE EXCHANGES

Exports of goods as a % of total



Imports of goods as a % of total



- Remarkable track record of growth and poverty reduction
- Public investment in infrastructure development
- Drive to diversify the economy
- Strong hydropower potential
- Warmer relations with Eritrea

- Vulnerable to weather conditions and changes in world commodity prices
- Landlocked country
- Low foreign exchange reserves
- Persistent challenges in the business and governance environment
- Unstable regional context and strong ethnopolitical tensions

RISK ASSESSMENT

Robust growth despite the transition to a new model

Growth is expected to strengthen in 2018-2019, after a robust performance in 2017-2018 despite inflation, currency shortages, political uncertainty, and low coffee and tea prices. Public investment and consumption will remain key elements of growth as the second Growth and Transformation Plan (GTP II) is implemented. While no new projects will be launched in 2018/19, the mega-projects already underway, such as construction of the 6,000 MW Grand Ethiopian Renaissance dam, will continue. The decision to open up certain state monopolies to foreign investors could stimulate private investment. The telecoms, aeronautics, energy, and transport sectors in particular may be affected. Investments could also go towards developing the manufacturing sector, particularly in agro-industry. The creation of special economic zones offering tax incentives and customs duties exemptions should also help attract investment in the textiles and building materials sectors. As a result, exports of manufactured goods, although low, are expected to increase, supported by the inauguration of the Djibouti-Addis Ababa railway line in January 2018. Increased agricultural production and improved competitiveness following the birr's devaluation in October 2017 should bring growth in key exports, including coffee, tea, pulses, oilseeds and horticulture. Although inflation and limited access to foreign exchange will continue to dampen the expansion of private consumption, both are expected to ease in 2019.

Increasing risk of over-indebtedness

The fiscal deficit is expected to decline in 2018/19 thanks to a more prudent fiscal policy. Expenditure growth is set to be more contained: although capital investment spending will continue to increase, no new mega-projects will start in the 2018/19 financial year. The increased expenditure will therefore mainly be used to complete existing projects. Expenditure on infrastructure development should thus continue to absorb more than half of the budget, while current expenditure should be reduced. Although not particularly successful in recent years, efforts to improve tax revenues, which are equivalent to less than 15% of GDP, could be supported by the partnership signed with the United Kingdom in August 2018 to reform the tax system.

The current account deficit is expected to remain high, still suffering from its narrow export base. While efforts to lower capital goods imports reduced the trade deficit in 2017/18, the consumer goods bill is expected to rise. The large trade deficit is therefore expected to continue to affect the current account, despite the likely increase in exports. The services account will also remain in deficit due to import-related services. The transfer balance will continue to provide the main positive contribution to the current balance, thanks to donor funds and private remittances. Bilateral and multilateral loans remain necessary for financing, despite the increased contribution from FDI. The sizeable current account deficit, combined with a rigid exchange rate regime, will keep foreign exchange reserves low (two months of imports) and make it hard to access foreign exchange.

Although measures have been taken to contain the twin deficits and despite the share of concessional loans, the risk of debt distress is increasing. The repayment period for the Chinese loan to finance construction of the Djibouti-Addis Ababa railway line, which was extended from 10 to 30 years in September 2018, illustrates growing concerns about over-indebtedness.

A new Prime Minister for a new era?

In April 2018, the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), a coalition in power since 1991, named Abiy Ahmed to be Prime Minister following Hailemariam Desalegn's resignation. With ethno-political tensions rising since 2015, the appointment of a Prime Minister from the Oromo ethnic group, which for several years has been challenging the power of the Tigrayan minority ethnic group within the EPRDF, is a signal of appeasement. Prime Minister Ahmed's moves to lift the state of emergency, release and grant amnesty to political prisoners, and sign an agreement with the Oromo Liberation Front, mark a radical departure from the previous government, which imprisoned tens of thousands of people in response to rising protests. Yet his reforms are far from being unanimously accepted within the EPRDF, while regular ethnic clashes since his appointment and a grenade attack at a rally in June 2018 show that the political and security situation remains fragile.

Internationally, 2018 was marked by the end of the state of war with Eritrea. Eighteen years after the fighting ended, Ethiopia has now fully accepted the terms of the Algiers Agreement signed in 2000. The peace agreements signed allow diplomatic and economic ties to resume.

FINLAND

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	5.5
GDP PER CAPITA US Dollars - 2017	45,927
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.5	2.8	2.8	2.0
Inflation (yearly average, %)	0.4	0.8	1.2	1.6
Budget balance (% GDP)	-1.7	-0.7	-0.7	-0.2
Current account balance (% GDP)	-0.6	0.6	0.7	1.1
Public debt (% GDP)	63.0	61.3	59.5	58.2

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	14%
SWEDEN	10%
UNITED STATES	7%
NETHERLANDS	7%
CHINA	6%

Imports of goods as a % of total

GERMANY	18%
SWEDEN	16%
RUSSIA	13%
NETHERLANDS	9%
FRANCE	4%

+

- Prudent economic policy
- Skilled workforce and favourable business climate
- Cutting-edge industries
- High standard of living

−

- Highly vulnerable to international economic conditions
- Dependence of the Finnish banking sector on the Swedish and Danish financial sectors, despite the return of a major institution in 2017
- Ageing population

RISK ASSESSMENT

Activity is slowing, but will remain solid

Growth will be resilient in 2019 despite cooler domestic demand. Household consumption is set to slow, but should still put in a dynamic performance, driven by the fall in unemployment (7.4% in September 2018) and the consequent rise in wages, against a backdrop of moderate inflation. Business investment is also expected to ease, while making a strong contribution to growth in a supportive environment featuring low interest rates and resilient domestic and external demand. In addition, the emergence of supply constraints in terms of equipment and labour will also promote investment.

After building permits peaked in 2018, residential construction will continue to support activity due to strong demand for apartments in urban centres, particularly in the Helsinki region, before slowing down by 2020.

Exports are expected to remain brisk thanks to gains made possible by the Competitiveness Pact – labour costs fell in real terms by 3.5% in 2017 – and strong performances by Finland's main partners, Sweden and Germany. Tourism, focused around natural sites and the Northern Lights, will continue to grow thanks to inflows of tourists from Russia (number-one source) and China (35% increase in 2017). At the same time, imports will grow relatively less quickly, echoing domestic demand. As a result, trade should contribute positively to growth in 2019.

Current and public accounts almost in balance

Even though 2019 is an election year, the government will continue to pursue a prudent fiscal policy. After lowering income taxes between 2016 and 2018, in return for the austerity measures of the Competitiveness Pact (extended annual working hours, partial transfer of employer contributions to employee contributions, wage freezes), the government will introduce only minor tax measures in 2019, including reducing the vehicle tax and increasing the excise duty on tobacco. At the same time, as revenues increase thanks to the favourable economic situation, the deficit, which is already well below 3%, is expected to decline. In addition, after being postponed several times, reforms to public social and health services are expected to be approved in 2019 and will involve merging the existing entities to create an intermediate level of 18 "counties", in a move that will ultimately generate savings estimated at €3 billion a year. Scheduled to come into force in 2021, these structural reforms aim to address the challenge posed by a rapidly ageing population to the social security system and public accounts. Against the backdrop of this prudent fiscal policy, public debt – which in 2018 fell below the threshold set by the European Stability and Growth Pact (60% of GDP) – will continue to decline.

With exports outstripping imports, the country will continue to enjoy a trade surplus, which is expected to improve in 2019. Exports will be driven in particular by the automotive sector, whose exports doubled between 2013 and 2017 to reach €4.8 billion (7% of the total), and by the wood and paper industry, the largest exporting sector, with 20% of the total. Despite tourism growth, the balance of services shows a recurring small deficit, as does the income balance, due to the repatriation of dividends by foreign investors. However, the current account is expected to show a surplus.

The outcome of the upcoming elections is uncertain, but the centre-left opposition has a slight lead

Although it has a tiny majority (104 seats out of 200), the governing coalition – led by Juha Sipilä's Centre Party, with the support of the centre-right National Coalition Party and the Blue Reform Party, which emerged from the split with the far-right Finnish Party in June 2017 – will remain in power until the parliamentary elections in April 2019. However, with less than six months to go before the elections, polls show coalition members getting between 35% and 40% of the vote. The centre-left Social Democratic Party, led by former Minister of Economy Antti Rinne, would come out on top with 22% of the votes and be well-positioned to try to assemble a coalition with other parties such as the Left Alliance, the Green League (environmentalist) or the Swedish People's Party (centre). However, uncertainty persists over the potential outcome and coalition combinations given how votes are fragmented across many parties.

The business environment is very favourable. The country is ranked 17th (out of 190) in the World Bank's Doing Business 2019 report, thanks in particular to its remarkable performance in insolvency settlement (2nd in the world).

FINLAND

PAYMENT & DEBT COLLECTION PRACTICES IN FINLAND

Payment

Bills of exchange are not commonly used in Finland because they signal the supplier's distrust of the buyer. A bill of exchange primarily substantiates a claim and constitutes a valid acknowledgment of debt.

Cheques, also little used in domestic and international transactions, only constitute acknowledgement of debt. However, cheques that are uncovered at the time of issue can result in the issuers being liable to criminal penalties. Moreover, as cheque collection takes a particularly long time in Finland (20 days for domestic cheques or cheques drawn in European and Mediterranean coastal countries; 70 days for cheques drawn outside Europe), this payment method is not recommended.

Conversely, SWIFT bank transfers are increasingly used to settle domestic and international commercial transactions. When using this instrument, sellers are advised to provide full and accurate bank details to facilitate timely payment, while it should not be forgotten that the transfer payment order will ultimately depend on the buyer's good faith. Banks in Finland have adopted the SEPA standards for euro-denominated payments.

Debt Collection

Amicable phase

The goal of the amicable phase is to reach a voluntary settlement between the creditor and debtor without beginning legal proceedings. Finnish legislation obliges creditors to begin the amicable phase amicable phase *via* letters, followed up as necessary with a final demand for payment by recorded delivery or ordinary mail. This demand for payment asks the debtor to pay the outstanding principal increased by past-due interest as stipulated in the contract.

In the absence of an interest rate clause in the agreement, interest automatically accrues from the due date of the unpaid invoice at a rate equal to the central bank of Finland's (*Suomen Pankki*) six-monthly rate, calculated by reference to the European Central Bank's refinancing rate, plus seven percentage points.

The Interest Act (*Korkolaki*) already required debtors to pay up within contractually agreed timeframes or become liable to interest penalties.

Since 2004, the ordinary statute of limitations for Finnish contract law is three years.

Legal proceedings

Fast-track proceedings

For clear and uncontested claims, creditors may use the fast-track procedure, resulting in an injunction to pay (*suppea haastehakemus*). This is a simple written procedure based on submission of whatever documents substantiate the claim (invoices, bills of exchange, acknowledgement of debt, etc.). The court sets a time limit of approximately two weeks to permit the defendant to either respond to or oppose the petition. In addition, this fast track procedure can also be initiated electronically for cases of undisputed claims. The presence of a lawyer, although commonplace, is not required for this type of action.

Ordinary proceedings

Ordinary legal action usually commences when amicable collection has failed. A written application for summons must be addressed to the registry of the District Court, which then serves the debtor with a Writ of Summons. The debtor is given approximately two weeks to file a defence.

During the preliminary hearing, the court bases its deliberations on the parties' written submissions and supporting documentation. The court then convokes the litigants to hear their arguments and decide on the relevance of the evidence. During this preliminary phase, and with the judge's assistance, it is possible for the litigants to resolve their dispute *via* mediation and subsequently protect their business relationship.

Where the dispute remains unresolved after this preliminary hearing, plenary proceedings are held before the court of first instance (*Käräjäoikeus*) comprising between one and three presiding judges, depending on the case's complexity. During this hearing, the judge examines the submitted evidence and hears the parties' witnesses. The litigants then state their final claims, before the judge delivers the ruling, generally within 14 days.

The losing party is liable for all or part of the legal costs (depending on the judgement) incurred by the winning party. The average time required for obtaining a writ of execution is about 12 months. Undisputed claims in Finland can normally last from three to six months. Disputed claims and the subsequent legal proceedings can take up to a year.

Commercial cases are generally heard by civil courts, although a Market Court (*Markkinaoikeus*) located in Helsinki has been in operation as a single entity since 2002, following a merger of the Competition Council and the former Market Court.

Enforcement of a Legal Decision

A judgment is enforceable for fifteen years as soon as it becomes final. If the debtor fails to comply with the judgment, the creditor may have it enforced by a bailiff, who will try to obtain an instalment agreement with the debtor, or enforce it through a seizure of assets.

For foreign awards, since Finland is part of the EU, it has adopted enforcement mechanisms applicable to court decisions issued by other EU members, such as the EU Payment Order and the European Enforcement Order. For judgments issued by non-EU members, the issuing country must be part of a bilateral or multilateral agreement with Finland.

Insolvency Proceedings

Out-of-Court proceedings

Finnish law provides no specific rules for out-of-court settlements. Negotiations between creditors and debtors are made informally. If an agreement is reached, it must still be validated by the court.

Restructuring proceedings

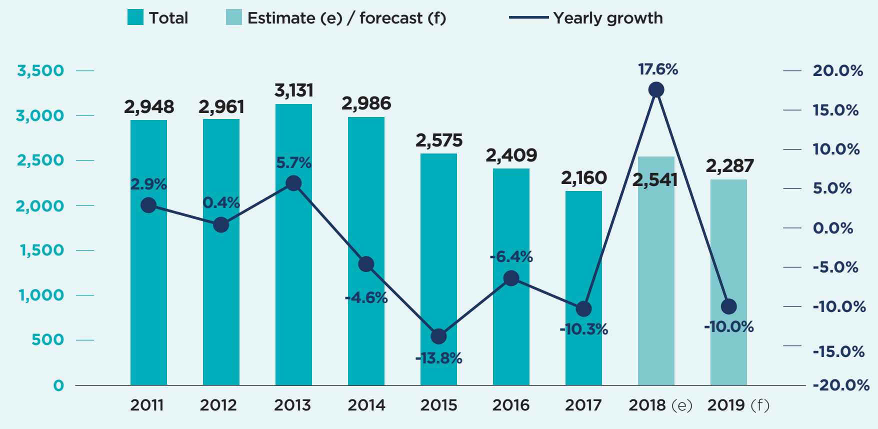
The goal of restructuring is to allow an insolvent company to remain operational through administration, with the view that if the company is able to continue its business, it will be able to repay a larger part of its debts than would have been possible in the case of bankruptcy of the company. The commencement of these proceedings triggers an automatic moratorium, providing the company with protection from its creditors.

The board of directors maintains its power of decision but the receiver is entitled to control certain aspects of the company's operations, including the creation of new debts and overseeing transfers of ownership.

Liquidation

When debtors are unable to pay their debts when due and this inability is not temporary, they are placed into liquidation. Upon acceptance of a liquidation petition by the court, the debtor is declared bankrupt. A receiver is appointed, and a time limit is established for any creditors to present their claims. The receiver then establishes a proposed distribution scheme, whilst creditors supervise the selling of the estate and the distribution of the sales' proceeds.

NUMBER OF CORPORATE INSOLVENCIES



Source: Statistics Finland, Coface.

FRANCE

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	64.8
GDP PER CAPITA US Dollars - 2017	39,933
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.2	2.3	1.5	1.4
Inflation (yearly average, %)	0.3	1.2	2.1	1.7
Budget balance (% GDP)	-3.5	-2.7	-2.6	-3.3
Current account balance (% GDP)	-0.8	-0.6	-0.6	-0.7
Public debt (% GDP)	98.2	98.5	98.7	98.9

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	15%
SPAIN	8%
ITALY	8%
UNITED STATES	7%
BELGIUM	7%

Imports of goods as a % of total

GERMANY	19%
BELGIUM	10%
NETHERLANDS	8%
ITALY	8%
SPAIN	7%

- High-quality infrastructure and public services
- Skilled and productive workforce; dynamic demographics
- Powerful tourism industry
- Competitive international groups (aerospace, energy, environment, pharmaceuticals, luxury, agri-food, retail)
- Global agricultural leader
- High level of savings

- Too few exporting companies; loss of competitiveness and market share
- Weakening level of product sophistication; insufficient focus on innovation
- Low employment rate among young people and older workers
- Room for more efficiency in public spending; high public debt
- Private debt on an upward trend

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	MEDIUM
CONSTRUCTION	MEDIUM
ENERGY	MEDIUM
ICT*	LOW
METALS	HIGH
PAPER	HIGH
PHARMACEUTICAL	LOW
RETAIL	LOW
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Growth set to slow further in 2019

Growth will remain moderate in 2019, after easing significantly in 2018. Household consumption is expected to rebound thanks to a slight uptick in employment and purchasing power, driven by measures as the scrapping of employee contributions – effective as of October 2018 –, the reduction in housing tax, the increase in the minimum wage subsidy (work bonus), the tax exemption for overtime pay and the reduction in the general social contribution (CSG) for one third of pensioners, whose pensions are between €1,200 and 2,000 per month. Real wages are expected to rise, due, on the one hand, to tight labour market conditions, with many companies reporting recruitment difficulties, and, on the other hand, to lower inflation, in line with the stabilisation of oil prices in 2019. The unemployment rate will continue its gradual decline but will remain high, at around 9%. Despite persistently favourable credit conditions, household investment will slow due to weaker confidence levels, which will affect construction (building permits were down 7% over the first three quarters of 2018). Conversely, investment by businesses, which are reporting record high profit margins (39.1% at the end of 2017), should remain brisk due to supply constraints, with the production capacity utilisation rate at 85% at the end of 2018. However, since these investments are mainly made using credit, corporate debt will remain on an upward trend. Business insolvencies will rebound in 2019, increasing by 1% after declining by 3.4% in 2018, in connection with more muted growth.

Despite the slowdown in France's main trading partners (rest of the European Union, United States, China), exports will be resilient, thanks to cost competitiveness gains recorded in recent years. However, foreign trade is no longer expected to contribute positively to growth in 2019 because of the rebound in imports. Hotel stays increased by 3% in the first three quarters of 2018, exclusively due to the return of foreign tourists (+8%), in a trend that is expected to continue in 2019, despite less favourable economic conditions in all advanced economies.

Public and external accounts stuck in deficit

Despite tax revenues driven by resilient activity, the government deficit is expected to widen in 2019, due to tax measures to increase purchasing power (estimated cost of €10 billion, or 0.4% of GDP) and to the conversion of the competitiveness and employment tax credit (CICE) into a permanent reduction in employer contributions, which will entail a double cost for public finances in the transition year (estimated deficit excluding exceptional measures: 2.4% of GDP). As a result, the government deficit is expected to temporarily return to over 3% in 2019. As a consequence, although its public debt is among the highest in the eurozone, France will be one of the few countries where the debt does not decline.

The current account deficit will remain stable in 2019. While the goods balance is structurally in deficit as the country is a net energy importer, the services balance is in surplus thanks to tourism revenues. Since 2015, the balance of goods and services excluding energy has become negative, as the deficit in manufactured goods continues to widen, mainly due to the relocation of automobile production and investment in imported machinery. At the same time, this deficit is only partially offset by the excess income generated by dividends from French subsidiaries abroad. The resulting small current account deficit is mainly financed by debt or equity issues held by non-residents.

President Macron's popularity rating falls

Despite having a strong remit after his clear victories in the 2017 presidential and legislative elections, President Emmanuel Macron is facing growing social unrest. While during his first year in office, protests were essentially led by trade unions opposed to reforms aimed at making the labour market more flexible and changing the status of the SNCF (state-owned rail transport company), this transformed into a popular protest with the arrival of the gilets jaunes (yellow vests, name for the hi-vis safety jackets that drivers must keep in their cars), protesting against fuel taxes. President Macron's popularity rating halved between January and November 2018, falling to 25%. Major reforms to the pension system, including the abolition of special schemes, which is due to be unveiled in 2019, could be the source of further protests. However, President Macron has a comfortable majority in the National Assembly through his party, La République en Marche, which holds 308 seats out of 577. In addition, as the main moderate opposition parties (Socialist Party on the left and Republicans on the right) are rebuilding, the main alternatives are currently on the far right (Rassemblement National) and the far left (France Insoumise). Meanwhile, the increased European integration called for by President Macron will depend on the outcome of European elections in May, amid rising nationalism in many European countries.

FRANCE

PAYMENT & DEBT COLLECTION PRACTICES IN FRANCE

Payment

Bank cards are now the most commonly-used form of payment in France, although cheques are still widely used. In value terms, cheques and transfers are still the most popular forms of payment.

If a cheque remains unpaid for more than 30 days from the date of first presentation, the beneficiary can immediately obtain an enforcement order (without need for further procedures or costs). This is based on a certificate of non-payment provided by the creditor's bank, following a second unsuccessful attempt to present the cheque for payment and when the debtor has not provided proof of payment within 15 days of receipt of a formal notice to pay served by a bailiff (Article L.131-73 of the Monetary and Financial Code).

Bills of exchange, a much less frequently used payment method, are steadily becoming rarer in terms of number of operations – although they remain important in terms of total value. Bills of exchange are still an attractive solution for companies, as they can be discounted or transferred and therefore provide a valuable source of short-term financing. Moreover, they can be used by creditors to pursue legal proceedings in respect of "exchange law" (*droit cambiaire*) and are particularly suitable for payment by instalments.

Bank transfers for domestic or international payments can be made *via* the SWIFT electronic network used by the French banking system. SWIFT offers a reliable platform for fast payments, but requires mutual confidence between suppliers and their customers. France is also part of the SEPA network.

Debt Collection

Unless otherwise stated in the general sales conditions, or agreed between the parties, payment periods are set at thirty days from the date of receipt of goods or performance of services requested. Interest rates and conditions of application must be stipulated in the contract – otherwise the applicable interest rate is that applied by the European Central Bank in its most recent refinancing operations. Throughout the first half of the year in question, the rate applicable is that in force on January 1 and for the second half year in question, the rate applicable is that in force on July 1.

