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COUNTRY AND SECTOR RISKS BAROMETER June 2024

By the Coface Economic Research team

Turbulence ahead?

Executive summary:

2024 has kicked off rather well, much better than the two previous years, which opened with the last tremors of the pandemic and Russia's invasion of Ukraine (2022) or were marked by fears of energy shortages in Europe and a banking crisis in the United States (2023). Overall, the figures for the first quarter of 2024 are satisfactory, if not reassuring: while activity is eventually slowing in the United States, in line with the (overly?) consensual scenario of a soft landing for the world's leading economy, the emerging countries, particularly in Asia, are now the driving force behind a world economy that is still convalescing, much like Europe, which seems, at last, to be awakening from its lethargy. The latest hard data and business surveys published in recent weeks suggest that this dynamic is still at work at the time of writing and is reflected in a noticeable rebound in international trade. While a certain euphoria continues to reign on the financial markets (especially equities), fuelled by a narrative of long-term productivity gains that remain largely unproven (AI), and while some see in the monetary easing cycle that has (a priori) only begun the premises of a new bullish cycle - enough to fuel unbridled optimism - it seems useful to recall a few obvious facts.

First of all, and beyond the few oft-cited leading stocks (the «Magnificent 7"[1], of which only 4 remain today), the good performance of the markets, particularly in the United States, is not (or no longer) explained solely by positive news but, increasingly, by statistical «surprises» - a sign that monetary policy is beginning to bear fruit and that there is still a very strong addiction to (over)liquidity. This is the sense in which the repeated calls for early monetary easing should be read, so that the now consensual diagnosis of «higher for longer» interest rates does not degenerate into a verdict of «too high for too long», which is harmful in many respects - not just for valuations. Given public and private debt levels, the main (endogenous) downside risk to our 18-month macroeconomic scenario is still that financial conditions will remain much tighter than they were over the past 15 years. This is particularly true for companies which, until recently, were able to secure financing on extremely advantageous terms, and which now must repay and/or refinance in a completely different environment. With disinflation seemingly stalling in many monetary zones and new tensions emerging in value chains (supply delays, freight rates, sanctions, customs tariffs, etc.) and on commodity prices (agricultural products, metals, etc.), there is no guarantee that financial conditions will ease significantly, and in time. On the contrary, everything suggests that corporate insolvencies, which have risen sharply in recent months - both in frequency and in size (loans and jobs affected) - will continue to increase over the coming quarters, if not years. Added to this are the (exogenous) risks already highlighted many times in these columns, relating to the ever precarious, not to say highly inflammable, social, and political balances. Even before November, the French President's decision to dissolve the National Assembly following the European elections could be a turning point not only for the country but also for the governance of the Old Continent - as early as this summer.

In the context of our central scenario, and given the rather favourable short-term outlook, we have modified 5 country assessments (4 upgrades and 1 downgrade) and 26 sector assessments (20 upgrades and 6 downgrades). Over the longer term and on a global scale, the stabilisation of activity that we expect in 2025 - for which we are unveiling our first set of forecasts - remains subject to numerous risks, which are still essentially bearish.

IFRI: The weaponisation of dependence in practice

Economic and trade sanctions are as old as international relations, and have almost invariably been a significant factor in confrontations. At the end of the First World War, they were even codified in the Charter of the League of Nations (Article 16) as a fully-fledged conflict prevention tool, with a record that was not only limited but, in some respects, negative, as the quest for self-sufficiency to protect against this «economic weapon» fuelled German and Japanese expansionism. After the war, the United Nations Charter reiterated the principle, while several countries developed their own national sanctions, particularly the United States after the Korean War. In fact, the economic weapon has been used on many occasions, but above all against second-tier powers, such as South Africa, Cuba and North Korea, to mention only the most emblematic cases. As the economic links between blocs remained very limited during the Cold War, they were not in a position to play a central role in their rivalry; on the contrary, they served as a cement for the Western bloc, and the opening up that followed the end of the Cold War was based on the hope of a convergence that would extend to the political domain.

This is what has changed now: political rivalries are sharpening between major powers that remain linked by very close economic and

1 Tesla, Nvidia, Apple, Microsoft, Alphabet, Meta, Amazon

financial interdependence. This context reminds us all of what Albert Hirschman pointed out back in 1945, namely that «the classical concept, gains from exchange, and the concept of power, dependence on exchange, [...] are simply two aspects of the same phenomenon»: a new vision is being cast over economic and financial relations, in which political and even security concerns take centre stage.

Even beyond sanctions, the question arises of using these interdependencies for political ends, to «weaponise» them. And each country is positioning itself according to its strengths. For the United States, these are clearly in the financial sector and in technological innovation. Hence the growing number of sanctions based on the use of the dollar and associated financial infrastructures, but also on the strong positions still held by the United States and its allies in various fields linked to advanced semi-conductors.

China, for its part, has made extensive use of access to its market as a tool of political pressure, at least since 2010, often through boycotts or barriers to imports, which were not officially accepted as such. However, these tools have hardly proved effective, so there is now a clear temptation to take advantage of its dominant positions in green technologies, particularly for the minerals that are essential to them. Recent measures to control exports of germanium, gallium and graphite bear witness to this, while restrictions on exports of solar panel production technologies are regularly mooted.

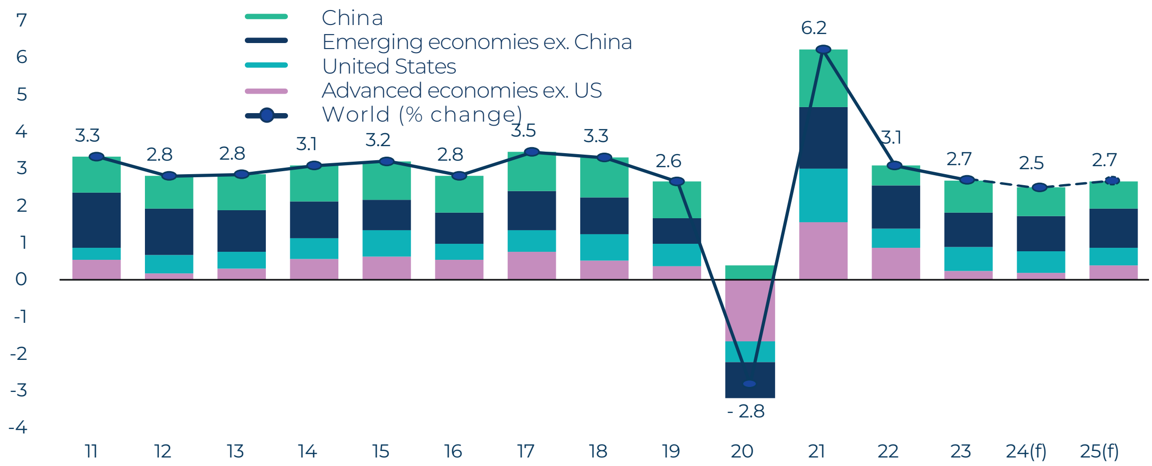
Beyond these specific practices, it is the Chinese tendency to artificially boost its industrial production - in a way that is largely disconnected from demand - that takes on a political dimension, insofar as it threatens to establish Chinese domination in strategic sectors. Hence the increasingly insistent accusation that China is deliberately building up excess production capacity. This dimension is of central importance to the European Union, thus the series of anti-subsidy investigations recently launched by the European Commission, and Beijing's thinly veiled threats of retaliation in the form of an anti-dumping investigation into the European wine spirits sector, targeting French Cognac in particular, while other products are already in China's sights, notably pork and luxury goods. On the US side, the Trump administration's exceptional customs duties have been maintained - as have their responses on the Chinese side - and even increased. This macroeconomic dimension naturally raises the question of the exchange rate which has been explicitly formulated by Donald Trump and his advisers, who want to push the dollar down. The fact remains that a depreciation of the dollar, which would be very difficult to implement, would entail a real risk of inflation, which would be highly problematic from both a political and an economic standpoint, and that the extensive tariffs he has announced would tend to push the dollar up. As for China, despite a significant current account surplus (possibly undervalued by official statistics), its exchange rate is not appreciating, in line with the political will to support oversized manufacturing output. Depreciation would even be one of the possible responses to a hardening of the trade conflict with the United States, as China undoubtedly has more room for manoeuvre in this matter. In this area perhaps even more than in others, the weaponisation of interdependence is a double-edged sword, and extremely delicate to handle; but the politicisation of international economic and financial relations is already well established.

The world economy above the waterline

For once, the beginning of 2024 brought its share of pleasant surprises on the economic front. Activity was more resilient than expected in the first quarter in China and, to a lesser extent, in Europe and the United States. As a result, we have revised up our global growth forecast for 2024 to 2.5% **(Chart 1)**, pointing to a (very) limited slowdown in the wake of the Chinese and US economies. While growth should continue to moderate in the world's two leading economies in 2025, activity in the Eurozone will rebound, driven mainly by Germany, after two years of near-stagnation **(Chart 2)**. The slowdown in the world's two main economies should also be offset by the acceleration in many emerging countries, against a backdrop of (slightly) less restrictive financing conditions. In our central scenario, global growth should stabilise at 2.7% next year.

