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Political and environmental risks are the main threats facing businesses in 2020

As Coface launches the 2020 edition of its Country & Sector Risks Handbook, Chief Economist Julien Marcilly today presents the main threats for the global economy in 2020 at the Coface Country Risk Conference in Paris.

The US-China trade agreement will not be enough to rekindle international trade

With 2019 being marked by a rise in protectionist rhetoric (more than 1,000 measures implemented worldwide) and the first decline of global trade in ten years, Coface anticipates that international trade will grow by only 0.8% in 2020. The truce trade agreement between the **United States** and **China** is unlikely to restore corporate confidence or significantly boost industry and world trade, especially as only 23% of the protectionist measures taken between 2017 and 2019 affect the United States or China. The rise in protectionism is therefore a global and lasting trend that to which companies will need to adapt.

Global growth, which already shrunk by 0.75pp last year due to these trade uncertainties, is not expected to recover this year: 2.4% after 2.5% in 2019. Coface expects corporate insolvencies to increase in 80% of the countries for which forecasts are issued this year, including **United States** (+3% in 2020), the **United Kingdom** (+3% in 2020, after a cumulative increase of 17% since the June 2016 referendum), **Germany** (+2%) and **France** (+1%). Overall, Coface anticipates a 2% increase in insolvencies worldwide, in line with 2019.

Sectors: metals suffering; construction in good shape

Uncertainties related to the protectionist environment also contribute to the volatility of commodity prices, particularly those of agriculture, metals, and oil. According to Coface's forecasting models, steel prices will continue to fall over the next six months, penalizing companies in the sector, especially as growth in **China** – which accounts for half of global steel demand – is expected to reach only 5.8% this year. Therefore, the metals sector risk assessment has been downgraded in 5 countries, including the **United States** and **Italy**. Moreover, the sustained low level of oil prices, despite geopolitical uncertainties (USD 60 per barrel of Brent on average in 2020 after USD 64 in 2019) will hurt some indebted producers, notably in the United States.

On the bright side, the **construction** sector is benefiting from highly expansionist monetary policies: its assessment has been upgraded in 4 countries (including **Brazil** and **Turkey**). In total, Coface downgraded 22 and upgraded 8 sector assessments this quarter, reflecting the significant increase in risks for the economy.

In 2020, companies will mainly face non-economic risks

The end of 2019 saw an increase in social tension “trouble spots” around the world, with varying levels of intensity. This underlying trend was strongly anticipated by the Coface Political Risk Index, published at the beginning of 2019 and at an all-time high. In 2020, this indicator forecasts a high level of social risk in several countries in Africa, the Middle East, Central Asia, and even Russia.

Since 2019, social discontent has also manifested in increasing demands for environmental protection. Environmental risks have a wide range of effects on corporate credit: greater frequency of physical risks (natural disasters arising from climate change), but also transition risks (new and more stringent regulations, changes in consumer standards). For the latter, the

effects of stricter anti-pollution regulations for the **automotive** sector in **India** or in **global shipping** must be monitored this year. Coface pays close attention to the analysis of these two categories of environmental risk.

Emerging economies: sovereign risk is back in the spotlight

Growth in emerging economies should accelerate slightly this year (3.9% versus 3.5% in 2019). However, public debt has reached a historically high level for these countries and is increasing in all regions except Central and Eastern Europe. In Latin America, the level of indebtedness is higher than at the end of the 1990s, which was a period marked by recurrent debt crises. In Africa, public debt is close to the level observed around fifteen years ago: a period of debt write-offs by international and bilateral donors. For companies in these regions, this means that government and large State-Owned Enterprises (SOE) arrears are likely to increase this year. The only good news is that the structure of emerging countries' sovereign debt is generally more favourable than twenty years ago, since 80% of it is now denominated in local currency.

In this delicate and volatile environment where economies are facing headwinds, 4 country assessments have been downgraded (**Colombia, Chile, Burkina Faso** and **Guinea**), while 6 have been upgraded (**Turkey, Senegal, Madagascar, Nepal, Maldives** and **Paraguay**).

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