Amicable phase

During this phase, the creditor and the debtor try to reach an amicable solution *via* direct contact in order to avoid legal procedures. All documents signed between the parties (such as contracts and invoices) are analysed. Where possible, the debtor can be granted an extended time period to pay his debts, with the period's length negotiated as part of the amicable settlement.

Legal proceedings

<u>Order for payment (injonction de payer)</u>

When a debt claim results from a contractual undertaking and is both liquid and undisputable, creditors can use the injunction-to-pay procedure (*injonction de payer*). This flexible system uses pre-printed forms and does not require the applicants to argue their case before a civil court (*tribunal d'instance*) or a competent commercial court (with jurisdiction over the district where the debtor's registered offices are located). By using this procedure, creditors can rapidly obtain a court order which is then served by a bailiff. The defendant then has a period of one month in which to dispute the case.

<u>Fast-track proceedings</u>

Référé-provision provides creditors with a rapid means of debt collection. If the debtor is neither present nor represented during the hearing, a default judgment can be issued. The court then renders a decision, typically within seven to fourteen days (though same-day decisions are possible). The jurisdiction is limited to debts which cannot be materially contested. If serious questions arise over the extent of the debt, the summary judge has no jurisdiction to render a favourable decision. Judgments can be immediately executed, even if the debtor issues an appeal.

If a claim proves to be litigious, the judge ruled competent to preside (*juge des référés*) over urgent matters evaluates whether the claim is well-founded. If appropriate, the judge can subsequently decide to declare himself incompetent to rule on the case. Based on his assessment of whether the case is valid, he can then invite the plaintiff to seek a ruling through formal court procedures.

<u>Ordinary proceedings</u>

Formal procedures of this kind enable the validity of a claim to be recognised by the court. This is a relatively lengthy process which can last a year or more, due to the emphasis placed on the adversarial nature of proceedings and the numerous phases involved. These phases include the submission of supporting documents, written submissions from the litigants, the examination of evidence, various recesses for deliberations and, finally, the hearing for oral pleadings (*audience de plaidoirie*).

Proceedings are issued through a Writ of Summons (Assignation) which is served on the debtor 15 days before the first procedural hearing. During this hearing, the court sets a time period for the exchange of pleadings and discovery. Decisions rendered do not necessarily have the possibility of immediate execution. In order to be executed, they must first be served on the debtor. They are also subject to appeal.

Enforcement of a Legal Decision

Unless the court decision is temporarily enforceable, enforcement can only commence if no appeal is lodged within one month and must occur within ten years of notification of the court's decision. Compulsory enforcement can be requested if the debtor does not comply with the judgment. Obligations to pay can be enforced through attachment (of bank accounts or assets) or through a third party which owes money to the debtor (garnishment).

France has adopted enforcement mechanisms for decisions rendered by other EU member countries. These mechanisms include the Payment Order under the European Enforcement Order. Decisions rendered by non-EU members can be recognised and enforced, provided that the issuing country is party to a bilateral or multilateral agreement with France. In the absence of an agreement, claimants are obliged to use the French *exequatur* procedure.

Insolvency Proceedings

French insolvency law provides for six procedures to undertake restructuring or avoid insolvency. These are either assisted proceedings or proceedings controlled by the court.

Assisted proceedings

These can be either mandated *ad hoc* or *via* conciliation proceedings. Both are informal, amicable proceedings, where creditors cannot be forced into a restructuring agreement and the company's management continues to run the business. These negotiations are governed by contractual law throughout their duration. The proceedings are conducted under the supervision of a court-appointed practitioner (a *mandataire ad hoc*, or a conciliator) in order to help the debtor reach an agreement with its creditors. Both of these types of proceedings are confidential but conciliation can eventually be made public if the debtor has the approval of the commercial court. Nevertheless, the terms and conditions of agreements remain confidential and can only be disclosed to signatory parties.

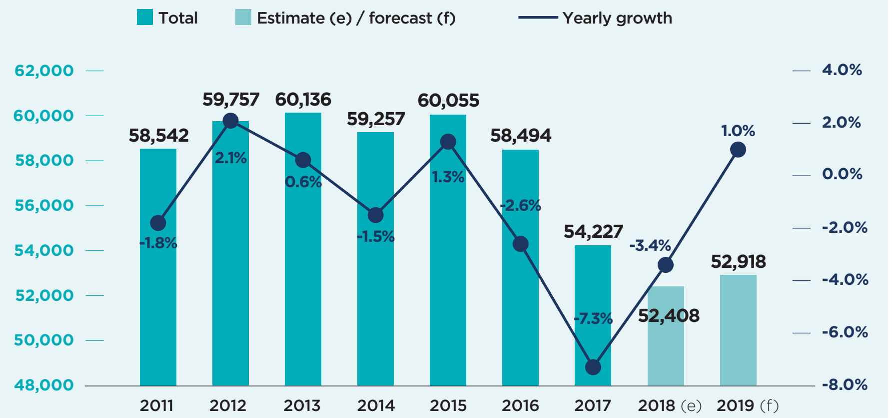
Court-Controlled proceedings

The four types of court-controlled proceedings are judicial reorganisation, judicial liquidation, sauvegarde, and Accelerated Financial Sauvegarde proceedings (AFS).

In all four proceedings, any pre-filed claims are automatically stayed. Creditors must file proof of their claims within two months of publication of the opening judgment, or four months for creditors located outside France. Debts which arise after proceedings commence are given priority over debts incurred beforehand. Certain types of transactions can be set aside by the court, if they were entered into by the debtor during a hardening period (before a judgment opening a judicial reorganisation or a judicial liquidation).

With Court-Controlled proceedings there can be variations in the extent of involvement of the court-appointed conciliator. The sauvegarde and AFS procedures are debtor-in-possession proceedings, but with judicial reorganisation, the court can decide whether to set aside the company's managers. The role of management is particularly reduced in cases of judicial liquidation, as the debtor company usually ceases to conduct business. Nevertheless, the court can decide for a business to continue operating under a court-appointed liquidator.

NUMBER OF CORPORATE INSOLVENCIES

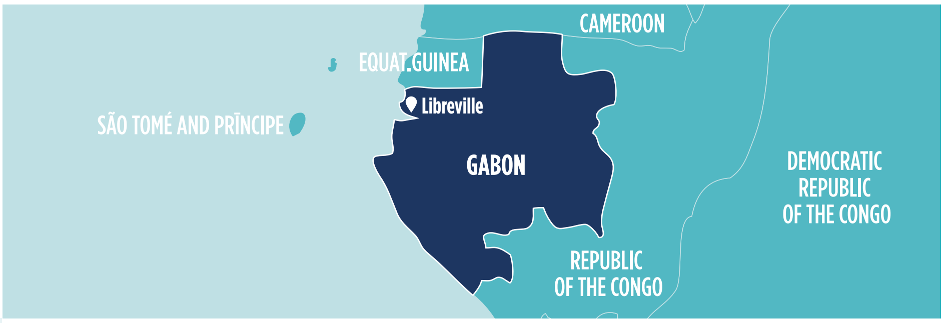


Source: Banque de France, Coface.

GABON

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C



POPULATION Millions of persons - 2017	2.0
GDP PER CAPITA US Dollars - 2017	7,373
CURRENCY CFA franc (BEAC)	XAF

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.1	0.4	1.2	3.0
Inflation (yearly average, %)	2.1	2.7	2.8	2.5
Budget balance (% GDP)	-6.6	-3.4	-2.3	-1.4
Current account balance (% GDP)	-10.2	-2.8	-1.2	-1.0
Public debt (% GDP)	64.2	62.7	58.7	57.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	36%
EURO AREA	28%
UNITED STATES	10%
AUSTRALIA	5%
SOUTH KOREA	5%

Imports of goods as a % of total

EURO AREA	52%
CHINA	15%
UNITED STATES	4%
INDIA	3%
UNITED KINGDOM	2%

- 5th oil producer in sub-Saharan Africa; Africa's 2nd largest producer of wood, hoping to become the world's leading producer of manganese
- Drive to diversify the economy undertaken as part of the Emerging Gabon Strategic Plan
- Member of the CEMAC

- Economy heavily dependent on the oil sector
- High cost of production factors, linked to inadequate infrastructure (transport and electricity)
- High unemployment and endemic poverty
- Difficult political and social context, pervasive corruption
- Stock of domestic and external arrears not yet cleared

RISK ASSESSMENT

Activity is accelerating very gradually

In 2019, growth is expected to continue to gradually recover from the crisis triggered by the fall in oil prices. In particular, the stabilisation of oil production, combined with better prices, should support activity. Meanwhile, changes to hydrocarbon legislation could help to accelerate private investment flows. The latter, combined with the completion of some projects, should also maintain the momentum of sectors targeted by the Emerging Gabon Strategic Plan, which aims to reduce oil dependence (about 30% of GDP in 2017). The mining (especially manganese) and forestry industries are expected to continue developing and contribute to export growth. In addition, agro-industry, through the fertilizer and palm oil sectors, is also likely to be the target of investment. Demand from the agro-industry and the start of the PPP agricultural programme – GRAINE, which provides for new oil palm plantations and the development of food crops – should support the primary industries. Conversely, while budgetary adjustment efforts continue, the construction sector, which is largely dependent on public investment, is expected to continue to face difficulties. Likewise, budgetary constraints are expected to be a drag on public consumption, but also on private consumption, given the state's role as an employer. As a result, service growth is expected to remain constrained.

Twin deficits narrow

The budget deficit is expected to decline further in 2019, supported by continued fiscal restraint under the economic recovery plan. Efforts to lower the wage bill and cut government spending should result in a decrease in current expenditure. Capital expenditure, which has fallen sharply in recent years, is expected to rebound due to the revival of on-hold projects. However, the increase in this expenditure should remain contained. While progress is likely to continue to be slow, reforms to improve mobilisation of tax and customs revenue are expected to result in higher non-oil revenues. Changes in oil prices and production could also support budgetary revenues. Budget execution issues, which forced the authorities to pass a supplementary budget in 2018, could nevertheless continue to slow the process of fiscal consolidation. Budgetary slippage in recent years has left the authorities unable to clear external and domestic arrears. External borrowing, budget support, and IMF financing will finance the fiscal deficit.

After rapidly increasing due to large investments, the debt-to-GDP ratio is now on a downward path. Nevertheless, the high proportion of external debt (70% of the total) and debt denominated in foreign currencies (more than 60% of the total) remains a source of vulnerability.

In 2019, the current account deficit is expected to continue to narrow, mainly on higher oil-related export revenues. Non-oil exports, chiefly manganese and wood, are also expected to contribute to the increase in the trade surplus. The services account is expected to remain in deficit, pulled down by business services. The income deficit may grow, reflecting an increase in oil companies' profit repatriations. Remittances from foreign workers living in Gabon should maintain the small deficit in the transfer account. IMF payments under the ECF programme are expected to continue to finance the current account deficit and contribute to the increase in CEMAC's foreign exchange reserves.

President Bongo's convalescence worries the country

Since the tumultuous re-election of President Ali Bongo Ondimba in 2016 and the ensuing violence that shook the country, the sharp political tensions have gradually subsided. In particular, the divided opposition and isolation of the main opponent, Jean Ping, who continues to claim to be president-elect, have worked in the government's favour. The national dialogue held in 2017 resulted in a constitutional review in January 2018, the seventh since 1991. Although granting some concessions to the opposition, such as the introduction of a second round for presidential and parliamentary elections, the new measures also allowed the President to run for an unlimited number of terms. After two postponements and two years of waiting, legislative elections were finally held in October 2018. Faced with a divided and weakened opposition, especially after Mr Ping's calls for a boycott, President Bongo's Gabonese Democratic Party (PDG) won an absolute majority in the first round. The PDG's success was somewhat tarnished by the low voters' turnout (just over 40%). Shortly after the legislative elections, the health issues faced by President Ali Bongo Ondimba , which forced him to convalesce in Riyadh and Morocco, rekindled the debate on his succession and revived the opposition's ambitions. An apparent coup attempt on January 7 2019, although foiled, reflects the disturbance caused by his absence. In this context, cuts to the wage bill and possible civil service job cuts could lead to social unrest.

The business climate remains uncompetitive (169th out of 190 countries in the Doing Business 2019 ranking), mainly due to poor infrastructure, corruption and difficulties in starting a business.

GEORGIA

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	A4

POPULATION Millions of persons - 2017	3.7
GDP PER CAPITA US Dollars - 2017	4,086
CURRENCY Georgian lari	GEL

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.8	5.0	4.8	4.5
Inflation (yearly average, %)	2.1	6.0	3.0	3.0
Budget balance (% GDP)	-4.2	-3.8	-3.2	-3.0
Current account balance (% GDP)	-12.8	-8.9	-10.0	-10.0
Public debt (% GDP)	44.4	44.9	43.0	44.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

RUSSIA	15%
EURO AREA	13%
AZERBAIJAN	10%
TURKEY	8%
ARMENIA	8%

Imports of goods as a % of total

EURO AREA	18%
TURKEY	17%
RUSSIA	10%
CHINA	9%
AZERBAIJAN	7%

+
- Able to withstand regional economic conditions
- Agricultural, mineral, hydroelectric and tourism potential
- International support, including from the EU and IMF
- Crossing point for Caspian hydrocarbons
- Democratic political system

−
- Small economy sensitive to regional economic conditions
- Structural trade deficit
- Significant rural poverty
- Low agricultural productivity: the sector accounts for half the working population, but less than 10% of value added
- Inadequate infrastructure hampers tourism and transit
- The situation in Abkhazia and South Ossetia is undermining relations with Russia

RISK ASSESSMENT

Investment continues to grow strongly

Public and private investment, both domestic and foreign, in transport, hydropower, tourism and agriculture is expected to remain strong. The association and free trade agreements signed with the European Union offer support for private-sector firms, as does the Extended Credit Facility of USD 285 million over three years granted by the IMF in April 2017. Public investment programmes to upgrade and develop the country's infrastructure, including construction of the Anaklia deep-water port on the Black Sea, are continuing. Exports of copper, wine, spirits, mineral water, ferro-alloys, nuts and medicines should continue to benefit from strong performances by the Russian, Ukrainian, and other Caucasian economies, while metal and beverage exports will be hampered by the problems affecting the Turkish economy. Tourism revenues, which accounted for 18.4% of GDP in 2017, are expected to increase further as the number of Russian visitors goes up. Performances could improve if an agreement is reached on establishing trade corridors with Russia through the breakaway regions of Abkhazia and South Ossetia.

Private consumption is expected to grow moderately, even though households will continue to benefit from expatriate remittances (8% of GDP), about 60% of which come from Russia, tourism-related effects and moderate inflation. Credit to the private sector, with outstanding amounts rising from 55.3% to 61.4% of GDP between July 2017 and August 2018, looks set to grow more slowly as prudential rules are tightened. Despite the strong dollarisation of the economy, banks coped with the lari's substantial depreciation in 2015 and subsequent bouts of weakness linked to movements in the rouble and Turkish lira. De-dollarisation, which is being encouraged by the authorities, who can point to the credibility of their monetary policy and inflation control, remains ongoing: 55% of loans and 62% of deposits were still denominated in US dollars in September 2018.

A laborious fiscal consolidation process coupled with a persistent current account deficit

The agreement with the IMF includes a commitment to fiscal consolidation. But reducing the government deficit is a laborious process: even if current expenditure is controlled more carefully, public investment (power grid, roads, sanitation, water supply, irrigation) remains a priority and will continue to grow (note that multilateral loans partly cover the financing for these investments). At the same time, domestic product growth should enable the debt ratio to stabilise, bearing in mind that 80% of debt is held by external creditors, most of which are multilateral and bilateral public creditors. Poor management of state-owned companies with significant commitments is a risk.

On the back of rising energy prices, the current account deficit will remain high in 2019, reflecting the massive trade deficit in goods (25% of GDP in 2017), linked to the narrow production base, capital goods imports and the low value of exported products, as well as outflows of foreign investment income. Tourism receipts, transit revenues from Azeri hydrocarbons, which make up 13% of GDP between them, and expatriate remittances ultimately limit the current account deficit to 10% of GDP. This deficit is financed by foreign investment (11% of GDP), particularly in transport, real estate, telecommunications and finance, as well as by external debt. Stripping out intra-group loans, external debt was equivalent to 98% of GDP at the end of June 2018. Public debtors account for 37% of the external debt.

Links with Russia, which supports the breakaway regions

Tensions persist at the borders with Abkhazia and South Ossetia. The two regions, which have 160,000 and 50,000 inhabitants respectively, have unilaterally proclaimed their independence, with backing from Russia. Despite this, Georgia and Russia have resumed trade relations, with Georgia providing an important source of drinks for Russia, and Russia being a significant source of expatriate transfers and tourism revenues for Georgia. Nevertheless, poor relations with the secessionist regions hinder land relations with Russia.

The Georgian Dream (RG) Party has held 115 seats out of 150 in the Georgian Parliament since the October 2016 elections. Commanding a far larger share than the other parties, the party no longer needs to seek allies to govern, as it did in the previous legislature. The opposition did not capitalise on the spring 2018 demonstrations, which led to the formation of a new government in July led by Prime Minister Mamuka Bakhtadze. Meanwhile, billionaire Bidzina Ivanishvili – the former Prime Minister, who continues to wield considerable influence – took over the presidency of the RG party in May 2018. Finally, in accordance with the new constitution adopted in 2017, which also requires the country to switch to a proportional representation system for the 2024 legislative elections, and to a parliamentary system, the October 2018 presidential election was the last to be held by direct suffrage. She saw the French-Georgian candidate Salome Zurabishvili supported by the RG elected with more than 59% of the votes. The opposition refused to acknowledge the result.

According to the World Bank, governance is poor in terms of anti-corruption, regulatory quality and government effectiveness, but average in terms of the rule of law and the treatment of insolvency.

GERMANY

COFACE ASSESSMENTS

COUNTRY RISK	A1
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	**82.7**
GDP PER CAPITA US Dollars - 2017	**44,769**
CURRENCY Euro	**EUR**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.2	2.5	1.6	1.4
Inflation (yearly average, %)	0.4	1.7	1.9	2.0
Budget balance (% GDP)	0.9	1.0	1.6	1.1
Current account balance (% GDP)	8.5	8.0	7.5	7.0
Public debt (% GDP)	68.0	63.8	60.0	58.0

(e): Estimation. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	9%
FRANCE	8%
CHINA	7%
NETHERLANDS	7%
UNITED KINGDOM	7%

Imports of goods as a % of total

NETHERLANDS	14%
CHINA	7%
FRANCE	7%
BELGIUM	6%
ITALY	5%

+

- Strong industrial base (more than 30% of GDP)
- Low structural unemployment; well-developed apprenticeship system
- Importance of family-owned exporting SMEs (Mittelstand)
- Integration of Central and Eastern Europe in the production process
- Importance of the ports of Hamburg, Bremerhaven and Kiel
- Institutional system promoting representativeness

−

- Declining working population from 2020 onwards, despite immigration
- Early childhood care and post-primary school activities are still insufficient
- Low bank profitability
- Prominence of the automotive and mechanical industries, particularly in exports (48% of GDP)
- Eastern Länder still lagging behind, although the gap is closing
- Capacity constraints, insufficient investment and venture capital limit productivity gains

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	LOW
CONSTRUCTION	LOW
ENERGY	MEDIUM
ICT*	LOW
METALS	MEDIUM
PAPER	HIGH
PHARMACEUTICAL	LOW
RETAIL	MEDIUM
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Growth will remain close to potential in 2019

Activity decelerated sharply in 2018, to the point of falling slightly in the third quarter. Exports had to cope with softer global demand and the impact of the US-China trade dispute, while automotive production was down nearly 10% in the third quarter compared with the previous quarter (before rebounding) due to delays in certifying vehicles under the new global emission standards that came into force on September 1, 2018. Accordingly, growth reverted to the economy's potential rate of expansion and is expected to remain at that level in 2019. Trade is set to make a negative contribution to trade again, with imports outpacing exports in line with brisk domestic demand. The imposition of a tax by the United States would affect German car exports to the United States (0.9% of GDP). On the domestic side, household consumption (53% of GDP) is poised to benefit from wage growth and an accommodative fiscal policy. Wages are driven by the low level of unemployment (3% expected, 6% among young people), the increase in the number of job vacancies (1.9% of total employment at the end of 2018) and the reduction in the number of immigrants whose employability is below that of the overall labour force. In accordance with the government's coalition agreement, pensions for mothers will go up again, as will benefits for dependent children, with, in particular, the introduction of the *Baukindergeld*, a subsidy based on the number of children and designed to help parents buy a home. The tax threshold will also be raised, while social contributions are to be further reduced. Together, these measures would represent 0.6% of GDP. Nevertheless, the increase in real disposable income will be limited by the inflation generated by low spare capacity and its corollary, higher labour costs. This expansionary fiscal stance will also extend to public spending on early childhood care, primary education, refugee integration, broadband, infrastructure, and social housing, since public investment has fallen to a low level. Conversely, private investment (17% of GDP) will be less vigorous, despite the low cost of financing and the high level of capacity utilisation. Faced with international uncertainties (trade disputes with consequences for the value chains in which the country is highly involved, Brexit, sanctions against Russia, concerns about several major emerging economies), confidence has waned among business leaders since peaking at the end of 2017. Housing construction is facing capacity saturation, particularly at the labour level.

In this context, the payment behaviour of German companies is expected to remain generally good. As a result of high profits, as well as dividend and investment moderation, their debt has fallen to a low level. The number of corporate insolvencies, at its lowest level since 1999, is expected to decline only slightly at best.

Public and external accounts showing a surplus

Despite slight fiscal easing, the government balance is expected to continue to show a small surplus, due to the positive impact of buoyant activity on revenues. Likewise, revenues will benefit from the increase in environmental taxes. In addition, debt servicing, which is set to fall below 60% of GDP, is costing less and less (1% of GDP). The current account surplus is expected to shrink further in line with the trade surplus (7% of GDP). The balance of services shows a small deficit, due notably to spending by German tourists. The income balance will remain in surplus: the income generated by the country's considerable foreign investments, which continue to grow on recurring current account surpluses, exceeds outgoing remittances by immigrants and investors. The country has a net creditor position vis-à-vis the rest of the world equal to 60% of GDP.