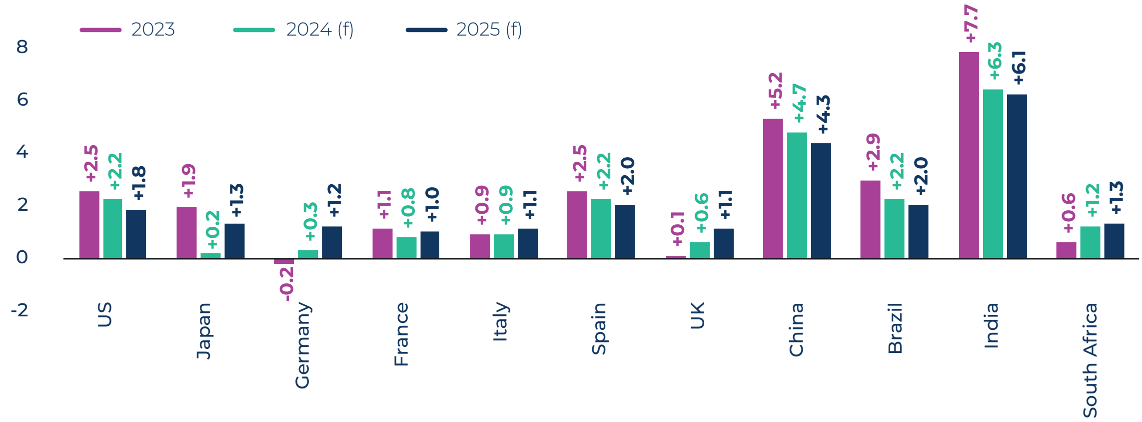
These trends are reflected in our changes in country risk assessments this quarter, as the 4 upgrades concern 2 Eurozone economies (Spain and Portugal) and 2 emerging economies (Cabo Verde and Bahrain). Conversely, we downgraded a single country this quarter (Ecuador). The balance was also largely positive in terms of changes in sector risk assessments, with no fewer than 20 upgrades, mainly in transport, paper, and energy **(Box 1)**, compared with just 6 downgrades.

Chart 1:
World real GDP growth (annual average, %)



Sources: IMF, National statistical institutes, Refinitiv Datastream, Coface forecasts

Chart 2:
Real GDP growth (annual average, %)



Sources: IMF, National statistical institutes, Refinitiv Datastream, Coface forecasts

Box 1:

SECTOR REASSESSMENTS

Transport and paper lead, energy and ICT follow

As was already the case in our last assessment review, we recorded a majority of upgrades (20, compared with 6 downgrades)[2]. The transport and paper sectors, upgraded in five countries each, together account for almost half of the positive movements. Energy, in four countries, and ICT, in two, were also concerned by upgrades.

In the **transport** sector, the upgrades mainly reflect the resilience of air passenger traffic. The International Air Transport Association (IATA) is forecasting record passenger numbers for 2024 and reported a full recovery in global traffic (measured in revenue passenger kilometres) in February, the first time since the COVID-19 pandemic. The assessment is being upgraded in Saudi Arabia, the United Arab Emirates (UAE), the United Kingdom, China, and South Korea. The upgrades in the two Asian countries, which often take the pulse of world trade, are also justified by the recovery in their export volumes **(Chart 3)**. After a difficult year in 2023, the recovery in world trade is confirmed, despite persistent logistical concerns in the Black Sea (war in Ukraine), the Panama Canal (drought) and the Red Sea (attacks by Houthi rebels), and even in the port of Baltimore (collapse of the Francis-Scott Key Bridge). Recent Israel-Iran tensions have also rekindled fears of disruption in the Strait of Hormuz, which is critical for global supply of oil and liquefied natural gas, but in the absence of any disruption for the time being, we are upgrading the sector in Saudi Arabia and the United Arab Emirates, which are benefiting from the momentum of air transport and diversification investments.

Chart 3:
Export volumes & Manufacturing (PMI New Export Orders)

Sources: S&P Global, CPB, Bank of Korea, Macrobond, Coface

The **paper** sector also recorded five upgrades, all in Western Europe (France, Germany, Italy, Spain, and the Netherlands). The sector has been reassessed as high risk, after being downgraded twice in the last two years, as production suffered from the rise in energy costs and, more generally, input costs. The decline of these prices from their recent peaks and a recovery in demand for containerboard, possibly linked to the onset of a recovery in trade volumes in Europe, are contributing to improved activity in the sector.

As in the previous exercise, the **energy** sector was upgraded in four countries, three of which in Europe. After being upgraded in Spain, Germany, and Romania, it was moved to low risk in France, the Netherlands and Switzerland. In addition to the European countries, the sector has also been upgraded in the UAE, where it is benefiting from oil prices that are still at comfortable levels, and where the medium-term outlook looks positive thanks to the increase in production capacity by ADNOC, the national oil company.

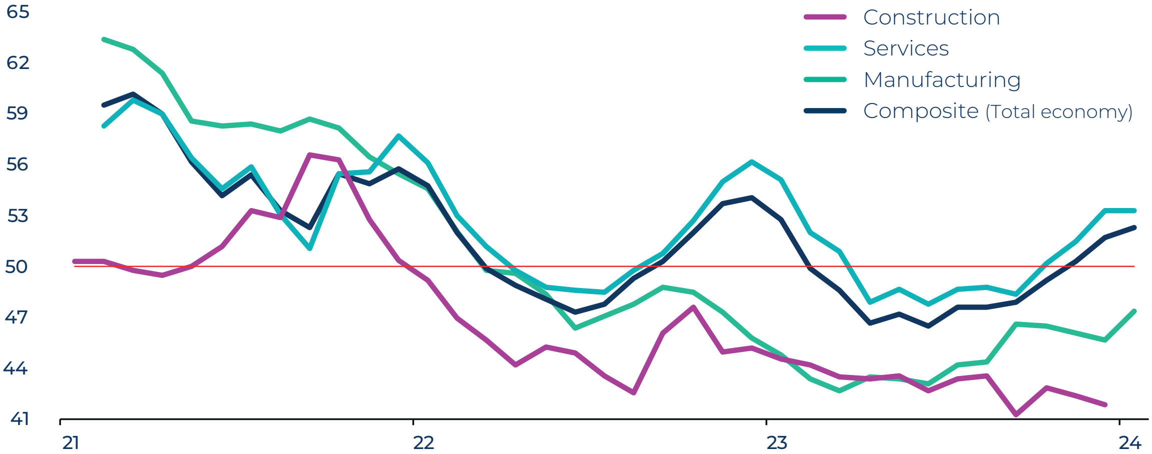
Finally, among the noteworthy assessment changes, the upgrading of **ICT** (information and communication technologies) in two countries stands out. They concern the United States and South Korea, reflecting, among other things, the turnaround in the semiconductor cycle in recent months. After a difficult year in 2023, with weak final demand and an unfavourable inventory cycle following the supply disruptions of 2021-22, the sector has experienced a rebound in recent months, driven in particular by the renewal of electronic equipment purchased in 2020 and 2021 during the pandemic. In addition, the race for artificial intelligence (AI), which has intensified significantly since the launch of ChatGPT in November 2022, is supporting demand for chips.

2 The tables at the end of this barometer show all the changes in sector risk assessments.

Gradual recovery in Europe, moderation in the United States

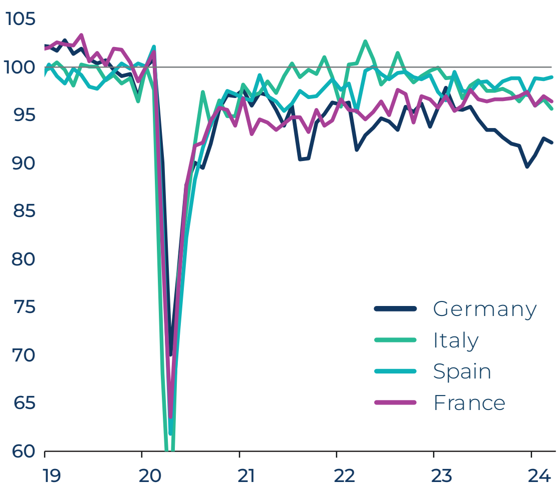
The start of 2024 is likely to be a turning point in the Eurozone. With GDP growth of 0.3% QoQ in the first quarter, the zone has pulled out of recession after recording two consecutive quarters in negative territory at the end of 2023. The onset of this turnaround is confirmed by the composite purchasing managers' index, which has returned above 50, the threshold that defines whether activity is rising or falling, since March **(Chart 4)**. However, while growth will be driven by services over the coming quarters, the recovery will be much more gradual (and even uncertain) for European industry. While some indicators seem to be pointing towards a slight rebound, manufacturing output remains below pre-COVID levels in all economies, and particularly so for the continent's leading industrial power **(Chart 5)**. While the sharp rebound in German manufacturing output between December 2023 and February 2024 gave hope of a rapid normalisation, the new orders data raise uncertainty, and even doubts, about the strength and sustainability of the recovery **(Chart 6)**. This cautious view is reinforced when major orders (aircraft, ships) are disregarded. On the positive side, activity seems to be picking up again in energy-intensive industries such as metals and chemicals, which continued to suffer in 2023 despite the fall in energy prices.

Chart 4:
Eurozone: PMI Index



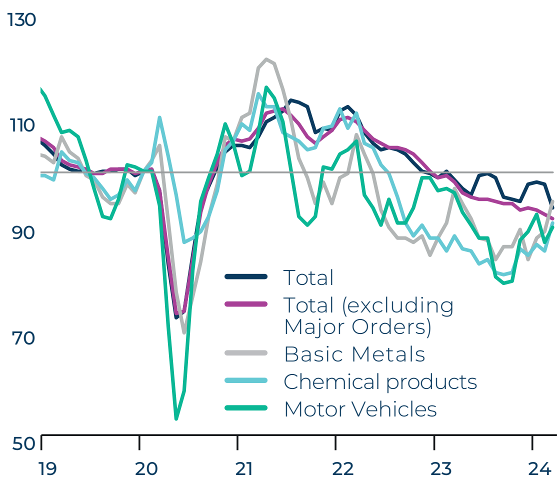
Sources : S & P Global, Macrobond, Coface

Chart 5:
Manufacturing production
(in volume, Jan. 2020 = 100)



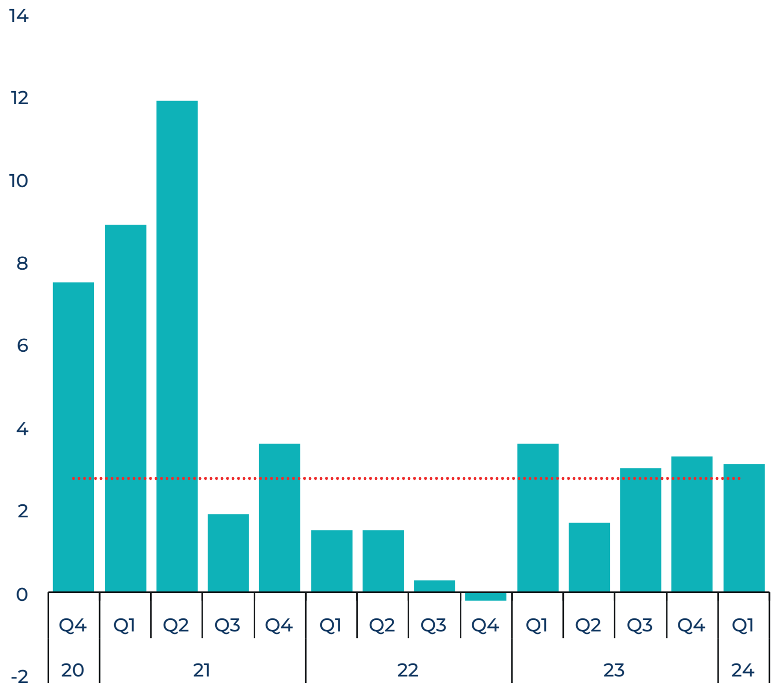
Sources: German Federal Statistical Office (Statistisches Bundesamt), Italian National Institute of Statistics (Istat), Spanish National Statistics Institute (INE), French National Institute of Statistics & Economic Studies (INSEE), Macrobond, Coface

Chart 6:
Germany: New orders in manufacturing industry
(3-rolling month average, 100 = Jan. 2020)



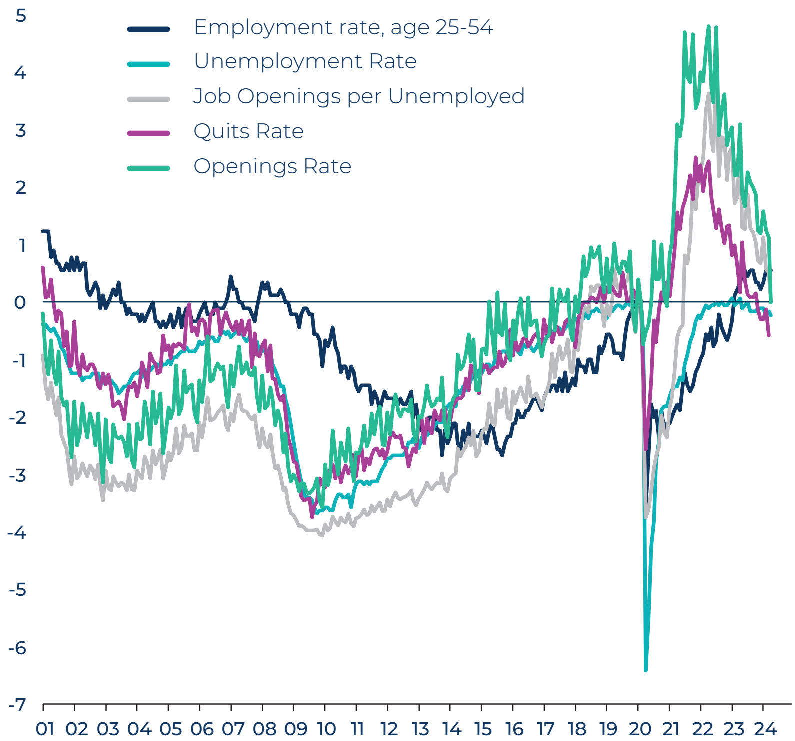
Sources: German Federal Statistical Office (Statistisches Bundesamt), Macrobond, Coface

Chart 7:
United States: Final private demand (% quarter-on-quarter, annualized rate)



Sources: US Bureau of Economic Analysis, Macrobond, Coface

Chart 8:
United States : Measures of labor market tightness (Standard deviation from February 2020 level)



Sources: PIIE, Refinitiv Datastream, Coface

In the United States, indicators have generally developed in line with our expectations over the first half of 2024. Our growth forecasts for this year and the next, of 2.2% and 1.8% respectively, thus support the scenario of a «soft landing» for the US economy. GDP figures for the first quarter showed a moderation in activity. At an annualised quarterly rate of 1.3%, growth slowed from 4.9% and 3.4% in the third and fourth quarters of 2023. However, beneath this slowdown, private final demand, which excludes volatile components such as net exports and public spending, has remained remarkably stable - at around 3% growth for the third consecutive quarter (and even four of the last five) **(Chart 7)**. Ultimately, for the US economy, the signs of moderation may be less reflected in GDP figures than in employment figures. Indeed, the vast majority of labour market data have returned to levels similar to those recorded before the Covid-19 pandemic, indicating a better balance between labour supply and demand after a period of intense tension **(Chart 8)**. The influx of immigrant workers, which reached record levels in 2023 and may have exceeded 3 million[3], seems to have played a major role in alleviating the major labour shortages, by stimulating labour supply[4].

More arduous disinflation

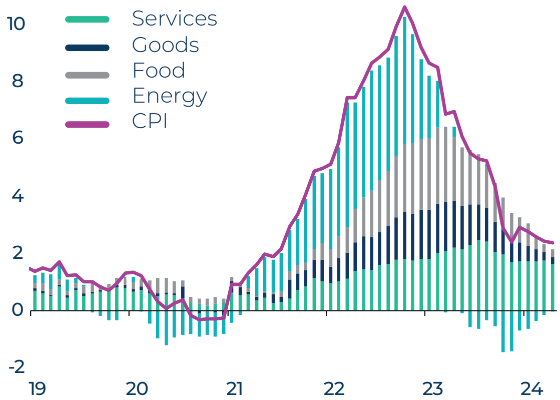
On the inflation front, news has been less positive in the US, confirming that the last mile in the fight against inflation is, indeed, the hardest. After 12 consecutive months of decline between June 2022 and June 2023, which brought annual inflation measured by the consumer price index (CPI) down from 9.1% to 3.0%, it posted 10 consecutive months in a narrow range between 3.2% and 3.7%. The figures for the first months of 2024 confirmed that the slowdown in the disinflation process in the United States is linked to services prices, particularly housing prices, which remain stubbornly high. This is also true of PCE inflation, the measure favoured by the US Federal Reserve (Fed), which, at 2.7% in May, is still within reach of the 2% target, although without reaching it completely.

3 The Congressional Budget Office (CBO) has estimated that net immigration to the United States will be 2.7 million in 2022 and 3.3 million in 2023.
4 Kansas City Fed, Economic Bulletin, “Rising Immigration Has Helped Cool an Overheated Labor Market”, Elior Cohen, 22 May 2024. https://www.kansascityfed.org/Economic%20Bulletin/documents/10190/EconomicBulletin24Cohen0522.pdf

On the other side of the Atlantic, after falling steadily over the first months of the year, to 2.4% in April, thanks to the sharp slowdown in unprocessed food prices and, more importantly (because they are less volatile), goods prices **(Chart 9)**, inflation ultimately rebounded to 2.6% in May. Although the moderation in goods prices had allowed core inflation to fall, the latter also started to rise again in May **(Chart 10)**. This rebound can be explained by the dynamism of services prices, which had already contributed 70% of total inflation in April. However, services prices are largely dependent on wage trends, which, according to data on negotiated wages in the Eurozone, remain very buoyant, at +4.7% year-on-year **(Chart 11)**. Wages should therefore rise by around 4% over the year overall, significantly faster than inflation.

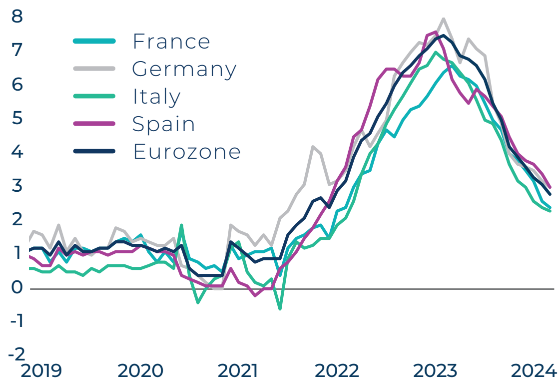
While buoyant wages have contributed to the rebound in consumption, this is rather bad news in the fight against inflation. This is particularly the case if labour productivity, which fell uninterruptedly from mid-2022 to the end of 2023 - the labour market remaining tight despite the virtual stagnation in activity over the period - is unable to absorb these wage increases. If we look at unit labour costs in the Eurozone, which rose by almost 6% year-on-year in the fourth quarter of 2023 **(Chart 12)**, the continued fall in inflation, and its stabilisation at around the 2% target, can only be achieved at the cost of a deterioration in the labour market (job losses or wage moderation) or in companies' operating margins.