A fragile Grand Coalition

Following the parliamentary elections of September 2017, negotiations resulted in a renewed Grand Coalition government in February 2018, bringing together Conservatives (CDU-CSU) and Social Democrats (SPD), based on a 170-page agreement. Already under pressure because of her narrow majority in the Bundestag and the breakthrough of the far right (AfD), which has pushed the right wing of the CDU and the Bavarian CSU to up the ante, Chancellor Angela Merkel saw her position weakened by the poor results of the coalition parties in several regional elections and by excellent showings for the Greens and the AfD. She resigned as CDU leader in December 2018, but intends to see her term out, *i.e.* until 2021. Much will depend on the upcoming regional and European elections, the SPD's attitude when reviewing the coalition agreement at the end of 2019 and the stance of the new CDU presidency. The choice of Annegret Kramp-Karrenbauer, a centrist reputed to be close to the Chancellor, as head of the CDU, reflects a preference for continuity and an eye to the future, including a possible alliance with the Greens if the SPD withdraws from the coalition.

GERMANY

PAYMENT & DEBT COLLECTION PRACTICES IN GERMANY

Payment

Bank transfer (*Überweisung*) remains the most common, means of payment. All leading German banks are connected to the SWIFT network, which enables them to provide a quick and efficient funds transfer service. The SEPA Direct Debit Core Scheme and the SEPA Direct Debit B2B are the newest forms of direct debit.

Bills of exchange and cheques are not used very widely in Germany as payment instruments. For Germans, a bill of exchange implies a critical financial position or distrust in the supplier. Cheques are not considered as payment as such, but as a "payment attempt": as German law ignores the principle of certified cheques, the issuer may cancel payment at any time and on any grounds. In addition, banks are able to reject payments when the issuing account contains insufficient funds. Bounced cheques are fairly common. As a general rule, bills of exchange and cheques are not considered as effective payment instruments, even though they entitle creditors to access a "fast track" procedure for debt collection in case of non-payment.

Debt Collection

Amicable Phase

The amicable collection is an essential step to the success of collection management. The collection process generally begins with the debtor being sent a final demand for payment, *via* ordinary or registered mail, reminding the debtor of their payment obligations.

According to the law for the acceleration of due payments (*Gesetz zur Beschleunigung fälliger Zahlungen*) a debtor is deemed to be in default if a debt remains unpaid within 30 days of the due payment date and after receipt of an invoice or equivalent request for payment, unless the parties have agreed to a different payment period in the purchase contract. In addition, the debtor is liable for default interest and reminder fees upon expiry of this period.

Debt collection is recommendable and common practice in Germany.

Legal proceedings

Fast-track proceeding

Provided the claim is undisputed, the creditor may seek order to pay (*Mahnbescheid*) through a simplified and cost-efficient procedure. The creditor describes the details of their claim and is subsequently able to obtain a writ of execution fairly quickly *via* the Online-Dunning Service (*Mahnportal*), direct interfaces or (only for private individuals) pre-printed forms. Such automated and centralised (for each *Bundesland*, federal state) procedures are available all over Germany.

This type of action falls within the competence of the local court (*Amtsgericht*) for the region in which the applicant's residence or business is located. For foreign creditors, the competent court is the Amtsgericht Wedding (in Berlin). Legal representation is not mandatory.

The debtor is given two weeks after notification to pay their debts or to contest the payment order (*Widerspruch*). If the debtor does not object within this timeframe, the creditor can apply for a writ of execution (*Vollstreckungsbescheid*).

Ordinary proceedings

During ordinary proceedings, the court may instruct the parties or their lawyers to substantiate their claim, which the court alone is then authorised to assess. Each litigant is also requested to submit a pleading memorandum outlining their expectations, within the specified time limit.

Once the claim has been properly examined, a public hearing is held at which the court passes an informed judgement (*begründetes Urteil*).

The losing party will customarily bear all court costs, including the lawyer's fees of the winning party to the extent that those fees are in conformity with the Official Fees Schedule (the *Rechtanwaltsvergütungsgesetz,* RVG). In the case of partial success, fees and expenses are borne by each party on a *pro rata* basis. Ordinary proceedings can take from three months to a year, while claims brought to the federal Supreme Court can reach up to six years.

An appeal (*Berufung*) may be brought against the decision of the Court of First Instance if the objected amount in dispute exceeds €600. An appeal will also be admitted by the Court of First Instance if a case involves a question of principle or necessitates revision of the law in order to ensure "consistent jurisprudence".

Enforcement of a Legal Decision

Enforcement may commence once a final judgement is made. If debtors fail to respect a judgment, their bank accounts may be closed and/or a local bailiff can proceed with the seizure and sale of their property.

For foreign awards, in order to obtain an *exequatur*, the creditor needs a notarised German translation of the decision which also has to be recognised, an enforcement order of this judgment, and an execution clause. Judgments of courts of EU member states are recognised without further procedure – unless certain restrictions arising from European law are applicable.

Insolvency Proceedings

Out-of Court proceedings

Debtors may attempt to renegotiate their debts with their creditors, which helps to protect debtors from early payment requests. However, the procedure is in the creditors' interest as it can be faster and tends to be less expensive than formal insolvency.

Restructuring

Following a petition filed before insolvency court on the basis of illiquidity or over-indebtedness, the court may open preliminary insolvency proceedings, where it appoints a preliminary administration aimed at exploring the chances of restructuring the company. If the administration authorizes this restructuration, it then initiates formal proceedings and nominates an administrator in charge of continuing the debtor's business whilst preserving its assets.

Liquidation

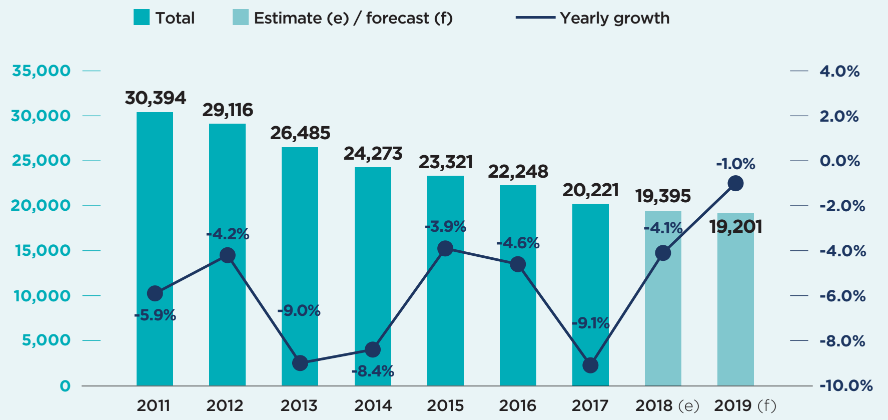
Liquidation may be initiated upon demand of either the debtor or the creditor provided that the debtor is unable to settle its debts as they fall due. Once recognized through a liquidation decision and once the company has been removed from the register, the creditors must file their claims with the liquidation administrator within three months of the publication.

Retention of title

This is a written clause in the contract in which the supplier will retain the ownership over the delivered goods until the buyer has made full payment of the price. There are three versions of this retention:

- **simple retention**: the supplier will retain the ownership over the goods supplied until full payment is made by the buyer;
- **expanded retention**: the retention is expended to further sale of the subsequent goods; the buyer will assign to the initial supplier the claims issued form the resale to a third party;
- **extended retention**: the retention is extended to the goods processed into a new product and the initial supplier remains the owner or the co-owner up to the value of his delivery.

NUMBER OF CORPORATE INSOLVENCIES



Source : Destatis, Coface.

GHANA

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	B

POPULATION Millions of persons - **2017**	**28.3**
GDP PER CAPITA US Dollars - **2017**	**1,663**
CURRENCY Ghana cedi	**GHS**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.4	8.1	6.3	6.6
Inflation (yearly average, %)	17.5	12.4	9.8	10.5
Budget balance (% GDP)	-7.2	-4.8	-3.7	-4.3
Current account balance (% GDP)	-5.2	-3.5	-3.2	-3.1
Public debt (% GDP)	56.9	55.6	57.1	56.8

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

INDIA	19%
CHINA	17%
EURO AREA	15%
SWITZERLAND	12%
SOUTH AFRICA	6%

Imports of goods as a % of total

EURO AREA	22%
CHINA	17%
UNITED STATES	9%
UNITED KINGDOM	9%
INDIA	5%

+
- Significant mining (gold), agricultural (cocoa), oil and gas resources
- Stable democracy
- Attractive business environment, favourable for FDI
- International financial support

−
- Infrastructure gaps (energy, transport)
- Dependent on commodity prices (gold, oil, cocoa)
- Fragile banking sector

RISK ASSESSMENT

Robust growth, despite constraints on the banking sector

Although the one-off effect of bringing the TEN and Sankofa hydrocarbon fields onstream faded in 2018, growth remained robust and is expected to remain so in 2019. The oil and gas sector should continue to drive growth, notably owing to the expected increase in production at the Jubilee and the Tweneboa, Enyenra and Ntomme (TEN) oil fields. In addition to the contribution from hydrocarbons, exports should also benefit from the opening of the country's first gold refinery, scheduled for mid-2019. Manufacturing industries are expected to contribute to the expansion too, supported by public investments through the One District, One Factory programme and improved electricity supply. Meanwhile, the construction sector should also contribute to the growth of the secondary sector through increased public investment in infrastructure, including the transport network. While agriculture is set to continue to grow, difficulties in the cocoa sector are likely to persist, with international prices remaining relatively low and the fight against Cacao swollen-shoot virus (CSSV) expected to continue. Forestry activities will play a part in primary sector growth. Domestic consumption, boosted by the increase in the minimum wage, should continue to fuel growth in services: ICT, trade, as well as education and health should thus keep expanding briskly. However, inflation – which is flirting with the top end of the Bank of Ghana's target range (between 6% and 10%) – could eat away at the contributions from these consumption-dependent sectors. In addition, while non-performing loans remain high, the fragile local banking sector is expected to continue to drive service growth down.

From fiscal consolidation to fiscal discipline

The budget deficit is expected to widen in 2019, linked to debt interest payments. The government will, however, try to preserve the primary surplus. After a major push to curb expenditure under the IMF programme completed at the end of 2018, spending is expected to keep pace with rising revenues. Efforts to contain the wage bill, which takes up almost half of tax revenues, will likely be continued in order to increase the resources allocated to capital investment expenditure. On the revenue side, measures to broaden the tax base will be a focus, with steps to automate tax procedures. In addition, the government is planning to reform the system of tax exemptions. The deficit will be chiefly financed by bond issuances on international capital markets, project loans, and loans from the local banking sector. The primary surplus and strong growth should enable the debt-to-GDP ratio to be brought down. Nonetheless, the debt trajectory will remain exposed to the vulnerability of state-owned energy companies and banks, with the government already being forced to take over debt in 2018. In addition, while debt levels look to be at a less worrying level thanks to the rebasing of GDP, they remain relatively high.

In 2019, the current account deficit is expected to narrow slightly, reflecting changes in the trade balance. Specifically, despite a likely rise in imports of capital goods, the trade surplus is poised to increase thanks to higher exports, particularly of oil and gas. Expatriate remittances will also make a positive contribution to the current account balance. However, the technical services related to the development of these resources will continue to affect the balance of services. Profit repatriation by foreign companies and debt interest will maintain the income deficit. FDI and external loans will finance the current account deficit while also building up foreign exchange reserves, which are sufficient to cover between three and four months of imports. Despite the support provided by foreign exchange earnings in the oil and gas sector, the cedi – which came under pressure in 2018 due to currency sales following the tightening of US monetary policy and difficulties in the banking sector – could continue to depreciate.

A stable political environment, despite fierce rivalry

Elected in December 2016, President Nana Akufo-Addo and his New Patriotic Party (NPP) succeeded John Mahama and the National Democratic Congress (NDC). The peaceful political handover, despite the sometimes fierce rivalry between the two main parties, underlined the country's democratic credibility and political stability. Although growth rates are high, progress in curbing poverty and stopping corruption – two central themes of the campaign run by the NPP and President Akufo-Addo – will be the focus of public scrutiny as the November 2020 elections approach. Samuel Ofosu-Ampofo, who was elected head of the NDC in November 2018, will be in charge of (re)structuring his party in a bid to lead it to victory in the elections.

The business environment remains relatively favourable when compared with Ghana's regional peers, despite ongoing issues relating to the infrastructure deficit and red tape. The country has moved up six places to 114th (out of 190 countries) in the 2019 Doing Business ranking, benefiting in particular from measures that make it easier to obtain building permits. However, the cost of insolvency proceedings and the limited recourse available to creditors remain major weaknesses.

GREECE

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	A3

POPULATION Millions of persons - 2017	10.8
GDP PER CAPITA US Dollars - 2017	18,637
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	-0.2	1.5	2.0	2.1
Inflation (yearly average, %)	-1.1	0.0	1.1	0.5
Budget balance (% GDP)	-5.7	0.5	0.8	0.4
Current account balance (% GDP)	-0.2	-1.1	-0.9	-0.4
Public debt (% GDP)	176.8	180.8	178.6	177.8

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

ITALY	11%
GERMANY	7%
TURKEY	7%
CYPRUS	6%
BULGARIA	5%

Imports of goods as a % of total

GERMANY	10%
ITALY	8%
RUSSIA	7%
IRAQ	6%
SOUTH KOREA	6%

+
- Support from the international financial community; possible debt relief
- World leader in maritime transport
- Tourist destination

−
- Very high public debt
- Very poor quality bank portfolio; high level of non-performing loans (48% in the first quarter of 2018)
- Weak public institutions; high levels of tax evasion
- Small industrial base; low-tech exports (food, chemicals, metals, refined oil)
- Social tensions fuelled by fiscal restraint and massive unemployment

RISK ASSESSMENT

Continued evidence of improvement

Following Greece's exit from its third bailout plan, the economic upturn continues. Growth strengthened in 2018 driven by robust household consumption and a positive impact from net exports. Economic growth is expected to remain buoyant in 2019. The labour market is likely to stay on its positive trend, with an expected decline in the unemployment rate, which should support household consumption. In addition, wage increases and lower inflation are projected to contribute further to purchasing power. Investment, which grew at a sluggish pace in 2018, is set to strengthen, but will probably rebound by less than anticipated. The construction sector should, however, hold up positively, driven by the growth in tourism activities. Renewed confidence, an improving business environment, and tax incentives – including lower corporate and dividend taxes – should fuel growth in fixed capital. Nevertheless, the banking system's weaknesses inherited from the crisis and more restrictive financing conditions than in the rest of the eurozone will likely continue to limit SME investments. Although access to bank credit has improved and deposits have stabilised, the level of non-performing loans remains high. To meet the targets set by the Bank of Greece and the European Central Bank's single supervisory mechanism, the largest banks have promised to clean up their balance sheets by reducing their exposure to non-performing loans (NPEs). They are thus expected to lower their NPE ratio to 35% in 2019 by gradually offloading their portfolios of non-performing loans. Finally, exports, particularly of services, are likely to remain on track in 2019. Despite this, net exports are expected to make a smaller contribution to growth than in 2018 as a result of the rebound in imports, driven by higher consumption and investment.

Balanced public accounts and primary surpluses in line with commitments

Greece finally emerged from its third assistance programme in August 2018. Fiscal consolidation efforts undertaken since 2015 have enabled the country to gradually get the public accounts back into balance and rebuild the credibility of its fiscal policies. For the second year running, the government balance was in surplus and the primary surplus remained in line with the objectives set by the adjustment plan. Although Greece will no longer be subject to the plan, it agreed at the Eurogroup summit in June 2018 to continue and complete the reforms adopted under the European Stability Mechanism (ESM) programme in exchange for debt relief. The country will therefore be required to accept enhanced monitoring by the ESM and the European Commission. Although the medium-term fiscal objectives have not yet been defined, in October 2018 Greece sent the Commission its 2019 budget, which was accepted in its first draft. The 2019 budget plans to maintain the fiscal surplus while implementing a number of measures other than those of the adjustment plan. On the expenditure side, the pension cuts that were supposed to take effect in January 2019 are to be replaced by a freeze on pensions until 2022. The contribution to social security for self-employed workers will be reduced, and measures to facilitate home ownership for low-income households will be implemented. Revenues are expected to benefit from the favourable economic situation and better tax collection, which will allow the authorities to reduce taxes on labour, business, and real estate. The primary surplus is projected to remain in line with the Commission's target of 3.5%, but the slight increase in debt service will weigh on the government's surplus. Despite the large primary surplus, public debt increased in 2018 due to the disbursement of €15 billion under the Emergency Safeguard Mechanism in August 2018. Largely concessional (73% held by international donors), the debt is expected to decrease in 2019. In order to ensure debt sustainability, European lenders and the government have agreed on a package of measures including deferral of interest and depreciation as well as a ten-year extension on European Financial Stability Fund loans.

A difficult election year for Syriza

As the second government led by Alexis Tsipras, a coalition between radical left-wing party Syriza and the right-wing ANEL party, enters its last year before the October 2019 election, the Prime Minister carried out a final cabinet reshuffle in August 2018 to prepare for the upcoming election. Despite a budget pledging social measures and the country's exit from the third European aid plan, Syriza is losing ground in the polls and now sits second behind the right-wing New Democracy Party. It is therefore very likely that the radical left-wing coalition will not be re-elected once its term ends. The European elections in May 2019 should provide a good insight into electoral trends ahead of the autumn elections.

PAYMENT & DEBT COLLECTION PRACTICES IN GREECE

Payment

Bills of exchange, as well as promissory letters, are used by Greek companies in domestic and international transactions. In the event of payment default, a protest certifying the dishonoured bill must be drawn up by a public notary within two working days of the due date.

Similarly, cheques are still widely used in international transactions. In the domestic business environment, however, cheques are customarily used less as an instrument of payment, and more as a credit instrument, making it possible to create successive payment due dates. It is therefore a common and widespread practice for several creditors to endorse post-dated cheques. Furthermore, issuers of dishonoured cheques may be liable to prosecution provided a complaint is lodged.

Promissory letters (*hyposhetiki epistoli*) are another means of payment used by Greek companies in international transactions. They are a written acknowledgement of an obligation to pay, issued to the creditor by the customer's bank, committing the originator to pay the creditor at a contractually fixed date. Although promissory letters are a sufficiently effective instrument in that they constitute a clear acknowledgement of debt on the part of the buyer, they are not deemed a bill of exchange and so fall outside the scope of the "exchange law".

SWIFT bank transfers, well established in Greek banking circles, are used to settle a growing proportion of transactions and offer a quick and secure method of payment. SEPA bank transfers are also becoming more popular, as they are fast, secured and supported by a more developed banking network.

In 2015, Greece imposed restrictions on flows of capital outside the country. All payments directed abroad follow a specific procedure, and are monitored by the banks and the Ministry of Finance, with restrictions placed on the amount and nature of the transfer.

Debt Collection

Amicable phase

Before initiating proceedings in front of the competent court, an alternative method to recover a debt is to try to agree with the debtor on a settlement plan. Reaching the most beneficial arrangement can usually be achieved by means of a negotiating process.

The recovery process commences with the debtor being sent a final demand for payment *via* a registered letter, reminding him of his payment obligations, including any interest penalties as may have been contractually agreed – or, failing this, those accruing at the legal rate of interest. Interest is due from the day following the date of payment stipulated in the invoice or commercial agreement at a rate, unless the parties agree otherwise, equal to the European Central Bank's refinancing rate, plus seven percentage points.

Legal proceedings

Fast track proceedings

Creditors may seek an injunction to pay (*diataghi pliromis*) from the court *via* a lawyer under a fast-track procedure that generally takes one month from the date of lodging the petition. To engage such a procedure, the creditor must possess a written document substantiating the claim underlying his lawsuit, such as an accepted and protested bill, an unpaid promissory letter or promissory note, an acknowledgement of debt established by private deed, or an original invoice summarising the goods sold and bearing the buyer's signature and stamp certifying receipt of delivery or the original delivery slip signed by the buyer.

The ruling issued by the judge allows immediate execution subject to the right granted to the defendant to lodge an objection within 15 days. To obtain suspension of execution, the debtor must petition the court accordingly.

Based on current competence thresholds, a "justice of the peace" (*Eirinodikeio*) hears claims up to €20,000. Above that amount, a court of first instance presided by a single judge (*Monomeles Protodikeio*) hears claims from €20,000 to €250,000. Claims over €250,000 are reviewed by a panel of three judges (*Polymeles Protodikeio*).

Ordinary proceedings

Where creditors do not have written and clear acknowledgement of non-payment from the debtor, or where the claim is disputed, the only remaining alternative is to obtain a summons under ordinary proceedings. The creditor files a claim with the court, who serves the debtor within 60 days. The hearing would be set at least eighteen months later. Greek law allows the court to render a default judgment if the respondent fails to file a defence. Since 2016, the lawsuit procedure has been changed, and is now based exclusively on documentation provided to support the claim.

Enforcement of a Legal Decision

Enforcement of a domestic decision may commence once it is final. If the debtor fails to satisfy the judgment, the latter is enforceable directly through the attachment of the debtor's assets.

For foreign awards rendered in an EU member state, Greece has adopted advantageous enforcement conditions such as the EU Payment Orders or the European Enforcement Order. For decisions rendered by non EU countries, they will be automatically enforced according to reciprocal enforcement treaties. In the absence of an agreement, *exequatur* proceedings will take place.

Insolvency Proceedings

Restructuring proceedings

This procedure aims to help the debtor restore its credibility and viability, and continue its operations beyond bankruptcy. The debtor negotiates an agreement with its creditors. During this procedure, claims and enforcement actions against the debtor may be stayed but the court will appoint an administrator to control the debtor's assets and performances. The reorganisation process starts with the debtor's submission of a plan to the court made by specialists, which conducts a judicial review of the proposed plan whilst a court-appointed mediator assesses the creditors' expectations. The plan can only be validated upon approval by creditors representing 60% of the total debt. (60% is not always applicable, depending on the case and approval by the bank).