Chart 9:
Eurozone: Contributions to inflation (%)



Sources: Eurostat, Macrobond, Coface

Chart 10:
Core inflation (%)

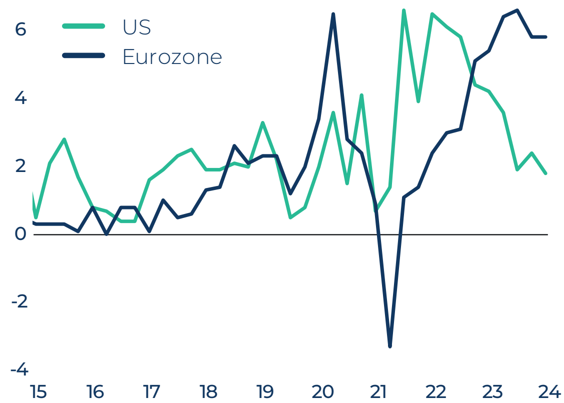


Sources: Eurostat, Macrobond, Coface

Chart 11:
Eurozone: Negotiated wage increases (%, YoY)

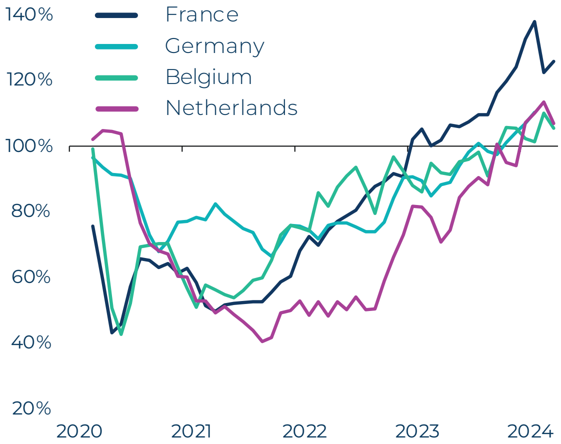
Sources: ECB (European Central Bank), Macrobond, Coface

Chart 12:
Unit labour costs
(%, YoY change, based on hours worked)



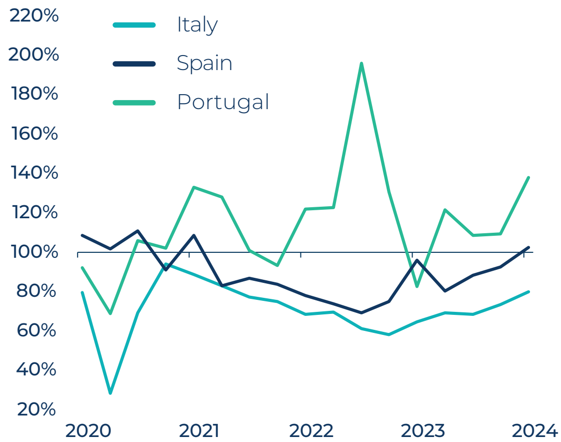
Sources: Eurostat, U.S. Bureau of Labor Statistics (BLS), Macrobond, Coface

Chart 13a:
Europe: Corporate insolvencies (as a % of the same period in 2019, rolling 3-month sum)



Sources: Macrobond, Ellisphère, Coface

Chart 13b:
Europe: Corporate insolvencies (as a % of the same period in 2019)



Sources: Macrobond, Coface

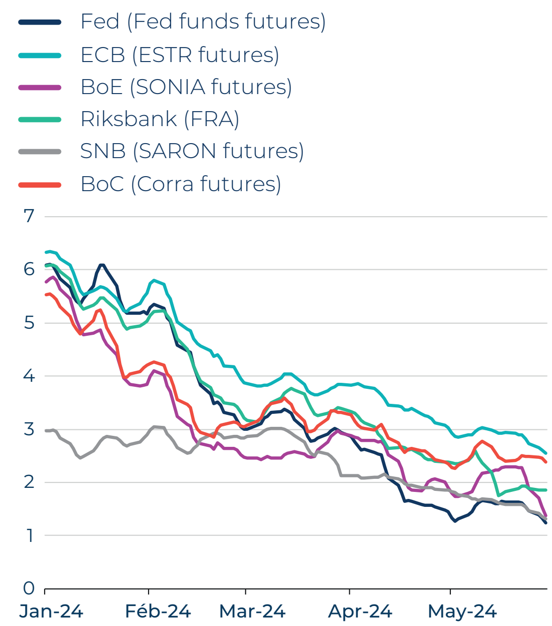
In the second instance, corporate insolvencies, which are now above their 2019 level in virtually all the major Eurozone economies **(Charts 13a and 13b)**, would rise even further.

The Fed stalls, discordance in the monetary easing timetable

The data published since the start of the year has acted as a reality check for financial markets' expectations of monetary easing. Optimistically, at the end of 2023, they were expecting up to seven rate cuts of 25 basis points by the end of 2024 from the Fed, the ECB, the Bank of England, the Bank of Canada and the Swedish Riksbank **(Chart 14)**. The markets are now expecting between 1 and 3 rate cuts this year. In addition to the reassessment of the pace of monetary normalisation in the major advanced economies, expectations also (and finally!) reflect divergences in this process, particularly between Europe and the United States.

With disinflation slowing, but also with stronger overall economic indicators in the US, the Fed is in fact adopting a cautious, stalling posture. The latest projections from US monetary policymakers, published this month, confirm that the first rate cut will probably have to wait until at least September, and more likely December. On the other hand, the ECB launched its monetary easing at the beginning of June, with a first cut of 25 basis points, almost two years after the onset of its monetary tightening. In doing so, the ECB followed in the footsteps of the Swiss National Bank, the first Western central bank to lower its key interest rate,

Graphique 14:
Market-implied policy rate cuts of selected major central banks
(Number of 25 basis points rate cuts, weekly moving average)



Sources: CME Group, Fed, ICE, ECB, BoE,Riskbanken, SNB, BoC, Macrobond, Coface

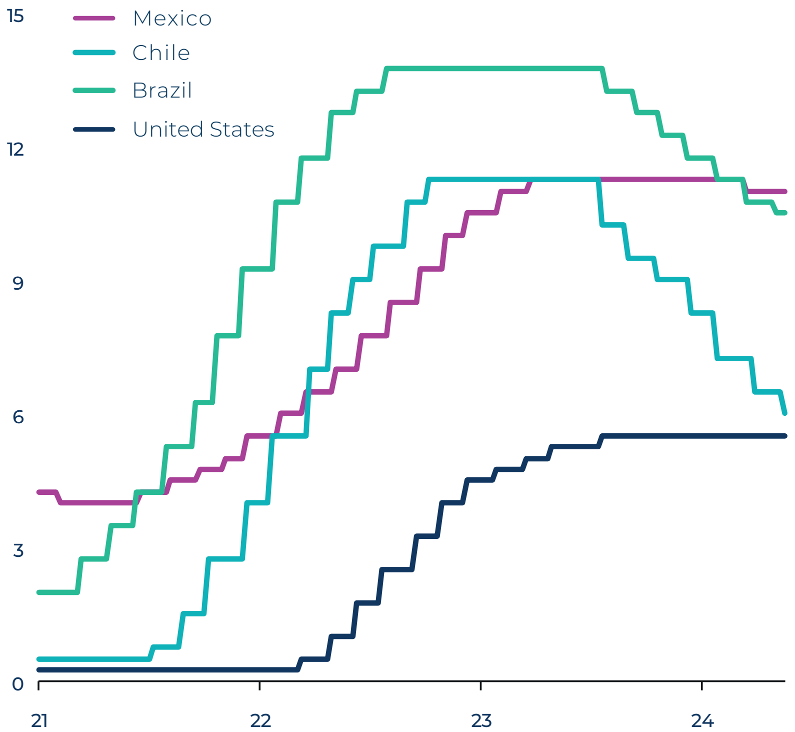
in March. While the pace of monetary easing is slightly out of sync between the United States and the other major central banks, the Fed is likely to start easing by the end of the year. In fact, the lag in the transmission of the monetary constraint and the risks to financial stability, economic activity, and employment that it would entail could prompt the US central bank to initiate a cautious monetary normalisation, even if inflation still has not reached 2%. In this regard, the easing in the labour market is already putting more emphasis on the Fed's objective of full employment.

Emerging economies ready to accelerate, but constrained by the Fed

Faced with the Fed's delayed monetary easing, emerging countries will have no choice but to slow or delay their rate-cutting cycle. This is to avoid the risk of capital flight, significant currency depreciation and, ultimately, a rebound in inflation via imports. Changes in expectations about the Fed's policy have already prompted the central banks of several Latin American countries, which had been very quick to tighten monetary policy from 2021, to make smaller interest rate cuts in May **(Chart 15)**. This is notably the case in Brazil, which cut its key rate by just 25 basis points (bp) last month (after six consecutive 50bp cuts), and in Chile. For its part, Mexico's central bank decided to keep its rate unchanged in May, after starting its monetary easing in March.

In Asia and Africa, the central banks of the main emerging economies had raised their interest rates a little later, at the end of 2021 or even in 2022, and thus have not yet begun their monetary easing. However, the postponement of the launch of the Fed's easing cycle, which goes hand in hand with the establishment of a «higher for longer» interest rate narrative, will necessarily condition their monetary policies. The forced maintenance of higher key rates, and the less favourable financing conditions they create for businesses and households, will limit the extent of the rebound in emerging economies in 2024 and

Chart 15:
Policy rates of central banks
(%)



Sources: Federal Reserve, Central Bank of Brazil, Central Bank of Chile, Bank of Mexico, Macrobond, Coface

2025. However, the low proportion of households with access to bank financing in some economies, particularly developing ones, will mitigate the impact of this adverse environment.

Benefiting from numerous advantages (demographics, labour costs, natural resources, trade agreements) that offer alternatives to China in a context of risk diversification, the countries of South-East Asia should still be among the most dynamic in 2025. Vietnam and the Philippines will post growth rates in excess of 6%, while Indonesia is set to grow by more than 5%. On the Asian continent, India should also remain dynamic, albeit at a slightly slower pace (+6.1%).

Against this backdrop of stabilising global growth, Africa should also outperform and exceed 4% growth in 2025. This trend will be widespread, as we expect all the continent's major economies to accelerate: Nigeria, Egypt, Algeria, Ethiopia, Morocco and, to a lesser extent, South Africa.

Lastly, the emerging economies of Central and Eastern Europe should also post higher growth in 2025, thanks to domestic demand still driven by buoyant real wages, and - finally - to the recovery in foreign demand from Western Europe, particularly Germany.

US customs barriers: heading towards a trade war 2.0?

On 14 May, President Joe Biden's administration announced a sharp increase in tariffs on imports of Chinese goods, amounting to over USD 18 billion in 2023 **(Table 1)**. These duties come on top of the USD 300 billion worth of imports already targeted by tariffs introduced in 2018 and 2019 by his predecessor in the White House, Donald Trump,

Table 1:
Section 301 tariffs on imports from China announced in May 2024

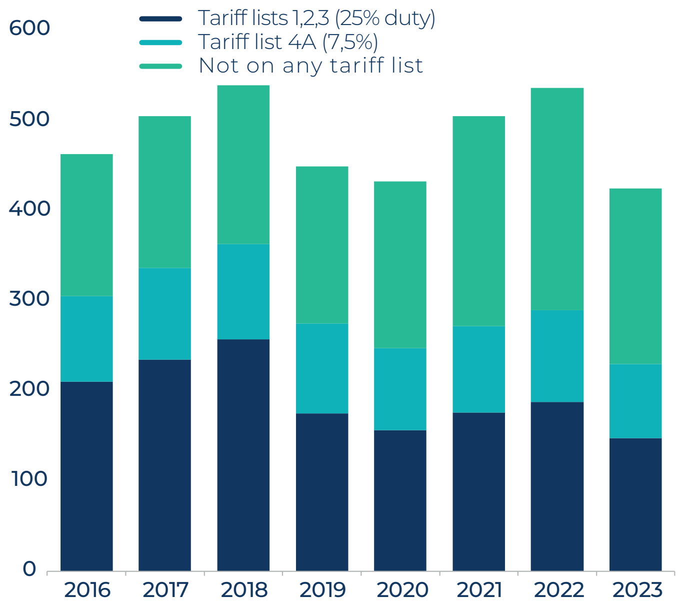
Product category	Products	"Imports from China, 2023 USD million"	Share of China imports in US total	Effective from year	Current tariffs	Proposed tariffs
Batteries & parts	Lithium-ion Batteries, EV	2 287	65%	2024	7,5%	25%
	Lithium-ion Batteries, Non-EV	10 779	72%	2026	7,5%	25%
	Battery Parts (Non-lithium-ion Batteries)	6	7%	2024	7,5%	25%
Critical minerals	Natural Graphite	110	70%	2026	0,0%	25%
	Other Critical Minerals	239	5%	2024	0,0%	25%
Electric vehicles	Electric Vehicles	385	1%	2024	25%	100%
Medical products	Syringes and Needles	200	10%	2024	0,0%	50%
	Medical gloves	398	25%	2026	7,5%	25%
	Facemasks	36	33%	2024	0-7.5%	25%
Permanent Magnets	Permanent Magnets	435	80%	2026	0,0%	25%
Semiconductors	Semiconductors	2 322	6%	2025	25%	50%
Solar Cells	Solar Cells	12	0%	2024	25%	50%
Ship-to-Shore Cranes	Ship-to-Shore Cranes	47	41%	2024	0,0%	25%
Steel & Aluminum products	Steel & Aluminum products	1 304	3%	2024	0-7.5%	25%
Total	**Total**	**18 559**	**11%**	-	-	-

Sources: USTR, White House, Census Bureau, Coface

and which, alongside the Covid-19 pandemic, have contributed to a reorganisation of Sino-American trade. The value of US imports affected by these tariff hikes thus fell by more than 30% between 2017 and 2023 **(Chart 16)**. Furthermore, although the value of US purchases of other Chinese products has been spared, this development has contributed to China losing its position as the biggest exporter to the US market to Mexico last year (**Chart 17)**. Along with Vietnam, Mexico appears to be the main beneficiary of this trade reorganisation. Although trade links between the United States and China seem to have weakened, the reality is more nuanced. The increase in Chinese exports to Mexico and Vietnam in recent years suggests, for example, that the transhipment of Chinese products via third countries could be blurring the reading of the trade data. The conclusion of a decoupling between China and the United States therefore appears hasty at this stage.

The Biden administration's decision marks a new stage in Sino-American tensions but is in line with the actions taken since it came to office in 2021. The increase in customs barriers is consistent with the openly stated national security objective of «supplanting China»[5]. By imposing tariffs on steel, aluminium, semiconductors, electric vehicles, batteries, critical minerals, photovoltaic cells, ship cranes and medical products, this decision confirms the current administration's desire to counter China in strategic sectors where it is already establishing itself as a key link in supply chains. With Chinese exports of electric vehicles, lithium batteries and photovoltaic products, described by the Chinese authorities as the «three new industries», growing rapidly, these trade measures appear to be a direct response to growing concerns about Chinese overcapacity **(Box 2)**.

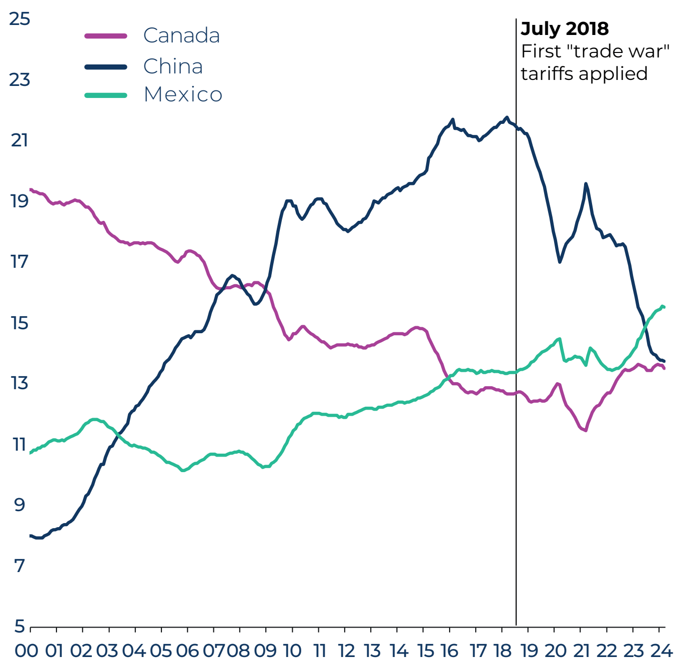
Chart 16:
United States: Merchandise imports from China, by section 301 tariffs list
(USD billion)



Tariffs lists 1,2 & 3 were issued between June and September 2018
Tariffs list 4 was issued in August 2019

Sources: PIIE, US Census Bureau, Coface

Chart 17:
United States: Merchandise imports by origin country
(% of total imports, 12-month moving average)



Sources: US Census Bureau, Macrobond, Coface

5 « Out-competing China » was notably set out in the National Security Strategy published by the White House in October 2022: https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf

Box 2:

CHINA'S UNEVEN ECONOMIC REBOUND DOES LITTLE TO ALLEVIATE GROWING CONCERNS OVER PRODUCTION OVERCAPACITY

In the first quarter of 2024, China's GDP exceeded expectations, growing by 5.3% year-on-year, thanks to public support. This solid performance, combined with a recovery in exports and more outspoken measures to stabilise the housing market, has prompted us to raise our growth forecast to 4.7% for 2024.

However, China's economic recovery has remained uneven overall. The public sector continued to outperform with solid manufacturing and infrastructure investment growth of 9.7% and 6.0% year-on-year in the first four months of the year. As the economy shifts away from a property-led growth model, momentum is likely to be underpinned by a focus on promoting «new productive forces» to offset the slump in the housing market. This is reflected in a multi-year arrangement to issue ultra-long-term Special Treasury Bonds, which will also be used to invest in strategic initiatives such as the modernisation of the manufacturing sector and the green transition.

However, the private sector could remain in greater difficulty, as persistent deflationary pressures, illustrated in particular by a negative GDP deflator over the last four quarters, could continue to dampen business and household incomes. Consumption was much less of a growth driver, as spending on services, particularly catering, slowed. Moreover, demand for durable goods remained subdued, as households continued to show a strong propensity to save against a backdrop of job and income uncertainty.

To speed up the clearing of housing inventory, Chinese policymakers have recently unveiled more forceful measures, including a top-down guidance for local governments to acquire completed but unsold residential units and then convert them into public housing. That said, the announced RMB 300 billion (about USD 42billion) worth of low-cost loans will only allow state-owned enterprises to purchase about 8-13% of existing inventory based on our estimates, and upcoming policy events will be worth monitoring for more funding solutions.

The strong expansion in manufacturing capacity, driven by the government's preference to stimulate supply, could exacerbate imbalances between supply and demand and concerns about overcapacity. With domestic demand still subdued, foreign demand in the recovery phase and persistent deflation in the producer price index, unused industrial capacity increased in the first quarter. The industrial capacity utilisation rate fell from 75.9% in the last quarter of 2023 to 73.6% in the first quarter of 2024

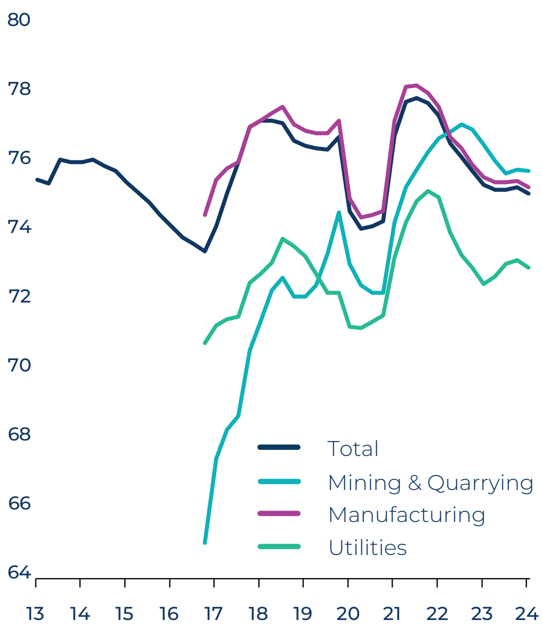
Box 2 (cont'd)

(Chart 18a), just above the historical lows reached in 2016, when there was a surplus of construction materials, and at the start of the COVID-19 pandemic. While the scale of overcapacity appears to be smaller than in the last severe episode in 2016, which was mostly a legacy of the post-global financial crisis investment frenzy, the issue appears to be more widespread this time around. Capacity utilisation rates have fallen in recent years for consumer goods, building materials, but also machinery and transport equipment **(Chart 18b)**.