Liquidation

The procedure commences with an insolvency petition either by the debtor or the creditor. The court appoints an administrator as soon as the debts are verified. In addition a Pool of Creditors (three members representing each class of creditors) will be given the responsibility of overseeing the proceedings, which terminate once the proceeds of the sale of the business' assets are distributed.

GUATEMALA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

POPULATION Millions of persons - **2017**	**16.9**
GDP PER CAPITA US Dollars - **2017**	**4,469**
CURRENCY Guatemalan quetzal	**GTQ**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.1	2.8	2.8	3.4
Inflation (yearly average, %)	4.4	4.4	3.7	3.9
Budget balance (% GDP)	-1.1	-1.3	-1.4	-1.7
Current account balance (% GDP)	1.5	1.5	1.0	0.4
Public debt (% GDP)	24.7	24.7	25.1	25.3

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	34%
EL SALVADOR	11%
HONDURAS	9%
EURO AREA	8%
NICARAGUA	5%

Imports of goods as a % of total

UNITED STATES	40%
CHINA	11%
MEXICO	11%
EURO AREA	7%
EL SALVADOR	5%

+

- Financial support from the United States and multilateral lenders
- Free trade agreements with the United States and the EU
- Geographic proximity to the United States and Mexico
- High potential for tourism, agriculture, mining, hydroelectric and geothermal energy

−

- Social and political instability
- Poor infrastructure
- Vulnerable to external shocks (natural disasters and commodity prices)
- Heavily reliant on low value-added industry and expatriate remittances
- Low fiscal revenues
- Rural poverty, inequalities, under-employment, informal economy, ethnic divisions

RISK ASSESSMENT

Moderate growth due to underinvestment

Growth in 2019 will continue to be predominantly driven by private consumption, which represents more than 80% of GDP. Household demand will be sustained by strong flow of expatriate remittances, supported in turn by a persistently dynamic labour market in the United States, the leading destination for Guatemalan emigrants. The accommodative monetary policy in place since 2013 (key interest rate at 2.75%) and inflation, which is contained within the central bank's target range (4+/-1%), should stimulate domestic demand as a whole. From the production point of view, the agricultural sector is expected to grow more dynamically owing to base effects following 2018's climate events and volcanic eruptions. The construction sector is expected to benefit from reconstruction activities and infrastructure projects implemented by the government in the run-up to the June 2019 elections. Investment, however, will still be constrained by the lack of infrastructure, the strained political climate and a still deficient business environment (98/190 in the Doing Business 2019 ranking). The lack of an agreement between the government and Canadian company Tahoe regarding the operation of the Escobal silver mine is also dampening investor confidence. The Supreme Court's decision at the end of 2017 to suspend Tahoe's operating licence for failing to respect the Xinca indigenous people's right to be consulted, which was upheld in September 2018, requires the company to renegotiate with local communities before it can resume its activities.

Fiscal revenues still too low in the absence of reforms

Guatemalan public finances are characterised by a structural lack of tax revenue (11% of GDP in 2016), limiting the resources available for public spending and investments that are required to fight poverty (health, education) and improve infrastructure. The highly fragmented political landscape leaves little hope for a major tax reform. In this context, budget implementation remains weak, with actual public expenditure often lower than planned in the budget. While expenditure in the 2019 budget will mainly be financed through public debt issuance, criticism has been levelled at the lack of anti-corruption measures. Public debt is still low but its service is relatively high relative to revenues (13%).

On the external accounts side, exports are expected to grow more slowly, as brisk demand for textile exports in the United States fails to compensate for a weak performance by agricultural exports on the back of relatively low coffee and sugar prices. At the same time, imports are set to increase, mainly linked to higher prices for commodities. The trade balance deficit will be largely offset by expatriate remittances. The reduction in the current account surplus, due to slower growth in remittance flows, is however expected to depress the Guatemalan quetzal, which should remain on a downward trend through 2019. Even so, depreciation is expected to remain limited in view of the country's strong external position (foreign exchange reserves equivalent to 7.4 months of imports at the end of September 2018).

A tense political climate on the eve of the presidential elections

Ahead of the presidential election in June 2019, the political climate in Guatemala remains strained and shaped by corruption cases and tension between the government and the judiciary. President Jimmy Morales and his administration are in a power struggle with the International Commission against Impunity in Guatemala (CICIG), the UN-backed anti-corruption commission that has, among other things, launched a corruption investigation against Morales and his entourage. After banning CICIG leader Ivan Velázquez from re-entering the country, President Morales announced in September 2018 that he would not renew the commission's mandate when the current one expires in August 2019. In this setting, the fight against corruption will be at the heart of the June 2019 presidential elections, which will feature a second round in August if no one wins an outright majority in the first round. The fragmented political landscape means that the potential winner is still uncertain, while President Morales is constitutionally barred from running for a new term. Whoever wins the election will certainly have to form a coalition to govern, which will severely limit their ability to act. The fight against poverty and insecurity, as well as migration issues and anti-corruption actions, will be the main priorities of the new administration.

GUINEA

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	D

POPULATION Millions of persons - 2017	13.0
GDP PER CAPITA US Dollars - 2017	790
CURRENCY Guinean franc	GNF

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	10.5	8.2	5.8	5.9
Inflation (yearly average, %)	8.3	8.9	9.6	9.2
Budget balance* (% GDP)	-0.1	-2.1	-2.2	-2.2
Current account balance (% GDP)	-31.1	-6.9	-21.0	-15.9
Public debt (% GDP)	39.8	37.2	40.3	43.0

(e): Estimate. (f): Forecast. *Grants included.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	40%
GHANA	16%
EURO AREA	9%
UNITED ARAB EMIRATES	7%
INDIA	5%

Imports of goods as a % of total

EURO AREA	40%
CHINA	13%
INDIA	12%
UNITED ARAB EMIRATES	5%
SINGAPORE	3%

+

- One third of the world's bauxite reserves
- Largely untapped deposits of iron, gold, diamonds, uranium and oil
- Significant hydroelectric potential
- Gradual improvement in the business climate thanks to reform efforts

-

- Reliant on mining and energy prices
- Dependent on Chinese demand for bauxite
- Inadequate infrastructure, especially in the electricity sector
- Difficult business climate

RISK ASSESSMENT

Major investment projects drive growth

After two years of strong expansion as the economy experienced a catch-up phase following a challenging 2015, notably due to the Ebola outbreak, growth slowed significantly in 2018. Nevertheless, it will remain vigorous in 2019 and is expected to be driven by investment, both public and private, and mining production (bauxite). The National Economic and Social Development Plan (PNDES) – whose financing, negotiated at the end of 2017, includes numerous PPPs – aims to fix the country's infrastructure deficit and will extend until 2020. One of the sectors targeted is energy, with the goal of increasing access to electricity to 35% by 2020 and 100% by 2030 (compared with 29% in 2015), through a national programme. Four dam projects are planned, the largest of which, Souapiti, is expected to generate more than 500 megawatts, as compared with 773.97 MW for the country as a whole today. With more than a billion dollars in Chinese financing and built by China International Water and Electric Corporation, the new dam should be completed by early 2020.

Energy is a strategic sector for the country. It is needed to operate the mines, which in 2018 caused load shedding in some Guinean cities, particularly Siguiri. It is also key to the government's project to transform bauxite into alumina, whose export price is about 12 times higher. Nine projects to transform bauxite into alumina and one to turn alumina into aluminium are under review. Bauxite production is expected to increase further in 2019, when the Bel Air mine operated by Alufer moves to full production mode, making the country the world's third-largest exporter. More generally, mining production, which is highly diversified (gold, diamond, iron), should support growth. Job creation in this sector, including about 10,000 jobs for a single alumina refinery and railway project in Dapilon in the Kobe region, along with higher yields and increased agricultural processing should support economic growth through private consumption. However, consumption continues to be affected by high inflation, particularly due to the rise in food prices.

The many projects are a drag on the current account

The budget balance is expected to remain in the red in 2019. The level of grants – slightly above 1% of GDP – will help to lower the deficit. The government, which relies heavily on the private sector to fund infrastructure investment, will still have to contribute to the financing by raising the level of investment spending (to about 7.5% of GDP). Less affected by security needs than some of its neighbours, Guinea is expected to see its current expenditure decline slightly to remain at 11% of GDP.

The current account deficit should narrow in 2019, while still being significant. The forecast reduction in the trade deficit by more than 6% of GDP will be driven by mining exports, which account for more than 90% of exports. Meanwhile, the continuation of relatively high oil prices should be offset by lower imports of capital goods, as the supply of construction material for the Souapiti dam was completed in 2018. The balance of services will also improve for the same reason. Conversely, increased output from mines operated by foreign companies will worsen the income balance, but its GDP share (around 7%) is too small to stop the current account from improving. The current account deficit will continue to be financed by public project loans and private investments, mainly FDI, but funding is expected to be considerably reduced compared with 2018, which was a very busy year for projects. The upward trend in foreign exchange reserves, which stand at just over 3.5 months of imports, is expected to continue in 2019. Pressure on the exchange rate could therefore ease, allowing the value of the Guinean franc to stabilise.

60 years after independence, the journey towards a peaceful democracy continues

The first African country to gain its independence from France, Guinea celebrated 60 years of independence at the end of 2018. Ceremonies were held at the Stade du 28 Septembre, the capital stadium where, on the same day in 2009, the military junta killed 150 people at an opposition meeting, in a symbol of the still fragile political situation. Alpha Condé became the country's first democratically elected president in 2010.

Economic and social reforms undertaken since then have led to a significant improvement in the business climate, which ranked 152nd in the Doing Business 2019 ranking, up eleven places compared with 2017. However, the lack of energy infrastructure and repeated load shedding caused unrest in some cities in 2018, which could resurface if these problems recur. Social discontent is increasingly visible, and Mr Condé's vague statements about potentially standing for a third term in 2020, which would be unconstitutional, could worsen the situation.

GUYANA

COFACE ASSESSMENTS

COUNTRY RISK	D
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	**0.8**
GDP PER CAPITA US Dollars - 2017	**4,578**
CURRENCY Guyana dollar	**GYD**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.4	2.1	3.4	4.8
Inflation (yearly average, %)	0.8	2.0	1.3	2.9
Budget balance (% GDP)	-4.3	-4.4	-5.4	-5.0
Current account balance (% GDP)	0.4	-6.7	-6.1	-4.3
Public debt (% GDP)	50.7	52.2	57.0	57.2

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CANADA	25%
UNITED STATES	16%
EURO AREA	11%
PANAMA	10%
UNITED KINGDOM	8%

Imports of goods as a % of total

TRINIDAD AND TOBAGO	27%
UNITED STATES	26%
CHINA	9%
SURINAME	6%
EURO AREA	5%

+

- Significant investment in infrastructure and telecommunications
- Attractive prospects for investors in mining, hydroelectric power and agriculture
- Exploitation of oil reserves off the coast of Guyana from 2020
- Member of CARICOM (*Caribbean Community and Common Market*)

-

- Reliance on exploitation of gold, bauxite, sugar, rice and timber
- Shortcomings in infrastructure, transport, education and health
- Sensitive to weather events (region strongly affected by hurricanes)
- Territorial dispute with Venezuela
- Reliance on international creditors
- High crime rate linked to drug trafficking against a background of poverty and corruption

RISK ASSESSMENT

Progressive transition from an agricultural and mining economy to an oil economy

Growth is expected to continue to increase in 2019 due to significant public and private investments (17% of GDP in 2017), and thanks to the performance of the agricultural and extractive industries. In 2017, the government launched its Public Sector Investment Programme (PSIP), representing 2.5% of GDP, for the construction of roads and electrical installations. This public investment, which reached its highest level in 2018, is expected to continue in 2019. The construction sector will benefit from these measures.

An offshore oil field has been discovered by US company Exxon-Mobil off the coast of Guyana. Further exploration in 2018 concluded that the amount of oil was much higher than the amount announced in 2017, at 3.2 billion barrels of oil. This sector will eventually become a key growth factor in 2020 (extraction of 120,000 barrels per day). For the time being, growth remains linked to the agricultural (rice, sugar), fish (shrimp) and mining (gold and bauxite) industries, whose production is largely export-oriented. The agricultural sector grew by 3.4% in 2018 and its performance in 2019 will remain dependent on weather conditions. Sugar production is expected to continue to decline, but this will be offset by good results in rice and wood production. The introduction of a new high-yielding rice variety and strong credit growth in the forest industry will likely maintain the positive contribution of these two sectors to economic activity in 2019.

Inflation is expected to accelerate due to the increase in commodity prices, which is one of its main components. As a result, household consumption (65% of GDP in 2017) could decrease due to a decline in purchasing power.

While waiting for oil revenues, deficits remain

The government is still pursuing an expansionary fiscal policy marked by significant public spending on infrastructure and the restructuring of the sugar sector. The budget deficit is expected to decrease slightly due to a reduction in subsidies to the state-owned sugar company GuySuCo (which received subsidies equivalent to 1-2% of GDP in the last three years). In addition, an increase in public revenue would be made possible by better tax collection, following an effort to modernise the functioning of the tax administration. The risk related to debt sustainability is expected to be offset by future oil revenues of 2.6% of GDP in 2020, which should rise in subsequent years (4.1% of GDP in 2021). The external share of debt represented 35.5% of GDP in 2017.

Regarding external accounts, the country has a structural trade deficit, with imports mainly composed of fuel and capital goods, and exports of raw gold (52%), rice (16%), and bauxite (9%). The balance of services is also structurally in deficit (9% of GDP in 2017). However, the current account deficit is expected to narrow as a result of lower fuel imports and higher gold exports. It is mainly financed by FDI in the mining and petroleum sector (6% of GDP in 2017). Moreover, Guyanese workers' remittances abroad accounted for 9.2% of GDP in 2017. Exchange rate flexibility remains on the monetary authorities' agenda, whose goal is to improve adjustment to exogenous shocks and preserve foreign exchange reserves (approximately three months of imports in 2017).

Institutional strengthening in a tense political climate

After more than 20 years in power, the Indo-Guyanese People's Progressive Party/Civic (PPP/C) was replaced by the multi-ethnic coalition led by two parties, UNPA and the AFC, in the 2015 presidential elections. This coalition is headed by President David Granger and has a majority in parliament. The government has carried out structural reforms to improve the business environment and fight corruption in order to maximize opportunities related to oil exploitation (a new entity to control the oil and gas industry has been created to replace the Geological and Mining Commission). However, ethnic tensions persist and may intensify with the upcoming elections in May 2020, which could be rescheduled following Parliament's non-confidence vote against the government. The business environment remains risky: the country ranked 134th out of 190 countries in the 2019 World Bank's Doing Business ranking.

Despite an international decision fixing the current borders, Venezuelan President Nicolas Maduro affirmed in 2015 his country's sovereignty over nearly two thirds of Guyana's territory and maritime area. This came after the announcement of the discovery of the oil field off the coast of Guyana, located in the disputed area, rekindling a controversy that dates back more than a century. A period of negotiation had been granted to the two countries by the UN (until the end of 2017), but did not resolve the conflict: the case therefore now goes to ICJ.

HAITI

COFACE ASSESSMENTS

COUNTRY RISK	D
BUSINESS CLIMATE	E

POPULATION Millions of persons - 2017	11.0
GDP PER CAPITA US Dollars - 2017	784
CURRENCY Haitian gourde	HTG

Main economic indicators*	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.5	1.2	1.8	2.2
Inflation (yearly average, %)	13.4	14.7	13.3	11.6
Budget balance (% GDP)**	-0.1	-0.5	-2.7	-2.3
Current account balance (% GDP)**	-1.0	-4.0	-4.0	-2.9
Public debt (% GDP)	33.9	31.1	33.3	35.3

(e): Estimate. (f): Forecast. *2019 year runs from the 1st October 2018 to the 30th September 2019. **Grants included.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	81%
DOMINICAN REPUBLIC	4%
EURO AREA	4%
CANADA	3%
MEXICO	2%

Imports of goods as a % of total

UNITED STATES	21%
CHINA	19%
NETHERLANDS ANTILLES	16%
INDONESIA	8%
EURO AREA	6%

+

- Development and reconstruction programmes defined with donors
- Membership of regional organisations (Association of Caribbean States, Organization of American States, CARICOM, CARIFORUM)

−

- Low level of development and extreme poverty (HDI ranking of 168 out of 189)
- Dependent on expatriate remittances, international donations and the United States
- Highly vulnerable to natural disasters (hurricanes, earthquakes, etc.)
- Poor governance and low-quality business environment
- Lack of infrastructure, particularly energy infrastructure
- Political instability and insecurity

RISK ASSESSMENT

Growth prospects for a still fragile economy

The Haitian economy is expected to continue growing thanks to the continued recovery of the agricultural sector (which accounted for about 18% of GDP in 2017) after the deadly devastation of Hurricane Matthew in 2016. The economy will also be driven by the construction sector, which will benefit from the international aid mobilised to help reconstruct the country after it was hit by natural disasters. Although they will remain strong, exports, principally textiles, are expected to be less dynamic than last year. Exports could suffer from a gradual slowdown in the US economy, with more than 80% of these going to the world's leading power. Private consumption will be boosted by remittance flows from expatriates (about 30% of GDP), mainly from the United States, but will continue to be penalised by high inequality and extreme poverty. Private consumption will also be affected by the high level of inflation, fuelled by elevated oil prices, which will constrain household purchasing power. However, price increases are expected to continue decelerating in 2019, as domestic production of food products (which make up almost half of the consumer price index) recovers, limiting inflationary pressures. In addition, the reduction in the government deficit should limit monetary creation, a financing method used by the Haitian government that encourages inflation.

Reduction ahead for the twin deficits

Haiti's public accounts could not withstand the effects of Hurricane Matthew, which caused a significant increase in the government deficit in 2018. The deficit is expected to decline again thanks to the implementation of budgetary measures encouraged by the IMF. However, the possibility that it might widen cannot be ruled out, due to the potential pushback from the Haitian people to proposed budget cuts. Weather events could also lead the government to incur additional expenses. In order to finance the public deficit, the government should recourse to borrowing, which will contribute to the increase in the public debt burden. A large part of the debt is external and denominated in dollars due to the concessional loans contracted with Venezuela under the Petro Caribe program.

The current account deficit, linked to the trade deficit (37% of GDP in 2017), is also expected to decline in 2019. However, it will not return to its 2016 level, as high oil prices will push up the cost of imports, and the country has not received low-cost oil from Venezuela since 2017. Imports of inputs for the textile industry and for projects related to reconstruction will likewise have an impact. While exports will be helped by trade agreements with the United States, they will remain lower than imports. The current account deficit will nevertheless continue to be lowered by expatriate remittances (30% of GDP in 2017) and grants (5% of GDP in 2017), and will be financed by inward FDI.

A government facing many difficulties

Jovenel Moïse of the Haitian Tel Kale Party, who was elected President in February 2017, is struggling to reduce the country's instability. In addition to clashes between armed gangs, the head of state is having to cope with violent protests from the population. In July 2018, a wave of violence broke out in the country in response to the abolition of fuel subsidies. These events eventually caused the measure, a joint initiative by the government and the IMF, to be abandoned and led to Prime Minister Jack Guy Lafontant's resignation. In addition, in October 2018, anti-corruption demonstrations involving thousands of people were held throughout the country in response to a scandal over the government's misappropriation of Venezuelan aid received through Petro Caribe funds. Given how unhappy people are, the parliamentary elections scheduled for October 2019 will probably not allow the President to reassert his power.

Across the border, relations with the Dominican Republic continue to sour. The repatriation of many Haitian migrants, following the non-renewal in August 2018 of the National Plan for the Regularisation of Foreigners (PNRE), which allowed migrants to obtain a right of temporary residence in the Dominican Republic, has added to the tension between the two countries. This friction could impact trade between the two nations, bearing in mind that the Dominican Republic is one of Haiti's most important trading partners.

HONDURAS

COFACE ASSESSMENTS

COUNTRY RISK	C
BUSINESS CLIMATE	C

POPULATION Millions of persons - 2017	**8.3**
GDP PER CAPITA US Dollar - 2017	**2,766**
CURRENCY Honduras Lempira	**HNL**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	3.8	4.8	3.7	3.7
Inflation (yearly average, %)	2.7	3.9	4.8	4.5
Budget balance* (% GDP)	-0.5	-0.8	-0.9	-0.9
Current account balance (% GDP)	-2.7	-1.7	-3.8	-3.9
Public debt* (% GDP)	39.9	40.3	40.8	41.3

(e): Estimate. (f): Forecast. *Non-financial public sector.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	35%
EURO AREA	30%
EL SALVADOR	7%
GUATEMALA	5%
NICARAGUA	5%

Imports of goods as a % of total

UNITED STATES	40%
GUATEMALA	10%
CHINA	9%
MEXICO	6%
EL SALVADOR	6%

- Special relations with the United States (preferential trade agreements)
- Agricultural, mining and tourism resources
- Discussions with the IMF to renew the aid program

- Dependence on the US economy (exports, FDI and expatriate remittances)
- Dependence on imported fuels and cereals (maize is the staple food)
- High crime and corruption in the context of poverty and drug trafficking
- Significant informal economy: 70% of the working population is affected

RISK ASSESSMENT

An activity driven by demand

Growth is expected to be stable in 2019 compared to 2018, driven by the favourable economic situation in the United States via exports and remittances from expatriate workers. The decline in coffee exports in 2017-2018, linked to poor weather conditions and labour shortages, in a context of low prices, is not expected to continue in 2019: these exports are expected to pick up again, supported by a slight recovery in prices following the drought in Brazil in autumn 2018. In addition, exports of manufactured goods (particularly textiles and electronics) will be dominated by the production of *maquilas*, production areas dedicated to exports, and will be supported by the dynamism of US activity (the United States is the country's main partner).

The construction sector is set to continue benefitting from the government's public infrastructure development plans. The Honduras 2020 plan is expected to stimulate investment in six key sectors (including communication and tourism services, intermediate goods production, and agribusiness), despite slow implementation. However, political uncertainty following the disputed presidential elections in November 2017 will weigh on investor and household confidence.