Unlike past investment booms in housing and infrastructure, which mainly impacted the domestic economy, the new focus on manufacturing could also have a more global impact. Against a backdrop of persistently weak domestic demand, Chinese producers will have to find outlets on foreign markets. In the first quarter of 2024, net exports became an engine of growth after having been a drag throughout 2023.

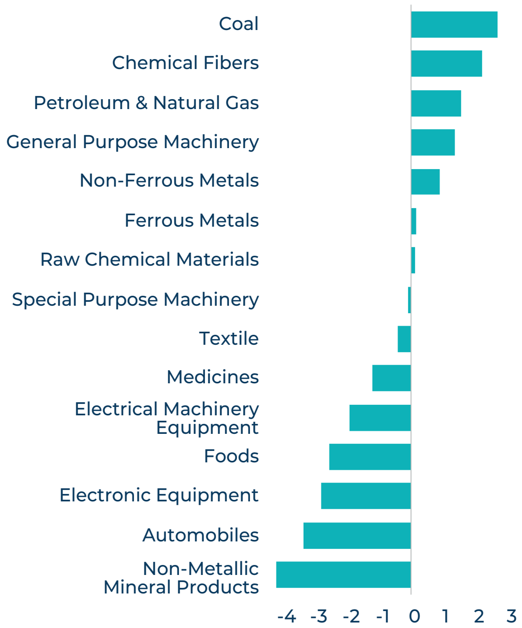
However, trade barriers to Chinese products are likely to be an increasing source of concern. So far, policymakers in advanced economies seem to be most concerned about overcapacity in 'green' technology products, particularly electric vehicles. In addition, emerging economies such as Brazil and India have also taken measures targeting imports of Chinese steel and chemicals, which they suspect are being sold at artificially low prices on their domestic markets. Rising trade tensions could hamper the recovery of Chinese exports in the short term, while encouraging greater relocation of the supply chain away from China in the longer term.

Chart 18a :
China: Industrial capacity utilization rate
(%, 4-quarter moving average)



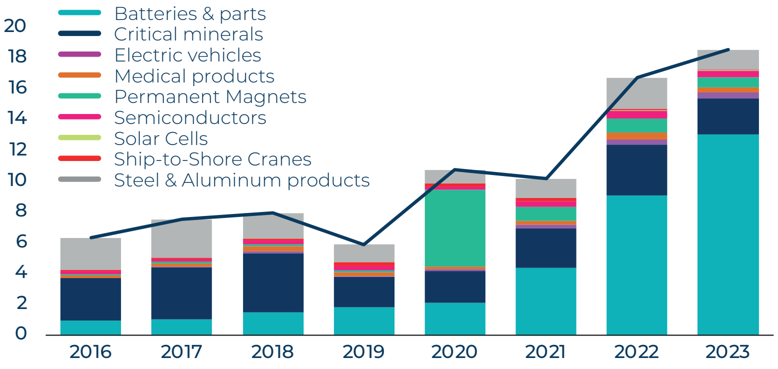
N.B. Sectoral breakdown only available from 2016
Sources: China NBS, Coface

Chart 18b :
China: Changes in capacity utilization rate
(4-quarter moving average, latest value compared to historical average, in percentage points)



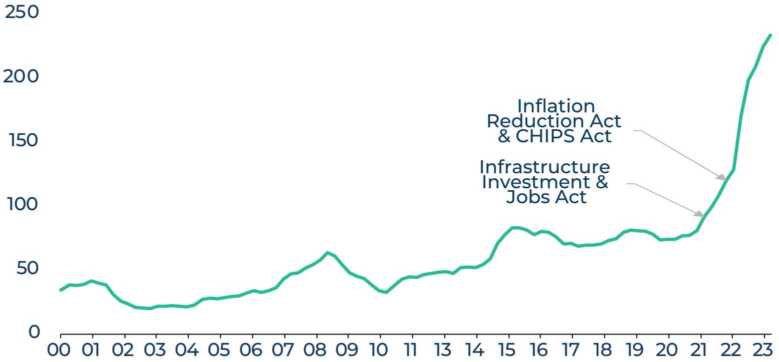
Sources: China NBS, Coface

Chart 19:
United States: Imports of Chinese goods covered by Section 301 tariffs announced in May 2024
(USD billion)



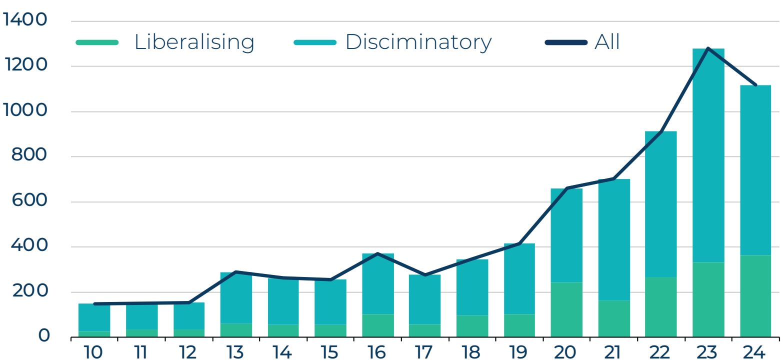
Sources: USTR, US Census Bureau, Coface

Chart 20:
United States: Private fixed investment in manufacturing structures
(USD billion, annual rate)



Sources: Bureau of Economic Analysis, Macrobond, Coface

Chart 21:
World: Number of new trade interventions implemented



Annual totals refer to figures declared on May 30 of each year.
Sources: Global Trade Alert, Coface

That said, the new tariffs appear to have been carefully designed to limit supply chain disruption for US companies. For example, the immediate quadrupling of tariffs on Chinese electric vehicles may have made headlines, but the impact is likely to be minimal given the low volumes currently exported to the US market. In addition, the Chinese inputs that currently appear to be the most critical for US electric vehicle supply chains (permanent magnets, graphite, and certain batteries), and whose import volumes have grown the fastest among the targeted products, will not be subject to these additional customs duties until 2026 (**Chart 19**). It should also be noted that the targeted industries are also those promoted by the investment plans adopted by the Biden-Harris administration, such as the Inflation Reduction Act, the CHIPS Act (laws enacted in August 2022) and the Bipartisan Infrastructure Investment & Jobs Act (November 2021). These subsidies and other incentives to support a revival of the US manufacturing industry have stimulated investment in new plants **(Chart 20)**. However, it remains to be seen whether this will be enough to achieve the goal of US leadership in the clean energy and semiconductor industries.

While the immediate economic impact is likely to be limited, US action could be more significant politically, by encouraging other economies to adopt similar measures against Chinese products. On 12 June, the European Union announced that additional customs duties, ranging from 17.4% to 38.1% depending on the manufacturer, would come into force at the beginning of July on electric vehicles produced in China. In addition to the current administration's decision, candidate Trump's campaign promises to introduce global tariffs of 10%, and to target all Chinese imports with tariffs of at least 60%, are fuelling concerns about US trade policy, regardless of the outcome of the November election. In an increasingly complex and uncertain geopolitical context, they also heighten fears of fragmentation of world trade. Act 1 of the trade wars, the COVID-19 pandemic, and the war in Ukraine - particularly because of the concerns it has raised about food safety - are all factors that have already contributed to increased, and, more often than not, harmful trade interventionism in recent years **(Chart 21)**. The escalation of customs barriers would then be synonymous with increased costs for businesses, contributing to the risk of a more inflationary future.

Country Risk Assessment changes

AREA	Previous Assessment		Current Assessment
BAHRAIN	D	↗	C
CAPE VERDE	B	↗	A4
ECUADOR	C	↘	D
PORTUGAL	A3	↗	A2
SPAIN	A3	↗	A2

BUSINESS DEFAULT RISK

- A1 Very Low
- A2 Low
- A3 Satisfactory
- A4 Reasonable
- B Fairly High
- C High
- D Very High
- E Extreme
- ↗ Upgrade
- ↘ Downgrade

Bahrain:
(Upgrade from D to C) ↗

- In the first nine months of 2023, the kingdom's economy grew by 2.1% YoY, driven mainly by the non-oil sector which expanded by 3.2% YoY over the same period. This was partly offset by a 3.4% YoY contraction in the oil sector, due to maintenance activites. We expect that the non-oil economy to remain the main growth engine in 2024, driven by stronger investment and services exports, as well as solid private consumption growth. Stronger economic activity in Bahrain's main trading partners, such as Saudi Arabia and the UAE, will support goods export growth. The oil sector, which accounts for around 20% of the economy, will subtract only marginally from headline growth in 2024. A rate cut cycle following the footsteps of the US Fed will also improve consumption and investment dynamics. Bahrain will remain dependent on GCC funding and market access to stem further pressure on FX reserves. Despite these vulnerabilities, we believe that fiscal risks are fairly limited by the ongoing strong support of Bahrain's wealthy neighbours.

Cabo Verde:
(Upgrade from B to A4) ↗

- Steady and strong economic growth: 4.5% or more, in 2024, like in 2023. Strong inbound tourism (25% of GDP) from Europe. Strong tourism related investment (hotels, transport). Household consumption benefits from tourism. Real and steadfast democracy.

Equateur :
(Downgrade from C to D) ↘

- The short-lived government of President Daniel Noboa faces multiple challenges, such as an ailing fiscal situation and the sharp surge in violence in the last year and has a short mandate to pass reforms. Regarding the fiscal account, the CAF just approved resources and the IMF rollover would ease the financing gap in 2024. However, the IMF warned that the program's scenario is subject to substantial risks, with public debt assessed as sustainable but not with a high probability. In addition, the economy entered in technical recession in Q4 2023, and GDP is expected to stagnate in 2024 (with risks tilted to the downside). Activity should still be hampered by the deterioration in security. Moreover, the temporary VAT increase to 15% is also expected to negatively affect consumption. Furthermore, Ecuador's oil production is likely to be harmed by the ban on oil drilling in the Yasuní National Park (15% of the country's total oil production), approved by a referendum in August 2023. Finally, another important downside risk relates to the power system. Ecuador's energy matrix is highly reliant on hydroelectric, and its production has been affected by a severe drought intensified by the El Niño phenomenon.