Private consumption should be boosted by high remittances from the United States linked to the low level of local unemployment, while the consequences of the revocation of the Temporary Protected Status by the Trump administration (50,000 people concerned, low share of Honduran migrants in the United States) by 2020 are still uncertain. Monetary policy will remain accommodative (key rate at 5.5% since 2016), promoting credit growth (+9% in 2017). Inflation is expected to be contained in the central bank's upper target band (4 +/-1%), driven by higher fuel prices.

Healthy fiscal situation and a current account deficit financed by FDI and international donors

The three-year IMF agreement, which expired in December 2017, made it possible to consolidate public spending through the introduction of a fiscal responsibility law, setting a ceiling of 1% of deficit for the non-financial public sector in 2020. New discussions to renew the IMF program since August 2018 are expected to maintain fiscal consolidation targets in 2019. The deficit is expected to remain stable despite the decline in revenues due to the introduction of new tax exemptions for companies and the reduction in customs duties collected under the customs union with Guatemala and El Salvador. Further deficit reductions depend on the continuation of the project to restructure the national electricity (ENEE) and telecommunications companies. In this context, the risk on the debt – which is 60% concessional – remains low.

The trade deficit is expected to grow as imports increase with rising oil prices and increasing demand for intermediate goods in the textile sector. The income balance will be in deficit due to the repatriation of dividends from foreign companies. Remittances from expatriate workers, less dynamic than in the past, will only partially offset these deficits, and the current account balance is expected to fall slightly. It will be financed by loans from international donors and FDI, directed towards the financial, insurance and business services sector, as well as *maquilas*. The lempira is expected to continue on a downward trend, as are all emerging currencies, within the limit of a 7% depreciation against the target set by the central bank.

A still unstable political situation

The November 2017 presidential elections were won by outgoing President Juan Orlando Hernandez (Partido Nacional), with a short lead over opposition candidate Salvador Nasralla (Alianza de Oposición contra la Dictadura). Criticized for its lack of transparency by various international bodies, the electoral process was followed by several weeks of violence as the opposition contested the results despite the official announcement of Hernandez's victory by the Electoral Tribunal. A national dialogue process began in August 2018 under the aegis of the United Nations to try to find a solution to the crisis.

These political uncertainties are compounded by the challenges posed by high poverty (39% of households live in extreme poverty and only 25% benefit from social security), the high level of violence associated with drug trafficking (especially with the maras, armed gangs), as well as corruption (Rosenthal drug money laundering case in 2015) and migrations, limiting the country's development. Regarding diplomatic relations, a step towards greater regional integration has been taken with the establishment of a customs union with Guatemala and El Salvador. A free trade agreement has also been signed with South Korea.

HONG KONG

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	7.4
GDP PER CAPITA US Dollars - 2017	46,080
CURRENCY Hong Kong dollar	HKD

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.2	3.8	3.5	3.0
Inflation (yearly average, %)	2.4	1.5	2.5	2.3
Budget balance (% GDP)	3.3	5.5	3.0	2.5
Current account balance (% GDP)	4.0	4.3	3.5	3.0
Public debt (% GDP)	0.1	0.1	0.1	0.1

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	54%
UNITED STATES	8%
EURO AREA	6%
INDIA	4%
JAPAN	3%

Imports of goods as a % of total

CHINA	45%
TAIWAN	7%
SINGAPORE	6%
JAPAN	6%
SOUTH KOREA	6%

- Open economy
- High-quality infrastructure
- Top-class global financial centre, airlock between China and the rest of the world
- Healthy banking system
- Anchoring of the currency to the US dollar
- Robust institutional quality and judicial system thanks to the “one country, two systems” principle

- Vulnerability to the slowdown of the economy in mainland China
- Mismatch between business cycles in the United States and China, as the HKD is pegged to the USD
- Industry has fully relocated to mainland China
- High exposure to real estate sector and housing unaffordability
- Rising income inequality
- Lack of innovation, both in the financial sector and more broadly

RISK ASSESSMENT

Growth will decelerate in 2019

Growth will remain strong in 2019; but will decelerate slightly owing to external headwinds. The slowdown in the Chinese economy and the global trade war will weaken trade growth: exports represent over 190% of Hong Kong’s GDP, and over 50% of these are re-exports to mainland China. Investment growth might stall on the back of weaker sentiment stemming from uncertainty regarding the trade wars and tighter credit conditions in line with the US FED’s tightening. Hong Kong’s currency board pegs the Hong Kong dollar to the US dollar, and this mandates that the Hong Kong Monetary Authority (HKMA) mirror FED rate hikes. There is a risk that private consumption, which accounts for 68% of GDP, could decelerate as higher rates imply higher debt repayment costs. At the same time, the sector will continue to benefit from better tourism revenues, low inflation, and a tight labour market (unemployment rate stable around 2.5%), which should spur real wage growth. Inflation will remain limited in 2019, even considering strong demand and wage increases, as imported inflation will be reduced with the Chinese renminbi’s depreciation. Rent price pressure should also decrease. Higher interest rates could translate into sluggish housing prices, which may also drag on consumption through the wealth effect. Chinese tourist numbers (75% of total visitors) will likely decline due to slower economic growth in mainland China and the depreciation of the RMB relative to the HKD.

In addition, Hong Kong port activity, a hub of global trade, is expected to continue to grapple with increasing competition from larger, more cost-effective ports in mainland China. The growth of financial services will remain dynamic.

Solid financial system

The budget balance will remain in surplus in 2019. Moreover, the budgetary situation of the Special Administrative Region (SAR) is solid in view of large reserves, representing above 20 months of expenditure. Even if spending increases slightly following from new infrastructure investments, revenues from land and property sales should remain robust, provided the correction in housing prices is mild – our baseline scenario. Public debt will remain virtually non-existent.

The trade balance will deteriorate slightly as goods imports grow faster than exports. The same trend will be observed in the secondary income balance given the amount of exiting remittances. However, the current account will remain in surplus thanks to the significance of resident and local firms’ foreign income repatriation.

Banks should remain strong, even in case of a steep correction in housing prices, thanks to household debt limits and regular stress tests performed by supervisory authorities. In addition, Hong Kong is a top global initial public offering (IPO) centre, and the connection between the Hong Kong and Mainland Chinese stock exchanges, which enable foreign investors to trade listed securities in Shanghai/Shenzhen and vice versa, further cements the city’s role as a financial hub.

The new head of the executive power embodies continuity

Carrie Lam was elected as Chief Executive by the Electoral College, in which the pro-Chinese camp has a majority. All three candidates were proposed by a committee set up by Beijing. Carrie Lam was elected in 2017 and will remain in power until 2022. The legislative council remains dominated by a pro-Beijing majority that supports the Chief Executive’s policy stance, limiting any potential discontent from China. Her following of the “one country, two systems” principle will entail curtailing of advocacy for greater autonomy, or independence of Hong Kong. In September 2018, a political party was banned for the first time since Hong Kong’s handback in 1997: the Hong Kong National Party, a small pro-independence party. The Chief Executive will pursue another controversial policy goal: bringing the school curriculum closer to China’s “patriotic” model of education. Popular discontent and political tensions have been a source of concern for the city, as the growing influence from mainland China is not favoured by all. The newly opened bridge and train line are good examples: although both infrastructure developments offer economic benefits, they also pose a specific challenge in relation to the location of customs and border controls. To manage discontent, the government will continue to target funds at youth programs and increase the availability of housing. Internationally, the signature of a free-trade agreement with the ASEAN will favour economic relations with other ASEAN countries.

HONG KONG

PAYMENT & DEBT COLLECTION PRACTICES IN HONG KONG

Payment

Bank transfers are one of the most popular payment instruments for international and domestic payments in Hong Kong, thanks to the territory's highly developed banking network.

Standby Letters of Credit also constitute reliable payment methods, as the issuing bank guarantees the debtor's credit rating and repayment abilities. Irrevocable and confirmed documentary letters of credit are also widely used, as the debtor guarantees that a certain sum of funds will be made available to the beneficiary via a bank, once specific terms agreed by the parties are met.

Cheques and bills of exchange are also frequently used in Hong Kong.

Debt Collection

Amicable phase

During the amicable phase, the creditor sends one or more notice letters (summons) to the debtor, in an attempt to persuade them to pay the due debts.

The Practice Directions on Mediation, introduced in 2010, set out voluntary processes that involve trained and impartial third party mediators. This helps both parties involved in a dispute to reach an amicable agreement for repayment. Debtors and creditors are usually urged to pursue this process before resorting to legal action.

Legal proceedings

Ordinary proceedings

The judicial system in Hong Kong comprises three distinct courts:

- the Small Claims Tribunal handles relatively small cases (of up to HKD 50,000 in a fast and efficient manner. The rules of procedure are less strict than in those of other types of courts and no legal representation is permitted;
- the District Court has jurisdiction over more substantial financial claims, ranging from HKD 51,000 to HKD 1,000,000;
- the High Court deals with much larger legal disputes and is additionally charged with handling claims of over HKD 1,000,000.

Hong Kong's District court and High Court allow legal representation. Cases in these courts are initiated by issuing a Writ of Summons to the debtor, who then has 14 days to file a defence. The creditor is also required to file a notarised Statement of Claim. If the debtor responds to the Writ and requests a payment plan, the creditor has two weeks to reply. If the parties find it impossible to enter into an agreement, a hearing will be called for by the judge, during which a judgment is normally made. If the debtor does not respond, a default judgment can be rendered.

Enforcement of a Legal Decision

A domestic judgment is enforceable once it becomes final (if no appeal is lodged within 28 days). If the debtor fails to comply with the judgment, the creditor can request an enforcement order from the court. This usually entails either a garnishee order (allowing the creditor to obtain payment of the debt from a third party which owes money to the debtor), a *Fieri Facias* order (which enables a bailiff to seize and sell the debtor's tradable goods), or a charging order (for seizing and selling the debtor's property to satisfy the debt).

Foreign judgments are enforced under the Foreign Judgments (Reciprocal Enforcement) Ordinance. Decisions issued in a country with which Hong Kong has signed a reciprocal treaty (such as France or Malaysia) only need to be registered and then become automatically enforceable. Where no such treaty is in place with a country, enforcement can be requested before the court, via an *exequatur* procedure.

An Arrangement on Reciprocal Recognition and Enforcement of judgments in Civil and Commercial Matters (REJA) was concluded with the People's Republic of China in 2006. This makes judgments rendered in Mainland China or in Hong Kong automatically enforceable by the courts of the other contracting party.

Insolvency Proceedings

The only formal insolvency procedure under the Companies Ordinance Act is liquidation.

Out-of court proceedings

The law does not provide for formal procedures for restructuring company debts. Restructuring proceedings therefore need to take place through informal "workouts" or a scheme of Arrangement.

A workout is an out-of-court agreement made between a debtor company and its major creditors for the rescheduling of its debts. This proceeding can be initiated at any time. Restructuring plans are usually recommended by a committee which is chaired by a lead creditor. The courts are not involved and the process is entirely voluntary. Once a plan has been agreed, the company continues to operate and is managed under the terms of the arrangement. This procedure does not provide legal protection from creditors.

A scheme of Arrangement is a statutory, binding compromise reached between a debtor and its creditors. It must be accepted by all classes of creditors. A court reviews the plan, before sanctioning the convening of separate meetings with creditors. The scheme must be approved by the court, at least 50% of creditors in terms of number and 75% of creditors in terms of value of debts. An administrator is appointed to implement the scheme.

Liquidation

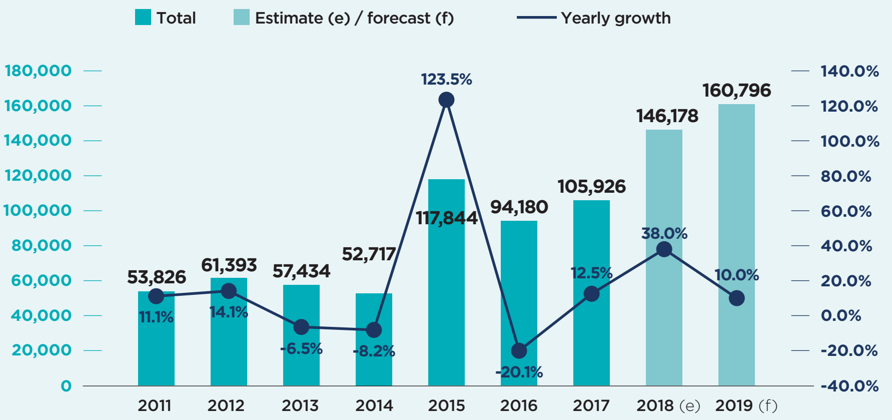
Liquidation can be voluntary or compulsory. It involves selling the debtors' assets in order to redistribute the proceeds to creditors and dissolve the company. Voluntary liquidation can be either a member's voluntary liquidation (MVL), or a creditors' voluntary liquidation (CVL). In both cases, company directors lose control and a court-supervised liquidator is appointed.

Creditors can initiate a compulsory liquidation by filing a winding-up petition with the courts on the grounds of insolvency. An MVL is a solvent liquidation process whereby all creditors are to be paid in full and any surplus distributed among the company's shareholders. CVLs are insolvent liquidations.

Regulatory Update on Insolvency regime

The Hong Kong Government Gazette's Companies (Winding Up and Miscellaneous Provisions) Ordinance 2016 ("Amendment Ordinance") entered into force on February 13, 2017. These updates have been introduced in order to increase protection for creditors and to streamline and improve regulations under Hong Kong's corporate winding-up regime.

NUMBER OF CORPORATE INSOLVENCIES



Source: Census and Statistics Department - Hong Kong, Coface.

HUNGARY

COFACE ASSESSMENTS

COUNTRY RISK	A3
BUSINESS CLIMATE	A3

POPULATION Millions of persons - 2017	**9.8**
GDP PER CAPITA US Dollars - 2017	**14,209**
CURRENCY Hungarian forint	**HUF**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	2.2	4.0	4.0	3.3
Inflation (yearly average, %)	0.4	2.4	2.8	3.3
Budget balance (% GDP)	-1.7	-2.0	-2.4	-2.1
Current account balance (% GDP)	6.1	2.9	1.5	1.3
Public debt (% GDP)	76.0	73.6	73.3	71.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	28%
ROMANIA	5%
ITALY	5%
AUSTRIA	5%
SLOVAKIA	5%

Imports of goods as a % of total

GERMANY	26%
AUSTRIA	6%
CHINA	6%
POLAND	5%
SLOVAKIA	5%

- Diversified economy
- High quality infrastructures thanks to European funds
- Integrated within the European production chain
- Trained workforce
- Low corporate taxation
- Generally positive payment behaviour

- Ageing population, low birth rate
- Regional disparities; lack of mobility
- Deficiencies in vocational education
- Poor levels of innovation and R&D
- Limited room for manoeuvre in terms of budget
- High debt level of companies (although falling)
- Fragility of the banking sector (public and private)

RISK ASSESSMENT

Investment and consumption drive growth

Growth is expected to slow slightly in 2019 after solid expansion in both 2017 and 2018. Domestic demand remains the main driving force of the economy, household consumption increasing as a result of rising employment and wage growth (including significant wage increases in the public sector). The unemployment rate reached 3.8% in August 2018 – one of the lowest levels in the EU and well below its average of 6.7%. A further slight decrease of unemployment is expected, although a lack of available labour will reduce employment growth. Labour shortages have become a significant obstacle for companies, limiting their capacity to expand and driving wages higher. Despite the good situation on the labour market perceived by households, private consumption will accelerate at a slower rate, as the large public sector wage increase will fade out and a further increase is unlikely.

Economic growth has also benefited from rebounding investments, thanks notably to a surge in public projects. Facing high capacity utilisation, the private sector will likely be willing to conduct investments. Within this regard, the FDI inflow and EU structural funds are strong drivers of investment. On the other hand, SME investments are rather lacklustre, in large part due to labour shortages and the uncertainty of continuing solid demand.

Since 2017, companies in Hungary have benefited from a 9% corporate tax rate – the lowest in Europe. This measure mainly covers mid-sized Hungarian and foreign-owned companies with more than €2 million in revenue. Effective tax rates for large foreign multinationals in Hungary, especially German carmakers, had already been heavily reduced by subsidies and tax concessions. Hungary's main exports are machinery products, vehicles and pharmaceuticals. Exports are supported by the weakening yet still relatively favourable perspectives of the country's main trade partners, and the large share of the automotive industry in total exports is expected to strengthen thanks to further improvements in manufacturing capacity and new investments.

Budget deficit expected to drop

The general government deficit increased in 2018 as a result of tax cuts and a further increase of expenditure ahead of the April 2018 parliamentary elections. The reduction in the employers' social contribution rate mitigated the impact of growing wages for companies. In 2019, the budget will not be burdened by further expenditure growth and the deficit is expected to decrease. Its level is subject to the inflow of funds from the EU, which are predominantly used to co-finance infrastructure building projects. Spending on such investments could be reduced due to both delays in implementation and construction capacity constraints. Nevertheless, the final level could also go higher if the implementation is extremely efficient.

Hungary's current account surplus reached 2.9% of GDP at the end of 2017. It has been used to increase both foreign currency reserves and investments abroad.

Fidesz remains in power

Prime Minister Viktor Orbán and his conservative Fidesz-Hungarian Civic Union (Fidesz) party were re-elected for a third four-year term in the April 2018 elections. After a nationalist anti-immigrant campaign in opposition to the EU on the dispersal of migrants, Fidesz obtained a landslide victory with two thirds of the seats in Parliament. The election was marked by an exceptionally high turnout: 68%, the highest since 1994. This absolute majority in Parliament allows the government to push through key legislation without needing cross-party agreement, and increases its control over state institutions. A number of sectorial taxes, which were criticized by the European Commission for mainly targeting foreign-owned operators, are likely to remain in place. These include an advertising tax on media, a retail tax, and a tax on energy sector entities if they do not invest in Hungary. In this context, relations with the European Commission will likely remain tense. Moreover, the European Parliament had already voted in September 2018 to initiate disciplinary action against Hungary over alleged breaches of the EU's core values, including the rule of law, freedom of the media and NGOs, and an insufficient fight again corruption. The suspension of Hungary's voting rights would be the next punitive measure, but this is highly unlikely as it requires a unanimous decision from the European Council.

HUNGARY

PAYMENT & DEBT COLLECTION PRACTICES IN HUNGARY

Payment

Bills of exchange and cheques are not commonly used since their validity depends on compliance with several formal issuing requirements. Nevertheless, both forms of payment, when dishonoured or duly protested, allow creditors recourse to a summary procedure to obtain an injunction to pay.

The promissory note "in blanco" (*üres átruházás*, a blank promissory note) – which constitute an incomplete payment deed when issued – is not widely used in Hungary. This is because it qualifies as a negotiable document (securities), which may be transferred by endorsement plus transfer of possession of the document (subsequent to a blank endorsement, only delivery is needed).

Bank transfers are by far the most common payment method. After successive phases of privatisation and concentration, the main Hungarian banks are now connected to the SWIFT network, which provides low cost, flexible, and speedy processing of domestic and international payments. Furthermore, SEPA transfers are also a popular mean of payment because of the developing banking network.

Debt Collection

Amicable phase

Where possible, it is advisable to avoid taking legal action locally due to the formalism of legal procedures and rather lengthy court proceedings: it takes one to two years to obtain a writ of execution. It is advisable to seek an amicable settlement based on a payment schedule drawn up by a public notary, who includes an enforcement clause that allows creditors, in case of default by the debtor, to proceed directly to the enforcement stage; subject to acknowledgement by the court of the payment agreement's binding nature.

Since 2014, interest is due from the day after the payment date stipulated in the commercial contract and, unless otherwise agreed by the parties, the applicable rate will be the base rate of the issuer in force on the first day of the reference half-year period, plus 8%. From 2009, considering trade companies, a mediation to solve an out-of-court settlement must be held by the parties prior to commencing legal proceedings.

Injunction of payment and European Injunction of Payment

When in possession of a due and payable debt instrument (acknowledgement of debt, unpaid bill of exchange, dishonoured cheque, etc.), creditors may obtain an injunction to pay (fizetési meghagyás), using a pre-printed form. This more efficient and less expensive summary procedure now allows the notary – if he considers the petition justified – to grant an injunction, without hearing the defendant. The defendant is then instructed to pay both the principal and legal costs within fifteen days of the serving of the ruling (or within three days for an unpaid bill of exchange).

When the debtor has assets in other European Union (EU) member states, a European Payment Order procedure facilitating the recovery of undisputed debts may be triggered. This type of legal action has become mandatory for all claims between HUF 3 million and HUG 30 million (about €9.50-95.000) and is conducted digitally from beginning to end as of 2010. As a result, ordinary proceedings cannot be started if the claim is purely monetary and inferior to this €9.500 limit.

Since 2010, the injunction to pay is carried out by public notaries in order to reduce the workload of the courts. Although not mandatory, the presence of a lawyer is advisable for this type of procedure.

If the creditor has no Hungarian address, this procedure is not available.

Legal proceedings

<u>Ordinary proceedings</u>

In case of objection by the debtor, or if there is no Hungarian address, or if the claim is more than €95,000, the case is treated as a dispute and transferred to ordinary court proceedings. The parties will then be summoned to one or more hearings to plead their respective cases. Ordinary proceedings are partly in writing – with the parties or their attorneys filing submissions accompanied by all supporting case documents (original or certified copies) – and partly oral, with the litigants and their witnesses presenting their cases during the main hearing.

As of 2011, cases exceeding a value of HUF 400 million (approximately €1.6 million) must be swiftly handled by the courts *via* shortened legal processes. At any stage of such proceedings and where possible, the judge may attempt to achieve conciliation between the opponents.

It is relatively common practice to immediately issue a winding up petition against the debtor so as to prompt a speedier reaction or payment. This practice was sanctioned by the 2007 amendment to the Hungarian bankruptcy law, which authorised creditors to issue a winding up petition against a debtor only in they received no response nor payment from the debtor within 20 days of sending a formal notice. In practice, however, it is simple to request the liquidation of a debtor, and creditors regularly use this as a tool in the negotiation process.