Portugal:
(Upgrade from A3 to A2) ↗

- Growth continues to be very solid (+0.7% QoQ in Q1 2024, as in Q4 2023). Tourism remains buoyant, with international arrivals being 25% higher than before the pandemic in February and March 2024. In addition, while private investment is slowing down, private consumption is accelerating, thanks to higher household disposable income. Moreover, in the coming years, activity will be supported by massive European funds (more than 5% of GDP to be received in total in 2024-2026).

Spain:
(Upgrade from A3 to A2) ↗

- After experiencing a strong recovery and proving highly resilient in the wake of the pandemic and the war in Ukraine, Spain's economic activity is expected to remain dynamic and above the Eurozone average in 2024, with an already higher-than-expected Q1 2024 GDP growth of 0.7%. Household consumption continue to support growth thanks to the resilience of their purchasing power, with inflationary pressures easing and wages continuing to rise. Moreover, tourism remains buoyant with strong figures for Q1 2024 (international arrivals 8% higher than pre-pandemic levels). In addition to competitiveness gains through lower energy prices and more flexible labour market, the implementation of the NGEU funds is reaching cruising speed and should now represent at least 2% of Spain's GDP per year until 2026.

Sector Risk Assessment Changes
(JUNE 2024)

REGIONAL SECTOR RISK ASSESSMENTS

	Asia-Pacific	Central & Eastern Europe	Latin America	Middle East & Türkiye	North America	Western Europe
Agri-food	High Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	High Risk
Automotive	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Chemical	High Risk	High Risk	High Risk	Medium Risk ↘ High Risk	Medium Risk	High Risk
Construction	Very High Risk	Very High Risk	High Risk	Very High Risk	High Risk	Very High Risk
Energy	High Risk	High Risk	High Risk	High Risk ↗ Medium Risk	Medium Risk	Medium Risk
ICT*	Medium Risk	Medium Risk	High Risk	High Risk	Medium Risk ↗ Low Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Paper	Medium Risk	High Risk	Medium Risk	Medium Risk	High Risk	Very High Risk ↗ High Risk
Pharmaceuticals	Low Risk	Low Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Retail	Medium Risk	High Risk	Very High Risk ↗ High Risk	High Risk	High Risk	High Risk
Textile-Clothing	High Risk	Very High Risk	Very High Risk	High Risk ↘ Very High Risk	Very High Risk	Very High Risk
Transport	High Risk ↗ Medium Risk	Very High Risk	High Risk	High Risk ↗ Medium Risk	High Risk	High Risk
Wood	High Risk	Very High Risk	High Risk	High Risk	High Risk	High Risk

** Information and Communication Technologies*
Source: Coface

ASIA-PACIFIC

	Asia-Pacific	Australia	China	India	Japan	South Korea
Agri-food	High Risk	Medium Risk	High Risk	High Risk	Medium Risk	Medium Risk
Automotive	High Risk	High Risk	High Risk	Medium Risk	Medium Risk	Medium Risk
Chemical	High Risk	Medium Risk	High Risk	High Risk	High Risk	High Risk
Construction	Very High Risk	Very High Risk	Very High Risk	Medium Risk	High Risk	Very High Risk
Energy	High Risk	Low Risk	High Risk	High Risk	High Risk	High Risk
ICT*	Medium Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk	Medium Risk ↗ Low Risk
Metals	High Risk	High Risk	High Risk	High Risk	Medium Risk	Medium Risk
Paper	Medium Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk
Pharmaceuticals	Low Risk	Medium Risk	Low Risk	Low Risk	Medium Risk	Medium Risk
Retail	Medium Risk	High Risk	Medium Risk	High Risk	Medium Risk	Medium Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Transport	High Risk ↗ Medium Risk	High Risk	High Risk ↗ Medium Risk	High Risk	Medium Risk	High Risk ↗ Medium Risk
Wood	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk

** Information and Communication Technologies*
Source: Coface

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

CENTRAL & EASTERN EUROPE

	Central & Eastern Europe	Czechia	Poland	Romania
Agri-food	Medium Risk	Medium Risk	Medium Risk	High Risk
Automotive	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Chemical	High Risk	High Risk	High Risk	High Risk
Construction	Very High Risk	High Risk	Very High Risk	Very High Risk
Energy	High Risk	High Risk	High Risk	Medium Risk
ICT*	Medium Risk	Medium Risk	High Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk
Paper	High Risk	High Risk	High Risk	High Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Medium Risk
Retail	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Textile-Clothing	Very High Risk	Very High Risk	Very High Risk	Very High Risk
Transport	Very High Risk	High Risk	Very High Risk	High Risk
Wood	Very High Risk	High Risk	Very High Risk	High Risk

* Information and Communication Technologies
Source: Coface

LATIN AMERICA

	Latin America	Argentina	Brazil	Chile	Mexico
Agri-food	Medium Risk	High Risk ↗ Medium Risk	Medium Risk	High Risk	Medium Risk
Automotive	High Risk	Very High Risk	High Risk	High Risk	Medium Risk
Chemical	High Risk	High Risk	High Risk	High Risk	Very High Risk
Construction	High Risk	High Risk	High Risk	High Risk	High Risk
Energy	High Risk	High Risk	Medium Risk	High Risk	Very High Risk
ICT*	High Risk	Very High Risk	High Risk	Medium Risk	Medium Risk
Metals	High Risk	High Risk ↘ Very High Risk	High Risk	High Risk ↗ Medium Risk	High Risk
Paper	Medium Risk	High Risk	Medium Risk	Medium Risk	High Risk
Pharmaceuticals	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Retail	Very High Risk ↗ High Risk	Very High Risk	Very High Risk	High Risk	High Risk ↗ Medium Risk
Textile-Clothing	Very High Risk	Very High Risk	Very High Risk	High Risk	High Risk
Transport	High Risk	High Risk	High Risk	High Risk	High Risk
Wood	High Risk	High Risk	High Risk	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK
- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

MIDDLE EAST & TÜRKIYE

	M. East & Türkiye	Israel	Saudi Arabia	Türkiye	UAE
Agri-food	High Risk	High Risk	Medium Risk	High Risk	Medium Risk
Automotive	High Risk	High Risk	Medium Risk	High Risk	Medium Risk
Chemical	Medium Risk ↘ High Risk	Medium Risk ↘ High Risk	Medium Risk	High Risk	Medium Risk
Construction	Very High Risk	Very High Risk	High Risk	Very High Risk	Very High Risk ↗ High Risk
Energy	High Risk ↗ Medium Risk	High Risk	Low Risk	Very High Risk	Medium Risk ↗ Low Risk
ICT*	High Risk	High Risk	High Risk	High Risk	High Risk
Metals	High Risk	High Risk	High Risk	High Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Pharmaceuticals	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Retail	High Risk	High Risk	Medium Risk	High Risk	Medium Risk
Textile-Clothing	High Risk ↘ Very High Risk	High Risk ↘ Very High Risk	High Risk	High Risk ↘ Very High Risk	High Risk
Transport	High Risk ↗ Medium Risk	High Risk	Medium Risk ↗ Low Risk	High Risk	Medium Risk ↗ Low Risk
Wood	High Risk	High Risk	High Risk	High Risk	High Risk

** Information and Communication Technologies*
Source: Coface

NORTH AMERICA

	North America	Canada	United States
Agri-food	Medium Risk	Medium Risk	Medium Risk
Automotive	High Risk	High Risk	High Risk
Chemical	Medium Risk	High Risk	Medium Risk
Construction	High Risk	High Risk	High Risk
Energy	Medium Risk	Medium Risk	Medium Risk
ICT*	Medium Risk ↗ Low Risk	Medium Risk	Medium Risk ↗ Low Risk
Metals	High Risk	High Risk	High Risk
Paper	High Risk	High Risk	High Risk
Pharmaceuticals	Medium Risk	Low Risk	Medium Risk
Retail	High Risk	High Risk	High Risk
Textile-Clothing	Very High Risk	Very High Risk	Very High Risk
Transport	High Risk	High Risk	High Risk
Wood	High Risk	High Risk	High Risk

** Information and Communication Technologies*
Source: Coface

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

WESTERN EUROPE

	Western Europe	Austria	France	Germany	Italy	Netherlands (the)	Spain	Switzerland	United Kingdom
Agri-food	High Risk	High Risk	Medium Risk	High Risk	Medium Risk	High Risk	High Risk	High Risk	High Risk
Automotive	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Chemical	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Construction	Very High Risk	High Risk ↘ Very High Risk	Very High Risk	Very High Risk	Very High Risk	High Risk	High Risk	High Risk	Very High Risk
Energy	Medium Risk	Medium Risk	Medium Risk ↗ Low Risk	High Risk	Medium Risk	Medium Risk ↗ Low Risk	High Risk	Medium Risk ↗ Low Risk	Medium Risk
ICT*	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
Paper	Very High Risk ↗ High Risk	Very High Risk	Very High Risk ↗ High Risk	Very High Risk ↗ High Risk	Very High Risk ↗ High Risk	Very High Risk ↗ High Risk	Very High Risk ↗ High Risk	High Risk	Very High Risk
Pharmaceuticals	Medium Risk	Low Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk	Low Risk	Low Risk	Medium Risk
Retail	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	Medium Risk	High Risk
Textile-Clothing	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	High Risk	Very High Risk	High Risk	Very High Risk
Transport	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	Very High Risk ↗ High Risk
Wood	High Risk	Very High Risk	High Risk	Very High Risk	High Risk	High Risk	High Risk	High Risk	High Risk ↘ Very High Risk