Commercial disputes are heard either by the district courts (*járásbíróság*), set up in commercial chambers, or by legal tribunals (*törvényszék*), depending on the size of the claim. Payment claims up to HUF 30 million belong to district courts on first instance; above this rate, regional courts are the first instance for these cases. Insolvency procedures and enforcement belong to regional courts at first instance by default.

Enforcement of a Legal Decision

When all appeal venues have been exhausted, a domestic judgment becomes enforceable. It the debtor fails to satisfy the judgment, the creditor can either request an enforcement order from the court, or for a specific performance (payment) through a bailiff, who will implement the different measures necessary to enforce compliance (from seizure of bank accounts to foreclosing real estate).

Regarding foreign decisions, those rendered in an EU country will benefit from special enforcement conditions such as the European Enforcement Order when the claim is undisputed. Nevertheless, for decisions rendered in a non-EU country, Hungarian law provides for a reciprocity principle: the issuing country must be part of a bilateral or multilateral agreement with Hungary.

Insolvency Proceedings

Out-of-court proceedings

Even though Hungarian law does not provide formal out-of-court proceedings, private and informal negotiations are held between creditors and debtors in order to avoid judicial insolvency proceedings. This constitutes a practical approach in order to avoid liquidation. If an agreement is reached, they can request the suspension of a judicial proceeding until the agreement is respected.

Restructuring the debt

Under Hungarian law, restructuring is not formally regulated, even though the Hungarian Bankruptcy Act regulates all insolvency processes, including specific deadlines, legal requirements, and rights and obligations for participants. Instead, both bankruptcy and liquidation proceedings offer a debtor company a chance of survival by restructuring its debt in a composition agreement in a ninety-day stay. It is extremely rare to conclude a liquidation process with a surviving company, as the aim of the proceedings is by nature not one of restructuring.

From this point onwards, the acts of the debtor are overseen by an administrator. The reorganization agreement must be validated by a majority of creditors and the court must also approve the plan. If a compromise is not reached, the court will terminate the proceedings and declare the debtor insolvent.

Liquidation

Proceedings may be initiated upon demand of either the debtor or the creditor, and a liquidator is subsequently appointed. Creditors must lodge their claim and pay the fees within 40 days of the commencement of the proceedings in order to be listed in the table of creditors and consequently receive a part of the proceeds. The liquidator will then assess the debtor's economic situation together with the claims, and then provide the court with recommendations on how the assets should be distributed. All insolvency procedures are validated by court, but there are very few checks in place that prevent creditors from liquidating their companies, which makes it a very easy and common practice for failed businesses, hence the relatively high number of insolvencies in Hungary.

ICELAND

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	0.3
GDP PER CAPITA US Dollars - 2017	70,248
CURRENCY Couronne islandaise	ISK

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	7.4	4.0	4.1	2.8
Inflation (yearly average, %)	1.7	1.8	2.7	3.2
Budget balance (% GDP)	12.3	0.0	1.0	1.0
Current account balance (% GDP)	7.5	3.4	2.6	1.0
Public debt (% GDP)	51.7	42.0	39.0	36.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	27%
EURO AREA	16%
INDIA	16%
SOUTH KOREA	11%
TURKEY	11%

Imports of goods as a % of total

UNITED ARAB EMIRATES	28%
EURO AREA	13%
CHINA	13%
TURKEY	5%
SOUTH KOREA	4%

- Labour market supported by positive demographics and excellent training
- Very high per capita income
- Abundant renewable energy (geothermal, hydropower)
- Strong tourism potential

- Volcanic risk
- Small and very open economy; constraint monetary policy
- Volatile activity linked to dependence on tourist inflows: erratic failures concentrated in construction, trade and accommodation
- Lack of tourist infrastructure outside the capital
- Concentration of production and exports (aluminium and seafood products)
- Wage growth higher than productivity growth

RISK ASSESSMENT

Cooling growth

Although growth will remain strong, activity is expected to slow significantly in 2019. The slowdown will come mainly from exports (50% of GDP). Tourism revenues (40% of exports) will likely increase moderately in line with capacity saturation, high service prices, and sluggish European demand. Moreover, even if international fish prices continue to rise, the related exports are likely to be affected by falling catches and a review of quotas following Brexit. The third key component of exports, aluminium, may see both prices (impact of US tariff measures) and production stagnate, even as the price of alumina (the imported raw material) increases further. At the same time, imports will continue to be supported by brisk domestic demand, ultimately causing trade to make a largely negative contribution to growth. Household consumption is expected to continue to surge, driven again by robust wage growth. Unemployment will be limited to 3%, despite the slowdown in tourism, which employs one third of the workforce directly or indirectly. The employment rate will remain high (79%), despite the arrival of foreign workers, particularly from Poland. Over the past four years, household purchasing power has increased by 25%. It is expected to continue to rise significantly, despite the inflationary pick-up linked to the impact of krona depreciation (in the second half of 2018) on the price of imported products, as well as wage increases above productivity growth. Inflationary pressures are expected to ease during the year with moderate growth, particularly in tourism, the increase in the key interest rate from 4.5% in November 2018 to 5%-6% at the end of 2019, which will take pressure off the krona, and the sharp slowdown in housing prices. Finally, while business investment seems to have peaked, construction – both public and private in housing, hotels and roads – will remain vibrant owing to undercapacity in these sectors. In addition, private sector debt went from representing 350% of GDP in 2009 to 160% by 2016 (roughly evenly distributed between companies and households, almost entirely in krona) and has remained at that level ever since.

Small public and current account surpluses

The small government surplus is expected to continue in 2019. Excluding debt interest, the surplus could exceed 3% of GDP. However, this performance needs to be set against the high level of economic activity, with the budget balance turning out to be mildly negative when adjusted for the economic cycle and excluding interest. Increased tax revenues resulting from the favourable economic situation will continue to be put towards improving public services and reducing debt. The additional revenues will be used to finance infrastructure projects (hospitals, retirement homes, roads, ports, etc.), as well as increased social transfers for young parents and housing. The government should also continue its environmental efforts with measures to protect natural sites and increase the tax on CO_2 emissions.

The current account surplus is expected to shrink further in 2019, echoing the trade surplus, which is set to decline from 3.6% to 1.8% of GDP as imports considerably outpace exports. However, the tourism-related services surplus will continue to exceed the goods deficit. The income balance shows a small deficit, with remittances from foreign workers still limited and investment income abroad equalled by that of foreign investors. Although the last remaining restrictions on capital movements were lifted in March 2017, these flows, as recorded in the financial account (FDI, portfolio), remain small. Moreover, in the first half of 2018, capital outflows outweighed inflows, reflecting pension fund investments abroad and the narrower real yield spread. Foreign investments other than direct investments are subject to a special reserve requirement whereby 20% of the investment amount must be held in a non-interest bearing account with the central bank for one year. Foreign exchange reserves are not expected to change much and represent about seven months of imports. External debt (82% of GDP as at June 2018, with 47% of the total debt owed by companies (60% under intra-group loans), 40% by the financial system and 12% by the government) will continue to decline.

A patchwork coalition with a narrow majority

Following a new round of early elections in October 2017, the political scene is even more fragmented, with eight parties in Parliament. Prime Minister Katrín Jakobsdóttir leads a patchwork coalition government composed of her own left-leaning Green Party (11 seats out of 63), the centre-right Independence Party (16 seats) and the centrist Progress Party (8 seats). Strategic ministries have been assigned to the last two parties. Despite having a small majority (35 seats out of 63), the coalition has managed, thanks to the consensus on fiscal policy, to hold out longer than the previous three governments, which survived for less than a year.

INDIA

COFACE ASSESSMENTS

COUNTRY RISK	B
BUSINESS CLIMATE	B

POPULATION Millions of persons - 2017	1,316.9
GDP PER CAPITA US Dollars - 2017	1,976
CURRENCY Indian rupee	INR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	6.9	7.1	7.3	7.5
Inflation (yearly average, %)	5.5	3.3	5.0	5.2
Budget balance (% GDP)	-6.7	-0.9	-3.2	-3.0
Current account balance (% GDP)	-0.5	-1.5	-1.0	-1.3
Public debt (% GDP)	69.5	71.0	70.0	69.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	16%
EURO AREA	13%
UNITED ARAB EMIRATES	10%
HONG KONG	5%
CHINA	4%

Imports of goods as a % of total

CHINA	16%
EURO AREA	8%
UNITED STATES	5%
UNITED ARAB EMIRATES	5%
SAUDI ARABIA	5%

+

- Diversified growth drivers
- High levels of savings and investment
- Efficient private sector; notably services
- Moderate level of external debt; comfortable foreign exchange reserves

-

- High corporate debt and non-performing assets (NPA)
- Net importer of energy resources
- Lack of adequate infrastructure
- Weak public finances
- Bureaucratic red tape
- Uncertainties over the Kashmir issue

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	MEDIUM
CONSTRUCTION	HIGH
ENERGY	HIGH
ICT*	VERY HIGH
METALS	HIGH
PAPER	MEDIUM
PHARMACEUTICAL	LOW
RETAIL	HIGH
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Growth is expected to rebound from a low base

Real GDP growth will likely improve during the 2018/19 financial year, albeit from a low base. Activity was supported by strong domestic consumption (60% of GDP), after a slowdown in previous years due to demonetisation (withdrawal of the 500 and 1,000 rupee notes), and the introduction of a harmonised goods and services tax (GST). Household consumption continues to struggle from the residual impact of these measures, as their influence over the informal sector – although difficult to quantify – remains significant. However, improved financial integration of the poorest households should support demand in the long term. Inflation is set to reach 5.3% by the end of FY 2018/19 and is expected to stay stable in 2019, thanks to subdued core inflation. Food prices benefited from normal monsoon rains. This will allow the Reserve Bank of India (RBI) to pause monetary policy tightening through the first half of 2019, after hiking rates by 75 bps in 2018. Both factors should be supportive of growth, leading to a slight pickup in FY 2019/20.

The Modi government's reforms – aimed at boosting India's manufacturing sector, attracting FDI, and reducing constraints burdening the economy – should benefit the private sector in the long-run. However, some major headwinds emerged in 2018. Non-performing assets (NPAs) in the banking system are at an all-time high of 12%, which has hindered domestic companies' willingness to borrow money and invest, leading to sluggish private investment. Banks also remain cautious following a series of banking scandals in 2017 and 2018. Reforms aimed at cleaning up the banking system have been put into place, but dealing with NPAs will take time. Moreover, RBI could resume tightening in the second half of 2019, which will lead to higher borrowing costs, exerting further downside pressure on private investment.

Public finances to struggle amid headwinds

The fiscal deficit and public debt levels remain high. The most notable attempt at reducing these was the introduction of the GST, which aims to boost fiscal revenues and make the economy more competitive in the long term. In addition, demonetisation should improve budget revenues by reducing the weight of the informal economy. Nevertheless, fiscal consolidation efforts will be hindered by higher energy prices, as India remains a net importer of oil and subsidises this commodity. Public investment might help to offset the decline of private investment ahead of the elections in 2019, but this will also contribute to a widening of the fiscal deficit.

The current account deficit is also expected to increase. Export growth is set to slow, in line with a slowdown in global demand. Faster import growth will also play a role, with domestic consumption remaining strong, while oil prices will stabilise but remain higher than levels of the past years. Rising demand for gold after demonetisation will also play a role. For these reasons, it is expected that the rupee will continue to experience depreciatory pressure in 2019, while remaining vulnerable to a rise in global risk aversion and a faster-than-expected rate of monetary policy tightening in the United States. At the same time, foreign exchange reserves are set to remain at comfortable levels (nine months of imports in September 2018), and FDI and foreign portfolio investments are on an upward trend.

National Democratic Alliance faces some challenges

India's ruling coalition, the National Democratic Alliance (NDA), is an alliance of several parties, of which the Bharatiya Janata Party (BJP) – the party of Prime Minister Narendra Modi – is the most important. The BJP has suffered setbacks recently, such as losing its simple majority in the lower house of Indian parliament in by-elections on May 2018. Although BJP still rules 18 out of 29 Indian states, it lost support in the 2018 state elections (Vidhan Sabhas), which does not bode well for the party ahead of the 17th Lok Sabha, or general election, scheduled to take place in April or May 2019.

Kashmir remains a source of tensions between India and Pakistan. Diplomatic talks were suspended after an attack on an Indian base in Punjab on January 2016, and relations between the two countries have deteriorated since. New tensions emerged after the Indian army shot the leader of the main insurgent movement, Sabzar Ahled Bhat, in Kashmir in May 2017. Further escalation of violence is unlikely as Pakistan and India both have an interest in preserving the status quo.

PAYMENT & DEBT COLLECTION PRACTICES IN INDIA

Payment

Due to the increasingly developed banking network in India, SWIFT bank transfers are becoming more popular for both international and domestic transactions.

Standby Letters of Credit constitute a reliable means of payment, as a bank guarantees the debtor's credit quality and repayment abilities. Confirmed Documentary Letters of Credit are also recognised, although these can be more expensive, as the debtor guarantees that a certain amount of money is available to the beneficiary *via* a bank.

Post-dated cheques, a valid method of payment, also act as a debt recognition title. They allow for the initiation of legal and insolvency proceedings in cases of outstanding payments.

Debt Collection

Amicable phase

The practice of amicably settling trade receivables has proven to be one of the most productive solutions, as it allows the parties involved to deal with the underlying issues of the settlement in a more efficient and cost-effective manner. Average payment collection periods vary between 30 to 90 days following the establishment of contact with the debtor. Local working practices mean that debtors pay directly to the creditor, rather than to a collection agency. Indian law does not regulates late payments, or provide for a legal enforceable late payment interest rates. In practice, debtors do not pay interest on overdue amounts.

Major issues in the country currently mean that debtors are facing huge financial difficulties. The situation has deteriorated since demonetisation in November 2016 and the introduction of the GST unified tax structure (the Goods & Service Tax), in July 2017. The other main reason for payment delays is the complexity of payment procedures and approvals by banks for the restructuring plans of major players in the manufacturing sector. India is faced with a severe problem of bad loans and most of them have been declared as NPAs by the banks. This deteriorating asset quality has hit the profitability of banks and eroded their capital, thereby curbing their ability to grant much-needed loans to industries for their restructuring and revitalisation.

Legal proceedings

Indian companies have a preference for amicable recovery methods, as the country's judicial system is both expensive and slow. There is no fixed period for court cases, while the average length is from two to four years. The statute of limitations is three years from the due date of an invoice. The statute of limitations can be extended for an additional three years, if the debtor acknowledges the debt in writing or makes partial payment of the debt.

Legal proceedings are recommended after the amicable phase, if debtor is still operating and in good financial health, is wilfully resisting payment, disputing the claim for insignificant reasons, not honouring payment plans or not providing documentary evidence.

Type of proceedings

Arbitration: arbitration can be initiated if mentioned in the sales contract - otherwise the case can be sent to the National Company Law Tribunal (the NCLT) for registered companies.

Recovery Suits: recovery suits tend to become a long, drawn-out battle and are usually regarded as best avoided.

National Company Law Tribunal: the NCLT was created on June 1, 2016. It has jurisdiction over all aspects of company law concerning registered companies. Its advantages are that it can hear all company affairs in one centralised location and that it offers speedy processes (taking a maximum of 180 days). It also reduces the work load of the High Courts. The NCLT recently enacted a new Insolvency and Bankruptcy Code. Decisions of the NCLT may be appealed to the National Company Law Appellate Tribunal (NCLAT). The NCLAT acts as the appellate forum and hears all appeals from the NCLT. Appeals from the NCLAT are heard by the Supreme Court of India.

Enforcement of a Legal Decision

A local judgment can be enforced either by the court that passed it, or by the court to which it is sent for execution (usually where the defendant resides or has property). Common methods of enforcement include delivery, attachment or sale of property, and appointing a receiver. Less common methods include arrest and detention in prison for a period not exceeding three months.

India is not party to any international conventions governing the recognition and enforcement of foreign judgments. However, the Indian government has entered into 11 reciprocal arrangements, and judgments from the courts of these reciprocating countries can be executed in India in the same way as local judgments. For judgments from non-reciprocating territories, a suit must be brought in India based on the foreign judgment before it can be enforced.

Insolvency proceedings

The Insolvency and Bankruptcy Code, introduced in 2016, proposes two independent stages:

Insolvency resolution process (IRP)

The IRP provides a collective mechanism for creditors to deal with distressed debtors. A financial creditor (for a financial debt), or an operational creditor (for an unpaid operational debt) can initiate an IRP against a debtor at the National Company Law Tribunal (NCLT). The Court appoints a Resolution professional to administer the IRP. The Resolution professional takes over the management of the corporate debtor and continues to operate its business. It identifies the financial creditors and holds a creditors committee. Operational creditors above a certain threshold are also allowed to attend meetings, but they do not have voting power. Each decision requires a 75% majority vote. The committee considers proposals for the revival of the debtor and must decide whether to proceed with a revival plan, or to liquidate, within 180 days.

Liquidation

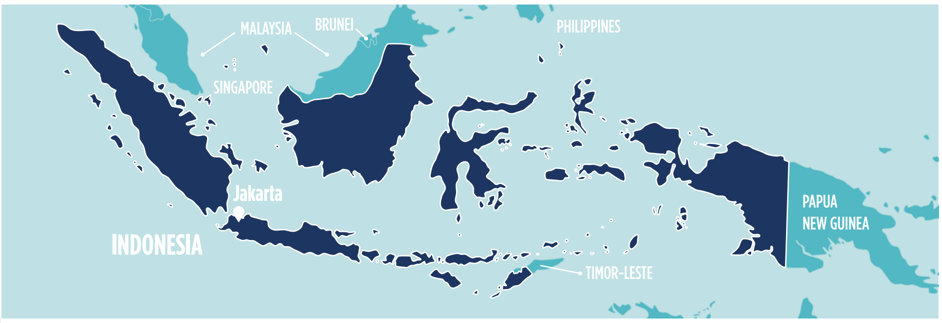
A debtor may be put into liquidation if a 75% majority of the creditors' committee resolves to liquidate it during the IRP, if the committee does not approve a resolution plan within 180 days, or if the NCLT rejects the resolution plan submitted on technical grounds. Upon liquidation, secured creditors can choose to realise their securities and receive proceeds from the sale of the secured assets as a priority.

Under the current Insolvency and Bankruptcy Code, the highest priority is given to insolvency resolution process and liquidation costs. Thereafter, proceeds are then allocated to employee compensation and secured creditors, followed by unsecured and government dues.

INDONESIA

COFACE ASSESSMENTS

COUNTRY RISK	A4
BUSINESS CLIMATE	A4



POPULATION Millions of persons - 2017	262.0
GDP PER CAPITA US Dollars - 2017	3,876
CURRENCY Indonesian rupiah	IDR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	5.0	5.1	5.3	5.4
Inflation (yearly average, %)	3.5	3.8	3.5	3.8
Budget balance (% GDP)	-2.5	-1.7	-2.5	-2.7
Current account balance (% GDP)	-1.8	-1.7	-2.3	-2.1
Public debt (% GDP)	27.9	28.8	30.0	30.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	14%
UNITED STATES	11%
JAPAN	11%
INDIA	8%
EURO AREA	8%

Imports of goods as a % of total

CHINA	21%
SINGAPORE	11%
JAPAN	9%
EURO AREA	6%
MALAYSIA	6%

- Diverse natural resources (agriculture, energy, mining)
- Highly competitive thanks to low labour costs
- Growing tourism industry (5.8% of GDP)
- Huge internal market
- Strong banking sector
- Sovereign bonds rated "Investment Grade" by the three main rating agencies

- Large infrastructure investment gap
- Exports of commodities dependent on Chinese demand
- Market fragmentation: extensive archipelago with numerous islands and diverse ethnic groups
- High unemployment and poverty rates sharpening inter-ethnic tensions
- Persistent corruption and lack of transparency

RISK ASSESSMENT

Growth buoyed by internal demand

Growth will remain strong in 2019, driven mostly by private consumption (56% of GDP). Consumption is fostered by population growth, ever growing urbanisation, and a rise in *per capita* GDP, enabling the emergence of a middle class. In 2019, the adverse effects of high inflation on consumption should be mitigated by measures to keep food and energy prices in check, and public spending associated with the election campaigns. Inflation growth stems from higher oil prices, a weaker rupiah, and impacts from natural disasters. It is nonetheless expected to remain within Bank Indonesia (BI)'s target range (4±1%). Private investment will be deterred by rising interest rates combined with worsening investor sentiment, stemming from global protectionism and slower demand from China. Investment growth (32% of GDP) shall nonetheless hold steady thanks to government support for infrastructure projects. Through the infrastructure development program launched by President Joko Widowo's government in 2016 (225 priority infrastructure projects), projects are financed both publically and *via* PPP, attracting foreign investors. Moreover, the President's reform agenda successfully improved the still poor business climate, with Indonesia jumping 33 places in the Doing Business Index since 2016 to reach the 73rd rank in 2019. However, reforms are not complete and some projects have struggled to secure financing (only 26 of 225 were completed as of March 2018 and half of the required USD 327 billion had been collected). The mining sector will contribute positively to growth thanks to the pick-up in crude oil prices after several years of stalling performance. Manufacturing will continue to grow steadily, albeit less vigorously due to dimmer Chinese and global demand. Moreover, exports (23.4% of GDP) of manufactured goods and commodities (oil and gas, palm oil, copra, lignite, and copper) are dynamic, but they are offset by a faster increase in imports. The tourism sector will continue to underperform due to the lack of infrastructure in most regions of the country.

Budget balance under control, moderate pressure on current account, and capital outflow risk

The budget deficit is constrained by a constitutional limit of 3%. The government has embarked on reforms meant to increase tax collection, repatriate capital kept in foreign accounts (including tax havens), and control expenditure. These will compensate the increase in spending associated with the coming elections, with the control of fuel prices, and with reconstruction efforts in the aftermath of the 2018 tsunami – although spending cuts could be announced after the elections in April 2019. Curtailing of the deficit will maintain public debt at low levels. Nevertheless, the government may encounter financing challenges in a context of global monetary policy normalisation associated with higher interest rates and lower liquidity.