* Information and Communication Technologies
Source: Coface

OTHER COUNTRIES

	Russia	South Africa
Agroalimentaire	High Risk	High Risk
Automobile	Very High Risk	High Risk
Chimie	Very High Risk	High Risk
Construction	Very High Risk	Very High Risk
Énergie	High Risk	Very High Risk
TIC*	Very High Risk	Medium Risk
Métallurgie	Very High Risk	High Risk
Papier	Very High Risk	High Risk
Pharmaceutique	Medium Risk	Medium Risk
Distribution	Very High Risk	High Risk
Textile-Habillement	High Risk	Very High Risk
Transport	Very High Risk	Very High Risk
Bois	High Risk	High Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- ↗ Upgrade
- ↘ Downgrade

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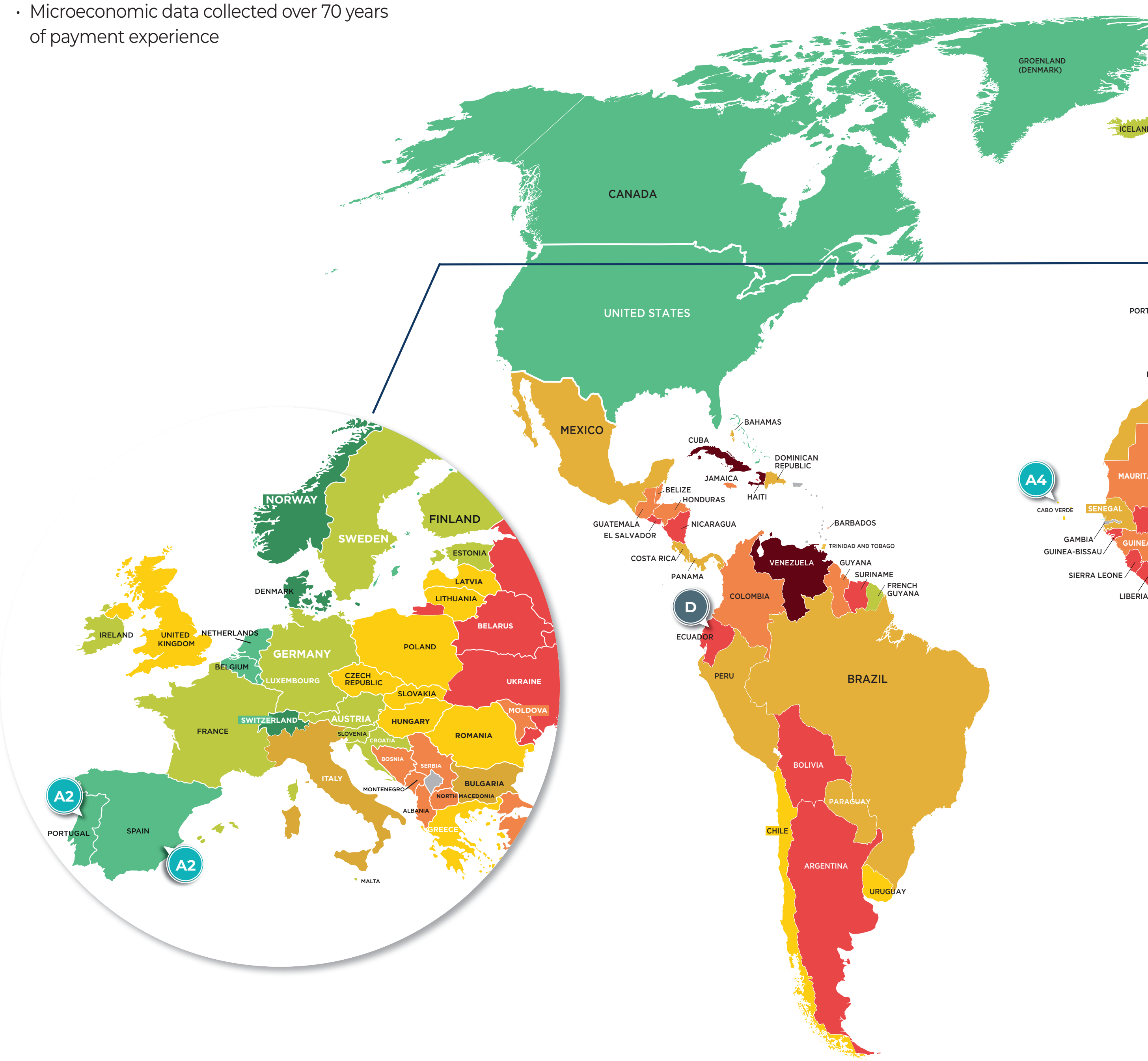
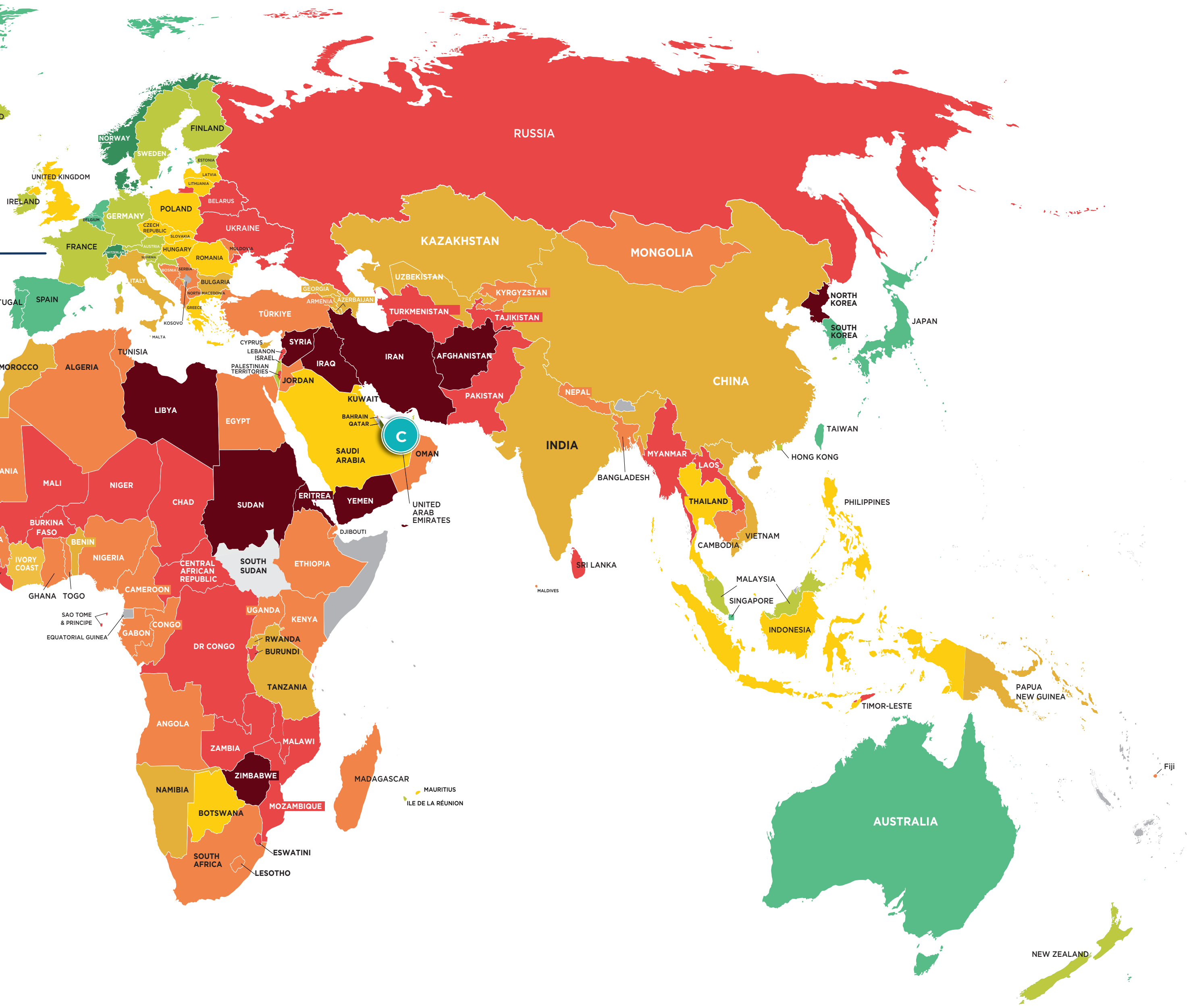
UPGRADES

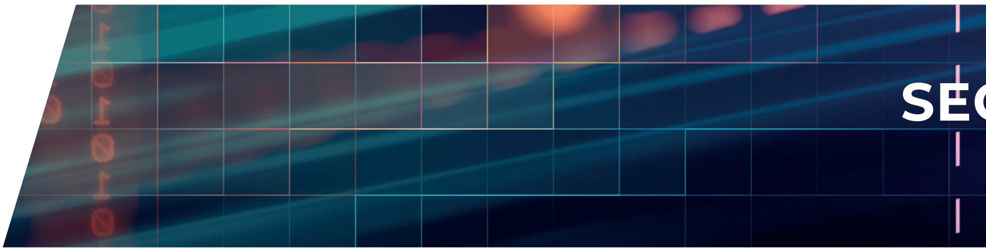
DOWNGRADES



SK ASSESSMENT MAP

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





NORTH AMERICA

CENTRAL & EASTERN EUROPE

ASIA-PACIFIC

LATIN AMERICA

WESTERN EUROPE

MIDDLE EAST & TÜRKIYE

Low risk
Medium risk
High risk
Very high risk

- agri-food
- automotive
- chemical
- construction
- energy
- ICT*
- metals
- paper
- pharmaceuticals
- retail
- textile-clothing
- transport
- wood

* Information and Communication Technologies

Upgrade

Downgrade

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