The current account deficit will remain high. The higher oil bill will not be compensated by the increased price of exported crude oil and gas. In addition, capital goods import growth, linked to the government's investment program, will be not compensated by the steady growth of merchandise exports. To mitigate the trade deficit, the government will continue to curb import growth *via* import permits or import centralisation. All in all, the main cause of the current account deficit will continue to lie in the income account because of debt interest payments and the repatriation of dividends. In addition, the context of global monetary tightening induces risk of outflows, as, over the past few years, the current account deficit was financed by FDI inflows and portfolio investments, and public debt was largely funded by international investors. Moreover, the deterioration of the external position further strengthens depreciation pressures on the rupiah. In this context, and although inflation is contained, BI will continue to hike interest rates in 2019 to defend the currency and limit outflows. Although foreign reserves remain at an adequate level, they will be reduced by BI intervention on forex markets.

Popular Joko Widowo on track to secure the presidential election

In power since 2014, Joko "Jokowi" Widowo enjoys great popularity thanks to the economic progress achieved, his extensive infrastructure program, and his reform agenda. Polls present him as frontrunner for the April 2019 presidential elections. For the first time, these elections are concurrent with those of Parliament, which should ensure more collaboration in reforms for the next mandate. All the same, Mr Jokowi will have to contend with a growingly polarised electorate. A climate of civil insecurity, following several suicide bomb attacks in 2018, is certainly not helping. Meanwhile, measures to keep food prices in check are not resonating well with the rural population, many of which are dependent on revenues from the sale of agricultural crops. This part of the electorate is in fact already tilting towards the opposition candidate, Prabowo Subianto (Gerindra Party), a businessman and former commander of Indonesia Special Forces. Previously a contender in 2014, he is supported by ultra-conservative Muslims.

PAYMENT & DEBT COLLECTION PRACTICES IN INDONESIA

Payment

Cash, cheques, and bank transfers are each popular means of payment in Indonesia. SWIFT bank transfers are becoming more popular as an instrument of payment for both international and domestic transactions due to the well-developed banking network in Indonesia.

Standby Letters of Credit constitute a reliable means of payment because a bank guarantees the debtor's quality and repayment abilities. Furthermore, the Confirmed Documentary Letters of Credit are also considered reliable, as a certain amount of money is made available to a beneficiary through a bank.

Debt Collection

Amicable phase

The first step to recovering a debt is to negotiate the issue with the *debtor* to attempt to resolve the issue amicably. There is an inherent Indonesian culture and ideology (*Pancasila*) where amicable settlement is encouraged. Creditors usually issue a summon/warning letter to the debtor, which outlines a statement concerning the debtor's breach of commitment. The letter also calls for a discussion to determine whether the dispute should be settled through the court system. If the amicable phrase does not result in a settlement, the parties may trigger legal action.

Legal proceedings

The Indonesian judicial system comprises several types of courts under the oversight of the Supreme Court. Most disputes appear before the courts of general jurisdiction, with the Court of First Instance being the State Court. Appeals from these courts are heard before the High Court (a district court of appeal). Appeal from the High Court, and in some instances from the State Court, may be made to the Supreme Court.

Ordinary proceedings

Ordinary legal action may commence when the parties have been unable to reach a compromise during the amicable phase. The creditor may file a claim with the District Court, who is subsequently responsible for serving the debtor with a Writ of Summons. If the debtor fails to appear at the hearing to lodge a statement of defence, the court has discretion to organize a second hearing or to release a default judgment (*Verstekvonnis*).

Prior to considering the debtor's defence, as previously mentioned, the court must first verify whether the parties have tried to reach an agreement or amicable settlement through mediation). If the parties have undergone the mediation process, the panel of judges will continue the hearings and the parties' evidence will be examined. The judge will render a decision and may award remedies in the form of compensatory or punitive damages.

District Court will usually take from six months to a year before rendering a decision in the first instance. The proceedings may take longer when a case involves a foreign party.

Enforcement of a Legal Decision

When all appeal venues have been exhausted, a domestic judgment becomes final and enforceable. If the debtor does not comply with the judge decision, the creditor may request the District Court to commend execution by way of attachment and sale of the debtor's assets through public action.

Indonesia is not part to any treaty concerning reciprocal enforcement of judgments, making it highly difficult to enforce foreign judgments in Indonesia, or to enforce Indonesian court decisions abroad. Because foreign judgements cannot be enforced by Indonesian courts within the territory of Indonesia, foreign cases must therefore be re-litigated in the competent Indonesian courts. In such a case, the foreign court judgment may serve as evidence, but this is subject to certain exceptions as regulated by other Indonesian regulations.

Insolvency Proceedings

There are two main procedures for companies who are experiencing financial difficulties:

Suspension of payment proceedings

This procedure is aimed at companies that are facing temporary liquidity problems and are unable to pay their debts, but may be able to do so at some point in the future. It provides debtors with the temporary relief to reorganize and continue their business, and to ultimately satisfy their creditors' claims. The company continues its business activities under the management of its directors, accompanied by a court-appointed administrator under the supervision of a judge. The company must submit a composition plan for the creditors' approval and for ratification by the court. The rejection of the plan by the creditors or the court will result in the debtor's liquidation.

Liquidation

The objective of liquidation is to impose a general attachment over the assets of bankrupt debtors for the purpose of satisfying the claims of their creditors. It can be initiated by either the debtor or its creditors before the Commercial Court. Following the submission of the petition, the court will summon the debtor and its creditors to attend a court hearing. Once bankruptcy has been declared, the directors of the debtor company lose the power to manage the company, which is transferred to the court-appointed receiver who then manage the bankruptcy estate and the settlement of the debts. The debtor's assets will be sold by way of public auction by the appointed receiver.

IRAN

COFACE ASSESSMENTS

COUNTRY RISK	E
BUSINESS CLIMATE	D

POPULATION Millions of persons - 2017	**81.4**
GDP PER CAPITA US Dollars - 2017	**5,290**
CURRENCY Iranian rial	**IRR**

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)*	13.4	3.8	-1.5	-3.6
Inflation (yearly average, %)	9.0	9.6	29.5	34.1
Budget balance (% GDP)	-2.2	-1.8	-4.7	-5.2
Current account balance (% GDP)	4.0	2.2	1.3	0.2
Public debt (% GDP)	47.4	39.5	44.2	39.2

(e): Estimate. (f): Forecast. * Iranian calendar: 2019 year runs from the 20th March 2018 to the 21st March 2020.

TRADE EXCHANGES

Exports of goods as a % of total

CHINA	27%
EURO AREA	16%
INDIA	16%
SOUTH KOREA	11%
TURKEY	11%

Imports of goods as a % of total

UNITED ARAB EMIRATES	28%
EURO AREA	13%
CHINA	13%
TURKEY	5%
SOUTH KOREA	4%

- Significant gas and oil reserves (second and fourth largest in the world, respectively)
- Very low external debt
- Strategic position in the sub-region
- Large market

- US withdrawal from Vienna Agreement
- High inflation
- Social unrest
- Unfavourable business environment
- Lack of infrastructure
- The presence of Revolutionary Guards in the country's productive system and their collusion with political circles could hinder the opening-up of the economy
- World Bank governance indicators place the country at a high level of risk

RISK ASSESSMENT

Sanctions pushed the Iranian economy into recession in 2018

In May 2018, US President Donald Trump announced the withdrawal of the United States from the Vienna Agreement signed in 2015 between Iran and the P5+1 (the five permanent members of the UN Security Council plus Germany) and the restoration of US sanctions within 90 days (180 days for oil exports). Although this decision does not invalidate the previous agreement, it is likely to plunge the Iranian economy into a new period of recession by gradually cutting it off from the rest of the world. The first sanctions-related impacts began to be felt in 2018, and the economic situation is expected to steadily worsen. In response to the US measures, the European Union has put in place so-called blocking measures that would protect companies carrying out legal activities in Iran from the extraterritoriality of US sanctions (laws allowing non-US companies to be prosecuted abroad, provided they have a link with the US). Despite this, several European companies have said that they are shutting down their activities. At the same time, under American pressure, the main Asian partners have scaled back their purchases of Iranian oil, resulting in a decline in oil exports since August 2018. Exports are expected to fall from a monthly average of 2.1 million barrels per day (mbd) in 2017 to 1.1 mbd in 2019. The non-oil economy is also expected to suffer from declining trade and investment. Fears of a shortage of dollars caused the rial to collapse on the parallel foreign exchange market, prompting the central bank to intervene through commercial banks. The Iranian currency is said to have lost more than 80% of its value, driving up the prices of imported goods. Inflation is expected to rise again above 30%, hurting businesses and households alike.

The government deficit widens as the current account surplus narrows

The government deficit is expected to widen significantly in 2019 in view of the decline in budgetary revenues. These revenues will be hurt still further by the contraction of oil income, which represents 40% of revenues, and by the decline in non-oil revenues, which are expected to suffer from the economic recession. Rial depreciation, coupled with higher oil prices, should, however, help to mitigate the effects of the sanctions. In response to the US decision, the government is considering implementing a package of measures to support the private sector and address food and pharmaceutical shortages.

The reinstatement of sanctions is also likely to impact Iranian banks, which remain unprofitable and poorly capitalised. In 2016, the country undertook a comprehensive reform programme with the support of the International Monetary Fund to accelerate the upgrading of the banking system to international standards and strengthen its contribution to the economy. US authorities want to exclude Iran from the SWIFT network, which would prevent Iranian banks from making international transfers as was the case before 2015. Although the interbank communication network is managed by a Belgian cooperative society, it handles a large proportion of transactions in US dollars, which does not protect it from the extraterritoriality of American law. To defend European interests and maintain trade relations with Iran, the European Union is talking about setting up a euro-based exchange system that could replace SWIFT.

Despite rial depreciation and declining imports, the contraction in oil exports, which account for 80% of total exports, will cancel out the current account surplus almost completely. Iranian reserves are decreasing but remain comfortable (14 months of imports).

US sanctions weaken the Iranian President

The American decision to withdraw from the Vienna Agreement will not be without consequences for Iranian policy. The restoration of sanctions has seriously weakened President Hassan Rouhani, who was re-elected in 2017 for a four-year term, and his government. Under pressure from Parliament, the Ministers of Labour and Economy were dismissed in August 2018. The President also had to defend his economic record before MPs. On that occasion, Ayatollah Khamenei reiterated his confidence in him, but Mr Rouhani seems to have lost a large part of his supporters in the reform camp and remains prey to criticism from conservatives. Ordinary Iranians were first in line to be affected by the sanctions and they are once again facing soaring inflation and shortages of consumer goods. There were many popular protests in 2018 and more are expected in 2019.

Iran's relationship with the Sunni countries in the region is expected to remain tense, but the country will continue its efforts to cooperate with European and Asian countries to limit the impact of sanctions and its isolation.

IRAQ

COFACE ASSESSMENTS

COUNTRY RISK	E
BUSINESS CLIMATE	E

POPULATION Millions of persons - 2017	38.9
GDP PER CAPITA US Dollars - 2017	4,950
CURRENCY Iraqi dinar	IQD

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	11.0	-0.8	3.1	4.9
Inflation (yearly average, %)	0.4	0.1	2.0	2.0
Budget balance (% GDP)	-13.9	-2.3	0.3	-0.6
Current account balance (% GDP)	-8.6	0.7	0.2	-1.6
Public debt (% GDP)	64.4	58.0	54.7	54.4

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

INDIA	22%
CHINA	20%
EURO AREA	20%
UNITED STATES	16%
SOUTH KOREA	9%

Imports of goods as a % of total

TURKEY	28%
CHINA	26%
EURO AREA	9%
SOUTH KOREA	5%
RUSSIA	4%

+

- World's fourth largest proven crude oil reserves
- Low oil extraction costs
- International financial support (IMF and bilateral loans)

-

- Undiversified economy; highly dependent on the oil sector
- Severe tensions between the Shia majority and the rest of the country
- Tensions with autonomous Kurdistan, a major contributor to the oil sector
- Cost of reconstruction and assistance to victims following armed conflict
- Small GDP share of non-oil and gas private sector
- Weak and limited banking sector
- Deficiencies in education, health, and welfare systems

RISK ASSESSMENT

Economic activity poised to surge in 2019

A year after the conflict ended, the war against the Islamic State has taken a heavy toll. Basic infrastructure was damaged, and some cities such as Mosul and Tal Alfar were 70% destroyed. The World Bank estimates the cost of the damage at USD 45 billion and puts the financing needs for reconstruction at USD 88.2 billion. At the reconstruction conference held in Kuwait in February 2018, the international community pledged USD 30 billion, mainly in the form of credit facilities and investment. In 2018, excluding oil, investment in infrastructure remained the main driver of the economy. As the second largest OPEC producer and fifth largest in the world, Iraq is highly dependent on the oil sector. Despite the OPEC agreement on reducing output, the more favourable oil situation in 2018 allowed the economy to return to growth. In 2019, the ramp-up of the Majnoun and Halfaya oil fields should lead to an increase in production of more than 450,000 barrels per day over three years. At the same time, the likely increase in OPEC quotas in 2019 should give the Iraqi authorities more flexibility to raise exports. Continued high oil prices should also give the government additional room for manoeuvre to substantially increase spending. Among the significant investments, the authorities have signed a memorandum of understanding with General Electric and Siemens to rebuild and upgrade the country's electricity grid. This project is expected to generate up to 25 gigawatts of electricity and create more than 65,000 direct and indirect jobs.

Small current account and government deficits

The 2018 Finance Act was the first budget passed since the country declared victory over the Islamic State in 2017. With 90% of budget revenues coming from oil, the rise in oil prices allowed the government to post a small budget surplus in 2018. Despite the increase in oil revenues, the public accounts are expected to show a small deficit in 2019. The 2019 budget provides for a 23% increase in expenditures over 2018. Public investment is set to increase by 32% and should focus on key sectors such as energy and security. However, the distribution of the budget between the provinces is likely to be the subject of continued disagreement among the political parties, and especially between the central government and the autonomous Kurdistan region. The central government decided last year to reduce the region's allocation from 17% to 12%, sparking a political crisis in November 2018.

Despite increased export revenues, import growth driven by higher public investment is expected to weigh on the trade surplus, while the services and income balances will remain in deficit. The small current account deficit will be partially financed by FDI in the oil sector, as well as by multilateral and bilateral loans for reconstruction. Finally, downward pressure on the Iraqi dinar is expected to ease as the security situation improves and oil prices rise, allowing the central bank to maintain the US dollar peg.

A fragile political situation

The May 2018 parliamentary elections were the first elections held in the country after Mosul was taken over by Iraqi national forces. Due to ethnic and religious divisions, the election was followed by a long period of negotiations. Barham Salih from the Patriotic Union of Kurdistan (PUK) was finally elected as Iraqi President in October, ending several months of deadlock. He appointed independent Shia politician Adel Abdul Mahdi to the key position of Prime Minister. Presented as the minister for reconciliation, Adel Abdul Mahdi has the difficult task of responding to widespread public discontent. The country has emerged divided by the conflict, and demonstrations have increased since the fighting ended. The May elections featured a low turnout (44.5%) and a high number of independent candidates. They highlighted a growing lack of interest among Iraqis in their political system, which has been rocked by a string of corruption scandals.

IRELAND

COFACE ASSESSMENTS

COUNTRY RISK	A3
BUSINESS CLIMATE	A1

POPULATION Millions of persons - 2017	4.8
GDP PER CAPITA US Dollars - 2017	68,711
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	5.0	7.2	7.8	4.5
Inflation (yearly average, %)	-0.2	0.3	0.7	1.2
Budget balance (% GDP)	-0.5	-0.2	-0.1	-0.1
Current account balance (% GDP)	-4.2	8.5	11.6	10.5
Public debt (% GDP)	73.4	68.4	63.9	61.1

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	27%
UNITED KINGDOM	13%
BELGIUM	11%
GERMANY	8%
SWITZERLAND	5%

Imports of goods as a % of total

UNITED KINGDOM	29%
UNITED STATES	20%
FRANCE	12%
GERMANY	9%
NETHERLANDS	4%

+

- Flexible labour and goods markets
- Favourable business environment; attractive taxation
- Presence of multinational companies, particularly from the United States, providing a quarter of jobs, 15% of wages and 60% of non-finance market activity
- Presence through multinationals in high value added sectors, including pharmaceuticals, IT and medical equipment

−

- Dependent on the economic situation and tax regimes of the United States and Europe, particularly the United Kingdom
- Vulnerable to changes in the strategies of foreign companies
- Public and private debt levels still high
- Banking sector remains vulnerable to shocks
- Uncertainties on the terms of Brexit and future relations with the United Kingdom, especially Northern Ireland

RISK ASSESSMENT

Slower growth in 2019

Growth was very buoyant in 2018. The domestic economy has proven to be robust, supported by strong demand and well oriented exports, particularly in the pharmaceutical sector. The increase in household disposable income, supported by higher employment and low inflation, continued to boost housing demand. Activity is expected to decelerate in 2019, although the extent of the slowdown remains uncertain, and will depend on the outcome of Brexit negotiations between the United Kingdom and the European Union. If the proposed withdrawal agreement is approved, growth could still suffer from a decline in household and business confidence. Highly dependent on the United Kingdom (15% of Irish exports of goods and services are to the UK), exports should also be penalised. Some sectors, such as agri-food, would be particularly vulnerable, even if a customs union is formed. While a no-deal Brexit in March 2019 is unlikely, it cannot be entirely ruled out. Such a scenario would have severe consequences on the Irish economy and could result in a 7 percentage point contraction in GDP by 2030. The ratification of the exit agreement between the United Kingdom and the EU in November 2018 by the British Parliament is therefore crucial for Ireland, as it would not only maintain an open border between Ireland and Northern Ireland, but would also facilitate further trade.

Large current account surplus expected to continue

Public finances continue to improve. The favourable economic environment has continued to generate budgetary revenues, in particular through higher-than-expected corporate income tax revenues. The 2019 budget, based on a growth estimate of 4.2%, should allow a balanced budget to be maintained while continuing the investment policy initiated in 2018 under the national development plan. Since some of the resources included in the 2019 budget have already been committed to capital expenditure, the government will have to increase certain taxes (VAT on tourism, cigarette tax) to give itself additional room for manoeuvre. Household taxes are expected to decrease (0.5% of GDP) but by less than in 2018.

Robust export growth and low imports, linked in particular to the decline in chartering activity, saw the trade surplus swell sharply to almost 35% of GDP in 2018, comfortably offsetting the large income deficit arising from the activity of multinational firms. Ireland is expected to continue to enjoy a sizeable current account surplus in 2019. Exports will remain brisk, particularly to the United States and the EU, but are expected to continue to slow towards the United Kingdom. However, a large portion of the surplus remains linked to multinational firms (depreciation of foreign capital on the domestic market and undistributed profits of foreign companies). Stripping out these statistical distortions, the current account surplus would be equivalent to 1.3% in 2018 and 1.0% in 2019.

Brexit agreement in favour of Ireland

While Brexit negotiations seem to have tilted in favour of the Irish Republic, Ireland's fate remains dependent on the decision of the British Parliament to ratify the November 2018 agreement. If validated, it should protect Ireland from the possible consequences of Brexit beyond the transitional period. The border between Northern Ireland and Ireland should thus remain open, respecting the 1998 Peace Treaty, and the free movement of persons would be maintained until 2020. The text also provides additional guarantees for Ireland (backstop).

Regarding domestic policy, Taoiseach (Prime Minister) Leo Varadkar's minority government remains fragile. It essentially relies on an agreement with the second-largest force in the parliament, the Fianna Fáil Party, which agreed to abstain from a non-confidence vote in the government. Despite supportive economic conditions, the government is under increasing pressure and continues to be challenged over its management of the housing crisis. Mr Varadkar has pledged to not call an election before the end of the Brexit crisis, but snap elections in 2019 – instead of in 2021 as scheduled – cannot be ruled out. Elections could in fact turn in Mr Varadkar's favour, since the latest polls show that his Fine Gael Party would win a comfortable victory. With the support of independents and the Green Party, he could rebuild a majority without a prior agreement with Fianna Fáil. Last but not least, outgoing president Michael D. Higgins was re-elected by a large majority on October 26.

PAYMENT & DEBT COLLECTION PRACTICES IN IRELAND

Payment

Cheques are generally used for both domestic and international commercial transactions. However, for international transactions, the use of bills of exchange is preferred, together with letters of credit. Bank transfers are common, with SWIFT transfers being utilised regularly. Direct Debits and standing orders are also becoming more recognised as an effective payment method, and are particularly useful for domestic transactions. Assignment of invoice is accepted both pre- and post-supply of goods and/or services.

Debt Collection

Where there is no specific interest clause, the rate applicable to commercial contracts concluded after August 7, 2002 (Regulation number 388 of 2002) is the benchmark rate (the European Central Bank's refinancing rate, in force before January 1 or July 1 of the relevant year) marked up by seven percentage points and applied to the contracts *via* a percentage calculated per day past due date. For claims exceeding €1,270, debtors may be threatened with a "statutory demand" for the winding-up (closure) of their business if they fail to make payment or come to acceptable terms within three weeks after they receive a statutory demand for payment (a "21-day notice").

Amicable phase

The debt collection process usually begins with the debtor being sent a demand for payment, followed by a series of further written correspondence, telephone calls, personal visits, and debtor meetings. If the two parties are unable to reach an amicable settlement, the creditor may begin legal proceedings.

Legal proceedings

If a defendant fails to respond within the allotted time to a court summons (either a plenary or summary summons before the High Court, a civil bill before the Circuit Court, or a civil summons before the District Court), the creditor may obtain a judgement by default based on the submission of an affidavit of debt without a court hearing. An affidavit of debt is a sworn statement that substantiates the outstanding amount and cause of the claim. It bears a signature attested by a notary or an Irish consular office. The claim amount at stake will determine the competent court: the District Court, then the Circuit Court, and, for claims exceeding €38,092.14, the High Court in Dublin, which has unlimited jurisdiction to hear civil and criminal cases and to assess, in the first instance, the constitutionality of laws enacted by Parliament (*Oireachtais*).

Fast-track procedure

In any of the three courts, if the debt is certain and undisputed, it is alternatively possible to request a fast-track summary judgment from the competent court.

District Court: amounts up to €6,348

For contested debts, a civil summons is served on the debtor, with the originating court proceedings setting out the claim and amount alleged owed. The debtor then files a Notice of Intention to Defend, indicating that he intends to contest the case, at which point the court fixes a hearing date. The case is heard before a judge, who decides whether to issue an order for judgment (a Decree).

Circuit Court: amounts from €6,349 to €38,092

In this case, a civil bill is served on the debtor, who, in turn, will enter an Appearance (a formal document indicating that the debtor intends to answer the claim). A notice for particulars is then also filed by the debtor, in which he seeks further information about the claim to which the creditor sends replies. The debtor must deliver a defence within a prescribed period. The creditor then serves the defendant with a formal notice advising of hearing date. Each side presents its case and the judge makes a decision.

High Court: amounts over €38,093

In front of the High Court, a summary summons is served on the debtor, who then files an Appearance. The creditor makes an application to the Master of the High Court for judgment by way of motion and grounded by sworn affidavit. The debtor can reply to the claim by sworn affidavit. If the Master is satisfied that the debt is due and owing, liberty to enter final judgment is granted. However, if the Master is satisfied that the debtor has a genuine dispute, the case is sent for a plenary hearing. During the plenary hearing, the merits of the case are heard either as oral evidence or affidavit. A High Court hears the case and makes a determination.

The commercial court – a special division of the High Court, created in 2004 – is competent to hear commercial disputes exceeding €1 million, included in a commercial list or cases concerning intellectual property, and is able to provide a suitable and rapid examination of the cases submitted. At the discretion of the commercial judge, proceedings may be adjourned for up to 28 days to enable the parties to refer to alternative dispute resolution practices, such as conciliation or mediation.

Normally, obtaining a decision may take a year. However, this timeframe may be doubled if compulsory enforcement is required. Appeal claims brought before the Supreme Court may take an additional three years.

Enforcement of a Legal Decision

A judgment is enforceable as soon as it becomes final. If the debtor fails to satisfy the judgment, the creditor can request the competent court to order execution by way of attachment and sale of the debtor's assets by the Sheriff. There is also the possibility to obtain payment of a debt through a third party owing money to the debtor (garnishee order).

For foreign awards, enforcement depends on whether the decision is issued in an EU member state or a country outside the EU. For the former, Ireland has adopted enforcement mechanisms; such as the EU Payment Order, or the European Enforcement Order when the claim is undisputed.

Insolvency Proceedings

Out-of-court proceedings

Informal negotiations may take place, and any agreement must be unanimously adopted by all creditors.

Examinership

Examinership is an Irish legal process whereby court protection is obtained to assist the survival of a company; The company may then restructure with the High Court's approval. It provides a maximum 100 day period in which a court appointed official (the examiner) seeks to take control of the company and manage it so that the company may continue to trade. The procedure may be initiated by the company, its directors, or one of its creditors. Once the examiner has been appointed, no proceedings may be commenced against the company. Its functions are to examine the affairs of the company and to formulate proposals for its survival. The examiner must formulate proposals for a compromise or scheme of arrangement to facilitate the survival of the relevant body as a going concern. They can be accepted by the creditors but they must be validated by the court.

Receivership

The procedure arises in the context of secured creditors and provides a framework in which they may act so as to enforce their security interest. A receiver is appointed to a company by either a debenture holder or the court to take control of the assets of a company, with a view to ensure the repayment of the debt owed to the debenture holder, either through receiving income or realising the value of the charged asset.

Liquidation

The terminal process by which a company is wound up and dissolved, this process is conducted by a liquidator who takes possession of assets and distributes the proceeds from their sale in accordance with the priority of repayment. The liquidator is also required to investigate the conduct of the directors of the company and prepare a report for the Office of the Director of Corporate Enforcement (ODCE). Dependent of its view, the liquidator may also be required to bring restriction proceedings against one or more of the directors. The procedure can be started by a competent court (court liquidation), the creditors (creditors' voluntary liquidation) or the debtors (members' voluntary liquidation).

ISRAEL

COFACE ASSESSMENTS

COUNTRY RISK	A2
BUSINESS CLIMATE	A2

POPULATION Millions of persons - 2017	8.7
GDP PER CAPITA US Dollars - 2017	40,273
CURRENCY New Israeli shekel	ILS

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	4.0	3.3	3.7	3.5
Inflation (yearly average, %)	-0.5	0.2	0.9	1.3
Budget balance (% GDP)	-2.1	-2.2	-3.2	-3.3
Current account balance (% GDP)	3.8	2.9	2.3	2.3
Public debt (% GDP)	62.3	60.9	61.5	61.5

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

UNITED STATES	29%
EURO AREA	20%
UNITED KINGDOM	8%
HONG KONG	7%
CHINA	5%

Imports of goods as a % of total

EURO AREA	31%
UNITED STATES	12%
CHINA	9%
SWITZERLAND	8%
UNITED KINGDOM	6%

+

- Low inflation and interest rates, strong growth dynamics
- Highly skilled workforce attracting investments to strategic sectors (ICT, pharmaceuticals etc.)
- Favourable business environment
- Close political and economic relations with the United States
- Natural gas production since mid-2013 from significant offshore reserves

−

- Dormant peace process with Palestine
- Fairly high public debt level
- Appreciation of shekel that may weigh on exports
- Growing regional instability, security risks

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	LOW
CHEMICAL	LOW
CONSTRUCTION	HIGH
ENERGY	MEDIUM
ICT*	MEDIUM
METALS	MEDIUM
PAPER	MEDIUM
PHARMACEUTICAL	MEDIUM
RETAIL	HIGH
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	MEDIUM

* Information and Communication Technology

RISK ASSESSMENT

Low interest rates, solid private consumption support growth

After surging to 3.3% in 2017 and up to around 5% in the first half of 2018, private consumption will continue to support growth, thanks to the favourable employment conditions in the country, an accommodative monetary policy, a low level of inflation, and an expansionary fiscal policy. Because of full employment, real wages have been driven higher (a year-on-year increase of 3.4% as of July 2018 compared with an annual inflation of 1.4%), which will continue to support private consumption in the near future. As long as inflation remains in the government's 1-3% target range, the central bank is expected to keep its rates at a low level. Although the bank could raise its rates in the first quarter of 2019, the amount would likely be small. Further supporting this positive trend, the Consumer Confidence Index continues to indicate positive sentiment, hitting a record high in September 2018. Strong consumer spending will also result in higher level of investments. In line with this trend, the main components (new domestic orders, production, inventories etc.) of Israel's Purchasing Managers Index have indicated an expansion in the manufacturing productive capacities – although at a slower pace than a year earlier – with the ICT, machinery, mining, and transport vehicle industries set to benefit in particular.

Higher spending will widen the fiscal deficit

The government set the fiscal deficit target to 2.9% of GDP for 2019, but Israel's social security agency's decision to cancel its agreement to transfer its annual surplus to the budget starting in 2019 may further boost the fiscal deficit. Such a move would mean the government would lose a resource of close to USD 7 billion, which could widen the fiscal deficit as high as 5% of GDP. The deficit will also be triggered by rising defence and social spending in the fields of disability benefits, education, and healthcare. The government also targets the reduction of tax burdens for families. The increase in fiscal deficit will prevent the public debt level from falling, but this should not impact the country's borrowing capacities from domestic and international markets.

The current account balance is expected to remain in surplus, although the surplus relative to GDP is expected to stall. Although exports, which account for about 30% of Israel's economy, are expected to increase in the coming quarters, the strong shekel represents a challenge for further increases in exports. Import demand remains strong due to solid growth and higher commodity prices. Nevertheless, the deficit in trade balance will continue to be offset by the surplus in services trade on the back of strong exports in high tech services, such as IT consulting, computing services and software. This will help Israel's current account to remain positive, which will in turn help the central bank to continue its interventions in the foreign exchange market and accumulate forex reserves.

Peace process remains stalled, political stability maintained

After the Arab Spring in early 2011 and the start of the Syrian civil war the same year, regional instability has increased significantly, causing a threat to Israel's national security. Israel enjoys close relationships with its traditional allies, such as Europe and the United States, while it continues to develop economic relationships with Asian countries such as China and India. However, the peace process with Palestine remains hopeless due to bilateral tensions. The country also intends to create stronger relations with key Gulf countries in order to counter Iran's power in the region which may help also improve trade ties.

Internally, Israel is one of the most politically stable countries in the region, and yet it is composed of a diverse society. The coalition government has decided to hold general elections on April 9 instead of November 2019 as previously scheduled. Early elections are expected to eliminate political stress and uncertainty, and to concentrate more ressources on maintaining growth, and fiscal stability and discipline.

ITALY

COFACE ASSESSMENTS

COUNTRY RISK	A4
BUSINESS CLIMATE	A2

POPULATION Millions of persons - 2017	60.6
GDP PER CAPITA US Dollars - 2017	31,997
CURRENCY Euro	EUR

Main economic indicators	2016	2017	2018 (e)	2019 (f)
GDP growth (%)	1.1	1.6	0.9	0.5
Inflation (yearly average, %)	-0.1	1.3	1.3	1.5
Budget balance (% GDP)	-2.5	-2.4	-1.9	-2.9
Current account balance (% GDP)	2.5	5.7	2.6	2.5
Public debt (% GDP)	131.4	131.2	131.1	132.0

(e): Estimate. (f): Forecast.

TRADE EXCHANGES

Exports of goods as a % of total

GERMANY	12%
FRANCE	10%
UNITED STATES	9%
SPAIN	5%
UNITED KINGDOM	5%

Imports of goods as a % of total

GERMANY	16%
FRANCE	9%
CHINA	7%
NETHERLANDS	6%
SPAIN	5%

+

- Reform efforts (labour market, banking sector, insolvency, etc.)
- Manufacturing industry still important
- Renewed competitiveness and stronger export sector
- Improvement in the financial position of companies
- High-quality infrastructure
- Major tourism potential

−

- Public debt still high; very negative net external position
- Labour market duality; high unemployment rate
- Large proportion of small, unproductive companies
- Fragmented political landscape; national unity weakened by regions' push for autonomy
- Regional disparities
- Low administrative efficiency

Sector risk assessments

AGRI-FOOD	MEDIUM
AUTOMOTIVE	MEDIUM
CHEMICAL	MEDIUM
CONSTRUCTION	VERY HIGH
ENERGY	HIGH
ICT*	HIGH
METALS	HIGH
PAPER	HIGH
PHARMACEUTICAL	MEDIUM
RETAIL	MEDIUM
TEXTILE-CLOTHING	HIGH
TRANSPORT	MEDIUM
WOOD	HIGH

* Information and Communication Technology

RISK ASSESSMENT

Sluggish growth in the face of political uncertainties

After recovering strongly in 2017, the Italian economy was unable to avoid the slowdown that hit the eurozone in 2018. In addition to external factors, political uncertainties increased following the March 2018 parliamentary elections. The subsequent market tensions eroded business and household confidence, adversely affecting activity over the final two quarters. Growth is expected to slow further in 2019. Household consumption, which remained flat in 2018 despite an improvement in labour market conditions, is set to grow marginally. Deteriorating economic prospects will weigh on job creation, and weak wage growth will continue to dampen disposable income as inflation rises. Investment, the main driver of the recovery, is expected to moderate due to weaker confidence and a worsening of corporate financing conditions. Sovereign interest rate increases are expected to continue to affect the balance sheets of Italian banks that hold public debt, eating into their profits and limiting their lending to business. In addition, although they have become more capitalised and resilient since 2015, banks remain exposed to non-performing loans (9.7% of the total in June 2018) and will continue to be among the European banks that are most impacted by the adoption of the EU IFRS 9 accounting standard. The expansionary fiscal policy planned by the government should support domestic demand, but the effectiveness of these measures will continue to depend on a return to confidence. Unlike in 2018, external trade should make a positive contribution to activity.

Agreement with the European Commission on fiscal policy

Following two months of negotiations between the European Commission and the Italian government, an agreement on the 2019 budget was reached, allowing Italy to avoid an excessive deficit procedure (EDP). The announcement of a deficit target of 2.4% in October, even before the finance law was presented to the Commission, triggered strong market reactions, pushing up sovereign rates in the eurozone's second most indebted country. With a deficit target of 2.04% for 2019 and a revised growth forecast of 1%, the coalition government's budget continues to fall outside the stability programme but with Brussels approval. By incorporating the broad outlines of the programmes of the two parties in the majority, it should make it possible to finance the government's flagship measures, such as repealing the planned VAT increase, lowering the retirement age, introducing a guaranteed minimum income targeting low-income households and boosting public investment. However, the allocations for certain measures have been reduced. They will have to be financed through privatisations, a tax amnesty and the expected increase in budgetary revenues. Although it remains below 3%, the deficit target set in the budget law is not only higher than the 0.8% target set in the stability programme but should also lead to an increase in debt in a context of higher debt costs, especially since the public balance will probably be higher than that announced.

A two-headed government, but for how long?

The Italian legislative elections resulted in a Parliament without a majority where the traditional parties on the left (PD) and the right (Forza Italia) were ousted in favour of movements on the more extreme ends of the spectrum. The Five-Star Movement emerged as the big winner in the parliamentary elections, with the largest number of deputies, while the right-wing coalition comprising Mattéo Salvini's League and Forza d'Italia led by Silvio Berlusconi came in second place. After several months of negotiations, a coalition between the League and the Five-Star Movement was proposed. Based on an unprecedented agreement centred on the key proposals of the two political parties, a unity government was presented to the President of the Republic, Sergio Mattarella, in May 2018.

The government comprises members from the majority as well as ministers without a political affiliation, including the minister of finance and Prime Minister. The two coalition party leaders, Matteo Salvini and Luigi di Maio, who have each given themselves a ministry, are both deputy prime ministers. This alliance of two parties from opposite ends of the political spectrum, with no political experience and whose programme and manifesto are, in part, unashamedly eurosceptic, has fuelled tensions on the markets by raising fears of an Italian systemic crisis. Despite the crises that have marked the early months of this government, including the face-off with the Commission on the 2019 budget, the coalition looks to be solid, although snap elections cannot be ruled out. If new elections are held, the League, which is riding on the growing popularity of its leader as Minister of the Interior, is likely to emerge stronger, at the expense of the Five-Star Movement, which would suggest a possible right-wing majority.

ITALY

PAYMENT & DEBT COLLECTION PRACTICES IN ITALY

Payment

Trade notes (*cambiali*) are available in the form of bills of exchange or promissory notes. *Cambiali* must be duly accepted by the drawee and stamped locally at 12/1000 of their value, being issued and payable in the country. When issued in the country and payable abroad, they are stamped at 9/1000, and finally stamped at 6/1000 in the country if stamped beforehand abroad, with a minimum value of €0.50. In case of default, they constitute de facto enforcement orders, as the courts automatically admit them as a writ of execution (*ezecuzione forzata*) against the debtor.

Signed bills of exchange are a reasonably secure means of payment, but are rarely used due to a high stamp duty, the somewhat lengthy cashing period, and the drawee's fear of damage to his reputation caused by the recording and publication of contested unpaid bills at the Chambers of Commerce.

In addition to the date and place of issue, cheques established in amounts exceeding €1,000 and intended to circulate abroad must bear the endorsement *non trasferibile* (not transferable), as they can only be cashed by the beneficiary. To make the use of cheques more secure and efficient, any bank or postal cheque issued without authorisation or with insufficient funds will subject the cheque drawer to administrative penalties and listing by the CAI (*Centrale d'Allarme Interbancaria*), which automatically results in exclusion from the payment system for at least six months.

Bank vouchers (*ricevuta bancaria*) are not a means of payment, but merely a notice of bank domicile drawn up by creditors and submitted to their own bank for presentation to the debtor's bank for the purposes of payment (the vouchers are also available in electronic form, in which case they are known as *RI.BA elettronica*).

Bank transfers are widely used (90% of payments from Italy), particularly SWIFT transfers, as they considerably reduce the length of the processing period. Bank transfers are a cheap and secure means of payment once the contracting parties have established mutual trust.

Debt Collection

Amicable phase

Amicable collection is always preferable to legal action. Postal demands and telephone dunning are quite effective. On-site visits, which provide an opportunity to restore dialogue between supplier and customer with a view to reaching a settlement, can only be conducted once a specific licence has been granted.

Settlement negotiations focus on payment of the principal, plus any contractual default interest as may be provided for in writing and accepted by the buyer.

When an agreement is not reached, the rate applicable to commercial agreements is the six-monthly rate set by the Ministry of Economic Affairs and Finance by reference to the European Central Bank's refinancing rate, raised by eight percentage points.

Legal proceedings

When creditors fail to reach an agreement with their debtors, the type of legal action taken depends on the type of documents justifying the claim.

Fast-track proceedings

Based on *cambiali* (bills of exchange, promissory notes) or cheques, creditors may proceed directly with forced execution, beginning with a demand for payment (*atto di precetto*) served by a bailiff, preliminary to attachment of the debtor's moveable and immoveable property (barring receipt of actual payment within the allotted timeframe). The resulting auction proceeds are used to discharge outstanding claims.

Creditors can obtain an injunction to pay (*decreto ingiuntivo*) if they can produce, in addition to copies of invoices, written proof of the claim's existence by whatever means or a notarized statement of account. A forty-day period is granted to the defendant to lodge an objection.

Ordinary summary proceedings (*procedimento sommario di cognizione*), introduced in 2009, are used for uncomplicated disputes which can be settled upon simple presentation of evidence. Sitting with a single judge, the court determines a hearing for appearance of the parties, and delivers a provisionally executory ruling if it acknowledges the merits of the claim; the debtor however has 30 days to lodge an appeal.

Ordinary proceedings

The creditor must file a claim with the court (*citazione*) and serve summons to the debtor, who will file a defence (*comparsa di constituzione e risposta*) within ninety days *via* a preliminary hearing. The parties then provide briefs and evidence to the court. When the debtor fails to bring a defence, the creditor is entitled to request a default judgment. The court will usually grant remedies in the form of declaratory judgments, constitutive judgments, specific performance and compensatory damages but it cannot award any damages which have not been requested by the parties.

Undisputed claims are typically settled within four months, but the timescale to obtain an enforceable court order depends on the court. Overall, disputed legal proceedings take up to three years on average.

The current civil procedure code is intended to speed up the pace of proceedings by reducing the procedural terms, imposing strict time limits on the parties for submitting evidence and making their cases, and introducing written depositions in addition to oral depositions.

Enforcement of a Legal Decision

A judgment becomes enforceable when all appeal venues have been exhausted. If the debtor fails to comply with a judgement, the court can order compulsory measures, such as an attachment of the debtor's assets or allowing the payment of the debt to be obtained from a third party (garnishee order) – although obtaining payment of a debt *via* the latter option tends to be more cost-effective.

For foreign awards, decisions rendered from a country in the EU will benefit from special procedures such as the EU Payment Order or the European Enforcement Order. Judgment from a non-EU country will have to be recognized and enforced on a reciprocity basis, meaning that the issuing country must be part of a bilateral or multilateral agreement with Italy.

Insolvency Proceedings

Out-of court proceedings

The 2012 legal reform allows a debtor to file an application for composition by anticipation. Negotiation on an agreement commences 60 to 120 days prior to the initiation of judicial debt restructuration proceedings. The debtor retains control over the company's assets and activities. A new pre-agreed composition plan may be agreed with the approval of creditors representing 60% of the debtor company's debt.

Restructuring proceedings

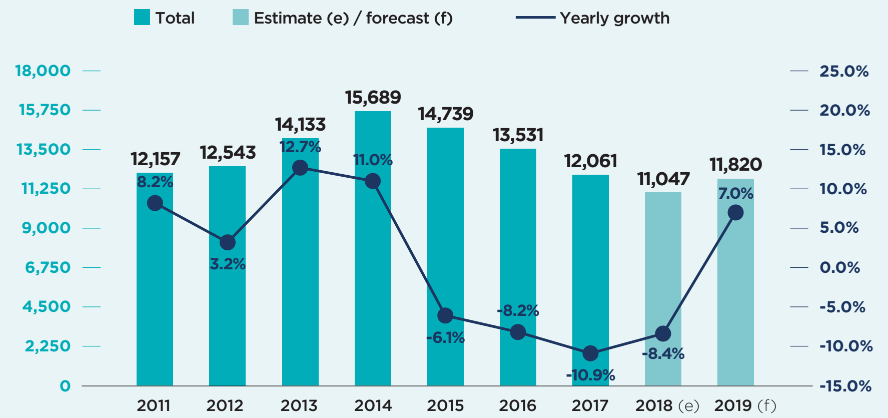
This settlement is a court procedure which allows a company in financial difficulty to propose a debt restructuration plan. The debtor files a proposal to the court to repay the total amount outstanding to the secured creditors. If the court admits it, a commissioner trustee is appointed, and if the majority of the unpaid creditors accept the proposal, the court will officially validate the proceedings.

Alternatively, a debt restructuring agreement (*accordi di ristrutturazione del debito*) aims to restructuring the debt so as to rescue the debtor company from bankruptcy proceedings. The debtor must file a report on its ability to pay the remaining creditors in full, who otherwise can challenge the agreement before a bankruptcy court by requiring verification that their claims will be paid as normal.

Liquidation

This procedure aims to pay out the creditors by realising the debtor's assets and distributing the proceeds to them. The status of insolvency justifies the adjudication of bankruptcy by the court, even where the insolvency is not due to the debtor's misconduct. The court hears the evidences of the creditors' claims and appoints a receiver to control the company and its assets. This receiver must liquidate all of the company's assets and distribute the proceeds to the creditors to have the proceedings formally concluded.

NUMBER OF CORPORATE INSOLVENCIES



Source: Cerved, Coface.